

How to count to 100

Why an agreement about accounting and reporting of climate finance will have implications for the possibility to scale up the climate ambition

Foreword

When an annual support of 100 billion USD, for climate action in developing countries from 2020, was pledged at the Copenhagen summit (COP15) in 2009, it was presented as a new and positive step forward.

It was an acknowledgment of responsibility and commitment from developed countries to support the transition towards green and climate-resilient development in developing countries. Even if the “polluters pay” principle was never mentioned explicitly in any of the agreements, it was an underlying assumption - at least among developing countries. With only a few years left until developed countries need to uphold their commitment, Parties are trying to agree on rules for how to count and report climate finance.

This paper analyses the different accounting and reporting instruments for climate finance being discussed by Parties in the United Nations (UN) climate talks. The results are interesting; they show how the final decisions about which instruments to use may have a big effect on the actual support given to developing countries. Some instruments, for example, favour mitigation before adaptation. Some may lead to considerable backflows of money, meaning poor people may end up with the bill. Some instruments favour middle-income countries, making it difficult for least developed countries (LDCs) to access funding. What we may also see, is that the whole discussion about climate finance ends up as an elaborate desk-assignment, where existing financial flows are given a new label – climate finance. Then, years of negotiations may not deliver the scaled-up and increased ambition promised in Copenhagen in 2009.

List of content:

1. Introduction.....	3
2. Possible instruments for channelling climate finance.....	3
3. How to count to 100 billion USD	9
4. Conclusions and recommendations	11
Annex 1: Four ways to report financial support to developing countries	13
Annex 2: Climate finance – Existing agreements about climate finance	16
Annex 3: Abbreviations	18

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‘How to count to 100’

A paper about accounting and reporting of Climate Finance

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¹ <http://www.inkaconsult.dk/index.php?id=2037&L=%22>

1. Introduction

Climate change is not a challenge for the future; it is something we must deal with today. To stimulate urgent climate action, there is a need to mobilise and access *finance*. Climate finance is one of the most important, and hotly debated, elements of UN climate talks and international climate debate.

From 2020 developed countries have committed to annually mobilise 100 billion USD, to support developing countries in their efforts to tackle climate change. Currently there are no formal agreements about how these funds should be mobilised. However, ongoing negotiations should deliver a 'rule book' with rules for accounting and reporting climate finance.

A finance target with no explicit rules, may have limited effect. If there are no rules defining what kind of funds can be accounted and reported towards the target, any financial instrument could be accepted. As a result, the target may be reached through desk exercises where existing flows and support, with limited effect in developing countries, are counted. This paper analyses the implications different rules for accounting and reporting climate finance would have on the actual support given to developing countries.

Depending on the rules, the amount of support to climate change related initiatives in developing countries will differ. We should also be mindful that the capability of developing countries to undertake actions, and thus progress towards the mitigation and adaptation targets in the Paris Agreement, hugely depend on the support given by developed countries. In that way, having binding rules will have a big effect - not only on the possibilities for developed countries to fulfil their finance promises but also on the possibility for climate action to ensure a transition towards a green and climate-resilient future.

2. Possible instruments for channelling climate finance

In the current negotiations about climate finance, Parties are trying to agree which instruments should be used for accounting and reporting climate finance. As shown above, ODA has a clear set of rules for acceptable instruments and accounting systems. Ideally, a similar set of rules should be agreed for climate finance. Below is an analysis of some of the instruments currently being negotiated.

Grants

A grant is a transfer where no repayment from the receiving country is required. Grants are provided to advance development in the receiving country. Most developed countries provide their ODA in the form of grants to developing countries². In 2016 grants constituted 28% (approximately 14 billion USD) of the total amount of climate finance according to an analysis from INKA Consult³. According to the OECD, grants constituted 12.1 billion USD the same year.

Some countries, such as Canada and the Netherlands, provide all their support as grants, while others, such as France and Spain, only offer a limited amount as grants. Grants can be used for all kinds of activities. Grants are a common modality for projects targeting poor and vulnerable communities.

Private finance

Private finance is a broad concept and there is no agreed definition. It generally refers to financial flows coming from private investors. In this paper private finance refers to investments private actors make to get profit. As such, private finance can include equity investments, loans, insurances and guarantees.

UN agreements about climate finance have been signed by governments, and it is therefore unclear how private flows can be included as contributions to commitments made by governments. Some developed

² <http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/dac-glossary.htm#Grant>

³ Estimated calculation of the total climate finance to developing countries for 2015 and 2016 that is based on BR3 and OECD CRS database

countries argue that private finance, which is leveraged by public finance, could be counted⁴. However, in many investments there are also many donors involved, and consequently it may also be difficult to attribute a specific amount of private finance to a specific donor.

The potential of private finance is great. If all private investments related to climate change in developing countries were counted as official climate finance, the 100 billion USD annual target from 2020 would be easily reached. However, even if rules are agreed, making only selected types of private finance eligible, the amount may increase drastically. Many developed countries have Development Finance Institutions (DFIs) which are using public finance to leverage private finance and there is a big potential to leverage private capital for investments in climate change related projects. Leveraging these funds, however, seems to be a good solution for mitigation projects in middle-income countries. There are few examples relating to adaptation or investments in LDCs.

