Summary and recommendations by the Standing Committee on Finance on the 2016 biennial assessment and overview of climate finance flows

I. CONTEXT AND MANDATES

The Standing Committee on Finance (SCF) assists the Conference of the Parties (COP) in exercising its functions with respect to the Financial Mechanism of the Convention, including, inter alia, in terms of measurement, reporting and verification of support provided to developing country Parties, through activities such as the biennial assessment and overview of climate finance flows (BA).[1]

Subsequent to the 2014 BA, the COP requested the SCF to consider: the relevant work of other bodies and entities on measurement, reporting and verification of support and the tracking of climate finance;[2] ways of strengthening methodologies for reporting climate finance;[3] and ongoing technical work on operational definitions of climate finance, including private finance mobilized by public interventions, to assess how adaptation and mitigation needs can most effectively be met by climate finance.[4] It also requested the Ad Hoc Working Group on the Paris Agreement (APA), when developing the modalities, procedures and guidelines for the transparency framework for action and support, to consider, inter alia, information in the BA and other reports of the SCF and other relevant bodies under the Convention.

The 2016 BA outlines improvements made and identifies areas for further improvements in the UNFCCC reporting guidelines and formats for developed and developing countries and for improvements in climate finance tracking and reporting of data producers and aggregators. The BA presents estimates of flows from developed to developing countries, available information on domestic climate finance and South–South cooperation, as well as the other climate-related flows that constitute global total climate finance flows. It then considers the implications of these flows, including composition, purpose and emergent trends relevant to the UNFCCC objectives, including the new goals set out in the Paris Agreement.

The 2016 BA comprises this summary and recommendations, and a technical report. The summary and recommendations was prepared by the SCF. The technical report was prepared by experts under the guidance of the SCF, and draws on information and data from a range of sources. It was subject to extensive stakeholder input and expert review, but remains a product of the external experts.

II. CHALLENGES AND LIMITATIONS

The 2016 BA presents a picture of climate finance to the extent possible. Due diligence has been undertaken to utilize the best information available from the most credible sources. Challenges were nevertheless encountered in collecting, aggregating and analysing information from diverse sources. The limited clarity with regard to the use of different definitions of climate finance limits comparability of data.

1) Decision 2/CP.17, paragraph 121(f).
2) Decision 1/CP.18, paragraph 71.
3) Decision 5/CP.18, paragraph 11.
4) Decision 3/CP.19, paragraph 11.

There are uncertainties associated with each source of data, and these have different underlying causes. Uncertainties are related to the data on domestic public investments, resulting from the lack of geographic coverage and differences in the way methods are applied, significant changes in the methods for estimating energy efficiency every few years and the lack of available data on sustainable private transport and other key sectors. Uncertainties also arise from the lack of procedures and data to determine private climate finance, methods for estimating adaptation finance, differences in the assumptions of underlying formulas to attribute finance from multilateral development banks (MDBs) to developed countries, the classification of data as 'green finance' and incomplete data on non-concessional flows.

The limitations outlined above need to be taken into consideration when deriving conclusions and policy implications from this BA. The SCF will contribute, through its activities, to the progressive improvement of the measurement, reporting and verification of climate finance information in future BAs, to help address these challenges.

III. KEY FINDINGS

Methodological issues relating to measurement, reporting and verification of public and private climate finance

Improvements made in tracking and reporting of climate finance since the 2014 biennial assessment and overview of climate finance flows

Following the recommendations made by the SCF in the 2014 BA, the 2016 BA identifies the improvements listed below in the tracking and reporting of information on climate finance:

Developed countries

(a) Enabling Parties to provide additional information on their underlying definitions, methodologies and assumptions used, including on how they have identified finance as being "climate-specific", as well as making these data more accessible to the public and recipient Parties, thereby enhancing consistency and transparency;
(b) Improving guidance on application of the Rio Markers for adaptation and mitigation and adjustments to the Rio Marker definitions for adaptation;

International organizations

(c) Making available MDB and multilateral climate fund activity-level data through the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD);
(d) Applying common principles for tracking mitigation and adaptation finance by MDBs and International Development Finance Club (IDFC) members;
(e) Making available data on climate co-financing flows through utilization of a joint methodology for tracking public and private climate co-finance by a consortium of seven MDBs.

