Domestic Climate Finance Mapping and Planning: Challenges and Opportunities

Practitioners workshop held in the margins of COP25

December 6, 2019, Madrid

Summary

Held in the margins of COP25 in Madrid, this workshop brought together donor governments and implementing organizations actively engaged in tracking and mapping domestic climate finance, or considering doing so. Participants exchanged ideas, tools, and methods related to climate finance mapping and tracking in order to better understand practitioners' needs and priorities to support the implementation of national climate strategies. Over 45 participants attended the workshop from more than 24 countries.

The workshop was organized by the EU REDD Facility - European Forest Institute (EFI), Climate Policy Initiative (CPI), and the United Nations Development Programme (UNDP), and was funded by the EU REDD Facility and the International Climate Initiative (IKI) of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

This report summarizes key insights from the discussions. Comments are not attributed as discussions took place under Chatham House Rules.

Opening remarks

- **Barbara Buchner,** Global Managing Director, Climate Policy Initiative
- **Tim Clairs**, Head, Forest and Climate team, UNDP
- **Valrie Merckx** , Head, EU REDD Facility, European Forest Institute
- **Padraig Oliver**, Programme Officer, Climate Finance Policy and Analysis Unit, UNFCCC

During opening remarks, the clear need for tracking climate finance investments was emphasized:

- Tracking and planning public and private spending and investments and needs at the country level is an essential part of implementing national climate mitigation and adaptation strategies and achieving Paris Agreement objectives.
- Various mapping exercises have been instrumental in helping policymakers understand who finances what, and the extent to which finance is aligned with country policy objectives.
- As countries embark on work to enhance their Nationally Determined Contributions (NDCs) in 2020, climate finance mapping can play a key role to identify new ways governments can step up their climate actions, as well as finance these bold new goals.

- While mobilizing new resources is important, so is ensuring that existing domestic spending structures are aligned with climate objectives. Such coherent domestic spending is essential to build trust with international partners and ensure the added value of international support.
- Tracking initiatives also contribute towards understanding of how the broader economy contributes to climate investments, both positively and negatively, which can help encourage increased investment.

From a reporting perspective, domestic tracking can support countries on one of the key elements of the Katowice Climate Package and the Enhanced Transparency Framework wherein Parties are required to submit biennial transparency reports (BTRs) starting from 2024, and for the first global stock take in 2023. Going forward, a coherent reporting framework, clearly laying down assumptions and methods for estimating financial needs can help countries access climate finance.

Presentations: Overview of climate finance mapping approaches, tools and needs

- **Chavi Meattle**, Analyst, Climate Policy Initiative
- **Gianluca Merlo**, Climate Technical Specialist, UNDP NDC Support program

Since 2012, CPI has produced the Global Landscape of Climate Finance in addition to national landscape studies in Germany, Indonesia, Cote d'Ivoire, and currently working on India, Brazil, and Kenya, together with national government and international partners. The UNDP NDC support program has been supporting dozens of countries in implementing CPEIR, PCEIR, and IF&F methodologies.

Two presentations provided an overview of existing climate finance mapping and tracking approaches and tools.

These included:

- **Domestic climate finance landscapes**, including those which are focused on land use, and the land-use finance tool (LUFT) – This approach, developed by CPI back in 2011, tracks the life cycle of climate finance flows – from provider of finance, intermediaries, instruments, disbursement channels, and uses.
- **Climate Budget Tagging** (CBT) - Supported by UNDP and the World Bank, this tool classifies climate-relevant budget expenditures in a government's budget system, allowing allows countries to mainstream climate change in public financial management.
- **Climate Public Expenditure and Institutional Reviews** (CPEIR) - Supported by UNDP and the World Bank, this is a systematic qualitative and quantitative analysis of a country's public expenditures, policies, and institutional framework of the public agencies in relation to climate change.

- **Private Sector Climate Expenditure and Institutional Reviews** (PCEIR) – Supported by UNDP and the World Bank, this tool undertakes a review of private sector climate finance at the sector level.
- **Investment and Financial Flows assessments** (I&FF) - Supported by UNDP and the World Bank, I&FF is a forward-looking tool which compares possible scenarios for future expenditure on actions, compared with a baseline scenario to determine the costs of climate change measures and potential sources of investment.

