



United Nations

FCCC/CP/2024/6/Add.4–FCCC/PA/CMA/2024/8/Add.4



Framework Convention on
Climate Change

Distr.: General
18 October 2024

English only

Conference of the Parties

Twenty-ninth session

Baku, 11–22 November 2024

Item 8(b) of the provisional agenda

Matters relating to finance

Matters relating to the Standing Committee on Finance

Conference of the Parties serving as the

meeting of the Parties to the Paris Agreement

Sixth session

Baku, 11–22 November 2024

Item 11(b) of the provisional agenda

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Matters relating to the Standing Committee on Finance

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 document.



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
COP	Conference of the Parties
DAC	Development Assistance Committee
ETF	enhanced transparency framework under the Paris Agreement
non-Annex I Party	Party not included in Annex I to the Convention
OECD	Organisation for Economic Co-operation 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 other climate finance providers, building on the information in the technical report by the SCF on clustering types of climate finance definitions in use,¹ including the executive summary thereof,² for consideration at COP 29.³
2. The report on clustering types of climate finance definitions in use and the earlier related work of the SCF reflect the understanding that, while there are commonalities among the definitions in use, what climate finance encompasses varies. In addition, the work 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 to reporting on climate finance followed by Parties consistently with the relevant 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.⁴ 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.⁵

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 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 BR5s and latest submitted BURs as at 30 June 2024. The first biennial transparency reports under the ETF are not expected before the end of 2024 and therefore were not available for review at the time of preparation of the report.
6. The review of practices of climate finance providers other than Parties covers the operating entities of the Financial Mechanism and other multilateral climate funds, multilateral development banks, development finance institutions, OECD members, private finance actors and data aggregators, as well as national and subnational authorities that implement domestic climate finance reporting systems.
7. The findings are presented separately for Parties and other climate finance providers in line with the approach applied in previous work of the SCF. Regarding the review of BR5s, findings for Annex II Parties and for Annex I Parties not included in Annex II to the Convention that voluntarily report information on the provision of climate finance to non-Annex I Parties are presented separately where the relevant information was reported using a different approach.

¹ SCF. 2023. *Report on clustering types of climate finance definitions in use*. Bonn: UNFCCC. Available at <https://unfccc.int/SCF>.

² [FCCC/CP/2023/2/Add.2–FCCC/PA/CMA/2023/8/Add.2](#).

³ Decision [5/CP.28](#), para. 7.

⁴ Decision [14/CP.27](#), paras. 9–10.

⁵ Decision [5/CP.28](#), para. 4.

8. The report comprises this executive summary prepared by the SCF and a technical report⁶ 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.

C. Challenges and limitations

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

10. Given that, under the Convention and the Paris Agreement, Parties adopt a bottom-up approach to reporting on the provision and mobilization of climate finance, their operational definitions and 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 its choices to determine its definition of climate finance, while another may regard such decisions as being integral to its definition of climate finance. Therefore, calling such choices “definitional” would not accurately reflect all views, which places limits on the technical work of identifying 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, provided inconsistently on a voluntary basis, or both. The review of information from other sources involves similar challenges.

12. Owing to ongoing developments in relation to national and international policies and regulations on sustainable and green finance, the review of common practices outside the Convention and the Paris Agreement is not exhaustive.

II. Key findings

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

13. In practice, the starting point in reporting on climate finance flows is determining the scope of the data to be collected. These data are 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 depicts the climate finance reporting cycle.

⁶ The technical report will be made available at <https://unfccc.int/SCF>.

Figure 1
Climate finance reporting cycle



14. There are a multitude of frameworks for reporting on climate finance. Parties' reporting under the Convention and the Paris Agreement is a key source of official information on financial support provided and mobilized, and needed and received. The first biennial transparency reports under the ETF, which expands the reporting formats and the requirements for data granularity and information on underlying assumptions, definitions and methodologies, are due by 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 approaches to defining, tracking, measuring and reporting climate finance provided and mobilized, and 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 their reporting systems to better fulfil those purposes. Some rely on broader green and sustainable finance frameworks for their tracking and reporting, which involve finance flows serving more than one sustainable objective.

B. Common practices in relation to climate finance definitions in use

16. Approaches to determining 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 BR5s and the latest BURs showed that the definitional approaches applied by Parties range from making concise statements, in which they link finance to climate objectives, to using elaborate systems of criteria or examples to 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 BR5s, most Annex II Parties referred to finance for mitigation and adaptation. Further, four Annex II Parties referred to other types of support, including for response measures, forestry and

delivering on the Glasgow Climate Pact across specific themes.⁷ Three Annex II Parties explicitly referred to other elements of climate finance, namely instruments, channels, geography and sources.

