Summary and recommendations by the Standing Committee on Finance on the 2014 biennial assessment and overview of climate finance flows

I. THE MANDATE

The Standing Committee on Finance (SCF) assists the Conference of the Parties (COP) in exercising its functions with respect to the Financial Mechanism of the Convention. The COP requested the SCF to prepare a biennial assessment and overview of climate finance flows (BA), drawing on available sources of information, and including information on the geographical and thematic balance of flows. Subsequently, the COP requested the SCF to consider:

- Relevant work by other bodies and entities on measurement, reporting and verification of support and the tracking of climate finance;
- Ways of strengthening methodologies for reporting climate finance;
- Ongoing technical work on operational definitions of climate finance, including private finance mobilized by public interventions, to assess how adaptation and mitigation needs can most effectively be met by climate finance.[1]

This report is the first of the biennial assessments and overview of climate finance flows (BA). It reviews the operational definitions of climate finance and reporting systems used by institutions that collect climate finance data. It also discusses the available estimates of global climate finance and of flows of climate finance from developed to developing countries. It then attempts to assess these two sets of information, and identifies areas where further work is needed. The 2014 BA comprises of a summary and recommendations and a technical report. The summary and recommendations on the 2014 BA has been prepared by the SCF. The technical report was prepared by experts under the guidance of the Committee, and draws on data and statistics from various sources.

II. CHALLENGES AND LIMITATIONS

The 2014 BA presents a picture of climate finance to the extent possible. Due diligence has been undertaken to utilize the best information available from the most credible sources. The report encountered challenges in collecting, aggregating and analysing information from diverse sources. For example, each of these sources uses its own

[1] Decisions 2/CP.17, paragraph 121(f); 1/CP.18, paragraph 71; 5/CP.18, paragraph 11; 3/CP.19, paragraph 11.

definition of climate finance and its own systems and methodologies for reporting. The wide range of delivery channels and instruments used for climate finance also poses a challenge in quantifying and assessing finance. These limitations need to be taken into consideration when deriving conclusions and policy implications from this report. The SCF will contribute, through its activities, to the progressive improvement of the compilation of climate finance information in future BAs.

III. KEY FINDINGS

Methodological issues relating measurement, reporting, and verification of public and private climate finance

Definitional issues: The United Nations Framework Convention on Climate Change (UNFCCC) does not have a definition of climate finance. Data collectors and aggregators use different operational definitions but with common elements. The review of the climate finance definitions adopted by data collectors and aggregators identified in this report points to a convergence that can be framed as: "*Climate finance aims at reducing emissions, and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts.*"

Reporting approaches: Institutions report on climate finance for different purposes, and use different methods. Quality assurance of reporting and public disclosure of the underlying data also varies. Efforts to improve the comparability of reported data are beginning. Further efforts to develop common approaches for measuring, and reporting, to the extent feasible, could improve the quality of data of climate finance in future reports.

Measurement and reporting relating to the Convention: Reporting on climate finance provided by developed countries to developing countries (National Communications and Biennial Reports) is intended to promote transparency as to how, where and for what purpose, climate finance flows. Initial analysis of the Biennial Reports (BRs) on climate finance for this BA report suggests inconsistencies in how UNFCCC guidelines have been used so far. This suggests a need to better understand the reasons. To form a comprehensive picture of climate finance, information on both finance provided by developed countries and finance received by developing countries is needed.

Overview of current climate finance flows 2010–2012

Climate finance data are aggregated in two ways in the 2014 BA: (i) **Global total climate finance** which includes public and private financial resources devoted to addressing climate change globally, and (ii) **Flows from developed to developing countries** aimed at addressing climate change, which includes climate finance reported to UNFCCC.

Global total climate finance in all countries ranges from USD 340 to USD 650 billion per year (see figure). Several sources of climate finance are not fully captured by these estimates, so the total may be higher. Some of the sources included report the full investment rather than the climate component. If estimates were limited to incremental costs, the totals might be lower.

