Climate Finance Network

Enhancing Transparency and Accountability of International Public Climate Finance

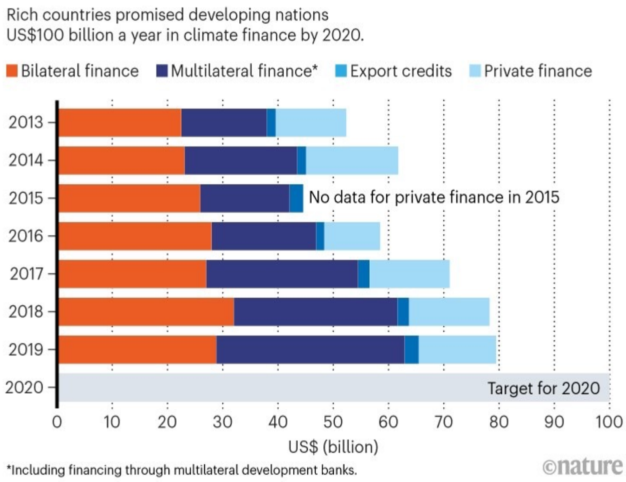
Aim and Scope of the Brief

This brief aims to underline the need for and importance of, accountable and transparent climate finance on both the demand and supply sides to the Ministries of Finance and Climate Change and international actors. This also emphasizes the importance of open and consistent information on climate finance and for financing climate action that is aligned with developing country requirements.

Climate Finance Landscape

Financing adaptation and mitigation measures, especially in developing countries which are more vulnerable and with limited resources, has been a key point of discussion since the adoption of the UNFCCC. The 2015 Paris Agreement reaffirmed the obligations of developed countries to assist (including financially) developing countries in implementing the objectives of the UNFCCC. Developed country's pledges to mobilize US$100 billion for climate finance is a key pillar to support developing countries. The Paris Agreement also encouraged the mobilization of finance from a wide variety of sources, instruments and channels. Climate Finance[1] broadly includes local, national or transnational financing—drawn from public, private and alternative sources of financing—that seeks to support mitigation and adaptation actions that will address climate change.

However, measuring transnational finance flows that constitute as climate finance continues to be difficult. Data collected and analyzed by different sources present varying pictures. The OECD data shows that the goal of the 2010 Cancun Agreement, i.e. of mobilizing $100 billion a year by 2020 to address the needs of developing countries was not met.[2] It shows that the bilateral public financing marginally increased over the years but was below $30 billion in 2019. The multilateral public financing nearly doubled from $18.9 billion in 2016 to $34.1 billion in 2019. Private financing remained about the same since 2017 (i.e. between $14 and $15 billion). Due to time lags in official reporting, data for 2020 was not available before 2022.[3]



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[1] UNFCCC, Introduction to Climate Finance https://unfccc.int/topics/climate-finance/the-big-picture/introduction-to-climate-finance#:~:text=What%20is%20climate%20finance%3F,that%20will%20address%20climate%20change.

[2] OECD (2021), 'Climate Finance and the US 100 Billion Goal: Forward-looking Scenarios of Climate Finance Provided and Mobilized by Developed Countries in 2021-2025', Technical Note. https://www.oecd-ilibrary.org/docserver/a53aac3b-en.pdf?expires=1651185030&id=id&accname=guest&checksum=8B574185A807AAA797E42BD44AFF2024. See also, Nature (2021), **'The broken $100-billion promise of climate finance – and how to fix it'** News feature, Jocelyn Timperley, 20 Oct 2021, https://www.nature.com/articles/d41586-021-02846-3

[3] OECD (2021), 'Climate Finance and the US 100 Billion Goal'

However, the 2020 Climate Finance Shadow Report by Oxfam indicates that the donor reports overstate the allocated climate finance by a huge margin, and that the net financial value of climate finance to developing countries may be less than half of what is reported.[4]

The Climate Policy Initiative (CPI) estimates that the flows of climate-related finance in and between countries amounted to $1.3 trillion per year in 2021-22, but only represents one percent of the world's GDP. According to the CPI, total climate finance has increased over the last decade, with an increase of $653 billion from 2019-20 However, the overall flows are still uneven. For 2021-22, $1.15 trillion went to mitigation, which shows the disproportionate amount flowing to adaptation.[5] Meanwhile, the latest global Adaptation Gap Report 2023 indicates that annually, adaptation finance requires $194-366 billion for developing countries. This is in contrast to modelled adaptation requirements of $215 billion annually over the past ten years and $387 billion annually for domestic needs.[6]

Nations acknowledge the significance of securing private sector funding, which constitutes 49 percent of the total $1.3 trillion. They utilize public sector funds to attract further investments from the private sector, thereby supplementing public climate finance.[7] For example, years of government subsidies in renewable energy led to an increase in private sector funding. At present, 69 percent of the total investments in the renewable energy sector are from the private sector.[8]

Why transparency and accountability matters for international climate finance

The financing gap reflects a misalignment between the priorities of developed and developing countries; about 66 percent of the finance has gone to mitigation and about 34 percent to adaptation. International adaptation finance going to developing countries amounted to $28.6 billion in 2020. The estimated annual adaptation costs/needs – accounting for inflation, will be in the range of $160–340 billion by 2030 and $315–565 billion by 2050.

