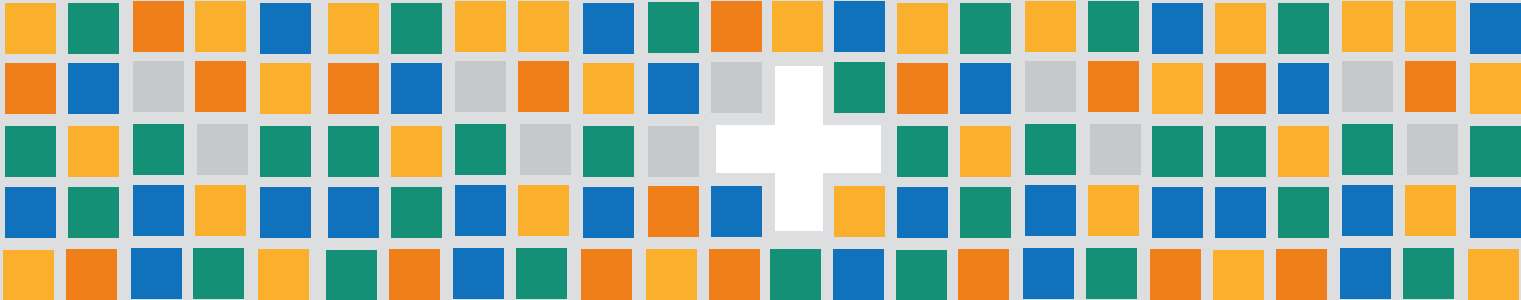




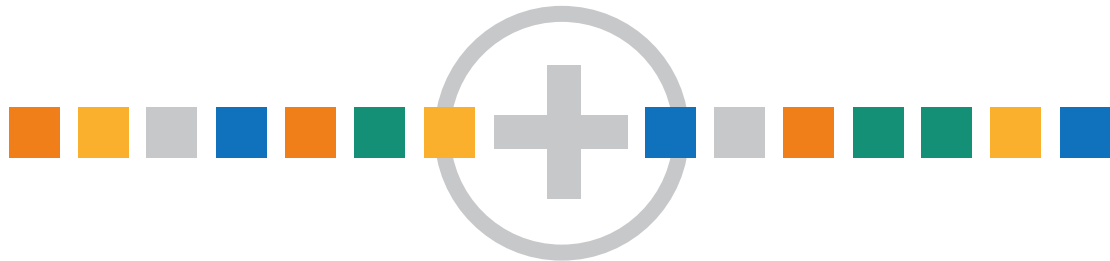
# Understanding finance in the Global Stocktake

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Charlene Watson and Leo Roberts



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Charlene Watson and Leo Roberts

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## About the iGST initiative and this report series

The **Independent Global Stocktake (iGST)** is an umbrella data and advocacy initiative that brings together climate modelers, analysts, campaigners, and advocates to support the Paris Agreement. <https://www.climateworks.org/independentglobalstocktake/>

The **Designing a Robust Stocktake Discussion Series** envisions the contours of an ideal Global Stocktake and suggests ways in which the independent community can help to achieve that vision. These papers were produced by iGST partner organizations in consultation with the broader community, but the views expressed are the authors' own and don't necessarily reflect those of the iGST initiative or associated partner organizations.



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## + Executive Summary



At COP24 in Katowice, Poland in 2018, the foundations for the first Global Stock Take (GST) in 2023 were adopted. This working paper provides initial analysis of how finance will be considered within the current provisions of the official GST developed through desk research, expert interviews, survey, and discussion. It considers the implications of the current GST guidance and proposed inputs to the process, and concludes by identifying three key areas for further action where independent actors can add value to finance discussions in the GST process. This paper was written for the Independent Global Stocktake (iGST), a data and advocacy initiative that brings together climate modellers, analysts, campaigners, and advocates to support the Paris Agreement by providing analysis and research to support the accuracy, transparency, and accountability of the GST.

In addition to tracking progress against the long-term mitigation and adaptation goals of the Paris Agreement, the GST will need to fulfil several roles in relation to tracking progress toward financing climate action. Finance, as used in this paper, encompasses two core, interrelated topics of the UN Framework Convention on Climate Change (UNFCCC). It considers both the provision of support to developing countries to mitigate and adapt to climate change, and the consistency of all finance flows with climate objectives.

The GST will assess progress toward the commitments made by developed countries to support developing countries to both mitigate and adapt to climate change. A core benchmark is likely to be the commitment made by developed country Parties in Copenhagen in 2009, and reiterated since, that at least \$100 billion per year will be mobilised from public and private sources. However, the GST will also need to reflect on the balance of provision between mitigation and adaptation finance, and between technology transfer and capacity building. The GST could also usefully draw links between climate finance provided and financial needs, in seeking to understand the effectiveness of spending. Although Parties have agreed to take loss and damage into account in the GST, it remains unclear how loss and damage finance would be included, if at all.

The GST will need to consider information on the consistency of finance flows with a pathway toward low greenhouse gas emissions and climate-resilient development. While seeking to establish collective progress, efforts toward tracking consistency in the GST will have to give countries the flexibility to accommodate their specific contexts. The current lack of agreed indicators and framework around which to report information on consistency, however, could limit the coverage of consistency in the GST. Integrating data and benchmarks from sources external to the UNFCCC process could support the assessment of collective progress in this regard, but the first GST might necessarily focus on progressive country examples toward this long-term goal

or collective reporting on the flows that are not consistent, such as global fossil fuel investments.

Equity is enshrined as a cross-cutting issue in the GST, but there is no clarity as to how the process could establish which countries are doing enough toward the \$100 billion commitment or toward consistency of all finance flows. Equity considerations could include fair share analysis in the provision and mobilisation of support as well as how far climate finance goes in meeting financial needs across countries and sectors. Fair share calculations for finance have never gained traction under the UNFCCC, however, and it may fall to independent actors to analyse progress on equity.

The GST is a three-stage process of information collection, technical assessment, and consideration. While inputs are country-focussed, the GST is a collective exercise and the current process will not publicly review or appraise country reports and performance. The Katowice Decision on the GST identified the Biennial Assessment and Overview of Climate Finance Flows (BA) as a formal input into the finance discussions of the GST. The information within the BA is broadly aligned with GST objectives for finance and the data collated in the BA draws from the key processes and institutions that are already counting, assessing, and communicating on climate-related finance. The BA does have data gaps, however, that could influence the interpretation of results for the GST. Other inputs to the GST could serve to fill data gaps as well as better contribute to key functions of success of the GST such as agenda setting, accountability and ambition. A transparent process of inputs will need to be developed, however, to ensure political buy-in and participation of non-UNFCCC actors that hold substantial information but who may not face strong incentives to submit.

There are three broad areas in which independent initiatives such as the iGST could add value to finance discussions within the GST:

- (1) **Working to fill research and data gaps in finance.** A core research question over the next three years will be understanding the consistency of finance flows with a pathway toward low greenhouse gas emissions and climate-resilient development. The iGST might support efforts to build frameworks and taxonomies, and data initiatives that feed these. It could also seek to define future benchmarks and pathways to them. There also remain research gaps around methods to approach equity in finance and data gaps, for example in adaptation finance flows in the private sector.
- (2) **Building convergence and critical mass in understanding around core topics to finance.** The iGST can use its independence to work with a diversity of actors across political and technical challenges. On the consistency of finance flows, this could build convergence around a single framework, test the framework in a variety of contexts (national, sub-national or sectoral) and share progressive and best practice examples arising from these efforts. Other topics where a critical mass in understanding might be built include articulating how loss and



damage finance could be included in the GST or how equity could be operationalised in the finance discussions of the GST.

- (3) **Understanding how finance discussions can raise climate ambition.** At its highest level, the GST aims to increase ambition in to the provision and consistency of finance for climate action, but how this will play out in finance is not clear. The iGST is in a position to explore how GST finance discussions might influence ambition of nationally determined contribution (NDC) cycles. For example, it could support an articulation of consistency of finance flows in their NDCs, link with needs and provide an opening for voluntary reporting on progress, or concretely make the link between finance and the long-term adaptation and mitigation goals of the Paris Agreement (considering the strategies that could spur transformation at a larger scale).

