

Monitoring, Reporting and Verifying Climate Finance

A Framework for Transparency of Support Provided to Developing Countries

Key Findings

- Climate finance is highly complex, flowing through multiple channels and delivered to developing countries in multiple forms. Ensuring transparency and accountability is thus crucial, but challenging.
- The accountability system envisioned by Parties to the United Nations Framework Convention on Climate Change (UNFCCC) involves three elements: *measurement* – defining the scope of financial flows to be tracked and what data to collect; *reporting* – by donors and, optimally, also recipients; and *verification* – to confirm the accuracy of the data and ensure that funds are used effectively. Though these are all technical functions, they are grounded in political choices that must be made within the UNFCCC, starting with a clear definition of “climate finance”.
- No existing system, as currently set up, adequately meets MRV needs. However, Parties already have reporting obligations, so they are using whatever systems are available – such as the Organisation for Economic Co-operation and Development’s system for tracking official development assistance and the National Communications to the UNFCCC – often in inconsistent and potentially inaccurate ways. Looking ahead, Parties must decide whether to find ways to link and improve those existing systems or whether to build a new, separate MRV system.
- Whichever approach the Parties choose, MRV challenges need not be addressed all at once; in fact, while key political questions are resolved, technical improvements to reporting and verification could increase transparency, build trust among Parties, help assess whether climate funds are being used effectively, and provide insights on ways to further improve the system.

Introduction

In Copenhagen in 2009, the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) pledged to scale up their financial support for mitigation and adaptation in developing countries to at least \$100 billion USD per year by 2020, and to provide \$30 billion in Fast-Start Finance for 2010-2012. Although not all has yet materialized, climate finance for developing countries is growing significantly. This, in turn, has increased the demand for transparency and accountability: Where is the money coming from? Where it is going? How is it being used?

Climate finance is a highly complex. It draws on an array of public and private sources and flows through multiple channels: bilateral and multilateral finance institutions, development co-operation agencies, carbon market mechanisms, philanthropic and non-governmental organizations. It could also potentially include some foreign direct investments or private-sector lending, although challenges remain in defining and measuring relevant private flows.

To make climate finance transparent and accountable, we need an effective framework for measurement, reporting and verification. This brief focuses primarily on MRV for *public* finance, drawing on recent SEI work that included interviews with Parties, a review of existing MRV systems, and an in-depth analysis of the statistics and MRV framework of Sweden.

Building an effective MRV framework

Decisions about what constitutes climate finance and how to account for it are inherently political; both donors and recipients



A sign marks the site of a water-focused adaptation project in Nicaragua, supported by Swedish development funds

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have a stake in where the line is drawn between climate and development finance, for example, or what constitutes “new and additional” finance. To be effective and help build trust among Parties, an MRV framework needs to have the support of both funders and recipients. This means that key decisions and guidance *should come from within the UNFCCC process*, not from external institutions which do not have the same representation and governance framework.

Comprehensive coverage is also important. An MRV framework should capture as much of climate finance as possible. This means covering both public and privately sourced finance, and it means reporting by all Parties that are providing climate finance

What is MRV?

MRV first emerged in the UNFCCC process through the 2007 Bali Action Plan, which directed Parties to ensure their mitigation actions were “measurable, reportable and verifiable”. Since then, the impetus has grown for establishing robust MRV systems to cover all climate finance flows.

Measurement starts with defining “climate finance”: what kinds of projects and activities are covered, and what portion of a project with multiple objectives targets climate objectives. This is a political process; a technical process then follows, identifying the specific data to be collected.

Reporting refers to the ways in which data from finance providers (and optimally, also recipients) are made available to external parties, ideally the public.

Verification has two main components. The first is evaluating the reported data to ensure accuracy and avoid errors such as double-counting. The second is evaluating how the funds were used, to ensure the original plan was followed and gauge whether the stated objectives were met.

In the big picture, MRV ensures the transparency of climate finance, to dem-

onstrate Parties’ compliance with international commitments and enable an open assessment of the scale, quality, distribution and use of climate finance.

Ideally, an MRV framework will compile sufficient information to not only assess the scale of finance flows but also the extent to which concrete mitigation and adaptation outcomes are being achieved. This enables gaps in regional and sectoral support to be identified, and allows financiers to learn from one another, enhancing the efficiency and effectiveness of future support.

