Measuring, Reporting and Verifying Climate Finance

International state of play and future perspectives

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1 Introduction

'*You can't manage what you don't measure.*' In recent years, this expression has become increasingly relevant in the context of climate financing. Today it is widely known that preparing for the adverse impacts of global climate change and preventing more dangerous levels of greenhouse gas emissions will require financial resources on an unprecedented scale. In this context, tracking climate finance plays a key role in measuring overall global progress in the international efforts towards an economy-wide transformation to low-carbon and climate-resilient development pathways. In the international climate negotiations at the Copenhagen climate summit in 2009, Parties to the United Nations Framework Convention on Climate Change (UNFCCC) committed to the goal of mobilising jointly USD 100 billion a year by 2020 for climate change mitigation and adaptation activities in developing countries (UNFCCC, Decision 2/CP.15). This included pledging to provide USD 30 billion in fast-start finance in the period 2010–2012. In this context, the question of how to measure, report and verify these increasing climate finance flows has gained greater political attention over the last few years.

However, from a technical point of view, the measuring, reporting and verification (MRV) of climate finance is exceedingly complex. So far there seem to be more questions than answers when it comes to operational MRV aspects: what is measured, reported, how and by whom (OECD, 2012a)? Furthermore, we need to know why it is necessary to track specific flows, at what level of detail, and at what point. Although MRV of climate finance is often regarded as a technical issue, it is important to bear in mind that it also touches on highly political and sensitive definitional questions. This is true, for instance, of the debate about what constitutes (publicly mobilised) private climate finance and what can be measured and reported. As a result, finding answers to the question of what a robust MRV framework for climate finance might look like will be a politically sensitive and technically challenging process.

Against this backdrop, there are increasing efforts directed at MRV of climate finance, and intensive work is being undertaken by actors at different international and national levels. Under UNFCCC climate negotiations, efforts towards adopting a single, legally binding global climate agreement by 2015 are currently gaining pace. In this context, MRV of support – including finance – will become an important element for the 2015 agreement to enhance transparency, trust-building and accountability. More thinking will be needed on how MRV will shape and be part of this new agreement. This paper seeks to inform the current debate and has a **two-fold goal**:

1. to provide an update and bring together ongoing international work on MRV of climate finance at UNFCCC, OECD and EU level;
2. to generate possible recommendations and pointers for future work and perspectives on MRV of climate finance.

The paper is structured as follows: **section 2** provides a brief introduction to and background information on MRV of climate finance, what it means and why it matters. **Section 3** outlines the current state of developments on MRV of climate finance and ongoing work at UNFCCC, OECD and EU level. **Section 4** discusses certain key challenges and guiding principles of putting MRV of climate finance into operational practice and provides some recommendations and points for further reflection for the way ahead. **Section 5** concludes with final remarks on MRV of climate finance.

This paper seeks to inform a range of different groups, including representatives of governmental organisations, actors involved in climate negotiations, donor agencies, national and international development banks, civil society and the broader public.

2 Context: what does MRV of climate finance mean and why does it matter?

Parties to the UNFCCC agreed to the goal of limiting global average temperature increase to a maximum of 2° C above pre-industrial levels. Developing countries receive support from developed-country Parties in the form of finance, technology transfer and capacity-building to help with the implementation of their national mitigation strategies and adaptation efforts. This support is to be made MRV-able, i.e. measurable, reportable, and verifiable. The Bali Action Plan (2007) coined the term MRV to apply to enhanced mitigation action by developing-country Parties and the support enabled through financing, technology and capacity-building (UNFCCC, Decision 1/CP.13).[1]

Taking a closer look at the term in relation to finance, **measuring** also includes defining climate finance to some extent, since it is necessary to decide what kinds of projects and activities are included (or not) and what share of a project with multiple aims targets climate objectives (SEI, 2012:2). Thus, measuring also touches on a political process. Furthermore, measuring also refers to the technical process of identifying and collecting relevant data. **Reporting** relates to the formats and to the ways in which funding providers make their financial information and data available to third parties. It also refers, for instance, to level of detail and whether reporting is done individually by parties or collectively (e.g. in the current debate on private climate finance). **Verification** covers two aspects: firstly, it covers evaluation activities such as ensuring that the reported data is correct and accurate and that errors like double-counting are prevented. Secondly, verification also relates to the question of how funds and financial resources were used and whether resources have been used effectively to support low-carbon and climate-resilient development. In this sense, verification can help to identify best practice for replication and thus enable overall learning processes.

Enhancing MRV of climate finance matters for various reasons:

- » From a **political point** of view, MRV of climate finance is a key element in the context of the UNFCCC negotiations. It plays a crucial part in strengthening the **transparency, accountability and trust** between developed and developing countries in the future climate negotiation process. In this respect, MRV of climate finance particularly affects the sensitive political question regarding the extent to which developed-country Parties have complied with their international commitment to mobilise USD 100 billion per year by 2020.
- » From a **practical point** of view, MRV of climate finance will remain an important element in assessing the **deployment and general use** of climate finance and in strengthening the **efficiency and effectiveness,** as it will help to gain a better overall understanding of the scale, distribution and use of both public and private support. It will help to show who profits from financial support and make it possible to identify gaps in regional and sectoral support, for example. It will also help to monitor and evaluate trends and progress in climate-related investment. Finally, MRV of climate finance will account for how scarce public resources are being used and also strengthen public awareness of how taxpayers' money is used (Heinrich Böll Stiftung/ODI, 2012:2; SEI, 2012:2).

Intensive international efforts are currently being put into developing parameters for a robust MRV system for climate finance. The following section will take a closer look at the current state of play and international work in progress.

1 See UNDP, 2008:29; Borbonus, 2011.

3 International state of play and work in progress

Within the last few years, national and international obligations for governments to report on climate-related finance flows have increased, particularly in the context of the UNFCCC, the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) and the European Union (EU). In addition, it includes reporting to national parliaments and the broader public. Thus, much work is in progress and there are many national and international efforts underway to tackle the complex challenge of MRV of climate finance. The following section will give an overall update on the current status-quo and international developments in this field at UNFCCC, OECD and EU level.

