Unedited version

Report of the Standing Committee on Finance

Addendum

Report on common practices regarding climate finance definitions, reporting and accounting methods

Summary

At its 35th meeting, the Standing Committee on Finance concluded work on the technical report on common practices regarding climate finance definitions, reporting and accounting methods, the executive summary of which is contained in this report.

Abbreviations and acronyms

Annex I Party	Party included in Annex I to the Convention
Annex II Party	Party included in Annex II to the Convention
BR	biennial report
BUR	biennial update report
CMA	Conference of the Parties serving as the meeting of the Parties to the Paris Agreement
COP	Conference of the Parties
DAC	Development Assistance Committee
ETF	enhanced transparency framework under the Paris Agreement
MDBs	multilateral development banks
non-Annex I Party	Party not included in Annex I to the Convention
OECD	Organization for Economic Cooperation and Development
SCF	Standing Committee on Finance

I. Introduction

A. Context and mandate

1. COP 28 requested the SCF to prepare a report on common practices regarding climate finance definitions, reporting and accounting methods among Parties and climate finance providers, building on the information in the technical report by the SCF on clustering types of climate finance definitions in use, including the executive summary thereof, for consideration at COP 29.[1]

2. The SCF's report on clustering types of climate finance definitions in use and its earlier related work reflect the understanding that while there are commonalities in the definitions in use, what climate finance encompasses varies. This work also indicates that there are different perspectives on what definitions of climate finance should include and the degree to which associated concepts should be defined. It also acknowledges the bottom-up approach followed by Parties, consistently with the reporting guidelines under the Convention and the Paris Agreement.

3. COP 27 noted that the work of the SCF on definitions of climate finance shows the variety of definitions in use and also noted the complexities associated with the diversity of definitions of climate finance in use by Parties and non-Party stakeholders in relation to ensuring clear, aggregated accounting and reporting of climate finance.[2] Similarly, COP 28 noted the complexities, in relation to accounting of and reporting on climate finance at the aggregated level, associated with the application of the variety of definitions of climate finance in use by Parties and non-Party stakeholders.[3]

B. Scope and approach

4. The report examines the topics of climate finance definitions, accounting and reporting methods from the perspective of existing and emerging practices in transparency systems under and outside the Convention and the Paris Agreement, with the aim of highlighting commonalities and furthering the understanding of how climate finance is tracked and reported, including in relation to specific reporting objectives.

5. Information on common practices among Parties is drawn from the fifth BRs and the latest BURs. Biennial transparency reports under the ETF are not expected before the end of 2024 and therefore were not available at the time of preparation of this report.

6. The review of practices related to other providers of climate finance covers the operating entities of the Financial Mechanism and other multilateral climate funds, MDBs, development finance institutions, OECD members, private finance actors and data aggregators, as well as national and sub-national authorities that implement domestic climate finance reporting systems.

7. The results are presented separately for Parties and other climate finance providers in line with the approach in previous work of the SCF. Regarding the review of BRs, findings for Annex II Parties and Annex I Parties not included in Annex II that voluntarily report information on the provision of climate finance to non-Annex I Parties are presented separately where information is reported differently.

8. The report comprises this executive summary prepared by the SCF and a technical report prepared by a technical team under the guidance of the SCF. Valuable inputs were provided by Parties and stakeholders at SCF meetings and a stakeholder engagement webinar.

[1] Decision 5/CP.28, para 7.
[2] Decision 14/CP.27, paras. 9–10.
[3] Decision 5/CP.28, para. 4.

C. Challenges and limitations

9. Effort has been made to separate definitional, accounting and reporting considerations, noting that there is no agreed approach to where exactly the lines should be drawn.

10. Given that the Convention and the Paris Agreement adopt a bottom-up approach to reporting the provision and mobilization of climate finance, operational definitions, accounting and reporting practices vary. Furthermore, a Party, international organization or think tank may choose to cover only certain financial instruments or activities when reporting or aggregating climate finance data, but may not consider those choices to determine their definition of climate finance; while another may regard such decisions as being integral to a definition of climate finance. Calling such choices 'definitional' would therefore not accurately reflect all views, which places limits on the technical work to identify commonalities or divergences among definitions of climate finance.

