CFAS Climate Finance Advisory Service

CFAS GUIDE

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About this guide

This guide provides climate change negotiators with a synopsis of the key elements in the United Nations Framework Convention on Climate Change (UNFCCC)'s Biennial Assessment of climate finance flows. This is of relevance not only to the overall landscape of climate finance, but also to the emerging new global agreement on climate change, to be agreed at the UNFCCC Conference of the Parties in Paris in 2015.

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Biennial Assessment and Overview of Climate Finance Flows 2014

1. Introduction

Governments discuss and negotiate common goals around the causes and consequences of climate change under the United Nations Framework Convention on Climate Change (UNFCCC). Since 1992, industrialised countries have pledged new and additional funding to developing countries to help them meet their climate-related obligations, as stipulated by the UNFCCC.

The UNFCCC's Standing Committee on Finance (SCF) has recently made its first Biennial Assessment of Climate Finance Flows Report (BA). The highlights of this report are outlined here for the benefit of government decision-makers.

2. Background

In Cancun in 2010, the UNFCCC set the goal of limiting global temperature increases to no more than 2 degrees Celsius above preindustrial levels. To achieve this goal, the mobilisation of significant public and private capital for climate-friendly investments and capital reallocation from high-carbon to low-carbon technologies are required.

This climate finance goal has been – and remains – a focal point of the international climate negotiations. Industrialised governments made a specific commitment to increase their flows of climate finance to developing countries to US$ 100 billion per year by 2020.

For such commitments to be meaningful, it is essential to be able to measure the extent to which (i) developing countries fulfil their financial obligations; and (ii) disbursed funds achieve their intended results, i.e. whether the funds are effectively and efficiently deployed in mitigation and adaptation activities. Thus, tracking the delivery of commitments and completing the picture of the climate finance landscape is an essential step towards achieving the 2 degree Celsius target. Such an endeavour requires a clear picture of how much and what types of support are being made available, how the support corresponds to countries' needs and goals, and whether financial resources are being spent productively. All of these points are critical for improving transparency, thereby building trust among countries and ensuring the effective use of available financial resources.

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In 2010, the Conference of the Parties (COP) decided, as part of the Cancun Agreement, to establish a Standing Committee on Finance (SCF) to assist the COP in relation to the financial mechanism of the Convention.[1] One of the mandates of the SCF is to assist the COP with respect to Measurement, Reporting and Verification (MRV) of the support provided to developing country Parties, by means of activities such as the preparation of the Biennial Assessment and Overview of Climate Finance Flows Report.[2] The aim of the BA is to provide the COP with existing information on financial flows against the background of the objectives of the Convention by reviewing existing literature and to provide recommendations to strengthen the methodologies for reporting on climate finance.[3] The purpose of this paper is to provide a short overview on the findings of the first BA and the recommendations of the SCF to the COP. It will also provide some brief thoughts on how the identified recommendations can support future international negotiations.

3. Development of the first Biennial Assessment and Overview of Climate Finance Flows Report (BA)

The development of the first BA involved a synthesis of estimates on climate finance data and related information gathered from multiple sources. Such sources included national communications from developed and developing countries, biennial reports from developed countries,[4] information provided in the registry, reports prepared by the operating entities of the financial mechanism, and information available from other entities providing climate change finance.[5]

Due to lack of information, the financial needs assessments provided by non-Annex I Parties were not included in the first BA. On the needs assessment, the report recommends that further work on this process be undertaken to inform future BAs.[6]

The development and implementation of the BA included process and substance design, research and data gathering, stakeholder engagement, peer review, fact-checking by external contributors, report drafting and integration, and finally publication. Calls for proposals, side events, and web-based activities as well as two technical meetings ensured the involvement and regular update of the broader climate finance community on progress made.

The transparent and open approach adopted by the SCF for the development of the BA encouraged many interested organisations and observers (e.g. Multilateral Development Banks (MDB), the International Development Finance Club (IDFC), international organisations, research institutions, private sector financial institutions, and civil society organisations) to actively support the SCF both to outline the BA and to provide content. The first BA was presented at COP 20 in Lima and the recommendations of the SCF to the COP were published in November 2014.

1 UNFCCC (2011), Report of the Conference of the Parties on its sixteenth session, held in Cancun from 29 November to 10 December 2010, Addendum UNFCCC/CP/2010/7/Add.1.
2 Decision 2/CP17, paragraph 121, sub-paragraph (f).
3 http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/8034.php
4 The information of the biennial reports (BR) and biennial up-date report of 2012 are still subjects of an international review and analysis by the Expert Review Team and have therefore not been included in the BA.
5 Revised Draft Work Plan - Preparation of the First Biennial Assessment and Overview of Financial Flows (2014).
6 Para 20 of the executive summary of BA: See report of the Standing Committee.

