Towards a Complete Registry and Transparent System for Tracking Climate Finance

Bonn, 14.6.2011

Session Outline

European Climate Foundation

1. Introduction by Chair: Dr. Bert Metz, Senior Fellow ECF, Former IPCC Co-Chair

2. Panelists:

- Delia Villagrasa, Senior Advisor, European Climate Foundation: **from climate finance to green growth: the challenge.**
- Dr. Niklas Höhne, Director Energy and Climate Policy, Ecofys: **International climate financing - from Cancun to a 2°C stabilisation pathway**
- Dr. Barbara Buchner, Director, Climate Policy Institute Venice: **MRV of finance, recommendations for the UNFCCC process – how should national communications and biennial reports evolve?**
- Jessica Brown, Research Officer at the Overseas Development Institute**: MRV of finance recommendations for public and private tracking beyond the UNFCCC system**
- J. Timmons Roberts, AidData.org and Director, Center for Environmental Studies, Brown University: **demonstrating the feasibility of finance tracking at the project level, including independent classification and mapping of projects, and crowd-sourcing verification.**

3. Q&A

4. Summary

Introduction

Setting out the challenge – from climate finance to green growth

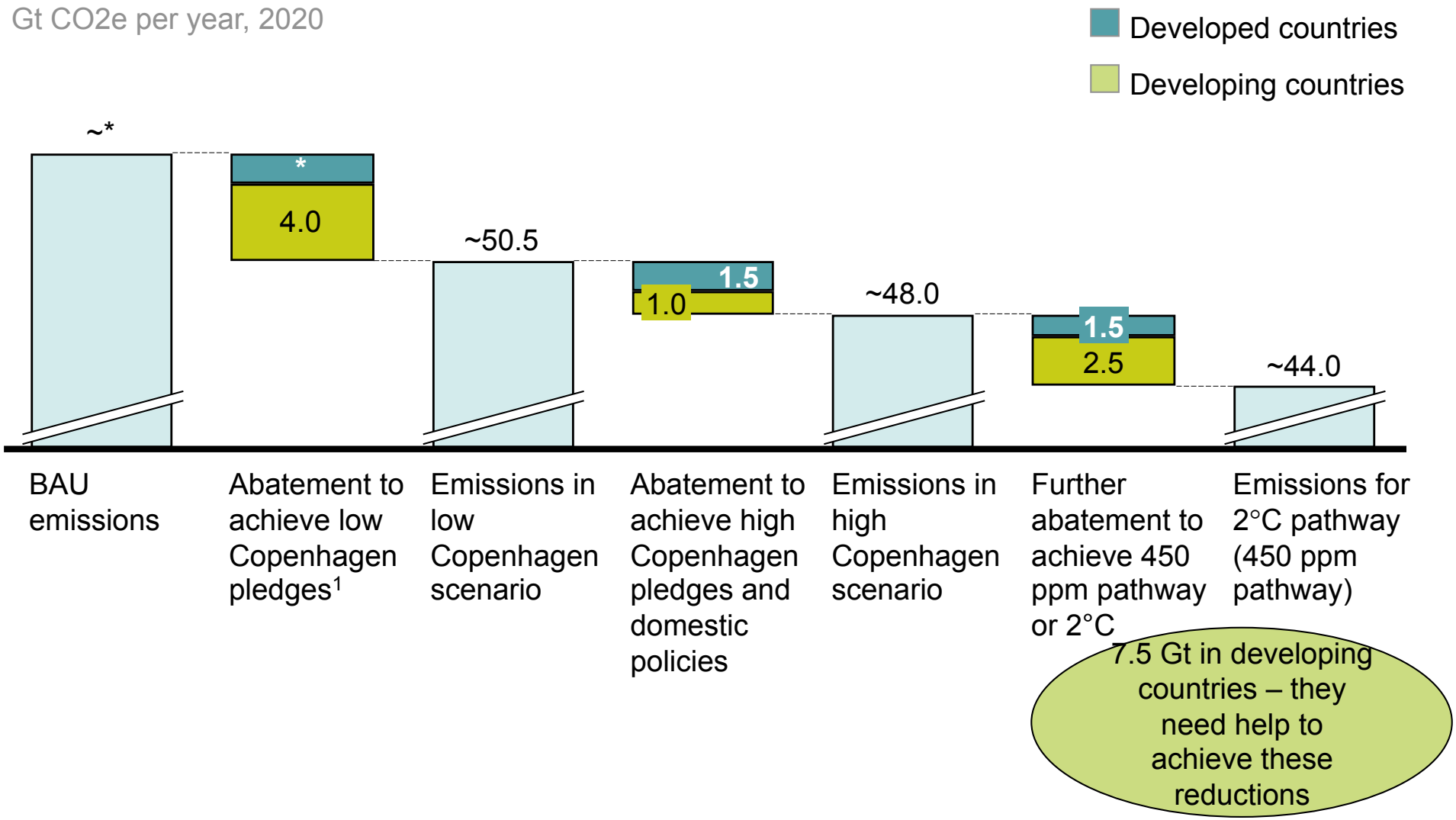
- Mitigation Challenge and Gap
- Corresponding Finance Challenge

Mitigation Challenge and Gap:
12 Gt required emission reductions for 2ºC pathway, at minimum

ROUGH ESTIMATES

project catalyst

Global GHG emissions – gap to 450 ppm pathway in 2020 – which gives a 50:50 chance to stay below 2°C, and is only a 5% increase compared to an estimated 430 ppm in 2000.



