

## OECD submission to the Standing Committee on Finance<sup>1</sup>

This submission responds to the Standing Committee on Finance's (SCF) call for observers and interested organisations to provide *"inputs on elements to be taken into account for the development of a work programme on MRV of support, as well as for the conduct of the biennial assessments and overview of climate finance flows in 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 wishes to express its interest and readiness to contribute and participate in future expert meetings and discussions hosted by the SCF and/or the Secretariat, and is willing to partner and collaborate where appropriate.

In the context of financial support provided to developing countries, the OECD recognises the need for a robust system to comprehensively, consistently and transparently monitor progress towards the developed country goal of jointly mobilising USD 100 billion of climate finance per year by 2020. Beyond the fulfilment of this goal, the OECD also acknowledges the importance of providing a broader picture of climate finance flows, and is supportive of biennial assessments to provide an overview of financial flows and reflect on overall progress made towards investing in a less carbon intensive and more climate resilient future.

This submission outlines a series of elements that the SCF may wish to take into consideration in prioritising in its work programme both for the MRV of support and the conduct of biennial assessments. It then highlights relevant OECD expertise, statistical data systems as well as current and future analysis that could contribute towards the SCF programme of work - in particular the Rio marker framework to measure, monitor and report climate-related Official Development Finance (ODA and non-ODA), analysis by the OECD/IEA Climate Change Expert Group (CCXG) on MRV of climate finance, and the recently launched Research Collaborative on tracking private climate finance.

### Input regarding priorities for the work programme of the SCF

#### *On MRV of support*

In order to ensure that climate finance commitments are measured, reported and verified in a comparable, robust, and transparent manner under the Convention, the SCF may wish to consider including the following elements in its work programme:

- Work towards common definitions: To date Annex II countries have reported on their Fast Start Finance commitments based on varying definitions and methodologies, thereby leading

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<sup>1</sup> This note provides input based on OECD analysis and data. The information contained in the note does not necessarily reflect the views of OECD member countries.

to a lack of comparability and transparency. The development by the SCF of working definitions (or adoption of existing definitions) to account for mobilised climate finance would facilitate greater progress in developing measurement methodologies (OECD, 2013a), make monitoring and reporting by Parties more comparable, and provide greater transparency on progress towards the USD 100 billion goal. The enhanced reporting of information regarding the assumptions, definitions, and methods used by Parties in preparing their biennial reports could also help to increase transparency. Consider the merits of both collective and individual data collection and reporting systems: Whether the USD 100 billion commitment is reported collectively or individually has significant implications for the development of MRV systems (OECD, 2013a). Collective reporting through internationally recognised systems supports greater methodological consistency and overcomes challenges of attribution and double counting. Individual reporting allows individual parties to demonstrate and communicate their commitments. We encourage the SCF to consider the merits and complementarity of both approaches and provide guidance for suitable methodologies and systems to be advanced.

- Clarify reporting requirements for “developed countries”: The biennial reporting guidelines for developed country Parties cover climate finance mobilised by Annex II countries only, thereby excluding some “developed” countries. Greater clarity regarding which developed countries in addition to Annex II countries are to report on their financial commitments under the Convention would help to provide a better picture of climate finance flows.
- Place additional focus on tracking and reporting of adaptation finance: Monitoring and reporting methods for adaptation finance are less developed than those for mitigation finance. This can be attributed in part to the difficulty of differentiating an adaptation project/programme from development initiatives more broadly. In addition, the inability of some tracking systems to classify and report activities/projects as having both mitigation and adaptation-related benefits might result in under-reporting of adaptation finance. To ensure a complete picture of climate finance reporting, it is important that tracking of adaptation finance be enhanced.
- Increase the emphasis on MRV of private climate finance: Considering both the importance of private climate finance and uncertainty of related data, further emphasis on private finance and its interactions with public finance will help make the climate finance picture more complete. In order to enhance the MRV of support, the SCF could help inform the SBSTA on ways to better collect information on mobilised private finance (including by multilateral sources). This collection could occur via subsequent revisions of the Common Tabular Format, or through other means.
- Design quality assurance and verification processes: One key element of a trusted MRV system is to have efficient quality assurance processes to support verification. Quality assurance and review processes could be reinforced by the establishment of “special” review groups focusing on the finance section of biennial reports by Annex II parties, and by drawing on existing international data systems and sources to cross-check and verify reported commitments (such as the OECD’s Rio marker system - see more detail below).