4. Key findings of the BA and recommendations

The BA report aims to provide a comprehensive overview of past climate finance flows and trends based on existing information.[7] It does not provide projections of future finance flows and does not attempt to evaluate the effectiveness of past flows.

The BA reviews the operational definitions of climate finance and reporting systems used by institutions that collect climate finance data. A chapter about definitions and methodologies related to climate finance lays the groundwork for recommendations for improving the assessment/data gathering processes. The BA includes a chapter about MRV of climate finance and the MRV systems inside and outside the scope of the Convention. This chapter may serve as a starting point for the work on MRV to establish a framework which could serve as a basis for future reports. Looking forward, the BA could advance the on-going work by Parties to improve their reporting and assist the COP in the rationalisation of, and coherence and coordination within, the financial mechanism. Furthermore, the BA analyses the geographical distribution and thematic balance of financial flows. The analysis is based on the gaps and limitations identified in the BA, by taking into consideration relevant work by other bodies and entities.[8] Based on the data and analysis in the BA, the SCF elaborated key findings of the BA and provided several recommendations for consideration by the COP.[9]

a. Issues relating to defining climate finance

The absence of an internationally agreed-upon definition on climate finance within the UNFCCC has several consequences. A common understanding of the term "climate finance" (and related terms like "mobilised") is crucial for further climate change negotiations and to assess the outcome of the international negotiations. For example, there needs to be agreement as to what sources will be counted with regards to the commitment by developed countries to mobilise US$ 100 billion per year by 2020. The absence of a definition also affects (i) climate finance data collection and (ii) methods for reporting, reviewing and verifying climate finance flows. This ambiguity affects not only the completeness and comprehensiveness of the current climate finance picture, but also institutions' ability to track progress made toward the 2 degree Celsius target, countries' compliance with their commitments, and the degree to which funds are efficiently utilised.

The first BA prepared by the SCF aims to clarify terms used in the climate change negotiations and in the debate about what should "count" as climate finance. Institutions' reporting approaches (e.g. Bloomberg New Energy Finance (BNEF), the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC), reporting by the MDBs, or IDFCs) to aggregate climate finance vary, although there are common elements, as the reporting is done for different purposes and applies different methodologies. The BA provides a synthesis of the definitions elaborated by international institutions:[10]

> *"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."* [11]

Various institutions complement this core definition with different definitions of mitigation and adaptation and naturally have different eligibility criteria. As the transparency and accuracy of estimates of climate finance could be strengthened with a common definition, the SCF recommends that the COP:[12]

- considers the elements of the above-mentioned definition for future reporting under the Convention,
- requests that the SCF, in collaboration with relevant international financial institutions and organisations, continues technical work on operational definitions.

b. Climate finance flows

The first BA compiles existing literature on global total climate finance and international climate finance flows. **Global total finance** flows reflect all financial flows which aim to reduce net greenhouse gas emissions and/or enhance

7 Relevant background documents with regards to the BA and overview of climate finance flows are available at http://unfccc.int/cooperation_and_support/financial_mechanism/standing_committee/items/6881.php

8 The first BA includes the constraints and limitations the SCF faced during development.

9 UNFCCC - SCF (2014), Summary and recommendations by the Standing Committee on Finance on the 2014 biennial assessment and overview of climate finance, paragraph 4.

