



# The guide on climate finance transparency

Celeste Gonzalez

Supported by





# Introduction

# Objectives of the guide

*Developing countries can...*

1

Improve public resource management for climate action

2

Mobilize additional climate finance resources and optimize their use

3

Report domestically and internationally on climate finance flows

# Why transparency matters?

## Objectives and benefits at the **domestic level**



### Domestic transparency

- ✓ Access status of size, sources, and directions of financial flows
- ✓ Gain clarity on public spending and monitor the progress on climate objectives



### Identifying gaps in climate finance

- ✓ Compare ex-ante planning and ex-post tracking of climate finance to identify the gaps



### Optimizing public resource management

- ✓ Prioritize sectors /programmes/projects for successful achievements of climate objectives and national plans
- ✓ Direct public spending to underfinanced and/or most impactful sectors/regions



### Mobilizing additional finance

- ✓ Identify and seize opportunities for leveraging private sector finance
- ✓ Mobilize additional financial resources

# Why transparency matters?

## Objectives and benefits at the **international level**



### Reporting to the UNFCCC

- ✓ Identify and report the financial support needed and received from developed countries through Biennial Transparency Reports (BTR)
- ✓ Contribute to global finance tracking and transparency
- ✓ Build trust and confidence among countries



### Synergy for a harmonized methodology

- ✓ Create synergies with global agendas and frameworks (e.g., SDG and Sendai Framework) in data collection and methodologies
- ✓ Achieve a harmonized methodology



### Achieving Article 2.1c of Paris Agreement

- ✓ Mobilize additional international resources by presenting gaps and needs in a transparent manner

# Guide considerations and principles for the guide



## Considerations

- ✓ Ready to use guidance for developing countries
- ✓ Compatibility with other key transparency frameworks (e.g., ETF, INFF)
- ✓ Allowing for evolution of complexity in transparency



## Principles

1 Maximizing  
granularity

2 Avoiding double  
counting

3 Flexibility

# Classification of climate finance flows by financial instruments

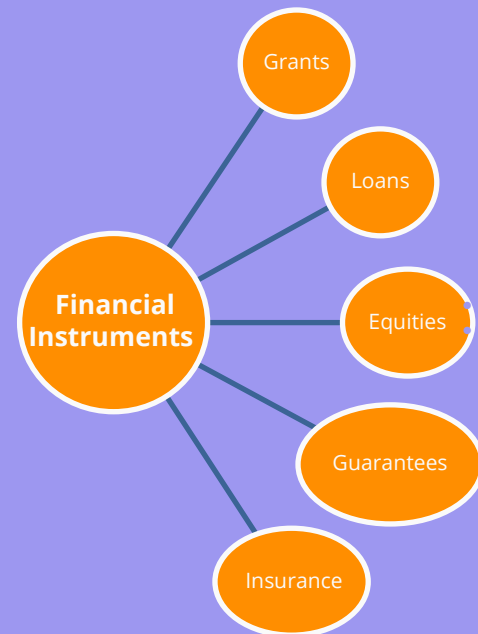


## Review of international best practices

The array of financial instruments is classified as per its purpose into i. Budgetary ii. Debt iii. Capital or iv. Risk mitigation instrument.

The review of international methodologies shows no existing best practice.

Methodology	Differentiation of financial instrument
CPEIR	High (Budgetary, Debt, Risk mitigation) i. Revenue-generating instrument ii. Behavior-changing instrument
PCEIR (Private finance)	High (i. Debt ii. Equity. lii. Risk mitigation, iv. Grant)
CPI	Low (grants, balance sheet finance, concessional loans, commercial loans, bonds, equity, and guarantees )
MDB	Low (equity, grant, guarantees, investment loans, line of credit, policy-based finance and results-based finance)



### Guide

To facilitate the reporting to the UNFCCC in the context of the ETF, this guide recommends countries considering the UNFCCC categorization of instruments. This guide also differentiates among financial instruments through a grant equivalent discount – a mechanism that helps avoid exaggerated numbers of climate finance flows.

