OECD submission to the UNFCCC Standing Committee on Finance[1]

20 January 2014

This submission is provided in response to the UNFCCC Standing Committee on Finance's (SCF) call for inputs from external stakeholders *"regarding the biennial assessment and overview of climate finance flows*", the first of which to be presented at COP 20 (December 2014).

The Organisation for Economic Co-operation and Development (OECD) welcomes the opportunity to submit inputs based on its experience and expertise in measuring, reporting and analysing international climate finance flows. The OECD reiterates its interest and readiness to contribute to the SCF's preparation of the first biennial assessment and overviews of climate finance flows. The OECD Secretariat is open to discuss, to share data, and to partner and collaborate as appropriate, as well as being available to contribute to future expert meetings and discussion hosted by the SCF and UNFCCC Secretariat. We also wish to highlight to the SCF and UNFCCC Secretariat the range of relevant meetings and discussions hosted at the OECD in 2014 (please see list in Annex).

This submission provides information organised under each topic outlined in the SCF's call for input, as presented in the table of contents below, and serves as an update and elaboration of the July 2013 OECD Submission to the SCF.

Contents

[1] This submission provides input based on OECD Secretariat analysis and data. The information contained in the note does not necessarily reflect the views of OECD member countries.

1. Comments on the draft outline of the report

Overall we find the SCF draft outline for the first biennial assessment of climate finance flows to be well structured and comprehensive. Additional elements that we recommend for consideration in the report include:

- ***Discussion of the range of definitions of climate finance*** *(section 3)* - This would be necessary to outline when compiling the overview of climate finance flows, and in particular when comparing and aggregating finance flows. (For an example of definitional questions see Clapp *et al.* 2012).

- ***Deeper analysis of the composition of finance sources and modalities*** *(section 3)* - Alongside the analysis of public and private sources of finance, and analysis of thematic and geographical distribution, it would be informative and supportive of the interpretation and assessment of finance flows to analyse the types of financial instruments. For example, in the case of public flows, it would be useful to consider the composition of grants, concessional and non-concessional loans, and for private flows to consider the composition of export credits, FDIs etc. Modalities of donors' support to developing countries (projects, technical assistance) and channels of delivery (bilateral vs. multilateral) could also be analysed.

- ***Aspects to consider for ways to strengthen methodologies for reporting*** *(section 5):*
    - Work towards common definitions to improve transparency, consistency and comparability of reporting.
    - Consider the merits of both collective and individual data collection and reporting systems.
    - Clarify reporting requirements for "developed countries".
    - Quality assurance and verification processes.
    - Take stock of existing international tracking systems and consider building on their strengths to improve and harmonise reporting on climate finance.

    (See OECD July submission for further elaboration on these points)

- ***Assessment of the effectiveness of finance flows and lessons learnt*** *(section 4/7)* - It would be of value to compile an assessment of climate finance to date, where information is available, and to draw insights on lessons learnt to improve the effectiveness of climate finance flows.

- ***Assessment of the extent to which policies and regulatory measures have been successful*** in mobilising private finance alongside the discussion of their limitations, gaps, and barriers *(section 4).*

2. Contributions for the overview section of the report

OECD DAC Rio markers for measuring and monitoring climate-related aid and other development finance

The OECD Development Assistance Committee (DAC) has been collecting statistics and monitoring Official Development Assistance (ODA) targeting the objectives of the Rio Conventions, including climate change, since 1998 through the "Creditor Reporting System" using the "Rio markers". The Rio marker methodology captures granular information on every aid activity that targets climate change mitigation (where reporting is mandatory, since 2007) and climate change adaptation (since 2010). Every aid activity reported is screened and marked as either (i) targeting the Conventions as a '*principal*' objective or a '*significant*' objective, or (ii) not targeting the objective.

Reporting on the Rio markers is systematic and comprehensive across all DAC member governments[2] for ODA and Rio markers are now also being applied to non-export credit Other Official Flows (i.e. non-concessional official development finance).

The DAC collects Rio marker data within the DAC statistical system, tracking both commitments and disbursements together with over 50 fields of descriptive information (such as on sector, geography, activity type etc.). Data from OECD members are collected annually. By end of calendar year we typically have data for the previous year, such that data for 2013 will be available towards the end of 2014 (see data cycle of DAC statistics[3]). Donor reporting on Rio markers periodically goes through in-depth quality reviews carried out by the Secretariat to identify possible anomalies, bring these back to members for discussion and ultimately improve consistency of reporting.

Originally Rio markers were designed to help members in their preparation of National Communications to the UNFCCC. Fast Start Finance (FSF) and future international climate finance goals followed later and the lack of an internationally-agreed definition of climate finance has led to a range of individual reporting approaches being adopted. Countries' FSF commitments have on the one hand included elements not yet covered, but planned to be covered, by Rio markers (i.e. other official flows) or those that will fall outside the scope of the Rio markers data collection (i.e. private finance). Whilst on the other hand, FSF may be more restrictive than flows captured by Rio markers, for example some countries report for FSF only a subset of the Rio marker data, either: making an adjustment for "new and additional", and/or counting only aid targeting climate change as a *principal* objective, or counting this and a share of aid targeting climate change as a *significant* objective. (See Section 4 for detail on future OECD work to review how reporting on Rio markers compares to reporting against UNFCCC commitments).

Climate-related aid is significant in absolute magnitude (see Chart 1) and has been increasing at a steady pace over the past six years, rising to up to 16%[4] of total bilateral ODA commitments (2010-11). There are growing imperatives to better link environment and development issues, and going forward the **post-2015 development framework** is expected to bring together Sustainable Development Goals (SDGs) and finance for climate change into one global framework. As such the compatibility between the UNFCCC and UN Post-2015 processes needs to be considered.

