ICAT Initiative for Climate Action Transparency

Climate Finance Transparency Guide

CCAP
CLIMATE POLICY IN ACTION

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Recommended Citation

ICAT (Initiative for Climate Action Transparency) (2024). Climate Finance Transparency Guide.

Acknowledgements

The ICAT Climate Finance Transparency Guide was prepared under the guidance of the ICAT Secretariat (Oleg Bulanyi, Hannah Swee and Henning Wuester) with the contribution of the following authors: Adriana Bazán Fuster (CCAP), Joshua Joseph Pangelinan (CCAP), Lena Dovidat (the greenwerk), Margarita Cabrera (CCAP), Michel Köhler (the greenwerk), Samantha Youngeun Shin (CCAP), Sebastián Lema (CCAP) and Tsetsegbadam Purevsuren (CCAP).

ICAT acknowledges guidance, input and review by its Donor Steering Committee and its Advisory Committee, as well as contributions and comments from Gauss International Consulting. Special thanks to Sander Akkermans, Libasse Ba, Yara Daou, Celeste Gonzalez, Lisa Hanle, Aime Konan, Luis Ruiz, John Scicchitano, Katia Simeonova, Karen van der Westhuizen and Traude Wollansky for their review and valuable comments.

ICAT also acknowledges contributions and comments by country representatives and climate finance experts who participated in the Climate Finance Transparency workshop held in Bonn, Germany, on 28 and 29 February 2024. Furthermore, the authors acknowledge Kamil Salazar and Paola Sánchez for the review of the case studies.

Design and layout by Anthony Mena Canchari

Prepared under

The Initiative for Climate Action Transparency (ICAT), supported by Austria, Canada, Germany, Italy, the Children's Investment Fund Foundation and the ClimateWorks Foundation.

Donors

Supported by: Federal Foreign Office on the basis of a decision by the German Bundestag

IKI International Climate Initiative

CIFF Children's Investment Fund Foundation

Ministero dell'Ambiente e della Sicurezza Energetica

Federal Ministry Republic of Austria Climate Action, Environment, Energy, Mobility, Innovation and Technology

climateworks FOUNDATION

Environment and Climate Change Canada / Environnement et Changement climatique Canada

The ICAT project is managed by the United Nations Office for Project Services (UNOPS).

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Acronyms

ADB	Asian Development Bank
AFDB	African Development Bank
BR	Biennial Reports
BTR	Biennial Transparency Report
CBI	Climate Bonds Initiative
CBT	Climate Budget Tagging
CCAP	Center for Clean Air Policy
COP	Conference of the Parties
CPEIR	Climate Public Expenditure and Institutional Review
CPI	Climate Policy Initiative
CTF	Common Tabular Formats
DAC	Development Assistance Committee
ETF	Enhanced Transparency Framework
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
FAO	Food and Agriculture Organization
GACMO	Greenhouse Gas Abatement Cost Model
GCF	Green Climate Fund
GEF	Global Environment Facility
GHG	Greenhouse Gas
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
ICAT	Initiative for Climate Action Transparency
IDB	Inter-American Development Bank
IEA	International Energy Agency

Acronyms

IFC	International Finance Cooperation
INFF	Integrated National Financing Framework
ISIC	International Standard Industrial Classification
IPCC	Intergovernmental Panel on Climate Change
LTS	Long-Term Strategy
MDB	Multilateral Development Bank
MoE	Ministry of Environment
MoF	Ministry of Finance
MPGs	Modalities, procedures, and guidelines
MRV	Measurement, Reporting, and Verification
NACE	Nomenclature of Economic Activities
NCCC	National Council on Climate Change
NCQG	New Collective Quantified Goal
NGOs	Non-governmental Organizations
NDC	Nationally Determined Contribution
NIR	National GHG Inventory Report
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PCEIR	Private Sector Climate Expenditure Review
PV	Photovoltaic
SCF	Standing Committee on Finance
SDGs	Sustainable Development Goals
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention for Climate Change

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Part 1

Introduction

Part 1: Introduction

Climate finance transparency, understood as the reliable measurement, accessible reporting, and expert review of information related to financial resources allocated for climate action, is key for countries to efficiently manage financial resources to mitigate and adapt to climate change. Accurate and accessible information on climate finance enhances confidence among Parties, ensures accountability, and promotes informed decision-making processes to address climate change.

In 2015, the Paris Agreement established the Enhanced Transparency Framework (ETF) to ensure that all Parties provide clear and consistent information on their climate action and related support provided and received, including climate finance. According to the modalities, procedures, and guidelines (MPGs)[1] for the ETF, Parties to the Paris Agreement are required to submit biennial transparency reports (BTRs) to the United Nations Framework Convention for Climate Change (UNFCCC) secretariat every two years, starting in 2024. Small Island Developing States (SIDS) and Least Developed Countries (LDCs) may report the required information at their discretion. BTRs are designed to encourage countries to provide clear information on their climate actions and support provided and received, including specific information on financial support needed and received under the Paris Agreement.

The Initiative for Climate Action Transparency (ICAT) supports countries in strengthening their national climate finance transparency frameworks, so that they can measure, report, and verify climate finance flows, make informed decisions, and effectively implement climate action under their Nationally Determined Contributions (NDCs).

To support developing countries in enhancing climate finance transparency under the ETF, ICAT with the support of the Center for Clean Air Policy (CCAP), developed this guide in collaboration with experts from the greenwerk and Gauss International Consulting.

1. Purpose of the guide

This guide provides methodological guidance for developing countries to estimate and track climate finance flows at the national level to support the implementation of their NDCs. It focuses on collecting data on financial support needed and received, aligning with the reporting requirements under the Paris Agreement's ETF. Application of this guide will help countries to achieve the following main objectives:

- Improve public resource management for climate action.
- Mobilize additional climate finance resources and optimize their use.
- Report domestically and internationally on climate finance flows.

Additionally, this guide can help countries to facilitate the engagement of diverse stakeholders involved in climate finance.

This guide provides a framework, with some guidance and resources for the steps described. Reference is made to resources offered by other organizations or initiatives, and ICAT invites others to also contribute to the resource base that can further facilitate application in developing countries.

1 18/CMA.1 Modalities, procedures and guidelines for the transparency framework for action and support referred to in Article 13 of the Paris Agreement, <www.unfccc.int/sites/default/files/resource/CMA2018_03a02E. pdf?download>, accessed 7 Oct 2024.

2. Intended users

The intended users of the guide are policymakers and practitioners involved in climate policy design and implementation, as well as, in climate finance strategy development. Their work may also include the measurement, reporting, and verification (MRV) of climate policy relevant data; national and subnational budget planning and allocation; and international cooperation on climate change and climate change negotiations. The primary intended users are government officials from relevant ministries, e.g., Ministry of Environment (MoE), Ministry of Finance (MoF), Ministry of Planning, and Ministry of Climate Change. Intended users of this guide are expected to possess little or no prior knowledge or practical experience in these areas.

3. Structure of the guide

The guide is divided into three parts. Part I introduces the guide, presenting its intended users, its scope, and a description of the process and the principles followed in its creation. It also contains an overview of climate finance transparency and its benefits. Part II showcases a detailed, step-by-step approach for countries implementing this guide to establish a climate finance transparency framework. Last, Part III includes detailed explanations and rationales for the recommendations and offers templates that complement the guide.

4. Scope and applicability

This guide provides general principles and concepts of climate finance and a step-by-step approach to walk countries through a five-phase process to establish and operate a climate finance transparency framework. It offers a flexible approach by allowing users to modify or adjust the proposed phases and steps based on the different capabilities and needs of each country.

Compatibility with existing transparency frameworks was a consideration in the development of this guide. The two frameworks identified as most relevant for climate finance transparency are the ETF and the Integrated National Financing Framework (INFF).[2] Since the guide is compatible with the ETF, its implementation can help countries accurately report to the UNFCCC on support needed and received. Compatibility with the INFF was considered specifically for a targeted group of countries that have already applied this development finance framework. These countries can therefore apply and integrate this guide in their contexts without making major changes to their existing systems or frameworks.

2 The INFF was developed by the Inter-Agency Task Force on Financing for Development to help countries—specifically the ones in the process of the national implementation of the Addis Ababa Agenda—establish national planning, including appropriate financing strategies on the road to long-term sustainable development goals. Additional information is available in Annex 3.

5. Process for developing the guide

This guide has been developed through a collaborative review and consultation process convened by ICAT. It was developed by ICAT with the support of CCAP and the greenwerk. ICAT also managed the country application of the guide in four countries (Belize, Côte d'Ivoire, Morocco, and Senegal) with the support of Gauss International Consulting, to provide a tailored approach to strengthen their climate finance transparency frameworks. The guide incorporates lessons learned from these countries' work and feedback from climate finance experts. In the process of the guide's development, a workshop on climate finance transparency was held in Bonn, Germany, on 28 and 29 February 2024, where the draft was discussed among representatives from around 20 countries and climate finance experts.

The elaboration of the guide is based on extensive research and identification of best practices for climate finance transparency. For additional information on the methodology and background research, please refer to Appendix B.

6. Flexibility to manage complexity

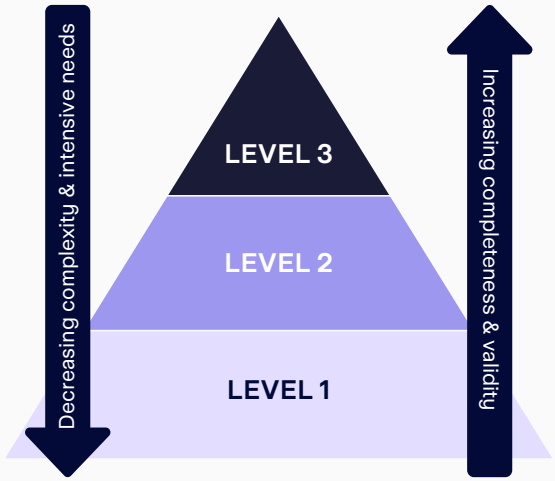
This guide adopts a principle of flexibility by incorporating the selection of levels of complexity for specific steps to reflect that countries have different levels of experience with climate finance transparency and varying capacities and resources to implement this guide. This complexity level approach draws inspiration from the Intergovernmental Panel on Climate Change (IPCC) guidelines[3] for national greenhouse gas (GHG) inventories and uses a tier system to consider the degree of complexity, depending on countries' resources and capacities. For more information, please refer to Annex 1. IPCC's tier approach.

For some specific steps in the guide (Steps 7, 8, 12, and 14), there are three different levels of complexity. At Level 1, which is the least complex, countries follow default methods or options that draw on international standards for climate finance transparency. At Level 2, countries adapt international standards to their national context to increase the coherence of the climate finance transparency framework within their existing policies and governance systems. At Level 3, which is the most complex, countries may go beyond the original scope of the transparency framework to develop solutions that are highly tailored to the national context and can support a comprehensive national climate finance strategy ***(Figure 1)***.

3 IPCC Guidelines for National Greenhouse Gas Inventories, 2006, <www.ipcc-nggip.iges.or.jp/public/2006gl/vol1.html>, accessed 30 Sep 2024.

FIGURE 1

Overview of complexity-level selection



Advanced method that includes a highly tailored national context and goes beyond the sole purpose of climate finance reporting. Yields accurate information but can be resource-intensive.

Intermediate method that draws on national implementation. Yields sufficient information and demands intermediate resources.

Basic method that draws on universal standards. Yields limited and potentially inaccurate information but can be easier to understand.

7. Climate finance transparency

Climate finance is essential for addressing climate change through both mitigation and adaptation efforts, including those set out in countries' NDCs and long-term strategies (LTS). Although there is not a single, universally agreed-upon definition of climate finance, the Standing Committee on Finance (SCF) provides a working definition, as follows:

> "Climate finance aims at reducing emissions and enhancing sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts."

Moreover, in the context of climate change, **transparency** refers to the reliable measurement, accessible reporting, and expert review of countries' progress towards their national climate goals and pledges. It builds trust and confidence that all Parties are contributing to the goal of limiting global warming to well below 2° C while striving for 1.5° C, which are the objectives set out in the Paris Agreement. To meet transparency commitments, countries must track and report their GHG emissions and progress towards their NDCs. They are also encouraged to monitor the effectiveness of their measures and the types of support received or still needed, such as capacity building, technical assistance, technology transfer, and financial resources.[4]

In this context, **climate finance transparency** can be understood as the reliable measurement, accessible reporting, and expert review of information related to financial resources allocated for climate action. This includes tracking the sources, amounts, and uses of climate finance, as well as the effectiveness of these funds in achieving climate goals. Transparency in climate finance is essential for effectively planning and managing the implementation of climate action, building trust among stakeholders, ensuring accountability, and mobilizing further financial support.

The benefits of the climate finance transparency can be outlined at two levels: international and domestic.

4 UNDP Global Promise Website, 'What does transparency mean when it comes to climate change?' (31 July 2023). https://climatepromise.undp.org/news-and-stories/what-does-transparency-mean-when-it-comes-climate-change, accessed 24 Aug 2024.

At the domestic level, climate finance transparency helps countries to make informed decisions and mobilize additional finance. With a clear picture of finance gaps and needs, countries can use their national resources in a more efficient manner by directing climate flows where a bigger impact is expected through strategic planning, which ultimately allows countries to optimize their public resource management for climate action. In addition, it allows countries to mobilize results-based finance and off-budget sources of climate finance flows for ambitious climate policies and strategies.

At the international level, efforts to enhance transparency facilitate the achievement of global climate goals in a more effective manner. These efforts build trust and confidence among countries. By complying with international reporting requirements, countries can communicate domestic progress and findings to the global community, contributing to the global tracking of climate finance. They can also facilitate information about finance flows and gaps to improve the steering of international climate financing.

Furthermore, enhanced transparency by tracking, monitoring, and reporting climate finance can create synergies with other sustainability-related global initiatives and agendas such as Sustainable Development Goals (SDGs) or the Sendai Framework. Enhanced transparency could also lead to countries accelerating their climate actions, using the opportunity to learn from each other by sharing achievements, best practices, and experiences.

In 2015, the Parties adopted the Paris Agreement and, through its Article 13, established the ETF for action and support. This framework includes built-in flexibility to accommodate the varying capacities of Parties and builds upon collective experience. In relation to climate finance, its purpose is to provide clarity on the support provided and received by individual Parties in the context of climate change actions and, to the greatest extent possible, to offer the basis for a comprehensive overview of aggregate financial support, informing the global stocktake under Article 14.

In 2018, at the United Nations Climate Change Conference in Katowice, the MPGs for the transparency framework for action and support referred to in Article 13 of the Paris Agreement were agreed upon. Under the ETF and in accordance with the MPGs, Parties must submit BTRs every two years, with the first due by 31 December 2024. BTRs should include information on national GHG inventory reports (NIRs), progress towards NDCs, and information related to climate change impacts and adaptation. The reports should also detail information on financial support, technology development and transfer support, and capacity-building support, as well as any capacity-building needs and areas for improvement. SIDS and LDCs may submit the report at their discretion and all developing countries can make use of flexibility options, excluding some of the information that they have not been able to compile.

According to the MPGs, BTRs should include information on different aspects related to climate finance, such as national circumstances and institutional arrangements for financial support; financial support provided, mobilized, needed, and received; and financial support needed and received for climate transparency activities.

In order to implement the ETF and build a basis for effective national climate action, it is recommended that countries develop climate finance transparency frameworks at a national level. These frameworks allow them, according to their capacities and priorities, to establish institutional arrangements and mechanisms for tracking and reporting climate finance under the ETF, while also providing updated and quality information to support decision-making processes to optimize the access to effectively use climate finance.

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Part 2

Implementation steps

Part 2: Implementation steps

This section presents a step-by-step approach to guide countries through a five-phase process to establish and operate a climate finance transparency framework (Figure 2). All templates and tools indicated throughout the phases are included under Appendix A: Templates and tools.

The approach has a total of 21 steps. It starts with an inception stage (Phases 1 and 2) that guides the country in setting up the foundations for building their climate finance transparency framework by establishing definitions, parameters, and institutional responsibilities. The inception stage is then followed by an operational stage (Phases 3 and 4) that includes the ex-ante finance needs assessment for NDC implementation and the ex-post measuring and verification of climate finance flows. The last stage of the approach is an evaluation stage (Phase 5) where countries estimate financial gaps and develop strategies for effective climate action.

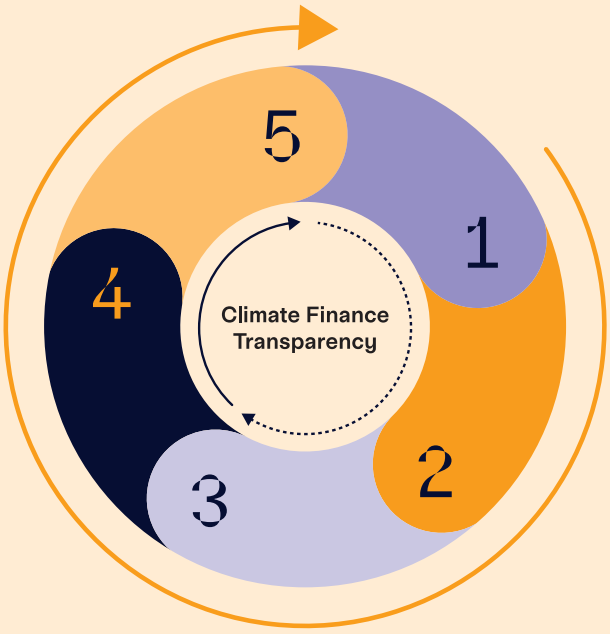
Countries can undergo the inception, operational, and evaluation stages of the climate finance transparency framework in different time intervals or simultaneously. However, it is recommended to start with the inception stage and then move on to the operational and evaluation stages.

The operational and evaluation stages (Phases 3–5) present a recurring and continuous element that needs to be conducted and updated on a regular basis. While there is no fixed frequency for repeating the stages, the guide recommends countries adopt an annual or biennial process. This frequency aligns with the budget execution cycles of most countries and the two-year reporting requirement under the ETF.

FIGURE 2

Overview of the Five Phases of the Climate Finance Transparency Framework

5 Phases of the Climate Finance Transparency Framework



1 Scoping, Planning, and Institutional Arrangements

- **Step 1:** Identify all stakeholders
- **Step 2:** Conduct country baseline assessment
- **Step 3:** Define objectives and scope
- **Step 4:** Develop a work plan
- **Step 5:** Set up institutional arrangements
- **Step 6:** Develop technical capacities of stakeholders

2 Identifying and Classifying Climate Finance

- **Step 7:** Establish a climate finance definition and classification
- **Step 8:** Set transparency framework parameters
- **Step 9:** Define climate finance impact indicators

3 Ex-ante Climate Finance Needs Assessment

- **Step 10:** Set parameters for finance needs assessment
- **Step 11:** Apply parameters
- **Step 12:** Undertake finance needs assessment
- **Step 13:** Verify finance needs assessment

4 Climate finance tracking

- **Step 14:** Collect and process climate finance data
- **Step 15:** Weight climate finance data
- **Step 16:** Verify climate finance data

5 From Transparency to Enhanced Climate Action

- **Step 17:** Identify financial gaps
- **Step 18:** *Pursue objective I:* Optimize public resource management
- **Step 19:** *Pursue objective II:* Mobilize additional climate finance resources
- **Step 20:** *Pursue objective III:* Report to the UNFCCC
- **Step 21:** Prepare for the next cycle

Regular timeline of operating system in the same level (e.g., 1–2-year basis)

Irregular timeline, repeat full circle when advancing to the next level

Complexity-level

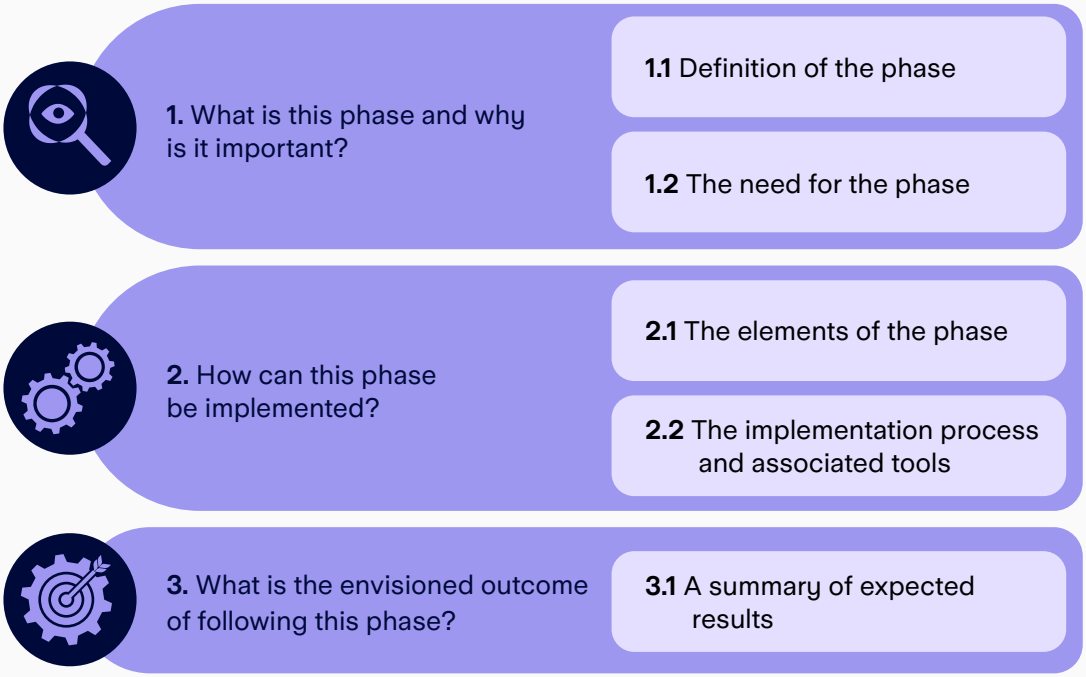
As mentioned previously, this guide offers flexibility for countries to select an applicable complexity level for specific steps that reflects their varying needs and capacities. It offers three levels of complexity with differentiated guidance for each level, ranging from ready-to-adopt international standards at Level 1 to developing solutions at Level 3 that are closely tailored to the national context. There are four steps with complexity level selection in this guide. Further detail on the elements for each level will be elaborated in those specific steps. Please note that the choice of a particular complexity level for one step does not affect the choice of the complexity level at another step.

