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WORKING PAPER

Counting the Cash: Elements of a Framework for the Measurement, Reporting and Verification of Climate Finance

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December 2009

The role of the measurement, reporting and verification (MRV) of financial contributions in an international post-2012 climate change agreement cannot be overstated. Agreement on the provision and tracking of financial support to developing countries to reduce their greenhouse gas emissions, adapt to a changing climate and build capacity to report their actions internationally will be critical. The need for Parties to clearly demonstrate financial support has given rise to two questions. First, what types of financial contributions from developed countries can count as climate finance? Second, what framework can be put in place to track these contributions? This Working Paper aims to shed light on both of these issues.

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Suggested Citation: Moncel, Remi et al. "Counting the Cash: Elements of a Framework for the Measurement, Reporting and Verification of Climate Finance". WRI Working Paper. World Resources Institute, Washington DC. Available online at http://www.wri.org.

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Executive Summary

The role of finance in an international post-2012 climate change agreement cannot be overstated. Agreements on the provision and tracking of financial support to developing countries to reduce their greenhouse gas emissions, adapt to a changing climate and build capacity to report their actions internationally will be critical to the success of the international negotiations for a post-2012 climate regime at Copenhagen and beyond.

The need for Parties to clearly demonstrate financial support has given rise to two questions. First, what types of financial contributions from developed countries can count as climate finance? Second, what framework can be put in place to track these contributions? This Working Paper aims to shed light on both of these issues.

Parties to the United Nations Framework Convention on Climate Change (UNFCCC) agree on the need to hold countries accountable for their respective support obligations under a new climate agreement based on the principle of "common but differentiated responsibilities" (CBDR) enshrined in the Convention. However, Parties have differing views on what type of financial support, in particular, should count towards fulfilling financial obligations, and clarity on this issue is imperative to build trust. This paper advances the idea of determining eligibility criteria for climate finance contributions and analyzes the criteria that have been proposed by Parties. The paper is not intended to be prescriptive or exclusive but to inform the climate negotiations on types of eligible finance.

Possible eligibility criteria for financial contributions include:

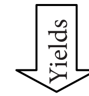
1. **Additional to Official Development Assistance (ODA)**: climate financing is not diverted from development resources and does not undermine development objectives.
2. **Predictable and sustainable**: the financial flows are lasting and consistent over the long term.
3. **Recipient-country control**: recipient countries exercise a degree of control over the resources generated.
4. **Avoiding double-counting**: financial resources may not be counted by several actors and should not undermine mitigation objectives.

Once the new international climate agreement has articulated which finance sources should be eligible, it will be critically important to establish a process by which those contributions will be tracked. Section III of this paper provides some initial observations on the institutional architecture of a framework that could conduct such tracking. It does so by:

- reviewing existing institutions involved in the tracking of international financial flows; and
- discussing possible roles for new actors and institutions.

While the exact functions of an MRV framework for finance have not yet been agreed by negotiators, initial country positions point to the following functions:

FUNCTIONS
Monitor and record public financial flows
Ensure that flows align with UNFCCC agreed-upon eligibility criteria for financial contributions
Faciliate the tracking of support
Verify progress against negotiated financial contributions



OUTCOMES
Confidence that money is flowing to developing countries
Greater level of ambition on finance and mitigation
Recognition of financial contributions by countries
Improved ability to compare efforts among contributing countries
Increased capacity of national and international institutions to monitor financial flows
Accountability for financing responsibilities

The paper concludes with the following recommendations for action by countries, both at the 15th Conference of the Parties (COP) in Copenhagen, and in follow-up negotiations.

Recommendations for COP15

On eligibility of financial contributions:

- The Parties to the COP bring forward proposals for the generation of finance and Parties define what should count towards developed countries' commitments to provide finance. This would ensure that all countries are held to the same standard and help avoid political misunderstandings.
- Parties begin to frame finance contributions in terms of key eligibility criteria. These criteria could then be applied to the various funding sources, including both fast-track and long-term financing.

On tracking of financial contributions:

- The COP mandates an independent and experienced body (e.g. UNFCCC Secretariat) in collaboration with appropriate international institutions, to prepare a draft common reporting format for mitigation and adaptation financial data. This draft should be submitted for consideration by the COP at its next session, after review by a panel of experts. This would lay the groundwork for the accurate, thorough and consistent data-gathering essential to enabling credible cross-country comparisons and building the foundations of an accountability mechanism.
- In mandating the drafting of a common framework to track finance, the COP should draw lessons from, and address the limitations of, existing processes and institutions, in particular the national communications process and the Creditor Reporting System (CRS) of the Organisation for Economic Co-operation and Development (OECD).

Recommendations beyond COP15

On eligibility of financial contributions:

- Agreement is reached on eligibility criteria for finance and the development and use of common methodologies in applying them. Contributing and developing countries formally utilize criteria proposed by the Secretariat to define acceptability of finance.

On tracking of financial contributions:

- A common reporting standard for MRV of finance is agreed upon and a mechanism is established to verify that reporting is done accurately.
- Parties agree on the appropriate institutions to report and cross-check information, for verification purposes. Opportunities for decentralized generation of data and cross-checking of information should be maximized. Institutions that could generate such data include: (1) international institutions like the UNFCCC Secretariat or a possible new international registry of support contributions; (2) contributing and recipient country governments as well as sub-national entities; (3) intermediary bodies; and (4) third parties (civil society actors in particular).
- Capacity building and increased resources will be necessary for all institutions that will play a role in the reporting, collecting and analyzing of financial data, particularly the UNFCCC Secretariat, and developing countries.

I. Introduction

Success in the international negotiations on a post-2012 climate change regime, which will prevent global greenhouse gas (GHG) emissions from reaching dangerous levels and help developing countries adapt to a changing climate, hinges upon negotiators' ability to agree on key elements of a financial package for developing countries.

"No money, no deal," [1] was the blunt assessment from South Africa in August 2009, indicating that significantly scaled up financial resources for developing countries were required from industrialized nations in order to complete an ambitious agreement. A month later, Jose Manuel Barroso, Head of the European Commission, offered a similarly stark evaluation from the developed country perspective. He indicated that developing nations, too, needed to play their part by taking measures to curb their GHG emissions: "No money, no deal. But no actions, no money." [2]

Countries are inching toward an agreement that would satisfy the demands of both developed and developing countries. However, key issues remain unresolved, foremost among them: how much money should be devoted to developing country mitigation and adaptation needs? Who should contribute and in what proportions? Who should manage the resources? And how, specifically, should they be spent?

While hopes are high for progress on these issues at the Copenhagen Conference of the Parties (COP) to the UN Framework Convention on Climate Change (UNFCCC) in December 2009, longstanding lack of trust still hinders the negotiations.

Developing countries point to the meager performance of developed countries in delivering the aid for development and climate change that they have pledged at G8 and UN meetings over the past 30 years. In turn, developed countries argue that they do fulfill some of these promises. The European Union (EU), for example, affirms that it has delivered on its 2001 pledge to provide $369 million annually in additional climate finance to developing countries[3], although the data is lacking to prove this is the case.[4]

Because of ill-defined accountability and reporting rules, contributing countries struggle to get credit for actually delivering on their pledges, and recipient countries cannot assess with confidence how the finance generated compares to internationally agreed-upon responsibilities.

To help overcome some of this mistrust, the Bali Action Plan (BAP), agreed to by all parties of the UNFCCC in December

2007, aimed to create a process where monies would be committed in a measurable, reportable and verifiable way. The BAP therefore calls for "Enhanced national/international action on mitigation of climate change, including, inter alia, consideration of [...]Nationally appropriate mitigation actions by developing country Parties in the context of sustainable development, supported and enabled by technology, financing and capacity-building, in a measurable, reportable and verifiable manner." [5] This provision aimed to ensure that developing countries receive the support due to them according to the principle of common but differentiated responsibility (CBDR), when and where promised.