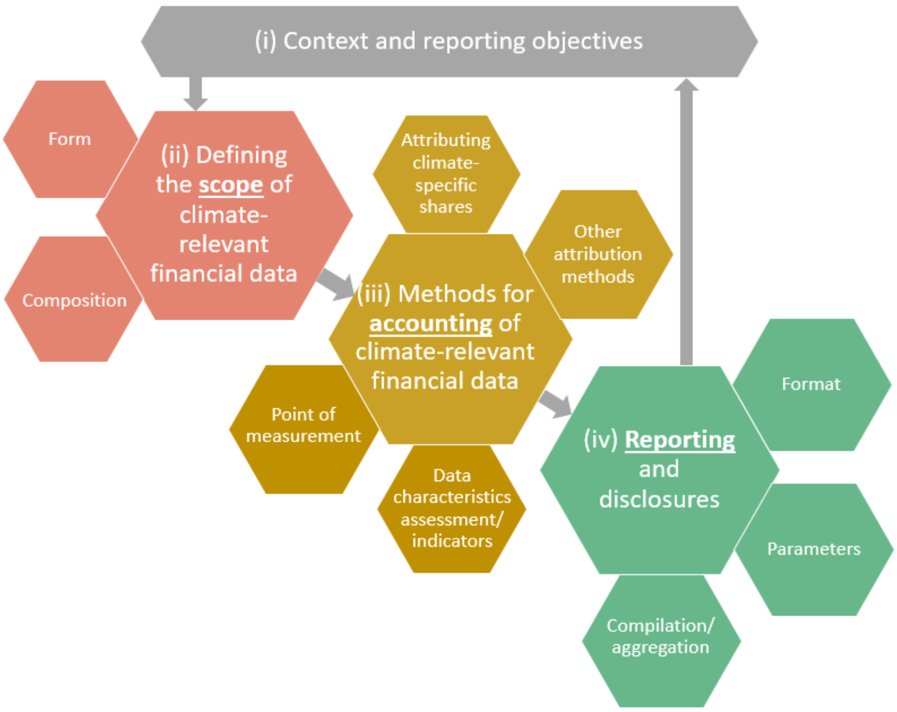
11. A further challenge relates to the fact that much of the information provided in the national reports is either unstructured or is provided inconsistently on a voluntary basis, or both. The review of information from other sources faces similar challenges.

12. Owing to emerging developments in national and international policies and regulations on sustainable and green finance, the review of common practices outside the Convention and the Paris Agreement is a non-exhaustive effort.

II. Key findings

A. Context of applying climate finance definitions, reporting and accounting methods

Figure 1. The climate finance reporting cycle



13. In practice, the starting point in reporting on climate finance flows is determining the scope of the data to be collected. This data is then processed according to a set of accounting rules and presented with the aid of reporting formats and parameters. The practice under and outside the Convention and the Paris Agreement also involves the compilation and aggregation of data to provide, to the extent possible, an overview of aggregate financial

support provided and broader climate finance flows, and to assess progress towards specific objectives or goals. Figure 1 above depicts the climate finance reporting cycle.

14. There are a multitude of reporting frameworks for climate finance. Parties' reporting under the Convention and the Paris Agreement is a key source of official information on financial support provided and mobilized, needed and received. The first round of reports under the ETF, which expands the reporting formats, data granularity and information on underlying assumptions, definitions and methodologies, is due at the end of 2024. It is notable that both reporting frameworks reflect a bottom-up approach, whereby Parties can determine and explain their own methodological approach for defining, tracking, measuring and reporting climate finance provided and mobilized, needed and received.

15. Other climate finance providers and reporting organizations track and report climate finance for different purposes and have developed or are developing and evolving their reporting systems to better fulfil those purposes. Some rely on broader green and sustainable finance frameworks in their tracking and reporting which involves finance flows serving more than one sustainable objective.

