CLIMATE POLICY INITIATIVE

Submission by Climate Policy Initiative to the Standing Committee on Climate Finance

Suggestions for the Assessment and Overview of Climate Finance Flows

Climate Policy Initiative (CPI) welcomes the opportunity to submit to the Standing Committee on Finance its views on the preparation of assessments and overviews of climate finance flows.

The level of finance available to support low-carbon and climate-resilient development is substantial. However in the context of international climate change negotiations, Parties divergent political views on how much should be made available, to whom, and from which sources, has made it difficult to define what constitutes 'climate finance'. **The absence of a definition is a key barrier to progress, and significantly impedes efforts to track and measure the resources flowing through the climate finance landscape**. This in turn prevents Parties from understanding how much finance is available to support low-carbon and climate-resilient development; whether different types of support correspond better to Parties' diverse needs; the interplay between different sources and actors; and whether financial resources are being spent wisely.

CPI considers that **the Standing Committee has an excellent opportunity to advance a definition of 'climate finance' through the production of its biennial assessments and overviews that are credible, inclusive, and easy for others to apply**. Since 2009 there has been growing recognition of 'climate specific finance' as a robust definitional starting point[1]. 'Climate specific finance' refers to capital that targets low-carbon and climate-resilient development. It can lead to direct and indirect emission reduction or adaptation outcomes, and covers a broad range of international resources from both the public and private sectors. It can flow between different geographies, includes south-south flows and covers both concessional and non-concessional finance. In practice, it also covers the domestic resources that flow within countries, which studies show play a cornerstone role in developed and developing economies.

If it applied such a definition for climate finance, **the Standing Committee could take concrete steps to develop a methodological approach to capture all relevant flows,** which could in turn become a new basis for monitoring, reporting and tracking climate finance flows. By taking care to avoid methodologies that limit the assessment of different kinds of flows for political reasons, the Standing Committee could promote robust insights about where the world actually stands in relation to its adaptation and mitigation investment goals.

The significant benefits of applying a common definition of climate finance and using a transparent methodological approach to collect and report information about climate finance, would, *inter alia*:

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[1] See Corfee-Morlot et al. (2009) *"Financing for Climate Change Mitigation: Towards a Framework for Measurement, Reporting and Verification",* OECD/IEA Information Paper available at http://www.oecd.org/env/cc/44019962.pdf ; Buchner et al. (2011) "*The Landscape of Climate Finance"*; and Buchner et al. (2012) "*The Global Landscape of Climate Finance",* Climate Policy Initiative Reports available at http://climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2012/.

- Enable the **creation of a universal platform to bring together existing tracking initiatives**, thus enhancing dialogue between organizations and initiatives actively tracking and monitoring climate finance;
- **Encourage consistent reporting, comprehensiveness and improve the overall quality of climate finance data**;
- Allow for **more accurate monitoring of aggregate levels of global climate finance,** which would enable better comparison against estimated global needs and improve Parties' ability to respond effectively;
- Create a transparent basis for disaggregating flows, which would in turn **provide robust insights to inform more specific political questions.**

Importantly, applying 'climate specific finance' as a working definition would **exclude a much broader set of capital flows** that target development and growth in key emitting sectors, but which **may intensify emissions and increase vulnerability**[2].

In initiating its work, it is important to note that **the Standing Committee is not starting from a blank page**. International organizations, development finance institutions and many governments have taken serious steps to enhance reporting and monitoring of public climate finance flows, including through annual reports, national communications, and soon, biennial reports (due in 2014). Notwithstanding, analytical institutions continue to highlight information gaps including about private finance flows, comprising those mobilized by public resources, domestic and 'South-South' flows, the instruments used, actual disbursement levels (as compared with commitment levels) and final uses. The methodology applied by the Standing Committee should take steps toward addressing these information gaps.

In going forward, **CPI highlights the following suggestions to improve the robustness of data collected for analysis, and encourage insights for Parties that are meaningful and actionable**:

- **Tracking finance at the project level** would promote better understanding about actual interventions and help to avoid double counting;
- A full picture of **climate finance cannot stop at North-South public flows** – it must include private finance, domestic, and South-South flows. Understanding about direct budget contributions is important;
- Apples should not be compared with oranges – **data retrieved from national communications, biennial reports and needs assessments should be analyzed for consistency** prior to its use;
- **Comparing assessments of climate finance with business-as-usual investments**, or 'brown flows', would provide insights about the true extent of low-carbon climate-resilient development;
- Assessments of **effectiveness should not be limited to dollars** but should take into account overarching social, developmental, economic and environmental objectives;
- A robust **global assessment of overall climate-specific investments and finance flows could form an objective basis for more specific inquiries;**
- **Subsequent assessments, including to distinguish gross flows from net flows,** would help to create a more precise picture of whether political commitments are being met.

[2] See Buchner et.al (2011), "*The Landscape of Climate Finance"*; Climate Policy Initiative Report available at http://climatepolicyinitiative.org/publication/the-landscape-of-climate-finance/.