After completing and evaluating the full cycle of this framework, countries are advised to aim for higher complexity levels for selected steps. For more details on how and when countries could target higher complexity levels, please refer to Step 21.

To ease comprehension and enhance the readability of the guide, each phase begins with three guiding questions (Figure 3) that provide an overview of anticipated outcomes and potential accomplishments at each phase, mirroring the incremental progression of the process. This sequential approach is designed to guide countries in attaining their objectives, with each phase building upon the previous one.

FIGURE 3

Guidance questions per phase



Phase 1: Scoping, planning, and institutional arrangements

What is this phase and why is it important?

The first phase for setting up a climate finance transparency framework concerns scoping, planning, and establishing institutional arrangements. In this phase, countries assess the current systems of their climate finance landscape, define objectives tailored to their specific needs, and develop a corresponding work plan. Institutional arrangements refer to the governmental structures, system processes, and policies that are followed to effectively designate responsibilities, manage activities, and streamline efficiency among stakeholders and institutions involved in climate finance. Implementation of this phase can allow countries to build a foundation for the framework, supporting and sustaining subsequent phases.

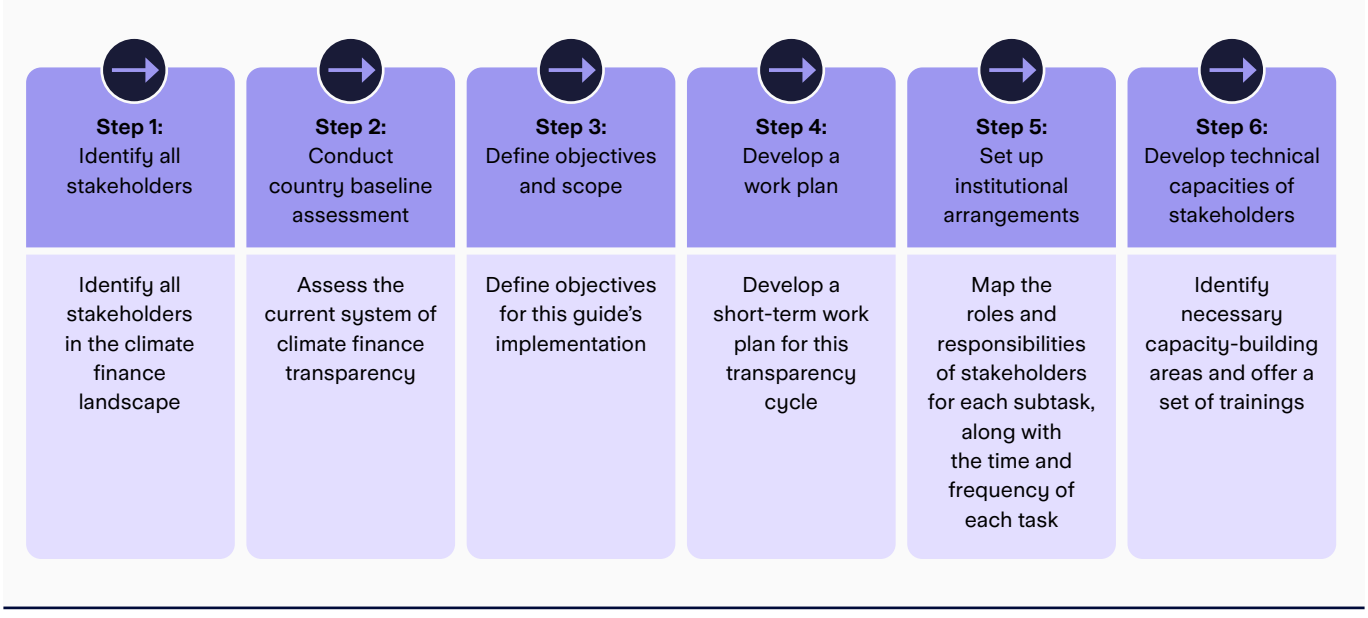
How can this phase be implemented?

The phase begins with identifying stakeholders in the climate finance landscape, followed by a country baseline assessment. This assessment helps countries determine which elements of the climate finance transparency framework already exist at the national level and which elements still need to be developed. After this, countries are encouraged to define the objectives for implementing this guide and to develop a work plan based on the assessment. The phase continues with setting up institutional arrangements, which involves defining clear roles and responsibilities among stakeholders. It concludes with providing resources for developing technical capacities of government officials and other stakeholders.

The following figure shows the steps of Phase 1.

FIGURE 4

Detailed steps of Phase 1



What is the envisioned outcome of following this phase?

TABLE 1

Envisioned outcomes of Phase 1 by step

Step	Envisioned outcome
Step 1: Identify all stakeholders	Countries identified all stakeholders (involved or potentially to be involved) in the climate finance landscape.
Step 2: Conduct country baseline assessment	Countries completed baseline assessment to determine phases and steps to follow and skip throughout the guide to complete the entire cycle.
Step 3: Define objectives and scope	Countries set main objectives for implementing the climate finance transparency framework.
Step 4: Develop a work plan	Based on the assessment and objectives, countries formulated a work plan for this cycle of the framework.
Step 5: Set up institutional arrangements	Countries set clear roles and responsibilities for climate finance data collection and sketched the diagram for institutional arrangements for climate finance tracking. They also designated focal points for each line ministry/agency and subnational authorities and defined data collection procedures.
Step 6: Develop technical capacities of stakeholders	Countries identified where technical capacities were required and led the creation, development, and delivery of tailored training sessions.

Step 1. Identify all stakeholders

Stakeholder identification is a process of categorizing individuals, groups, and organizations who are directly or indirectly involved in climate finance. Therefore, this step lays the foundation for effective stakeholder participation and solid institutional arrangements based on mutual trust and effective collaboration.

Identification of stakeholders can be conducted through:

- identification of government offices, agencies, or committees related to planning and investing in climate activities
- identification of stakeholders involved in previous climate-related projects or programmes and focal points from international climate funds, e.g., Green Climate Fund (GCF) and Global Environment Facility (GEF)
- input from the team/staff in charge of the national budget management or international cooperation (e.g., MoF)
- input from climate experts representing sectors (e.g., energy, transport, agriculture)

The following table provides an overview of typical climate finance stakeholders, their corresponding roles, and the sources of data they have, which can be useful for countries to easily identify them and their roles in the national climate finance landscape.

Photo by © ENVATO

TABLE 2

Examples of stakeholders in the climate finance landscape

Stakeholder group	Examples	Roles in the climate finance landscape	Sources of data
Public sector (national)			
National / federal government	▪ MoF ▪ Ministry of Energy ▪ MoE ▪ Ministry of Industry ▪ Ministry of Agriculture ▪ Ministry of Planning ▪ Ministry of Foreign Affairs ▪ Central Bank ▪ Finance Regulatory Office ▪ Climate Change Office ▪ International Cooperation Office ▪ Climate Finance Department	▪ Budget planning and debt management ▪ National/sectoral climate finance strategy ▪ National climate policies and goals (e.g., NDC planning and implementation) ▪ MRV systems for climate finance tracking ▪ Coordination of international protocols and conventions with national policies and regulations ▪ Managing international cooperation ▪ Reporting to UNFCCC	▪ Public budget ▪ Public Sector Investment Programmes ▪ Budget of in-line ministries
Subnational/ local governments	▪ Subnational government ▪ Local governments / Municipalities	▪ Subnational / local budget planning and allocation ▪ Subnational / local climate strategies and implementation	▪ Budgets and investment plans of subnational / local governments
State-owned enterprises[5]	▪ State-owned utilities	▪ Social inclusive policy implementation ▪ National reporting ▪ Capacity building	▪ Investment plans ▪ Project portfolios[6]
State-owned and national finance institutions	▪ National Development Banks ▪ Public institutional investors (e.g., pension funds) ▪ National Climate Funds	▪ Financial investment ▪ Long-term planning	▪ Investment plans ▪ Financial statements / records ▪ Project portfolios

5 State-owned enterprises in sectors with direct relation to climate change mitigation, such as utilities in energy, electricity, infrastructure, transport, heating, and waste sectors (e.g., grid operators, power administrations). Also, state-owned enterprises in sectors with direct relation to climate change adaptation, such as utilities in water and health sectors (water utilities, etc.).

6 The Climate Funds Update provides an overview of projects per country that are financed by international funds, as seen here: <www.climatefundsupdate.org/data-dashboard/#1541245745457-d3cda887-f010> ('table of recipients').

Stakeholder group	Examples	Roles in the climate finance landscape	Sources of data
Public sector (international)			
Multilateral development finance institutions (DFIs)	▪ African Development Bank (AfDB) ▪ Asian Development Bank (ADB) ▪ Asian Infrastructure and Investment Bank (AIIB) ▪ European Bank for Reconstruction and Development (EBRD) ▪ European Investment Bank (EIB) ▪ Inter-American Development Bank (IDB) ▪ International Monetary Fund (IMF) ▪ International Finance Cooperation (IFC) ▪ Islamic Development Bank (IsDB) ▪ World Bank Group (WBG)	▪ Financial investment ▪ Technical assistance	▪ Investment plans ▪ Financial statements / records ▪ Project portfolios
Multilateral environ-mental and climate funds	▪ GCF ▪ GEF ▪ Adaptation Fund (AF)	▪ Financial investment	▪ Financial statements / records ▪ Project portfolios
Multilateral agencies	▪ United Nations agencies (e.g., UNEP, UNDP, Food and Agriculture Organization)	▪ Technical support ▪ Knowledge sharing	▪ Project portfolios ▪ Financial statements / records
Bilateral cooperation/ development agencies	▪ USAID ▪ Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) ▪ CDC Group ▪ Japan International Cooperation Agency ▪ Embassies	▪ Financial investment	▪ Project portfolios ▪ Financial statements / records

Stakeholder group	Examples	Roles in the climate finance landscape	Sources of data
Private sector (national and international)			
Private sector companies	▪ Investors (individual and institutions) ▪ Commercial banks ▪ Bank associations ▪ Project developers ▪ Renewable energy companies ▪ Crediting agencies ▪ Insurance companies ▪ Micro-, small- and medium-sized enterprises	▪ Financial investment ▪ New technology development and innovation ▪ Project development ▪ Risk mitigation	▪ Investment plans ▪ Financial statements / records ▪ Project portfolios
Other non-state actors			
Non-governmental organizations (NGOs)	▪ Environmental NGOs ▪ Implementing partners[7]	▪ Technical support ▪ Knowledge sharing	▪ Investment plans ▪ Financial statements / records ▪ Project portfolios
Academia	▪ Think tanks ▪ Universities	▪ Scientific support ▪ Capacity-building ▪ Pilot activities ▪ Technical support ▪ Knowledge sharing	▪ Studies ▪ Journal articles ▪ Databases ▪ Investment plans ▪ Financial statements / records ▪ Project portfolios
Media	▪ National or local newspapers/televisions ▪ Social media ▪ Media groups	▪ Information dissemination ▪ Advocacy ▪ Education	▪ Studies ▪ Articles ▪ Databases
Communities	▪ Indigenous Peoples ▪ Local communities ▪ Women ▪ Youth	▪ Bottom-up policy ▪ Project development ▪ Knowledge sharing ▪ Social inclusive policy	▪ Project finance

7 Implementing partners refers to an organization that is implementing a project or a programme if the climate finance is provided via intermediary from climate funds. It can take many forms, such as commercial banks, nongovernmental organizations, private entities, etc.

Photo by © ENVATO

Countries are counselled to adopt inclusive and gender-responsive approaches to ensure diverse groups (e.g., women, local communities, and Indigenous Peoples) are represented not only during the stakeholder identification process but also throughout the full cycle of this framework. For more information, please refer to the ICAT Stakeholder Participation Guide.

Step 2. Conduct country baseline assessment

In this step, countries assess their current progress in terms of climate finance transparency and determine which steps from this guide should be prioritized. The results of the assessment form the basis for the subsequent work plan.

The assessment covers the phases and steps in the guide, including climate finance definitions, institutional arrangements, climate finance data collection, verification and reporting, among others. The proposed questions are binary (yes–no) and refer to relevant steps of the guide. Further guidance on conducting the assessment can be found in Appendix A. Country baseline assessment.

Step 3. Define objectives and scope

The next step is to define the country's objectives and scope for implementing the climate finance transparency framework. Based on the country's baseline assessment and the government's climate finance priorities, each country can define a single or multiple objectives to develop and implement. Defining objectives can vary in accordance with each country's progress and priorities. Some are listed below.

- **Improve public resource management for climate action:** This corresponds to the use of climate finance information for the elaboration of development plans or public budgets, e.g., aligning mitigation investments to regions or sectors with the highest climate change emissions or directing adaptation investments to regions most vulnerable to climate change.
- **Report domestically and internationally on climate finance flows:** This promotes transparency towards the different funding sources on the amount and, if possible, the impact of climate investments. Reporting to civil society or international donors on the use and execution of climate change resources would be one example.
- **Mobilize additional climate finance resources:** Increasing transparency about climate finance investments and their impacts is likely to attract greater investment in the activities that generate the greatest benefits for adaptation and mitigation actions.

Please note that these objectives are not mutually exclusive, so countries can pursue more than one. This step supports countries to gain clarity on their end goals and define clear pathways to achieve them.

Step 4. Develop a work plan

Building on the results of previous steps, countries should formulate a work plan to implement the climate finance transparency framework. The shape of the work plan can be tailored to the unique needs, capacities, and preferences of each country. It should include clear objectives, a timeline with progress checkpoints, designated activities or tasks, and expected outcomes. The guide provides a Default work plan (Appendix A) that countries can adapt and customize to complete this five-phase framework.

In addition to defining the work plan, it is also important to establish from the beginning key performance indicators (KPIs) and an evaluation plan to measure and evaluate the process of implementing the climate finance transparency framework. This evaluation plan will facilitate the identification of lessons learned and areas for improvement for the next iteration of the climate finance transparency cycle.

1. **Define key performance indicators:** To evaluate the national implementation of climate finance transparency and the quality of its results, countries are encouraged to determine key indicators to measure. Indicators measuring practical implementation—concerning timeframes and institutional capacities, for example—can be monitored throughout the cycle. For instance, this can happen after each phase in the cycle is complete. Indicators that measure the quality of the results of national climate finance transparency—concerning, for example, the reliability and comprehensiveness of the data—can be measured after completing the operational and evaluation stages (i.e., Phases 3–5) in whole or in part. Indicators need to be defined according to the national context in which the climate finance transparency cycle has been placed.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2. **Develop and implement an evaluation plan:** An evaluation plan presents a system for collecting and analysing data. Along with the designated indicators, the evaluation plan should also include timeframes, targets, and assigned responsibilities for collecting data on the indicators from relevant stakeholders and then analysing and evaluating them. Both strengths and limitations need to be communicated to the institutions involved, including the institution responsible for overseeing the implementation of the climate finance transparency cycle.

Step 5. Set up institutional arrangements

Climate finance is a cross-sectoral topic that involves a variety of government entities responsible for planning and implementing climate policies. Hence, establishing clear roles and responsibilities ensures that countries can efficiently allocate national resources by minimizing ambiguities in the division of labour. Building on stakeholder identification (Step 1), this step further refines the delineation of roles and responsibilities to enhance institutional arrangements.

Leveraging existing structures, staff knowledge, and expertise is recommended for a streamlined integration of roles and responsibilities within current institutional setups. In the preparation of this guide, case studies on the institutional arrangements for climate finance tracking were conducted for two countries: Fiji and Indonesia. These case studies emphasized the benefits of establishing an oversight body for enhancing a country's ability to achieve long-term climate goals transparently and effectively. By engaging in the entire climate finance management process, from planning and allocation to MRV, this body can identify gaps and needs to allocate support and resources accordingly.

The findings of these case studies (Appendix B: Institutional settings for climate finance data collection and MRV) informed the creation of the following templates for countries to use and set up institutional arrangements based on their needs and objectives.

By using the stakeholder mapping template, countries can define the roles and responsibilities of all stakeholders. The responsibilities can be categorized into four groups as follows:

- **Responsible:** a person or entity who performs the task or an element of it
- **Accountable:** a person who signs off when the task is completed or makes decisions
- **Consulted:** a person who provides feedback at every step of the task
- **Informed:** a person who needs to be updated on tasks or decisions, even though they do not contribute to the task or decision-making process directly

Appendix A: Matrix for identifying key implementing agencies presents an overview of tasks related to climate finance that countries are advised to adapt and adopt according to their national context.

Based on Appendix A: Flowchart and institutional settings for climate finance data collection and MRV, countries can sketch their own charts based on stakeholder mapping and findings from the one-to-one stakeholder consultation processes. For instance, the institutionalization of climate finance tracking, as presented in the flowchart, can consist of several key elements, as shown below:

- The assignment of a data collection focal point from each line ministry/department can help countries to track climate finance in an efficient manner. For countries in the process of updating their financing needs assessment for NDCs, focal points for each sector are recommended.
- Countries can design and implement data collection procedures.
- Countries can legislate the process for inter-ministerial coordination.

Another important topic for institutional arrangements for climate finance is the establishment and operation of an IT system. Manual or regular data collection and reporting of climate finance is often a resource-intensive process for countries. Hence, the use of computer-based information systems can manage this process in a more efficient way.

For countries embarking on this process, please refer to 'A road map for establishing information systems for climate action and support', published by ICAT and CBIT. It is recommended for those countries to understand their needs and the required data structures before establishing their IT system.

Step 6. Develop technical capacities of stakeholders

The skills and technical knowledge of government officials, especially those who oversee and execute climate data collection, compilation, verification, and reporting, are pillars of an effective climate finance transparency framework. It is recommended that countries develop and implement a custom set of training modules, with multiple difficulty levels catering to the specific needs of government officials and other relevant stakeholders.

The UNFCCC SCF has published a series of reports, assessments, and handbooks to enhance countries' knowledge of the instruments, themes, and sources of climate finance. These materials can be helpful for setting a baseline understanding of the importance of climate finance access, impact, and transparency at the national level.

Several courses and training programmes are offered to practitioners interested in building knowledge of climate finance, such as the Climate Finance Readiness Training (CliFiT). The training toolkit is designed to assist technical staff and decision-makers from developing countries and emerging economies in navigating the climate finance landscape. In addition, the training features a component focused on sectoral experts, providing an overview of the financing modalities and the enabling tools necessary for national public finance systems.

The Commonwealth secretariat has also developed a Climate Finance Essentials E-learning Course. This course is tailored to government officials and experts from small states and LDCs who are members of the Commonwealth, guiding them through the requisites and key elements needed to secure climate finance from international sources. The UNFCCC also makes past online workshops on reporting information on support needed and received in BTRs accessible, to provide hands-on exercises to individuals seeking to improve their climate finance capabilities.

