Monitoring, Reporting and Verifying systems for climate finance in EU and its Member States

Final Report







Report for European Commission Directorate-General for Climate Action

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Contact:

Adarsh Varma
AEA Technology plc
6 New Street Square, London, EC4A 3BF
t: 0870 190 1900
f: 0870 190 5545
e: Adarsh.varma@aeat.co.uk

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Author:

Adarsh Varma (AEA), Aaron Atteridge (SEI), Marianna Doria (Ecosecurities), Lena Ruthner (AEA), Chris Dodwell (AEA), Robert Tippmann (Ecosecurities), Marie Olsson (SEI), Chloe Beacham (Ecosecurities) and Robbie Gregorowski (ITAD)

Approved By:

Heather Haydock

Date:

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Signed:

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Executive Summary

The international community has agreed to scale up the flow of climate finance to developing countries and increase transparency in the fulfilment of these commitments. Such transparency requires an internationally agreed-upon framework for the measurement, reporting and verification (MRV) of climate finance, with common metrics and methodologies that do not yet exist. The complex web of funds and sources raises particular challenges in this regard.

This report aims to contribute to efforts to formulate an international framework in four key ways:

1. **First,** by developing a conceptual framework for MRV of climate finance;
2. **Second,** by presenting a summary of current approaches to MRV of climate finance within EU Member States, answering the following questions:
    a. **Measurement:** What flows are included? Which activities are climate-related, and what portion of project finance is attributable to climate objectives? How have MS sought to define the concept of 'new and additional'?
    b. **Reporting:** What is the scope for using existing reporting mechanisms such as the UNFCCC National Communications and OECD CRS database? How well is data disaggregated? Are contributions earmarked? Should Parties report committed funds, disbursed funds, or both?
    c. **Verification:** Should reports be subject to a formal review process? What role should independent parties play in verification? Is information publicly available? What is needed to improve existing verification?
3. **Third,** by mapping current practices to track private climate finance. Tracking private finance is more complex than tracking public finance, though certain type of flows – carbon markets, foreign direct investment (FDI), public leveraged private funds – can be tracked using existing systems. However, the methodologies and the role of UNFCCC Parties in reporting the efforts made to mobilise such funding require further attention; and
4. **Fourth,** by proposing options for improving MRV at the international level. A framework for MRV of climate finance would require improvements to each of the M, R and V elements, combining inputs from various UNFCCC and non-UNFCCC systems. The report suggests:
    a. **Measurement:** Develop guidance – preferably through the UNFCCC – on how to define and account for climate finance, using the Rio Markers as a first step.
    b. **Reporting:** Present data in a consistent format within National Communications and, and expand coverage to ensure it is sufficient.
    c. **Verification:** Provide opportunities for informal verification to supplement the formal UNFCCC process; this can increase the effectiveness of the system by bringing greater and more diverse resources to bear on the problem.

These improvements can be integrated over time to evolve into a more comprehensive system. In this context, we find that the EU can play an important role in improving MRV of climate finance by sharing best practices, developing guidelines which can inform the international system, and potentially by using the Monitoring Mechanism Decision (MMD) to harmonise EU practice.

Context of the study

Parties to the United Nations Framework Convention on Climate Change (UNFCCC) have recognised the need to "urgently enhance implementation of the Convention in order to achieve its ultimate objective in full accordance with its principles and commitments" (Preamble, Bali Action Plan). The Bali Action Plan recognises the need for "enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation".

At COP15 in Copenhagen, developed countries made a long-term commitment to jointly mobilise USD 100 billion a year by 2020 for a Green Climate Fund to support climate change mitigation and adaptation actions in developing countries. Funding is expected to come from a variety of sources, public and private, bilateral and multilateral, including newly created sources. The design of the fund is under development, with approval of a plan on the agenda for COP17 in Durban.

The European Council[1] has called on all international parties to ensure that such financing would not undermine or jeopardise the fight against poverty or slow progress towards the Millennium Development Goals (MDG). It has also stressed the importance of improving climate finance-related statistics for monitoring financial flows to developing countries, including Official Development Assistance (ODA).

Parties in international climate change negotiations, most recently at COP16 in Cancun in December 2010, have agreed on the need to increase climate financing for developing countries. There is also increasing expectation and agreement that these flows be transparent, so that fulfilment of commitments can be independently assessed, along with the effectiveness of how funds are used (i.e. outcomes on the ground). ***Achieving transparency requires a framework for the measurement, reporting and verification (MRV) of international climate finance.*** Decisions made in Cancun set out requirements to improve the measuring and reporting components, and created a work programme to delivering those requirements: a Standing Committee charged with – among other things – improving the MRV of financial support to developing countries through the financial mechanism of the Convention.

Any MRV of climate finance must first confront the challenge of defining what "climate finance" actually is. Although recent UNFCCC conferences have established key requirements and principles, there is no internationally agreed definition of what counts as "climate finance". In other words, it is not clear which flows, what themes or objectives (e.g. mitigation, adaptation, REDD, capacity building, technology transfer) and what specific activities within these themes should be accounted for under climate finance. Measuring climate finance is also challenging given its intricate linkages and overlaps with development finance. With the lack of a singular, uncontested definition of what it is and is not, different actors currently make their own decisions about what to call climate finance. The choice of themes eligible and the relative allocation to each theme is likely to differ across donor countries. ***There is therefore no agreed basis for measurement or methodology for tracking climate finance.***

The concepts of climate finance – the source of finance, its governance, and its delivery – are complex, involving many actors at all stages. Finance for climate change is sourced from both government budgets and capital markets, and can be channelled through various agents, notably bilateral and multilateral finance institutions, development cooperation agencies, the UNFCCC (various funds including those managed by the Global Environment Facility), and the private sector. Moreover, the proliferation of new funds, commitments and funding mechanisms over the past few years is bringing about incremental, yet fundamental, change in the existing architecture for global climate finance. ***The complexity of the emerging climate finance architecture exacerbates the challenges for monitoring, reporting, and verifying what financing has gone from where, to whom, and how.***

Existing reporting channels, such as UNFCCC National Communications (NCs), OECD Development Assistance Committee (DAC) Creditor Reporting System (CRS) database, efforts by the bilateral and multilateral development banks, and the EU's Fast-start Finance reporting, try to address some of these challenges but have not been systematically implemented. Since they do not cover all Parties or all types of flows, they also do not capture everything that might be considered "climate finance". The coverage of finance sources, reporting time frame and guidelines for reporting also differ considerably.

[1] Presidency conclusions of the October 2009 European Council.

Moreover, there are considerable overlaps between the various reporting channels, thus increasing the risk of double counting when information from different reporting channels is brought together.

To date, there has been no effort to harmonise climate related funds and their respective MRV approaches into a coherent system. However, the increased momentum and activities of some of the aid agencies and bilateral and multilateral development banks provide an opportunity to do so by building on existing expertise and sharing experiences.

The notion of some private flows counting towards the long-term commitment of $100bn annual climate financing by 2020 complicates the situation. There is an urgent need to explicitly define what private flows will be included and how they will be accounted for and monitored. As long as the discussion of both the expected share of private financing and the types of flows to be included remain ambiguous, the long term pledge will lack plausibility.

Ultimately, the Parties to the Convention will need to agree on the kind of data to be collected, reported and assessed. **This report provides four key outputs to contribute to efforts to formulate and implement an international framework**:

1. A conceptual framework for MRV of climate finance;
2. A summary of current approaches to and expectations from MRV of public climate finance within EU Member States;
3. Mapping of current practices to track private climate finance; and
4. Possible options for improving MRV at the international level.

(1) The conceptual framework for MRV of climate finance encompasses a range of different kinds of information for each of the parameters of measurement, reporting and verification.

The overarching goal of an improved MRV framework for long-term climate finance is to provide a clearer overview of international financial flows, trends, sources and purposes, so as to keep track on international commitments and their delivery; build trust among developed and developing countries through improved transparency and accountability; and improve effectiveness of international action.[2]

The conceptual framework was developed from a series of questions or parameters designed to fulfil these key principles. The key questions/parameters were:

- What is the total amount of eligible “climate finance” made available from each party to another?
- What financing is being defined as “climate finance”?
- What are the sources of this finance?
- How are funds channelled?
- In what form has this finance has been delivered? How much is made available via different instruments, including grants, concessional lending, non-concessional lending, and equity?
- Into which sectors are the funds going?
- What categories and activities are being supported?
- How are decisions being made about the use of climate finance?

In the context of this study, these parameters provide points of departure for analysing the existing approaches of EU Member States with respect to MRV.

Measurement, reporting and verification of climate finance are separate processes, although there are linkages among them. Each element can be improved individually, and each involves different stakeholders, though some degree of coordination and communication between the three elements is necessary. The table below outlines key questions and capacity needs:

[2] OECD (2011), Monitoring and Tracking Long-Term Finance to Support Climate Action (May 2011), Barbara Buchner (CPI), Jessica Brown (ODI) and Jan Corfee-Morlot (OECD).

Measurement of climate finance	
Three discrete components	**Required actions**
1. Decisions about **eligibility** and **accounting** of finance.	Clear, common guidance at the international level on these questions: • What contributions should be counted as "climate finance"? • What is "new and additional"? • When a project has multiple objectives, how much of the total finance is accounted as climate finance? • How should the distinction between gross and net finance be made?
2. **Defining what data to collect**.	Clear, common guidance at the international level. Different types of data and metrics are conceivable: • Monetary – i.e. quantified financial support, disaggregated by use/purpose. • Non-monetary – some description of the delivery of "in-kind" support, technical advice or expertise, and other non-monetary forms of support. Measurement should also include the number of projects and programs induced through climate finance, disaggregated by objectives/purpose.
3. Processes for actually **collecting the relevant data**.	This occurs on multiple levels. Each country must develop a data collection system for public finance to fit its domestic needs. Data collection may also necessarily involve multilateral institutions, since these are responsible for directing a significant portion of climate finance and make allocation decisions independent of the Member States. The process for collecting data on private finance is unclear at present, and some or all of the data might conceivably be collected by international institutions rather than the Member States.
Private climate finance	**Required actions**
Given the increasing emphasis being placed on a significant role for private "climate finance", clarity is urgently needed on what private flows might be eligible to be counted.	Clear, common guidance at the international level. It has been argued that relevant private climate finance might include: • Carbon market flows, possibly including CDM and/or voluntary markets; • Foreign direct investment (FDI) flows, for instance investments in clean energy or activities that have a clear adaptation benefit; • Philanthropic contributions;

	• Risk guarantee and insurance services. Such private flows might be privately initiated or publicly leveraged.

Reporting of climate finance	
Basic requirements	**Capacity needs**
Standardised reporting format – to enable comparison among Parties. Consistent methodologies to collect and analyse data.	Concerted effort and dialogue among government departments and finance institutions within Member States and between Member States and international agencies.
Reporting elements	**Required actions and capacity needs**
Key questions include: • Who needs to report (i.e. national governments, international institutions)? • Where do they report (i.e. through which channels or fora)? • How often do they report? • What forms of finance are covered (e.g. grants, concessional lending, non-concessional lending, equity)? • What data are reported? - Purpose: mitigation (including or excluding REDD+), adaptation, etc. - Specific sectors and/or activities supported. - Geographic distribution - Disbursed funds only, or also pledged funds? - Private financing leveraged by public funds.	Public flows should be reported at the national level, rather than by individual channels. This may require boosting institutional capacity, and also creates a need for concerted dialogue among government departments and finance institutions within Member States and between Member States and international agencies. In some cases it may require new expertise, as well as new arrangements for institutional cooperation. **UNFCCC National Communications** There seems to be an emerging consensus that National Communications are an appropriate venue for reporting on financial support. However, coverage needs to be expanded to include all Annex I Parties, and further guidance is needed for source and recipient countries to ensure greater consistency and more detail than presently provided. **The OECD Development Assessment Committee (DAC) manages the CRS database** The OECD CRS database provides a detailed platform for disaggregating finance data (ODA, bilateral climate finance tracked through Rio Markers). For this to meet the needs of an internationally acceptable MRV framework, use of the database would need to be expanded to include all Annex I Parties and non-ODA flows, improvements made to the reporting categories and clear guidance on the interpretation of the markers.

Verification of climate finance	
Validating reported data to ensure transparency and facilitate independent review and analysis	**Required actions and capacity needs**
Verify scale of support (i.e. of financial flows themselves) by comparing data from contributors and recipients.	Introduce process for review by independent, non-political technical finance experts.
Verify effectiveness of support –the actual achievement of climate-related outcomes (e.g. GHG emission reductions) and consistency with developing countries' own priorities. Verify cost-benefit of adaptation activities, or the wider benefits of low-carbon development.	Consider scope for ex-ante quantitative assessment of social, economic and environmental impacts (e.g. through use of carbon footprint tools). Assess supported actions against expressed domestic priorities in recipient countries, such as priorities identified in National Adaptation Programmes of Action (NAPAs) and nationally appropriate mitigation actions (NAMAs) as well as National Development plans and the Millennium Development Goals.

(2) Understanding of MRV of climate finance and current MRV systems varies across Member States.

European Union Member States, together with the European Commission[3], have recently made new commitments to finance international measures to tackle climate change. Most funds are aimed at supporting developing countries and hence have a close relationship with ODA. Given the complexity of mapping climate finance as well as the relatively early stage of development of these new funds, answers to many of the questions above are not readily available. Key findings from Member State consultation and a literature review are given in the table below.

Measurement of climate finance	Member State findings
Which flows are included as climate finance?	For most Member States, public climate finance is delivered within ODA budgets, using both multilateral and bilateral channels. In most cases, this means that Member States' definitions of "climate finance" apply to bilateral flows, while multilateral institutions decide which multilateral flows are defined as "climate finance". Export credits and contributions to Multilateral Development Banks are partially reported to the OECD-DAC, but not using Rio Markers. Measuring climate finance is becoming more difficult for some Member States as their ODA mode shifts away from project-based finance towards more programmatic funding and direct budgetary support.
Determining which activities are 'climate' related and what portion of project finance is attributed to	Member States have either adopted their own definitions of what is eligible to be accounted as climate finance or in some cases have attempted to identify climate-related projects without any clear definition. Most Member States use the OECD DAC Rio Markers guidance to assist in quantifying their climate finance contributions. However, the Markers and

[3] The European Union and its Commission are treated as a bilateral source.

climate objectives	existing guidance on their use appear to be too vague, making it difficult to ensure rigour in classification of activities even within a Member State. Interpretation of the Rio Markers guidance is viewed as highly subjective, resulting in inconsistencies in the definition and quantification of climate finance. Most Member States mentioned that improvements to guidance on use of the Rio Markers relating to climate change would be valuable, either from the OECD DAC or from the UNFCCC.
How is the concept of 'new and additional' is defined?	The concept of "new and additional" climate finance remains unclear, and there are diverging views among Member States about how this term should be applied. Agreeing on a common definition is a significant political challenge, especially since finance recipients also have a voice on this. Some Member States argue that the most important issue in the near-term is to improve transparency about how Member States are interpreting "new and additional", and to be transparent about the relationship between climate finance and development finance.

Reporting of climate finance	Member State findings
UNFCCC National Communications	Some Member States consider there is scope within the NCs for reporting most public and private financial flows that support climate objectives, based on the UNFCCC guidelines in the special Chapter on Financial Resources and Transfer of Technology. Two thirds of Member States respondents suggest the NCs can be used as a basis for climate finance reporting as part of an MRV framework. However, most Member States believe current UNFCCC guidelines require further improvement if they are to support comprehensive reporting by both contributor and recipient countries. Member States generally support the proposed work-plan within the UNFCCC to improve the definitions, principles and structuring of the finance reporting guidelines but also consider that they should – as far as possible – build on existing reporting systems, in particular the OECD DAC.
OECD CRS database	The CRS and Rio Markers are considered important reporting and measuring tools. The DAC guidance on use of the Rio Markers remains the only semi-detailed international guidance on how to identify and account for climate finance. The CRS database can be improved by including non-OECD members and other key multilateral institutions. There may also be merit, depending on technical feasibility, in compiling better information on a wider range of types of finance and support (i.e. grants and loans, loan guarantees, public/private partnerships and inclusion of non-ODA sources). Most Member States agree that there are strong parallels in data needs between the UNFCCC National Communications and OECD-DAC, and that use should be made of the Rio Markers and CRS codes.
How well is data disaggregated?	Most, if not all, Member States have disaggregated data for finance channelled bilaterally, including distribution by regions, countries, sectors and primary objective of the funds.

	The climate-relevance of some flows, such as budget support, cannot be measured, so they do not appear in reported data. MFIs do not typically report disaggregated data back to donors on how finance was used – that is, for what specific purpose (e.g. climate change), which countries, which sectors, what kinds of instruments – in a way that enables Member States to report in detail on how this portion of their overall contribution was used.
Are contributions earmarked?	Some Member States indicate that their contributions for the fast-start initiative and to some multilateral institutions and funds are earmarked for climate change activities, where the climate-relevant portion is decided in advance.
Reporting committed and disbursed flows	Some Member States (for example, Sweden, Slovakia, Spain and Greece) report disbursed funds only. Others (for example the UK, Finland, Germany and Czech Republic) report both committed and disbursed funds.

Verification of climate finance	Member State findings
Formal process	There is little in the way of verification of current flows. In formal terms, the UNFCCC prepares (occasional) in-depth reviews and reports on the National Communications, highlighting issues and problems related to the data collection and reporting. Assessments by Member States are made through project reports submitted to the agency for International Development Cooperation and through the Annual Assessment Report of ODA.
Should independent parties verify climate finance	Member States were split on whether independent parties should verify climate finance. Finland, the Czech Republic and the UK have independent companies verify climate finance.
Is information publicly available?	The majority of respondents report that information is made publicly available on the Internet in way that enables scrutiny of the data.
What is needed to improve verification?	Member States recognise the need for more clarity on how data provided by Parties will be assessed to verify its scale and effectiveness, and who has the responsibility for this. They see the role of developing countries as particularly important in this context. They also agree that there is a lack of standardised verification systems, and that clarity on the scope of verification is needed. There is a need for better indicators that incorporate new developments in monitoring adaptation as well as monitoring the indirect impacts of GHG reduction measures (Policies and Measures PaMs, R&D). At the UN level, what is currently missing is a clear delineation of who will deal with the finance data once it is reported, i.e. how the UNFCCC might follow up.

(3) Tracking private climate is more complex than public finance, though certain types of flows – carbon markets, foreign direct investment (FDI), public leveraged private funds – can be tracked using existing systems. However the methodologies and the role of UNFCCC Parties in reporting the efforts made to mobilise such funding require further attention.

Clear definitions and categories will need to be established that allow for the comparison of data across public- and private-sector climate finance flows. In the case of private finance, there is an urgent need to better define what has been and can be measured, as well as how – or when – private-sector contributions should be counted towards the climate finance commitments of Member States.

Private climate finance conceivably consists of carbon market flows, foreign direct investment (FDI), risk guarantee or insurance facilities, philanthropy, and publicly leveraged private finance. This report distinguishes between climate-specific and climate-relevant FDI. Most Member States do not yet report on private-sector climate finance, but a few highlighted the role being played by other organisations such as the OECD (which partially tracks private climate finance flows to developing countries), UNCTAD and Bloomberg New Energy Finance. Carbon market information is provided by the UNFCCC, UNEP Risoe, Point Carbon, the World Bank and EcoSystem Marketplace. The most advanced tracking of environmental philanthropy relevant to the EU with a focus on the UK is done by the Environmental Funders Network (EFN), while the European Foundation Centre tries to track environmental philanthropy at the EU level.

As of yet, there is no common methodology for calculating leverage ratios for measuring publicly leveraged private finance. To what extent can investment decisions and related financial flows by private entities, in particular when operating internationally, be linked to public financial incentives or subsidies? In the first instance, reporting on private-sector financing mobilised through decisive efforts of the public sector – through incentives, regulations, subsidies, and other schemes – could be collected in a descriptive format. Private finance, which typically seeks a financial return on investment, also runs into the broader question of how the distinction between gross and net finance is to be treated by an accounting regime.

Overall, a better understanding of private climate flows and how to leverage them is needed. Basic principles must be established soon for the long-term commitment to remain meaningful.

Efforts to boost reporting in the near term, even if imperfect, will foster more detailed discussions of which flows are eligible and which data sources are reliable, measurable and comparable. Both top-down and bottom up measurements have their strengths and limitations. The existing tracking systems for carbon finance, FDI and philanthropy should be further analysed and used when developing more sophisticated and comprehensive tracking systems for private-sector climate finance. The EU may be able to play a role here with respect to consolidation and bundling of information to ensure a certain level of comparability as well as with a view to providing an overall framework and methodology for the development of national systems, in particular where lacking.

(4) A framework for MRV of climate finance will require improvements to each of the M, R and V elements, combining inputs from various UNFCCC and non-UNFCCC systems. Actions to improve individual MRV elements are not mutually exclusive, but rather can progress in parallel and come together over time, to gradually evolve a more comprehensive system.

The measurement, reporting and verification of climate finance are separate processes. Improvements to each of these are essentially independent of one another, even though they can be implemented simultaneously. For each, therefore, we present a number of actions that can be taken to enhance the current systems.

Some countries have begun developing tools and systems for measuring and reporting climate finance internally, and these tend to build heavily on existing requirements or tools at the international level – in particular reporting via the National Communications and the OECD DAC CRS database. Therefore, many of the suggested options relate to how these imperfect existing tools could best be improved in a way that supports the overall objectives of an international MRV framework.

Measurement improvements aim to enhance *transparency* and *consistency.*

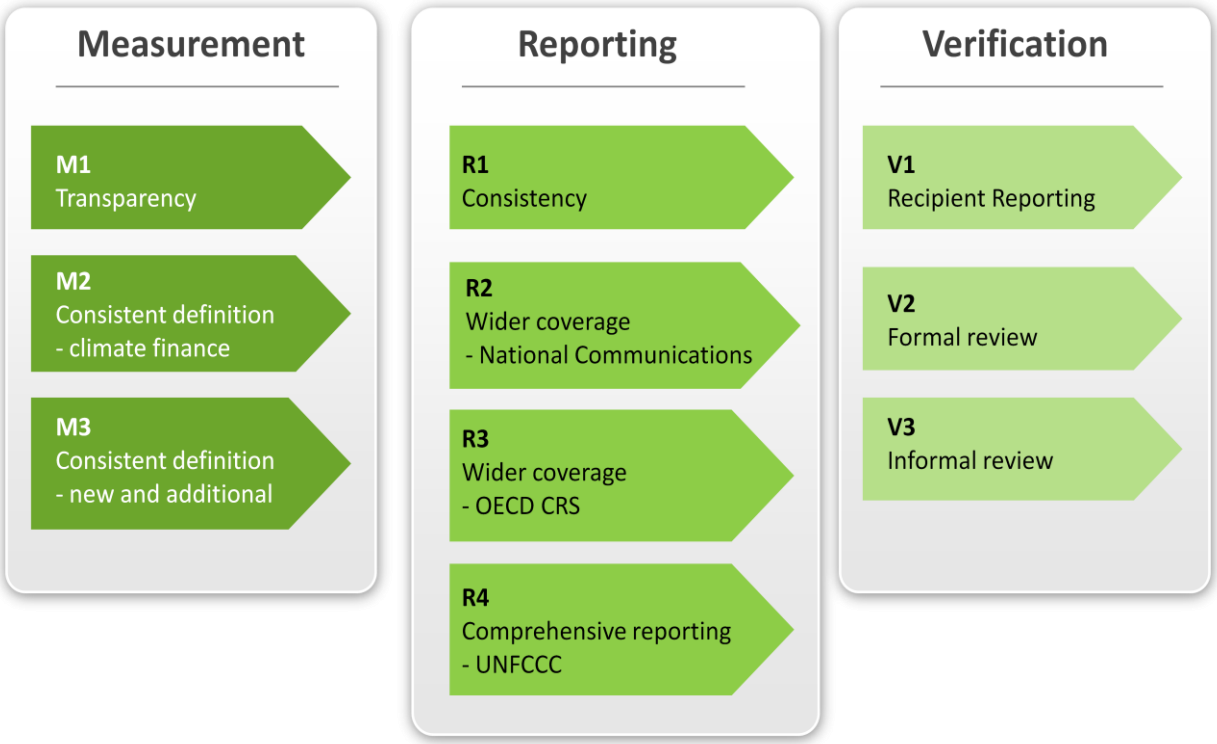
Reporting improvements aim to enhance *consistency* and *coverage*.

Verification improvements aim to support both *formal* and *informal* verification.

To improve *measurement*, it is essential that improved guidance is developed on how Parties should be defining and accounting “climate finance”. At present, what little guidance there is on these questions comes from the OECD DAC (in its guidance on use of the Rio Markers) rather than the UNFCCC. To establish legitimacy and support for MRV within developing countries, questions on defining and accounting should be addressed by the UNFCCC, even if the Rio Markers continue to play a role as a useful tool to assist in reporting.

To improve *reporting*, data should be presented in consistent formats within the National Communications and both the NCs and the CRS database should expand their coverage in order to bring together more of the climate finance picture.

To improve *verification*, formal reviews of reported data should be conducted through the UNFCCC (as is the case for GHG inventories, for instance). Efforts to enhance both measurement and reporting transparency and coverage, meanwhile, will greatly improve the potential for informal verification of climate finance data. Informal verification will significantly enhance the overall effectiveness of the system, by enabling more resources and more diverse analysis to be brought to bear, particularly on questions of where finance is going and how it is being used.



Strengths, weaknesses, opportunities and constraints (SWOC) analysis for developing a harmonised, transparent and efficient MRV framework for climate finance

Member States recognise that the existing systems can provide the foundation for a future comprehensive framework, but they require a number of improvements and changes. It appears likely that future MRV of climate finance will build, at least to some extent, on existing systems, which entails a degree of path dependency – with accompanying benefits and disadvantages.

The table below provides an overview of the strengths, weakness, opportunities and constraints for developing a harmonised, transparent and efficient MRV framework for climate finance, based on the MRV conceptual framework presented in this study.

Strength

- Existing systems well recognised and can serve as robust tool for measuring climate finance.
- Building on existing systems reduces burdens for Parties who already have established domestic systems for tracking and reporting data.
- Some countries have sophisticated systems that can be applied more universally.
- Increasing inter- and intra-national communication and coordination in Europe.

Opportunities

- Greater recognition of climate finance in UNFCCC conventions.
- Harmonised systems, so the National Communications and CRS data use the same definitions of climate finance and the same methodologies for accounting (measurement).
- Proposed changes to scope of UNFCCC National Communications and the option of UNFCCC as the origin of all guidance on climate finance, even where it relates to use of the OECD CRS system, can addresses key weakness and constraints.
- Fast-start finance can provide practical experience to aid design of future MRV framework for climate finance.

Weaknesses

- Climate finance definition, specially for adaptation and private finance, can restrict progress.
- Inconsistent coverage and requirements of existing systems.
- Existing guidelines provide too much scope for interpretation.
- Existing systems have not been set up for the purpose of supporting MRV of climate-related finance, so there may be limits to the extent to which they will fully and easily meet the needs of an MRV framework.
- The scope of verification is unclear and requires greater involvement of developing countries.

Constraints

- Private climate finance stakeholders are not integral part of key discussions.
- Developing countries' views are not in sync with developed countries', especially on definition, objectives and institutions involved in climate finance.
- Lack of formal governance and legitimacy for tracking climate flows. The OECD-DAC CRS database and the associated Rio Markers were not developed within the UNFCCC, nor were they developed to support MRV of climate finance specifically. Therefore, while potentially useful in the governance of climate finance – such as determining what finance is eligible and how it should be accounted – they are likely to lack legitimacy for developing countries.

The EU can play an important role in improving MRV of climate finance by supporting coordination and information-sharing and developing guidance

Our discussions with Member States brought out the view that the EU can play an important role in improving MRV of climate finance. EU Member States are at various stages of the learning curve for assessing and reporting climate finance. The EU-15 has a much larger share of climate funds and experience with MRV issues compared to the EU-12 countries. The EU can thus foster information-sharing, capacity-building, and sharing of good practices by transferring experience and knowledge from those Member States with well-developed systems, and it can encourage transparent and comparable reporting among its members.

Greater harmonisation and standardisation of reporting practices within the EU could be achieved if revision of the Monitoring Mechanism Decision (MMD) were to introduce new requirements for MRV of finance and technology support. The MMD could feasibly be used for introducing annual reporting, with a view to providing more comprehensive and consistent information on climate financing at the EU level. Such an approach could contribute to more informed policy formulation within the EU and could further support the EU's positioning in the context of international negotiations. Perhaps the revision of the MMD's most important benefit would be helping to close the gap between the EU-15 and EU-12 in their ability to measure, report and verify climate finance.

Member States are, however, divided on the proposition of developing a formal EU-harmonised platform for reporting to the UNFCCC through the MMD. Arguing that the EU is already playing an important role in improving the MRV process, for instance through its Fast Start Finance reporting, some Member States argue the EU should not establish a separate platform for reporting in addition to the UNFCCC. It was also noted among Member States that any new reporting requirement across the EU-27 will impose a disproportionate compliance burden on the EU-12 Member States (who currently do not have this obligation under the UNFCCC).

1 Objective and purpose of the study

1.1 Introduction

International climate change negotiations, most recently the 16th Conference of the Parties (COP16) in Cancun in December 2010, have agreed on the need to increase the scale of climate finance provided to developing countries. There is also a growing expectation that these financial flows be made transparent, so that fulfilment of commitments can be independently assessed, along with how effectively the finance is being used (i.e. outcomes on the ground).

Achieving transparency requires a framework for the measurement, reporting and verification (MRV) of international climate finance that all Parties of the Convention adhere to, in order to ensure trust between Parties and ensure that finance is directly linked with significant emission reductions. Maintaining confidence in the existing and proposed multilateral process is at least in part conditional to the developed countries' ability to deliver on the financial promises made.

There are already significant flows of finance from developed to developing countries which support climate change objectives, covering both mitigation and adaptation. At present, much but not all is accounted for as Official Development Assistance (ODA).

1.2 The starting point for MRV of climate finance

The architecture and institutional arrangements for MRV of climate finance are still very much work in progress. They build on three pillars:

- **The Bali Action Plan** (BAP paragraph 1b (ii)) introduced the notion of "measurable, reportable and verifiable (MRV)" as guidance for how Parties are to develop national actions to address climate change. MRV provisions apply to:
    - Mitigation commitments by developed countries (BAP paragraph 1b(i));
    - Mitigation actions by developing countries (BAP paragraph 1b(ii)) by developing nationally appropriate mitigation actions (NAMAs); and
    - Support by developed countries for actions by developing countries.

  The latter point is understood to cover the provision of technology, financing and capacity-building that enable and support nationally appropriate mitigation actions of developing countries. At this stage, the concept of "MRV" for other financial flows such as adaptation has not been introduced to the text. Instead, a slightly different concept of "monitoring and evaluation" has emerged.
- **The Copenhagen Accord** set out the commitment of developed countries to jointly mobilise USD 100 billion a year by 2020 to support mitigation and adaptation actions in developing countries. For the short term, the Accord also set out a commitment for developed countries to provide developing countries with fast-start finance approaching USD 30 billion for the 2010-2012 period, for enhanced action on mitigation (including Reducing Emissions from Deforestation and Forest Degradation, REDD), adaptation, technology development and transfer and capacity-building. It is in the interest of UNFCCC Annex I Parties as well as the wider international community (public and private financial institutions, NGOs, researchers, etc.) to have a tracking and reporting system that enables them to demonstrate that the funding they committed to mobilise in the Copenhagen Accord is actually provided.
- **The Cancun Agreements** emerging from COP16[4] reaffirmed earlier agreements on the provision of finance and the need for transparency. Requirements were set for improving measuring and reporting of climate finance, and a work programme was established to delivering these requirements. The COP agreed to establish a Standing Committee which will be commissioned with – among other things – improving the MRV of financial support to developing countries through the financial mechanism of the Convention.

[4] Draft decision -/CP.16, Outcome of the work of the Ad Hoc Working Group on long-term, Cooperative Action under the Convention (AWG-LCA)

While the origins of MRV lie within discussions about support for NAMAs, expectations are increasingly focused on enabling transparency on climate finance flows. On the "donor" side, this is essential for promoting effectiveness, identifying gaps or problems, building trust with developing country Parties (particularly within the negotiations), and reporting back to taxpayers on the use of public funds. On the recipient side, transparency helps improve coordination of projects and financial flows, and ensure that finance is being used in accordance with national priorities. It is also a tool to ensure pledges made within the UNFCCC are being met.