1 Aggregate of individual country pledges in the low (unilateral) and high (conditional) cases; Pledges indicate targets in 2020

SOURCE: McKinsey Global GHG Abatement Cost Curve v2.1; IEA; US EPA; Houghton; IPCC; OECD; den Elzen; Meinshausen; van Vuuren

Corresponding Finance Challenge

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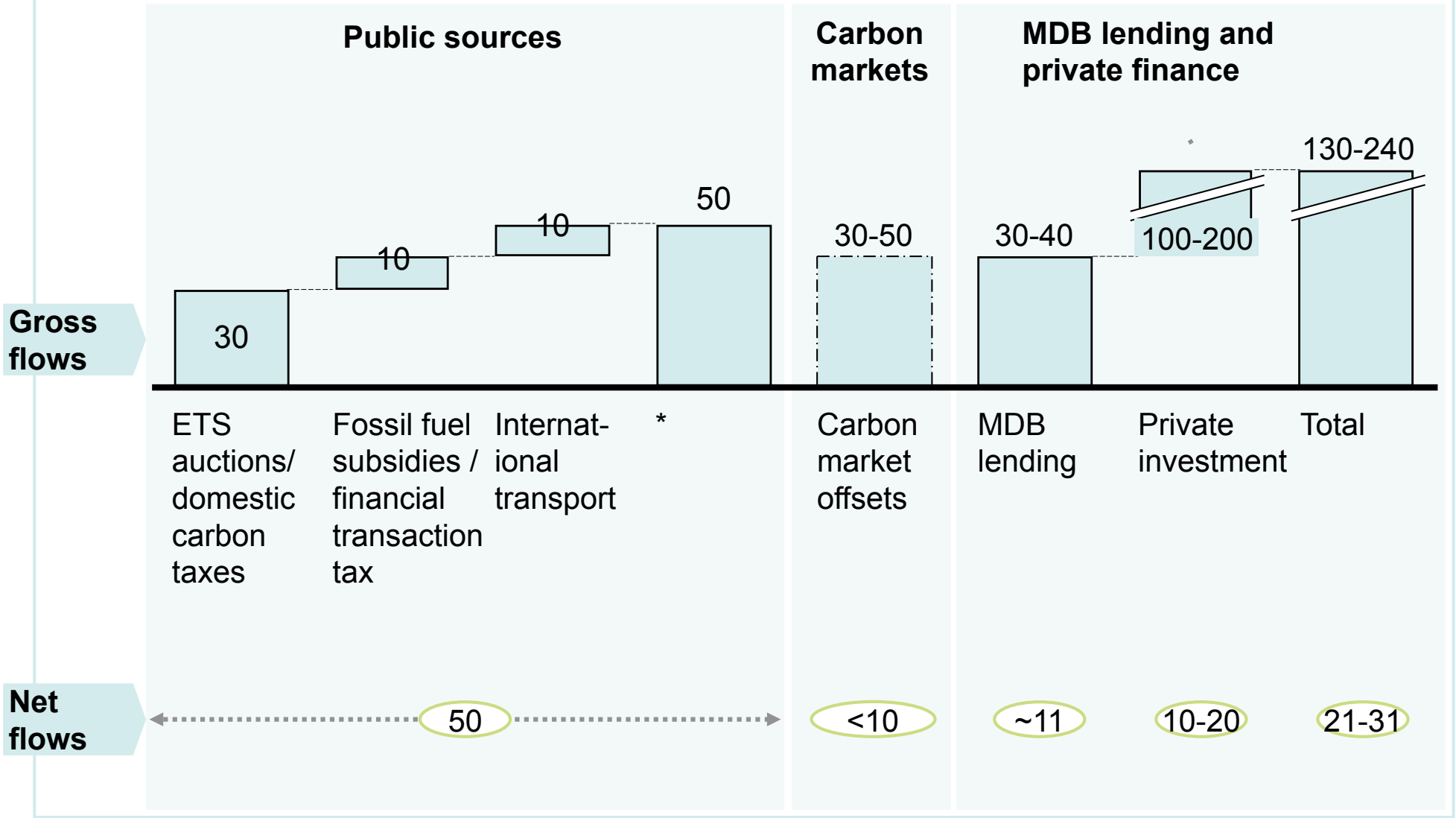
- The level of investment required to transform the global economy to a low carbon path is considerable.
- The International Energy Agency (2009) estimates that $197 billion of additional *capital investments* will be required by 2020 in developing and emerging economies to be consistent with the goal of limiting global mean temperature to an increase of 2˚C above pre-industrial levels.
- Project Catalyst estimated that even assuming that developing countries pay for the low-end of their pledges themselves, at least a 60bn U$ *incremental cost* remains additionally to reach a 450 ppm pathway (closing the 7.5 Gt gap).
- Already occurring action indicates that countries start recognising the value of decarbonisation beyond climate change benefits – green growth carries multiple development benefits.