UNEP-Finance Initiative (UNEP-FI) and Chartered Financial Analyst Institute also offer a range of capacity-building programmes and trainings focused on climate finance. Accompanying these training programmes are knowledge products and useful educational materials such as the UNDP publication, 'Gender and Climate Finance', which offers insights on making climate-financing instruments more responsive to the needs of people of all genders while acknowledging the need to especially empower and support women.

The following non-exhaustive list of training topics is recommended for stakeholders in climate finance based on their needs:

- Training on climate finance data collection and reporting capacities
- Reporting under the ETF
- Training on international climate change treaties, particularly Paris Agreement Articles 2.1(c), 06, and 13
- Training on financing needs assessment tailored to sector-specific projects

In addition, Annex 9 includes a list of international resources that support technical capacity and funding for developing countries.

Resources for Phase 1:

- Appendix A: Country baseline assessment
- Appendix A: Default work plan
- Appendix A: Matrix for identifying key implementing agencies
- Appendix A: Stakeholder mapping template
- Appendix A: Flowchart and institutional settings for climate finance data collection and MRV
- Appendix B: Institutional settings for climate finance data collection and MRV
- Annex 3. ETF and INFF
- Annex 9. Overview of programs that support capacity building and funding resources
- Stakeholder Participation Guide, ICAT
- Gender-responsive climate finance brief, UNDP
- Online workshop series on BTRs: 'Reporting information on support needed and received in BTRs', UNFCCC
- Climate-related Financial Risks Online Course, UNEP-FI
- Climate Finance Readiness Training (CliFiT), GIZ
- Climate Finance Essentials E-learning Course, Commonwealth Secretariat
- Climate Finance Online Course, Chartered Financial Analyst Institute
- Reporting under the ETF
- A road map for establishing information systems for climate action and support, ICAT and CBIT

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Phase 2. Defining and classifying climate finance

What is this phase and why is it important?

In this phase, countries are encouraged to define climate finance at the national level. Based on this definition, countries can go further by classifying economic sectors, subsectors, eligible activities, parameters, and impact indicators. By establishing these at this phase, to be used consistently throughout the cycle, countries can yield the expected outcomes in Phase 5.

Please note that within this phase, Steps 7 and 8 have a complexity level selection. Further details on the elements for each level will be elaborated later to help countries to choose applicable levels.

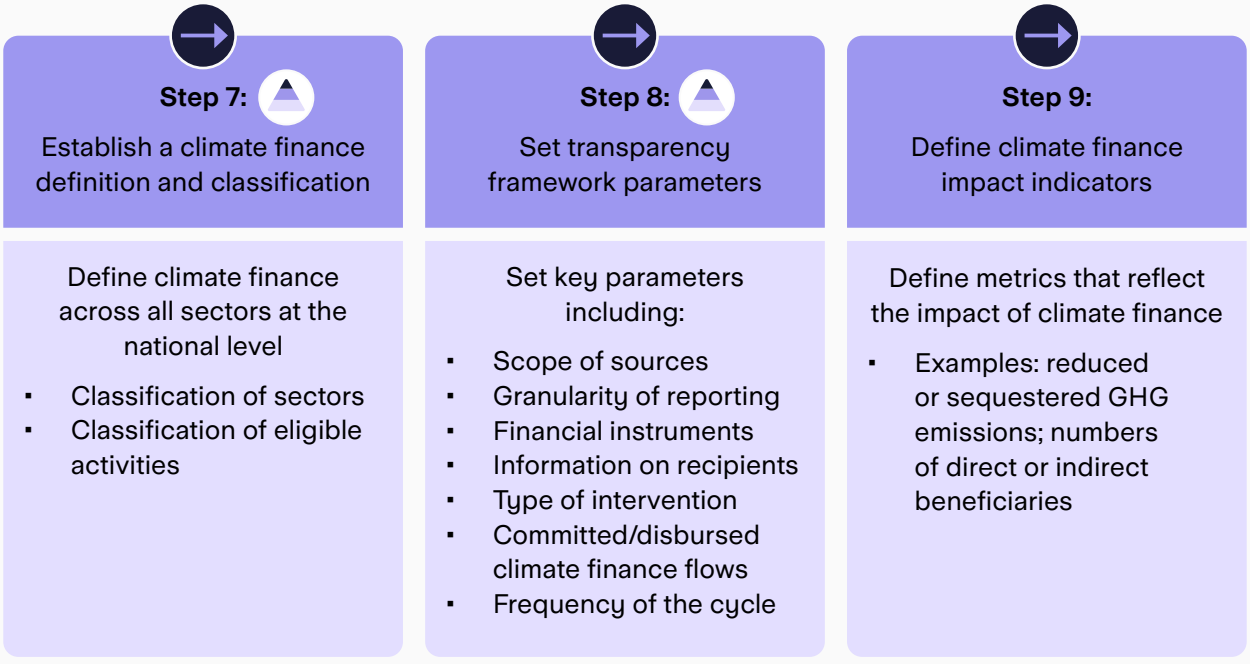
How can this phase be implemented?

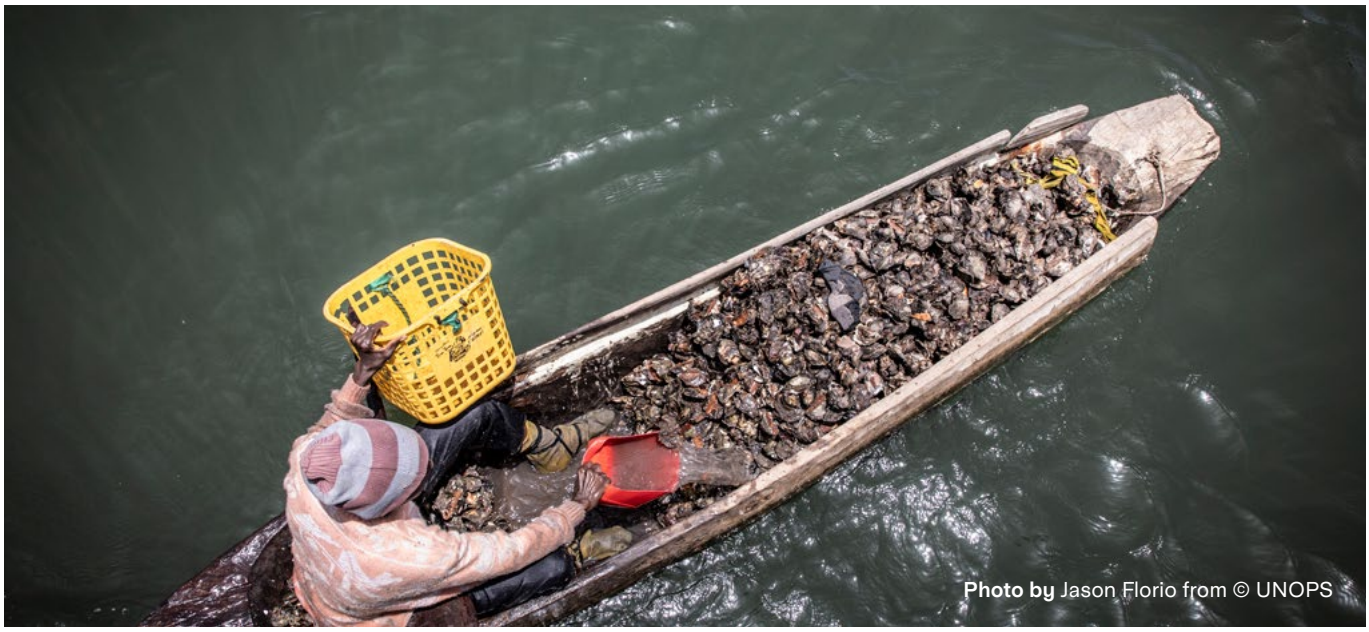
This phase begins with defining climate finance at the national level, including the classification of economic sectors and eligible activities. Economic sectors are specific areas that are targeted for funding and investment for climate action (e.g., energy and transportation). The phase continues with selecting parameters for the transparency framework and concludes with defining climate finance impact indicators.

The following figure shows the steps of Phase 2.

FIGURE 5

Detailed steps of Phase 2 (Purple pyramids indicate steps with different levels of complexity





What is the envisioned outcome of following this phase?

TABLE 3

Envisioned outcomes of Phase 2 by step

Step	Envisioned outcome
Step 7. Establish a climate finance definition and classification	Countries established the definition of national climate finance and classified economic sectors and eligible activities.
Step 8: Set transparency framework parameters	Countries set the parameters for their climate finance transparency frameworks.
Step 9: Define climate finance impact indicators	Countries enhanced or developed the list of key indicators per sector in line with their NDCs

Step 7. Establish a climate finance definition and classification

A clear definition of climate finance at the national level is a significant early step in the formulation of a national climate finance tracking framework. This definition serves as a foundation for fostering a shared understanding amongst all stakeholders and for determining the parameters that will guide the climate finance transparency framework and the subsequent steps for achieving the country's objectives through its use. Please refer to Box 1 below for commonly used climate finance definitions at the international level.

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BOX 1

Climate Finance Key Definitions

Although there is no single agreed-upon definition for climate finance to date, here are some examples of commonly used definitions:

Climate finance aims at reducing emissions, enhancing sinks of greenhouse gases, and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts. **('Biennial Assessment and Overview of Climate Finance Flows Report', SCF)**

According to the IPCC, climate finance includes all financial flows whose expected effect aims at reducing GHG emissions (i.e., **climate mitigation finance)**, such as renewable energy installation/application or electric vehicles, and/or to enhance resilience to the impacts of current and projected climate change (i.e., **climate adaptation finance)**. For instance, building awareness and resilience for a community facing potential climate-related disasters can be classified as climate adaptation finance.

Cross-cutting climate finance, as per the Organization for Economic Co-operation and Development (OECD), refers to financial flows that create both mitigation and adaptation benefits (OECD, 2021).

For more information and common practice regarding defining climate finance, please refer to the **'Report on clustering types of climate finance definitions in use'** by SCF, UNFCCC.

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Defining climate finance involves distinguishing activities or projects aligned with climate objectives and pinpointing financial flows that qualify as climate finance, differentiating them from non-qualifying ones. The absence of universally agreed-upon definitions of climate finance at the international level and of standardized modalities for accounting means that any establishment of definitions takes place at the national level.

Countries and international organizations have attempted to define climate finance and its classification of economic sectors and activities independently. This leads to misalignment and impedes meaningful comparisons of financial support levels from developed countries for climate action in developing nations. It also hinders the accurate identification of financial gaps, leading to overlaps, discrepancies, and confusion among users.

Given this context, countries are encouraged to develop a national definition for climate finance, adapting existing international definitions to their specific contexts. Table 4 presents a set of recommendations on how countries can define climate finance, scaled to the selected level of complexity.

TABLE 4

Overview of complexity selection for defining climate finance at the national level

Complexity level	Description	Defining national climate finance	Classifying sectors and subsectors	Choosing economic activities
Level 1	Countries without an established national-level climate finance definition.	Apply a definition by using international methodologies / definitions (e.g., UNFCCC climate finance definition used by SCF, OECD DAC Rio Markers).	Apply and adapt the provided standard sectoral classification based on the BTR CTF of the UNFCCC and the OECD DAC Rio Markers (BTRs as the aggregated level).[8]	Apply the indicative table to support activity-level screening and marking against the OECD DAC Rio Markers on climate change mitigation and adaptation.
Level 2	Countries with experiences in formulating the definition and methodology/ for climate finance, particularly in one sector at minimum.	Develop a comprehensive climate finance definition across all sectors by incorporating a combination of ▪ international definitions / methodologies; and ▪ national methodologies / definitions of climate finance countries can start with one or two priority sectors identified in their NDCs (i.e., high-emitting or high-vulnerability sectors)	Employ the country's sectoral classification with logic for aggregating at the level of the CTF of BTR for the UNFCCC. This can include sectors in NDCs.	Make use of country's industrial classification system and cross-reference with international classification systems (ISIC,[9] NACE,[10] NAICS, etc.) to select the economic activities. Subsequently, conduct a comparative analysis with the OECD DAC Rio Markers, if necessary.

8 For more information, please refer to Annex 4. Overview of data sources on international climate finance.

9 ISIC: International Standard Industrial Classification of all Economic Activities is a standard from the United Nations Statistics Division (UNSD) classification of economic activities. (European Commission)

10 NACE: Nomenclature of Economic Activities is a four-digit classification providing the framework for collecting and presenting statistical data according to economic activity in a wide variety of European statistics in the economic, social, environmental, and agricultural domains. (European Commission)

Complexity level	Description	Defining national climate finance	Classifying sectors and subsectors	Choosing economic activities
Level 3	Countries at the most advanced level in terms of experience and work progress (i.e., a sustainable taxonomy).	Develop a more detailed and harmonized climate finance definition, potentially aligning it with a national taxonomy, that encompasses both private and public climate finance.	Employ the country's sectoral classification, with logic for aggregating at the level of the CTF of BTR for the UNFCCC. This may involve considering relevant thematic areas within subsectors (e.g., efficiency measures, cleaner technologies, capacity building, etc.).	Conduct a national methodology to define the universe of economic activities based on a sectoral classification. Then, perform a comparative analysis with other taxonomies, followed by the selection of economic activities relevant to the country (i.e., Gross Domestic Product's relevance and potential to reduce high emissions in the short term). Screen their alignment with specific metrics and thresholds, incorporating qualitative and quantitative criteria, based on the country's climate priorities. Finally, double-check with OECD DAC Rio Markers if needed.

As shown in the previous table, countries can consider two key aspects in the process of establishing a national climate finance definition:

- the definition and classification of sectors to determine the relevant areas that are targeted for finance to address climate change
- the definition and eligibility of economic activities to determine the activities eligible for climate finance support based on their national relevance

Another aspect to be considered when defining climate finance is its differentiation with respect to loss and damage financing. Although loss and damage finance is also discussed under the UNFCCC, its scope differs from climate change adaptation and mitigation finance and is therefore outside the scope of this guide (Box 2).

BOX 2

Climate Finance and Loss and Damage Fund

The creation of the Loss and Damage Fund at COP27 raises new questions on how to articulate climate finance and loss and damage financing. Loss and damage financing refers to funding that directly addresses the unavoidable catastrophes of climate change, while climate finance refers to financing for climate change mitigation and adaptation, which correspond to different concepts. However, the financing of losses and damages also poses similar challenges to climate finance in terms of estimation, traceability, and compliance with international commitments.

Although the financing of losses and damages is not considered within the scope of this guide, it is recommended that each country evaluate the convenience of articulating its climate finance transparency framework with loss and damage financing. For more information, please refer to this ICAT guide: **'Assessing Climate Change Driven Losses and Damages'.**

Definition and classification of sectors

In climate finance, sectors refer to specific areas of economic activity that are targeted for funding and investment to address mitigation and adaptation climate actions. Some of the most common sectors used for climate finance accounting are energy, transport, industry, agriculture, forestry, water and sanitation, and cross-cutting.

For the purposes of this guide and according to their chosen complexity level, countries can define and classify sectors based on the sectoral classification in the CTFs. Furthermore, countries can also define subsectors according to OECD DAC Rio Markers and CPI. For more information, please refer to Table 24. Economic sectors classification for climate finance tracking (Appendix B).

Definition of eligible economic activities

In the context of climate finance, economic activities provide granular methods for identifying where climate finance is allocated. They offer greater understanding of the aggregation level, aiding in the assessment of the climate relevance for individual projects or programmes. Additionally, economic activities play a key role in promptly identifying sectors that require increased support from public or private climate finance sources. This approach facilitates a swift evaluation of the financial support of underfunded activities outlined in NDCs. For further details on assessing climate relevance, please refer to Parameter 2 in Step 8.

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BOX 3

A case study on the climate finance definition in Belize

Case study: defining climate finance in Belize

Belize has developed a national definition of climate finance as part of an ongoing project with ICAT aimed at enhancing the transparency of climate finance.

The process began in June 2023 with a comprehensive mapping of all relevant public and private stakeholders within the climate finance landscape of Belize. Based on this mapping, the National Climate Change Office (NCCO) conducted one-on-one consultations with key stakeholders to ascertain their current practices working with climate finance data and to gauge their needs and expectations.

Following that, a brainstorming session was organized in August 2023 to provide a collaborative environment for stakeholders to share diverse perspectives, establish common ground, and provide feedback on a working definition of climate finance in Belize. Participants included representatives from various government agencies, private sector entities, NGOs, and indigenous communities and marginalized groups. Examples include the MoF, Ministry of Economic Development, Social Investment Fund, Development Finance Corporation, National Biodiversity Office, Maya Association of Belize, and the Association of Protected Areas Management Organizations. During the session, participants examined standard definitions and methodologies for conceptualizing a climate finance definition while considering the specific activities and areas highlighted in the key climate change-related national-level strategies such as Belize's NDC and Low Emission Development Strategy.

Drawing from the insights shared during the brainstorming session, an initial draft of a working definition for climate finance was formulated. Two weeks after the session, the NCCO distributed a survey among stakeholders to gather additional input and feedback on the proposed definition. Incorporating the feedback received from the survey, final adjustments were made, resulting in the development of the following climate finance definition that will guide initiatives in Belize going forward:

'Climate finance' refers to local, national, or international financing mobilized from public, private, or alternative funding sources seeking to support mitigation, adaptation, and loss and damage actions that will address negative climate change impacts. These actions seek to, but are not limited to, reducing vulnerability for at-risk areas, developing resilience of human and ecological systems, enhancing our agricultural sectors, increasing renewable energy usage, improving our transport and waste management system, and upgrading the health and wellness sector to continue to support Belize's national efforts to move to a low GHG emissions pathway, enhancing GHG sinks, and emphasizing resilient development to reduce the adverse effects of climate change.

In sum, the development of a climate finance definition in Belize spanned three months and involved several rounds of revisions. Key officials highlighted that an important lesson from this process was the creation of a safe environment for open discussions with major stakeholders. This approach facilitated a deeper understanding of each stakeholder's perspectives and rationale and helped achieve consensus through a transparent and collaborative process.

FIGURE 6

The process of developing the climate finance definition in Belize

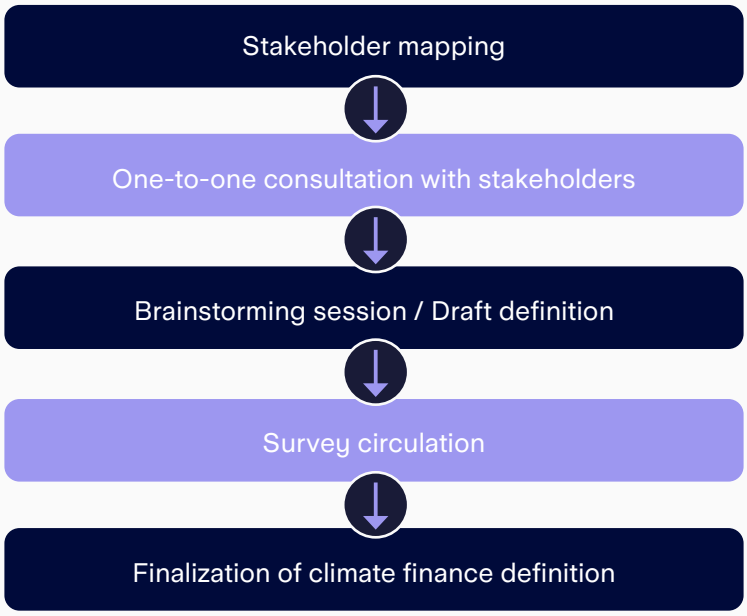


Photo by © ENVATO

Commonality and differentiation of sustainable taxonomies and climate finance tracking

A sustainable or green taxonomy is a comprehensive classification system to define environmentally sustainable economic activities. It aims to prevent greenwashing and help investors to make informed decisions. Although sustainable taxonomies have some elements in common with climate finance transparency, particularly in the definition of economic sectors and activities related to climate change, their differences are also important: a taxonomy can be limited to the classification of activities and sectors, while the climate finance transparency framework also includes tracking, measuring, and reporting. The following table summarizes their primary characteristics; for more information on taxonomies, please refer to Annex 7. Green and sustainable finance taxonomy.