- Encourage MRV at the recipient end: Reporting guidelines for financial support received could play an integral role in MRV at an aggregate level. Providing detail of both climate finance inflows received by developing countries as well as outflows from developed countries could improve transparency and credibility, as well as enhance verification.

### *On the conduct of biennial assessments and overview of climate finance flows*

Providing a comprehensive overview of climate finance flows is necessary to inform on progress made towards financing climate change mitigation and adaptation. The aim of such assessment may be broad (to assess the extent to which low-carbon, climate-resilient investments are taking place) or more narrow (to measure the fulfilment of international commitments by developed countries). The choice of objectives and scope has significant implications in terms of data requirements and therefore breadth of verification needs.

In any case, multiple data and information sources will need to be combined to report on climate finance in a comprehensive manner. The various actors providing and/or tracking climate finance have however developed and apply a range of different definitions for climate finance and different methodologies to measure mobilised climate finance. The conduct of biennial assessments would therefore benefit from enhanced communication across a variety of actors, going beyond Parties alone to involve those (inter-governmental, non-governmental and private organisations) that are monitoring climate finance in a variety of capacities and for different reasons. Encouraging co-operation will facilitate progress towards more comparable and comprehensive tracking, and could provide additional information to supplement what will be reported by Parties in biennial reports. It will also enhance the efficiency of MRV under the Convention by building on what is already in place.

### **OECD expertise and work relevant to the MRV of support and the conduct of biennial assessments**

On-going OECD work that is relevant to the development of robust MRV of support under the current UNFCCC requirements (and beyond), as well as to biennial assessments, includes:

- The systematic collection of climate-related official development finance data using the so-called “Rio markers” system, within the broader statistical DAC-Creditor Reporting System (DAC-CRS). This allows the tracking of climate finance in the context of overall official development finance flows.
- The discussion and analysis of technical issues relating to monitoring, reporting and verification of public and private climate finance flows by the joint OECD/IEA Climate Change Expert Group.
- The leading of an international Research Collaborative on tracking private climate finance -- a recently established network of interested governments, relevant research institutions and international finance institutions partnering and sharing best available data and expertise to improve understanding, monitoring and reporting of private climate finance flows.

## *The Rio Marker framework to measure, monitor and report climate-related ODA*

The OECD Development Assistance Committee (DAC), since 1998, has monitored official development finance commitments targeting the objectives of the Rio Conventions, including both bilateral commitments and some multilateral agencies grants and loans using the so called "Rio markers". Reporting to the DAC on Rio markers is comprehensive across all DAC member governments for official development assistance (ODA). Going forward this will be extended to capture non-concessional official development finance. The Rio marker methodology captures granular information on every aid activity that targets climate change mitigation (where data are available since 1998) and climate change adaptation (since 2010). Every 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. The Rio marker system recognises that finance may target more than one objective, allowing multiple objectives to be marked and assessing the size of overlap to avoid double counting.

The main features of the DAC-CRS Rio marker statistics are:

- Detailed project-by-project annual data on Rio markers as well as aggregates, sector and country or regional breakdowns are publicly available through the OECD DAC website.<sup>2</sup> This in turn enables public scrutiny of the data and a positive feedback loop where users of the data provide comments and critiques that are used to improve the methodologies and their application over time.
- High-quality, consistent international statistical dataset which represents the "official" government position on official development finance flows for OECD DAC members.

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. Key areas of future work include:

- Improving the application and use of the Rio markers to generate higher quality data and better track climate-related development finance towards international commitments.
- Collaborating closely with multilateral development banks and other international financial institutions to record and reconcile multilateral climate funds and multilateral climate finance within the DAC statistical framework. This collaboration is intended to ensure that there is no double-counting and to harmonise methodological approaches to represent flows to adaptation and mitigation and by sector and key activities.
- Extending the tracking of climate change finance. To date the Rio markers have been comprehensively applied to all ODA commitments. Efforts are underway by OECD DAC members to extend the Rio marker application to other official flows recorded in DAC statistics, and the OECD is also undertaking exploratory work to extend the DAC statistical coverage more broadly to other forms of resource flows to developing countries (e.g. export-credits, FDI).