An overview of the Rio marker data and analysis

The box on the following pages provides an overview of the Rio marker data captured by OECD DAC Statistics and a sampler of the type of analysis that can be carried out. Further examples are presented in our recent statistical flyers on climate-related aid, aid to adaptation and aid to mitigation (November 2013).

Detailed project-by-project annual data on Rio markers as well as aggregates, sector and country or regional breakdowns are publicly available online through the OECD DAC website[5]. This includes detail on almost 6,000 activities per year targeting climate change. We are willing to discuss the SCF's data needs and, resources permitting, to provide more targeted analysis as required (such as more detailed analysis of trends, thematic and geographic allocations of finance flows).

[2] OECD DAC members reporting against Rio markers: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, EU Institutions, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and United States. New members who will report in future are Slovenia, Slovak Republic and Poland. In addition, the UAE also report to the DAC and on mitigation-related aid. These figures are not included in headline statistics presented for DAC members. Climate-related aid from UAE totalled USD 3.2m in 2010, and USD 5m in 2011 (constant 2011 prices).

[3] http://www.oecd.org/dac/stats/50462138.pdf

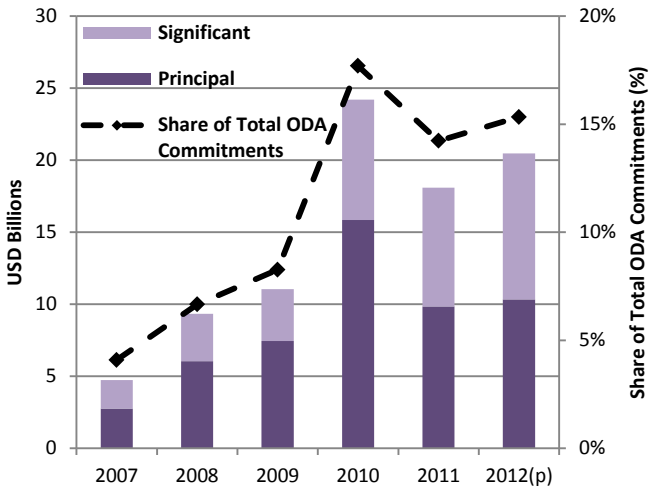
[4] OECD DAC Statistics, November 2013.

[5] http://stats.oecd.org/Index.aspx?DataSetCode=RIOMARKERS

Box 1. Overview of Rio marker data captured in DAC Statistics

Chart 1. Trends in Bilateral Climate-related Aid Commitments

Bilateral aid commitments, USD billion, constant 2011 prices



Note:
*"Climate-related" aid covers both mitigation and adaptation aid from 2010 onward, but only mitigation aid pre-2010. Reported figures for 2006 to 2009 may appear lower than in practice, and may reflect a break in the series given pre-2010 adaptation spend is not marked.
** Donor contributions to the Climate Investment Funds are included in bilateral aid up to 2011 flows, and in multilateral aid as from 2012 flows (see sub-section below). This amounts to USD 676 million in 2012.

Source: OECD DAC Statistics, January 2014

Total bilateral climate-related aid by members of the OECD's DAC increased at a steady pace over the past six years, peaking in 2010, and reached **USD 19.3 billion** (provisional estimate) **on average** per year in 2011-12, representing **15%** (p) **of total bilateral official development assistance**.

Flows for 2012 data are presented as provisional owing to outstanding data clarifications[6] that we seek to reconcile presently.

In analysing finance flows we recommend looking at trends, over at least three years, in particular to smooth fluctuations from large multi-year projects programmed in a given year, such as observed in 2010.

Chart 1 illustrates the headline statistics captured by the Rio marker system, distinguishing between the shares of climate-related aid that target climate change as a "*principal*" or "*significant*" policy objective. This can also be analysed per donor, per recipient, per theme etc…

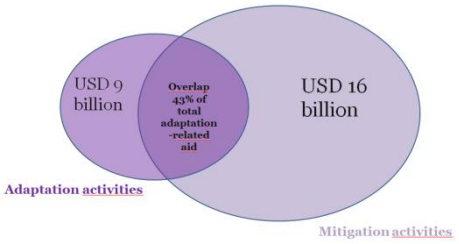
Thematic Distribution:

A key feature of the Rio marker system is that it recognises that finance may target more than one policy objective. The system records projects that target both adaptation and mitigation objectives, simultaneously, allowing multiple objectives to be tracked, whilst identifying where objectives overlap to ensure finance is not counted twice (referred to as "double-counted").

Chart 2 illustrates the overlaps between mitigation and adaptation objectives. In 2010-11, of total climate-related aid, 58% addresses mitigation concerns only, 24% adaptation concerns only, and 18% addresses both.

Chart 2. Illustration of the overlap between adaptation and mitigation objectives

Annual averages 2010-11, bilateral commitments, constant 2011 prices



Source: OECD DAC Statistics, November 2013

Geographic distribution:

Through the DAC CRS system and activity level reporting climate-related aid can be analysed at the recipient country level, or aggregated for analysis by geographic region and income group, as illustrated in the recent statistical flyers.

[6] For 2012, we currently await data for Belgium and are seeking clarification of data from France, UK and US – as such this data point is marked as provisional.

Sectors and Support to Capacity Building:

The DAC statistical system can also monitor aid to given sectors and to capacity building-type activities based on categories (CRS purpose codes) outlined in the DAC Statistical Directives[7]. For example, key sectors and sub-sectors for climate related aid include energy (including renewable energy), water, transport, agriculture, forestry and fishing, disaster risk reduction and response. General environmental protection is a significant sector that includes capacity building-type activities – in particular financial support to environmental research, education, policy and administration management. In addition further sector-specific capacity building-type activities (i.e. policy, management, research and education in key economic infrastructure sectors) are also being monitored and can be identified through the DAC CRS.