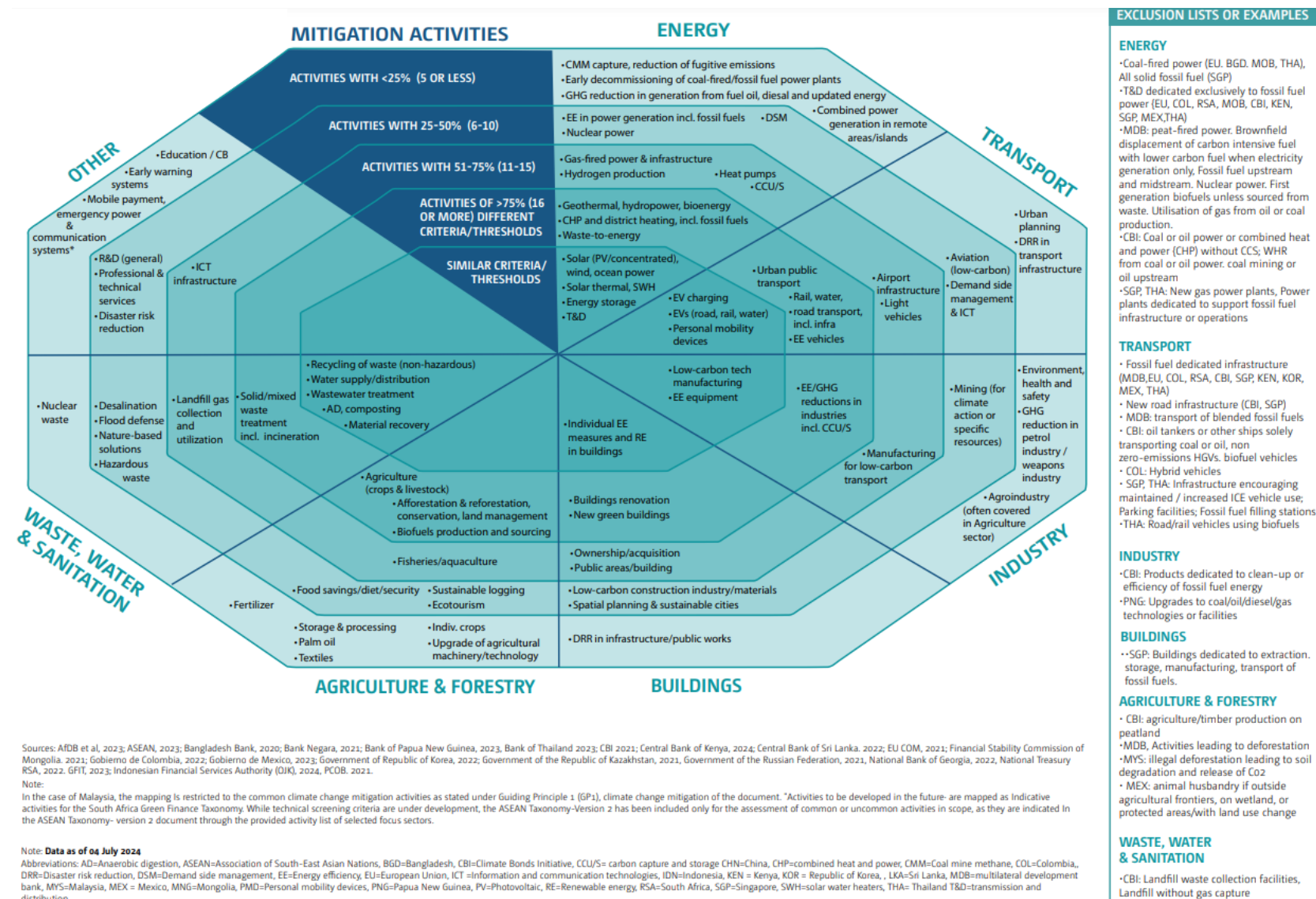
19. Regarding the composition of climate finance definitions among government-led and independent tracking systems, eligible climate-relevant activities are commonly aligned with overarching objectives or principles and/or national climate strategies. Commonalities among activities related specifically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

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.