10 Definitions are aggregated in Table I-2 of the BA.

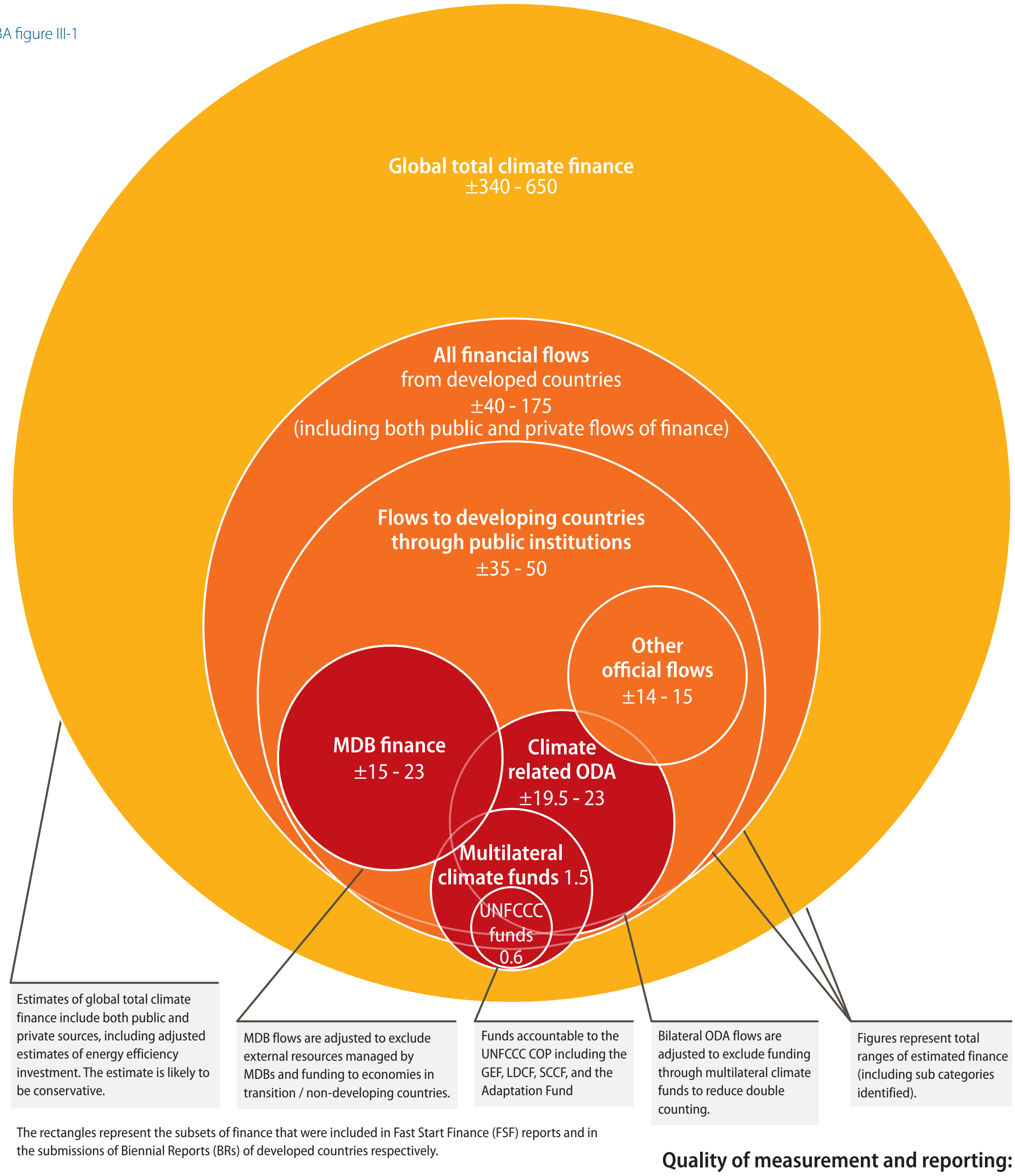
11 UNFCCC - SCF (2014), Summary and recommendations by the Standing Committee on Finance on the 2014 biennial assessment and overview of climate finance, paragraph 4.

12 Ibid.

resilience to the impacts of climate change. These flows are an important measure to track the progress towards achieving the 2 degree Celsius target. **International climate finance** refers to climate finance flows from developed to developing countries, multilateral channels, bilateral channels and private flows.[13] When it comes to the implementation of support schemes and deploying funds, the developing country is likely to be considerably more motivated and interested than the donor[14] to ensure effectiveness and efficiency, but also coherence and compatibility with national goals. The scale of global and international climate finance is illustrated in Figure 1.

Figure 1: Scale of global and international finance

Source: Slightly adapted from the BA figure III-1



Quality of measurement and reporting:

Relatively certain

Medium certainty

Relatively uncertain

13 The BA estimates other climate finance flows between developed countries (North-North) or developing countries (South-South).

14 The contributing countries' obligation is typically defined by a volume of support, not primarily by its effectiveness.

Enhancing the landscape and reporting on climate finance

Figure 1 illustrates that global and international figures show a substantial range of estimates. The limited **availability** and **comparability** of data and information is a major constraint that has been identified for the first BA. Several data gaps and limitations across different types of flows have been identified during the process of compiling the BA. Depending on the purpose and use, institutions apply different methods to report on climate finance. The BA provides a conceptual overview of the main methodologies for reporting public and private international climate finance flows to measure, report, and review these flows. Collectively, these methods form the basis for the determination of the global climate finance flows. Furthermore, the BA provides a preliminary analytical framework to assess the common and different reporting approaches of the UNFCCC, OECD, MDBs, IDFC and BNEF.[15] The comparisons include various dimensions, such as source of data, basis for reporting, sector, criteria to classify adaptation and mitigation projects, instruments, and quality assurance of reporting. Of particular importance are methodologies to measure the impact of mitigation finance on emissions and of adaptation finance on resilience, both of which need to be improved. As identified in the BA, efforts exist to improve data collection and harmonisation of tracking and reporting methodologies to increase the comparability of data on an aggregate level, to the extent feasible.

To build up the climate finance landscape and reduce gaps and limitations, the SCF recommends[16] that efforts in measurement, reviewing and verification of climate finance flows should be bolstered. The challenges and gaps, as well as the recommendation of the SCF are shown in Table 1.

