



Background paper on the biennial assessment and overview of climate finance flows

I. Background

1. SCF, at its 5th meeting, proposed a draft outline taking into account elements from COP17 and COP18 decisions relating to information on the geographical and thematic balance of such flows (Decision 2/CP.17, paragraph 121, sub-paragraph (f)) and ways of strengthening methodologies for reporting climate finance (Decision 1/CP.18, paragraph 11). The proposed draft outline was subsequently included in the report of SCF to COP19 along with a set of objectives, scope, and a tentative timeline.¹
2. The COP also requested SCF, in preparing the first BA, to consider on-going technical work on operational definitions of climate finance, including private finance mobilized by public interventions and to assess how adaptation and mitigation needs can most effectively be met by climate finance (decision 4/CP.19, paragraph 11).

II. Status of work

1. The working group on BA, facilitated by Outi Honkatukia (Finland) and Seyni Nafu (Mali), held a meeting with key stakeholders during the COP in Warsaw to discuss areas of collaboration. Subsequently, the SCF put out a second call for inputs from stakeholder organisations specialising in tracking climate financial flows and MRV issues. The objective was to gather views on the proposed outline and specific inputs by section. The secretariat has received 14 responses.²
2. In order to launch the work on BA, the facilitators met with the secretariat and external consultants on a teleconference on 28 January to take stock of inputs provided by stakeholder organizations in response to the second call of the SCF for inputs. To guide the literature review, the draft outline was turned into draft annotated outline, initially for the overview section and the range of definitions and methodologies used for measuring and reporting different types of flows. The draft annotated outline is contained in Annex II. It was also decided to initiate work on the different sections of the report in February so that initial outcomes may be considered at the 6th meeting of the SCF.
3. Overview and assessment sections: The literature review for the overview section was initiated at the beginning of February. A working draft is currently being prepared and will be circulated before the 6th meeting of the SCF. At the 5th meeting of the SCF, the working group identified to sets of issues for the assessment section of BA: (i) an initial set of criteria/goals (e.g., FSF; thematic balance; geographical distribution; 2 degree goal; C02 impact; country needs/ownership; access modalities); and (ii) limitations/gaps (e.g., broader regulatory and policy barriers). However, the SCF may also wish to consider identifying the range of financial and non-financial criteria contained in the inputs from stakeholders for use in the assessment section. SCF members may wish assess the overall level of completeness of the overview section.
4. Definitions and methodologies section: Inputs received in response to the second call of SCF for inputs highlight two important issues: the importance of using operational definition(s) for categorizing different types of flows in the BA; and the gaps and limitations of existing methodologies used to measure public flows (committed/mobilized and channeled/disbursed) and in particular mobilized private finance.
5. A review of existing definitions and methodologies for measuring, reporting, and verifying climate finance was initiated in February. The review is focusing on definitions applied by MDBs and international organisations to measuring and reporting financial flows as well as a summary of elements of these definitions. SCF may wish to consider/identify whether operational definition(s) are needed to categorise the different flows in the overview section and if yes whether they can be drawn from existing definitions.

¹ FCCC/CP/2013/8, Annex VII.

² http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/8034.php



III. Approach to organising and implementing the work

5. A detailed draft work plan is contained in annex I to this document. In order to effectively manage the work on the biennial assessment, the following types of activities have been identified:
 - a. Process and substance design
 - b. Research and data gathering
 - c. Stakeholder engagement
 - d. Peer review
 - e. Report drafting and integration
 - f. Publication



