

Submission by the Republic of Gabon on behalf of the Africa Group of Negotiators (AGN)

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Operational Definition of Climate Finance

The African Group welcomes the call for submission to the invitation in COP decision 11/CP.25 and CMA decision 5/CMA.2 for parties to present their views on the operational definitions of climate finance for consideration by the Standing Committee on Finance in order to enhance its technical work on this matter in the context of preparing its 2020 Biennial Assessment and Overview of Climate Finance Flows.

- The literature on the definition of “Climate Finance” is mostly in unanimity pointing out the lack of such important needed definition for an efficient and practical common understanding, interpretation and use of climate finance under the United Nations Framework Convention on Climate Change (UNFCCC) process. This lack of definition has significant impacts on tracking and assessing the fulfilment of obligations and the effective functioning of the financial mechanism of the UNFCCC. It constitutes a gap in reporting and transparency requirements and more importantly, furthermore it cannot secure that developing countries are receiving financial resources that allows them to unlock their potentials and play effective role in the global fight against climate change not only through emissions reduction but also and as important is adaptation actions and resilience capacities and capabilities.

The African Group hereafter, stresses on the crucial need, not only for an operational definition of climate finance in the context of the Biennial Assessment (BA) of financial flows , but for the overall transparency and effectiveness of UNFCCC process, in order to deliver ambitious climate actions.

- The UNFCCC also requires that Parties report on climate change financing for developing countries. The *guidelines requires Parties to indicate what ‘new and additional’ funds they have provided pursuant to Article 4.3 and to explain how they have determined that such financial resources are in fact ‘new and additional’*. However, in preparing a summary of financial information based on these reporting requirements, the UNFCCC Secretariat noted multiple methodological and reporting issues that limited the usefulness of their analysis, as the reports and communications submitted under the UNFCCC and KP by Annex II countries have failed to follow a common definition on climate finance in addition to agreed methodology to identify additionality. All of which was a cause of concern for many Parties and was a real challenge to the review process of such reports.
- Climate finance has been an integral part in the multilateral legal documents dealing with climate change, since the UNFCCC Convention, through the relevant COP decisions up to the Paris Agreement, all of which represent the collective understanding of what would constitute climate finance, all in relation to the flows, functions and impacts, and through the relevant UNFCCC obligations, COP and CMA decisions we can elaborate the elements that constitute climate finance.
- While acknowledging that the Standing committee of finance has adopted, on temporary basis, some form of initial definition to allow for the Biannual Assessment report to be prepared and issued, nonetheless such operational definition has not allowed for fulfilment of many requirements stated in COP decisions and has proven challenging in the discussions and negotiations aiming at operationalizing the relevant Paris Agreement provisions.

Importance of climate finance

- The African Group stresses on the importance of climate finance and transparency related to it, the reason is that it is a reflection to the global community acknowledgment of the clear and direct linkage between level of actions by developing countries and the level of support provided to them, actions relate to reporting obligations, mitigation, adaptation and resilience efforts, such linkage was acknowledged in the UNFCCC Convention by Article. 4.7 which states that "*The extent to which developing country Parties will effectively implement their commitments under the Convention will depend on the effective implementation by developed country Parties of their commitments under the Convention related to financial resources and transfer of technology and will take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties.*"
- In Paris agreement Article 4.5 "*Support shall be provided to developing country Parties for the implementation of this Article, in accordance with Articles 9, 10 and 11, recognizing that enhanced support for developing country Parties will allow for higher ambition in their actions*".
- The above-mentioned articles of the Convention and its Paris Agreement reflects the importance of agreeing of a common understanding "definition" of climate finance. The African Group of is of the view, one of the main goals is to allow for tracking the fulfilment of obligations under the Convention and its Paris Agreement and any other legal document that falls within, the term obligations relates to legal obligations to provide climate finance by Annex II countries under the Convention and same obligation on Developed countries under the Paris Agreement, both constitute a corner stone for the functioning of climate regime, it is worth noting that the Paris Agreement has introduced the element of progression.

Reference to Climate finance in the IPCC

- The IPCC AR5 synthesis report was silent on the issue of climate finance definition since there was and is no agreed definition. However, it states, in the glossary of this same report, that the term climate finance is applied both to the financial resources devoted to addressing climate change globally and to financial flows to developing countries to assist them in addressing climate change. It refers to literature that is including several concepts related to climate finance, among which the most commonly used include:
 - *Incremental costs:* The cost of capital of the incremental investment and the change of operating and maintenance costs for a mitigation or adaptation project in comparison to a reference project. It can be calculated as the difference of the net present values of the two projects.
 - *Incremental Investment:* The extra capital required for the initial investment for a mitigation or adaptation project in comparison to a reference project.
 - *Private climate finance flowing to developing countries:* Finance and investment by private actors in/from developed countries for mitigation and adaptation activities in developing countries.
 - *Public climate finance flowing to developing countries:* Finance provided by developed countries' governments and bilateral institutions as well as by multilateral institutions for mitigation and adaptation activities in developing countries. Most of the funds provided are concessional loans and grants.
 - *Total climate finance:* All financial flows whose expected effect is to reduce net greenhouse gas (GHG) emissions and/or to enhance resilience to the impacts of climate variability and the projected climate change. This covers private and public funds, domestic and international flows, expenditures for mitigation and adaptation to current climate variability as well as future climate change.
 - *Total climate finance flowing to developing countries:* The amount of total climate finance invested in developing countries that come from developed countries. This covers private and public funds.

