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What Counts: Tools to Help Define and Understand Progress Towards the \$100 Billion Climate Finance Commitment

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World Resources Institute (WRI) is a global research organization that spans more than 50 countries, with offices in Brazil, China, Europe, India, Indonesia, and the United States. Our more than 450 experts and staff work closely with leaders to turn big ideas into action to sustain our natural resources—the foundation of economic opportunity and human well-being.

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Climate Policy Initiative (CPI) works to improve the most important energy and land use policies around the world, with a particular focus on finance. An independent organization supported in part by a grant from the Open Society Foundations, CPI works in places that provide the most potential for policy impact including Brazil, China, Europe, India, Indonesia, and the United States. Our work helps nations grow while addressing increasingly scarce resources and climate risk. This is a complex challenge in which policy plays a crucial role.

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Executive Summary

As Parties to the United Nations Framework Convention on Climate Change (UNFCCC) design a post-2020 climate agreement and establish their national contributions within it, the question of progress toward existing climate finance targets has become a sticking point. While mobilizing \$100 billion will not meet the climate investment challenge by itself, the goal is currently the primary political benchmark for assessing progress on climate finance. This paper aims to make a positive contribution in the lead up to Paris by first unpacking the key variables Parties have emphasized in debates about “what counts”, and then proposing an approach to classifying climate finance that Parties could use as a starting point for their analyses and interpretations. It takes no position on what *should* count towards the \$100 billion: instead it organizes different aspects of climate finance in politically relevant ways that could help facilitate clearer understanding and convergence.

This paper builds on existing work by Climate Policy Initiative (CPI), Overseas Development Institute (ODI), World Resources Institute (WRI), and others including the UNFCCC’s Standing Committee on Finance on mapping and tracking the landscape of climate finance. It distills the debate into five key variables that have emerged as relevant to what Parties consider to “count” as climate finance:

1. **Motivation**– the extent to which a financial flow was explicitly designed to reduce greenhouse gas emissions or support climate adaptation.
2. **Concessionality / source** – the legitimacy of public versus private sources of climate finance, and the degree of “softness” of the finance reflecting the benefit to the recipient compared to a loan at market rate.¹ To simplify categorization and facilitate debate we combine “source” with “concessionality” in this paper, though we recognize this is an imperfect conflation.
3. **Causality** – the extent to which a contributor’s intervention (whether public finance or policy) can be said to have mobilized further investment in climate-relevant activities.
4. **Geographic origin**
5. **Recipient**

Each of these variables is explored in depth in section 4 of the paper. In all the diagrams used to represent them, different categories are organized into concentric circles according to political consensus (what we refer to as “onion diagrams”). The closer a category is to the center of the onion diagram, the more notional consensus there is among stakeholders that it should count toward the goal. The key issues considered are summarized in the figure below.

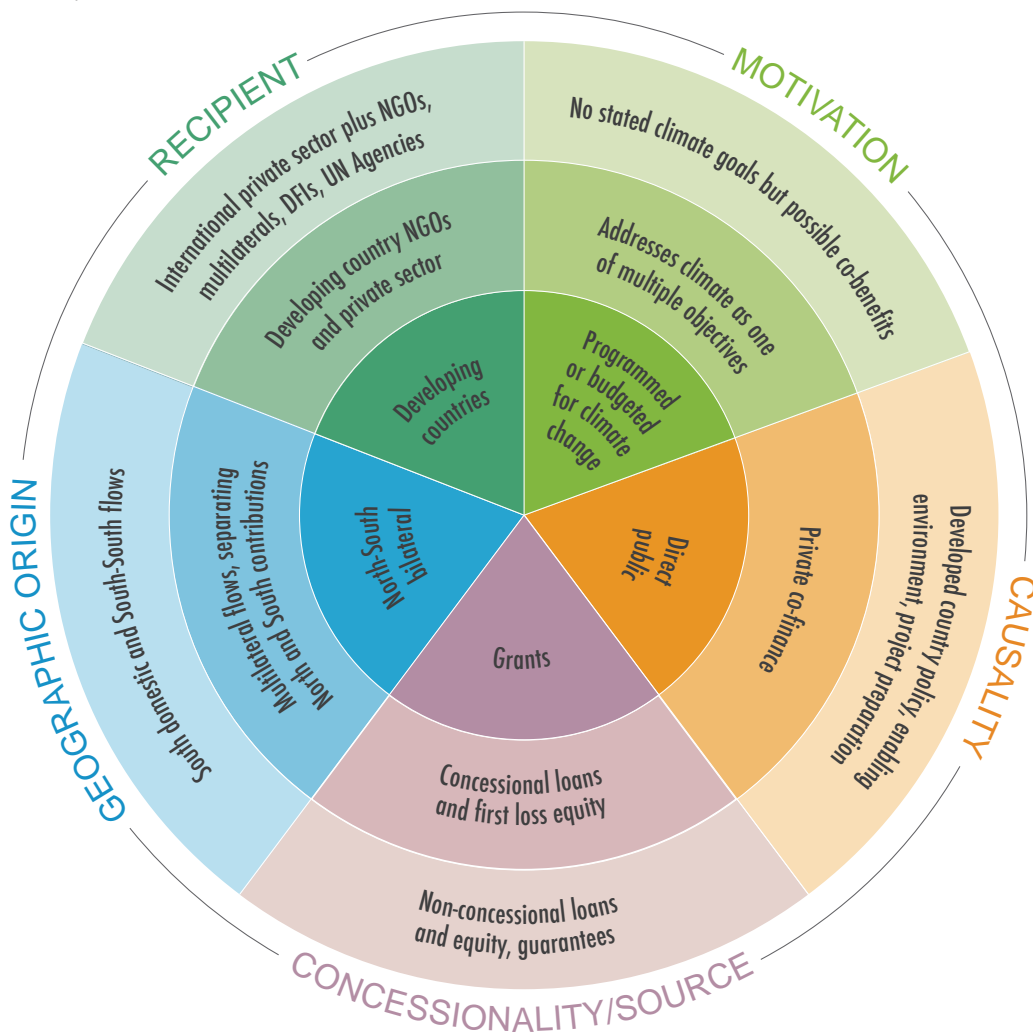
While some stakeholders may care only about one or two of these factors, most probably assign some weight to most, if not all of them.

None of the diagrams in the paper indicate the relative size of flows. We recognize that in order to move beyond a conceptual discussion, numbers will need to be associated with the various layers and rings of each onion, though poor data quality and availability related to some of the variables remains a substantial constraint and we highlight important accounting issues that affect *how* flows of climate finance are being counted.

However, while quantifying flows is an essential step and an area of both current and future work, it can also tempt Parties to first look at the numbers and only then to decide what kinds of flows should count. This paper encourages stakeholders to instead discuss the principles behind their views before focusing on the numbers to support deeper reflection on underlying assumptions and preferences.

¹ For an in-depth discussion of what concessionality means for different parties and how we define it in this report see section 4.2.

Figure ES-1: All variables represented



Advancing the debate

The above diagram and others in the paper are tools that can help structure debates about this issue, offer politically relevant categorizations of flows, and allow Parties to draw their own conclusions about what should count towards the \$100 billion. We have also provided a diagram in Section 5 that allows stakeholders to shade in the cells they believe should count towards the commitment.

Even with efforts to distill the debate over “what counts” to a handful of variables, reaching consensus would be very challenging. While this paper does not provide definitive solutions, it supports deeper reflection on underlying assumptions and preferences.

Such reflection may help to de-politicize these debates while fostering better mutual understanding of perspectives and preferences. We also believe the insights highlighted in this paper are relevant beyond the \$100 billion issue, including for discussions about financing for development, what counts as official development assistance, and other current debates on defining and monitoring international finance commitments.

CONTENTS

1. INTRODUCTION	1
2. DECONSTRUCTING THE \$100 BILLION COMMITMENT	2
3. ONION DIAGRAMS	3
4. WHAT COUNTS: UNPACKING THE KEY VARIABLES	4
4.1 CLIMATE CHANGE AS THE MOTIVATING FACTOR	4
4.2 CONCESSIONALITY AND SOURCE	6
4.3 CAUSALITY	7
4.4 GEOGRAPHIC ORIGIN	8
4.5 RECIPIENT	9
4.6 ACCOUNTING ISSUES	
4.7 NEW AND ADDITIONAL	12
5. INTEGRATING THE VARIABLES	14
5.1 ADVANCING THE DEBATE	15
6. CONCLUDING OBSERVATIONS AND DIRECTIONS FOR FUTURE WORK	18
7. ANNEX	19
8. REFERENCES	20

1. Introduction

As Parties to the United Nations Framework Convention on Climate Change (UNFCCC) design a post-2020 climate agreement and establish their national contributions within it, the question of progress toward previous climate finance targets is becoming a sticking point. In 2009, developed countries committed to mobilize \$100 billion per year from public and private sources to support climate action in developing countries by 2020—a step that helped unlock the Copenhagen Accord and paved the way for subsequent decisions that will define the multilateral climate regime through 2020.² In order to reach agreement, heads of state chose to leave the precise definition of “mobilization” and the prioritization of certain sources and flows over others up for interpretation.

