SBSTA Agenda item 12: Modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Art. 9, para. 7, of the Paris Agreement Submission by Democratic Republic of Congo (DRC) on behalf of Least Developed Countries August 2016

The Least Developed Countries (LDC) Group welcomes SBSTA's invitation to Parties and observer organizations to submit their views on the development of modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement.

The LDC Group wishes to outline its responses to the three groups of questions included in the invitation for submissions (FCCC/SBSTA/2016/L.5, paragraph 2(a)-(c)):

a) What are the existing modalities for accounting of financial resources provided and mobilized through public interventions, and what are the challenges and information gaps with respect to these existing modalities;

Existing modalities

The existing modalities for accounting of financial resources provided are:

- National Communications (NATCOMS)
- Biennial reports (BRs)
- Biennial Update Reports (BURs)
- Biennial submission by developed countries on their strategies and approaches for scaling up climate finance from 2014 to 2020.

In providing guidelines for developed countries on the common tabular format of the BRs, decision 19/CP.18 requested Parties to consider the best approach for future reporting of climate related private finance at the next revision of the reporting guidelines. The process to incorporate private finance in the reporting guidelines has not yet commenced.

The existing modalities sit within broader national reporting processes under the Convention. These reporting processes are not solely focused on accounting of financial resources and therefore are inadequate to support implementation of the obligation on developed country Parties under Article 9(7) of the Paris Agreement. While the biennial submission by developed countries on their strategies and approaches for scaling up climate finance has a climate finance focus, this process ends in 2020 and has its own limitations (e.g. forward looking; no common formats).

The new modalities should not simply replicate existing processes. They must be fit for purpose, adapted to the new post-Paris context, and build upon work already being conducted under the Convention, the SBSTA and also the Standing Committee on Finance.

Challenges and information gaps of these existing modalities

***Lack of consistency, comparability and transparency*: The LDC Group** is concerned about the lack of detail and consistency of the information provided by developed countries under the current reporting processes (NATCOMS and BRs). Since the format and the level of details needed in the existing modalities differs, it is challenging to compare and sometimes to find consistency among reports from the same developed country Party. This has rendered the task of tracking the provision of financial resources difficult.

***Lack of common definition, methodology and clear understanding of what counts as climate finance*:** **The LDC Group** is also concerned about the lack of common definition/ understanding of what counts and what should be reported as climate finance. Since Annex I countries use different methodologies and definitions of what counts as climate finance it is difficult to assess how much money has actually been provided for climate change activities in developing countries.

***Difficulty in distinguishing public vs private finance leveraged through public intervention*-** For **the LDC Group**, it is important that the modalities provide much more clarity than current reporting processes on what counts towards public provision of financial resources versus private finance mobilised through public interventions. Providing clarity on what constitutes private finance mobilised through public interventions should also be addressed in developing the modalities.

***Difficulty to assess what is 'new and additional'*: The LDC Group** considers that there is currently a lack of transparency regarding whether the provision of financial resources from developed countries are new and additional, as required under Article 4.3 of the Convention, and reiterated in numerous UNFCCC COP decisions, including at COP16 in Cancun. This is also related to the lack of common definition as to what is considered new and additional financial resources. Diversion of ODA and relabeling it as climate finance has been a major concern since the fast start finance period for developing countries, and particularly for LDCs, which are highly dependent on foreign aid for development. During the fast start finance period, some developed countries shifted part of their development assistance to climate related activities, which was reported as their 'new and additional' contribution to fast start finance. This compromised development efforts that were being undertaken by developing countries.

***Double counting*: For the LDC Group**, it is critical that financial resources that have been provided for other development purposes are counted for their primary purpose and not also as climate finance, as this would result in double counting of the same funds. This also applies to counting all finance that is provided to multilateral funds, without differentiating the proportion of the climate specific component of the support. The modalities should require sufficiently detailed and precise information to be provided by developed country Parties so that it is transparent on the face of this information what purpose the financial resources are being counted towards.