3.1 UNFCCC level

Under the UNFCCC negotiations, developed-country Parties have made an international commitment to jointly mobilising USD 100 billion per year by 2020 for mitigation and adaptation activities in developing countries (UNFCCC, Decision 2/CP.15). This funding will come from a wide variety of sources: public and private, bilateral and multilateral and alternative sources of finance (ibid.). Reporting financial information under UNFCCC is mainly undertaken by submitting **National Communications (NatComs)** every four years. In addition to the NatComs, a **Common Tabular Format (CTF)** for reporting on financial support, technology transfer and capacity-building support was developed under UNFCCC and agreed at the 18th Conference of the Parties (COP18) in Doha in 2012 (UNFCCC, Decision 19/CP.18; UNFCCC, Decision 2/CP.17). **Biennial Reports (BRs)** for developed-country Parties have to be submitted every two years with tables that use the CTF. Although there is scope for future improvement in the CTF and room for more streamlined reporting under UNFCCC (see section 4.3), the fact that it was possible to achieve consensus among the various Parties on a single common reporting format has to be acknowledged. In this respect, reporting on climate financing has entered a new phase under UNFCCC, because for the first time there is one common reporting format at hand requiring developed-country Parties to provide fairly detailed financial information in a more comprehensive and comparable manner. The CTF requires provision of information in the following fields (ibid.):

- **summary information** on the overall level of public financial support through multilateral and bilateral channels;
- indication of what **new and additional** financial resources have been provided and clarification on how developed-country Parties have determined that such resources are new and additional;
- detailed information on financial contributions to **climate-specific funds** (e.g. Adaptation Fund, Least Developed Countries Fund, Special Climate Change Fund, Global Environment Facility), to **international financial institutions** (e.g. World Bank, regional development banks) and to **multilateral institutions** (e.g. United Nations Development Programme, United Nations Environment Programme);
- detailed information on **public bilateral support**, including information on the recipient country, region, project/programme;
- information on the provision of **support for technology development** and **capacity-building**;
- information on further elements such as **status** (provided, committed, pledged), **funding source** (e.g. Official Development Assistance, Other Official Flows), **financial instrument** (e.g. grant, concessional loan, non-concessional loan, equity), **type of support** (mitigation, adaptation, cross-cutting, other) and **sector** (e.g. energy, transport, industry, agriculture, forestry, water and sanitation).

Developed-country Parties submitted their first BRs to the UNFCCC Secretariat by 1 January 2014. In March 2014 they had the opportunity to express their views on their reporting experience with this in a separate UNFCCC submission (UNFCCC, Decision 2/CP.17).[2] In May 2014 developed-country Parties have a further opportunity to make another submission to UNFCCC on '**appropriate methodologies and systems used to**

2 See, for instance, EU submission to UNFCCC on the experience with reporting the first Biennial Reports: http://unfccc.int/files/documentation/submissions_from_parties/application/pdf/el-02-21-biennial_reports.pdf

measure and track climate finance' (UNFCCC, Decision 19/CP.18). A decision prepared by the Subsidiary Body for Scientific and Technological Advice (SBSTA) is scheduled to be taken by COP20 in Peru in 2014 on the development of methodologies for reporting financial information, taking into account existing international methodologies and based on the experience gained in preparing the first BRs (UNFCCC, Decision 2/CP.17). Parties are also requested 'to consider the best approach for future reporting on climate-related private finance at the next revision of the reporting guidelines' (UNFCCC, Decision 19/CP.18). Here the Subsidiary Body for Implementation (SBI) at its fortieth session in June 2014 will begin the process of revising the UNFCCC reporting guidelines for NatComs based on the experience gained in preparing the first biennial reports and other information, with a view to the revised guidelines being adopted by COP20 in 2014 (UNFCCC, Decision 2/CP.17).

Furthermore, as part of the Cancun Agreements reached at COP16 in Mexico in 2011, Parties decided to establish a **Standing Committee on Finance (SCF)** (UNFCCC, Decision 1/CP.16). It is tasked with assisting the COP in exercising its functions with regard to the financial mechanism of the Convention. This includes improving coherence and coordination in the delivery of climate change financing, rationalisation of the financial mechanism, mobilisation of financial resources and measurement, reporting and verification of support provided to developing-country Parties, including analyses and information exchange (ibid.). Roles and functions of the SCF were further defined at COP17 in Durban and the SCF will report on the various aspects of its work and make recommendations to the COP for its consideration at each ordinary COP session (UNFCCC, Decision2/CP.17). With regard to MRV of climate finance, COP18 in Doha requested the SCF, 'in preparing a first biennial assessment and overview of financial flows, to consider ways of strengthening methodologies for reporting climate finance' (UNFCCC, Decision 5/CP.18). As set out in its work programme, the SCF will prepare the first **biennial assessment and overview of climate finance flows** in 2014 and present them at COP20 in Peru (UNFCCC, CP/2012/4). It will give the 'big picture' of climate finance and include meta-information on public and private sources as well as the geographical and thematic distribution of flows, and draw on accessible sources such as the NatComs, BRs and other relevant climate finance literature. It will concentrate its analysis on tracking trends since 2007/2008 with a focus on the fast-start finance period 2010–2012 (UNFCCC, CP/2013/8). The SCF has set up a working group which is currently in the process of specifying how the biennial assessment and overview of climate finance flows for 2014 should be prepared. At COP19 in Warsaw 2013, the SCF was requested, as part of the preparation of its biennial assessment and overview of climate finance flows, to consider ongoing technical work on operational definitions of climate finance, including private finance mobilised by public intervention (UNFCCC, Decision 3/CP.19). In addition, the SCF was further invited at COP19 to consider ways to increase its work on the measurement, reporting and verification of support beyond the biennial assessment and overview of climate finance flows (UNFCCC, Decision 7/CP.19).

3.2 OECD level

Extensive work and discussions on how to measure and track climate finance have taken place in different bodies and settings at the OECD. MRV-related work on climate finance is being dealt with, for instance, in the OECD DAC through the DAC Working Party on Development Finance Statistics (WP-STAT) and the DAC Network on Environment and Development Co-operation (ENVIRONET),[3] as well as in the OECD Climate Change Expert Group (CCXG).[4] Under the umbrella of the OECD, a Research Collaborative on Tracking Private Climate Finance (RC) has recently been set up.[5] Furthermore, the OECD has become an important place for dialogue and exchange with international finance institutions (IFIs) to discuss approaches and work on MRV of climate finance (OECD, 2013a; OECD, 2013c). In this way, the OECD is providing a forum for sharing experience, finding common ground and learning lessons.

