



# A RECIPE

for transparent climate finance in the EU

**CAN**  
*Europe*



**Report prepared by Milieu Ltd**



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# LIST OF ACRONYMS

<b>ACP</b>	African, Caribbean and Pacific
<b>AF</b>	Adaptation Fund
<b>BUR</b>	Biennial Update Report
<b>CDM</b>	Clean Development Mechanism
<b>CIF</b>	Climate Investment Fund
<b>COP</b>	Conference of the Parties
<b>CRS</b>	Credit Reporting System
<b>CTF</b>	Clean Technology Fund
<b>DAC</b>	Development Assistance Committee
<b>EDF</b>	European Development Fund
<b>ETS</b>	Emissions Trading System
<b>EU</b>	European Union
<b>GEF</b>	Global Environment Facility
<b>GCCA</b>	Global Climate Change Alliance
<b>GHG</b>	Greenhouse Gases
<b>IBRD</b>	International Bank of Reconstruction and Development
<b>IDB</b>	Inter-American Development Bank
<b>MDB</b>	Multilateral Development Bank
<b>MFF</b>	Multi-annual Financial Framework
<b>MMD</b>	Monitoring Mechanism Decision
<b>MMR</b>	Mechanism on Monitoring and Review
<b>MRV</b>	Measuring Reporting and Verification
<b>MS</b>	Member State
<b>NAMA</b>	Nationally appropriate mitigation actions
<b>NC</b>	National Communication
<b>NGO</b>	Non-governmental organization
<b>OCT</b>	Overseas countries and territories
<b>ODA</b>	Official Development Assistance
<b>OECD</b>	Organisation for economic co-operation and development
<b>SCF</b>	Strategic Climate Fund
<b>SECCI</b>	Sustainable Energy and Climate Change Initiative
<b>UNDP</b>	United Nations Development Programme
<b>UNEP</b>	United Nations Environment Programme
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>WRI</b>	World Resources Institute

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# 1 INTRODUCTION

Financial support to developing countries is crucially important for enabling their transformation to low-carbon development pathways, as well as allowing them to adapt their societies to a changing climate and deal with unavoidable impacts. At the watershed COP15 climate conference in Copenhagen in 2009, developed countries, including the EU and its Member States, committed themselves to US\$30 billion to support early action in developing countries as ‘fast start finance’ (FSF) over the period 2010-2012, and to mobilise ‘new and additional’<sup>1</sup> financial support of US\$100 billion per year by 2020.

In relation to the commitments to provide climate finance, the transparency with which they are implemented is also of great importance. Developing countries have long insisted on the need to provide financial support in a transparent and coordinated manner to enable independent review of the extent to which commitments are fulfilled, as well as to maximise the effectiveness of the funding. Moreover, transparency is vital to ensuring that the funds are equitably distributed over all developing countries in need of support, with priority for the most vulnerable developing countries.

At present, there is no common framework for measuring, reporting and verification (MRV) of international climate finance that allows a complete picture to be obtained of existing financial flows, although there have been some positive steps taken in this direction. At the end of 2011, the European Commission proposed a new regulation (referred to as the ‘MMR’ Regulation) that would include monitoring of climate finance for developing countries into the EU mechanism for climate change monitoring, the monitoring mechanism, which would standardise reporting requirements for the EU Member States. At the same time, the 2011 Conference of Parties (COP) in Durban adopted new political guidelines for reporting that will require developed countries to provide more detailed information on international climate finance, in particular through Biennial Update Reports, which will have to be submitted every two years, in parallel to the submission of the National Communication. In its Council conclusions on the Durban Outcome<sup>2</sup>, the EU

welcomed the new UNFCCC guidelines for reporting, and also highlighted the need to further enhance the MRV framework and reporting formats at the COP in Doha at the end of 2012.

But in order to meet its commitments and prove to be a credible actor on climate change, the EU has to set up its own ‘rigorous, robust and transparent’ reporting system. This will shed light on the effective and efficient delivery of the EU’s contributions to support and trigger climate actions in developing countries.

This report will explore different ways to improve the current system of MRV of international climate finance, with a focus on what the EU can do. Since the European Commission is now preparing a review of the Monitoring Mechanism, with the intention of including climate finance in this mechanism, the report will also provide specific recommendations that intend to feed into this legislative process. The report therefore looks into:

- What kind of financial data is currently reported to/ collected by international multilateral and private organisations, by the EU and its Member States
- How well the EU’s internal proposals for strengthening MRV of climate finance will provide the improved framework that is needed.
- Specific recommendations for an improved framework for MRV of international climate finance, with a focus on what the EU should do to improve its internal coherence of measuring and reporting climate finance and to lead by example in the international sphere.

<sup>1</sup> The concept of ‘new and additional’ funds has not been clearly defined by the UNFCCC. Generally, ‘new’ funding is an increase relative to pledges or allocations from previous years, and ‘additional’ funding has not been diverted from funding originally allocated to other objectives such as development.

<sup>2</sup> Conclusions adopted by the Environment Council of the EU on 9 March 2012 on the Follow-up to the 17th session of the Conference of the Parties (COP 17) to the United Nations Framework Convention on Climate Change (UNFCCC) and the 7th session of the Meeting of the Parties to the Kyoto Protocol (CMP 7) (Durban, South Africa, 28 November – 9 December 2011),

## 2 REVIEW OF CURRENT REPORTING REQUIREMENTS AND PRACTICES

The current framework for climate finance is a complex one. It involves many actors, with different objectives and few common rules and structures. The EU is moving towards a definition of climate finance that includes public and private funds.<sup>3</sup> It can be included in bilateral financing agreements or be channelled through multilateral institutions, such as multilateral development banks (MDBs) or funds set up under the UNFCCC. Since there are currently no common reporting rules within the EU, the Member States report to the various international organizations according to their requirements – but not all Member States are subject to the same requirements. This chapter provides an overview of the two main international reporting mechanisms, as well as the types of information collected on climate finance by other institutions and organizations. It also reviews current reporting on climate finance in the EU and the Member States.

### 2.1 Financial data currently collected by international, multilateral and private organisations

#### UNFCCC and OECD DAC – the two major existing reporting mechanisms

Over the years since its establishment in 1992, a series of decisions under the UNFCCC have set forth requirements for reporting on climate finance. Decision 4/CP.5 requires Annex II Parties to the UNFCCC to report on the assistance they provide to developing country Parties in their National Communications (NCs), in textual and tabular format.<sup>4</sup> The reporting requirements are standardised to a certain extent<sup>5</sup>, but offer countries considerable flexibility in the level of detail they report. For example, countries may choose to indicate their overall contribution to multilateral institutions over a multi-year period. Also, they may indicate the recipient country of their contribution, if applicable. Guidelines prepared by the COP for

reporting on climate finance for the latest NCs (the 5th NCs submitted in early 2010) did not require detailed information such as the sectors covered by climate finance, the types of funding or how the funding will contribute to policy objectives on reducing GHG emissions or adapting to climate change impacts.

Importantly, the decision does require countries to specify which ‘new and additional’ financial resources have been provided, and also to indicate how they have determined that such resources are new and additional. There is no standardised mechanism for determining this.

The UNFCCC also gathers information on ‘fast start finance’ contributions<sup>6</sup> by developed countries and makes this information available in a tabular form on the UNFCCC finance portal for climate change, whenever contributing countries provide such information. The level of detail depends on the information developed countries have

<sup>3</sup> The definition of private climate finance and, in particular, which types of private financing could be included into this definition is contested. There is currently no international agreement nor any emerging consensus on what could be covered by this definition.

<sup>4</sup> Review of the implementation of commitments and of other provisions of the Convention. UNFCCC guidelines on reporting and review : <http://unfccc.int/resource/docs/cop5/07.pdf>

<sup>5</sup> The standard table prepared by the UNFCCC asks for information on the recipient country, the objective (adaptation or mitigation), the sectors (coastal zone management, other vulnerability assessment, energy, transport, forestry, agriculture, waste management, industry, capacity-building), the type of contributions. See table 1 of this report for an overview of these requirements.

<sup>6</sup> As mentioned in the introduction, developed countries committed themselves in Copenhagen to 30 billion US dollars to support early action in developing countries as fast start finance, over the period 2010-2012.

submitted. The EU<sup>7</sup> provided information on the donor country, the beneficiary country/region, the implementation period and the implementing agency, the type of financing (e.g. grants or loans), the title of the programme or the project as well as information on the project and the co-financing arrangements, if applicable. It is not clear whether the UNFCCC will also provide for an online database for the long-term financial contributions for climate change, though the UNFCCC registry for tracking nationally appropriate mitigation actions (NAMAs) and support might cover a fairly similar function once established.

Decision 2/CP.17, which establishes the UNFCCC registry, highlights that it is to be developed as a dynamic and flexible web-based platform. In the registry, developing countries will be invited to report on their individual nationally appropriate mitigation actions, identifying those seeking international support. The platform also invites sources of finance - developed country Parties; the operators of the financial mechanism (e.g. GEF); multilateral, bilateral and other public donors; private and non-governmental organizations - to report on the financial, technological or capacity-building support they provide to developing country parties. This platform is intended to facilitate the matching of actions seeking international support with support available by providing and directing information to all Parties.