About this Paper

This working paper discusses two fundamental aspects of the measurement, reporting and verification of financial contributions in the post-2012 climate regime, in a manner that avoids the limitations of existing tracking processes.

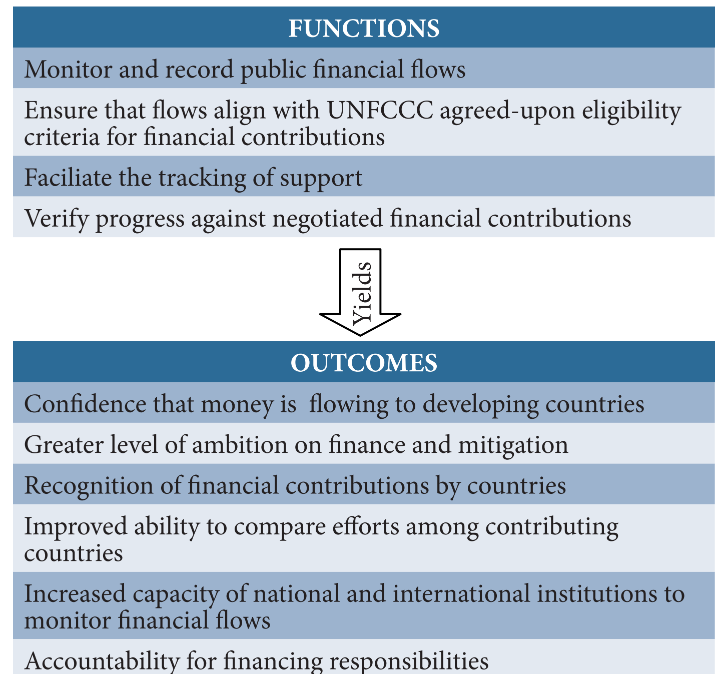
Sources of Eligible Finance: First, there is a need for the new international climate agreement to clearly spell out what sources should count as eligible finance. Parties have diverging views on what should count toward a developed country's responsibility to provide finance, and clarity on this issue is imperative to build trust. This paper aims to support negotiators in achieving this outcome by exploring the main eligibility criteria for contributions that have been proposed by Parties.

Tracking of Financial Contributions: Second, it is important for Parties to agree on the process by which financial contributions will be tracked and reported against the internationally agreed eligibility criteria. This paper provides some initial observations on the institutions that could potentially conduct such tracking of the provision of financial resources. In this context, the paper also includes a discussion of the role of new actors and institutions at both the national and international level.

The paper concludes with recommendations for negotiators on next steps both at Copenhagen and in the longer-term. Elements beyond the scope of this paper are described in Box 1.

This paper suggests that thinking about the possible functions of an MRV framework for finance would be useful in tackling the two fundamental elements highlighted above. While the exact functions of an MRV framework for finance have not yet been agreed, initial country positions suggest that the following can be identified as key functions:

Figure 1 | Possible Functions and Outcomes of an MRV Framework for Finance



Box 1 | Elements Outside the Scope of this Paper

By design, the focus of this paper is limited to a narrow set of questions that relate to the sourcing of, and reporting on, the provision of finance. For this reason, other important issues in the negotiations on climate finance fall outside its scope. The authors' objective is to provide new material on a specific aspect of the negotiations that would add to other important elements of the finance negotiations not covered in this paper, including:

- **MRV of actions.** Although the MRV of actions is essential, this paper only covers the MRV of finance. It therefore looks at the reporting of information relating to the finance generated by contributing countries, as opposed to the use of those financial resources.
- **Private finance.** Although the focus of this paper is on public finance[6], this is not meant to downplay the need for private finance to support climate investment in developing countries.
- **Scale of finance needed.** Questions of scale are considered to be outside the scope of this paper, though the aggregate scale of financial resources needs to be sufficient to achieve mitigation, adaptation and development objectives (See Annex II).
- **Matching.** The matching of support and actions is not considered in this paper because of the specific focus on sources of finance.
- **Effort-sharing formula.** Specific recommendations on the effort-sharing formula for equitable financial contributions among countries are beyond the scope of this paper.
- **Management and allocation of contributions.** The management (governance) and allocation of financial resources is pertinent to the MRV of finance, but important work already exists in this area and may be drawn on as a complement to this paper.[7]
- **Adaptation.** This paper draws parallels, where applicable, between mitigation and adaptation finance. While the MRV provisions of the Bali Action Plan do not apply to adaptation actions, and by the same token adaptation finance, it seems reasonable to expect developing countries to demand some form of monitoring and accountability for developed countries' support obligations.

II. What to Count? Eligibility Criteria for Financial Contributions

A major component of the climate finance discussion, and a source of contention among Parties, centers on which sources of finance should be counted toward developed country commitments to fund developing countries' mitigation and adaptation activities. In short, what types of finance should be eligible? Some Parties have suggested that official development assistance (ODA) or financial flows from carbon offsets should be counted as financial contributions. Others propose a much narrower definition, counting only public funds that flow through formal United Nations funds. In this section we discuss some of the main criteria that Parties have proposed and consider the implications of applying these criteria to different funding sources.

The criteria presented below derive from various country submissions and statements.[8] They are broadly defined and their application might, in some cases, be difficult to measure.

Nevertheless, using these criteria to mobilize climate finance would help ensure that such funding aligns with developed and developing country demands, internationally agreed principles and ultimate mitigation, adaptation and development outcomes. Some reflections on how and by whom these criteria would be applied are explored in section III of this paper.

A. Additionality – Preventing the Diversion of Development Assistance

The concept of additionality is firmly grounded in international climate law (see Annex I) and features prominently in the current submissions of UNFCCC Parties on finance (see Box 2). It refers to a concern that financial resources raised for one objective (i.e., action on climate change) should not substitute or divert funding for other objectives, in particular economic and social development. The funding provided by developed countries for the latter objectives has been termed and tracked by the OECD as official development assistance (ODA).[9] Consequently, developing countries in the international climate negotiations have demanded that the finance provided by developed countries be additional to ODA.

However, not all Parties agree on the definition of additionality of finance. In particular, countries hold different views on the baseline relative to which additionality should be measured (see Box 2). Determining the baseline has major implications for whether or not the funds transferred under the agreement would be diverted from other objectives.

Four main possible options are described to define additionality of finance:

- *Additional to existing aid flows*

Financial resources under the international climate agreement could be additional to existing aid flows. Under this definition, flows are considered additional if they exceed the amount of funding currently provided by a country for development assistance. OECD countries gave 0.30% of GNI in 2008[10] to developing countries as ODA, a figure which could be used as the current baseline if this definition is adopted.

The principal challenge to this approach is the counterfactual. Levels of ODA support rise and fall, and climate finance is superimposed on this variation. In the absence of climate finance, would overall ODA support have declined? The creation of new funds and climate initiatives can be a means to raise new resources. However, it is sometimes difficult to discern whether the money provided by developed countries is truly new and additional or the result of a budgetary reshuffling at the expense of another climate or development initiative. As it is difficult to know what would have happened otherwise, this measure of additionality will always be subjective.

Another major challenge of separating development funding from climate funding is that climate and development needs often overlap and, likewise, identifying the incremental cost of an action is challenging (see Annex III).