# Weighting and classifying climate finance flows

## Classifying

Only a few climate finance tracking methods classified finance flows. The review identifies two main approaches:

1. Using categorical indicators to reflect the proportional contribution of a program to mitigation & adaptation (OECD DAC Rio Markers)
2. Determining the exact proportions at the activity level (MDB Joint Reporting)

## Weighting

The use of markers or indices to determine the climate relevance or "weight" of financial flows towards programs/projects and activities was identified as an international best practice.

### OECD DAC Rio Markers

- Principal objective - 100%
- Significant objective - 30%-100%

### Climate Public Expenditure and Institutional Review (CPEIR)

- High relevance - >75%
- Medium relevance - 50%-74%
- Low relevance - 25%-49%
- Marginal relevance - <25%

### Climate Budget Tagging

- High relevance - 100%
- Medium relevance - 50% or 60%
- Low relevance - 20% or 30%

## Guide

- Two approaches for classifying climate finance flows: i. Follow the **OECD Rio Markers** for countries with limited resources and experience (i.e., Tier 1) ii. Follow the **MDB joint reporting** that requires detailed project descriptions (i.e., higher Tiers).
- In terms of weighting, this guide recommends using a weighting in a style similar to the **CPEIR classification** considering granularity

# International good practices on tracking climate finance

## National climate finance flows

### Climate Budget Tagging

Aim to track mainstreaming activities of environmental objectives into development practices.

### UNDP CPEIR\*

Aim to assess the climate-related public expenditure and the relevant stakeholders in climate finance.

### UNDP PCEIR\*\*

Aim to assess the climate finance of private sector spending and investment.

## International climate finance flows

### OECD-RIO MARKERS

Aim to track mainstreaming activities of environmental objectives into development practices.

### CPI Landscapes

Aim to track private and public flows directed to finance climate projects.

### MDB Joint Reporting

Aim to track MDB flows directed to finance climate projects.

Whereas all methods can be used for ex-post climate finance tracking, they differ in **granularity, level of accounting, financial instruments, and weighting of climate relevance.** To date, no universal best practice can be identified.

(\*) Climate Public Expenditure and Institutional Review (CPEIR),  
(\*\*) Private Climate Expenditure and Institutional Review (PCEIR)