TABLE 5

Comparison of taxonomies and climate finance transparency

	Sustainable/green taxonomies	Climate finance transparency
Objectives	Prevent greenwashing and help investors to make informed decisions.	Track climate flows in the country and take appropriate measures after reporting the results.
Classification	Economic activities can be classified as sustainable or green.	Economic sectors, subsectors, and activities can be counted as part of the funding for climate actions.
Thematic areas	In addition to climate change, sustainable / green taxonomies also include other thematic areas such as circular economy or water management.	Climate finance transparency is limited to climate change.
Tracking	Tracking sustainable / green financial flows is not usually required, aside from any mandatory or voluntary reporting at the corporate or financial institution level.	Tracking and reporting climate finance flows is the main objective, usually at a national or jurisdictional level.
Leading entity	▪ MoF ▪ Financial regulator ▪ Central bank	▪ MoE

Step 8. Set transparency framework parameters

After developing a climate finance definition, countries are recommended to set the parameters of their climate finance transparency framework. Parameters define the boundaries and the categorization of the climate finance components in advance. Establishing these parameters ensures consistency and affects how granular and thorough the data are. Therefore, this step lays the foundation that sets up subsequent phases of the guide.

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TABLE 6

Overview of climate finance transparency parameters

Parameters	Categories
Parameter 1. Scope of the sources for climate flows	▪ On-budget ▪ Off-budge
Parameter 2. Granularity of reporting	▪ Project or programme-based ▪ Component-based
Parameter 3. Financial instruments	▪ Grants ▪ Concessional loans ▪ Non-concessional loans ▪ Equities ▪ Guarantees ▪ Insurance ▪ Other financial instruments
Parameter 4. Information on recipients of climate finance	▪ Government institutions ▪ NGOs ▪ Academia and research institutes ▪ Private sector organizations ▪ Communities ▪ Public service providers ▪ Other
Parameter 5. Type of intervention	▪ Cooperative approaches under Article 6 of the Paris Agreement ▪ Physical intervention ▪ Capacity building ▪ Technology development and transfer ▪ Climate transparency-related activities (implementation of Article 13 of the Paris Agreement)
Parameter 6. Committed and/or disbursed climate finance to be tracked	▪ Committed ▪ Disbursed
Parameter 7. Frequency for monitoring the transparency framework	▪ Annual ▪ Biennial

For more information on how these climate finance parameters were determined, please refer to the literature review outlined in Appendix B: Classifying and weighting climate finance flows.

Parameter 1. Scope of the sources for climate finance flows

This substep elaborates further on the difference between on-budget and off-budget sources for climate finance flows to help countries to select a complexity level for the scope of sources.

There are many sources of climate finance in a country: public or private, national or international. In general, these sources can be grouped into two categories: on-budget and off-budget sources (Box 4 below).

BOX 4

Different types of sources for climate finance

On-budget sources provide climate finance flows disbursed by national, regional, or local government bodies. Therefore, climate finance stemming from on-budget sources represents national public finance. Examples of these sources are government expenditures and investment records at the ministerial or municipal level. In some countries, funding flows from international cooperation may be included as part of the national treasury.

Off-budget sources provide climate finance flows that are not part of the government's own budget. Off-budget sources capture climate finance stemming from various and diverse actors, including international donors, investors, and climate funds. These sources also include NGOs, academia, and private sector actors. Examples of these sources are international databases and statistics on bilateral and multilateral climate finance flows, project finance documentation, investment plans, and corporate reports available to the public.

Some countries are starting to track international public climate finance flows and public sources mobilized within their respective governments' budgets. Appendix B includes more information regarding the on-budget and off-budget sources and the current methodologies used for tracking these finance flows.

When deciding on the level of complexity, countries should consider existing institutional arrangements, capacities, and resources to collect relevant data. Please refer to Phase 4: Table 15. Overview of complexity selection for data collection, since this decision impacts the subsequent steps.

While the scope of sources in Level 1 focuses on on-budget sources while adding data from the most easily accessible off-budget sources, such as statistics of bilateral and multilateral transfers, the scope of Level 2 includes off-budget sources that are tougher to access, such as data from the private sector. Level 3 focuses on collecting data from all finance sources based on legally binding responsibilities.

As a country progresses further into the more advanced levels, coverage of the climate finance flows becomes broader, more reliable, and more accurate. However, data collection processes can increase in complexity since they require additional efforts to collect. The following table describes each complexity level in further detail.

TABLE 7

Overview of complexity level selection for Parameter 1

Complexity level	Parameter 1. Scope of sources
Level 1	Data collection consists of requesting on-budget data from public sources (such as line ministries) and accessing official statistics from off-budget sources (such as the OECD DAC) to include international public climate finance. The scope of sources thus includes both national and international public climate finance.
Level 2	Data collection consists of the processes defined at Level 1 but also collects data from off-budget sources that require a more extensive and bottom-up approach, such as private sources. Along with national and international public sources, the scope of sources thus includes a selection of private sources of climate finance.
Level 3	Data collection aims to capture all relevant sources of climate finance in a streamlined process through establishing legally mandated reporting of climate finance data from national sources, both public and private. Theoretically, this approach covers all domestic and international climate finance flows. To cross-check results, official statistics from international public sources (such as the OECD DAC) are used. The scope of sources includes national and international public sources as well as all relevant private sources.

Parameter 2. Granularity of reporting

The next parameter to determine is the level of granularity for reporting on each financial flow, choosing either a project-based or component-based approach. This decision impacts the level of detail for estimating the recorded flow's climate relevance and applying a relative weight between 0 per cent and 100 per cent. The level of granularity chosen will determine the detail and quality of the extracted information, but it also has implications for workload and complexity.

Countries following the project/programme-based approach will determine the climate relevance at the project/programme level and factor the sum of financial flows for a given project or programme with the applied weights (between 0 per cent and 100 per cent). Countries following a component-based approach will determine the climate relevance at the level of individual activities of larger projects or programmes and factor the financial flows of each activity with the applied weights. For more information on different weighting methods, please refer to Appendix B: Classifying and weighting climate finance flows.

Determination of climate relevance offers important context to the act of processing and analysing climate finance data.[12] The following table illustrates each level for granularity for reporting.

11 The element of climate relevance serves to distinguish between those projects/programmes and activities that target climate change mitigation and/or adaptation objectives directly as the focus of their respective projects, and those projects/programmes and activities that contribute only partially to climate change mitigation and/or adaptation objectives. Especially for the monitoring and verification in Phase 4, differentiating the climate relevance of collected project or activity data is of major importance, as this will directly influence the estimates of national climate finance.

TABLE 8

Overview of complexity level selection for Parameter 2

Complexity level	Required approach for determining climate relevance
Level 1	Determine climate relevance on the project or programme-based level
Level 2	Determine climate relevance on the component-based level
Level 3	NA

Climate finance projects or programmes can consist of various individual components, some of which could have a mitigation relevance, an adaptation relevance, or a cross-cutting relevance—and some might have no climate relevance at all despite having been classified as such at first. Collecting and processing information on the project or programme level is usually less complex than at the component level. Therefore, most developing countries and donors list their climate finance at the project or programme level.

While project/programme-based reporting is easier to derive, the granularity of component-based reporting's results are significantly higher. The latter approach produces more precise information on the distribution by thematic focus area and by the climate relevance of the subcomponents, as well as a more precise attribution of the committed climate finance. However, to enable component-based reporting, data of decent quality, as well as sufficient institutional and human capacity, are required (Phase 1).

TABLE 9

Example of project-based and component-based reporting

To illustrate the differences between reporting on the project-based vs. the component-based level, the following example of a renewable energy supply intervention describes the two varying results for the same climate activity.

Project-based reporting (selected data entries from the Climate Finance Transparency Tool):

Project/ Programme Title	Activities/Components (if available)	Thematic area	Sector	Climate relevance	Total amount committed
Provision of Modern Energy and Support Services to Rural Communities	Installation of PV-Diesel hybrid systems in 5 communities, support of productive uses, capacity building, policy development	Cross-cutting	Energy	100%	USD 4,700,000

Component-based reporting (selected data entries from the Climate Finance Transparency Tool):

Project/ Programme Title	Activities/Components (if available)	Thematic area	Sector	Climate relevance	Total amount committed
Provision of Modern Energy and Support Services to Rural Communities	Installation of PV generation capacity	Mitigation	Energy	100%	USD 2,250,000
	Installation of diesel backup generation capacity	NA	Energy	0%	USD 500,000
	Energy-efficient cooling system for food storage (mitigation component)	NA	Energy	75%	USD 500,000
	Energy-efficient cooling system for food storage (adaptation component)	Adaptation	Agriculture	75%	USD 500,000
	Early-warning system	Adaptation	Disaster-Risk Reduction	100%	USD 100,000
	Capacity-building programme for operation and maintenance of electricity systems	Mitigation	Energy	100%	USD 500,000
	Policy development to strengthen national framework for off-grid PV installations	Mitigation	Energy	100%	USD 350,000

Parameter 3. Financial instruments

Determining the types of instruments and budget categories is the next step to measuring, tracking, and reporting climate finance data in the country's transparency framework. Commonly used financial instruments are explained in the following box.

Photo by Matin Puddy from © Getty Images

BOX 5

Types of climate finance instruments.
Source: Adapted from Investopedia.

Grants refer to transfers made in cash, goods, or services for which no repayment is required. Design-stage grants or convertible grants can support enterprises in improving bankability by providing precommercial funding required at the initial stage while supporting proof of concept.

Loans are a sum of money that are given to a borrower for a specific purpose and repaid with interest over a fixed period.

Concessional loans are loans offered on more favourable terms than market loans, such as lower interest rates, longer repayment periods, or grace periods.

Equities are ownership interests in an enterprise that represents a claim on the assets of the entity in proportion to the number and class of shares owned.

Guarantees are pledges to pay an entity's debt if the borrower defaults. Essentially, a third party acting as a guarantor promises to assume responsibility for a debt should the borrower be unable to keep up on its payments to the creditor.

Insurances provide protection against uncertain risks, where policyholders pay a specified premium for the promise of a payout if a claim is filed and approved. There are specific climate insurances, whose objectives are to mitigate the financial and other risks associated with climate change, especially phenomena like extreme weather.

Bonds are fixed-income instruments that represent a loan made by an investor to a borrower. Bonds are typically used by companies, municipalities, states, and sovereign governments to finance projects and operations. Climate bonds are a type of bond issued to raise finance for climate change solutions—for example, mitigation or adaptation-related projects.

Countries might decide to increase the granularity for differentiating between instruments/budgetary categories of climate finance or to adopt another classification of instruments due to pre-existing national categories. If they do, they should ensure that classification of financial instruments remains compatible with the UNFCCC classification seen in Box 6, which is also consistent with the requirements for reporting financial support needed and financial support received under the ETF.

- Grants
- Concessional loans
- Non-concessional loans
- Equities
- Guarantees
- Insurance
- Other instruments

Parameter 4. Information on recipients of climate finance

Establishing a classification of recipients can increase the transparency and granularity of climate finance information. Based on extensive research into the matter (Appendix B: Defining climate finance), the following categories are recommended:

- Academia
- Government institutions
- Local governments
- NGOs
- Private sector companies
- Local communities
- Media
- Other

Parameter 5. Type of intervention

For pursuing the objective of reporting under the ETF, the guide recommends that countries record associated information on the type of intervention as follows:

- Article 6 of the Paris Agreement, corresponding to the cooperative approaches that countries can use to achieve their climate goals (Box 6 below)
- Physical interventions, which are usually associated with (infrastructure) interventions. This category is listed under the reporting of support received, provided, or needed in the context of Article 9
- Capacity-building activities
- Technology development and transfer
- Support for the implementation of Article 13 of the Paris Agreement and transparency-related activities, including transparency-related capacity building

Under the UNFCCC, the three elements of support: financial support; technology development and transfer support; and capacity building support, are considered the key means of implementation for supporting developing countries in meeting their climate change commitments and objectives. This has implications for developing country Parties reporting under the ETF on support needed and support received. For more information on the reporting, please refer to Step 20.

BOX 6

Climate finance and Article 6

Article 6 of the Paris Agreement enables voluntary cooperation among Parties to achieve their NDCs through market-based (Articles 6.2 and 6.4) and non-market-based (Article 6.8) approaches and mobilizes finance for mitigation and adaptation. The implementation of Article 6 includes the application of corresponding adjustments in Articles 6.2 and 6.4 to avoid double counting (i.e., to prevent two countries or entities from counting the same emission reductions twice).

While funding mobilized under the mechanisms of Article 6 could contribute to climate change mitigation and/or adaptation activities for the recipient country, it is important to distinguish the tracking of funds mobilized under Article 6 from other climate finance flows (i.e., using tracking markers). Additionally, when defining the recipient of the resources, the principle of corresponding adjustments should also be considered—i.e., If a country agrees to transfer the mitigation outcome to another country, this mitigation outcome cannot be counted by the country that transfers it. The same should apply for climate finance flows.

For more information, please refer to the **ICAT guide on navigating the links between Articles 6 and 13.**

Parameter 6. Committed and/or disbursed climate finance to be tracked

When tracking climate finance flows, especially in Phase 4, it is important to differentiate between two types of climate finance flows: committed versus disbursed.

Committed climate finance refers to official and written commitments to deliver financial transfers. These commitments originate from strategic financial planning and investment decisions. For instance, governments earmark parts of their budgets to climate-related objectives in their regular budget allocation and financial planning. Donors and investors make commitments to provide funds to countries or invest in certain projects. However, countries exclusively monitoring or tracking committed climate finance need to carefully interpret results of their climate finance transparency framework—especially those originating from Phase 4.

Disbursed climate finance refers to the provided financial flows that have been supplied and delivered to the recipients and/or to activities directly focused on climate change mitigation and adaptation. For example, governments keep records of financial transfers from their expenditures, donors, and investors documented in their budgets, and private institutions track their income and expenses. Tracking the disbursed climate finance enables countries to obtain a comprehensive picture of the total volume of climate finance devoted to addressing climate objectives. Nevertheless, information on disbursed climate finance is typically less available.[12]

Due to data limitations, tracking disbursed climate finance is more challenging than committed climate finance. However, it is important that countries aim to track both committed and disbursed climate finance flows to maximize transparency and analyse gaps in the national climate finance landscape, consistent with the ETF reporting requirements.

Distinguishing between committed and disbursed climate finance entails recognizing potential variations in the overall estimated magnitude of climate finance. Committed climate finance is initially accounted for in its entirety during Phases 3 and 4. However, these committed amounts may be distributed across multiple years, leading to the possibility of observing lower volumes when tracking disbursed climate finance in Phase 4. A valuable aspect of Phase 5 involves comparing committed and provided climate finance. This comparison allows countries to assess whether financial commitments effectively translate into tangible actions.

Parameter 7. Frequency for monitoring the transparency framework

Considering the cycle of the BTR (every two years) and the budget execution cycles of countries, which are usually on an annual basis, annual or biennial timeframes are recommended.

12 CPI, Global Landscape of Climate Finance 2019-Methodology, 2019, <www.climatepolicyinitiative.org/wp-content/uploads/2019/11/GLCF-2019-Methodology-Document.pdf>, accessed 18 April 2024.

Step 9. Define climate finance impact indicators

In this step, countries are advised to set climate finance impact indicators. These are metrics that reflect the impact of climate finance. In Phase 5, countries will assess the impact using these indicators and take appropriate measures such as finance gap analyses, budget prioritization, or assessing the alignment of climate finance with high-level policy goals, such as NDCs under the Paris Agreement and SDGs.

There are quantitative and qualitative indicators, and for the ease of this guide, the following table summarizes quantitative indicators in relation to sectors and achievement of SDGs.

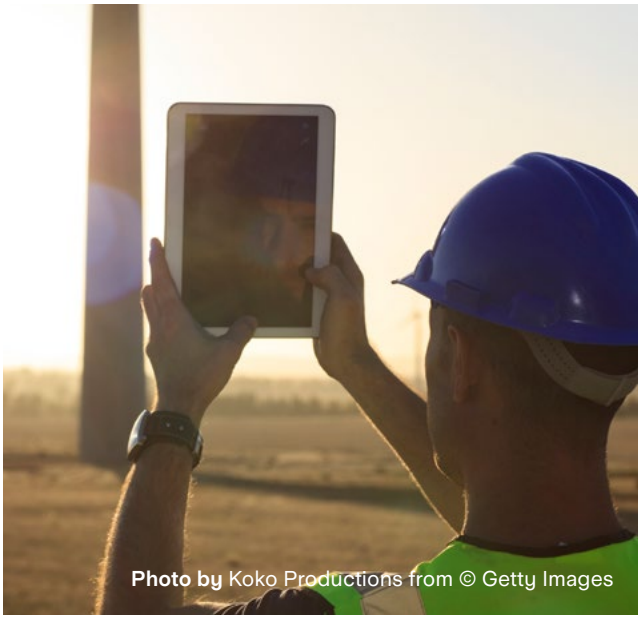


Photo by Koko Productions from © Getty Images

TABLE 10

Examples of climate finance indicators

Category	Sector	Examples of climate impact indicator	SDG linkage
Climate change mitigation	All	Reduced, avoided, removed, or sequestered GHG emissions (Tons of CO2 equivalent)	SDG 13
	Energy	Renewable capacity installed (MW) Electricity delivered from renewable sources (MWh)	SDG 7
	Transport Industry	Emissions of main pollutants (e.g., NO_x, NMVOC, SO_2 NH3, $PM_{2.5}$, PM_{10}	SDG 13
	Waste	Solid waste generation (t/year) Wastewater (t/year) Proportion of waste composted	SDG 12
	Agriculture	Harvested crop yields per hectare (i.e., agricultural productivity enhancement)	SDG 2, 8
Climate change adaptation	All	Number of direct or indirect beneficiaries	
	Agriculture	Increase in agricultural land using more drought resistant crops in hectares	SDG 2, 13
		Annual change in degraded or arable land (% or hectares)	SDG 15

Category	Sector	Examples of climate impact indicator	SDG linkage
Climate change adaptation	Health	Number of premature deaths due to air pollution Number of people affected by hazardous conditions	SDG 3, 13
	Energy	Increase in grid resilience, energy generation, transmission/ distribution, and storage in MWh	SDG 7
	Gender	Share of female leaders/entrepreneurs/employers/ employees Share of funding received/targeted female leaders/ entrepreneurs/employers/employees	SDG 5

In this step, the identification of key indicators for each sector considers the specific priorities of countries and their alignment with NDCs. These indicators are subsequently linked to the financial flows needed and disbursed, which enables the measurement of the effectiveness of climate finance (e.g., reduced GHG or CO_2eq tonnes per dollar spent for climate mitigation activity).

This approach empowers countries to not only prioritize public expenditure and investments but also use them as a qualitative benchmark when designing policy instruments. The assessment of the impact, plus the effectiveness of climate finance, can be further measured in Phase 5.

Resources for Phase 2:

- Appendix B: Defining climate finance
- Appendix B: Definition of sectors and parameters
- Appendix B: Classifying and weighting climate finance flows
- Annex 7. Green and sustainable finance taxonomy
- Technical report on clustering types of climate finance definitions in use, UNFCCC
- Assessing Climate Change Driven Losses and Damages, ICAT
- Measuring Climate Impact: From Inputs to Outcomes, World Bank
- Suggested Impact Reporting for Climate Adaptation Projects, Green Bond Principles
- A Framework and Principles for Climate Resilience Metrics in Financing Operations, IDB
- Common Ground Taxonomy – Climate Change Mitigation, IPSF
- Policy brief: Toward a Common Pathway Across Sustainable Taxonomies, GIZ and CCAP

Phase 3. Ex-ante climate finance needs assessment

What is this phase and why is it important?

The ex-ante perspective of climate finance refers to a forward-looking approach, quantitatively assessing the cost associated with climate actions. This encompasses identifying the financial requirements for attaining national climate objectives, such as NDCs and LTS.

The methodologies and approaches used to estimate the costs associated with NDCs vary, contingent upon the country's data availability and analytical capabilities. The costs of climate mitigation and adaptation actions show notable differences across countries and sectors, influenced by varying levels of market maturity and technology development. Acknowledging this diversity, the guide provides a compilation of sector-specific and comprehensive approaches and methods. This phase establishes the foundation for essential finance data and lays the groundwork for conducting the climate finance gap analysis in Phase 5.