Commitments, Disbursements and Financial Instruments:

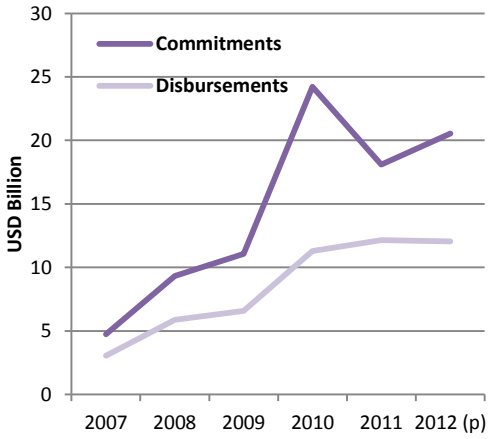
To date Fast Start Finance reporting has largely been on a commitment basis.

Statistics on Rio markers and donors' support to other policy objectives are typically presented on a commitment basis also, as this best reflects donors' intentions, permits monitoring the targeting of resources to specific sectors and countries, and gives an indication about future flows.

Within the CRS we can in addition track data on financial disbursements – as we do for ODA in general (and going forward we are considering presenting this more routinely for climate-related aid). This draws on the detail in the DAC system, which not only tracks the composition of ODA grants and concessional loans[8], but also tracks disbursements and repayments.

Chart 3. Trends in Bilateral Climate-related Aid Commitments and Disbursements

Bilateral aid, USD billion, constant 2011 prices



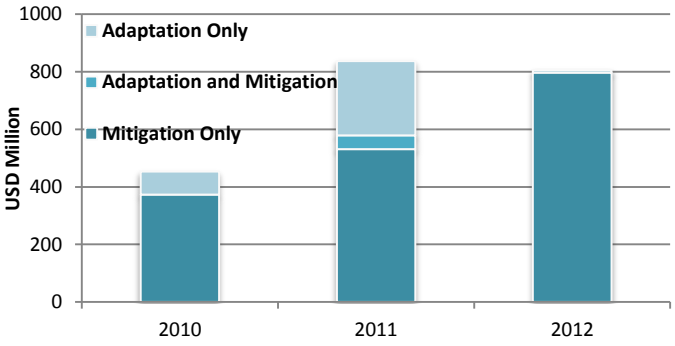
Source: OECD DAC Statistics, January 2014

Other Official Flows:

Rio markers are applicable to ODA and also to non-export credit other official flows (i.e. non-concessional developmental flows). Development finance institutions have started reporting on climate markers to the CRS for other official flows. Although reporting to date is incomplete, results from Australia, Finland, France, Germany and Sweden alone show that non-concessional climate-related flows can be significant: annual average total for these five countries 2010-12 is USD 699 million (constant 2011 prices).

Chart 4. Other Official Flows (OOF) to climate change from Australia, Finland, France, Germany and Sweden

2010-2012, USD million, constant 2011 prices



Source: OECD DAC Statistics, January 2014

Going forward the DAC is working to improve statistics on other categories of international flows such as export credits, and amounts mobilised from the private sector through public interventions (e.g. loan guarantees), including possibly identifying their relevance to climate change. Results from this work are expected to become available progressively from 2015 onwards.

[7] See Reporting Directives, Annex 12, Addendum 1 of the Reporting Directives

[8] For definition see Reporting Directives, Chapter 1

The OECD DAC Secretariat has recently carried out a survey and research[9] to estimate the amount of resources mobilised by guarantees for developmental purposes. Guarantees can be used by the public sector to leverage private resources. The OECD DAC survey collected information on long and short term guarantees for the period 2009 to 2011. It was found that long-term guarantees from DAC members and international financial institutions mobilised USD 15 billion in 3 years, of which approximately USD 2 billion were marked as having a climate change objective (see Mirabile *et al.*(2013)). The OECD WP-STAT is currently in the process of considering options to systematically capture guarantees in DAC Statistics from 2015 onwards, and first proposals on how to define and measure the amount mobilised have been discussed. In order to reflect the resources mobilised from the private sector by public guarantees, the proposed OECD methodology is to account for the face value of the loan for which the guarantee is issued, regardless of the percentage of the loan (or equity) being guaranteed. For climate-related guarantees proposals considered are to use the Rio markers to track climate-related objectives.

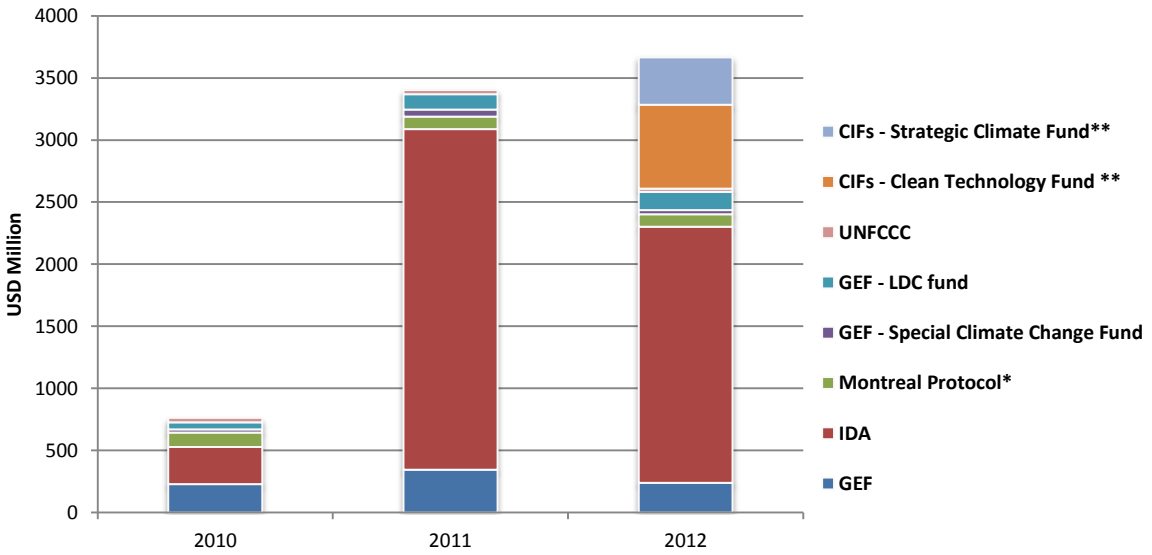
Multilateral Climate-related ODA within DAC CRS