In 1998, the OECD's Development Assistance Committee (DAC) started monitoring aid from developed countries supporting the objectives of the Rio Conventions<sup>8</sup> and their implementation through its Creditor Reporting System (CRS) using the so-called 'Rio Markers'. Rio Markers indicate to what extent each aid activity targets the Conventions' objectives, e.g. biodiversity-related aid, desertification-related aid, climate-change mitigation related-aid and climate change adaptation-related aid (this last marker was adopted by the DAC in 2009). If the major

objective driving the aid activity is climate change mitigation, a 'principal' climate mitigation objective score is given to this aid activity. Activities marked 'significant' have other primary objectives, but also help meet climate concerns.<sup>9</sup> In other words, only a proportion of the total amount may have actually targeted the implementation of the Convention (e.g. an energy project of US\$50 million may be designed with a climate change mitigation component of US\$10 million).<sup>10</sup>

There are a number of weaknesses in the CRS overall and in particular for climate finance reporting. The Rio Markers were developed within the OECD without the involvement of developing countries. This lack of consultation resulted in significant flaws when it comes to the actual tracking of finance going to developing countries, including for climate finance. Within the CRS, many countries fail to consistently apply the Rio Markers to all of the relevant development projects. The use of the markers is often subjective and varies greatly from one country to another. In some cases, reporting countries tag the total project finance to multiple markers simultaneously, with the effect that total reported finance is higher than 100% of the total finance made available. For instance, attributing the maximum score "2" ("principal objective) against each of the Convention markers (i.e. climate, biodiversity and desertification) and attributing 100% of project costs to each marker leads to triple reporting of the same amount of financial support. There is no common agreement or guidance on the methodology to adopt in this regard.<sup>11</sup>

The Rio Markers were initially established as a tag for policy objectives and not as a measurement system, meaning that the definition of each of the Rio Markers is still rather vague.<sup>12</sup> They give an indication of the extent to which donors address the objectives of the Rio Conventions in their aid programmes, rather than an accurate quantification of the amounts they allocate.

<sup>7</sup> Submission by Hungary and the European Union on behalf of the European Union and its Member States. Annex to the EU Fast start finance Report for submission to the UNFCCC Secretariat. Individual actions supported by EU fast start financing, May 2011.

<sup>8</sup> The three Rio Conventions are the United Nations Convention on Biological Diversity (CBD), the United Nations Framework Convention on Climate Change (UNFCCC) and the United Nations Convention to Combat Desertification (UNCCD) which were either signed or discussed at the United Nations Summit on Earth and Development (also known as the Rio Earth Summit) in 1992.

<sup>9</sup> Handbook on the OECD-DAC Climate Markers, September 2011 by the OECD.

<sup>10</sup> Ibid.

<sup>11</sup> AEA Technology plc, Monitoring, Reporting and Verifying systems for climate finance in the EU and its Member States, Report commissioned by the European Commission - DG Environment and Climate Action, 2011.p. 44

<sup>12</sup> AEA Technology plc, Monitoring, Reporting and Verifying systems for climate finance in the EU and its Member States, Report commissioned by the European Commission - DG Environment and Climate Action, 2011.

Another major weakness of the OECD DAC reporting through the CRS is the limited number of financial flows it captures. Reporting is required only for committee members<sup>13</sup>, and therefore does not include finance coming from developed countries that are not OECD or DAC members. This means that 13 of the 27 EU Member States are not required to report through the CRS. The CRS focuses on bilateral flows; multilateral contributions (e.g. contributions to multilateral development banks) are not adequately covered by the system. The World Bank, UNDP and IMF, which are observers of the DAC, report on a voluntary basis. As major contributions are channelled through these organisations, a large amount of climate finance is not captured by the CRS. The CRS also does not capture funds dedicated to 'enabling' activities that indirectly contribute to climate mitigation or adaptation such as certification or support to research.<sup>14</sup>

The CRS data are made available in an online database which can be sorted to allow for comparison between countries. The OECD also presents the Rio Marker data in an aggregate form. These forms contain a short description of the project but its level of detail varies depending on the project. A distinction is made between climate adaptation and mitigation. While the database is possibly the most comprehensive set of information on climate finance at the moment, major weaknesses - including its focus on a limited number of financial flows and inconsistency in the application of markers to identify climate-specific finance - hamper the potential to consider this database sufficient for long - term use.

Table 1 below compares the main features of these two major existing reporting mechanisms.

**Table 1: Main features of the UNFCCC and OECD reporting mechanisms**

	UNFCCC National Communications	OECD-DAC CRS
<b>Amount</b>	In US dollars	In US dollars
<b>Donor countries</b>	Individual countries that are 'Annex II Parties' in the UNFCCC.	Individual countries that are DAC members and European institutions. <sup>15</sup> Non-DAC countries, multilateral organisations, NGO's and foundations are not required to report to the DAC Committee.
<b>Recipient countries</b>	Breakdown per recipient country in the standard table prepared by the UNFCCC.	Breakdown by individual countries, regions or unspecified bilateral aid.
<b>Objective identified? (e.g. mitigation, adaptation, REDD+)</b>	Categorised according to: financial contributions to multilateral institutions; bilateral financial contributions to facilitate the implementation of the Convention in relation to adaptation and mitigation.	Climate adaptation and climate mitigation are reflected in the aggregate form only <sup>16</sup> . In addition, a score is given per aid activity for each Rio Marker.
<b>Multiple objectives</b>	Not mentioned	Principal / Significant objective (with %). The percentage shows the % of the project supporting a specific objective (ie. a specific Rio marker). (The level of accuracy of the % depends on each reporting country)
<b>Source</b>	Not mentioned	Not mentioned in the CRS online database
<b>Private / public origin</b>	Clear distinction between activities undertaken by public sector and those by private sector.	All the money in the CRS is public money. The online database also identifies the channel of financing: public sector, NGO's and civil society, public/private partnerships, multilateral organisations and others.

<sup>13</sup> Australia, Austria, Belgium, Canada, Denmark, EU institutions, Finland, France, Germany, Greece, Ireland, Italy, Japan, Korea, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States

<sup>14</sup> AEA Technology plc, Monitoring, Reporting and Verifying systems for climate finance in the EU and its Member States, Report commissioned by the European Commission - DG Environment and Climate Action, 2011.p. 45

<sup>15</sup> The EU institutions are treated as multilateral bodies in DAC statistics; data refer only to their direct ('bilateral') contributions to developing countries.

<sup>16</sup> When both objectives are present, total amounts targeting the two different objectives are not added up, in order to avoid double counting.

<b>Sector (energy, land use...)</b>	Yes: coastal zone management, other vulnerability assessment, energy, transport, forestry, agriculture, waste management, industry, capacity-building.	The CRS database contains a detailed breakdown of sectors and subsectors <sup>17</sup>
<b>Purpose</b>	Not specified	Not specified. A description of the project is included (not necessarily in English).
<b>Type of financing (FDI, loan, technical cooperation...)</b>	All financial contributions are listed as: 'bilateral financial contributions', 'financial contributions to multilateral institutions and programmes' or 'multilateral scientific technological and training programmes'.	There is a distinction between grants, loans and equity investments. Moreover, the database contains information on the type of aid, specifying whether the support is, for instance, budgetary support, a core contribution, project-type interventions, technical assistance, or others.
<b>New and additional</b>	Support to be highlighted as 'new and additional', plus explanation of how 'new and additional' has been defined. No definition or guidance on what is new and additional.	Not mentioned (though per definition all support in the CRS is ODA)
<b>Status of implementation (project finalised, ongoing, aborted...)</b>	Listed as contributions. No additional info required on project implementation.	Amount is described as committed or disbursed in the CRS online database, though the latter is not commonly practiced.
<b>Duration</b>	Table is organized per year but Parties may indicate their overall contribution to multilateral institutions over a multi-year period.	Annual reporting. Unclear categorization of the projects that are funded over multiple years.

### Multilateral reporting and information systems

Significant amounts of climate finance from developed countries are channelled through multilateral institutions, via funds dedicated to climate change. These funds rely on contributions from developed countries, but have no standardised method or format for reporting on the countries' contributions. In some cases, countries that have contributed to a multilateral fund or bank are not always able to report on the amount of this contribution that was spent on climate change-related projects.

One of the largest multilateral channels for climate finance is the Global Environment Facility (GEF), which administers three trust funds dedicated to climate change. The World Bank, UNEP and UNDP act as implementing bodies of the GEF. Fund disbursement is reported on a project-by-project basis, and the climate change categorisation cannot be broken down into mitigation and adaptation and specific sectors can only be identified by manually searching each project.<sup>18</sup> It is difficult for countries to identify how much of their contribution to the GEF was spent on climate-related projects as the GEF disburses their contributions on a multitude of projects, some of which are not related to climate change.

<sup>17</sup> For example, a sector 'Energy' is broken down into 12 subsectors such as, for instance, energy policy, gas-fired power plants, solar energy, wind power, and more.

<sup>18</sup> WRI Working Paper, Guidelines for Reporting Information and climate finance, May 2010, Appendix III as well as GEF project database: [http://www.thegef.org/gef/gef\\_projects\\_funding](http://www.thegef.org/gef/gef_projects_funding).

The Climate Investment Funds (CIF) are another multilateral channel for climate finance. These consist of a fund for clean technologies, the Clean Technology Fund (CTF), and a fund for adaptation and renewable energy in low income countries, the Strategic Climate Fund. Contributing countries are expected to provide new and additional funds to the CTF; the governance framework does not however define this concept.<sup>19</sup> Reporting is prepared by the funds based on data that contributing countries wish to submit.