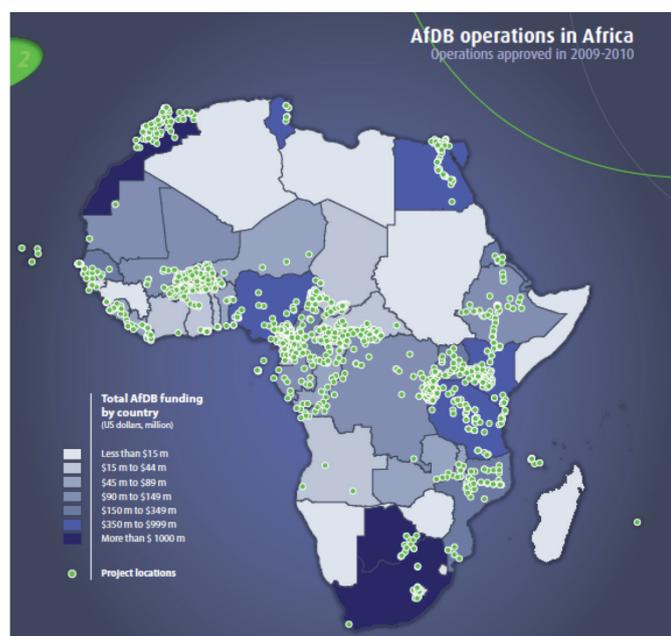
to developing countries, not just those with an existing reporting requirement. Further, finance channelled both bilaterally and multilaterally needs to be captured, in a common format that ensures funds are not double-counted.

The data’s *granularity* also affects their usefulness. Country-level data enable assessment of regional patterns and can highlight critical gaps, such as countries receiving little or no support. However, project-level data are crucial for verification. Finance needs also to be disaggregated by instrument type, since the form in which it is delivered to recipients – as grants, concessional lending, commercial lending, equity, guarantee facilities, etc. – affects how it can be used and how it should be accounted.

In terms of *frequency of reporting*, the closer a system comes to providing “real-time” data, the better it can promote effective uses of finance. However, this should be weighed against the effort required. Annual reports may be optimal – which appears to be how most Parties already compile their data.

Can existing systems be built upon?

No existing systems for tracking financial flows are sufficiently comprehensive, in their current form, to meet the needs of an international MRV framework. For starters, there is no



Robust climate finance data would allow detailed analyses, such as this African Development Bank map of the distribution of its operations in 2009/10

common robust *measurement* framework. Individual parties and multilateral institutions currently make their own decisions about what counts as “climate finance”. In some cases Parties do not even have clear definitions, relying instead on judgments by individual project officers.

Some Parties are using the guidance published by the Organisation for Economic Co-operation and Development (OECD) Development Assessment Committee on use of its Rio Markers in submissions to the DAC Creditor Reporting System (CRS). However, the Rio Markers and associated guidance were established for a different purpose, and are thus broad and too open to interpretation. Further, they contain no accounting guidance on how to carve out the “climate finance” portion of a multiple-objective project or programme, which leads to considerable variations in reporting.

For example, for projects where climate is the primary focus (denoted with a “2” in the Rio Markers system) it is common for 100% of the budget to be counted. For projects where climate is a “significant” but not primary objective (denoted with a “1”), some count 40% of the total finance as a standard rule, others count 100%, while some development banks make an individual calculation for each project. This means data are not comparable between different sources, and may misrepresent how much finance is truly delivered for climate objectives.

The outlook on *reporting* is somewhat better, with several existing systems at the international level that support reporting of climate finance flows. However, none approaches comprehensive coverage of all flows and all actors.

Annex II parties must report financial support within their National Communications to the UNFCCC. Although there is general guidance, the types of information actually reported vary between Parties. The reports also cover only some sources of finance, and only some flows from those sources. In particular, while they provide some disaggregated data on funds channelled bilaterally, they often omit or aggregate funds channelled multilaterally (i.e. via an international finance facility or institution). This is a significant gap, since a large portion of finance is delivered via multilateral channels. Reports that cover the full spectrum of possible finance flows are the exception, not the rule. The reporting requirement also applies only to Annex I countries that are also included in Annex II, and the reporting periods are inconsistent, typically ranging from three to five years.