## + 1. The centrality of finance in the Global Stocktake and for Paris Agreement success



Articulated in Article 14 of the Paris Agreement (PA), the Global Stocktake (GST) outlines an obligation for countries to assess progress toward the purpose and long-term goals of the PA every five years, with the first report due in 2023. Its purpose is to review the implementation of the PA and to “*assess the collective progress*” toward agreed long-term goals “*in a comprehensive and facilitative manner, considering mitigation, adaptation and the means of implementation and support*” (Art 14.1).<sup>1</sup>

“Finance” is used in this paper as an umbrella term encompassing two core, interrelated topics under the UNFCCC: the means of implementation and support provided to developing countries by developed countries to mitigate and adapt to climate change, as well as the long-term goal agreed to by all Parties to the PA to make “*finance flows consistent with a pathway toward low greenhouse gas emissions and climate-resilient development*” (Article 2.1c).<sup>2</sup>

Finance discussions of the GST will assess progress toward the commitments made by developed countries to support developing countries to both mitigate and adapt to climate change. The GST outcomes will be very important for transparency and accountability of agreed principles around this means of implementation and support, but will need to accommodate multiple viewpoints in understanding the amount, speed, source, and instrument of finance, as well as the balance between mitigation and adaptation finance. Further, the GST will need to ensure finance provided through these channels is not just plentiful but also effective, meaning it must reflect developing countries’ needs, for example, and be impactful. By considering the provision of finance, the GST will need to support the continuity of trust-building between Parties as well as faith from developing country Parties that there will be adequate provision of climate finance.

Finance discussions related to the GST will go beyond a focus on the developed to developing country finance that supports climate action, or “green” finance, which has characterised most of the climate finance discussion in the UNFCCC to date. There is growing recognition of the need for the broader financial system to ensure it is consistent with – i.e., supportive of, rather than undermining – climate action. This means examining all finance – domestic and international (including South-South flows), public and private. It also entails a departure from encouraging and tracking only “green finance,” toward also tracking and shifting “brown finance” – the finance flows that support carbon-intensive projects or activities and pathways that do not sufficiently consider future climate risks (and are thus maladaptive). In doing so, the GST can support a levelling of the playing field between what might be considered climate-consistent and climate-inconsistent projects and investment (e.g., reforming fossil fuel subsidies to increase the competitiveness of renewable energy sources), but also work to address climate change as a material risk that could undermine financial stability (e.g., mandating disclosure of climate risks and climate stress testing of financial institutions).

Finance ties the objectives of the Paris Agreement together: it is not possible to achieve the long-term goals of the PA relating to mitigation and adaptation without providing the means

<sup>1</sup> UNFCCC, *Paris Agreement*. Bonn: UNFCCC (2015), [link](#).

<sup>2</sup> UNFCCC, *Paris Agreement*. Bonn: UNFCCC (2015), [link](#).





of implementation and support to do so, or ensuring broader financial systems and finance flows are consistent with these goals. These linkages between the long-term goals of adaptation and mitigation, and finance, are not explicitly articulated in the GST process to date.<sup>3</sup> The message from the Special Report on the Impacts of Global Warming of 1.5°C of the Intergovernmental Panel on Climate Change (IPCC SR1.5) was clear, however, that delaying ambitious action now to limit global warming to below 2°C (and ideally 1.5°C) and to address adaptation will result in massive cost increases in the future.<sup>4</sup> This further emphasises the need to use finance in a way that can spur transformative action at a systemic scale, in particular bringing down the costs of long-term decarbonisation.<sup>5</sup>

This working paper informs the Independent Global Stocktake (iGST),<sup>6</sup> a data and advocacy initiative that brings together climate researchers, modellers, and advocates to support the Paris Agreement by providing analysis and research to support the accuracy, transparency, and accountability of the GST. The objective of this working paper is to outline how finance will be considered within the design and shape of the official GST.<sup>7</sup> Section 2 provides an interpretation of the current guidance for finance discussions of the GST, distilling key objectives, possible benchmarks of progress, and inputs of information to the process. Section 3 explores in more detail the only explicitly referenced, finance-focussed input to the GST (as things stand), the Biennial Assessment and Overview of Financial Flows (BA), as prepared by the Standing Committee on Finance of the UNFCCC. It considers the assessment's data coverage as well as its strengths and limitations with respect to informing the GST. Section 4 asks how wider initiatives could complement the GST, touching on information and data, building shared understanding, and establishing a compelling link between finance discussions in the GST and efforts to raise ambition. Section 5 draws together this report's findings in the conclusion. Findings are built from key stakeholder and expert interviews as well as a survey and will inform ongoing iGST work across its tasks and working groups.

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<sup>3</sup> Article 4 of the Convention does make links between adaptation, mitigation, and “means of implementation and support,” but does not link the consistency of all finance flows and the long-term goals pertaining to mitigation and adaptation. UNFCCC, *United Nations Framework Convention on Climate Change*, Article 4, paragraph 3, UNFCCC 1992, [link](#).

<sup>4</sup> *Global Warming of 1.5°C*, IPCC, 2018, [link](#).

<sup>5</sup> See: Brown, J. and Granoff, I. *Deep decarbonization by 2050: Rethinking the role of climate finance*, 2018; and, Vogt-Schilb, A., Meunier, G. and Hallegatte, S., *When starting with the most expensive option makes sense: Optimal timing, cost and sectoral allocation of abatement investment*. *Journal of Environmental Economics and Management*, 88, 210–233, 2018, [link](#).

<sup>6</sup> For more information, see: <https://www.climateworks.org/independentglobalstocktake/>

<sup>7</sup> This working paper concentrates on finance, while the GST and related decisions refer to “means of implementation and support,” and therefore also include technology transfer and capacity-building.

## + 2. Interpreting the current guidance for finance in the GST



### 2.1. The GST's language refers to “*means of implementation and support*” and the consistency of finance flows.

At the Conference of Parties (COP) 24 in Katowice, Poland in 2018, the modalities of the GST's “Rulebook” were adopted as part of the Paris Agreement. This laid the foundations for the first GST in 2023, but the provisions are not highly detailed and allow for ample flexibility from Parties, the Chairs of the Subsidiary Bodies and Facilitators, as well as the UNFCCC Secretariat.<sup>8</sup>

Decision 19/CMA.1 (Matters relating to Article 14 of the Paris Agreement and paragraphs 99–101 of decision 1/CP.21), paragraph 36(d) states that the GST will consider information at a collective level on: “*The finance flows, including the information referred to in Article 2, paragraph 1(c), and means of implementation and support and mobilization and provision of support, including the information referred to in Article 9, paragraphs 4 and 6, Article 10, paragraph 6, Article 11, paragraph 3, and Article 13, in particular paragraphs 9 and 10, of the Paris Agreement*”.

The GST, therefore, will include progress on the developed country commitments to provide financial resources to assist developing country Parties with respect to both mitigation and adaptation (Article 9). This also captures the commitment made by developed country Parties in Copenhagen in 2009, and reiterated since, that at least **\$100 billion** per year will be mobilised from public and private sources to help developing countries mitigate and adapt to climate change by 2020 (COP Decision 2/CP.15).<sup>9</sup> A new, more ambitious, collective, quantified finance goal is to be set for the post-2025 period (paragraph 53, decision 1/CP.21),<sup>10</sup> with formal negotiations on this to begin at the Conference of the Parties to the Paris Agreement (CMA) 3 (paragraph 1, decision 14/CMA.1). Since the first GST will start in 2022 and be completed in 2023, and because country reporting on climate finance through biennial reporting has a two-year time lag, it will not be until 2022 that countries will report on their 2020 climate finance provision and mobilization. As such, it is only in 2022 that processes can reflect on progress toward the 2020 commitment with official data. While this may be late, the GST can play an important role in informing discussion on this new goal. Article 14 of the PA notes that “*the outcome of the GST shall inform Parties in updating and enhancing... their... support.*”<sup>11</sup> The first GST in 2023, for example, could consider the rate of change in the provision of finance, with biennial reporting from Annex II Parties considering a timeline from 2011-2020 by 2023.

<sup>8</sup> Obergassel, W., Hermwille, L., Siemons, A. and Förster, H., *Success Factors for the Global Stocktake under the Paris Agreement*, Wuppertal Institute for Climate, Environment, Energy, 2019, [link](#).

<sup>9</sup> UNFCCC, Report of the Conference of the Parties on its fifteenth session, held in Copenhagen from 7 to 19 December 2009. Addendum. Part Two: Action taken by the Conference of the Parties at its fifteenth session FCCC/CP/2009/11/ Add.1, 2010, [link](#).

<sup>10</sup> UNFCCC, *Decision 1/CP.21 Adoption of the Paris Agreement, Document FCCC/CP/2015/10/Add.1*, UNFCCC, Bonn, 2016, [link](#).

<sup>11</sup> See also Holz, C., Athanasiou, T., S. Kartha, *Equity in the Global Stocktake*, Climate Equity Reference Project, 2019, [link](#).



