Expert Workshop on Tracking Long-Term Climate Finance from the Private Sector and the Multilateral Development Banks

Organised by the Climate Change Expert Group and the OECD Development Co-operation Directorate

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Chair's Summary

The aim of the workshop was to i) share experience of existing methodologies to track private sector flows for climate change and to discuss how these methodologies could be reinforced; and ii) raise the level of understanding of the integration of climate change flows from multilateral development banks (MDB) into the OECD Development Assistance Committee (DAC) Creditor Reporting System (CRS) database.

The workshop was chaired by Hedwig Riegler (Chair of OECD DAC Working Party on Statistics), and had participation from 22 countries, the World Bank, IADB, EIB, UNFCCC and UNEP as well as representatives from research organisations and business.

Introduction and general conclusions

In her introductory remarks the Chair highlighted the need to distinguish between "narrative reporting" and "measurement". In the context of climate finance, measurement of flows requires as a minimum the definition of: i) overall set of "climate finance flows", ii) relevant sub-sets (public and private climate finance, flows in support of mitigation and adaptation); iii) quantitative variables (reporting based on commitments and disbursements as opposed to pledges); and iv) point of measurement (timing and location of activities). Ambiguity about these technical aspects could easily result in inconsistent reporting on flows. The CCXG Secretariat briefed participants about the status of international climate negotiations and noted that it is difficult to divorce the technical questions on measurement from the political aspects of climate finance (in particular the financial commitment entered into by developed countries at COP16 to mobilise $100bn per year by 2020 of climate support for developing countries).

The DAC Secretariat presented the DAC statistical framework – coverage, definitions of official vs. private and bilateral vs. multilateral flows, support provided vs. support received – to set the scene for the discussions on tracking different types of flows. Further clarifications were provided on international vs. domestic finance, concessional vs. non-concessional flows, and the scope for collecting data on mechanisms currently excluded from the system (e.g. risk mitigation instruments for which separate indicators could be developed).

The workshop was organised in four sessions, each focused on tracking a different type of financial flow: carbon markets, public sector interventions to leverage private sector investment, other private sector flows, and flows from multilateral development banks. The key points of discussions in each session are highlighted below. In general, the workshop was successful in sharing information on tracking climate finance flows, and in generating additional questions that would help define future work in this area.

Discussions highlighted that tracking financial flows is not straightforward due to the complexity of the climate finance landscape (multiple types of flows, distributed via multiple channels in a variety of countries, and serving multiple aims) and data gaps which still exist, especially on private sector flows. However there was general agreement that some progress was possible, even in the absence of political decisions on what counts as climate finance, and that the OECD could advance reflection on the definitional and methodological issues given its long experience in collecting statistics on aid and other resource flows to developing countries. Delegates noted that it would be helpful to pin down where better data are needed, e.g. on private flows beyond energy investments. Some technical suggestions might also be possible on measuring private flows catalysed through public funding to investment funds and PPPs, recording guarantees and the flows they catalyse taking into account the fact that guarantees are not flows in themselves, or using proxies to estimate leveraging impact for project categories that might have similar characteristics. Progress could also be made in proposing definitions for what qualifies as a "climate change investment", although ultimately these decisions might be political in nature. The Secretariat will be preparing a draft paper for the Climate Change Expert Group (CCXG) seminar on 19-20 March 2012 which will propose some ways forward.

The Chair noted in her wrap-up that at least three different types of measurement had been addressed in the presentations and discussions, thus clarification seemed necessary as to what to measure: 1) mobilisation of resources, 2) actual flows 3) effectiveness or impact of investments? While there might be a justification for all three types, each required its own approach and basis of measurement, depending on the purpose of measurement and use of data (e.g. for monitoring progress on commitments for financial flows or assessing effectiveness of investments etc.). If progress towards establishing a firm measurement basis for tracking climate finance was to be made, definitional work was required also in terms of what is meant by "new and additional", "mobilised", and which sources to count.

Key themes from the individual sessions of the workshop

Carbon markets:

This session focused on methodologies for identifying and aggregating carbon market financial flows and underlying investments. The presentations and discussions highlighted several themes:

- There is a large difference in volume between carbon market revenues from credits, and investment in underlying projects. While the data on both are patchy and subject to lags, there are more unknowns about sources of project-level investment (e.g. domestic vs. international).
- There is a need to distinguish financial flows of credit trading (secondary market) from primary transactions that involve real projects, where data are less available. Up to 65% of financial flows related to CDM are secondary market, though total estimates will differ depending on whether you look at CDM projects that have received credits, those that are registered or in the wider pipeline, or also other markets (voluntary, new mechanisms etc.). Credit prices are often confidential and data have to be gathered by surveys and extrapolated through models.
- Many CDM projects are unilateral in terms of underlying investment being sourced domestically in the host country at the time of registration (although this can change over time as international investors are attracted). This implies that the international financial flows associated with such projects could be less significant than initially thought, but better data on underlying investments are needed to qualify this point. (Domestic funding would not be captured in the DAC database).
- Identifying the level of international carbon finance flowing via the carbon market has a high "political" component, as decisions will be needed e.g. on if/which flows in this area could count towards the $100bn commitment, given that most credits are finally used as a contribution towards meeting mitigation targets. Similarly, demand for offsets will also be affected by political issues, including the future of Kyoto Protocol.