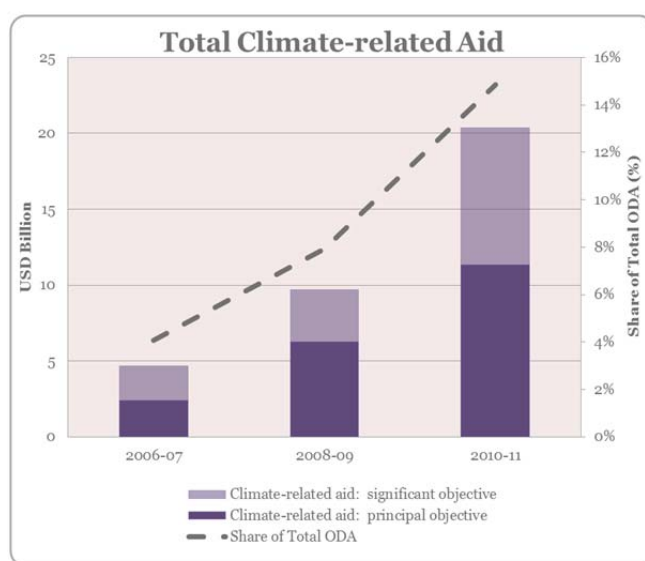
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<sup>2</sup> [www.oecd.org/dac/environment-development/rioconventions.htm](http://www.oecd.org/dac/environment-development/rioconventions.htm)

The DAC Rio marker database and expertise of the OECD secretariat could support the activities of the UNFCCC through information sharing or greater collaboration. In particular, the OECD secretariat could provide:

- Statistics on international climate-related development finance flows, the geographical (donor and recipient country) and sector or thematic balance of these flows, and greater granularity where desired.
- Expertise on methodologies for financial data collection and reporting, drawing on the DAC CRS and Rio marker system as a point of reference towards more consistent measurement methodologies.,
- Rio marker statistics as an internationally-recognised dataset for cross-checking financial information in National Communications and biennial reports, as well as improving the understanding and transparency of assumptions that determine what is reported.

An illustration of the trend of international climate-related development finance flows in recent years is shown here (based on two-year averages). The chart illustrates the detail 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. The growth in climate-related finance has been substantial: annual average bilateral aid commitments targeting climate change as a “principal objective” have quadrupled since 2006/7, reaching almost USD 12 billion in 2010/11, and the upper bound of aid targeting climate change as a “significant objective” follows a similar trend. The next data update (for 2012 commitments) will be available towards the end of 2014. The lag in data availability is due to the time required for full processing and quality assurance.



Source: OECD DAC CRS System; DAC statistics on climate-related aid (DAC bilateral 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, as pre-2010 adaptation spend is not marked*)

## *Methodological developments to better account for private climate finance*

The scale of investment requirements to meet the climate challenge, combined with limited public finance resources, underlines the need to mobilise private finance. In the context of the climate negotiations, this is illustrated by the inclusion of private financial sources in the goal for Annex II countries to mobilise financial resources. However, existing data, methodological and knowledge gaps on flows of private climate finance complicate their inclusion in both biennial reports by Parties as well as higher-level overviews such as the biennial assessments.

Acknowledging these gaps, the OECD recently launched a “Research Collaborative on tracking private climate finance”<sup>3</sup>, as a co-ordination and collaboration platform for interested governments, relevant research organisations and data holders, as well as international finance institutions. The overall aim is to contribute to the development of more comprehensive methodologies both for measuring private climate finance flows to, between and in developing countries, and for determining those private flows mobilised by developed countries' public interventions. This is to be done in the context of the broader challenge of tracking all climate finance. The Research Collaborative therefore aims to complement other work that has as a central objective to track public climate finance flows, e.g. the OECD DAC's Rio Marker statistical framework.