Both a more comprehensive picture of the landscape, together with harmonisation efforts are important to improve the quality and availability of climate finance data for future reports and will require many steps over the coming years. This will require cooperation with relevant institutions and experts, including from the relevant bodies under the Convention and data producers, collectors, aggregators, and experts from both developing and developed countries. The improved climate finance landscape is a pre-condition to deepen the analysis of the current finance flows and trends (e.g. regions (incl. South-South flows), countries, sectors, adaptation vs mitigation, or type of instruments).

Table 1: Identified challenges, gaps and recommendations by the SCF

Challenges and gaps	Recommendation of the SCF
Data limitations and gaps: • Limited data on energy efficiency investments, private sector flows, household expenditures, finance from non-CO_2 source greenhouse gases, and national public expenditures for climate change activities in developed and developing countries • Short time series of data on finance for adaptation in developing countries and limited data in developed countries • Limited information about all actors/institutions involved in channelling climate finance, including the final recipients of the financial support and the impact of climate finance	• Enhance the provision of information on climate finance through consideration of developed countries' experiences • Support developing countries to improve their institutional arrangements, procedures, and systems to monitor and implement climate finance • Identify options to improve estimates of domestic public finance (e.g. Climate Change Public Expenditure and Institutional Reviews) • Assess current institutional arrangements for providing support for adaptation
• Lack of comparability of data due to use of different definitions and reporting approaches	• Invite relevant body under the Convention to improve the guidelines for reporting climate finance and to develop common reporting (e.g. for Biennial Update Reports by considering the experience of developed countries) • Support collaboration between the SCF and all stakeholders identified in the BA to strengthen tracking and reporting and to continue the harmonisation of methodologies of reporting climate finance, to the extent feasible. Example interventions include: i) introduction of a formal data assessment process; ii) improvements in the use of common definitions; iii) efforts to develop common methodologies • Invite multilateral climate funds, bilateral agencies, financial institutions and international organisations to advance common approaches to assess the impact of climate finance on greenhouse gas emissions

15 See Table I-3 of the BA.

16 BA paragraph 18.

5. Conclusions

Assuming the role of a technical committee, the SCF had the declared goal, with the BA, to present the status quo on climate finance. The scope of the first BA is to focus on climate finance flows, definitions, and methodological aspects. Based on the current literature, the first BA provides a clear and comprehensive outline of the current status of climate finance within the existing data limitations. The BA was aimed to be technical rather than political in nature, enabling the SCF to elaborate conclusions and recommendations for consideration by the COP based on its data and analysis. These conclusions and recommendations aim to **facilitate an informed discussion and provide a basis on which the COP can make decisions with all its authority**. The objectivity of the BA is of great importance, as politicising the BA could provoke the old and typically less constructive debate about the balance of the 20 members and the extent to which they are fully representative of the authority of the respective country groups.

The SCF recommendations highlight the importance of improving the climate finance landscape by working on a common operational definition of climate finance and the measurement, verification and reporting of climate finance flows. A more comprehensive and complete picture of the climate finance landscape is essential to track the progress towards achievement of both the 2 degrees Celsius target and the delivery of the commitments.

For future BAs it would be important to place climate finance in a broader context. It may be of interest to compare the issue of climate finance to globally aggregated financial flows in other areas, such as fossil fuel-based energy investments. Putting climate finance into a broader perspective with - a look toward the 2 degree objective of the Convention - would help the world transition to a climate-wise sustainable path.

The recommendations of the SCF to the COP could enable the enlargement of the BA's scope in the longer run. The SCF will need to discuss whether the BA is the appropriate mechanism by which to tackle these limitations and constraints. Further, based on the experiences of the first BA, the COP may wish to amend its mandate to the SCF for future BAs. The implementation of some findings, however, requires the cooperation of institutions beyond the UNFCCC, including governments, development finance institutions, research institutions, NGOs, the private sector, and for the sake of efficient international data collection and management, certainly the OECD.

It will be interesting to see how the COP will use the first BA and the recommendations of the SCF. It seems, however, that there is an important role for a body under the UNFCCC that is attempting to collect and provide information at the UN-level to inform the discussion **prior** to the commencement of political negotiations. This may be one way to improve upon the often-perceived inefficiency and ineffiacy of negotiations and decision-making at the UN level.

About CFAS

The Climate Finance Advisory Service (CFAS) offers negotiators, policy makers and advisors in the poorest and most climate vulnerable countries bespoke information and guidance to help them effectively participate in complex global climate finance negotiations. It is supported by the Climate and Development Knowledge Network (CDKN).

About CDKN

The Climate and Development Knowledge Network (CDKN) aims to help decision-makers in developing countries design and deliver climate compatible development. We do this by providing demand-led research and technical assistance, and channeling the best available knowledge on climate change and development to support policy processes at the country level.

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Climate & Development Knowledge Network

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