Monitoring and tracking long-term finance to support climate action

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Outline

1. Why focusing on Climate Change Finance?

2. Key elements of a MRV system for climate finance

3. Existing information systems at a glance

4. Two ‘strawman’ proposals for an integrated and comprehensive MRV system
Why improve MRV of climate finance?

Achievements of the Cancún Agreements

- A formalised **collective commitment** on climate finance by developed countries to provide new and additional funding for developing countries, both in the short and longer term
- **A call for improvements on current reporting** of climate finance under the UNFCC, both regarding the frequency and coverage of reporting (NCs, BRs, registry)

**Key question**

- How does the international community perform against the finance goals set out in the Cancún Agreement?

**Key issue**

- MRV system for the relevant financial flows to help countries assess compliance with commitments, and to facilitate the effective implementation of these commitments

**Starting point**: the existing effort to track climate finance lacks transparency, comparability and comprehensiveness
Where to start from? Some definitions

Preamble
● No internationally agreed definition of what constitutes ‘climate finance’

Our definitions
● **Climate finance** (‘climate-specific finance’):
  ◆ capital flows that target low-carbon or climate resilient development – GHG mitigation or adaptation are explicitly stated objectives or outcomes
  ◆ both international public or private financing flows, in practice also domestic.

● **Climate-relevant finance:**
  ◆ a much broader set of capital flows (public or private) from developed to developing countries that will influence (positively or negatively) emissions and/or vulnerability to climate change in developing countries
  ◆ flows that support development and economic growth in key emitting sectors or to sectors affecting vulnerability to climate change
Understanding the scale and sources of climate finance

North-South finance flows for mitigation: climate-specific and climate-relevant

(2007-2009 average estimates, billion USD)

Source: Authors, compiled from various sources UNCTAD, 2010; OECD DAC-CRS; World Bank (2006 and 2010a).
## Two strawman proposals

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<thead>
<tr>
<th>Strawman option 1</th>
<th>Strawman option 2</th>
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<tbody>
<tr>
<td>Expanded Direct Reporting by Parties – focusing on NatComms and Biennial Reports</td>
<td>Limited Direct Reporting by Parties – institutional collaboration, draws on external (non-Party) sources</td>
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In both options:
- UNFCCC main recipient of data flows, serve as ‘clearinghouse’ of information
- Relies on OECD DAC CRS data, either as direct input or as verification mechanism
- Strengthened focus on private finance flows
Main elements of a MRV framework for climate finance

Sources - origin (country)

Public finance
- North-South
- South-South
- domestic

Public-private
- ... (additional options)

Private finance
- ... (additional options)

Intermediary
- bilateral
- multilateral
- ... (additional options)

Instrument
- Climate + investment policies
- offset finance
- grants
- concessional loans
- capital
- ... (additional options)

Recipient
- adaptation / mitigation (or relevant sectors)
- specific uses (e.g. sector endpoint, project type)
Strawman option 1: Expanded Direct Reporting by Parties

**Financial flow**

- Annex II support (ODA and OOFs)
- Non-Annex II support (South-South flows)
- Public finance leverage ratios of private finance
- Non-Annex I support received and requested

**Suggested reporting entity to UNFCCC**

- Nat’l Governments (via UNFCCC NC/BR)
- UNFCCC main recipient of all data flows

**Strengths**

- Builds off and strengthens the existing reporting and review system under the Convention
- Political advantage (agreed reporting framework)

**Weaknesses**

- Holes due to the need for data that cannot be provided by Parties
- Misses private flows (FDI, CDM) and other elements (export credits) - can only focus on public flows
- Risk of poor statistical harmonisation; or of duplication
- Significantly increased engagement across Parties and Secretariat

**Notes**

- □ system established for reporting
- □□ system established but reporting hurdles in place
- □□□ system not yet established for reporting
Strawman option 2: Limited Direct Reporting by Parties, Supplemental Reporting by IGOs

**Strengths**
- Less burdensome approach for Parties than Option 1
- Relies on existing, reliable information systems
- Increases efficiency, avoids duplication
- Allows NCs to be refined

**Weaknesses**
- Requires time to build the system, harmonise systems
- Increases reporting requirements, requires level of harmonisation
- May undermine current NC system on reporting finance
- Questions about governance re: OECD DAC system

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**Notes**
- System established for reporting
- System established but reporting hurdles in place
- System not yet established for reporting

