



Climate Action Network

CAN Submission: Elaborating Modalities of Accounting for Climate Finance

July 2016

Climate Action Network International (CAN) is the world's largest network of civil society organizations working together to promote government action to address the climate crisis, with more than 1100 members in over 120 countries. www.climatenetwork.org

CAN welcomes the opportunity to present its views on the modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement in this submission.

For climate finance provided towards meeting obligations under Article 9.1 of the Paris Agreement (PA) to be politically sustainable, transparent and mutually-agreed systems for accounting and tracking flows are fundamental, inter alia, to assess progress towards meeting obligations but also to allow learning from experiences in the provision, mobilisation and usage of climate finance, to enhance effectiveness and efficiency of such finance and its role in keeping warming below 1.5°C by supporting low-carbon and climate-resilient development in developing countries.

Current reporting systems (e.g. the Biennial Reporting provisions) lack completeness, consistency and detail that in our view is required to meet those objectives. Some developed countries are including many types of projects and financial instruments that recipient nations and civil society observers do not consider appropriate. Levels reported may be inflated or overestimated, financial instruments that do not constitute actual support are included, and the climate-relevance of finance is often questionable. The current accounting systems do not reflect on finance flowing back to developed countries (e.g. as part of repaying loans, or return on private investments). Lack of detail, especially where countries do not report on a project-level basis, does not allow comprehensive and consistent monitoring, verification and evaluation, hampering potential to learn from, and advance, climate finance.

The decision in Paris to develop “**modalities for the accounting of financial resources provided and mobilized through public interventions**” (Paragraph 57 of Decision 1/CP.21) is an opportunity to finally get it right.

The need for adequate finance for implementation of Paris Agreement in countries most vulnerable to climate change goes beyond the existing efforts, thus, an accurate and accepted accounting mechanism at UNFCCC will go a long way in providing strong signals to multiple stakeholders on transformational nature of finance needed and provided, as well as discouraging any namesake creative accounting exercise. The mutually accepted accounting and reporting mechanism will form an integral part of the transparency framework of PA.

Recommendations

As parties work to develop these modalities, CAN suggests the following **elements** of an adequate climate finance accounting system:

1. **Limit reporting to support provided to developing countries:** In the past, not all reported finance had a clear element of support to developing countries. For instance, funds to budgets of international institutions such as the IPCC or the UNFCCC Secretariat or funds for consultancy work around climate finance were reported. Only such finance that is directly (bilaterally) or indirectly (via multilateral funds or institutions) assisting developing countries in the context of obligations under Article 9.1 of the Paris Agreement should be reported.
2. **Report the actual support effort:** Currently, contributing countries often report the face value of financial instruments, including non-concessional loans, equity or guarantees. While all sorts of instruments have their role, we suggest that for greater clarity and transparency, the net support value should be reported, expressed by the grant equivalent of what is provided or mobilised. We note that, in their joint statement on accounting, in the context of the 2015 work by the OECD report on the progress towards the \$100bn goal, developed countries have, on a ministerial level, expressed their intent to do exactly that, i.e. report climate finance on the basis of grant equivalents and/or budgetary provisions. This means grants should be reported at face value. For other concessional instruments, the grant equivalent should be reported against Article 9.1 obligations with their face value added for information purposes. Market-rate loans and other market-rate instruments can contribute to mitigation efforts responding to capital needs, but have, in themselves, no net support element to meet costs rather lead to flows back to developed countries. Hence, we suggest any reporting of such instruments happens separate from instruments that have a grant equivalent to be reported against Article 9.1 obligations. A similar approach should be taken for mobilised private investments, where reporting with respect to Article 9.1 should focus on the mobilisation of effort and not the resulting investments, although these could be reported for information purposes. Export credits do not constitute actual support (rather they

influence who wins a tender) towards obligations under Article 9.1, hence, should not be reported here.