Insights into reporting by developed countries and developing countries

The current biennial report (BR) guidelines[5] were designed to accommodate reporting on a wide range of climate finance instruments and activities. This required a reporting architecture that was flexible enough to accommodate a diversity of reporting approaches. In some cases, limited clarity with regard to the diversity in reporting approaches limits comparability in climate finance reporting. Further improvements in reporting guidelines and formats are needed to enhance transparency on the approaches used by individual Parties and to enable greater comparability across reporting by Parties.

Current biennial update report (BUR) guidelines[6] for reporting by developing countries on financial, technical and capacity-building needs and support received do not require information on the underlying assumptions, definitions and methodologies used in generating the information. Limited institutional capacity to track climate finance received, as well as the lack of data, can pose challenges in developing country reporting.

Insights into broader reporting aspects

Information on domestic climate-related finance is available including through a few BURs, Climate Public Expenditure and Institutional Reviews (CPEIRs) and other independent studies. However, such information is difficult to compare.

There is a lack of systematic collection of data on climate-related private finance flows globally, due to difficulties in identifying climate-related finance, restrictions based on confidentiality, and conceptual and accounting issues.

5) Decision 2/CP.17.
6) Ibid.

The primary sources cover mainly renewable energy and draw upon industry and sector databases, relying on voluntary disclosures. Efforts to develop methodologies for estimating mobilized private finance by public interventions are under way by the OECD DAC and the Research Collaborative on Tracking Private Climate Finance.

Ongoing efforts at the international and national levels aimed at improving climate-related financial risk disclosures are important for improving the transparency and promoting the alignment of finance and investment flows in accordance with Article 2.1(c) of the Paris Agreement.

Insights related to review of climate finance information

Practices exist within the UNFCCC to review the information on support provided by Parties, including the international assessment and review of BRs and the international consultation and analysis of BURs. However, there are no internationally agreed methods for reconciling financial support provided against support received. Also, MDBs and IDFC do not have a standard procedure to review their climate finance data. In addition, BRs are not reviewed in time for aggregating data for the BAs.

Overview of current climate finance flows in 2013–2014

Flows from developed to developing countries as reported in biennial reports

USD 25.4 billion in 2013 and USD 26.6 billion in 2014 of climate-specific finance was reported in BRs, of which USD 23.1 billion in 2013 and USD 23.9 billion in 2014 was channelled through bilateral, regional and other channels (see Figure 1). This represents an increase of about 50% from public finance reported through the same channels in 2011–2012.

Multilateral climate funds

USD 1.9 billion in 2013 and USD 2.5 billion in 2014 was channelled through the UNFCCC funds and multilateral climate funds on the basis of their financial reports. Although this is a small share of the total climate finance, information on their activities is mostly complete.

Climate finance from multilateral development banks

Climate finance provided by MDBs to developing countries from their own resources was reported as USD 20.8 billion in 2013 and USD 25.7 billion in 2014. The methodology used in the 2014 BA to attribute MDB finance from developed countries to developing countries suggests that USD 11.4 billion in 2013 and USD 12.7 billion in 2014 was delivered by developed countries. A more advanced methodology, which captures better the mobilization effect through the MDBs, suggests that USD 14.9 billion in 2013 and USD 16.6 billion in 2014 can be attributed to developed countries.