The LDC Group stresses the importance of expediting the development of modalities for the accounting of financial resources provided and mobilized through public intervention and that this is done through an open and transparent process. It is important to note that other processes under the implementation of the Paris Agreement i.e transparency of support framework (Article 13); setting a new collective quantitative goal in 2025 (para 54 of decision 1/CP.21); and the global stocktake (Article 9.6) will rely on the outcome of this process and the resulting provision of consistent, comparable and transparent information.

The LDC Group acknowledges the ongoing work to enhance transparency with the revision of the common tabular format of biennial reports to include details of 'climate specific', 'core/general', 'status' (committed and disbursed), 'funding source', 'financial instrument', 'type of support' and 'sector'. Furthermore, the LDC Group recognizes the ongoing work of the Standing Committee on Finance (SCF) on the second Biennial Assessment and overview of climate finance flows (BA) and the MRV of finance beyond the BA.

(b) What accounting modalities need to be developed to serve the Paris Agreement, in accordance with Article 9, paragraph 7 of the Paris Agreement; and what are the challenges to the development of these accounting modalities and how can these be addressed;

With the gaps and challenges in the existing modalities mentioned above, the LDC Group believes that in developing the accounting modalities for financial resources provided and mobilized through public intervention, the following elements should be addressed:

- A common understanding among Annex I and non-Annex I countries needs to be reached on what should be reported under the common tabular format and counted as climate finance. This common understanding will enhance trust and transparency. It will also give a clearer picture of the quantum of financial resources that have been provided and mobilized and that are being accessed and received by developing countries for the effective implementation of the Paris Agreement.
- The modalities need to address concerns by developing countries by including definitions, common formats and methodologies to be used to count financial flows as climate finance. Having agreed definitions and methodologies will help in the task of accounting for the provision of public versus private financial resources and for identifying new and additional financial resources.
- The modalities must be designed to avoid double counting by:
    - Requiring reporting only of the climate component of the range of finance provided by developed countries to developing countries rather than counting all finance provided as climate finance.
    - Requiring reporting only of the finance provided for specific climate related activities through multilateral development banks (MDBs) rather than counting all resources that have been channeled to these MDBs.
- Labeling or diversion of ODA as provision of climate-related financial resources should be avoided. This will also be assisted by developed countries scaling up financial support for both climate change activities and development assistance to better equip developing countries to implement their NDCs and countries to collectively achieve the sustainable development goals (SDGs).
- While reporting on the various financial instruments used, only the grant equivalent of these instruments should be counted.
- The modalities need to be designed in a way that provide information on whether public and grant-based resources are provided for adaptation. This is important in the context of Article 9.4 of the Paris Agreement, which provides that the provision of scaled-up financial resources should aim to achieve a balance between adaptation and mitigation.
- Acknowledging that there is no common understanding among Parties on the types of private finance to be reported, it is crucial that the modalities require an agreed common accounting method so that developed countries only report private finance that is leveraged through public interventions.
- Modalities must provide adequate information on the flow of climate finance, including backflow of climate finance, e.g. in the form of interest and return on investments.
- The modalities that will be developed should consider how to ensure that only financial resources consistent with a pathway towards low greenhouse gas emissions and climate resilient development are reported and counted, consistent with Article 2.1 (c) of the Paris Agreement.

(c) How to ensure that accounting modalities are developed in time to be integrated into the transparency framework established under the Paris Agreement.

- Paragraph 57 of decision 1/CP.21 requests SBSTA to develop the accounting modalities for consideration by the COP in November 2018, with a view to making a recommendation for consideration and adoption at the first session of the CMA.
- Paragraph 96 of decision 1/CP.21 requests the APA to complete the work on the modalities, procedures and guidelines for the transparency framework no later than in 2018.
- Article 13.13 of the Paris Agreement requires the CMA to adopt at its first session "*common modalities, procedures and guidelines, as appropriate, for the transparency of action and support*".
- Acknowledging that both these processes are expected to be finalized in the same timeline (during 2018), it is important that sequencing of work is taken into consideration to ensure that a proper integration of the work under the two processes takes place.
- It is also important that SBSTA finalizes its work on this matter as expeditiously as possible, taking into consideration that the Paris Agreement could potentially enter into force as early as this year.