Sources identified by AGF could go a long way to meeting this finance need, depending on mitigation/adaptation split

$bn, 2020, per year

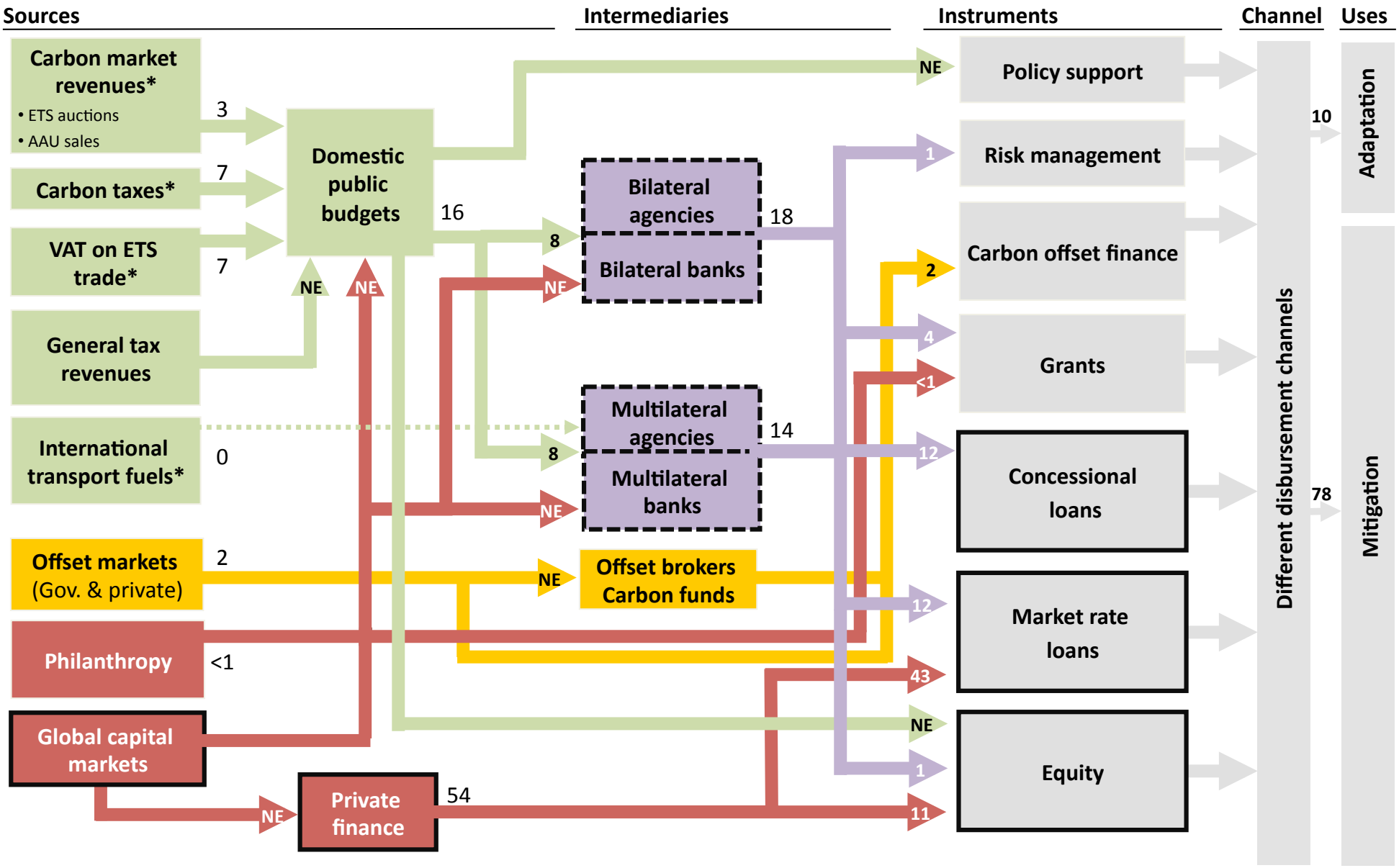


SOURCE: AGF report

What are current flows?

Public money | Intermediated money | Capital investment
Private money | Offset money | Capital investment and incremental costs

ROUGH ESTIMATES



Notes: Figures are expressed in USD billion and on an annual basis. *Estimated carbon pricing revenues indicated are not necessarily wholly hypothecated for climate finance. International bunker taxes are a potential revenue source, not yet in existence.

