How can Climate Finance Tracking work?

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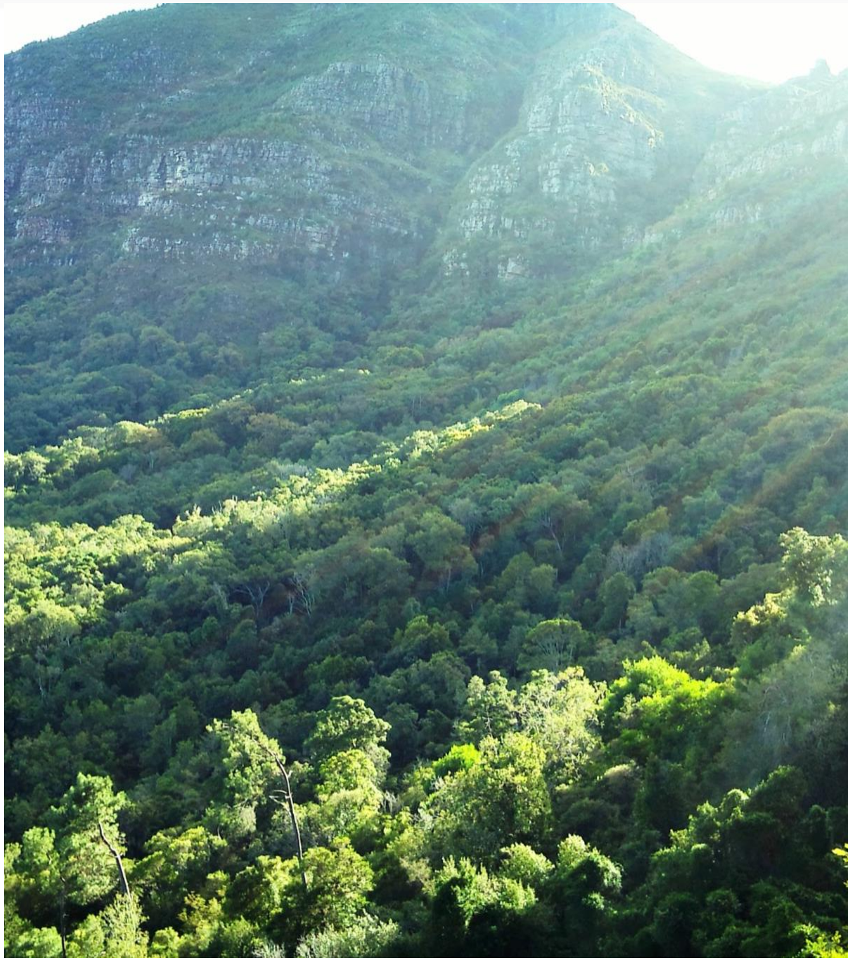
1. Introduction to climate finance

Climate finance refers to 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

- *Climate finance can be international or domestic and come from public and private sources*
- *International climate finance is guided by the principle of "common but differentiated responsibility and respective capabilities"*