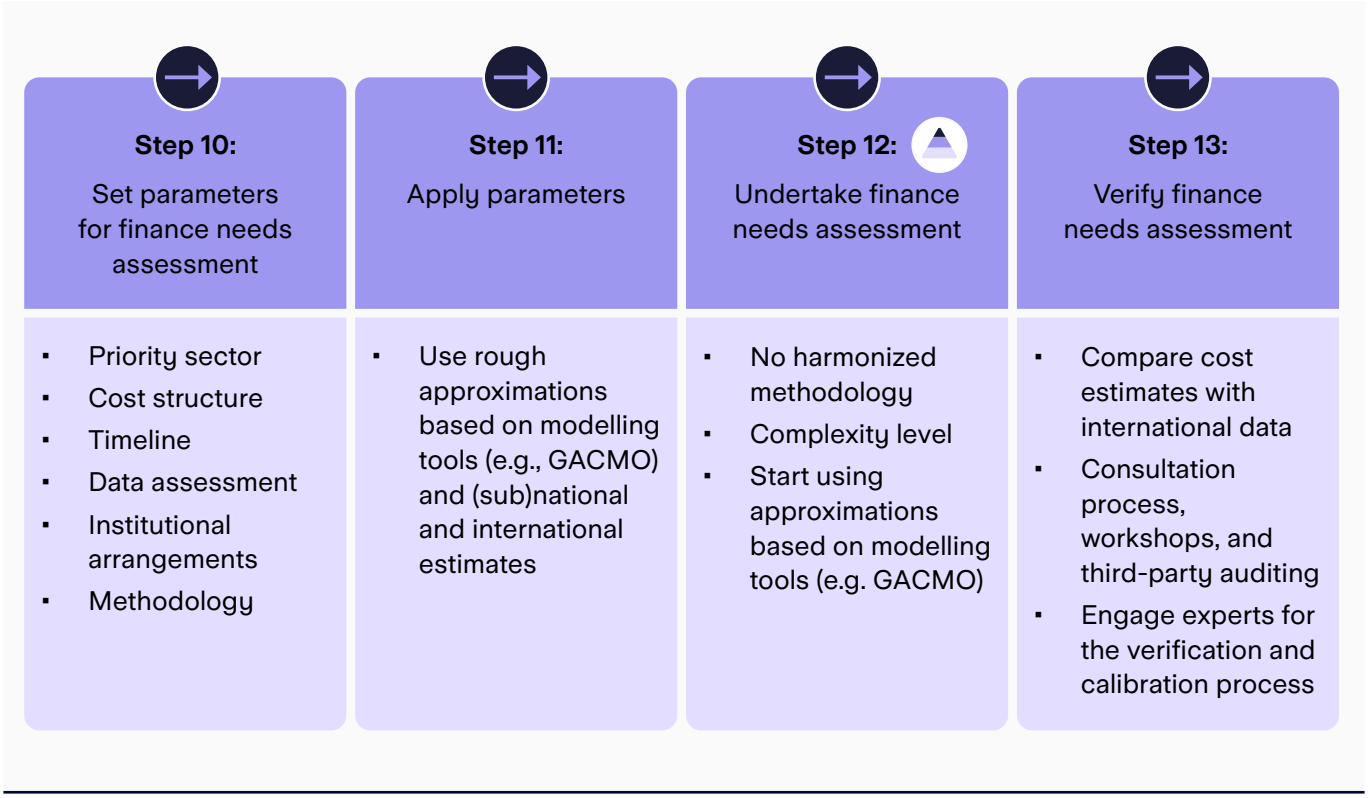
How can this phase be implemented?

The phase begins with setting parameters for the finance needs assessment. Then, countries are encouraged to apply these parameters and undertake the assessment. The phase concludes with verifying the assessment.

The following figure outlines the steps of Phase 3.

FIGURE 7

Detailed steps of Phase 3 (Purple pyramid indicates the step with different levels of complexity)



What is the envisioned outcome of following this phase?

TABLE 11

Envisioned outcomes of Phase 3 by step

Step	Envisioned outcome
Step 10. Set parameters for finance needs assessment	Countries identified key parameters required for finance needs assessment for NDCs.
Step 11: Apply parameters	By applying parameters, countries developed a table including the list of projects and programmes for both mitigation and adaptation and identified the leading entities to undertake cost estimation for each project/ programme.
Step 12: Undertake finance needs assessment	Countries reviewed reference Table 27. Reference for finance needs assessment for NDC to identify costing methods and approaches and undertook costs for priority projects or activities under the NDC.
Step 13: Verify finance needs assessment	Countries undertook at least one or several rounds of cost verification processes.

Step 10. Set parameters for finance needs assessment

Setting parameters for climate finance needs assessment is necessary for defining scopes and ensuring consistency throughout the assessment process. The following questions regarding parameters should be thoroughly reviewed and planned at the national level.

Priority sector:

- What are the priority sectors and subsectors that require finance needs assessment?
- What would be the level of the project or programme to be included in the assessment (project- or activity-based)?
- How will unconditional and conditional NDC targets inform setting priorities for finance needs?

Cost structure:

- What is the cost structure of each mitigation measure? What are the common cost structures of the adaptation measures?
- Which components of the cost structure will be included and estimated?

Timeline:

- What is the timeline of each project and programme?
- Are there any activities or programmes that must be carried out after each other?

Data assessment:

- What information and data are currently available for the assessment, and how much further information and data need to be gathered?

Institutional arrangements:

- Who will undertake and verify the finance needs assessment and consolidate the results, based on the defined roles and responsibilities in Phase 1?

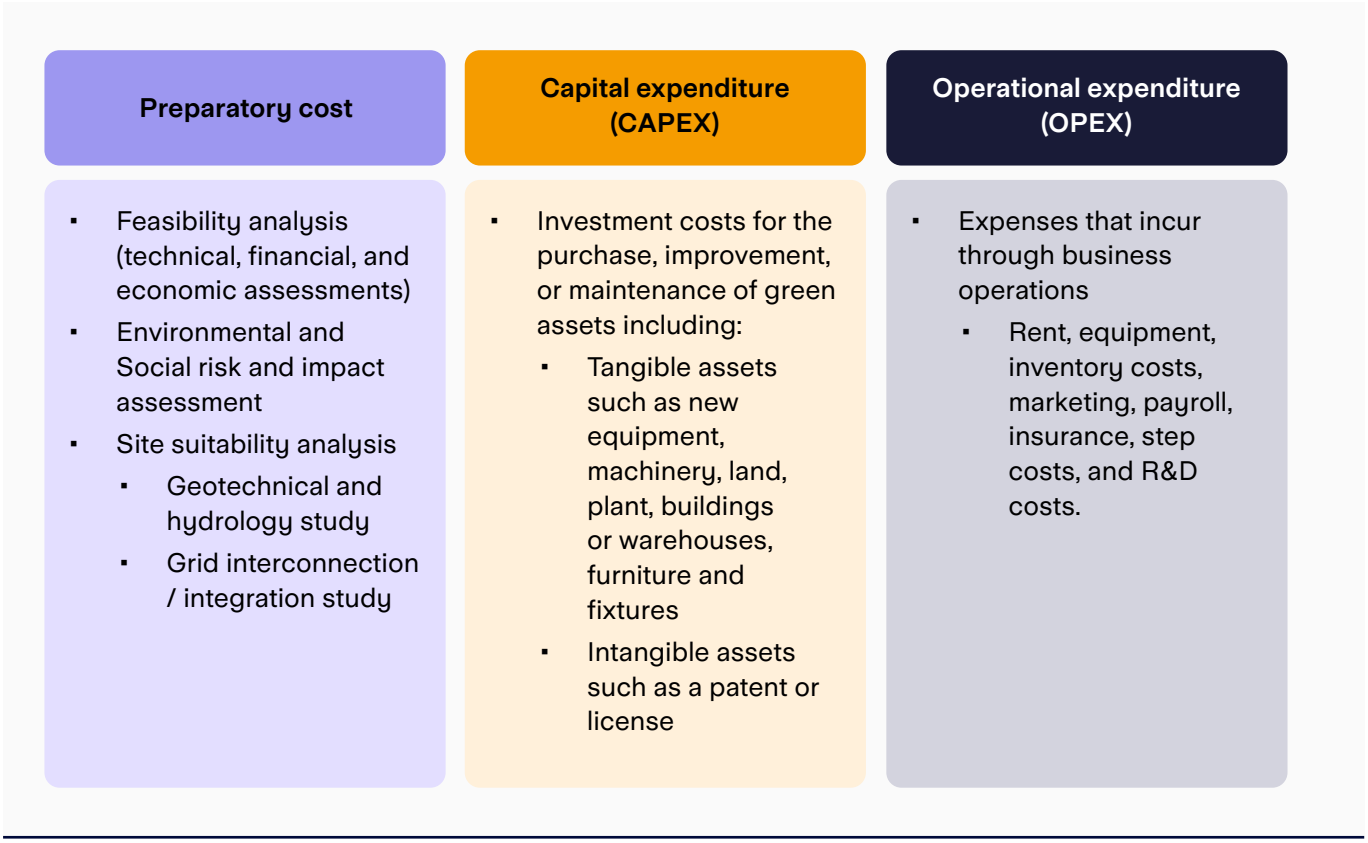
Methodology:

- What methodology is used for a specific sector or a project?

Priority refers to how the country prioritizes the components of the finance needs assessment considering the national context—for example, whether the economic sectors and subsectors should be included in the assessment, and what the impacts of conditional/unconditional targets on priority settings as defined in Phase 1 are. Also, it encompasses how the country chooses the climate finance project/programme financing level requirements to better define the cost estimation. The following figure summarizes the main cost structures of a climate-related programme/project. The three main components are preparatory, capital investment, and operational costs. Please note that this is an example from the real economy (a wind park), and cost structures will vary among projects and programmes.

FIGURE 8

Summary: component of cost breakdown



After setting all parameters, countries can assess the available data and identify the data needed to be collected. Then, countries are encouraged to revisit the institutional arrangement (Phase 1) to identify the stakeholders who undertake and verify financing needs. When assessing the climate finance needs, strong collaboration with focal points from each line ministry and subnational authority is recommended to collect and estimate the relevant cost.

Step 11. Apply parameters

In this step, countries are encouraged to list all climate finance flows by applying the parameters defined in the previous step. The following table contains examples of some parameters.

TABLE 12

Examples of project list applying some of the parameters

Priority		Project	Cost			Governance
Sector	NDC target		Preparatory	CAPEX	OPEX	Lead entity (examples)
Energy	Unconditional	Project 1	No	Yes	Yes	Ministry of Energy
Energy	Conditional	Project 2	Yes	Yes	Yes	Ministry of Energy
Waste	Unconditional	Project 3	No	No	No	Ministry of Housing

Photo by © ENVATO

Step 12. Undertake finance needs assessment

As various methods and approaches for sector-specific measures in climate mitigation and adaptation exist, the guide suggests countries conduct research on international practices most appropriate for their national context. To help countries to navigate through different approaches, the guide summarizes 15 sector-specific and 7 country-specific methods in Appendix B: Table 27. Reference for finance needs assessment for NDC.

The selection of the complexity level for this step also guides countries to adopt applicable approaches for finance needs assessment.

TABLE 13

Complexity level for climate finance needs assessment for NDC

Level	NDC finance needs assessment
Level 1	Default approach based on international best practices Use rough approximations based on modelling tools, e.g., GHG Abatement Cost Model (GACMO), Marginal Abatement Cost (MAC) curves for climate mitigation activities or using Incremental costing approach for adaptation activities.
Level 2	Adapted approach based on international and national data Calibrate rough cost approximations based on input from (sub)national/local and sectoral experts and international estimates.
Level 3	National approach based on country project data Estimate national NDC cost by collecting individual project/technology information from national stakeholders (i.e., bottom-up approach).

For more information on using GACMO and other methods, please refer to Appendix B: Ex-ante climate finance needs assessment.

Step 13. Verify finance needs assessment

Verifying climate finance needs assessment involves ensuring that the financial requirements for attaining national climate objectives are reliable, up to date, and verified by third parties. Verification should be conducted regularly, using quality control and quality assurance.

1. **Conduct quality control for climate finance needs assessment**

   The created database or data record is (manually) checked to identify any potential double counting or multiplication of climate finance needs assessments, which can lead to overreporting. One potential source of double counting is when multiple stakeholders report financial needs on the same programme, project, or activity.

2. **Conduct quality assurance for climate finance needs assessment**

   To check if the data on national climate finance needs assessment are plausible, it is recommended to share data on climate finance needs assessment in different sectors with the respective line of ministries, in aggregated form and/or as a record base of all flows. This allows for gathering feedback on whether the climate finance needs are aligned with sectoral estimates and requires clearly defined institutional responsibilities for the point of contact and verification of data.


Photo by Mark Dozier from © Getty Images

Resources for Phase 3:

- Table 27. Reference for finance needs assessment for NDC
- GACMO 2.0, ICAT
- MAC curve, Global Climate Action Partnership
- NDC Investment Planning Guide, NDC Partnership
- Climate Investment, Planning and Mobilization Framework, NDC Partnership and GCF

Phase 4. Climate finance tracking

What is this phase and why is it important?

Phase 4 covers the measuring and verification of climate finance flows that have been committed or disbursed in countries. The foundation of this phase was established when countries set parameters in their framework in Step 8.

After completing Phase 4, countries will have a database of tracked climate finance flows. Following the decisions made in Parameter 6, the database will contain data on committed and/or disbursed climate finance flows. This database enables countries to further analyse and use the data on tracked climate finance flows and enhances transparency of the national climate finance landscape, including identifying gaps and areas that are currently underfinanced, to be done in Phase 5.

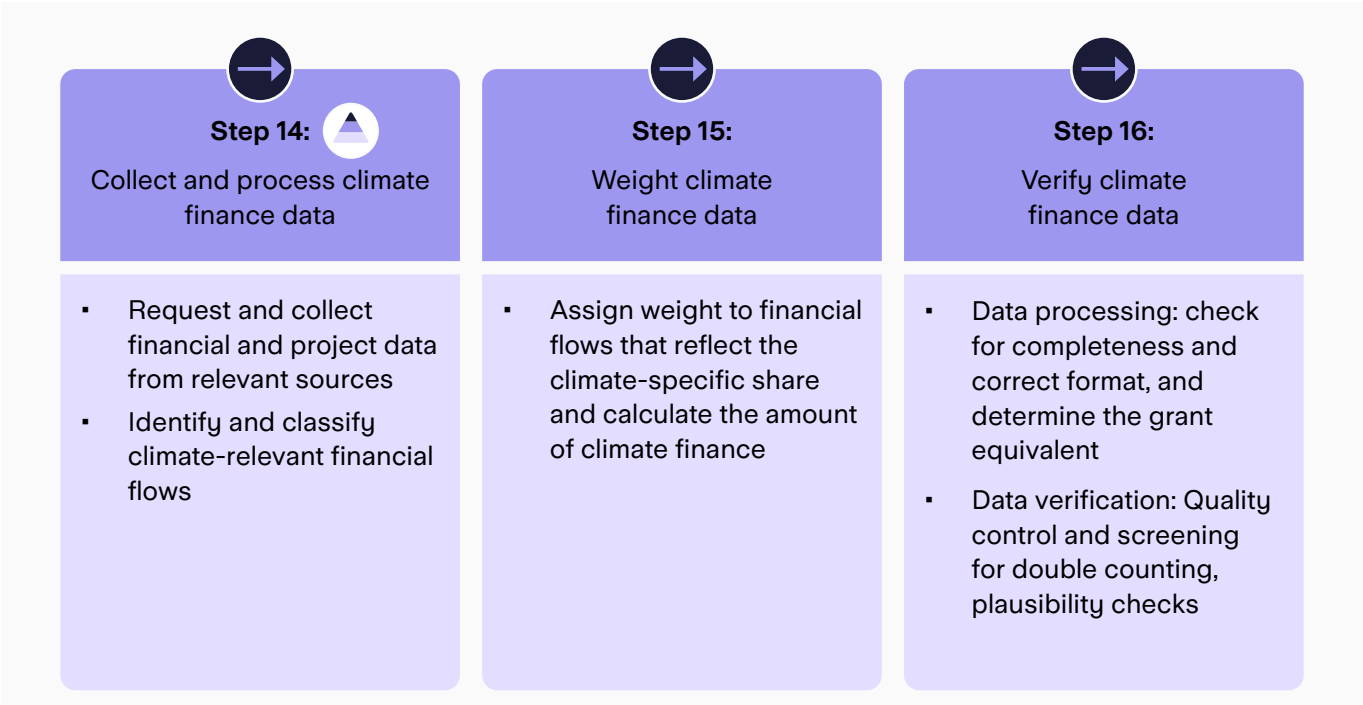
How can this phase be implemented?

The phase starts with data collection, then follows with a classification whereby data on finance flows are assessed against the definition and criteria for climate finance that were determined in Phase 2. Subsequently, weights are applied to the collected data on financial flows, based on estimates of the actual proportion that directly contributes to climate change objectives. This approach assists countries in estimating the overall impact of the projects, programmes, and activities categorized as climate finance. Lastly, the phase concludes with verifying collected data to prevent duplication and to mitigate the risk of overestimation or underestimation.

The following figure outlines the steps of Phase 4.

FIGURE 9

Detailed steps for Phase 4 (Purple pyramid indicates the step with different levels of complexity)



What is the envisioned outcome of following this phase?

TABLE 14

Envisioned outcome of Phase 4 by step

Step	Envisioned outcome
Step 14. Collect and process climate finance data	Countries requested financial data from relevant sources/stakeholders and classified it by climate objectives. Only climate relevant financial flows have been recorded, based on the assessment of programmes/projects/activities against the adopted climate finance definition and the list of eligible activities.
Step 15: Weight climate finance data	Countries assigned weights to the climate finance data to reflect the proportional contribution of programmes/projects/activities to climate objectives. Based on the assigned weights, the total climate finance is calculated.
Step 16: Verify climate finance data	Countries verified the climate finance flows after collection and classification. This includes processing (checking for completeness and the format of collected data) and verification (screening the database for the duplication of climate finance flows and performing plausibility checks) to ensure that the data collected is of high quality.

Step 14. Collect and process climate finance data

To collect data on climate finance flows that have been committed or disbursed, countries should refer to the climate finance definition and criteria (Step 7) to identify relevant financial flows in the national budget and other financial records.

There are two substeps to collect climate finance data: requesting and collecting data and identifying and classifying the climate-relevant financial flows. To support countries in these steps, the guide comes with the Climate Finance Transparency Tool (Appendix A). The Excel-based tool allows users to record financial flows, including key parameters (in line with Phase 2), in one central database. The tool also includes drop-down options for selecting weights if needed (Step 15) and thereby automatically calculates the climate-specific finance of recorded financial flows.

1. **Request and collect data**

   The basis for data collection was established in Phases 1 and 2. In Step 1, a detailed mapping of climate finance stakeholders provided insights into the availability of sources for data on climate finance (Table 2). In Parameter 1, the complexity level for the scope of sources to include in the climate finance tracking was selected. Based on the complexity level selection and stakeholder mapping, detailed explanations for collecting climate data at each complexity level are summarized below.

TABLE 15

Overview of complexity selection for data collection

<table>
<tr><th>Complexity level</th><th colspan="2">Required steps for data collection</th></tr>
<tr><td rowspan="3">Level 1</td><td>Scope of sources:
A. Focus on public (national) on-budget data on climate finance flows</td><td>Data to collect:
▪ National budgets / Public Sector Investment Programmes
▪ Budgets of relevant ministries</td></tr>
<tr><td>B. To be complemented with public (international) off-budget data, either from national sectoral focal points or from internationally published information</td><td>▪ National records of off-budget financing for projects with climate relevance
▪ Officially published statistics of bilateral and multilateral transfers from international donors and investors—for more information, refer to Annex 4. Overview of data sources on international climate finance.</td></tr>
<tr><td colspan="2">The data collection includes the following steps:

1. On-budget stakeholders are informed and engaged in the data collection process. This requires preparing material for raising awareness and promotional activities to increase the buy-in of stakeholders.
2. Additionally, concrete guidance on how to do the reporting and what kind of data to report is developed.
3. Training of on-budget stakeholders to build data collection and reporting capacities.
4. Requesting on-budget data from government bodies and ministries that are typically recorded in budget sheets or expenditure records. To access this data, the designated institution in charge of data collection (Phase 1) officially requests the data from the source institution/stakeholders.
5. In the best case, off-budget data on bilateral and multilateral transfers is accessed through national sources such as national sectoral focal points. If this approach is not applicable and there is no tracking of off-budget sources available, officially published information and databases can be used to complement the on-budget tracking of climate finance. This includes, among others, the OECD DAC Statistics on Development Finance for Climate and Environment, specifically the dataset from the recipient perspective (for more information, refer to Annex 4. Overview of data sources on international climate finance.
6. When collecting data from these statistics to complement on-budget data with off-budget data, only those climate finance flows from international donors and investors that are not channeled through governments' budgets should be considered. As duplicative data collection might be difficult to avoid at this stage, this guide strongly emphasizes the need for data verification in a later step of this phase.