Lacking clarity on actual flows & on what counts as "climate finance". These numbers differ from the ones estimated by CPI/ McKinsey because of different definitions – better transparency and monitoring are needed

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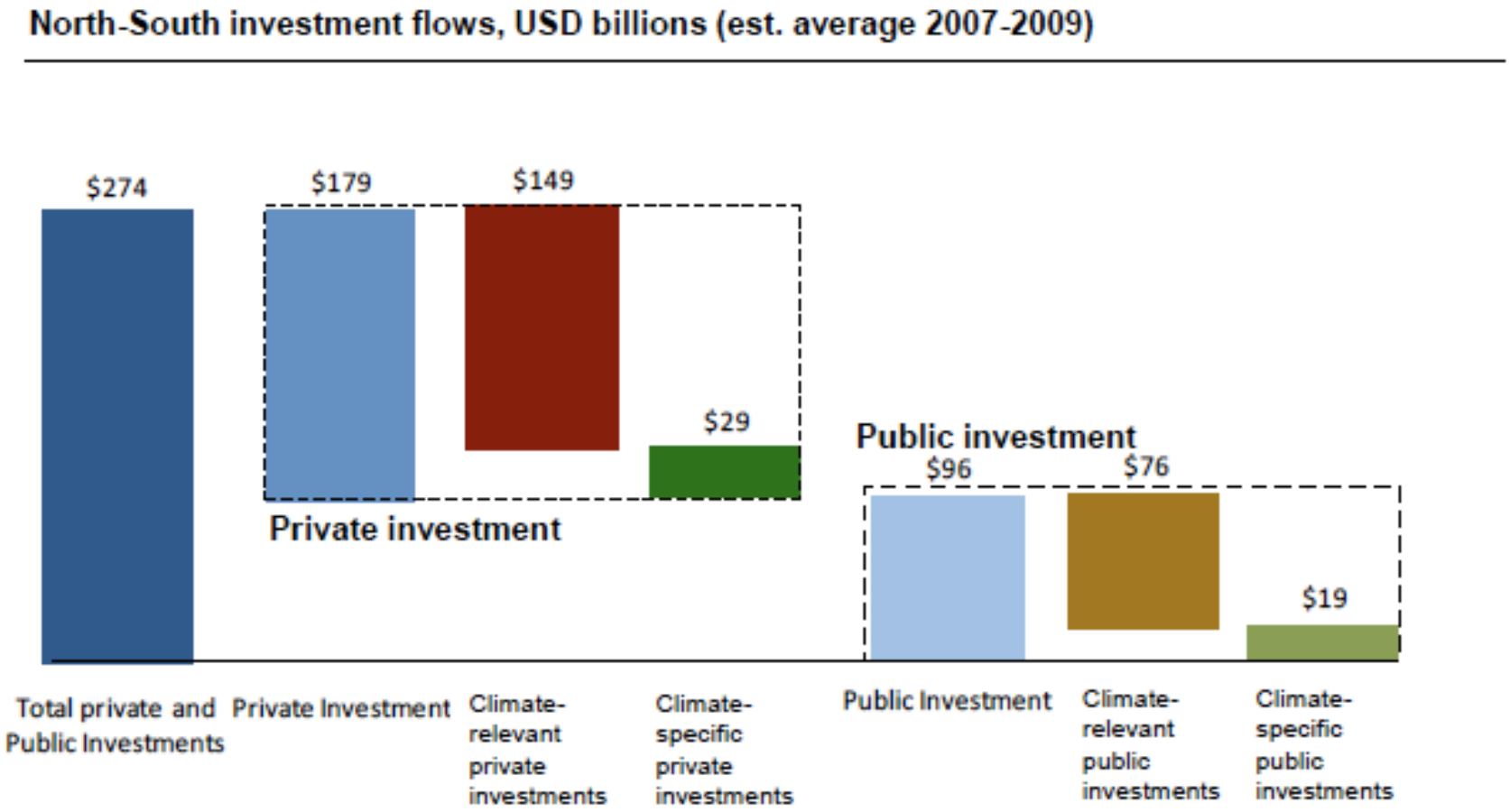
Magnitude of international flows: estimates of public and private sources of climate finance



Source: OECD Presentation 12.4.11

Design Criteria for the international architecture.
To be effective, the climate finance system must:

- Be predictable to encourage forward planning
- Boost harmonization
- Manage for results
- Create more transparency
- Ensure efficient disbursement