OECD DAC member countries are required to tag the portion of development finance that targets climate change objectives (either as a “primary” or a “significant” objective) using the Rio Markers when official development assistance (ODA) is reported using the CRS. The CRS has been expanded to cover some non-ODA flows and is now more widely used by some bilateral and multilateral institutions and funds. The OECD is furthering examining how to improve coverage and consistency.

Other individual Parties, institutions and funds have attempted to compile and publish data on their climate finance efforts. The EU has published reports on its Member States’ contributions to Fast Start Finance. Bilateral and multilateral development banks have published reports on the climate component of their overall spending. Individual multilateral funds, such as the Adaptation Fund, the World Bank’s Climate Investment Funds and the various climate funds under the Global Environment Facility, make some information available about approved and disbursed finance.

In some areas, the reporting channels overlap. For instance, funds that flow through multilateral finance institutions also show up in the data reported by Parties to the UNFCCC. In other areas there are gaps; for instance, it is unclear whether and how multilateral institutions report funds raised on capital markets (e.g., through bond issues) to supplement the funds they receive from governments.

No formal verification currently exists at the international level. Funders’ efforts to make data available provide a basis for informal review by Parties and by civil society; however, the data are still piecemeal and not collated or organized in a way that supports comprehensive verification.

Improving MRV

Measurement, reporting and verification are separate processes, so substantial improvements can be made even if actions are undertaken separately, not all at once. There are two broad options: one is to piece together a more complete system based

on existing components of M, R and V; the other is to custom-build a new system to meet the needs of the UNFCCC process.

There are advantages and disadvantages to each approach. An international MRV framework is a negotiated, political outcome, and this means a certain path dependency is likely to affect its future form. Not surprisingly, most Parties with current reporting obligations would rather build on existing systems – not because they are satisfactory in their present form, but out of concern that a new system would create additional burdens.

Whichever option is chosen, improvements should:

- Target *transparency and consistency* in measurement;
- Enhance *consistency and coverage* in reporting; and
- Support both *formal and informal* verification.

Figure 1 presents some specific opportunities for improving MRV, with suggested near-term priorities shaded grey.

These suggestions would help improve the current system, though inevitably there would still be gaps. Over the medium term, an option is for the UNFCCC to collate data from different sources and create a searchable public database with information presented in a consistent, comparable form. This would improve transparency and provide a trusted “one-stop shop” for climate finance data.

Conclusion

Transparency in climate finance is important for two key reasons: It is essential for *building trust* between Parties, by showing whether commitments have been fulfilled, and it allows us to evaluate *how effectively funds are used* – specifically, what outcomes are delivered on the ground.

As noted in the box, above, the structural elements of MRV can be improved even while those questions are addressed. Issues that are difficult to resolve at the political level should not delay less-controversial improvements that can help boost transparency, provide opportunities for learning, and move the broader MRV system towards greater effectiveness.