The Standing Committee on Finance estimate that private finance flows in 2016 reached more than 15 billion USD⁵. These funds included private finance leveraged by public finance.

Equity

Equity, in finance, refers to investments made with an expected return. In current climate finance reporting, equity investments constitute a limited share of the total amount of climate finance. There is, however, potential for this instrument to open for large amounts of investments for climate finance from both public and private investors.

In 2017 equity constituted a small part of the total climate finance - 1% of bilateral support and 2% of multilateral support. These investments were made by, or with support though, public institutions⁶. These numbers, however, are much larger if global financial equity investments are taken into consideration. For example, global private investments in renewables in 2016 reached 218 billion USD according to Climate Policy Initiative (CPI)⁷. As equity investments are made with an expected return, it is likely there will also be a backflow of funds. When the investor is pulling funds out from a country the net investment will be reduced.

Equity investments could be counted in very different ways, with very different implications for reporting climate finance. If only inflow of capital is counted, the amount will not represent the full value of the investment, as the value may increase through successful implementation of projects, and profit may be returned to the investors. At the same time, it may be difficult to count the full value, as investments may last for many years, and may be reinvested in the project.

As mentioned above many developed countries have DFIs, and other initiatives, which aim to promote investments in developing countries. The potential for equity investments to be used as an instrument within climate finance is therefore large. However, without clear rules for how these equity investments are counted, and the potential for backflows, the exact contribution equity can have towards reaching the 100 billion USD target is uncertain.

⁴ This is also the approach applied by OECD <http://www.oecd.org/environment/cc/Key-results-Climate-finance-from-developed-to-developing-countries-Public-flows-in-2013-17-ENG.pdf>

⁵ <https://unfccc.int/sites/default/files/resource/2018%20BA%20Technical%20Report%20Final.pdf>

⁶ <http://www.oecd.org/environment/cc/Key-results-Climate-finance-from-developed-to-developing-countries-Public-flows-in-2013-17-ENG.pdf>

⁷ <https://unfccc.int/sites/default/files/resource/2018%20BA%20Technical%20Report%20Final.pdf>

Concessional loans

Concessional loans are loans that are given with terms significantly more generous than ordinary market-based loans. Concessional loans can only be reported as ODA if they have a certain grant element⁸. For LDCs and LICs it should be at least 45%, for LMICs 15% and for UMICs 10%⁹. Only the grant equivalent element of concessional loans is counted as ODA within DAC. However, under climate finance there is currently no rule. Most ODA is in the form of grants, but the volume of reported concessional loans to developing countries are increasing, rising 13% in 2017 flows compared to 2016.¹⁰

During the past three years, loans (concessional and non-concessional together) have constituted about 60% of the annual climate finance. According to an analysis by INKA Consult, the non-grant element of concessional loans constituted approximately 33% (17.2 billion USD) of the total climate finance in 2016¹¹.

Despite a considerable grant element, concessional loans will also include a backflow of funds. The exact amount of this flow depends on the criteria for the loan and is therefore difficult to estimate. Developing countries are therefore arguing that only the grant element should be counted as climate finance.

Non-concessional loans

Non-concessional loans are provided by bilateral lenders (governments), multilateral institutions (e.g. development banks), private banks and investors to developing countries. These loans do not fulfil the terms for concessions set for DAC, so are therefore not counted as ODA.¹²

According to an estimation by INKA Consult, non-concessional loans constituted approximately 31% (16 billion USD) of total reported climate finance in 2016¹³. However, it should be noted that all countries are not currently including non-concessional loans in their climate finance reports. If all countries were to include non-concessional loans in the climate finance reports, the amount of climate finance would increase substantially. However, it is difficult to get a reliable estimate of the potential amount, as the use of non-concessional loans differs between countries.

The backflow of funds associated with non-concessional loans is bigger than the concessional loans and a loan may soon become a net cost for developing countries and create profit in developed countries.

Guaranties

Guaranties are a form of insurance, where future investments and loans are guaranteed. Ideally the guarantee will never be used, but it gives the investor some security and reduces the risk for possible loss. Guarantees are often given by donors, to reduce the rent of a loan, or to minimise the risk of an investment. In that way developing countries can access more favourable financing.