3. **Limit report to support specifically targeting climate:** Currently, much of what is being reported as climate finance may have climate action only as one of many objectives. Some countries address this issue by reporting only proportions of finance committed to a certain project. Yet, the climate-relevance of many reported projects may be non-existent or grossly over-estimated. Since only funds that specifically support climate action are relevant in the context of meeting Article 9.1 obligations, only such funds (or proportions thereof) should be reported. While we believe that all finance should be climate-sensitive, future reporting should transparently differentiate between funds specifically targeted at climate action versus funds where climate considerations have been taken into account but climate is not the main objective (and only report the relevant proportions of such funds towards Article 9.1 obligations).
4. **Climate-specific contributions to multilateral entities:** The current practice of reporting core contributions to multilateral entities that provide finance for climate action plus climate-specific proportions is poorly implemented by many countries, possibly due to lack of data. We suggest this be replaced by reporting imputed contributions to climate-specific finance by multilateral entities. Multilateral entities could be asked to issue relevant data to calculate these imputed contributions on a regular basis, for use by reporting countries in their reports.
5. **Exclude finance not consistent with Paris Agreement:** The PA establishes the goal to keep warming well below 2°C and to pursue all necessary efforts to stay below 1.5°C. Article 2.1c of the PA also aims to make all financial flows consistent with low-emissions and climate resilient development. All measures not consistent with this (e.g. by locking in low ambition through only marginally improved emissions pathway dependencies) should not be considered as contributing to Article 9 and therefore not be reported. In order to realise the objective set out in Article 2.1c, and to contribute to the global adaptation goal, every single project should be subject to a set of criteria that assesses the level to which such a project is in line with the Paris Agreement. These criteria should inform policy-makers and practitioners on the feasibility of projects, including whether certain types of projects need to be explicitly excluded, by a “negative list” (e.g. projects that delay the transition away from fossil fuels).
6. **Mutually agreed reporting:** Finance reporting should be limited to finance that both the contributing and the receiving country consider climate finance in the context of Article 9 of the PA (and of Article 4.3 and 4.4 of the UNFCCC, since the PA Article 9 obligations are a continuation of the UNFCCC obligations as stated in PA Article 9.1). Regular assessments by an independent body or its appropriate agent could introduce a system of triple validation, besides the process being open for inputs from civil society. As an example of outcome of commonly agreed reporting format, one of the important learning

from other finance regimes is to have common tabulars to present the information for consistency and comparability.

7. **Limit reporting to “new and additional” financing:** Since the PA Article 9.1 states that financing obligations are a continuation of existing UNFCCC obligations, the criteria of UNFCCC Articles 4.3 and 4.4 also apply. This means finance towards meeting PA Article 9 obligations needs to be “new and additional”. We understand this phrase has been variously conceptualized in the past; CAN suggests that Parties come up with an internationally-agreed definition on “new and additional”. In CAN’s view this definition should cover finance provided on top of what needs to be made available to meet other commitments such as ODA and climate finance reported towards meeting Article 9.1 obligations should, therefore, not be reported towards meeting other obligations inside or outside the UNFCCC, and vice versa. Rather than developing complex criteria, it could be left up to contributing countries and receiving countries to mutually agree (see previous recommendation 6) where a certain programme would be reported, as long as it does not get reported twice. While ODA itself needs to increase in light of changing scenario, climate finance that also meets development objectives must be over and above the development finance to put the world on a 1.5C pathway.
8. **Count when committed, but also report as disbursed:** Several countries are reporting finance at least partially as disbursed. For multi-year projects this means reporting is on past funding decisions, as disbursements are a result of those decisions that may have been taken many years ago. This greatly reduces accountability. CAN suggest that reporting should be based on commitments, i.e. attributed to the year when the partnership agreement was signed between the contributing and the receiving country (or an equivalent degree of commitment was made). This would lead to reporting of current decisions or relatively current decisions. This should be complemented by a system of tracking disbursements to follow up on commitments. An exception should be made for contributions to multilateral funds which should be counted towards the year contributions are made.
9. **Provide project-level information:** Bilateral finance should be reported on a project-by-project level. Without project-level information, verification and evaluation of finance by recipient nations, communities, researchers, and observer organizations, as well as proper assessment on progress towards meeting Article 9 provisions is impossible.
10. **Provide sufficient details:** For each project, reporting should include the following details: a project title, a description that includes what part of the project is specifically targeting mitigation/adaptation, and how. It should also include the implementing entity, the year when finance was committed, the start and end years, the total amount that have been committed, both grant-equivalent and face-value amounts, the climate-specific amount (if different from total amount), the level of disbursements so far, and financial instruments, generally building upon the IATI (International Aid Transparency

Initiative) standard. Additionally, information on beneficiaries, the location(s) of a project, et al so that these can be mapped and coordinated appropriately should be detailed.

11. **Use electronic live-reporting:** Currently, reporting happens ex-post, with up to two years between a funding decision and the relevant report. We suggest the reporting be changed so that funding decisions, as soon as they are confirmed by a partnership agreement, could be entered into a public online database. This would allow live-tracking on progress towards Article 9.1 obligations. The International Aid Transparency Initiative (IATI) may serve as a model here.

4. Timeline

To advance the work we suggest the following timeline:

- **September 2016:** The UNFCCC secretariat combines submissions into a compilation document.
- **COP22:** At COP22, SBSTA approves work programme to advance work until CMA1. This work programme would define work needed to enhance the understanding around the various options for the accounting modalities and fix timelines for preparing a final draft to be sent to CMA1. SBSTA chairs are mandated to create first draft for a CMA1 decision on the accounting modalities.
- **SB46:** SBSTA to discuss and further develop the first draft for a CMA1 decision on the accounting modalities.
- **COP23:** If SBSTA was unable to finalise work, SBSTA at COP23 will pick up the file again with the view to conclude deliberations and forward a draft CMA1 decision to the CMA.
- **CMA1:** Consideration and adoption of the recommendation by the CMA.

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