While mobilizing \$100 billion will not solve the climate problem by itself, the goal is currently the primary political benchmark for assessing progress on climate finance. Demonstrating that developed countries are on track to meet this commitment is likely to be vital to securing an agreement on climate action under the UNFCCC when the Conference of the Parties (COP) meets in Paris at the end of 2015. There is little question that scaling up climate finance has been a primary political and operational priority for Parties since Copenhagen³, as evidenced by initiatives to elevate climate finance in bilateral, multilateral, and private sector institutions, not to mention the recent landmark pledges of more than \$10 billion to the Green Climate Fund (GCF).⁴ Nevertheless, debates on how to define and measure the \$100 billion goal continue to be among the most contentious in the negotiations, especially in the “long-term finance” work stream and the Ad Hoc Working Group on the Durban Platform for Enhanced Action (ADP) work stream 2. Having committed to action following the \$100 billion pledge, developing countries are keen to understand whether progress is being made.

Even though agreement by the COP on a single, precise definition of “what counts” may not be realistic, the discourse in the UNFCCC on this issue remains remarkably scattered after six years. Despite important work by think tanks on definitional issues and

measurement of flows – and recent contributions by the UNFCCC’s own Standing Committee on Finance (SCF) – policy makers would benefit from tools that can help structure their debates about this issue, offer politically relevant categorizations of flows, and allow them to draw their own conclusions about what should count towards the \$100 billion.

This paper aims to make a positive contribution in the lead up to Paris by 1) unpacking the key variables Parties have emphasized in debates about “what counts” and 2) proposing an approach to classifying climate finance flows that Parties could use as a starting point for their analyses and interpretations. The paper builds on existing work by Climate Policy Initiative (CPI), Overseas Development Institute (ODI), World Resources Institute (WRI), and others on mapping the general landscape of flows, tracking climate finance, and better defining key concepts like leverage and mobilization including in the context of the OECD’s Research Collaborative on Tracking Private Climate Finance.⁵ In particular, it expands on the “onion diagram” of climate finance as presented in the SCF’s first Biennial Assessment and Overview of Climate Finance Flows and described below.⁶

This paper takes no position on what *should* count towards the \$100 billion commitment, but rather organizes different aspects of climate finance in politically relevant ways that could help facilitate clearer understanding and convergence among Parties. We have exercised expert judgment in assessing the degree of convergence, and also sought wide feedback on these judgments through facilitated debate and review with a wide range of stakeholders. This paper does not attach quantitative estimates to the various categories of flows. While quantifying flows is an essential step and an area of both current and future work,⁷ it can also be tempting to first look at the numbers and only then decide what kinds of flows *should* count. This paper encourages stakeholders to discuss the principles behind their views before focusing on the numbers. We welcome continued feedback and debate on the concepts presented in this paper.

2 UNFCCC /CP/2009/11/ <http://unfccc.int/resource/docs/2009/cop15/eng/11a01.pdf>

3 The notion of climate finance has also been an element of the UNFCCC since it was adopted in 1992.

4 GCF Pledge Tracker May 2015

5 Brown 2011; Caruso and Ellis, 2013; Stadelmann and Michaelowa, 2013; Whitley 2012; Watson et al 2012.

6 Standing Committee on Finance of the UNFCCC (2014). “Biennial Assessment and Overview of Climate Finance Flows,” UNFCCC, Bonn.

7 Buchner et al, 2014, Westphal et al, 2015, ODI-HBF Climate Funds Update, Nakhoda, Fransen et al 2013.

2. Deconstructing the \$100 billion commitment

The \$100 billion commitment in the Copenhagen Accord is phrased as follows:

“In the context of meaningful mitigation actions and transparency on implementation, developed countries commit to a goal of mobilizing jointly USD 100 billion dollars a year by 2020 to address the needs of developing countries. This funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance.”⁸

Subsequent UNFCCC decisions have been scrupulous in repeating this phrasing almost exactly and without elaboration.⁹ The nominal features of the commitment are as follows.

- **What** - A “wide variety” of sources explicitly encompasses both public and private without priority assigned between the two, but the term “alternative sources” is undefined.
- **Who** - Developed countries (though not explicitly Annex I or Annex II countries) are committing to the goal jointly. Developing countries (also not clearly defined) are to be the beneficiaries.
- **When** - The date for the commitment itself is the year 2020 specifically, though “by 2020” rather than “in 2020” suggests a trajectory before and/or after.
- **How** - “Mobilizing” is an operative word. In contrast, the fast start finance commitment for 2010-12, which relates only to public finance, uses the verb “provide.”¹⁰

8 UNFCCC COP decision 2/CP.15.

9 UNFCCC COP decisions 1/CP.16 (paras 98-99), 2/CP.17, 4/CP.18, and 3/CP.19.

10 “The collective commitment by developed countries is to provide new and additional resources, including forestry and investments through international institutions, approaching USD 30 billion for the period 2010-2012 with balanced allocation between adaptation and mitigation.” UNFCCC COP decision 2/CP.15.

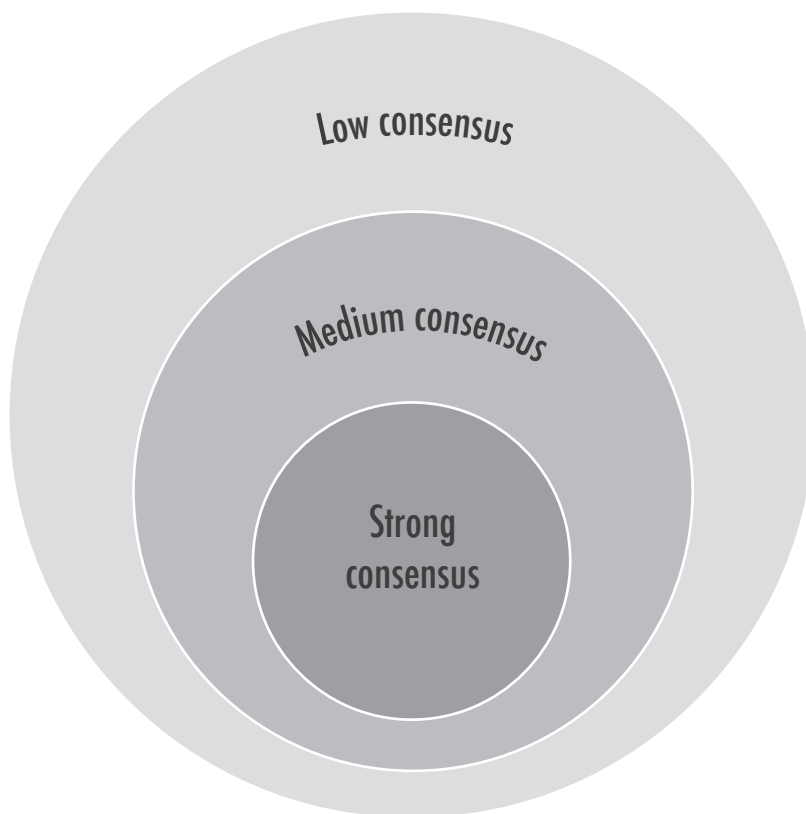
3. Onion diagrams

The “onion diagram” approach used in this paper builds on the SCF’s presentation of climate finance flows in its Biennial Assessment (reproduced in the Annex).¹¹ The SCF diagram is organized according to data certainty (more reliable estimates at center) and magnitude of financial flows (smaller flows in smaller circles).

The remainder of this paper uses a similar approach to reveal how different definitional layers of finance flows relate to the \$100 billion goal. In the diagrams that follow, the concentric circles are organized according

to political consensus (see Figure 1). The closer a category is to the center, the more notional consensus there is among stakeholders that it should count toward the goal.¹² We present several diagrams that explore different variables that matter to stakeholders in this debate, and present our best understanding of relative consensus.¹³ We then consider how these variables could be combined into integrated frameworks.

Figure 1: Conceptual onion diagram



¹¹ Since the publication of the Biennial Assessment, there has been debate about the accuracy of the numerical estimates in the diagram. We are referencing only the schematic approach used, not the numbers.

¹² These diagrams do not indicate the relative size of flows.

¹³ The perspectives reflected here will be the subject of debate and discussion with a range of stakeholders in the UNFCCC process, which can inform subsequent iterations of this paper.