Public

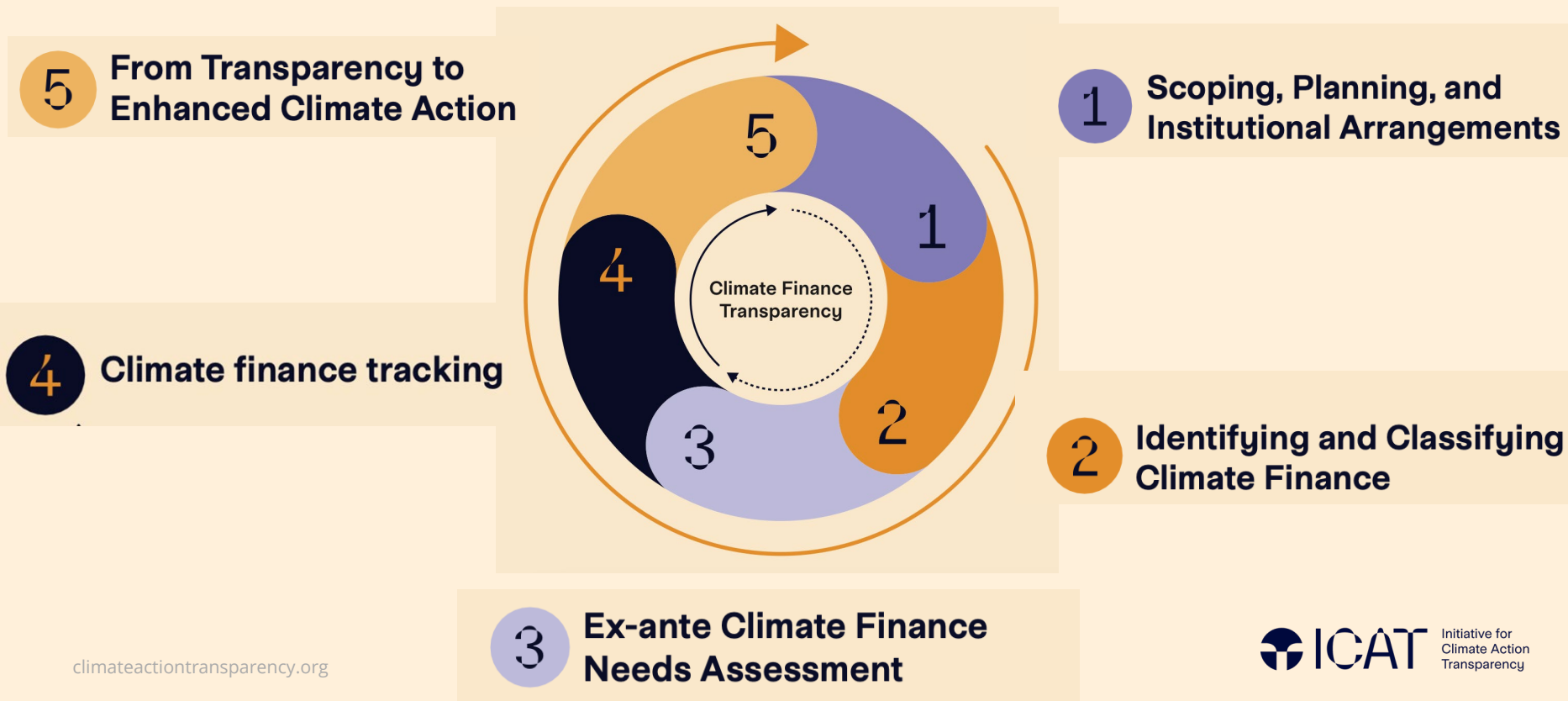


Private

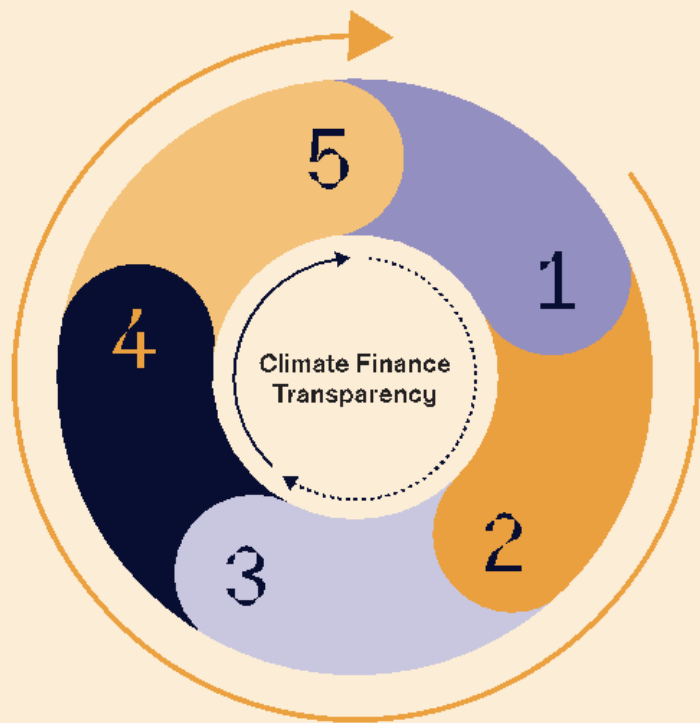


# Climate Finance Transparency Guide step-by-step

# The Climate Finance Transparency Framework



# 5 Phases of the Climate Finance Transparency Framework



- 1 Scoping, Planning, and Institutional Arrangements**
- Step 1: Identify all stakeholders
  - Step 2: Conduct country baseline assessment
  - Step 3: Define objectives and scope
  - Step 4: Develop a work plan
  - Step 5: Set up institutional arrangements
  - Step 6: Develop technical capacities of stakeholders