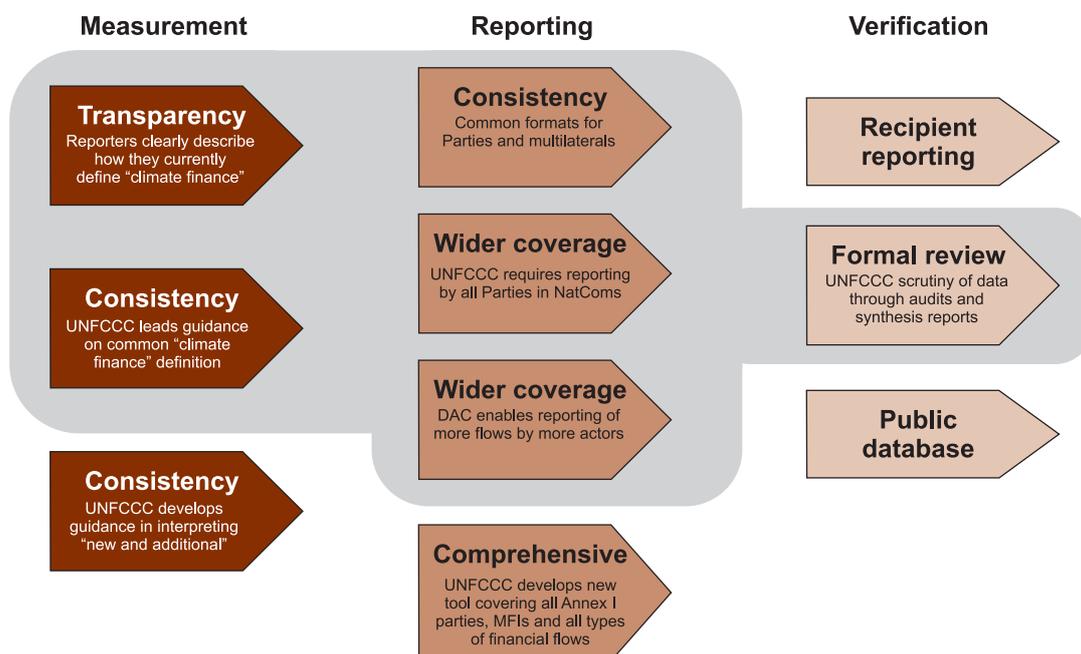


Figure 1: Scope for improving MRV of climate finance

Source: Modified from Varma et al. (2011)

Policy recommendations

- **UNFCCC negotiations need to provide clarity on several key questions:** These include the scope of the MRV framework – whether it applies only to Annex I Parties' commitments or to all climate support to developing countries, to adaptation or just to mitigation. The Parties must also agree on a definition of "climate finance" and of "new and additional"; the latter is a major concern for developing countries, which want to be assured that climate finance will not simply divert development funds. The much-touted role of private finance must be clarified; the concept of "green FDI" is vague at best, and there is no definition of what forms of private finance will count towards Parties' commitments. And accounting choices must be made: climate finance comes in many forms, ranging from public-sector grants and concessional loans, to private-sector loans and equity investments, to innovations such as guarantee facilities and climate bonds. Parties must agree on uniform ways to account for each of these.
- **Climate MRV systems must be designed with care to avoid hampering development:** Regardless of how the "new and additional" debate is resolved, climate finance is intricately linked with development, especially in the adaptation realm. This has led some project developers and funders to warn against defining "climate finance" too narrowly, which could concentrate funds on a few climate-specific activities at the expense of programmes with development co-benefits, such as strengthening livelihoods. Strict definitions make sense for accounting, but on the ground, staff should have some flexibility in identifying the most effective ways of meeting local people's needs.
- **It is crucial to protect against double-counting:** There are several risks of this in the present system. One is associated with "leveraged" finance, where different institutions, each funding part of a project, may simultaneously report the others' contribution as leveraged. There is also potential overlap with ODA – which highlights the importance of resolving the "new and additional" question, and also of clarifying how systems such as the OECD DAC can be linked to UNFCCC reporting. Another risk involves finance directed through multilateral channels, which is reported both by the donor countries (for instance, in National Communications) and by the multilateral institutions themselves (e.g., the World Bank). This can be resolved through standardized accounting systems, but the challenge is that multilateral institutions do not fall under the jurisdiction of the UNFCCC.
- **It is essential that both project-level and aggregated data be made available for scrutiny:** Given the huge demand for climate finance, compared with available resources, there is intense pressure from all Parties to ensure that money is well spent. Aggregated data can show global and regional trends and identify major gaps. Project-level data can be assessed to ensure that recipients' priorities are actually being met – that the funding is driven by developing countries' stated needs, and that it is used accordingly.

This policy brief was written by Aaron Atteridge, drawing on SEI's work for several recent studies, most notably:

Varma, A., Atteridge, A., Doria, M. et al. (2011) *Monitoring, Reporting and Verifying Systems for Climate Finance in EU and its Member States*. Report for the European Commission Directorate-General for Climate Action. <http://www.sei-international.org/publications?pid=2170>.

Wingqvist, G.Ö., César, E., Atteridge, A. et al. (2011) *Environmental Statistics at Sida: A Review of Policy Markers on Climate Change Adaptation, Climate Change Mitigation, Biodiversity, Ecosystem Services, and Environment*". Internal report by Sida Help Desk for Environment and Climate Change and SEI.



The UK has funded pond filters in hundreds of Pakistani villages where water is salinated, due partly to sea-level rise

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Stockholm Environment Institute
Kräftriket 2B
106 91 Stockholm
Sweden
+46 8 6747070

sei-international.org

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Follow us on Twitter: @SEIclimate

Contact: Aaron Atteridge

aaron.atteridge@sei-international.org

Further Information:

SEI Director of Communications
Robert Watt +46 73 707 8589
robert.watt@sei-international.org