Private climate finance

The major source of uncertainty regarding flows to developing countries relates to the amount of private climate finance provided. Initial partial estimates of direct and mobilized private finance are available. Based on project-level data, renewable energy finance by developed country companies in developing countries is estimated at USD 1.8 billion in 2013 and USD 2.1 billion in 2014. Foreign direct investment in greenfield alternative and renewable energy in developing countries was estimated at USD 26.4 billion in 2013 and USD 21.6 billion in 2014. Both estimates are likely to be conservative. OECD and the Climate Policy Initiative (CPI) compiled an initial partial estimate of private finance mobilized by developed countries and identified USD 12.8 billion in 2013 and USD 16.7 billion in 2014 of private co-finance. These figures include private finance mobilized from international sources in addition to private finance mobilized domestically in developing countries. These partial estimates of direct private finance and mobilized finance are distinct, and cannot simply be aggregated.

Instruments

The mix of instruments used to channel support differs by funding source (see table 1). About 35% of the bilateral, regional and other finance reported to the UNFCCC in BRs is spent as grants, 20% as concessional loans, 10% as non-concessional loans, and the remainder through equity and other instruments. About 38% of the reported finance is channelled through multilateral institutions, many of whom are MDBs that utilize capital contributions and commitments from member countries to raise low-cost capital from other sources of funding, including for donor contributions. This enables MDBs to offer a range of instruments and financial products, including grants (9%), loans, including concessional loans, (83%), equity (2%) and other instruments (6%). About 53% of funding from multilateral climate funds is provided as grants, and the remainder is largely concessional loans, which have increased as a share of approved funding over time. 49% of bilateral climate finance reported to the OECD is provided as grants, and 47% as concessional loans.

Recipients

Climate finance goes to a wide range of governmental, private and non-governmental entities in recipient

countries. However, reporting on recipient institutions is incomplete. For example, recipient data are available for about 50% of the bilateral finance reported to the OECD DAC. For 2013–2014, developing country governments are specified as the recipients of about 40% of the total flow. Climate finance channelled through other intermediaries may also reach national governments, but this is not captured in the data. Improving data on the recipients of climate finance could be an area for further work.

Global finance flows

On a comparable basis, global total climate finance has increased by almost 15% since 2011–2012. In dollar terms estimated global total climate finance increased from a high bound estimate of USD 650 billion for 2011–2012 to USD 687 billion for 2013 and to 741 billion for 2014. Private investment in renewable energy and energy efficiency represents the largest share of the global total; however, the energy efficiency data are much less certain than the renewable energy data. Levels of finance have increased as the costs of clean technology have continued to fall. The coverage of data in the 2016 BA has increased and improved since the 2014 BA, but nevertheless the quality and completeness of data on global total flows are lower than those for flows to developing countries.

The estimate of global total climate finance in the 2016 BA includes adjustments to the CPI estimate that were not part of the 2011–2012 estimate reported in the 2014 BA. Partial data on domestic public finance expenditures of USD 192 billion per year were compiled. If these additional adjustments are included, they raise the upper end of the range to USD 880 billion in 2013 and USD 930 billion in 2014. However, the volume of the climate-related finance and investment flows globally may be higher, given that there are still significant data gaps in critical sectors such as sustainable transportation, agriculture, energy efficiency and resilient infrastructure.

Domestic climate finance: Comprehensive data on domestic climate expenditures are not available. Limited information is included in the BURs; estimates of climate-related finance included in national budgets, domestic climate finance provided by national development banks and commitments by developing country national climate funds. These indicative estimates suggest flows of USD 192 billion per year in developed and developing countries.

Some studies suggest that most climate finance in aggregate is mobilized and deployed domestically, both in developed and developing countries. In the limited number of developing countries for which information on domestic public climate finance is available, the data suggest that, in these countries, domestic public finance significantly exceeds the inflows of international public climate finance from bilateral and multilateral sources.

South–South cooperation: Data are limited, and mainly sourced from the OECD DAC, complemented with reports from a small number of other countries. On this basis, South–South cooperation was estimated to be in the range USD 5.9–9.1 billion for 2013 and USD 7.2–11.7 billion for 2014, of which about half was channelled through multilateral institutions.

Assessment of climate finance flows

An assessment of the data underlying the overview of climate finance flows offers insights into key questions of interest in the context of the UNFCCC negotiations, including support for adaptation and mitigation, levels of finance for different regions and how finance is delivered. Key features of different channels of climate finance for developing countries are summarized in table 1.