This map shows countries that have either completed or are currently undertaking climate finance and tracking initiatives.

Panel: Methodologies and challenges for climate-related finance mapping

This panel brought together country representatives and practitioners to discuss their experiences, new approaches, and lessons learned from tracking and mapping domestic climate and land-use finance.

Moderator: Angela Falconer, Associate Director, Climate Policy Initiative

Panelists:

- **Peter Odhengo**, Senior Policy Advisor on Climate Finance, **Kenyan Treasury**
  Kenya has experience in applying the CPEIR methodology and has developed a climate budget tagging system for national and local level budgets. The Treasury is currently working to prepare an up to date view of the Kenyan climate finance landscape.
- **Ian Cochran,** Senior Advisor, **14CE**, French Landscape of Climate Finance
  14CE is a French think-tank which publishes The Landscape of Climate Finance in France each year.
- **Jean-Claude Koya**, Technical advisor, **Côte d'Ivoire** Ministry of Planning and Development
  Côte d'Ivoire was the first country to test the land-use finance mapping approach in 2017 with a view to mainstream forest protection objectives into its national budget.
- **Aleksandra Novikova, IKEM**, Landscapes of Climate Finance in Czech Republic, Latvia, and Germany
  IKEM is a German research institute which has been supporting the Czech Republic, Latvia and Germany in mapping investments in the climate and energy sector.
- **Kailash Raj Pokharel**, Under Secretary, Ministry of Finance, **Nepal**
  Nepal has been one of the pioneering countries in implementing CPEIR and climate budget tagging approaches since 2012.
- **Victor Kabengele**, Deputy coordinator of the REDD National Fund, **DRC**
  DRC is currently mapping domestic and international land-use expenditure since 2009 with a view to increase the transparency of REDD+-related support and identify unmet needs.
- **Gianluca Merlo**, Climate Technical Specialist, **UNDP NDC Support program**
  Gianluca shared the experience of El Salvador in implementing the IFF.
- **Adeline Dontenville, EU REDD Facility**, European Forest Institute
  The EU REDD Facility developed the Land-Use Finance Tool, together with CPI, and has been supporting implementation in various countries such as Côte d'Ivoire, Vietnam, Cambodia or DRC.
- **Simon Messenger,** Director, **2 Degrees Investing**
  2 Degrees Investing, a global think tank, have developed a tool called PACTA to help private investors screen the coherence of their portfolio against climate-related risk metrics.

In this session, panelists discussed if various climate finance tracking and mapping initiatives have helped to achieve their intended objectives. Key takeaways included:

- **Identifying financial needs and gaps**: Significant increases in public expenditure and private finance are needed to finance mitigation and resilience projects. Most tracking and mapping initiatives aim to enhance the understanding of how existing expenditures contribute to climate goals and what gaps remain. For instance, the French government uses I4CE data to understand what is needed to reach the objectives of the French climate strategy, and Germany uses climate finance mapping to assess its existing domestic contribution to EU ETS targets.

- **Building trust with investors, donors and stakeholders:** Tracking initiatives are a pre-requisite to providing robust evidence and transparency to mobilize investments, particularly from the private sector and institutional investors. For instance, Kenya launched its first corporate green bond in 2019 to help fight climate change, leveraging the established system of tracking of climate finance. DRC is mapping all REDD+-related expenditure since 2009 to increase accountability towards donors. Such national and sub-national tracking exercises allow to better align of donors both inside the country and internationally, incentivize private sector investments, and ensure strategic planning at the grassroot level.
- **Mainstreaming and integrating climate framework, policies, and laws into national and sectoral budgets:** From a planning perspective, it is critical to incorporate and integrate climate objectives, policies, and laws in national planning and budgetary process to a) ensure effective planning and allocation of budgetary resources b) redirect investment from non-aligned activities to activities consistent with the domestic climate finance strategy and, c) to facilitate policy dialogue across different sectors. For example, the Ivorian Threshold 21 (T21) model which integrates risks and impacts of climate change across major sectors to inform coherent national development policies. Also, the EU's recently adapted Governance Regulation requires EU member states to adapt National Energy and Climate Plans (NECPs) to facilitate Member States' programming of funding and investments in the next multi-annual financial framework 2021-2027.
- **Going forward there is a need for more detailed information to plan climate compatible investments,** including project-level information on sources of capital, end sector uses, technologies, sustainable business models, potential partners, economic rationale and viability of investments, and enabling environments to better identify gaps and sources to mobilize climate compatible investments. Such information can help us identify the optimal technology and cost mix, improving our information and inputs to modelling different scenarios and better understanding from a real economy perspective.