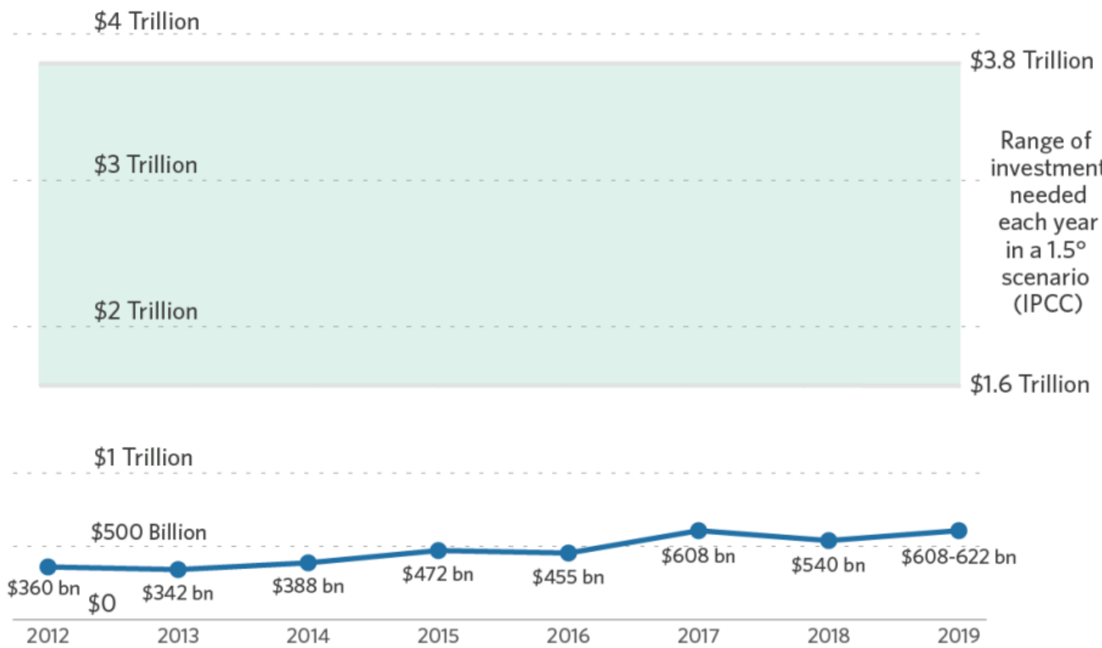


Climate finance trends

- **Climate finance flows are estimated at USD 608-622 billion annually in 2019**
- **Overall, the trend is positive yet fluctuating**

POSITIVE TRENDS BUT MORE STILL NEEDED

While climate finance has reached record levels, action still falls far short of what is needed under a 1.5 ˚C scenario
"There is a need for a tectonic shift beyond 'climate finance as usual.' Annual investment must increase many times over, and rapidly, to achieve globally agreed climate goals and initiate a truly systemic transition across global, regional, and national economies



Source: Climate Policy Initiative, 2019 Global Landscape of Climate Finance

Climate finance geographies

Destination region of climate finance, by public/private and mitigation/adaptation & dual benefit splits (USD billion, 2017/2018 annual average)

Increases are concentrated in:

- Low-carbon transport (by sector)
- North America and East Asia (by region)

76% of the tracked total climate finance is still invested in the same country in which it is sourced:

- strong “domestic preference” among investors where home-country risks are well-understood
- indicates importance of national-level factors which policy and enabling frameworks can help to address

Source: Climate Policy Initiative, 2019 Global Landscape of Climate Finance

2. Overview of climate finance tracking: relevance and entry points

Governments	• Budget coding and tagging • MRV and M&E systems to track NDC implementation
Financiers	• OECD criteria for multinationals • Taskforce on Climate-related Financial Disclosure (TCFD) • Impact Management Project (IMP)
Projects	• Post-issuance reporting

Indonesia:
The country is using climate budget tagging for mitigation and adaptation actions to issue green bonds and raise money for climate projects

Ecuador:
Climate finance tracking is evolving to also consider the social justice aspects of spending

Kenya:
Supports the implementation of Kenya's NDC by providing the National Treasury with a baseline and methodology for collecting and reporting on climate expenditure data from the public and private sector

Climate finance tracking benefits

- **Monitoring, evaluation, and reporting**

Helps increase transparency, accountability, and trust among relevant stakeholders. It can inform international and national reporting on support received vs. support needed or help to fulfil specific donor reporting requirements

- **Planning, budgeting, and awareness**

To understand the nature and magnitude of domestic and international climate finance, and set a baseline understanding of climate finance flows which can be subsequently tracked over time

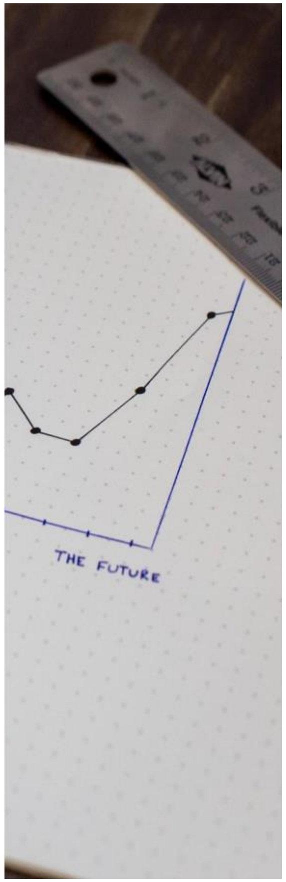
- **Resources mobilisation**

Acts as a basis for cross-sectoral, cross-government, and government-donor discussions on the priorities for resource mobilization for climate action.