The Adaptation Fund (AF) was established in order to fund adaptation projects and programmes in developing countries that are parties to the Kyoto Protocol and that are particularly affected by climate change and its adverse effects. The AF is funded by 2% of the total proceeds of the sales of certified emission reductions (CERs) issued by the Clean Development Mechanism under the Kyoto Protocol. Again, reporting is done on a project basis and information is available on the website of the fund.<sup>20</sup> It includes, for instance, information on the country, the implementing entity, the approved amount, the date of approval as well as a detailed description of the project. Other funding for climate-related support in developing countries provided by multilateral development banks, such as the Inter-American Development Bank or the Asian Development Bank, is also managed and reported on a project basis. Again, this does not provide the structured type of information that is required for comparison with other information collection or reporting initiatives, or even for aggregation of detailed data, for instance on the sectors addressed, within the same fund.

In 2010, the Dutch government set up a website to keep track of fast-start finance (FSF), later joined by a number of other governments. The website gives an overview of the amounts of FSF pledged and committed, and the programmes supported by each donor country. It allows for donor countries to provide additional information, organised per programme/project/fund, amount, theme, channel, financing type. The website is

however mostly characterised by a high degree of inconsistency, with each country presenting very different information, allowing for no aggregation or comparison of the information contained in it.<sup>21</sup>

### Private reporting and information systems

A number of private organisations also gather information on climate finance, from public and private sources<sup>22</sup>. Two of these – Dealogic and New Energy Finance System are client-oriented, and focus on energy sector investments. Data do not come from official government sources and do not specifically track funds spent on climate change mitigation or adaptation. The information they collect is accessible for a fee and may be subject to confidentiality issues. The Ecosystem Marketplace aims at providing free information on markets and payments for ecosystem services (e.g. water quality, biodiversity, carbon sequestration). The organisation underlines the difficulty of collecting such information, stating that ‘in many ways, these markets resemble the Wall Street of the 1800s, with information closely guarded by those who profit from it.’<sup>23</sup>

The World Resources Institute (WRI) also proposes a ‘summary of Developed Country Fast-Start Climate Finance Pledges.’ This table contains, per donor country, the objective(s) of the funding (e.g. adaptation, mitigation, REDD), the amounts requested/committed for 2012-2012 in US dollars and in the original currency, the channeling institutions and an explanation on how the funds are new and additional.<sup>24</sup>

### Weaknesses and challenges of the international climate finance tracking systems

The proliferation of, on the one hand, funds for climate support and, on the other hand, climate finance tracking initiatives at the international level makes it complicated to obtain a complete overview of the current financial streams for climate change to developing countries. A number of the weaknesses identified from the existing

<sup>19</sup> Governance framework for the Clean Technology Fund, 2008, <http://www.climateinvestmentfunds.org/cif/governance>, p.11, which says that contributing countries will ensure that their contributions to the CTF are new and additional resources supplementing existing ODA flows otherwise available for developing countries.

<sup>20</sup> [http://www.adaptation-fund.org/funded\\_projects](http://www.adaptation-fund.org/funded_projects)

<sup>21</sup> <http://www.faststartfinance.org/content/why-initiative>

<sup>22</sup> Tirpak et al., Guidelines for Reporting Information on Public Climate Finance, WRI issue brief, World Resources Institute, December 2010, p. 10.

<sup>23</sup> [http://www.ecosystemmarketplace.com/pages/dynamic/web.page.php?section=about\\_us&page\\_name=overview](http://www.ecosystemmarketplace.com/pages/dynamic/web.page.php?section=about_us&page_name=overview)

<sup>24</sup> Stasio et al., Summary of Developed Country ‘Fast-Start’ Climate Finance Pledges, World Resources Institute, 2011. [http://pdf.wri.org/climate\\_finance\\_pledges\\_2011-11-18.pdf](http://pdf.wri.org/climate_finance_pledges_2011-11-18.pdf)

international reporting frameworks are worth highlighting as they are important to consider when developing a reporting framework within the EU. They will be some of the major challenges that need to be overcome when developing a more streamlined reporting framework for MRV.

The mechanisms set out above do not all use either the same definitions or the same level of detail in the information that is reported or collected. For example, few initiatives define what should be done with projects that serve multiple objectives including climate change. If there is a focus on energy-related projects there is generally insufficient detail on the project to determine the extent to which it concerns climate change. Some databases contain information on the status of implementation, while others merely reflect pledges and do not track progress in implementation and results. Also, many reporting or data collection initiatives do not identify whether a 'climate change' project is related to mitigation or adaptation.

Clarification of the concept of new and additional climate-targeting finance is another problem. New and additional finance should be easily discernible and above the existing 0.7% of ODA commitments. However, current reporting mechanisms do not have a common approach to defining new and additional climate finance and do not allow for

the proportion of climate finance that is new and additional to be clearly identified. This prevents any comparison between countries.

The lack of consistency in defining what climate finance is actually new and additional, is compounded by the fragmentation of reporting channels and climate finance tracking, and often results in double counting. Furthermore, not all reporting channels require countries to specify which part of their support is a loan, grant or other financial instrument.

Consequently, it is difficult to verify whether the objectives for international climate finance set out by the UNFCCC are being achieved. The lack of detailed information on the mitigation and adaptation components of projects makes it impossible to assess whether the overall balanced allocation of funds to mitigation and adaptation is ensured. It is also difficult to assess whether countries that are most vulnerable to the impacts of climate change receive priority attention in the distribution of climate finance. Finally, it is difficult to ensure that funds are corresponding to the domestic needs for support in the recipient country because of this fragmented picture. As developing countries are not a homogenous group, it is important to take account of the different needs, priorities, capacities and institutional frameworks in the recipient countries.

### Challenges for international MRV in the current framework of climate finance<sup>25</sup>

- Complexity of the international framework for climate finance: many sources, many channels, many instruments
- Each channel has its own guidelines for reporting: difficult to aggregate information from various sources and channels
- Little experience with tracking private climate finance: how to integrate this to allow for overall assessment of climate finance
- Lack of a commonly agreed definition of climate finance and of new and additional funds
- No common methodology for measuring climate finance
- Need to agree on a common reporting format, determining the level of details required (e.g. adaptation or mitigation, sources, amounts reported as committed or disbursed)
- Data available at MDBs level are often aggregated data, what makes it difficult to accurately identify the amounts allocated to climate adaptation or mitigation.

<sup>25</sup> Based on AEA Technology plc, Monitoring, Reporting and Verifying systems for climate finance in the EU and its Member States, Report commissioned by the European Commission - DG Environment and Climate Action, 2011.

## Challenges for international MRV in the current framework of climate finance

- MDBs do not report back to donor countries on how general contributions were spent: difficult to include these contributions in reporting on climate change finance
- Difficult to track and report accurately on the status of implementation of a project
- No standard approach to report on projects with multiple objectives, including climate change
- Developing countries not a homogenous group: have different institutional structures, different needs and priorities in relation to climate change, and different capacities
- Lack of precise information allowing an accurate assessment of recipient countries' needs and therefore of the efficiency and the adequacy of the support provided.

## 2.2 Current reporting guidelines and requirements in the EU and its Member States

At present, there are no common reporting requirements or guidelines set by the EU for international climate finance. Decision No 208/2004/EC<sup>26</sup>, also called the Monitoring Mechanism Decision, requires Member States to report to the Commission every two years on the measures they have taken to implement their commitments under the Kyoto Protocol. It does not however include any requirements in terms of reporting on climate finance.

Because of this lack of a common reporting framework, each Member State follows its own reporting methods, each with their own methodologies and level of detail.<sup>27</sup> This section analyses the differences in Member State reporting in terms of reporting on new and additional funds, and the use of Rio Markers, as these are the most inconsistently reported. It also reviews reporting practices for the current EU external aid funds that channel EU international climate finance to developing countries.

### Reporting on international climate finance by the EU Member States

As there is no standardised reporting on climate finance required by the EU, reporting by EU Member States has been done for the UNFCCC National

Communications and the OECD DAC system for those countries that are Annex II parties and DAC members. Member States outside these two mechanisms (e.g. those that have more recently entered the EU<sup>28</sup>) are not currently required to report on climate finance at the international level.

With regard to current reporting, two topics particularly illustrate the variety that exists between the different Member States when reporting about the same type of issues: the concept of new and additional climate finance and the use of the Rio Markers.

### The concept of new and additional in the EU Member States

According to the report *Monitoring, Reporting and Verifying systems for climate finance in EU and its Member States*,<sup>29</sup> about 50% of all Member States have not clearly defined the concept or calculation of 'new and additional' funds. The EU Accountability Report provides more information on the different definitions of additionality used by Member States.<sup>30</sup> Table 2 on the next page, which is based on the EU Accountability Report for 2011, provides an overview of definitions used in the EU and Figure 1 shows the distribution across Member States. A complete overview of all Member States' definitions of new and additional based on their responses to a questionnaire is available in Annex III.

<sup>26</sup> Decision No 208/2004/EC of the European Parliament and of the Council of 11 February 2004 concerning a mechanism for monitoring Community greenhouse gas emissions and for implementing the Kyoto Protocol

<sup>27</sup> This is particularly so for the reporting to the UNFCCC, though also for reporting to the OECD CRS.

<sup>28</sup> These Member States are Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.