- *Additional to a specific level of ODA support*

Rather than comparing levels of support to existing ODA, it could be compared to a more objective benchmark. The most typically cited is the 0.7% of GNI ODA target that industrialized nations first committed to at the UN General Assembly in 1970 by adopting a Resolution.[11] The Resolution stated that developed countries must increase their ODA to developing countries to levels equivalent to a minimum of 0.7% of GNI by 1975. While the 1975 target date was not met, the 0.7% target has been reaffirmed by multiple countries at several different international gatherings, including in the Monterrey Consensus in 2002, at the World Summit on Sustainable Development at Johannesburg in 2002, and most recently at the Gleneagles G8 summit in 2005.[12] [13]

The challenge here is that current levels of ODA support vary widely among developed countries; while very few countries have surpassed the 0.7% of GNI target, the majority of countries are far from achieving it. Thus, under this scenario, Denmark, Luxembourg, the Netherlands, Norway and Sweden, the only countries to have surpassed the 0.7% target for ODA,[14] would be able to relabel at least part of their existing ODA as climate finance without being "non-additional." Conversely, in 2008, US ODA levels amounted to only 0.19% of GNI.[15] Under this scenario, no amount of finance would count as an additional climate contribution unless the United States first raised its ODA spending more than three-fold, which is an unlikely scenario, and one not contingent on the climate negotiations.

- *Additional to existing climate-related funds*

Financial resources could be additional to existing climate-related funds, but not necessarily to overall resource flows. This approach provides for the identification of newly raised resources for climate purposes. However, it is resisted by developing countries because it fails to ensure that such finance is not diverted from other types of aid.

- *Blending ODA and non-ODA resources*

Some developed countries, including the United Kingdom and the United States argue that public climate finance under the post-2012 international climate agreement could come from a specified blend of ODA and non-ODA resources. The UK, for example, proposes 10% of ODA could also be counted as climate finance. This line of reasoning recognizes that development and climate benefits sometimes overlap. However, defining the percentage of ODA that should count towards climate finance is a difficult task as it depends on the amount of financial resources supporting both development and climate objectives (an amount that is often very difficult to determine; see Annex III). Furthermore, this line of reasoning risks leaving unaddressed the need for significantly scaling up financial resources above current levels of aid. There is also a risk of discouraging funding of some activities that are climate specific and cannot be integrated with development needs.

Box 2 | Country Positions on Additionality

Additonal to ODA [16]	
G77 & China	" 'new and additional' financial resources, which is over and above ODA." (UNFCCC Party Submission, August 2008)
Bolivia	"Contributions from developed countries must be additional to Official Development Assistance (ODA), bilateral aid or aid channelled through organs that are not part of the United Nations" (UNFCCC Party Submission, December 2008)
Brazil	"new, additional and predictable financial resources separate and apart from ODA" (UNFCCC Party Submission, April 2009)
Colombia	"additional to official development assistance (ODA)" (UNFCCC Party Submission, February 2008)
Costa Rica	"additional resources to ODA financing" (UNFCCC Party Submission, April 2009)
India	"The financial resources committed under the Convention cannot be new and additional if they merely divert any existing or likely resources, including ODA" (UNFCCC Party Submission, October 2008)
Suriname	REDD+ goals of developing countries should be supported by funding "additional to ODA, as well as, international levies and/or market-linked mechanisms" (UNFCCC Party Submission, April 2009)
Lebanon	"The funding will be 'new and additional' and not included within ODA and under the UNFCCC" (UNFCCC Party Submission, February 2008)
Trinidad & Tobago	"additionality would be over and above ODA funding," (UNFCCC Party Submission, December 2009)
Additional to existing aid flows	
Africa Group	"Any assistance provided by developed countries under climate change needs to be additional to existing Official Development Assistance (ODA)"
China	The funding scale shall be at the level of a certain percentage, e.g. 0.5%-1%, of their annual GNP in addition to the existing ODA." (UNFCCC Party Submission, February 2009)
Singapore	"Funding for adaptation assistance should also be additional to existing ODA commitments," (UNFCCC Party Submission, July 2008).
Additional to ODA targets	
Bangladesh	"additional to Overseas Development Assistance (ODA) financing as committed by developed countries (0.7% of GNI)," (UNFCCC Party Submission, February 2008)
AOSIS	"separate and apart from traditional ODA and the 0.7% target," (UNFCCC Party Submission, July 2008)
Blend of ODA and non-ODA resources	
Mexico	"Some of the additional investment needed for mitigation could be met with existing mechanisms (carbon finance, GEF, Official Development Assistance, etc.)" (UNFCCC Party Submission, August 2008)
UK	"the UK would like a proportion of this climate finance to be on top of long term ODA commitments," i.e. 0.07% of GNI by 2013. However, the UK also believes "a small percentage of ODA could also legitimately be used to tackle climate change." More specifically, the UK estimated that it will spend up to 10% of ODA "on activities which achieve both climate and development objectives." [17]
EU	"In the medium to long term after 2013, climate financing could become a blend of ODA and non-ODA resources. In this context, ODA and additional climate finance should be seen as complementary."[18]
USA	"…we cannot discount the role of ODA and the importance of incorporating adaptation into development assistance" (UNFCCC Party Submission, September 2008)
New and Additional (no reference to a baseline)	
Japan	"developed countries, including Japan, must contribute through substantial, new and additional public and private financing"[19]

Additionality of actions vs. additionality of support
Finally, as countries debate climate financing approaches, an important distinction needs to be made between additionality of finance contributed by developed countries and additionality of actions undertaken by developing countries.[20]

The latter is often, erroneously, used as a proxy for the former in the context of funding specific projects and programs. Under this interpretation, "additional" finance is expected to provide the incremental portion of funding necessary to make a project or activity yield positive climate-related benefits.

While the two are related, additionality of finance and actions are distinct in nature and represent distinct obligations and processes on the part of contributing and recipient countries. They should therefore be de-coupled and approached differently. The concept of additionality of actions relates to the activities that need to be implemented and supported in developing countries in order to yield local and global environmental benefits that would not be undertaken otherwise. Additionality of finance, on the other hand, refers to a measurement of climate-related financial contributions in relation to a baseline level of contributions from a donor.

Implications for sources of finance
The following considerations should be kept in mind when assessing countries' proposals to generate new and additional finance for developing countries:

- Individual contributing countries may be required to balance two somewhat conflicting objectives when administering climate finance: (1) Funding for mitigation and adaptation under a new climate treaty must be additional in that it does not divert funding from other essential developmental projects. (2) Funding should encourage the integration of climate change and developmental needs.
- The integration of climate change support into development assistance cannot, on its own, provide the scale of public finance resources required for mitigation and adaptation. It is therefore important for developed countries to generate significant, new and additional finance for mitigation and adaptation.
- The creation of new funds and climate initiatives can be a means to raise new resources. However, it is sometimes difficult to discern whether the money provided by developed countries is truly new and additional or the result of a budgetary reshuffling at the expense of another climate or development initiative.
- New innovative finance sources such as the auctioning of assigned amount units (AAUs) proposed by Norway or an international levy on air and maritime transport have the potential to generate hitherto non-existent resources that are truly additional.

B. Predictability and Sustainability of Contributions

In order to sustain long-term actions and policies by developing countries on mitigation and adaptation, financial resources need to be sustained over time (sustainable) and subject to minimal monetary variation (predictable).

The vast majority of countries refer to the attributes 'predictable' and 'sustainable' to describe these financial imperatives, though few concrete definitions are provided.[21] [22] The Africa Partnership Forum defines predictable funding as that which is "secure (without expected fluctuations) over the medium term."[23]

The historical unpredictability of official development flows helps explain developing countries' insistence that climate finance be predictable and sustainable. Since the early 1990s, net official flows of development aid to developing countries have experienced a sharp downturn and been characterized by unpredictability and volatility. For example, net official flows stood at US $32 billion in 1996, rose to US $62 billion in 1998 and dropped to US$23 billion in 2000."[24]

A credible mechanism that measures, reports and verifies whether or not countries are honoring their commitments can help increase accountability of donors to their commitments, thus increasing the predictability and sustainability of financial resources. Some sources are inherently more predictable and sustainable than others, however, as described below.

Implications for sources of finance

Sources of finance with high levels of predictability are challenging for contributing countries to generate. However, if long-term confidence and ambition is to be built on the availability of finance for developing countries, there is a strong argument in favor of building finance-generating mechanisms with more automaticity nationally and internationally.