B. Common practices in climate finance definitions in use

16. Approaches to the form and composition of climate finance definitions in practice are varied. A common element is determining the climate relevance of finance flows associated with underlying economic activities contributing to addressing climate change.

17. The review of BRs and BURs shows that Parties apply definitional approaches ranging from concise sentences that link finance to climate objectives to elaborate systems of criteria or examples that identify activities for which finance can be tagged as climate-related, such as taxonomies, scoring systems and example lists. Some use a combination of approaches.

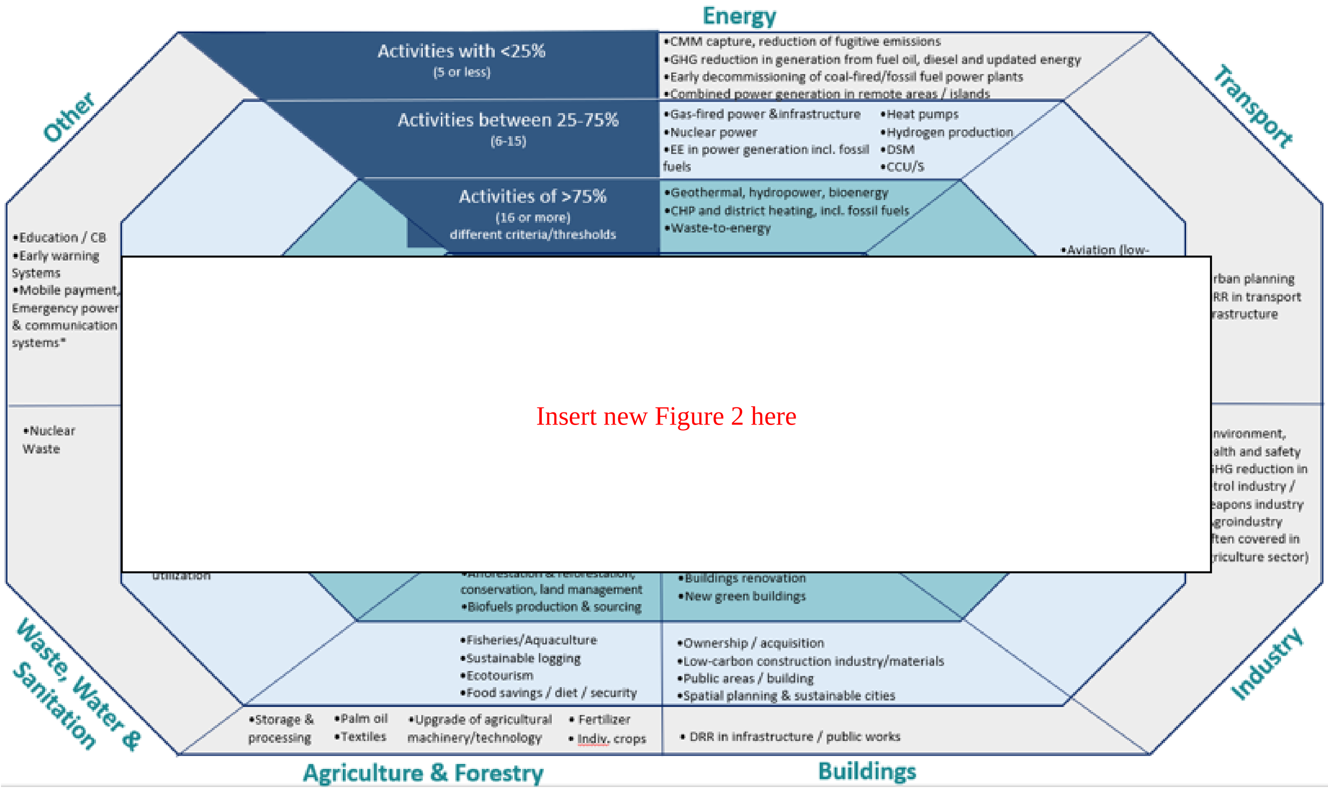
18. Regarding the composition of climate finance definitions found in BRs, most Annex II Parties referred to mitigation and adaptation. Further four Annex II Parties referred to other types of support, including response measures, forestry and the Glasgow Climate Pact's four themes.[4] Three Parties explicitly referred to other elements - instruments, channels, geography, sources.