3 For further information please see OECD DAC websites http://www.oecd.org/dac/developmentassistancecommitteedac.htm http://www.oecd.org/dac/environment-development/

4 For further information please see OECD CCXG website http://www.oecd.org/env/cc/ccxg.htm

5 For further information please see OECD RC website http://www.oecd.org/env/researchcollaborative/

OECD DAC existing statistics and ongoing developments

OECD DAC has established a comprehensive system for measuring and reporting official development assistance (ODA) based on the **Creditor Reporting System (CRS)**.[6] Under this system, reporting follows a standardised approach and rules are agreed by consensus by all DAC members. It includes publicly accessible online data on aid activities, for instance on the donor, the channel, the recipient, the policy objective, the type of investment, sector, etc. and covers 50 fields of information. So far the CRS system constitutes an elaborated reference framework, offering extensive data for measuring and reporting climate-related bilateral aid commitments and climate-related grants and loans by some multilateral agencies[7] (and going forward non-export credit other official flows). To do this it uses **Rio markers**, which track bilateral donors' aid activities that contribute to the objectives of the three Rio Conventions of 1992 on biodiversity, climate change and desertification. In this context it must be recalled that the Rio markers were not originally designed for the purpose of exactly quantifying climate-related flows and tracking financial commitments, but were intended to be policy markers to track donors' policy objectives in support of the implementation of the Conventions (Varma et al., 2011:27). The climate markers have been used to collect information on mitigation-related aid since 1998. The adaptation marker is fairly new and reporting for OECD DAC members started in 2011, including available data from 2010.[8] Overall, every aid activity reported to DAC is screened and marked by donor countries as targeting the UNFCCC either as:

1. a 'principal objective'
2. a 'significant objective', or
3. not targeting the objective.

6 See CRS data base and further information on OECD DAC statistics on climate-related aid under
http://stats.oecd.org/Index.aspx?DataSetCode=RIOMARKERS
http://www.oecd.org/dac/stats/rioconventions.htm
http://www.oecd.org/dac/stats/factsheet%20on%20climate%20change_update%202013.pdf

7 OECD DAC is collaborating closely with MDBs and IFIs to increasingly record multilateral climate funds within the DAC statistical framework and harmonise methodological approaches.

8 For further information on adaptation and mitigation-related aid by DAC members, see http://www.oecd.org/dac/stats/rioconventions.htm

Activities marked as 'principal' are funded solely on the basis of a climate-related objective; activities marked 'significant' have prime objectives other than climate mitigation or adaptation but nevertheless also support climate concerns in a more indirect way.[9] A project can be labelled as primarily targeted at mitigation, primarily targeted at adaptation, significantly targeted at mitigation, or significantly targeted at adaptation. There are also cases where the same project can be marked as both mitigation and adaptation-related (or against other Rio markers) to reflect the fact that it targets multiple objectives (e.g. in the case of biodiversity projects). Thus, the Rio marker system recognises that finance may target more than one climate objective and assesses the size of the mitigation-adaptation overlap to avoid double counting. The OECD Rio marker data encompasses a spectrum of climate-related aid, the lower bound reflecting commitments targeting climate as a 'principal' objective, the upper bound reflecting commitments to those with either 'principal' or 'significant' climate objectives. The use of the Rio marker data for reporting to the UNFCCC, however, varies across Parties: although some Parties draw heavily on the Rio markers, this is not universal practice, and it is not clear to what extent reporting across Parties is consistent or whether different approaches are taken (OECD, 2013b:9). So far, OECD DAC members have, for instance, not agreed on a harmonised methodology on the Rio markers for quantitative assessment of the precise percentage that an aid activity's funds contribute to climate change mitigation or adaptation, thus hampering comparability of climate-related financial data reported to UNFCCC (OECD, 2011). Due to the reasons mentioned above and in order to manage expectations about what the Rio markers can and cannot do, it should be noted that the data they provide do not allow for a 100% exact quantification of climate-related aid so far but rather give a best estimate.

9 **Climate change mitigation-related aid** is defined as activities that contribute to the objective of stabilizing greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration. **Climate change adaptation-related aid** is defined as activities that aim to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience (OECD, 2011).

Info box: joint group of multilateral development banks

Since 2011, a **group of multilateral development banks** (MDBs)[10] have become active in working together towards a joint approach for tracking climate change mitigation and adaptation activities. Although it is still a work in progress, the joint MDB approach tries to find commonalities and is an attempt to jointly report on finance mobilized for a set of commonly-agreed mitigation and adaptation activities. In contrast to mitigation, where the MDBs have developed a positive list of activities to reduce greenhouse gas emissions, the joint adaptation approach is based on an assessment of the purpose, context and activities and their linkages to climate vulnerability.[11] Breaking projects down into main activity components achieves a high level of data granularity. In contrast to the Rio markers that are applied at project level, the joint MDB approach makes it possible to report on a project, a project component, or part of a project. Joint MDB reports are available for adaptation and mitigation finance for 2011 and 2012 and MDBs have announced that they will publish a joint report with new figures on an annual basis (MDBs, 2012a; MDBs, 2012b; MDBs 2013). An initial workshop was held at the OECD in February 2013 and a follow-up meeting was hosted in September 2013 (OECD, 2013a; OECD, 2013c) to share recent experience with the MDBs' joint approach for tracking mitigation and adaptation finance and to explore how compatible this approach is with the OECD DAC Rio markers.

There is ongoing work at the OECD to increase the overall **coverage** of climate-related finance. This is concerned, firstly, with the integration into the CRS database of further information by **aid providers** outside the DAC, such as multilateral organisations, non-DAC countries and private foundations (OECD, 2012b). While the CRS database generally tracks governments' core contributions to multilateral organisations, they are not yet marked for climate change. Here, the DAC Secretariat is in the process of consulting and cooperating with MDBs to obtain the climate-related share of their total outflows. By multiplying this share with donor countries' contributions to multilateral organisations, the multilateral climate-related aid from donor countries can be determined by calculating so-called 'imputed multilateral contributions'.[12] In the case of international climate funds (Least Developed Countries Fund, Special Climate Change Fund, etc.), contributions can be tracked through what is known as channel of delivery classification. Secondly, the OECD is also working on expanding the coverage to achieve a better reflection of climate-related **non-ODA flows** in the future. To date, the Rio markers have mainly been applied to bilateral ODA. However, in June 2011 the OECD DAC WP-STAT agreed to expand application of the climate change Rio markers to non-export credit other official flows (OOF) such as non-concessional loans (ibid.). No data are publicly available yet. DAC has also launched a work programme on non-ODA flows in general, which will be concerned with – and may support the future tracking of – climate finance. In this connection, discussions are being held at the OECD throughout 2013–2014 on the possible introduction of new statistical catego-

10 Including the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank (IDB), the World Bank (WB), and the International Finance Corporation (IFC).

11 The adaptation approach is based on the following principles: the Project Appraisal Report needs to a) set out the context of climate vulnerability, b) include a statement of purpose to address or improve climate resilience, c) link project activities to the context of climate vulnerability (e.g. socio-economic conditions, geographical location), reflecting only direct contributions to climate resilience. Activities that do not include the three criteria mentioned are not included in reporting.

12 See: http://www.oecd.org/dac/stats/oecdsmethodologyforcalculatingsectoralimputedmultilateralaid.htm

ries for official sector interventions that leverage private finance, and specific work is being done on resources mobilised by guarantees for development. While the work programme does not specifically focus on climate, it could enhance the coverage of donors' support for climate change mitigation and adaptation in the future. In particular, it is anticipated that the non-ODA work stream will benefit the climate finance community both by sharing its methodological findings and by using climate finance to developing countries as a specific example to improve the coverage and analytical value of DAC statistics.