With this context in mind, our study of MRV covers a wider concept than just support for NAMAs. This study looked at all public flows that are intended to support climate change actions – both mitigation and adaptation – in developing countries. The study also reviews the possibility of improving transparency on private financial flows that may be delivering climate-related benefits, given that private finance has become a central issue in the negotiations.

1.3 What is the EU's position on MRV of climate finance?

The EU views the MRV of financial support as an important tool for building trust between Annex I Parties and developing country partners. The EU has argued in favour of enhancing transparency by improving the existing reporting methodologies and requirements. In the lead-up to COP16, the EU released a report on "Fast Start Finance"[5], compiling information on the activities of Member States and making it available to other UNFCCC Parties. Several international finance institutions including KfW (German Development Bank), AFD (French Development Bank), EIB (European Investment Bank) and NEFCO (Nordic Environment Finance Corporation) also jointly published reports in the lead up to both COP15 in Copenhagen and COP16 in Cancun, on their respective involvement in climate finance in developing countries. These represent important initial steps by the EU in transparently reporting financial flows. Ultimately, however, international MRV systems will need to line up with and go beyond these early efforts.

1.4 Overall and specific objectives of this study

The overall objective of this study is to provide analysis to help the EU further develop its position on MRV of climate finance on the international level, and to identify possible pathways to improve and unify the MRV system within the EU.

The specific objectives are to:

- Provide a comprehensive mapping of the different approaches to climate finance MRV across Member States, and of the data Member States have available which could be utilised as part of a future MRV framework;
- Identify the various challenges that MRV of finance might pose for Member States and the EU, and the expectations Member States have for improving MRV;
- Provide a better understanding for defining and mapping *private* financial flows that will be viewed "climate finance" counting towards the long term commitment of an annual $100bn; and
- Suggest concrete reform options to improve the MRV framework, including possibilities for greater harmonisation between Member States in the future.

1.5 Outline of the report

The study comprises the following chapters:

- Chapter 2 elaborates on issues related to MRV of climate finance, including a discussion on the need for an MRV framework and the challenges for developing and implementing such a framework.
- Chapter 3 provides an overview of the current state of play with regard to international and EU discussions and initiatives on MRV of climate finance.

[5] http://ec.europa.eu/clima/documentation/international/docs/spf_startfinance_en.pdf,

- Chapter 4 presents our findings on current EU Member State approaches to MRV of public climate related finance as well as key challenges, needs and expectations by Member States for a future MRV framework.
- Chapter 5 attempts to map current practices for tracking private finance, starting with a method to define “eligible” or “relevant” private climate finance.
- Chapter 6 presents a set of optional steps that can be taken to improve the international MRV framework over time, and assesses the strengths and weaknesses of each.
- Chapter 7 concludes by outlining possible actions for the EU to contribute to development of a harmonised framework.
- The study method is described in the Annex.

2 Challenges and complexity in tracking climate finance

2.1 Introduction

Climate finance cuts across a broad variety of types and sources of financial flows. These flows include both new instruments to address climate change, and shifts in core development aid and private investment finance towards mitigation and adaptation in developing countries.

Any analysis of climate finance must first confront the challenge of defining what "climate finance" actually is. There is no singular, uncontested definition of what it is and is not. This is more of a concern for private finance where flows are even more scattered, diverse and confidential. Indeed, this study essentially sets out to shed some light on how climate finance is presently being defined – as well as assessed and reported – by each of the EU Member States.

In this complex landscape, keeping track of financial support through an MRV framework will be a challenge. Efforts to overcome the challenges should be balanced with the outcomes of an MRV framework for climate finance. As recognised in the previous chapter the overarching aim of an improved framework for MRV of long-term climate finance will be to provide a clearer overview of international financial flows, trends, sources and purposes. This will ensure improved transparency and accountability to eventually provide concerted and effective international action. More specific aims and purposes of an MRV framework for climate finance are discussed in the next section.

2.2 What is needed from an MRV framework?

The overarching aim of an improved framework for MRV of long-term climate finance will be to provide a clearer overview of international financial flows, trends, sources and purposes, so as to keep track on international commitments and their delivery, build trust among developed and developing countries through improved transparency and accountability, and to improve effectiveness of international action[6].

The framework will have to be acceptable to a wide array of different stakeholders, responding to the needs of finance providers and recipients as well as third-party observers. Table 2-1 outlines a number of questions that may help guide the design of such a framework.

Table 2-1 Key questions to guide design of a framework for MRV of finance

Goals	Questions to drive information collection and reporting
Transparency – tracking individual country to country flows and transactions	How much international public climate finance is flowing from Party to Party? For each donor, what is the balance of resources allocated between main purpose areas (e.g. mitigation, adaptation and REDD+)? How is public support leveraging private finance and investment? Is it possible to quantify the leveraging effect, i.e. private finance flows resulting from international public flows by donor? And/or by recipient? In addition to private finance catalysed through public finance, is it possible to report further private finance flows in a more streamlined fashion (e.g. carbon market flows)? How are recipient countries using the climate finance received? Is it possible to assess impacts achieved by projects, programmes, actions supported?

[6] OECD (2011), Monitoring and Tracking Long-Term Finance to Support Climate Action (May 2011), Barbara Buchner (CPI), Jessica Brown (ODI) and Jan Corfee-Morlot (OECD).

Accountability – tracking performance across groups of Parties and individually	Are developed countries meeting their pledges and obligations, individually and collectively? Which developed countries are actively providing financial support? Are there laggards and leaders in the provision of public climate finance and/or the leveraging of finance? What is the distribution of financing among developing country recipients? Is international public finance, when combined with private finance flows, meeting the identified needs of developing countries?
Improved information to enhance learning, boost effectiveness and efficiency of climate finance/investment	Is there a major gap between the stated "needs" of a country, and the funds it receives? Is the allocation of funds received across purpose areas diverging from "needs" previously outlined by the country? What are the expected and observed results from funding received in each purpose area (if information is available)? Are there performance goals for funded activities? If so, is the project, programme or sector to which investments were targeted achieving these goals (e.g. where mitigation may be measured in GHG avoided per $ invested)? Is it possible for recipients to report quantitative information on: i) Share of aid in the form of budgetary support received and used to support climate action? ii) Leveraging ratios of international public finance?
Consistency, comparability and accuracy – as cross-cutting goals (i.e. to help achieve the above)	How can information collection and reporting be established to ensure data consistency, comparability and accuracy/quality across all relevant information sources? How can all relevant sources of information be brought into a single framework for MRV of climate finance?

Source: OECD (2011), Monitoring and Tracking Long-Term Finance to Support Climate Action

More broadly the purpose of the MRV framework is to facilitate:

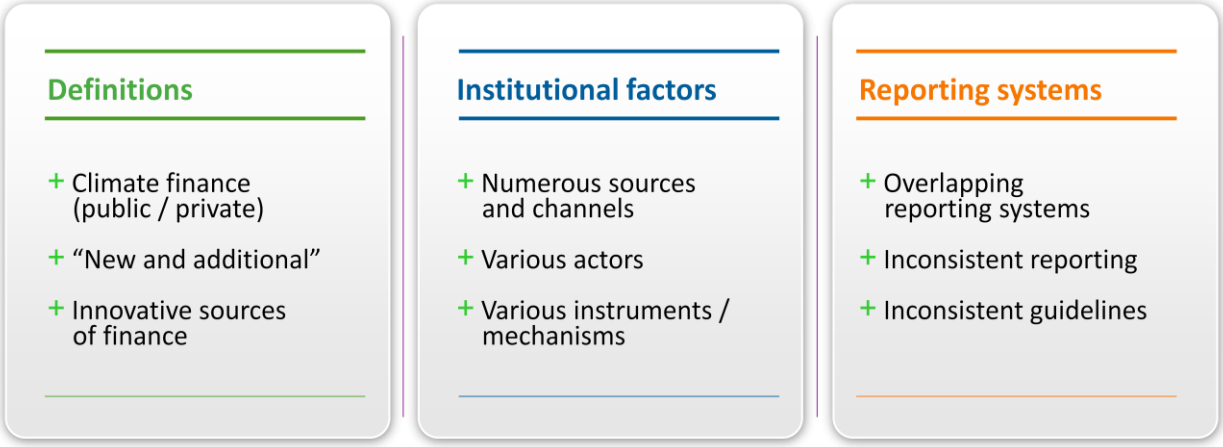
- **Transparency,** essential to build trust between Parties in international negotiations to enable further progress on other actions to address climate change, and to demonstrate compliance with commitments that have been agreed internationally.
- **Assessment** of the *scale*, *quality*, *distribution* and *use* of climate finance, essential to ensure finance is being generated, directed and used efficiently and effectively; in other words, to ensure that concrete mitigation and adaptation outcomes are being achieved. Assessment also enables learning by different parties, for instance about new ways of delivering finance or leveraging of private flows, thereby enhancing the efficiency and effectiveness of future support.
- **Accountability** about how Parties are collectively and individually progressing to deliver their obligations as outlined in COP Agreements, which requires comprehensive and comparable information.

2.3 Challenges for developing and implementing an MRV framework for climate finance

Defining an "ideal" framework is easier than actually implementing it. At this moment, the prospect of accurately and transparently tracking financial flows for climate change is challenging.

There are several key points to be made at the outset which help explain why the prospect of accurately and transparently tracking financial flows for climate change is challenging. The challenges concern three main issues – definitions, institutional factors and reporting systems (Figure 2-1). Some of the challenges are detailed in Box 2-1.

Figure 2-1 Tracking climate flows is challenging



Box 2-1 Challenges and complexities in setting up an effective MRV framework for climate finance

- **The intended scope of MRV remains unclear.** Member States have expressed different understandings of the purpose of MRV and what it is expected to cover, particularly (though not only) in relation to private finance. Some view the specific purpose of MRV as enabling verification of Annex I Parties' international financial commitments (including the pledged USD 100 billion by 2020), while others argue that MRV relates to a more general concept of "*support provided to developing countries*" or to the narrower concept of support for NAMAs as stated in the Bali Action Plan. The UNFCCC is also unclear on this question, and is waiting for some common definition to come from the Standing Committee established in Cancun.
- **There have been no clear or consistent definitions agreed internationally on what is to be counted as "climate finance" and "new and additional".** It remains uncertain what is to be included and what is to be excluded by parties when they report on the support they provide. This is foremost a political challenge, and is a key issue for the Measurement component. In particular the concept of "new and additional" is particularly sensitive to ensure climate financing is not diverted from development resources and does not undermine development objectives. Countries generally hold different views on the baseline relative to which additionality should be measured. At present, even though various metrics do exist (e.g. 0.7% of GNI[7] ODA) it is somewhat arbitrarily defined since it relies on a subjective assessment by the institutions themselves, particularly about what is to be considered as "adaptation finance".
- **Climate finance flows through many channels and involves many actors, and hence is a complicated puzzle to piece together.** These include public sources channelled through bilateral finance institutions (BFIs) and bilateral development cooperation agencies, multilateral development banks (MDBs), specialised climate funds, carbon markets, national budgets, foreign direct investment, and private sources such as the private sector, philanthropy, and nongovernmental organisations.
- **MRV of private climate finance remains difficult in the near term.** The Cancun Agreement on Long-term Cooperative Action (LCA) recognises the role of private finance for long term climate action[8] including mobilising USD100 billion pledged to developing countries by 2020. As of today there has been no clarity on which kinds of private flows are considered to be "climate relevant" (and so should be covered as far as possible by an MRV framework); private flows originate from a vast array of individual actors and are not reported in any centralised forum.

  Detailed data on private flows is scattered across different information systems, some of which are managed by commercial data providers, and some are confidential.

[7] Gross National Income
[8] Report of the Secretary-General's High-level Advisory Group on Climate Change Financing (2010) http://www.un.org/wcm/webdav/site/climatechange/shared/Documents/AGF_reports/AGF%20Report.pdf

- **Finance takes different forms at the point of delivery to developing countries** – ranging from traditional ODA instruments such as grants and concessional loans, to commercial instruments including loans and equity, to innovative mechanisms such as guarantee facilities. These can be accounted for in different ways, which has implications for the Measurement and Reporting components.
- **Existing reporting channels, such as UNFCCC National Communications (NCs), OECD DAC CRS database[9], MDBs and Fast-start Finance reporting on climate finance (Multilateral versus bilateral public finance) overlap with one another.** Most forms of climate finance are directed through bilateral and multilateral finance institutions. Most of these institutions have made attempts to account for and report financial flows, based on their own systems and markers. It is important to recognise that the information provided by these reporting systems does in some cases overlap with national government reports (such as the National Communications and the OECD DAC database).
- **None of the existing reporting channels consistently capture all of what might be considered "climate finance**", though some countries' National Communications to the UNFCCC do in fact cover the full spectrum of possible finance flows (i.e. both public budgetary resources and finances raised by bilateral initiatives and carbon markets[10]).The OECD DAC CRS database, for example, captures data only on ODA, which means it does not include financial flows that are not accounted for as part of a country's ODA reporting. Moreover, the portion of the funds that is sourced from national budgets is presumably reported through the formal ODA related channels. Non-ODA finance that is channelled through multilateral and bilateral institutions, for instance where financial institutions have raised capital on bond markets to supplement the funds they receive from government budgets, may or may not be reported at the national level through the National Communications to the UNFCCC.
- **The coverage of countries, reporting time frame and guidelines for reporting also differ considerably.** Annex I countries not included in Annex II[11] are not required to report on financial aid to climate change-related activities in developing countries in their National Communications. Furthermore, not all Member States or all Annex I Parties report to the OECD DAC. The period of reporting for National Communications is also inconsistent, as reports are provided every 3 – 5 years.
- **MRV is part of a political process, so governance of MRV is an important issue and has so far been largely absent from discussions**. The issue is not trivial and requires some attention from the EU in the development of any position on MRV. Reporting of climate finance is currently based heavily around the OECD DAC system for reporting ODA flows. This makes sense from a donor perspective because climate finance and ODA are so heavily intertwined. However the OECD DAC system is only a reporting tool and its role in the governance of climate finance – in particular, the responsibility for defining measurement and verification procedures – has not been agreed and is unlikely to have the support of finance recipients (i.e. developing countries). Therefore, while the OECD CRS system might provide one useful tool for reporting, it will need to be linked to reporting through the UNFCCC NCs and to guidance from the COP/UNFCCC in order to gain legitimacy in the eyes of developing countries.
- **MRV expectations fall on Parties to the Convention (i.e. nation states) but information on some public flows is owned by multilateral financial institutions (MFIs).** In most cases, Member States are not able to provide accurate data on climate finance disbursed via multilateral channels, neither aggregated nor disaggregated. This means either MFIs must report back to donors on the use of their finance or the MFIs must report directly on how their funds have been used to support climate change. The latter is challenging because MFIs do not fall under the jurisdiction of the COP and so are not obliged to follow COP or UNFCCC guidelines or decisions.

[9] OECD's Development Assistance Committee (DAC) CRS (Creditor Reporting System), contains detailed quantitative and descriptive data on individual aid projects and programmes by type of activity. http://www.oecd.org/document/49/0,3746,en_2649_34447_46582641_1_1_1_1,00.html
[10] For example, see UK NC5 chapter 6 Financial Assistance and Support for Technologies
[11] For example the new EU-15 Member States and developing countries. See Tirpak et al. (2010). Guidelines for Reporting Information on Public Climate Finance. December, 2010 http://pdf.wri.org/guidelines_for_reporting_information_on_public_climate_finance_2010-12.pdf

- **The complexities and demands on countries for MRV should not reduce the effectiveness of development finance more generally.** Some practitioners of climate finance (i.e. those developing projects and delivering funds) have raised the concern that efforts to specifically define what "climate finance" can be used for might unintentionally affect the work of development agencies and project funders on the ground. Climate finance is seen by Member States as intricately linked with development finance, regardless of how the "new and additional" debate is resolved. Measurement guidelines should therefore help donors identify projects and understand how to build a climate focus into their work, without narrowly defining what is "climate finance" in a way that "ring-fences" certain activities as climate-related. Otherwise, the unintended effect could be a concentration of funds on activities that might have low development benefits in a particular setting (since what makes sense to fund depends greatly on the local context). Another way of saying this is that strict definitions makes sense at the level of accountants (i.e. policy officers tagging projects *ex-post*) but not on the ground for actors trying to support and implement activities.
- **Little methodological work has been done to consider how to account for new and innovative mechanisms for climate finance.** Two examples are set out here to demonstrate the difficulties that new forms of financial support and new sources of finance might present to an MRV framework.
    - *Guarantee facilities* can be used to attract public and private capital to climate-related projects. They are already in use as a tool for development finance in some Member States, including Sweden, France and Germany (and possibly the UK and Netherlands). Guarantees can have a major leveraging effect, and can also help free up other dedicated climate resources. But since a loan guarantee does not necessarily involve a financial transfer, (i.e. a payment is only required if the lender defaults on their loan), it is unclear how this arrangement should be reflected in accounting for climate finance. A guarantee also remains in place over several years, so it is unclear how this should be accounted – i.e. as one amount in the first year only or as an ongoing commitment over the life of the contract?
    - *Climate bonds* can be used to generate potentially large amounts of finance, both public and private although more often private. Finance for lending is raised from capital markets through the issuance of bonds by a bank, government or company. Where bond finance is used for climate-related lending – as the World Bank Green Bonds are, for instance – then attributing these flows to particular State entities or UNFCCC Parties could be a challenge, particularly if the institution raising capital is multilateral and the institutions(s) providing the capital (i.e. investors) are private and from a range of countries. It is plausible that multilateral development banks could themselves be given some responsibility to raise new capital for climate change, taking responsibility for part of the agreed USD 100 billion annual figure by 2020, in which case they would be expected to be part of an MRV framework.

The way these challenges are addressed can critically affect an MRV framework. For example, any particular definition of "climate finance" can itself change the behaviour of financiers, both in positive and negative ways. A narrow definition could discourage certain types of support (e.g. programmatic or budget support, non-grant resources such as loan guarantees) or certain activities (e.g. capacity building) that can be highly effective in terms of achieving climate-related outcomes but are not considered eligible. Alternatively, if an MRV framework limits the definition of "adaptation finance" to only certain activities that are directly a response to identified climate risks, this risks the perverse outcome of donors shifting their support towards a narrow subset of activities that are not necessarily the most productive (effective) in helping people build resilience to climate risks.

Also, it is important to be cognisant of the overlaps in reporting of climate finance. Ideally, a future MRV system should be comprehensive enough that all relevant flows (i.e. all accountable "climate finance") are brought together in a single framework.

2.4 Developing a framework for MRV of climate finance

The starting point for developing a framework for MRV of climate finance is to review existing MRV related systems first. With respect to public finance, there are three main channels where public climate finance[12] is being reported:

- UNFCCC National Communications;
- OECD DAC CRS database. This captures data only on ODA, which means it does not include financial flows that are not accounted for as part of a country's ODA reporting; and
- Fast Start Finance (www.faststartfinance.org website, EU level information also http://ec.europa.eu/clima/policies/finance/international_faststart_en.htm).

As mentioned in Box 2-1, a portion of climate finance is directed through bilateral and multilateral finance institutions. Most of these institutions have made attempts to account for and report financial flows, based on their own individual decisions about appropriate systems/markers. It is important to recognise that these institution-level reports do not necessarily represent climate finance flowing *in addition to* national government reports (such as the National Communications and the OECD DAC database). Indeed, the portions of their funds that are sourced from national budgets are presumably reported through the formal public channels for reporting ODA. Non-ODA finance that is channelled through multilateral and bilateral institutions, for instance where IFIs have raised capital on bond markets to supplement the funds they receive from government budgets, may or may not be reported at the national level through the National Communications to the UNFCCC.

See Chapter 5 for existing systems to track private climate finance.

2.4.1 Existing public climate finance reporting systems and their strengths and weaknesses

UNFCCC National Communications

UNFCCC Annex II Parties are required by Decision 4/CP.5 to report on financing for developing countries in their national communications (UNFCCC 1999b). The decision requires Parties to indicate what "new and additional" financial resources they have provided pursuant to Article 4.3 and to clarify how they have determined such resources as being "new and additional." Parties are required to provide information in tabular form for a three-year period on financing through bilateral and regional mechanisms to specific countries for:

- mitigation (energy, transport, forestry, agriculture, industry and waste management) and;
- adaptation (capacity building, coastal zone management and other vulnerability assessments).

Annex I Parties had to deliver their Fifth National Communication to the Secretariat by 1 January 2010 (decision 10/CP.13). In preparing these national communications, Annex I Parties were supposed to follow the revised reporting guidelines for the preparation of national communications[13]. Additionally, a number of decisions and conclusions were to be taken into account. The secretariat also prepared an annotated outline as a compilation of provisions of these guidelines with the view to support Parties in preparing, in accordance with these guidelines, their Fifth National Communication (NC5)[14]. The strengths and weaknesses of the NCs are summarised in Table 2-2.

[12] See "OECD (2011) Monitoring and Tracking Long-Term Finance to Support Climate Action" for a good discussion on existing public and private climate finance reporting channels.
[13] http://unfccc.int/resource/docs/cop5/07.pdf
[14] http://unfccc.int/files/national_reports/annex_i_natcom_/application/pdf/nc5outline.pdf

Table 2-2 Strengths and weakness of UNFCCC National Communications (NCs)

	Strengths	Weaknesses
Coverage	All Annex II countries including EU-12 Member States are required to report.	Annex I countries not included in Annex II e.g. new EU-15 Member States are not required to report on financial aid to climate change-related activities in developing countries.
Measurement	Public and private funds including disbursed funds and private sector leveraged funds.	New and additional not clearly defined. Mitigation classifications are not broken down by specific categories. The adaptation classifications leave out several important aspects of adaptation, e.g. water, forests, health, energy, and infrastructure. Issues with Guidelines: • No information as to how climate change financing is to be distinguished from development assistance support. • The guidelines do not distinguish among funding for research and development, planning, assessments, capacity building, demonstrations, or technology deployment. • No information on how to report projects having multiple components.
Reporting	Provides good high level summary. This reporting remains light and respectful of national specific channels and resource availability. Data are broken down into sectoral and regional categories. Can provide a consistent, standardised format for reporting finance across Parties, if improved guidance is made available.	Inconsistent period of reporting (between 3 – 5 years). Not all financial flows are currently being reported, though there is technically scope to do so. Data currently provided in different formats and therefore difficult to compare. Lack of primary data on private financial flows (including CDM). Currently, the data do not always distinguish between different financial instruments (among grants, loans, and guarantees). Member States have tended to report those flows for which data are readily available (i.e. public development finance) but not those for which there is considerable uncertainty and/or difficulty (i.e. private finance, innovative instruments).

OECD CRS database

The OECD Development Assistance Committee (DAC) Creditor Reporting System (CRS) has a robust system for measuring aid. It gathers harmonised data annually for most types of financial flows coming

from its Member countries and from a number of multilateral agencies (the latter reporting on a voluntary basis[15]). It is based on activity-level reporting to the DAC's CRS, which covers over 90% of all aid flows from OECD countries and multilateral organisations[16]. Beyond time-series data for each DAC Member country and the EC[17], the statistical system provides a high level of sectoral detail, which can be used to estimate mitigation relevant bilateral ODA.

Data on mitigation-related aid have been collected since 1998. The adaptation marker is new and was agreed at the time of COP15 in Copenhagen at the end of 2009, so data using this marker will be collected from 2010 and has not been accessible for this report. The OECD DAC approach is the result of extensive negotiation among aid providers, in consultation with UNFCCC. With the possible exception of carbon capture and storage, all aid projects that reflect climate concerns are also development projects in traditional sectors for aid, such as agriculture, forestry, energy, or water supply.

The CRS compiles aid data in an online database which has several important features. For example, it allows the user to see individual aid activity information such as the:

- Donor;
- Channel;
- Recipient;
- Sector purpose – refer to the sector of the economy at which the aid is targeted (e.g. health, energy, or agriculture);
- Policy objective – activities targeting the objectives of the UNFCCC are identified using the "Rio Markers", which screen for policy objectives that have a cross-sectoral nature including climate change, biodiversity, and desertification. Each CRS aid activity gets a mark for these policy objectives: 0 for "not targeted", 1 for "significant objective" and 2 for "principal objective" – based on how well they fulfil various objectives such as the Millennium Development Goals (MDGs);
- Type – investment, technical cooperation, etc; and
- Long and short description – it is possible to distinguish between different purposes of investment (e.g. investment in infrastructure versus capacity building).

The OECD DAC's Rio Markers specify rules defined by the DAC and agreed by OECD member countries. They also provide guidelines to DAC members for scoring projects through a 'Reporting Directive' and a list of FAQs. The Rio Markers were initially established as policy markers rather than for accurate quantification purposes. However, the markers are currently also used for quantification of climate related flows with some donors having introduced further percentage multipliers according to the climate significance of the projects to arrive at more precise values. They were jointly developed by donor countries and are revised based on experiences. The reported data is screened at three different levels before it is finalised and uploaded on the website. DAC officials correspond with the principal contact in the DAC member at all times to verify the accuracy of the reported data.

The key strengths and weaknesses of the OECD CRS system are given in Table 2-3.

[15] Reporting multilateral funding agencies include: AfDB, AfDF, AsDB, AsDF, EC, IBRD, IDA, IDB, IDB, Sp.Fund, IFAD, UNDP, UNICEF, UNAIDS, UNFPA, GFATM

[16] OECD (2010)c, "Tracking Aid in Support of Climate Change Mitigation and Adaptation in Developing Countries" www.oecd.org/dac/stats/rioconventions

[17] The DAC is made up of 23 members (22 countries and the EC). For full list see: http://www.oecd.org/linklist/0,2678,en_2649_33721_1797105_1_1_1_1,00.html

Table 2-3 Strengths and weakness of the OECD-CRS system

	Strengths	Weaknesses
Coverage	The Rio Markers are a mandatory part of reporting requirements for DAC members. Data are added annually. Strong interest from other OECD and non-OECD countries. Other Regional developments banks IBRD, EIB[18] already use CRS coding and can easily adapt to the Rio markers. However, questions remain on the willingness of the MBDs to apply OECD DAC methodologies consistently when in-house tracking methodologies of various standards and purposes are being developed.	Not all Member States or all Annex I Parties report to the OECD DAC. All OECD-DAC members do not use the Rio Markers for reporting climate finance. Covers only ODA flows (a subset of all climate finance). Plans are in place to consider expanding the coverage of Rio Markers to non-ODA flows, such Other Official Flows (OOF).
Reporting	Increasingly stable and comprehensive statistical system. Since CRS reporting is based on agreed definitions and classifications, it permits comparisons between contributing countries. As there are standardised definitions, the OECD Rio Marker data represent a more systematic treatment of the same bilateral delivery channels for mitigation support than what is reported by countries in the UNFCCC monitoring system. Allows reporting of high level of detail in relation to the content of climate finance, for instance project level breakdown of financial flows. The principal and significant Rio Markers provide an approximate lower and upper threshold of climate related aid. Export credits and MDBs (Multilateral Development Banks) are partially reported to OECD-DAC. Well established channels and forums for regular discussions and improvements. Working groups exist between: • OECD members • European Commission • UNFCCC • International Energy Agency	Some data inconsistencies and gaps between Member States Does not allow exact quantifications of aid activities' contributions to the objectives and thus figures based on Rio Markers are approximate Coding system limits accuracy of reported climate aid and can generate political bias. Current method for reporting data using climate change Rio Markers separates finance into four different markers that cannot be analysed together. To get the full picture of climate finance from a country, it is necessary to add up statistics from: • climate change only; • biodiversity and climate change; • desertification and climate change; • biodiversity and climate change and diversity. Only limited reporting of different channels. No breakdown by individual institutions or funds. Does not use the distinction of mitigation vs. adaptation vs. REDD+ vs. Other. Cancelled projects are not reflected in the database which

[18] Reporting multilateral funding agencies include: AfDB, AfDF, AsDB, AsDF, EC, IBRD, IDA, IDB, IDBSp Fund, IFAD, UNDP, UNICEF, UNAIDS, UNFPA, GFATM.

	Strengths	Weaknesses
		means that only pledged support is captured and not delivered support.

Fast start finance

The fast-start finance initiative (www.faststartfinance.org) aims to provide transparency about the amount, direction and use of fast start climate finance, in turn building trust in its delivery and impact. Development of the website was initiated by the government of the Netherlands, with support from the governments of Costa Rica, Colombia, Denmark, Germany, Indonesia, the Marshall Islands, Mexico, Norway, the United Kingdom and Vietnam. The website was launched by Ms. Tineke Huizinga, Minister of the Environment and Spatial Planning of the Netherlands, at the Geneva Dialogue on Climate Finance, on 2 September 2010.

The site was developed in response to a global call – from developed and developing countries, non-governmental organisations and others – for publicly available, clear information on fast start climate finance flows. Countries were invited to provide as much information as possible before Cancun and to regularly update the information thereafter. The website provides a structure for the display of information, which countries can use. Countries are responsible for maintaining the information on their own country pages, including for the level of specificity of information. Project and programme information is broken down by recipient country, theme (mitigation/adaptation/REDD), funding amount, channel (bilateral/multilateral) and finance type (grant/loan etc).

Although the database has been broadly acknowledged as a useful tool for providing overview of the existing fast start funding flows there are no agreed metrics or methodologies that apply to the submission by the donor countries. This in turn makes comparability and validation of the information available challenging. In parallel to the continued updating of this database, as of May 2011 the Annex I Parties will be submitting Annual Fast Start funding reports to the UNFCCC secretariat for further processing into a misc document. By June 2011, 9 donors – including the EU – had submitted their first fast-start finance report to the UNFCCC[19]. Same challenges relating to lack of comparability and inconsistency of data remain and the reporting clearly suffers from significant immaturity and lack of standards.

2.4.2 Conceptual framework for MRV of climate finance

Ultimately, the Parties to the Convention will need to agree on the kind of data that are to be collected, reported and assessed. As a basis for assessing the current MRV related understanding and approaches used by EU Member States, it is useful to first set out the likely key requirements or components of an MRV system for financial flows to developing countries. Hence, a conceptual framework (Table 2-4) was developed to understand and analyse the scope and content of an MRV system. This is based on the current status of international discussions summarised above, and our understanding of the fundamental requirements of an MRV system.

The measurement, reporting and verification of climate finance even though linked are separate processes. Each element can be developed individually to maximise efforts. Each element of the framework involves different stakeholders though some degree of coordination and communication between the three elements is necessary. In ideal terms, a comprehensive international MRV system might look something like that outlined in Table 2-4.

[19] http://unfccc.int/cooperation_support/financial_mechanism/fast_start_finance/items/5646.php

Table 2-4 Proposed structure of international MRV system (key questions and capacity needs)

Measurement of climate finance	
Three discrete components	**Required actions**
1. Decisions about **eligibility** and **accounting** of finance.	Clear, common guidance at the international level on these questions: • What contributions should be counted as "climate finance"? • What is "new and additional"? • When a project has multiple objectives, how much of the total finance is accounted as climate finance? • How should the distinction between gross and net finance be made?
2. **Defining what data to collect**.	Clear, common guidance at the international level. Different types of data and metrics are conceivable: • Monetary – i.e. quantified financial support, disaggregated by use/purpose. • Non-monetary – some description of the delivery of "in-kind" support, technical advice or expertise, and other non-monetary forms of support. Measurement should also include the number of projects and programs induced through climate finance, disaggregated by objectives/purpose.
3. Processes for actually **collecting the relevant data**.	This occurs on multiple levels. Each country must develop a data collection system for public finance to fit its domestic needs. Data collection may also necessarily involve multilateral institutions, since these are responsible for directing a significant portion of climate finance and make allocation decisions independent of the Member States. The process for collecting data on private finance is unclear at present, and some or all of the data might conceivably be collected by international institutions rather than the Member States.
Private climate finance	**Required actions**
Given the increasing emphasis being placed on a significant role for private "climate finance", clarity is urgently needed on what private flows might be eligible to be counted.	Clear, common guidance at the international level. It has been argued that relevant private climate finance might include: • Carbon market flows, possibly including CDM and/or voluntary markets; • Foreign direct investment (FDI) flows, for instance investments in clean energy or activities that have a clear adaptation benefit;

	• Philanthropic contributions; • Risk guarantee and insurance services. Such private flows might be privately initiated or publicly leveraged.