Because they are subject to domestic appropriations processes, sources that are dependent on national budgetary allocations, such as bilateral assistance and voluntary contributions to multilateral funds, are particularly vulnerable to fluctuations. By contrast, some of the current and proposed national and international market-based levies, such as levies on bunker fuels and carbon emissions allowances, can provide greater certainty through automaticity. In the case of national auction revenues, however, an important caveat should be noted. While revenue can be raised automatically rather than through annual budgetary decisions, the amount of revenue raised for international mitigation and adaptation will vary according to a) the share of allowance revenue that domestic bodies set aside for international purposes; and b) the price of allowances, which may fluctuate from year to year. This may therefore undermine the predictability of this source.

Fast track and predictability

Fast track finance, as proposed by the EU for example, would be made available to developing countries as early as 2010 to support, in particular, capacity building activities. These resources would support catalytic project development activities that have the potential to generate important climate benefits in the long term. But they would be designed to be limited in duration and therefore neither sustainable nor predictable.

Thus, while such shorter term funding carries the benefit that it can be generated swiftly in response to important initial capacity building needs, it should precede and complement rather than be substituted for the longer-term predictable and sustainable funding needed to implement mitigation and adaptation actions over decades.

C. Degree of Recipient-Country Control

Countries' views on the degree of acceptability of financial sources are often framed around how much authority countries have over the allocation of these resources. This criterion therefore speaks to developing countries' demand for balanced and fair power sharing in the institutions that manage finance.

Climate finance in the years ahead is likely to flow through a wide variety of channels. A Copenhagen deal is expected to give birth to some form of new finance structure within the climate agreement, which will administer and control a multilateral fund. At the same time, however, funds for climate action will continue to flow through other multilateral actors such as the World Bank and through bilateral cooperation.

Developing countries have consistently emphasized the importance of channeling finance through a multilateral fund, primarily for two reasons:

- the governance structures in such funds generally give greater weight to developing countries in the decision-making processes, giving these countries greater control over spending priorities and decisions.
- a multilateral fund framed in the context of the UN Framework Convention on Climate Change, which emphasizes the responsibility of developed countries to provide finance, may enjoy a different dynamic between donors and recipients than exists in bilateral development assistance.

Some G77 submissions have proposed that finance can *only* be considered eligible for consideration under developed country finance responsibilities if it passes through a multilateral fund. Even if this position is not successful, it seems likely that finance provided via a multilateral fund will receive a more positive consideration from negotiators than financing through bilateral channels.[25]

Implications for sources of finance
It is unlikely that all climate resources will flow through a centralized fund. However, if a centralized fund is utilized and significant financial contributions flow through it, the task of MRV could become easier.

D. Avoiding Double-Counting

Many industrialized countries propose to reach their own mitigation goals in part by purchasing offsets in developing countries. Although this results in a financial transfer to the developing country, it raises a double-counting challenge of its own. Under the Bali Action Plan, developing countries receive support for their own mitigation actions. With offsets, these emission reductions are claimed by the purchasing country. This risks overstating total emission reductions, and still leaves the developing country notionally taking no abatement action of its own. Parties have expressed concern about the implications of double-counting for the global level of ambition in an international climate agreement.[26]

The UNFCCC's Clean Development Mechanism faces a similar challenge with respect to public funding for clean development mechanism projects. In this case such funding from Annex 1 (developed) parties "is not to result in the diversion of official development assistance and is to be separate from and not counted towards the financial obligations of Parties included in Annex I (emphasis added)".[27]

There is also a risk of double-counting where financial support is framed in terms of GHG reductions achieved. As an example, the American Clean Energy and Security Act of 2009, approved by the U.S. House of Representatives would use revenue generated by auctioning allowances to achieve 720 million tons of reductions in GHG emissions in the forest sector in developing countries in 2020 and a cumulative amount of 6 billion tons by 2025.[28] By contrast, the European Union proposes financial support for developing country forests without specifying an emissions goal. The European Commission in a 2008 communication estimates that "auctioning allowances [from EU ETS] could generate annual revenue of €30–50 billion for EU Member States by 2020. If 5% of the auctioning revenue was earmarked to contribute to global efforts to combat deforestation, €1.5–2.5 billion could be raised in 2020." [29]

Implications for sources of finance
As developed countries seek ways to provide funds for developing countries that are large-scale and predictable, carbon markets offer an important potential mechanism. However, care will be needed to ensure that these financial flows are reported in ways that do not obscure the global level of emissions abatement. Furthermore the support provided for abatement efforts in developing countries should attribute the reductions to developing countries themselves.

Summary of Eligibility Criteria for Financial Contributions

1. **Additional to Official Development Assistance (ODA)**: climate financing is not diverted from development resources and does not undermine development objectives.
2. **Predictable and sustainable**: the financial flows are lasting and consistent over the long term.
3. **Recipient-country control**: recipient countries exercise a degree of control over the resources generated.
4. **Avoiding double-counting**: financial resources may not be counted by several actors and should not undermine mitigation objectives.

The suggested criteria above are not intended to be prescriptive or exclusive. They are presented with the intent of informing discussion at the climate negotiations on the contentious question of how to decide which types of developed country contributions should be eligible to count as climate finance. WRI believes a criteria-based approach is the most effective way to address this issue.

III. How to Count? Institutional Framework for Tracking Finance

Once the new international climate agreement has articulated what sources are eligible to count toward contributing countries' financial obligations, it is critically important to establish a process by which those financial contributions are tracked. Tracking is understood here to refer to the process of marking and reporting financial flows.

This section provides some initial observations on the institutional architecture of a framework that could conduct such tracking of the provision of financial resources by Parties. Institutions at different levels—international, intermediary, national and civil—all have the ability to contribute to such a tracking system. This section explores the role that different types of institutions, which are not mutually exclusive, could play. It also discusses possible roles for new actors and institutions.

Challenges of Effective Tracking

Given the quantifiable nature of a financial contribution, one might expect such measurement to be straightforward. Some sources of finance, in particular, seem simple for a contributing country government to quantify and report. In the case of a country's budgetary allocation to a multilateral fund, for example, one could check the account of the receiving fund (e.g. the Global Environment Facility) to certify that the contribution was made. However, in practice, a number of constraints make this exercise more difficult than it appears at first sight:

- **From pledge to delivery:** Before being associated with the intended activity, a financial contribution is often pledged by a political figure in the international arena, requested in front of domestic appropriating institutions (e.g., parliament), earmarked in domestic legislation, granted to the operating agency, budgeted within the operating agency, committed and finally delivered. At each of these steps, the monetary amount can change. It is therefore important to apply clear and consistent practices across countries in terms of the stage at which finance is reported.
- **Control of flows:** To a certain extent, the ability to pledge and deliver contributions depends on the contributing country's level of control over financial flows. For example, developed countries cannot in most cases provide certainty with regard to the amount of private flows of capital that will be leveraged.
- **International guidelines:** The reporting of finance should be done according to internationally agreed guidelines across countries to ensure integrity and consistency of data.
- **Common eligibility criteria:** Without common eligibility criteria to determine what counts as eligible finance, the data reported by countries may not be trusted by all Parties and will be difficult to compare across countries. As discussed below, the COP could initiate the process of developing new methodologies to report finance that would fill some of these gaps and could be applied consistently by countries.
- **Capacity constraints:** Even when reporting guidelines are detailed and sound, capacity constraints can prevent reporting or collecting entities from producing robust data. Any effort to enhance reporting of financial data should ensure that financial and technical resources are made available to support the bodies in charge of such reporting.

