Institutional Analysis of MRV of Financial Support to Developing Countries
Potential Design Options and Challenges

Joint Research conducted by
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N.B: The findings, interpretations, views, and conclusions expressed in this presentation are entirely those of the authors, in their personal capacities, and do not necessarily represent the views of any institution, IGES, OECC, or the Government of Japan.
Research Background, Purpose, and Methodology

Background:

• MRV system ➔ Major agenda in climate change negotiation on future regime. Discussions involves how to design and operationalize a system, and introducing possible guidelines.
• 2 aspects of MRV (Bali Action Plan 1(b)(ii):
  (1) MRV of mitigation action, and (2) MRV of Support
• Current MRV-related negotiations center around mitigation per se, but not much progress on the other side of MRV: MRV of Support
• Previous Researches (OECD, WRI, IFIs etc) have been conducted and it mostly focus how they can utilize existing systems, and establishment of a robust transparency system based on them.
Purpose:

• The research focuses on MRV of support provided to developing country Parties, particularly the financial aspect of support, and aims to fill in the gap with existing literatures and negotiations by conducting systematic analysis of MRV, clarifying the definitive stages of support provided to developing countries, and analyzing potential institutional designs with different sets of scope for transparency that MRV aims to achieve along these support stages.

• The research also argues that phased approach has the most potential to move negotiations forward in view of the ultimate goal of capturing broad aspects of climate finance as a whole.
Methodology:

• Design options by setting different scopes of transparency to be achieved by MRV

• Evaluation by setting a set of criteria (advantage/disadvantage by options, identification of reporters, existing systems that can be utilized or applied.

• Expert Interview/Questionnaire to gain feed back on discussion points, operationability, and acceptability (Both developing and developed country negotiators, domestic administrators, donors etc)
Potential Institutional Options for MRV of Support

Design Option 1
Scope of Transparency:
Coherence between Financial Pledge and Amount Disbursed/Mobilized by Donors

Design Option 2
Scope of Transparency:
Amount Disbursed/Mobilized by Donors and Contents of Supported Actions/Plans

Design Option 3
Scope of Transparency:
Coherence between Amount Disbursed/Mobilized and Budget Allocated within Recipient Countries

Design Option 4
Scope of Transparency:
Amount Disbursed/Mobilized and Mitigation Effects Generated
Evaluation Criteria for Design Options for MRV of Support

- The criteria are selected by highlighting whether the design options can be operational in a practical manner.
- It does not reflect political acceptability by negotiating parties.

<table>
<thead>
<tr>
<th>Evaluation Criteria</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Scope</td>
<td>Scope of matters to be disclosed for transparency, attached to stages of finance</td>
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<tr>
<td>Predictability</td>
<td>Predictability of financial support that may be assessed by giving transparency</td>
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<tr>
<td>Consistency</td>
<td>Consistency with timeframe of current and future reporting system</td>
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<tr>
<td>Collectability</td>
<td>The extent of how easily data can be available, accessed and collected</td>
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<tr>
<td>Accuracy</td>
<td>Level of accuracy of collected information on support</td>
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<tr>
<td>Completeness</td>
<td>Completeness of areas and kind of support (eg funding sources)</td>
</tr>
<tr>
<td>Comparability</td>
<td>Comparability to coordinate and adjust different kind of data, for comparison and aggregation (and avoiding double counting)</td>
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Common Elements, Matters for Discussion, and Comments on the Design Options

1. Common Elements:
   • Scale of MRV system depends on scope of Transparency and accuracy of
   • Importance of avoiding complicated procedure and high transaction costs

2. Matters for Discussion: Option 3 and Fungibility in Recipients
   • If international support replaces existing domestic budget, and the domestic budget can be diverted for different purpose (how the finance is additional? Impact of support for mitigation?)
   • Efforts to address climate change is made in the context of SD ➔ If diverted domestic budget is used for other development priorities, can it be still supporting SD?
3. Expert Questionnaire and Interview

<Definition of Climate Finance>

• Various comments were found: all kinds of finance directed to climate change related area/finance to contribute to 2 degree target/Financial commitment under Art.4

<Gradual Development of MRV system>

• Relying on the existing systems may provide advantages of smooth start and ensuring a certain level of accuracy, the issue of completeness (ie. wider finding sources) remains. Some pointed out that the coverage of MRV system should be gradually enlarged, by improving information collection system.
Recommendation on Evaluation of Design Options

Gradual Development of MRV System

• Narrow definition: System to ensure transparency of support provided by AXI to NAI under Art. 4.3(Option 1)
• Wider definition: Providing global image of support to developing countries ➔ Wider scope of transparency
• Some options remain technical and institutional challenges

Phased Approach for Larger Coverage of Transparency

✓ More complete/comprehensive information collection
  (Private sector, south-south cooperation etc)
✓ System development and strengthening (reporting system, formats, and methodologies) and capacity-building for developing countries
✓ Confidence building among parties

* While it is not defined as matters to be covered by “support”, it is helpful to share how domestic finance are being used, in line with international finance.
Remaining Issues and Way Forward

• Institutional Arrangements of Climate Finance
  ➔ Support through GCF and MRV scope
  ➔ Roles and function of SC (para 112)

• MRV of Support other than Finance
  ➔ Support = Finance + α
  ➔ How MRV should be done in case of technology and capacity-building (sometimes not suitable for quantitative evaluation)

• Tools/Vehicle of MRV
  ➔ Ways to Describe transparency is dependent of format

• Scope of Transparency
  ➔ Linkage with MRV of mitigation actions: How MRV of support can be placed?
Thank you very much!