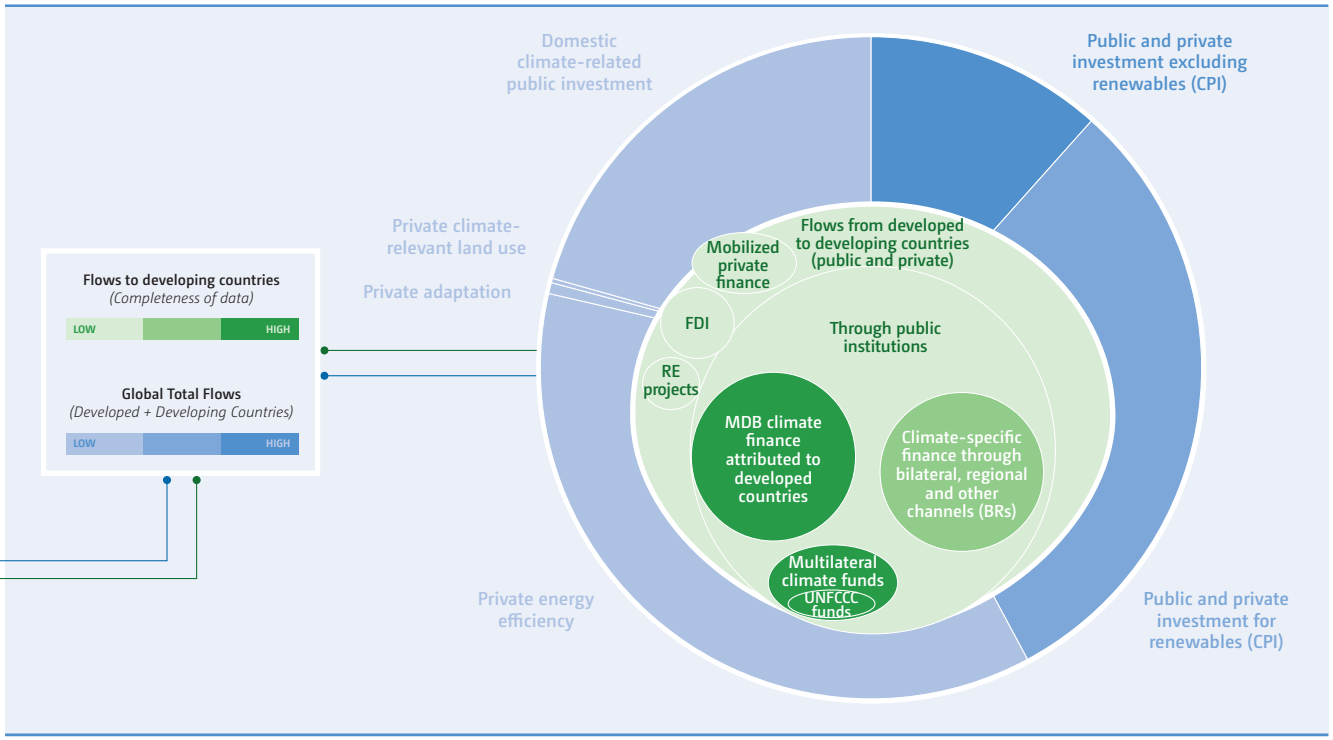
Mitigation-focused finance represented more than 70% of the public finance in developing countries reported in 2013 and 2014. Adaptation finance provided to developing countries accounted for about 25% of the total finance. This is similar to 2011–2012, although there has been a slight increase in the proportion of adaptation finance from climate funds and bilateral concessional channels. More than 80% of MDB investments focused on mitigation, and less than 20% on adaptation.

There has been a significant role for grants in adaptation finance. Grants represent 88% of adaptation finance approved climate funds and 56% of the bilateral finance reported to the OECD DAC with adaptation as a principal objective. Some least developed countries and small island developing States in Africa and Asia have been among the largest recipients of adaptation finance.