Flows from developed to developing countries range from USD 40 to USD 175 billion per year. This includes annual flows of USD 35 to 50 billion through public institutions and USD 5 to USD 125 billion of private finance. Public institutions, that help channel climate finance from developed to developing countries, include developed country governments, bilateral finance institutions, multilateral development banks, and multilateral climate funds.

Climate finance reported through the BRs is included in the flows from developed to developing countries.

- Total climate finance provided by developed countries reported through BRs was USD 28.755 billion in 2011 and USD 28.863 billion in 2012.[2]

- The amount of fast-start finance (FSF) committed and reported by developed countries for the period 2010–2012 exceeded USD 33 billion.

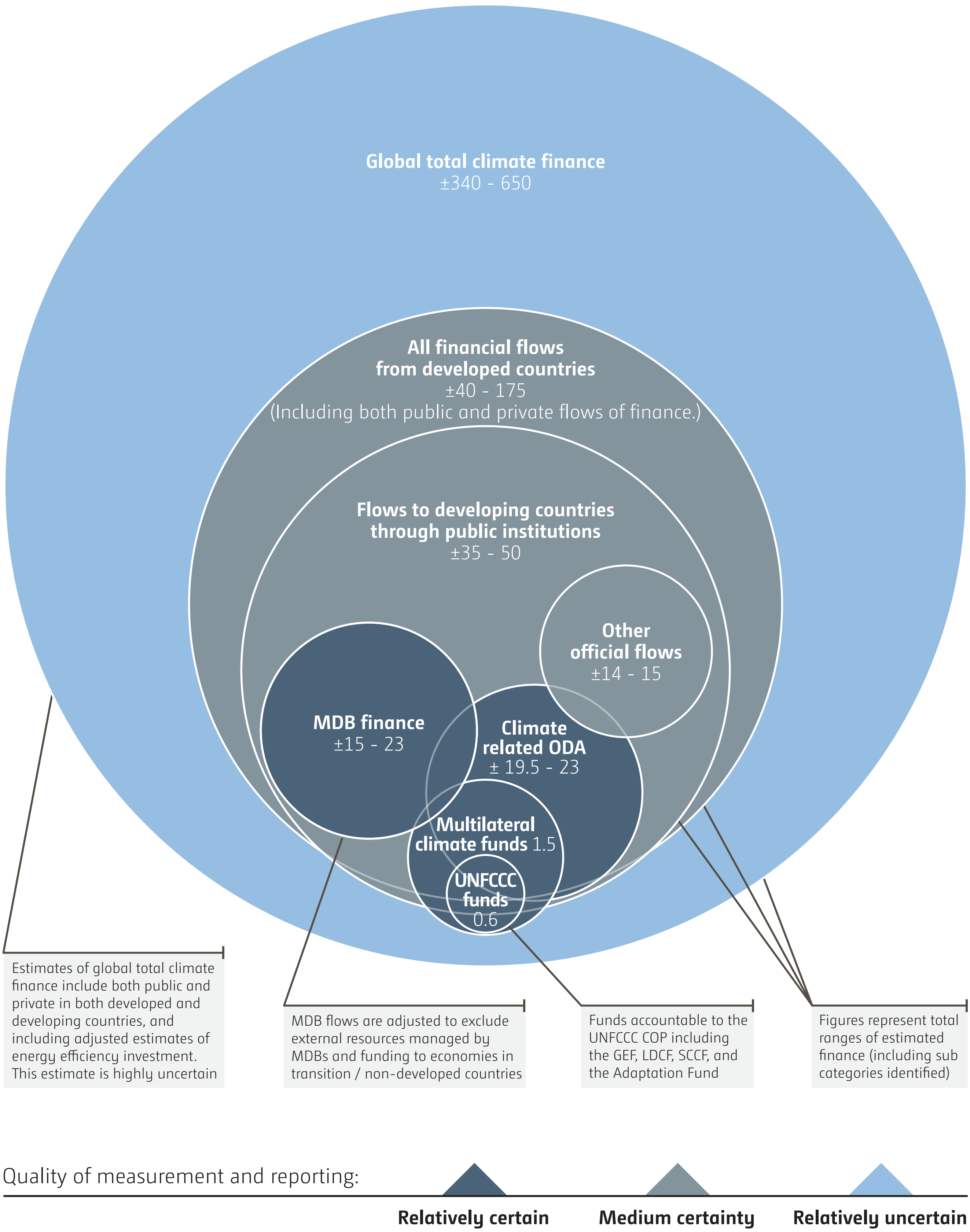
Assessment of climate finance

Current climate finance: Estimates of global climate finance span a wide range. This is in part due to the lack of adequate information on domestic public spending on adaptation in developing and developed countries; on private finance; on energy efficiency investment; and on finance for reducing non-CO_2 emissions.

Instruments of finance: Forty-four to fifty-one per cent of funding through multilateral climate funds, as well as FSF and climate-related Official Development Assistance (ODA) is provided as grants. Concessional loans, Other Official

[2] Figures include mitigation, adaptation, cross-cutting, and core contributions. Data accessed and compiled from the BRs/Common Tabular Forms (CTFs) by the secretariat on 21 October 2014. The figures may not include the final numbers for the calendar year.

Climate finance flows (USD Billion and annualized)



Notes to diagram

1. Estimates of global total climate finance, which are probably conservative figures include both public and private finance, and incorporate adjusted estimates of energy efficiency investment.
2. Bilateral ODA flows are adjusted to exclude funding through multilateral climate funds to reduce double counting.
3. MDB flows are adjusted to exclude external resources managed by MDBs and funding to economies in transition/developed countries.