<sup>29</sup> AEA Technology plc, *Monitoring, Reporting and Verifying systems for climate finance in the EU and its Member States*, Report commissioned by the European Commission - DG Environment and Climate Action, 2011, p.45

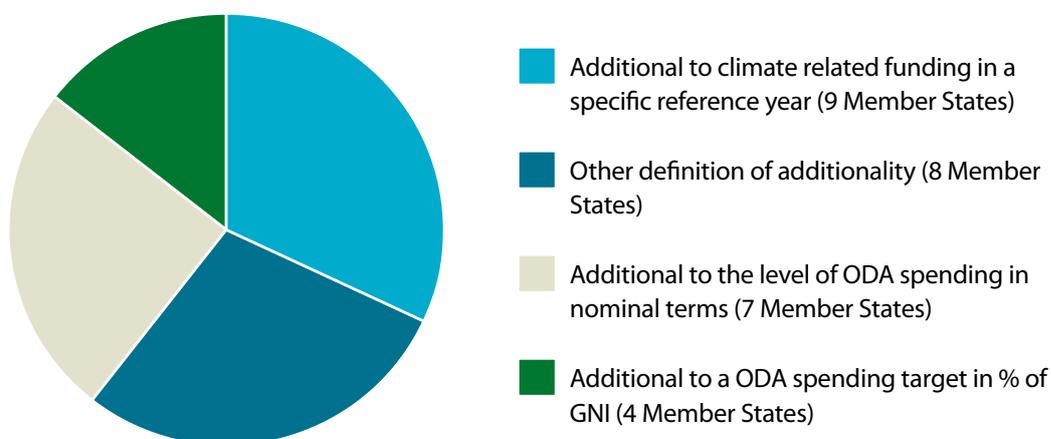
<sup>30</sup> A summary of answers to the survey carried out by the EC in preparation of the EU Accountability report is included in Annex I.

**Table 2: Definition of new and additional for international climate finance in the EU<sup>31</sup>**

Definition of new and additional	Number of MS	Examples
Additional means additional to an ODA spending target in % of GNI. It could be the UN ODA target of 0.7% of GNI.	4	Luxembourg (1% ODA/GNI)
Additional means additional to the level of ODA spending in nominal terms.	7	Czech Republic (base year being 2010, initial estimate)
Additional means additional to climate-related funding in a specific reference year	8	Austria (2009)
Other definitions	9	Belgium (i.e. the fast-start contribution in 2010 comes out of the rising ODA budget and covers only commitments taken after Copenhagen)

Source: EU Accountability Report 2011 on Financing for Development p.44. [http://ec.europa.eu/europeaid/how/accountability/eu-annual-accountability-reports/documents/working-document-vol2\\_en.pdf](http://ec.europa.eu/europeaid/how/accountability/eu-annual-accountability-reports/documents/working-document-vol2_en.pdf)

**Figure 1: Definitions of additionality used by EU Member States in reporting fast-start financing in the context of the EU Accountability Report 2011 on Financing for Development**



Source: EU Accountability Report 2011 on Financing for Development p.44. [http://ec.europa.eu/europeaid/how/accountability/eu-annual-accountability-reports/documents/working-document-vol2\\_en.pdf](http://ec.europa.eu/europeaid/how/accountability/eu-annual-accountability-reports/documents/working-document-vol2_en.pdf)

These differences in defining new and additional funds make it nearly impossible to compare the data from various MS and to obtain an accurate picture of the amount of climate finance that is actually new and additional.

<sup>31</sup> Note: the categories identified here merely highlight similar approaches adopted by the EU Member States for the definition of new and additional FSF. This does not mean that the countries in a similar category are comparable. For example, the countries using a reference year in their definition each use different reference years.

## Use of the Rio Markers

The fifteen Member States<sup>32</sup> (including the EU) that are part of the OECD DAC must also report on their climate finance through the CRS. They do so using the Rio Markers. Those markers classify aid activities having the objective of one of the Rio Conventions as a 'principal objective', 'significant objective' or 'not targeted'. However, as mentioned above, the Rio Markers are policy markers, and as such do not accurately quantify flows allocated to climate mitigation or adaptation activities. Most Member States count 100% of the project funding as climate finance if one of the objectives of the Rio Convention is a 'principal objective'. If the objective is 'significant', the amount of climate finance usually varies from 40% to 100% of the total funding of the project.

Some Member States have developed more reasonable approaches to translating the Rio Marker designations into quantified financial

flows. The Netherlands report as climate finance 40% of the total funding allocated to an activity with climate change as a 'significant' objective. In order to avoid double counting, Belgium divides the total funding allocated to a project between climate, biodiversity and/or desertification, as relevant. In this way, the total does not exceed 100%.<sup>33</sup> Germany also developed its own methodology to avoid double counting: it applies a sum rule when using the Rio Climate Markers to account for a project that has both adaptation and mitigation objectives, where the sum per project cannot exceed 100%.<sup>34</sup> Nevertheless, there is no recognised practice in this regard, which often leads to double counting: some projects can target more than one of the Rio Conventions' objectives and each of them be tagged as 'significant' or 'principal'. Consequently, for some countries, the total amount reported will be higher than the total funding made available for the project.<sup>35</sup>

### An example of best practice according to the UNFCCC

The Netherlands was commended by the UNFCCC for the quality of its reporting<sup>36</sup> and, in particular for adopting a clear stance towards these two key questions of 'new and additional' funds and on the use of Rio Markers to quantify climate funding and contributions to multilateral organisations.

New and additional funds are clearly labelled<sup>37</sup> as funds beyond its ODA, consisting of 0.8% of GNI (0.7% after the Government change in 2010). Also, until 2009, activities with climate change as a 'significant' objective were reported as being allocated 40% of the total funding. As mentioned earlier, the OECD categories do not allow for precise reporting on multilateral contributions. However, as the Netherlands provide a substantial amount of funds for climate change through the UN organisations, they would like to reflect these contributions as climate finance. Therefore, they agreed on a standard figure of 10% of the total amount they contribute to climate finance for contributions to multilateral organisations or activities focusing on climate change. In the Fast Start Finance reporting, the Netherlands only included activities tagged with (at least) one of the Rio markers.

<sup>32</sup> Austria, Belgium, Denmark, Finland, France, Germany, Denmark, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Sweden, Spain, United Kingdom, and the European Union.

<sup>33</sup> AEA Technology plc, Monitoring, reporting and verifying systems for climate finance in the EU and its Member States, Report commissioned by the European Commission – DG Environment and Climate Action, 2011, p. 44.

<sup>34</sup> AEA Technology plc, Monitoring, reporting and verifying systems for climate finance in the EU and its Member States, Report commissioned by the European Commission – DG Environment and Climate Action, 2011, p. 44.

<sup>35</sup> Sweden, for instance, attributes 100% of funding to both principal and significant tags, as stated in the AEA report.

<sup>36</sup> Pallemarts, M & Armstrong, J, Financial support to developing countries for climate change mitigation and adaptation: is the European Union meeting its earlier commitments?, Institute for European Environmental Policy.

<sup>37</sup> AidWatch (ConcordEurope) announced in its 2012 report on the Netherlands that after 2012 climate finance will no longer be additional to the ODA norm of 0.7% of GDP but does not provide any information on the alternative. [http://aidwatch.concordeurope.org/static/files/assets/b5856e09/The\\_Netherlands.pdf](http://aidwatch.concordeurope.org/static/files/assets/b5856e09/The_Netherlands.pdf)

A survey of Member States carried out for the European Commission<sup>38</sup> showed that most, if not all, Member States have disaggregated data available for bilaterally channelled finance, including distribution by regions, countries, sectors and primary objectives of the funds. Therefore, there is scope for improved reporting requirements by the EU Member States without requiring major data collection efforts.

## EU channels

The European Development Fund (EDF) is the main instrument for providing community development aid in the African, Caribbean and Pacific (ACP) countries and the overseas countries and territories (OCTs). The EDF is an extra-budgetary fund. Member States fund it according to a specific contribution key. The Financial Transparency System<sup>39</sup> is an online platform that allows for a search of the amounts for activities (co-) funded through the European budget or the European Development Fund. However, the system does not break down the amounts allocated to climate adaptation or mitigation activities.

In addition, the European Union has set up several funds aimed at climate change-related activities. The Global Climate Change Alliance (GCCA)<sup>40</sup>, operational since 2008, is directed at developing countries and works through the European Commission's channels in order to foster dialogue and practical cooperation, with a focus on five areas: adaptation, deforestation, participation in CDM, disaster risk reduction, integration of climate change into poverty reduction efforts. The GCCA is funded through the European Commission, the European Development Fund, the European Commission Fast Start Finance and several Member States including Sweden and Czech Republic. Reports are published providing information on the beneficiaries from the GCCA support, the

duration of the project, the type of contract, the beneficiaries, and which of the GCCA priority areas is targeted as well as the budget.<sup>41</sup>

The European Union also developed the European Union ACP Energy Facility. This initiative was set up in 2005 and focuses on increasing access to sustainable and affordable energy in African, Caribbean and Pacific countries.<sup>42</sup> Since 2009, this fund is financed by loans and grants from the tenth European Development Fund and European bilateral and multilateral financial institutions. An annual report is to be circulated to donors and partners but there is no information readily available on the use of funds.

In the next Multiannual Financial Framework, which sets out how much the EU will spend over the years 2014 to 2020 and how this money will be allocated, climate change related objectives are to be mainstreamed across all policy areas. For instance, in the Development Cooperation Instrument, particular attention is to be paid to climate change, environment, human development, food security, migration and energy. Also in the European Neighbourhood Policy, climate change is one of the thematic priorities for support.

The Commission has proposed to adopt a slightly modified Rio Markers methodology<sup>43</sup> in order to track climate change expenditure over all these funding mechanisms. All expenditure under the EU budget will fall under one of the three following categories: climate related only (hence, the entire expenditure will be considered as climate expenditure), significantly climate related (hence, 40% of the total expenditure will be considered as climate expenditure), and not climate related.

<sup>38</sup> AEA Technology plc, Monitoring, Reporting and Verifying systems for climate finance in the EU and its Member States, Report commissioned by the European Commission - DG Environment and Climate Action, 2011.