Annex I

Draft Work Plan

6. The development of BA will involve meta data and information gathering from multiple sources across different climate finance stakeholders. It will combine research with interaction and engagement with a broad range of climate finance stakeholders. Furthermore, the work undertaken for the first BA will lay the foundation for structuring the work for subsequent BAs. As such, the organisation and implementation of the work will take a “hub-and-spokes” approach.
7. Given the specialized nature of the work required to develop different sections of the BA, and to ensure sufficient rigor, SCF may wish to consider organising the work in research tracks. Each track would involve continuous research and gathering quantitative and qualitative information from primary and secondary data providers, as the case may be. Each research track would be led by a dedicated external consultant and coordinated by the secretariat, under the guidance of the working group.
 - **Research track I:** This track will review existing definitions of climate finance and methodologies used to measure, report and verify different types of flow.
 - **Research track II:** This track will collect data sets from the literature review and any other relevant quantitative and qualitative information for the overview section.
 - **Research track III:** This track will support the working group to develop the assessment section. It will compile assessment criteria used by different organisations, including those contained in the responses to the second call of SCF for inputs.
 - **Research track IV:** This track will undertake a review of short- and long-term needs of developing countries and assist the working group to assess how adaptation and mitigation needs can most effectively be met by climate finance.
8. The research will combine literature review with conference calls and focused meetings involving different contributors. The focused meetings would build on the workshop organized at the 5th meeting and designed to engage actively with contributors, exchange views, and perspectives on specific topics.
9. A wide variety of institutions such as multilateral development banks, development finance institutions, international organizations, research institutions and think tanks, private sector financial institutions, academia, civil society organizations would be invited to contribute to each research track.
10. To supplement the literature review under each research track, a series of conference calls will be organised with data providers and stakeholder organisations specialising in tracking climate finance. In addition, it is proposed to hold two to three mini workshops with data providers and climate finance stakeholders to address specific topics and data needs.
 - 1st mini workshop to be held on the back of the 6th meeting of SCF, on 6 March
 - 2nd mini workshop during the SB session in June.
 - 3rd mini workshop (tbc)
11. To ensure transparency, SCF may wish to organise side events to update the broader stakeholder groups on the progress made in implementing the work for the BA. These updates could either be incorporated in future side events which SCF may organise in the side lines of SB session in June, any additional sessions of the ADP in October, or organise dedicated ‘information events’ for observer organisations¹.
12. Given the expected level of interaction with data providers and stakeholder organisations specialising in tracking climate finance as well as transparency measures it is expected that outreach and communication will be a strong component of the first BA. Section II (1) of the draft communication strategy of the Standing Committee on Finance outlines the proposed approach and activities focusing on the later.

¹ Please note that any such activity has not been reflected in Table 1.



Annex II

Annotated Outline (working draft)

1. Executive summary (5 pages)

2. Introduction (2 pages)

- Mandate
- Approach to preparing the report, Limitations, including what the report will not focus on
- Acknowledgements

3. Methodological issues relating to monitoring, reporting and verification of public and private finance

This section will review existing definitions of climate finance, and will include a short description of existing methodologies for monitoring, reporting and reviewing finance and their limitations.¹ It will draw on information from the OECD, MDB, DFIs, etc. and the Convention (guidelines for reporting by developed countries and NCs).

- Definitions of climate finance used by international institutions (This section will use information from the OECD, MDBs, and the IPCC. It will underscore the challenges posed by the different definitions, noting convergences)
- Methodologies for tracking international public and private climate finance (i.e., bilateral, multilateral, leveraged private finance, and private sector-driven flows). This sub-section will discuss elements emerging from different MRV practices with a view to identify desired features/principles:
 - Monitoring public finance commitments by developed countries and receipt of finance and use by developing countries.
 - Reporting by developed countries
 - Emerging approaches for tracking private climate finance
- Methodologies for tracking other types of flows (i.e., domestic flows, etc.)
- Rationale and approach to categorizing flows by sector, thematic distribution, geographic distribution and the taxonomy of instruments

4. Overview of climate financial flows (15-16 pages)

This section will describe a global climate finance architecture, including sources/sectors/actors under the Convention. It will present data by public and private sources, donor country, recipient country and/or institution, financial instrument, and thematic area. If feasible it will also present data based on the use of finance such as asset finance, RD&D, capacity building and training. The purpose will be to provide insights about the sources of climate finance, scales and the interaction of the flows (public/private), involved in mobilizing and deploying resources.² This section will rely on figures and tables to present climate financial data in different ways as noted below. Where possible, sectoral, thematic, and geographic distribution of the public financial flows will be presented in percentage points.

This section may include two flow charts showing the financial flows along the stages of typical mitigation and adaptation projects respectively in a stylized way. Where possible, the flow charts will show interaction of different flows (international public and private finance, domestic flows, other flows) involving experiences from FSF period, funding from OEs and special funds and other sources of finance.

¹ Examples of issues previously identified by the UNFCCC with regard to reporting by Annex I Parties: Parties do not always follow the guidance and reporting format; limited comparability with regard to timeframe reported on, exchange rates used, and the financial instrument or characteristics (e.g. concessionality) of financial instruments used; previous categories did not sufficiently break down adaptation and mitigation funding, for example, by policy measure, technology, or policy objective; guidelines do not distinguish between activity types (e.g., capacity building, MRV, deployment, etc.); limited information at the project or sub-project level; non-Annex II, Annex I Parties not required to report.

² Table 2 presents an example of a table taken from Clapp, Ellis, Benn, and Corfee-Morlot on *Tracking Climate Finance: What and How*, OECD 2012 that could be updated and expanded to identify data availability and systems



- **Public /private**

This sub-section will provide figures of public and private flows, including corresponding shares channeled by international (multilateral and bilaterals) and domestic actors and financial instruments. The findings will be presented in graphical form.

In addition, this section will compare finance provided by OEs and dedicated funds with total multilateral financing. The objective is to measure the scale of multilateral funding under the Convention against the total climate multilateral financial flows. If possible, this comparison could also be made for the bilateral funding and other types of climate financial flows.

- **Thematic distribution (e.g. mitigation, adaptation, REDD+ etc.)**

This sub-section will provide the global breakdown of thematic flows, including in graphical form. Where possible, it will present shares channeled by different actors and financial instruments.

In addition, this sub-section could feature breakdowns of sectorial flows i.e. sustainable energy and other sectors where possible.

- **Geographical distribution**

This sub-section will show vectors of climate financial flows on the global map along with shares received by each region/sub-region to visualize the flows of finance between regions and countries. If there are notable variations then a commentary on the drivers/enabling environments could be added.

In addition, this subsection will provide break-down figures of thematic flows by region.

- **Distribution by financial instrument**

This sub-section would provide insights about the magnitude of flows channeled to developing countries through different financial instruments.

In addition, this sub-section will discuss the use of each financial instrument in the context of public and private financial flows.

5. Needs

This section will identify short- and long- term financing needs for mitigation and adaptation at the aggregate level. The former will be drawn from information on needs identified in existing project pipelines (e.g. NAMAs, NAPs, TNAs, etc). This information will be compared to data on what is in the project pipeline of the financial mechanism, climate funds and international financial institutions. The later will mainly be based on literature review.

Further, this section could discuss how financing needs can be disaggregated at the country level. Data on private sector finance and domestic expenditures are not likely to be generally available, thus it is likely that this analysis will reveal important limitations in our ability to assess the extent to which financial needs are being met. If possible one or two case studies of specific countries will be used for illustrative purposes.

The objective will be to identify limitations and areas for improvements in methodologies for determining the extent to which financial needs of developing countries are being met, what structural improvements are needed to improve the completeness and comprehensiveness of national needs assessments and what else might be done to form an integrated picture of needs and sources of finance.

6. Assessment (20 pages)

- **Criteria for assessing climate finance**

This section will identify different types of assessment criteria for monitoring, reporting (and verifying) climate financial flows, noting the practicality and applicability of each. The objective is two-fold:

- Assess whether the quality, quantity, and comparability of data has improved over time. This would also include for example an evaluation of thematic and geographical distribution data from the FSF period, NCs, BRs;
- Assess how public and private climate financial flows are reported, including reporting to the Convention (e.g., comparison of the FSF reports, NCs vs BRs);



If possible, the section could also identify a hierarchy/framework which could be useful to assess financial flows in the future as data systems improve. It will not, however, try to apply these criteria against the totality of climate finance presented in the overview section. The following are examples:

- Financial criteria (i.e., scale/ volumes, disbursements, mobilization, cost-effectiveness/leveraging, types of financial instruments, innovativeness, etc.);
- Climate change objectives (effectiveness in terms of GHG emissions reduced, achievement toward the 2 degree goal, climate impacts, provision of adaptation outcomes/improved resilience);
- Policy criteria: thematic distribution, geographical distribution, transparency, ease of access, other the objectives of the Convention, etc.); and
- Other sustainable development objectives (alignment with country driven development priorities and goals, etc.).

