# DISCUSSION DOCUMENT

# Governance Aspects of Measure, Report and Verify (MRV) and Information Needs to Improve the MRV of Finance

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Due to time limitation and the nature of this paper, it has not have been possible to go into details of each and every issue, which I have raised here. However, I am confident that the collective wisdom and determination of the international community would help chart a course of action that will untangle this Gordian knot of measuring, reporting and verifying the flow of finance to the developing countries. Finally, I would also like to thank OECD for this opportunity in sharing my views on this very important topic. I hope this short paper piece would help in taking the process forward.

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## Summary

The main purpose of this short paper is to stimulate discussions at the CCXG/Global Forum on Environment on establishing and operationalising a pathway towards measuring, reporting and verifying (MRV) the support to climate change actions that developing countries will be taking under the Bali Plan of Action and Cancun Agreements.

Though much remains to be done, several components of the MRV of support framework have been agreed to at Cancun. This paper, as the title suggests, aims at highlighting the governance aspects and how and what could be the use of information coming from various actors that the MRV process will generate both within and outside the Convention.

This paper makes some observations. One, MRV of finance is crucial to establishing an effective reconfigured climate change regime. Two, there is an urgent need to find an agreed criterion in measuring what is climate finance. This paper offers some reflections and elements in defining it. Three, it stresses that efforts should aim at measureable results from climate finance but indicators of our success in climate change must aim at alleviating key adaptation vulnerabilities and moving countries to green their economies. In this regard, there is also a need to change our thinking and look beyond development perspective in channelling finances for mitigation and adaptation actions. Fourth, the central actor to measure, report and verify the support to actions by developing countries can only be the newly established Standing Committee on Finance. Finally, the MRV framework should also guide the international community in moving beyond collection of information and aim at establishing a robust though promotional mechanism for compliance towards commitments to support actions in addressing climate change in developing countries.

## 1. Introduction – Why measure, report and verify?

The measurement, reporting and verification (MRV) process for emission reduction commitments/actions and the delivery of finance is one of the core elements of the Bali Plan of Action (BPA). A result-oriented and accountable process of MRV is crucial for the future global architecture of climate change and, more importantly, its success.

The 16th Conference of the Parties to the UNFCCC that led to Cancun Agreements has established instrumentalities (e.g. the Standing and Adaptation Committees, Technology Mechanism and enhanced and frequent reporting) through which the process of MRV can be evolved, elaborated and governed.

## 2. Governance needs/aspects of MRV

In order to understand, address and erect a MRV mechanism, it is important to first identify what exactly we are aiming to find solutions to.

Box 1: Key Questions in Defining the MRV Framework/Mechanism

- How do we define what is "new and additional" finance?
- Which organ within the UNFCCC architecture is most suitable to quantify and measure the adequacy of financing?
- How do we link our collective aim is to achieve a 2 degree stabilization pathway with the MRV process?
- Which sources of funding could allow us to reach the initial goal of US $ 100 billion by the year 2020?
- How and who should quantify private finance?

2. The negotiations since the adoption of the Bali Plan of Action suggest that the MRV of finance can be broken down into following elements:

a. Agreed criterion in **measuring** climate finance, involving:

i. Adequacy of climate finance in accordance with Article 4.3 of the Convention especially in meeting the 2 degree stabilization pathway;

ii. Accounting climate finance including compliance with the provisions of the Convention i.e. Article 4.3, 4.5, and 4.7 of the UNFCCC;

iii. "New and additional resources" with a view to distinguishing them from traditional development assistance;

iv. Net flow/disbursement of resource (as opposed to pledges).

b. Common methodology (to be adopted by the COP) for the developed countries in **reporting** the delivery of climate finance through their national communications and biennial reports.

c. Mutual **verification** and accountability for transparency and trust in the system as opposed to unilateral reporting by the developed country parties. The flow of information for MRV of support should be top down as well as bottom up, i.e. developed countries reporting on their contribution and developing countries reporting as well as verifying the receipt of financial flow from all sources including private flows[3]. This certification process would include independent verification by the developing country parties through their national communications and biennial reports on the flow of financing that they may have received from all developed country party sources. This information could be provided to the Standing Committee by the National Implementing Entities (NIEs), National Funding Entities and/or Ministries of Finance/Environment.

d. Evolving an overview of climate finance with a view to improving coherence and coordination in its delivery by all sources/channels including private sector.

Box 2: New and additional finance, common methodology and certification elements

**What is new and additional?**

Some of the elements which could help define new and additional could be: dedicated national budget lines; dedicated new and innovative resource generating mechanism; dedicated non-ODA funds such as AFB, GEF, GCF etc, dedicated percentage of funds within ODA especially in the case of programmes.