**Financial flow**
- Bilateral (ODA, OOFs)
- Export Credits
- Non-Annex II support (South-South flows)
- MDBs (concessional, non-concessional)
- FDI
- Carbon finance
- Public finance leverage ratios of private finance
- Non-Annex I support received and requested

**Suggested reporting entity to UNFCCC**
- OECD DAC CRS
- UNCTAD/OECD
- To be determined
- Nat’l Governments (via UNFCCC NC/BR)

**UNFCCC main recipient of all data flows**
Bottom line

- There is no internationally agreed definition of climate finance, translating into two major challenges:
  - defining public climate finance flows
  - defining private climate finance flows

- There is no integrated international system for storing and accessing financial data
  - Individual components of a system reside in UN agencies and several non-UNFCCC sources, including the OECD, IFIs, non-profit research organizations and the private sector

- A more comprehensive, transparent and robust MRV system for climate finance is possible -- building upon and improving existing information systems

- Regardless of what how the future MRV system for climate finance will look like, consider how to improve the currently weak verification of reported financial flows
Questions for discussion

1. **Why track climate finance?** What are the priority goals for an improved system of MRV of finance?

2. **How to include private finance** in any tracking system and in particular how international climate finance is leveraging private finance to support climate action?

3. **How do countries and institutions track climate finance today?** What successes and challenges exist to provide more comprehensive and comparable information in the key areas of importance?

4. **How to build an integrated and robust MRV system** (e.g. see suggestions in Strawman options 1 and 2)?
   - In particular, **how build on information from other intergovernmental organizations and use in conjunction with Convention reporting instruments (i.e. NCs, BRs, Registries)?**
For further information and related work

OECD website and previous CCXG papers:

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CPI website:

http://www.climatepolicyinitiative.org/
Contact: barbara.buchner@CPIVenice.org

ODI website: www.odi.org.uk
Contact: j.brown@odi.org.uk
## Existing information systems for climate finance

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<thead>
<tr>
<th>System</th>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>UNFCCC National Communications (NCs)</td>
<td>Periodic information by Annex II on bilateral financial support in developing countries; information by Non-Annex I on support received</td>
<td>Inconsistent and incomplete data; no information on amounts disbursed/received; no information on what level of support is directed to specific categories, sectors, technologies</td>
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<td>OECD CRS System (Rio Markers)</td>
<td>Most comprehensive system for tracking climate finance flows; data over 10 years; ‘principle’ and ‘significant’ objectives</td>
<td>Does not allow exact quantification of support to climate change goals; multilateral flows not incorporated</td>
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<tr>
<td>MDB Reporting</td>
<td>Public databases available</td>
<td>Not comparable, in most cases Rio markers not applied</td>
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<tr>
<td>Export Credit Reporting</td>
<td>Robust reporting through OECD TAD</td>
<td>No ‘climate specific’ data</td>
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<td>Information on Offset Markets</td>
<td>Various info sources: WB, IDEAcarbon, Point Carbon; UNEP/RISOE etc</td>
<td>No systematic monitoring of financial flows or investments from offset projects</td>
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<td>Information on FDI</td>
<td>UNCTAD FDI online; OECD statistics online</td>
<td>No clear definition on ‘climate-specific’ FDI</td>
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<tr>
<td>System</td>
<td>Recommendations</td>
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<tr>
<td>UNFCCC National Communications (NCs)</td>
<td>Include reporting by all Annex I parties, as well as non-Annex I parties providing support; increase consistency; greater detail on key support metrics; better reporting of phase of implementation</td>
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<td>OECD CRS System (Rio Markers)</td>
<td>Incorporate multilateral contributions; increased integration with non-DAC donors; work to apply Rio Markers to disbursements.</td>
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<tr>
<td>MDB Reporting</td>
<td>Work towards full reporting to the OECD DAC</td>
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<tr>
<td>Export Credit Reporting</td>
<td>Apply OECD DAC CRS methodologies, Rio markers</td>
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<tr>
<td>Information on Offset Markets</td>
<td>Parties need to decide on accounting rules; assign UNFCCC to report estimates.</td>
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<tr>
<td>Information on FDI</td>
<td>Need agreed definition of ‘green’ or ‘climate specific’ FDI. In short term, include flows to RE and environmental services on the mitigation side</td>
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Building on - but going beyond - existing systems