- 2 Identifying and Classifying Climate Finance**
- ▲ Step 7: Establish a climate finance definition and classification
  - ▲ Step 8: Set transparency framework parameters
  - Step 9: Define climate finance impact indicators

- 3 Ex-ante Climate Finance Needs Assessment**
- Step 10: Set parameters for finance needs assessment
  - Step 11: Apply parameters
  - ▲ Step 12: Undertake finance needs assessment
  - Step 13: Verify finance needs assessment

- 4 Climate finance tracking**
- ▲ Step 14: Collect and process climate finance data
  - Step 15: Weight climate finance data
  - Step 16: Verify climate finance data

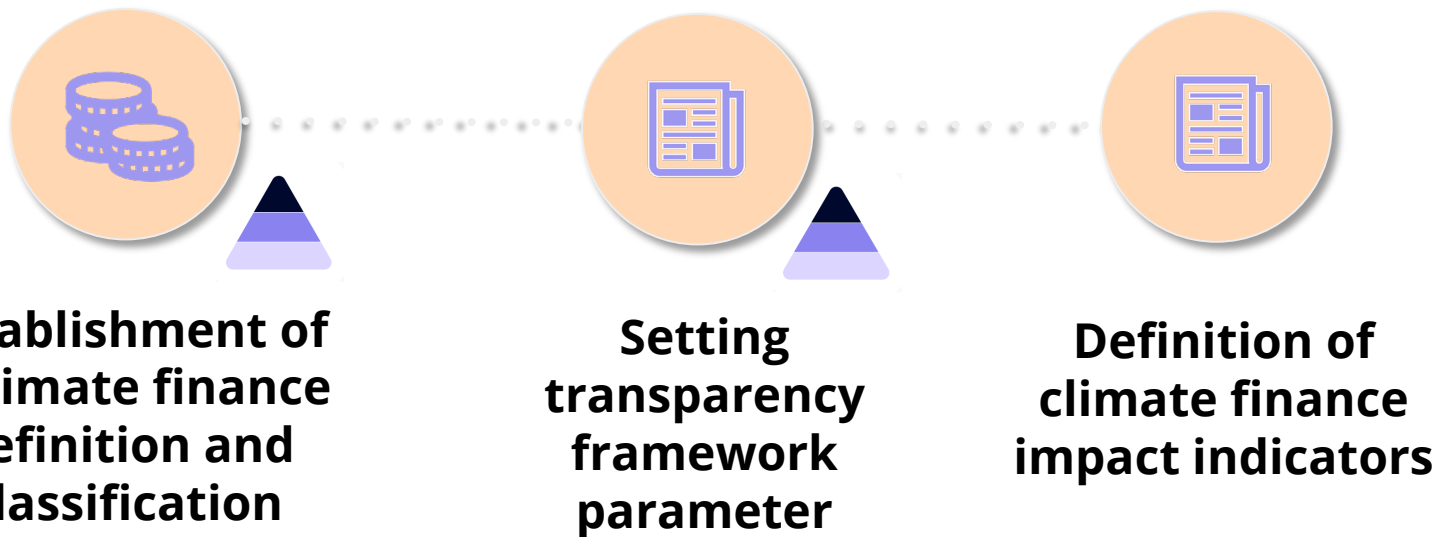
- 5 From Transparency to Enhanced Climate Action**
- Step 17: Identify financial gaps
  - Step 18: *Pursue objective I:* Optimize public resource management
  - Step 19: *Pursue objective II:* Mobilize additional climate finance resources
  - Step 20: *Pursue objective III:* Report to the UNFCCC
  - Step 21: Prepare for the next cycle

→ Regular timeline of operating system in the same level (e.g., 1-2-year basis)

→ Irregular timeline, repeat full circle when advancing to the next level

▲ Complexity-level

## Phase 2: Defining and classifying climate finance



Selection of climate finance definition and parameters, applicable for the whole climate finance transparency cycle.

