

## Tenth meeting of the Standing Committee on Finance Bonn, Germany, 12–13 June 2015

### Background paper on the 2016 biennial assessment and overview of climate finance flows

#### Proposed actions by the Standing Committee on Finance

The Standing Committee on Finance will be invited to consider:

- a) Progress made within and outside of the Convention in improving the quality and coverage of data on climate finance since the publication of 2014 Biennial Assessment and Overview of Climate Finance Flows
- b) Initiate the technical work for the preparation of the 2016 Biennial Assessment and Overview of Climate Finance Flows

#### I. Options for consideration by the SCF

- a) *Progress made within and outside of the Convention in improving the quality and coverage of data on climate finance since the publication of the 2014 Biennial Assessment and Overview of Climate Finance Flows (BA)*
  - 1. The Standing Committee on Finance (SCF), in its summary and recommendations on the 2014 BA, noted that it will contribute, through its activities, to the progressive improvement of the compilation of climate finance information in future BAs<sup>1</sup>. In accordance with decision 11/CP.20, the SCF will include recommendations on methodologies for reporting financial information in its annual report to the COP at its twenty-first session<sup>2</sup>. The SCF, initiated work on this matter at its ninth meeting<sup>3</sup>, and will discuss it under agenda item six of the provisional annotated agenda of the tenth meeting.
  - 2. Since the publication of the 2014 BA, there has been further work by other organizations that aim to further improve the quality and coverage of data, including on-going efforts to harmonize methodologies for the provision of information on mitigation and adaptation finance and efforts to develop common methods to estimate mobilized private finance. An information update is contained in annex I to this document.
  - 3. In view of the above, the SCF, in the context of the preparation of the 2016 BA, may wish to consider engaging with data producers, collectors, and aggregators, with a view to: (i) identify and consider efforts undertaken by other organizations after the publication of the 2014 BA; and (ii) identify practical options to facilitate a more automated data collection process for the preparation of the 2016 BA:

Option I: Invite relevant data producers, collectors, and aggregators, including contributors to the 2014 BA, to the eleventh meeting of the SCF to provide information on the results of their work in 2015.

Option II: Request the secretariat, under the guidance of the co-facilitators of the 2016 BA, to explore options for a more structured engagement with data producers, collectors, and aggregators from developed and developing countries for consideration at the eleventh meeting of the SCF.

Option III: Option I and Option II combined.

<sup>1</sup> FCCC/CP/2014/5, Annex II, paragraph 3

<sup>2</sup> Decision 11/CP.20, paragraph 6

<sup>3</sup> SCF/2015/9/10, paragraphs 20-30.



*b) Initiate the technical work for the preparation of the 2016 BA*

4. In accordance with decision 2/CP.17, paragraph 121(f), the SCF will continue to prepare BAs every second year. The SCF may wish to consider initiating work for the preparation of the 2016 at the tenth meeting in order to allow sufficient time for undertaking technical work, including mapping of estimates, data collection, and drafting processes. In particular, the SCF may wish to:
  - (i) Discuss the scope of the technical work, including possible elements of the outline of the technical report to guide the mapping of estimates, taking into account data that is becoming available for the period 2013-1014 and the categorization of the types of flows in the 2014 BA (i.e., "total global climate finance", "flows from developed to developing countries", and other sub-flows); and
  - (ii) Discuss elements of the operational plan that are needed to guide the organization and implementation of the technical work in 2015-2016.
5. With regards to the scope of the technical work, the SCF may wish to consider possible elements regarding the scope as well as the structure of the report, and the sources of information. Annex II contains a preliminary list of elements for consideration.
6. In view of the above, the SCF may wish to discuss and agree on one of the options below:

Option I: Discuss elements of the scope of the technical work and agree on a preliminary outline of the technical report at the tenth meeting of the SCF.

Option I.a. Request the co-facilitators and the working group on the 2014 BA, with the support of the secretariat, to start mapping available estimates and identify data gaps for the period 2013-2014, including any other estimates that may become available during the period June 2015-onwards, for consideration at the eleventh meeting of the SCF.

Option I.b. Request the co-facilitators with the support of the secretariat and external consultants, to prepare a compilation of available estimates for the period 2013-2014 for initial consideration at the eleventh meeting of the SCF.

Option II: Request the co-facilitators and the working group, with the support of the secretariat, to undertake further work with a view to discuss and agree on a preliminary outline of the technical report at the eleventh meeting of the SCF.