Reporting of climate finance	
Basic requirements	**Capacity needs**
Standardised reporting format – to enable comparison among Parties. Consistent methodologies to collect and analyse data.	Concerted effort and dialogue among government departments and finance institutions within Member States and between Member States and international agencies.
Reporting elements	**Required actions and capacity needs**
Key questions include: • Who needs to report (i.e. national governments, international institutions)? • Where do they report (i.e. through which channels or fora)? • How often do they report? • What forms of finance are covered (e.g. grants, concessional lending, non-concessional lending, equity)? • What data are reported? - Purpose: mitigation (including or excluding REDD+), adaptation, etc. - Specific sectors and/or activities supported. - Geographic distribution - Disbursed funds only, or also pledged funds? - Private financing leveraged by public funds.	Public flows should be reported at the national level, rather than by individual channels. This may require boosting institutional capacity, and also creates a need for concerted dialogue among government departments and finance institutions within Member States and between Member States and international agencies. In some cases it may require new expertise, as well as new arrangements for institutional cooperation. **UNFCCC National Communications** There seems to be an emerging consensus that National Communications are an appropriate venue for reporting on financial support. However, coverage needs to be expanded to include all Annex I Parties, and further guidance is needed for source and recipient countries to ensure greater consistency and more detail than presently provided. **The OECD Development Assessment Committee (DAC) manages the CRS database** The OECD CRS database provides a detailed platform for disaggregating finance data (ODA, bilateral climate finance tracked through Rio Markers). For this to meet the needs of an internationally acceptable MRV framework, use of the database would need to be expanded to include all Annex I Parties and non-ODA flows, improvements made to the reporting categories and clear guidance on the interpretation of the markers.

Verification of climate finance	
Validating reported data to ensure transparency and facilitate independent review and analysis	**Required actions and capacity needs**
Verify scale of support (i.e. of financial flows themselves) by comparing data from contributors and recipients.	Introduce process for review by independent, non-political technical finance experts.
Verify effectiveness of support –the actual achievement of climate-related outcomes (e.g. GHG emission reductions) and consistency with developing countries' own priorities. Verify cost-benefit of adaptation activities, or the wider benefits of low-carbon development.	Consider scope for ex-ante quantitative assessment of social, economic and environmental impacts (e.g. through use of carbon footprint tools). Assess supported actions against expressed domestic priorities in recipient countries, such as priorities identified in National Adaptation Programmes of Action (NAPAs) and nationally appropriate mitigation actions (NAMAs) as well as National Development plans and the Millennium Development Goals.

3 State of play: international and EU initiatives / discussions

This section describes the emerging framework for MRV, based on the substance of current discussions at the international level and on expressed needs and expectations by major stakeholders regarding the future scope of an MRV system and institutional issues.

3.1 Global level discussions

3.1.1 UNFCCC negotiations and relevant outcomes from Cancun

The Copenhagen Accord contained an expectation that accounting of finance targets will be rigorous, robust and transparent, but did not suggest details on the specific rules or MRV frameworks that are to be used. The Cancun Agreements emerging from COP16[20] reaffirmed earlier agreements on provision of finance and the need for transparency. Although few new details on what a future MRV regime for climate finance might look like were provided, the AWG-LCA[21] outcome did include a number of decisions relating to the MRV of climate finance; with a view to further develop the necessary details during the coming months. Specifically, the COP decided to:

- improve reporting in the national communications of Annex I Parties within the existing reporting review guidelines (para40);
- enhance guidelines for the reporting of information in national communications by Annex I Parties including the development of common reporting formats and methodologies for finance, "*in order to ensure that information provided is complete, comparable, transparent and accurate*" (para 41);
- enhance guidelines for the review of information in national communications with respect to provision of financial, technology and capacity-building support to developing country Parties (para 42b); and
- initiate a work programme for the development of modalities and guidelines described above "*building on existing reporting and review guidelines, processes and experiences", including revision of guidelines on the reporting of National Communications (including the biennial report) and specifically in relation to the provision of financing "through common reporting formats, methodologies for finance and tracking of climate-related support"* (para 46).

With respect to Fast-start Finance, the COP specified:

- "*in order to enhance transparency, developed country Parties to submit to the secretariat for compilation into an information document, by May 2011, 2012 and 2013, information on the resources provided to fulfil the commitment [to provide new and additional resources for the period 2010-2012], including ways in which developing countries access these resources*"[22].

It also agreed that responsibility for MRV of financial support would be two-sided. In addition to developed country Parties making transparent their respective support, developing country recipients of finance are also obliged to make transparent the support they receive. This will be done via bi-annual reports to the UNFCCC that include an update on national GHG inventories, information on mitigation actions, support needs *and funding received*. These could play a valuable role in *verification* of financial flows since it will enable independent comparison of figures reported by developed and developing countries.

A decision was also taken to set up a registry intended to assist in matching financial sources and needs, which will also boost transparency around some financial flows and their effectiveness.

Implications of the Green Climate Fund for MRV

[20] Draft decision -/CP.16, Outcome of the work of the Ad Hoc Working Group on long-term, Cooperative Action under the Convention (AWG-LCA)
[21] Ad Hoc Working Group on long-term Cooperative Action under the Convention
[22] Draft decision -/CP.16, Outcome of the work of the Ad Hoc Working Group on long-term, Cooperative Action under the Convention (AWG-LCA); para. 96

One major finance outcome from Cancun was a formal decision to establish the Green Climate Fund (GCF), which had been initially introduced via the Copenhagen Accord. As a body under the UN, the GCF will manage a portion of expected financial flows, including "a significant share of new multilateral funding for adaptation"[23] (para. 100). Although the GCF will not be operational in time to play a role in delivery or MRV of fast start finance, it will in the longer term add another multilateral channel to the already crowded landscape of climate finance, since it is not intended to completely replace these other channels, but rather receive a portion of the funds other multilateral channels currently manage).

Establishment of a Standing Committee commissioned to improve finance MRV

Closely related to the above, the COP agreed to establish a Standing Committee which will be commissioned with – among other things – improving the MRV of support to developing countries through the financial mechanism of the Convention. At this stage the details of the Committee and its role are unclear, though it seems likely that any role it plays in supporting MRV could be limited to those funds channelled through the GCF and other UNFCCC funds.

The establishment of a Standing Committee is expected to be a step forward to provide a periodic overview of financial flows. Nevertheless, it is crucial that the Standing Committee functions remain distinct from and do not impede on the role of the Green Climate Fund's Board, especially the allocation functions. The Standing Committee will rely on collected data on financial flows and provide guidance to the COP in order to improve the cooperation between the operational entities of the financial Mechanism. In order to ensure the efficiency of the coordination function, especially with financial actors located outside the Convention, it will also be crucial for the Standing Committee to work in close cooperation with other entities/institutions specialised in climate finance.

3.1.2 Developing country views

There is limited evidence and research into developing countries' (DCs) expectations of and their role in defining climate finance.

While the text of the Cancun Agreements is rather broad, a greater level of detail about some of the expectations different Parties have of an MRV framework on climate finance can be gained from earlier discussions. For instance, the following issues were raised by country representatives during the June 2010 meeting of the contact group under the AWG-LCA in Bonn, Germany:

- A comprehensive framework for MRV can be built on existing processes and systems, in particular the National Communications process (G77, China, US, Africa Group);
- Some of the institutional arrangement (e.g. OECD DAC and UNFCCC National communications) for MRV is already in place and focus should now be on strengthening the existing system, for instance by establishment of a registry for supported actions (EU);
- The "new and additional" element of the COP agreements should be covered by an MRV framework, including clear and transparent guidelines on what is considered "new and additional" (China);
- There is a need for a clear definition and common guidelines for what is to be considered as "climate finance" (India);
- Reporting on the provision of support should be in an agreed, comprehensive format to standardise information and enhance comparability among Parties (China, Africa Group);
- On the content of what is to be "MRV'ed", this should include how much public money is flowing from one country to another, how this finance is made available (i.e. as grant, loan or other), and which specific technologies or categories of activity are being supported (Africa Group);
- Third party verification of the reports of different Parties or entities is needed and could be managed through the proposed Finance Board[24] of the Green Climate fund (India).

[23] Draft decision -/CP.16, Outcome of the work of the Ad Hoc Working Group on long-term, Cooperative Action under the Convention (AWG-LCA); para. 96

[24] The Fund will be governed by a Board of 24 members comprising an equal number of members from developing and developed countries; like the Adaptation Fund Board, it will guarantee representation by regional groupings as well as seats for representatives of small island developing States (SIDS) and least developed countries (LDCs), the two country groups most severely impacted by climate change.

Developing countries have been **talking not only about MRV of climate change action** (in particular mitigation) **but also MRV of support**. Their position is that climate change support provided by Annex-1 countries should be additional and thus MRV of support is crucial. Developing countries see a greater priority for the following key issues that still need to be adequately addressed:

- **Global Agreements and Climate Change Talks**:
    - The Bali Road Map must continue to be the template for future work of the Parties. The Bali Action Plan recognises the need for "enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation.
    - Climate financing priorities of developing countries should be taken into consideration. There is a concern that current public financing from developed countries for climate action – whether through the GEF or through non-UNFCCC channels – will essentially reflect and respond to developed country strategic political and economic interests and priorities rather than the sustainable development priorities of developing countries.
    - Adaptation issues should be accorded equal priority and the financing of adaptation actions should include a mechanism for loss and damage. Sense there is an imbalance between the modalities for deciding on adaptation related issues and the modalities for decision in other areas. General requirement that adaptation and REDD+ related issues should be addressed in a defined timeframe.
- **Equity issues**:
    - Guidelines for MRV for developing countries should be less onerous than the rules for enhanced MRV for developed country Parties.
    - General sense that issues like equity, intellectual property rights and trade, which are very important for developing countries, were not adequately addressed in the Cancun Agreements.
- **Governance issues:**
    - The preference of developed countries to use either their own bilateral channels or other multilateral channels such as the World Bank as their vehicles for public sector financing flows and their reliance on unpredictable and market-driven private-sector financing both weaken the UNFCCC's ability to serve as the main multilateral vehicle for climate financing and are not consistent with developed countries' financing obligations under the UNFCCC. These non-UNFCCC channels (such as the World Bank or other multilateral institutions whose governance structures and memberships are different from the UNFCCC COP) would likely have governance and accountability mechanisms in which developing country recipients play little or no effective role and in which the funding priorities are likely to be driven by the donors' interests rather than the recipients' needs or the climate financing priorities identified by the UNFCCC COP[25].
- **Finance issues**:
    - The amounts pledged or to be committed remain far too low to meet the scale of the financing needs of developing countries in relation to climate adaptation and mitigation[26]. The scale of financing should be accurately estimated on the basis of clear methodologies and processes. Estimates should be comprehensive and reflect the relevant provisions of the Conventions. Unfortunately, few if any of the estimates offered so far provide a comprehensive evaluation of scale of funding necessary to implement the Convention[27];

[25] Developed Country Climate Financing Initiatives Weaken The UNFCCC. South Centre. Analytical Note SC/GGDP/AN/ENV/7 January 2009.
[26] In the context of the mitigation scenario presented in the 2007 UNFCCC report entitled "Investment and Financial Flows to Address Climate Change", at http://unfccc.int/files/cooperation_and_support/financial_mechanism/application/pdf/background_paper.pdf. The mitigation scenario in that report envisioned reductions by 2030 of global emissions from 61.52 Gt CO2eq to 29.11 Gt CO2eq, which is 25 percent below the 2000 emissions of 38.90 Gt CO2 eq.
[27] Operationalising the UNFCCC Finance Mechanism, South Centre, Research Paper 39, May 2011 http://www.southcentre.org/index.php?option=com_content&view=article&id=1562%3Aoperationalizing-the-unfccc-finance-mechanism&catid=129%3Aclimate-change-&Itemid=67&lang=en

- Priority for developing countries is not establishing an MRV framework but ensuring finance commitments (particularly Fast Start Finance) are met and the funds start to flow. There is a need for clear elaboration of a process to convert developed country pledges into economy-wide emission reduction obligations and rules to account for both mitigation and finance.
- The effective operation of the mechanisms for providing financial and technological support to developing countries is equally critical in enabling them to contribute to global efforts for addressing climate change.

To address these issues, developing countries through the Group of 77 and China (G-77 and China) in the context of the on-going intergovernmental process of the Ad-Hoc Working Group on Long-Term Cooperative Action (AWG-LCA) under the Bali Action Plan (BAP) of the UNFCCC Conference of the Parties (COP) have proposed the further enhancement of the UNFCCC's financial mechanism (Box 3-1)[28].

Box 3-1 G77 and China Finance Proposal

Objective

The G77 and China proposes the operationalisation of an effective financial mechanism under the COP. This mechanism is to ensure the full, effective and sustained implementation of the Convention, in relation to implementation of commitments for the provision of financial resources. This is mandated under Articles 4.3, 4.4, 4.5, 4.8 and 4.9 of the Convention in accordance with Article 11 defining the financial mechanism.

Principles

The following are principles for enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology development and transfer. The mechanism shall: Be underpinned by the principle of equity and common but differentiated responsibilities;

1. Operate under the authority and guidance, and be fully accountable, to the COP;
2. Have an equitable and geographically-balanced representation of all Parties within a transparent and efficient system of governance (Article 11.2);
3. Enable direct access to funding by the recipients; and
4. Ensure recipient country involvement during the stages of identification, definition and implementation, rendering it truly demand driven.

The goal is to bring about coherence in the global financial architecture for financing under the authority and governance of the COP.

There is a general sense that current climate finance discussions are heavily focused on technicalities and structure – without having agreed what the priorities should be, the actual scale of funding required, and the urgent need to get funds flowing. See quote below:

"The exercise of MRV of finance has been acknowledged many times over as being motivated by the need to build trust among Parties, especially in recipient countries. It is now generally accepted that climate finance will need to come from both public and private sources so the scope of the verification exercise will need to match the scope of the climate finance reporting exercise which is also currently being reviewed/developed. The UNFCCC process presently allows for reporting from donor countries on public sources but as the regime develops and finds way to incentivise private financing, we must also find ways to track and monitor those flows before we can verify them." ***Aliioaiga Feturi Elisaia, Samoa's Permanent Representative to the United Nations***

Interviews with experts in developing countries suggested the following key challenges and requirements:

[28] For the text of this proposal, see FCCC/AWGLCA/2008/MISC.2, 14 August 2008, pp. 35-37.

Challenges	Requirements
Multiple channels – many outside the direct oversight of developing country government officials	Clear definition and common guidelines for what is to be considered as climate finance – attempts should be made to build consensus amongst developing countries before definitions are adopted.
Particular challenge for developing countries is differentiating between ODA finance and new climate finance – development activities on the ground often relabelled as climate finance, particularly community-level Climate Change adaptation and resilience activities e.g. DFID Bangladesh Chars Livelihoods Programme flood proofing – was previously labelled as extreme poverty reduction activities and more recently relabelled as Climate Change adaptation but without any change in content of activity.	Third party verification essential – needs to be genuinely independent not developed countries reporting for developing countries.
Developing countries are not homogenous unit – have different perspectives, incentives, and priorities in relation to climate change and climate finance as well as widely varying capacities and governance structures to report on climate finance.	Standardised and limit additional / complicated reporting burden – advantage if UNFCCC either issues detailed guidance on standardised reporting requirements for developing countries to report in their National Communications or UNFCCC actively brings together reporting and verification data in single database.

3.2 European level discussion – EU fast start finance and the Monitoring Mechanism Decision (MMD)

In December 2010, a meeting of the Council of the European Union on Economic and Financial Affairs adopted the following among its conclusions:

> "The Council:
>
> 4. INVITES the Commission to integrate fast start finance reporting into its annual EU accountability and development finance report, with a further end-of-year update for UNFCCC meetings as needed.
>
> 5. RECALLS its conclusions of 14 October 2010 that institutional arrangements must be guided by considerations of coherence, improved coordination, efficiency, effectiveness, responsiveness, balanced representation and institutional economy; UNDERLINES that decisions on institutional architecture should take due account of the functions of existing institutions and how they can be strengthened."[29]

These conclusions envisage an ongoing role for EU-level compilation of data and reporting on climate finance, with a focus on fast start finance for the coming 3 years. They also imply a preference for utilising existing institutions for building a future MRV framework rather than creating entirely new systems.

The EU set out its initial position on MRV of climate finance in Cancun

Although the 1st more explicit references to the initiation of a work programme to arrive at "common reporting formats" for tracking climate financing by developed countries can be found in the Cancun

[29] 3054th meeting of the Council, 7 December, 2010. See: http://europa.eu/rapid/pressReleasesAction.do?reference=PRES/10/333&format=HTML&aged=0&language=EN&guiLanguage=en

Decision (46), the EU views and position on MRV of climate finance in the international negotiations had started to take shape prior to this and can be broadly outlined as follows:

- The MRV for financial support should be seen as a means to ensure transparency and demonstrate that the finance provided for mitigation is being delivered according to commitments and is effectively working towards the climate change priorities defined by recipient countries.
- MRV is an important tool for building trust between Annex I Parties and developing country partners by transparent tracking and reporting of financial flows provided and received and to help improve effectiveness of support.
- Reporting should be viewed holistically: what Annex I countries report on finance should be mirrored by what non Annex I countries report on actions and these should be pursued simultaneously as much as possible.
- Developing countries should also aim to report on mitigation, adaptation, and capacity building measures and identify needs or gaps relating to the goals set as part of their climate change strategy. In the future they should also report on finance received and provided (domestic, south-south) in their national communications as well as on the related mitigation and adaptation actions implemented and results achieved.
- There must be a clear differentiation between the requirements of MRV for public financing and reporting and analysis for private financial flows.
- The MRV system for public finance and, when appropriate, private finance should ensure comparability of the information provided, deliver transparent and consistent information on financial flows and in the case of mitigation give a clear idea of the results i.e. the progress made on reaching the emissions reduction targets.
- For public finance, the future MRV system should build on the existing system of reporting information on finance in UNFCCC National Communications, which include detailed information on the support provided for both adaptation and mitigation and are reviewed by experts regarding their comprehensiveness and quality of information.
- As fast start pledges are voluntary and will need to be implemented rapidly between 2010 and 2012 the EC does not see the option of a strong MRV system being applied to these funds. However, a basic level of monitoring and reporting of flows should be followed. Lessons learnt with the reporting on fast start finance will also be useful to design the long term MRV system for support.

3.2.1 MRV for the Fast Start Finance Initiative

For Fast Start Finance (FSF) over the period 2010-12, there is clearly not enough time to develop and implement a comprehensive and consistent MRV system addressing all of the needs described above across all Parties. Nonetheless, a basic level of MRV of FSF related funds remains crucially important for building trust between Parties (particularly in the relationship between Annex I and non-Annex I countries).

Ideally, what is required for FSF is that developed countries are able to clearly show that financial commitments are delivered (i.e. funds are flowing), and that the money is being used to stimulate actions and result in improvements (i.e. emissions saved through the support).

In the absence of a commonly agreed definition of climate finance, MRV for FSF should make information available about how different parties are dealing with these questions. In the longer term this should ideally be resolved by adoption of a consistent approach and framework between parties.

3.2.2 EU report on fast start finance

The EU released its report "*European Union fast start funding for developing countries: 2010 progress report*" in November[30] in the lead up to COP16, and a revised version on 6 December[31]. In addition to presenting an overview of actual financial support delivered by the Community and its Member States,

[30] http://ec.europa.eu/clima/documentation/international/docs/spf_startfinance_en.pdf
[31] http://register.consilium.europa.eu/pdf/en/10/st15/st15889-re01.en10.pdf

the report also asserts that "*a comprehensive set of statistics for climate financing is clearly needed. This should be built on experiences with existing reporting systems such as the OECD-DAC system for monitoring financial flows to developing countries and avoid developing competing reporting systems*" (p7).

The EU's revised version of the report includes the survey tool used to compile the data, outlining possible elements to be provided by a future international MRV framework. This includes:

- Total amounts of finance, both pledged and spent;
- A distinction between funds that were primarily targeted at climate objectives and funds which had climate change as a secondary (albeit significant) objective;
- A distinction between finance targeting mitigation, adaptation and REDD+;
- A breakdown by type of financial instrument, distinguishing between grants and other instruments (including loans, equity);
- A distinction between bilateral and multilateral channels; and
- A detailed breakdown of amounts of finance flowing via different multilateral channels.

The data provided by the report also lists the level of response from Member States to each question in the survey, showing that while some questions triggered responses from all Member States others triggered a response from only two thirds. The reasons for the absence of responses could be the following:

- different Member States probably have different quality data sets in place at the present time, and it may take some time before a consistent set of data across all Member States can be made available; and
- compiling and reporting data does involve a lot of time and resources and as such will be challenging to Member States (in particular the small ones). This is important, because it supports the EU's expressed view (see European Council 2010 progress report) that future MRV frameworks should build on existing systems, in order to minimise the burden for all Parties.

3.2.3 Revision of Monitoring Mechanism Decision (MMD) 280/2004 and of its implementing provisions Decision 2005/166

The overall objective of the Monitoring Mechanism Decision is to ensure that the EU meets its commitments under the UNFCCC and to gather and share information on greenhouse gas emissions, national policies and best practices[32].

The revisions in the MMD are primarily about GHG emission inventories. However, there is a provision in the revised decision for Member States to submit their National Communication to the Commission as well as to the UNFCCC with the requirement to submit the Communications to the Commission at an early stage to allow review, coordination and streamlining. In addition, a provision will be introduced in the revised decision for Member States to report to the Commission on an annual (or biennially) basis information on vulnerability assessment, climate change impacts and adaptation measures, on **financial resources** and technology transfer. It is to be examined whether Member States will also be required to provide research-related information.

Given that it is currently unclear what reporting requirements on **finance,** technology transfer and adaptation, will be established internationally, one would need to carefully interpret the legal draft[33] of the related provisions so as to allow for sufficient flexibility to address future international demands.

[32] http://unfccc.int/essential_background/convention/items/2627.php
[33] - Commission Decision of 10 February 2005 laying down rules implementing Decision No 280/2004/EC http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32005D0166:EN:HTML

4 Current EU Member State approaches to MRV of public finance

4.1 Introduction

This section summarises current approaches to measurement, reporting and verification of public climate finance within EU Member States. It also brings to light, where possible, the various ways in which "climate finance" is being defined and classified by different parties. It is based on a review of publicly available literature, a survey of Member States and interviews with the European Commission and with a few Member States.

The purpose of this section is to provide a preliminary mapping of existing MRV systems across the EU using the conceptual framework developed in section 2.4.2. A key aim was to assess how well Member States are likely to meet emerging international expectations on MRV of climate finance as well as how consistent they are across Member States.

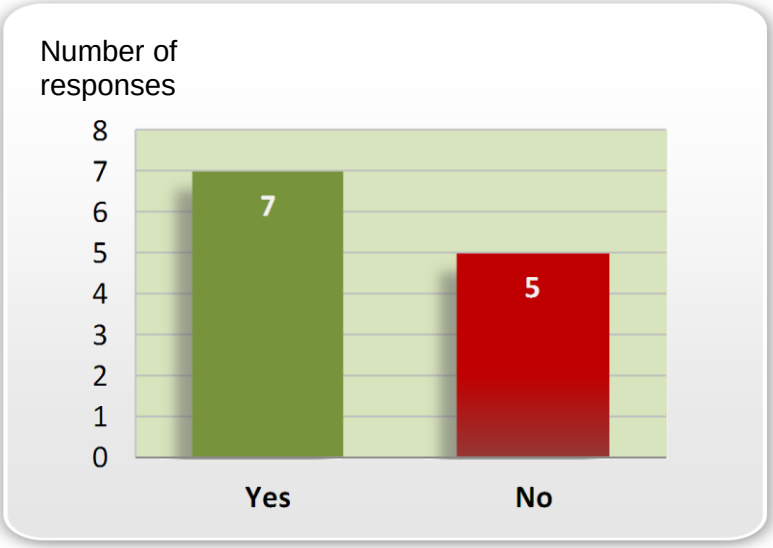
4.2 Measurement of climate finance

4.2.1 What is included as climate finance?

Which flows are included?

For most Member States, public climate finance is delivered inside ODA budgets and channels. While seven out of twelve respondents (Figure 4-1) indicated some climate finance outside of ODA, even in these cases the vast bulk of climate finance flows as ODA. Non-ODA public flows (sometimes referred to as "Other Official Flows") that have been included by some Member States as "climate finance" include non-concessional lending by Development Finance Institutions and the provision of export credits as well as finance provided to non-ODA recipient countries. However, in some cases certain forms of support such as export credit guarantees (or private flows such as carbon market finance) are not currently being included when Member States measure or report their contributions to climate finance.

Figure 4-1 Are there any flows of non-ODA climate finance?



Some Member States have highlighted that the challenge of measuring climate finance is becoming more difficult as their ODA mode shifts away from project-based finance towards more programmatic funding and direct budgetary support. In the case of budget support, for example, it is not possible to identify how much of the finance is used for climate-related objectives.

Hence, even though most Member States to date have only counted ODA related climate flows, a few of them acknowledge that there could a number of different flows in the future, such as:

- Contributions to Carbon Funds;
- Other Official Flows;
- ODA flows, according to the DAC, flows to countries and territories on the DAC list of ODA Recipients as well those outside and to multilateral development institutions;
- Other commercial flows and private channels (e.g. innovative instruments);
- Some funds for research, in partnership with institutions in developing countries are not reported as ODA and might be included in the future (the main purpose of these funds is to stimulate innovations as a component of national/regional economic policy).

Export credits and contributions to Multilateral Development Banks are partially reported to the OECD-DAC, however for these flows the Rio Markers are not used.

Some Member States were also of the opinion that support to other activities not currently included under the OECD-DAC Rio marker system (e.g. Trade/FDI-support, financial for agricultural, waste and water management) but which otherwise fulfil the Rio Marker criteria should be able to count as non-ODA climate finance.

Climate finance is delivered by Member States through both multilateral and bilateral channels. In most cases, this means that Member States definitions of “climate finance” apply to bilateral flows, while multilateral institutions decide which multilateral flows are defined as “climate finance”. This raises the prospect of inconsistency between different financial flows coming from the same Member States, i.e. if different measurement systems are used for different channels.

Some Member States expressed difficulty at being able to measure the portion of their multilateral contributions that are climate related, since not all contributions are ‘earmarked’ for specific purposes. This difficulty can be seen in the practice of some Member States when reporting to the NCs of including all multilateral contributions related to “environment” rather than climate finance specifically.

Determining which activities are “climate” related and what portion of project finance is attributed to climate objectives

In the absence of common agreed approaches internationally, Member States have either adopted their own definitions of what is eligible to be accounted as climate finance or in some cases have attempted to identify climate-related projects without any clear definition. Few if any Member States have provided a clear explanation of what they defined to be “climate finance” in order to arrive at the figures in reported data.

The most common framework used by Member States to approach this question is the broad guidance developed by the OECD DAC for use of the Rio Markers. Guidance on the use of the Rio Markers – comprising a ‘Reporting Directive’ and a list of FAQs – specifies rules defined by the DAC and agreed by OECD member countries that aim to assist in the ‘scoring’ of projects. The markers were initially established as policy objective tags rather than to support accurate quantification of financial flows. Although introduced for ODA flows, the OECD DAC has begun a process to consider expanding the coverage of Rio markers to non-ODA flows such Other Official Flows (OOFs).

However, while most Member States are of the view that the Rio Markers provide the most advanced guidance to date at the international level (

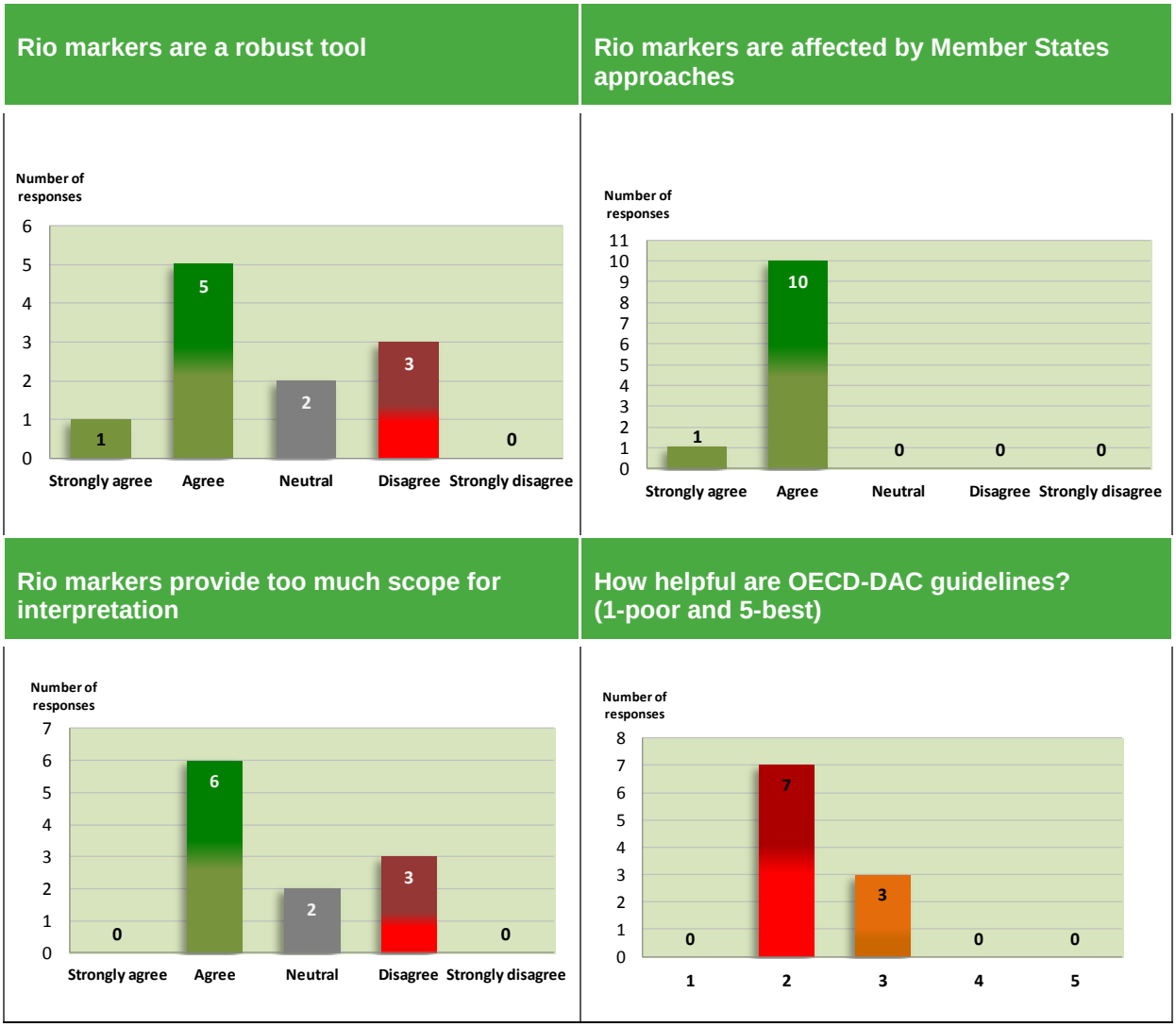
Figure 4-2). A number highlighted that interpretation of the Rio Markers guidance is still highly subjective and further work is necessary to elaborate them if they are to support more consistent definition and quantification of climate finance (

Figure 4-2)[34].

Ambiguity in the guidance for use of the markers means different Member States (and even different individuals within a Member States) are making different interpretations of what activities are relevant to be tagged as climate relevant.

[34] Reporting against the adaptation marker has not yet occurred (will start based on 2010 data), so experience to date has been only with the mitigation marker.

Figure 4-2 Member State responses on Rio markers and OECD-DAC



Specific weaknesses of the current Rio Markers system, as identified by Member States, include:

- The Rio Markers and existing guidance on their use provide too much scope for subjective judgement, making it difficult to ensure rigour in classification of activities even within a Member State (where many different individuals may be involved in submitting and tagging data) as well as between Member States (
- Figure 4-2). This is perhaps a greater issue for the newer adaptation marker, since support for adaptation is highly contextual and covers a broad diversity of activities which significantly overlap with traditional development activities, although it is also a clear weakness of guidance for mitigation too. Specifically:
    - Not targeted (Score 0) – scope for interpretation is minimum
    - Significant objective (Score 1) – scope for interpretation is large and also covers a potentially large amount of projects and programmes
    - Principal objective (Score 2) – scope for interpretation is high but not as high as “1”. Requires clear demonstration that implementation of activity would not have taken place without this objective
- The categorisation of project objectives as either “principal” or “significant” does not allow accurate quantification of the exact amount of support targeted to climate change. Again,

different practices have emerged across Member States. Some use their own detailed methodologies for calculating exact contributions targeting climate change[35], however most use fixed percentages to generate figures for accounting purposes – for projects tagged "principal" objective, 100% of finance is commonly accounted as climate finance; for projects tagged "significant" objective this figure varies from 40% up to 100%.[36]

In addition to these general weaknesses, a number of other gaps in the Rio Markers system have been highlighted by Member States:

- Sector specific support (e.g. transport, agriculture, construction) and general budget support cannot presently be tagged with the Rio Markers in the CRS system (though can presumably be tagged within Member States own internal systems and used in other reporting channels than the CRS);
- The markers cannot pick up investing in 'enabling measures', which do not directly contribute to mitigation or adaptation but can indirectly contribute to these objectives. This includes creating awareness, advocacy, certification, institutional development, support to research and technology development and ex-ante studies to facilitate investments; and
- Multilateral contributions are not comprehensively covered by reporting to the CRS. The Rio Markers are thus being used mostly for bilaterally channelled finance, although some multilateral institutions are now reporting through the CRS.