What are the challenges faced in tracking climate finance investments and what is needed going forward?

- **Definitions** – definitions of climate finance in the national context require further refinement. When possible, methodologies and definitions to track investments in different sectors (building, energy efficiency, R&D, adaption, etc.) should be comparable across countries. Defining investment that is not aligned to climate objectives (high carbon) can also be politically sensitive and therefore challenging.
- **Data gaps** – availability of data is a key challenge, especially off-budget data, regional budgets, private sector investments, and disbursement data.
- **Policy relevance** – studies need to be tailored at the outset to build political buy-in and be oriented to specific policy or programming objectives.
- **Capacity** – climate finance tracking activities and investment needs assessments should build capacity inside relevant ministries and agencies. This will ensure transparency,

accountability, and replicability in future years. Embedding activities in established communities of practice can also help build capacity of stakeholders.

- **Inter-ministerial coordination** – it is imperative to bridge the knowledge and communication gap between various Ministries (Finance, Development, Environment, among others) to improve coordination. When looking at non-climate flows, it is even more important to get strong buy-in from government at the level of the coordinating ministries such as finance or planning.
- **Sustainability** - linking tracking exercises to budget information systems – to embed results of mapping and tracking analyses in domestic planning processes, countries can develop approaches to conduct reviews periodically and automatically collect relevant data.
- **Stakeholder engagement**- grounding such exercises on multi-sectoral participatory processes is very important to ensure ownership of results, as well as to reach a consensus on typologies and using the results to improve the alignment of spending to climate objectives. In some countries, such platforms don't clearly exist or are not very effective.

Breakout groups: Using climate finance mapping to influence policies, mobilize and redirect investment

In structured discussions, participants gathered insights from country representatives, practitioners, and partners to:

1. **Share their experience** to date (objectives, approaches, challenges, lessons)
2. **Discuss needs and priorities** going forward, e.g. methodology or tool development, capacity building, financial support, community of practice network, etc.
3. **Discuss how to use the results** from tracking and planning exercises more systematically to realign finance going forward

Some of the key needs and ideas that emerged out of these discussions were:

- **Developing an understanding of how finance impacts systems**. Finance data is very fragmented, with no system in place in most countries. This creates a disconnect between data analysis and policy impact. There is a clear need to a) highlight opportunities, success stories, and cost of inaction b) develop typologies, metrics, and indicators to proactively measure impact, and c) take a holistic approach to identify data not labelled as climate finance.
- **Simplifying information to facilitate dialogue amongst stakeholders**. We need to view climate change investments as a tool for development and leverage existing (and new) visualization tools to increase political relevance and buy-in of proposed recommendations. A case in point is Nepal's Citizen Climate Budget which allows citizens, civil society organizations, and policymakers to understand how the government uses public finance to address climate change. Bangladesh also produced a citizen's version of their tracking analysis to further enhance the accountability of the process.

- **Increasing cooperation amongst different stakeholders** is needed at various level to allow:
  - Sharing of various approaches and best practices applied in different countries
  - Data sharing
  - Increased transparency to reduce perceived risk and information asymmetries
  - Improved coordination and capacity building across ministries

A case in point is the newly formed Coalition of Finance Ministers for Climate Action, following the set of six common principles - the Helsinki principles - that promote national climate action by allowing Finance Ministers to share best practices and experiences on macro, fiscal, and public financial management policies for low-carbon and climate-resilient growth.

- **The need for a well-calibrated approach to tracking** integrating three key elements:
  - national policy design
  - investments received and estimation of support needed
  - the impact of investments on emissions and climate resilience.

Next Steps

In concluding remarks, Dr. Barbara Buchner emphasized:

1. The need for improved coordination between technical partners to develop and share methodologies, tools, and potentially data.
2. The need for a community of practice to facilitate sharing of best practice.

CPI and EFI are committed to continuing to expand and develop their support for climate finance tracking and mapping. CPI and EFI will host another half-day climate finance mapping workshop on the sidelines of COP26 in Glasgow in November 2020.

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Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety