



## First Biennial Assessment and Overview of Finance Flows

### Co-facilitators' thoughts on insights emerging from BA work

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#### I. Context

After SCF6 we sought to pursue our efforts as co-facilitators of the first BA in two levels. *First*, we have encouraged the team to ramp up technical work so that we could have substantive input for subsequent SCF meeting(s). Specifically, we have encouraged the secretariat to intensify data collection for a comprehensive overview chapter and in so doing to investigate methodological issues relating to tracking and reporting of different types of flows to inform the methodological issues chapter. Further, we have directed the team to gather information that would inform the assessment of the overall flows for this biennium, and in this context to provide a working draft of the assessment chapter.

Written comments from colleagues on draft chapters and feedback during the two dedicated conference calls have been valuable input as we moved along. The preparation of the BA has also drawn from the submissions. Further, we note that external contributors have provided substantial input in the form of data during and in-between technical meetings (i.e. mini-workshops) and that they have been responsive to queries from consultants and the secretariat. We are also encouraged by the level of enthusiasm and interest in our work, not least because that shows the potential for uptake of the results of our work and interaction with other organizations and external experts specializing in measurement, reporting and verification of climate finance. We see mutual and multiple benefits from continued interaction with climate finance tracking and reporting expertise outside the Convention. The process has thus far been inclusive and transparent. We intend to continue to promote inclusiveness and transparency until completion.

*Secondly*, ahead of SCF7, we have taken time to reflect on insights that are emerging from the technical work undertaken to date including from the exchange of views of SCF members. In this paper, we outline our thoughts, which we present to you as our way to facilitate our discussions in the upcoming meeting in Bonn. Our thoughts are organized around three sets of issues. *First*, we present our take from available data that describe the different types of climate finance flows and pose some questions with regards to trends. *Secondly*, we list methodological challenges and limitations that became more apparent during this exercise, and in an attempt to structure our discussion in the next meeting we pose questions that might facilitate our collective thinking on options and ways forward to address them. *Third*, we would like to introduce the working draft of the assessment chapter. Likewise, we pose questions around assessment criteria.

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<sup>1</sup> This paper presents our thoughts on insights emerging from the preparation of the first BA and outlines key questions that are intended to assist draw structured conclusions as we move into the next phase. The paper reflects our views only.

## II. Chapter on overview of current climate finance

The draft overview chapter summarizes climate finance estimates from available sources. These include estimates of global climate finance flows and two types of sub flows – i.e., climate finance flows to developing countries (public and private) and climate finance reported to the Convention respectively. Where available, the chapter also presents estimates of flows by theme, sector/type of activity, and financial instrument under each.

Through this exercise, it has become apparent that the underlying data of the estimates of sub-flows is not easily/immediately comparable while available estimates of current global climate finance are limited by available data. Evidently, this is in part due to the fact that often estimates of flows are made at different stages of climate finance cycle (e.g., commitments/disbursements/expenditures) and the use of different definitions and coverage in different data sources. Our take on these issues is outlined in the following section.

Nevertheless, looking at the array of estimates from the literature review, we thought it may be possible to draw a reasonably good broad picture of climate finance flows globally and sub-flows respectively. In other words, with this literature review at hand it could be possible to discern trends of public and private climate finance, globally and for the sub flows. Our reading of the estimates has been guided by the following questions:

- What are the ranges of estimates of different types of climate finance flows telling us?
- What trends can we identify for global climate finance and sub-flows based on available information?

For example, even if limited by data availability and the associated methodological challenges, the (total) global climate finance estimates summarized in section 3 give us a sense of direction, composition, and scale compared to global financial flows in general in the recent past, including for period 2010-2012. Another noticeable trend is the shares of public vs. private finance flows. Public and private finance can be driven by different sets of factors, which in turn may result in big or small variations. Yet, the shares of global public and private climate finance are noticeable – private finance represents a significant share of the global total. These are documented in section 3.1 of the overview chapter. With these in mind, we would like to pose the following question:

- Do we want to tally totals for the global climate flows in the first BA and if not do we see value in highlighting upper and lower bounds for each? If yes, would this be one of the highlights of this chapter?

The literature review presented in this chapter provides ranges of estimates of total public and private flows to developing countries. The estimates of this sub-flow are insightful. For example, they show us that public funds flow mainly through bilateral and multilateral institutions. In our view, there is value in adding granularity to this sub flow – once fully completed with updated statistics, section 4 would give us a better sense of underlying trends, including flows by channel and where available by sector (public/private), financial instrument, geographic distribution, and theme (mitigation/adaptation). Likewise, we pose the following question:

- Do we want to tally totals for this sub flow in the first BA and if not do we see value in highlighting upper and lower bounds for each? If yes, would this be another highlight of this chapter?

Climate finance reported to UNFCCC, which also included finance channeled through the financial mechanism, is another sub-flow that this chapter has covered based on available data. These are presented in section 5. Among other, there are two types of information which we thought are noteworthy and which we thought could be included as additional highlights, these include:

- Multilateral finance under the UNFCCC represents a very small share of the climate finance provided to developing countries (< USD 1 billion per year)
- The rest of the support is channeled through bilateral and multilaterals outside the Convention (> USD 15 billion per year)

### III. Chapter on definitions and methodologies

The methodological issues chapter describes thoroughly the mechanics of evolving public and private climate finance tracking and reporting systems. It presents methodological issues resulting from use of different definitions and reporting approaches relating to public and private, multilateral and bilateral flows. The chapter also highlights a number methodological issues relating to reviewing public finance provided by developed countries under different reporting requirements and monitoring of support received by developing countries.

In our assessment, the preparation of this chapter has been a very useful exercise. It has helped us identify some of methodological challenges and limitations, which is one of the important objectives that we set at onset. We have grouped these challenges and limitations into two broad categories – i.e. institutional and process related issues and methodological and data related issues.

We thought that SCF7 is an excellent opportunity to have a discussion around these issues with the aim to identify ways forward. We have identified the following institutional and procedural issues and would like to propose that we discuss these in Bonn with a view to identifying issues of technical nature that we might want to consider to take forward as SCF as part of our work plan and those that can be best taken forward by other fora, which we may discuss whether they should be included in our report to COP20:

- **Lack of common definition of climate finance.** Table 2 shows differences and commonalities of operational definitions adopted by international institutions that collect/collate (i.e. data aggregators) and report (i.e., data users) data on public and private finance flows. The chapter identifies a definition which generally corresponds to the definition currently used by international institutions: "*Climate finance aims to reduce emissions and enhance sinks of greenhouse gases and to reduce vulnerability to and enhance/maintain the resilience of human and ecological systems to climate change.*"
  - *Question: Would a core definition help develop and report data that are more comparable and consistent? If yes, is the above a possible option?*
- **Lack of, or inconsistent, reporting of climate finance to the UNFCCC, MDBs and other international finance institutions.** As outlined in this chapter, there are numerous technical reporting issues that could be harmonized to the extent possible in the future addressing these

issues will require the cooperation of other institutions working in this area – for example, OECD has already begun to look into the harmonization of reporting issues.

- *Question: Is this a process that can be best advanced at the technical level by UNFCCC or other fora or by UNFCCC in collaboration with other relevant institutions?*
- **Inconsistent and incomplete reporting by developed countries of climate finance in NCs and BRs, particularly with regard to adaptation.** By the time we complete the first BA, SBI may consider revising CTFs based on submissions made under the work programme on the revision of the guidelines for the review of biennial reports, national communications, including national inventory reviews, for developed country Parties (SBSTA) and submissions on appropriate methodologies and systems used to measure and track climate finance. Further, Expert Reviewing Teams (ERTs) are reviewing the financial information submitted through BRs. The conduct of this review may reveal any limitations in the procedures to review financial information submitted by developed countries. ERTs may also identify improvements needed to make the review of financial data submitted by developed countries more robust.
  - *Question: Without prejudging consideration by the SBs, do we want to highlight the urgency of improving reporting guidance to enable more complete, comparable and transparent information to be made available to the SCF for its future on BA?*
- **Lack of guidance for reporting financial support received by developing countries, including from MDBs and international funds, sub-national governments, NGOs, and private firms.** Guidance would result in more information on support received, which in turn would promote transparency, completeness, addressing double counting and accuracy.
  - *Question: If this is the case can developing countries be asked to report information on international climate finance received in their BURs including information on domestic resources mobilized such as from the national budget (CPEIR and similar methodologies), national development bank activities, and national climate funds?*
- **Inadequate capacity in developing countries to monitor international and domestic climate finance.**
  - *Question: Do we want to include our view on technical and financial support needed in developing countries to enable them to improve their institutional, policy analysis and finance monitoring capacities relating to climate finance.*

The second category of challenges and limitations that we have identified are those related to methodological and data issues, these include:

- **Lack of detailed climate finance information from the World Bank Group, MDBs and other international financial institutions on a regular basis.** The BA has thus far benefited from the excellent cooperation with these institutions. However, collating data has proved to be rather labour-intensive and time-consuming as each of these institutions had to be approached multiple times individually. We see benefits from a more formalised relationship among these institutions – for example, if data are to be provided by them in such a way to ensure that the data are automatically forthcoming and in a format that can be easily integrated and consistent with other data submitted to the UNFCCC.
  - *Question: Who should collect the data – e.g. UNFCCC, CPI, OECD?*

- *If we are to have a more formalised relationship among these institutions then in what format should they submit the data?*
- **Lack of information on private sector finance in sectors and subsectors other than renewable energy.** Expanding the sectoral coverage in the future BAs depends on the availability, quantity and quality of information from reports that estimate private finance flows, including at project, fund and corporate levels. In some cases, private climate finance data may be scattered in different databases and may not be readily available in the form of sector/sub-sector reports. Another type of information that would benefit future BAs is information on the scale of mobilised private finance.
  - *Question: Do we find value in exploring these topics in 2015 and start engaging with private sector data collectors and collators?*
- **Lack of information about the role of developing countries in financing climate projects and programmes in other developing countries.** Covering climate finance flows between developing countries in future BAs would provide a more comprehensive picture of global climate finance flows.
  - *Question: Including information on this type of finance flow in the second BA would require technical discussion, including an assessment of data availability. If we see value in doing it for the second BA what would be modality to initiate the technical discussions?*

#### IV. Assessing overall flows

The 1<sup>st</sup> order draft of the assessment chapter is included in the BA report as chapter IV. The draft is work-in-progress, but it does provide a working structure to develop further the assessment of the overall flows for the first BA. Where possible, the draft flashes out important considerations, these include:

- Considerations around transparency which will inform to the extent possible the assessment as to whether the quality, quantity and comparability of financial data has improved over time;
- A framing of financial considerations which would help us understand the extent to which different financial aspects can be assessed in future BAs, with some preliminary considerations for the first BA;
- Policy considerations, which with updated data and further analysis could be useful to assess geographic and thematic distribution of global finance flows, and where possible the distribution of sub-flows;
- Considerations around climate change objectives, which we have seen it as research into whether the finance flows associated with global goals like the 2degree goal and climate change vulnerability can be assessed based on available data and literature.

In our initial assessment, while the above are very much work in progress, an assessment of global climate finance flows against the potential criteria identified in March may not be possible at this time – in part owing to limited historical data that are needed, for example, to analyze the relationships between CO2 saved/vulnerability reduction and associated finance and draw plausible conclusions.

However, the 1<sup>st</sup> order draft does provide some useful insights from the literature reviews that would inform, for example, considerations around financial criteria and considerations around climate

change objectives. Looking ahead, we thought that the assessment chapter will benefit from further work around these considerations listed above, including considering if and how these can inform use of the identified criteria in future BAs. In this regard, the 2<sup>nd</sup> technical meeting would be a useful avenue to explore these topics.

Further, more information on thematic and geographic distribution would inform a more comprehensive assessment overall – especially that this is another important objective of our work. Eventually, with more data on geographic and thematic distribution at hand, we thought that the overall assessment would benefit substantially if the research work on this topic in the following weeks is carried out with the following question in mind:

- Are the trends of climate finance flows by sector (public/private), geography, and theme (mitigation/adaptation) discernible from available data?

#### **V. Next steps**

The preparation of the BA started just before the SCF6. Since then the team has done a great job. We think that the work has progressed fairly well. In our current assessment, the BA will be wrapped up by SCF8. In terms of the next steps we would like to propose the following:

- Finalize and Sign off the final versions of chapters on methodology, overview and assessment of the BA report
- Finalize and agree on the conclusion and recommendations