Around half of the Member States respondents indicated they see the Rio Markers as a relatively robust tool for supporting MRV, although most Member States mentioned that the markers could be made more useful via improvements to the OECD DAC guidelines[37] (

Figure 4-2). Improvements to the guidelines should include:

- Advice on how to estimate the climate percentage in a project, supplemented by providing very specific, concrete examples. These examples should cover a wide range of sectors – in this regard, the examples should reflect the CRS-sectors and subsectors (e.g. To show that a water project in the agricultural sector could be of potential relevance for adaptation, biodiversity and in some circumstances desertification objectives), including sectors not always considered when assessing climate change outcomes, such as health;
- A clear indication of the difference between instances where climate change is the "principal" objective and occasions when it is a "significant" objective;
- More guidance on quantification, to help Member States and other Parties move towards a common quantification approach when using the Rio Markers. Member States are currently using one of two different methods – either individual calculation of project contributions or standardised percentages, as discussed above. Guidance on the use of both methods would therefore be helpful. A suggestion put forward by one Member States is that testing of a common quantification approach could be undertaken by a certain number of donor countries within the OECD DAC context, to help improve the Rio Markers guidance;
- Consideration of whether assigning certain CRS codes as climate-related (i.e. to help identify adaptation and mitigation activities) might help improve and standardise accounting; and
- Clarification of how 'non-project' support should be accounted. A shift among some donors and institutions (e.g. Sweden, some bilateral finance institutions) away from project funding towards

[35] One Member State indicated they include only the components of a project's spend that are directly targeting climate related issues. Another asks domestic institutions to indicate what portion of a project "has a direct and positive impact on climate change". Belgium has developed its own weighting-system for the Rio markers which varies across different sectors (agriculture, forestry, fishery, water, energy, environment, humanitarian, industry and multi-sectoral) and underlying subsectors within the CRS. On the basis of the given percentage the financial flow is divided over climate (adaptation and/or mitigation), biodiversity and desertification, so that the total sum for the three should not exceed 100%. Since 2010, Spain has incorporated a specific question in the PACI survey (*Plan Annual de Cooperación Internacional*, in which the information about contributions to development cooperation projects are compiled): "How much money of the project has a direct and positive impact on climate change?"

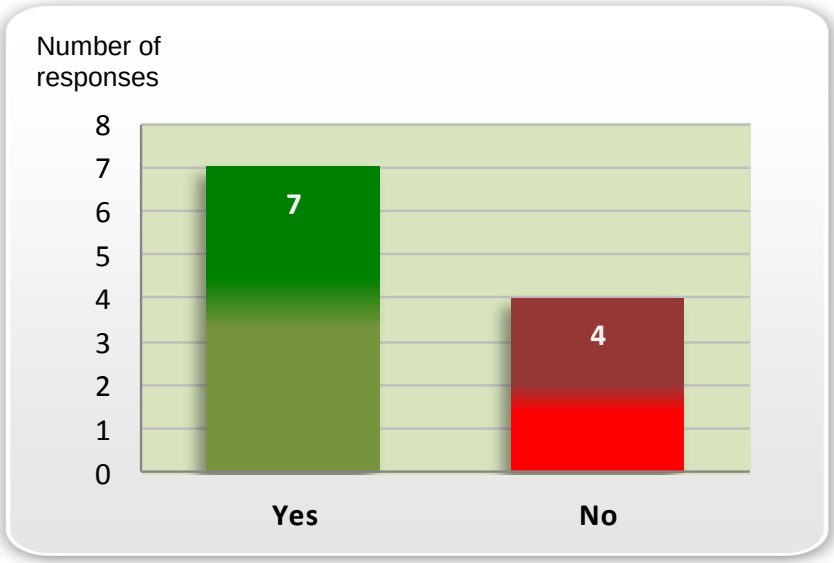
[36] Germany attributes 50% of total project finance as climate-related for projects tagged as "significant" objective. Sweden uses a figure of 100% for both "principal" and "significant" tags. Before 2009, the Netherlands used 40% for climate 'significant' organisations/activities (and also had a separate figure of 10% for contributions to climate 'limited' multilateral organisations/activities – this is not an OECD-category but was deemed important to include given their substantial support to UN organisations with climate activities; for fast start finance, the Netherlands have only included activities that were tagged with either of the OECD markers).

[37] Or other guidance that relates to the interpretation and use of the marker system, for instance from the UNFCCC.

programmatic funding and direct budgetary support presents a major accounting challenge, not only in providing the level of detailed data expected (in terms of sectors, purpose, etc) but also in even quantifying total climate finance. Particularly in the case of budget support, these funds are often not earmarked for specific projects hence their ultimate use will depend on decisions by the recipient country.

Projects contributing to multiple objectives are seen as enhancing the overall effectiveness and efficiency of development cooperation, so it is to be expected that many climate projects will have other benefits (and vice-versa). Seven out of eleven Member States respondents attempt to take into account a project's multiple objectives when measuring climate finance (Figure 4-3).

Figure 4-3 If projects have multiple objectives, do you take this into account?



However, one Member States stated that a distinction between climate and other environmental objectives is not always possible. Others noted that, with few exceptions, adaptation finance is very difficult to separate from general development finance.

The way in which data tagged with multiple Rio Markers are aggregated is not the same across different Member States. In some cases effort is made to ensure the total project finance is divided up between markers, so that the total amount tagged with the Rio Markers does not exceed 100% of total project finance. In other cases Member States tag the total project finance to multiple markers simultaneously, with the effect that total reported finance is higher than 100% of total project finance (for example, scoring "2" against the climate, biodiversity *and* desertification markers and attributing 100% of project costs in each case results in triple reporting of the same amount of financial support). Interpretation of correct practice varies, and hence double counting is currently common practice in some Member States.

Several Member States have taken measures to avoid this. For instance:

- Germany applies a sum rule when using the Rio climate markers to account for a project that has both adaptation and mitigation objectives, where the sum per project cannot exceed 100%.
- Belgium divides the total financial support for a project (i.e. allocates specific percentages for different objectives) between climate (adaptation and/or mitigation), biodiversity and/or desertification, as relevant. The total sum for the three should not exceed 100%.

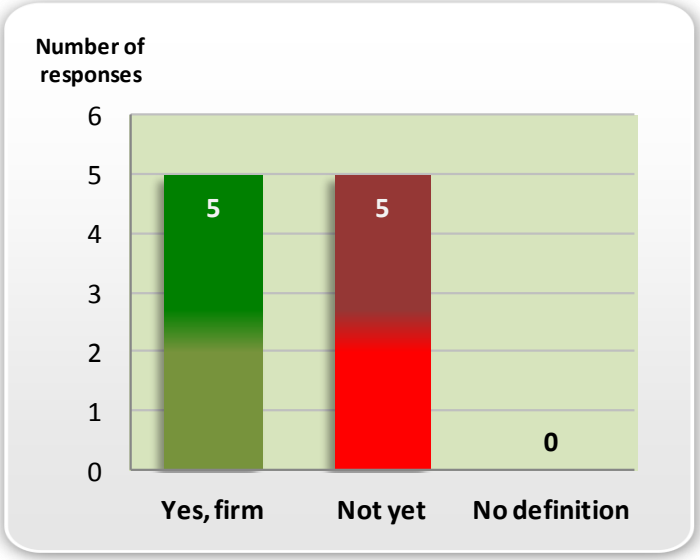
Gross versus net finance

It appears that no Member States make a distinction between gross and net finance. At present, total finance provided (i.e. gross) is consistently used when measuring climate finance.

4.2.2 How is the concept of 'new and additional' defined?

The concept of "new and additional" climate finance remains unclear, and there are diverging views within Member States about how this term should be applied. The survey results indicate that half of the Member States have not yet adopted a clear definition (Figure 4-4).

Figure 4-4 Do you have a definition of "new & additional" finance resources to developing countries?



Some examples of differences in how the term is being applied among Member States include:

- Climate finance from within ODA budgets should not be counted as additional if it is raised by diverting funds away from non-climate aid (Greece);
- Funds above the 0.7% of GDP Monterrey targets for ODA (Sweden[38]);
- Funding which is additional to climate finance contributions in international development cooperation in a base year (Germany, Finland) as well as funding which is derived from innovative sources such as proceeds from the sale of emissions allowances in the European Trading System (Germany); and
- Flows supporting new activities, projects, funds and programmes devoted to climate change (Spain).

Pursuing a common approach to the phrase "new and additional" is a significant political challenge. There are "27 different definitions of new and additional" within the EU. Converging on a commonly accepted definition which also satisfies parties outside the EU is a long term process and not an issue that will be easily resolved in the near term. Several Member States do however cite concerns over additionality and potential double-counting.

One common element in Member States responses is that ODA channels will continue to play an important role in the delivery of climate finance. Any move to separate climate finance from ODA will cause problems, particularly (though not only) for some Member States who already have difficulty reaching their ODA targets, and is also an issue in terms of the effectiveness of climate finance in delivering tangible development benefits for recipients

Given the challenge it poses, attempting to definitively resolve the "new and additional" question could have the effect of slowing down the rest of the MRV process, which would be undesirable. Instead, some Member States argue that the most important issue in the near-term is to improve *transparency*

[38] Sweden's ODA contributions are currently above the 0.7% level, so this definition of "new and additional" does not *necessarily* imply more funds than current levels, though future ODA levels may not remain at current levels.

about how Member States are interpreting “new and additional” and to be transparent about the relationship between climate finance and development finance.

4.2.3 Data collection systems

In most if not all Member States, collecting data on climate finance at the domestic level requires the involvement of multiple actors, at the least various ministries/departments and sometimes also other agencies. Responsibility for compiling data usually falls to the Ministry of the Environment, Ministry of Finance, or Ministry of Foreign Affairs in cooperation with other departments.

The sophistication of data collection systems varies significantly between Member States. As a general pattern, those who have extensive experience in delivering ODA have begun putting in place internal data management systems to enable information collection from different entities. In several cases these systems are being set up to mirror the data needs for existing reporting requirements to the NCs and/or OECD CRS systems.

At the other end of the spectrum, smaller Member States and those who have little or only recent experience as providers of ODA have not yet come as far in domestic coordination efforts. The lack of a requirement for (and clarity about) MRV was cited as a barrier for one (and probably more) Member States, since it has made it difficult to set up the inter-ministerial coordination needed to accurately account for all public climate flows. As a result, efforts to measure climate finance have so far been ad hoc. The amounts of climate finance measured and reported so far are therefore likely to include only a subset of actual eligible climate finance, because data on all flows is not available. Greater clarity on expectations from the EU level – along with support, in the form of guidance – could help provide the external push necessary for domestic institutions to improve coordination.

Box 4-1 summaries the key needs and expectations from Member States for measuring climate finance.

Box 4-1 Summary of key needs and expectations among Member States for measurement of climate finance

Measurement relates to what data is to be collected (i.e. what is eligible “climate finance”) and how it is to be collected. Clarity is needed on which financial flows are eligible to be accounted as “climate finance”. Clear and consistent definitions are required to reduce uncertainties and increase transparency, and greater consistency in how Parties make decisions about what is to be measured (and reported) as climate finance is likely to be required in the medium term to maintain integrity.

Greater clarity in terms of **accounting guidance** is needed on:

1. What is to be counted as “climate finance” within the meaning and spirit of the pledge in the Cancun Agreements – which kinds of contributions and activities/projects? Which private flows?
2. How the concept of “new and additional” financial resources is defined.
3. Once eligibility is defined, how the amount of climate finance is to be determined – where a project has multiple objectives (one or more of which is climate-related), how much of the total finance is accounted as “climate finance”? How is the distinction between gross finance (i.e. total amount made available) versus net finance (i.e. total amount made available minus any amount repayable to the donor/MFI) resolved?
4. How to account for different types of finance (e.g. differences between grants, loans, other) as well as how innovative mechanisms such as loan guarantees are to be counted.
5. Guidance/best practice examples of how to measure (and report) on programmes and projects that have combined private and public flows.

Some Member States consider **operational guidance** would also help improve measurement, for instance on how to better integrate climate change and development finance and on how to evaluate adaptation. To this end, some Member States expressed a desire for the EU to publish case studies as guidance, not just of projects but also of how different Member States have set up systems for institutional cooperation/coordination domestically to facilitate data collection and reporting.

4.3 Reporting of climate finance

4.3.1 Reporting channels

There exists a rapidly developing landscape of different finance tracking efforts, of varying degrees of coverage and depth. Member States typically use two main reporting channels, neither of which comprehensively captures all climate finance: the National Communications to the UNFCCC (NCs) and the OECD's CRS database.

4.3.2 UNFCCC National Communications (NCs)

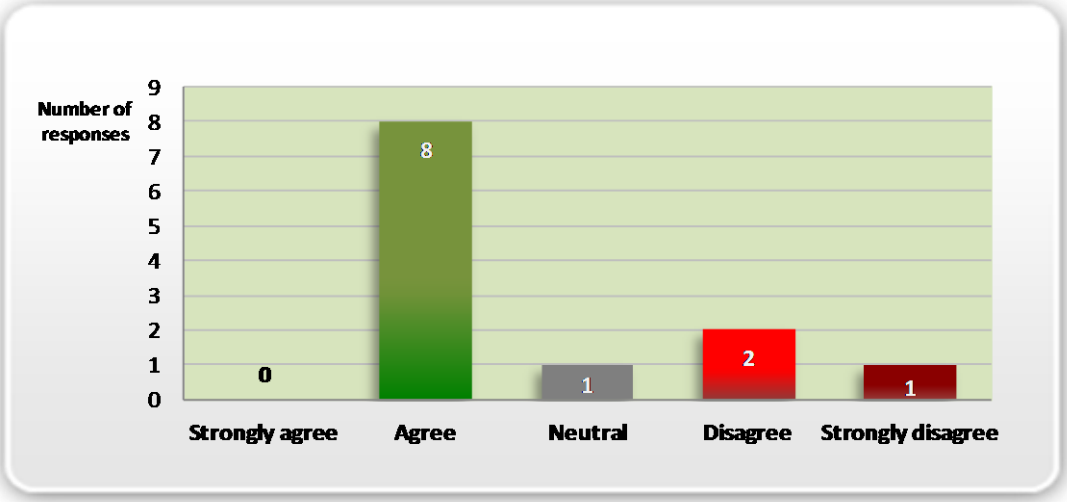
Annex II Parties are required by Decision 4/CP.5 to report on financing for developing countries in their national communications (UNFCCC 1999b). The decision requires Parties to indicate what "new and additional" financial resources they have provided pursuant to Article 4.3 and to clarify how they have determined such resources as being "new and additional".[39]

Parties are required to provide information in tabular form for a three-year period on financing through bilateral and regional mechanisms to specific countries for:

- mitigation (energy, transport, forestry, agriculture, industry, and waste management) and
- adaptation (capacity building, coastal zone management and other vulnerability assessments).

Some Member States consider there is scope within the NCs for reporting most public and private financial flows that support climate objectives, based on the UNFCCC guidelines in the special Chapter on Financial Resources and Transfer of Technology (Figure 4-5).

Figure 4-5 UNFCCC NCs reporting can be used to report climate finance



Two thirds of Member States respondents suggest the NCs can be used as a basis for climate finance reporting as part of an MRV framework. However, it is clear that current UNFCCC reporting guidelines require further improvement if they are to support comprehensive reporting. Weaknesses highlighted by Member States include:

[39] Annex I Parties had to deliver their Fifth National Communication to the Secretariat by 1 January 2010 (decision 10/CP.13). In preparing these national communications, Annex I Parties were supposed to follow the revised reporting guidelines for the preparation of national communications. The secretariat also prepared an annotated outline which compiles provisions of these guidelines in order to support Parties in preparing their Fifth National Communication (see http://unfccc.int/files/national_reports/annex_i_natcom_/application/pdf/nc5outline.pdf).

- The guidelines leave room for interpretation in what contributions should be reported (Tables 4 and 5 were specifically mentioned by Member States);
- There is no guidance on definitions used; therefore numerical data provided is not comparable. Guidelines ask for explanation in how far climate finance is "new and additional" while there is no internationally agreed definition for "new and additional";
- There is inconsistent treatment of mitigation and adaptation, particularly with respect to the need to disaggregate data by sector (which is required for mitigation but not adaptation);
- The definition of sectors does not match with the OECD CRS system, which makes it burdensome for some parties who have set up domestic data collection and reporting systems to meet the needs of the CRS database;
- There is currently no methodology for splitting of public and private sources, including relevant FDI flows (although this relates more to measurement than reporting); and
- Reporting is not conducted annually, so there is a lag in some data being publicly available.

4.3.3 OECD CRS database

Member States views on the CRS system and Rio Markers have been covered in the previous section 4.2. Even though the CRS and Rio Markers are primarily a reporting tool, they presently have influence over measurement questions too because the DAC guidance on use of the Rio Markers remains the only semi-detailed guidance at the international level on how to identify and account for climate finance.

To improve the coverage of the CRS data, consideration should be given to inclusion of non-OECD members and other key multilateral institutions. There may also be merit, depending on technical feasibility, in compiling better information on a wider range of types of finance and support (i.e. grants and loans, loan guarantees, public/private partnerships and inclusion of non-ODA sources).

4.3.4 Which flows are reported?

At this stage Member State reports through both the NCs and OECD CRS tend to focus on public finance, with little or no focus on private finance.

Several reporting efforts have been initiated by bilateral and multilateral finance institutions, to publicise the climate-related flows which they oversee e.g. BFI report, World Bank. This portion of multilateral flows cannot simply be added to the flows reported by Member States since this would involve a large amount of “double counting” because most if not all Member States that report climate finance already report aggregated data on multilateral contributions. Effort is needed to integrate data from Member States reporting and from other institutions, to resolve this problem.

4.3.5 How well is data disaggregated?

The following table summarises what data are available internally to Member States and could be used for reporting. There is a clear difference between data available on bilateral and multilateral flows.

Most if not all Member States have disaggregated data for finance channelled bilaterally. However, as described earlier, it is difficult to measure (and hence report) on all bilateral flows. The climate-relevance of some, such as budget support, is not able to be measured so they do not appear in reported data.

This is rarely the case for multilateral channels.[40] MFIs do not typically report disaggregated data back to donors that reveals how finance was used – that is, for what specific purpose (e.g. climate change), which countries, which sectors, what kinds of instruments – in a way that enables Member States to report. At present there is no standard means of attributing contributions to multilateral funds, and

[40] Multilateral channels identified in the Member States survey include contributions to the UNFCCC, UNEP, Montreal Protocol, Kyoto Protocol, CITES, IUCN, GEF, EDF, LDCF, SCCF, FCPF, Global Environment Fund, Climate Investment Funds, MDBs and other UN agencies.

moreover each multilateral facility or institution will have a different focus and different way of accounting its contribution to climate objectives.

Table 4-3 Availability of disaggregated finance data

Bilateral disaggregation

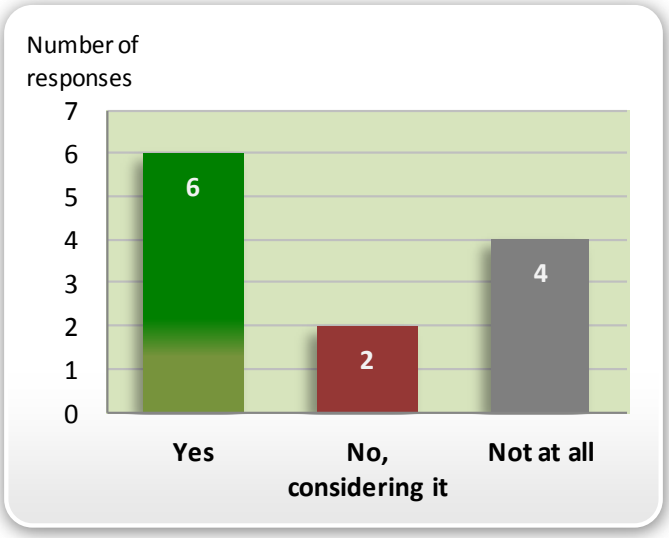
	Regions	Countries	Sectors	Primary objective
Slovakia	n/a	✓	✓	✓
Finland	✓	✓	✓	✓
Estonia	n/a	n/a	n/a	n/a
Greece	✓	✓	✓	✓
Czech Republic	✓	✓	✓	✓
UK	✓	✓	✓	✓
Spain	✓	✓	✓	✓
Germany	✓	✓	✓	✓
Austria	✓	✓	✓	✓
Belgium	✓	✓	✓	✓
Netherlands	✓	✓	✓	✓
Sweden	✓	✓	✓	✓

Multilateral disaggregation

	Regions	Countries	Sectors	Primary objective
Slovakia	n/a	n/a	n/a	n/a
Finland	✓	✓	✓	✓
Estonia	n/a	n/a	n/a	n/a
Greece	✓	✓	✓	✓
Czech Republic	✗	✗	✗	✗
UK	✗	n/a	n/a	
Spain	✗	✗	✓	✓
Germany	✓	✓	✓	✓
Austria	-	-	-	-
Belgium	✓	✗	✗	✗
Netherlands	✗	✗	✗	✗
Sweden	✗	✗	✓	✓

For those Member States who do not earmark contributions to particular multilateral funds or institutions, even reporting a total climate finance figure may not be possible. Some Member States indicate that their contributions for the fast-start initiative and to some multilateral institutions and funds are earmarked for climate change activities, where the climate-relevant portion is decided in advance (Figure 4-6). For example one Member State noted its contributions to the Global Environment Fund GEF are earmarked "by the programming decisions made during the Replenishment negotiations". However, the same Member State provides core support to the World Bank that is not earmarked which means it is not reported as climate finance even though some is probably used for this purpose.

Figure 4-6 Are contributions earmarked?



This has several implications from an MRV perspective:

- Getting a complete picture of climate finance is reliant on multilateral institutions providing detailed reports and data on how funds have been used – ensuring there is no double counting (i.e. both Member States and multilateral reporting the same funds); and
- It currently has the effect of either over-estimating climate finance (for example, when a Member States reports all "environment" finance as "climate finance") or underestimating climate finance (for example, when multilateral contributions are not accounted as climate finance by the Member States).

In an ideal MRV system, data will be disaggregated further than the broad categories described above, to the level of individual projects, to facilitate a wider range of assessment (verification) functions. This greater level of disaggregation is already provided by many of the Member States who report using the OECD CRS system. The project level data must also be available to all Member States, since all those which participated in this study compile their climate finance figures from project data.

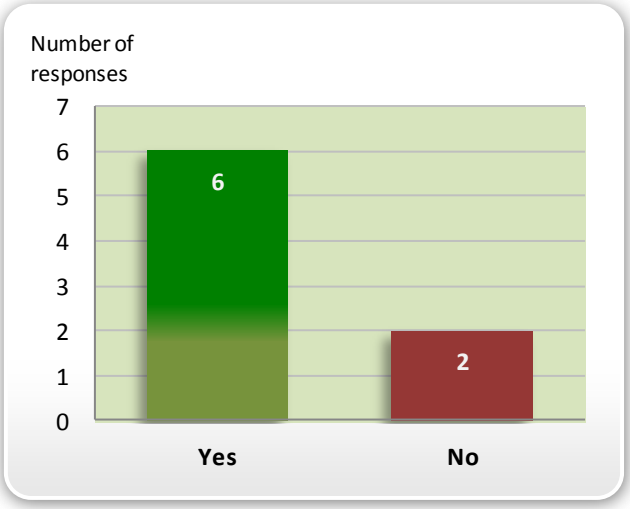
4.3.6 Reporting committed or disbursed funds

There is a divergence between Member States on the question of whether committed or disbursed funds are reported. Some Member States (for example, Sweden, Slovakia, Spain and Greece) report disbursed funds only (Figure 4-7). Others (for example the UK, Finland, Germany and Czech Republic) report both committed and disbursed. Finland reports on both but monitoring is done by using the disbursed funds information and reporting is done by also using information about committed funds. Czech Republic reports on both but this depends on whether reporting is to be ex post or ex ante. In the annual ODA reporting to OECD/DAC, Germany reports on disbursed and committed funds. Fast Start Finance reporting by the German BMZ[41] uses committed funds for bilateral finance

[41]The German Federal Ministry for Economic Cooperation and Development, BMZ

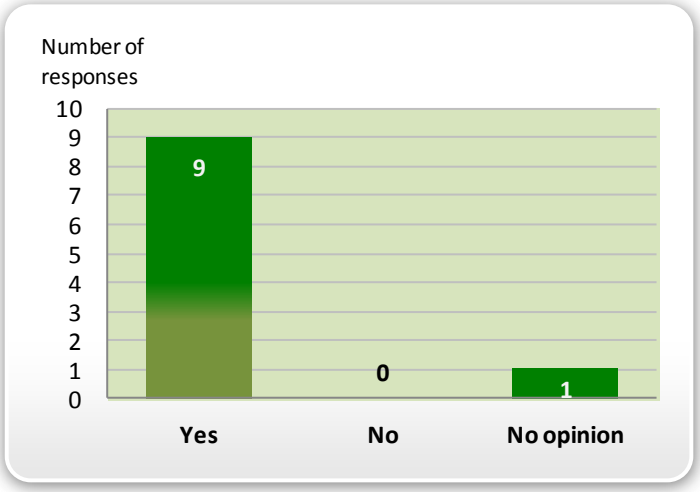
and disbursements for multilateral channels. The EU and other Annex I Parties have been criticised for the ambiguousness of the reporting data provided –particularly on the Fast Start Financing –, and there will be increasing pressure to provide more systematic information on disbursements per recipient country.

Figure 4-7 Do you report committed/disbursed funds?



Most Member States agreed that improved UNFCCC guidelines should be developed to enhance reporting by both contributor and recipient countries (Figure 4-8). Member States generally support the proposed work-plan within the UNFCCC to improve the definitions, principles and structuring of the finance reporting guidelines but also consider that they should – as far as possible – build on existing reporting systems in particular the OECD DAC.

Figure 4-8 Should new UNFCCC guidelines be developed?



Most Member States agreed that there are strong parallels between the NCs and OECD-DAC, and that use should be made of the Rio Markers and CRS codes (Figure 4-9).

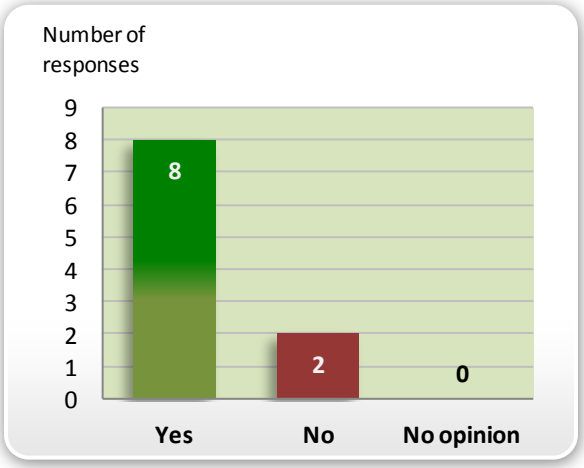
Improvements include:

- Consistent reporting formats should be pursued, making clear types of support provided (grants, loans, others), objectives of support (e.g., mitigation, REDD, adaptation, including capacity-building and technology), and cover both bilateral and multilateral channels.

- Further elaboration of the expected reporting period, the definitions used for climate support (as discussed in the measurement section above), ways of representing the volume of both bilateral and multilateral contributions, and how to represent the incentives that public finance creates for private-sector investment.
- Facilitate reporting by recipient countries to validate funding from developed countries. This will require more information regarding the results on the ground.
- Improvements will be needed on the definitions, reporting periods, and qualifiers/categories on issues such as leverage, loans / grant elements and conditions as well as on the nature of the contributions should be added (e.g. technology transfer, NAMAs, NAPAs, MRV, REDD+, Adaptation, and subcategories). This will help tracking support in relation to those priority areas agreed in the international negotiations.

At the same time pragmatism should be a key principle in the development of these guidelines.

Figure 4-9 Are there parallels between UNFCCC & DAC reporting?



Member States generally felt that it would be useful to harmonise reporting guidelines between the NCs and the CRS database and Rio Markers. Already a number of Member States use the OECD reporting guidelines on the Rio Markers to report on climate-related ODA in the NCs.

Several Member States offered views on whether the Monitoring Mechanism Decision (MMD) might be a useful tool for the EU to progress reporting requirements. Member States do not appear keen for finance MRV to be addressed through the MMD. It is perceived as already being a complicated instrument that is difficult to understand and comply with, and including financial reporting requirements would only impede progress on an efficient MRV system. It was also suggested reporting should be pursued via the UNFCCC and that the EU should not set up separate requirements. However, should the future of MMD include provisions on finance reporting then it would be possible to apply more rigorous and streamlined reporting practices. Ultimately, international progress in this area and the eventual timing is a function of the advancement of this agenda item in the UNFCCC negotiations.

Box 4-2 summaries the key needs and expectations from Member States for measuring climate finance.

Box 4-2 Summary of key needs and expectations among Member States for reporting climate finance

Reporting relates to how eligible "climate finance" data are to be made available for review, through which channels and in what form. The key aims with respect to reporting are **consistency** and **broad coverage** in terms of both finance providers and financial flows.

Once decisions have been made on which finance is to be accounted (either by individual parties or common agreement at the EU/international level), there is a need for clarity on how this is to be publicly reported. The following questions must be addressed:

Who is required to report? It might be expected that States (as Parties to the UNFCCC) bear the responsibility to report financial support, yet this is a more challenging proposition than it first seems. National level reporting disaggregated data on multilateral flows is often not possible under current arrangements, since some funds to multilateral development banks are not earmarked for particular facilities or objectives – thus, only the multilateral institution is able to report on how the finance was actually spent. Reporting private finance is an even greater challenge for Member States.

Where should reporting occur (i.e. through which channels)? Existing reporting mechanisms (namely the NCs and OECD CRS database) capture some of the public climate finance picture, though both are deficient in coverage. Is it preferable to persist with multiple existing systems that have limitations in terms of meeting the needs of an ideal MRV framework, or to create a new reporting system that is comprehensive?

What data is to be reported and how should it be disaggregated? To support transparency and assessment, reporting should be in a consistent and comparable format between different parties. As a minimum, disaggregated data is likely to be required for:

- public versus private funds;
- how finance is channelled, i.e. bilateral or multilateral;
- the form of financial support – grants, concessional lending, non-concessional lending and equity, guarantees, other;
- the primary (and secondary) climate objectives of the financial support – mitigation, adaptation, REDD+, other;
- the sectors and/or activities supported; and
- The geographical distribution of financial support, by country.

Clear **guidance** is needed from the UNFCCC (or alternatively the EU) on how climate finance should be reported. In particular:

- What data is to be reported;
- Through what mechanisms data is to be reported; and
- In what format is data to be reported? Some Member States indicated the EU must adopt some form of common reporting format as a minimum, even if some Member States provide more elaborate information.

One suggested approach is that Member States submit separate NCs and then the EU subsequently issues a joint communication about actions of its Member States. Another option is requiring all Member States to report using a common format with common data tables.

For Member States that do not have advanced systems in place, the key issue is ensuring that a future framework is comprehensible and not too onerous to begin with. Several Member States with more advanced MRV systems already in place argue that a future framework should build on the approach of existing reporting mechanisms (i.e. OECD CRS system and NCs), since domestic systems have been put in place to respond to these. Setting up new structures and different systems should be avoided.

In relation to the National Communications to the UNFCCC, including all Annex I Parties, as well as non-Annex I Parties providing support, in reporting of climate finance would increase data coverage and consistency. It was suggested that regular international expert reviews are important to learn lessons and increase consistency of reporting.

Some Member States (not all) argue that recipient countries should report publicly on financial support received. This is not straight forward as a technical exercise, since national governments have only partial information about financial flows because some do not go through the national level. It also presents a major resource challenge, so careful consideration is needed of whether this substantially improves the MRV system to the extent it warrants the inevitable diversion of development assistance resources away from concrete activities.