- Biennial reports to be submitted by countries to the UNFCCC might be a good starting point to track carbon market flows.

Public sector interventions to leverage private sector investment:

In this session, the DAC statistical framework (e.g. definitions, coverage) was presented in detail and used to illustrate the complexity of tracking private finance leveraged by public interventions. Through three concrete examples (GEEREF, CP3, ITF)[1], the DAC Secretariat explained the extent to which a statistical system such as the DAC CRS could capture the total volume of public and private financing catalysed by these mechanisms. Possible limitations and challenges were also highlighted (i.e. double counting of financial flows). Participants were invited to give their views on how the concept of leveraging should be defined (broadly or narrowly), and share their experience with regard to the existing methodologies for tracking private climate finance leveraged by these types of interventions.

More specifically, discussions on definition of the term "leveraging" included the following issues:

- Public sector flows are important in the context of overall climate finance flows, and also have an important role to play in leveraging private finance, directly or indirectly.
- There are several different possible definitions of leveraging, varying from the usual meaning of the term in the financial world (amount of debt that could be raised for given equity) to co-financing for projects. Delegates did not agree whether or not further work is needed on defining leveraging, or whether efforts should focus on defining mobilised (as per the Cancun Agreement texts). However, any proposals to expand DAC statistical collections in this area would require definitions and would need to address the specific issue of double counts.
- Being clear about the counter-factual is important and not easy (i.e. what investment would have happened in the absence of climate finance?).
- The extent of leveraging is not a good reflection of the 'quality' of a project or programme. Leveraging in the sense of public disbursement increasing private sector investment is highly related to investment risk and associated returns, and this varies by project type and sector. For example, adaptation-relevant projects may have lower leveraging ratios as they offer lower risk but lower returns.
- Experience with public-private-partnerships (PPP) outside of the climate finance sphere has highlighted the complexity of tracking private to public ratios in large investment programmes.

Other private sector flows:

This session focused on how to track private sector flows outside of the carbon market (e.g. Foreign Direct Investment (FDI)). Key points of discussion included:

- There is no clear definition of what constitutes a private investment relevant to climate change. The level of private sector flows is highly uncertain (partly because it is not clear what to count, e.g. in terms domestic vs. international investment, 'green FDI', clean energy, additional flows, loan guarantees, etc.).
- Private sector investment flows are complex, making it difficult to track the original 'domicile' of the finance, and whether it was mobilised for climate finance purposes.
- Tracking private sector climate finance flows is difficult also as there is currently a lack of comprehensive and sufficiently detailed data on private flows in general. For example, the OECD

[1] GEEREF: Global Energy Efficiency and Renewable Energy fund. CP3: Climate Public Private Partnership (CP3) for Asia. ITF: EU-Africa infrastructure Trust Fund.

data on FDI flows are disaggregated by recipient and by industry but relate only to FDI from OECD member countries; the Bloomberg New Energy Finance (BNEF) database tracks clean energy finance flows; other sources have only patchy data.

- Defining and measuring green FDI from existing statistics is the challenge while most governments are generally unwilling to launch new data collection exercises. OECD (DAF) is working on meaningful indicators of green FDI by record linkage of FDI and environmental accounts.
- Data quality also varies. The main issue for FDI is however that the data do not necessarily reflect the ultimate recipient countries of the investments as finance can flow through intermediaries.
- 'Clean' energy data (not including large hydro, natural gas or other fossil fuel plants) are available in detail from BNEF, including some information on financial sources, but 'buffers' are used to be sure of capturing all investments. The data do not always distinguish between national and international flows, however there may be a possibility to improve this.
- Participants did not agree on how to define "additional" finance (or even if it was necessary at this point to do so), but consensus emerged that understanding the full landscape of finance – i.e. investments in low-carbon activities and infrastructure – is important to be able to subsequently define what is additional and what is counted towards international climate finance commitments.

Flows from multilateral development banks:

The session focused on climate finance flows of multilateral development banks (MDBs), and on their possible inclusion in the OECD DAC CRS database. It included the following discussion points:

- The DAC approximates countries' multilateral support to climate change through "imputed amounts", i.e. climate-related shares of their core contributions to MDBs. Shares are calculated as the percentage of MDBs' outflows targeted at climate change.
- A shift towards low-carbon and climate-resilient development can be observed in MDBs, several of which are now bound to lending targets in this field. However, their projects remain first and foremost developmental, and climate objectives are generally only secondary considerations.
- MDBs are working together on harmonising their methodologies for tracking climate flows. Joint tracking criteria are being established in order to create a common basis for accounting, both for mitigation (workstream led by IADB, close to agreement) and adaptation (led by AfDB, early stage of discussion).
- MDBs will report on Rio markers to the OECD DAC CRS using these common criteria in future, but they may need to maintain their own specific criteria as well, for the purpose of their internal reporting.
- Rio marker data in the DAC CRS database distinguish between funding that is either "significantly" or "principally" targeting objectives as laid out in the Rio Conventions. The possibility to better quantify these data was discussed. Some governments apply a fixed percentage to funding amounts scored as significant, and others (e.g. the World Bank) break down project costs to identify climate-related components. While the OECD is open to future work on quantification of markers, not all participants agreed that this would be feasible or advisable: markers were created as a qualitative measure; also, the non-climate-related portion of projects could be considered as having mobilised the climate-related portion, and thus should not be dissociated.

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