Currently only a few countries include guarantees in their climate finance reporting, although many donors are issuing guarantees for climate change related investments. If they were to be counted towards climate finance reporting, then the contributions would increase drastically. There are, however, no consolidated figures for guaranties. There is a risk for “double counting” if guarantees are counted as climate finance. If an investment is covered by a guarantee, and both the investment and the guarantee are counted, the actual cost of the activity will be counted twice. It is also important to note that most

⁸ <http://www.oecd.org/dac/financing-sustainable-development/concessional-sovereign-loans.htm>

⁹ <https://www.un.org/ldcportal/when-should-concessional-loans-be-reported-as-oda/>

¹⁰ <http://www.oecd.org/development/development-aid-stable-in-2017-with-more-sent-to-poorest-countries.htm>

¹¹ Estimated calculation of the total climate finance to developing countries for 2015 and 2016 that is based on BR3 and OECD CRS database

¹² <https://www.development-finance.org/en/topics-of-work/public-sector-financing/non-concessional-finance/multilateral.html>

¹³ Estimated calculation of the total climate finance to developing countries for 2015 and 2016 that is based on BR3 and OECD CRS database

guarantees are used in middle-income countries¹⁴, as a support to mitigation projects. It therefore may not be a good instrument for LICs and adaptation projects.

All actors who engage in investments, public or private, should be aware that the investment may fail. If an investment fails, investors are likely to demand compensation, which may lead to financial requests to the owner of the investment. If a government in a developing country is the “owner” and responsible for the investment, a failure may lead to public debt. Foreign investors may be saved by a guarantee, while the government will be requested to cover the loss. It is therefore always important to consider the risks with investments. Including guarantees as an instrument for climate finance could have big implications for reaching the 100 billion USD annual target from 2020. As many guarantees are currently not reported as climate finance, additional amounts could be added to climate finance reports, if supported by a new accounting policy. Offering guarantees is already quite common among donors, so it may not necessarily lead to an increase in actual support to developing countries.

Guarantees consist of different elements. If guarantees were to be counted as climate finance, the amount would depend on which elements were selected. Below are six¹⁵ possible options for accounting for guarantees.

1. Counting the full amount of an investment (or loan)

Guarantees will often only cover part of an investment. The investment, however, may not have taken place without the guarantee. As such, it could be argued to count the full amount of an investment or loan even if the guarantee only covered a part.

2. Counting the full amount which is guaranteed

The amount of funds which is guaranteed is often a large amount. However, this concrete amount will most likely never be channelled to a developing country. This is because the guarantee will only be paid if the investment fails and if the investor cannot get their funds back. On the other hand, the investment may never have taken place, or the interest rate of a loans could have been much bigger, unless there was a guarantee.

3. Counting leveraged funds

Counting the amount of additional funds leveraged with the support of the guarantee could be a third option. The logic would be that an investment would not take place unless part of the risk would be reduced with a guarantee. If protected by a guarantee, the investor may take a bigger risk and potentially invest funds which are not guaranteed. These funds could then be acknowledged as “leveraged”.

4. Counting funds which are saved

Counting the possible amount of funds which are saved through the guarantee, for example, when the rent of a loan can be reduced compared to market value, would make the added value visible. However, it may be difficult to monitor.

5. Counting the premium

Counting the premium, paid by investors to get the guarantee, could also be an option. The premium is much smaller than the guarantee but is more accurately reflective of the price investors are willing to pay to support a project. In that way, it reflects the added value a guarantee brings to an investment.

6. Counting guarantees being used

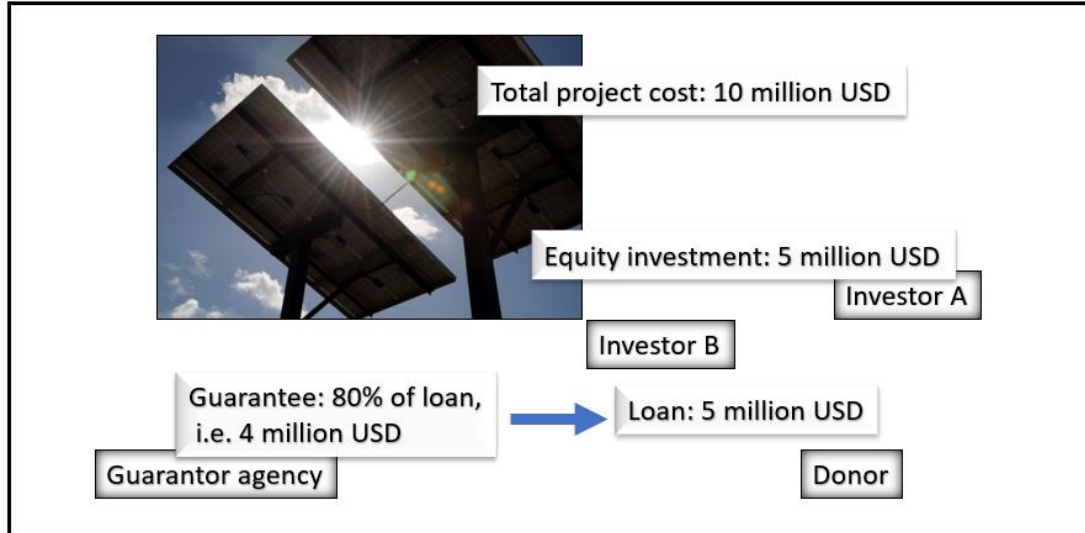
Another approach could be to only count the guarantees which are used, i.e. the funds which are paid to an investor or donor to compensate for a deficit. However, if there is a deficit it is likely that the concrete activities may also have failed, which would mean that climate finance would be used for activities which never took place.