4. Other official flows (OOF) consist of: i) grants or loans from the government sector not specifically directed to development or welfare purposes and ii) loans from the government sector which are for development and welfare, but which are not sufficiently concessional to qualify as ODA. These flows are channelled through bilateral channels (e.g. IDFC members, OPIC)
5. ** ** Figures represent total ranges of estimated finance (including sub categories identified).
6. The representation is not to scale.

Flows (OOFs) and export credit finance for climate change activities were also reported as part of FSF. There appears to have been a greater use of both loan and non-concessional finance in the larger economies of Asia and the Middle East.[3]

Thematic distribution of finance: Forty-eight to seventy-eight per cent of finance reported as FSF, in BRs, through multilateral climate funds, and through MDBs supports mitigation or other/multiple objectives (6 to 41 %). Classifying REDD+ finance as contributing to multiple objectives, as many countries have done in their BRs, results in a reduction in the share of mitigation finance relative to that reported in FSF. Adaptation finance in the same sources ranges from 11 per cent to 24 per cent. There is some evidence that adaptation finance has been increasing, though it remains a small share of the current estimates.[4] The Least Developed Countries Fund, Special Climate Change Fund and Adaptation Fund approved an average USD 190 million per year between 2010 and 2012.

Geographic distribution of finance: In general, the largest share of funding from multilateral climate funds, FSF, and climate-related development assistance has been directed to the countries of the Asia and Pacific region (38 to 53%). Thirteen to twenty per cent of funding has been directed to global programs that target multiple countries. The countries of Latin America and the Caribbean and Sub-Saharan Africa appear to have received broadly comparable shares of the finance committed (12 to 15%) of multilateral climate funds and FSF. More than 25 per cent of climate-related development assistance appears to have been directed to Africa.[5]

Understanding mitigation and adaptation impact: Climate finance providers are starting to assess the impact of mitigation finance on emissions; many investors are also beginning to account for their emissions impact. Adoption of such approaches is nascent. Furthermore methodologies are not always consistent. Methodologies for assessing impact on resilience and effective adaptation are much less developed.

