



## Background Paper on the MRV of support and biennial assessments and overview of financial flows

### I. Introduction

1. The Conference of Parties (COP), at its eighteenth session endorsed the work programme<sup>1</sup> of the Standing Committee on Finance (SCF)<sup>2</sup> which included the preparation of biennial assessments and overview of climate finance flows. As decided at COP 17, biennial assessments and overview of climate finance flows will include information on the geographical and thematic balance of such flows, drawing on available sources of information, including national communications and biennial reports of both developed and developing country Parties, information provided in the registry, information provided by Parties on assessments of their needs, reports prepared by the operating entities of the financial mechanism, and information available from other entities providing climate change finance.
2. As indicated in the SCF work programme 2013-2015, the Committee is expected to deliver the report on the first biennial assessment at COP 20. At COP 18, Parties requested the SCF to consider ways of strengthening methodologies for reporting climate finance<sup>3</sup> in the context of the preparation of the first BA and to take into account relevant work by other bodies and entities on the measurement, reporting and verification (MRV) of support<sup>4</sup>. In response to this request by the COP, the SCF decided to consider the preparation of biennial assessments and overview of climate finance flows and MRV of support at its fifth meeting, with the aim of initiating its work as soon as possible.
3. The SCF, at its fourth meeting, invited its members to provide inputs on matter by 31 July 2013. All inputs received as at 14 August 2013 are contained in document SCF/2013/5/8. Furthermore, the SCF invited observers and interested organizations to submit, by 31 July 2013, information on the MRV of support, as well as the biennial assessments and overview of climate finance flows.<sup>5</sup>
4. Furthermore, the SCF also agreed to hold an in-session workshop on these matters at its fifth meeting and requested the secretariat to invite relevant institutions and stakeholders to participate and provide technical inputs.

### II. Data Limitations and Uncertainties – What is Climate Finance?

5. The first major report prepared by the secretariat, *Investment and Financial Flows to Address Climate Change*, presented to the COP in 2007 took considerable resources to compile, analyze, write and peer review. In the period since that report was prepared, efforts have been made to improve climate finance data from public sources, but there remain significant gaps and inconsistencies in the available data. These data gaps include information on private flows, financial needs of developing countries and foreign direct investments. Inconsistent data sets arise because there is no definition of climate change finance for institutions to use in gathering data. This report is likely to have some of the same limitations as the 2007 report.
6. The SCF may only be in a position to address the issues of data gaps after a report has been prepared and assessed, however it would help to have a working definition of climate finance relatively soon to guide work on the BA and work on MRV. A working definition would also over the long-term influence the work of other institutions collecting climate finance data.
7. The SCF may wish to consider whether it wishes to develop a working definition of climate change finance and, if so, request the secretariat to prepare a paper on the subject for consideration at its next meeting.

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<sup>1</sup> As contained in FCCC/CP/2012/4.

<sup>2</sup> Decision 5/CP.18, paragraph 3.

<sup>3</sup> Decision 5/CP.18, paragraph 11.

<sup>4</sup> Decision 1/CP.18, paragraph 71.

<sup>5</sup> Submissions received are available at: <https://unfccc.int/7561.php>.

### III. Measurement, reporting and verification of support

8. In considering the issues of MRV of support, the SCF may wish to begin its deliberations with the following two questions as these will influence the scope of its review of MRV. Why monitor climate change finance? And what should be monitored? These two questions are linked, depending on whether they are viewed from the perspective of a national government (developed and developing), international organization or private company. From an international perspective (SCF) reasons to monitor may include :

- Developing an overview of all climate finance so as to determine trends and gaps;
- Preparing recommendations on how to improve the coherence, efficiency and effectiveness of the financial mechanism for the COP;
- Facilitating the mobilization of new sources of climate finance;
- Reviewing and verifying finance reported by national governments and international organizations;
- Providing guidance or advice, as appropriate, to other bodies of the UNFCCC, international organizations and private institutions.

Examples of what should be monitored for international purposes might include:

- Climate related investments worldwide on BAU, as well as mitigation and adaptation to climate change to determine gaps and needs;
- Funds flowing from developed to developing countries and from developing countries to other developing countries;
- Investments in different sectors and for different purposes (capacity building or assets);
- Amount of private finance leveraged by public finance.