¹⁴ <https://www.oecd.org/dac/financing-sustainable-development/GURANTEES%20report%20FOUR%20PAGER%20Final%2010%20Mar%2014.pdf>

¹⁵ There may be more options for accounting for guarantees, which are not discussed here.

An example: using a guarantee

Let us look at an example. Imagine a project with a total cost of 10 million USD, which is funded by an equity investment by Investor A (5 million USD) and a loan acquired by Investor B (5 million USD). To reduce the rent, a guarantor agency offers to guarantee 80% of the loan. Investor B can then get a loan with a lower rent. In return, Investor B will pay a premium (in this example, 1% of the guarantee, which equals 40,000 USD).



If the project is successful, the loan is repaid. As only 80% of the loan was guaranteed (4 million USD), the donor offering the loan, had a risk of 20% (1 million USD). In this example we assume a 5% reduction of the rent, worth 250,000 USD.

If the project fails, the guarantor agency will cover up to 80% of the loss for the donor. However, depending on the contract the guarantor agency may ask Investor B to cover this cost.

Following the analysis above the guarantee can be counted in six different ways. This is illustrated below through six different options.

Loan: 5 million USD	Guarantee: 80% of loan, 4 million USD	Risk for investor B: 1 million USD	Reduction on rent on loan 5% 250.000 USD	Premium 1% of guarantee 40.000 USD	Guarantee paid to donor ? USD
Accounting option 1	Accounting option 2	Accounting option 3	Accounting option 4	Accounting option 5	Accounting option 6

Export credits

Export credits are a form of guarantee developed to support export from one country to another. An export credit could, for example, be given if a producer of wind turbines wishes to export wind technology to a foreign market. If the deal fails, and the producer does not receive the agreed payment, the credit can reduce the deficit or cover the loss.

Export credits do not often leave the donor country, as they support companies in these countries. For projects in developing countries, import of products and components may be important, but they can often choose between different suppliers and an export credit given to a company in a developed country will therefore have a limited role to play.

A few countries include export credits in their climate finance reports. OECD calculated that climate related export credits amounted to approximately 2.1 billion USD in 2017, of which almost all went to renewable energy investments in middle-income countries¹⁶. However, as many donor countries offer export credits to companies in their countries, the amount could potentially constitute a considerable part of climate finance. As with non-concessional loans shown above, it is difficult to estimate the potential of export credits as their relevance will differ from country to country.

Insurances

In the global debate about climate finance, insurances are currently receiving increased attention. They have been proposed as an instrument for climate finance. An insurance offers security and reduces the risk for existing activities in return for a premium. In that way they are similar to guarantees and export credits.

Even if some donors, as well as private insurance companies, are already offering insurances, they have not appeared as a separate instrument in current climate finance reporting. This may be due to the uncertainty of how to include insurances in the reporting. Like the challenges listed for the guarantees above, counting insurances can be done in different ways. The insurance sum could be counted, given that it potentially could be paid; the amount which is paid, e.g. in emergency situations (e.g. after a hurricane) could be counted; or the premium (which for example could be paid with grants from donors) could be counted.

Insurances are usually proposed as a finance instrument in relation to “loss and damage” due to climate change. However, current climate finance only relates to mitigation and adaptation. There is a proposal to add loss and damage as a third channel of support, and if that becomes accepted, the role of insurances is likely to get more attention in climate finance debates.

There is no global overview evaluating the use of insurances related to climate change. However, the recent initiative called “InsuResilience” has received a lot of attention¹⁷. InsuResilience builds on a previous initiative, where G7 countries committed to provide climate risk insurance for up to 400 million vulnerable people¹⁸.

It is not possible to estimate the potential impact insurance could have on climate finance contributions and reaching the annual 100 billion USD target, from 2020. However, considering the commitment by the G7 countries in 2015, we could expect large amounts to be mobilised in the coming years.

Depending on how the insurance is offered and agreed, it could include a backflow of funds. In general, a premium will be paid to enable the insurance. If this premium is paid by people in developing countries, and the insurance is offered by a foreign actor, the net support to the developing country may become negative. However, this estimation does not consider the added value of security the insurance provides, and the situation will of course be different if the premium is paid or subsidised by a foreign donor.

¹⁶ <http://www.oecd.org/environment/cc/Key-results-Climate-finance-from-developed-to-developing-countries-Public-flows-in-2013-17-ENG.pdf>

¹⁷ <https://www.insuresilience.org>

¹⁸ <https://unfccc.int/news/g7-climate-risk-insurance-initiative-stepping-up-protection-for-the-most-vulnerable>

3. How to count to 100 billion USD

The target to annually mobilise 100 billion USD from 2020 and beyond, may sound ambitious, especially considering the total annual ODA flows reached 146.6 billion USD in 2017. If, however, climate finance included a combination of existing ODA, export credits and market-based loans, the 100 billion USD annual target may already be reached. Climate finance may then be limited to a desk-assignment, where flows of existing finance get an additional label to deliver on the agreed target.