International climate financing

From Cancún to a 2°C stabilisation pathway

14 June 2011

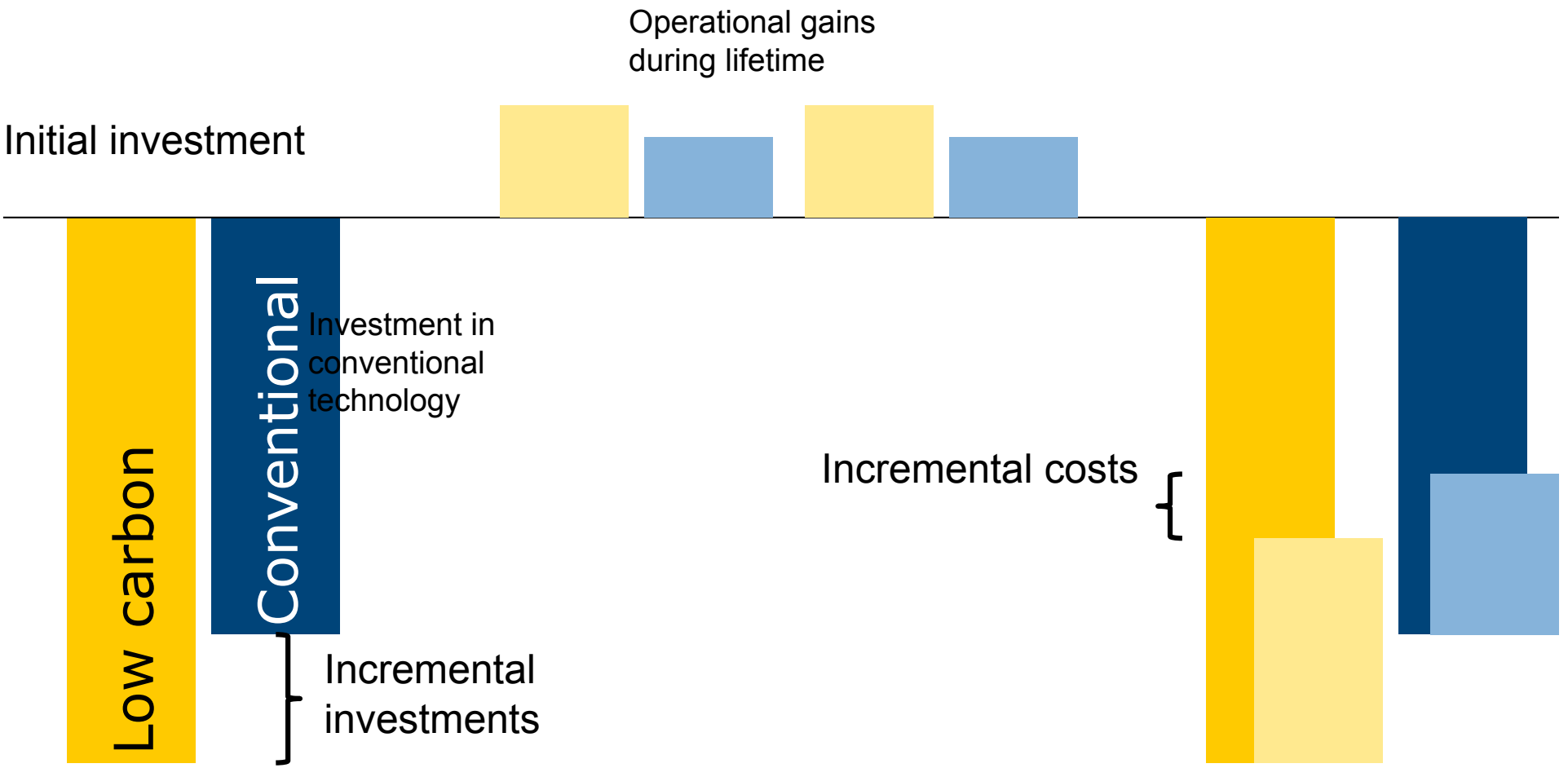
Dr. Niklas Höhne, Ecofys Germany n.hoehne@ecofys.com

Content

- Scale of the financing need
- Lessons learned from development cooperation
- Way forward

- Report prepared for KfW http://www.ecofys.com/com/publications/documents/Climate_financing_after_Cancun_20110204.pdf

Different ways to characterise costs



Financing needs

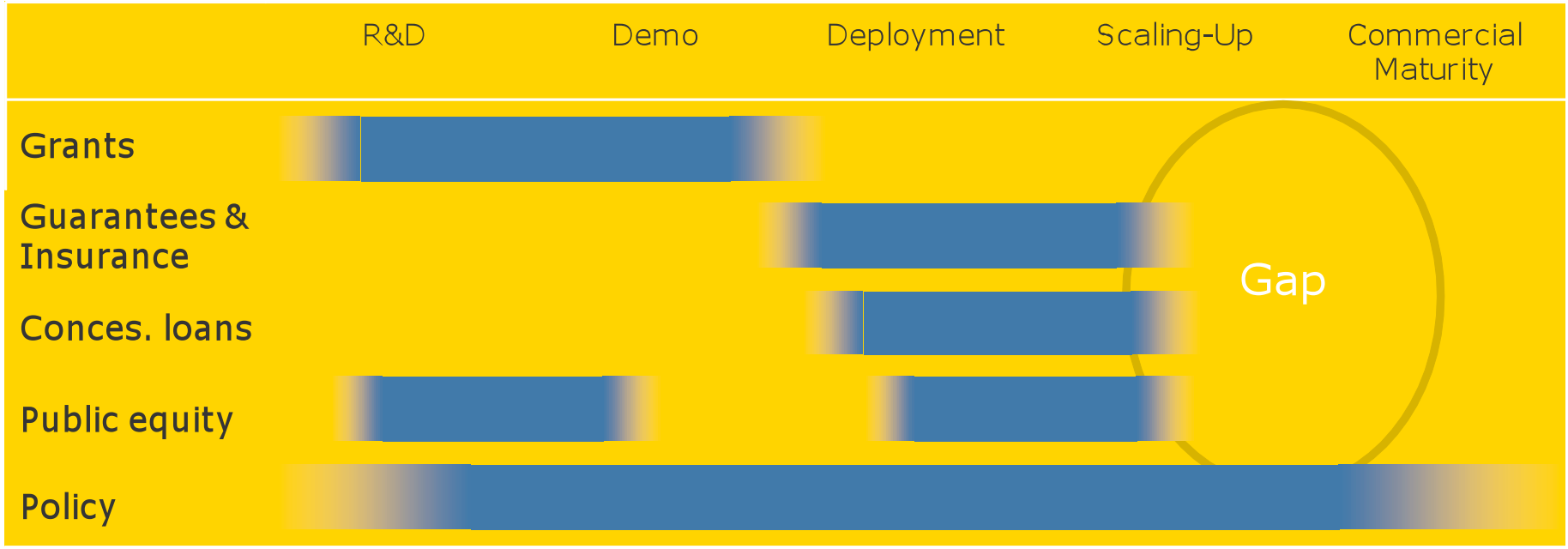
		Current (US$ billion p.a. in 2009)		Needs for a 2°C pathway (US$ billion p.a. in 2020)	
		In developed countries	In developing countries	In developed countries	In developing countries
Mitigation	Total investments in low carbon assets	100 – 300		around 1000	
				-	300 - 600
	Incremental investments	-	-	-	50 – 200
	Incremental abatement costs	-	-	-	50 – 130
	Fossil fuel subsidies	300		-	-
Adaptation		-	-	-	10 – 250