While earmarked contributions from donors channeled through multilateral organisations are included in bilateral figures, core contributions are included in multilateral aid captured within the DAC Statistical system but not Rio marked. Instead, "imputed multilateral contributions" are calculated. See Box 1 in Section 4 for a description of the methodology used to attribute multilateral climate finance to individual donors, and further efforts to improve reporting.

The total of DAC members' contributions to specific multilateral climate funds plus the climate-related share of DAC members' core contributions to multilateral organisations was **USD 3.7 billion in 2012** based on data received to date. The DAC Secretariat is working with multilateral development banks and other agencies to complete these data: multilateral climate funds identified and recorded by the DAC include the CIFs, GEF, GEF LDC fund, GEF Special climate change fund, Montreal Protocol and UNFCCC; in addition detail on climate finance flows is provided by the World Bank (the African Development Bank has provided preliminary data, and the data for the Inter-American Development Bank are forthcoming).

Chart 5. Imputed multilateral contributions targeting climate change

2010-2012, USD million, constant 2011 prices



Note:

*Montreal Protocol is currently recognised in DAC Statistics as a fund targeting climate-related benefits.

** Donor contributions to the Climate Investment Funds are included as bilateral aid up to 2011, and as multilateral aid from 2012 flows.

Source: OECD DAC Statistics, January 2014

[9] http://www.oecd.org/dac/stats/guaranteesfordevelopment.htm

The DAC system to record and reconcile multilateral flows ensures no double-counting between bilateral and multilateral commitments, and its methodology to attribute imputed contributions to individual donors also ensures no double-counting that may arise from uncoordinated individual reporting. Currently our priority is to improve the comprehensiveness of reporting on multilateral climate finance within the DAC CRS, but in going forward we will also aim to produce at least separate multilateral data for adaptation and mitigation.

Private climate finance data

On the private side, fundamental gaps remain in terms of data, methods and knowledge. Data coverage of private flows to clean energy projects and activities is relatively good, based for instance on the bottom-up tracking work of private data providers such as Bloomberg New Energy Finance. However, data on flows of private finance for other climate change mitigation-related activities and sectors (e.g. energy efficiency, transport, forestry and land use) are less well developed, while private flows to finance adaptation remain an important data gap.

To start addressing these issues, the Research Collaborative on Tracking Private Climate Finance (hosted and co-ordinated by the OECD) is exploring options for the development of more comprehensive methodologies and systems both for measuring private climate finance flows to, between and in developing counties, and for determining those private flows mobilised by developed countries' public interventions. This work will include developing and testing methodologies to assess private finance mobilisation at the project-level, econometric estimates of the effects of both public finance and policies at the aggregate-level, as well as examining the availability of relevant data on private climate finance contained in commercial financial databases.

The following technical reports will be published throughout 2014:

- On methods and data for tracking total private climate finance flows: A comparison and assessment of existing and unexplored data sources and tracking methods for private climate finance (second quarter).
- On methods for measuring mobilised private climate finance:
    - Methods to measure mobilisation from public finance (February);
    - Case study testing of methodologies and framework development for improved methods taking public policies and market conditions into consideration (second quarter);
    - Econometric estimations of the mobilisation impact of public finance and policies as well as framework conditions (third quarter);
    - Synthesis report across identified methodological options (fall).

An updated list of research activities and completed reports are/will be available on the project website.

3. Criteria for assessment

In complement to the criteria outlined by the SCF, we propose the following additional considerations:

- ***Give consideration to disbursements and the delivery of finance, as well as commitments of Fast Start Finance*** – Whilst the Fast Start Finance pledge and commitments have been fulfilled, we recommend that the SCF's assessment look beyond FSF commitments to consider the speed and level of disbursement and delivery of funds on the ground.

- ***Take a forward look at the future trajectory of climate finance towards reaching $100bn*** – While the objective and scope of the first biennial assessment is to broadly provide an overview and assessment of climate finance flows over 2007-12, it would be of value to take a forward look

and consider if current levels of finance and readiness are sufficient and consistent with a trajectory to the $100bn commitment. To help efforts toward greater predictability and transparency of aid, the OECD conducts the Survey on Donors' Forward Spending Plans, a unique instrument that brings together most bilateral and multilateral aid spending plans – and the only regular, global process of its kind. This year, the survey will include a question on future climate-related aid commitments (2013 to 2017). Aggregated results based on DAC members' survey responses would be available and can be shared with the SCF in April-May 2014.

- ***Assess thematic balance beyond a simple 50:50 finance allocation*** – In undertaking the assessment of thematic balance, it will be important to recognise the nexus between mitigation and adaptation projects, and that in practice it may be better value for money for projects to target both objectives rather than arbitrarily isolating or allocating finance between the two (see section 2 where DAC statistics show a significant share of climate-related targeting both adaptation and mitigation objectives). Moreover, in assessing the balance it will be necessary to consider what is the appropriate and timely level of support for different types of activities; finance flows serve as a proxy for effort, value and impact. It may be the case that support to capacity-building activities has greater value that implied when measured on a finance flow basis and in comparison to the large volume flows observed to capital-intensive investment projects in the energy, water and transport sector.

