Tracking climate finance: Progress and challenges

Written by: Nicolina Lamhauge, OECD Development Co-operation Directorate and Raphael Jachnik, OECD Environment Directorate

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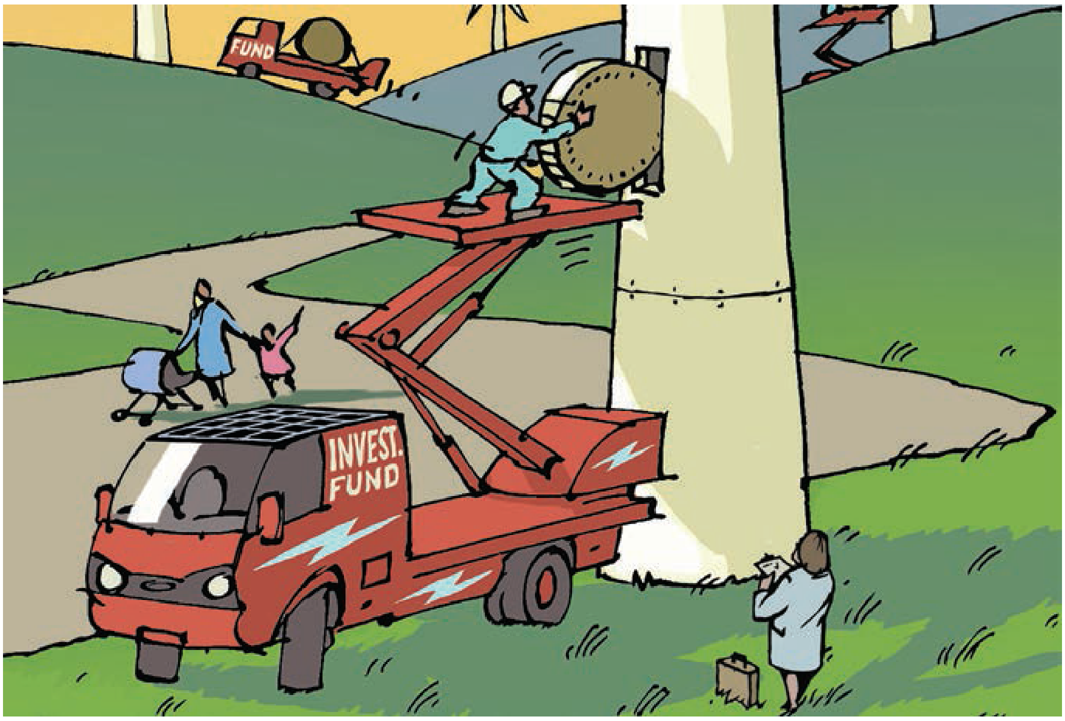

At the 2009 United Nations Framework Convention on climate Change (UNFCCC), developed countries committed to mobilising US$100 billion each year for climate action in developing countries by 2020. As negotiations on a new climate agreement intensified in the lead-up to COP21 in 2015, an understanding of the progress made towards this commitment was important in keeping everyone around the table. In this context, the OECD estimated that US$62 billion had been mobilised in 2014, up by US$10 billion since 2013. Updated estimates towards the US$100 billion commitment will be needed in the run-up to 2020, along with new information about climate finance beyond this goal. But further progress relies on robust and transparent tracking of the different streams of climate finance.

One of these streams relates to official development finance in support of climate change adaptation and mitigation in developing countries, including investments in renewable energy or in drought-resilient crops. The latest data available from the OECD Development Assistance Committee (DAC) point to a steady increase in bilateral climate-related development finance since 2010, exceeding US$30 billion in 2016. The data also underline a gradual shift towards activities that mainstream climate change considerations into broader development portfolios, such as land-use planning efforts that contribute to changes in greenhouse gas emissions or food security initiatives that consider climate change impacts.

Many developed countries use the data they report to the OECD as a basis for their climate finance reporting to the UNFCCC, but make adjustments for activities that do not principally focus on climate change. Recognising this, the DAC has proposed some adjustments in the information reported that will allow its members to indicate the relationship between the two sets of data. Ongoing modernisation of the DAC statistical system will also broaden the coverage of data reported to include all development finance provided by official bilateral and multilateral institutions. This, however, will not yet capture domestic public finance or public finance that does not have a developmental mandate.

Other processes can help fill those gaps though: official export credit agencies for example have initiated work to identify climate-friendly export credits beyond renewable energy; a few developing countries have prepared Climate Public Expenditure and Institutional Reviews (CPEIR); and the International Development Finance Club (IDFC) annually maps green finance flows provided by its members, including a number of national development banks.

Beyond the provision of public finance, meeting climate-related investment requires increased participation from the private sector. Although data on this front are hard to come by, the OECD-led Research Collaborative on Tracking Private Climate Finance and the DAC are making steady progress in developing methods and collecting data in order to measure the mobilisation of private finance through official development finance. Such methodologies balance accuracy with practicality and also aim to avoid double counting.

To date, data indicate that official development finance mobilised US$81.1 billion from the private sector during the period 2012-2015, out of which US$21.3 billion (or 26%) targeted climate mitigation and adaptation. In terms of instruments, guarantees played the most significant role.

Besides this, we still only know little about the mobilisation of private finance by non-developmental and domestic public climate finance. To capture private climate finance in a more comprehensive manner, such information will have to be identified and reported through complementary channels, including national monitoring and evaluation systems.

Further, the provision of private finance for low-emissions and climate-resilient projects is typically enabled by a range of public capacity-building activities and policies, the effect of which is hard to capture. Recent Research Collaborative work has made some headway in quantifying private finance invested as a result of targeted climate policies (such as feed-in tariffs and tax breaks). A pilot study in South Africa indicated that such policies resulted in private investments amounting to US$9 billion for renewable energy and US$4 billion for energy efficiency over the period 2010-2015. Further research in this area can, over time, help source more private climate finance data in all countries.

Beyond the tracking of finance provided and mobilised for climate action in developing countries, the Paris Agreement also calls for a broader assessment of the extent to which global financial flows are consistent with climate objectives. This implies collecting, collating and reporting a much wider range of domestic and international climate finance-related data than has been the case to date, and a lot of work ahead for statisticians and analysts. At the same time, let's remember that tracking on its own is not the end goal: progress on this front must contribute to accelerated climate action.

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More information on external development financing www.oecd.org/dac/environment-development/rioconventions.htm

More information on OECD development finance statistics http://www.oecd.org/development/stats/