Current support

	Support provided to developing countries (US$ billion p.a. in 2009/2010)	
Mitigation	Support by multilateral institutions	9-14
	Support by bilateral institutions as loans and grants	9-18
	Total investments of CDM projects	23
	Value of CDM credits issued in 2010	5
Adaptation	Support by multilateral institutions	0.5
	Support by bilateral institutions	4

		Needs for a 2°C pathway in developing countries (US$ billion p.a. in 2020)
Mitigation	Total investments	300 - 600
	Incremental costs	50 – 130
Adaptation		10 – 250

Instruments



Conclusions

- Develop consistent definitions of climate financing flows, investments and incremental costs and use them to derive comparable information on current flows and needs
- Mobilise additional and redirect existing resources for efficient and effective mitigation and adaptation on a 2°C stabilisation pathway
- Use limited public resources efficiently as well as carbon markets in order to leverage private sector green investments
- Use a mix of financial support instruments to share costs and risks of projects and programmes between public and private sector in industrialised and developing countries
- Build on existing experience, coordinate existing and new implementation channels

Monitoring and tracking long-term finance to support climate action

presented by
Barbara Buchner (CPI)
and
Jessica Brown (ODI)

Based on two recent papers from the Climate Change Expert Group (OECD):

-Buchner, B., Brown, J., and Corfee-Morlot, J. (2011) '**Monitoring and Tracking Long-Term Finance to Support Climate Action**'
-Ellis, J., Briner, G., Moarif, S. and Buchner, B. (2011) '**Options to revise reporting guidelines for Annex I and non-Annex I National Communications**'

Why improve MRV of climate finance?

Achievements of the Cancún Agreements

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

Key question

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

Key issue

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

<u>Starting point</u>: the existing effort to track climate finance lacks transparency, comparability and comprehensiveness

Where to start from? Some definitions

Preamble

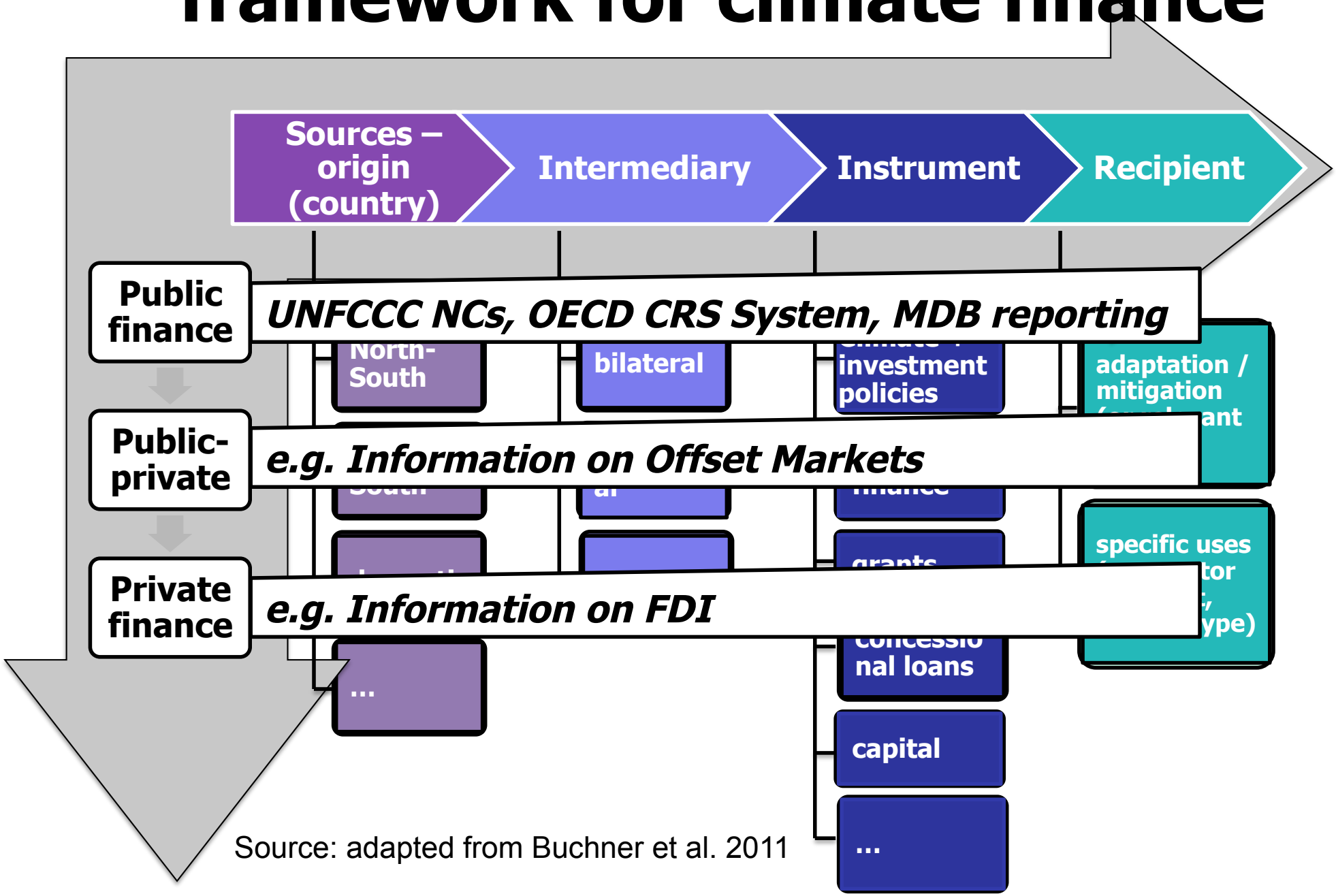
- No internationally agreed definition of what constitutes 'climate finance'