4. What counts: unpacking the key variables

This section distills key variables and themes that have emerged since Copenhagen regarding what finance flows should count towards the \$100 billion goal. We consider (I) climate as a motivating factor (i.e. the extent to which a financial flow was explicitly designed to reduce greenhouse gas emissions or support climate adaptation), (II) concessionality / source; (III) causality; (IV) geographic origin; and (V) recipient. We also highlight important accounting issues that affect *how* the finance flows are being counted. While we have made best efforts to separate these variables for purposes of analytical clarity, the reality is they can overlap and interact with one other.

4.1 Climate change as the motivating factor

It is generally understood that a climate finance flow should reduce emissions or strengthen adaptive capacity and resilience. The source of the finance is often very closely related to its purpose. However, not all finance flows that achieve these goals are motivated strictly or exclusively by the need to address climate change. This fact is recognized, for example, in the “Rio markers” developed by the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee’s (DAC) to help classify climate change mitigation and adaptation flows, including through a distinction between “principal” and “significant” climate change objectives of ODA flows.¹⁴ Some argue that only finance with the primary intent of addressing climate change should count towards the \$100 billion, while others contend that finance that provides meaningful climate co-benefits (but is not budgeted or programmed to specifically target climate change) should also count. There is also increasing focus by the multilateral development banks (MDBs), development finance institutions (DFIs), national development banks, and others on the need to mainstream climate investment and green infrastructure investment, which has led to international

efforts to better define “climate-related” investments.¹⁵ In this context, there are questions about the extent to which efforts to mainstream mitigation and adaptation considerations into development finance should count as climate finance. Related questions arise:

- Should finance that counts towards the \$100 billion only include funds expressly budgeted, programmed, or raised with the goal of addressing climate change in developing countries (e.g. the Global Environment Facility’s contribution to a World Bank climate project, but not the World Bank’s own co-financing for that project)? For some stakeholders, operating entities of the convention (e.g. the Green Climate Fund) are the most directly linked to the objectives of the UNFCCC, and designed with the express objective of supporting adaptation and mitigation. They also include both developed and developing country governments in decision-making over how Funds should be spent, strengthening perceptions of their legitimacy in this regard.
- How should investments be treated that contribute to mitigation or adaptation (and whose impact may even be tracked and monitored), but were not budgeted, programmed or raised with the primary purpose of addressing climate change? Most of the ODA flows marked as “significant” in the OECD DAC system (for example, programs for food security and disaster risk reduction, often have other primary drivers but provide climate co-benefits) fall in this category, as does private investment in clean technology (motivated primarily by returns, but offering strong climate benefits).
- Some institutions do not have budgets expressly set aside to address climate change, but rather respond to market opportunities. How should the climate related projects supported by these institutions be counted? These might include, for example, non-concessional finance offered to energy efficiency investments by development finance institutions like the U.S. Overseas Private Investment Corporation, or the International Finance Corporation.

¹⁴ The OECD DAC gathers statistics on aid and other resource flows to developing countries from bilateral and multilateral donor agencies every year. The DAC monitors aid targeting the objectives of the Rio Conventions using the so-called “Rio markers”, which include specific markers to track aid in support of climate change mitigation and adaptation. These climate change markers indicate donors’ policy objectives in relation to each aid activity. Activities marked as having a “principal” climate objective (mitigation or adaptation) would not have been funded but for that objective; activities marked “significant” have other prime objectives but have been formulated or adjusted to help meet climate concerns.

¹⁵ For example, see the MDB and IDFC Common Principles for Climate Mitigation Finance http://climatefinanceforum.com/uploads/event_member/104478/commonprinciples.pdf

Figure 2: Climate as motivating driver



Figure 2 illustrates how finance flows could be categorized according to this variable. We have organized the diagram according to three categories: funds budgeted to address climate change (innermost circle), investments that have a clear climate change objective, but were not specifically earmarked in a budget for this purpose (middle ring), and investments that have a climate co-benefit but a different primary objective. In theory, the outermost circle includes both public finance going to support development programs (that may have climate co-benefits, but these are not identified or specified) and private, for-profit-oriented investments (with climate co-benefits). The case can also be made for separating these into two categories, to distinguish those flows which are profit-driven.

A case can also be made to further divide the innermost circle – funding programmed or budgeted to address climate change primarily – to distinguish financial sources specifically developed to support mitigation

and adaptation from pre-existing ODA (for example the so-called “innovative” public sources of climate finance highlighted by the Secretary-General’s High-Level Advisory Group on Climate Change Financing,¹⁶ such as a levy on emissions trading and international transport taxes). Some may treat innovative sources differently to climate investments from “traditional” ODA budgets sourced from government coffers, particularly in light of concerns about the diversion of ODA for climate purposes and the desire for climate finance to be “new and additional”. This issue is discussed further below.

For the diagram above, the amount of financing that might count within each layer is also shaped by the stringency of definitions and methods used to define the climate-relevance of investments or co-benefits.

¹⁶ For more information, see AGF (2010).

4.2 Concessionality and source

At their simplest, debates on the \$100 billion focus on the legitimacy of public versus private sources of climate finance. Although the Copenhagen Accord references both public and private and assigns no priority across the “wide variety of sources”, some stakeholders place greater value on public flows than private because of their interpretation of the Convention and its principles.¹⁷ Some consider developed country governments to have more control over public finance than private finance, because they are able to raise and spend it directly. Some stakeholders have also expressed concerns about the extent to which private non-concessional investments will align with recipient country needs and priorities, or result in benefits for the recipient country.

Another reason why some rank public over private is the perceived concessionality of these flows. For simplicity’s sake in Figure 3 below, we combine “source” with “concessionality”, though we recognize this is an imperfect conflation.¹⁸

Because flows with higher concessionality (grants, grant-equivalent of concessional loans) place less burden of repayment on the recipient, there is more political consensus that these should count. By contrast, the more the financial responsibility falls on

the recipient developing country (concessional loans, followed by non-concessional loans, then guarantees) the weaker the consensus that these flows should count.

Equity investment can be considered here as well, though the approach is less clear-cut. For example, there is financial risk involved in holding equity in a particular investment, but the equity investor retains ownership. By contrast, a loan imposes an obligation on the borrower to repay, but, once repaid, enables the borrower to share in financial returns. For the purposes of the diagram, we group “concessional” (first-loss¹⁹) equity with concessional loans, and “non-concessional” (senior) equity with non-concessional loans.

Note that some financial instruments in Figure 5, such as non-concessional loans or guarantees, can originate from either the public or private sector. But in general, organizing flows by concessionality leads private sources to be clustered in the outer rings, with some exceptions including private grants from philanthropic sources.

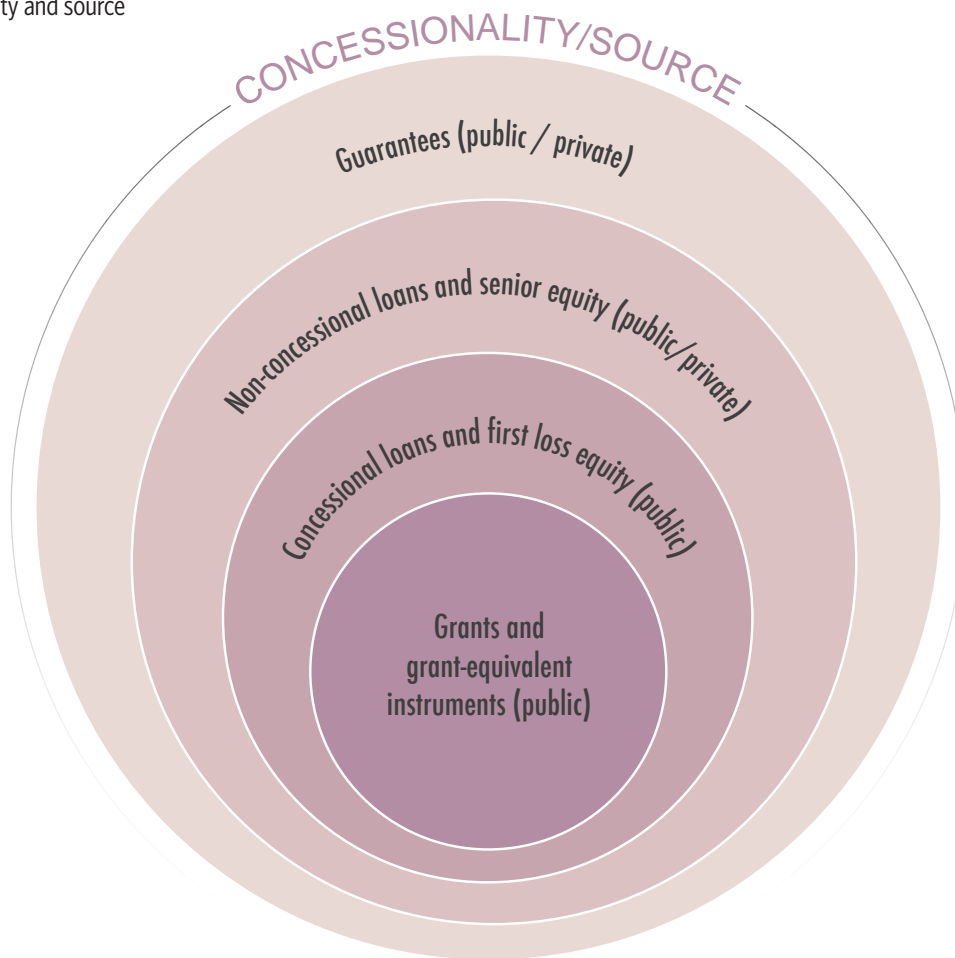
There are, however, other dimensions to the debate over whether public flows count more in the context of the \$100 billion commitment. These include questions of control and causality, as discussed below.