9. A comprehensive assessment of MRV of climate change finance (at least conceptually) requires that it include public and private funds, all types of funds (grants, loans, equity, guarantees and insurance) and all sources. It also requires us to look step by step at how data are generated, codified and reported, collected, analyzed, reviewed, and verified as each of these steps can influence the quality of data. The MRV of private finance is the weakest part of the current knowledge base. Hence it is proposed that an initial review of climate change finance focus on the public sector, but that the report remain open to the inclusion of information from the recently launched OECD research collaborative on private finance should information become available in early 2014. A simple framework for the financial flows is shown in Figures 1a and 1b. While it does not correspond in all cases to the data flows, many of points of departure and arrival of the arrows do correspond to points that could be monitored.

Figure 1a: Generic framework for tracking public climate change finance from developed countries to projects in developing countries

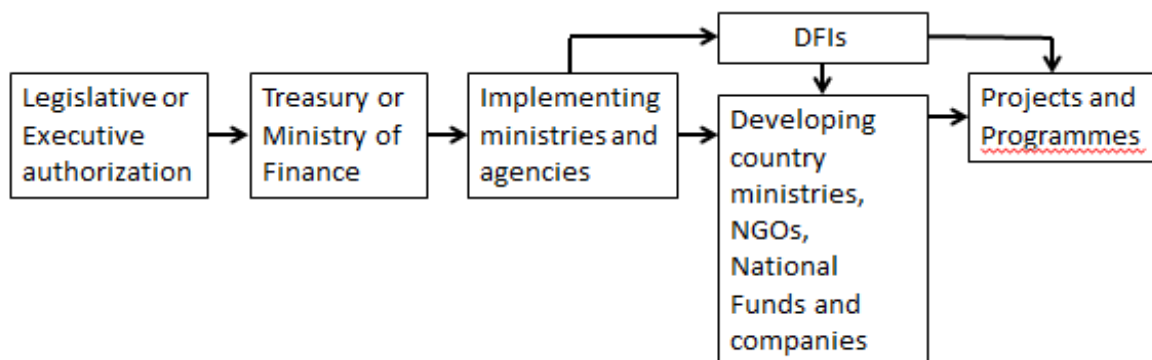
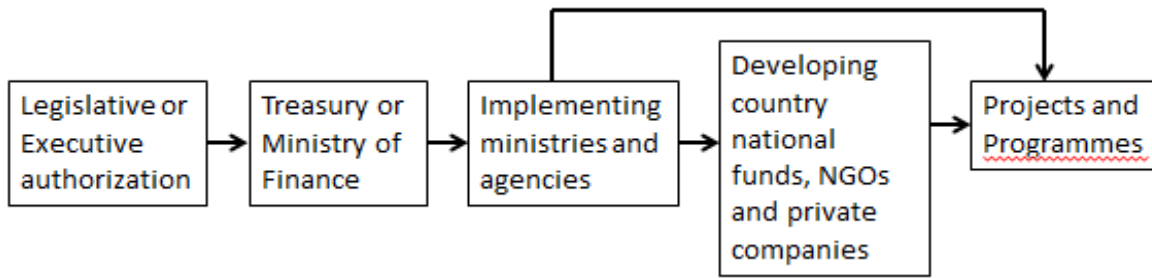


Figure 1b: Generic framework for tracking public climate change finance in developing countries



10. There can be many variations of this framework representing complex institutional arrangements within each country, for example, finance could flow through the ministry of finance of the recipient government and from there to sectoral ministries or other actors or in some cases it could bypass the government altogether and flow directly to NGOs or private institutions. For completeness, the framework begins with the authorization of funds, which is more important for domestic purposes than for international tracking, but nevertheless is an important first step. A similar framework without the inclusion of DFIs would apply to developing countries. Figure 1b

11. The quality of climate finance data depends on how data are handled at different stages of the data chain from when it is generated to when and if it is verified. To assess how public financial data are MRVed, it is proposed to examine the different stages shown in Table 1, including the institutional arrangements and processes.