Our definitions

- **Climate finance** ('climate-specific finance'):
  - capital flows that target low-carbon or climate resilient development – GHG mitigation or adaptation are explicitly stated objectives or outcomes
  - both international public or private financing flows, in practice also domestic.
- **Climate-relevant finance:**
  - a much broader set of capital flows (public or private) from developed to developing countries that will influence (positively or negatively) emissions and/or vulnerability to climate change in developing countries
  - flows that support development and economic growth in key emitting sectors or to sectors affecting vulnerability to climate change

Source: Buchner et al. 2011

Main elements of a MRV framework for climate finance



Source: adapted from Buchner et al. 2011

Climate finance in the UNFCCC

Existing: National Communications

Strengths	Periodic information by Annex II on *bilateral financial support* in developing countries; information by *Non-Annex I on support received*
Weaknesses	Inconsistent and incomplete data; no information on amounts disbursed/received; no information on what level of support is directed to specific categories, sectors, technologies

Planned: Biennial Reports

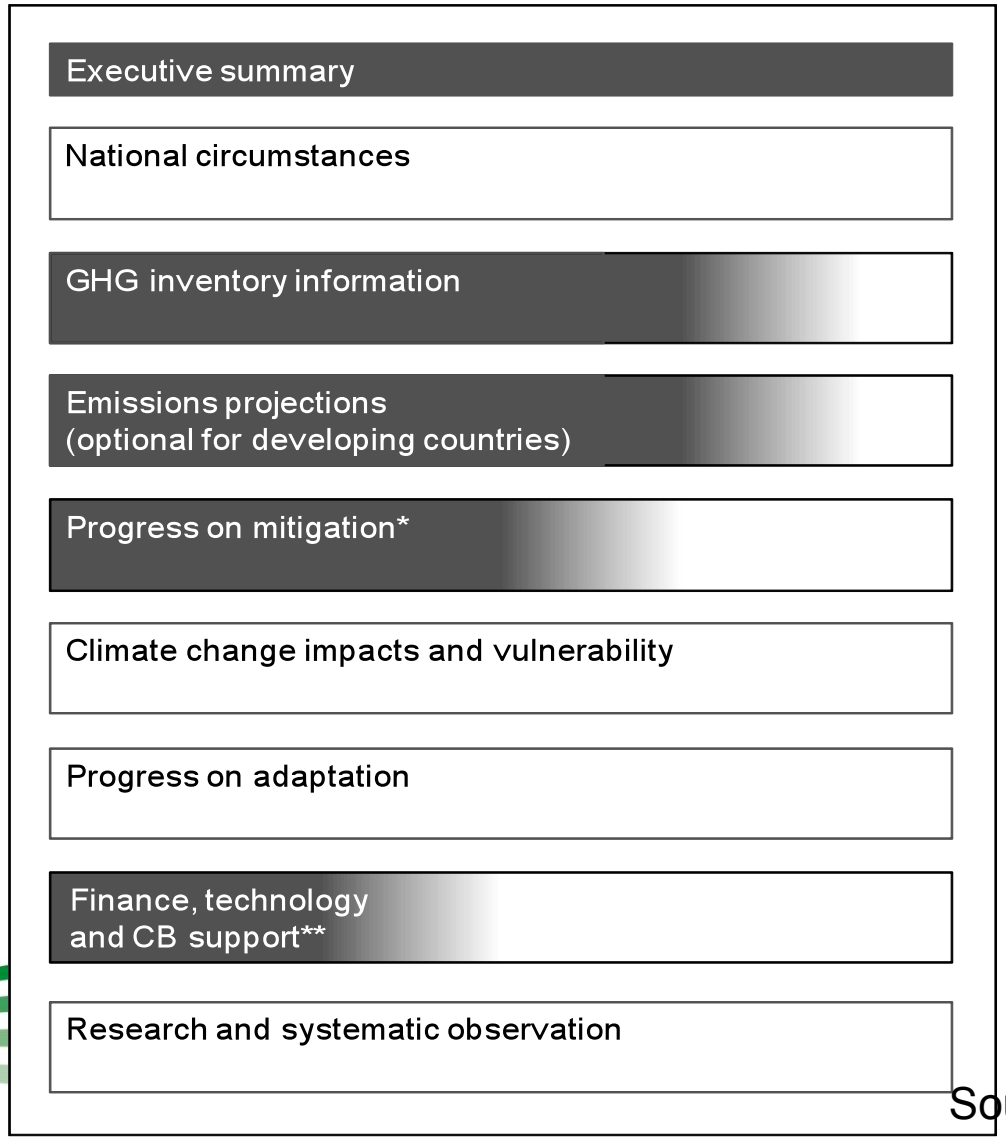
COP16 decisions	Both developed and developing countries "should" submit biennial reports in addition to NCs. For Non-Annex I, the preparation of biennial reports is to be consistent with their capabilities and the level of support provided
Goals	Strengthen the frequency and coverage of reporting; fill information gaps; enhance transparency and consistency; build trust
Why finance?	Given that data related to finance needs, delivery and support changes frequently, biennial reports could play a critical role in providing this information