¹⁷ In particular, UNFCCC Articles 4.3, 4.7, and 11.

¹⁸ Although public and private finance are often treated as starkly different in the narrative of the UNFCCC negotiations, the reality is somewhat more complex. Some kinds of public finance are offered at or close to commercial terms. Both concessional and non-concessional finance can crowd out private finance. And the term non-concessional itself is confusing because it reflects the perspective of the lender, not the borrower, for whom a non-concessional loan can often be obtained on better terms than is available in the private sector.

¹⁹ First-loss equity can be viewed as “concessional” as it absorbs the initial losses by taking the most junior equity position in the overall capital structure. Like other forms of concessional finance, first-loss equity improves the recipient’s risk-return profile and catalyzes the participation of investors that would otherwise not have participated.

Figure 3: Concessionality and source



4.3 Causality

The debate around the \$100 billion also centers on what kinds of climate finance flows can appropriately be considered “mobilized” by developed countries and what kinds should not. This is mainly a question about whether or not a contributor country intervention (whether public finance or public policy) has *caused* private sector dollars (or developing country public finance) to flow. Further questions that arise include:

- To the extent there is a causal link, was the developed country intervention a proximate cause²⁰ or just a contributing cause? Stated another way, would the investment have occurred without the developed country intervention?
- Is causality best evaluated on a binary basis (as in the case of the Clean Development Mechanism: carbon finance for a project is judged as either additional or not) or by degree of share/magnitude? If the latter, how to score/quantify the impact that a public intervention had on a private flow?

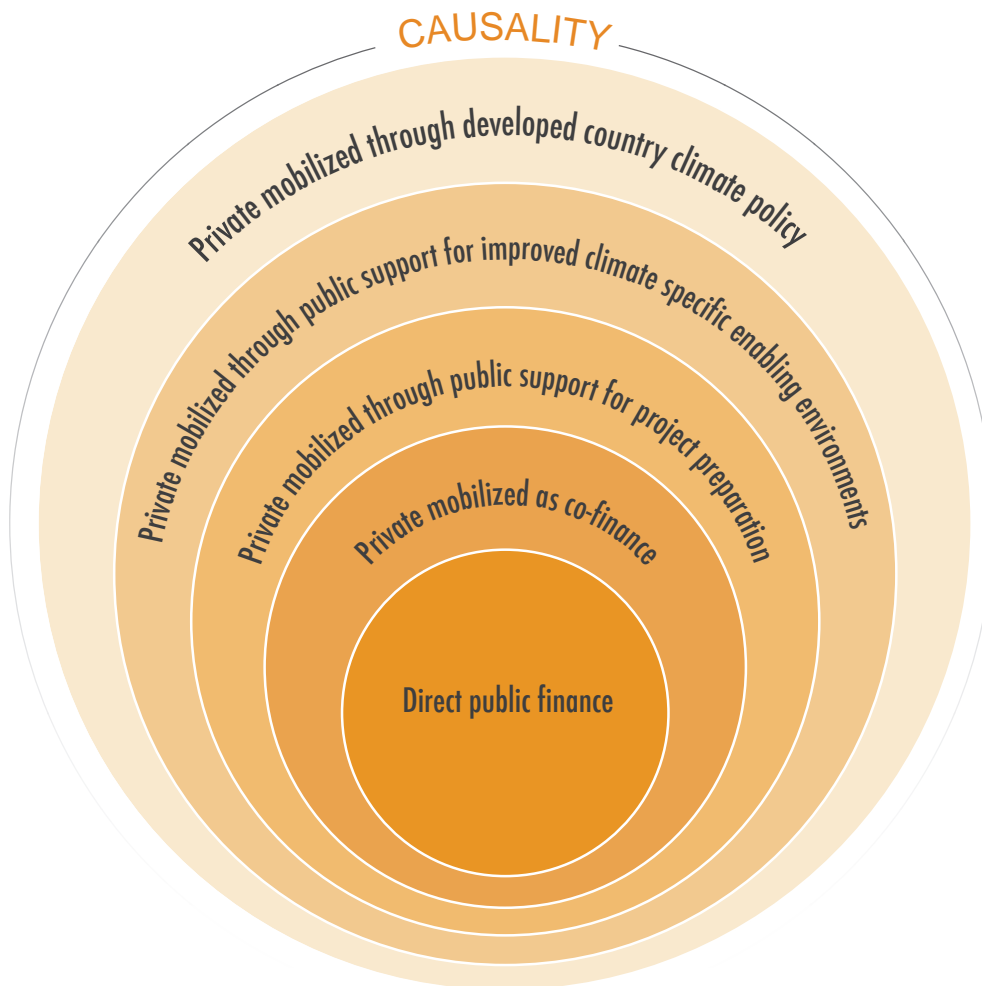
20 In legal terms, a proximate cause is an event sufficiently related to a legally recognizable outcome to be held to be the cause of that outcome.

- Should public interventions include only public finance directly invested in projects, or also public policy action by developed countries (e.g. cap-and-trade creating demand for international offsets, or aggressive renewable energy policies such as feed-in-tariffs in major developed country markets such as Germany helping to drive down the technology cost of solar PV and catalyze investment in the solar market)?²¹

Arguably, when public debt financing (concessional or not) attracts private co-investment at the project or fund level, some stakeholders will perceive a more direct causal mobilization effect than a project feasibility study grant that later enables a project to obtain purely private financing. Similarly, it could be argued that

21 It is difficult to assess the impact of developed countries' research and development or feed-in tariffs in driving down the global costs of renewable energy technology, because developing countries also have such policies. While the impacts of these policy interventions are hard to disaggregate, this is an important policy question that needs further consideration, particularly as it weighs heavily on the debates regarding what counts as mobilized finance towards the \$100 billion commitment. See forthcoming WRI paper entitled “Understanding Mobilization through Qualitative Approaches: Estimating Causal Linkages between Public Policy and Private Climate Finance” prepared for the OECD Research Collaborative on Private Climate Finance.

Figure 4: Causality



donor country support for technical assistance that specifically targets climate investments (like the design of a renewable energy feed-in tariff) catalyzes private investment more directly than support for generic enabling environment measures like governance or structural reforms. Figure 4 illustrates private flows categorized by the type of developed country public intervention that mobilized them.

4.4 Geographic origin

The Copenhagen Accord clearly specifies that the \$100 billion commitment is made jointly by developed countries, and that developing countries are the beneficiaries. While this seems relatively clear, there are several questions related to the geographic origin that warrant consideration:

- Does only finance mobilized in the developed countries (the North)²² count? For many stakeholders, the spirit of the \$100 billion commitment relates to finance from developed