About 33% of funding from dedicated climate funds, 42% of climate-related finance in the OECD DAC and 31% of climate finance reported by MDBs is for Asia, often in countries with attractive investment climates. This funding has largely supported mitigation, including REDD-plus[7], reflecting the significant

7) In decision 1/CP.16, paragraph 70, the COP encouraged developing country Parties to contribute to mitigation actions in the forest sector by undertaking the following activities: reducing emissions from deforestation; reducing emissions from forest degradation; conservation of forest carbon stocks; sustainable management of forests; and enhancement of forest carbon stocks.

Figure 1: Climate finance flows in 2013–2014 (USD billion and annualized)



Abbreviations: BR = biennial report, CPI = Climate Policy Initiative, FDI = foreign direct investment, MDB = multilateral development bank, RE = renewable energy.

Note: Figure is not to scale, but seeks to show the relative size of flows. Flows to developing countries are a subset of global total flows.

		2013 (USD billion face value)	2014 (USD billion face value)	Sources of data and relevant chapter in the technical report
Flows to developing countries 2013–2014 average total **Public:** USD 41 billion **Private:** USD 2 billion renewables USD 24 billion FDI USD 14.8 billion mobilized	**UNFCCC funds**[a]	0.6	0.8	Chapter 2.2.1 Fund financial reports, climate funds update
	Multilateral climate funds (including UNFCCC funds)	1.9	2.5	Chapter 2.2.2 Fund financial reports, climate funds update
	Climate-specific finance through bilateral, regional and other channels	23.1	23.9	Chapter 2.2.3 CTF table 7(b)
	Of which grants and concessional loans	11.7	12.4	Chapter 2.2.3 CTF table 7(b)
	MDB climate finance attributed to developed countries (own resources only)[b]	14.9	16.6	Chapter 2.2.5 MDB climate finance reporting
	Renewable energy projects[c]	1.8	2.1	Chapter 2.2.9 CPI landscape of climate finance, BNEF
	FDI in greenfield alternative and renewable energy	26.4	21.6	Chapter 2.2.9 CPI landscape of climate finance, fDi Intelligence
	Mobilized private finance[d]	12.8	16.7	Chapter 2.2.9 OECD CPI report 2015
Global total flows (inclusive of flows to developing countries above) 2013–2014 average total USD 714 billion	**Public and private investment excluding renewables (CPI)**	95–102	102–112	Chapter 2.4.1 CPI landscape of climate finance
	Public and private investment for renewables (CPI)	244	285	Chapter 2.4.2 BNEF, CPI landscape of climate finance
	Private energy efficiency	334	337	Chapter 2.4.3 IEA energy efficiency market report
	Private sustainable transport	Not available	Not available	Chapter 2.4.4
	Private climate-relevant land use	5	5	Chapter 2.4.5 CPI land-use studies
	Private adaptation	1.5	1.5	Chapter 2.4.6
	Domestic climate-related public investment	192	192	Chapter 2.4.7 CPEIRs (UNDP, World Bank ODI), GFLAC climate finance studies, BURs

Abbreviations: BNEF = Bloomberg New Energy Finance, BUR = biennial update report, CPEIR = Climate Public Expenditure and Institutional Reviews, CPI = Climate Policy Initiative, CTF = common tabular format, FDI = foreign direct investment, GFLAC = Climate Finance Group for Latin America and the Caribbean, IEA = International Energy Agency, MDB = multilateral development bank, ODI = Overseas Development Institute, OECD = Organisation for Economic Co-operation and Development, UNDP = United Nations Development Programme.

[a] Includes commitments approved during 2013 and 2014. Almost all contributions are contributed by Annex II Parties. The values do not reflect pledges to the Green Climate Fund amounting to USD 10.2 billion by the end of 2014. [b] From Annex II Parties to non-Annex I Parties. Values are derived by excluding climate finance to Annex I Parties from the total climate finance provided by MDBs from their own resources to arrive at climate finance provided to non-Annex I Parties, and by attributing 85% of this to Annex II Parties. [c] From Annex II Parties to non-Annex I Parties. [d] From Annex II Parties as well as the Czechia, Poland, Slovakia and Slovenia.