7. With regards to the operational plan, the SCF may wish to consider discussing possible elements concerning the approach and modalities, activities, expected outputs/deliverables, the indicative timeline, collaborations and outreach efforts contained in annex III to this document. The SCF may wish to specifically discuss and agree on one of the options below:

Option I: Discuss and agree on the elements of the operational plan, including the approach and working modalities, at the tenth meeting of the SCF.

Option II: Discuss possible elements and request the secretariat to prepare a draft operational plan, including proposed approach and working modalities, for discussions and agreement at the eleventh meeting of the SCF.

## II. Background

1. The SCF, in accordance with decision 2/CP.17, paragraph 121(f), prepared the first BA (2014 BA)<sup>4</sup>. The work of the SCF on this matter was also guided by decisions 1/CP.18 paragraph 71; 5/CP.18 paragraph 11; and 3/CP.19, paragraph 11, respectively:
  - a. Relevant work by other bodies and entities on measurement, reporting and verification of support and the tracking of climate finance;
  - b. Ways of strengthening methodologies for reporting climate finance; and
  - c. 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
2. Accordingly, the 2014 BA reviewed the operational definitions of climate finance and reporting systems used by institutions that produce and aggregate data on climate finance flows. It also discussed the available estimates of global climate finance and flows from developed to developing countries. It then attempted to assess these two sets of information against financial and policy considerations, and identified areas where further work is needed. Key findings and recommendations are included in the summary and recommendations by the SCF on the 2014<sup>5</sup>.
3. The COP, in decision 6/CP.20, noted with appreciation the 2014 BA Report. It also invited the relevant bodies under the Convention to take note of the summary and recommendations by the SCF on the 2014 BA.
4. The COP, by decision 2/CP.19, endorsed the initial two-year workplan of the Executive Committee of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts, which contains an invitation to the SCF to include, in its next BA, information on financial instruments that address the risks of loss and damage associated with the adverse effects of climate change<sup>6</sup>.
5. During its ninth meeting, the SCF, established the working group on the preparation of the 2016 BA, facilitated by Mr. Seyni Nafo and Mr. Roger Dungan.

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<sup>4</sup> <

[http://unfccc.int/cooperation\\_and\\_support/financial\\_mechanism/standing\\_committee/items/8034.php](http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/8034.php)

<sup>5</sup> FCCC/CP/2014/5, Annex II.

<sup>6</sup> Report of the Executive Committee of the Warsaw International Mechanism for Loss and Damage Associated with Climate Change Impacts (FCCC /SB/2014/4), Annex III

**Annex I – Update on further work undertaken by other organisations since the publication of the 2014 BA**

1. The SCF, in the summary and recommendations on the 2014 BA, noted that the available estimates on global climate finance flows span a wide range in part due to the lack of adequate information on, inter alia, private finance on energy efficiency investment and on finance for reducing non-CO<sub>2</sub> emissions. It also noted efforts underway that are aimed at improving the quality and coverage of climate finance data<sup>7</sup>. The SCF further stressed that further efforts would enable better measuring, reporting and verifying of climate finance flows.
2. In view of the above, the SCF highlighted a number of recommendations aimed at: (i) enabling better measurement, reporting and verification of climate finance flows (methodologies); (ii) strengthening transparency and accuracy of estimates of climate finance with a common definition of climate finance (operational definitions of climate finance); and steps that can be taken to advance the effectiveness and developing country ownership of climate finance (ownership, impact and effectiveness)<sup>8</sup>.
3. An overview of latest developments and current efforts to improve existing international methodologies for tracking and reporting climate finance by data collectors and aggregators is presented below:

**(a) Efforts of the Multilateral Development Banks and International Development Finance Club**

- In 2015, significant efforts have been made by the MDBs and the International Development Finance Club (IDFC) to harmonize their mitigation tracking methodologies. Both groups have intensified the work on the climate mitigation methodology, which has resulted in the launching of the "Common Principles for Climate Mitigation Finance Tracking"<sup>9</sup>. The principles consist of a set of common definitions and guidelines including the list of activities, but do not cover aspects related to their implementation, including quality control procedures which remain the sole responsibility of each institution and/or group. The Principles reflect the approach that both MDBs and IDFC have been following for tracking climate change mitigation activities for the past four years, and are based on the application of harmonized terms.
- Regarding climate adaptation finance, MDBs and IDFC have agreed to work jointly to improve understanding on definitions of the different approaches and principles. Both groups are currently collaborating on methods to define such principles. MDBs and IDFC aim to reach reasonable progress in 2015.
- MDBs and IDFC are currently jointly working on methodologies for leveraging ratios