Institutional Arrangements

This section discusses possible institutional arrangements to fulfill the functions identified in Figure 1 of the introduction.[30] First, we analyze existing institutions at the multilateral and national level in order to shed light on the variety of institutions that have the potential to facilitate a reporting framework, while at the same time identifying the gaps in the current system. Based on our analysis, the limitations of existing reporting institutions demonstrate that the post-2012 MRV of support framework will need to strengthen existing processes and institutions, and perhaps create new ones in order to carry out the functions of the MRV framework for finance.

This section provides an overview of existing and possible new institutions and discusses the role that they could play in an MRV of finance framework. The various institutions discussed below should therefore be thought about in complementary rather than exclusive terms.

This section is not intended to recommend that a particular institution be charged with the measurement, reporting and verification of data in a post-2012 climate regime.

A. International Institutions

Existing Institutions

(i) OECD / DAC Creditor Reporting System

Centralized reporting and evaluation processes at the international level can help fulfill the functions of an MRV framework by coordinating and compiling information among different national, regional and other multilateral organizations into comparable and verifiable data.

The Creditor Reporting System (CRS) Aid Activity Database of the Development Assistance Committee (DAC), for example, was established in 1967 by the OECD and the World Bank "to provide a set of readily available basic data that enables analysis on where aid goes, what purposes it serves and what policies it aims to implement, on a comparable basis for all Development Assistance Committee members."[31] The DAC CRS is one of the most comprehensive databases available for tracking international public aid flows compiling data from its 23 members and 12 multilateral organizations (see also Box 3). Its experience to date, however, illustrates several challenges faced when recording financial transactions in a centralized way at the international level:

- Several reporting institutions, including the CRS, collect aid data at the time the grant or loan agreement is signed with the recipient, and assess and mark the activity based on the intent of the policy at this time, rather than on its effects. This raises two challenges. On the one hand, climate-relevant activities that were not clearly labeled as such in their design may not be captured. Conversely, if the intent of the policy suffices to qualify it as climate relevant, donors might have an incentive to declare a climate objective for policies that only remotely provide such benefits. Measuring the impact as well as the intent of funding implies a properly financed verification mechanism—a component that the DAC's CRS is lacking—and may involve significant transaction costs. Information reported by contributors is often low quality and incomplete,[32] thus making analysis and comparability of the aid difficult. The experience of the CRS highlights the need to build more streamlined processes for reporting.
- Because incremental costs are difficult to determine, markers generally apply to the full financial amount of a given activity, even if only an incremental portion of the activity serves the marked objective. Thus, it is difficult to classify mainstreamed projects where a policy objective such as climate change represents just one of many components. As a result, the amount of climate aid for some objectives can be overestimated. Developing guidelines to ensure the appropriate use of metrics for reporting could help address this problem.
- While the CRS is one of the most comprehensive aid databases in existence, compiling data from its 23 members and 12 multilateral organizations, it leaves out most non-DAC governments, foundations, and NGOs, and several multilateral institutions. Under the post-2012 MRV framework for finance, aid flows from other multilateral institutions will need to be accounted for in a comprehensive and comparable manner.
- Activities funded through multilateral organizations cannot always be attributed to a specific donor country. As a result, unless donor countries are giving money to a multilateral organization with a specific mandate to provide additional financial resources to climate-related activities (such as the Global Environment Facility, the Special Climate Change Fund or the Least Developed Countries Fund), multilateral organizations have a difficult time specifying the financial resources each donor gives to adaptation, mitigation or other climate-related policy objectives.

UNFCCC national communications attempt to remedy this last point by asking Annex I Parties to provide information on UNFCCC-related funding through multilateral channels. However, such information is often "limited and incomplete."[33]

(ii) National Communications

The UNFCCC requires Annex I Parties to submit national GHG inventories and national communications that report measures taken to implement the Convention. These include measures taken toward greenhouse emissions reduction targets and measures taken to fulfill their support commitments to developing countries (outlined in Articles 4.3, 4.4 and 4.5 of the Convention).

According to the national communication reporting guidelines on financial resources and technology transfer, Annex I Parties must:

- "Indicate what 'new and additional' financial resources they have provided pursuant to Article 4.3" and "clarify how they have determined such resources as being 'new and additional.'"[38]
- Provide details regarding supported adaptation activities.
- Specify the sector of supported mitigation activities.
- Distinguish if the funding came from the public or private sector.
- Indicate if funding was delivered through a bilateral, regional or multilateral channel.
- Report other activities related to technology transfer and promotion, where possible.

However, because neither the Convention nor the national communication reporting guidelines specify what qualifies as climate finance and, as a result, what specifically should be reported, the utility and comparability of the financial information reported in Parties' national communications are limited.[39]

Box 3 | The Creditor Reporting System (CRS) of the OECD/ DAC

The CRS collects annual data on public aid flows from the DAC's 22 member-countries, the European Commission, and some select multilateral organizations.[34] Aid flows must qualify as Official Development Assistance to be included in the CRS database, meaning it must have a grant element of at least 25% and have the promotion of economic development and welfare of the recipient country as its main objective.[35] The CRS uses a set of markers to classify its aid based on purpose. These markers include:

"Sector classification" markers and "purpose codes": This marker refers to the sector of the economy of the recipient country that the aid seeks to assist. Examples include health, energy and agriculture. Each activity can only be assigned one purpose in order to avoid double-counting. This means that "For activities cutting across several sectors, either a multi-sector code or the code corresponding to the largest component of the activity is used."[36]

"Policy objective" markers: The policy objective markers complement the sector classification codes by facilitating "monitoring and co-ordination of Members' activities in support of the DAC policy objectives for aid, including key elements of the Millennium Development Goals (MDGs). These cover the areas of economic well-being, social development, environment sustainability and regeneration and democratic accountability, protection of human rights and the rule of law."[37] Policy objectives include the three Rio Markers, which were developed following the signing of the three Rio Conventions in 1992 and became compulsory categories in the CRS in 2008. The Rio Markers classify aid according to their effect on conserving biodiversity, mitigating climate change, and combating desertification. The OECD/DAC is also currently working on creating an adaptation policy objective marker. Policy objectives are applied to activities according to three values of degree—principal, significant, and not targeted—based on the relevance of the policy objective to the activity.

A recent OECD report describes national communications by developed countries as characterized by "inconsistent and/or incomplete self reporting of financial support; [and] infrequent reporting."[40] This could be due to unwillingness by the donor country to report data. Or it could stem from capacity-related difficulties in collecting and reporting this information due to the absence of a financially and bureaucratically coordinated national MRV system for climate support. As an example of incomplete self-reporting, while countries are required to clarify why they determine financial resources provided under Article 4.3 as "new and additional," national communication review teams have concluded that the European Union, Japan, and the United States, among others, routinely fail to do so.[41] In its reviews of the 4th national communication of Annex I Parties, for example, the Expert Review Team noted that the "United Kingdom has not provided clarification of how it defined such resources as being 'new and additional', although this definition is required by the UNFCCC reporting guidelines."[42]

Reporting problems have persisted in relation to requirements established by the Marrakesh Accords in 2001, despite their specific nature, stating that:

> Each Party included in Annex II shall provide information on the implementation of Article 11 of the Kyoto Protocol, in particular information on what new and additional financial resources have been provided, in what way these resources are new and additional, and how that Party has taken into account the need for adequacy and predictability in the flow of these resources.[43]

Finally, there are significant gaps in the verification procedures for national communications. While an UNFCCC-appointed Expert Review Team attempts to verify the reported information in discussions with national experts, they do not cross-check the information against data from the GEF or other multilateral institutions, against information from developing countries, or against the Parties' primary documents, such as their fiscal budget.[44]

In conclusion, national communications have been a useful, but limited, reporting tool for Party financial contributions. They need to be enhanced by creating more specific reporting standards (i.e., what type of finance is eligible and how to report it), helping Parties build capacity to report, and creating a more robust verification process.

New Institutions

Several proposals for the creation of a new international entity to track the provision of climate support in the post-2012 regime have been put on the table.