Table 1. Stages of the public climate finance data process and preliminary list of the involved institutions

Who generates and codifies data at the national level	Who reports to international organizations	Who collects data at the international level	Who analyzes climate finance data	Who reviews data provided by countries	Who verifies finance data
Depends on the institution funding the project or responsible data management unit	MFAs, Ministries of Finance or Environment, DFIs, Operating entities, Multilateral, bilateral and other public donors, and private and nongovernmental Organizations (information provided via the NAMA registry)	UNFCCC, OECD, UNCTAD	OECD, DFIs, UNCTAD, UNFCCC, DFIs, Brown University, CPI, Ecofys, ODI, SEI, WRI, national institutions	UNFCCC (NCs and BURs of developed countries) OECD	No current verification mechanisms – First IARs to come in 2014

12. Issues for the SCF to consider:

- Should the initial review focus primarily on public finance?
- What are primary purposes for the review of the MRV of finance?
- What questions would the SCF like the review to address?
- Are the framework and stages identified above a suitable basis to design the report?

## IV. Biennial assessments and overview of financial flows

### A. Purpose of the report

13. The mandate of the COP indicates that the biennial assessments and overview of financial flows is part of the overall mandate of the SCF to assist the COP in the exercise of its functions with respect to the financial mechanism of the Convention in general. However, there are a number of secondary purposes that could be kept



in mind as the report is prepared. Examples include: contributing to the work of the Ad Hoc Working Group on the Durban Platform (ADP); identifying methodological issues, data gaps and potential for future research, as well as establishing a framework that can serve as a basis for future reports. It may also serve as input into the work on MRV of support, as assist in the on-going work by Parties to improve their reporting and assist the COP in rationalization of, as well as coherence and coordination within the financial mechanism.

14. The SCF may wish to consider whether these or other purposes that it deems important should be kept in mind as the outline of the first biennial assessments and overview of financial flows.

## B. Design Elements of the first BA

15. The SCF may wish to consider the following elements when discussing the conceptual design of the biennial assessments and overview of financial flows:

- Financing for adaptation, mitigation and forestry;
- All sectors and sources (public and private) including allocations from domestic budgets/trust funds, international support and carbon offset markets;
- All types of international support, but particularly grants and loans;
- Commitments and/or obligations;
- Trends of all investments particularly sustainable investments;
- Methodologies to track and report on climate finance;
- Developing country needs and how best to reflect these (e.g., economy wide and or by sectors?).

16. In some cases where there is a lack of comprehensive data, insights may be gained from case studies on topics such as domestic investments by governments, corporate investments, leverage of public funds, or south-south flows. It is also anticipated that the report will not focus on the effectiveness of climate resources used within countries. Finally, it should be noted that the overview on MRV in Section II above contains a discussion of the links between the BA and the work on MRV. The outcome of a discussion on that topic will have a bearing on the final design of the BA report. The SCF may wish to consider whether the above design elements are appropriate and/or whether other elements should be considered.

## C. Modalities of Work

17. As the BA will entail a considerable work load, the SCF may wish to form a working group on this topic, with a clearly designated facilitator, who would be able to liaise not only with the secretariat, but also with external actors and partner organizations.

18. Additionally, the SCF could consider convening a small ad hoc group of experts to provide advice on the details of the design, provision of data and review of the draft report. The following are institutions whose expertise could be sought: Bloomberg New Energy Finance, the IPCC, OECD, the Multilateral Development Banks, the World Bank, UCTAD, UNEP, CPI, ODI, SEI, and other organizations that may be identified.

19. Should the SCF wish to convene such an ad hoc group of experts, this group could closely liaise with the SCF working group in general, and the facilitator of this group in particular. This group could make extensive use of virtual communication tools in order to facilitate its work. This could, for example, include webinars, conference calls, etc.

20. Additionally, the SCF may also wish to consider making use of online tools in order to reach out to other external stakeholders to receive both, feedback on its work, as well as further information and inputs. This could, for example, be achieved through calls for submissions, webinars, e-fora, or social media tools.

21. As outlined above, in order to structure its work on the BA, the SCF may also wish to also consider the work undertaken on MRV of support, both under, as well as outside the Convention (see annex I and annex II to this document respectively).



22. In designing the timeline for the conduct of the first BA, the SCF may also wish to consider the below preliminary schedule. Based on the decisions taken by the SCF with regards to its working modalities, this timeline would have to be adjusted accordingly.