19. Regarding composition of climate finance definitions among government-led and independent tracking systems, it is common that the eligible climate-relevant activities are aligned with overarching objectives or principles and/or national climate strategies. Commonalities among activities related specifically to mitigation according to the frequency of their appearance across reviewed classification systems are presented in figure 2 below.

20. Generally, among other providers of climate finance, it is common that definitions serving a diverse set of users include less granular climate-related descriptions to accommodate different contexts, needs and purposes, while those serving a narrower set of users comprise specific activities or lists detailed according to the specific reporting objectives.

[4] Clean Energy, Nature for Climate and People, Adaptation and Resilience, Sustainable Cities, Infrastructure and Transport.

Figure 2. Mapping of activities relevant to climate mitigation among existing positive activity lists and taxonomies



Exclusion lists or examples

ENERGY
•Coal-fired power (EU. BGD. MOB, THA), All solid fossil fuel (SGP)
•T&D dedicated exclusively to fossil fuel power {EU, COL, RSA, MOB, CBI, KEN, SGP, MEX,THA)
•MDB: peat-fired power. Brownfield displacement of carbon intensive fuel with lower carbon fuel when electricity generation only, Fossil fuel upstream and midstream. Nuclear power. First generation biofuels unless sourced from waste. Utilisation of gas from oil or coal production.
•CBI: Coal or oil power or combined heat and power {CHP) without CCS; WHR from coal or oil power. coal mining or oil upstream
•SGP, THA: New gas power plants, Power plants dedicated to support fossil fuel infrastructure or operations

TRANSPORT
• Fossil fuel dedicated infrastructure (MDB,EU, COL, RSA, CBI, SGP, KEN, KOR, MEX, THA)
• New road infrastructure (CBI, SGP)
• MDB: transport of blended fossil fuels
• CBI: oil tankers or other ships solely transporting coal or oil, non zero-emissions HGVs. biofuel vehicles
• COL: Hybrid vehicles
• SGP, THA: Infrastructure encouraging maintained / increased ICE vehicle use; Parking facilities; Fossil fuel filling stations
•THA: Road/rail vehicles using biofuels

INDUSTRY
•CBI: Products dedicated to clean-up or efficiency of fossil fuel energy
•PNG: Upgrades to coal/oil/diesel/gas technologies or facilities

BUILDINGS
•SGP: Buildings dedicated to extraction. storage, manufacturing, transport of fossil fuels'.

AGRICULTURE & FORESTRY
• CBI: agriculture/timber production on peatland
•MDB, Activities leading to deforestation
•MYS: illegal deforestation leading to soil degradation and release of C02
• MEX: animal husbandry if outside agricultural frontiers, on wetland, or protected areas/with land use change

WASTE, WATER & SANITATION
•CBI: Landfill waste collection facilities, Landfill without gas capture

Sources: AfDB et al, 2023; ASEAN, 2023; Bangladesh Bank, 2020; Bank Negara, 2021; Bank of Papua New Guinea, 2023, Bank of Thailand 2023; CBI 2021; Central Bank of Kenya, 2024; Central Bank of Sri Lanka. 2022; EU COM, 2021; Financial Stability Commission of Mongolia. 2021; Gobierno de Colombia, 2022; Gobierno de Mexico, 2023; Government of Republic of Korea, 2022; Government of the Republic of Kazakhstan, 2021, Government of the Russian Federation, 2021, National Bank of Georgia, 2022, National Treasury RSA, 2022. GFIT, 2023; Indonesian Financial Services Authority (OJK), 2024, PCOB. 2021.
Note: In the case of Malaysia, the mapping Is restricted to the common climate change mitigation activities as stated under Guiding Principle 1 (GP1), climate change mitigation of the document. "Activities to be developed in the future- are mapped as Indicative activities for the South Africa Green Finance Taxonomy. While technical screening criteria are under development, the ASEAN Taxonomy-Version 2 has been included only for the assessment of common or uncommon activities in scope, as they are indicated In the ASEAN Taxonomy- version 2 document through the provided activity list of selected focus sectors.

Note: **Data as of 04 July 2024** Abbreviations: AD=Anaerobic digestion, ASEAN=Association of South-East Asian Nations, BGD=Bangladesh, CBI=Climate Bonds Initiative, CCU/S= carbon capture and storage CHN=China, CHP=combined heat and power, CMM=Coal mine methane, COL=Colombia,, DRR=Disaster risk reduction, DSM=Demand side management, EE=Energy efficiency, EU=European Union, ICT =Information and communication technologies, IDN=Indonesia, KEN = Kenya, KOR = Republic of Korea, , LKA=Sri Lanka, MDB=multilateral development bank, MYS=Malaysia, MEX = Mexico, MNG=Mongolia, PMD=Personal mobility devices, PNG=Papua New Guinea, PV=Photovoltaic, RE=Renewable energy, RSA=South Africa, SGP=Singapore, SWH=solar water heaters, THA= Thailand T&D=transmission and distribution.

21. Several Parties rely on definitional approaches developed by international organizations or rooted in their national and sub-national green reporting systems when reporting on climate finance provided and mobilized which indicates that there are linkages between climate finance definitions in use under and outside of the Convention and the Paris Agreement.

C. Common methods for accounting of climate finance

22. Many Parties use the Rio markers of the OECD DAC as a starting point in accounting for the climate-specific shares of their finance flows. Those Parties apply coefficients for computing the climate-relevant share of projects with mitigation or adaptation as a significant or principal objective that vary between 30 and 50 per cent (for significant) or 85 to 100 per cent (for principal).

23. The common tabular format tables include both disbursed and committed amounts, with the majority of Parties reporting disbursements. For multilateral finance, a common practice is the application of a Party's climate share of a multilateral institution's total finance outflows to impute the climate share of that Party's general contribution to that institution.

24. Regarding accounting for private finance mobilized by public interventions, some Parties have introduced an instrument-specific approach related to the point in time when financial flows are measured, developed by the OECD DAC, as the objective is measuring private finance amounts mobilized by public amounts.

25. All Annex II Parties reported in their BRs on how they consider finance provided to developing countries to be new and additional using one of three methods, namely accounting for new commitments/disbursement per year, increases over previous commitments or funding above the ODA target of 0.7 per cent of gross national income.[5]

26. A common trend in BURs is the voluntary inclusion of information on measuring the outcomes of activities designed to address climate change through performance indicators. Some Parties link the performance indicators to the outcomes of past or ongoing climate finance interventions, while others state them in relation to activities that need funding or are planned for implementation.

27. Commonalities with respect to measuring climate finance outcomes are also found among many bilateral and multilateral development finance providers which use similar sets of mitigation and adaptation indicators and metrics to measure the impacts of climate finance interventions. While such methodologies are under development, this is another example of a linkage between the practice under and outside of the Convention and the Paris Agreement.[6]

28. Overall, the practices among other providers of climate finance are diverse, making it challenging to identify further commonalities within the range of accounting methods. An example is the point in time for measuring financial flows, which in some cases is when the amount is committed rather than disbursed, and in others when the funding decisions are approved.

D. Common practices in reporting climate finance

29. In the reporting practice under the Convention, Annex II Parties comply with the applicable reporting guidelines and tabular formats required. Some Annex I Parties not included in Annex II have followed the same reporting formats voluntarily, but not all disclosed methodological and definitional choices. Over time, Annex II Parties have provided more detailed and complete information on their approaches to tracking climate finance, as well as more complete data sets. It should also be noted that the ETF has introduced more granular reporting requirements.

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[5] One Annex II Party identified a separate environmental fund as the source of climate finance from traditional ODA channels.

[6] Further information on methodologies for measuring climate finance outcomes is available in chapter 1.5 of the sixth BA {link}.

30. The experience with BRs also points to a combination of challenges in the compilation and synthesis of information, as reflected in the respective reports of the secretariat prepared for each reporting cycle.

31. Among non-Annex I Parties, the proportion of reports that include climate finance information has steadily increased, and many Parties voluntarily used tabular formats to report data on climate finance needed and received.

32. The reporting practice of other providers of climate finance and reporting organizations reflects the diversity of their objectives, with implications for the reporting formats and parameters. For example, geographical coverage depends on the scope of operations and the respective organization's reporting objectives. As for Parties, sectoral information is reported according to multiple classifications. The granularity of activity-level data also varies, as does the number of reported instruments.

33. To track progress towards objectives and goals, providers of climate finance and specialized organizations aggregate data on climate finance flows based on methodologies that aim to overcome challenges resulting from differences in accounting and reporting approaches as well as inconsistencies in the scope and availability of data. However, different aggregation methodologies, interpretations and assumptions regarding the reporting objectives and goals have led to different results in tracking progress.

III. Conclusions

34. The review of BRs and BURs reveals a variety of definitional approaches applied by Parties. Furthermore, the review of BRs points to challenges for the comparability of information regarding the provision and mobilization of climate finance due to differences in the accounting methods and parameters some Parties use to report data and information, in addition to the differences in their definitional approaches.

35. Common practices among Parties relate to the use Rio markers as a basis for identifying climate-relevant financial flows, the application of coefficients for attributing shares of project finance to climate finance, and reporting based on disbursements, although not all Parties apply these practices. All Annex II Parties provided information on new and additional finance and many - on scaling up private investment in developing countries.

36. The ETF has expanded the scope and coverage of reporting and represents a major advance in harmonizing the reporting modalities, procedures and guidelines compared with national reporting through BRs and BURs, while preserving a bottom-up approach in the underlying assumptions, definitions and methodologies used, in recognition of the individual Parties' nationally determined processes and legal underpinnings. Some challenges in data aggregation are expected to persist under the ETF, for example due to issues of comparability. In this context, Parties' reporting on climate finance in the future could benefit from the continued identification of areas where the information on support provided under the ETF could be further improved, including though enhancing its comparability with a view to providing greater clarity and, to the extent possible, a full overview of aggregate financial support provided to inform the global stocktake.

37. As for Parties, there is no one-size-fits-all approach when it comes to defining the scope of climate finance flows tracked by other providers of finance and reporting organizations. The conflation of definitional, accounting and reporting elements within a single scoping approach exposes issues such as different objectives, legacy reporting systems and institutional and expert-level capacity constraints. This, coupled with variability in the elements included in the definitions in use, poses challenges for data aggregation.

38. Regarding measuring collective progress towards a goal, in addition to challenges with data aggregation, different methodological choices and assumptions on the quantification of progress towards the goal have led to organizations reporting different results even when information is drawn from data sets such as BRs or the joint reports on MDBs' climate finance, as noted in the SCF report on progress towards achieving the goal of mobilizing jointly USD 100 billion per year by 2020 through to 2025.

39. It is important to note that improved clarity of underlying assumptions, definitions and methodologies used in reporting on climate finance, in general and as expected under the ETF, will enable greater transparency, accuracy, completeness, consistency and comparability of data and will allow users to better analyse and draw conclusions from climate finance information.

40. As experience in climate finance reporting under and outside the Paris Agreement is accumulated, there is scope for exploring possible improvements in emerging areas such as the assessment of climate finance outcomes, as well as for continuing to explore opportunities for enhancing comparability in areas such as the assessment of the climate relevance of financial flows and the use of sectoral classifications, currency conversion methods and methodologies for estimating shares of finance mobilized through public interventions, with a view to assisting with the overview of aggregate financial support provided and mobilized.