Research collaborative on tracking private climate finance

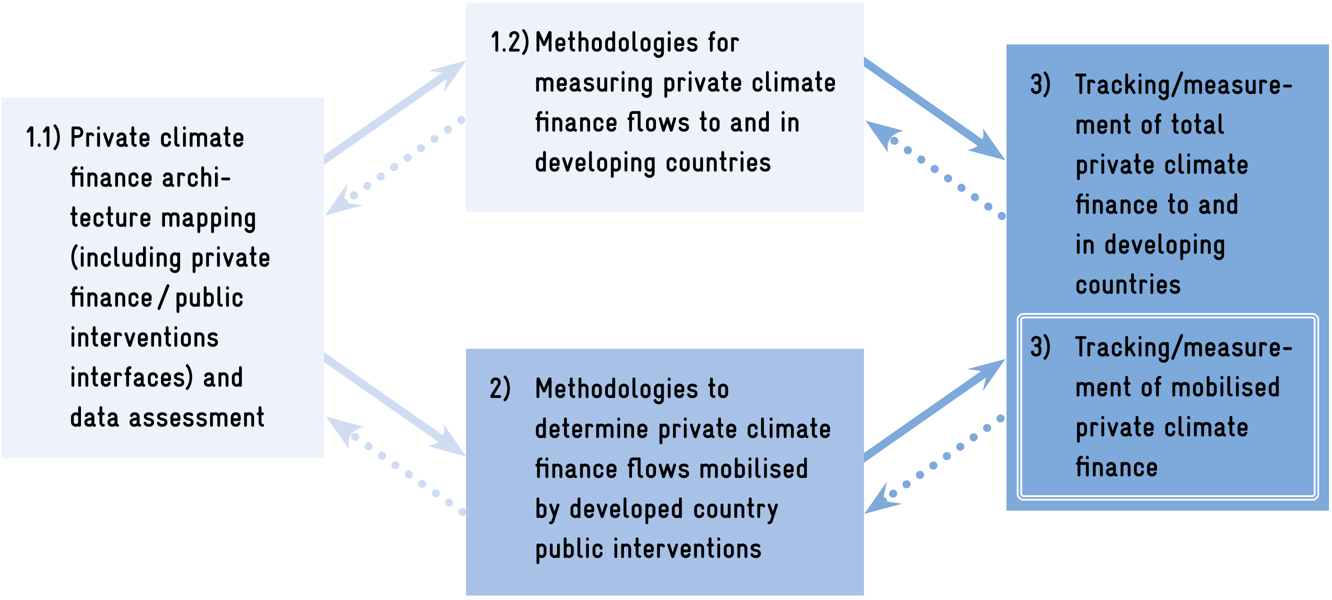
In comparison to the system for measuring and reporting on public climate finance, which appears to be fairly well established, the MRV of private climate flows is still in its infancy. Besides the lack of clear definitions, there are significant data, methodological and knowledge gaps on private climate finance (e.g. foreign direct investments, carbon markets, risk guarantees, insurance facilities, philanthropy). While large-scale renewable energy investments are covered by available data sources (e.g. Bloomberg New Energy Finance database), private finance in energy efficiency or in adaptation-related fields is hardly tracked so far. Data on **private flows** at market terms, such as bank lending and direct investment, are subject to confidentiality restrictions. However, private flows that have been mobilised by public sector intervention (e.g. through policy support, financial instruments, technical assistance) could theoretically be captured in the DAC statistical system as long as issues touching on definitional, coverage and technical questions are resolved (ibid.). One outstanding issue that is particularly linked to the UNFCCC negotiations and the USD 100 billion commitment is to reach a better operational understanding of the term 'mobilised by developed-country public sector interventions'. The tracking and reporting of mobilised private climate finance create further methodological challenges touching upon the causal link between a public intervention and private climate finance, the individual attribution of private climate finance to a certain country and the degree of certainty that double-counting is prevented.

Against this background, a multilateral collaborative process was launched that aims at working towards developing technical methodologies and approaches in order to better track and report private climate finance flows in the future. Coordinated and hosted by the OECD Secretariat, the **Research Collaborative on Tracking Private Climate Finance (RC)** is an open network for interested governments, relevant research institutions and international finance institutions.[13] The RC aims to cooperate and share best available data, expertise and information to advance policy-relevant research. Its overarching aim is to contribute to the development of more comprehensive methodologies and systems both for measuring overall private climate finance flows to, between and in developing countries, and for determining those private flows mobilised by developed countries' public interventions. In a nutshell, the RC will concentrate on the following three objectives:

1. Identify, develop and evaluate possible methodologies for measuring overall private climate finance flows to, between and in developing countries.
2. Identify, develop and evaluate possible methodologies to determine private climate flows mobilised by developed-country public sector interventions.
3. Conduct the actual measurement (tracking) of private climate finance and those flows mobilised by public sector intervention. This will (at least initially) take the form of pilot measurements at institutional and/or country level (OECD RC website, 2013).

In targeting the above objectives, the RC aims to help fill knowledge gaps in the overall architecture and measurement of private climate finance as well as to develop methods to determine how developed-country public interventions mobilise private finance. While it is unlikely that tracking every dollar of private flows will prove technically feasible, the need for more clarity on the overall architecture is crucial to understanding how public interventions mobilise private finance flows and to measuring them. While the RC's work obviously also touches on highly political definitional questions (e.g. what counts as private climate finance), it is important to emphasise that

13 For further information please see OECD RC website http://www.oecd.org/env/researchcollaborative/



OECD RC Workstreams
Source: OECD RC website: http://www.oecd.org/env/researchcollaborative/

the RC was established as a technical working group. So far the RC is sponsored by the governments of countries such as Australia, Canada, Finland, France, Germany, Japan, Switzerland, the United Kingdom and the United States, and by the Nordic Council of Ministers. Other governmental partners that are also currently involved in the RC are Belgium, the European Commission, Italy, the Netherlands and Norway. The Researchers' Group providing the analytical work and the different sets of data needed include organisations such as Bloomberg New Energy Finance, the Climate Policy Initiative, the Overseas Development Institute, the World Resources Institute, the United Nations Environment Programme and various OECD divisions. Financial institutions such as KfW Development Bank, the World Bank or the African Development Bank act as technical input providers and reviewers. The RC's expected outputs can be summarised as following:

Short-term (end of 2013 through 2014) targeted outputs:

» mapping of private climate finance architecture and data assessment;

» preliminary methodological recommendations for determining mobilised private flows;

» pilot measurements (pending methodological findings).