South Africa and the Republic of Korea, for example, introduced the concept of a registry or facilitative mechanism to compile data on national mitigation measures. Several countries have since proposed that such a registry also track support contributions by countries, and could moreover serve as a financial instrument linking actions to support. There is debate, however, over whether or not a registry should be a centralized institution under the COP or a decentralized institution that serves more of an informational and coordinating role.[45]

The European Union has proposed the creation of a High-Level Forum on International Climate Finance that would keep track of the scale, accountability and equitable distribution of climate finance. This would have a "decentralized bottom-up" governance structure that builds on existing institutions and includes an "up-to-date central registry of all actions and financial support." It would "monitor and regularly review gaps and imbalances in financing mitigation and adaptation actions."[46]

B. Intermediary Bodies

Intermediary bodies include multilateral and regional institutions that link donors to activities requiring funding, and play a go-between role in the transfer of international financial flows. These include the World Bank, the Inter-American Development Bank, the Asian Development Bank and the Global Environmental Facility (GEF). The financial flows channeled through such organizations as accounted for under the CRS database[47] make up 30 percent of total ODA flows,[48] demonstrating the key role intermediary bodies play in channeling funds and could play in reporting financial flows if so required under an international climate agreement. However, intermediary bodies face difficulties in providing complete and comparable information on financial flows. As already mentioned, they often have difficulty drawing a clear link between a donor and an activity. In addition, in the absence of an international agreement on what climate-related funding is eligible, no uniform standards exist for these intermediary institutions to report climate-related aid in a consistent and comparable manner. This issue was highlighted in the World Bank's 2002 environment review, which stated that "defining the environment portfolio has always been somewhat arbitrary."[49] Despite these limitations, intermediary bodies, such as the Global Environment Facility (GEF), already collect and report data relating to aid and climate finance. These institutions could play a role in a future MRV framework for finance where decentralized reporting enables cross-checking of available information.

The G77 and China[50], China alone[51], Mexico,[52] and the US[53] have all proposed the creation of a new intermediary body under the COP—respectively, a new Financial Mechanism, a Multilateral Technology Acquisition Fund (MTAF), a Green Fund and a Global Fund for Climate. Such new institutions could also provide data about the type and quantity of finance delivered by contributing countries.

C. Country-Level Institutions

Building capacity of designated national entities for channeling and measuring, reporting and verifying finance has the potential to greatly enhance an international MRV framework for finance. A strong finance reporting structure at the domestic-level—in both contributing and recipient countries—could help ensure the success of an international MRV framework in which countries not only MRV their own climate-related contributions, but also MRV those of others to allow for cross-checking.

Some countries already have a reporting structure that can be built upon or modified to fulfill the MRV requirements of a post-2012 climate agreement. The UK's Department for International Development (DFID), for example, uses a Policy Information Marker System (PIMS) to track the extent to which the UK's development aid targets specific policy areas—in particular those focused on the six Millennium Development Goals (MDGs). It currently has 13 markers which can be grouped based on the MDGs. However, like other reporting systems, the PIMS marker system does not provide information that would help gauge whether or not aid is targeted at fulfilling the specific objectives of a climate agreement—something that could be remedied with an international standard for measuring and reporting climate finance.

The cap-and-trade bill that was approved by the U.S. House of Representatives in June 2009 provides another example. The REDD, adaptation and clean technology finance-generating programs of the Waxman-Markey bill all require annual reporting to Congress on money or allowances spent, to whom they were channeled and for what purpose. In most cases there are also requirements on outcomes generated from such funding and how various goals are being met. These reports would be publicly available. As such, they could provide additional information that could be used for cross-checking.[54]

Emerging national-level trust funds could also play a role in the tracking of financial support and the cross-checking of data. Such trust funds include the Bappenas Fund in Indonesia and the

Amazon Fund in Brazil.[55] However, transparency and reporting capacity may need to be enhanced at the national level in some countries to provide data of sufficient quality and comparability across countries. Illustrating this need, the Institute for European Environmental Policy (IEEP) has noted a lack of comprehensive, reliable and verifiable information on the EU's climate-related aid.[56]

Recipient countries, too, have existing systems for budgetary tracking and oversight that could play a role in the MRV of finance. In contrast to current aid reporting systems that are based primarily on the information that donor countries provide, reporting by recipient countries would enable cross-checking of data. This would be distinct from the reporting on the use of financial resources that some Parties have called for in an international registry of actions. Such reporting both improves accountability and assists national accounting processes by enabling developing countries to track how much developed countries have provided against their initial obligation.

Such recipient-led reporting poses some technical and capacity-related challenges. Support can be received by different agencies of the national government (environment and energy ministries for example) as well as by sub-national governments and, in some cases, non-state actors (e.g. universities, civil society). To the extent that such decentralized financial reporting is pursued, developed countries should support developing countries by building their capacity to conduct such reporting. It should also be ensured that this decentralized reporting takes place in a coordinated manner, consistent with internationally agreed standards. Further analysis would be useful on developing countries' capacity to MRV finance, in a way that sheds light on capacity needs of national-level systems for reporting finance.

D. Third-Party Tracking

Third-party participation in an international MRV framework for finance could increase transparency and accessibility of information and provide opportunities for cross-checking of data. The role of the third party – a participant that is neither the contributor nor the recipient in the financial transaction – could be played by other countries or civil society.

A precedent for such an approach exists where third party observers are sometimes permitted to sit in on fund meetings of multilateral institutions and, in the case of the World Bank Climate Investment Funds (CIFs), suggest agenda items and contribute to discussion.[57]

The Institute for European Environmental Policy 's (IEEP) evaluation of the EU's fulfillment of its 2001 Bonn Declaration on climate support provides one example of the types of analyses that civil society can provide.[58] The Project-Level Aid Database (PLAID)—a joint partnership between two US educational institutions, Brigham Young University and the College of William and Mary—provides another example. PLAID's objective is to collect and standardize data on development assistance projects since 1970. It uses variables from the OECD CRS database, but builds on and enhances the CRS by:

- including details from individual donor reports and project documents from both bilateral and multilateral aid agencies;
- expanding on the number of multilateral organizations included in the database; and
- creating additional markers for categorizing environmental aid.

The involvement of third party countries and technical experts could be achieved in the context of a multilateral review process. Possibly building on the existing expert review process for the national communications of Annex 1 countries, designated reviewers could check country reports for accuracy and consistency with agreed-upon methodologies for reporting.

While third parties can play a facilitative role in measuring, reporting and verifying support, they have several potential limitations that should be taken into account:

- Third parties often have limited access to data, either because of a lack of inclusion in the official MRV process, or because of lack of transparency of the institutions under review.
- If third Parties are not officially involved in the MRV process, they may not follow the established MRV guidelines in place to provide quality and comparable information. Official recognition of the role of civil society can help ensure that any data gathering and analysis is conducted in a manner that is consistent with internationally agreed guidelines.

However, it stands that an official recognition of the role of third parties can also raise the profile and impact of reviews conducted. In order to address these limitations and to capitalize on the benefits of third party review, the MRV framework established in relation to climate financing support under an international agreement must establish clear roles and guidelines for third party participation.

IV. Conclusion and Recommendations

The central role of finance in an international climate agreement cannot be overstated. Beyond the question of how financial resources should be governed, allocated and used, climate negotiators need to ensure that the post-2012 climate regime includes a framework to measure, report and verify the finance provided to developing countries. The Bali Action Plan calls for such MRV of support but includes no details on the scope of this tracking framework and the institutions that should be charged with its implementation.

Establishing a framework for the MRV of climate finance could fulfill several important functions that could yield positive outcomes for contributing and recipient countries, and could enhance the global level of ambition on mitigation and adaptation.

The following recommendations are for negotiators at the Copenhagen COP15 negotiations, and beyond COP15.