Source: Ellis et al. 2011

How should climate finance be covered in the UNFCCC systems?

Unshaded information = included in national communications only

Shaded information = included in both national communications and biennial reports



BRs

- Focus on key information, including an explanation of significant changes from previous submissions

NCs

- Report less frequently background information and detailed explanations

➔ Information presented in BRs may represent subset of information presented in NCs

Source: Ellis et al. 2011

How should national communications and biennial reports evolve?

System	Recommendations
UNFCCC National Communications (NCs)	Include reporting by all Annex I parties, as well as non-Annex I parties providing support; increase consistency; greater detail on key support metrics; better reporting of phase of implementation
UNFCCC Biennial Reports (BRs)	Include systematic reporting by developed countries on financial and other support provided, as well as developing countries on financial and other support received and support needs Increase standardisation of reporting formats while maintaining flexibility in terms of what is reported – concept of flexible reporting guidelines: different 'levels' are proposed for each subsection

Source: Ellis et al. 2011

Existing information systems for public & private climate finance

System	Strengths	Weaknesses
OECD CRS System (Rio Markers)	Most comprehensive system for tracking climate finance flows; data over 10 years; 'principle' and 'significant' objectives	Does not allow exact quantification of support to climate change goals; multilateral flows not incorporated
MDB Reporting	Public databases available	Not comparable, in most cases Rio markers not applied
Export Credit Reporting	Robust reporting through OECD TAD	No 'climate specific' data
Information on Offset Markets	Various info sources: WB, IDEAcarbon, Point Carbon; UNEP/RISOE etc	No systematic monitoring of financial flows or investments from offset projects
Information on FDI	UNCTAD FDI online; OECD statistics online	No clear definition on 'climate-specific' FDI

Source: Buchner et al. 2011

Recommendations for public and private tracking beyond the UNFCCC

System	Recommendations
OECD CRS System (Rio Markers)	Incorporate multilateral contributions; increased integration with non-DAC donors; work to apply Rio Markers to disbursements.
MDB Reporting	Work towards full reporting to the OECD DAC
Export Credit Reporting	Apply OECD DAC CRS methodologies, Rio markers
Information on Offset Markets	Parties need to decide on accounting rules; assign UNFCCC to report estimates.
Information on FDI	Need agreed definition of 'green' or 'climate specific' FDI. In short term, include flows to RE and environmental services on the mitigation side

Bottom line

- **There is no internationally agreed definition of climate finance,** translating into two major challenges:
  - defining public climate finance flows
  - defining private climate finance flows
- **There is no integrated international system for storing and accessing financial data**
  - Individual components of a system reside in UN agencies and several non-UNFCCC sources, including the OECD, IFIs, non-profit research organizations and the private sector
- **A more comprehensive, transparent and robust MRV system for climate finance is possible** -- building upon and improving existing information systems
- Regardless of how the future MRV system for climate finance will look like, **consider how to improve the currently weak verification of reported financial flows**

For further information and related work

OECD website and previous CCXG papers:

www.oecd.org/env/cc/ccxg

Contact: jan.corfee-morlot@oecd.org

CPI website:

http://www.climatepolicyinitiative.org/

Contact: barbara.buchner@CPIVenice.org

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