Table 1: Characteristics of public finance in developing countries for 2013–2014

	Average (2013 and 2014 in billion USD)	Purpose (%)			Implementing entities	Instrument (%)				
		Adaptation	Mitigation	Cross-cutting		Grants	Loans	Concessional Loans	Equity	Other
UNFCCC funds[a]	0.7	50	50		United Nations agencies, MDBs, bilateral development agencies, accredited national institutions, NGOs and private banks / funds	100				
Multilateral climate funds (including UNFCCC funds listed above)	2.2	27	70	3	MDBs, United Nations agencies and bilateral development finance institutions	53		47		
Climate-related bilateral[b]	14.9–25.3	27	53	20	Bilateral development finance agencies (e.g. GIZ, DFID, USAID, NORAD)	49	2[c]	47	2[c]	
MDB climate finance	15.8	18	82		MDBs	9		83	2	6

Note: All values are based on approvals.

Abbreviations: DFID = Department for International Development, GIZ = Deutsche Gesellschaft für Internationale Zusammenarbeit, MDB = multilateral development bank, NGO = non-governmental organization, NORAD = Norwegian Agency for Development Cooperation, USAID = United States Agency for International Development.

[a] Adaptation Fund, Global Environment Facility, Special Climate Change Fund and Least Developed Countries Fund. No Green Climate Fund projects were approved during 2013–2014.
[b] The values for bilateral finance are based on biennial report data for table 1 in this document. The percentages for bilateral climate finance in this table are based on Organisation for Economic Co-operation and Development data due to data availability.
[c] Not primarily development or concessional. One per cent of the equity reported is concessional equity.

greenhouse gas (GHG) emissions from the region. About 21% of finance from dedicated multilateral climate funds, 28% of climate-related finance in the OECD DAC and 15% of MDB climate finance is directed to African countries. There has been a growing emphasis on adaptation in this finance. About 23% of funding from dedicated multilateral climate funds, 15% of climate-related finance reported to the OECD DAC and 16% of the climate finance reported by MDBs is directed to Latin America and the Caribbean.

There are costs associated with fund management, project development and implementation. These costs are recovered through mechanisms including administrative budgets and implementing agency fees, which vary across funds and institutions. Administrative costs range from less than 1% to nearly 12% of the approved funding. The actual costs are not necessarily proportional to the volumes of finance approved for projects.

A broad range of issues can present challenges in accessing climate finance, including: low levels of technical capacity to design and develop projects/programmes and to monitor and evaluate progress; difficulties in following the procedures of the funds to access finance; and low levels of awareness of the need for action and available sources of funding. Several efforts to strengthen "readiness" to access and make use of climate finance are now under way, and the Green Climate Fund (GCF) has recently stepped up its efforts in this regard. Investment in domestic capacity to structure and attract a range of sources of finance is also needed.

Ownership of climate finance and alignment of this finance with national climate change priorities and emerging policies and strategies is well recognized as an important element for ensuring effectiveness. Another important dimension is engagement of key stakeholders across government, particularly ministries of finance and planning, and across society, including civil society and the private sector. Most intended nationally determined contributions (INDCs) submitted by developing country Parties outlined, in varying levels of detail, the estimated financial costs of the future emission reduction and climate adaptation scenarios they describe. In general, methodologies used to estimate financial needs or definitions of scope were not specified, and differed substantially. Beyond INDCs, few efforts to assess national or global climate finance needs have been completed since the 2014 BA. INDCs may provide a framework for strengthening ownership in the future.