Climate finance tracking scope

Sector focus	• **Target sectors** can be selected:
	  • Inclusions and exclusions for sectors will largely depend on the taxonomic approach and how its climate relevance is defined.
	  • A country might seek opportunities for additional external funding in certain sectors

Geographic scope	• National • Sub-national
Temporal coverage	• Annual vs. Multiple year • Ex-post vs. ex-ante
Commitments and/or disbursements	• Tracking disbursements • Tracking commitments
Primary and/ or secondary transactions	• **Primary transactions** representing investment into new productive assets targeting green outcomes (most landscapes) • **Secondary market transactions** - such as non-project bonds, listed or unlisted equities, mergers and acquisitions, insurance, and reinsurance (targeted analysis)
Climate vs. non-climate flows	• **Climate aligned** • **Climate mis-aligned** • **Transition finance** which aims to start a transition from high to low carbon intensity, but does not necessarily reach the ultimate goal

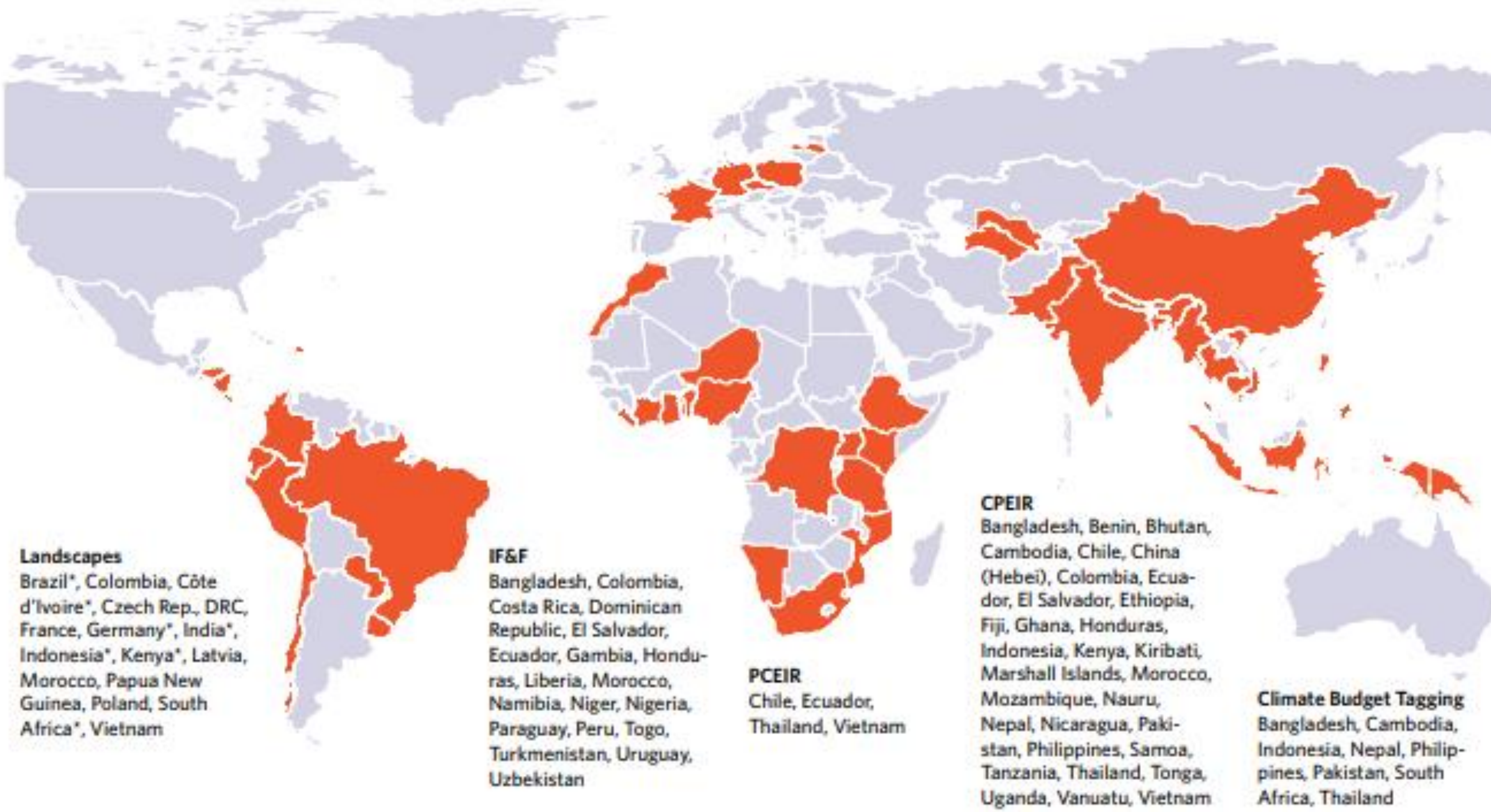


3. Methodologies in use and international experiences

	Landscapes	CPEIRs	PCEIRs	CBTs	IF&Fs
Objective	Capture dimensions of climate finance flows (sources, intermediaries, uses, instruments etc.)	Policy analysis, Institutional review, expenditure review	Review of private sector investments in selected sector, estimate investment needs	Mainstreaming climate change in public financial management	Costing of NDC implementation based on climate change impact by sector
Temporal Coverage	Ex-post, Ex-ante	Ex-post	Ex-post, forecasting	Present, Ex-post	Ex-ante, forecasting
Type of Finance	Public and/or Private	Public	Private	Public	Public and private