<sup>39</sup> [http://ec.europa.eu/beneficiaries/fts/index\\_en.htm](http://ec.europa.eu/beneficiaries/fts/index_en.htm)

<sup>40</sup> [http://www.gcca.eu/pages/1\\_2-Home.html](http://www.gcca.eu/pages/1_2-Home.html)

<sup>41</sup> [http://www.gcca.eu/usr/GCCA\\_English\\_lo-res-rev.pdf](http://www.gcca.eu/usr/GCCA_English_lo-res-rev.pdf)

<sup>42</sup> [http://ec.europa.eu/europeaid/where/acp/regional-cooperation/energy/index\\_en.htm](http://ec.europa.eu/europeaid/where/acp/regional-cooperation/energy/index_en.htm)

<sup>43</sup> Bergstrom, K. and Volkery, A. (2012) Walking the talk - practical options for making the 2014-2020 EU MFF deliver on climate change. Final report for the Dutch Ministry of Infrastructure and the Environment. IEEP, Brussels.

# 3 THE WAY FORWARD: STEPS TOWARDS REPORTING ON LONG-TERM CLIMATE FINANCE

As climate finance for developing countries moves from the fast start finance period of 2010-2012 into the long-term, it is the future of reporting systems that is of critical importance. Two major recent developments have paved the way for reporting on long-term climate finance in the EU – the political guidelines adopted for UNFCCC reporting and the European Commission’s proposal for a new regulation on reporting on international climate change commitments. This chapter evaluates the scope of these efforts in light of overall reporting needs, and also considers the recommendations made in a report recently commissioned by the European Commission on MRV systems in the EU and Member States.

## 3.1 Political guidelines from the UNFCCC

At COP17 in Durban, at the end of 2011, the Parties adopted political guidelines for enhanced reporting in the Biennial Update Reports (BURs).<sup>44</sup> The guidelines include more detailed requirements for reporting on climate finance, with a view to remedy some of the problems mentioned above. Decision 2/CP.17<sup>45</sup> spells out in more detail what and how developed countries will be expected to report on the assistance provided to non-Annex I Parties in the areas of climate change mitigation and adaptation. This involves financial assistance as well as technology transfer and capacity building.

The decision, in its Annex I, first includes some general principles and requirements for future reporting on international climate finance in the BURs. Annex II Parties will have to provide information on the provision of financial support following a common reporting format which will be developed within the UNFCCC. The political guidelines also include the existing requirement to specify how the support is new and additional, and to distinguish between support for mitigation

and adaptation activities, noting capacity-building elements where relevant. An important novelty is that funding for activities with multiple objectives, such as biodiversity conservation and climate change mitigation, will now have to detail which parts are considered as climate finance. Annex II Parties will have to provide background information enabling the UNFCCC to understand the national context, which could benefit the aggregation and comparability of reported information. For example, the guidelines ask for descriptions of the national approach for tracking support, including indicators used, delivery mechanism and allocation channels tracked as well as any changes to these approaches. The guidelines also specify that parties should use any methodology that has been developed under the Convention on the basis of international experience and that they should describe the methodology they used in their reports as well as the underlying assumptions.

The decision contains specific reporting requirements that will be part of the common reporting format. The parties will be required to report in a textual and tabular format for the

<sup>44</sup> Similar updated guidelines will also be prepared for the National Communications.

<sup>45</sup> <http://unfccc.int/resource/docs/2011/cop17/eng/09a01.pdf>

two previous financial or calendar years on the annual amount of financing provided; committed and/or pledged; the allocation channels used; the type of support (for mitigation or adaptation activities); the source of funding; the financial instrument; the sector and an indication of what new and additional financial resources they have provided including an explanation of how they have determined what is new and additional. In addition, Parties are expected to report as much as possible on private financial flows leveraged by bilateral climate finance and on policies that scale up private investment in mitigation and adaptation activities in developing country Parties. They are also required to specify the types of instruments used, such as grants and concessional loans.

The reporting in these BURs will thus become more detailed in the future than in the current system. Moreover, the regularity of reporting increases as it previously covered three-year periods – but will now be done every two years.

### 3.2 MMR - The proposed new EU regulation on reporting

At the end of 2011, the European Commission tabled a proposal for a new Monitoring Mechanism Decision (MMD).<sup>46</sup> At COP16 in Cancun, countries formally agreed to enhance reporting requirements on the provision of financial, technological and capacity-building support to developing countries.<sup>47</sup> The MMR proposal aims to implement this engagement in the EU. During the EU public consultation procedure preceding this proposal, a majority of respondents<sup>48</sup> (55%) believed that the information available on climate finance is not transparent, easy to access or to compile and were of the opinion that including this information in the MMD would have an added value compared to existing development finance reporting.<sup>49</sup>

Article 17 of the MMR proposal sets out the proposed new requirements for reporting on financial and technology support provided to developing countries. It requires the information to be provided on a yearly basis and to be based on the best data available.

The MMR proposal requires information on financial support to specify whether the support has been committed and disbursed (in the previous year), committed only (the current year) or planned. This information has to specify whether the financial resources that Member States have provided are new and additional in the context of the UNFCCC and how this was calculated. Moreover, the information has to be presented by type of channel such as bilateral, regional or multilateral channels. Quantitative information has to be provided on financial flows based on the Rio Markers for climate change mitigation-related aid and climate change adaptation-related aid, and the methodology for the implementation of the Rio Markers should be specified. With regard to adaptation, the reporting has to indicate that adaptation support is provided to countries that are particularly vulnerable to the effects of climate change. Detailed information has to be reported on assistance provided by both the public and private sectors to developing countries for mitigation and adaptation to climate change.

Article 18 of the proposal includes specific requirements for reporting on the use of EU ETS auctioning revenues and project credits from flexible mechanisms. As there is a political commitment to provide 50% of the auctioning revenues to climate action<sup>50</sup>, both domestically and internationally, this reporting requirement might also provide useful information to complete the picture of international climate finance.

<sup>46</sup> The MMR proposal as well as the MMD also contain MRV requirements for GHG emissions in the EU and aim to track progress of the EU towards the emission reduction targets included in the Kyoto Protocol.

<sup>47</sup> Decision 1/CP.16, paragraph 40.

<sup>48</sup> The respondents to the EU public consultation procedure were all EU respondents.

<sup>49</sup> Ibid.

<sup>50</sup> For the auctioning revenues from the aviation sector, this has even been increased to 100%.

### Information required by the proposal for an MMR Regulation

- Support committed, disbursed or planned
- Amount of new and additional funds
- Calculation method for new and additional funds
- Type of channel: bilateral, regional or other multilateral channel
- Quantitative information on mitigation vs. adaptation related aid (based on Rio Markers)
- Methodological information concerning implementation of the Rio Markers for climate change
- Support from public and private sectors
- Identification of countries that are particularly vulnerable to the effects of climate change for adaptation-related support
- Information on the use of revenues from auctioning and project credits
- Auctioning revenues that have not been used have to be quantified and reported in subsequent years.

The MMR proposal put forward by the European Commission is a step in the right direction, as it indicates that the EU intends to address the current gap in the EU legislative framework for reporting on climate finance. It is a positive development which would capture information on climate finance in directly applicable EU legislation, allowing the European Commission to obtain the information on climate finance contributions from Member States, if necessary by means of legal action. However, the proposed mechanism could further be improved to address a number of shortcomings. For instance, it leaves significant room for interpretation on essential issues such as an appropriate and consistently-applied definition of new and additional climate finance. The proposal also contains a number of gaps, such as information on sectors or a description of how the support takes account of the needs and priorities in the recipient country. It will be essential to adopt a common reporting template, as has been announced by the

European Commission and foreseen by Article 26. Any improvements should be reflected upon at this stage of the decision-making process. As a next step, the proposal will be debated in the European Parliament and the Council of the EU, where Members of the European Parliament and representatives of the EU Member States will get the chance to introduce amendments to the proposal, before its final adoption. There is thus scope for further strengthening the proposal as it goes forward in the discussions.

Some of the specific issues that are part of the political agreement in the UNFCCC Decision 2/CP.17 are not reflected in the proposal. The EU is thus missing an opportunity to align with the most recent developments that have been taking place in the UNFCCC. Table 3 on the next page provides a comparison of the new UNFCCC reporting requirements with those in the EU's MMR proposal.

**Table 3: Comparison of the reporting requirements in the MMR proposal versus the political guidelines adopted at COP17**

- Requirement of Decision 2/CP.17 not reflected in MMR proposal
- Requirement of Decision 2/CP.17 reflected in MMR proposal

Decision 2/CP.17	MMR
Common reporting formats (to be developed in UNFCCC) <sup>51</sup>	
For activities with multiple objectives, funding can be reported as a contribution allocated partially to the other relevant objectives <sup>52</sup>	
Description of assumptions and methodology used for measuring climate finance <sup>53</sup>	
Description, to the extent possible, of how the country seeks to ensure that the resources effectively address the needs of non-Annex I Parties with regard to climate change adaptation and mitigation.	
Information on financial support provided, committed and/or pledged for mitigation and adaptation	
Summary information in a textual and tabular format on allocation channels and annual contributions for the previous two calendar or financial years without overlaps, to the channels mentioned in the decision (ie. multilateral, regional and bilateral channels).	
Summary information, for the previous two calendar or financial years in a textual and tabular format on the annual financial support that it has provided	
The amount of financing (original currency and its equivalent in United States dollars/ international currency)	
The type of support (for mitigation and adaptation activities)	
The source of funding	
The financial instrument <sup>54</sup>	
The sector	
Indication of what new and additional financial resources they have provided pursuant to Article 4, paragraph 3, of the Convention	
Clarification of how they have determined that resources are new and additional	
To the extent possible, private financial flows leveraged by bilateral climate finance mitigation and adaptation	
Policies and measures that promote the scaling up of private investment in mitigation and adaptation activities in developing country Parties	

It is also remarkable that the information required in the proposed MMR Regulation does not go beyond the questions asked by the EU to its Member States when preparing the report on fast start finance (FSF) in 2010, while the EU explicitly

highlighted that FSF pledges would only be subject to a basic level of monitoring contrary to long-term finance. The only difference with FSF is that reporting on these elements would now become mandatory, avoiding the absences of

<sup>51</sup> The MMR proposal does not include a template in Annex. However, Article 26 delegates the adoption of a template for reporting to the European Commission, which has expressed intention to do so.