**Common Methodology**

Again some of the key elements would include: reporting in single currency; identified sources of revenue generation; criterion and modalities used in channelling resources; whether loans or grants; and specific vulnerabilities and sectors targeted.

**Certification - Elements**

Net inflow of climate finance; nature of resources (concessional finance or loans); flow of FDI devoted to GHG mitigation from business as usual; flow of FDI in adaptation; channels of resource transfer i.e. multilateral funds, MDBs, bilateral or regional agencies; and whether such transfer increases the debt burden of developing countries and diverts resources from poverty eradication and development which are over riding priorities of the developing countries?

## 3. MRV governance mechanism – Standing Committee on Finance

3. The Cancun Agreements established the Standing Committee on Finance – based on a proposal by the Group of 77 and China – that has been assigned the responsibility to undertake MRV of support. In addition, the Parties also agreed to further define the role and functions of the Standing Committee on Finance.

4. Accordingly, the Standing Committee should be a body of 40[4] experts, which will - among other functions such as improving coherence and coordination in the delivery of climate finance, rationalization of the financial mechanism - manage a finance registry/certification to undertake MRV and receive information on financial resources being managed by all actors in the climate finance universe. In sum, the Standing Committee should undertake the following functions related to MRV:

a. Submits report to the COP on the extent of financial resources being channeled through the operating entities of the Convention and other actors in the climate finance universe;

[3] There is no agreed understanding on what may account for private flows, new and additional finance which should be sorted out through negotiations until Durban and if not by the Standing Committee on Finance

[4] Sub divided into 15 (developed country) and 25 (developing country) members as we have done in the Transitional Committee

b. Assure the accountability by the COP of the operating entities of the financial mechanism;

c. Assess and make recommendation for adoption by the COP on the adequacy of climate change finance both in mid-term (2012-19) and long-term (2020 onwards);

d. Manage registry for MRV of support with a view to:

   i. Verifying the fulfillment of contributions;

   ii. Verifying flow of total financial resources/commitments to the developing countries through all sources;

   iii. Reviewing the scale of assessed contributions, if agreed to in future.

# 4. Means of MRV of finance/support – reporting and verification

The Cancun Agreements have also given birth to building blocks for reporting and verification of finance and support to the developing countries by calling for enhancing the scope of national communications, the need for common format in reporting as well as biennial reports.

While these steps are in the right direction, the information gathered from the developed countries alone will not present a complete picture of the climate finance universe and allow effective measurement of the financial resources available and channeled towards the developing countries. It is equally important to bring all actors in the MRV loop and to evolve a framework that link these actors (MDBs, bilateral donors/agencies, IFIs, Climate Funds, private sector and developing countries) in filling the gaps and presenting a complete picture of MRV of support.

Put simply, to allow Standing Committee on Finance in **measuring** the adequacy and the extent of finance available and delivered (Measurement) would necessitate reporting by all actors as well as verification by the developing countries of the receipt of finance. In this regard, the Standing Committee must have the following before it:

i. Information on financed delivered/net flow of resources through national communications in accordance with enhanced guidelines and through agreed common reporting formats (Reporting);

ii. Information on net flow of resources through the biennial reports submitted by the developed country parties under the agreed common reporting format (Reporting);

iii. Information from bilateral and multilateral channels on the flow of climate finance to the developing countries as requested by the Standing Committee the COP (Reporting), which would include:

   (a) Information from funding/financing arrangements within the Convention i.e. GCF, AFB, LDCF, SCCF, GEF (Reporting);

   (b) Information from Technology Mechanism and the Adaptation Committee consistent with Articles 20 (e) and 121 (a) of the Cancun Agreements (Measuring)

iv. Certification of the support received to the developing countries both through international funding sources as well as the private sector in the shape of Foreign Direct Investment (Verifying).

# 5. Role of other institutions in MRV

The Cancun Agreements also established new institutions – i.e. the Adaptation Committee and the Technology Mechanism, alongside the Standing Committee on Finance – all of which must play a mutually reinforcing role in the MRV of finance. Accordingly, the Adaptation Committee and the Technology Mechanism should provide information[5] on the needs and priority sectors to the Standing Committee on Finance to assist in MRV as well as in ensuring coherence in modalities and means for coordination in the financial mechanism of the Convention.

# 6. Goals and key usage of improved reporting on international finance

The process of measuring, reporting and verifying the flow of finance and international support to developing countries must aim at an end goal of defining and measuring success in implementation progress in meeting the challenges and overcoming the risks of climate change. More specifically, the end goal should aim at emission reduction by the developing countries in contributing to reaching the 2 degree stabilization pathways as well as addressing their key adaptation vulnerabilities to climate change. Consequently, the MRV mechanism should lead to:

i. Development of indicators for measuring implementation progress and achievement of results of the financial and other support provided;

ii. Identifying gaps in the adequacy of financial resources.