Tool: Climate Finance Transparency Tool in Appendix A</td></tr>
</table>

<table>
<tr><th>Complexity level</th><th colspan="2">Required steps for data collection</th></tr>
<tr><td rowspan="4">Level 2</td><td>Scope of sources:
A. Focus on public (national) on-budget data on climate finance flows</td><td>Data to collect:
▪ National budgets / Public Sector Investment Programmes
▪ Budgets of relevant ministries</td></tr>
<tr><td>B. To be complemented with public (international) off-budget data, either from national sectoral focal points or from internationally published information</td><td>▪ National records of off-budget financing for projects with climate relevance
▪ Officially published statistics of bilateral and multilateral transfers from international donors and investors (for more information, refer to Annex 4. Overview of data sources on international climate finance).</td></tr>
<tr><td>C. Additional (national) off-budget data</td><td>▪ National industrial surveys (if existing)
▪ Surveying of private sector stakeholders for financial data (investment plans, financial records/ statements, project portfolios)</td></tr>
<tr><td colspan="2">The data collection includes the following steps:

1. The identified on-budget stakeholders (governmental actors and staff in ministries) and off-budget stakeholders (non-governmental actors such as the private sector and civil society organizations) are informed about and engaged in the national data collection process. This requires the preparation of an information campaign and raising awareness to increase the buy-in of stakeholders.
2. Additionally, specific guidance on how to do the reporting and what kind of data should be reported is developed for the individual stakeholder groups.
3. Specific training for both on-budget and off-budget stakeholders to increase data collection and reporting capacities of the respective data.
4. Surveys/questionnaires to access data from off-budget stakeholders are developed and distributed to the relevant stakeholders to request data.
5. Stakeholders submit filled survey/questionnaire material to a dedicated focal point at the responsible institution.</td></tr>
</table>

<table>
<tr><th>Complexity level</th><th colspan="2">Required steps for data collection</th></tr>
<tr><td rowspan="4">Level 3</td><td>Scope of sources:
A. Focus on public (national) on-budget data on climate finance flows.</td><td>Data to collect:
▪ National budgets / Public Sector Investment Programmes
▪ Budgets of relevant ministries</td></tr>
<tr><td>B. Complement with public (international) off-budget data, either from national sectoral focal points or from internationally published information</td><td>▪ National records of off-budget financing for projects with climate relevance
▪ Officially published statistics of bilateral and multilateral transfers from international donors and investors (for more information, refer to Annex 4. Overview of data sources on international climate finance).</td></tr>
<tr><td>C. Add private (national) off-budget data.</td><td>▪ National industrial surveys (if such exist)
▪ Mandatory reporting by private sector stakeholders on financial data (investment plans, financial records/statements, project portfolios)</td></tr>
<tr><td colspan="2">The data collection at Level 3 differs from Levels 1 and 2 as it will be based on mandatory reporting of climate finance data at the national level, rather than requesting data from individual institutions and organizations. This will require all stakeholders identified in the mapping to report their data to a central system. The broader steps for designing and implementing the legal/regulatory basis for this mandatory reporting are laid out below, although it should be noted that this guide outlines the processes rather than providing a comprehensive step-by-step guide:

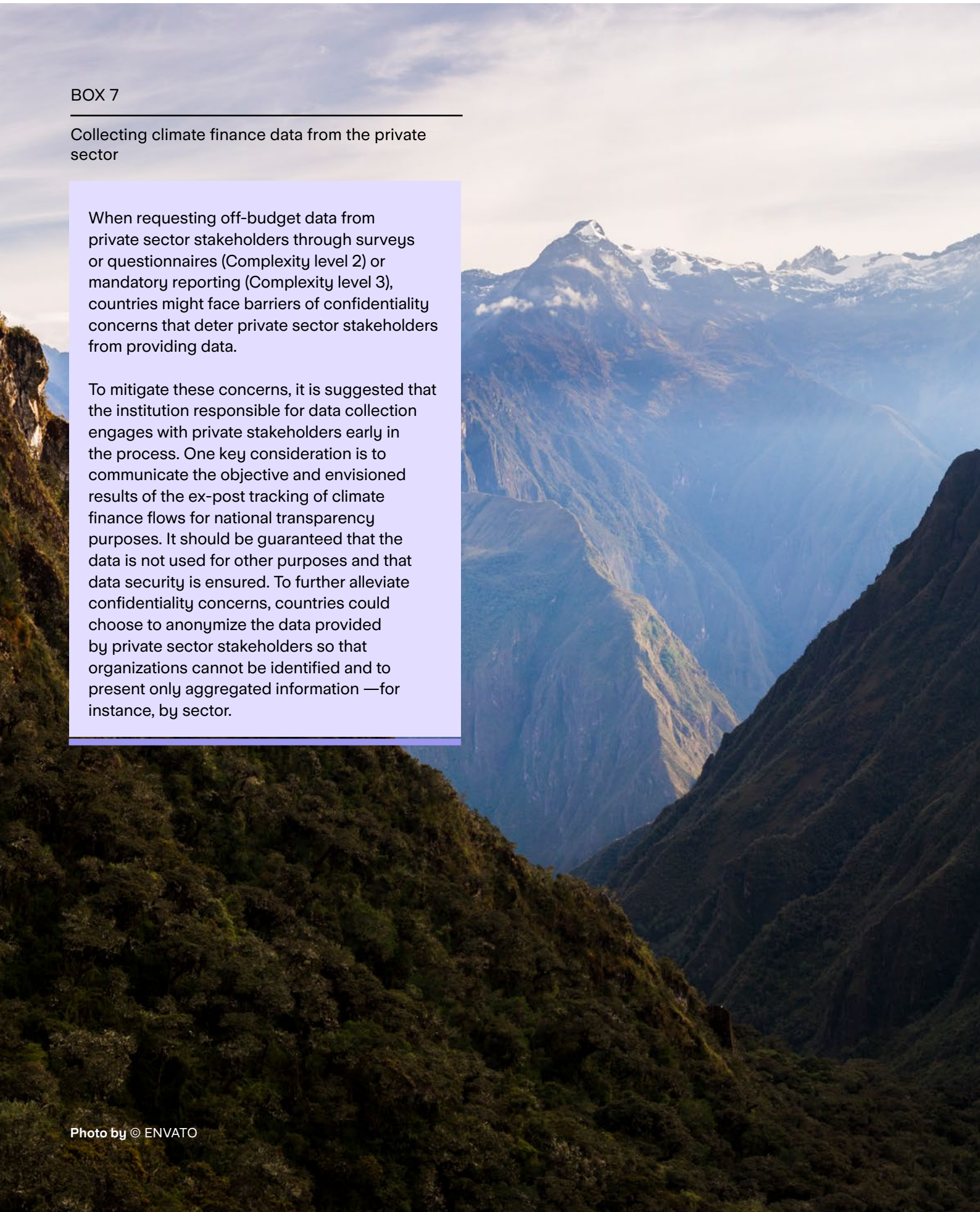
1. The policy and regulatory landscapes are mapped to identify opportunities and synergies with existing policies.
2. The institutional responsibilities for drafting, implementing, and enforcing legislation are defined and respective capacities are built.
3. The regulatory legislation is drafted and adopted, with an emphasis on user-friendly IT systems to facilitate stakeholder reporting and ensure data security and privacy.
4. The affected stakeholders are informed and engaged, specifically through a set of training on the purposes, required data, and usage of the reporting system.
5. The regulation is implemented with strong enforcement mechanisms that provide clear incentives for stakeholders to report data. Monitoring of data submissions helps to identify missing data, and additional submission requests to individual stakeholders are issued.</td></tr>
</table>

BOX 7

Collecting climate finance data from the private sector

When requesting off-budget data from private sector stakeholders through surveys or questionnaires (Complexity level 2) or mandatory reporting (Complexity level 3), countries might face barriers of confidentiality concerns that deter private sector stakeholders from providing data.

To mitigate these concerns, it is suggested that the institution responsible for data collection engages with private stakeholders early in the process. One key consideration is to communicate the objective and envisioned results of the ex-post tracking of climate finance flows for national transparency purposes. It should be guaranteed that the data is not used for other purposes and that data security is ensured. To further alleviate confidentiality concerns, countries could choose to anonymize the data provided by private sector stakeholders so that organizations cannot be identified and to present only aggregated information —for instance, by sector.



BOX 8

Colombia's system for the MRV of climate finance

Case study: Colombia's system for the monitoring, reporting, and verification (MRV) of climate finance

Set-up and objectives

Colombia's comprehensive MRV framework tracks climate finance from public, private, and international sources. The MRV of climate finance is embedded in the broader MRV under the National Climate Change System (Sistema Nacional de Cambio Climático—SISCLIMA), which also includes the inventory of GHG emissions (MRV of emissions) and the register for the reductions of GHG emissions (MRV of emission reductions). The National Climate Change System was set up to enhance transparency and monitor the progress towards the commitments made in Colombia's NDC. Integrating the three strands of MRV into one system brings the advantage that information is reported to a central, easily searchable platform to facilitate accessibility of information and enhance the effectiveness of climate finance for national climate action.

The objectives of the MRV for climate finance are to:

- compile and consolidate the information on climate finance;
- identify funding gaps and opportunities to encourage the more efficient use of resources and help the decision-making process for climate finance;
- present trends in the development of climate finance;
- facilitate access to information via a user-friendly digital platform; and
- enable a better understanding of the sources and uses of climate finance.

Data collection

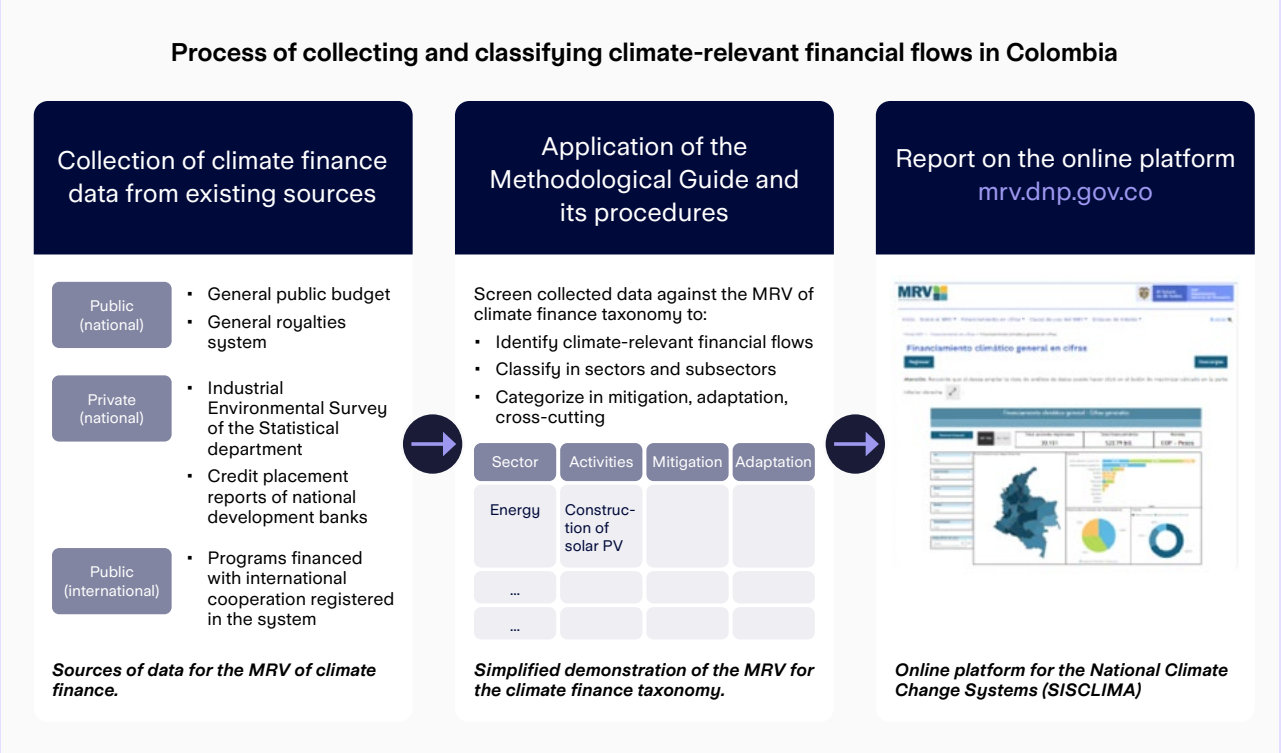
Colombia's climate finance MRV collects data from already existing sources (Figure below). For public climate finance at the national level, the system draws data from the general public's budget and the general royalty's system. For private climate finance at the national level, the system uses the Industrial Environmental Survey of the National Statistics Department (DANE) that regularly collects data from large companies in major industrial sectors in Colombia. For public climate finance at the international level, the system uses data from CÍCLOPE, which is a system that registers projects financed by international cooperation.

Data classification

Colombia developed a methodological guide, including a taxonomy for the climate finance MRV, that specifies what is counted as climate finance in Colombia. The taxonomy specifies 249 climate finance activities within 12 sectors and 35 subsectors and establishes criteria for activities to be included in the climate finance MRV. The taxonomy also classifies activities with regards to their impact for mitigation, adaptation, or both.

FIGURE 10

The process of developing climate finance definition in Belize



2. Identify and classify climate relevant financial flows

After requesting and collecting financial data, countries are advised to apply their climate finance definition and the list of eligible activities (Step 7) to the data. To do this, the programme or project title and further descriptions, such as activities or components, are assessed against the climate finance definition to determine the climate relevance of the programme or project, (i.e., if it contributes to mitigation, adaptation, or cross-cutting objectives).

In some cases, the title and description do not provide sufficient information to determine if the programme or project has climate relevance. In these cases, additional information such as project documentation should be requested from responsible institutions and stakeholders.

It is important to note that only programmes or projects that are in line with the climate finance definition and the eligible activities are recorded in the national climate finance database and classified as mitigation, adaptation, or cross-cutting. Depending on the approach chosen for the granularity of reporting (In Parameter 2 of Phase 2), countries identify and classify financial flows as either on the programme/project-based level or the component-based level.

To ease the process of entering and updating data, this guide is complemented by the Climate Finance Transparency Tool. It includes all categorizations related to climate finance transparency recommended in this guide. The following box exhibits the main data inputs.

BOX 9

Data inputs for on-budget climate finance tracking

To record and input data, the availability of a more detailed project description and project documentation is important. Data inputs into the tool for on-budget climate finance tracking (complexity level 1) at this step include:

Non-financial information

- Ministry
- External source/channel (if applicable)
- Programme/project title
- Objective (if applicable)
- Activities/components (if applicable)
- Intervention type (technology development and transfer, capacity building, physical interventions, and building knowledge)
- Year
- Recipient
- Classification of thematic area (mitigation, adaptation, and cross-cutting area)
- Sector
- Subsector
- Relations to NDC target area
- Source of information

Financial information

- Total amount committed (local currency)
- Total amount provided (local currency)
- Total grant amount committed (local currency)
- Total grant amount provided (local currency)
- Total loan amount committed (local currency)
- Total loan amount provided (local currency)
- Co-finance committed (local currency)
- Co-finance provided (local currency)
- Financial instrument
- Status (planned, ongoing, or completed)

Step 15. Weight climate finance data

Not all the recorded programmes, projects, and/or activities contribute to climate objectives to the same degree, and some might also pursue additional non-climate-related outcomes. For some financial flows, it can easily be determined what the share of climate-specific finance is. For example, financing received via the GCF or the Adaptation Fund targets climate objectives directly, thus 100 per cent of this financing should be counted as climate finance. For other financial flows such as development assistance, it is unclear what the proportion of climate-specific finance is. In such cases, a weighting approach should be applied. Weights present percentage markers that assign an estimated climate relevance to the recorded financial flows, thereby reflecting the proportion of climate-specific finance that will be counted as climate finance.

Photo by © ENVATO

Assign weights to financial flows

After collecting, classifying, and verifying financial data, countries should weight financial flows as needed to reflect the climate relevance of programmes, projects, or activities. While there are several approaches for weighting (Appendix B: Classifying and weighting climate finance flows), this guide recommends using the following markers, which are adapted from the CPEIR methodology: principal relevance (100 per cent), high relevance (75 per cent), significant relevance (50 per cent), low relevance (25 per cent), and marginal/no relevance (0 per cent).

To identify the most accurate marker, the programme/project title and further description (activities/components) are assessed against the criteria and definitions for the respective marker. If the title and description do not provide sufficient information to assign a weight, additional information such as project documentation needs to be requested from responsible institutions and organizations. When in doubt, the guide recommends countries take a conservative approach and round down to the lower estimate of climate relevance, rather than up to the higher estimate, to avoid overestimation.

TABLE 16

Weighting approach adapted from the CPEIR methodology. **Source:** Methodological Guidebook CPEIR, UNDP

Markers	Weight	Criteria and definitions for markers
Principal relevance	100%	Climate change mitigation and/or adaptation are fundamental to the motivation for and design of the project or activity. The project would otherwise not have happened if it wasn't for a particular climate-related objective.
High relevance	75%	The project or activity is primarily, but not exclusively, targeting climate change mitigation and/or adaptation objectives.
Significant relevance	50%	Climate change mitigation and/or adaptation are clearly stated and significant as secondary objectives in the project design or activity.
Low relevance	25%	The motivation for and design of the project or activity serves other objectives, but it has been adjusted to have some linkage to climate change mitigation and/or adaptation.
Marginal/no relevance	0%	Projects or activities without relevance for climate change mitigation and/or adaptation, or projects and activities that have only very indirect and theoretical links to climate change mitigation and/or adaptation.

13 UNDP, Methodological Guidebook, Climate Public Expenditure and Institutional Review, 2015, <www.undp.org/asia-pacific/publications/methodological-guidebook-climate-public-expenditure-and-institutional-review-cpeir>, accessed 18 April 2024.

Alternatively, countries can adopt other existing markers. Many countries are familiar with the OECD DAC Rio Markers or the Climate Budget Tagging (CBT) markers. National markers, including associated weights and criteria, can also be applied.

Depending on the approach chosen for the granularity of reporting (Parameter 2), countries can identify and classify climate-relevant financial flows at the programme/project-based level or on the component-based level. Even though following the component-based level is more complex, it yields more accurate results. The difference in applying weights to component-based versus programme/project-based reporting is demonstrated in Table 17.

Depending on the complexity of activity subcategories, the system can increase the granularity of results significantly. Detailed activity-based systems enable aggregating these granular results to the UNFCCC classification of sectors, which allows appropriate reporting under the ETF. Activity-based determination of climate relevance often comes with additional capacity and IT needs.

TABLE 17

Example of weighting climate finance data in the project vs. component-based approach

To illustrate the differences between applying weights to climate finance flows on the project vs. the component-based level, the following tables illustrate how weights are applied based on project title and description.

Project-based reporting (selected data entries from the Climate Finance Transparency Tool):

In the project-based approach, weights reflecting the climate relevance are applied to entire programmes/projects.

Project / programme title	Activities / components (if available)	Thematic area	Climate relevance	Rationale	Total amount committed	Weighted total climate finance committed
Provision of Modern Energy and Support Services to Rural Communities	Installation of PV-Diesel hybrid systems in 5 communities, support of productive uses, capacity building, policy development	Cross-cutting	100%	Both title and objective clearly mention the climate change relevance. The focus of the project is renewable energy provision, which leads to direct mitigation benefits. Thus, the 100% climate relevance marker has been applied.	USD 4,700,000	USD 4,700,000
Coastal Highway Upgrades	Upgrading of approx. 23km of roadway, safety improvements, and climate adaptation works, bridge repairs and replacement	Adaptation	25%	The title does not mention climate change relevance. The focus of this project is on road construction, and only a minor subcomponent reflects climate adaptation. Thus, the 25% climate relevance marker has been applied.	USD 15,000,000	USD 3,750,000

Component-based reporting (selected data entries from the Climate Finance Transparency Tool):
In the component-based approach, weights reflecting the climate relevance are applied to individual activities.

Project / programme title	Activities / components (if available)	Thematic area	Climate relevance	Rationale	Total amount committed	Weighted total climate finance committed
Provision of Modern Energy and Support Services to Rural Communities	Installation of PV generation capacity	Mitigation	100%	Installation of renewable energy directly contributes to climate change mitigation. Thus, the 100% climate relevance marker has been applied.	USD 2,250,000	USD 2,250,000
	Installation of diesel backup generation capacity	NA	0%	Fossil fuel energy contributes to climate change. Thus, this activity is neither relevant to mitigation nor to adaptation.	USD 500,000	USD 0
	Energy-efficient cooling system for food storage (adaptation component)	Adaptation	75%	Cooling systems contribute to food security in warming climates. Thus, the activity is relevant to adaptation and the 75% marker has been applied.	USD 500,000	USD 375,000

While the project-based reporting is easier to derive, the granularity of the component-based reporting results is significantly higher. It produces more precise information on the distribution by thematic area and climate relevance of the subcomponents and a more precise attribution of the committed climate finance. However, to enable component-based reporting, a decent quality of data and project/programme information, as well as sufficient institutional and human capacity is required (Phase 1).