Decision 19/CMA.1, paragraph 36(d) states that the stocktake should consider information at a collective level related to Article 9.4, which states that that provision of climate finance should aim to achieve a **balance between adaptation and mitigation**, taking into account the priorities of developing country Parties, particularly those most vulnerable to the impacts of climate change, such as the Least Developed Countries (LDCs) and Small Island Developing States (SIDs). It is not clear how the GST will address the definition of balance in order to understand progress toward this objective.

While this working paper and many other resources refer to and concentrate on finance, the language in the Decision refers to “means of implementation and support” and explicitly includes **technology transfer** and **capacity-building** (Articles 10 and 11). Language around finance, technology, and capacity-building has long been part of the Convention, and to some extent, information on technology and capacity-building support is captured in reporting mechanisms. These have proven challenging areas to get granular and comprehensive detail, however, and it remains to be seen how much detail can be included in the GST.

Decision 19/CMA.1 includes language on the **consistency of finance flows** with a pathway toward low greenhouse gas emissions and climate-resilient development (Article 2.1.c, often referred to in this paper as “consistency”). Prior to Katowice, however, tensions had arisen that finance discussions of the GST would focus on consistency, *inclusive* of the provision of support, with the concern that this latter aspect might be deprioritized through its integration. The Katowice Decision helpfully highlights that both consistency and international provision of support should be considered, although stakeholders have noted that the GST process is not structured around Article 2.1c in the same way the mitigation and adaptation components of the stocktake are structured around Articles 2.1a and 2.1b, respectively. While consistency of finance flows is a long-term goal, the three thematic areas of the GST mandated for the technical dialogue are instead mitigation, adaptation, and *means of implementation and support* only (paragraph 6b of Decision 19).<sup>12</sup> It is critical that the GST works toward an assessment of meaningful progress on the consistency of finance flows, given the depth and urgency of the transition required to meet long-term mitigation and adaptation goals, whilst also ensuring not to undermine or de-prioritise progress made towards the broader finance commitments of developed countries under the Paris Agreement and UNFCCC.

Decision 19/CMA.1 paragraph 36(d) also refers to information referenced in Article 13, paragraphs 9 and 10, which relate to transparency of support. Article 13, paragraph 9 speaks to the provision of information from developed country Parties to the UNFCCC on financial, technology transfer, and capacity-building support provided to developing country Parties. Paragraph 10 speaks to the provision of information by developing country Parties on financial, technology transfer, and capacity-building support needed and received. Therefore, this brings in an element of **financial needs** to the GST and hints at the **effectiveness** (or impact) of finance in addition to its absolute provision. It also makes links between the finance thematic area of the GST and the Enhanced Transparency Framework (ETF). The ETF, which will come into force in 2024, builds on and enhances the existing monitoring, reporting, and verification arrangements of the UNFCCC (thus capturing, for example, national communications, biennial reports, reports produced by expert review teams, and reports

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<sup>12</sup> See also Northrop, E. et al., *Achieving the Ambition of Paris: Designing the Global Stocktake*, PACT and WRI, 2018 [link](#), for a more detailed discussion.

produced by the Secretariat).<sup>13</sup> In Katowice, work progressed on the ETF, in particular developing the common reporting tables to be used by Parties, to be finalised by the end of 2020. Thus, the first GST will rely on the existing biennial reporting system created by the Cancun Agreements for transparency.

There is no mention of *finance* in Article 8, which refers to Parties' recognition of the importance of averting, minimising, and addressing **loss and damage** associated with the adverse effects of climate change. While loss and damage is not formulated as a goal in the GST or a thematic area on its own, Parties have agreed to take loss and damage into account.<sup>14</sup> There remain significant ongoing discussions in the UNFCCC as to how to define and operationalise loss and damage, and proposals for this under the GST were equally controversial. It remains unclear at present how loss and damage finance would be included in a GST. This is not only from a methodological perspective (there are definitional issues around adaptation finance that would need to be resolved before loss and damage could be defined), but also related to political challenges on acceptance (or not) of historical liability.

## 2.2. There are few existing indicators and benchmarks for finance in the GST against which to measure progress, and it remains unclear how to address equity.

The \$100 billion commitment by developed country Parties is likely to serve as an important benchmark in the finance thematic area of the GST. While the first GST will be in 2022-2023 and a bigger finance goal is to be agreed before 2025, the timing of Biennial Reporting in 2022 means that the first GST will be the first time that 2020 data on the provision of climate finance to non-Annex II countries will be analysed. There are no agreed benchmarks against which to assess the effectiveness of the finance provided, including how it may relate to country needs (as outlined in NDCs and National Adaptation Plans - NAPs), for example.

There is a loose benchmark against which the GST could consider the balance of spending between adaptation and mitigation. In 2014, The Green Climate Fund Board approved its allocation framework to spend 50% of its funding on adaptation, half of which is to be spent in LDCs, SIDs, and African States, while the other half is to be spent on mitigation, all tracked on a grant equivalent basis.<sup>15</sup> While the COP and CMA have not formally taken this position, the Green Climate Fund's role as one of the entities entrusted with the operation of the Financial Mechanism of the Convention and Paris Agreement, and its position in the climate finance architecture give the 50:50 grant-equivalent approach some weight. It can be more informative, however, to see the breakdown of finance provision between adaptation and mitigation differentiated by financial instrument (i.e., grants, concessional loans, equity, and guarantees) than only the overall grant-equivalent amount. For this reason, the Green Climate Fund reports on both. At present, however, there is no precedent for assessing the degree to which LDCs and SIDs are prioritised.

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<sup>13</sup> Dagnet et al., *Mapping the Linkages between the Transparency Framework and Other Provisions of the Paris Agreement*. Project for Advancing Climate Transparency, 2017, [link](#).

<sup>14</sup> Loss and damage is mentioned in paragraph 6.b.ii, paragraph 36.e, and by mention of the Executive Committee of the Warsaw International Mechanism for Loss and Damage in footnote two of the Katowice Decision 19, Matters relating to Article 14 of the Paris Agreement, 2019, [link](#).

<sup>15</sup> Schalatek, L. and Watson, C. *The Green Climate Fund*, ODI and HBF, 2018, [link](#).



There is no international consensus on what defines consistency of finance flows with the Paris Agreement, or how to get there, so there is not a single set of indicators nor an agreed framework around which to report information. Efforts toward tracking consistency will also have to acknowledge and/or give countries the flexibility to accommodate their country contexts and therefore their own indicators and benchmarks in assessing progress. There may be variation in the speed at which countries will have to transition away from fossil fuel investments, for example, and countries have varying financial system architecture and/or ability to make use of certain instruments that some might consider innovative (e.g., size, depth, or appropriateness of their debt markets to employ green bonds). In light of the novelty of the concept, collective progress will likely have to focus around core areas important to consistency (such as financial policy and regulation, fiscal policy and public finance) that are yet to be agreed. Assessing collective progress in the 2023 GST may necessarily focus on progressive country examples toward this long-term goal or collective reporting on the flows that are not consistent, such as global fossil fuel investments.

The GST is a collective exercise and the current GST process will not publicly review or appraise country reports and performance.<sup>16</sup> However, through Party-driven inputs, the GST is deeply connected to the ETF of the Paris Agreement (Article 13).<sup>17</sup> Information on finance is included to varying degrees in many country-level assessments, including; biennial reporting (BR), National Communications (NCs), and NDCs. The existing biennial reporting framework under the Cancun Agreements, which precedes the ETF, already requires developed country Parties to report on finance, technology transfer, and capacity-building support provided and mobilized for developing country Parties. Developing country Parties can voluntarily report on support needed and received. Neither the Cancun reporting framework nor the ETF<sup>18</sup> at present, however, directly seek information on what Parties are doing to make financial flows consistent with the Paris Agreement's objectives. It is indirectly included in the ETF by reference to Parties' efforts toward the long-term goals of the Paris Agreement (decision 18/CMA.1, Annex, paragraphs 121.(q) and 132.(b)).

The GST enshrines equity as a cross-cutting issue. The Convention also establishes equity in provision of support through Article 4.3, which recognises appropriate burden-sharing and the need for adequate and predictable funding flows.<sup>19</sup> Equity considerations for finance could therefore include equitable sharing of the provision and mobilisation of support (looking both at developed country Parties' efforts, and whether some wealthier and high-emitting developing country Parties may have a responsibility and capacity to provide and mobilise

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<sup>16</sup> Obergassel, W., Hermwille, L., Siemons, A. and Förster, H., *Success Factors for the Global Stocktake under the Paris Agreement*, Wuppertal Institute for Climate, Environment, Energy, 2019, [link](#).