Mid-/long-term aim (pending funding):

» development of more comprehensive and comparable methodologies;

» potential recurring measurements/tracking based on more consistent methods and scope over time;

» convergence with ongoing statistical developments at OECD e.g. DAC statistics.

3.3 EU level

At EU level, MRV-related work in 2011 and 2012 revolved particularly around the Commission's legislative proposal for a regulation of the European Parliament and of the Council on a mechanism for monitoring and reporting greenhouse gas emissions and for reporting other information at national and Union level relevant to climate change (European Commission, 2011). The intention of this proposal was to revise and significantly enhance the 2004 Monitoring Mechanism Decision. Among other things, the proposal for the revised mechanism introduced new elements, including the reporting of financial and technical support provided to developing countries, and commitments arising from the 2009 Copenhagen Accord and 2010 Cancún Agreements (European Commission website, 2013). Following debates with EU Member States and agreement by the Council and the European Parliament, the new **Monitoring Mechanism Regulation (MMR)**[14] entered into force on 8 July 2013 (ibid.) The key section of the Regulation for MRV is Article 16 on reporting on financial and technology support provided to developing countries. It includes the following principles (European Commission, 2013):

» Member States shall cooperate with the Commission and provide every year by 30 September information on support including finance, technology and capacity-building to developing countries in accordance with the relevant provisions of the UNFCCC, as applicable, including any common format agreed under the UNFCCC;

» Where possible Member States shall endeavour to provide information on financial flows based on the so-called 'Rio markers' for climate change mitigation-related support and climate change adaptation-related support and methodological information concerning the implementation of the climate change Rio markers methodology;

» Where information is reported on private financial flows mobilised, it shall include information on the definitions and methodologies used to determine any figures;

» In accordance with decisions adopted by the bodies of the UNFCCC or the Kyoto Protocol or of agreements deriving from them or succeeding them, information on support provided shall include information on support for mitigation, adaptation, capacity-building and technology transfer and, if possible, information as to whether financial resources are new and additional.

With regard to fast-start financing and the international commitment under UNFCCC to providing USD 30 billion for immediate action on climate change mitigation and adaptation during the period 2010–2012, the EU has reported on its delivery of fast-start funding for 2010, 2011 and 2012 on a yearly basis to the UNFCCC and also included information on it in its Annual EU Accountability Reports on Financing for Development.[15] Detailed reports on EU fast-start funding were also presented during various side-events at the meetings of the COPs. The EU and its Member States have made detailed information on their ongoing activities publicly available on the UNFCCC Fast-Start Finance websites including a project list with examples of EU fast-start financing support.[16]

14 Regulation of the European Parliament and of the Council on a mechanism for monitoring and reporting greenhouse gas emissions and for reporting other information at national and Union level relevant to climate change and repealing Decision No 280/2004/EC (European Commission, 2013).

15 See http://ec.europa.eu/clima/policies/finance/international/fast-start/index_en.htm
http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/index_en.htm

16 See UNFCCC Fast-Start Finance website: http://unfccc.int/cooperation_support/financial_mechanism/fast_start_finance/items/5646.php
See project list of individual actions supported by EU fast-start financing: http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/final_fsf_project_list_june_2013.pdf

4 MRV of climate finance and future perspectives

Having set out the ongoing MRV-related work at UNFCCC, OECD, and EU level, this section discusses some of the key challenges, guiding principles and specific points for further consideration for the way ahead.

4.1 Key challenges

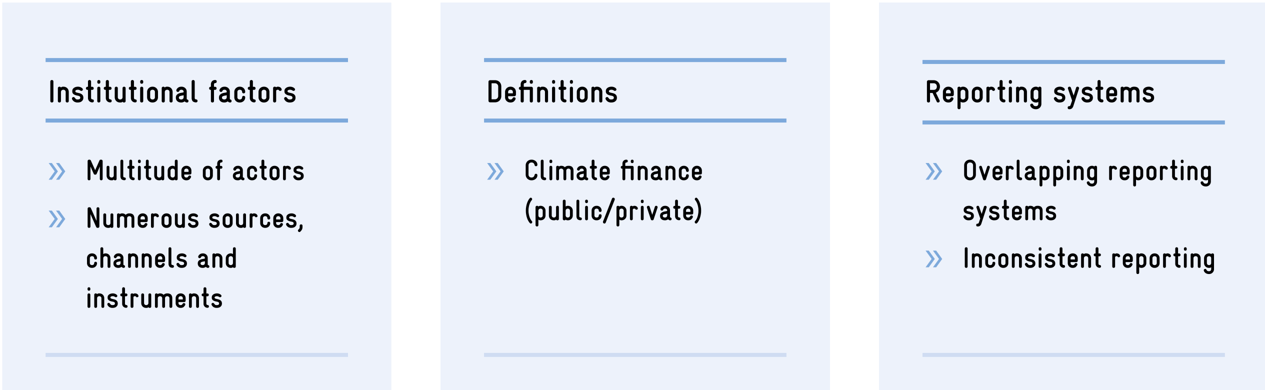
MRV of climate finance is a highly challenging endeavour for various reasons, which relate to institutional factors, definitional issues and the reporting systems.

With respect to the **institutional factors**, MRV of climate finance is very complex due to the multitude of actors, the proliferation of funds and financing mechanisms through which funding is channelled, and the rapidly changing activities in the climate sector. Climate finance towards the USD 100 billion goal will come from a variety of sources and flow through a variety of channels (e.g. public, private, bilateral, multilateral, alternative sources of finance). This increasing complexity of the overall global climate finance architecture also increases the challenges for MRV in establishing where financing has gone, to whom, and how.

Above all, measuring and reporting is complicated by the fact that, so far, there is no internationally agreed **definition** of what counts as climate finance. To date it remains vague which flows, what themes and activities or what portion of a project is attributed to and accounted for under climate finance. As a result, 'different actors currently make their own decision about what to call climate finance. (…) There is therefore no agreed basis for measurement or methodology for tracking climate finance' (Varma et al., 2011:6). For the OECD DAC members, the Rio markers have provided some guidance on how to better determine which activities are climate-related and come to a better understanding of their overall climate-related contributions in bilateral ODA. Although the Rio markers are an important tool in measuring climate-related finance, they lack a degree of legitimacy for some developing-country Parties. This stems from the fact that the OECD DAC CRS database and the associated Rio markers were not developed within the UNFCCC, nor were they specifically developed to support MRV of climate finance (Varma et al., 2011). The continuing question of further defining and accounting for climate finance would need to be addressed by the UNFCCC and its Parties to establish the necessary legitimacy, credibility and support for MRV within developed and developing countries.