Table 1 shows how important the debate about instruments for accounting and reporting of climate finance is. Depending on which instrument developed countries can include in their reports about climate finance, the role of the 100 billion USD target by 2020 may differ.

Instruments	Estimated amounts included in climate finance for 2016	Comments about estimated potential in relation to the 100 billion USD target
Grants	12,1 billion USD ¹⁹	Developed countries could scale up grants
Concessional loans	17,2 billion USD ²⁰	If face value is counted, loans are likely to become one of the main elements in climate finance.
Non-concessional loans	16,0 billion USD ²¹	Likely to increase if the instrument is agreed as several parties are currently not including this instrument.
Equity	658 million USD ²²	Equity has the potential to be much bigger than the 100 billion, but it depends on the accounting rules. Equity is likely to increase if the instrument is agreed as several parties are currently not including this instrument.
Insurances	No data	No data was found, but if insurances are included as an instrument it will also constitute a part of the 100 billion USD.
Guarantees	1,7 billion USD ²³	Currently small but potentially very big, depending on accounting rules. If guarantees are included as an instrument it is likely that the amount of climate finance will increase as several parties are currently not including this instrument in their reporting.
Export Credits	1,5 billion ²⁴	Currently small but potentially very big, depending on accounting rules. If export credits are included as an instrument it is likely that the amount of climate finance will increase as several parties are currently not including this instrument in their reporting.

Table 1: The potential of different instruments

¹⁹ <http://www.oecd.org/environment/cc/Key-results-Climate-finance-from-developed-to-developing-countries-Public-flows-in-2013-17-ENG.pdf>

²⁰ Calculations made by INKA Consult

²¹ Calculations made by INKA Consult

²² Estimation based on the OECD report <http://www.oecd.org/environment/cc/Key-results-Climate-finance-from-developed-to-developing-countries-Public-flows-in-2013-17-ENG.pdf> where it is stated that 1% of bilateral, and 2% of multilateral climate finance in 2017 came as equity investments. By assuming that the proportion of equity was the same, an estimated number for 2016 was calculated.

²³ No data was found for 2016, but in 2014 OECD reported 1,7 billion USD as guarantees related to climate change. <https://www.oecd.org/environment/cc/OECD-CPI-Climate-Finance-Report.pdf>

²⁴ <http://www.oecd.org/environment/cc/Key-results-Climate-finance-from-developed-to-developing-countries-Public-flows-in-2013-17-ENG.pdf>

Instrument	Includes flow of funds to developing countries	Includes backflow of funds from developing countries	Favoured type of support mitigation/adaptation/loss and damage	Favoured country category
Grants	Yes	No	All types	All categories
Concessional loans	Yes	Yes	Mitigation	Low-income countries
Non-concessional loans	Yes	Yes	Mitigation	Middle-Income countries
Equity	Yes	Yes	Mitigation	Several categories
Insurances	Yes	Yes	Loss and damage	Several categories
Guarantees	Yes/No	Yes/no	Mitigation	Middle-income countries
Export Credits	No	Yes/no	Mitigation	Middle-income countries

Table 2: The effect of different instruments

Balance between adaptation and mitigation

As shown in table 2 most instruments for accounting and reporting will favour climate mitigation projects. A drastic increase in the use of non-concessional loans or equity investments, for example, are expected to have a negative impact on the balance between mitigation and adaptation. Such development must therefore be compensated with an increase of grants, which are better to use for adaptation projects.

Backflow of funds

The UNFCCC agreements state that climate finance should be mobilised, but there is no reference to possible backflow. It is also stated that climate finance should support developing countries. Backflow, especially in the form of rents, may increase the debt burden of countries, and in the end the initial support may become a hindrance for development and domestic climate action.

All instruments for accounting and reporting, except from grants, may include different forms of backflows, and the commitment to annually mobilise 100 billion USD for support to developing countries, may - in the long run, be replaced with a net payment by developing countries.

Recipients

The choice of instrument will also influence which country the support can be provided to. As shown in table 2 several instruments are more likely to be used in middle-income countries. With a bigger focus on these instruments, there is a risk that developing countries, such as the LDCs, will find it more difficult to attract climate finance.

New and additional

Different instruments will have different possibilities to live up to the principle of “new and additional”. With the current practice, most grants and grant equivalent elements of concessional loans, are also reported as ODA; contributing both to the finance targets set for development aid and for climate finance. However, many of the new proposed instruments, are currently not eligible as ODA, so could also be classified as additional to existing flows of climate finance. However, it does not mean they are “new and additional” compared to existing support to developing countries. Many countries are already offering guarantees, export credits and non-concessional loans, and if they suddenly were to be eligible as climate finance, it would not necessarily lead to any increased support.