<sup>17</sup> While the modalities, procedures, and guidelines for gathering finance data from Parties will be agreed in 2020, at COP26, they won't kick in until the 2024 reporting cycle. While there remains a lot to be agreed – down to table column headings and footnotes – it is unlikely to stray too far from existing modalities, procedures, and guidelines. See Decision 19, Matters relating to Article 14 of the Paris Agreement, [link](#).

<sup>18</sup> While the ETF has been agreed, the Common Tabular Format (CTF) for reporting is still being developed. See Decision 18/CMA.1 para 12 in UNFCCC, *Report of the Conference of the Parties on its fifteenth session, held in Copenhagen from 7 to 19 December 2009. Addendum. Part Two: Action taken by the Conference of the Parties at its fifteenth session FCCC/CP/2009/11/ Add.1*, 2010, [link](#).

<sup>19</sup> UNFCCC, Article 4, paragraph 3, UNFCCC 1992, [link](#).

climate finance) and how far this goes in meeting financial needs across countries and sectors, for example. The two are not mutually exclusive.<sup>20</sup>

Yet there is lack of clarity with regards to both the mandate and the method for the GST to determine which countries are doing enough toward the \$100 billion commitment, the broader commitment established through the Convention (particularly in light of the Paris Agreement's encouragement for other Parties to provide or continue to provide such support voluntarily in Article 9.2), or toward the consistency of all finance flows. Fair share calculations for finance have never gained traction under the UNFCCC. This is not necessarily against precedent; the OECD Climate Change Expert Group found in its paper on the Facilitative Dialogue that no other UN processes assessed have addressed equity.<sup>21</sup> With respect to needs, current data is neither consistent nor complete. The UNFCCC's Standing Committee on Finance has a mandate to produce a quadrennial report on the determination of the needs of developing country Parties for the implementation of the Convention and the Paris Agreement, with the first due by COP 26 (November 2020, and every four years thereafter).<sup>22</sup> This may support the consideration of collective estimates of investment needs relative to global climate finance flows and identify any mismatches through a gap approach, though financial needs do not necessarily equate to required provision, in light of the roles of domestic public and private finance. Over time, the articulation of financing needs is likely to evolve within the ETF and NDCs and in a more structured way that can support future stocktaking.

For the progress toward the \$100 billion, the broader financial commitments of developed countries, and the consistency of all finance flows, it may fall to independent actors to analyse country progress on equity.

### 2.3. The Biennial Assessment and Overview of Climate Finance Flows remains the only explicitly referenced, finance-focused input to the GST.

The GST is a three-stage process of "information collection and preparation," "technical assessment," and "consideration of outputs" (Decision 19/CMA.1 of the Katowice text).

Decision 19/CMA.1 (Matters relating to Article 14 of the Paris Agreement and paragraphs 99–101 of decision 1/CP.21),<sup>23</sup> paragraph 36(d) states that the GST will "*include information from the latest biennial assessment and overview of climate finance flows of the Standing Committee on Finance*" and that the following sources, which may relate to finance, will be considered (Decision 19/CMA.1, paragraph 37):

1. Reports and communications from Parties, in particular those submitted under the Paris Agreement and the Convention;
2. The latest reports of the Intergovernmental Panel on Climate Change;
3. Reports of the subsidiary bodies;

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<sup>20</sup> For an in-depth discussion of equity in the GST, see Holz, C., Athanasiou, T., S. Kartha, *Equity in the Global Stocktake*, Climate Equity Reference Project, 2019, [link](#).

<sup>21</sup> OECD, *Information needs for the 2018 facilitative dialogue: issues and options*, OECD, 2017, [link](#).

<sup>22</sup> UNFCCC, *Matters relating to the Standing Committee on Finance*, Decision 4/CP.24, paragraph 13, [link](#).

<sup>23</sup> See UNFCCC, *Report of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement on the third part of its first session, held in Katowice from 2 to 15 December 2018*, Decision 19/CMA.1, Matters relating to Article 14 of the Paris Agreement and paragraphs 99–101 of decision 1/CP.21, [link](#).



4. Reports from relevant constituted bodies and forums and other institutional arrangements under or serving the Paris Agreement and/or the Convention
5. The synthesis reports by the Secretariat for the technical assessment of the GST;
6. Voluntary submissions from Parties, including on inputs to inform equity considerations under the Global Stocktake;
7. Relevant reports from regional groups and institutions;
8. Submissions from non-Party stakeholders and UNFCCC observer organizations.

The **Biennial Assessment and Overview of Climate Finance Flows (BA)** of the Standing Committee on Finance is the only finance-specific input identified by name within the Katowice Climate Package. An informal discussion note put forward at a meeting of the Ad-hoc Working Group on the Paris Agreement (APA, 2017), and joint reflections on the GST from the APA and Subsidiary Body for Scientific and Technological Advice (SBSTA, 2018), suggested a number of additional inputs (see Annex 3).<sup>24</sup> A final area of input that has been informally discussed within the APA, SBSTA, and Subsidiary Body for Implementation (SBI) is the Nazca portal (Global Climate Action Tracker), which may be a suitable data source for finance-related action undertaken by Non-Party Stakeholders. While information from and submitted by Parties will be central, building on the bottom-up sentiment of Paris, the wealth of information from non-Party stakeholders is a rich source that should not be overlooked by the GST (and is currently recognised in the Katowice decision to list submissions by non-Party stakeholders as one of the GST's sources of inputs).

More clarity is needed, however, around the process and modalities through which the additional finance data and information sources would or could be collected and used to inform the GST by various UNFCCC bodies. On the one hand, there is value in filtering inputs on finance through the BA process (which includes an open call for submissions), making it the primary input. It is considered in detail over a long period by the Secretariat and BA team (including independent experts outside the UNFCCC), and is subject to review, giving a degree of validation, quality assurance, and political buy-in by members of the Standing Committee on Finance (SCF). On the other hand, the amount of data that is relevant to finance is rapidly expanding – particularly when it comes to consistency of finance flows – and such an increase places additional burden on the Secretariat with respect to creating a sensible framing in the absence of consensus.

It is important for the GST input process to be transparent and even go so far as to produce a registry of GST submissions. While paragraph 10 of Decision 19/CMA.1 first "*decides that the global stocktake will be a Party-driven process conducted in a transparent manner and with the participation of non-Party stakeholders,*" it goes on to note that inputs will only be accessible by parties, hence limiting transparency around what actually goes into the GST process and potentially disincentivising Non-Party Stakeholders – who may already not face strong incentives – to submit inputs.

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<sup>24</sup> UNFCCC, Ad Hoc Working Group on the Paris Agreement, Third part of the first session, Bonn, 8-18 May 2017, 2017, [link](#).

## + 3. What the UNFCCC Biennial Assessment and Overview of Climate Finance Flows can contribute to the GST



### 3.1. The intention of the Biennial Assessment and Overview of Climate Finance Flows is broadly aligned with GST objectives for finance.

There have so far been three iterations of the Biennial Assessment and Overview of Climate Finance Flows in 2014, 2016, and 2018.<sup>25</sup> In 2019, the Standing Committee on Finance has already begun work toward the fourth BA, to be released by COP 26 in November 2020.

The SCF was created at COP 16 in 2010.<sup>26</sup> The role of the SCF is to assist the COP in relation to the Financial Mechanism of the Convention, with one function being to assist the COP with the measurement, reporting, and verification of the support provided to developing country Parties through activities such as the preparation of the BA. The SCF also, for example, prepares the COP draft guidance for the operating entities of the Financial Mechanism of the Convention (the Green Climate Fund and Global Environment Facility).

The process for each BA is lengthy, with first discussions often happening 12 months before publication. A team of consultants under the management of the Secretariat writes the technical report, while the SCF develops and agrees on the summary and recommendations.<sup>27</sup> SCF meetings are open to observers, with live audio and video link, and chairs encourage inputs from observers. The SCF itself is comprised of 10 members from Annex I Parties and 10 members from non-Annex I Parties to the Convention, though they participate in their individual capacity, including two members each from Africa, the Asia-Pacific, and Latin America and the Caribbean, one member from the Small Island Developing States, and one member from the Least Developed Countries.<sup>28</sup> These members are often also climate finance negotiators.

