

## **Submission by Canada**

### **Views on Operational Definitions of Climate Finance**

**May 2020**

Canada is pleased to submit its views on operational definitions of climate finance for consideration by the Standing Committee on Finance (SCF) in order to advance technical work of the 2020 Biennial Assessment and Overview of Climate Finance Flows (BA) as invited by COP25 (Decision 11/CP.25, paragraph 10; Decision 5/CMA.2, paragraph 10).

We note that, the SCF has already made contributions regarding operational definitions of climate finance. Notably, the 2014 BA adopted the following operational definition of climate finance: “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”.

Since 2014, there has been considerable progress in the accounting and reporting of climate finance, notably for private finance mobilised. This work is continuously improving as climate finance evolves and barriers are removed, such as data availability.

In continuing its work on operational definitions of climate finance, the SCF should consider the following two elements:

- 1) Scope: The climate finance landscape
- 2) Existing Work: Reporting approaches by data collectors and contributors

#### **Scope: The Climate Finance Landscape**

The global climate finance landscape is a complex system consisting of various actors and sources of climate finance that is continuously evolving. Prior to COP15, most climate finance flowed through public channels such as the Financial Mechanism of the Convention, at levels significantly lower than today. Presently, the climate finance landscape is growing as developed countries are scaling up their support for climate action and new actors, such as the private sector and philanthropies, are investing in climate action. Parties are also expanding the scope of their climate finance interventions to mobilise a wider variety of sources, in particular from the private sector. Technical work, in particular on operational definitions, should accommodate this growth.

The SCF’s work on operational definitions of climate finance should reflect the scope of the BA itself, which provides an overview of global climate finance flows. In this regard, work on definitions should consider international and domestic climate finance flows, climate finance flows from developed to developing countries, UNFCCC funds, and South-South cooperation on climate finance. Finally, in advancing this work the SCF should consider the objective of the Paris Agreement to make all financial flows

consistent with a pathway towards low-emission, climate resilient development. This objective is our opportunity to reach the broader goals of the Paris Agreement.

Ensuring operational definitions that are dynamic and comprehensive is key for effective implementation of the Paris Agreement. First, having a full picture of global climate finance promotes effective implementation by improving our common understanding of activities supported by climate finance and identifying opportunities to improve effectiveness. Secondly, it ensures we can capture and showcase transformational contributions, which can help promote further innovation in financial markets in climate action as a result of demonstration effects. Finally, it will help us to develop a wider understanding of the types of interventions and investments that have the greatest effect in scaling up overall climate finance flows.

### **Existing Work: Reporting Approaches by Data Collectors and Contributors**

Operational definitions of climate finance are complex; they consider the broad range of relevant sectors, instruments, interventions and channels. This information is readily available in reporting on climate finance.

Climate finance is reported by a number of actors, such as climate finance providers, including developed countries and multilateral development banks. Reporting is done on an individual basis, such as by Parties through National Communications and Biennial Reports to the UNFCCC. Reporting is also done at the collective level, such as climate finance provided and mobilised by developed countries to developing countries and joint reports from multilateral development banks. Within these various reporting formats, reporting entities use self-determined operational definitions of underlying concepts. The SCF should consider these varying approaches in developing the 2020 BA.

#### *Individual Reporting – Canada’s Approach*

Under the UNFCCC, Parties report on financial support using a bottom-up approach, following comprehensive reporting guidelines. Notably, the forthcoming Biennial Transparency Reports under the Paris Agreement’s Enhanced Transparency Framework outlines the bottom-up framework for reporting on support. This framework follows the Modalities, Procedures and Guidelines for reporting on financial, technology development and transfer and capacity-building support provided and mobilized, needed and received agreed to at COP24. In line with these guidelines, Parties provide a description of the underlying assumptions, methodologies and definitions used. These elements not only enhance transparency of reporting but also build the picture of how climate finance is counted.

Canada’s approach is found in Annex 3.2 of Canada’s [4<sup>th</sup> Biennial Report to the UNFCCC](#), which outlines the underlying assumptions and methodologies used to produce information on financial support from Canada. Additional definitions are provided in the documentation box as part of reporting guidelines of the [Common Tabular Format](#).

For example, these sections outline how Canada identifies climate relevant transactions and projects. Total climate finance from Canada flows through various institutions, which apply different internationally accepted, and widely adopted approaches that suit the nature of the institution. The majority of Canada's climate finance is identified using the OECD-Development Assistance Committee (DAC) Rio Markers for climate change which provide operational definitions, eligibility criteria and guidelines to classify projects targeting climate adaptation and mitigation objectives. Climate relevant transactions supported by Canada's development finance institution, FinDev Canada, and Canada's export credit agency, Export Development Canada, identify eligible transactions using the International Finance Corporation (IFC) - Definitions and Metrics for Climate Related Activities.

### *Collective Reporting*

In order to provide an update on the levels of climate finance provided and mobilised by developed countries for climate action in developing countries, the OECD has prepared reports on estimates of climate finance. The [most recent report](#) presented estimates of annual volumes of climate finance provided and mobilised by developed countries for developing countries in 2013-17. These estimates include bilateral and multilateral public finance, officially-supported export credits and mobilised private finance. The methods used are also consistent with the modalities for reporting climate finance agreed under the UNFCCC at COP24. This methodology is explained in the [2015 OECD report](#).

These reports also take into account the evergreen nature of accounting for climate finance. For example, estimating private finance mobilised by developed countries through public interventions has evolved since the 2015. In 2015, estimates were accounted for by attributing a share of private co-financing to developed countries using a volume-based pro-rating. Since then, the OECD-DAC, in collaboration with the OECD Research Collaborative Tracking Finance for Climate Action, has developed an international standard for measuring private finance mobilised. This standard applies methods tailored to different financial mechanisms taking into account the role of risk taken and/or amount provided by all official actors involved in a given project, including recipient countries. Canada also utilizes this approach in its individual reporting to the UNFCCC to account for private finance mobilised by public interventions from Canada.

### **Conclusion**

Due to the bottom-up approach anchored in the Paris Agreement's Enhanced Transparency Framework, there are technical challenges and limited utility in developing a single definition of climate finance. Therefore, in considering views on operational definitions of climate finance, in order to advance technical work of the 2020 BA, the SCF should consider the broad and dynamic scope of climate finance, existing approaches and operational definitions utilized by data providers, and the evolving nature of climate finance accounting methodologies and definitions. This approach will

support effective implementation towards the long-term goals of the Paris Agreement by improving effectiveness of climate finance and promoting transformational action.

We look forward to the upcoming work of the SCF and the 2020 BA. This flagship report is a valuable input providing an overview of climate finance and progress towards our collective goals under the Paris Agreement.