VIEWS OF BRAZIL ON THE DEVELOPMENT OF MODALITIES FOR THE ACCOUNTING OF FINANCIAL RESOURCES PROVIDED AND MOBILIZED THROUGH PUBLIC INTERVENTIONS

The Government of Brazil welcomes the opportunity to submit views regarding 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[1], following the invitation by SBSTA at its 44th session.

2. Transparency of support, including accounting modalities for reporting on financial resources provided and mobilized, is essential for promoting the effective implementation of the Paris Agreement. This information will be used to review implementation of individual Party obligations; to assess individual and collective progress towards achieving the purpose of the Paris Agreement and its long-term goals; as an input to the Global Stock Take; to build trust and accountability amongst Parties; and to promote the engagement of external cooperation partners. Despite all the efforts on developing modalities and providing information on support for climate change up to now, the current system needs to be improved in order to provide a transparent, consistent, comparable, complete and accurate framework for climate finance reporting. Clear modalities for the accounting of financial resources provided and mobilized through public interventions need to be developed in order to make available transparent and consistent information on support.

3. This submission is structured around the three guiding questions indicated by SBSTA 44 in its conclusions.

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

4. Reporting and reviewing processes of climate finance provided have evolved over time under the UNFCCC and the Kyoto Protocol. As per the current MRV framework, Annex II Parties must provide financial information both through national communications and biennial reports. Reporting guidelines (FCCC/CP/1999/7) provide that national communications must include a chapter on financial resources and transfer of technology, including under the KP. This chapter should offer detailed information on measures taken by Parties to fulfill their commitments under Article 4 of the Convention, including a clarification on how the resources provided have been determined as being "new and additional". The underlying principles are those of transparency, consistency, comparability, completeness and accuracy. The biennial reports process represents a strengthening of the MRV framework, as it markedly improved access to relevant data and facilitated reporting. The guidelines for the preparation of BRs (decision 2/CP.17) provide for "rigorous, robust and transparent"

---

[1] Article 9, paragraph 7 provides that "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."

reporting, and the common tabular format (decisions 19/CP.18 and 9/CP.21) moves in that direction.

5. The concept of accounting under the current MRV framework refers more specifically to the Kyoto Protocol. Under the KP, accounting means attributing a specific allowance (assigned amounts) or emission reduction amounts (units of CO2 equivalent) to a specific activity, thereby generating accounting units (such as AAUs, ERUs and CERs). This information allows Parties to assess whether their emission obligations are being met and whether collaboration through different mechanisms is possible. The KP accounting system, for being rigorous, transparent and fully comparable, leads to a high level of environmental integrity. Even though it refers specifically to mitigation, lessons from this experience can be drawn to the benefit of the future modalities for the accounting of financial resources provided and mobilized through public interventions. The most basic lesson is that the basis of sound accounting is having a clear definition of the unit to be accounted, and this applies directly to the accounting of finance. It is not possible to envisage a transparent and consistent system, with information that can be aggregated and compared, if different Parties are accounting for different things and are not explaining what exactly they are accounting for.

6. This leads to the challenges and information gaps to the existing modalities under the current MRV framework. In spite of progress made in recent years and improvement in Parties approaches, reporting on public climate finance provided still lacks the desirable level of consistency and transparency. CTF tables provide a straightforward means to facilitate reporting and comparability, but experience shows that the lack of common understanding of basic categories pertinent to the CTF tables hampers their comparability and usefulness. The lack of a definition on what should be accounted for, i.e. what is climate finance, is the most important one. Any institution dedicated to tracking climate finance flows will start by defining what the category encompasses, and the same should be done under the Paris Agreement.

7. Another challenge derives from the fact that Parties have been filling the CTF tables in very different levels of details. While some BRs go as far as providing project-level data, some only indicate the total amount of resources provided for each developing country, with little information on the sectors benefitted. This lack of disaggregated data hinders developing country Parties' and other stakeholders' ability to make use of the information provided and does not contribute to a stronger engagement among cooperation partners. Achieving a more consistent approach among reporting Parties is fundamental to enhance transparency and comparability of information. Furthermore, since the multilateral assessment process of BRs excludes any questions pertaining financial information, there is no possibility of cross-checking the information presented by developed country Parties in a transparent manner.