○ **Limitations/Gaps**

This section will present analyses that aim to address specific issues. Examples of possible questions that the report might try to address include the following:

- How comparable are data from different sources?
- Which data by sectors, sources and financial instruments warrant the most attention in the future?
- What insights can be drawn regarding the use of public funds to leverage private capital?
- What insights can be discerned regarding types of policies and mechanisms that have been successful in mobilizing finance?
- What is the ratio of concessional and non-concessional loans provided to developing countries? (Could go in the overview section above.)
- What insights can be gained regarding current investments from domestic budgets of selected developing countries? (Possibly based on case studies)
- What insights can be determined regarding the amount of finance flowing between developing countries?
- What conclusions can be drawn regarding incremental versus full cost support?
- What can be said about the feasibility of reporting on additionality?
- Is it feasible to estimate a range of public finance needed to reach the \$100 B goal by 2020?
- What are the key issues that should be addressed by international organization in the future? (Could go in Conclusions)

Note: these issues and others that the SCF might identify will be broken up into data/technical issues and policy issues in the final report.

7. Conclusions (3 pages)

- open issues/gaps
- the way forward

8. Recommendations

- Recommendations on the steps to improve monitoring, reporting and review of climate finance in the future.
- Aims for the next Assessment: What international organizations, national governments and the UNFCCC need to do

	UNFCCC	outside UNFCCC
Technical	☺	☺
Policy	☺	☺

9. Possible annexes

- Data availability and systems – who is tracking what and how? (Clapp et al.)
- Methodology annexes
- Glossary
- References

Table 2

Table 2: Data availability and systems – who is tracking what and how?⁵

Type and channel of finance & flow estimates	Actors, Institutions	Routine reporting, data sources and systems
Public Bilateral		
ODA \$15 - 23 bn* OOF: (no comprehensive estimates of climate-related OOF available)	Bilateral aid agencies e.g. GIZ, SIDA, USAID, etc	<ul style="list-style-type: none"> ◆ UNFCCC (NCs) – While Party reporting includes financial data (Ellis <i>et al</i>, 2011), no clear set of definitions on what and how to report on finance. Data collected are not part of a statistical system with fully harmonised definitions. ◆ OECD DAC-CRS tracks Official Development Assistance (ODA) climate finance through Rio markers for mitigation and adaptation including other climate-targeted support (e.g. capacity building).⁵ Adaptation data begin only in 2010, whereas mitigation and other data are available since 1998. The system can include multilateral flows however current data coverage is limited.⁷ Other official non-concessional finance (OOF) is also tracked but Rio Markers are only recently being applied (data are not yet available). Several AI countries are not members of the DAC and thus do not routinely report [see Annex 1]⁸
Specialised climate fund, (included above)	e.g. ICI in Germany	<ul style="list-style-type: none"> ◆ Annual reports with detailed data available from fund operators but no harmonised data collection system in place. These flows can be accounted for in DAC-CRS and preliminary data are currently available. Coverage limited however. ◆ NGO efforts currently help to track such funds, e.g. the Climate Funds Update initiative, supported by the Heinrich Boll Foundation & ODI, but these are not institutionalised.
Export credits – OOF \$0.7 bn, 2009 (clean energy only)	e.g. EFIC (AUSL), COFACE (FR), ECGD (UK)	<p>OECD collects information on export credits in two different fora and for two different purposes (work to streamline OECD data on export credits is ongoing):</p> <ul style="list-style-type: none"> ◆ Export Credit Group (composed of all OECD members) to monitor members' compliance with the export credit agreements. In OECD Export Credit database, data are confidential but aggregate information can be made available; it is possible to extract flows for key sectors and "climate relevant" projects, e.g. water and clean energy (renewable energy and energy efficiency). Disbursements and repayments cannot be tracked at present. ◆ DAC (comprising 24 members – See Annex 1) to provide the "big picture" of developing countries' resource receipts.
Public Multilateral		
Concessional and non-concessional flows, \$14 - 17 bn, 2009-10 **	World Bank, ADB, AfDB, IADB, EIB, EBRD	<ul style="list-style-type: none"> ◆ No common statistical system across MDBs to track climate finance. MDBs report to DAC-CRS but have not consistently used Rio Markers to identify climate finance; main sources of data are annual reports and other uncoordinated reporting mechanisms which vary by institution. ◆ NGO efforts currently help to track such funds, e.g. the Climate Funds Update initiative, supported by the Heinrich Boll Foundation & ODI, but these are not institutionalised.