As mentioned before, the Climate Finance Transparency Tool adopts the CPEIR weighting approach and automatically calculates the amount based on markers.

BOX 10

Data inputs for total amounts of climate finance committed and provided per financial instrument

Data inputs into the Climate Finance Transparency Tool

To determine the climate relevance of programmes, projects, or activities, one of the predefined markers (100%, 75%, 50%, 25%, or 0%) is selected. This automatically calculates the total amounts of climate finance committed and provided per financial instrument.

Step 16. Verify climate finance data

This step guides countries in processing and verifying the collected data on climate finance flows, which includes screening for data duplication and plausibility checks on the size of climate finance flows. Performing quality checks and correcting imprecise data is an important step before applying for climate finance tracking results in Phase 5.

A "Quality control checklist for climate finance tracking", which supports countries in implementing Step 16, is provided in Appendix A: Templates and tools.

Data processing

Data processing includes two substeps to ensure that the collected data is complete and correctly formatted.

1. **Check completeness of collected data**

   Countries are encouraged to check if the information that has been collected is complete in all the following elements: the precise size of the climate finance flow and all additional information regarding the source, timeline, recipient, and contact details. Additionally, countries can check external sources for information on financial flows that are not yet included in the data collection.[14] These would include official records of international climate finance such as biennial reports (BRs), OECD DAC Statistics, developed countries reports, climate funds update, etc. For more information, please refer to Annex 4. Overview of data sources on international climate finance.

2. **Check for correct format of data**

   The next substep is checking the correct format of the data received. For example, countries should ensure that relevant stakeholders and institutions have filled out the data correctly, according to the numeric or text requirements. Then, the data is ready to advance to the following analysis stage. The guide recommends that countries provide standardized options through functionalities such as drop-down menus or selective options in an online system or a tool to avoid formatting errors.

3. **Determine the grant equivalent (if applicable)**

   To reflect varying degrees of concessionality in climate finance flows, the 'grant equivalent' may be determined, so called because it expresses a monetary value or 'grant element' as a percentage of the total amount. If deriving this information is deemed appropriate, several methodological approaches can be applied to calculate it. Please refer to Box 12 (Appendix B).

   Completing this task is likely to require the processed data to be manually screened. In addition, the time needed to complete the task will depend on the system that has been set up to collect data and/or for stakeholders to provide data.

14 For example, the OECD DAC Statistics on Development Finance for Climate and Environment (recipient perspective) can be used to collect more information on committed climate finance from bilateral and multilateral sources. However, countries should ensure that data on additional projects and finance flows that have not yet been accounted for in the national data collection are taken from these sources. Otherwise, the risk of double counting emerges.

Data verification

Data verification consists of two substeps to ensure the collected data is reliable and accurate. Appendix A: Quality control checklist for climate finance tracking provides further guidance for implementing the data verification.

1. **Conduct quality control by checking database records for double counting of climate flows**

   The created database or data record is (manually) checked to identify the potential double counting or multiplication of climate finance flows that reflect the same programme, project, or activity. Screening budget IDs and titles of budget items can provide initial indications for identifying the same flows reported by different entities. If the duplication remains undetected, it leads to double-counting climate finance flows and consequent overreporting. Most importantly, it creates an overestimation of climate action that misrepresents the progress towards a country's climate goals.

   Double-counting climate finance flows can occur when multiple stakeholders report on the same programme, project, or activity. For example, a country's ministry of energy allocates a 50 per cent subsidy for a renewable energy project in the national budget. The project is implemented by a private enterprise that provides co-financing for the remaining 50 per cent. During the data collection process, the ministry reports the subsidy, and the private enterprise reports the total investment volume of the project as climate finance. If the duplication of reported data is not identified and addressed during the quality control process, the given example would result in 50 per cent overreporting.

2. **Verify data by conducting plausibility checks**

   The next substep is to conduct plausibility checks, particularly regarding the size of the climate finance flows. This means manual data screening and identifying outliers. For instance, countries should make sure that the reported climate finance flows are within the low or high extreme compared to the normal data distribution. When countries encounter outliers, requesting and checking project documentation from respective stakeholders is recommended. To account for uncertainty, especially in suspected overreporting, lower estimates of the financial flows should be adopted (this is a principle that errs towards conservativeness[15]).

   To check if the data on national climate finance is plausible, this guide also recommends sharing the final data on climate finance flows in different sectors with the respective line of ministries, either in aggregated form and/or in a record base of all flows. This allows for gathering feedback on whether the results are aligned with estimates and requires clearly defined institutional responsibilities for the point of contact and verification of data. Besides this, the GACMO tool can be used for assessing the costs of implemented mitigation measures for plausibility.

   While this implementation is not structured in complexity levels, the complexity of verifying the climate finance data does relate to the complexity level specified for the scope of sources (Step 8). The more granular the chosen approach for data collection and parameters, the more resource-consuming the process of verification will become.

15 The principle of erring towards conservativeness refers to taking a conservative approach that prefers underreporting of climate relevance and climate finance flows over overreporting in case of insufficient data or uncertainty. International best practices for climate finance tracking such as the CPI Landscapes methodology (CPI, 2019, p. 4) and the Joint MDB Report (MDBs, 2021, p. 29) are based on this principle.

Resources for Phase 4:

- Appendix A: Climate Finance Transparency Tool
- Appendix B: Classifying and weighting climate finance flows
- Appendix B: Determining the degree of concessionality. The grant equivalent
- Annex 4. Overview of data sources on international climate finance
- Guide: Developing a National Green Taxonomy, World Bank
- Guide for Creating a Green and Sustainable Finance Taxonomy: Lessons Learned from Mexico's Government and Banking Sector, GIZ

Phase 5. From transparency to enhanced climate action

What is this phase and why is it important?

Building on the results of the previous four phases, this phase explicitly guides countries in estimating finance gaps, identifying underfinanced priorities or sectors, and allocating resources toward those areas. Furthermore, countries will evaluate the climate finance transparency cycle and develop strategies for the next cycle.

How can this phase be implemented?

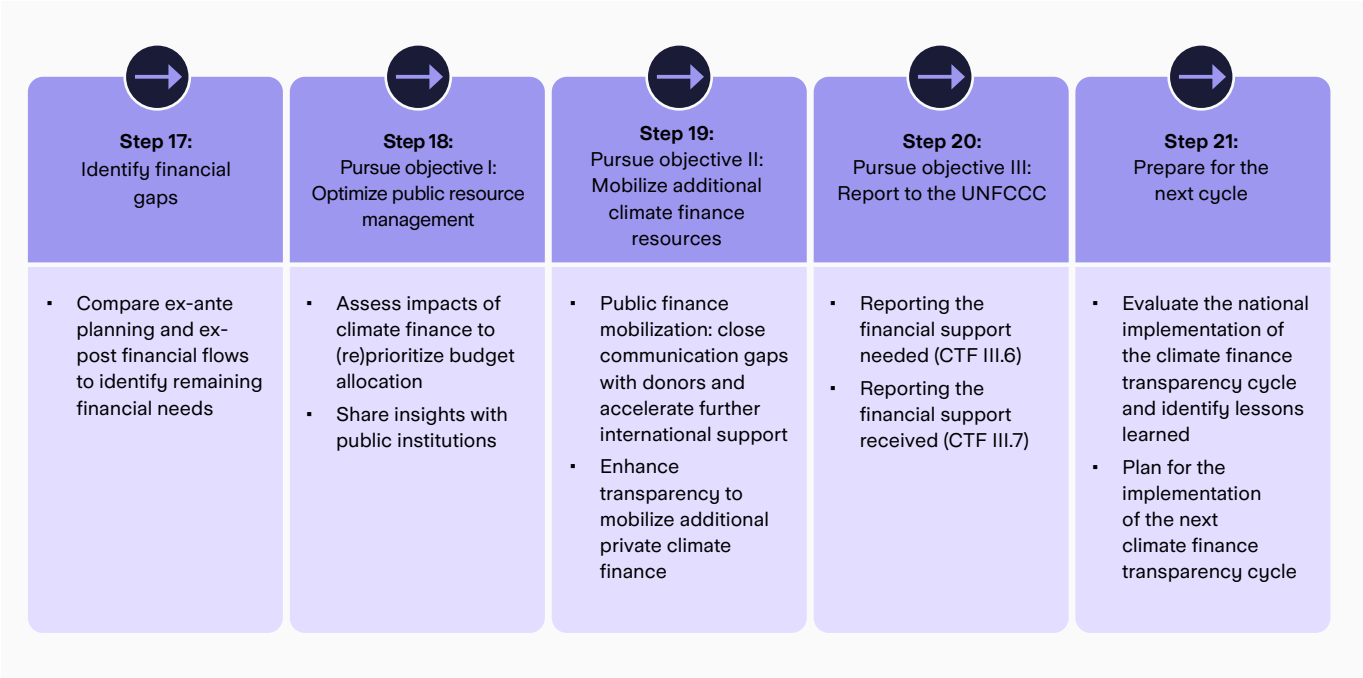
The phase begins with a preparatory step linked to the outputs from the ex-ante finance needs assessment for NDC (Phase 3) with the results from the ex-post measuring and verification of climate finance flows (Phase 4) to identify remaining climate finance needs. Subsequently, this phase outlines the following objectives that build on this climate finance gap and provides guidance on how to address the gaps through optimizing public resource management and/or mobilizing additional climate finance, while providing adequate instructions on how to communicate this to the UNFCCC.

The phase closes with a final step to prepare for the implementation of the next climate finance transparency cycle. This includes evaluating the performance of national implementation of the climate finance transparency cycle and determining adjustments for the next implementation cycle, including an increase of complexity levels, where applicable.

The following figure outlines the steps of Phase 5.

FIGURE 11

Detailed steps of Phase 5



What is the envisioned outcome of following this phase?

TABLE 18

Envisioned outcomes of Phase 5 by step

Step	Envisioned outcome
Step 17. Identify financial gaps	Countries estimated financial gaps using ex-ante finance needs assessment for NDCs (Phase 3) and ex-post measurement and verification (Phase 4).
Step 18. Pursue objective I: Optimize public resource management	Based on the financial gaps identified, countries refined the strategies for budget (re)allocation and (re)prioritization and informed these insights to all stakeholders.
Step 19. Pursue objective II: Mobilize additional climate finance resources	Based on the financial gaps identified, countries targeted the areas for investment through public interventions and private capital. Also, countries developed strategies to mobilize climate finance, including through enhanced transparency and communication.
Step 20. Pursue objective III: Report to the UNFCCC	Countries obtained all necessary data for CTFs, including financial support needed (Table III.6) and financial support received (Table III.7). The completed CTFs should be provided as an annex to the BTR.
Step 21. Prepare for the next cycle	Countries evaluated the implementation of the climate finance transparency cycle. Based on the evaluation, they developed improvement plans for the next implementation cycle, specified relevant phases, and determined whether to advance into higher complexity levels, where applicable.

Step 17. Identify financial gaps

Identifying financial gaps represents the basis for applying climate finance transparency results. Countries are recommended to assess financial flows of ex-post measuring and verification (Phase 4) against the ex-ante finance needs assessment for NDCs (Phase 3).

Compare ex-ante planning and ex-post financial flows to identify remaining financial needs.

There are two approaches for assessing the measured and verified climate finance flows against future financial planning and identifying the gaps and remaining financial needs:

- The first approach identifies financial gaps to achieve long-term or interim financing targets by subtracting the sum of climate finance that is measured and verified (Phase 4) from the financial planning for NDC implementation (Phase 3). This quantifies the overall financial gap and thereby provides a 'snapshot' on the state of meeting the financing needs and targets. For example, the ex-post measured and verified climate finance flows from the first years of NDC implementation (i.e., 2020–2022) are assessed against the financing target for interim climate goals (i.e., to be achieved by 2025). This assessment identifies the progress that has been made during the years 2020–2022 towards the interim financing goals for the year 2025 and quantifies the remaining financial needs to achieve the interim goals. When 40 per cent of the financial goals for the year 2025 have been achieved during the period of 2020–2022, for example, the remaining gap of 60 per cent needs to be covered during the period of 2023–2025.

- The second approach fully synchronizes financial planning and measuring processes during specific timeframes (e.g., one or two years). This is done by subtracting the sum of climate finance that is measured and verified (Phase 4) for the specified timeframe from the sum of financial resources that were committed to climate action for this timeframe (Phase 3). This approach offers a quick verification if the financial resources that were committed to certain climate objectives/sectors/projects/etc. during the planning process have been realized and could be measured in the tracking of climate finance flows.

Along with assessing the overall size of the gap between ex-ante financial planning and ex-post tracking of climate finance flows, extending the gap assessment to the following dimensions provides useful insights for more strategic approaches in applying climate finance transparency results:

- Climate objectives (mitigation, adaptation, and/or cross-cutting) to determine if the climate finance measured and verified is aligned with national priorities for climate action as outlined in the NDCs

- Sectors (and subsectors if feasible and relevant) to identify whether the financial planning for sectoral climate action has been met

- Sources and channels (domestic/international, public/private) to assess which stakeholders have provided finance as budgeted and committed (domestic public or international support) or expected according to the ex-ante estimation (relates particularly to the private finance flows)

This assessment is typically done based on expected, budgeted, or committed private and public climate finance for ex-ante financing needs and ex-post tracking results. Here, total amounts of finance needs that were estimated during an ex-ante finance needs assessment for NDCs (Phase 3) are compared to the data on finance committed (allocated to projects/programmes/activities) tracked in the measuring and verification phase (Phase 4). The results show whether anticipated financial needs translate into earmarked resources for climate objectives.

If the climate finance transparency cycle is designed to also cover disbursed climate finance flows, an additional comparison can be conducted. Here, data on finance committed in the financial planning (Phase 3) is compared to data on finance disbursed as tracked (Phase 4). These results show if anticipated financial planning processes translate into real finance flows.

Step 18. Pursue objective I: Optimize public resource management

Countries can address identified finance gaps by optimizing public resource management. It includes assessing the impact and cost-effectiveness of climate finance to provide evidence-based policy recommendations for the efficient management of domestic resources for climate action—including budget reallocation across relevant departments.

Another recommendation to optimize public resource management is to mainstream climate change into the national budget system, which consists of addressing climate change within development planning, sectoral decision-making, and regular budgeting processes, rather than stand-alone measures or a separate sector. Finally, for many interventions, an optimized application of public resources can leverage additional funding or investments. Thus, optimized public resource management is directly linked to the subsequent Step 19 of mobilizing additional climate finance resources from other public and private sources.

Assess impacts of climate finance to (re)prioritize budget allocation.

Besides the gap in finance flows planned and tracked, the impact of climate finance committed/disbursed can also be assessed to determine the cost-effectiveness. Countries established these impact indicators in Step 9. Additionally, while providing detailed guidance for conducting an impact assessment is outside the scope of this guide, the ICAT toolbox includes a series of Policy Assessment Guides covering impacts in the following areas:

- Agriculture
- Building efficiency
- Forestry
- Non-state and subnational actions
- Renewable energy
- Sustainable development
- Transformational change
- Transport princing

Linking an impact assessment to the climate finance transparency cycle provides the benefit of analysing the effectiveness and efficiency of climate finance committed/disbursed. In this sense, effectiveness refers to the contribution of climate finance towards achieving progress in mitigation and/or adaptation goals. Efficiency relates to how much climate finance was needed (i.e., was committed/disbursed) for achieving an impact and thus reflects how well climate finance is being used across different areas. Determining effectiveness can support identifying where climate finance achieves a positive impact and inform the prioritization of activities, while determining efficiency can support identifying which actions are less and more resource intensive. These insights support budget (re)allocation and prioritization and can also inform the assessment and reprioritization of climate finance and fiscal policies (for more information, please refer to Annex 8. Climate finance and fiscal policy assessment and refinement).


Photo by Elise Laker from © UNOPS

Share insights with public institutions.

As evident from the mapping of roles and responsibilities (Step 5), the national climate finance landscape consists of many stakeholders. There are often multiple public institutions that are involved in the decision-making process, including those in charge of sectoral policy and budget prioritization (i.e., line ministries) and those in charge of national policy and budget management related to climate change (i.e., MoE or MoF). It is important to communicate information to all decision-makers and practitioners in an effective manner.

There are several ways to communicate and share information (for more information, please refer to Annex 6. Communicating transparency insights to public and private stakeholders). It is recommended that each country adopts the most appropriate method according to its institutional capacity and level of preparedness and continues to develop it. Some options are:

1. **Through a periodical factsheet or informative newsletter administered by the MoF for countries in the initial stages of developing climate finance transparency.** A focal point from the MoF that oversees government budgets can share the results, including budget allocation status and unfinanced areas and amounts to relevant departments. A possible approach is to share information via annual publications or emails with the attachment of the pivot analysis under the Climate Finance Transparency Tool. Nevertheless, a country should decide the most effective and efficient communication method through a stakeholder consultation process and a thorough review of existing information-sharing mechanisms between ministries.

2. **Through regular meetings among members of a committee, taskforce, or a general inter-ministerial climate change working group.** Where a focal point has been appointed from line ministries and a special taskforce or committee made up of focal points from each ministry or department has been established for climate finance tracking, committee members can be responsible for receiving data and distributing them to the relevant teams and practitioners in charge within the department or ministry.

3. **Through a digital data-sharing platform (if available).** If a country has advanced institutional capacities (Level 3) and has developed the digital data-sharing platform discussed in Phase 1, raw data and data analysis related to climate finance flows can be distributed directly via the existing IT platform.

Step 19. Pursue objective II: Mobilize additional climate finance resources

Countries also can address finance gaps by mobilizing additional climate finance from the public sector, from the private sector (domestic as well as international, e.g., via national or international green bonds), from international donors, or from international investors. Hereby, processing climate finance data plays a vital role in effectively communicating to potential investors and donors how much additional funding is needed for each sector or project/programme, as well as the anticipated impacts of those climate actions. Besides targeting public actors, this can also support communication to private actors and encourage them to engage in financing a low-carbon and resilient transition through providing them with a clear understanding of their contributions and benefits in the transition towards a sustainable economy.

Public finance mobilization: close communication gaps with donors and accelerate further international support.

Countries have already established the basis for identifying potential funding sources and instruments during the ex-ante financial planning (Phase 3. Ex-ante climate finance needs assessment). As each funding institution's investment criteria and required data format and details vary, a strategic and institutional approach must be taken to achieve effective coordination between the supply and demand of climate finance resources. Therefore, a coordination model can be useful to identify and prioritize financing mechanisms and/or finance institutions that

meet common needs and values and have a high probability of funding in terms of regional and thematic eligibilities and priorities. For example, guidance from the Taskforce on Access to Climate Finance[16] reflects, among other principles, the principle of country ownership, which suggests that recipients and providers should 'work together and in conjunction with existing initiatives to support the development of plans which can then underpin a new programmatic approach'. Moreover, in the context of the principle of transparency and accountability, recipients should particularly ensure 'independent scrutiny of climate finance and climate-related development public finance'.

Reflecting those principles, the main objective will be to match supply and demand for available climate finance resources while maximizing the climate impact of investments and accelerating the transition in a transparent manner.[17] The following actions should be taken to prioritize projects and programmes for accelerating international support for climate finance:

- Organize a team to consolidate and prioritize climate funding applications. Given the size and complexity of funding procedures, multiple and specialized teams can be useful.
- List and prioritize potential funding sources (institutions, programmes, initiatives, financial mechanisms, climate funds, special funds, etc.) and their timelines for applications.
- Conduct a rapid project/programme appraisal and evaluation to assess how compatible the funding source is with the financing need (based on principles and criteria that the team could pre-establish in alignment with national climate goals and financing needs).
- Check the level of detail and format of required climate finance data based on eligibility, investment criteria, risk appetite, scale, replicability, and additionality—the same goes for the application format of selected funding sources.
- Identify the multistakeholder (public and private) processes needed to formulate, design, develop, submit, implement, and execute the project/programme proposals.
- Standardize the processed data for each fund institution, if possible.

Enhance transparency to mobilize additional private climate finance.