4.4 Verification of climate finance

Current practices

Verification refers to how independent parties can check the validity of reported data, particularly with respect to *how much* finance has been made available (including to whom, in what form and for what purpose). Verification is closely linked to reporting, in that data transparency facilitates independent review and analysis. It has also been linked to the idea of parties receiving international financial support reporting the amounts they receive and from where, in order to enable comparison on both sides of the ledger. There is little in the way of verification of current flows.

In formal terms, the UNFCCC prepares (occasional) in-depth reviews and reports on the NCs, in which they highlight issues and problems related to the data collection and reporting. The UNFCCC secretariat prepares a synthesis of financial information based on the national communications from Annex I Parties[42]. The secretariat synthesises information on how financial flows varied from each Annex II Party through the GEF, through other multilateral institutions, and through bilateral channels. In the case of bilateral contributions, it categorised financing for mitigation and adaptation by the mitigation and adaptation classifications noted above for 1998–2004. The secretariat noted that multiple methodological and reporting issues limited the utility of their analysis.

The NCs are themselves only reporting tools; however there is already a process in place for review by experts. This at least verifies the level of information provided, though not the substance behind the reporting. Verifying the accuracy of data and, if desired, effectiveness of climate finance in achieving impacts will require an additional process (See Chapter 6) and participation from developing countries. Level of data made available in the NCs will not currently support this.

The OECD-DAC provides a publicly accessible database and thus subject to scrutiny and external review. It provides a more detailed data set (than in current NCs) that can be independently reviewed as part of a process to verify accuracy of data. The reported data are screened at three different levels before it is finalised and uploaded on the website. DAC officials correspond with the principal contact in the DAC member at all times to verify the accuracy of the reported data. However, at present is only internally reviewed and does not report commitments or baselines for “new and additional” resources to be assessed.

The other main feature of current verification is efforts by independent research institutes to compile and/or analyse publicly available data on climate finance. Although these efforts have arguably helped push along the debate about MRV at the international level, they are informal and limited by both resources and access to data.

A future verification regime will be expected to have a stronger formal framework for assessing financial flows. Verification efforts would then be further strengthened if the potential for informal analysis is enhanced, in particular by improving data coverage, access and transparency (hence, the discussion of verification is closely linked to reporting). The role of recipient countries is particularly important in strengthening the verification element.

The verification of climate finance is overlooked in most of the current reporting systems. Challenges for verifying climate finance are broadly similar, with the following additional problems:

- The scale of financial support provided to developing countries;
- The effectiveness of climate finance is delivering tangible outcomes in developing countries;
- Methodology, indicators and collection of data is difficult; Indicators for effectiveness and impact of climate finance are mostly undeveloped or limited to project evaluations. One Member States said that indicators are used in project evaluations but not used for reporting on climate financing;
- Calculating climate shares;
- A broad definition of verification which includes effectiveness of the funds would be particularly difficult; and

[42] UNFCCC. 2007b. “Compilation and synthesis of fourth national communications. Note by the secretariat. Addendum. Financial resources, technology transfer, vulnerability, adaptation and other issues relating to the implementation of the Convention by Parties included in Annex I to the Convention.” FCCC/SBI/2007/INF.6/Add.2. UNFCCC, Bonn.

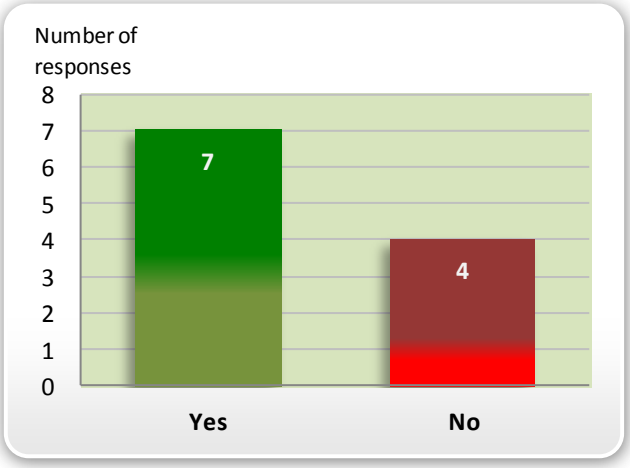
- Credible determination of the extent to which a project is related to climate change.

Member States were split on whether independent parties should verify climate finance (Figure 4-10). Finland, Czech Republic and the UK (Box 4-3) have independent companies verify climate finance.

Box 4-3 Independent verification of climate finance in the UK

The Independent Commission for Aid Impact (ICAI) is the independent body responsible for the scrutiny of UK aid, focusing on delivery of value for money for the UK taxpayer and maximising the impact and effectiveness of the UK aid budget. With a remit to scrutinise all UK Official Development Assistance (ODA), ICAI will evaluate and review ODA spend in all government departments. ICAI is a unique body that will publish transparent, impartial and objective reports. ICAI will provide strong evidence-based feedback into Government decision making, to ensure that its recommendations lead to change. ICAI recommendations will play a vital role in championing the use of evidence from independent evaluations, reviews, and investigations, to allow the UK to spend aid on what works best.

Figure 4-10 Should independent parties verify climate finance?



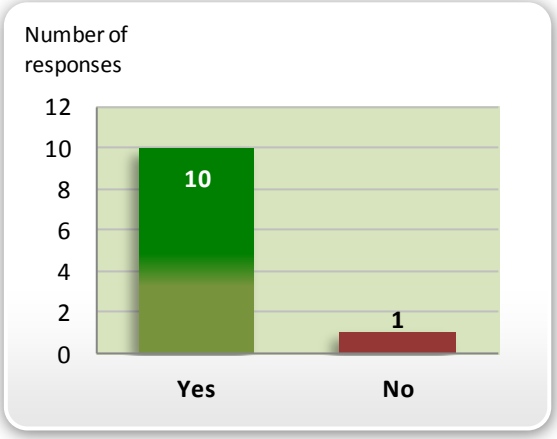
One Member State confirmed that there was no specific procedure to verify climate change expenditures. Assessments are made through project reports submitted to the agency for International Development Cooperation and through the Annual Assessment Report of ODA.

Germany's climate finance expenditures are verified at several levels (parties are not necessarily independent):

- Being part of public development aid, climate finance expenditures are regularly scrutinised by the general audit as well as by the German Parliament;
- Climate related aid projects are regularly checked according to effectiveness of funds and impacts in mitigating and adapting to climate change by GIZ and KfW;
- The Directive "Environmental and Climate Assessment" has made an assessment of all projects of German Development Cooperation mandatory since 01.01.2011; and
- Germany applies the system of OECD markers (relevant here: Climate Change adaptation and Climate Change mitigation) to all its bilateral projects and programmes.

The majority of respondents report that information is made publicly available on the internet in a way that enables scrutiny of the data (Figure 4-11). Estonia was the only Member State which does not make information publicly available, as it does not have an obligation to report climate finance.

Figure 4-11 Is information publicly available?

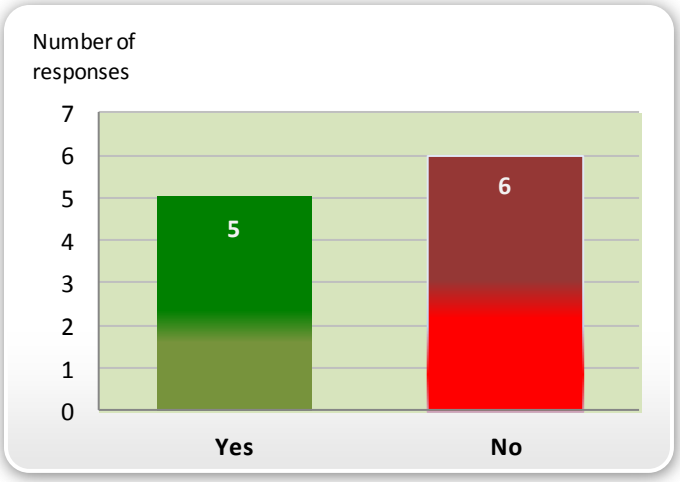


Most Member States said yes to having indicators of, or some way of measuring, the effectiveness and impact of the finance (Figure 4-12).

- The UK departments involved are developing methodologies and indicators to track impact and value for money of this spend. UK's Department for International Development (DFID)'s Business Plan 2011–15 commits the Department to developing by June 2011 methodologies and indicators on adaptation, low carbon development and protecting forests. These will inform the monitoring and evaluation framework of spend.
- Spain has specific monitoring systems included in the projects/programmes. Follow up of the projects/programmes are undertaken in the countries through the Spanish Technical Cooperation Offices and the Spanish Economic and Commercial Offices.

The German Development Cooperation assesses effectiveness and impacts of bilateral programmes on climate change in the context of five evaluation criteria (relevance, effectiveness, overarching development results (impact), efficiency, and sustainability). Each aid project has specific indicators according to which the impacts are measured. The results of project monitoring are not included in national reporting on climate finance. Regarding specifics of climate change interventions, the German Development Cooperation is actively engaging in the international debate e.g. on Monitoring and evaluation (M&E) for adaptation to climate change.

Figure 4-12 Do you have indicators for effectiveness/impact of climate finance?



4.4.1 What is needed to improve verification

Verification is intended to consist of an independent review of the finance data. It has two probable components in the medium to long term: verifying the scale of finance, and verifying the effectiveness of finance (i.e. what it has achieved). At this stage the verification discussion has focused almost exclusively on the scale of finance but in the future it is also likely that the impact of finance will be expected to be reported on, which introduces new challenges associated with defining and measuring impacts (especially for adaptation finance).

What is needed in the near term is clarity on how data provided by Parties will be assessed to verify its scale and effectiveness, and who has the responsibility for this. The role of developing countries is particularly important in this context (Box 4-4).

Box 4-4 The role of developing countries in Verification of climate finance

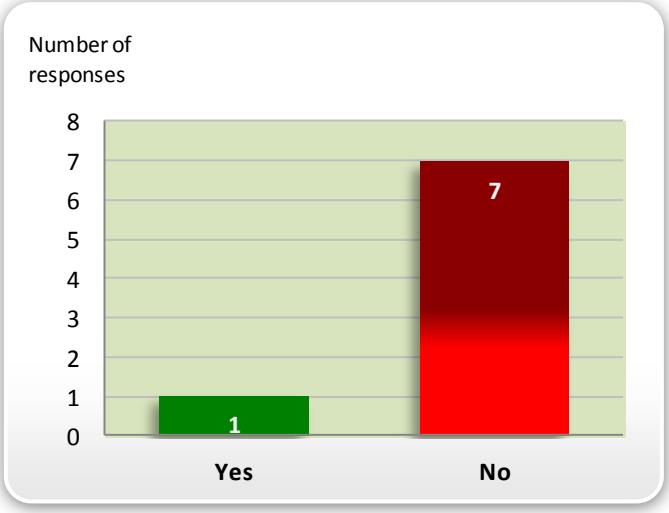
- COP16 in Cancun required developing countries recipients of bilateral and multilateral finance to report on climate finance they receive via **biannual reports** to the UNFCCC. However common and systematic reporting is not yet in place.
- Generally, the scope of the verification should be to **correlate the pledges made by leaders in the UNFCCC process** (US$ 30bn Fast start finance and US$100bn per annum) with the flow of resources in order to ensure **both accountability and trust building** on the part of donors and recipients respectively.
- More specifically, verification of **climate finance received and utilised in developing countries has to be understood as a mirror-effect of efforts by contributing countries** to monitor, verify and report the financial resources they have provided either via bilateral or multilateral financing channels (pledged, contributed, allocated, disbursed), their nature and composition (question of loan vs. grant), the issue of additionality, the focus of the funding (adaptation, mitigation, forest conservation), intended beneficiary groups.
- Only when the verification data asked for by developing countries can be matched and compared with numbers provided by the contributing countries can **effectiveness and efficiency** be contemplated; this is also useful in indicating the amount of funding which will be spent in transactions costs/implementation fees etc. by finance intermediaries (either on the national or international level, both by contributing and receiving countries).
- From a recipient country side, it would be useful to be able to have a clearer understanding of recipient groups, disaggregating the recipients at the sub-national level (where possible, to the level of community or local group).

The degree of disaggregation of data is also linked to the discussion about verification. Data reporting will therefore depend on what is to be verified and how it is to be verified (e.g. public transparency to enable multiple independent reviewers from civil society, recipient countries and so on; or alternatively, limited verification by selected internal reviews by UNFCCC appointed experts).

In addition to the current verification attempts by independent institutions, Verification is also likely to involve a degree of *formal* review of available data.

Member States noted that the UNFCCC does not provide specific national verification guidance for reported data (Figure 4-13). National Reports / Communications provided to UNFCCC are subject to in-depth reviews by an Expert Review Team (focus on GHG inventories). The current work programme under the UNFCCC is expected to address this issue and develop the guidelines for MRV.

Figure 4-13 Does the UNFCCC provide guidance for reported data?



Mainstreaming of climate change can help in developing methodologies, indicators and collection of data to evaluate the climate change impact of financing and calculating/estimating climate shares.

There is a lack of standardised verification systems. Clarity on the scope of verification is needed. It could for instance entail as a minimum:

- a confirmation that what is bilaterally and multilaterally committed is actually transferred; and
- that the financing is used for its stated purpose.

Given the challenges regarding verification of climate finance, the most important requirement is getting hold of better indicators. Indicators should incorporate new developments in monitoring adaptation as well as monitoring the indirect impacts of GHG reduction measures (PaMs, R&D). Hence, monitoring systems can measure the effectiveness and impact. Project design (such as NAMAs) need to include appropriate indicators as a criteria for receiving support. However, obtaining relevant indicators should recognise that a wide range of public and private institutions would need to be contacted or involved.

Lessons from other international reporting processes such as the OECD CRS system should be introduced in the context of developed and developing countries reporting activities.

At the UN level, what is currently missing is a clear delineation of who will deal with the finance data once it is reported, i.e. how the UNFCCC will work further with this data. It was suggested that the collating of more comprehensive data on climate finance under the UNFCCC could possibly be coordinated by the Standing Committee for MRV issues that was established in the Cancun Agreement.

5 Mapping of current practices for tracking private finance

5.1 Introduction

At Copenhagen and then again in Cancun, developed countries committed to mobilise 'new and additional resources' for climate investments, approaching USD 30 million for 2010-12 and USD 100 billion a year by 2020. The Cancun LCA Agreement explicitly notes the role of private finance for long-term action and it is expected and understood that the private sector will need to contribute a considerable amount of these finances.

However, a number of dilemmas still exist related to the private sector's contribution to climate investments. First of all, what is private-sector climate finance? How is it defined and how – if at all – can we say that it is 'new and additional'? Secondly, how can the private sector's contribution be quantified? How are private-sector financial flows being tracked, what systems are currently in place and what are their strengths and weaknesses? The main challenges in developing and implementing MRV for private-sector finance are described first. This is followed by attempts to answer these difficult questions, by first providing an overview of private-sector climate finance support, including both a definition of what this is and an attempt to categorise it. For each of the categories identified, existing systems to track flows and their current ability to act as an MRV framework for private-sector climate finance are analysed.

5.2 Overview of private-sector climate finance support

5.2.1 Challenges in measuring, reporting, and verifying private-sector climate finance

Establishing the monitoring and reporting framework conditions and systems is equally challenging with regards to public and private-sector climate finance. Clear definitions and categories will need to be established that allow for the comparison of data across public and private-sector climate finance flows – harmonising reporting on public and private-sector financial flows. What kind of financial data can realistically be monitored or reported or rather to which extent it can be obtained or provided, particularly private-sector climate finance, will need to be taken into account when developing reporting formats and requirements.

Setting the framework conditions with defining the data needs and inducing reporting of private-sector climate finance flows will need to be done by the public sector, i.e. EU governments, the EC and multilateral organisations such as the OECD, with increasing inclusion and contributions by specialist organisations and the private sector when it comes to the actual reporting and verifications. Fundamental issues to be addressed here are: what is been and can be measured and how or rather when can private-sector contributions be counted towards climate finance commitments of Member States and the methodology to actually monitor financial flows.

To what extent can investment decisions and related financial flows by private entities, in particular when operating internationally, be linked to public financial incentives or subsidies. What can or should be measured, i.e. where to work with leverage ratios and what may be directly monitored and verified? This leads to the question of creating a comprehensive MRV system with formats and reporting guidelines, frequencies and qualified resources and organisations for implementation. Alongside the question of organisations or organisational requirements for reporting on private climate finance the question of verifying reported data arises.

Due to the inherently private nature of private-sector investments it is even a greater challenge for Member States to report on private-sector climate finance. Who has the authority to ask for or enforce reporting vs. a bottom-up approach supported or encouraged by Member States, with voluntary disclosure of financial data?

5.2.2 Defining private-sector climate finance

There is no formal definition of private-sector climate finance within the Climate Change Convention. Indeed defining private climate finance flows presents a major difficulty and to date there is no internationally agreed formal definition of what private climate finance is (Buchner, Brown, & Corfee-Morlot, 2011). To get a better idea of what constitutes private-sector climate finance, it is helpful to divide it into two subsets (Corfee-Morlot, Guay, & Larsen, 2009):

- ***Climate-specific private finance*** – this is defined as capital flows to activities that have as key outcomes and/or objectives GHG mitigation and climate adaptation. This includes investment in renewable energy, energy efficiency and sustainable forestry or agriculture; and
- ***Climate-relevant private finance*** – this encompasses a much broader set of capital flows that will influence emissions and/or vulnerability to climate change. It includes flows going to support development and economic growth in key emitting sectors (e.g. power production and other energy supply, industry, agriculture and forestry, transport, water) or to sectors affecting vulnerability to climate change (e.g. water, health, energy, forestry and agriculture). Climate-relevant finance will influence climate change outcomes but it may also do so in a negative manner, unless the capital is supporting low-emission or climate resilient investment.

While the debate around the need for 'new and additional' financing to support climate activities in developing countries has been ongoing in negotiations, and there is an expectation that both the public and private sectors should provide resources that are new and additional to the business as usual (BAU) scenario, a clear and official definition of what new and additional actually means, is still lacking. Charged with great political sensitivities, the debate over what new and additional is and how it should be measured, is already difficult for public sector climate finance (for example, National Communications to the UNFCCC ask participants to come up with their own definition of what is new and additional and report on that.

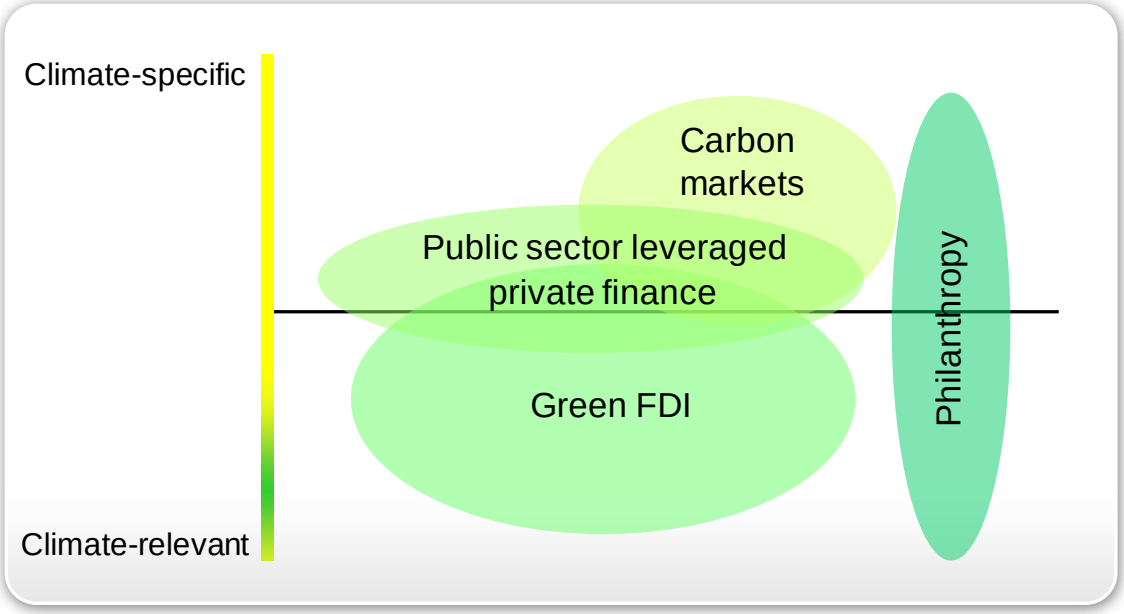
When it comes to private-sector climate finance, this issue will be very difficult to address as the private sector is expected but not committed to contributing to climate finance flows to the developing world. However, as long as some private flows are assumed to constitute a part of the $100bn commitment by the UNFCCC Parties some qualifiers and measurement practices for private climate financing will need to be established. Clearly it is difficult to come up with a benchmark against which to measure new and additional flows, but as a minimum Parties could provide information on the public efforts[43] made to increase the availability of private-sector climate funding for developing countries. The next section will, wherever possible, provide arguments as to why specific private climate flows could (or could not) be seen as new and additional.

5.2.3 Categorising private-sector climate finance

Within the two sub-categories identified in 5.2.2, there are many sources and types of private finance that support climate action. In this section private section climate finance is divided into four main categories, namely carbon markets, foreign direct investment (FDI), philanthropy and public sector leveraged private climate finance. While there certainly are overlaps between these categories – for example, investments in carbon market projects also fall under FDI, the purchase of credits in the voluntary market can be seen as a form of philanthropy, and public sector leveraged private finance is possibly not even a source per se, but rather describes certain investments within both carbon markets and FDI (see Figure 5-1) – this categorisation helps better define what can be considered as private-sector climate finance and therefore what should be tracked in an MRV system. To get an accurate picture of private-sector climate flows, it is crucial to have a good understanding of these overlaps, including how the same flow may be monitored under two different systems (or more), and to thereby avoid double-counting.

[43] Regulatory measures, subsidies, export credits and/or different schemes designed to encourage and leverage climate relevant private sector financing.

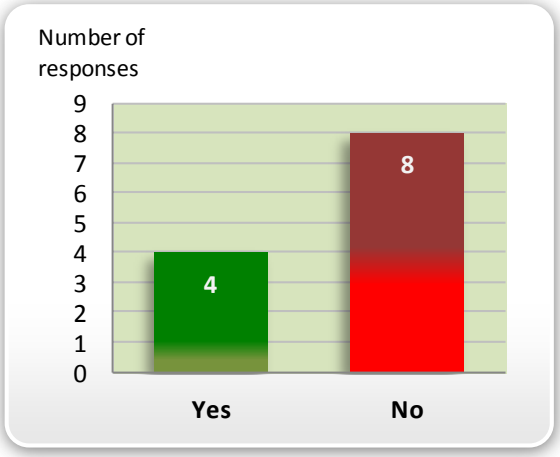
Figure 5-1 Sources and types of private finance that support climate action



Most Member States recognise the above categories for private climate finance but do not track them in any systematic manner. In fact, most consulted Member States do not report on private-sector climate finance yet (see Figure 5-2). A few Member States acknowledged that the OECD partially tracks private climate finance flows to developing countries next to other organisations such as UNCTAD or Bloomberg New Energy Finance. However, where private finance is somehow reported it cannot be compared with what is reported in other countries. Either only Clean Development Mechanism (CDM) / Joint Implementation (JI) investments are reported, private-sector climate finance is not reported consistently, or tracked private financial flows are not climate specific. Financial flows to CDM and JI take place in the context of mitigation commitments of Annex I countries and some Member States have clearly pointed out that these are therefore not eligible to be counted as "public climate finance" in the context of the “new and additional” commitments made in the COP.

Obviously, there is a need to improve the situation at the national level as well as across Member States or rather within the EU if measuring and reporting on private climate finance is consider as an important matter. Developing a better understanding of private climate flows and how to leverage them requires more research.

Figure 5-2 Reporting on private climate finance



5.3 Analysis of private-sector climate finance support and existing MRV systems

5.3.1 Carbon markets

Carbon markets, mainly consisting of the Kyoto Protocol's flexibility mechanisms, and here the Clean Development Mechanism (CDM), and the voluntary carbon market, have provided increasing flows of private-sector finance to the developing world (both from developed and developing countries) over the course of the last few years. Carbon markets can be considered as largely climate-specific flows, mainly into mitigation. Although carbon funding also supported REDD projects developed in the voluntary markets, and, to a lesser degree, adaptation. A 2% levy on issued CDM credits is transferred or rather sold to finance activities under the Adaptation Fund.

It can reasonably be argued that finance flows in the carbon markets are new and additional as they would not have occurred and will not occur in the absence of ongoing international agreements or voluntary action on climate change. The additionality concept inherent to approved and registered CDM projects and voluntary carbon projects, applying internationally agreed standards, further underpins this argumentation. On the other hand, CDM credits are being bought by Annex I countries, at least to some extent to meet their compliance obligations, and therefore some developing countries have argued that those should not be considered as private-sector climate flows. So, one may need to distinguish between credits used by governments vs. credits used by private-sector entities to comply with targets. In the case of voluntary market credits, this cannot be argued, as these are purchased on an entirely voluntary basis and as such could even be considered as a form of philanthropy. A few transactions do involve governments and would need to be taken into account when applying the above argument in a consequent manner.

There are two ways of assessing the private sector's contribution through carbon markets. One option is to look at the primary transaction value of CDM and voluntary credits. These credits are generated by projects in a developing country and purchased by a private entity in a developed country, thereby constituting a direct climate flow from the developed to developing world. The World Bank estimated the primary CDM market to have amounted to USD 2.68 billion in 2009 (Kossoy and Ambrosi, 2010). These flows are specific to the CDM and are not being accounted for under any other system. Again, the amount of publicly purchased or used credits will need to be considered.

The second option is to focus on overall investment flows associated with offset projects. While this is potentially could be of more value and comparable as a metric than estimating the primary value of carbon credits, the investment estimates are not necessarily from developed to developing country. In fact, it is estimated that about 50% of CDM projects are unilateral, with mainly domestic sources (UNFCCC, 2007). Furthermore, carbon project investment flows may also fall under the category of FDI and as such it is important to be careful not to double-count these flows (Buchner, Brown, & Corfee-Morlot, 2011).

To date, there is no centralised information system that systematically monitors financial flows through the carbon markets, neither in terms of primary credit value, nor in terms of project investment. There is also no internationally agreed methodology on what should be measured and how this should be done (Buchner, Brown, & Corfee-Morlot, 2011). However there are various organisations and databases that provide information on carbon markets, including the UNFCCC, UNEP Risoe, Point Carbon, the World Bank and EcoSystem Marketplace.

UNEP Risoe through its CDM pipeline analysis and database[44] provides the most up-to-date and user-friendly tracking system for CDM projects. For the voluntary market, EcoSystem Marketplace and Bloomberg New Energy Finance have the most comprehensive information[45].

UNEP Risoe compiles a CDM pipeline overview, which contains information about all CDM projects, from the validation stage onwards. The pipeline is updated monthly, mainly using UNFCCC data. It contains information about the amount of credits issued per project, their country of origin, and the Annex I country (and entity within it) that purchased them. It does not give any detail of the price at which the credits were sold, but it is possible to use primary CER price information which the World Bank publishes annually to estimate the value of the transaction.

[44] Available at: http://cdmpipeline.org/
[45] See http://www.ecosystemmarketplace.com/pages/dynamic/resources.library.page.php?page_id=7585&section=our_publications&eod=1

The UNEP Risoe CDM pipeline also has a tab that looks at the amount of finance that has gone into individual projects. This information mainly comes from the projects' Project Design Documents (PDDs) that often provide financial information as part of the requirement to prove their additionality. It is important to note that the financial information provided in the PDD may ultimately differ to the full amount of flows into the project, and also it may not always be possible to identify the source of the flow

EcoSystem Marketplace, in collaboration with Bloomberg New Energy Finance, produces the most comprehensive report on the voluntary carbon markets. Information for the report is gathered once a year through surveys. A comprehensive questionnaire is prepared and sent to a database of contacts and previous report respondents, as well as to voluntary market registries (e.g. the Voluntary Carbon Standard (VCS) Registry, who are then asked to forward it to their stakeholders. The information is voluntarily supplied, but an efficient follow-up mechanism ensures that data is gathered from the majority of the players identified. Once the data is received, it is cross-checked, as far as possible, with the buyers of the voluntary carbon credits. It should be noted that data on the sales of carbon credits is tracked, but no information on investment flows into projects is collected.

5.3.2 Foreign Direct Investment

Foreign Direct Investment (FDI) is defined as an investment made by a resident entity in one economy (the investor) with the objective of establishing a lasting interest in an enterprise (the investment enterprise) resident in another economy (UNCTAD, 2010). FDI includes investment in all sorts of sectors and between all sorts of countries, including North-North and South-South flows.

Here, we only consider FDI from developed to developing countries and climate-specific or climate-relevant sectors that are 'green' or 'low-carbon' FDI. There is no official definition of what 'green' or 'low-carbon' FDI is. Differentiating between flows that would have happened anyway and what is additional and the result of climate considerations is very difficult. There is not yet an internationally agreed definition on what constitutes green FDI, and as such information related to it is still limited. Nevertheless, omitting FDI altogether due to a lack of a clear definition of what part of it is green, would not do justice to the private sector's involvement in climate finance.

For the purpose of this report, the definitions provided by the OECD[46] and UNCTAD have been combined. Green FDI can be defined as:

- ***Climate-specific FDI***: Industries or sectors where one of the objectives is either climate change mitigation or adaptation (for example, this includes renewable energy, energy efficiency, and other environmental services such as waste management); and
- ***Climate-relevant FDI****:* Industries or sectors that are relevant to climate change and in which FDI could potentially contribute to climate change mitigation or adaptation (for example, this includes agriculture, manufacturing, infrastructure/construction, forestry, transport and energy).

FDI is especially relevant to climate change mitigation – climate change relevant FDI flows from developed to developing countries and in emitting sectors such as energy, industry and construction is at present the largest source of financing across all public and private sources (Buchner, Brown, & Corfee-Morlot, 2011). FDI also results in (smaller) flows into adaptation and REDD+, although this largely happens through climate-relevant investments rather than specific ones.

There is a wealth of information on FDI flows per country and sector, however fairly little attention has been given to collecting data specifically for green FDI – this is closely linked to the problem arising from the lack of a clear definition for it. There are two main data sources in the public domain that provide information on FDI, namely the UNCTAD Foreign Direct Investment database and its associated World Investment Report, and the OECD database on 'International Direct Investment Statistics'. Furthermore, Bloomberg New Energy Finance compiles information on annual investments into renewable energy. Bloomberg New Energy Finance also issue an annual report in conjunction with the UNEP Sustainable Energy Finance Initiative (SEFI), which outlines investment trends in renewable energy from both public and private sources.

[46] Stephen S. Golub, Céline Kauffmann and Philip Yeres (2011), "Defining and Measuring Green FDI: An Exploratory Review of Existing Work and Evidence", OECD Working Papers on International Investment, No. 2011/2, OECD Investment Division, www.oecd.org/daf/investment

UNCTAD run an online database – the **UNCTAD Foreign Direct Investment Database** – which provides aggregate data for over 190 different economies including information about inward and outward FDI stocks. A yearly report is produced using the data collected in the database, the World Investment Report, which provides a comprehensive outline of FDI flows, including a breakdown into sectors. The World Investment Report 2010[47] for the first time made an attempt to better define and then quantify the green portion of FDI. While a comprehensive discussion on green FDI flows is provided, the authors in the end decided to not include a final number for FDI flows because of the contentious issue of the definition of Green FDI.

The statistics division within the OECD maintain the **International Direct Investment Statistics** database. It collects data for 35 countries (only OECD countries) on FDI flows and positions by country and industrial sector. The website allows to identify to further investigate aggregate flows from investor to recipient country by sector, and as such represents a good tool for tracking North-South flows.

Bloomberg New Energy Finance database – a commercial industry intelligence service with one of the largest worldwide database of clean energy and carbon investments. The data goes back as far as 2000 and the database detailed information on funds investing in clean energy projects and technologies, grant programmes and grants, venture, private equity and corporate finance transactions, and project financings[48]. Together with UNEP's Sustainable Energy Finance Initiative (SEFI) Bloomberg New Energy Finance publish the annual Global Trends in Sustainable Energy Investment reports. The reports provide an overview of capital flows and analysis of the trends in sustainable energy investment activity.

5.3.3 Philanthropy

Charitable giving, or philanthropy, has become more and more relevant to the funding of green projects. Indeed, philanthropy is one channel through which the private sector is contributing to climate-relevant and climate-related projects. Unlike the other categories (carbon markets and FDI), which are typically provided on a commercial return basis, philanthropic donations can be considered as grants and new and additional funding, as there is no obligation for them to happen and as such they will always be over and above a zero-baseline.