# Phase 2: Defining and classifying climate finance

## Overview of the phase



### Step 7:



Establish a climate finance definition and classification

Define climate finance across all sectors at the national level

- Classification of sectors
- Classification of eligible activities



### Step 8:



Set transparency framework parameters

Set key parameters including:

- Scope of sources
- Granularity of reporting
- Financial instruments
- Information on recipients
- Type of intervention
- Committed/disbursed climate finance flows
- Frequency of the cycle



### Step 9:

Define climate finance impact indicators

Define metrics that reflect the impact of climate finance

- Examples: reduced or sequestered GHG emissions; numbers of direct or indirect beneficiaries

# Step 8: Set transparency framework parameters

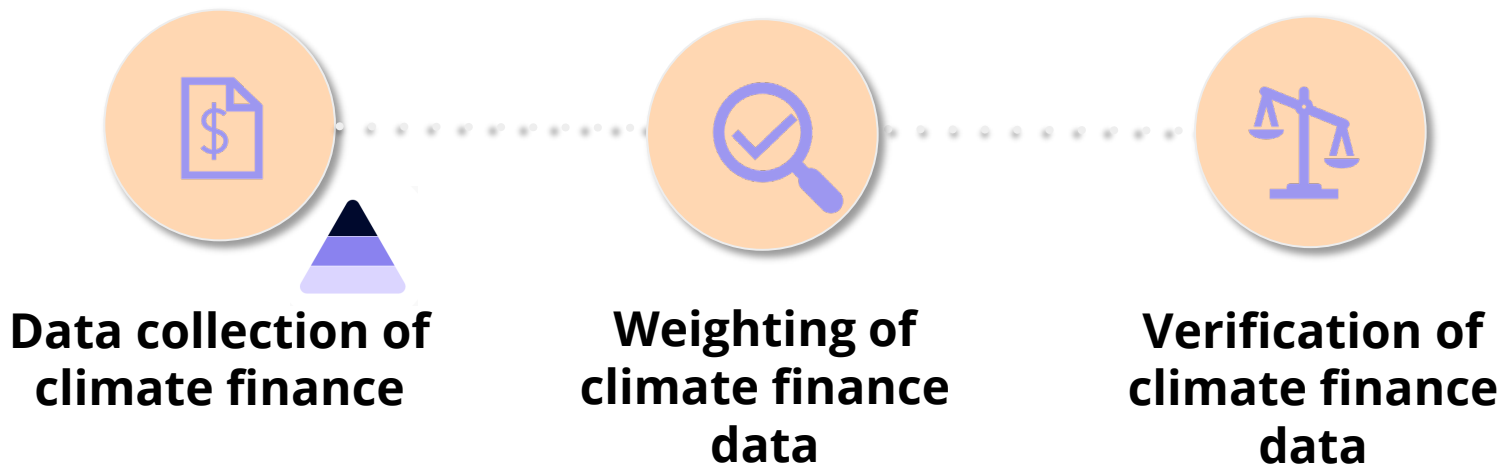
Parameters	Categories	Parameters	Categories
<b>Parameter 1. Scope of the sources for climate flows</b>	<ul style="list-style-type: none"> <li>On-budget</li> <li>Off-budget</li> </ul>	<b>Parameter 5. Type of intervention</b>	<ul style="list-style-type: none"> <li>Cooperative approaches under Article 6 of the Paris Agreement</li> <li>Physical intervention</li> <li>Capacity building</li> <li>Technology development and transfer</li> <li>Climate transparency-related activities (implementation of Article 13 of the Paris Agreement)</li> </ul>
<b>Parameter 2. Granularity of reporting</b>	<ul style="list-style-type: none"> <li>Project or programme-based</li> <li>Component-based</li> </ul>		
<b>Parameter 3. Financial instruments</b>	<ul style="list-style-type: none"> <li>Grants</li> <li>Concessional loans</li> <li>Non-concessional loans</li> <li>Equities</li> <li>Guarantees</li> <li>Insurance</li> <li>Other financial instruments</li> </ul>		
<b>Parameter 4. Information on recipients of climate finance</b>	<ul style="list-style-type: none"> <li>Government institutions</li> <li>NGOs</li> <li>Academia and research institutes</li> <li>Private sector organizations</li> <li>Communities</li> <li>Public service providers</li> <li>Other</li> </ul>	<b>Parameter 6. Committed and/or disbursed climate finance to be tracked</b>	<ul style="list-style-type: none"> <li>Committed</li> <li>Disbursed</li> </ul>
		<b>Parameter 7. Frequency for monitoring the transparency framework</b>	<ul style="list-style-type: none"> <li>Annual</li> <li>Biennial</li> </ul>