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## Potential Institutional Options for MRV of Support

<table>
<thead>
<tr>
<th>Scope of Transparency</th>
<th>Tiers / Types of NAMA to be supported</th>
<th>Info Required for MRV</th>
<th>Reporting Constituency(ies)</th>
<th>Existing System</th>
</tr>
</thead>
</table>
| **[Design Option 1]** Grasping Coherence between Financial Pledge and Amount Disbursed/Mobilized by Donors (Comparison of Volume) | Tier1: Collective Progress towards Long-term Financing Pledge | ● Total Pledged Amount ($100 billion)  
● Amount Disbursed / Mobilized (Aggregate) | Annex I                          | Public Finance (Bilateral)  
NC, BR, OECD/CSR  
Public Finance (Multilateral)  
Annual reports, phased reports (tranche), |
|                                                            | Tier2: Progress towards Individual Financing Pledge | ● Pledged Amount  
● Amount Disbursed / Mobilized (Individual) | Annex I                          | Private Finance:  
UNCTAD Report, etc |
| **[Design Option 2]** Grasping the Amount Disbursed/Mobilized by Donors and the Contents of Supported Actions/Plans (Disclosure of Contents of Support) | Supported Actions/Plans (projects, programs, sectoral supports, LEDS, etc) | ● Amount Disbursed / Mobilized  
● Contents of Supported Actions and/or plans | Reporting by each financial channel  
1) GCF  
2) Annex I  
3) Multilateral IFIs  
4) Private Sector | Public Finance (Bilateral)  
NC, BR, OECD/CSR, individual PD • sectoral support documents  
Public Finance (Multilateral)  
individual PD • sectoral support documents, annual reports  
Private Finance: UNCTAD Report, etc |
|                                                            | Supported Actions/Plans (projects, programs, sectoral supports, LEDS, etc) | ● Amount Disbursed / Mobilized  
● Sent to the Treasury of Recipient  
● Budget allocated domestically to the Target Actions / Plans by the Recipients | 1) GCF  
2) Annex I  
3) Multilateral IFIs  
4) Private Sector  
5) Non-Annex I | [Information from Annex I]  
Public Finance (Bilateral)  
Annex I NC, BR, OECD/CSR, individual PD • sectoral support documents  
Public Finance (Multilateral)  
individual PD • sectoral support documents, annual reports  
Private Finance: UNCTAD Report, etc  
[Information from non-Annex I (recipient)]  
Budget request • budget allocation |
| **[Design Option 3]** Grasping Coherence between the Amount Disbursed/Mobilized and the Budget Allocation within Recipient Countries (Comparison of Financial Volume) | Project-based Support | ● Amount Disbursed / Mobilized  
● Calculated Mitigation Effects (quantitative) | Annex I                          | Public Finance (Bilateral)  
NC, BR, OECD/CSR, individual PD • sectoral support documents  
Public Finance (Multilateral)  
individual PD • sectoral support documents, annual reports  
Private Finance: UNCTAD Report, etc |
|                                                            | Program-based Support Sector-bases Support | ● Amount Disbursed / Mobilized  
● Calculated Mitigation Effects (quantitative, qualitative) | Annex I                          | Public Finance (Bilateral)  
NC, BR, OECD/CSR, individual PD • sectoral support documents  
Public Finance (Multilateral)  
individual PD • sectoral support documents, annual reports  
Private Finance: UNCTAD Report, etc |
|                                                            | Supporting Low Carbon Development Plans and Strategies (LEDS) | ● Amount Disbursed / Mobilized  
● Calculated Mitigation Effects (qualitative) | Annex I                          | Public Finance (Bilateral)  
NC, BR, OECD/CSR, individual PD • sectoral support documents  
Public Finance (Multilateral)  
individual PD • sectoral support documents, annual reports  
Private Finance: UNCTAD Report, etc |
Major comments from Questionnaire and Interviews

<Scope of Transparency>
• While it is desirable to set a wider scope of transparency, it is realistic to limit the system which can ensure accuracy of information subject to MRV.

<Predictability>
• It is important issue, but it is not clear if the predictability of finance can be assured by MRV system.

<Consistency>
• In practice, it is essential to coordinate timeframes of information collection and reporting. If wider scope of transparency are sought, additional coordination is necessary.

<Collectability>
• When developing countries are involved as information providers(reporters), the information collection should be simple and easy.
<Accuracy>
• It is realist that MRV system should rely on currently available systems to collect accurate information. For information not covered by the current systems, it is important to gradually improve the level of accuracy.

<Completeness>
• Financial sources to be covered highly depends on the definition of “climate finance”. In order to capture a global image of finances for mitigation (and adaptation), it is important to include as many kinds of finances as possible. However, it may raise controversy on acceptability as well as technical challenges.

<Comparability>
• Shoud be prioritized. For those data that are not readily available for comparison/aggregation, methodologies should be established.