The interest to identify the portion of philanthropy which can be considered green has been steadily increasing over the last few years, largely motivated by a need to better rationalise where the money is going and how it could be used most effectively. The exercise of tracking environmental finance started in Canada in 2002 and has since expanded to a number of other countries, including the UK, the USA, Australia and a recent EU-wide initiative. All attempts to tack environmental philanthropy have to date been at a regional level. There is a certain degree of alignment within the different reports, most notably in terms of the categorisation into 13 distinct sectors that are defined as green – the sectors are: agriculture and food, biodiversity and species preservation, climate and atmosphere, coastal and marine, consumption and waste, energy, fresh water, multi-issue work, sustainable communities, terrestrial ecosystems, toxics and pollution, trade and finance, and transport. However, each report is ultimately written independently, thereby resulting in a patchwork of different information sources.

The most advanced tracking of environmental philanthropy relevant to the EU is done by the Environmental Funders Network (EFN)[49], an informal network of trusts, foundations and individuals making grants on environmental and conservation issues. EFN has undertaken a series of reports on patterns of funding on environmental issues. The fourth edition of 'Where the Green Grants Went'[50] was published in late 2009, and a fifth version is currently being prepared. The report identifies a large number of funds and foundations in the UK (over 120 foundations covered in the latest version of the report) and collects data from them on the grants they receive and how they are then re-allocated to green projects. It provides a sector breakdown in terms of the 13 categories identified above, and is able to trace the origin of the funds (only the aggregated data is publicly available) and the recipients and beneficiaries by continent.

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[47] Available at: http://www.unctad.org/templates/webflyer.asp?docid=13423&intItemID=2068&lang=1&mode=downloads
[48] At the time of writing this report further detailed information could not be obtained or rather access to the subscribed services of Bloomberg New Energy Finance was not available.
[49] http://www.greenfunders.org/
[50] Available at: http://www.greenfunders.org/home/wtggw4-final/

At this point the data available is not sufficiently granular to allow for an allocation of grants to mitigation, adaptation and REDD+ within the categories. The European Foundation Centre[51] is currently working on a report similar to the one produced by EFN, where an attempt is made to track environmental philanthropy at the EU level, along similar lines to UK efforts. Tracking philanthropy at the EU level has the added difficulty that many countries do not have as strict guidelines as in the UK to disclose information about the grants they receive and therefore it may be harder to obtain the data needed.

5.3.4 Public sector leveraged private climate finance

Leveraging refers to the process by which private-sector capital is mobilised as a consequence of the use of public sector finance and financial instruments (Brown & Jacobs, 2011). The latest report by the UN's Secretary General's High-level Advisory Group on Climate Change Financing (AGF, 2010) highlighted the importance of leveraging, as public finance could attract private capital by compensating investors for what would normally be a sub-optimal return to risk ratio for them.

The concept of publicly leveraged private finance is still an emerging one and no official definition for it exists to date. Interviewed experts referred to various forms of public sector involvement in or inducement of private financing, such as:

- clean energy investments that are under a strong set of regulations and therefore may be considered publicly "directed";
- feed-in-tariffs for renewables or the provision of incentives for other types of investments for mitigation purposes;
- mobilisation of private-sector capital through structured funds or through the issuance of guaranteed bonds; and
- provision of loans or grants that facilitate private-sector investment. A public sector loan can send a signal to the private sector that there is a secure investment to be made.

Public-sector leveraging of private financing can be a powerful tool for mitigation, adaptation and REDD+, though at present most activities are seen for mitigation. Multilateral Environmental Agreements (MEA) have an especially important role to play in leveraging private-sector finance. Public policies put in place by developing country governments could also act as powerful leverages to attract private-sector financing from the developed world. However, public sector leveraged private finance should not be seen as the golden bullet that will magically make the private sector get involved in climate financing. Ultimately the private sector will look at the risk profile and returns of any given investment and the public sector can only do so much to change these variables.

There is no uniform methodology to calculate leverage ratios of public to private finance – different financial institutions report these ratios in different ways. Public leveraged private-sector financing is not really a separate source of financing in itself, but rather it describes that portion of FDI which is happening as a result of certain policies having been put in place by the public sector. Flows through primary credit transactions under the CDM can be viewed as an example of publicly leveraged private-sector finance, in that they would not have happened if the Kyoto Protocol had not existed. As such, a separate MRV system for publicly leveraged private-sector finance is not considered, but rather this type of private flows will be captured by MRV systems for carbon markets and FDI. In terms of better tracking public leveraged private financing, efforts should focus on developing a methodology to better calculate leverage ratios.

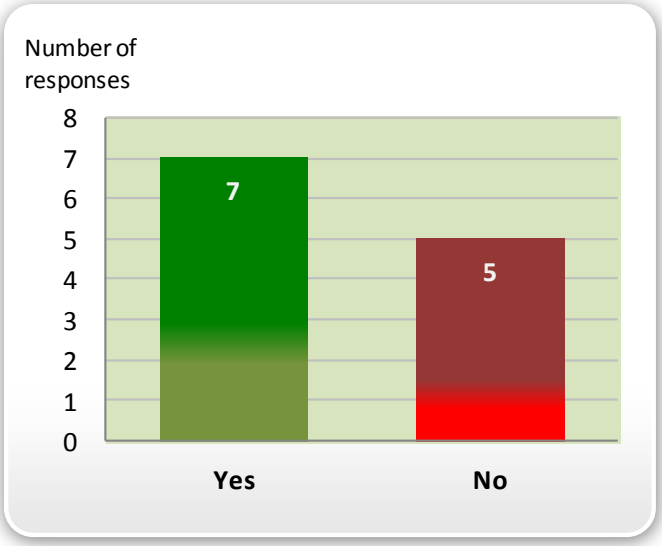
Member States were split in their response on quantifying private-sector finance leveraged by public climate finance (see Figure 5-3). Member States acknowledged that private finance has been leveraged by public flows, but this has not been measured. One Member State indicated the difficulty to estimate leverage effects in the multilateral context. The leveraged private flows do vary according to different financing instruments/products.

However, the UK has adopted a leverage indicator within their results framework for Climate Investment Funds (CIFs). The funds have utilised a leverage indicator looking at the ratio of CIF funding to other financing, including finance from other MDBs, private finance, national contributions

[51] http://www.efc.be/Pages/EFCWelcomePage.aspx

and finance from Civil Society Organisations (CSO). The Clean Technology Fund is one of the first Climate Investment Funds to provide an indicative leverage ratio (8.3) based on country-led investment proposals. Finnfund (Finnish Fund for Industrial Cooperation Ltd.) is developing methods to monitor multiplicative effects of public support.

Figure 5-3 Leveraging private climate finance by public finance



5.3.5 Requirements to improve measuring, reporting, and verifying private-sector climate finance

Background research and stakeholder consultation clearly indicate the need for underlying definitions of what are public and private-sector climate finance flows and what exactly can and should be measured. Next to finding ways to work with leveraging ratios with regards to how much private finance can be mobilised with public finance, the reporting systems and channels as well as formats and standards need to be developed or improved accordingly. Last but not least the question of verification has to be addressed or rather to what extent existing verification approaches can be used and built upon.

The determination of which private-sector finance flows are climate finance flows needs to be addressed right at the beginning. Whilst aiming at harmonising definitions and categories across public and private-sector climate finance it needs to be taken into account that not all private-sector climate flows may be 'MRV-able', mainly due to confidentiality and business sensitivity aspects. Fairly little attention has been given to collecting data specifically for green or climate-related FDI, for example, which is linked to the problem of a clear definition.

The measurement of subsidies or equivalents through leverage estimates was mentioned several times by Member States. Rather quick results may be expected here with clarifications on which FDI flows can and should be accounted or improved measurements of carbon finance flows taking much longer. Member States pointed out and are aware of the work of the OECD in this context, including the potential use of the Rio Markers and CRS codes. One stakeholder suggested that on the national level the focus should be on the leverage factor by describing how public funding or policies leverage private flows whereas on the international level it should only be demonstrated that private climate flows do contribute to the US$ 100 billion goal. The importance of avoiding double-counting was also mentioned.

There seems to be broader acceptance among Member States that guidelines would be required to enable reporting by donor and recipient countries, acknowledging this being a real challenge with regards to private-sector finance, in particular in many DCs. The review of existing reporting channels and formats, and by whom, is also noted by Member States. No clear views and guidance exists on which flows should be reported where by whom such as by the Member States or internationally through the NCs, for example. The development of widely acceptable reporting standards should look at existing approaches and systems with a focus on the EU, its Member States and countries which receive public or in this case private-sector climate finance. Alongside multilateral organisations, the

non-for profit sector and relevant associations and, in particular, private-sector players should be involved through consultations right at the beginning and beyond. Corporate compliance and voluntary GHG reporting should definitely be looked at.

In summary, further discussions and parallel but coordinated efforts are required to better define private climate finance as well as what is measured and reported, how and by whom. Boosting reporting will foster more detailed discussions of which flows are eligible and which data sources are reliable, measurable and comparable. Both top-down and bottom up measurements have their limitations but may complement each other to provide a clearer picture. Table 5-1 provides an overview of the existing tracking systems for carbon finance, FDI and philanthropy which should be further analysed and used when developing more sophisticated and comprehensive tracking systems for private-sector climate finance. The EU may be able to play a role here with respect to consolidation and bundling of information to ensure a certain level of comparability as well as with a view to providing an overall framework and methodology for the development of national systems, in particular where lacking.

Table 5-1 Overview of existing private-sector climate finance flow tracking systems

	Carbon Markets		Foreign Direct Investment (FDI)			Philanthropy
	UNEP Risoe CDM pipeline	EcoSystem Marketplace and Bloomberg New Energy Finance yearly survey and report	UNCTAD Foreign Direct Investment database and World Investment Report	OECD database on 'International Direct Investment Statistics'	Bloomberg New Energy Finance database and SEFI investment report*	Environmental Funders Network and European Foundation Centre reports
Does it identify the finance source?	Yes	No/Partly	Yes, but not publicly available	Yes, tbd	(Yes, tbd)	yes, aggregated sources
Does it identify the instrument used?	Yes (for primary credits, but not necessarily for projects)	Yes (for primary credits only)	Yes	Yes	(Yes, tbd)	yes, grants from foundations to third parties
Does it quantify the finance:						
By source region?	No	Yes	n.a.	No	(Yes, tbd)	Yes
By recipient region?	Yes	Yes	n.a.	No	(Yes, tbd)	Yes, by continent of receiver and of beneficiary
By individual country?	Yes	No	Yes	Yes	(Yes, tbd)	Not publicly available, but could be obtained
By category (Mitigation, adaptation, REDD+)?	Mitigation only	Mitigation only	No	No	(No)	No
By specific sectors (e.g. renewables etc)?	Yes	Yes	Yes	Yes	(Yes, renewables and energy efficiency)	by 13 identified environmental sectors
How often are data updated?	Monthly	Yearly	Yearly, with quarterly monitor	tbd	(tbd)	Approx every 2 years

Note: tbd – to be decided

* At the time of writing the report detailed information about the commercial services of Bloomberg New Energy Finance was not available.

6 Options for improving MRV

6.1 Introduction

This section describes possible options for improving MRV at the international level. The feasibility of different components of MRV has been discussed with Member States during the stakeholder consultation, and some of the various strengths and weakness of different options are set out in sections 6.2 and 6.3.

The options are based on a number of assumptions and observations:

- **The intended scope of MRV remains unclear.** Member States have expressed different understandings of the purpose of MRV and what it is expected to cover, particularly (though not only) in relation to private finance. Some view the specific purpose of MRV as enabling verification of whether Annex I Parties are meeting their international financial commitments (including the pledged USD 100 billion by 2020), while others say it relates to a more general concept of "*support provided to developing countries*". The UNFCCC is also unclear on this question, and is waiting clarification from the Standing Committee.
- **MRV is part of a political process, but governance of MRV has so far been largely absent from discussions**. This issue is important and requires attention from the EU in the development of any position on MRV. Reporting of climate finance currently relies heavily on the OECD DAC system for reporting ODA flows. This makes sense from a donor perspective, because climate finance and ODA are so heavily intertwined. However, the OECD system is only a reporting tool, and its role in governance of climate finance – in particular, responsibility for defining measurement and verification procedures – has not been agreed and is unlikely to have the support of finance recipients (i.e. developing countries). Therefore, while the OECD CRS system might provide one useful tool for reporting, it will need to be linked to reporting through the NCs and to guidance from the COP/UNFCCC to gain legitimacy in the eyes of developing countries.
- **The MRV framework for public support should include qualitative description of public efforts to increase climate-relevant private-sector financing in developing countries and some estimation of volumes leveraged.** MRV of private climate finance remains difficult in the near term. Detailed data on private flows is scattered across different information systems, some of which are managed by commercial data providers, and some of which are confidential. There is also no definition yet of what private climate finance actually is. It should be possible to combine public and private flows into a single framework, provided that the information requirements for private climate finance are less detailed in the intermediate term. The existing public system could already capture some private financial flows, such as *publicly leveraged private finance*, as long as methodological issues are addressed and guidance is provided to parties. It is also important to plan from the start on future integration of efforts on green FDI (definition and data collection) and the climate finance MRV system. Otherwise, the barriers to combining two systems down the line could be large and potentially prohibitive.
- **MRV expectations fall on Parties to the Convention (i.e. nation states) but information on some public flows is only available through multilateral institutions.** In most cases, Member States do not have detailed data on the use of public funds they have provided for disbursement through multilateral channels. This means MFIs will have to start reporting back to donor countries on their use of climate funds, or else the MFIs must report directly on how their funds have been used to support climate programmes. The latter is challenging because MFIs do not fall under the jurisdiction of the COP and so are not obliged to follow COP or UNFCCC guidelines or decisions.
- **The architecture of MRV must not reduce the effectiveness of development finance more generally.** Climate finance is seen by Member States as intricately linked with development finance, regardless of how the "new and additional" debate is resolved. Yet some project developers and practitioners delivering climate funds have expressed concern that narrowly defining what "climate finance" can be used for might unintentionally affect the work of development agencies and project funders on the ground. Strict definitions that make sense for accounting purposes could lead to a concentration of funds on activities with low development benefits in a particular setting. Measurement guidelines should therefore help donors identify

projects and understand how to build a climate focus into their work, but not be overly restrictive.

With the above points in mind, a series of steps for improving MRV of climate finance is presented below. Public and private finance are considered separately, in sections 6.2 and 6.3, respectively.

6.2 Building an improved MRV for public finance and tracking of public efforts to mobilise private financing

The measurement, reporting and verification of climate finance are separate processes. Improvements to each are essentially independent of one another, but can be implemented simultaneously. Over time, these individual elements can be added together, to gradually evolve a more comprehensive system.

- **Measurement (M)** improvements are targeted at enhancing *transparency* and *consistency*.
- **Reporting (R)** improvements aim to enhance *consistency* and *coverage*.
- **Verification (V)** improvements aim to support both *formal* and *informal* verification.

Public and private climate finance are separate in the same sense that M, R and V are separate. They consist of discrete actions that can usually be undertaken separately (see section 6.4); however, both should also aim to contribute to a single, comprehensive MRV framework. Certain elements of M and R might come before V, and elements of public climate finance might be achievable before private. ***What we propose is a range of separate but concerted actions that ultimately lead to a comprehensive MRV framework for climate finance.*** We suggest starting with achievable short-term steps to improve MRV in the public sector, while at the same time undertaking complementary work strands to bring elements of private finance into one system, starting with private funds leveraged through public investment.

Several recent reports can inform the EU's efforts in this regard:

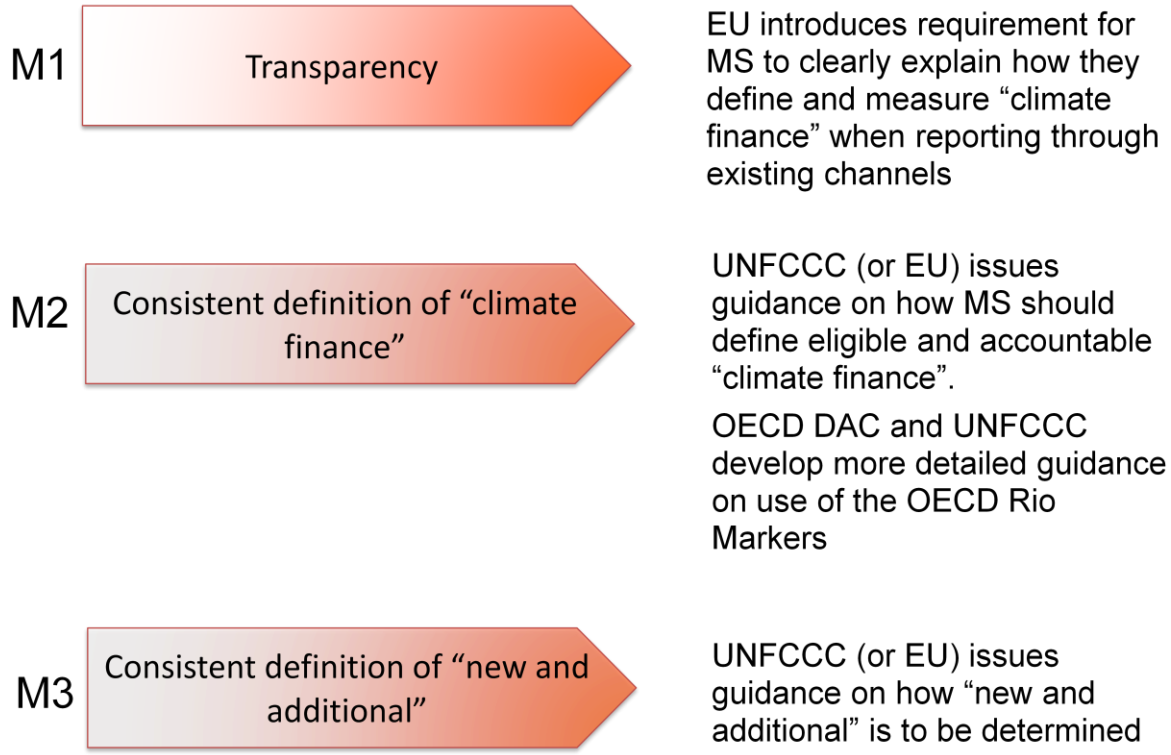
- Frequent and Flexible: Options for Reporting Guidelines for Biennial Update Reports (May 2011), Authors: Jane Ellis, Gregory Briner (OECD), S. Moarif (IEA) and Barbara Buchner (CPI). www.oecd.org/dataoecd/42/30/48148387.pdf
- Monitoring and Tracking Long-Term Finance to Support Climate Action (May 2011). Authors: Barbara Buchner (CPI), Jessica Brown (ODI) and Jan Corfee-Morlot (OECD). www.oecd.org/dataoecd/57/57/48073739.pdf
- Tirpak, D., A. Ronquilllo-Ballesteros, K. Stasio, H. McGray (2010), Guidelines for Reporting Information on Climate Finance. WRI Working Paper. World Resources Institute, Washington DC. http://www.wri.org/publication/guidelines-for-reporting-information-on-climate-finance.
- Options to Revise Reporting Guidelines for Annex I and Non-Annex I National Communications. J. Ellis, S. Moarif, G. Briner, B. Buchner and E. Massey, (November 2010). www.oecd.org/dataoecd/32/59/46553464.pdf
- Stephen S. Golub, Céline Kauffmann and Philip Yeres (2011), "Defining and Measuring Green FDI: An Exploratory Review of Existing Work and Evidence", OECD Working Papers on International Investment, No. 2011/2, OECD Investment Division. http://www.oecd.org/dataoecd/26/8/48171454.pdf.

6.2.1 Improving measurement

Improvements to measurement are intended to make interpretation of "climate finance" less ambiguous, and help Parties move towards a common understanding of what is to be counted (and hence of what should be reported).

Three options are presented for making measurement more *transparent* and more *consistent* between different Parties (Figure 6-1).

Figure 6-1 Options for making measurement more transparent and more consistent



M1 - Improved transparency of current practices

As a minimum, greater transparency can be achieved if all Parties explain within their existing reporting channels (specifically, the NCs) how they have defined "climate finance", how they have calculated the scale of their support (i.e. accounting procedures), and how they define "new and additional" resources. At the EU level, such a requirement could be introduced for all Member States who publicly report their financial support via the NCs and/or reports to the EC for Fast Start Finance purposes.

This would not require any change to the actual measurement approaches being used by Member States, so the array of different definitions and approaches would continue. The focus is instead on bringing the different approaches to light, to improve clarity and help advance the international discussion on measurement.

Some Member States surveyed for this study indicated that they still do not have a firm definition of climate finance, and attempts at measurement have been rather ad hoc. Introducing a requirement for clarity around definitions is likely to push these Member States to be more precise in their own measurement systems, which in turn improves the reliability of the data and the integrity of the MRV system. These Member States would be greatly assisted by better guidance from the UNFCCC (or EU) on how climate finance should be defined and accounted (see option M2).

Strengths	Weaknesses
Minimal resourcing burden because requires no change to existing practices. Allows the different approaches taken by Member States to inform emerging debate, so that over time the international community can	There remains no common or converging approach to defining or accounting for climate finance. Different methodologies mean that comparability and consistency of reported data is low.

move towards a common approach. Pushes Member States who have no or unsophisticated definitions of climate finance to develop their approach further and be more precise, thus improving the reliability of the overall MRV system.	Requirement is linked to reporting, so only affects those parties that report financial support.

M2 - A common international approach to defining "climate finance"

The most pressing expectation among Member States is that much clearer guidance becomes available on how to account for climate finance. This will help Member States who do not have detailed definitions to develop a more sophisticated approach, and will create more consistency in the measurement (and hence reporting) by different parties. Guidance should focus on two components:

- What kinds of activities are considered to be climate-relevant, for the purposes of defining which flows are accountable as "climate finance"; and
- How to calculate the portion of a project's finance that is climate-related.

Some guidance already exists for the NCs and the OECD DAC's Rio Markers, but both can be substantially improved with a particular focus on helping parties to define (and hence measure) what flows should be accounted as "climate finance".

- The current UNFCCC guidance for reporting in the NCs does not contain any definition of what climate finance is, but rather sets out a reporting framework.
- The Rio Markers attempt to help guide in the tagging of some ODA flows as climate finance, but the Markers were established as policy markers rather than as detailed accounting guidance. To support an MRV regime, the guidance needs significant improvement, particularly in relation to quantifying climate finance. Presently the Markers are aimed at an accounting level (i.e. for use by officers from government ministries when tagging projects *ex-post*) rather than for guiding development agencies and other project funders in actually targeting climate projects on the ground (i.e. *ex-ante* assessment). Some guidance that can balance the needs of both accountants and project developers is needed.

Given that both the NCs and the OECD CRS database appear likely to continue playing key roles in r*eporting* of financial support, this option can thus potentially be implemented in a number of ways. In our view, the best approach is for the UNFCCC to issue guidance clarifying which activities should be accounted as climate finance and how to calculate the total amounts that are "climate-relevant". UNFCCC guidance should be used by Parties when measuring data for reporting to the NCs, and could also be used by Parties in their application of the Rio Markers when reporting in the OECD CRS system.

More detailed guidance specifically on use of the Rio Markers could be developed by the OECD DAC, but the definition of climate finance will have greater legitimacy if it is developed within the UNFCCC rather than by the OECD DAC alone. Thus, even if OECD DAC takes a lead in advancing Rio Markers guidance, it should collaborate with non-DAC members, developing countries and the UNFCCC to ensure a commonly accepted approach emerges.

The groundwork for the UNFCCC to improve both measurement and reporting was laid by the following agreement at COP16 in Cancun (Decision 1/CP.16):

> *46. Decides on the following work programme for the development of modalities and guidelines described above, building on existing reporting and review guidelines, processes and experiences:*
>
> *(a) The revision of guidelines, as necessary, on the reporting of national*

communications, including the biennial report:

(i) The provision of financing, through enhanced common reporting formats, methodologies for finance and tracking of climate-related support;

Member States have expressed the view that measurement and reporting should be harmonised between the CRS and the NCs, so the same data is collected and used for both (albeit with different degrees of disaggregation at the reporting stage). Guidance on how to measure climate finance in order to report to the NCs and the CRS system should therefore be consistent and preferably combined.

It is worth noting that the World Bank has taken steps to track adaptation and mitigation finance, building on the Rio Markers, using a system based on pre-evaluated investment activity typologies. Each project task leader allocates the percentage of a project's individual sub-sector allocations that can be attributed as adaptation and/or mitigation co-benefits (the tracking of the mitigation co-benefits is considered an interim solution and will be superseded by a complete ex-post GHG analysis if and when it is approved)[52].

Some questions should be explicitly addressed by guidelines:

- How to move away from binary classification approach towards a percentage allocation for each project? This could be allocating generic shares – e.g. 100% for principal objective (Score 2) and 40% for significant objective (Score 1) – or specific shares of each sub-sector in each investment.
- How to ensure that disbursements are also linked to quantitative information from the Rio Markers on the original commitment? How can project identifiers be developed that track climate finance from commitment, delivery and lifetime?
- How to address contextual nature of adaptation finance? For instance, can application of the Rio Markers to commitments for adaptation projects be based on vulnerability or impact assessments?
- How to track climate finance within programme or budget support? This links with role of developing countries in MRV of climate finance. Recipient countries can classify budget support on an ex-post basis, following similar guidelines as the donor countries (See Section 6.2.3 for more discussion).

The UNFCCC Secretariat has suggested it needs specific direction from the COP (based on a proposal brought to the COP by one or more Parties) before embarking on an exercise to develop guidance on the Rio Markers. This is not something which has been internally contemplated so far.

An interim option is for the EU to develop guidance for its own Member States. This could at least improve consistency within the EU, and also help develop guidance at the broader international level.

Strengths	Weaknesses
Addresses No. 1 priority of Member States with respect to MRV. Would enhance consistency in measurement approaches, and hence improve the integrity of the MRV system and comparability of data. Would help Member States without sophisticated definitions and systems in place to develop better domestic measurement (and reporting) systems. If implemented via the UNFCCC, can provide a single set of guidance that applies across different reporting systems. This greatly improves consistency and helps achieve Member States' goal of greater harmonisation between the NCs	There would be some difficulty negotiating a common definition at the international level. • *Some of this difficulty could be mitigated by the guidance avoiding overly specific definitions in the first version, allowing iterative improvements over time as needed to address gaps or problems that become more evident as the system is used.* If implemented via the OECD DAC in isolation, might be contested process from the perspective of developing countries. • *This could be mitigated by collaboration*

[52] OECD (2011), Monitoring and Tracking Long-Term Finance to Support Climate Action (May 2011)

and CRS system. Many of the existing uncertainties raised by Member States could be addressed through clearer accounting guidance.	*during development of the guidelines*. A set of definitions of "climate finance" could, if too narrow or prescriptive, hamper broader efforts at development support. What makes sense will be very country and region specific, so while guidance is needed it should be careful not to be overly narrow.

M3 - A common approach to defining "new and additional"

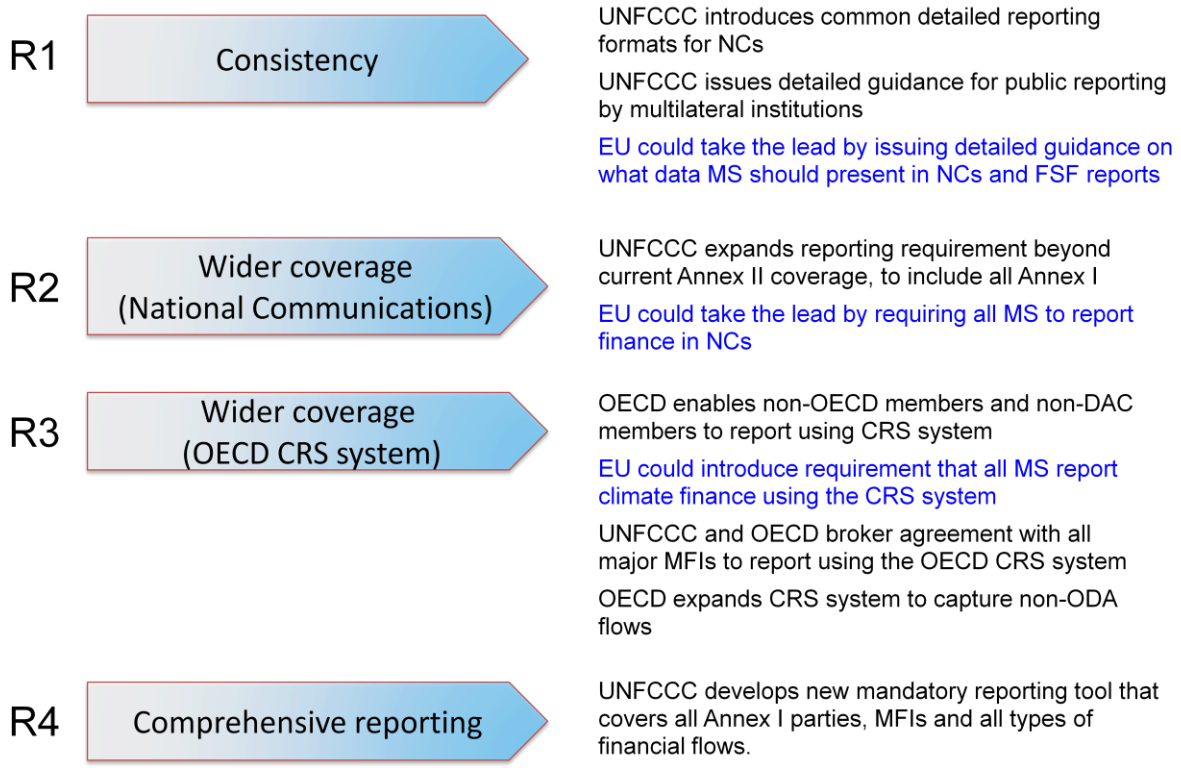
The UNFCCC can help establish a common approach to defining what is "new and additional", which can be included in measurement guidance (Option M2). In the absence of clarity at the international level, the EU could establish a common approach for Member States. Defining "new and additional" in the context of the COP agreements is a political exercise, so either task will require difficult negotiations. This is unlikely to be an issue that can be easily resolved in the near term.

Strengths	Weaknesses
Improves consistency and comparability of effort. Provides greater clarity and transparency, which strengthens verification of the "new and additional" component of climate finance. EU taking the lead and developing a common agreed definition might help foster discussion in wider international community on this topic.	Politically very difficult to find common agreed position on "new and additional", both within the EU and beyond the EU. Resolving the "new and additional" component is probably not the highest near-term priority for improving MRV, and attempting to tackle it now could slow down other improvements that are arguably a higher priority and less contentious. EU taking the lead and developing a common agreed definition would involve a complex negotiation process between Member States. At best a "lowest common denominator" approach might be agreeable. Taking such an approach might present some reputation risk for the EU since other Parties – particularly developing countries – might be unhappy with the outcome.

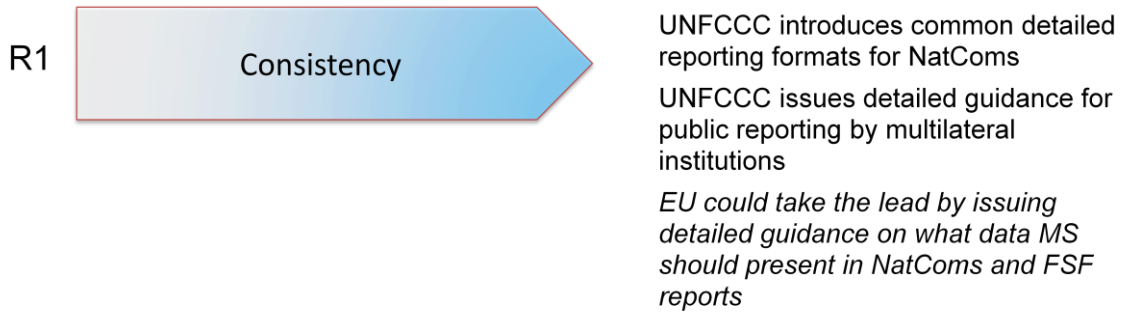
6.2.2 Improving Reporting

Four options are presented for making reporting more *consistent* among different Parties and to improve the coverage of different Parties (donors) and different flows (Figure 6-2).

Figure 6-2 Options for making reporting more consistent



R1 - Improved guidance on reporting formats



Parties should be reporting data in the same way, with the same sectoral categories and same level of disaggregation. For those which are already reporting climate finance, the UNFCCC should introduce a standard reporting template (and associated reporting guidance).