# Step 9: Define climate finance impact indicators

Category	Sector	Examples of climate impact indicator	SDG linkage
Climate change mitigation	All	Reduced, avoided, removed, or sequestered GHG emissions (Tons of CO2 equivalent)	SDG 13
	Energy	Renewable capacity installed (MW) Electricity delivered from renewable sources (MWh)	SDG 7
	Transport Industry	Emissions of main pollutants (e.g., NO <sub>x</sub> , NMVOC, SO <sub>2</sub> , NH <sub>3</sub> , PM <sub>2.5</sub> , PM <sub>10</sub> )	SDG 13
	Waste	Solid waste generation (t/year) Wastewater (t/year) Proportion of waste composted	SDG 12
	Agriculture	Harvested crop yields per hectare (i.e., agricultural productivity enhancement)	SDG 2, 8

Category	Sector	Examples of climate impact indicator	SDG linkage
Climate change adaptation	All	Number of direct or indirect beneficiaries	
	Agriculture	Increase in agricultural land using more drought resistant crops in hectares	SDG 2, 13
		Annual change in degraded or arable land (% or hectares)	SDG 15
	Health	Number of premature deaths due to air pollution	SDG 3, 13
		Number of people affected by hazardous conditions	
	Energy	Increase in grid resilience, energy generation, transmission/ distribution, and storage in MWh	SDG 7
Gender	Share of female leaders/entrepreneurs/employers/ employees  Share of funding received/targeted female leaders/ entrepreneurs/employers/employees	SDG 5	

## Phase 4: Climate finance tracking



 Database containing comprehensive information on climate finance flows

# Phase 4: Climate finance tracking

## Overview of the phase



### Step 14:



Collect and process climate finance data

- Request and collect financial and project data from relevant sources
- Identify and classify climate-relevant financial flows



### Step 15:

Weight climate finance data

- Assign weight to financial flows that reflect the climate-specific share and calculate the amount of climate finance