The issue of definitional vagueness also relates to private climate finance. So far, the majority of these flows have not been tracked in a systematic manner nor according to any agreed definition. Again, a combination of political and technical issues needs to be addressed. Besides better defining the terms 'private climate finance' and 'mobilisation,' some of the outstanding political questions are concerned with what private flows to include, how they are accounted for in the developed countries' USD 100 billion commitment and how the expected share of private and public finance might also be determined. Besides these questions that need further consideration at a political level, complex technical and methodological issues in tracking private climate finance remain: data availability and levels of data disaggregation (e.g. at the geographical and sectoral level), confidentiality issues, and national attribution problems in the case of multinational companies and intermediaries, for instance. There is a need for a better overall understanding of data availability and what has been/can be measured. Furthermore, methodological options and technical approaches need to be developed on how to determine and measure private investments that have been mobilised by developed-country public interventions. Better comprehension is needed about how different public interventions (e.g. through policy support, financial instruments, technical assistance) interrelate with and mobilise private flows. Concluding on this point, efforts should be made to work towards a technically feasible and politically acceptable harmonised approach in which the same definitions and methodologies for accounting and measurement are used by the international actors involved.

As for reporting, there are currently obvious overlaps and differences in the **reporting systems**. These relate to differing reporting time frames, formats and reporting groups. As a result, the comparability of financial information is complicated, and fulfilling the various reporting requirements and entering different climate-related financial data in the different reporting templates sometimes stretches member states' capacities to the limit.



Overview of key challenges
Source: Own figure based on Varma et al., 2011:22

The Rio marker data for the OECD DAC reporting and the data for the EU-MMR, for instance, are reported on an annual basis, while the UNFCCC requires NatComs to be submitted every four years and BRs every two years. While the OECD CRS database is a fairly stable and comprehensive statistical system that allows the reporting of finance data on bilateral climate finance tracked through the Rio markers, reporting obligations under the UNFCCC include, for instance, further information on multilateral climate-related contributions. While some MDBs report to OECD DAC, they do not usually report disaggregated data back to donors on how finance was spent (Varma et al., 2011:12). In order to be able to provide more detailed information, for instance for reporting under the UNFCCC and the BRs including the CTF, it would be useful for member states to have this information and details about how their overall contributions to MDBs were used, e.g. for climate-related interventions. At present, not all member states and Annex I Parties report to the OECD DAC and not all OECD DAC members use the Rio markers for reporting climate finance. Even those member states that use the Rio markers do not necessarily use and quantitatively account for them in the same way, hampering data comparability.

Obviously, compared to the first two elements 'M' and 'R', work on the final element 'V' – verification – is not as advanced. The overall scope of verification remains vague, and more thinking is needed on how to balance top-down and bottom-up verification processes. Formal reviews and reports on the NatComs (and in future BRs) are carried out by the UNFCCC. In addition to the OECD DAC CRS database that is publicly available, some countries are also increasing their efforts to make data on climate-related finance more transparent and, thus, allow for better scrutiny and verification.[17] Nevertheless, clarification is needed on *how* and *by whom* the verification of scale (e.g. comparison of financial flows and data from contributors and recipients) and the effectiveness of climate finance (e.g. progress towards low-carbon and climate-resilient pathways) will be assessed. Overall, the involvement and participation of developing countries (bottom-up) will remain critical in verification.

17 For instance, the Federal Ministry for Economic Cooperation and Development in Germany has developed its own website dedicated to the topic of transparency and climate financing. Besides project listings it provides detailed information on the different bilateral and multilateral contributions and breakdowns of climate-related financing by region and sector. For further information, please see: http://www.bmz.de/en/what_we_do/issues/klimaschutz/finanzierung/transparenz/index.html

4.2 Guiding principles

In light of the above challenges, some general principles will be fundamental for further elaboration of a robust MRV framework for climate finance. As outlined in section 2, MRV of climate finance includes separate measuring, reporting and verification processes. Developing a comprehensive MRV framework will require further work on each of the components and here the input of various actors, institutions and systems will be needed. In this context, improvements in measurement and reporting primarily relate to strengthening overall transparency, consistency and coverage. Moreover, regarding verification, further clarity is needed on how to balance top-down and bottom-up verification processes (Varma et al., 2011:13). While work on each of the three elements of MRV can progress in parallel, there is potential for establishing a better and more comprehensive overall MRV framework for climate finance over time.

The elaboration of a more comprehensive MRV framework of climate finance should take **existing systems and institutions** into account, build on these where appropriate and take **cost-effectiveness** and **practical feasibility** into consideration as far as possible. Basing future work on existing systems has the advantage that these systems are well known, and it decreases the risk of creating parallel structures, resulting in duplicating work and an increase in the burden and costs for member states. When further developing and enhancing an MRV framework, it should be ensured that the **underlying approaches and reporting parameters** can be applied by all relevant actors so that the resulting data are comparable and consistent among all reporting Parties and data providers such as MDBs. International climate finance is generated by a wide variety of sources, public and private, bilateral and multilateral, including alternative sources. Thus, the reporting framework needs a **broad structure** that allows MRV of all flows. Overall, developing and strengthening methodologies and systems on MRV of climate finance will constitute a gradual and incremental '**learning-by-doing**' process. It will require **cooperative action** from various sides including governments, international institutions and other private data providers.

Last but not least, for the international climate regime to work effectively, full transparency is principally needed on both climate finance support and ambitious mitigation actions and adaptation efforts on the ground. This means that **MRV of support**, including climate finance, capacity-building and technology development from developed-country Parties needs to go hand in hand with **MRV of action** by developing-country Parties. It is only if both parts come together that mutual trust and accountability between developed and developing countries will be enhanced and lead to the necessary long-term changes towards sustainable low-carbon and climate-resilient development pathways

4.3 Recommendations and points for further reflection

The OECD DAC CRS database and the requirements under UNFCCC (e.g. NatComs, BRs) remain key references for tracking and reporting climate finance today. While it is generally acknowledged that the existing systems can provide a good basis, a number of open questions need to be addressed and further efforts will be required to achieve improvements. The following recommendations and points for further reflection relate to the question of how to enhance the existing MRV requirements. In doing so, it is expected that the overall objective of creating a better and more comprehensive international MRV framework can be achieved in the longer term.

UNFCCC level

» Under UNFCCC, important progress was made at COP18 in Doha with agreement being reached on the **CTF as part of the BRs** for reporting on climate finance by developed-country Parties. Collecting the required data and filling in the tables in the CTF for the first time has been a challenging exercise for them. From the first round of reporting it can be expected that a lot of 'learning by doing' and improvements will emerge over time.[18] Thus, it will be helpful to ex-

18 For further information on the experience with reporting the first Biennial Reports see also the respective UNFCCC Submission by the EU and its Member States: http://unfccc.int/files/documentation/submissions_from_parties/application/pdf/el-02-21-biennial_reports.pdf

change views and cooperate on how other EU/developed-country Parties deal with filling in the CTF in order to achieve a more harmonised and coherent reporting practice in the longer run. For reporting years in which the submission of NatComs and BRs coincides, more clarification and guidance would be needed on how to integrate and combine information most effectively to ensure consistency between information provided in the BRs and NatComs and also to decrease inefficient duplication of work. As the CTF of the BRs is the most updated agreement for reporting financial information under UNFCCC, this should also be the key reference.