* OECD; ** Buchner *et al*, 2011b; *** UNCTAD 2010 (low, 2009 data) and BNEF (high, 2010 data as cited in Buchner *et al*, 2011b)

Type and channel of finance & flow estimates	Actors, Institutions	Routine reporting, data sources and systems
Public Channels Working with Private Sector and Public/Private Channels		
Development finance Institutions (Partially included in ODA, OOF and private sector BNEF data)	OPIC, KfW, IFC, MIGA, etc.	<ul style="list-style-type: none"> ◆ Designed to partner with and de-risk private sector investment, a subset of OOF is inter-twined with private finance and investment and is only recently being tracked in the climate change area (e.g. US government reporting of OPIC finance in fast-start reporting).
Specialised climate funds, \$1 - 3 bn, 2009-10** (Partially included in public bilat and multilat estimates)	Adaptation fund; GEF Others: Clean Investment Funds; UN-REDD Programme; etc.	<ul style="list-style-type: none"> ◆ No system in place or harmonised data collection across funds; some of the funds are providing detailed annual reports ◆ Public flows: bilateral and multilateral reporting conventions and methods for public climate finance, and can be represented in DAC-CRS ◆ NGO efforts currently help to track such funds, e.g. the Climate Funds Update initiative, supported by the Heinrich Boll Foundation & ODI, but these are not institutionalised.
CDM and Specialised Carbon Finance Funds, \$2.2 - 2.3 bn, 2010** (CDM only)	CDM, BioCarbon Fund, Prototype Carbon Fund, and other country specific Funds	<p>No agreed methodologies for what or how to track finance flows related to CDM except for ODA (however some relevant information routinely provided by World Bank or other commercial information providers, e.g. Point Carbon). Estimates of CDM project investment have been constructed by analysts but are derived from proxy data [see Box 3].</p> <ul style="list-style-type: none"> ◆ UNEP-RISO CDM project database; however no statistical data on value of CERs, CDM project investments or even price of CERs.
Private Investment and Finance (other than CDM – see above)		
FDI and other private finance \$37 - 72 bn, 2009-2010***	Companies Investment and other banks Institutional investors	<p>Relevant private flows may take different forms e.g. FDI vs. mergers and acquisitions, joint ventures or loans. No internationally-agreed definition of what target activities (i.e. sector categories and types of project flows) could be considered as climate finance. Different data sets exist (see below) but it is currently not possible to combine these due to methodological differences.⁹</p> <ul style="list-style-type: none"> ◆ UNCTAD FDI statistics have broad country coverage for inflows and outflows (however database does not allow tracking of both the source and destination of the flows; also sectoral detail by country) ◆ OECD FDI statistics – higher quality data, could allow tracking of source or first counterparty destination by sector, however only covers OECD countries as "reporting" countries. Ongoing work includes: moving forward on defining green investment, and analyzing green FDI by record linkages with environmental expenditures, for those countries who have access to this data. ◆ BNEF and other commercial databases on clean energy only. The data set does not provide a way to identify the geographic origin of the capital flows, thus makes it difficult to use for N-5 tracking or to attribute flows to a donor country. It is also a commercial database, accessible only on a fee basis.
Private philanthropy \$0.4 bn ** (including voluntary carbonmarket flows)	Gates, Rockefeller and Soros, etc.	<ul style="list-style-type: none"> ◆ OECD DAC system has begun to track data on a voluntary basis with philanthropic donors e.g. Gates foundation is reporting through the system. ◆ Annual reports are also available (but data is not routinely aggregated across different foundations).