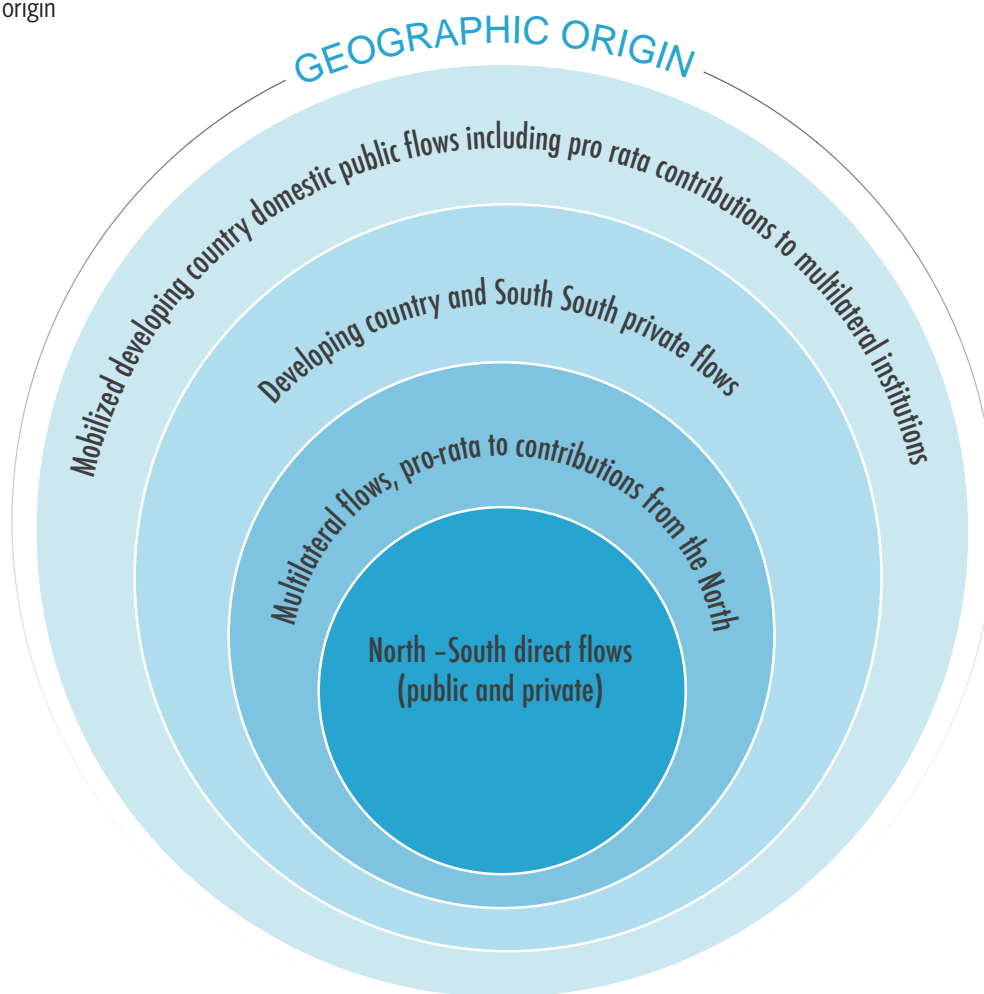
countries. However, does finance mobilized in relation to a developed country intervention but which flows within recipient countries (i.e. domestic finance from the public or private sector) or from one developing country to another (e.g. South-South) also count? Is there a meaningful distinction between the last two?

- Do all flows from multilateral institutions like the GCF, Global Environment Facility (GEF), or MDBs count or should they be discounted pro-rata to exclude developing country contributions or shareholding?
- Are bilateral channels more legitimate than multilateral channels because there is no commingling of resources with developing country contributors and the money is directly traceable to developed country investment decisions?²³

22 This paper uses the term “North” as a short hand for developed countries, and “South” for developing countries.

23 From a governance perspective, multilateral flows are often considered more legitimate than bilateral flows because they are governed by a combination of developed and developing countries. However, in an effort to isolate origin as a variable, we do not consider governance here. A separate diagram could be created to draw out governance considerations.

Figure 5: Geographic origin



- Do multilateral flows pro-rata to developing country shareholders count more than finance that flows within developing countries (mobilized by a developed country intervention)? Is the multilateral flow pro-rata to developing country shareholders also considered mobilized by the North? Some stakeholders might hold the view that because these institutions were set up by developed countries, which provide finance to safeguard their ability to raise capital and may hold the majority of shares, developing country contributions to these institutions might count as mobilized.
- Finally, what is meant by “developed countries” for purposes of the \$100 billion commitment (e.g. OECD members, UNFCCC Annex I or Annex II,) and what is meant by “developing countries” (e.g. non-OECD, UNFCCC non-Annex I)?

The question of origin relates to both public and private flows. In fact, some may argue that developed country private flows have more legitimacy to be counted in this context than developing country public flows, even if both are mobilized by a developed country public

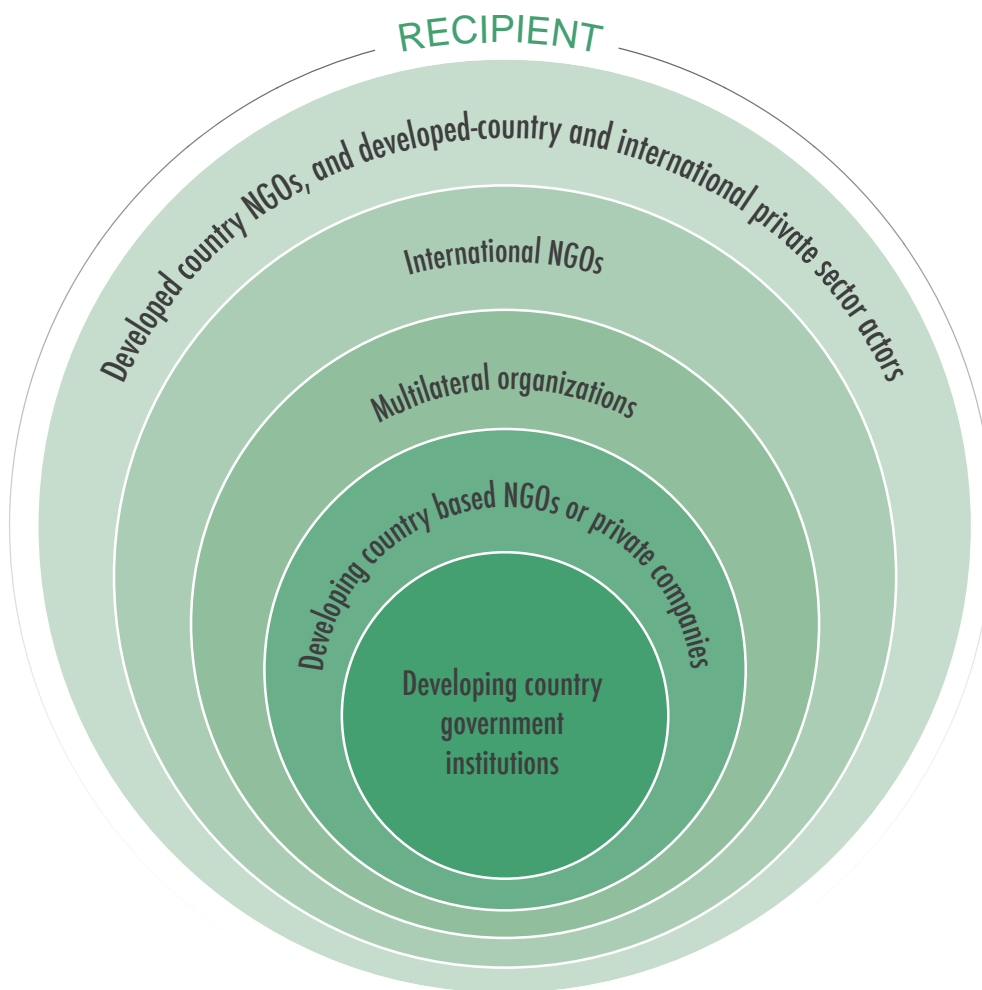
intervention. For example, a developed country-based private company’s investment in geothermal in a developing country, which also received concessional financing from a developed country DFI (to de-risk the investment and thereby mobilize the private investors), may be seen as a legitimate investment to count in the context of the \$100 billion. By contrast, there may be less agreement on whether to count a nationally appropriate mitigation action (NAMA) financed by a developing country government, which received in-kind support from a donor aid agency.²⁴ Figure 5 sets out key considerations related to the geographic origin of flows.

4.5 Recipient

The question of what types of finance-receiving institutions are considered legitimate has also been a key question in debates about what counts towards the \$100 billion goal. While a developed country may provide the funding to support a program, the program may be implemented by a Northern-based entity (public, private or non-profit) or a multilateral entity. In

²⁴ Leaving aside the question of whether the technical assistance was a proximate cause or just a contributing cause of successful NAMA implementation - an issue addressed in the causality section above.

Figure 6: Recipient



other words, genuine support may be provided, but not solely in the form of actual cash flowing to a developing country entity. Moreover, in a globalized economy, there may be hybrid Northern and Southern ownership of a given entity. The same issue regarding complexity of ownership is relevant to the discussion on geographic origin (section 4) as well. Under this variable, the following questions arise:

- Do we only count finance flowing directly to developing country public institutions? What about developing country civil society groups or private entities?
- Do programs managed and directly executed by multilateral organizations (e.g. UN Agencies or MDBs) count if the support provided ends up being in-kind rather than in the form of cash? In other words, if an international organization acts as more than just an implementing entity or intermediary, does the finance it receives count?
- Similarly, do programs managed and directly executed by developed country-based governments (e.g., the German Technical Cooperation Agency GIZ), non-governmental organizations or private companies (e.g. a developed country-based wind turbine manufacturer) count? In principle such support could instead be reported as “capacity building” support, although this would not make the financial costs of its provision explicit.

Figure 6 divides climate finance flows according to the recipient institution.

4.6 Accounting issues

Beyond questions about *whether* a flow should be eligible for counting towards the \$100 billion as described according to the five variables above, there are concerns about *how* those flows are being counted in dollar terms. From an accounting perspective, flows can look very different depending on whether they are scored as (A) committed or disbursed; (B) nominal versus subsidy cost; (C) gross versus net; and (D) total

capital cost vs. incremental cost. These terms are explained and considered below. Accounting issues relate to both public and private flows.