On multilateral flows, the UNFCCC guidance should cover how Member States are to report as well as establish a format in which multilateral institutions (multilateral funds, development banks) should report. This would create the public expectation of what data MFIs should report and in what form it should be presented, in order to best meet the needs of an MRV framework. This is essential given that Parties cannot report sufficiently disaggregated data on multilateral flows.

The UNFCCC Secretariat is currently reviewing the recommendations from the previous synthesis and expert reviews with respect to advancing MRV, and awaiting guidance from the Steering Committee established at Cancun.

Improved guidance on how the Rio Markers should be interpreted and used (option M2) would also foster more consistent reporting between Parties.

Strengths	Weaknesses
Would significantly improve data comparability. Requires relatively minor effort to clarify reporting formats.	Some negotiation likely to be needed, to agree on the categories for data disaggregation (since different Parties have set up domestic systems with their own categories). This is a minor drawback and Parties must in any case be expecting to adopt a common approach. NC format is unlikely to enable reporting of project level data. This could be mitigated if the CRS system (or similar) is more closely coupled with NC reporting, since the CRS has project level data.

R2 - Expand Member States coverage in the UNFCCC NCs

UNFCCC expands reporting requirement beyond current Annex II coverage, to include all Annex I

EU could take the lead by requiring all MS to report finance in NatComs

The current obligation on Annex II Parties to report financial support via the NCs could be expanded to cover all Annex I Parties. In the EU context, this would introduce a new obligation for the EU-12, but some of these countries are already making voluntary attempts to report on climate finance (for example, Slovakia and the Czech Republic).

During discussions for this study, the UNFCCC Secretariat expressed concern that attempting to take this approach might be contentious, though no feedback had yet been sought from non-Annex II Parties. Our discussions with a small number of Member States did not suggest this to be the case. The main concern for these Member States who don't currently have a reporting obligation is in relation to being supported with clearer guidance and best practice examples, to help establish domestic systems for reporting.

Strengths	Weaknesses
Comprehensive coverage of all public finance contributors, meaning a more complete picture of climate finance globally. No additional burden for Member States that already report. Gives clarity to Member States that do not report about future expectations (many foresee having to report in the future, so clear requirements now can provide the necessary external push and support to help set up domestic systems. By contrast, uncertainty about expectations simply delays action. Relatively aggregated data, so reporting burden for new Member States not as high as if using CRS system.	Introduces reporting burden for non-Annex II Member States. Some Member States have no domestic systems in place for collecting data, so they would struggle initially to comply. *This could be mitigated by phased introduction of the reporting requirement. For example, in years 1-2 non- Annex II Parties report whatever data they have available; From year 3, data is reported in the common format for all NCs*.

R3 - Expanding coverage of the OECD CRS database

OECD enables non-OECD members and non-DAC members to report using CRS system

EU could introduce requirement that all MS report climate finance using the CRS system

UNFCCC and OECD broker agreement with all major MFIs to report using the OECD CRS system

OECD expands CRS system to capture non-ODA flows

The purpose of option R3 is to widen the coverage of the OECD CRS reporting system, so it becomes a tool for making available data on all public climate finance. The CRS provides finer-grained data on climate finance than the NCs, important for supporting informal review and for obtaining a better picture of the specific activities that are being supported. This will enable lessons to be learned and ideas exchanged between financiers over time. There is thus considerable value in expanding the use of the CRS system to include all Parties that contribute climate finance, as well as to more consistently incorporate non-ODA flows.

Three elements are proposed:

- OECD DAC enables the architecture of the CRS database to accept reporting from non-OECD Parties and to support reporting of non-ODA flows (or “Other Official Flows”) using the Rio Markers system (See Box 6-1).
- UNFCCC introduces a requirement for all Annex I Parties contributing climate finance to report to the OECD CRS system. Alternatively, the EU could take a lead and require all Member States to report using the CRS.
- UNFCCC and the OECD DAC negotiate (since it cannot be mandated) the participation in CRS reporting of all major multilateral finance institutions and funds.

In terms of including non-DAC members, as of 2010 there were 20 countries outside the DAC’s membership who reported their development assistance flows to the DAC aggregate database, to varying degrees, including Chinese Taipei, Thailand, Turkey, and the UAE. At present, only DAC Members – 23 countries and the EC – use the climate change mitigation marker. However, once a country reports data at the activity level in the format required by the CRS, using the Rio Markers is a relatively straightforward next step. Therefore, OECD and the EU could encourage all donors to report using the markers.

The CRS also tracks data on government core contributions to multilateral institutions, but these are not earmarked for climate change. However, contributions to a number of multilateral climate funds (e.g. LDCF, SCCF) can be identified through the so-called channel of delivery classification. A number of MDBs report activity-level data to the CRS, but only the World Bank applies the Rio Markers to provide details on the climate change focus of its operations. Hence, the CRS database does allow for and encourage voluntary reporting by MDBs or other multilateral development institutions of their outflows to climate related projects, applying the Rio Markers.

Brokering participation of the MFIs to use the Rio Markers may be a challenge, particularly since institutions such as the World Bank have been busy setting up their own systems, and it is unclear how these will relate to the Rio Markers (though a recent paper by the OECD[53] suggests the World Bank is expecting to report climate finance to the CRS in the near future). The alternative to MFI participation in using the Rio Markers when reporting to the CRS is that Member States begin requesting detailed individual reports back from the MFIs according to specific formats in a manner which supports their own reporting requirements. This approach should be the back-up option for Parties getting access to disaggregated data on multilateral flows.

[53] OECD (2011), Monitoring and Tracking Long-Term Finance to Support Climate Action

Box 6-1 Expanding coverage of the Rio Markers

According to an issue paper prepared for the DAC Working Party on Statistics (WP-STAT)[54], the OECD Development Co-operation Directorate (often referred to as the DAC Secretariat) was asked to work on expanding the field of application of the climate change Rio Markers (and logically all the other Rio Markers) to non-ODA official flows. The issue paper proposes to modify the reporting Directives to this effect; the proposal was considered by the WP-STAT in June 2011[55].

It is expected that this expansion of the Rio Marker system could result in more comprehensive data on climate finance relatively fast. These flows are already reported to the CRS at activity level in the same way as ODA. In fact, several agencies delivering OOFs already apply the markers to all their projects and some even report these to the CRS (e.g. Agence Française de Développement).

Source: OECD (2011), Monitoring and Tracking Long-Term Finance to Support Climate Action

Data on some private flows could be made available via the CRS (if the access rules and architecture of the database permit) by reporting by particular international institutions (e.g. UNEP Risoe, UNCTAD).

Strengths	Weaknesses
Builds on existing reporting practices among some Member States. CRS database provides finer detail of data compared to the NCs (i.e. project level), further advancing the objectives of MRV. Provides more frequent data than the NCs (i.e. annual). Lower cost than setting up a new system/tool (Option R4).	The UNFCCC mandating use of an OECD tool might provoke a negative response from developing countries. *This could be partially mitigated if it was made clear that governance of MRV remains with the UNFCCC and guidance comes from the UNFCCC. The CRS is simply a reporting tool capable of receiving the data*. Requires agreement and involvement of OECD DAC, but it is already working on enabling the CRS to be used for non-ODA flows. Introduces new reporting burden for Member States that do not currently report to the CRS database. Neither the UNFCCC nor OECD DAC has a mandate over MFIs.

R4 - A new reporting tool and database created by the UNFCCC

UNFCCC develops new mandatory reporting tool that covers all Annex I parties, MFIs and all types of financial flows.

The previous options rely on multiple streams of data reported through a number of different channels. This makes it challenging to bring together the overall picture of climate finance, and also to be sure of avoiding double counting or having complete information.

An alternative would be a new, centralised reporting system, to be set up and administered by the UNFCCC (other options may be possible, though would be negotiated through the UNFCCC). This would mean a single location where all data on climate finance can be found. Data reporting categories can be designed to match the needs of an ideal MRV system. Provided the database is

[54] DCD/DAC/STAT(2011)2
[55] http://www.oecd.org/dataoecd/2/8/48708083.pdf

publicly accessible, it can be interrogated by all interested parties, including developing countries, and hence would support independent (informal) verification efforts.

Member States are united in arguing that an MRV framework must not introduce a new reporting burden, and that existing reporting systems should be used. However, a new tool does not *necessarily* imply a new burden: for example, with Fast Start finance, reporting frequency was expanded with minimum effort to include the current year, the previous year, and projections for the following year (N-1, N, and N+1), to show trends. Consistent reporting on disbursements in addition to commitments across the Member States would significantly increase transparency of EU reporting. The new system could be linked to the CRS system, in a way that means Member States need only enter data in one place and it automatically becomes available in the other system.

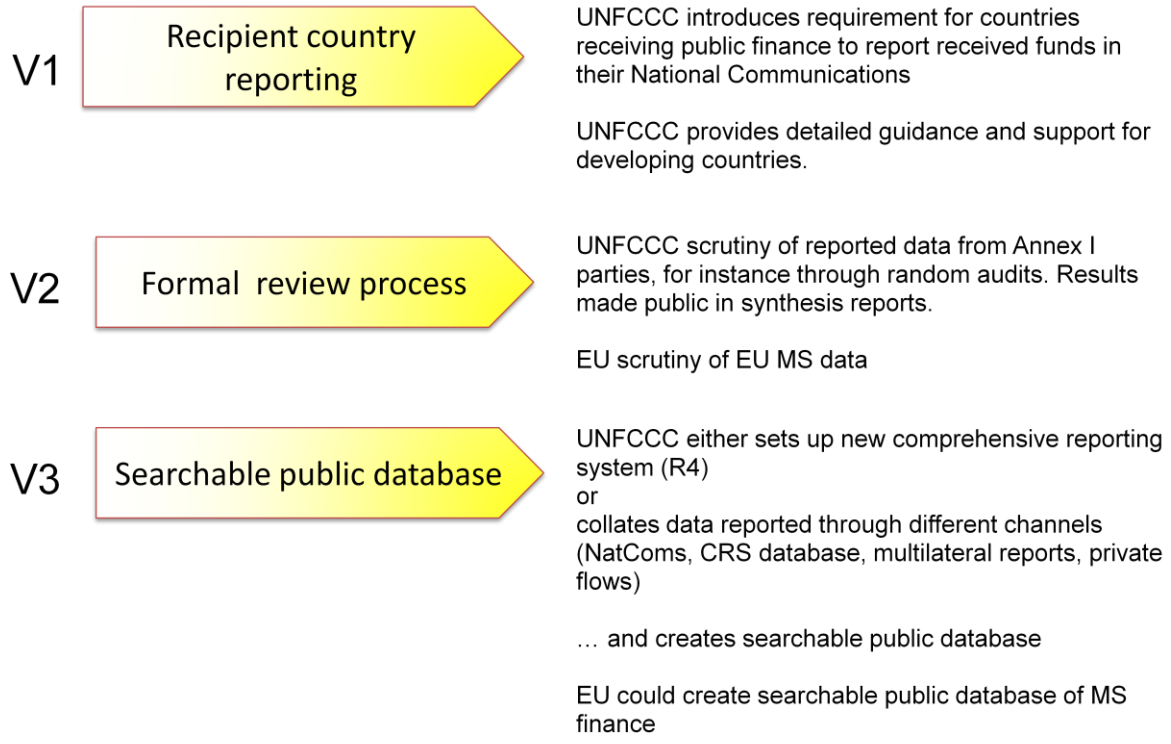
As the EU has been a leader in Fast Start reporting, and a majority of the EU Member States have a long tradition of tracking climate-related ODA, the EU is well positioned to help set the agenda on MRV questions in the context of the negotiations.

Strengths	Weaknesses
Technically straightforward. Most closely matches needs of an ideal MRV system in terms of data inputs; hence, strongly supports the objectives of MRV (transparency and assessment). Could also be designed to be easily searchable for different criteria and different kinds of reports be generated by users, greatly enhancing the effectiveness of MRV system. Enables centralised governance of reporting and hence MRV, under the UNFCCC. Achieves maximum coverage of all Parties, an advantage if Annex I and non-OECD members are not required to use the CRS system (i.e., if option R3 is not implemented). Would likely have greater support among developing countries than continued promotion of the OECD system.	If the new tool is not linked to data entered in CRS, this introduces an additional and potentially overlapping reporting requirement. Since the OECD CRS system and a new UNFCCC system would have different primary purposes, it could be difficult to ensure that reporting in one place is sufficient for both. This is probably not a major challenge to resolve, since the OECD DAC has been actively looking to improve its own system to better meet the needs of climate finance MRV. New resourcing burden for the host (presumably the UNFCCC).

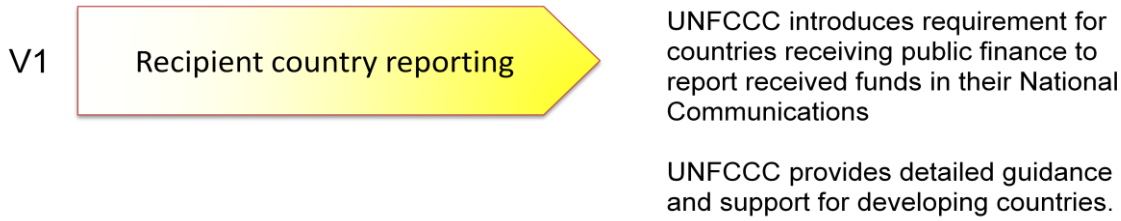
6.2.3 Options for improving verification

In many respects, the structure of the verification regime will be determined by how the measurement and reporting components are set up. Three broad approaches to enhancing verification are presented in Figure 6-3 and discussed below.

Figure 6-3 Options for enhancing verification



V1 - Recipients report to UNFCCC on finance received



The prospect of recipients playing a part in MRV by reporting financial support received within their NCs has already been raised, at COP16 in Cancun. For this to work well, the UNFCCC would need to provide detailed guidance and capacity-building in non-Annex I countries. However, a number of national and international requirements are already in place that can serve as a starting point:

- COP16 in Cancun agreed that developing country recipients of bilateral and multilateral climate finance are obliged to document it in their **biennial reports** to the UNFCCC. However, common and systematic reporting is not yet in place.
- Many developing countries already keep track of their **ODA flows**. The OECD[56] has suggested **biennial reporting** with flexible guidelines which provide for different "levels" of reporting. The reporting levels could reflect the different national circumstances and capacities of Parties; those with greater capacities would use higher reporting levels and provide more comprehensive information.

While the Cancun Agreements didn't explicitly mandate the review of the National Communications guidelines before COP17 in Durban, they implicitly did so by mandating the development of guidelines for biennial reports updating the National Communications. These will require recipient countries to report on support needed and received, in essence to keep comparable books. Having two sets of books (one on the donor side, one on the recipient side) may necessitate some expert analysis to

[56] OECD (2011) Frequent and Flexible: Options for Reporting Guidelines For Biennial Update Reports http://www.oecd.org/dataoecd/57/60/48073760.pdf

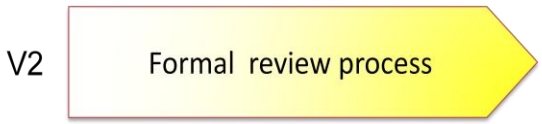
ensure there is no double-counting and avoid apparent misreporting. For example, a donor country may give $50 million to another country to assist with climate-related capacity-building. If the donor counts this toward its climate finance contributions, but the recipient counts it as general capacity-building support, this will appear as a discrepancy between the two accounts.

The **NAMA Registry** is unlikely to play a significant role in MRV of climate finance, although it could potentially support it. The NAMA Registry will function to match proposed mitigation actions with international support, so it could be integrated with the MRV system as part of finance tracking for mitigation. NAPA and NAPs also currently have financial allocations, and this data can potentially be verified by Implementing Entities, the GEF, or countries themselves. The Registry might provide a tool for verifying that climate finance is spent in accordance with nationally owned, country-driven priorities.

Other relevant national and sub-national planning documents can also be taken into account in verifying that the spending action matches a country's financing priority. National low-carbon, climate-resilient development plans are an example; so are sub-national development and disaster plans. Long-term development plans, for example Poverty Reduction Strategy Papers (PRSPs), could be used to establish the funding baseline for development, with incremental costs related to climate change covered by climate finance – a way to ensure additionality.

Strengths	Weaknesses
Comparable data from both funders and recipients allows verification by independent observers and enables both sides to identify and resolve discrepancies together.	Great administrative burden for developing countries would divert scarce resources that are needed for other urgent priorities. Not all finance is channelled through national governments, so reporting by non-Annex I Parties may not include all public financial flows. Unclear whether developing countries, particularly LDCs, would feel strong enough to challenge the claims of their "donors", since development funding arrangements are often a product of close relations between countries.

V2 - UNFCCC scrutiny of data reported by Annex I Parties



UNFCCC scrutiny of reported data from Annex I parties, following the Expert Review process already used for verifying GHG data in NatComs. Results made public in synthesis reports.

EU can address EU-wide verification by reviewing MS data

The UNFCCC can set in place a procedure for reviewing data provided in the NCs, following the Expert Review approach taken for reviewing GHG inventories. An expert review could also feasibly encompass comparison of data between the NCs and the CRS system, to foster greater convergence in reporting between the two systems.

Given the political setting of the MRV discussion, the NCs could provide a basis for *formal* verification. The more detailed project level data reported to the CRS system could supplement the MRV system by enabling an *informal* verification regime.

Strengths	Weaknesses
Procedures already in place for GHG inventories could be built upon or copied. UNFCCC verification is likely to be an expected	Resource implications for UNFCCC.

core component of an MRV regime.	

V3 - UNFCCC creates single public database

UNFCCC creates searchable public database. Data is either compiled by UNFCCC from different reporting channels (NatComs, CRS, multilateral reports, private flows) or collected via new comprehensive reporting system (option R4)

EU could create a searchable public database of MS finance

The UNFCCC brings together all data on financial flows into a single place and creates a searchable database. This fulfils many of the same functions as option R4, but V3 does not necessarily require a new reporting tool, it could instead be a collation exercise by a central actor (presumably the UNFCCC) and re-packaging of existing data in a way that makes the climate finance picture clearer.

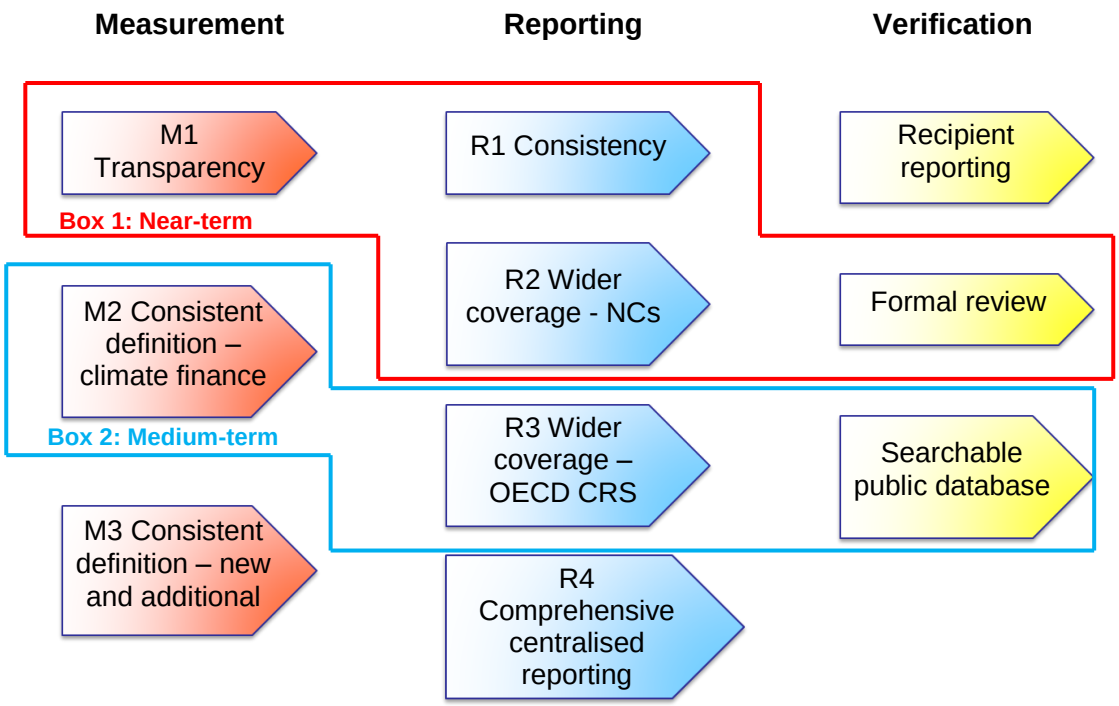
This would enable greater public scrutiny than option V2, and thus support independent (informal) review and analysis.

Strengths	Weaknesses
One central location where information about climate finance is publicly available, which improves transparency and assists verification objectives. Facilitates external (informal) verification, which significantly strengthens a verification regime.	Resourcing burden for the UNFCCC, and potentially the EU. Countries might be unwilling to make such information public if they are not actually obligated to do so.

6.3 Building blocks of an MRV for public finance

Figure 6-4 below illustrates how the options we have mapped out could be implemented in phases and integrated with one another over time. For example, an immediate focus might be placed on the elements in Box 1 below (i.e. options M1, R1, R2 and V2), while in the medium term, the elements in Box 2 (i.e., M2, R3 and V3) might be added.

Figure 6-4 Combining elements of M, R, and V for an integrated system



6.4 Improving MRV for private finance

It is unclear to what extent private finance will be part of formal MRV under the UNFCCC, but there is a growing interest in making disaggregated data on private flows publicly available. Some parties have also expressed an interest in improving MRV of private finance.

The first step in harmonising MRV for public and private climate finance flows is to define what flows are of relevance, how they will be accounted, and how data will be collected and reported. There is also the question of what kind of private-sector financial data can realistically be monitored and reported on, and how it will be obtained. Along with building on existing public efforts, one might consider engaging (private) specialist organisations to assist with private-sector MRV.

Leadership will need to come from the public sector, either by the EU and its member states or through UNFCCC-coordinated efforts. They will have to create an enabling environment and framework conditions to allow and encourage the private sector to contribute significantly to financing climate activities, with a view to the envisaged USD100 billion per year by 2020, and to participate in the associated reporting and verification of data.

Given the complexity in tracking private finance and the lack of clarity around which flows are relevant, it is important to be pragmatic about what can be achieved for the private sector in the near term. It is likely that mitigation-related financial flows will be covered first, given these are more clearly definable than adaptation investments.

In the short term, public efforts to mobilise climate-relevant private sector financing should be measured and reported on by parties as part of existing MRV systems for public finance. Due to the inherent difficulties of measuring and compiling data on other private-sector flows – which are scattered across different information systems or in some cases not readily available at all – data collection and integration of most private flows might remain less detailed (i.e. qualitative rather than quantitative) in the medium term.

Some possible first steps to bring data on climate-relevant private-sector financing into the public MRV framework are set out below.

6.4.1 Measurement

Increase clarity of flows defined as private climate finance

The most pressing need in expanding MRV into the private sector is to define what are relevant flows. Thus the initial focus may be on clarifying what is considered as climate-specific investment, and how measurements can be improved. Here, one could redefine what is currently considered as carbon finance and broaden the definition and sub-categories, including all investments borne out of market-based mechanisms such as CDM, NAMAs or sectoral approaches.

'New and additional' would be challenging to apply as a measurement option

The question of how to improve the measurement of equity and debt finance underlying mitigation activities – and to what extent instruments such as private equity and debt might be considered relevant for inclusion in an MRV framework – would still need to be answered. Given that defining private climate finance is relatively more complicated than public finance, a decision will need to be made as to whether the "new and additional" criterion shall apply – keeping in mind the intention to harmonise private finance reporting across the world. For measurement of private flows, the following non-exhaustive, first list of options can be derived from our research:

- **Measurement of subsidies or equivalent via leverage estimates:** Through improved *reporting by Member States* on publicly leveraged portion of finance. For this, a clear methodology for measuring the leverage ratios will need to be developed and agreed. Measurement systems should be in place and the overall implementation and data collection should be manageable, relying on existing (public) institutions. A downside is the level of accuracy achievable with leveraging ratios, covering a broad range of investment levels induced by leveraging. Issues of double (or triple) accounting must also be resolved in any decision to account for leveraged finance, since a project may have multiple public financiers and each can claim the same private finance as leveraged finance. The mobilisation of private flows by public funding – measuring in terms of qualitative descriptions and working with leverage estimates – should be focused on in the short term whilst aiming for the development of a comprehensive MRV framework that allows for integration of further private sector flows over time.
- **Clarification on what FDI flows can and should be accounted:** The first step is to reach international agreement on what flows are a counted as "green" or climate" FDI. Then decisions can be made on how data on these particular flows might best be accessed and made available, and by whom. Coordinated and forward-looking efforts are required to ensure or allow for the integration of improved FDI data collection and measurements into a comprehensive MRV framework at a later stage. The OECD report "Defining and Measuring Green FDI" (2011)[57] is a step in the right direction.
- **Measurement of carbon finance flows:** A streamlined accounting methodology needs to be developed for carbon market flows (see above on definition on carbon finance). The advantage is to be able to build on existing measurement systems that can be amended and grow with the changing carbon finance landscape, i.e. including credits from emerging, new market mechanisms such as NAMAs or sectoral approaches.

Based on available data, it is recommended to build on and improve the work on leverage ratios and measurements on carbon finance flows. In parallel, consultations on the FDI flows and their measurements should commence. Double-counting of flows needs to be avoided. It will be of utmost importance to be able to illustrate that those financial flows counted towards the $100bn somehow represent a positive departure from the business as usual trend and are a direct or an indirect result of decisive action by the UNFCCC Parties. If this is not the case, the inclusion of such a commitment in the Cancun decisions may appear meaningless.

6.4.2 Reporting

It is important to be realistic about how much data can be obtained from the private sector, because of constraints associated with confidentiality and business sensitivities. Reporting on private-sector climate finance will be an even greater challenge than reporting on public finance. Nonetheless, the

[57] http://www.oecd.org/dataoecd/26/8/48171454.pdf

compilation of information on a wide range of types of finance, including private-sector climate finance, would be of some merit where it is technically feasible and not too burdensome.

Amendments to existing public reporting systems, in particular the OECD CRS system and UNFCCC NCs, to enable inclusion of relevant data on private flows would thus be beneficial. During the expert consultation, most Member States agreed that guidelines should be developed to support reporting by donors, including some qualitative description of private funding mobilised through public efforts, and recipient countries of particular private flows, such as those outlined in section 6.4.1 above.

Key public and private organisations to involve in further discussions and analyses

There are already some organisations gathering and analysing private sector finance data – for instance, focusing on carbon finance flows – but not to the extent and in the required form to allow for comprehensive reporting of private sector climate finance. Organisations such as UNEP Risoe or Ecosystem Marketplace gather data on CER trades as well as voluntary carbon credit flows, in particular on the sales side, but are not able to provide information about how much money actually reached the projects, nor identify the (different) sources. The Environmental Funders Net and the European Foundation Centre try to analyse grant and philanthropy funding. The difficulty here is achieving completeness, since there is a lack of common EU-wide guidelines or regulations requiring disclosure of such information.

There is a wealth of information on FDI flows gathered by organisations such as UNCTAD and its Foreign Direct Investment Database, published in its World Investment Report, the OECD database on International Direct Investment Statistics, or Bloomberg New Energy Finance and its overview of annual renewable energy investments. However, fairly little attention has been given to collecting data specifically for green or climate-related FDI. This is partly linked to the problem of a clear definition of what “climate relevant” private finance is.

An organisation very close to the private sector is the Carbon Disclosure Project (CDP), which runs a programme to generate essential climate change information to help drive capital flows towards a low-carbon economy. CDP asks about investments in emissions reduction initiatives next to details on emissions trading activities and carbon credit purchases.

Options for reporting channels

In determining which actual reporting channels could be used for presenting data on private climate-relevant finance, these options might be considered:

- **UNFCCC:** The National Communications would provide an existing, established reporting format. However, incorporating streamlined private finance data would still require major efforts, and the UNFCCC Secretariat would need to be given a mandate to work with the Parties on integrating such data into the NCs. As an alternative to introducing this system across all Parties, or the EU, its Member States and the relevant recipients could go ahead under a pilot initiative.
- **International organisation:** Gathering of private-sector data has commenced at the OECD, so this might be a viable option. A potential expansion of the DAC databases and working with the Rio Markers might be a good basis for private sector reporting, at least at an aggregated level, although their application to private finance is not straightforward. There would still be the question of mandate, but the OECD – with guidance from the EU – may be well placed to support the collection of certain private finance data, in particular relevant FDI. This would create a separate reporting stream to the UNFCCC, which may lead to “EU acceptable reporting” but also generate resistance from developing countries (see discussion on “new and additional” finance).
- **Voluntary EU-wide initiative:** This would most likely be the fastest way to collect some data and ensure early involvement and collaboration with the private sector. It might also shed light on what data can and cannot be disclosed. On the other hand, this approach may have limitations with regards to completeness and accuracy, and it would take time to build a comprehensive reporting framework and system to produce meaningful results.

In the case of the NCs and the OECD CRS system, data is entered by Parties (and also some MFIs, in the case of the CRS). Therefore, it would be up to these entities to collate their own data on relevant private flows. This presents some burden for Member States, even if definitional issues are resolved. In the short term it would seem feasible for publicly leveraged private finance, and possibly carbon market flows. For FDI, however, Member States would need to extract the relevant data on eligible flows from various external sources (such as the UNCTAD database, if and when it is able to identify “climate-relevant” FDI). This does not appear feasible in the near term.

Recommendations

Continue parallel top-down and bottom-up reporting with improved coordination to stimulate exchange and discussion

Working through an international organisation such as the OECD, but in collaboration with the EU and the Member States, seems to be the best way to produce a first set of data on FDI and other aggregated data such as leverage ratios in the short term. The UN process should be informed and Parties engaged to allow for contributions and exchange of experiences in the context of the international MRV discussions under the UNFCCC. Furthermore, an additional bottom-up approach should be considered, building on and expanding corporate carbon disclosure – bearing in mind its limitations and the need to work with samples and estimations. Over time and backed by regulatory approaches, it may be possible to move to an increased level of reporting, starting with the expansion of voluntary GHG reporting instruments whilst working on an expansion of regulatory reporting requirements within the EU ETS, for example. Discussion of private finance is less mature than for public finance, hence a near-term priority is to boost reporting of private finance by different actors, in order to foster a more detailed discussion of which flows are eligible, which data sources are reliable and measurable and comparable. Even inconsistent measurement and reporting among Parties and actors can help encourage debate and analysis.

Involve the private sector with a view to develop and promote standards and reporting practice on climate finance

In general, the development of reporting standards should be based on existing approaches and systems close to monitoring EU financial flows, such as by the OECD, with broad involvement and consultation of relevant stakeholders. As well as multilateral organisations, the not-for profit sector, relevant associations and private finance organisations should be involved. Working with the private sector early on can lay the groundwork to promote standard(s) and establish them as part of best environmental or GHG management (reporting) practice.

Such an approach would only be relevant with a view to direct corporate measurement of climate finance contributions, either only focusing on climate-specific investments, or investments through market-based mechanisms or, with a long-term view, working towards a broader corporate climate finance reporting. The latter, and the actual added value, would need to be assessed against certain trade-offs and legal and compliance issues. Completeness could never be achieved, and certain confidential information regarding investment decisions and financial flows will not be available.

Work with and build on existing GHG protocols and systems for corporate compliance and voluntary reporting

In this context, it may be worthwhile to look into the growing realm of corporate GHG reporting, to see to what extent further reporting on climate finance could be encouraged. Many Fortune 500 companies are using standards such as the GHG Protocol by the WBCSD and WRI, and this could be expanded through mandatory reporting requirements within the EU, perhaps building on the EU ETS. In addition, initiatives such as the Carbon Disclosure Project should be looked into. Building on existing reporting systems and approaches, i.e. UN-based, intergovernmental and private initiatives (see above), and improving them in a coordinated manner with a view to bundling data, seems to be the most pragmatic way forward.

Aim for a less complex system in the short term, but with a clear, more ambitious long-term vision

Expanding MRV into the private sector will require developing new definitions, methodologies and systems, which will take time. Thus it is important to be pragmatic about what can be achieved for the private sector, looking at the implementation of certain minimum requirements first.