Ensuring scaled-up ambitions

When the 100 billion USD target was formally agreed at COP16 in Cancun, the intention was to increase funding to promote adaptation and mitigation activities in developing countries. However, as there was no agreed baseline, nor agreement about accounting or reporting, or which instruments to use, it has been difficult to assess if developed countries can deliver on their promises. As noted in table 1, several instruments have the potential to mobilise large amounts of climate finance. If, however, existing flows

are used, then there will be no change in actual financial support to developing countries. The 100 billion USD annual target will then lose its importance.

For example, several developed countries already have equity investment supported through national DFIs, concessional or non-concessional loans, guarantees and export credits. To formally include these instruments as an agreed accounting standard, will diversify the number of existing flows of support, but it may not lead to an actual increase in the number of activities.

4. Conclusions and recommendations

Based on the analysis above it is evident that reaching the 100 billion USD annual target from 2020 will depend on which accounting and reporting instruments for climate finance are agreed upon. In a scenario with a high degree of flexibility, where all kinds of instruments are accepted, it will not be difficult to mobilise 100 billion USD a year. As discussed, there are some unintended consequences and implications for a flexible accounting and reporting system. Increased backflow of funds may lead to increased debt burden for developing countries, and several instruments may have implications on the agreement to balance the support between adaptation and mitigation activities.

When different accounting and reporting instruments for climate finance are assessed it is important to keep the focus on the desired outcome. Climate finance should be used to support mitigation and adaptation to climate change in developing countries. If the target of reaching 100 billion USD from 2020 should lead to increased climate action, developed countries need to be more ambitious in the form of climate finance contributions, and the scale-up of activities and initiatives. Increased ambition may be achieved if climate finance modalities are new and additional. An increase of climate finance, simply due to changes in reporting practice, where existing flows are given a new label, is therefore not a good way forward.

We should also keep in mind that the need for climate finance is much bigger than the agreed target of 100 billion USD a year from 2020. UNEP estimates that climate finance for adaptation alone will need investments of 140-300 billion USD by 2030²⁵. The agreed climate finance instruments should therefore be used with a focus on the activities which will be difficult to fund from private investments, and investments which can come with changes in policies and practice to promote enabling investment environments.

At the same time, it should be acknowledged that all the instruments mentioned above are important. They are all needed to help countries, both developed and developing, to prepare for a climate-resilient future. This aim is also referred to in article 2.1.c of the Paris Agreement, where governments have committed to “making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.” To achieve this, accounting and reporting instruments for climate finance, such as guarantees, private equity investments and market-based loans will all have an important role to play.

Recommendations

- Uphold the existing principle to maintain a balance of support for mitigation and adaptation activities.
- The “new and additional” principle, defined as an addition to existing ODA commitments and financial flows, should be kept and upheld.
- Only grants and grant equivalent elements of financial instruments, such as equity and concessional loans, should be eligible for reporting as climate finance, as also applied within DAC.
- To decrease the risk of developing countries facing an increasing debt burden, non-concessional loans should not be accounted or reported under climate financing.

²⁵ <https://www.unenvironment.org/resources/adaptation-gap-report>

- All accounting and reporting instruments described in this paper have a potential role to play and should be included and promoted to encourage a shift in the global financial flows, as addressed in article 2.1.c of the Paris Agreement.
- Possible backflow of climate finance, which can be generated if loans, equity and possible other instruments are accepted as climate finance, should be reported and excluded from the climate finance total reported towards the 100 billion USD target.
- Reporting of climate finance, both bilateral and multilateral, public and private, should be based on full transparency with full data about the given support, including both inflow and backflow, and terms for transactions.
- Climate finance reporting should be coordinated with ODA and TOSSD reporting to avoid double counting, and to increase the efficiency of reporting practice.
- When a process for the adoption of a 2025 finance target is agreed, it should include talks about accounting and reporting rules, and a baseline, before the discussion about an actual target begins.

Annex 1: Four ways to report financial support to developing countries

Developing countries receive financial support from developed countries in many ways. However, there are different ways to implement, measure and monitor this support. Four different systems are presented below: 1) Climate finance, 2) Official Development Assistance, 3) Other Official Flows and 4) Total Official Support for Sustainable Development. It is important to note that these modalities tend to overlap and can refer to the same funds and initiatives.

Climate finance

Climate finance includes financial support to developing countries, with a specific aim to support mitigation and adaptation to the effects of climate change. Within UNFCCC, the debates about climate finance often refer to the target for developed countries to mobilise 100 billion USD annually from 2020 and beyond. Other debates about climate finance include discussions on “shifting the trillions” or “financial flows”. While these debates are also important, they are not covered by the term “climate finance” in this paper.

Under the current and somewhat limited rules for accounting and reporting funds for climate finance, developed countries have, to a large extent, relied on existing practice within the Development Assistance Committee (DAC). Current practice is for developed countries to report on their climate finance through biennial reports. Many countries use the so-called “Rio markers”, developed for DAC, to measure bilateral climate finance. However, part of the climate finance is also channelled via multilateral development banks (MDBs). MDBs all measure their climate finance using a different system.