- ***Assess geographic distribution against need and level of support*** – In assessing the allocation of finance it would be important to benchmark this against identified and implicit needs (e.g. is adaptation finance going to the most vulnerable) and where such finance may have the most impact (e.g. is mitigation finance going to areas with most potential to reduce large amounts of GHG emissions). An assessment of the appropriate level of support and finance may also be complementary, for example considering the mix of loans and grants (e.g. one would expect more grants to LDCs and more loans to MICs).

- ***Consider the effectiveness of climate finance*** – Finance flows are only a means to an end, and tracking finance flows alone does not provide an assessment of whether climate-related objectives have been met, and met effectively. A range of stakeholders are involved in climate finance (i.e. climate community, development community, business community). The Partnership for Action on Climate Finance and Development Co-operation Effectiveness was created to apply lessons from development co-operation to the management of climate finance, focusing on the development of national capacities and country systems in order to effectively allocate, manage and track domestic and international climate finance in partner countries. Initially, the climate community focused on supply-side effectiveness. However more recent climate finance mechanisms, such as the Adaptation Fund and the emerging GCF, are starting to take into account the Paris Declaration principles as well as the Accra agreement and Busan declaration on effective development co-operation, in particular of the need for country ownership. As outlined in Ellis *et al*. (2013)[10], different communities' views of what makes climate finance "effective" are moving closer together.

- ***Assess the degree and effectiveness of interventions to mobilise private climate finance*** – Private climate finance can be monitored in its totality and also by considering the extent to which private finance has been mobilised by public interventions. The latter would require data and could lead to an assessment more closely aligned with measuring progress towards the USD 100bn commitment. The Climate Change Expert Group supported by the OECD and IEA is currently exploring lessons that can be learned from experience to date in replicating and scaling-up climate finance in the context of the 100bn USD commitment.

[10] http://www.oecd.org/env/cc/CCXG%20Effectiveness%20of%20climate%20finance_final%20full%20docOct2013.pdf

4. Ideas for strengthening methodologies for measuring, reporting and verifying climate finance & technical and analytical studies on definitions of climate finance

At present (as outlined by Clapp *et al*. 2012[11]), there is no internationally-agreed definition of the activities and flows that can count towards the UNFCCC USD 100bn climate finance commitment – or even on which countries are covered by this commitment. Further, there is no centralised system for tracking all relevant climate flows. In addition, the mandatory reporting of climate finance by developed countries only extends to a sub-set of these countries (Annex II countries) and a sub-set of flows (i.e. bilateral and multilateral public finance). Whilst Annex II Parties should report to the extent possible on private finance flows leveraged by bilateral climate finance, there are currently no Common Tabular Formats for these, and there is no mention of flows leveraged by multilateral flows or other (non-Annex II) countries.

Key principles that we recommend the SCF draw on for the measuring, reporting and verifying of climate finance are: consistent definitions, clear methodologies, robust and integrated data management systems, and transparency. In achieving this, it is crucial to strike the right balance between ensuring good data and MRV but not at unreasonable cost or burden. We recommend the UNFCCC and SCF look to build on existing systems and initiatives to support this.

Public climate finance

Multiple data and information sources will need to be combined to report on climate finance in a comprehensive manner, and as requested under the existing Common Tabular Formats (CTF) for reporting. The various actors providing and/or tracking climate finance – including Parties – may have however developed and applied a range of different methodologies and definitions. It would be important to assess the comparability and compatibility of the various methods and consider ways to improve comparability going forward.

The DAC statistical framework is based on **standardised definitions, rules, classifications** (for channels of delivery, financial instruments, sectors, beneficiary countries) **and bases of measurement** (commitments vs. disbursements; amounts converted in current/constant USD using standard exchange rates and deflators). These methodologies for financial data collection and reporting could serve as a point of reference towards more consistent measurement methodologies, and could be built on by the UNFCCC for biennial reports and for the review of Common Tabular Formats (CTFs) for reporting on climate finance.

For reporting on multilateral climate finance flows, issues of **attribution and avoidance of double-counting** across parties and bilateral and multilateral flows will be crucial to ensuring a robust and accurate picture of total public climate finance flows. Consistent methodological approaches for reporting and integrated tracking systems may offer solutions. The DAC statistical framework's treatment of multilateral flows and multilateral climate finance provides an example (see Box 1 below for further detail). This is an existing system, and whilst incomplete for total multilateral climate finance flows, it is a system that could be built upon to support future measurement and reporting under the UNFCCC.

Box 1. An illustration of standardised rules for reporting on climate finance in DAC statistics: the treatment of multilateral flows

The DAC statistical framework and classifications are set in a way which avoids double-counting: bilateral donors report on their bilateral support (bilateral aid including "multi-bi" or earmarked funding through multilaterals) and core support to multilateral organisations (multilateral aid) separately.

[11] "Tracking Climate Finance: What and How", available at http://www.oecd.org/env/cc/50314405.pdf

Rio markers only apply to bilateral aid. Applying them to multilateral ODA would lead to comparability issues with different donors scoring the same multilateral institution differently. For multilateral contributions instead, "imputed multilateral contributions" are calculated and attributed back to donors: contributions to multilateral climate funds are accounted for in their totality (e.g. CIFs, GEF LDCF and SCCF); as regards contributions to international organisations (e.g. GEF, World Bank and regional development banks) not specifically focused on, but allocating significant amounts of climate finance, the standard imputation methodology can be used to estimate the share of these contributions attributable to climate change mitigation and adaptation.

Thus, DAC statistics give credit to donors for their climate-related support flowing through multilateral channels; this uses a harmonised basis as the climate-related share of multilaterals' outflows is determined by the Secretariat and applied uniformly to all donors' core contributions. For example, for IDA, instead of members individually Rio marking their multilateral contributions to IDA, the Secretariat collects directly from the World Bank information on its outflows and climate co-benefits and uses this information to estimate countries' contributions to the objective of climate change through IDA (the same share is applied to all members, at 30% for 2012).