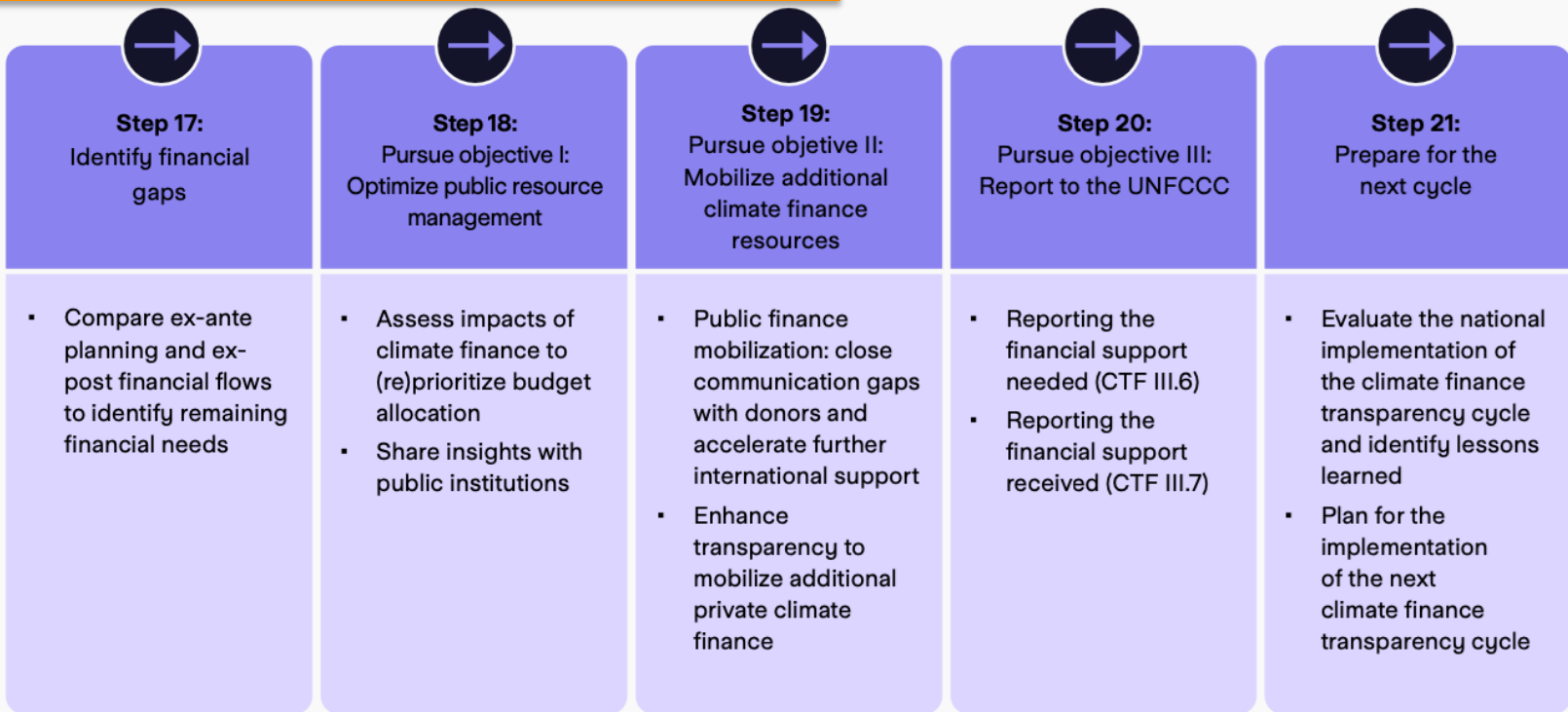
### Step 16:

Verify climate finance data

- Data processing: check for completeness and correct format, and determine the grant equivalent
- Data verification: Quality control and screening for double counting, plausibility checks

# Phase 5: From transparency to enhanced climate action

## Overview of the phase



# ICAT Climate Finance Transparency Course

## ICAT Climate Finance Transparency Course

In this self-paced course, you will learn the key steps for developing a national climate finance transparency framework and how to apply effective solutions to track, assess and report on climate finance in national and international contexts.

**Languages**

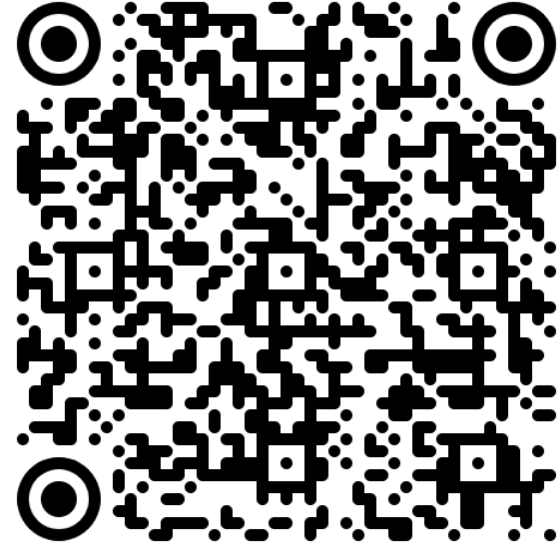
English

**Course type**

Self-paced course

**Duration**8 modules, 45  
min per module**Certification**

Certificate upon completion



**Thank you for your time and attention!**