"The adaptation finance gap in developing countries is likely five to ten times greater than current international adaptation finance flows and continues to widen.[10]"

Transparency is the availability and accessibility of reliable, timely information/data about existing climate finance and related decisions and actions. Accountability in climate finance is engaging independent entities (think tanks, research organizations, media) and people to have a say in decision making and subsequently holding decision-makers accountable for effective and equitable climate finance and action.[1]

Only around a third of climate finance projects are estimated to take gender equality into account with too little climate finance spent at the local level,[11] which again presents a difference in priorities because of large populations in developing countries remaining vulnerable to climate change.

The reporting obligations under the UNFCCC and subsequent agreements encourage integrating the transparency and accountability agenda and the climate change agenda. The Paris Agreement established the Enhanced Transparency Framework (ETF) as a single universal transparency process to allow countries to report on their objectives and achievements and enable global assessment of collective progress on climate action. In addition, the Addis Ababa Action Agenda on Financing for Development provided the framework for financing climate-resilient development, including adaptation and mitigation. The Cancun Agreement in 2010 and the Paris Agreement in 2015, strengthened the formal rules on measurement, reporting and verification (MRV) and international consultation and analysis (ICA). However, despite the presence of the international framework and conventions the difference in climate finance reports signifies the need for strengthening the database and a common understanding of the definition of climate finance.

[4] Oxfam (2020), 'Climate Finance Shadow Report 2020' https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621066/bp-climate-finance-shadow-report-2020-201020-en.pdf

[5] Climate Policy Initiative CPI (2021), Global Landscape of Climate Finance 2023, https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/

[6] https://www.unep.org/resources/adaptation-gap-report-2023

[7] Climate Finance Fundamentals (2017), 'The Principles and Criteria of Public Climate Finance: A Normative Framework', Liane Schalatek, **HBS, and** Neil Bird, **ODI; Climate Funds Update**; Heinrich Boll Stiftung, North America.

[8] Climate Policy Initiative (2021), Global Landscape of Climate Finance 2021

[9] Adaptation Gap Report 2022- UNEP

[10] ibid

[11] Oxfam (2020), 'Climate Finance Shadow Report 2020' https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621066/bp-climate-finance-shadow-report-2020-201020-en.pdf

On the demand side, the Paris Agreement led countries to develop nationally determined contributions (or climate action plans) to cut emissions, based on an individual country's context. This, along with the National Adaptation Plans, helps countries in the identification of where financing is required and, if the public finance tools are adequately applied, help in determining the resource allocation and utility of climate finance. **However, developing countries need to have institutional mechanisms and data that provide transparent information on both their domestic contribution to climate finance and the data on the receipt and utilization of climate finance from developed countries and from international climate funds[12],** including public and private sources and grants. The transparency and access to information are critical for strengthening governance and improving decision making and prioritization on resource allocation for climate action. This also helps the accountability actors in supporting the vertical and horizontal accountability of climate finance.

This will not only help in biennial reporting to the UNFCCC but will also improve access to climate finance as it will boost a developed country's confidence in the transparent and effective utilization of climate finance.

Several countries including Brazil, Malaysia, Indonesia, Namibia and Mexico have been submitting the BURs regularly, providing both a picture of mitigation and adaptation actions, emission reduction and climate finance. Biennial Update Report submissions from Non-Annex I Parties | UNFCCC

Furthermore, developing countries should have more information on financing sources, fiscal risks and economic costs of climate change, the extent and nature of vulnerability to climate change, sector-specific challenges and the distribution of climate finance between mitigation and adaptation. This information should be shared with developed countries to address their needs.

The quantum and value of climate finance, which has gradually escalated, can further increase if there is transparent information on the scale and type of financing and on accountability mechanisms in place.

Countries have taken initiatives to put in place the Monitoring, Reporting and Verification (MRV) framework. Colombia is one of the first countries in the world to have developed a comprehensive Monitoring, Reporting and Verification (MRV) framework to track climate finance (Climate Finance MRV) from public, private and international sources. The online platform follows the development of methodology and strategy on application of MRV framework at different governance levels including the public and private sector. (Tracking the financing of climate action: How Colombia developed and implemented a comprehensive national MRV framework for climate finance (transparency-partnership.net) Other countries like Sri Lanka, Jordan and the State of Palestine through the World Bank supported Partnership for Market Implementation (PMI) have developed an open source MRV system that tracks emission reduction with the finance received by each mitigation activity. (Climate Explainer: MRV) (worldbank.org)

- On the supply side, transparent reporting on the mobilization of climate finance can help in ascertaining whether the targets as per the Cancun Agreement are being met by developed countries, or not. **Thus, there is a need for developed countries to agree and be clearer on what constitutes climate finance and transparent data on the nature of climate finance provided to sectors and thematic areas and also data on loss and damages to help determine the cost of preventive action.**
- Accountability mechanisms can help developed countries improve targeting. The analysis of the financing needs, the fiscal risks and vulnerabilities of developing countries can help in enhanced effectiveness of climate finance flows.
- Transparent data for developing countries will not only help in biennial reporting to the UNFCCC but will improve access to climate finance as it will firstly render information to the developed countries on the financing gaps and needs, and secondly give confidence to developed countries on the transparent and effective utilization of climate finance and thirdly, reflect the priorities of developing countries.

[12] Climate Public Expenditure and Institutional Review and/ or Climate Budget Tagging if designed well can provide information on both domestic and international climate finance.

- Accountability mechanisms can increase the value and effectiveness of climate finance investments made by developed countries because of the synchronization of international climate finance with the requirements of developing countries.

Transparent data can help in putting in place sound accountability mechanisms. A clear approach and agreement on the definition of climate finance will help multi-lateral development agencies and developed countries on actual climate finance flows, sources and utilization. The regional and global entities like the UNFCCC, Climate Policy Initiative, Open Budget Partnership, Oxfam and others can generate the analysis of the quantum and direction of international climate finance. A domestic accountability framework can help in the engagement of different actors including civil society, government and research entities on the veracity of information and data, financing needs and whether these needs have been deliberated and are in line with the NDCs and NAP. Accountability mechanisms need to be put in place to see whether the climate finance flowing from developed countries is responsive to the developing country's needs which leads to emissions reduction, strengthens adaptation and resilience, and finally takes into consideration the equity issues amongst, and within, countries.

The institutional architecture for accountability and transparency should aim to improve coordination, coherence and harmonization of country assistance, improved decision-making processes and resource allocations, and better monitoring and evaluation of mitigation and adaptation results against established climate goals.

Bangladesh has taken a whole of society approach on climate finance. With UNDP support, it has institutionalized climate expenditure reporting, made the information understandable and accessible to citizens. This has helped in development of climate related key performance indicators of the Medium Term Expenditure Framework (MTEF) for 25 ministries. It has also undertaken climate performance audits on pilot basis.

Climate English.pdf (portal.gov.bd)

Climate Budget Report Bangladesh's Citizens 2020-21 | United Nations Development Programme (undp.org)

Key constraints to improved transparency and accountability

While accountability and transparency are considered to be of pivotal importance, implementation is constrained by the following challenges:

- Lack of transparency in climate finance data which is evident from variance in reporting on climate finance provided by developed countries
  - Lack of a common acceptable and consistent definition of climate hampers establishment of systems and processes for reliable climate finance data.
  - Lack of consistent data on climate expenditures, resources spent and required financing impedes the achievement of NDCs, NAPs;
  - Limitations in the current aid classification and budget classification systems do not capture the full extent of private sector climate finance, as well as public sector and other sources of investments;
- Lack of accountability mechanisms for international climate finance which is evident from the mismatch in prioritization of climate finance flows with a developing country's needs
- Lack of transparency and accountability mechanisms lead to the formulation of policies that can result in crowding out of private sector investments to climate change responsive sectors
- The global climate finance landscape is complex with several types of institutions acting as sources and/or intermediaries of capital for climate finance (for example government, DFI, corporations, commercial finance institutions etc.,) and providing climate finance through several instruments such as grants, debts, equity etc., for adaptation and mitigation activities in a wide array of sectors
- Different development partners and countries are coming up with their taxonomies which will make comparability of the data challenging

Key recommendations for supporting improved transparency and accountability

The accountability and transparency for international climate finance requires:

- Agreement on the definition and taxonomy of climate finance. Though the global reporting process, in addition to assessing progress on curbing GHG emissions, provides a strong framework to assess financial flows at the global and national levels for climate-resilient development, consensus, to the extent possible, needs to be developed on bringing some standardization to what constitutes climate finance
- Data collation and analytics on climate finance driven by independent global and regional entities can help in informed decision-making on climate finance at the global level
- Transparent data on adaptation needs and finance that can help in accessing adaptation finance. This will also require methodology on determining adaptation financing needs
- Dialogue between different stakeholders, particularly the governments of recipient and providers of climate finance, on the prioritization for judicious and effective channelization of finance flows
- Greater levels of transparency and accountability in policy decisions related to mitigation and adaptation, resource allocations and utilization at global, national and local levels, and data on emissions, as well as on climate change vulnerability. Improved transparency and accountability can expand policy conversations, support multistakeholder engagement, and enhance the efficacy of mitigation and adaptation policies and initiatives
- Concerted and clear commitment from all stakeholders – i.e. governments (national and subnational), parliaments, private sector, civil society, academia and researchers etc., to address the financing gaps for adaptation and mitigation. Bringing climate finance at the heart of development agenda, connecting with the integrated national financing framework, linking policy and budgeting decisions with the NDCs and NAPs, capacity strengthening and a comprehensive climate financing framework that focuses on data generation and accountability mechanism.
- Developing countries strengthen institutional governance and climate-aligned planning and budgeting systems, taking a whole-of-society approach for reliable data and analysis on its efficacy.

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