**(b) The Organization for Economic Co-operation and Development - Development Assistance Committee**

- Since 2014, the OECD-DAC and its 29 members have been working in collaboration with the international community, including with MDBs, development finance institutions and other stakeholders to "fine tune" the Rio climate change adaptation and mitigation marker definitions, eligibility criteria and guidance to support the application and improve the quality of the Rio marker data. This includes drawing on existing methodologies from the MDBs and IDFC, including efforts to enhance common definitions across the range of initiatives. These potential changes are under consideration, with revisions to the OECD DAC statistical reporting directives expected in 2015-2016. The improvements aim to particularly improve the relevance and quality.
- Recent OECD-DAC decisions will modernise Official Development Assistance (ODA), develop a complementary and broader measure of Total Official Support for Sustainable Development (TOSSD)<sup>10</sup>

<sup>7</sup> FCCC/CP/2014/5, Annex II, paragraph 17

<sup>8</sup> FCCC/CP/2014/5, Annex II, paragraphs 18-20

<sup>9</sup> <http://www.worldbank.org/content/dam/Worldbank/document/Climate/common-principles-for-climate-mitigation-finance-tracking.pdf>

<sup>10</sup> OECD-DAC High Level Meeting convened in December 2014, recognizing and further incentivizing the efforts that are being made above and beyond ODA, agreed to continue to develop a new

and measure the amounts of private finance mobilised through official development finance interventions<sup>11</sup> within the OECD DAC statistical system.

- Regarding the measurement of mobilized private finance, the OECD-DAC High Level meeting in December 2014 supported the collection of data on amounts mobilized agreed to continue work to establish a first international standard for measuring the volumes of private finance mobilized by official interventions<sup>12</sup>. OECD-DAC is currently assessing options for methodology to measure volumes of mobilized private finance for three financial instruments; *guarantee schemes, syndicated loans, and shares in collective investments*. The data collection on amounts mobilized will be subject to reporting on climate change Rio Markers and will be reflected in the revision of OECD-DAC Statistical Reporting Directives in 2015. Concurrently, the OECD-led multi-stakeholder Research Collaborative on Tracking Private Climate Finance (RC) continues work to further develop and test estimation methods in the context of pilot measurement of mobilized private finance.

**(c) The Climate Policy Initiative**

- The methodological approach taken by the Climate Policy Initiative in preparing the Global Landscape of Climate Finance 2014 provides more granular information and data (e.g. project-level data where it is possible to access)<sup>13</sup>. With historical data stretching four years, CPI's methodological approach now allows for comparability of data on global public and private flows, thereby allowing trend analysis. Furthermore, the traceability of recipients of climate finance flows (e.g., public, private, or a mix of the two) in the Global Landscape of Climate Finance has improved.

**(d) Climate Public Expenditure Reviews of the United Nations Development Programme**

- The CPEIRs undertaken in various countries since 2012 define climate finance based on assessing the level of climate change relevance of a particular expenditure using two approaches: CPEIR Climate Change Relevance Index; and CPEIR Benefits Approach.
- Recently, the UNDP has developed a CPEIR database which captures climate change expenditures from a national perspective.

**(e) Other**

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statistical measure, to complement, not replace, the ODA measure. See OECD-DAC Final Communiqué, 16 December 2014. Available at:

<<http://www.oecd.org/dac/OECD%20DAC%20HLM%20Communique.pdf>>

<sup>11</sup> More information can be viewed here <http://www.oecd.org/dac/dac-hlm.htm>

<sup>12</sup> See OECD-DAC Final Communiqué, 16 December 2014. Available at:

<<http://www.oecd.org/dac/OECD%20DAC%20HLM%20Communique.pdf>>

<sup>13</sup> Further information on the methodological approach adopted by Climate Policy Initiative is contained in the “The Global Landscape of Climate Finance 2014” available at:

<http://climatepolicyinitiative.org/wp-content/uploads/2014/11/The-Global-Landscape-of-Climate-Finance-2014.pdf>

**Annex II – Possible elements for consideration in scoping the technical work for the 2016 BA****1. Scope of the technical work**