Institutionalise bundling and consolidate data-gathering and reporting streams

The combination of top-down and bottom-up measurement and reporting w has its limitations and related legal and regulatory issues. Neither will be able to provide a complete picture, so data will have to be bundled, and a certain reliance on estimates and sampling is unavoidable. This problem may be exacerbated by limits to the data disclosure. Regulatory pressure from Member States, coordinated by the EU, may lead to expanded reporting. Still, data from different sources will need to be bundled and consolidated. This may require the expansion of the mandate of an existing, intergovernmental body or creation of a new one, or the task may be given to an existing or new not-for-profit or private entity.

6.4.3 Verification

Recommendations

Evaluate existing, independent verifications for corporate GHG emissions data and carbon credits with a view to verify (parts of) private-sector climate finance

Even if reports on private-sector climate finance are obtained, the data must still be verified. An obvious approach would be to work with the existing model of independent verification organisations and bodies for corporate GHG emissions data and information and carbon credits. This could also be expanded to public-sector and international-level efforts. A minimum requirement should be the independence of expert review teams; data should not just be verified internally.

Assess use of registries and transaction log to verify carbon finance flows

Looking again at current and foreseen validation and verification systems for carbon credits, a further improvement – bearing in mind confidentiality issues – to registries or registration processes and related data requirements could be considered. As well as improving the measurement, tracking and verification of financial flows related to CERs through improved reporting methodologies and verification through CDM registries (i.e. UN registry and country registries), such issues could be taken into account when designing NAMA registries. NAMAs will be registered internationally, which would allow for the early consideration of how to monitor and, later on, verify private climate finance flows into NAMAs. For example, organisations such as the NGO Sandbag are tracking and verifying where carbon credits are used within the EU to comply with caps and related allowance allocations. Sandbag and Carbon Market Data also dig deeper than the Community Transaction Log of the EU with respect to reporting, or rather, verifying allocations of emissions permits and verified emissions at the company level.

7 Conclusions and next steps for the EU

This section summarises the findings of the study, framing them in terms of strengths, weaknesses, opportunities and constraints for developing a harmonised and effective MRV framework. We also present some concrete guidance for the EU on how it might want to proceed with MRV, with a view to advancing the international debate.

7.1 SWOC analysis for MRV framework for climate finance

Member States recognise that, with improvements and changes, existing systems can provide a foundation for a comprehensive MRV framework. Indeed, it seems likely that future MRV of climate finance will build, at least to some extent, on those systems – in particular the UNFCCC National Communications and the OECD CRS database. This means the trajectory of MRV has a certain path dependency about it, with accompanying strengths and weaknesses.

Figure 7-1 offers a strategic overview of the MRV conceptual framework for climate finance outlined in this report, broken down by strengths, weaknesses, opportunities and constraints.

Figure 7-1 SWOC analysis for developing a harmonised, transparent and efficient MRV framework for climate finance

Strength

- Existing systems well recognised and can serve as robust tool for measuring climate finance.
- Building on existing systems reduces burdens for Parties who already have established domestic systems for tracking and reporting data.
- Some countries have sophisticated systems that can be applied more universally.
- Increasing inter- and intra-national communication and coordination in Europe.

Opportunities

- Greater recognition of climate finance in UNFCCC conventions.
- Harmonised systems, so the National Communications and CRS data use the same definitions of climate finance and the same methodologies for accounting (measurement).
- Proposed changes to scope of UNFCCC National Communications and the option of UNFCCC as the origin of all guidance on climate finance, even where it relates to use of the OECD CRS system, can addresses key weakness and constraints.
- Fast-start finance can provide practical experience to aid design of future MRV framework for climate finance.

Weaknesses

- Climate finance definition, specially for adaptation and private finance, can restrict progress.
- Inconsistent coverage and requirements of existing systems.
- Existing guidelines provide too much scope for interpretation.
- Existing systems have not been set up for the purpose of supporting MRV of climate-related finance, so there may be limits to the extent to which they will fully and easily meet the needs of an MRV framework.
- The scope of verification is unclear and requires greater involvement of developing countries.

Constraints

- Private climate finance stakeholders are not integral part of key discussions.
- Developing countries' views are not in sync with developed countries', especially on definition, objectives and institutions involved in climate finance.
- Lack of formal governance and legitimacy for tracking climate flows. The OECD-DAC CRS database and the associated Rio Markers were not developed within the UNFCCC, nor were they developed to support MRV of climate finance specifically. Therefore, while potentially useful in the governance of climate finance – such as determining what finance is eligible and how it should be accounted – they are likely to lack legitimacy for developing countries.

7.2 EU-level decisions

Our discussions highlighted that the EU can play an important role in improving MRV of climate finance. There is definitely a need to define a minimum range of required information, a level of disaggregation, and specific definitions of terms and monitored indicators. This is important because unlike GHG emission inventories, which apply to all UNFCCC Parties, only Annex II countries are obliged to report finance in National Communications (NCs), and only OECD members report using the OECD DAC system. The new EU Member States (EU-12) are not required to report this, since they are not Annex II Parties or OECD members (see Annex).

Our discussions with Member States brought out the view that the EU can play an important role in improving MRV of climate finance. EU Member States are at various stages of the learning curve for assessing and reporting climate finance. The EU-15 has a much larger share of climate funds and experience with MRV issues compared to the EU-12 countries. The EU can thus foster information-sharing, capacity-building, and sharing of good practices by transferring experience and knowledge from those Member States with well-developed systems, and it can encourage transparent and comparable reporting among its members.

Greater harmonisation and standardisation of reporting practices within the EU could be achieved if revision of the Monitoring Mechanism Decision (MMD) were to introduce new requirements for MRV of finance and technology support. The MMD could feasibly be used for introducing annual reporting, with a view to providing more comprehensive and consistent information on climate financing at the EU level. Such an approach could contribute to more informed policy formulation within the EU and could further support the EU's positioning in the context of international negotiations. Perhaps its most important benefit would be helping to close the gap between the EU-15 and EU-12 in their ability to measure, report and verify climate finance.

Member States are, however, divided on the proposition of developing a formal EU-harmonised platform for reporting to the UNFCCC through the MMD. Arguing that the EU is already playing an important role in improving the MRV process, for instance through its Fast Start Finance reporting, some Member States argue the EU should not establish a separate platform for reporting in addition to the UNFCCC. It was also noted among Member States that any new reporting requirement across the EU-27 will impose a disproportionate compliance burden on the EU-12 Member States (who currently do not have this obligation under the UNFCCC).

In summary, decisions at the EU level can help Member States in their own efforts to improve MRV. Clear directions (in the form of decisions) are needed on:

- Will reporting be done by the EU as a whole, or will individual Member States continue to report separately?
- What level of data detail does the EU want to provide to the international community? There should be agreement on what data can be made available, and how it is published.
- How can private-sector data be obtained and published? Note potential issues with confidentiality for some kinds of private flows.
- Is there any role for a revised Monitoring Mechanism Decision (MMD) to support MRV? Are MMD-related procedures and capabilities geared for climate finance?
- How will the new Member States be covered by MRV requirements?
- Do the options proposed, concerning OECD-DAC and UNFCCC, overlap with the work already done or being considered by EGIF (Expert Group on Innovative Financing) and EFC/EPC (Joint Working Group on Economic and Financial Aspects)?

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9 Glossary

BFIs	Bilateral Financial Institutions
CDM	Clean Development Mechanism
CER	Certified Emission Reduction
CIF	Climate Investment Trust Funds
COP	Conference of the Parties
CRS	Creditor Reporting System
DAC	Development Assistance Committee (of the OECD)
EIB	European Investment Bank
FDI	Foreign direct investment
GEF	Global Environment Facility
GBS	General budget support
GHG	Greenhouse gas
GIZ	German International Cooperation
GNI	Gross National Income
IBRD	International Bank for Reconstruction and Development
IFIs	International Finance Institutions
LDCF	Least Developed Countries Fund
MDBs	Multilateral development banks
MFIs	Multilateral Finance Institutions
MRV	Measurable, reportable and verifiable
NAMA	Nationally appropriate mitigation action
NAPA	National adaptation action plans
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
PAMs	Policy and Measures
REDD	Reducing Emissions from Deforestation and Degradation
R&D	Research and Development
SCCF	Special Climate Change Fund
SEFI	UNEP Sustainable Energy Finance Initiative
UNCTAD	UN Commission on Trade and Development
UNEP	UN Environment Programme
UNFCCC	UN Framework Convention on Climate Change

10 Annexes

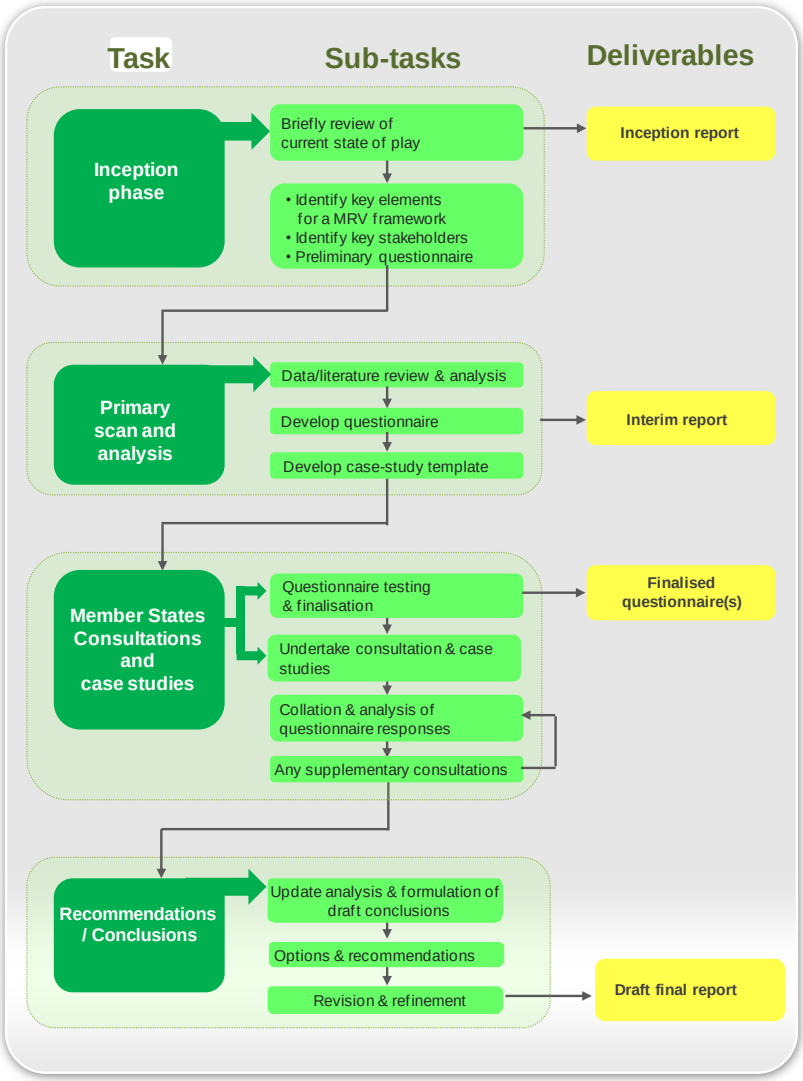
10.1 Study method

The study has involved:

- A phase of desk research that provided a definition of the policy framework, an outline of the current situation and a detailed schedule of issues to be explored;
- A preliminary consultation exercise that engaged with few Member States, OECD and Bilateral Finance Institutions (BFIs);
- A development of questionnaire to undertake a detailed Member State Consultation;
- Interviews with other international organisations (e.g. OECD, UNFCCC, UNCTAD); and
- Recommended options that might be considered to develop a harmonised and effective MRV framework for climate finance.

The overall project workflow is shown in Figure 10-1.

Figure 10-1 Outline of study process



The consultation phase absorbed the largest share of the project time and resources. It involved:

- Interviews with Member State authorities, BFIs, OECD, UNFCCC, UNCTAD, private finance institutions and other experts. Please see Annex for a full list of stakeholders; and
- Detailed questionnaires sent to the Expert Group on Innovative Financing (EGIF) members in all 27 EU Member States.

It is important to note that the project analysis distinguishes between Member State authorities (who were interviewed during the consultation exercise), and the positions of national governments of those Member States. The views expressed by the authorities and officials who were consulted are not necessarily the same as the formal positions of the national governments concerned.

10.2 Stakeholders consulted

The study team contacted a number of experts from EU Member States and international organisations, such as the OECD, UNFCCC and bilateral finance institutions to collect the necessary information.

Name	Organisation	email
Dean Cooper	UNEP	dean.cooper@unep.org
Marcelo Jordan	UNFCCC	MJordan@unfccc.int
Barbara K. Buchner	Climate Policy Initiative	barbara.buchner@CPIVenice.org
Julia BENN	OECD	julia.benn@oecd.org
Jan Corfee-Morlot	OECD	Jan.CORFEE-MORLOT@oecd.org
Carlos Busquets	International Chamber of Commerce	carlos.busquets@iccwbo.org
Jessica Brown	ODI, UK	J.Brown@odi.org.uk
MFIs and BFIs		
Mr Jochen Harnisch	KFW, Germany	Jochen.Harnisch@kfw.de
Pierre Forestiere	AFD, France	FORESTIERP@afd.fr
Olivier Grandvoinet	AFD, France	GRANDVOINETO@afd.fr

Case studies

Three Member States (Sweden, Germany and Slovakia) and the European Commission were selected for more in-depth analysis. These case studies reflect the availability, quality and characteristics of data available in the countries. These countries where short listed, in consultation with the client, from a longer list of countries and account for different levels of details and compliance in their reporting requirements. In order to maintain confidentiality and address boundary issues between personal views and country position; it was decided to integrate the findings from the case studies in the main text of the report and not provide them as individual sections or boxes.

Sweden		
Name	**Organisation**	**email**
Elisabeth Folkunger	Sida	Elisabeth.Folkunger@sida.se
Ulrika Åkesson	Sida	Ulrika.Akesson@sida.se
Maria Balkow	Sida	maria.balkow@sida.se
Leena Komavees	Sida	Lena.Kovamees@sida.se
Elisabeth Ekelund	Sida	Elisabeth.Ekelund@sida.se
Stefan Isaksson	Sida	Stefan.Isaksson@sida.se

Emi Hijino	Ministry of Environment	emi.hijino@environment.ministry.se
Susanne Jacobsson	Ministry Foreign Affairs	susanne.jacobsson@foreign.ministry.se
Åsa Wiberg	Ministry of Finance	asa.wiberg@finance.ministry.se
Germany		
Name	**Organisation**	**email**
Mr Jochen Harnisch	KFW	Jochen.Harnisch@kfw.de
Hendrikje Reich	BMU	hendrikje.reich@bmu.bund.de
Klaus Wardenbach	BMZ	klaus.wardenbach@bmz.bund.de
Tony Adam	BMU	Tony.Adam@bmu.bund.de
Anke Herold	OEKO	anke.herold@oeko.de
Slovakia		
Name	**Organisation**	**email**
Peter Balaz	Ministry of Environment	peter.balaz1@enviro.gov.sk
Helena Princova	Ministry of Environment	helena.princova@enviro.gov.sk
Martin Darmo	Ministry of Environment	martin.darmo@enviro.gov.sk
Martin Halus	Ministry of Finance	martin.halus@finance.gov.sk
Matej Dostal	Ministry of Foreign Affairs	matej.dostal@mzv.sk
Karla Wursterova	Ministry of Foreign Affairs	karla.wursterova@mzv.sk
European Commission		
Name	**Organisation**	**email**
Paul Renier	Europeaid	Paul.RENIER@ec.europa.eu
Elina Bardram	EC DG Clima	Elina.BARDRAM@ec.europa.eu
Erasmia Kitou	EC DG Clima	Erasmia.KITOU@ec.europa.eu

Private-sector climate finance

Institution	Contact person	Contact details
KfW	Jochen Harnisch	Jochen.Harnisch@kfw.de
UNFCCC	Marcelo Jordan	MJordan@unfccc.int
UNEP Risoe	Glenn S. Hodes	Email: gsho@risoe.dtu.dk
EcoSystem Marketplace	David Diaz	ddiaz@ecosystemmarketplace.com
UNCTAD	Ralph Krueger and Masataka Fujita	Ralf.Krueger@unctad.org and Masataka.Fujita@unctad.org
UNEP FI	Ivo Moulder, Remco Fischer, Jessica Boucher and Jenny Lopez	Ivo.MULDER@unep.org, Jessica.BOUCHER@unep.org, Remco.FISCHER@unep.org>, jenny.lopez@unep.org
Greenfunders	Nick Perks	nick@greenfunders.org
OECD	Celine Kauffmann	Celine.KAUFFMANN@oecd.org

Developing country experts

Name	Country	Role	Contact details
Mr. Nguyen Khac Hieu	Vietnam	Deputy Director General Ministry of Natural Resources and Environment (MONRE) vnccoffice@viettel.vn	vnccoffice@viettel.vn
Dr Tin Ponlok	Cambodia	Deputy Director General GDANCP, Ministry of Environment	etap@online.com.kh
A.F.Elisaia	Samoa	UN Ambassador of Samoa	felisaia@un.int

10.3 Changes from the original terms of reference

The main changes to the tasks compared to the original terms of reference were clarified at the start of the project. The minutes of the inception meeting confirm the following three main departures from the original terms of reference.

1. It was decided that the study should focus on the methods to track climate finance rather than quantifying the actual flows. The client confirmed that the study should focus on the reporting process of climate finance, including accounting methodologies used, rather than the absolute amounts of finance flowing.
2. It was agreed that study should spend very limited time and resources on definitions of “new and additional” funds (Task 1.2 in the proposal) as this has been extensively picked up elsewhere in the literature. It was decided not to include an explicit section on the concept of “new and additional” due to the political sensitivities surrounding it. However, since it is an integral aspect of defining climate finance, the concept is covered in the relevant context throughout the report.
3. It was agreed that the study should only focus on bilateral and multilateral flows from EU MSs and EU Commission to non-Annex I countries (and not cover MRV related systems in MDBs). The main types of flows to be considered were:
   - Public finance – only focus on bilateral and multilateral flows from EU MSs and EU Commission to non-Annex I countries.
   - Private finance – only include companies with headquarters in EU MSs, and only CDM projects in which EU MSs are involved.
   - Public/private – look at where public support can leverage private financing and how that can be monitored.

Deliverables addition to terms of reference:

1. In addition to the presentation to EGIF members in Budapest on the 17th May 2011, a presentation was also made to the EGIF members in Warsaw on the 7th of July. The terms of reference specified only presentation. However, the study team were able to allocate resources to attend the workshop as the discussions during the meeting and comments raised would greatly benefit the quality of the final report.
2. The contractors also provided a discussion paper on the feasibility of including the requirement, in the revision to the Monitoring Mechanism Decision, to report on financial resources provided to developing countries to check whether Member States comply with their financing obligations and to allow reporting the total amount of finance made available by the European Commission.

10.4 EU-27 OECD-DAC and UNFCCC member status

EU 27	OECD-DAC member	UNFCCC status
Austria	Yes	Annex II
Belgium	Yes	Annex II
Bulgaria	No	not Annex II
Cyprus	No	not Annex I
Czech Rep	No	not Annex II
Denmark	Yes	Annex II
Estonia	No	not Annex II
Finland	Yes	Annex II
France	Yes	Annex II
Germany	Yes	Annex II
Greece	Yes	Annex II
Hungary	No	not Annex II
Ireland	Yes	Annex II
Italy	Yes	Annex II
Latvia	No	not Annex II
Lithuania	No	not Annex II
Luxemburg	No	not Annex II
Malta	No	not Annex I
Netherlands	Yes	Annex II
Poland	No	not Annex II
Portugal	Yes	Annex II
Romania	No	not Annex II
Slovakia	No	not Annex II
Slovenia	No	not Annex II
Spain	Yes	Annex II
Sweden	Yes	Annex II
UK	Yes	Annex II

10.5 Member State Questionnaire

Background and purpose

AEA Europe along with partners Ecosecurities and Stockholm Environment Institute have been commissioned by the European Commission's Directorate-General for Climate Action to map the current Measurement, Reporting and Verification (MRV) frameworks for climate finance used within all EU Member States.

This questionnaire is a key part of the study. It requests information about what data your country has regarding **financial support to developing countries for climate change**, and how this data is used for reporting and/or verification purposes.

Please attempt to provide an answer to each question. Responses which explain that there are no processes in place for a particular aspect of MRV are as important as responses which describe a very detailed, comprehensive MRV framework. Our aim is to better understand how far Member States have come in their thinking about and implementation of climate finance MRV.

> **Please save your responses in a Microsoft Word *.doc or *.docx format and email the completed survey to AEA.**
>
> Most questions allow you to select an answer from a list of options. **Please click the appropriate box in order to check it. Please only select one answer per question.** A text box has also been provided so that you can elaborate on your responses.

How will the responses be used?

Survey responses from individual member states will **not** be as such made available to the general public. Your responses will contribute to:

- A report for the Commission that maps the different approaches taken in each Member State and discusses possibilities for greater harmonisation between Member States in the future;
- Greater understanding of the various challenges that MRV of finance might pose for Member States and the EU; and
- Developing EU's position on international climate finance negotiations.

Deadline for submission: Please send the completed survey to AEA at MRVclimatefinance@aeat.co.uk by Friday 1700 (CET) 29th of April. If you need longer to complete the survey please tell AEA by writing to Adarsh Varma at MRVclimatefinance@aeat.co.uk.

DG Climate Action contact: The official monitoring this study at DG Climate Action is Elina Bardram. (Elina.BARDRAM@ec.europa.eu)

Assistance and support: If you have any questions about the consultation or the study in general then please write to Adarsh Varma at MRVclimatefinance@aeat.co.uk and you will receive a reply by telephone or email as soon as possible.

Thank you in advance for your time and support.

Contact details

Please provide details of an official that the AEA team can contact if necessary:

Contact name/ Responsible officer:	Click here to enter text
Email:	Click here to enter text
Telephone:	Click here to enter text

Measuring

Background briefing:

Measuring of climate finance primarily concerns how climate finance is being defined by Member States and what are the main sources (public and private) of climate finance. Any MRV of climate finance must first confront the challenge of defining what "climate finance" actually is. What climate themes or objectives (e.g. mitigation, adaptation, REDD, capacity building, technology transfer) and what specific activities within these themes should be accounted for?

The central question in relation to "new and additional" in the context of climate finance (both fast start and long-term) is: what is the rationale and interpretation for the terminology "new and additional" climate finance as used in the Copenhagen Accord and Cancun Agreements?

Questions:

1.	How does your country define public "climate finance"? (What flows are eligible or ineligible to be counted? How do you distinguish climate finance from other financial support to developing countries?)
	Click here to enter text

2.	International commitments at the UNFCCC level refer to industrialised countries making available "new and additional" financial resources to developing countries. Does your country have a definition it uses for the concept of "new and additional"?
	☐ Yes, we have a firm definition ☐ No, but we are working on a definition ☐ No definition at all
a)	If **yes**, what definition are you using?
	Click here to enter text
b)	If **no**, what are the constraints for defining 'new and additional'?
	Click here to enter text

3.	Are there any flows of climate finance from your country that are not official development assistance (ODA)?
	☐ Yes ☐ No
a)	If **yes**, please elaborate on your response:
	Click here to enter text

4.	Where a project receiving finance has multiple objectives (i.e. not just climate change), do you take this into account in determining the amount designated as "climate finance"?
	☐ Yes ☐ No
a)	If **yes**, please elaborate on your response:
	Click here to enter text

5.	Who within your country is responsible for compiling data about climate finance?
	Click here to enter text

6.	What are the main sources of climate finance? Are you able to disaggregate different public and private sources of climate finance? [Please note: The sources and types of private finance are currently undefined and might for instance include carbon markets (mainly CDM and voluntary markets), FDI (for reducing environmental impact or mitigation projects) and philanthropic contributions (from NGOs, foundations and individuals primarily aimed to reducing climate impacts.]

Sources	Description	Share (%)
Public finance (e.g. central budget, national funds, development banks)	Click here to enter text	E.g. 70%
Private or leveraged (e.g. carbon markets, FDI, donations)	Click here to enter text	E.g. 20%
Other	Click here to enter text	E.g. 5%

a)	Additional comments:
	Click here to enter text

7.	What is most challenging about **measuring public** climate finance?
	Click here to enter text

8.	What is most challenging about **measuring private** climate finance?
	Click here to enter text

Reporting

Background briefing

Reporting of climate finance concerns the scope, format and level of detail to ensure transparency of pledged and committed resources.

At present there is considerable diversity in the way in which different actors report expenditures on climate change to developing countries. Both the OECD CRS database and the National Communications to the UNFCCC[58] include some reporting of finance by some Parties. With respect to the individual multilateral and bilateral development banks, each accounts for and reports under its own systems/markers. Each of the above systems differs in terms of format, guidelines, frequency and details of reporting.

10.5.1 What reporting channels are currently being used?

1.	What are the main channels used by your country for distributing climate finance? [For example, multilateral channels might include funds and facilities managed by the UN, the World Bank, regional development banks, etc; bilateral channels might include development cooperation agencies, bilateral development banks, etc.]?

Sources	Description	Share (%)
Multilateral	Click here to enter text	E.g. 70%
Bilateral	Click here to enter text	E.g. 20%
Other	Click here to enter text	E.g. 5%

2.	Are your country's contributions to multilateral institutions "earmarked" for specific purposes or objectives related to climate change?

- ☐ Yes
- ☐ No, but we are considering to do so
- ☐ Not able to do so at all

Please elaborate on your response

[58] http://unfccc.int/national_reports/annex_i_natcom/submitted_natcom/items/4903.php

3.	Are you able to disaggregate the total amount of climate finance so that you are able to measure and report on the amount delivered through each channel?
	☐ Yes ☐ No, but we are considering to do so ☐ Not able to do so at all
	Please elaborate on your response

4.	Please describe the main agencies involved in climate finance reporting in your Member State?
	Click here to enter text

10.5.2 What reporting systems and forums are currently being used or proposed?

5.	Where does your country publicly report financial support to developing countries for climate change?

	Do you report? (yes/no) If no, why not?	Does this reporting include **all** "climate finance" from your country or only a subset?
UNFCCC National Communications	Click here to enter text	Click here to enter text
OECD DAC	Click here to enter text	Click here to enter text
Faststartfinance.org	Click here to enter text	Click here to enter text
Other	Please specify...	Click here to enter text

6.	Does your country report "committed funds" or "disbursed funds"?
	☐ Yes ☐ No
	Please elaborate on your response

7.	Who within your country is responsible for reporting through the different channels in the table in Q. 5 above?
	Click here to enter text

8.	How well can the data reported in Q.5 above be disaggregated? Please provide the level of detail at which data can be disaggregated using the table below as a guide	
	Bilateral channels (yes/no)	**Multilateral channels (yes/no)**
Regions? Which regional categories?	Click here to enter text	Click here to enter text
Countries	Click here to enter text	Click here to enter text
Sectors? Which sectors (for mitigation, adaptation)?	Click here to enter text	Click here to enter text
Primary objective, either mitigation v adaptation v REDD v other	Click here to enter text	Click here to enter text
Instruments – grants vs. loans, etc.	Click here to enter text	Click here to enter text

a)	Please briefly explain if it is not possible to disaggregate data as given in the above table?
	Click here to enter text

10.5.3 Experience with the OECD DAC CRS database and Rio Markers

If your country reports official development assistance using the OECD DAC Creditor Reporting System: **Please select only one response to each question.**

9.	Do you consider that the Rio markers are a robust tool for classifying climate finance?				
	Strongly agree	Agree	No opinion	Disagree	Strongly disagree
	☐	☐	☐	☐	☐
	Please elaborate on your response				

10.	Do you consider that the Rio marker scoring system is affected by Member State specific approaches, capability, resource availability and expertise?				
	Strongly agree	Agree	No opinion	Disagree	Strongly disagree
	☐	☐	☐	☐	☐
	Please elaborate on your response				

11.	Do you consider that the way the Rio markers, as currently defined, provides too much scope for interpretation?

Strongly agree	Agree	No opinion	Disagree	Strongly disagree
☐	☐	☐	☐	☐

Please elaborate on your response

12.	On a scale of 1 to 5 (1 being poor and 5 excellent), how helpful are the OECD-DAC guidelines for using the Rio Markers?

Excellent 5	4	3	2	Poor 1
☐	☐	☐	☐	☐

Please elaborate on your response

13.	In what ways could OECD guidelines be improved so as to help with your reporting of climate finance through the DAC system?

Click here to enter text

14.	In your view, in what ways could the OECD-DAC system be modified so that it can better be used as a reporting tool for climate finance? (What are the main strengths and weakness of the Rio markers as a tool for reporting climate finance?

Click here to enter text

10.5.4 Experience with the UNFCCC National Communications

15.	Do you consider that UNFCCC National Communications reporting requirements can evolve to report all climate finance?

Strongly agree	Agree	No opinion	Disagree	Strongly disagree
☐	☐	☐	☐	☐

Please elaborate on your response

a)	Is this technically feasible in the short term?

Click here to enter text

16.	Can you identify the current strengths and weakness of National Communications for reporting on climate finance?
	Click here to enter text

17.	What lessons can be learnt from the reporting of climate finance in National Communications for an internationally accepted MRV framework for climate finance?
	Click here to enter text

18.	Should new UNFCCC guidelines be developed to enable reporting by contributor and recipient countries? What are the main improvements required to make the guidelines more effective?
	☐ Yes ☐ No ☐ No opinion
	Please elaborate on your response

19.	Do you see any parallels between the UNFCC-reporting system and the DAC-system? (For instance, do you report the same data through both systems, or are there differences?)
	☐ Yes ☐ No ☐ No opinion
	Please elaborate on your response

10.5.5 Reporting of private flows

20.	Are you aware of any places where private financial flows that support climate change are currently reported? If so, where?
	☐ Yes ☐ No
a)	If **yes**, please elaborate on your response
	Click here to enter text
b)	If **no**, how do you become aware of private sector climate flows (if at all)?
	Click here to enter text

21.	Are you aware of whether private sector climate flows from your country have been leveraged by public flows:

	☐ Yes ☐ No
a)	If **yes**, how much private finance has been leveraged by the public flows? Please also elaborate on how you define what has been leveraged rather than going ahead on its own:
	Click here to enter text

Verification of climate finance

The verification of climate finance is overlooked in most of the current reporting systems. Both the OECD-DAC database and the National Communications to the UNFCCC contain reporting requirements but no details on Verification aspects. The scope of verification is also not clear. A narrow scope would only look at the accuracy of reported data. A broader scope would cover the effectiveness of pledged/committed funds and verified impacts in mitigating and adapting to climate change.

1.	Are there any procedures in place, either domestically or internationally, that enable independent parties to verify your country's climate finance expenditures?
	☐ Yes ☐ No
	Please elaborate on your response
a)	Is information made publicly available in a way that enables scrutiny of the data?
	☐ Yes ☐ No
	Please elaborate on your response

2.	Do you have indicators of, or some way of measuring, the effectiveness and impact of the finance?
	☐ Yes ☐ No
a)	If **yes,** what are these? Are they included in your reporting of climate finance? Please provide your response below:
	Please elaborate on your response

3.	Does the UNFCCC provide specific national verification guidance for reported data?
	☐ Yes ☐ No
	Please elaborate on your response

10.5.6

10.5.7 Challenges

4.	What is most challenging about **verifying public** climate finance?
	Click here to enter text

5.	What is most challenging about **verifying private** climate finance?
	Click here to enter text

Options and suggestions

In this section, we would like your views on whether existing systems can be developed further or new systems are needed for an MRV framework for climate finance.

1.	Overall, where do you see strengths and weaknesses in the current MRV systems, both in your own country and at the international level? How could they be improved?
	Click here to enter text

2.	For private sector climate flows, how do you think the MRV framework could be improved (a) nationally in your country and (b) internationally? What measures could realistically be introduced (a) nationally in your country and (b) internationally?
	Click here to enter text

3.	Do you see any immediate barrier to your country reporting disaggregated finance data (i.e., by countries, sectors, instruments, purpose) within the National Communications to the UNFCCC?
	Click here to enter text

4.	Do you see a role for the EU in improving the MRV process, for example via guidelines, capacity building or ensuring a harmonised platform for reporting prior to the UNFCCC?
	Click here to enter text

5.	Please suggest options or ideas to ensure MRV for climate finance are in line with developing country requirements and priorities.

Click here to enter text

6.	In your view are there any MRV related items on climate finance coming out of Cancun that look promising?
	Click here to enter text

Please save your responses in a Microsoft Word *.doc or *.docx format and email the completed survey to AEA at MRVclimatefinance@aeat.co.uk

Thank you for your time and support.

AEA

6 New Street Square
London
EC4A 3BF
Tel: 0870 190 1900
Fax: 0870 190 5545

www.aeat.co.uk