The DAC Secretariat is working with Multilateral Development Banks (MDBs) and other agencies to complete these data. The objective of collaborating closely with MDBs and other international financial institutions is to record and reconcile multilateral climate funds and multilateral climate finance within the DAC statistical framework. The collaboration is intended to ensure that there is no double-counting and to harmonise methodological approaches. This discussion has been taken forward through a series of OECD workshops[12], including comparing the MDB joint approach and Rio Markers (see summary attached to submission), and most recently through a joint OECD-CPI Consultation on Development and Climate Change session on Tracking Climate Finance, in the side lines of the UNFCCC COP 18 in Warsaw. The outcome of the meeting was an agreement for key stakeholders (i.e. OECD, MDBs, IFIs, CPI) to work together to advance an integrated system of tracking over time.

Note: See data available in section 2. See example of imputed multilateral climate finance attributed to donors in latest statistical flyers

Rio marker statistics as an internationally-recognised dataset could be used for **cross-checking financial information reported by Parties** in National Communications and biennial reports, as well as improving the understanding and transparency of assumptions that determine what is reported. The OECD DAC is committed to further develop the Rio marker methodology and system, working closely with the international community, in particular to improve robustness and coverage as well as data quality. The overarching goal is to ensure that DAC statistics remain a reference for the international community in measuring ODA and non-export credit Other Official Flows (OOF) related to climate change (alongside of other environmental concerns).

To achieve this, OECD DAC members have recently revived a Joint Task Team of the DAC Network on Environment and Development Co-operation (ENVIRONET) and Working Party on Development Finance Statistics (WP-STAT) to improve the quality and use of Rio markers, environment and development finance statistics. Key tasks include (see full details in the Task Team Terms of reference attached to this submission):

- **To take stock of members' experiences and approaches** i) to reporting to the DAC and applying the Rio markers (including information on the definitions used for climate finance), and ii) to using the Rio markers or other methodologies and formats for reporting towards the different international reporting obligations related to climate and environment-related aid (including UNFCCC). This will provide insight into the range of definitions and reporting methodologies adopted by members for reporting to the UNFCCC.

[12]OECD workshops hosted in 2013:
Joint ENVIRONET and WP-STAT Workshop with International Financial Institutions (IFIs) on Tracking Climate Finance, February 2013.
Joint ENVIRONET and WP-STAT Working Session with IFIs and DFIs on Alternative Approaches to Track Climate Finance, September 2013.

- Based on findings from the stock-taking exercise, identify possible limitations of DAC statistics on Rio markers, including for the purpose of reporting towards different international obligations, and **develop recommendations to improve the robustness and accuracy of Rio marker data**. This will imply studying aspects such as:
    - Harmonisation in the application of Rio markers.
    - Quantitative characteristics of the Rio marker data (including commitment vs. disbursement basis of measurement and levels of granularity of reporting).
    - Treatment of multilateral flows targeting the Rio Conventions, in collaboration with MDBs and IFIs.
    - Harmonisation and simplification (avoidance of unnecessary duplication) of practical reporting to the different international obligations with regard to climate and environment-related aid.

Private climate finance

Additional work is required in a number of areas in order to improve the identification, measurement, and reporting of private climate flows, as well as to avoid/minimise double-counting. Analysis (Caruso and Ellis 2013[13]) has shown that methods used by financial institutions to assess and estimate mobilisation vary widely. In particular, the level of conservativeness differs greatly. This depends on whether finance is tracked at an aggregated or disaggregated level; whether financiers assume that their intervention has mobilised all, or only a part of associated financing; whether interventions from other actors are systematically tracked as being either public or private (which helps to minimise double-counting); and whether financiers apply time limits or tapering factors (e.g. to discount funds mobilised that predates an actors' participation in that fund).

Key areas for improvement include in particular:

- **Exploration and integration of complementary methods and data:** Relevant data on climate-related private finance may come from various public and commercial sources but these are unlikely to include mitigation and adaptation tags. Moving forward, better private climate finance data will require an improved understanding of how to identify climate-relevant sectors, activities and flows as well as methods for integrating data across these multiple sources. It is also important that data sources on private flows are to the extent possible compatible with existing tracking methods for public flows, especially as public and private flows are often intertwined.

- **Expansion of existing and/or development of new public statistical data collection systems relevant for monitoring and reporting private climate finance:** The OECD has initiated work to expand the coverage of its development finance statistics beyond official development finance, for example to integrate coverage of funds mobilised through loan guarantees or similar risk mitigation instruments and increase the level of detail in data on export credits and Foreign Direct Investment to enable estimating climate-related portion of these forms of finance.

- **Development of proxies to estimate private flows where bottom-up data collection is (and is likely to remain) technically not feasible and/or too costly** to collect is also possible, e.g. for private investments in specific sectors as well, to measure the mobilisation effects of policies and regulatory measures on mobilising private finance.

The Research Collaborative on Tracking Private Climate Finance is conducting technical work in each of these different areas. While results from the project will become available throughout 2014, methodological developments towards comprehensive and robust data monitoring and reporting will be a multi-year process.