The project is structured around three work streams - the first one being of relevance to the conduct of biennial assessments, the second one to MRV of support, and the third one potentially to both:

*Work Stream 1 - Private climate finance architecture mapping, data assessment and methods of tracking total flows:* A collaborative approach is aiming at integrating data and expertise from -at least- Bloomberg New Energy Finance (BNEF), Climate Policy Initiative (CPI), the OECD, and the United Nations Environment programme (UNEP). Planned research activities:

- A. Mapping of the architecture of private climate finance: to be completed by end 2013
- B. Assessment of existing data and tracking methods for private climate finance (including definitional differences and gaps): to be completed by the first quarter of 2014
- C. Methodological developments towards a better tracking of private climate finance: this involves longer-term statistical developments - in particular exploratory work at the OECD on non-ODA development finance flows and Foreign Direct Investment (FDI).

*Work Stream 2 - Methods for determining private climate finance mobilised by developed country public interventions:* Collaborative work has started across the following four interrelated activities:

- A. Typology of public interventions mobilising private climate finance and review of current methodologies to measure mobilisation: Jointly led by Finnish consultancy Gaia and the Overseas Development Institute (ODI) - to be completed by end 2013.
- B. Qualitative case testing of methodologies and framework development to derive new/improve existing methodologies: Led by the World Resource Institute (WRI) - to be completed by the second quarter of 2014.

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<sup>3</sup> [www.oecd.org/env/researchcollaborative](http://www.oecd.org/env/researchcollaborative)

- C. Econometric estimations of the effects of different framework and policy conditions on private finance flows resulting from public interventions: Led by the OECD - to be completed by October 2014 (interim outputs in November 2013 and February 2014).
- D. Synthesis analysis: Jointly led by WRI and the OECD - to be completed by end 2014.

Work Stream 3 - *Actual tracking of private climate finance and of those flows mobilised by developed countries public interventions*: Work Streams 1 and 2 (methodological developments) are expected to incrementally and iteratively feed into Work Stream 3 (actual tracking) over time, with an initial and tentative aim to conduct pilot/preliminary measurements in 2014.

Through the above outlined research work, the Research Collaborative aims to help inform Parties under the UNFCCC, in particular on possible approaches and methodologies for determining mobilised private climate finance. It is however important to keep in mind that outstanding issues outlined earlier in this submission (such as what is included in the commitments and what needs to be formally reported) would need to be resolved by the SCF and the COP in order for third party methodological and data inputs to be used optimally in the context of the negotiations.

The OECD would like to reiterate its availability to partner and collaborate with the SCF and the UNFCCC Secretariat, as well as to participate in future expert discussions and panels, should the SCF decide to call upon external institutions for assistance and support.

## Relevant OECD publications

Buchner, B., J. Brown and J. Corfee-Morlot (2011), "Monitoring and Tracking Long-Term Finance to Support Climate Action", *OECD/IEA Climate Change Expert Group Papers*, No. 2011/03, OECD Publishing.

doi: [10.1787/5k44zcqbbj42-en](https://doi.org/10.1787/5k44zcqbbj42-en)

Caruso, R. and J. Ellis (2013), "Comparing Definitions and Methods to Estimate Mobilised Climate Finance", *OECD/IEA Climate Change Expert Group Papers*, No. 2013/02, OECD Publishing.

doi: [10.1787/5k44wj0s6fq2-en](https://doi.org/10.1787/5k44wj0s6fq2-en)

Clapp, C., et al. (2012), "Tracking Climate Finance: What and How?", *OECD/IEA Climate Change Expert Group Papers*, No. 2012/01, OECD Publishing.

doi: [10.1787/5k44xwtk9tvk-en](https://doi.org/10.1787/5k44xwtk9tvk-en)

OECD Development Co-operation Directorate (2013a), [A Post-2015 Information System for International Development and Climate Finance](#), OECD, Paris

OECD Development Co-operation Directorate (2013b), [Factsheet on OECD DAC statistics on climate-related aid](#), OECD, Paris

OECD Development Co-operation Directorate (2011), [Handbook on the OECD-DAC Climate Markers](#), OECD, Paris