» Enhancing **joint understanding on terminology and reporting parameters** will remain critical under UNFCCC. Regarding the CTF of the BRs, it will be important, for instance, to further define a common currency exchange rate, and to come to a better common understanding of terminology (e.g. provided, committed, pledged) and the treatment of bilateral/multilateral flows to make financial information more consistent and comparable. As far as the CTF and the provision of bilateral public financial support (table 7b) are concerned, the fact that developed-country Parties can report either on recipient country, region or programme/project has tended to hamper data comparability.[19] On the other hand, it should be stressed that a certain degree of flexibility is also needed at the outset, to give characteristics of national reporting systems time to adapt.

» Further work will be needed on the approach to future reporting on **climate-related private finance** under UNFCCC. Here the technical work under the OECD RC will hopefully provide helpful input and first recommendations on possible methods and options for better determining and measuring private climate finance mobilised by developed-country public interventions. This should stimulate further debate under UNFCCC. Overall, any methodology on mobilised private climate finance needs to match up to criteria such as being transparent, politically acceptable, technically feasible and cost-efficient. It should also consider that the right incentives are created of using financial resources where they are most needed for meaningful mitigation action and adaptation needs. Concerning private climate finance, the UNFCCC biennial reporting guidelines so far only relate to 'private finance leveraged by bilateral climate finance', which Annex II Parties should report on to the extent possible (UNFCCC, Decision 2/CP.17). This may lead to an incomplete picture of mobilised private resources, since key sources – private finance leveraged by multilateral funds such as the Green Climate Fund (GCF), the Global Environment Facility (GEF) or the Climate Investment Funds (CIFs), for example – are not covered.

» While some **MDBs** report to OECD DAC, they do not usually report disaggregated climate-specific data back to donors on how finance was spent. To be able to provide this climate-specific information under UNFCCC for the CTF of the BRs,[20] it would be helpful for member states to have more details in the future about how their overall contributions were used by the MDBs, e.g. for climate-related interventions. In this respect, efforts to improve data sets and reporting on climate finance channelled through multilateral institutions and funds will need to be enhanced.

» The issue of MRV of climate finance under UNFCCC appears to be institutionally fragmented, with different bodies dealing with it. From a UNFCCC institution point of view, it will remain important that none of the different UNFCCC bodies (e.g. SBSTA, SBI, SCF, ADP, Extended Work Programme on Long-Term Finance) dealing with MRV issues duplicates work and that there is **strong cross-coordination and collaboration** between them on MRV activities. This includes reaching out and consulting with relevant bodies outside the UNFCCC that work on MRV issues in order to build on existing expertise and knowledge (OECD, MDBs, research organisations, etc.). Having said that, the SCF has a beneficial role to play in providing recommendations to the COP

19 See table 7b) 'Provision of public financial support: contribution through bilateral, regional and other channels in 20XX-3' (UNFCCC, Decision 19/CP.18).

20 See, for instance, table 7a) 'Provision of public financial support: contribution through multilateral channels in 20XX-3' (UNFCCC, Decision 19/CP.18).

and by keeping linkages with thematic bodies of the Convention and ensuring information exchange with relevant external actors to inform the UNFCCC process on MRV in a comprehensive way. Above all, duplicative and overlapping work should be prevented, and building on what is already there should be the aim. A more robust MRV framework can be achieved by integrating and harmonising existing data systems and institutions inside and outside the Convention.

» UNFCCC negotiations on adopting a single legally binding global **climate agreement by 2015** are currently gathering pace. MRV and transparency of support, including finance to developing countries, will become an important element for the 2015 agreement. This will help to strengthen transparency, trust and accountability. Greater consideration and detailed analysis will be needed on how this issue will be reflected in the new agreement. For the 2015 agreement, further action should build upon and enhance the existing system. Here, the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) working on the new 2015 agreement can build on the experience of the various UNFCCC bodies, namely SBSTA, SBI and the SCF, to strengthen transparency and MRV of climate finance in the future climate regime. 2014 thus remains a pivotal year, providing further key input to the MRV debate: developed-country Parties have now submitted their first Biennial Reports (BRs), including a Common Tabular Format (CTF), which has the potential to allow for greater transparency and comparability. The Standing Committee on Finance (SCF) will provide its first biennial assessment and overview of climate finance flows to COP20 in Peru. Finally, developed-country Parties were required to make two submissions in 2014; one 'on experience with reporting the first biennial reports' by March 2014 and another 'on appropriate methodologies and systems used to measure and track climate finance' by May 2014. These two submissions and the other named elements will provide some critical substantive input for the ongoing MRV debate under UNFCCC and on the way forward. Last but not least, for the international climate regime to work effectively in the future, better MRV is needed on both sides and will require strong action from developed and developing-country Parties. In this respect, MRV of climate finance from developed-country Parties needs to go hand in hand with the MRV of action undertaken by developing-country Parties. Both parts must be linked up if mutual trust and accountability between developed and developing countries are to grow and result in the needed long-term changes towards sustainable low-carbon and climate-resilient development pathways.

OECD level

» Reporting countries are currently facing the challenge of finding ways to better harmonise and improve standardised definitions, classifications, methodologies, etc. of the OECD DAC system so that they also become appropriate for climate finance reporting under UNFCCC. To enhance the acceptability and credibility of the DAC methodology, efforts must be made to strengthen the system's data quality and coverage. While the **OECD DAC Creditor Reporting System (CRS)** and the use of the **Rio markers** provide a basis for measuring climate finance, there is still room for improvement. With regard to the application of the Rio markers across OECD DAC member states, project managers are generally becoming more acquainted with the Rio markers and their use. Nevertheless, they sometimes still struggle, for instance, with the integration of adaptation issues into programming activities and especially with reflecting existing adaptation-relevant activities in the project documents. Clear guidance and capacity development are critical if the Rio markers are to be used more consistently. The development of more substantial and precise eligibility criteria, activity descriptions and additional indicative examples could help to give project managers a better understanding about what the characteristics of an 'adaptation'/'mitigation' project are and what qualifies for the score 'significant' or 'principal' and is quantitatively accounted as such. On the latter, further work is needed on exploring the development of more harmonised methodologies among reporting members on how to use Rio marker data for quantitative reporting (e.g. UNFCCC) in order to ensure compatibility of data and devise reporting approaches that are coherent and comparable. On a more practical note, additional financial and human resources need to be made available within government institutions to carry out training, quality assurance and other tasks related to the Rio markers and the increasing reporting obligations at international levels.