<sup>52</sup> The European Commission intends to apply the Rio Markers to international climate finance, though as has been mentioned above, this would not be an accurate method, resulting in high chances of double-counting.

<sup>53</sup> The MMR proposal requires states to provide quantitative information based on the Rio Markers for climate change and to specify the methodology for determining this. Though partially providing the information required by Decision 2/CP.17, this is not considered as equally comprehensive.

<sup>54</sup> Financial instruments can be, for instance, grants or concessional loans, but also private financial instruments.

response by some Member States that occurred in the EU FSF Report. It remains to be seen whether the adoption of a detailed template as proposed by the European Commission will be able to address this situation.

### 3.3 External recommendations to the EC<sup>55</sup>

In 2011 the European Commission commissioned a study proposing options for improving MRV at the international level.<sup>56</sup> The final report was published around the same time as the submission of the European Commission proposal for a new MMR Regulation. However, there are significant differences between what the consultants recommended for the EU to advocate as an international position on MRV of climate finance and what has been included in the internal reporting system set out in the MMR proposal.

The study notes that an important effort is needed to reach the transparency of international climate finance that countries agreed in Cancun. This transparency requires an internationally agreed framework for MRV of climate finance, with common metrics and methodologies that do not yet exist.<sup>57</sup> The study concludes that improvements are needed to each of the 'M, R and V' elements of MRV, combining inputs from both UNFCCC and non-UNFCCC systems, to reach such a comprehensive framework in the long term. The current MMR proposal however does not pay equal attention to each of these elements.

The EU had set out its own recommendations for international MRV requirements for climate finance in the run-up to the Cancun climate conference.<sup>58</sup>

- An important element of this position was that transparency and delivery in accordance with the commitments is not the only objective of MRV of climate finance. It should also allow determining whether the support is effectively working towards the climate change priorities defined by recipient countries.

- The EU position also highlighted that the MRV system for public finance and, where appropriate, private finance, should ensure comparability of the information provided, deliver transparent and consistent information on financial flows and in the case of mitigation give a clear idea of the results, i.e. the progress made on reaching the emission reduction targets.
- Finally, the EU highlighted that, as fast start pledges are voluntary and need to be rapidly implemented, it did not see the option of a strong MRV being applied to these funds, but rather a basic level of monitoring that would allow lessons to be learnt for designing the long term MRV system for climate finance.

The study develops recommendations for overall improvements to the measuring of climate finance, the reporting as well as the verification. These are summarised in Table 4 on the next page.



<sup>55</sup> AEA Technology plc, Monitoring, Reporting and Verifying systems for climate finance in the EU and its Member States, Report commissioned by the European Commission - DG Environment and Climate Action, 2011.

<sup>56</sup> *ibid.*

<sup>57</sup> *ibid.*

<sup>58</sup> The EU official position on MRV of climate finance has been summarised from the abovementioned AEA report (it is a summary of the EU's oral interventions in the UNFCCC as the EU's official position papers are not publically available). For this report, the authors have updated AEA's summary on the basis of recent developments and have only reproduced the most relevant points that are still outstanding post Durban.

**Table 4: Summary of recommendations for improving 'M, R and V' of climate finance in the EU from EC-commissioned 2011 study**

Information required by the proposal for an MMR Regulation	
<b>M</b>	<ul style="list-style-type: none"> <li>Increased transparency of current practices for defining climate finance, preferably through guidance issued by the UNFCCC on which activities should be accounted as climate finance and how to calculate the total amounts that are climate-relevant. An interim option is for the EU to develop such guidance, to improve consistency within the EU and lead by example at the international level.</li> </ul>
<b>R</b>	<ul style="list-style-type: none"> <li>UNFCCC guidance should include a format in which Member States and multilateral institutions have to report. The report recommends coupling the CSR system more closely with the reporting in NCs.</li> <li>Expand the requirement to report on financial support in the NCs to all Annex I Parties. The EU could take the lead by requiring all new EU Member States, that are not Annex II Parties, to report on finance in their NCs.</li> </ul>
<b>V</b>	<ul style="list-style-type: none"> <li>Provide opportunities for greater public scrutiny of international climate finance by facilitating one central location where the information is gathered, either by the UNFCCC or by the EU.</li> </ul>

### 3.4 Do the MMR proposal and the recommendations for international MRV fill the needs?

The MMR proposal sets out more detailed reporting requirements for climate finance than was the case in previous EU legislation. However, the changes introduced in the proposal principally focus on the 'R' (reporting) in MRV. The recommendations for improved MRV of international climate finance made by the consultants that were commissioned by the European Commission also recommended changes to be made to the 'M' (measuring) and the 'V' (verification) to enable the establishment of a common framework for MRV of climate finance.

First, the MMR proposal remains silent on the definition of climate finance. While it is recommended that the EU develop guidance on which activities should be counted as climate finance and how to calculate the amounts that are climate-relevant, the MMR proposal does not provide any such guidance. As the private sector is expected to play an increasingly important role in financing the fight against climate change, it is

becoming more important to determine which amounts can be counted as climate finance and how financial leverage should be defined.

Also with regard to verification, the recommendation of the consultants was to facilitate one central online location where the information is gathered; this has not been taken on board by the MMR proposal. The UNFCCC intends to take a first step with the establishment of the registry, though the information included in the registry might not capture the level of the detail that will be required. If the UNFCCC does not take a sufficiently comprehensive measure, the EU was recommended to take an EU-level initiative showing the way.

Finally, with regard to the reporting of climate finance, the MMR proposal has not yet taken on board the recommendation of the consultants to develop a common format for reporting, though the European Commission has expressed its intention to do so. Such a format will be developed by the UNFCCC on the basis of the political guidelines adopted in Durban and is expected to be adopted at the COP in Doha in 2012.

**Table 5: Key strengths and weaknesses of the MMR proposal and the recommendations for international climate finance**

	Strengths	Weaknesses
<b>MMR proposal</b>	<ul style="list-style-type: none"> <li>• A distinction is made between support provided, committed and/or pledged</li> <li>• Providing information on climate finance becomes legally binding for Member States.</li> <li>• Mandates reporting on climate finance by EU Member States that are not Annex II Parties</li> <li>• Inclusion of private financial flows in reporting</li> <li>• Clear identification of mitigation and adaptation-related support</li> </ul>	<ul style="list-style-type: none"> <li>• No clear definition of climate finance, nor a requirement to describe the approaches adopted by Member States, e.g. on indicators used, channels, assumptions, apart from the use of the Rio Markers.</li> <li>• There is no definition of new and additional finance which leaves room for interpretation</li> <li>• Clear identification of REDD+ missing.</li> <li>• No sectoral breakdown of support</li> <li>• No central online location gathering all the information</li> <li>• No requirements enabling the assessment of efficiency of support in view of the climate change priorities as defined by recipient countries, or on policy measures that would allow for scaling up private investment in developing country parties.</li> <li>• Not in line with all the specific requirements of the UNFCCC political guidelines from COP17 in Durban: e.g. sources, loans vs. grants.</li> </ul>
<b>MRV recommendations from study<sup>59</sup></b>	<ul style="list-style-type: none"> <li>• Recommends a common reporting format drawing upon both the UNFCCC and the OECD reporting systems</li> <li>• Reporting requirements should be expanded to all Annex I Parties to the UNFCCC (i.e. would include also new EU Member States). As a priority, this has to be done within the UNFCCC. If not possible, the EU should expand the scope of reporting requirements internally.</li> <li>• Suggests guidance on the measurement of climate finance</li> <li>• Set-up of a central online location gathering all the information, to allow for a better public scrutiny.</li> </ul>	<ul style="list-style-type: none"> <li>• Do not require additional information to be collected/reported to develop a clear picture of financial flows</li> <li>• Do not require guidance on new and additional for consistent approach among all EU MS.</li> </ul>

<sup>59</sup> AEA Technology plc, Monitoring, Reporting and Verifying systems for climate finance in the EU and its Member States, Report commissioned by the European Commission - DG Environment and Climate Action, 2011.

# 4 TAKING THE LEAD IN THE EU: RECOMMENDATIONS FOR A COHERENT EU REPORTING FRAMEWORK

## 4.1 Three complementary building blocks for EU reporting

Clearly, a common framework for reporting on international climate finance, with consistent definitions of clear terms, sufficient details and fair calculation methodologies is required to measure compliance with commitments and install confidence in the effectiveness of assistance. A new, more integrated approach can be built upon the existing reporting mechanisms presented in earlier sections of this report.