A. *Stage and timing of investment: committed vs. disbursed:* Finance can be counted at the point of *commitment* (when it is earmarked and/or transferred from the contributor/investor into the account of the recipient/ intermediary) or *disbursement* (when the funds have been drawn down and spent by the recipient or intermediary). For budgeted public funds, the money can also be counted at the point at which it was *pledged* (when there is a verbal or signed indication of intent to provide the funding) or *approved/appropriated* (officially earmarked for a specific project, program or fund). To make matters even more confusing, these accounting terms change depending on whose perspective you take. For example, a government contributing money to a multilateral fund will consider that money disbursed as soon as the cash is transferred to the multilateral's bank account. From the perspective of the entity receiving money from the multilateral fund, the money is not disbursed until it has been spent on the ground.

B. *Cost of the expenditure: nominal vs. subsidy:* Direct loans and loan guarantees can be counted according to either their nominal or subsidy cost. The nominal cost is the face value of the loan or guarantee as the recipient sees it. The subsidy cost is the long-term actual budget cost to the contributor government of the loan or guarantee.²⁵ The subsidy cost to the government of a direct loan would be calculated as the net present value (NPV) of principal and interest payments. Interestingly, if the discount rate used to determine the NPV of the cash flows is lower than the interest rate by paid by the borrower, the government would show a budgetary gain on the loan.²⁶ In the case of grants, the nominal cost and the subsidy cost are equal.

C. *Size of expenditure over time: gross vs. net:* Finance can also be counted on gross or net terms. A gross flow is the amount that a contributor

actually spends in a given year. A net flow takes into account repayments of loan principal (but not interest) made in prior years. In some cases, repayments (the net amount) exceed gross amounts, which means that net figures can sometimes be negative.

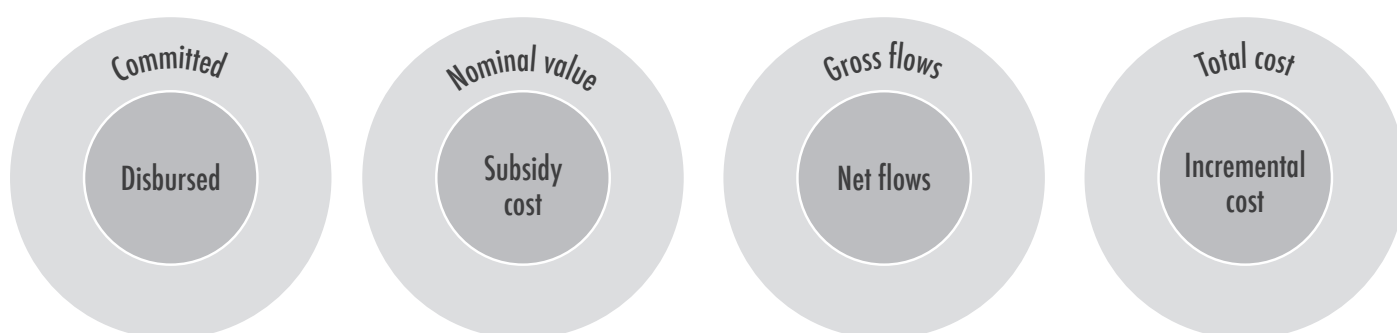
D. *Total capital cost vs. incremental/climate-targeted components:* Total capital cost refers to the total price tag of an investment (for example, the \$20 million cost of manufacturing and installing a 10 MW wind farm). Incremental cost can be defined as the additional cost of making an investment low-carbon and/or climate resilient relative to some baseline course of action. This can mean costs incurred as a result of redesigning an activity (for example, providing drought resistant crops for agricultural extension services) or selecting an alternative activity (for example building a wind farm instead of a coal-fired power station). In both cases, calculating incremental cost is rarely straightforward and requires significant assumptions about investment alternatives and relative costs, and is hugely variable and context-specific. Some analysts note that in a context where climate action is increasingly cost effective and helps to deliver on development objectives, identifying the incremental cost becomes even more challenging.²⁷ Moreover, information on the incremental cost of programs and projects is not widely available. Several aggregate estimates of climate finance, for example CPI's Global Landscape of Climate Finance, refer only to the total capital invested. Reporting to the OECD DAC does not single out the incremental costs of climate change mitigation or adaptation, but rather marks whether the entire investment has a "principal", "significant" or no climate objective. The MDBs, according to their methodologies for accounting for climate finance, report only the "climate specific" component of a standard development project, but do not necessarily calculate the incremental costs relative to the baseline or alternative investment scenarios. The GEF is one of the few entities to try and report the incremental cost relative to a baseline.

25 Measured by discounting expected cash flows associated with government securities. Note that some economists consider the subsidy cost to be the "fair value cost", which would equal the cost that the recipient would have had to pay to borrow on the private capital market (Congressional Budget Office, 2005).

26 The calculation would change if we assume the recipient is likely to default on the loan. If default were assumed, the calculation would need to be adjusted to account for lower repayment amounts.

27 See for example Stern (2015).

Figure 7: Accounting issues



4.7 New and additional

A central issue of debate in the UNFCCC negotiations has been how to interpret provisions that climate finance should be new and additional. This matter has been particularly relevant in the context of the \$100 billion commitment. The choice of definition of “new” and “additional” fundamentally affects the quantification of climate finance. As with accounting parameters, this consideration cuts across the variables presented in section IV.

The definition of the terms has been widely debated. There is substantial literature exploring potential approaches to assessing whether finance is new and additional, but in practice all countries have very different understandings of these terms.

Consequently it is almost impossible to draw a single diagram based on magnitude of consensus. The list below,²⁸ drawing on the SCF’s Biennial Assessment and on self-reported views in Annex I countries’ Biennial Reports, summarizes the most commonly referenced definitions:²⁹

1. Only funds mobilized from new sources, such as a levy on emissions trading
2. Only funds delivered through new channels, such as the GCF
3. Funds in excess of a 0.7% of Gross National Income contribution to ODA
4. Funds in excess of ODA levels from a specified baseline year (for example, 2008, the year before the Copenhagen Accord)
5. Only funds in excess of projected future ODA levels
6. A specified share of the increase in ODA, e.g. no more than 10% of overall ODA flows
7. Funds in excess of climate finance from a specified baseline year
8. Finance that addresses climate change but is not reported as ODA
9. Climate finance provided since ratification of the UNFCCC
10. All climate finance provided annually, pursuant to annual budgeting processes to raise resources for this express purpose

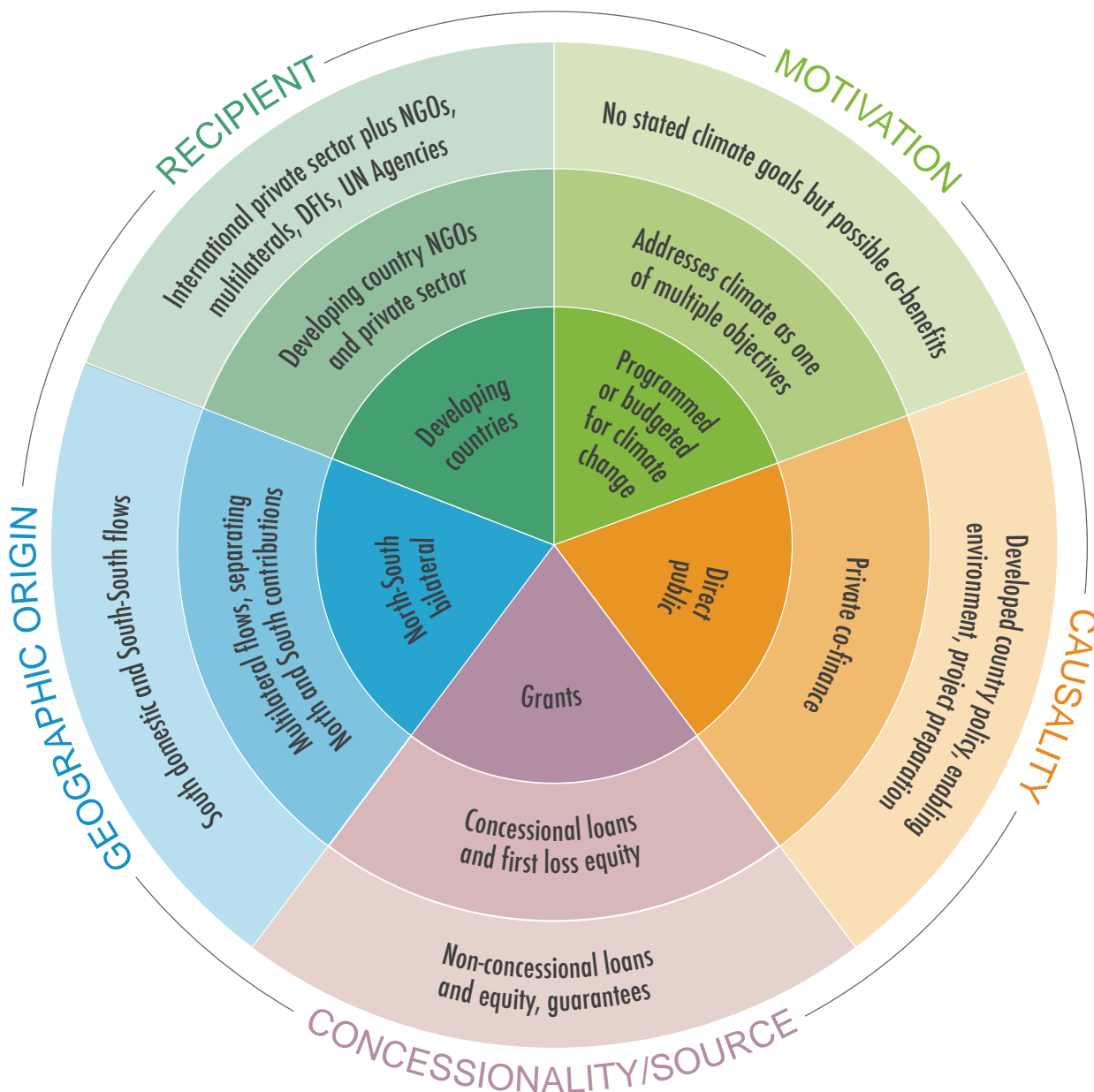
²⁸ This list has been adapted from the UNFCCC Standing Committee on Finance’s 2014 Biennial Assessment and Overview of Climate Finance Flows.