Table 2: Preliminary schedule for the conduct of the first BA

Fifth SCF meeting	Agreement on the scope, work programme and timelines for first BA to be included in the SCF report to COP 19; establishment of the SCF working group on the first BA
On-going	Inter-sessional work, making use of online tools
Sept/early Oct. 2013	Establishment and meeting of the ad hoc Expert Group to consider the structure of the report, data sources, and other topics
November 2013	COP 19: review and endorsement of the scope, draft work programme, and timelines for first BA
Nov- April 2014	Literature review and collection of preliminary data
January 2014	Call for submissions from external partners
Feb/March 2014	Briefing to the SCF on the status of the work and circulation of a draft outline, including proposed final schedule of the work on the BA
May 2014	Submissions by developed country Parties on information on the appropriate methodologies and systems used to measure and track climate finance
May/June 2014	Completion of a zero order draft for internal review; briefing to the SCF on the status of the work
July 2014	Meeting of the forum
July 2014	Circulation of first order draft for external review
August 2014	Revision of the BA based on external review comments
Sept 2014	Circulation of final draft BA to SCF members for review
Mid September /early October 2014	Meeting of the SCF to consider and finalize the report of the first BA or the Executive Summary of the report of the first BA

23. Most of the information utilized for the conduct of the first BA will be drawn from existing literature. However, the SCF may see the need to commission short papers by external consultants on specialized topics that could form the basis of case studies and could lead to recommendations on special topics. Also, the SCF may see the need to purchase data from private sources, which may imply the need to allocate some funds to public institutions in order to cover their costs of compiling relevant data. Additionally, the conduct of the BA may imply the need for contacting a wide range of organizations, in addition to those listed above, to determine if climate finance data could be made available for the first BA report. In this context, and as outlined above, the SCF may also see use in utilizing virtual tools to reach out to and receive information from external stakeholders via, for example, webinars, call for submissions, e-fora, etc. For the same reason, and as also indicated in document SCF/2013/5/6, the SCF could make use of its forum. The SCF may wish to consider that all of the before mentioned issues, should the SCF decide to include them, may have cost and resource implications, which the SCF may wish to take into consideration when drafting the outline, working modalities and timeline for the first BA.

**Annex I – UNFCCC processes on MRV of support**

<b>Timelines of the work of relevant bodies regarding MRV of support</b>									
	2013				2014				2015
	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	
<i>Standing Committee on Finance (SCF)</i>									
Consideration of 1 <sup>st</sup> BA – ToR/guidelines		X	X	COP19					
1 <sup>st</sup> BA					X	X	X	COP 20	
Submissions by developed country Parties on information on the appropriate methodologies and systems used to measure and track climate finance						May			
Consideration of ways of strengthening methodologies for reporting climate finance						X	X	COP 20	
Final report and conclusions of the first BA								COP20	
2 <sup>nd</sup> BA									COP 22
Potential work of the SCF on MRV of support (on-going)									
<i>Other UNFCCC stake holders</i>									
First biennial reports by developed country Parties					Jan				
National Communications of Annex I Parties					Jan				
Development of methodologies for reporting financial information under the SBSTA						SBSTA 40		SBSTA 41 COP20	
First biennial update report by non-Annex I Parties (LDCs and SIDS at their discretion)								Dec	
Second biennial reports by developed country Parties									Jan
Consideration on the best approach for future reporting on climate related private finance at the next revision of the reporting guidelines									?
<i>Revision of the guidelines for the review of biennial reports and national communications, including national inventory reviews by the SBSTA</i>									
Development/Adoption of the revised guidelines for the review of biennial reports/national communications		SBSTA 38		SBSTA 39 COP19					



Development/Adoption of the revised guidelines for the review of the GHG inventory		SBSTA 38		SBSTA 39 COP19		SBSTA 40		COP20	
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**Annex II – Overview of existing work relevant to MRV of support outside the Convention**

