The Governance Regulation: Implementing Acts for Member States' Climate Finance Reporting

CAN Europe Briefing: How the EU can act as a global standard-setter for post-2020 climate finance reporting

May 2019

The new Governance Regulation's Article 19.3 requires the development of an implementing act to set out the common structure, format and submission processes for Member States' climate finance reporting, replacing the relevant provisions under the Monitoring Mechanism Regulation (MMR). This offers a unique opportunity to develop a robust, transparent and more consistent system of reporting contributions towards the Paris Agreement goals.

As the world's largest international climate finance contributor, the EU should lead the way in clear, transparent and coherent accountability standards and reporting requirements. We welcome the European Commission's development of implementing acts in accordance with the reporting requirements agreed upon under the UNFCCC and the Paris Agreement as an opportunity to build on current best practice, and set standards internationally.

The EU and its Member States played a constructive role in the COP24 negotiations on the transparency framework under the Paris Agreement's Article 13, including on the reporting of financial support provided and mobilised under Article 9 of the Paris Agreement. However the agreed rules[1] leave important aspects on climate finance reporting either voluntary or open to interpretation. With this in mind, in designing its internal reporting rules for climate finance, we strongly recommend that the EU:

- **Make grant-equivalent reporting mandatory**. The new finance reporting rules under the UNFCCC's Paris Agreement also require provision of information such as the grant-equivalent value of climate finance committed to specific programmes or projects, e.g. in the case of using concessional lending instruments. We would strongly urge EU Member States to report these figures (alongside the face value of funding) in their internal reporting rules as well, thereby setting an ambitious bar for reporting standards internationally. Grant-equivalent values are needed to improve the transparency and comparability of reported numbers by making the actual net contribution to developing countries explicit. Grant-equivalent accounting is already the standard for reporting headline Overseas Development Aid (ODA) figures under the OECD Development Assistance Committee (DAC), and there is no reason why climate finance accounting should be any different.

- **Continue <u>not to count</u> non-concessional instruments**. As with the current system, the new finance reporting rules under the UNFCCC's Paris Agreement do not forbid the inclusion of non-concessional instruments (commercial-rate loans, guarantees or export

[1] As contained in paras 118-125 of the Annex to Decision 18/CMA.1, available at https://unfccc.int/sites/default/files/resource/cma2018_3_add2%20final_advance.pdf

credits for example). However, EU Member States should continue to refrain from reporting or counting these as climate finance - aligning to what is overwhelmingly the current practice. Any other interpretation would be against the spirit of the Paris Agreement, as non-concessional instruments do not amount to a net transfer of resources to developing countries. If the decision is made to report non-concessional instruments, the template should require reporting of the grant-equivalent value, so that only this element can be counted. If they were counted at full face value the $100bn would be met and exceeded very quickly, but would not be meaningful support.

- **New and additional.** Under the new UNFCCC rules, contributing countries must provide information on how support provided is new and additional. Many countries either ignore or offer questionable definitions. We recommend the EU template should at least require clarity as to whether each reported activity also contributes to the 0.7% GNI ODA commitment.

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- **Mobilized financial support**. Reporting of mobilized private finance must limit the risk of double-counting and should be conservative to build trust with developing country parties. No flat leverage ratios should be applied; instead causality between public investment and mobilized private finance should be established on a project-by-project basis.

- **Report on project-by-project level.** The new UNFCCC rules introduce requirements for more detailed and granular reporting on recipients. Reporting should therefore specify project-level information.

- **Calculate climate-specific proportion of finance committed for a project.** This should be reported with the percentage applied on a project-by project-basis, aligning to existing best practice amongst EU Member States.

We would also like to reiterate the Paris Agreement’s aim to achieve a balance between mitigation and adaptation in climate finance support. Given that EU support is already favouring mitigation, and that several of the new instruments introduced in the rulebook favour mitigation, it is even more important to ensure granularity and transparency of reporting in line with the above recommendations. This will help to make clear which forms of support need to be amplified in support of adaptation.

We believe the above elements are key to ensuring robust, transparent and consistent reporting of climate finance to developing countries. We look to the EU to adopt robust standards at home, and to champion them on a global level.

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