- The coverage of the OECD CRS database can be improved by further **integrating information and data** by non-OECD members and multilateral institutions. With the MDBs having now developed their joint approach of tracking and reporting climate-related finance it will remain important for MDBs and OECD DAC members to stay in close dialogue and exchange their experiences with tracking and measuring climate-related finance. While obtaining more granular information at component level appears to be practically more feasible for MDBs, it is considered to be more difficult and less practical in technical bilateral cooperation in particular. This results from the fact that to a large extent bilateral technical cooperation deals with a huge number of small-scale interventions in the field of adaptation, which coincides with other development objectives and is strongly characterised by its cross-cutting nature. Here, the differences and particularities between bilateral technical cooperation and the assistance provided by MDBs, for instance, will need to be taken into account in further discussions.
- Besides the issue of strengthening the coverage of reporting parties, it is also becoming more important to improve the measuring and reporting of climate-related **non-ODA flows and private finance**. Here, the OECD benefits from its long-standing technical expertise and experience in gathering and reporting data, which will also help to advance technical work on private climate finance. By working towards a pragmatic approach that is technically feasible and broadly acceptable, the OECD can contribute to stimulating further debates under UNFCCC and advancing progress towards the necessary political decisions.
- There are strong parallels in data needs, thus the OECD should continue to provide a **forum for discussion** on MRV of climate finance among OECD members, the UNFCCC, the European Union and other relevant actors including IFIs. Furthermore, it will remain important to engage with representatives of the private sector, where appropriate, to gain a better insight into their point of view.
- Referencing the OECD DAC CRS data system and its terminology within the negotiations has sometimes been a contentious point. This may stem from the fact that developing countries regard the system as being dominated and controlled by OECD DAC members. To gain the trust of the developing countries and strengthen the **acceptability and credibility** of the DAC methodology, the OECD should continue to actively engage with representatives of the developing countries and demonstrate to them that there is room for joint reflection and open discussions on how to improve and strengthen the system.
- Linking up with the previous points, it needs to be acknowledged that in November 2013 the OECD DAC members established a **Joint ENVIRONET and WP-STAT Task Team to improve Rio markers, environment and development finance statistics.**[21] An initial one-year work programme was agreed for 2014. It focuses on taking stock of members' application of the Rio markers and international reporting practices, and identifies information needs under the different international reporting obligations. It further aims at developing recommendations for improvements in the application, quality and robustness of the Rio markers. It also strives to improve the use of the Rio markers against quantitative financial targets for reporting to international conventions by exploring options for developing a more harmonised methodology in this respect. Future work will also look into data standards and international reporting formats and provide guidance in order to ensure compatibility of data and reporting approaches. The OECD Task Team will also explore with MDBs potential for harmonisation or reconciliation between the OECD DAC methodology and the jointly established MDBs approach. Finally, it aims to promote stronger internal and external communication and collaboration to strengthen transparency, understanding and confidence around the Rio markers.

21 See OECD Joint ENVIRONET and WP-STAT Task Team Website: http://www.oecd.org/dac/environment-development/statistics.htm

EU level

- The **annual timeframe** for reporting information to the European Commission under the EU-MMR needs to be realistic. When comparing other reporting dates, such as UNFCCC BRs (to be delivered every two years in January from 2014 onwards) or national budgetary cycles, it should be taken into account that data often only becomes available over the course of a year, making the delivery of valid data for the previous year by 30 September challenging for some EU member states. Furthermore, more clarity and information should be given to EU member states on how the European Commission will use and follow up on the data they deliver.
- Overall, the EU and its member states should actively contribute to ongoing discussions on climate finance reporting and exchange their practical experience (e.g. on the BRs including the CTF) among themselves and with other developed-country Parties in order to achieve more consistent and coherent EU reporting practice on climate finance under UNFCCC. In addition, the EU and its member states should stand ready to have proactive talks and **joint discussions** on MRV of climate finance with all relevant actors, including IFIs, and representatives of the private sector, in all the relevant forums within and beyond UNFCCC to reach a robust and harmonised MRV framework for climate finance in the longer term that is also consistent with the broader framework for MRV of finance for sustainable development.

5 Concluding remarks

This briefing paper has outlined the various international efforts currently underway to tackle the complex challenge of MRV of climate finance, which is highly relevant for two key reasons: on a political level, it is considered to be an important element for strengthening transparency, accountability and trust between developed- and developing-country Parties in the climate negotiation process and is particularly linked to the extent to which developed-country Parties have complied with their international commitment to mobilise USD 100 billion per year by 2020. Reducing the function of MRV solely to the USD 100 billion goal, however, would be short-sighted. More importantly and on a practical level, MRV of climate finance can help to strengthen the efficiency and effectiveness of financial sources by gaining a better overall understanding of the scale, the regional/sectoral distribution and use of both public and private support. In this respect, coming to a better understanding of climate finance and measuring its overall impact towards low-carbon and climate-resilient pathways will become another highly challenging but important working field in the future, also requiring strong involvement and participation from developing countries. Only if both sides – MRV of support including finance, capacity-building and technology development from developed-country Parties and MRV of action by developing-country Parties – are linked can mutual trust be reached between them and help to create an effective future climate regime.

MRV of climate finance, especially measuring and tracking private flows, is a highly complex endeavour due to the multitude of actors, diverse financing channels and rapidly changing climate activities. While MRV of (publicly mobilised) private finance is only gradually evolving and will remain a methodologically very challenging ambition, the annual measuring and reporting of climate-related Official Development Assistance (ODA) from bilateral donors and also increasingly multilateral organisations under the OECD DAC provides a reference point. Nevertheless, it still remains highly challenging to compare climate finance figures due to varying underlying methodological approaches and reporting formats (OECD, MDBs, UNFCCC, etc.), placing doubt on the practical comparability and political usability of the data generated.

As this paper argues, in order to ensure better comparability of data as well as compatibility and coherence of reporting approaches, further action will particularly be needed in improving the consistency of data, strengthening common reporting parameters and agreeing on underlying methodologies and key terminology. In this respect, reporting countries, for instance, will be required to continue working towards improved, more harmonised and standardised definitions, classifications and methodologies of the OECD DAC system, so that they become politically opportune for climate finance reporting under the UNFCCC framework while supporting trust and credibility among Parties. Although it will not be practically feasible to track every last dollar, further guidance on definitions from the political level as well as pragmatic technical advice on underlying methodologies and approaches are needed if a workable and cost-effective MRV framework is to be created. Connecting actors and the existing bits and pieces of relevant ongoing work on MRV of climate finance will remain critical to enhancing the overall MRV system. To achieve this, strong cooperative action between governments, international institutions such as UNFCCC, OECD and IFIs as well as private data providers will be key for the further process.

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