The BA is structured in three chapters. The first considers methodological issues relating to measurement, reporting, and verification of climate finance. It considers finance within and outside of the Convention, public and private, and domestic and international, as well as impact reporting. Chapter two of the BA provides an overview of global total climate finance, going on to break this down into climate finance flows from developed to developing countries. Chapter three assesses public climate finance flows to developing countries, considering thematic and geographic distribution and elements of effectiveness for climate

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<sup>25</sup> See: *Biennial Assessment and Overview of Climate Finance Flows*, UNFCCC, 2014, [link](#); *Biennial Assessment and Overview of Climate Finance Flows*, UNFCCC, 2016, [link](#); and *Biennial Assessment and Overview of Climate Finance Flows*, UNFCCC, 2018, [link](#).

<sup>26</sup> The Standing Committee on Finance was established through Decision 1/CP.16, paragraph 112, [link](#) and Decision 1/CP.21, paragraph 63, confirmed that the SCF shall serve the Paris Agreement in line with its functions and responsibilities established under the COP, [link](#).

<sup>27</sup> An author of this report was part of the consultant team that contributed to the technical report of the BA in 2018.

<sup>28</sup> See United Nations, "SCF Members," webpage accessed 18 Nov 2019, [link](#).





finance. While best-practice country cases are profiled and country-level data is included (often in Annexes), progress is measured at a collective level.

With respect to the objectives of the GST, the BA is able to contribute to:

- An understanding of the different concepts and overall trends in climate finance flows. What counts toward the \$100 billion commitment remains undefined and the BA does not take a stance on this.<sup>29</sup> Instead, the BA presents overall levels of climate finance in an ‘onion diagram’ and breaks down flows into channels at the global, bilateral, multilateral, public, and private levels, and by financial instruments, so as to accommodate some of the varying interpretations.
- For international public climate finance provision, the BA presents the thematic breakdown between adaptation and mitigation finance by finance channel (bilateral, through multilateral climate change funds, and through multilateral development banks, or MDBs). It makes clear reference to the fact that while finance totals are presented at face value next to each other, the methods for measuring adaptation and mitigation finance are different. While mitigation finance is largely measured through a total cost method (the entirety of a project can be counted), adaptation finance is largely measured through incremental cost methods (only the additional costs of a project that adapt it to climate change are counted). The BA further presents data on the level of concessionality of adaptation and mitigation finance, without applying a grant-equivalents formula.
- For international public climate finance provision, the 2018 BA for the first time presents calculations of the climate finance flowing to SIDS and LDCs. It considers the share of each channel that went to these countries and its concessionality, while not yet presenting time series data to indicate how provision has changed over time.
- The assessment chapter of the BA attempts to consider the effectiveness of climate finance by summarising information on key aspects of access, ownership, alignment with needs, and impacts for a subset of climate finance: international public climate finance.
- The 2018 BA was the first to explicitly make mention of Article 2.1.c on the consistency of finance flows. It dedicated a portion of each chapter to this topic, covering methods and metrics, datasets that may be relevant to tracking consistency in insurance, lending, and investment decision-making processes, and an assessment of how regulatory instruments, economic instruments, and information instruments could be taken into consideration to this end. This is not to say that previous editions of the BA had not included important topics in this regard. The 2014 and 2016 BAs have a section where the climate finance flows are put in the context of wider or comparative finance flows and issues, such as fossil fuel subsidies.

The BA recommendations are discussed at the COP. As outcomes, in 2018, the COP included the 2018 BA summary and recommendations in their entirety in the annex to the SCF decision,<sup>30</sup> gave an official mandate to the SCF to map available information on the consistency of finance flows (Article 2.1.c) as part of the BA every four years (decision 4/CP.24, paragraph 10), and, as mentioned above, the CMA decided that the BA will be a key source of information for the GST. The BA co-chairs and Secretariat have also hosted webinars for wider stakeholders. However, while it remains the most comprehensive source

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<sup>29</sup> Bodnar, P. et al., *What Counts: Tools to help define and understand progress towards the \$100 billion climate finance commitment*, 2015, [link](#).

<sup>30</sup> See UNFCCC, *Matters relating to the Standing Committee on Finance*, Draft decision -/CP.24, 2018, [link](#).

of information on climate finance tracking, the technical report is still relatively hard to comprehend at over 100 pages excluding data Annexes. It can be the process of the BA – including multiple discussions, presentations, and reviews – that holds the most value, sensitising members and their constituents to these topics and building a common understanding of the state of play of climate finance, rather than the lengthy technical report alone. As such, the nature of the process lends the BA a certain political acceptance within the UNFCCC and as such presents the GST with an existing process that could be effectively utilised to ensure political buy-in.

### 3.2. The BA captures many of the existing sources of data on finance that can inform the GST.

The data collated in the BA draws from many key processes and institutions that are already counting, assessing, and communicating on climate-related finance.

Parties' third Biennial Reports (BR3) and Biennial Update Reports (BUR) to the UNFCCC serve as a significant data input to the BA. Annex II Parties are required to provide information on the financial resources provided to non-Annex I Parties, through multilateral, bilateral, regional, and other core channels in their BRs. In their BURs, non-Annex I Parties submit updated information on national greenhouse gas inventories, including a national inventory report and information on mitigation actions, needs, and support received. Data from these as well as Climate Public Institutional and Expenditure Reviews and one-off studies are reviewed to estimate domestic climate-related public investment.

Biennial Reporting of financial support provided is included in Common Tabular Format (CTF) tables 7, 7(a), and 7(b). These tables, reporting guidelines, and instructions reflect the effort to make the reporting sufficiently flexible to accommodate a diversity of approaches. This, however, means that comparability is sometimes challenged (e.g., through differing definitions of sectors and type of support).<sup>31</sup> The Paris Agreement and its provisions for providing transparent and consistent information on finance as part of the ETF builds on these existing arrangements, adding more granular reporting requirements. New CTFs integrating this additional detail are currently being developed, to be adopted at CMA 3 in November 2020.

The UNFCCC's BR guidelines also lay out provisions for reporting on technology development and transfer and on capacity-building support (tables 8 and 9). However, in the existing reporting framework, there is potential duplication between tables 7, 8, and 9, and/or inconsistencies on how, for example, capacity-building is reported. While the ETF has gone some way to address these challenges, it will not come into force until 2024 and the first GST will rely on the existing biennial reporting system created by the Cancun Agreements for transparency.

Party reporting is complemented in the BA by data from the OECD, MDBs, International Development Finance Club (IDFC), International Energy Agency, and Bloomberg New Energy Finance (BNEF). The Climate Policy Initiative,<sup>32</sup> which has historically provided data for the

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<sup>31</sup> See also: Technical Report of the Secretariat, Modalities for the accounting of financial resources provided and mobilized through public interventions in accordance with Article 9, paragraph 7, of the Paris Agreement, [link](#).

<sup>32</sup> The Climate Policy Initiative also generates a climate finance landscape and has a history of engaging with key information providers in this space, including through surveys, thus the data are often not provided in raw format to the Secretariat.



overview chapter of the BA, works to carefully aggregate these data sources to avoid double counting. Toward this end, the BA has a focus on primary project finance. This means it considers data on primary investments into new productive assets.

Data on the mobilised private finance from public flows to non-Annex I countries are sought through MDB and OECD reporting. Data for finance provided to multilateral climate change funds in BRs is complemented by that from Climate Funds Update and reporting by the respective funds.

By drawing together in its synthesis many existing sources of data on finance, the BA is often consistent with other sources of data. However, not all the sources use the same definition of climate finance, nor thematic definition, nor geographical region.<sup>33</sup> This is often a result of the variation in their objectives – the OECD Development Assistance Committee (DAC) Creditor Reporting System (CRS), for example, whilst used to track bilateral climate finance, was intended to track the level of mainstreaming of climate change issues in development assistance. Divergence can arise as a result. The OECD DAC CRS figures on climate-related development finance are not the same as the bilateral climate finance Parties report in their BRs, although they are often used as a basis for these reports.

There have been concerted efforts between key actors to harmonise climate finance accounting methods. This includes, for example, between MDBs and IDFC members, as well as across these institutional groupings,<sup>34</sup> and can be encouraged or driven through initiatives such as the OECD research collaborative. Where methods are absent or there is a lack of consensus, the BA has worked to accommodate a variety of viewpoints and reporting, maintaining a neutral stance where possible. For example, on the issue of additionality of climate finance flows, the BA annually summarises the definitions proposed by Parties without attributing data to each approach.

The Standing Committee on Finance makes open calls for inputs to the BA. This is the principal way that non-state actors are able to provide input into the process. It is then left to the BA team to decide if and how these inputs are utilised, but submissions are published on the UNFCCC website. Think tanks, research organisations, and development finance institutions often provide inputs and are also free to attend at least two technical meetings of the SCF where the BA is discussed at length.

### 3.3. The BA has data gaps and limitations that could influence the interpretation of GST results.

At present, the BA is the only named input explicitly linked to discussions of finance in the GST. It is worthwhile therefore to consider the limitations of the BA with respect to the interpretation of progress.