1. The 2014 BA report provided an overview of climate finance flows for the period 2010-2012, including ranges of available estimates on 'global climate finance flows', 'climate finance flows from developed to developing countries' and estimates on public, private, multilateral, bilateral and where available other sub-flows (i.e. thematic and geographic distribution of flows, distribution of flows by financial instrument, etc.). This information is presented in Chapter II in the 2014 BA.
2. It further provided insights and trends on the climate finance flows, focusing on public flows from developed countries to developing countries. It assessed information and data on the sub-flows against **financial considerations** (i.e., scale of finance, additionality, financial instruments used, the pace and efficiency in the approval and disbursements of funds of selected mechanisms) and **policy considerations** (i.e., discussion on whether climate finance targets adaptation, mitigation, REDD-plus activities, or multiple cross-cutting objectives, and the geographic distribution of climate finance). This information is elaborated in Chapter III in the 2014 BA.
3. The 2014 BA report also looked into methodological issues that affect the assessment of climate finance data, particularly the methods for measurement, reporting, and verification of public and private climate finance from both domestic and international sources. It included a review of operational definitions of climate finance adopted by data collectors and aggregators and a preliminary comparison of the different reporting approaches. This information is presented in Chapter I in the 2014 BA.
4. Finally, a number of possible areas for future work were identified in Chapter IV, including:
  - Issues related to impact and effectiveness (i.e., country ownership, alignment of international finance received with needs, mobilized private finance, mitigation impact, adaptation impact, and cost effectiveness); and
  - The need for more complete information on global total climate finance impedes an understanding of the degree to which such finance is enabling progress towards the goal of keeping global climate change within 2 degrees centigrade.
5. Possible additional elements for consideration for 2016 BA:
  - The 2014 BA drew heavily on activity- and project-level data. Where available, emerging estimates of the broader private finance flows (mitigation and adaptation) such as upstream investment in climate-relevant sectors (e.g., available data on low-carbon and climate-resilient asset classes such as green/climate bonds, public equities, green property funds, etc.) could be drawn to help present a more comprehensive picture of the global climate finance flows across the full financial value chain. The collection and presentation of these data will, however, require a framework that highlights the different upstream sources and downstream actors involved in financing climate action. The work of the OECD RC may be useful in this regard.
  - Where available, estimates of the amounts of private finance mobilized by public interventions.
  - In line with initial two year plan of the Executive Committee of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts, the SCF may wish to consider mapping estimates and sources of information on financial instruments that address the risks of loss and damage associated with the adverse effects of climate change. These financial instruments and tools may include: comprehensive risk management capacity with risk pooling and transfer; catastrophe risk insurance; contingency finance; climate-themed bonds and their certification; catastrophe bonds; and financing approaches to making development climate resilient, among other innovative financial instruments and tools.
  - Other

**2. Structure of the report**

6. The 2014 BA comprised a "summary and recommendations" that was prepared by the SCF and included in its annual report to the COP20 and a technical report that was prepared by experts under the guidance of the SCF.

7. The technical report contained an introduction and four core chapters, including:
  - Methodological Issues Relating to Measurement, Reporting and Verification of Public and Private Climate Finance (Chapter I);
  - Overview of Current Climate Finance (Chapter II);
  - Assessing the State of Climate Finance (Chapter III); and
  - Insights on methodologies for measurement, reporting and verification of climate finance (Chapter IV)
8. The summary and recommendations prepared by the SCF is contained in the Annex II to the report of the SCF to COP 20.

**Possible additional elements for consideration for 2016 BA**

- An executive summary
- Other

**3. Sources of Information**

**Available data for consideration**

9. The following is a non-exhaustive list of internal and external sources of information that provide metadata relevant to the 2016 BA:

*Internal sources:*

- The second round of Biennial Reports which are to be submitted in January 2016
- The first round of Biennial Update Reports (ongoing)
- Other

*External Sources:*

- Joint Report on MDB Climate Finance 2013<sup>14</sup>. The report covers finance for mitigation, adaptation and projects with dual adaptation and mitigation benefits.
- IDFC Green Finance Mapping Report for 2013<sup>15</sup>.
- Climate-related development finance in 2013<sup>16</sup>. This statistical piece presents integrated statistics for 2013 reconciling bilateral and multilateral finance to provide near complete coverage of external climate-related development finance flows.
- Global Landscape of climate finance 2014<sup>17</sup>. Climate Policy Initiative.
- CPEIR database<sup>18</sup>
- Low Carbon Investment Registry. This registry is an online database featuring examples of low-carbon investments by institutional investors. Data are available for eight investment categories (energy; buildings; industry; waste, pollution control & carbon sequestration; transport; information & communications technology; forestry & agriculture; and a category 'multiple' which is used to enter information on investments comprising multiple low carbon projects, services or activities)<sup>19</sup>.
- The Report 'Bonds & Climate Change - The State of the Market in 2014'<sup>20</sup>.
- Other