Alignment with needs: Many developing countries are assessing their needs for climate finance and the level of climate change investments. Case studies from Indonesia, the Maldives, Niger and Peru show that efforts are getting underway in developing countries to strengthen national systems to manage climate finance. Needs assessment processes have not always been well linked to decision-making on finance and investment. Better systems to track finance received may help strengthen alignment with national priorities.

Assessing quality and coverage of data

Efforts to improve quality and coverage of climate finance data are underway. The international assessment and review (IAR), including the ongoing technical review of the first BRs, is likely to identify specific proposals that could improve the accuracy, completeness, and comparability of data on climate finance flows to developing countries. The submissions on the experiences with the first BRs, and on the methodologies used to measure and track climate finance, also include valuable information to enhance these efforts. The Development Assistance Committee of the Organisation for Economic Development (OECD-DAC) is working to improve the application of the Rio Markers, and support more consistent quantified reporting towards the Rio Conventions. Multilateral Development Banks (MDBs) are working to harmonize

[3] Chapter III, Figure II-5.
[4] Chapter III, Table III-4.
[5] Chapter III, Figure III-7, 8 and 9.

the reporting of climate finance data in their joint MDB report on mitigation and adaptation finance. They are collaborating with the International Development Finance Club (IDFC) on these matters. Methodologies for reporting on mobilized private finance are at an early stage, with OECD Research Collaborative on Tracking Private Climate Finance and MDBs exploring options for estimating mobilized private finance. Efforts are also underway to improve understanding of private flows.

IV. RECOMMENDATIONS

Methodologies: Further efforts would enable better measuring, reporting and verifying of climate finance flows. This will require many steps over a number of years and require the cooperation of all data producers and aggregators identified in this report. The SCF highlights the following for consideration by the COP:

- Invite a relevant body under the Convention to consider the key findings of the BA with a view to improve the guidelines for reporting climate finance under the Convention;

- Invite a relevant body of the Convention to develop common reporting methods for needs and climate finance received in time for the next cycle of BURs, with consideration of developing countries experiences;

- Invite relevant data producers, collectors, aggregators, and experts from both developed and developing countries to offer suggestions for the enhancement of approaches for measuring and reporting climate finance through, inter alia, (i) introduction of formal data assessment processes; (ii) improvements in the use of common definitions, and; (iii) further efforts to develop common methodologies, particularly for the provision of information on adaptation finance and private climate finance, to the extent possible, disaggregated data to improve comparability of data;

- Invite multilateral climate funds, bilateral agencies, financial institutions as well as relevant international organizations to continue working to advance common approaches to assess the impact of their finance on greenhouse gas (GHG) emissions, low carbon development, and climate resilience;

- Request the SCF to cooperate with relevant institutions and experts, including from the private sector, to devise practical options for estimating and collecting data on private climate finance, taking into consideration the findings of the OECD Research Collaborative on Tracking Private Climate Finance; and,

- Invite relevant international institutions, organizations, and experts from both developed and developing countries to explore options to strengthen tracking and reporting of domestic climate finance from public and private sources in developed and developing countries, building on international experience and emerging practices.

Operational definition of climate finance: The transparency and accuracy of estimates of climate finance could be strengthened with a common definition of climate finance. The SCF highlights the following for consideration by the COP:

- Invite Parties to consider the definitional elements in page 2 (definitional issues) for future reporting under the Convention; and,

- Request the SCF, in collaboration with relevant international financial institutions and organizations, to continue technical work on operational definitions.

Ownership, impact and effectiveness: Steps can be taken to advance the effectiveness and developing country ownership of climate finance. The SCF highlights the following for consideration by the COP:

- Invite climate finance providers to continue to deepen their engagement with recipient countries to strengthen alignment with national needs and priorities;

- Encourage climate finance providers to inform UNFCCC national focal points of climate finance committed and reported to the Convention as directed to their country to the extent possible; and,

- Further work with regards to needs assessment processes is needed to inform future BAs of the SCF.

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Framework Convention on
Climate Change