The BA still takes a more traditional, primary project-based approach. This means it considers data on primary investments into new productive assets. This works to reduce double counting in the data as much as possible when it is aggregated, as well as to ensure comparability (like with like), but there remain gaps in primary project data. These will have implications for the GST, as it may appear that finance is not being directed to particular areas, when in fact this may be a result of data gaps.

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<sup>33</sup> See for example, Annexes B and C of the *Biennial Assessment and Overview of Climate Finance Flows*, UNFCCC, 2018, [link](#), that attempts to summarise these differences.

<sup>34</sup> See, for example, the common principles for climate mitigation and adaptation finance tracking: AfDB, ADB, EBRD, et al., 2015, [link](#), and AfDB, ADB, EBRD, et al., 2015, [link](#).

Data on adaptation finance is largely limited to international public finance flows. A large part of this is attributed to challenges in definitions. While the granularity of data and information is increasing, it can be hard to identify a water infrastructure project that is climate-resilient, for example, particularly in private finance data. Even for mitigation there remain limitations – the 2018 BA notes gaps in private finance for agriculture, forests, water, and waste management.

The definitional challenges that still surround adaptation finance may lead to an exaggeration of climate finance toward mitigation. This bias does in fact exist in a number of climate finance channels, particularly the climate finance spending from MDBs' resources. Adaptation finance flows are inadequate and need to be increased. However, the BA at present cannot capture all adaptation finance to give a full picture of the balance between adaptation and mitigation.

The 2018 BA mentions, but does not deeply explore loss and damage finance. The 2016 Forum of the Standing Committee on Finance did address loss and damage, but came to the conclusion that, although there was a range of approaches for addressing the risks of loss and damage, more work was needed to develop suitable financial instruments, hinting at challenges in tracking.<sup>35</sup> The 2018 BA includes some information on insurance, but this was not without some objections by SCF members as to whether it can be considered as an instrument to finance loss and damage. While finance elements of loss and damage are currently being considered by the Executive Committee of the Warsaw International Mechanism for Loss and Damage (WIM) and the UNFCCC Secretariat advanced a paper in this regard,<sup>36</sup> the challenges around tracking loss and damage through the BA and GST will only be resolved if traction is gained in the wider UNFCCC process.

The BA has historically been more backward than forward looking. This largely results from the fact that biennial reporting operates on a two-year time lag (the 2020 BA will contain information on provision of support during 2017 and 2018). Other data sources are often aligned with this time period to aid consistency, even if more up-to-date data is available. To date, this has prohibited discussion of the pace of progress in the context of where we need to be and how to get there.

With the lack of consensus on methods and indicators, the BA is limited in its reporting on the consistency of finance flows (Article 2.1.c.). The 2018 BA considered methods and metrics as well as data that may support an understanding of consistency within bank lending, bond markets, listed equity, private equity, insurance and reinsurance, assets under management, and financial services. In support of the Party-driven process, the 2018 BA provided available data in a transparent way to foster understanding and discussion. Progress toward consistency often remains qualitative, however. It has also, as with wider literature, focussed more strongly on mitigation than adaptation, although this is likely to change in the 2020 BA in light of recent International Monetary Fund publications around, for example, fiscal policy for adaptation.<sup>37</sup> Finally, the BA discussion on consistency of finance flows has focussed more on flows, not stocks, as per the language of the long-term goal in the PA text.

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<sup>35</sup> See the web page of the 2016 SCF forum, [link](#). Parties also requested in 2016 that the Secretariat prepare a technical paper on the sources of financial support for addressing loss and damage both by the Financial Mechanism and outside of it (Decision 4/CP.22, paragraph 2(f)), that remains under preparation.

<sup>36</sup> See: UNFCCC, *Elaboration of the sources of and modalities for accessing financial support for addressing loss and damage*, 2019, [link](#).

<sup>37</sup> IMF, *Fiscal Policies for Paris Climate Strategies—from Principle to Practice*, 2019, [link](#).



Understanding how finance flows can shift capital stocks, however, is an increasingly relevant area to consider for decarbonisation at scale.<sup>38</sup>

The data gaps and limitations of the BA are not the fault of the Secretariat nor SCF. They often result from gaps in databases, definitions (e.g., uncertainties remain as to how electric vehicles that utilise highly emission-intensive electricity grids should be viewed), and/or collective theory (e.g., around tracking progress toward Article 2.1.c). There are also politically charged issues, for example around Article 8, on loss and damage finance.

### 3.4. The BA meets a few of the functions that the GST aspires to, including acting as a pacemaker, enhancing accountability, enhancing ambition, and providing guidance and signals.

The GST can fulfil four key functions of international governance to maximize its catalytic effect. These refer to the GST functioning as a pacemaker, in enhancing accountability, in enhancing ambition, and by providing guidance and signals.<sup>39</sup>

The BA has never sought to be an agenda setter or serve as a **pacemaker** that will help to stimulate and synchronize climate policy processes on the national and international levels. The use of this function within finance discussions of the GST is somewhat similar to that for mitigation, in that it will be used as a lever to amplify the information from the ETF. However, the ETF currently does not directly seek information on what Parties are doing to make financial flows consistent with the objectives of the Paris Agreement. Instead, this information is indirectly requested through the ETF with reference to the long-term goals.

The BA has also never sought to directly **enhance accountability**, as it has not been mandated by the COP to do so. In contrast, the GST could be a key tool to hold countries accountable and discipline them to implement their pledged contributions. While the GST is a collective exercise, the process of the GST – and the BA in particular – does require the receipt and review of country-level input. The BA itself does take steps toward review and appraisal of this information at a country level that could either be enhanced within the BA process or by actors external to the BA and GST process (see Section 4). It is worth recalling, however, that the BA is a product of the SCF, and that the SCF itself fulfills mandates from the COP, which remains a Party-driven process and likely subject to the same restraints as the GST will be.

There are two proposed ways the GST could **enhance ambition**: through benchmarks, and through knowledge and learning. Section 3.1 outlines how the BA contributes to the loose benchmarks that can be applied in finance discussions of the GST, noting some reasonable overlaps. On the latter, while the BA is focused on reviewing methods to track climate finance and estimating both global climate finance as well as the provision from developed to developing countries, its contribution to knowledge and learning goes above and beyond the volumes of finance. The early BA, in particular, helped structure negotiations around finance by helping countries to understand what is important in the finance discussions. Past Bas have highlighted how countries can access and deploy finance in an effective way, and the most recent BA (in 2018) discussed Article 2.1.c, highlighting methods and metrics, available

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<sup>38</sup> Kessler, L., Matsuo, T., Nassiry, D. and Bodnar, P. *Reinventing Climate Finance: Four levers to drive capital stock transformation*, 2018, [link](#).

<sup>39</sup> See also: Hermwille, L. and Siemons, A. *What makes an ideal Global Stocktake: A functional analysis*, 2018, [link](#).

data and matters relevant to establishing consistency of financial flows with the Paris Agreement.

Finally, a function of success for the GST will be **guidance and signalling**, indicating likely policy trajectories across stakeholders. The BA is not forward-looking. Its objectives and process somewhat constrain its ability to be suggestive and it is largely a stocktake of methods, data, and best practice, perhaps best translating to an analysis of where we are. As such, the BA has not to date considered where we need to go and how we get there. The assessment chapter of the BA, in particular, has always hinted at future direction. Since 2014, for example, climate finance has been placed in the context of fossil fuel investment and the strength of the text in subsequent BAs echoes the broader traction that fossil fuel subsidy reform has gathered.

While the BA on its own may not contribute to the identified functions of international governance, there remain other inputs to the finance discussions of the GST (Section 2.3). Together, these may more comprehensively contribute to agenda setting, accountability, ambition, and guidance.