**Data gaps**

10. Data gaps in the 2014 BA include:

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<sup>14</sup> [http://www.eib.org/attachments/documents/joint\\_report\\_on\\_mdb\\_climate\\_finance\\_2013.pdf](http://www.eib.org/attachments/documents/joint_report_on_mdb_climate_finance_2013.pdf)

<sup>15</sup> [https://www.idfc.org/Downloads/Publications/01\\_green\\_finance\\_mappings/IDFC\\_Green\\_Finance\\_Mapping\\_Report\\_for\\_2013\\_12-09-14.pdf](https://www.idfc.org/Downloads/Publications/01_green_finance_mappings/IDFC_Green_Finance_Mapping_Report_for_2013_12-09-14.pdf)

<sup>16</sup> <http://www.oecd.org/dac/environment-development/Climate-related%20development%20finance%20FINAL.pdf>

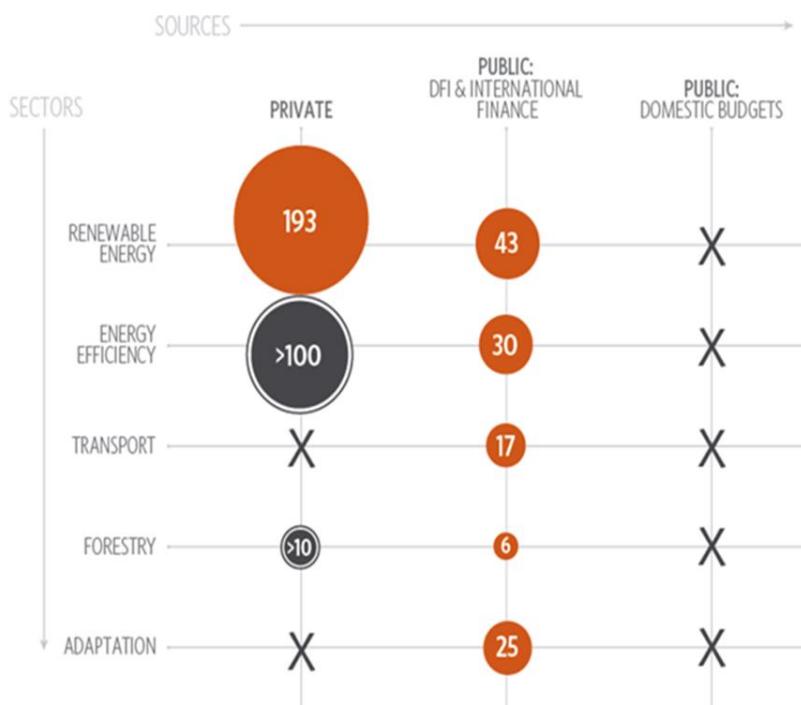
<sup>17</sup>

<sup>18</sup> <http://climatefinance-developmenteffectiveness.org/CPEIR-Database>

<sup>19</sup> <http://globalinvestorcoalition.org/form-registry/>

<sup>20</sup> <http://www.climatebonds.net/resources/publications/bonds-climate-change-2014>

- Limited data on financing for renewable energy and limited coverage of energy efficiency investments (particularly household expenditures), sustainable transport, reducing emissions from deforestation and forest degradation; and the role of conservation, sustainable management of forests, and enhancement of forest carbon stocks) REDD-plus, and data gaps in other sectors such as water;
  - Very little data on national public expenditures for climate change activities (in both developed and developing countries);
  - Limited data on private climate finance and investments (except private sector finance for renewables where data is available from multiple sources, booth collectors and aggregators);
  - Limited historical data on finance for adaptation in developing countries and limited availability of data on adaptation expenditures in developed countries; and
  - Limited data on finance for non-CO<sub>2</sub> sources of GHG.
11. While there has been some improvements in the tracking of climate finance flows and investments data in 2013-2014, gaps remain, particularly with regards to domestic public expenditures (public flows) and adaptation, and transport (private flows). The figure below shows data availability and gaps.



*Source:* Global Landscape of climate finance 2014

12. The OECD RC has explored potential private data providers. This information is contained in a working paper titled "Exploring Potential Data Sources for Estimating Private Climate Finance", OECD Environment Working Papers, No.69<sup>21</sup>.