8. In addition to the existing gaps on accounting of public climate finance, there are significant challenges related to the reporting of mobilized climate finance (public and private). Article 9, paragraph 7, of the Paris Agreement provides a clear mandate for the regime to track not only provision, but also mobilization of resources through public interventions. This mandate entails the need for definitions and common understandings on concepts such as mobilization, private finance and criteria for attributing causality between a public intervention and additional resources leveraged.

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

9. The Paris Agreement establishes that its transparency framework will build on and enhance the transparency arrangements under the Convention. The basis for the development of the modalities for accounting of climate finance should therefore be current reporting instruments (national communications, biennial reports and biennial update reports). Full observance of current reporting guidelines for both Annex I Parties national communications and biennial reports would already improve the quality of information available. The principles have already been agreed on, but need to be fully mainstreamed into developed country Parties BRs.

10. In developing modalities by enhancing and adjusting current guidelines as appropriate, the primary focus should be on improving the accounting of public finance provided. Even though, in general, the best available information already is on public climate finance, this is also the area where more immediate improvement can be achieved. In order to increase comparability of future BRs and of the information to be reported under the Paris Agreement transparency framework, Parties should work together to define and achieve common understandings of key concepts foreseen in the current reporting guidelines and in the Paris Agreement. In the case of public climate finance, the highly politicized debate around its definition should not prevent Parties from working together to agree on clear guidelines that could be used by all reporting Parties. One possible way forward would be to agree on using the operational definition proposed by the Standing Committee on Finance as a basis for future reporting, providing for periodical reviews by the SCF. Other important concepts that should be addressed in this context include "mobilization", "private climate finance" and "public intervention".

11. There will be issues for which, even with a precise definition, there will be some level of Party discretion when reporting. With that in mind, it would be important that the future reporting format allows Parties to report on how that specific category is being considered. That applies for instance to the status of support (committed/disbursed) and to the financial instruments used (for example, how was finance identified as concessional?). Progress in this sense was made at COP21, with decision 9/CP.21, and that should be further strengthened, with Parties making full use of these reporting fields.

12. Aside from further explaining their internal criteria, Parties should strive to provide highly disaggregate information on their reports, ideally with project-level data and figures on the resources that were spent on transactions and overhead costs and the amount of financial resources that were in effect transferred to developing countries. Granular, disaggregate information can serve as a counterbalance to the lack of precise definitions in some cases and could enhance comparability and avoid double counting. Also, it has the potential to foster engagement between donor and recipient countries.

13. Double counting is an issue of concern under several angles. One refers to multilateral finance and the possibility of the resources being accounted for twice (when

they are transferred from the donor country to the fund and when the fund transfers them to developing countries). Another kind of double counting that must be avoided through transparent accounting is that of resources towards emission trading and/or offsetting activities. Units arising from such mechanisms may be used as a tool to mobilize market finance or to fulfill mitigation obligations, but never towards both purposes. If emission reductions in a developing country are used to offset the developed country's mitigation target, the resources to acquire those credits constitute in fact a way to meet the developed country mitigation obligation in a more cost-effective manner. It does not constitute, thus, a resource provided by a developed country to fulfill its existing obligation under article 4.3 of the Convention.

14. Double counting may also occur in case the same resource is used to meet financial obligations under different international regimes. Where the finance flow has climate as its significant objective but other co-benefits are also targeted under a different international agreement, countries should report how much of the total project or activity is reported under each of the frameworks, such as under the Convention of Biological Diversity. The same resource should not be labeled under different financial obligations across different regimes.

16. Other areas in which accounting modalities need to be developed are multilateral finance and private finance, both important channels for mobilization of resources. Not only it is necessary to have an agreed understanding of how to identify private climate finance and multilateral climate finance mobilized through public interventions as such, but also Parties will need to advance on how this measurement and reporting is done in terms of method. This process will entail considerable technical work, and the contribution of the SCF will be important for the final result.

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

17. As per decision 1/CP.21, the modalities shall be developed for consideration by COP 24, with a view to making a recommendation for consideration and adoption by CMA 1. These modalities must be in accordance with the modalities, procedures and guidelines of the broader transparency of action and support framework, which are being developed by the APA for consideration by COP 24. Given that these two work tracks will be occurring in parallel, Parties will need to maintain frequent formal and informal consultations until both processes are concluded satisfactorily. Moreover, close coordination between the SBSTA chair and the APA co-chairs would be important.