Recommendations for COP15

On eligibility of financial contributions:

- The Parties to the COP bring forward proposals for the generation of finance and Parties define what should count towards developed countries' commitments to provide finance. This would ensure that all countries are held to the same standard and help avoid political misunderstandings.
- Parties begin to frame finance contributions in terms of key eligibility criteria. These criteria could then be applied to the various funding sources, including both fast-track and long-term financing.

On tracking of financial contributions:

- The COP mandates an independent and experienced body (e.g. UNFCCC Secretariat) in collaboration with appropriate international institutions, to prepare a draft common reporting format for mitigation and adaptation financial data. This draft should be submitted for consideration by the COP at its next session, after review by a panel of experts. This would lay the groundwork for the accurate, thorough and consistent data-gathering essential to enabling credible cross-country comparisons and building the foundations of an accountability mechanism.
- In mandating the drafting of a common framework to track finance, the COP should draw lessons from, and address the limitations of, existing processes and institutions, in particular the national communications process and the Creditor Reporting System (CRS) of the Organisation for Economic Co-operation and Development (OECD).

Recommendations beyond COP15

On eligibility of financial contributions:

- Agreement is reached on eligibility criteria for finance and the development and use of common methodologies in applying them. Contributing and developing countries formally utilize criteria proposed by the Secretariat to define acceptability of finance.

On tracking of financial contributions:

- A common reporting standard for MRV of finance is agreed upon and a mechanism is established to verify that reporting is done accurately.
- Parties agree on the appropriate institutions to report and cross-check information, for verification purposes. Opportunities for decentralized generation of data and cross-checking of information should be maximized. Institutions that could generate such data include: (1) international institutions like the UNFCCC Secretariat or a possible new international registry of support contributions; (2) contributing and recipient country governments as well as sub-national entities; (3) intermediary bodies; and (4) third parties (civil society actors in particular).
- Capacity building and increased resources will be necessary for all institutions that will play a role in the reporting, collecting and analyzing of financial data, particularly the UNFCCC Secretariat, and developing countries.

Related WRI Research on Climate Finance and MRV

While this paper focuses on eligibility criteria for the sources of climate finance and on how to track such finance, there are several important related areas of research. These include:

- Issues of power and responsibility and accountability are related to questions of MRV, including issues of equitable distribution, ensuring that allocation is demand-driven, determining which institutions are best suited to govern the funds, and ensuring that the funds yield the necessary climate benefits. A November 2009 publication from WRI explores the dynamics of power, responsibility and accountability of climate finance, and can help shed light on this topic.[59]
- MRV of other forms of support, including technology and capacity building will also be an important aspect of an international climate agreement. It is important to explore what types of tracking system can measure, report and verify non-monetary forms of support and which institutions should play a role? This concept is beginning to be explored in various publications including the WRI paper *Measuring the Way to a New Global Climate Agreement*.[59]

- MRV of *actions* taken by developing countries is also an important part of increasing confidence, recognition and ambition in an international climate agreement. Publications that have begun to explore this issue include a joint WRI-Tsinghua University publication entitled *Mitigation Actions in China: Measurement, Reporting and Verification*.[61]

Looking forward, two critical issues in particular require further research and analysis:

- Existing and proposed tracking institutions. WRI has provided an initial look at institutions such as the DAC's CRS, National Communications, and a registry. We hope to expand on this work and provide further insight in future publications.
- The role of developing countries in measuring, reporting, and verifying finance.

V. Annexes

Annex I: International Principles Relevant to the Sourcing of Climate and Development Finance

	Agreement	Principles relevant to sourcing of climate and development finance (emphasis added)
Climate	UNFCCC (1992)	• Equity (Art. 3.1) • Common but differentiated responsibilities and respective capabilities (Art. 3.1) • Integration and mainstreaming of climate change into development and social and economic policies and actions (Art. 3.4 and Art. 4.1) • Obligation of developed countries to provide finance (Art. 4.3) • New and additional financial resources (Art. 4.3) • Finance for agreed full costs incurred by developing countries to complete national communications and agreed full incremental costs of mitigation and adaptation actions (Art. 4.3) • Adequacy and predictability in the flow of funds (Art. 4.3) • Appropriate burden sharing among the developed country Parties (Art. 4.3) • Action by developing countries conditioned on delivery of finance (Art. 4.3) • Developed countries may also provide financial resources through bilateral, regional and other multilateral channels. (Art. 11)
	Kyoto Protocol (1997)	• Common but differentiated responsibilities and their specific national and regional development priorities, objectives and circumstances (Art 10) • New and additional financial resource (Art. 11.2) • Financing for the agreed full costs incurred by developing countries to complete national communications, for the transfer of technology, and for the agreed full incremental costs of mitigation and adaptation actions. (Art. 11.2) • Adequacy and predictability in the flow of funds (Art. 11.2) • Appropriate burden sharing among the developed country Parties (Art. 11.2) • Developed countries may also provide financial resources through bilateral, regional and other multilateral channels. (Art. 11.3)
	Bali Action Plan (2007)	• Common but differentiated responsibilities and respective capabilities (Para 1(a)) • Adequate, predictable and sustainable financial resources (Para 1(e)) • New and additional resources, including official and concessional funding (Para 1(e)) • Positive incentives for developing country Parties (Para 1(e)) • Innovative means of funding to assist developing country Parties that are particularly vulnerable to the adverse impacts of climate change in meeting the cost of adaptation (Para 1(e)) • Means to incentivize the implementation of adaptation actions on the basis of • Sustainable development policies (Para 1(e)) • Mobilization of public- and private-sector funding and investment (Para 1(e)). • Specifications by the Marrakesh Accords (2001): • Funding that is new and additional to contributions under the Convention (Decision-/CP.7) • Public funding for clean development mechanism projects is not to result in the diversion of ODA and is to be separate from and not counted towards the financial obligations of Parties included in Annex I (Decision -/CP.7 (Article 12))

(continued on next page)

Annex I: International Principles Relevant to the Sourcing of Climate and Development Finance (cont'd)

Environment	Stockholm Declaration of the United Nations Conference on the Human Environment (1972)	• Resources should be made available to preserve and improve the environment, taking into account the circumstances and particular requirements of developing countries and any costs which may emanate- from their incorporating environmental safeguards into their development planning and the need for making available to them, upon their request, additional international technical and financial assistance for this purpose. (Principle 12) • Timely financial and technological assistance as may be required (Principle 9)
	Rio Declaration on Environment and Development(1992)	• Common but differentiated responsibilities • The developed countries acknowledge the responsibility that they bear in the international pursuit to sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command. (Principle 7)
	Agenda 21 (1992)	• New and additional financial resources (Preamble) • Financing for the incremental costs of dealing with global environmental problems and accelerating sustainable development (Preamble) • Adequate financial resources (Section I) • Funding can be provided through multilateral, bilateral, regional, private and other channels, including debt relief. Other innovative means of financing should be explored, (Section IV, Ch. 33) • Equitable burden-sharing among developed countries. (Section IV, Ch. 33)
	Statement of principles for the Sustainable Management of Forests (1992)	• The implementation of national policies and programmes aimed at forest management, conservation and sustainable development, particularly in developing countries, should be supported by international financial and technical cooperation, including through the private sector, where appropriate. (Paragraph 8(c)) • New and additional financial resources (Paragraph 10)
	The Montreal Protocol on Substances that Deplete the Ozone Layer (1990 + 1992, 1995, 1997 and 1999 amendments)	• Additional financial resources (Art 10.1) • Predictable financial resources (Preamble) • Financing for all agreed incremental costs needed by developing countries to implement the Protocol (Art. 10.1) • Finance can be provided through a Multilateral Fund, and may also include multilateral, regional and bilateral co-operation (Art. 10.2)
Development	Monterrey Consensus (2002)	• Public and private financial resources (para 20) • Innovative developmental financing approaches (para 23) • Includes new public/private sector financing mechanisms, both debt and equity (para 24) • A universal, rule-based, open, non-discriminatory and equitable multilateral trading system is an engine for development (para 26) • A substantial increase in ODA to fulfill the internationally agreed development goals and objectives (including those of the Millennium Declaration). (para 42) • Enhanced and predictable financial flows (para 54)
	Paris Declaration on Aid Effectiveness (2005)	• Increased volumes of aid (para 1) • Predictable and multi-year commitments on aid flows (para 4) • Untied aid (para 31) • Encourage both public and private investments (para 25)
	Gleneagles Africa Declaration of the G8 (2005)	• Untied aid (para 32) • Disburse aid in a timely and predictable fashion, through partner country systems where possible (para 32) • Includes countries' domestic resources, FDI and other private flows, increased trade and debt relief. (para 24) • A substantial increase in ODA to fulfill the internationally agreed development goals and objectives (including those of the Millennium Declaration). (para 25) • Additional resources (para 24), which constitute an increase in ODA (para 27)