<sup>21</sup> Available at: <http://www.oecd-ilibrary.org/docserver/download/5jz15qwz4hs1.pdf?expires=1431357687&id=id&accname=guest&checksum=8293154135DDF0F80C860F84C8AF3F64>

### **Annex III – Possible elements for consideration for the Operational Plan of the 2016 BA**

#### **a) Approach and modalities**

1. The development of the 2014 BA involved meta-data and information gathering from multiple sources. Therefore, the SCF took a “hub-and-spokes” approach in collecting data. The compilation of data and analytical work was undertaken through “research tracks” with the support of external consultants. Contributors were invited to contribute to each research track.
2. The co-facilitators, with the support of the secretariat, guided the research process inter-sessionally. The open-ended working group provided input and reviewed the drafts of the individual chapters and the final draft of the technical report inter-sessionally including through written comments and dedicated Webinars.
3. The SCF assessed the quality of the work and provided strategic guidance for the development and the finalisation of the technical report during the SCF meetings. The co-facilitators and the open ended working group, with the support of the secretariat and external consultants, developed a draft Summary and Recommendations for discussion at the SCF meeting. The SCF finalised the draft at the eighth SCF meeting.

#### **b) Activities**

4. To supplement the on-going literature review under each research track, a series of one-to-one conference calls were organised with data providers and stakeholder organisations specialising in tracking climate finance.
5. Two technical meetings involving different contributors and SCF members were organised to address specific research topics and data needs. The technical meetings were held back-to-back with SCF meetings;

#### **c) Expected outputs/deliverables**

The outputs could be both analytical and procedural. For example:

- A technical report containing chapters, including conclusions in each;
- An executive summary included in the technical report and/or as a stand-alone publication; and
- Summary and Recommendations by SCF for inclusion in the annual report of the SCF to COP20 and in the technical report, and as a stand-alone publication.

Additional deliverables could include:

- An operational plan and a timeline;
- Technical briefing notes on specific topics and background notes for SCF meetings;
- Background papers for technical meetings, including meeting agenda; and
- Presentations and updates on the progress

#### **d) Indicative timeline**

Activities and deliverables	Indicative timeline									
	2015-2016									
	Q3	Q4	Jan-Feb	Ma-Ap	May-Jun	July-Aug	Sept	Oct	Dec	
<b>Phase I: Finalizing the scope and structure</b>										
Scope, structure and annotated outline of the technical report										
<b>Phase II: Research and drafting</b>										
Literature review and data collection										
Drafting of individual chapters of the technical report										

Activities and deliverables	Indicative timeline									
	2015-2016									
	Q3	Q4	Jan-Feb	Mar-Apr	May-Jun	July-Aug	Sept	Oct	Dec	
<b>Phase I: Finalizing the scope and structure</b>										
Technical workshops			<b>1<sup>st</sup> W</b>		<b>2<sup>nd</sup> W</b>		<b>3<sup>rd</sup> W</b>			
<b>Phase III: Final drafting</b>										
The working group discusses findings and insights, based on draft chapters										
Final draft of the technical report										
Drafting and finalization of the Summary and Recommendations										
<b>Phase IV: Peer review, lay out and production of the document</b>										
External/peer review (tbc)										
Layout design and publication										
<b>Phase V: Outreach and dissemination</b>										
Communication and promotion of the technical report and the summary and recommendations										

### e) Collaborations

6. Depending on the scope of and the data needs for the 2016 BA, the SCF may wish to both sustain current collaborations and initiate new collaborations with private sector financial institutions and their networks as well as expertise from developing countries. Three types of external collaborations could be considered:
  - Continued interaction with the BA contributors;
  - Engage more stakeholders that monitor climate finance flows from developing countries; and
  - Structured dialogue and collaborations with initiatives that produce and aggregate data on mobilized private finance through public interventions and those that track the broader climate related private finance flows

### f) Communications and outreach

7. To ensure transparency, SCF may wish to consider organising side events and/or hold web-based activities to update Parties and the broader stakeholder groups on the progress made in the implementation of the work on the 2016 BA. For example, these updates could be incorporated in future side events which SCF may organise in the side lines of SBs sessions or through dedicated Webinars.
8. Furthermore, the SCF may wish to consider reaching out the Executive Committee (ExCom) of the Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts and Consultative Group of Experts on National Communications from Parties not included in Annex I to the Convention (CGE). This may include: inviting members of ExCom and CGE to attend the meetings of the SC, the technical meetings, and Webinars; and soliciting their input during the mapping of estimates and data collection processes.