Impact monitoring systems are beginning to mature, although reporting of results remains nascent and relatively slow. GHG emission accounts are a primary metric of impact and effectiveness used for climate finance mitigation, often complemented with relevant output data such as the volume of installed clean energy or reductions in energy consumption. Consistency of methodologies for GHG accounting continues to be a challenge, though progress has been made by

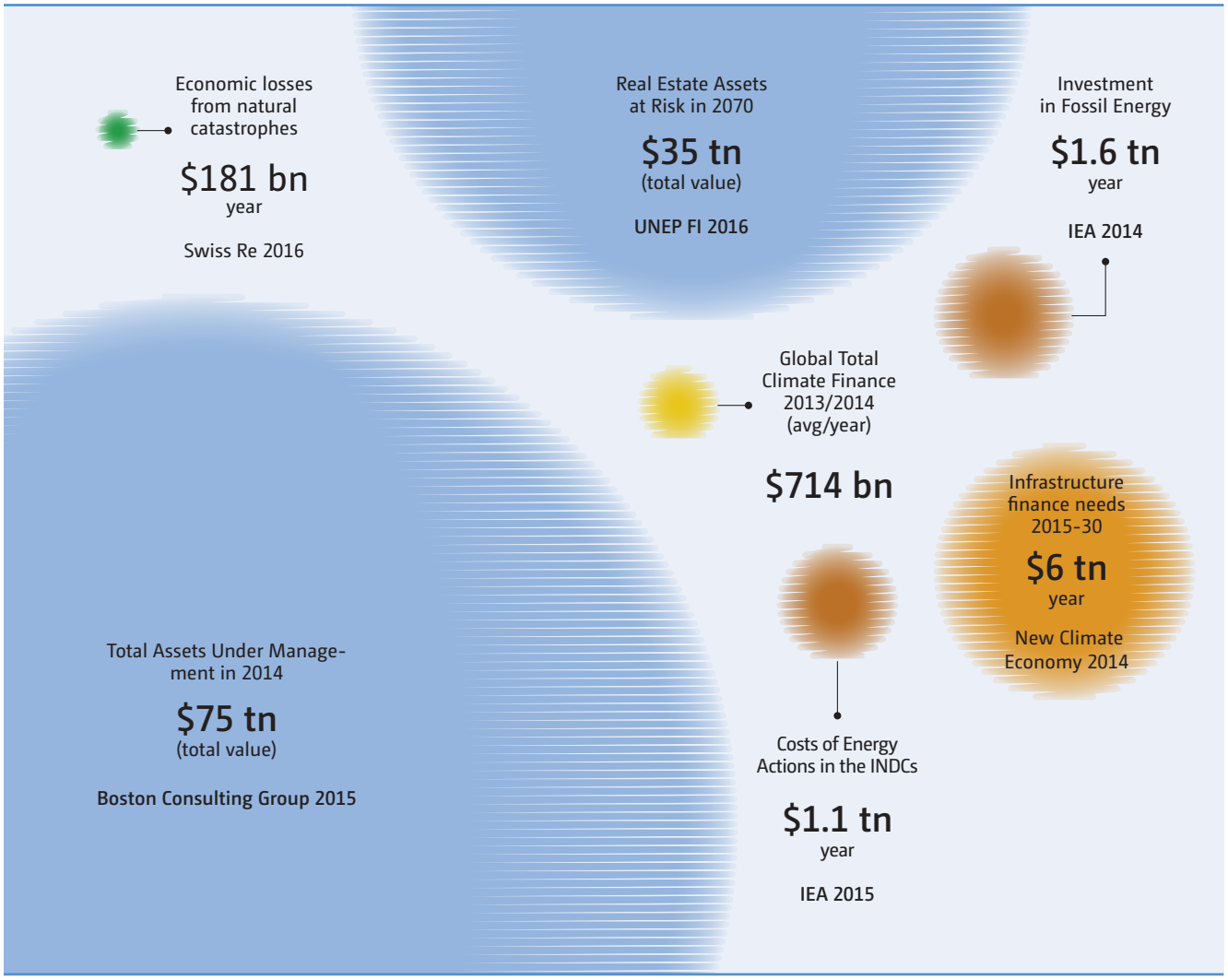
development finance institutions, which have adopted common principles.