²⁹ Extensive analytical work has been done to unpick the concept of “new and additional”. See Ballesteros and Moncel 2010; Brown 2010; Nakhoda, Fransen et al 2013; Stadelmann, Roberts and Michaelowa 2013.

To conclude this section, Figure 8 below consolidates the five variables described above and shown separately in Figures 2-6 into a single, simplified diagram. The simplified variables are not blended or integrated – each of the Figures 2-6 is simply translated into a slice of the pie below. We leave accounting issues and new and additional definitions to one side for now, though these can be seen as variables that overlay and interact

with other five. As before, layers closer to the center represent greater stakeholder consensus regarding whether a flow should count toward the \$100 billion. Note the cells in each ring can overlap, since each variable/slice is a different prism for considering the same climate finance flow.

Figure 8: All variables represented



5. Integrating the variables

In the previous section, we distilled the key variables that underlie the discourse on what counts towards the \$100 billion goal (summarized in a simplified format in Figure 8). While some stakeholders may care only about one or two of these factors, most probably assign some weight to most, if not all of them. Tools to integrate and relate these variables to each other are needed.

It is extremely difficult, if not impossible, to order all five variables (and accounting issues) and the various layers contained in each into a single, finely layered onion. In Figure 9 below, we attempt to integrate three of the variables into one: concessionality/source, causality, and geographic origin. While accounting issues are not reflected here, we note that factoring these in would have a significant influence on the overall value of the finance in question.

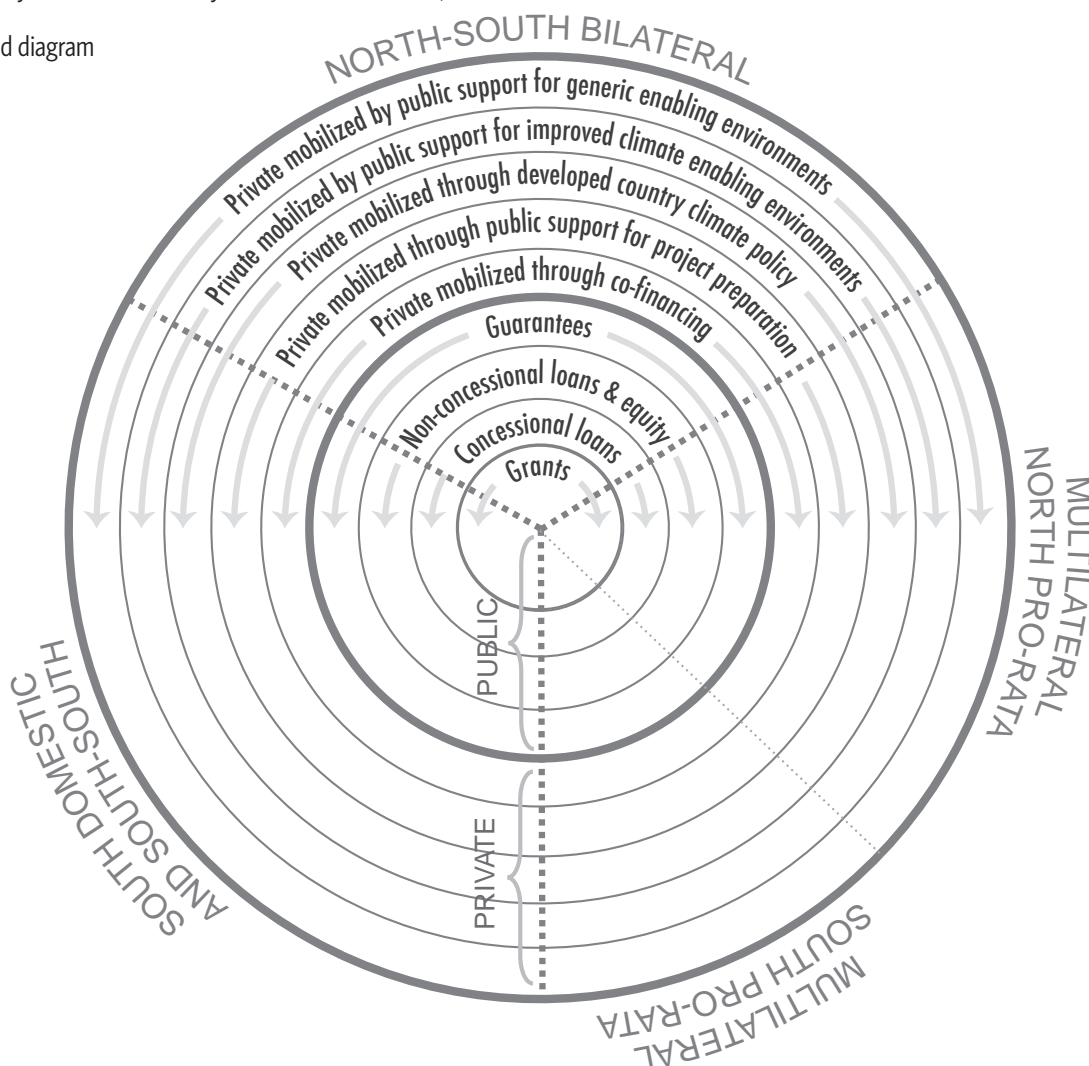
In this integrated diagram, we have organized public flows in the inner rings, reflecting the greater consensus that public flows should count. Within public, the rings are organized by concessionality of the instrument,

building on Figure 3 above. Private flows are in the outer rings, organized by causality (the extent to which public finance clearly causes private finance to flow), building on Figure 4 above. The third dimension is geographic origin, which is illustrated by dividing the onion in a crosscutting way into thirds:

- Bilateral North-South flows,
- Multilateral flows (distinguished via a dotted line between the pro-rata North shareholding and South shareholding),
- Domestic South and South-South flows where these are mobilized by North-South flows.

Again, to keep things manageable, this example does not factor in two of the five variables (climate as motivating factor and recipient), nor does it illustrate the accounting issues. Figure 9 depicts the “core” integrated diagram and shows the full range of options for what one could count within the variables represented.

Figure 9: Integrated diagram



5.1 Advancing the debate

To facilitate discussions about defining the \$100 billion, stakeholders can shade in the cells in Figure 9 they believe should count towards the commitment. To illustrate how this can be done, we have created two theoretical examples using divergent views of two Parties. Each of these stylized examples captures opposite ends of the continuum in terms of views on what should count.

The diagrams in Figures 10 and 11 below illustrate the views of Party A and Party B, respectively, by shading in the areas they believe should count. In Box 1 we set out the implications of these preferences in the context of an example.

Table 1: Simplification of Party Views

PARTY A	PARTY B
<ul style="list-style-type: none"> • Only public finance counts, not private • Only North-South flows count • Only concessional finance counts 	<ul style="list-style-type: none"> • All public finance counts, including developing country and South-South flows directly mobilized by North-South public finance • All private finance mobilized by North-South, multilateral, and public finance counts, except private finance mobilized by enabling environment support

Figure 10: What counts according to Party A:



Figure 11: What counts according to Party B:



Box 1: Applying the principles

Let us consider the implications of the preferences of Party A and B (presented in table 1) in the context of a hypothetical renewable energy program that receives funding from a variety of sources as shown below.