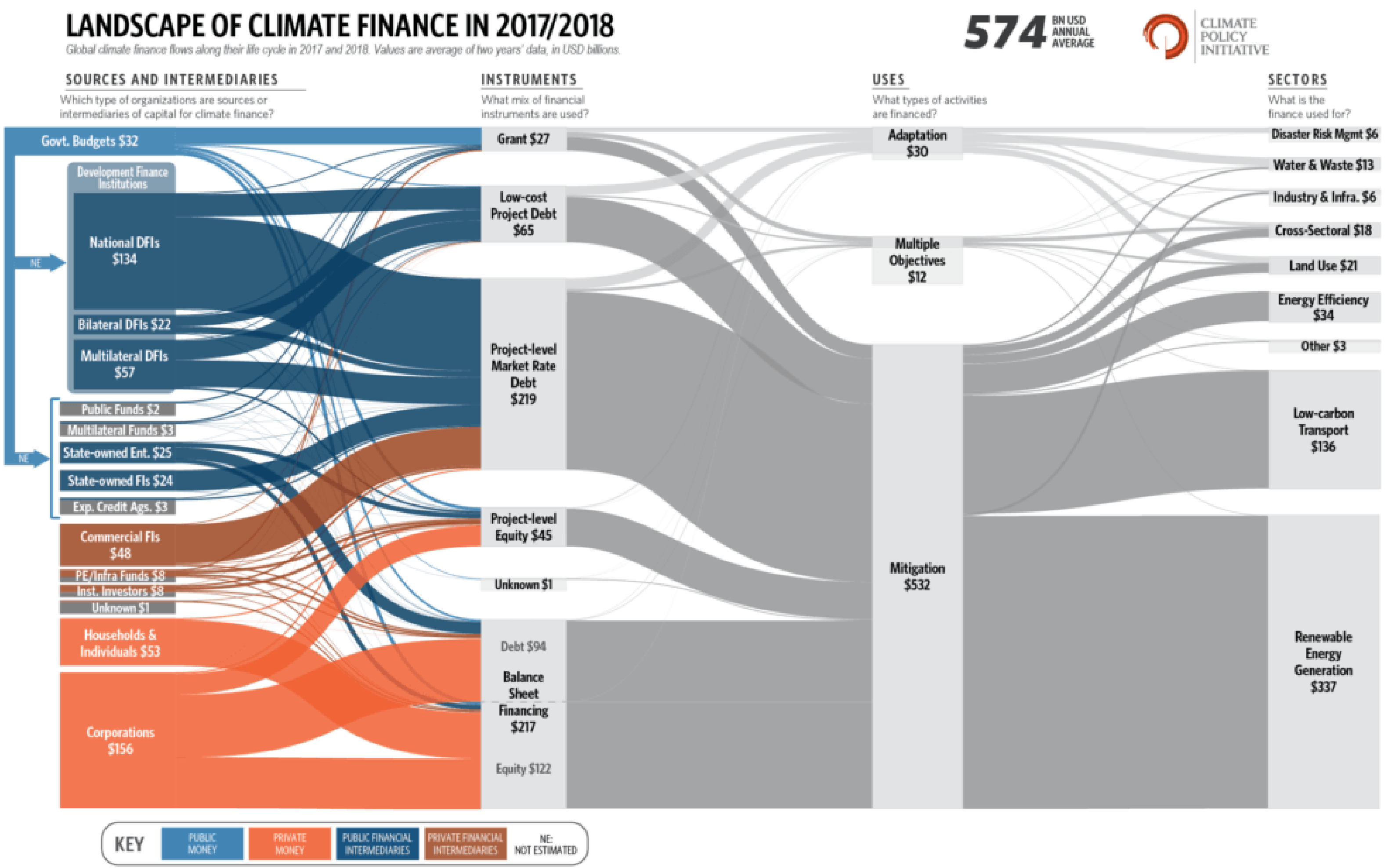
Source: Climate Policy Initiative, 2021 Domestic climate finance planning and tracking

Climate finance tracking: global experience



Source: Climate Policy Initiative, 2021 Domestic climate finance planning and tracking