21. Several Parties rely on definitional approaches developed by international organizations or rooted in their national or subnational 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 the Convention and the Paris Agreement.

⁷ Themes mentioned include clean energy; nature for climate and people; adaptation and resilience; and sustainable cities, infrastructure and transport.

Mapping of activities relevant to climate change mitigation according to the frequency of their appearance in reviewed classification systems



Source: SCF. 2024. *Report on common practices regarding climate finance definitions, reporting and accounting methods*. Bonn: UNFCCC. To be made available at <https://unfccc.int/SCF>.

C. Common practices in relation to accounting methods

22. Many Parties use the OECD DAC Rio markers 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 and 100 per cent (for principal).

23. In the common tabular format tables submitted with the BR5s both disbursed and committed amounts were reported, 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 through public interventions, some Parties have introduced an instrument-specific approach related to the point in time when financial flows are measured, developed by OECD DAC, as the objective is to measure private finance amounts mobilized through public finance.

25. All Annex II Parties reported in their BR5s on how they consider finance provided to developing countries to be "new and additional" using one of three methods, namely accounting for new commitments or disbursements per year, increases over previous commitments, or funding above the official development assistance target of 0.7 per cent of gross national income.⁸

26. A common trend in the latest BURs is the voluntary inclusion of information on measuring the outcomes of activities designed to address climate change through performance indicators. Some Parties linked the performance indicators to the outcomes of past or ongoing climate finance interventions, while others mentioned 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 the Convention and the Paris Agreement.⁹

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. One 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 decision is 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 required tabular formats. Some Annex I Parties not included in Annex II to the Convention follow the same reporting formats voluntarily, but not all of them disclose 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 requirements for more granular reporting have been introduced under the ETF.

⁸ One Annex II Party identified a separate environmental fund as the source of climate finance from traditional official development assistance channels.

⁹ Further information on methodologies for measuring climate finance outcomes can be found in chap. 1.5 of the sixth Biennial Assessment and Overview of Climate Finance Flows, to be made available at <https://unfccc.int/SCF>.

30. With regard to BR5s, experience points to several challenges in compiling and synthesizing the climate finance information reported therein, as reflected in the BR5 compilation and synthesis report prepared by the secretariat.¹⁰

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

32. The reporting practices of other providers of climate finance and reporting organizations reflect 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. Similar to Parties' reporting, 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, other providers of climate finance and specialized organizations aggregate data on climate finance flows using methodologies aimed at overcoming challenges resulting from differences in accounting and reporting approaches as well as inconsistencies in the scope and availability of data. However, the use of different aggregation methodologies, and interpretations and assumptions regarding the reporting objectives and goals have led to different results in tracking progress.

III. Conclusions

34. The review of BR5s and latest BURs revealed a variety of definitional approaches applied by Parties with regard to climate finance. Furthermore, the review of BR5s indicated the challenge of comparing information on the provision and mobilization of climate finance across Parties owing to differences in the accounting methods and parameters used to report data and information, in addition to differences in definitional approaches.

35. Common practices among Parties include using the Rio markers as a basis for identifying climate-relevant financial flows, applying coefficients for attributing shares of project finance to climate finance, and reporting on disbursements rather than commitments of climate finance, although not all Parties apply these practices. All Annex II Parties provided information on "new and additional" finance in their BR5s, and many reported on scaling up private investment in developing countries.

36. The required scope and coverage of reporting has been expanded under the ETF compared with that under the Convention, which represents a major advance in harmonizing the reporting modalities, procedures and guidelines compared with those for reporting through BRs and BURs, while preserving the bottom-up approach to determining the underlying assumptions, definitions and methodologies to be used in recognition of the individual Parties' nationally determined processes and legal underpinnings. Some challenges with data aggregation are expected to persist under the ETF, for example owing to issues of data comparability. In this context, Parties' reporting on climate finance in the future could benefit from the continued identification of areas where the information on financial support provided under the ETF could be further improved, including by 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 regarding the quantification of progress towards the goal have led to organizations reporting different

¹⁰ [FCCC/SBI/2023/INF.7/Add.1](#), para. 228.

results even when data are drawn from BRs or joint reports on multilateral development banks' 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 2025.¹¹

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 achieving a better overview of aggregate financial support provided and mobilized.

¹¹ SCF. 2024. *Second report on progress towards achieving the goal of mobilizing jointly USD 100 billion per year to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation*. Bonn: UNFCCC. To be made available at <https://unfccc.int/SCF>.