FUNDING	CONCESSIONALITY	SOURCE	PARTY A	PARTY B
\$20 million	Grant	Multilateral climate Fund	\$20 million	\$20 million
\$200 million	Concessional loan	Climate Fund	\$200 million	\$200 million
\$300 million	Non-concessional loan	Public IFIs	---	\$300 million
\$100 million	Non concessional loan	International private finance	---	\$100 million
\$100 million	Equity	Domestic private finance	---	Does not count if the private finance only results from the grant for strengthening the enabling environment
\$300 million	Revenue	Domestic public sources	---	\$300 million
\$1.02 billion	---	---	\$220 million	\$1.02 billion

For Party A, only North-South part of the \$ 820 million in public funding is relevant i.e. \$520 million. Of this, only the \$220 million that is concessional counts. If only the northern shares of the multilateral elements of the funding were counted, then the total might be lower. Depending on whether one accounted for this funding in grant equivalents or not, the total would differ.

By contrast, for Party B, at least \$920 million might count -- assuming that the \$100 million mobilized from domestic private sources is seen to stem from the \$20 million grant investment in strengthening the domestic enabling environment (and therefore doesn't count). On the other hand, if that domestic private money is seen as co-financing linked to the international concessional and non-concessional public funding received, then the full \$1.02 billion might be counted.

6. Concluding observations and directions for future work

Stakeholders involved in the \$100 billion debate place different weights on different factors when considering what should count towards the commitment. This paper has sought to organize and depict where there is more and less consensus on the relevant factors. It is intended to spark discussion amongst Parties and stakeholders regarding their views and preferences. Parties to the UNFCCC and other stakeholders might benefit from “shading in” Figure 9 to reflect their views on what should count.

They can use these shaded-in diagrams to engage in a transparent and organized discussion with the aim of identifying zones of consensus. The integrated diagrams in Section V only address three of the identified variables discussed in section IV, ignoring motivation, recipient and accounting. Similar diagrams could be developed that separately addresses these remaining variables.

Even with efforts to distill the debate over “what counts” to a handful of variables, reaching consensus would be very challenging, reflecting the difficulties of developing a single accounting approach under the UNFCCC. In other words, there are many legitimate ways to “slice the onion.” While this paper does not provide definitive solutions, it supports deeper reflection on underlying assumptions and preferences. Such reflection may help to de-politicize these debates while fostering better mutual understanding of perspectives and preferences. To further the discussion, it could also be useful to develop a user-friendly dynamic online tool that allows stakeholders to manipulate the different variables and options and decide which elements should be included in tallying up progress towards the \$100 billion.

We also recognize that in order to move beyond the conceptual, numbers will need to be associated with the various layers and rings of each onion. Poor data quality and availability related to some of the variables and themes is a substantial constraint. Some areas have relatively more information and data, including financial

instruments (which sometimes includes information on concessionality), geographic origin, and source of climate finance (see CPI’s Global Landscape of Climate Finance for a more in-depth discussion of climate finance tracking). There is some nascent information on the extent to which climate change is a motivating factor for investment (for example, through ongoing efforts to strengthen the OECD DAC Rio Markers, and the new IDFC MDB common principles on climate finance tracking),³⁰ though we recognize the need for more precise definitions and for more consistent application by different actors. Detailed information on causality, end recipients of finance, and the precise level of concessionality is often more scant, though important work is underway to improve data quality and availability in particular on causality. The work of the OECD Research Collaborative on tracking private climate finance also sets out many of these issues, and seeks to improve data availability. Continued research is needed to quantify finance according to these different themes.

It is worth noting that the flows around which there appears to be lower consensus (notably private flows) tend to be larger in magnitude and far less well documented compared to flows with more consensus (public flows) which are well documented and often easier to measure. It may be that the availability of information on any given finance flow in some way affects the degree to which there is agreement on whether they should count.

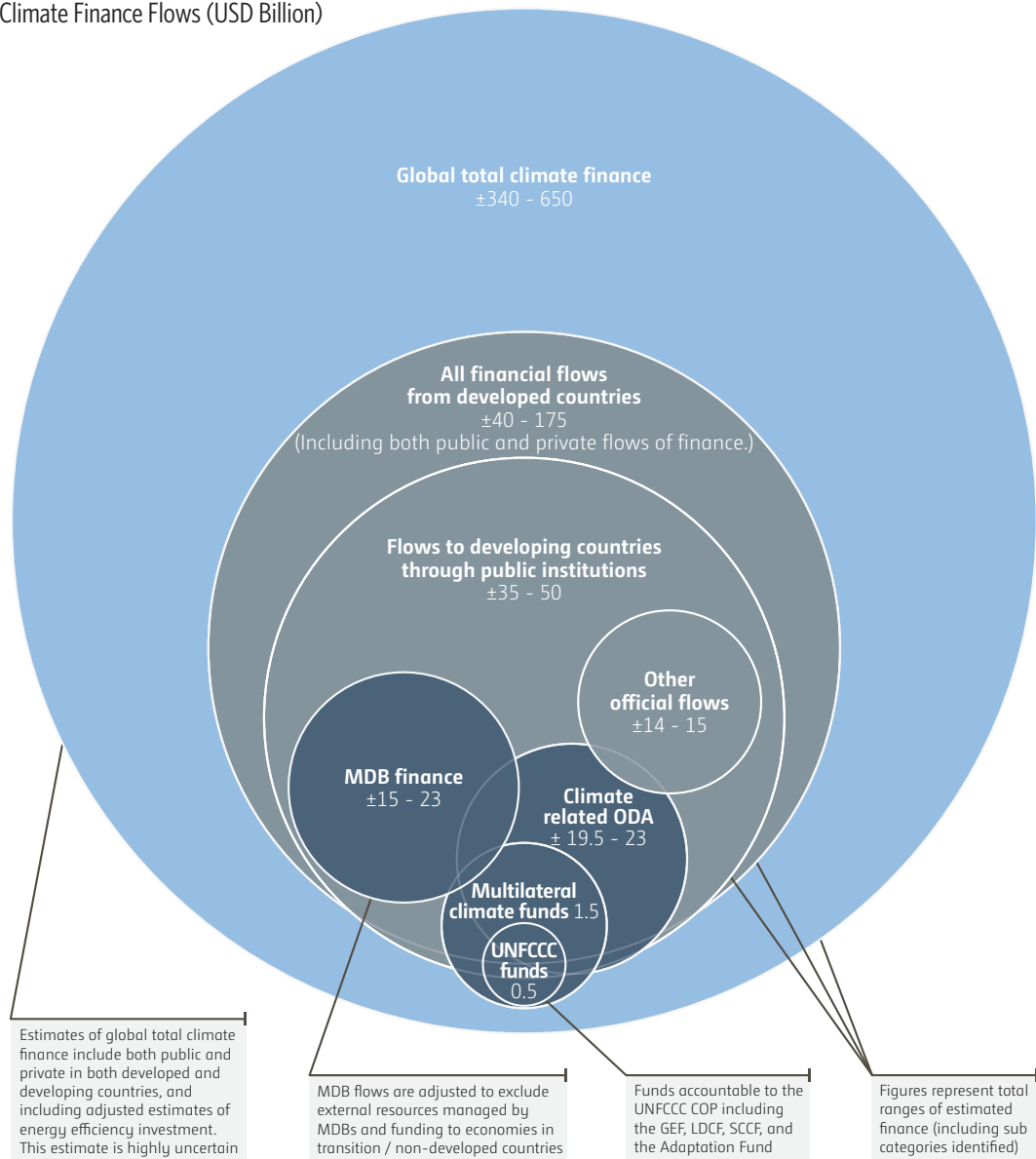
In conclusion, we hope this paper will help spark a more nuanced discussion among policy-makers regarding the relative merits and legitimacy of different forms and types of climate finance. We also believe the insights highlighted in this paper are relevant beyond the \$100 billion issue, including for discussions about financing for development, what counts as official development assistance, and other current debates on defining and monitoring international finance commitments.

30 IDFC refers to the International Development Finance Club

7. Annex

Visualization of climate finance flows from the 2014 Biennial Assessment and Overview of Climate Finance Flows of the UNFCCC Standing Committee on Finance.³¹

Climate Finance Flows (USD Billion)



Quality of measurement and reporting:



³¹ Note that the upper bound of the value in the circle representing flows from developed countries has been contested. The clarification note produced by the UNFCCC, entitled "Note of Clarification on the 2014 Biennial Assessment and Overview of Climate Finance Flows" states, "The clarification of the scope of the Stadelmann et al. (2013) estimates suggests that the climate finance flows from developed to developing countries are within the range of USD 40 to 175 billion reported, but it may be closer to the lower bound."

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