Global Landscape of Climate Finance 2019



Source: Climate Policy Initiative, 2019 Global Landscape of Climate Finance

Climate budget tagging worldwide

Objective-Based Definition	Policy-Based Definition
Cambodia (OECD Rio markers) Colombia (OECD Rio markers and GFLAC definition) Ethiopia (OECD Rio markers and reference to national strategies and sectoral plans) France (own definitions consistent with EU taxonomy) Honduras (own definition, aligned with OECD Rio markers) Indonesia (aligned with OECD Rio markers, indicative list) Ireland (aligned with ICMA GBP) Nicaragua (own definition, based on IPCC/UNFCCC focus on loss and damage, and disaster risk management) Kenya (OECD Rio markers, indicative list)	Bangladesh (44+6, based on policy) Ecuador (15 categories, 3–6 specified activities for each) Ghana (list of policy objectives and operations) Nepal (11 climate change–related categories defined by working group) Pakistan (11 tasks/sectors from policy, indicative activities)
Mixed Approach	
Moldova (intent, type of activity, or part of policy; classification according to activity category) Philippines (objective; classification according to policy) Uganda (objective; classification according to type of policy responses and specific strategy)	

Source: World Bank Review of budget tagging evidence 2021

South Africa Green Finance Taxonomy (Draft)

Agriculture, forestry, fisheries and land use	Industry	Industry	Energy	Energy	Water and Waste
Wildlife management Activity to be developed in future	**Manufacture of other inorganic basic chemicals** Section 3.2.6 Sic code 202	**Eco-efficient products and processes** Activity to be developed in future	**Transmission and Distribution of Electricity** Section 3.3.6 Sic code 3510	**Production of Heating/Cooling using Waste Heat** Section 3.3.13 Sic code 35300	**Composting of bio-waste** Section 3.4.6 Sic code 38210

Source: South Africa Green Finance Taxonomy 2021 (draft)

Climate Change Financing Framework of Pakistan KP Province

Scope and Limitation of the current CCFF

The scope of the CCFF is:

- The Provincial Government,
- All district governments in KP, and
- All centralized accounting entities and the self-accounting entities of the province and district governments.

Year	Main Element	Sub-Main Element	Funding Element	% age Contribution
	Mitigation	Emissions	Local Funding Foreign Funding	Low, Medium and High level
	Adaptation	Energy Waste Management Agriculture and Livestock Transport Land use changes Industry and manufacturing	Local Funding Foreign Funding	Low, Medium and High level

Source: The Government of Khyber Pakhtunkhwa and UNDP 2018

Climate finance tracking barriers & enablers

Barrier	How can it be addressed?
Methodology: Lack of adequate methodology and structure	• Development of taxonomies, budget tagging approaches and tailoring of existing methodologies (e.g. CPEIR) to country landscape • Be clear on contribution and additionality • Clearly documenting the developed approach to enable consistent future tracking
Data: Lack and inconsistency of data	• Identifying key data sources and documenting them to ensure consistency • Where possible establishing agreements for regular data provision (e.g. MoU) • Developing methodologies and approaches to address data gaps
Stakeholders: Poor stakeholder engagement	• Identifying key stakeholders and carrying out targeted work with them • Establishing collaboration frameworks and agreements
Capacity: Lack of technical capacity	• Capacity building for national experts at all stages: data collection, reporting, verification, etc. • Learning from other countries' experience
Use: Limited use of climate finance tracking results	• Comprehensive reporting and promotion of the developed reports • Development of user-friendly online platforms demonstrating the results

Resources

- Climate Policy Initiative (CPI): Global Landscape of Climate Finance 2019 https://www.climatepolicyinitiative.org/publication/updated-view-on-the-global-landscape-of-climate-finance-2019/
- Climate Policy Initiative (CPI): Domestic climate finance planning and tracking 2021: https://www.climatepolicyinitiative.org/event/domestic-climate-finance-mapping-planning-workshop/
- ODI: Climate Funds Update data https://climatefundsupdate.org/data-dashboard/
- CPEIR https://www.climatefinance-developmenteffectiveness.org
- CDKN/Ricardo NDC implementation https://ndc-guide.cdkn.org
- World Bank: climate tagging review of the evidence https://openknowledge.worldbank.org/bitstream/handle/10986/35174/Main-Report.pdf
- South Africa Green Finance Taxonomy (draft) https://sustainablefinanceinitiative.org.za/wp-content/uploads/2021/06/Draft-Green-Finance-Taxonomy.pdf
- European Union https://ec.europa.eu/clima/eu-action/international-action-climate-change/international-climate-finance/transparency_en

Thank you!