## + 4. How the iGST can add value to finance discussions of the GST



### 4.1. The iGST could support initiatives that fill existing data and research gaps.

As highlighted throughout this working paper, the core research question over the next few years will be in understanding the consistency of finance flows with a pathway toward low greenhouse gas emissions and climate-resilient development, the third long-term goal articulated in the Paris Agreement. At present, there is no international consensus on what defines consistency, or how country Parties achieve it. To this end, the iGST could support:

- The acceleration of efforts to build taxonomies of climate-consistent and inconsistent actions and investments, and frameworks of indicators and benchmarks to track progress toward these actions. This would contribute to the tracking of climate-consistent (green) finance flows as well as the climate inconsistent (brown) flows both for public and private finance actors and institutions.
- The consideration of how taxonomies and frameworks of consistency of finance flows that are necessarily agreed and operate at the country or regional level (see Section 2.2) can be mapped and cross-referenced at the international level. This might focus on single comparable indicators or action-based progress (such as in areas of financial policy and regulation, fiscal policy, public investment, and information instruments that are all existing tools available to governments).<sup>40</sup>
- Answering core questions of where we need to go and how to get there, to reach consistency of finance flows with low greenhouse gas emissions and climate-resilient development pathways, taking into account best available science. Research into these forward-looking questions would ensure the relevance of the taxonomies and frameworks developed, but could also seek to improve the effectiveness of finance flows. Effectiveness would necessitate an understanding of where impact can be delivered and could be expanded to how best finance flows can work to transform global capital *stocks* – the stock of emitting assets such as power plants and combustion vehicles (taking into account socio-economic impacts of doing so).<sup>41</sup>

The iGST could also work to fill data gaps on climate finance that have implications for the ability to accurately take stock of progress in 2023 (see, for example, Section 3.3), for instance by supporting efforts that improve the tracking of adaptation finance by private actors or public and private domestic climate finance spending. Independent initiatives could further play a role in exploring what a balance between adaptation and mitigation finance provision really means. To this end, it could explore grant equivalence formulae and consider their utility in comparison with presenting a much broader suite of information on financial instruments and, for example, impact or another measure of effectiveness.

There also remains a research gap on the appropriate methodologies to consider equity in the context of finance discussions of the GST. This may include developing methods to carry out fair share analysis in provision or gap analysis between sources and needs. Such research

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<sup>40</sup> Whitley, S. et al., *Making Finance Consistent with Climate Goals: Insights for Operationalising Article 2.1c of the UNFCCC Paris Agreement*, ODI, 2018, [link](#).

<sup>41</sup> See Kessler, L., Matsuo, T., Nassiry, D. and Bodnar, P., *Reinventing Climate Finance: Four levers to drive capital stock transformation*, 2018, [link](#).

would need to link to the pursuit of equity in other thematic groups of the GST, as well as more broadly in the Paris Agreement, for example the request for Parties to report on how their NDCs are equitable.

Data and research relevant to the finance discussions of the GST could be submitted through any input-based processes that emerge (at minimum, any Party may submit documents as an input to the GST). They could also more strategically be considered as inputs to the 2020 and 2022 BAs that are likely to follow similar procedures to earlier years, where submissions from both state and non-state actors are welcomed in any format, though the emergence of such data and research on its own is not restricted to making impact within the UNFCCC.

#### 4.2. The iGST could help build convergence and critical mass in understanding key aspects of finance in the GST.

The iGST can use its independence to work with a range of state and non-state actors to improve understanding and ultimately facilitate convergence toward common understandings around core finance discussions. Such opportunities would straddle both technical and political challenges for a number of issues and could usefully go beyond a developed/developing country divide. The current lack of an agreed framework around which to organise or assess progress on the consistency of finance flows presents a key opportunity for iGST to:

- Support the development, with strong engagement from a broad base of stakeholders, of a framework and set of indicators assessing progress toward the consistency of all financial flows. It would need to allow flexibility in interpretation across actors, while also allowing a degree of comparability, and might, for example, consider the shifts needed in financial regulations and policies, fiscal frameworks, and public financing.
- Support key stakeholders in testing a framework and set of indicators assessing progress toward the consistency of all financial flows. To function in an acceptable manner, any framework or indicators would need to recognise how decarbonisation and climate resilience could be reached in different market structures, fiscal and monetary regimes, and political contexts, and the mandates and potential roles of key actors in defining these, particularly central banks and financial regulators.
- Concurrently support the sharing of knowledge and best practices that have supported progress toward consistency of all financial flows, for example through national, sub-national, thematic, or sectoral case studies. By convening through various media and targeting important stakeholder groups, the iGST could seek to build convergence in ideas and critical mass in understanding the operationalisation of Article 2.1.c.

Efforts around consistency of finance flows will need to recognise and capture a recent surge in activity from several state and non-state actors to increase low-emission and climate-resilient investment. This is combined with shifts in both the financial regulatory system and in private actors themselves, who are increasingly managing climate risk as a financial risk.

For example, The Coalition of Finance Ministers for Climate Action could provide more information on public expenditure, budget allocations, and carbon pricing that will be important for understanding progress toward the consistency of finance flows with the Paris Agreement objectives.<sup>42</sup> The Central Banks and Supervisors Network for Greening the Financial System (NGFS) could provide more information on best practices for climate risk management in financial institutions, including on how to align monetary policy with climate

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<sup>42</sup> See: The Coalition of Finance Ministers for Climate Action, *Helsinki Principles*, 2018, [link](#).





goals. The efforts of MDBs and other Development Finance Institutions (DFIs) to align financing with the Paris Agreement, and continued work, such as through the OECD Research Collaborative, may also fill data gaps.

The iGST may play a role in articulating how loss and damage finance could be included in the GST or how equity could be operationalised in the finance discussions of the GST. These will both likely be highly controversial topics within the UNFCCC and such investigation, development, and testing of approaches outside of the UNFCCC can address both political sensitivities and practical challenges in a 'safe' environment. Presenting a variety of approaches around effort-sharing and broadening the pool of contributors in the provision of climate finance, for example, could accelerate debates in the UNFCCC process that are linked to future ambition on climate action (see Section 4.3).

### 4.3. The iGST could support an understanding of how the GST could increase ambition in NDCs through finance discussions.

In addition to assessing progress, the Global Stocktake is intended to shape the next round of NDCs that are due by 2025. Specifically, the GST will "*inform Parties in updating and enhancing, in a nationally determined manner, their actions and support in accordance with the relevant provisions of this Agreement, as well as in enhancing international cooperation for climate action.*"<sup>43</sup>

How the GST might influence more ambitious action through finance discussions remains to be articulated. The first round of NDCs did not include particularly detailed information on finance, with assessments varying in methods, accuracy, and division between source channels (e.g., domestic or international, public or private, and combinations therein).<sup>44</sup> A number of developing countries did, however, tie their ambition within their NDCs to the provision of scaled-up financial support provided by developed countries post-Paris, through conditional NDCs. The GST is also expected to inform the new, more ambitious goal for the provision of finance for the post-2025 period.

The iGST is in a position to explore how the finance discussions over the coming years might influence the 2025 NDC and the ambition of subsequent NDC cycles.<sup>45</sup> The iGST could:

- Support countries in including explanations of, or commitments on, national actions toward the consistency of finance flows within their NDCs. This could lead to change in two areas. First, it would, for example, allow linkages to be made between financial needs and the 'how' of ensuring financial flows are consistent. Developing countries could then better articulate and seek support for the development of financial policy and regulation or fiscal policy reform, if needed. Second, it could provide an opening for progressive countries – both developed and developing – to then report, on a voluntary basis, these actions toward consistency in their ETF biennial reporting. This

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<sup>43</sup> UNFCCC, *Paris Agreement*, 2015, [link](#).

<sup>44</sup> Nakhooda, S. and Hedger, M. *Finance and intended Nationally Determined Contributions*, ODI, 2015, [link](#).

<sup>45</sup> While some countries will submit revised NDCs in 2020, 2025 is considered the next potential NDC round that could be influenced given the short time-frame between this paper and 2020 NDC submissions.

could then yield more information on consistency for the 2022 BA and subsequently for the GST finance discussions to draw on.<sup>46</sup>

- Explore and make more concrete the relationship between finance and the two other long-term goals of the Paris Agreement. This could help manage the mismatch between the long-term goals of the Paris Agreement and the thematic areas around which the GST is structured (see Section 2.1). While the GST will be based often on country-level inputs, it is understood to assess collective progress. The iGST, instead, can assess progress at national, sub-national, and sectoral levels, amplifying best practices in delivering effective spending. Case studies, for example, could identify where finance flows are strongly linked to the improvements in domestic policies, or the iGST could support the identification, development, and prioritisation of investment strategies that spur transformation of key climate-related sectors. This goes beyond volumes of finance flows, toward identifying and prioritising targeted investment in sectors that are difficult to decarbonize and must reach tipping points in order to lower costs and accelerate decarbonisation (even where this takes place in high-cost abatement opportunities).<sup>47</sup>

Building political momentum beyond the UNFCCC is another way in which the GST can support greater ambition.<sup>48</sup> Climate change is increasingly on the agenda of key finance actors – many of which have not yet engaged heavily, if at all, in UNFCCC processes, mechanisms, or commitments. There is a particular wariness from some finance actors, including those in highly vulnerable countries, about such engagement, given that climate change could undermine financial and macroeconomic stability.<sup>49</sup> The iGST could capitalise and catalyse this momentum by encouraging a two-way flow of information, particularly for the consistency of finance flows with low-emission and climate-resilient pathways.