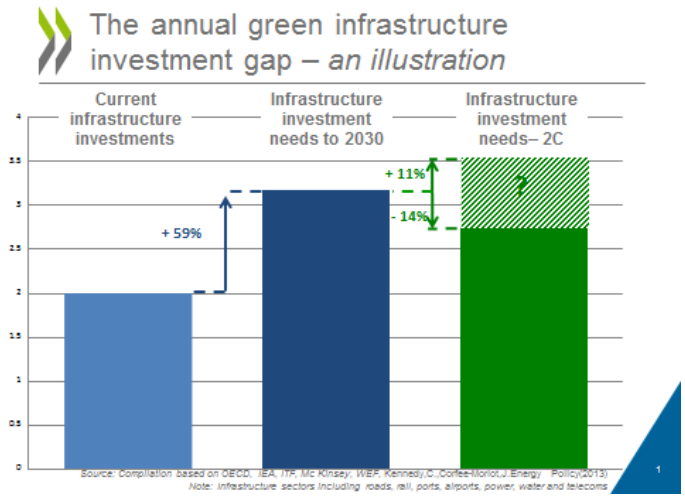
[13] "Comparing Definitions and Methods to Estimate Mobilised Climate Finance", http://www.oecd.org/env/cc/ccxg.htm

5. Finance needs, including finance for technology, capacity building, forestry, adaptation and mitigation, and readiness to receive climate finance

Finance Needs

Investment in infrastructure is essential for long-term and sustainable economic growth. As the world's population increases from about 7 billion today to over 9 billion in 2050, global infrastructure funding needs will grow significantly. At the same time, choices made today about the characteristics of new infrastructure projects will have significant long-term impacts on the environment, both locally and globally. As shown in Figure 1, approximately USD 2 trillion is currently invested annually in infrastructure (transport, energy and water). An additional USD 1.2 trillion is estimated to be required annually to meet global infrastructure needs to 2030, irrespective of climate-change constraints.[14]

Figure 1. Closing the green investment gap to 2030 (an illustration)



Sources: based on Kennedy, C. and J. Corfee-Morlot (2013), McKinsey Global Institute (2013)[15], WEF (2012)[16]

Note:
1. Infrastructure sectors include transport (road, rail, ports, and airports; excluding vehicles), energy and water
2. Annual average of the last 18 years, representing 3.8% of global GDP
3. Annual average needs for the period 2012-2030 in transport, energy and water. Based on an estimate of infrastructure that would be sufficient to support anticipated growth and maintaining current levels of infrastructure capacity and service relative to GDP.
4. The lower bound is based on Kennedy and Corfee-Morlot (2013), the upper bound on WEF (2012). Both figures exclude buildings and transport vehicles.

To achieve long-term climate objectives agreed by the global community – i.e. the 2-degree (2°C) goal – economies need to shift from polluting, fossil fuel intensive to low-carbon and climate-resilient infrastructure investments. Examples include shifting from fossil fuel-fired power plants to wind and solar power, and investing in passenger rail, metros, bus rapid transit systems and electric vehicle charging infrastructure. This shift may require additional spending beyond levels required to meet global infrastructure needs, but could also result in net savings instead. Figure 1, suggests it could require 11% more investment or 14% less than regular infrastructure needs[17] - e.g., if demand for fossil fuels decreased, this could reduce investment needs for rail and port infrastructure[18]. Thus the incremental investment requirement of "going green" is small relative to the investment gap for infrastructure more generally.

Finance Readiness

There is often a mismatch between the need to urgent need to scale up climate finance versus the need to build readiness; limited climate finance readiness limits access to finance and may hinder the ability to attract climate finance to where it is needed and has most impact.

[14] Corfee-Morlot, J., *et al.* (2012), "Towards a Green Investment Policy Framework: The Case of Low-Carbon, Climate-Resilient Infrastructure"
[15] McKinsey Global Institute (2013), "Infrastructure productivity: how to save 1 trillion a year?"
[16] WEF (2012), "The Green Investment Report: The ways and means to unlock private finance for green growth"
[17] Note that this estimate is based on a subset of infrastructure (transport, water and energy), and excludes investment needs for energy efficiency options in buildings and fuel efficiency improvements in vehicles. It is taken from the estimates in Kennedy and Corfee-Morlot (2013) op. cit.
[18] Kennedy, C. and J. Corfee-Morlot (2013), "Mobilising Investment in Low-Carbon, Climate-Resilient Infrastructure"

A Global Forum on "Using Country Systems to Manage Climate Change Finance", facilitated by the Partnership for Action on Climate Change Finance and Development Co-operation Effectiveness (where OECD is an active supporter) focused on the use and quality of country systems for managing climate change finance. The key messages of the **Global Forum** with relevance to climate finance readiness were:

- National, sectoral or local plans or strategies are a pre-requisite to address climate change effectively but it remains a challenging task to convert climate-related activities into concrete budget proposals and implementation plans with clear priorities;
- Developing countries are primarily concerned with climate change adaptation (vs. mitigation), where responsibility for action lies at the sub-national and local levels – hence the need to ensure that these levels of government are engaged early and have the capacity to engage in adaptation planning as well as to access and manage climate finance effectively;
- There is need to take stock of the growing number of different climate finance modalities, which range from programmatic support, to projects and the growing number of national climate funds.
- Countries benefit from sharing experience, where they can learn from each other's successes but also reflect upon failures;
- Several governments and donors noted the need to be able to track climate finance through the budget in order to permit general budget support to be provided for climate change; but no consensus emerged on how best to track results, especially for adaptation.

6. Assessment of experience in mobilizing private funds using public finance

Recent OECD work (ENV/WKP (2014) *forthcoming*) analyses the effects of the provision of public finance on flows of private finance for investment in renewable energy. The analysis controls for the effect of market conditions in project locations as well as the presence of other incentives for private investment in renewable energy projects such as feed-in-tariffs and portfolio standards. The main findings are that:

- Public finance supports precisely those projects that have had difficulty raising private finance; this is because they are not economically viable in the absence of such support. (This would explain why co-financed projects tend to be 27% more costly - per megawatt installed - than projects that rely solely on private finance.) However, this raises the concern that in the absence of well-designed policies which incentivise private finance flows for renewable energy, governments wishing to secure project completion have no other choice than to support projects directly through the use of public finance.
- Concerning instrument choice and design of such incentives, in contrast to quota-based schemes, price-based support schemes are positively correlated with private finance contributions. The study suggests that, rather than the type of instrument (price support vs. quota), it is the specific design of such schemes that is key to providing a predictable signal and an effective incentive to attract private investors.