<i>Data Sources</i>	
OECD Development Assistance Committee	The OECD Development Assistance Committee (DAC) gathers statistics on aid and other resource flows to developing countries from bilateral and multilateral donor agencies. Since 1998 the DAC has monitored aid targeting the objectives of the Rio Conventions through the CRS using the so-called “Rio markers” every year. These climate markers indicate donors’ policy objectives in relation to each aid activity. <a href="http://www.oecd.org/dac/stats/48785310.pdf">http://www.oecd.org/dac/stats/48785310.pdf</a>
Multilateral Development Banks	In 2012 the MDBs and the WB issued their first report that aims to measure financial flows for climate change (mitigation and adaptation). It is activity-based and disaggregated to components of projects. The purpose of this joint approach is to enable practical, harmonized climate finance classification categories without having to resort to long, complex studies or highly specialized experts. It covers both MDBs’ own resources as well as external resources managed by the MDBs.
Bloomberg New Energy Finance	Bloomberg New Energy Finance collects investment data and provides analytical services on clean energy, power (bioenergy, geothermal, hydro, marine, solar and wind), gas, water and the carbon markets. Investment data include asset finance, equity finance, and research and development.
UNCTAD and the World Bank	Both institutions collect data on foreign direct investment (FDI) which is the net inflows of investment to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital and short-term capital as shown in the balance of payments. However neither institution uses a climate marker to distinguish climate investments from other investments.
Ecofys	Ecofys has undertaken one study for the International Development Finance Club (IDFC) to estimate the aggregated “green finance” provided by IDFC members as new commitments in 2011. IDFC was formed in 2011, and comprises of nineteen like-minded development banks of national, sub-regional and international origin.
<i>Analysis of climate financial data<sup>1</sup></i>	
ODI, WRI and SEI	Analysis of fast track finance of selective developed countries
WRI	Assessments of the monitoring capacity of developing countries and analysis of overseas investments of select developing countries
CPI	Assessments of the climate finance landscape
UNDP and UNEP	Assessments of finance readiness of developing countries

<sup>1</sup> The WB, MDB, OECD, UNEP, UNDP and Bloomberg New Energy finance also undertake analysis of climate finance data.





Oxford Institute for Energy Studies	Analysis of official climate aid
<b><i>Climate Finance Tracking sites</i></b>	
Climate Funds Update	Climate Funds Update is an independent website that provides information on the growing number of international climate finance initiatives designed to help developing countries. <a href="http://www.climatefundsupdate.org/global-trends">http://www.climatefundsupdate.org/global-trends</a>
Fast-Start Finance	Cooperative initiative lead by the UK and the Netherlands. <a href="http://www.faststartfinance.org/">http://www.faststartfinance.org/</a>
Climate Finance Tracking	A WB website reports funding by sector, sources and finance mechanism. It provides information on funding objectives, financing mechanism, application procedures, project types, decision making structure, and project examples. <a href="http://www.climatefinanceoptions.org/cfo/node/189">http://www.climatefinanceoptions.org/cfo/node/189</a>
UN Multi-Partner Trust Fund Office Gateway	UNDP website provides information on contributions, projects and detailed balance of resources committed, deposited, budgeted, transferred and expenditures. <a href="http://www.mdtf.undp.org">http://www.mdtf.undp.org</a>
World Resources Institute	Tracks and reports pledges from donor countries, including what is ‘new and additional’ and the channeling institution(s) used. <a href="http://www.wri.org/publication/summary-of-developed-country-fast-start-climate-finance-pledges/">http://www.wri.org/publication/summary-of-developed-country-fast-start-climate-finance-pledges/</a>
<b><i>Forestry Sites</i></b>	
FCPF Dashboard	A WB site that provides periodical updates of country status on the Forest Carbon Partnership Facility Readiness progress, with figures on grants signed and/or disbursed, as well as a financial summary. <a href="http://www.forestcarbonpartnership.org/">http://www.forestcarbonpartnership.org/</a>
REDD X Tracking Forest Finance	Tracks sources and flows of REDD+ finance and activities in 13 recipient countries. <a href="http://www.reddx.forest-trend.org/">http://www.reddx.forest-trend.org/</a>
Voluntary REDD+ Database	Provides information on REDD+ financing, and sharing experiences on REDD+. It relies solely on information voluntarily submitted by countries and institutions. <a href="http://www.reddplusdatabase.org">http://www.reddplusdatabase.org</a>