Main criteria in references to Climate finance in the UNFCCC and its Paris Agreement

- As the Convention and its Paris agreement and the COP &CMA decisions provide for the legal background for defining climate finance, it is worth pointing that the collective understanding reflected in these legal documents has pointed to the following:
- Commitment and obligation of Annex II and developing countries to provide and mobilize climate finance.
- Developing countries are the beneficiaries of climate finance, to be used for fulfilling reporting obligations, prepare national plans of action and enhance taking actions nationally including through unlocking potentials and complement national contributions.
- Specific criteria were reflected in Convention and COP decisions that include, “new and additional”, “adequacy and predictability”, “meet the specific needs and concerns of developing countries arising from the adverse effects of climate change and/or the impact of the implementation of response measures”, “on a grant or concessional basis.”.
- Further criteria were included in the Paris Agreement, which include ““mobilization of climate finance should represent a progression beyond previous efforts” and be “scaled-up”.
- *In line with the above, it is important to start structuring the elements that constitute climate finance as per the legal documents collectively agreed under the UNFCCC process, which would be as follows:*
 - a- Beneficiaries: only developing countries are climate finance beneficiaries.
 - b- Providers: Annex II countries and Developed country parties.
 - c- Function: fulfill obligations of developing countries (reporting), enhance implementation of actions by developing countries in mitigation, adaptation and resilience, technology transfer and response measures.
 - d- Instruments: grant or concessional
 - e- Form: Provisions and mobilization
 - f- Criteria: new, additional, predictable, progression and in line with identified needs of developing countries.

Additional elements relevant to the discussion on climate finance

- It is worth noting that the Paris agreement has encouraged other non-developed countries to also provide climate finance, as per Article 9 of the Paris Agreement.
- The BA of the SCF has included all kinds of flow of climate finance “in line with the temporary definition used by SCF” *this included flows between developed countries, financial instruments that constitute backward payments “loans”, national investments and private sector investments that are generating revenues and profits transferred out of developing countries with long term locked in tariffs guarded by legal agreements.*

Challenges and concerns facing assessments of climate finance

It is important that defining climate finance take full consideration of the different types of financial instruments and vehicles through which finance flows to developing countries, the African Group position is clear in relation to the following:

- *Loans as financial instruments together with green bonds*, are not to be considered as climate finance, as both are to be paid back with interest rate that is higher than interest rate applied in developed countries, thus they are pure revenue generating instruments.
- *Investments with fixed rate of return over a long period of time*, again such instrument is a revenue generating one aiming at gaining profit.

- *Support provided from other developing countries and non-Annex II countries*, such voluntary flows need to be clearly separated from the obligations clearly identified and agreed upon in the Convention and its Paris Agreement.
- *Non-alignment with needs of developing countries*.
- *Overlap and double counting*, several reports have eluded to the fact that there has been significant double counting of finance provided to developing countries, as the same funding was accounted for in different reports under different aims (development assistance, social support, migration and displacement support, biodiversity or chemicals support, SDG fulfilment, finance for development,).
- *Greenwashing*, several reports have cautioned against the use of finance to green wash specific industries or activities or even sources of finance, such issue needs to be fully taken into consideration to avoid ending up in process to cover non-environment sensitive activities contrary to the aim of climate finance.

Aims of defining climate finance:

Agreeing on a definition of climate finance aims to:

- Track fulfilling of commitments under UNFCCC and its Paris Agreement
- Allow for enhanced transparency as required by both UNFCCC and its PA
- Facilitate the planning process by both developed and developing countries, thus ensuring predictability of support and enhancing actions
- Facilitate the formulation of more target oriented national planning processes in developing countries, including the NDCs
- Assist in the need's assessment processes both at national and global level.
- Facilitate the planning and communication together with the reporting processes in developed and developing countries.

Proposed operational definition of climate finance:

As provided in above bullets on the challenges facing formulating a definition of climate finance, and taking into consideration that both financial landscape and climate activities are evolving rapidly and that there is a growing concern of double counting and repackaging of the same resources provided and or mobilized under other non-climate change support. It is important to keep a clear definition that is simple and fulfils the aim and goal of having such an operational definition within the UNFCCC process, in this regard, the Africa Group proposes the following operational definition:

"Climate finance is the financial resources provided by developed countries, and any other countries referred to Annex II of the UNFCCC, from public sources, in line with fulfilling their relevant obligations under the UNFCCC and its Paris Agreement, such resources are new and additional, predictable, in line with needs identified by developing countries, reflects progression, provided directly or through intermediaries, including bilateral, multilateral channels and the operating entities of the financial mechanism, or other climate related funds, on a grant and or concessional basis, and disbursed in developing countries, with the aim of providing full support to developing countries to complement their national efforts to implement climate related actions, including projects and programs as identified by the countries themselves, and fulfil their reporting obligations under UNFCCC and its PA."

Mobilized climate finance is the grant equivalent financial resources of other sources, including private sources and investments, using range of financial instruments, provided directly or through intermediaries, and disbursed in developing countries for mitigation, adaptation and cross-cutting climate related activities, projects and programs."