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<sup>46</sup> It has also been proposed that even if countries do not include references to Article 2.1c in their NDCs, they can still include actions in their ETF reporting. See: Whitley, S. et al., *Making Finance Consistent with Climate Goals: Insights for Operationalising Article 2.1c of the UNFCCC Paris Agreement*, ODI, 2018, [link](#).

<sup>47</sup> See: Brown, J. and Granoff, I. *Deep decarbonization by 2050: Rethinking the role of climate finance*, 2018; and, Vogt-Schilb, A., Meunier, G. and Hallegatte, S., *When starting with the most expensive option makes sense: Optimal timing, cost and sectoral allocation of abatement investment*. *Journal of Environmental Economics and Management*, 88, 210–233, 2018, [link](#).

<sup>48</sup> Northrop, E. et al., *Achieving the Ambition of Paris: Designing the Global Stocktake*, PACT and WRI, 2018 [link](#).

<sup>49</sup> See for example: UNEP, *Climate Change and the Cost of Capital in Developing Countries*, 2018, [link](#).



## + 5. Conclusion

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Finance is a critical area for the GST. It is inherently linked to the achievement of the two further long-term goals of the Paris Agreement, adaptation and mitigation. It is also an area where change is critical to meet the urgency of the climate change challenge. While a number of quasi-benchmarks for finance already exist in order to assess progress, there remain critical data and research challenges that need to be addressed or managed. It is not just volumes of finance provision or volumes of consistent finance that we need to pay attention to, but how effective that finance is in supporting long-term decarbonisation and resilience.

The only dedicated input explicitly articulated for finance discussions of the GST, the UNFCCC Standing Committee on Finance's BA is a useful starting point for the finance discussions of the GST. The BA has become well established and respected, supporting consensus-building and presenting the most up-to-date data on primary climate finance. It has its limitations, however, including data and mandate gaps. These will have influence on finance discussions of the GST and mean that the BA on its own is unlikely to be fulfil all the conditions for a successful GST. It has not been forward-looking, for example, and the SCF does not have the COP mandate to put forward methodological proposals for politically charged concepts.

There are a number of areas that the iGST could engage in to add value to finance discussions within the GST. These include working to fill important data and research gaps and building convergence around topics that are relatively new or around which shared understanding has so far proved elusive. There could also be a role for the iGST in better articulating how the finance discussion of the GST can spur ambitious climate action. A more thorough exploration of these proposed areas, more concrete tasks within them, and who might lead these processes, would be natural next steps. These broad core areas for further action not only have the potential to contribute to the UNFCCC process, but can serve to improve the understanding of, and progress toward, the financing of the necessary actions to mitigate and adapt to climate change outside of the multilateral process.

## + Annex



## Annex 1: List of stakeholders actively engaged through interview, survey, and group discussion

Andrea Rodriguez Osuna, Avina Foundation, Mexico; Anoop Poonia, CAN International/CVF; Eva Louise Lithman, Adaptation Fund; Jane Ellis, OECD; Janine Felson, AOSIS; Joe Thwaites, World Resources Institute; Joo Jin Kim, Solutions for Our Climate, Korea; Laetitia DeMaraez, Climate Analytics; Liane Schalatek, HBS; Lorena Gonzalez, UNSG; Marenglen Gjonaj, UNFCCC; Mattias Frumerie, Ministry of Foreign Affairs, Sweden; Michai Robertson, Department of Environment, Antigua and Barbuda; Nancy Saich, EIB; Pdraig Oliver, UNFCCC; and, Raphaël Jachnik, OECD.

Only those that actively participated in the survey, calls, and interviews are mentioned here by name. Our thanks also to additional participants in the group discussion and webinar.

## Annex 2: List of guiding survey and interview questions

Number	Question
<b><i>Section 1: What do we want to see in the Global Stocktake (GST) with regards to finance?</i></b>	
1	The Paris Agreement considers 'Means of Implementation and Support.' What is your interpretation of what we need to take stock of for this long-term objective?
2	Article 8 on Loss and Damage also calls for Parties to enhance 'support' (alongside understanding and action). Should this form part of the finance stream of the GST?
3	The GST is a collective exercise. How do you know who is doing enough when considering:
3a	the \$100 billion committed by developed countries to be programmed in developing countries?
3b	the desire for all financial flows to be consistent with the Paris Agreement?
4	What would a successful Global Stocktake for finance show?
<b><i>Section 2: Inputs into the Global Stocktake part one - the Biennial Assessment and Overview of Climate Finance Flows (BA)</i></b>	
	Within the Katowice Climate Package (and despite much discussion in the UNFCCC around potential finance-related inputs to the GST), only the Biennial Assessment and overview of climate finance flows (BA) of the Standing Committee on Finance is identified as a formal input.
5	What is your perception on this decision?
6	What do you see as the data, content, or process shortcomings or limitations of the Biennial Assessment in terms of underpinning the finance elements of the GST?
7	Has the Biennial Assessment process, since the first BA in 2014 contributed to accountability, knowledge, and learning around finance (and wider means of support)? How?
8	Has the BA encouraged ambition in climate finance and consistency of finance with the Paris Agreement, or could it? How?



9	Has the BA played a role as an agenda-setter or pacemaker, or could it? How?
10	What is needed to complement the BA process (there will be a 2020 and 2022 BA) and who would lead it, in order to contribute to successful GST in terms of:
10a	accountability, knowledge, and learning for finance?
10b	ambition in climate finance and the consistency of finance flows with climate objectives?
<b>Section 3: Inputs into the Global Stocktake part two - other potential finance-related inputs</b>	
11	There is a relationship between the GST and the Enhanced Transparency Framework (ETF), the latter of which will necessarily include a methodology through which countries gather and provide finance-related data and information under the UNFCCC into the future (though this will not impact the 2022 BA that will inform the GST).  What remains to be decided for the ETF when it comes to finance to implement the Paris Agreement and how important will this be?
12	Other potential inputs for the finance part of the GST have been highlighted within the UNFCCC process. This includes, for example, information on needs of support and gaps, and finance-related action undertaken by Non-Party Stakeholders.
12a	Are there other sources of input that you think should be considered under the finance elements of the GST?
12b	To what extent do you think these should be considered separately (perhaps complementary to) or within the BA?
13	What further inputs to the GST might be best placed to respond to the need to track progress toward achieving article 2.1c ("making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development")?
14	Further thoughts and comments

\* Questions were adapted to each interviewee and were not necessarily replicated exactly nor in full.

### Annex 3: Suggested inputs to the GST

The following list is taken from an informal discussion note submitted at a 2017 meeting of the APA, and joint reflections on the GST from the APA and SBSTA in 2018, and reflects a number of further suggested inputs to finance discussions of the GST.

- Information on mobilization and provision of support;
- Relevant sections of the synthesis report on information from the enhanced transparency framework (summaries of greenhouse gas emissions and trends of all Parties elaborated by the Secretariat biennially from NIR and biennial communications);
- Information on needs of support and gaps;
- Reports of operating entities of the Financial Mechanism (FM), Standing Committee on Finance (SCF), Adaptation Fund (AF), Adaptation Committee (AC), WIM ExCom, Technology Executive Committee (TEC) Climate Technology Centres Network (CTCN), Paris Committee on Capacity Building (PCCB), Green Climate Fund (GCF), Capacity Building Initiative for Transparency (CBIT) as well as biennial communications by

developed countries on indicative quantitative and qualitative financial information and communications, reports, NDCs by developing countries on financial, technology, and capacity-building needs;

- Information on collective pace of transformation in technology, investment in low-carbon development, consumption behaviour, institution, and policy;
- Information on best practices, experiences, and lessons learned;
- Information on potential barriers to implementation and the ways to overcome them;
- Information on opportunities for international cooperation, in particular climate finance and technology innovation;
- Report of the GCF on financial provisions;
- Information on efforts related to financial support provided by developed to developing countries;
- Information from international financial institutions on climate-proofing and climate resilience measures;
- Sources of input that capture linkages and gaps between action and support;
- Assessment of support provided for the implementation of the conditional component of the NDCs;
- Adequacy of action and support provided for adaptation (information on costs of priorities identified and needs identified in the adaptation communications, NDCs, NAPs, National Communications);
- Information provided by developed countries on climate finance efforts;
- Efforts related to support on technology development and transfer for developing countries; and
- Information from multilateral financial institutions and development banks (e.g., total global investment in clean technology).