Annex II: Assessments of the Scale of Finance Needed by Developing Countries

Annual Mitigation Costs in Developed Countries

Assessment	Annual Cost	Year
The Climate Group	~100 billion	2030[62]
McKinsey	$175 billion	2030
World Bank	$140-$175 billion	2030[63]
UNDP	$25-50 billion	Present[64]
UNFCCC	>$100 billion	2030[65]

Annual Adaptation Costs in Developing Countries

Assessment	Annual Cost	Year
UNFCCC 2008	$26-67 billion	2030[66]
Project Catalyst 2009	$26-77 billion	2030[67]
World Bank 2009	$75-100 billion	2050[68]
UNDP 2007	$86 billion	2015
Oxfam 2007	$50 billion +	present
Stern Review	$4-37 billion	present[69]

Annex III: Climate Finance and Incremental Costs

In the 1992 Climate Convention, the participation of developing countries in the effort to combat climate change was based on the condition that developed countries provide financing for the incremental cost of mitigation, adaptation and technology development measures (Article 4.3). However, defining incremental costs has often proven a difficult task, and complicates the process of determining whether or not funding for climate-related activities is new and additional.

Past environmental agreements have had to address the issue of incremental costs, including the Montreal Protocol and the Global Environment Facility (GEF). The GEF, whose mandate is to operate the financial mechanism of the Convention, determines the incremental costs of a project in relation to a baseline (i.e., what would have happened in the absence of funding).[70] However, determining the business-as-usual scenario and the resulting incremental costs on a project-by-project basis is difficult and sometimes impossible due to the fact that (1) the business-as-usual scenario is counterfactual, and (2) determining and verifying the incremental costs of a project would require significant capacity at both the international and country level.

As a result of the issues in calculating incremental costs, the GEF and the COP have been continuously revising and refining the definition of incremental costs and the rules for its application.[71] A heavy focus on additionality of actions can cause funding to be skewed towards projects whose incremental costs are more easily identified. On the one hand, any attempt to obtain climate benefits of activities funded through Official Development Assistance (ODA) is often resisted out of fear from developing countries that ODA would be diverted from existing priorities. On the other hand, the GEF and other climate-related funds have traditionally encouraged projects for which the incremental costs can be discerned with reasonable certainty.[72]

Given the challenges associated with incremental cost financing, other alternatives could be explored. The Clean Technology Fund, one of the World Bank's Climate Investment Funds, for example, determines the transformative costs—rather than the incremental costs—of a project "on the basis of whether it will have a 'transformative' effect by supporting programs that would not have been viable without concessional finance."[73]

Endnotes

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2. "Edge back from the abyss – It's time to deliver on climate change" Speech by Jose Manuel Barroso on September 9, 2009. Online at: http://ec.europa.eu/delegations/ukraine/press_corner/all_news/news/2009_09_21_2_en.htm (December 9)
3. At COP6 bis in Bonn, the then- 15 EU countries and five other developed countries (Canada, Iceland, New Zealand, Norway and Switzerland) pledged to deliver US$410 million in additional climate change funding annually to developing countries, starting in 2005. The EU agreed to provide the majority—US$369 million—of this pledge. Under the so-called Bonn Declaration, funding could be delivered through several different channels, including through bilateral aid, the GEF and multilateral development banks, and funding deriving from the share of proceeds from the CDM.
4. In January 2009, the Institute for European Environmental Policy (IEEP) attempted to assess whether the 15 EU countries had fulfilled their Bonn Declaration commitments. To do so IEEP relied on official information available from the GEF, the UNFCCC secretariat, Parties' National Communications, and other multilateral bank information. Its report found data on EU climate aid to lack transparency, comparability and accessibility, and was unable to come to a definitive conclusion. In particular, the authors pointed to the poor quality and lack of standardization of data on bilateral climate aid reported by individual EU member-states in their 4th national communication to the UNFCCC. In M. Pallemaerts and J. Armstrong. "Financial Support to Developing Countries for Climate Change Mitigation and Adaptation: Is the EU Meeting Its Commitments." Institute for European Environmental Policy (IEEP). January 29, 2009. Online at: http://www.ieep.eu/publications/pdfs/2009/sds_paper_funding.pdf (November 13)
5. United Nations (2007) *Bali Action Plan: Decision 1/CP.13.*Online at: http://unfccc.int/files/meetings/cop_13/application/pdf/cp_bali_action.pdf (November 30)
6. Public finance refers to international financial flows from government agencies, as opposed to flows from the private sector (comprising of private corporations and businesses, households, foundations and non-profit institutions).
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Glossary of Acronyms

AAU	Assigned amount units
BAP	Bali Action Plan
CBDR	Common but differentiated responsibilities
CDM	Clean Development Mechanism
CO_2	Carbon dioxide
COP	Conference of the Parties to the UNFCCC
COP15	the 15th Session of the Conference of the Parties
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DFID	Department for International Development of the United Kingdom
ETS	Emissions Trading Scheme
EU	European Union
FDI	Foreign Direct Investment
G77	Group of 77
G8	Group of Eight
GDP	Gross domestic product
GEF	Global Environment Facility
GNI	Gross national income
HIV/AIDS	Human immunodeficiency virus/Acquired immune deficiency syndrome
IEA	International Energy Agency
IEEP	Institute for European Environmental Policy
IFC	International Finance Corporation
IMF	International Monetary Fund
JI	Joint implementation
LDCF	Least Developed Countries Fund
LDCs	Least developed countries
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MRV	Measurement, reporting and verification
MTAF	Multilateral Technology Acquisition Fund
NGO	Non-governmental organization
ODA	Official Development Assistance
PIMS	Policy Information Marker System
PLAID	Project-Level Aid Database
OECD	Organisation for Economic Co-operation and Development
REDD	Reduced Emissions from Deforestation and Degradation
SCCF	Special Climate Change Fund
SDRs	Special Drawing Rights
TFCB	Technology, finance and capacity building
UN	United Nations
UNFCCC	United Nations Framework on Climate Change
US	United States
WRI	World Resources Institute

Acknowledgments

This paper has benefited greatly from the support, information and advice provided by several colleagues. The authors would like to thank Athena Ronquillo-Ballesteros, Heather McGray, Dennis Tirpak, Taryn Fransen, Kaija Hurlburt, and Brian Lipinski for their valuable comments and input on previous drafts of this paper. In addition, Rob Bradley, Jennifer Morgan, and Janet Ranganathan all gave invaluable strategic guidance and input to the development of this piece. For their assistance with the production and editorial process, the authors would like to thank Polly Ghazi, Casey Freeman, Kevin Lustig, and Hyacinth Billings.

Finally, the authors wish to acknowledge the Norwegian Ministry of Foreign Affairs and the Doris Duke Charitable Foundation, whose financial support made this paper possible.

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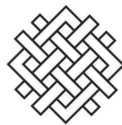

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