## Key Usage

The information generated through the proposed MRV framework will help achieve these goals. It is critical that we take a deeper look at our approach in channeling climate finance. One of the major flaws in our current thinking is to consider climate actions as development activity alone. As a result all donors are channeling finance through the ODA platform. This cannot and must not continue. While development cannot be disassociated, it may be simplistic to assume that development alone will allow countries to manage climate risks. What we need is a new calculus to conceive and measure adaptation and mitigation actions.

The Adaptation Fund Board for instance – like many of its novel features – is also working towards evolving unique impact indicators that would result not only in accounting for and reporting on the investment that it is going to make but also serve as a clearing house for best practices on adaptation performance assessment methodologies and results-based financial accountability through unique performance metrics based on impact that a given adaptation investment would lead to.

While the work of the Adaptation Fund Board will be limited to adaptation actions alone, we need to develop unique performance indicators for assessment and impacts of a given mitigation/emission reduction projects as well. Doing this would help distinguish a climate change project from a typical development project besides measuring the climate finance.

The MRV data through the proposed framework should help develop performance metrics for emissions reductions achieved through different modes of climate financing. The key usage of the information to be made available to the Standing Committee on Finance should assist it in evolving climate sensitive indicators for assessing progress. Some of these indicators – which are also under consideration by the Adaptation Fund Board – include human lives saved (adaptation); health saved (adaptation); GDP saved (adaptation); carbon sinks saved (adaptation and REDD+), green energy

[5] In addition to performing work consistent with its mandate.

ratio (mitigation), green GDP ratio (mitigation), green jobs ratio (mitigation) and emission reduction/deviation from business as usual towards 2 degree stabilization pathway (mitigation).

## 7. Implications of the information generated through all actors in the climate finance universe

The data and information generated through the Finance Registry would be crucial in bringing about several important assessments that are needed in our quests to both reach a 2-degree stabilization pathway as well as addressing the adaptation vulnerabilities of countries to climate change. Notably:

i. Promoting comparable standards, guidelines and rules for allocation of financing by all actors in the climate finance universe;

ii. Measuring adequacy of funding for mitigation, adaptation, technology, capacity building etc;

iii. Ensuring balanced allocation of resources between mitigation and adaptation;

iv. Acting as a platform for cooperation and leveraging the role of private sector in channeling finance and technology towards all areas and countries more specifically low income, LDCs, SIDs, etc.;

v. Seeking and promoting modalities for increased flow of finance through innovative market based tools such as insurance and guarantees.

## 8. How to further strengthen the MRV process

One of the glaring loopholes in the history of financial support for the developing countries in meeting international environment (including development goals) is unverifiable promise, fragmented nature of funding and donors driven criteria for measuring climate finance and reporting.

A strengthened MRV must go beyond collection of information and submission of reports and should lead to a proactive process whereby accountability towards such support is enhanced.

In order to strengthen compliance, the Standing Committee on Finance could be tasked to hold Interactive in-session dialogue[6] with developed country parties, MDBs, IFIs and other actors to determine the adequacy of financing, criterion and modalities used in channeling support, based on:

i. Progress report (bi-annual)[7]/supplementary information;

ii. Information on provision of finance and technology to developing countries;

iii. Certification by the developing country parties on the provision of finance received by their side.

The Standing Committee in an annual report can compile the results of the interactive in-session with recommendation for action by the COP.

[6] Frequency of the review of all developed countries shall vary according to the share in the global emissions to be agreed upon by the COP 17.

[7] The timetable for reporting for Annex I/developed country Parties is to be approved at COP 17.

# 9. Conclusion

Governance of climate finance is one of the Gordian knots in the climate change negotiations. Untying this would go a long way in reaching a comprehensive climate deal, which continues to elude us. The provision of finance, and its timely and predictable delivery, will determine whether we will achieve the objectives we have set forth before us at Cancun or face a collective defeat.

A robust MRV process can only be built on a precise understanding of what and what may not constitute climate finance. This understanding is crucial to our work and for the viability of an effective climate regime. This conversation can neither be avoided nor can be postponed. The forthcoming climate change talks should initiate this discussion with a view to evolving an effective framework by the COP at its 17$^{th}$ session in Durban later this year.

# References

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ii. Monitoring and Tracking Long Term Finance to Support Climate Action, OECD/IEA Discussion Document.

iii. Climate Finance Additionally: Emerging Definitions and their Implications, Herick Boll Stiftung/Overseas Development Institute Brief by Jessica Brown, Neil Bird and Liane Schalatek.

iv. The Reformed Financial Mechanism of the UNFCCC, by Benito Mullar – A OIES Brief.

v. Adaptation Fund documents and discussions.