The EU, with its ability to coordinate reporting by some of the world's largest donor countries, is in a unique position to take the lead on setting forth a reporting system that is transparent and comprehensive and sends the correct messages

to the developing world. While the inclusion of climate finance into legislation that governs the Member States' reporting obligations for international climate change commitments is certainly a step in the right direction, there are a number of ways in which this legislative proposal can be strengthened. These are based on three complementary building blocks:

1. First, there is a great need for streamlining the different reporting channels into one framework, with **shared definitions and methodologies**. A more consistent approach for what should be considered 'climate finance', 'private climate finance' or 'new and additional' should allow for similar types of information to be aggregated.

### Why it is important for the EU to show that finance is new and additional

CAN Europe's 2010 report on fast start finance<sup>60</sup>, notes that a well-defined, commonly agreed baseline for measuring funding will go a long way in building trust and laying the foundation for more successful cooperation between developed and developing countries in tackling climate change. In that report, we also stressed that a vital first step would be for the EU to acknowledge the problem associated with the number of differing definitions of additionality and commit to finding a transparent and fair baseline for common use across the EU Member States and the EC.

The current MMR proposal should set such a baseline to avoid a lack of coherence between the data reported by the various EU Member States and to make sure that the overall MRV framework for climate finance is consistent and an example for other countries.

As the 2010 report mentioned, it is no more credible to make finance pledges without reference to a clear, common baseline than it is to make mitigation pledges without reference to a common baseline – such as that of emissions levels in 1990.

<sup>60</sup> Has the EU kept its Fast-start Climate Finance promises? CAN Europe, 2010. [http://caneurope.org/resources/publications/doc\\_download/1785-can-europe-2010-has-the-eu-kept-its-fast-start-climate-finance-promises](http://caneurope.org/resources/publications/doc_download/1785-can-europe-2010-has-the-eu-kept-its-fast-start-climate-finance-promises)

**2.** It is essential to **obtain detailed information on a number of issues** to allow the complete picture of all financial streams to be clear. Reporting on climate finance should include:

- the amounts of money being channelled through various bi-lateral and multi-lateral funding channels, with a clear identification of their source and destination;
- An explanation of how a project with multiple objectives is reflected, with a maximum of 100% of the total amount for the cumulative parts that are reported;
- Precise information on the type of support and its status, namely what type of instrument is used, whether the money is pledged or disbursed, the status of implementation of the project or programme;
- Which sectors benefit from a project or programme: clear identification of the thematic areas 'mitigation', 'adaptation' and 'REDD+' as well as the specific sectors benefiting from climate support, such as, for example, wind energy, reforestation, coastal zone management, etc.;
- Which kind of activities are being supported: research, capacity-building, investments in technology aiming at reducing GHG emissions, or others;
- Which timeframe the reported support covers;
- Whether the money is new and additional to existing support for other objectives;
- Whether support is provided as a loan, a grant or any other type of financial instrument;
- When public money is used to support the private sector and leverage private climate finance, disaggregated information indicating the amount of public finance and the estimated private finance leveraged with it.

**3.** Finally, it is important that this detailed information is **captured in one central place or can be tracked consistently over various**

**databases allowing third parties to check** the accuracy of what is reported. This will also enable tracking of progress towards achieving climate finance pledges and the extent to which finance flows to the most vulnerable and evenly to mitigation and adaptation activities. The International Aid Transparency Initiative (IATI) has developed a common language which allows data published by various sources to be tracked; this could serve as a useful, flexible tool for tracking climate finance in the future. The information should be presented at a disaggregated level, by individual Member State and for each project/programme and recipient organisation. While the use of the Rio Markers for EU reporting is reasonable as it is consistent with existing practices in some Member States, EU should advocate the adoption of improved markers for climate within the UNFCCC in the longer term.

**How will these three building blocks benefit donor countries, recipient countries, NGOs as well as a wider audience?**

These three building blocks should enable the level of transparency that countries have agreed to and that many have highlighted as an important missing element in the overall architecture for climate change support at the international level. For donor countries, this level of information is essential to make an assessment of the efficiency of their climate finance support and make necessary changes to the ways in which they allocate support if needed.

For developing countries, clarity on the actual delivery of the financial support pledged in Copenhagen and Cancun is essential to restore trust in the international climate change regime. Many financial pledges in the past have not been met in spite of the urgent and great need for such support in many developing countries. The delivery of the US\$100 billion of financial support, a minimum amount needed by developing countries to deal with the climate-related responsibilities that lie ahead, is a key element in the success of the fight against climate change.

Finally, the wider public, contributing to climate finance through public money, wishing to invest in private initiatives aiming to tackle climate change with a focus on developing countries, or waiting for the delivery of climate change support in their country, have a right to be informed about the status of implementation of these high-level international commitments.

#### **4.2 First concrete steps: what needs to be changed in the current MMR proposal?**

The European Commission's MMR proposal was tabled in advance of the climate conference in Durban at the end of 2011. Therefore, it does not reflect the same level of detail that was finally captured in Decision 2/CP.17 with regard to MRV of climate finance. Changes will need to be made to reflect the outcome of the Durban climate change conference in the proposal. Moreover, the proposal should foresee a simplified procedure to update the MMR with any developments at the international level once these have been adopted by the Parties to the UNFCCC.

The MMR proposal should provide more guidance on the measuring of climate finance across the Member States. Currently, there are too many inconsistencies and differing interpretations between Member States on essential issues, such

as what constitutes climate finance; how to track private finance flows; whether finance is new and additional and what should be done with projects contributing to multiple objectives.

The MMR proposal should include a mechanism allowing the European Commission to report the information it has collected from the Member States back to them and to the wider audience, with a view to enabling verification of climate finance. This could be done through the establishment of a central database or, more efficiently, through the use of the common language for decentralised publishing of data about international funding flows and investments, developed within the International Aid Transparency Initiative (IATI). In addition, the EU should ensure an independent verification process of the information submitted by Member States.

#### **Compliance with the new guidelines that are part of the outcome of the COP in Durban**

If the European Commission wishes to ensure that the EU Member States report in a comprehensive and consistent manner to the UNFCCC in their BURs, in line with the requirements included in the Durban outcome, significant changes will have to be made to the MMR proposal. These are outlined in the box below and complemented with additional recommendations that aim to increase coherence and consistency of reporting on climate finance.

### Modifications required for bringing the MMR proposal in line with the political guidelines of the Durban outcome with additional recommendations to increase coherence and consistency

- For activities with multiple objectives, funding should be able to be reported as a contribution allocated partially to the other relevant objectives. While the use of the Rio Markers, as announced by the Commission in the MFF, is a first step, the important flaws of these markers affect the accuracy of reporting. It is therefore recommended that the EU complement the use of the Rio Markers with a mechanism to avoid double-counting.
- A description of assumptions and of the methodology used for measuring climate finance should be included.
- A description should be added, to the extent possible, of how the country seeks to ensure that the resources for mitigation and adaptation effectively address beneficiary country needs.
- The proposal should specify that the information on allocation channels and annual contributions should be presented in a tabular and textual format.
- The source of funding should be specified as well as the sector that benefits from the support. In addition, a detailed breakdown of sectors should be prepared by the European Commission as part of implementing guidance to ensure a consistent approach is used.
- Information should be provided about the policies and measures that promote the scaling up of private investment in mitigation and adaptation activities in developing country Parties. Moreover, the monitoring mechanism should be able to differentiate between the original public funding and the money that has been leveraged. An essential part of this process should be the development of a common and harmonised methodology to estimate leverage ratios.

It is important to note that the BURs will benefit from common reporting formats that will be developed within the UNFCCC. It will be necessary for the European Commission to capture information from the Member States in a format that is similar to the one developed by the UNFCCC. This will benefit the preparation of the BUR for the EU and its Member States. It will allow the Member States to streamline reporting to the UNFCCC and to the European Commission, avoiding unnecessary administrative costs.

It is therefore recommended that the MMR proposal require the European Commission to develop a common reporting format, on the basis of the requirements of the MMR Regulation and of the common reporting template for the BURs that will be developed within the UNFCCC.

#### Additional improvements to the MMR proposal, in line with the recommendations for improving international MRV of climate finance

The UNFCCC political guidelines adopted at Durban mostly focus on enhancing the reporting of climate finance. But collection of information alone

is not enough. Information must be collected and presented in a comparable way across countries, and there must be an opportunities for both experts and the public to review and verify this information, in order to build and maintain trust between developed and developing countries. Therefore, as stressed above, the 'M' (monitoring) and the 'V' (verification) of climate finance also need to be strengthened.

The study commissioned by the European Commission on international MRV of climate finance develops recommendations for each of the building blocks of MRV. Building on these recommendations, there are two key additional elements that the EU should consider to set up a comprehensive MRV mechanism.

1. The MMR proposal should include **guidance** on key concepts and methodologies that are subject to interpretation by Member States in reporting. Such guidance would also support those Member States which do not have prior experience reporting to the UNFCCC or the OECD DAC system. At a minimum, EU guidance should cover:

- What should be understood by climate finance, in particular by 'private climate finance'?
- What is 'new and additional' climate finance, and how are baselines for measuring this set?
- Determining the climate change-relevant share when reporting on projects with multiple objectives

2. The EU should enable and support the **verification** of reported information. This should be done by independent finance experts, either within the European Commission or externally. Moreover, the MMR proposal should ensure that the information collected by the European Commission and verified by independent experts is accessible to the Member States and to the wider public.

This can be done by means of a website where the information reported by the Member States can be consulted and aggregated according to types of information or through the use of the common language developed by IATI.

The UNFCCC has taken important steps in developing the reporting of climate finance by Annex II Parties to the Convention. However, the EU should take the lead in developing a common approach to measuring climate finance and in the verification of the information that has been reported by developed countries, as these are essential building blocks to ensure the trust between developed and developing countries. This is particularly important in times of recession during which it will be important to show the outside world that the EU is serious about its international climate finance commitments.



# 5 CONCLUSIONS AND MAIN MESSAGES

This report has illustrated how complex and scattered the current reporting framework for climate finance is. It involves many actors, with different objectives and few common rules and structures. To achieve transparency in the complex web of financial streams for tackling climate change, a reporting mechanism is required that will allow developing countries and other stakeholders to get a complete and accurate picture of development finance flows related to climate change. An improved reporting system for climate finance should conform to a number of **characteristics and principles**:

- The information collected needs to be **detailed enough** to see where the money is going. It should show whether the allocation of funds is geographically balanced, with priority for the most vulnerable developing countries, whether there is a balanced allocation of funding for mitigation and adaptation and if recipient countries' own domestic priorities are addressed.
- Improved reporting should aim to collect **comparable information** that can be aggregated. In the EU, there are great differences in the approaches followed due to lack of guidance. Comparison requires the same or at least similar parameters, baselines and definitions.
- One needs to understand where the money is coming from and where it is going, and thus **keep track** of the financial flow. Sources and recipient institutions as well as the channels used need to be visible. Moreover, a project or programme needs follow-up during the entire duration of its implementation.
- Transparency is only fully achieved if the information that has been collected is **accessible to 3rd parties**, including recipient countries, NGOs and whoever else is interested. They should be enabled to verify whether countries are following through on their commitments.

To achieve this, a number of changes will have to be made to the European Commission's legislative proposal for a monitoring mechanism regulation. For one, more attention should be paid to the 'measuring' of climate finance: what is 'climate finance', what can be counted as 'private climate finance', and how double-counting can be avoided. Moreover, the EU needs to agree on a clear definition of additionality.

The MMR proposal should be brought in line with the political guidelines adopted in Durban that the EU has committed to. These guidelines include more detailed reporting requirements for the Biennial Update Report, which the EU and its Member States will have to adhere to. The EU should enable verification of the information that is reported. This should be done by independent finance experts. Moreover, the MMR proposal should ensure that the information collected by the European Commission can be consulted by the wider audience, in a manner which allows for aggregation and comparison. The EU should adopt a common reporting format, as it has announced, to ensure consistency among the various Member States. This format should be streamlined with the format that will be developed within the UNFCCC in 2012.

# ANNEX I.

## RESPONSES OF MS TO THE EC SURVEY IN PREPARATION OF THE EU ACCOUNTABILITY REPORT 2011<sup>44</sup>

### New challenges and cross cutting issues

#### Climate Change

*In view of the requirement of the Copenhagen Accord for fast-start finance to be 'new and additional', and European Council conclusions that financing for this and should "not undermine or jeopardize the fight against poverty and continued progress towards the Millennium Development Goals", please explain how you defined this for reporting.*

		Response Percent	Response Count
Additional to climate related funding in a specific reference year		36.0%	9
Additional to the average annual climate related funding over a specific reference period		0.0%	0
Additional to the level of ODA spending in nominal terms		20.0%	5
Additional to a ODA spending target in % of GNI		12.0%	3
Other definition of additionality		44.0%	11
		answered question	25
		skipped question	3

<sup>44</sup> EU Accountability report 2011, Annex 8, volume 6, page 35: <http://ec.europa.eu/europeaid/how/accountability/eu-annual-accountability-reports/>

## ANNEX II.

# MULTITUDE OF CHANNELS USED FOR DELIVERING FAST START FINANCE: ILLUSTRATION OF THE COMPLEXITY OF THE CLIMATE FINANCE FRAMEWORK<sup>45</sup>

As mentioned in the report, in addition to these multilateral channels, each EU Member State also distributes climate finance via bilateral channels. Moreover, some of the climate finance is distributed through private climate finance initiatives.

### Overview of multilateral channels used for FSF in 2010

Number of Members States using multilateral channels	21/28
Number of States providing details on multilateral channels	19/21
Total reported amount for multilateral channels (billion €)	1.253
Total reported amount in % of EU FSF multilateral contribution in 2010	99.0%
<b>Multilateral and regional institutions (million €)</b>	
World bank: Clean Technology Fund	410.7
World bank: Strategic Climate Fund	373.9
World bank: orest Carbon Partnership Facility	38.8
World bank: others	22.2
WB IFC Indonesia	2.0
African Development Bank: CBFF	40.0
Inter American Development Bank	28.0
EBRD	12.1
Global Facility For Disaster Reduction and Recovery	1.0
CGIAR	5.5
IUCN	1.6
Others	77.0
<b>Subtotal</b>	<b>1012.9</b>
<b>UNFCCC and KYOTO Protocol Funds (million €)</b>	
GEF	131.6
Adaptation Fund	67.0
UNFCCC	0.8
Least development Countries Fund	11.0
Special Climate Change Fund	4.0
<b>Subtotal</b>	<b>214.4</b>
<b>UN Initiatives / funds (million €)</b>	
UN REDD Programme	6.4
UNESCO	0.6
FAO	4.9
UNEP	10.0
ISDR	4.0
<b>Subtotal</b>	<b>25.9</b>
<b>TOTAL</b>	<b>1253.2</b>

<sup>45</sup> EU Fast start finance report for Cancun, 2010, 15889/10.

## ANNEX III.

# DEFINITION OF ADDITIONALITY BY THE 27 EU MEMBER STATES AND THE EUROPEAN COMMISSION FOR FAST START FINANCE

Definitions provided in the table are based on the answers to a questionnaire on 'Financing for development', as part of the EU Accountability Report prepared for the European Commission.<sup>46</sup>

	Definition of new and additional Fast Start Finance
<b>European Commission</b>	€150 m fast start funding pledged by the European Commission is additional to funding originally programmed for development cooperation and climate action in 2010-12 and comes from the un-allocated margin under the ceiling for external expenditures of the EU budget.
<b>Austria</b>	New and additional means additional to climate related funding in 2009
<b>Belgium</b>	The fast start contribution in 2010 (total amount: 42 million EUR) comes out of the ODA budget and covers only commitments taken after Copenhagen.
<b>Bulgaria</b>	No definition provided
<b>Cyprus</b>	No definition provided
<b>Czech Republic</b>	New and additional means additional to the level of ODA spending in nominal terms with base year 2010 for the initial estimate
<b>Denmark</b>	The Climate Envelope is a special budget line to finance climate change activities, for the five year period 2008-2012. It is included in the overall Danish ODA budget. Denmark's ODA budget will be maintained at its present level of DKK 15.2 billion. The Danish ODA budget excluding the Climate Envelope is over and above the UN target of 0.7% ODA/GNI and will continue to be so over the period 2010-2012.
<b>Estonia</b>	New and additional means additional to climate related funding in 2011-12.
<b>Finland</b>	The Finnish Government has decided to implement its commitment through the net increase of Finnish climate funding (part of Finnish ODA) in 2010-12 compared to year 2009, which will be used as baseline.
<b>France</b>	New and additional refers to initiatives inspired by the Copenhagen Accord, especially actions preparing the phase after 2012.
<b>Germany</b>	"New and additional" funding is funding which is additional to climate finance in German international cooperation in 2009 and/ or funding which is based on innovative sources, such as proceeds from the sale of emissions allowances in the European Trading System (ETS). New and additional also means additional to climate related funding in 2009.
<b>Greece</b>	No definition provided

<sup>46</sup> Answers of the Member States and the European Commission to the questionnaire on Financing for Development : [http://ec.europa.eu/europeaid/how/accountability/eu-annual-accountability-reports/country\\_answers\\_en.htm](http://ec.europa.eu/europeaid/how/accountability/eu-annual-accountability-reports/country_answers_en.htm)

	<b>Definition of new and additional Fast Start Finance</b>
<b>Hungary</b>	New and additional means additional to the level of ODA spending in nominal terms with base year 2009.
<b>Ireland</b>	In 2010, using the new OECD CC adaptation marker it was estimated that projects with a total value of €10 million had a strong CC and development relevance.
<b>Italy</b>	A combination of all definitions
<b>Latvia</b>	The fast start financing is a special appropriation from the state budget, separate from any other funding channels.
<b>Lithuania</b>	No definition provided
<b>Luxembourg</b>	New and additional means additional to the level of ODA spending in nominal terms and to the ODA spending target of 1% of GNI.
<b>Malta</b>	"fast-start" financing is new and additional to Malta's ODA.
<b>Netherlands</b>	Fast Start Climate Finance is on average for the period 2010-2012 additional to an ODA spending target of 0,7% of GNI.
<b>Poland</b>	The level of fast start financing will depend on the AAUs surplus sales as an innovative source of financing.
<b>Portugal</b>	New and additional means additional to climate related funding in 2009. New and additional also means additional to the level of ODA spending in nominal terms with base year 2009.
<b>Romania</b>	Still in the process of reaching a definition on these issues.
<b>Spain</b>	New and additional means additional to climate related funding in 2009
<b>Sweden</b>	New and additional funding is over and above the internationally agreed goal for ODA of 0.7% of GDI. Currently Sweden provides 1% of GNI for ODA. New and additional also means additional budget allocations for climate change related activities (e.g. Climate package of approximately 405 million euro for the period up to the end of 2012)
<b>Slovak Republic</b>	Additional to the level of budgeted ODA funding for the year 2010. Fast-start within ODA.
<b>Slovenia</b>	New and additional means additional to climate related funding in 2009.
<b>United Kingdom</b>	The UK's Fast Start commitment is drawn from the UK's rising ODA budget which is due to reach 0.7% of GNI by 2013. We consider that the option of looking at how ODA has risen across the EU as a whole against a base year is one which could be explored.

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