Recent calculations show that global contributions to climate finance are increasing²⁶. However, the increase can also be questioned due to the lack of agreed rules. According to the reports, mitigation is prioritised and funding towards middle-income countries is favoured by many donors. As shown in this paper, this trend could be linked to the choice of instruments, as some instrument favour mitigation and investments in richer countries.

According to the Organization for Economic Cooperation and Development (OECD) total climate finance contributions in 2016 were almost 49 billion USD, which excludes private finance. The Standing Committee on Finance (SCF), claim that climate finance reached more than 70 billion USD in 2016; a calculation which includes private finance but excludes export credits. According to these reports, it appears developed countries are on the way to fulfilling the 100 billion USD annual target from 2020. However, as will be analysed further in this paper, calculating the total amount of climate finance depends on which instruments Parties agree to include.

It is agreed that climate finance should support “developing countries”, but in reality, a large proportion of climate finance is being channelled to upper middle-income countries, e.g. Turkey. In fact, in the period 2013 to 2016 Turkey alone received more climate finance from the European Union (EU) institutions than all LDCs together²⁷.

Official Development Assistance (ODA)

The OECD-DAC began to measure resource and economic flows to developing countries in 1961 and the DAC developed ODA in 1969 to measure the quality of official and concessional parts of financial flows to developing countries²⁸. ODA is widely used as an indicator to measure international aid flow from

²⁶ Both the report from the Standing Committee <https://unfccc.int/sites/default/files/resource/2018%20BA%20Technical%20Report%20Final.pdf> and OECD <http://www.oecd.org/environment/cc/Key-results-Climate-finance-from-developed-to-developing-countries-Public-flows-in-2013-17-ENG.pdf> confirm an increase.

²⁷ <https://actalliance.eu/wp-content/uploads/2018/04/Analysis-of-the-climate-finance-reporting-of-the-EU.pdf>

²⁸ <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/officialdevelopmentassistancedefinitionandcoverage.htm>

governments to countries on the official OECD-DAC list of recipients. ODA can only be officially recognised if given to countries on this list and must be used to promote, and specifically target, economic development in developing countries. ODA can either be provided bilaterally or multilaterally and can include grants, technical assistance and concessional loans. ODA does not include military aid, spending to promote donor interests, nor primarily commercial objectives, such as export credits²⁹.

In 2017, the net flow of ODA by the members of DAC was 146.6 billion USD, which was a slight decrease of 0.6% in real terms compared to 2016. The flow of ODA in 2017 was equivalent to 0.31% of the combined gross national income (GNI) of the DAC countries³⁰.

The official target for ODA is 0.7% of donor GNI; a target first agreed upon in 1970³¹. At the United Nations Conference on Environment and Development (UNCED) meeting in 1992, developed countries pledged to reach the 0.7% target by 2000. The goal was not reached. In 2005, countries within DAC, and those also members of the EU, agreed to reach the target by 2015. Again, most of the countries failed to reach the target in time. In 2017, only five countries within DAC (Sweden, Luxembourg, Norway, Denmark, and United Kingdom) reached the 0.7% ODA/GNI target³².

Other Official Flows (OFF)

Apart from ODA, developed countries also report on "Other official flows" (OOF) to the OECD. OOF refers to official sector transactions to developing countries that do *not* meet official ODA criteria. OOF includes:

- grants to developing countries for commercial purposes;
- official bilateral transactions intended to promote development, but which have a grant element of less than 45% (LICs) 15% (LMICs) or 10% (UMICs);
- official bilateral transactions, irrespective of the grant element, but which are primarily used towards facilitating exports (e.g. export credits) instruments discussed in relation to climate finance, including non-concessional loans and export credits.

Total Official Support for Sustainable Development (TOSSD)

TOSSD is a new reporting system that is under development by a Task Force hosted by OECD. The idea behind the development of TOSSD is to build a shared international statistical framework to monitor and incentivise the mobilisation of additional funds for attainment of the Sustainable Development Goals (SDGs) in developing countries. The aim is to also increase transparency around the various forms of development finance.

Four main guiding principles have been highlighted in developing the TOSSD:

- 1) In order to monitor the financing of the SDGs, the new measure will track not only public development flows, but also private flows that have been mobilised with official support.
- 2) While ODA reflects a 'provider perspective' and measures donor efforts, the new measure should have a 'recipient perspective' and focus on measuring cross-border flows supporting development efforts in partner countries.
- 3) Measuring TOSSD should also track global and regional finance for development enablers and global challenges, including climate change.

²⁹ <https://data.oecd.org/oda/net-oda.htm#indicator-chart>

³⁰ <http://www.oecd.org/development/financing-sustainable-development/development-finance-data/ODA-2017-detailed-summary.pdf>

³¹ The first target was 0.7% of gross national product (GNP). GNP was replaced by GNI in 1993

³² <http://www.oecd.org/development/financing-sustainable-development/development-finance-standards/the07odagnitarget-ahistory.htm>

- 4) The new measure should not only include financial flows from OECD-DAC members. Non-members would be encouraged to report, and the new measure would comprise flows from a broad range of actors, including emerging donors and South-South cooperation.