Most adaptation interventions seek to identify the specific number of people that are likely to benefit from the proposed interventions, either directly or indirectly in terms of increased resilience. Ensuring the accuracy of estimates can be challenging, due to difficulties in identifying beneficiaries, establishing baselines and data collection, and defining and tracking resilience over time to what may be slow onset, or 1-in-100 or 1-in-500 year events.

Many funders use co-financing as best available evidence of private finance mobilization, and many climate funds use leverage ratios as one of their key results indicators. However, co-finance does not necessarily equate to mobilization, which is often used to imply a more causal relationship between public intervention and associated private finance, which is more complex to prove. High leverage ratios may not always indicate an effective use of public finance, as ratios can also be high in interventions that are the most commercially viable.

The 2016 BA identified climate-related global climate finance flows of USD 714 billion on average in 2013-2014 (see figure 1); this is a significant amount, but is relatively small in the context of wider trends in global investment (see Figure 2). For example, while investment in clean energy is rising, volumes of finance for high carbon energy in all countries remain considerably higher. Infrastructure and assets are at risk from the impacts of climate change, with serious potential consequences for the global economy.

Figure 2: Global climate finance in context



Note: This figure seeks to put the total volume of global finance flows in the context of wider trends in global investment. The flows featured on this diagram are not strictly comparable, and are presented for illustrative purposes only. Full details of the underlying studies are included in Chapter 3 of the 2016 BA.

Abbreviations: avg = average, bn = billion, IEA = International Energy Agency, INDC = intended nationally determined contribution, tn = trillion, UNEP FI = United Nations Environment Programme Finance Initiative, $ = United States dollar.

IV. RECOMMENDATIONS

The SCF invites the COP to consider the following recommendations:

(a) Invite Parties, the APA, the Subsidiary Body for Scientific and Technological Advice, the Subsidiary Body for Implementation and other relevant bodies under the Convention to consider the 2016 BA, particularly its key findings, in order to improve guidelines for the preparation and reporting of financial information,[8] as well as to develop the modalities, procedures and guidelines, as appropriate, for the transparency of support in accordance with Articles 9 and 13 of the Paris Agreement;

(b) Request the SCF, in fulfilling its function on measurement, reporting and verification of support, and in the context of its workplan, to cooperate with relevant institutions and experts and to consider ongoing work under the Convention;

Engaging with international organizations and the private sector

(c) Encourage climate finance providers to enhance the availability of granular, country-level data and for the UNFCCC secretariat to make such information more accessible, including via enhanced web-based data platforms;

(d) Encourage relevant institutions and experts, including from the private sector, to devise practical options for estimating and collecting data on private climate finance, taking into consideration ongoing work by the OECD Research Collaborative on Tracking Private Climate Finance and by MDBs;

Ownership, needs and impact

(e) Encourage developing countries to take advantage of the resources available through the operating entities of the Financial Mechanism to strengthen their institutional capacity to programme their priority climate actions as well as to track and report climate finance;

(f) Request the SCF in preparing future BAs to assess available information on investment needs and plans related to Parties' nationally determined contributions and national adaptation plans;

(g) Encourage Parties and relevant international institutions to enhance the availability of information that will be necessary for tracking global progress on the goals outlined in Article 2 of the Paris Agreement;

(h) Invite the Board of the GCF to consider information in the BA in its annual dialogues with climate finance delivery channels in order to enhance complementarity and coherence between the GCF and other funds at the activity level;

(i) Invite multilateral climate funds, MDBs, other financial institutions and relevant international organizations to continue working to further harmonize methods for measuring climate finance and to advance comparable approaches for tracking and reporting on impacts.

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8) This includes enhanced information on: sectors, financial instruments, the methodology used for reporting financial support through bilateral channels, the methodology used to identify climate-specific portions of public financial support through multilateral channels, and disaggregated data at the activity level.

FOR FURTHER INFORMATION CONTACT

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