Other recent OECD work jointly undertaken with CDC Climat Research[19] analyses the role of Public Finance Institutions (PFIs) in three OECD countries and two regions (the European Union and former Soviet countries) in fostering the low-carbon energy transition in an OECD country context (Cochran *et al*. (2014, *forthcoming*). PFIs are publicly created and/or mandated financial institutions that have often been created to correct for the lack of market-based finance through the provision of missing

[19] CDC Climat Research is a public research office dedicated to help public and private decision-makers to improve the way in which they understand, anticipate, and encourage the use of economic and financial resources aimed at promoting the transition to a low-carbon economy.

financial services (Ratnovski & Aditya 2007). The case studies include: the Group Caisse des Dépôts (France); KfW Bankengruppe (Germany); the recently created UK Green Investment Bank; the pan-European European Investment Bank (EIB); and the European Bank for Reconstruction and Development (EBRD). While a number of these institutions are also active in international climate finance activities, this report focuses exclusively on their role to mobilise climate finance in the domestic context. Despite the focus on OECD countries, lessons learnt may be of relevance to developing countries.

The objective of the study is to map the key tools and instruments currently in use by these institutions to crowd-in private sector investment through: i) facilitating access to long-term financing, ii) reducing project and financial risks, and iii) filling the capacity gap (i.e. providing needed expertise to support low-carbon investments). PFIs hold the potential not only to support the financing of existing projects, but to assist in scaling-up the low-carbon infrastructure pipeline and available financing flows.

Given the high number of barriers to investment in low-carbon projects, PFIs have a role to play to scale-up private sector investments. Public finance institutions have the ability to factor the greater public good into their investment decision making; to access high volumes of stable, long-term finance; and to actively engage with other public and private actors. Some PFIs have an explicit mandate and authority to invest in green infrastructure. Others undertake ad-hoc green investment activities as one element of varied activities to meet a much broader mandate driven by public interest. Given these policy-oriented mandates, PFIs are at times both able and willing to provide financing at below-market returns, setting them apart from commercial institutions. In addition, PFIs are actively exploring a broad range of approaches and instruments to leverage private finance and use the public resources at their disposal to crowd-in new financing. This ranges from the EIB's experimentation with new investment and finance instruments (such as layered-debt funds as well as the Structured Finance Facility) to the development of holistic approaches that consider both the financing of individual projects and broader capacity-related and market-development issues.

PFIs also contribute to filling the capacity gap which affects low-carbon investments by providing technical assistance and project appraisal support to project developers and other actors. This can reduce overall project risks where this knowledge can increase the chance of project success.

7. Analyses of the experience of fast start finance

As the data for 2012 in the DAC CRS have only just recently become available, the OECD has not undertaken any analysis of the effectiveness or delivery of Fast Start Finance. Future work under the Joint ENVIRONET and WP-STAT Task Team on improving Rio markers, environment and development finance statistics will review members experience and approaches with reporting to UNFCCC on climate finance, and so will review FSF reporting (see Section 4).

8. National approaches to estimate domestic expenditure for climate change

The OECD does not measure or monitor national domestic expenditures for climate change – neither for OECD members nor for developing countries. However the OECD is increasingly aware of developing country interest in understanding DAC Rio marker methodologies for potential tracking. There is also a relationship between the ability to track climate change in budget codes and donors' needs to track the use and results for climate-related aid supported activities; there is a particularly close relationship if aid is provided through general budget support.

Discussions on tracking climate finance - both public and private - in developing countries have been held at the OECD, including through the CCXG through cases studies for Tanzania, South Africa and Zambia. The OECD would be happy to facilitate or contribute to future discussions on this topic.

Annex

OECD Points of Contact & Home Pages

The OECD is happy to provide information on progress in these and its other climate policy-related activities. We have indicated contacts on each work area below to facilitate future communication.

MRV of public and private climate finance:

DAC statistics and climate development finance

Stephanie Ockenden (stephanie.ockenden@oecd.org) and **Valérie Gaveau** (valerie.gaveau@oecd.org)

http://www.oecd.org/dac/environment-development/statistics.htm

http://www.oecd.org/dac/stats/rioconventions.htm

Research collaborative on tracking private climate finance

Raphaël Jachnik (raphael.jachnik@oecd.org)

www.oecd.org/env/researchcollaborative

Climate finance in the context of the UNFCCC negotiations:

Climate Change Expert Group (CCXG) global forum and seminar

Jane Ellis (jane.ellis@oecd.org)

http://www.oecd.org/env/cc/ccxg.htm

Mobilisation of private climate finance:

Green investment policy frameworks, institutional investors and green infrastructure investment

Robert Youngman (robert.youngman@oecd.org)

www.oecd.org/env/cc/financing

Relevant OECD meetings in 2014

3–4 March:	DAC Senior Level Meeting
17 March:	Research Collaborative on Tracking Private Climate Finance workshop
18-19 March:	Climate Change Expert Group (CCXG) Global Forum
20-1 March:	Joint ENVIRONET and WP-STAT Task Team on improving Rio markers, environment and development finance statistics
April (tbc):	DAC-EPOC Task Team on Climate Change and Development Co-operation
June (tbc):	WP-STAT meeting
15 Sept.:	Research Collaborative on Tracking Private Climate Finance workshop
16-17 Sept.:	Climate Change Expert Group (CCXG) Global Forum
6–7 October:	DAC Senior Level Meeting (addressing climate finance issues, UN SDGs/Post-2015)
15-16 Dec.:	DAC High Level Meeting (addressing climate development finance tracking, UN SDGs/Post-2015)

Relevant OECD publications

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