TOSSD is still not in practice and it is difficult to assess the impact it will have and the role it may play in the future. It is stated that it should be a supplement to ODA, however there is a risk that ODA may lose its relevance with a TOSSD system in place. One scenario could be that with the TOSSD system in place the ODA may lose its relevance. The TOSSD system may also impact climate finance; as this reporting is likely to constitute part of the TOSSD reporting. With separate reporting systems, countries will have to report the same amounts several times, potentially leading to unnecessary administration.

Annex 2: Climate finance – Existing agreements about climate finance

There are several existing agreements about climate finance. These agreements have different legal value, but they are all a result of negotiations between Parties. They all reflect an agreed understanding of a framework for future financial support to developing countries. These agreements include:

100 billion USD from 2020 and beyond

The Cancun Agreement³³ (decision 1/CP.16, paragraph 98) recognises that: “Developed country Parties commit, in the context of meaningful mitigation actions and transparency on implementation, to a goal of mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries”. This agreement, which was also reiterated at COP21 in Paris 2015³⁴, confirms the commitment by developed countries to give developing countries support in their efforts to tackle climate change. It is important to note paragraph 99 from the Cancun Agreement, which states that funds “may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources”. This text opens up for the use of different types of funding instruments.

A new target from 2025

The need for climate finance is evident, and it is also acknowledged that the need is increasing. Decision 1/CP.21 from COP21 in Paris (paragraph 53), states that a new target should be set from 2025 and beyond. The new target should build on the existing target for 2020, i.e. 100 billion USD annually. There are, however, no formal agreements about how this target should be agreed or how the funds should be used.

New and additional

The principle about “new and additional” support has been stated in various agreements (e.g. decision 1/CP.16 paragraph 97). Developed countries are being asked to describe their interpretation of “new and additional” in their biennial report to the United Nations Framework Convention on Climate Change (UNFCCC). The reasoning, which is important to understand, is a concern that efforts to increase climate finance, may result in a decrease in official development assistance (ODA) (e.g. programmes to support education, democracy or healthcare) to developing countries if funds are being redirected from ODA to climate finance.

Balance between mitigation and adaptation

There is a big need for finance support, for both mitigation and adaptation activities. This has been acknowledged in various agreements, where it is stated that climate finance should be balanced between mitigation and adaptation. However, there is a trend for climate finance to favour mitigation. The Paris Agreement (article 9.4) states that climate finance should be balanced between mitigation and adaptation, and this is also the principle for the Green Climate Fund.

Needs of developing countries

The Cancun Agreement (paragraph 98) states that climate finance should be mobilised “to address the needs of developing countries”. This short passage implies that developing countries should have a say when climate finance is allocated.

Predictability

Ensuring climate finance is ‘predictable’ was decided at COP13 in Bali in 2007 (decision 1/CP.13, paragraph 1.e (i)). This principle was reiterated in the Paris Agreement (article 9.5) where it says that developed countries should, when available, “communicate projected levels of public financial resources to developing country Parties.”

³³ The 100 bn USD target was first mentioned in the Copenhagen Accord, adopted at COP15. However, the Cancun Agreement was the first UN agreement referring to the 100 bn USD target.

³⁴ Decision 1/CP.21, Paragraph 115

Paris Agreement

The Paris Agreement includes several references about climate finance. Some of them are particularly important for this paper:

Article 2.1.c

This paragraph reads: “Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development” and it refers to the broad debate about “shifting the trillions”. This could, for example, include subsidies and flows of private investments.

Article 9.5

This article reads: “Developed country Parties shall biennially communicate indicative quantitative and qualitative information related to paragraphs 1 and 3 of this Article, as applicable, including, as available, projected levels of public financial resources to be provided to developing country Parties. Other Parties providing resources are encouraged to communicate biennially such information on a voluntary basis.”

Article 9.7

This article reads: “Developed country Parties shall provide transparent and consistent information on support for developing country Parties provided and mobilized through public interventions biennially in accordance with the modalities, procedures and guidelines to be adopted by the Conference of the Parties serving as the meeting of the Parties to this Agreement, at its first session, as stipulated in Article 13, paragraph 13. Other Parties are encouraged to do so.”

Annex 3: Abbreviations

Acronyms and abbreviations

COP – Conference of Parties

CPI – Climate Policy Initiative

DAC – Development Assistance Committee

DFI – Development Finance Institutions

GNI – Gross national income

GNP – Gross national product

LDCs – Least developed countries

LICs – Low-income countries

LMICs – Lower-middle-income countries

MDB – Multilateral development banks

ODA – Official development assistance

OECD – Organization for Economic Cooperation and Development

OFF – Other official flows

SCF – Standing Committee on Finance

SDG – Sustainable Development Goals

TOSSD – Total official support for sustainable development

UMIC – Upper-middle-income countries

UN – United Nations

UNCED – United Nations Conference on Environment and Development

UNFCCC – United Nations Framework Convention on Climate Change

USD – United States dollar