Private finance in climate action tends to fluctuate and is relatively hard to estimate, as it is influenced by many factors, including policy environments and macroeconomic conditions.[18] These intrinsically correlate to national decisions regarding public policies and regulations. Providing a clear guideline on assessing and quantifying climate finance flows brings an array of opportunities to the public and private sectors. The private sector can quickly identify investment opportunities and specify public sector action needed for creating an enabling environment for investment. When the public sector creates favourable conditions for private sector investment, this can enable substantial mobilization of private climate finance.

16 'Principles and Recommendations on Access to Climate Finance' (2021)

17 Some countries, like Colombia and Ghana, have developed institutional arrangements for climate finance and country strategies for accessing climate funds resources such as the GEF, Adaptation Fund, and GCF. They have created methodologies for project prioritization, in alignment with GCF investment criteria and national adaptation and mitigation priorities. Another best practice is the development of GCF Country Programmes, which are the cornerstone of each country's project pipeline development with the GCF.

18 Haščiči, Ivan., et al, Public Interventions and Private Climate Finance Flows: Empirical Evidence from Renewable Energy Financing. OECD Library, 2015, <www.oecd-ilibrary.org/environment/public-interventions-and-private-climate-finance-flows-empirical-evidence-from-renewable-energy-financing_5js6b1r9lfd4-en.> accessed 18 April 2024

The following approaches help to identify how this data and information have the potential to mobilize additional funding from the private sector:

- The ex-ante approach in climate finance tracking aids governments in estimating financing needs and assessing how the private sector could be mobilized for co-financing national climate priorities. It helps to identify public policy interventions that incentivize private finance in specific sectors by enhancing the potential for viable business cases and bankable projects. It additionally evaluates how financial instruments such as grants, debt, equity, quasi-equity, de-risking, or bonds are being used and how to effectively engage with domestic and international financial institutions in greening the financial system. It identifies the financial mechanisms used by the public and the private sectors. It also encourages private capital mobilization for innovation and technological development.
- The ex-post approach in climate finance tracking aids governments in evaluating how public standards, regulations, fiscal policies, investments, subsidies, support, and taxation are aligning or not aligning to national and international climate goals. It helps to drive the market of investment and financing decisions towards NDC achievement or net-zero pathways. It avoids double counting among stakeholders (national, regional, and international) and monitors/evaluates the bankability of projects. It also evaluates the impact and cost-efficiency of financial instruments and encourages financial regulators to assess the double materiality of climate change and to properly account for the costs and opportunities of climate risks. Last, it assists in reporting to the UNFCCC, which will help identify trends in private climate finance.

Step 20. Pursue objective III: Report to the UNFCCC

Article 9 of the Paris Agreement stipulates that 'Developed country Parties shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation, taking into account the needs and priorities of developing country Parties'.[19] The related MRV processes are operationalized through the ETF, which establishes reporting frameworks on financial support, technology transfer, and capacity building. Under the ETF, transparency regarding support will be achieved from two angles. On the one hand, developed countries shall report on the financial, technology transfer, and capacity-building support provided and mobilized for developing countries. This language implies mandatory reporting requirements for developed countries. On the other hand, developing countries should report on the financial, technology transfer, and capacity-building support needed as well as received from developed countries, including support needed and received for the implementation of Article 13 of the Paris Agreement. While developing countries are not obliged to report this information, they are strongly encouraged to do so, especially to identify and communicate specific climate finance needs to the international community. This not only attracts climate finance, but it also collectively holds developed countries accountable to deliver on their climate finance promises.

19 UNFCCC, 2016, The Paris Agreement, Article 9, p. 13. <www.unfccc.int/sites/default/files/resource/parisagreement_publication.pdf> accessed 30 Sep, 2024.

The requirements and formats for reporting to the UNFCCC through the BTR have been determined in in Decisions 18/CMA.1[20] and 5/CMA.3.[21] When reporting on support in the **BTR Chapter VI. Information on financial, technology development and transfer and capacity-building support needed and received under Articles 9–11 of the Paris Agreement,** developing country Parties should include the following context information in their BTR:

A. National circumstances, institutional arrangements, and country-driven strategies (textual format, following the MPGs in para. 130)

B. Underlying assumptions, definitions, and methodologies (textual format, following the MPGs in para. 131)

When reporting on financial support elements, developing country Parties should include the following context information in their BTR:

C. Information on financial support needed by developing country Parties under Article 9 of the Paris Agreement (both in textual format, following the MPGs of para. 132 and in CTF III.6 as an annex to the BTR, following the MPGs of para. 133)

D. Information on financial support received by developing country Parties under Article 9 of the Paris Agreement (in CTF III.7 as an annex to the BTR, following the MPGs of para. 134)

For reporting on financial support under the ETF, please refer to Box 11. Common tabular formats (CTFs).

Some developing countries might also want to report on the climate finance they provide to other developing countries as part of South-South transfers. In that case, information to be included in **BTR Chapter V. Information on financial, technology development and transfer and capacity-building support provided and mobilized under Articles 9–11 of the Paris Agreement** should follow the MPGs of paras. 118–125, as applicable.

Additionally, developing country Parties should report the following information separately:

Information on support needed and received by developing country Parties for the implementation of Article 13 of the Paris Agreement and transparency-related activities, including for transparency-related capacity-building (in CTFs III.12 and III.13 as an annex to the BTR, following paras. 143–145 of the MPGs).

20 Modalities, procedures and guidelines for the transparency framework for action and support referred to in Article 13 of the Paris Agreement, www.unfccc.int/sites/default/files/resource/CMA2018_03a02E.pdf?download, accessed 30 Sep 2024.

21 Guidance operationalizing the modalities, procedures and guidelines for the enhanced transparency framework referred to in Article 13 of the Paris Agreement, www.unfccc.int/sites/default/files/resource/cma3_auv_5_transparency_0.pdf, accessed 30 Sep 2024

BOX 11

CTFs for reporting on financial support under the ETF.

Common tabular formats (CTFs)

The CTFs, which have been introduced to ensure transparency and comparability of reported information by country Parties, present the format established for reporting the information on support elements. Below, the CTFs for reporting on the financial support needed (CTF III.6) and on the financial support received (CTF III.7), as well as for reporting on the support needed (CTF III.12) and received (CTF III.13) for the implementation of Article 13 of the Paris Agreement and transparency-related activities, including for transparency-related capacity-building, are presented. Developing country Parties that wish to report on the financial support they provide and mobilize for other developing country Parties should refer to the CTFs III.1, III.2 and III.3, as applicable.

Reporting Information on financial support needed by developing country Parties under Article 9 of the Paris Agreement

Table III.6
Information on financial support needed by developing country Parties under Article 9 of the Paris Agreement[a,b]
Exchange rate used: _____

Sector	Subsector	Title of activity, programme project or other	Programme / project description	Estimated amount (climate-specific)		Expected time frame	Expected financial instrument	Type of support	Contribution to technology development and transfer objectives	Contribution to capacity-building objectives	Whether the activity is anchored in a national strategy and/or an NDC	Expected use impact and estimated results	Additional information
				Domestic currency	USD								
Energy Transport Industry Agriculture Forestry Water and sanitation Cross-cutting Other (specify)							Grant Concessional loan Non-concessional loan Equity Guarantee Insurance Other (specify)	Adaptation Mitigation Cross cutting	Insert 1 for Yes, 0 for No	Insert 1 for Yes, 0 for No	Insert 1 for Yes, 0 for No		

Reporting Information on financial support received by developing country Parties under Article 9 of the Paris Agreement

Table III.7

Information on financial support received by developing country Parties under Article 9 of the Paris Agreement[a,b]

Exchange rate used: _____

Title of activity, programme project or other	Programme project description	Channel	Recipient entity	Implementing entity	Amount received (climate-specific)		Time frame	Financial instrument	Status	Type of support	Sector	Subsector	Contribution to technology development and transfer objectives	Contribution to capacity building objectives	Status of activity	Use impact and results	Additional information
					Domestic currency	USD											
		Multilateral Bilateral Regional Other (specify)						Grant Concessional loan Non. concessional loan Equity Guarantee Insurance Other (specify)	Committed Received	Adaptation Mitigation Cross cutting	Energy Transport Industry Agriculture Forestry Water and sanitation Cross-cutting Other (specify)		Insert 1 for Yes, 0 for No	Insert 1 for Yes, 0 for No	Planned Ongoing Completed		

Reporting Information on support needed by developing country Parties for the implementation of Article 13 of the Paris Agreement and transparency-related activities, including for transparency-related capacity building

Table III.12

Information on support needed by developing country Parties for the implementation of Article 13 of the Paris Agreement and transparency-related activities, including for transparency-related capacity-building[a,b]

Exchange rate used: _____

Title of activity, programme, project or other	Objectives and description	Expected time frame	Recipient entity	Channel	Amount		Status of activity	Expected use, impact and estimated results	Additional information
					Domestic currency	USD			
				Multilateral Bilateral Regional Othe (specify)			Planned Ongoing Completed		

Reporting Information on support needed by developing country Parties for the implementation of Article 13 of the Paris Agreement and transparency-related activities, including for transparency-related capacity building

Table III.13

Information on support received by developing country Parties for the implementation of Article 13 of the Paris Agreement and transparency-related activities, including for transparency-related capacity-building[a,b]

Exchange rate used: _____

Title of activity, programme, project or other	Objectives and description	Time frame	Recipient entity	Channel	Amount		Status of activity	Use, impact and estimated results	Additional information
					Domestic currency	USD			
				Multilateral Bilateral Regional Othe (specify)			Planned Ongoing Completed		

Reporting the financial support needed (CTF III.6).

1. **Select data on the financial support needed**

   After reporting the financial support received, developing countries are also encouraged to report on their financial support needed. International support aside, this data also allows countries to better plan and identify areas where domestic financial resources can be allocated. To report on the financial support needed, the results from the gap assessment (Step 17) are selected.

   Countries should not include data on financial support needed for the implementation of Article 13 of the Paris Agreement and transparency-related activities, as this needs to be reported separately to avoid double counting.

2. **Fill in the data in the CTF (Table III.6) and provide underlying assumptions**

   The identified financial gaps are filled in the CTF Table III.6 (Box 11) while summarizing financial needs per sector according to the UNFCCC classification[22] and differentiating climate objectives. Additional information should be provided on sectoral needs:

   - expected timeframes of climate finance flows
   - expected financial instruments of climate finance flows
   - contributions to technology development and transfer and/or capacity building
   - whether the activity is anchored in a national strategy and/or NDC
   - expected use, impact, and estimated results

   If applicable, the grant equivalent can be added in the column, 'Additional information'. Besides this, the underlying assumptions, which are the parameters (Step 8), should be provided where indicated.

   To complete the reporting on the financial support needed, developing countries should also provide the following information next to the CTF (Table III.6) (para. 132 of the MPGs):

   - the sectors for which the Party wishes to attract international climate finance and the existing barriers
   - a description for how the support will contribute to the Party's NDC and to the long-term goals of the Paris Agreement[23]

3. **Indicate if financial support needed contributes to technology development and transfer and/or capacity building**

   When reporting on the financial support needed, developing country Parties should also provide information on the contribution of financial support to the objectives of technology development and transfer, as well as capacity building. All support needed for technology development and transfer (as well as capacity building) that presents part the of financial support should be reported in the CTF on financial support needed (CTF III.6), and here only. The CTF includes a specific column for reporting this linkage between financial support and the other means of implementation. If there are linkages, insert 1 for 'yes'; if the financial support does not contribute to these other means of implementation, insert 0 for 'no'. Only the support needed for technology development and transfer and/or capacity building that does not constitute a part of financial support should be reported in separate CTFs (CTF III.8, III.10). This is to ensure the avoidance of double counting.

22 If the national classification of sectors and subsectors differs from the UNFCCC classification, the national classification needs to be translated into the UNFCCC sectoral classification.

23 UNFCCC, Guidance operationalizing the modalities, procedures and guidelines for the enhanced transparency framework referred to in Article 13 of the Paris Agreement, 2015, <www.unfccc.int/sites/default/files/resource/cma3_auv_5_transparency_0.pdf>, accessed 19 April 2024.

Reporting the financial support received (CTF III.7).

1. **Extract data on the financial flows received by international donors and investors**

   While information on the domestic climate finance available in the country presents relevant data to include in the BTR, developing countries are specifically encouraged to provide data on the financial support received from international sources. To report on the financial support received, the database for the climate finance tracked (Phase 4) needs to be filtered by source and channel to select only the climate finance from international sources within the national database.

   Countries should not include data on financial support received for the implementation of Article 13 of the Paris Agreement and transparency-related activities, as this needs to be reported separately to avoid double counting.

2. **Fill in the data in the CTF (Table III.7) and provide underlying assumptions**

   Once the relevant data on the financial support received from developed countries has been extracted from the national database and has been aligned with CTF reporting standards, if needed,[24] it can be used to fill in the respective CTF (Table III.7) (Box 11). If applicable, the grant equivalent can be filled into the column, 'Additional information'. Besides this, the underlying assumptions, which are the parameters (Step 8), should be provided where indicated.

3. **Indicate if financial support received contributes to technology development and transfer and/or capacity building**

   When reporting on the financial support received, developing country Parties should also provide information on the contribution of financial support to the objectives of technology development and transfer, as well as capacity building. All support received for technology development and transfer (as well as capacity building) that presents part of the financial support should be reported in the CTF on financial support received (CTF III.7), and here only. The CTF includes a specific column for reporting this linkage between financial support and the other means of implementation. If there are linkages, insert 1 for 'yes'; if the financial support does not contribute to these other means of implementation, insert 0 for 'no'. Only the support received for technology development and transfer and/or capacity building that does not constitute part of financial support should be reported in separate CTFs (CTF III.9, III.11). This is to ensure the avoidance of double counting.

Reporting the financial support needed for the implementation of Article 13 of the Paris Agreement and transparency-related activities (CTF III.12).

Information on the (financial) support needed for the implementation of Article 13 of the Paris Agreement and transparency-related activities, including for transparency-related capacity-building, should be reported separately from general information on support needed. To report the correct information, countries should include only data on financial support needed for implementing Article 13 and transparency-related activities from their gap assessment on financial needs. This information should be reported in CTF III.12. Here, it is important to avoid double counting between the information reported on financial support needed (CTFs III.6) (as well as capacity building, CTF III.10) and the support needed for the implementation of Article 13 of the Paris Agreement, as well as transparency-related activities (CTF III.12).

24 The parameters of the climate finance transparency cycle are generally aligned with the CTF requirements (Box 11). However, the national classification of sectors and subsectors can differ as national classifications rather than the UNFCCC classifications are applied at higher complexity levels. If this is the case, the national classification needs to be translated into the UNFCCC sectoral classification.

Reporting the financial support received for the implementation of Article 13 of the Paris Agreement and transparency-related activities (CTF III.13).

Information on the (financial) support received for the implementation of Article 13 of the Paris Agreement and transparency-related activities, including for transparency-related capacity-building, should be reported separately from general information on support received. To report the correct information, countries should include only data on financial support received for implementing Article 13 and transparency-related activities from their database of tracked climate finance flows. This information should be reported in CTF III.13. Here, it is important to avoid double counting between the information reported on financial support needed (CTFs III.7) (as well as capacity building, CTF III.11) and the support needed for the implementation of Article 13 of the Paris Agreement, as well as transparency-related activities (CTF III.13).

Reporting the financial support needed and received as part of the BTR.

The reporting requirements and formats for the BTRs have been determined in Decision 18/CMA.1. For reporting on the financial support needed and received, developing country Parties should include the following information in their BTR:

- **A.** National circumstances, institutional arrangements, and country-driven strategies (para. 130 of the MPGs)
- **B.** Underlying assumptions, definitions, and methodologies (para. 131 of the MPGs)
- **C.** Information on financial support needed by developing country Parties under Article 9 of the Paris Agreement (paras. 132–133 of the MPGs)
- **D.** Information on financial support received by developing country Parties under Article 9 of the Paris Agreement (para. 134 of the MPGs)
- **E.** Information on support needed and received by developing country Parties for the implementation of Article 13 of the Paris Agreement and transparency-related activities, including for transparency-related capacity building (paras. 143–145 of the MPGs)

Through filling out the CTFs regarding the financial support received (Table III.7; para. 134 of the MPGs), filling out the CTFs regarding the financial support needed (Table III.6; para. 133 of the MPGs), and providing additional information (para. 132 of the MPGs) in the previous steps, countries will have completed the implementation of information listed in **"C"** and **"D"** above for reporting on the financial support.

In addition, countries can include additional information on their climate finance landscape, such as domestic financial resources available and important sources and sectors. This information can be supplemented with analyses, results, graphs, and figures generated during Phases 3–5.

The requirements of the ETF mandate that the first BTRs should be submitted no later than 31 December 2024, and thereafter on a biennial basis. To ensure that reporting is in line with the timelines specified by the ETF, institutional responsibilities and processes need to be defined and implemented in time.

Besides communicating climate finance tracked and remaining climate finance needs to other governmental institutions, donors, or the UNFCCC, as described in the sections above, other domestic actors, such as the public, also benefit from transparency. Suggestions regarding how to process and present the information to public and private stakeholders can be found in Annex 6. Communicating transparency insights to public and private stakeholders.

Step 21: Prepare for the next cycle

After completing the climate finance transparency cycle and applying the results, the guide recommends that countries evaluate the implementation and identify key lessons that support the planning for the next implementation cycle, including decisions on advancing in complexity levels where applicable.

Plan for the implementation of the next climate finance transparency cycle.

The climate finance transparency cycle presents a circular approach to enhancing climate finance transparency, meaning that national processes and system set-ups evolve and improve over time. The preparation for the next implementation as well as improvement and advancement to higher complexity levels is based on the feedback regarding the performance and quality of results gathered previously.

Develop and implement an improvement plan

The improvement plan is developed based on the strengths and limitations identified previously (e.g., the KPIs and evaluation plan in Step 4), as well as ambitions for further advancing the national implementation of the climate finance transparency cycle. This serves as preparation for the next implementation of the cycle and determines which of the phases will be included. Example scenarios include:

- When the evaluation indicates severe limitations in the institutional set-up and processes for climate finance transparency, the improvement plan should target the inception stage (Phases 1 and 2).
- When the evaluation indicates that performance was overall good and the priority is to produce new climate finance transparency results, the inception stage can be skipped to start directly with the next operational stage (Phases 3 and 4).
- When the evaluation indicates that performance and results are of high quality, advancing to higher complexity levels can be considered, both for the general set-up (for example, advancing the complexity of the climate finance definition in Phase 1) and for specific elements in the operational stage (for example, advancing the complexity of the scope and collection of data for measuring and verification of climate finance flows in Phase 4).
- As an option for countries, a long-term road map to advance higher complexity levels can be developed.

The framework is not a static approach but rather an evolving process; therefore, the basis for preparing for the next cycle is the constant feedback from conducting and implementing the framework and the critical changes that might occur in public policies, regulations, market conditions, international reporting, or institutional arrangements. This step provides countries with a space for reflecting on what worked and what did not work well. It also allows them to better understand the improvement areas and expectations from this framework.

Resources for Phase 5:

- Appendix A: Climate Finance Transparency Tool
- Annex 3. ETF and INFF
- Annex 3. ETF: Paris Agreement Article 13
- Annex 6. Communicating transparency insights to public and private stakeholders
- Policy Assessment Guides, ICAT
- Reference Manual for the ETF under Paris Agreement, UNFCCC
- Global Financial Stability Report, 'Chapter 3: Financial sector policies to unlock private climate finance in emerging market and developing economies', IFC
- Activating Alignment: Applying the G-20 Principles for Sustainable Finance Alignment with a Focus on Climate Change Mitigation', IMF, World Bank, and OECD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Part 3

Templates, tools, and methodology

Appendix A: Templates and tools

Country baseline assessment

TABLE 19

A comprehensive checklist for country baseline assessment

Category	Survey questions	Responses	Guided steps
Climate policies and regulations	Has the country undertaken any initiatives to link climate finance with climate policies and objectives?	Yes / No	
	Are there any needs to develop or formalize a new policy or regulation for climate finance transparency?	Yes / No	
Scoping, planning, and institutional arrange-ments	Has the country recently conducted a stakeholder mapping in climate finance?	Yes / No	If no, refer to Step 2
	Is there any challenge or bottleneck that the country experienced in terms of climate finance transparency?	Yes / No	
	Has the country identified the main objectives for implementing this guide?	Yes / No	If no, refer to Step 3
	Has the government set clear roles and responsibilities for each task of climate finance tracking based on the stakeholder mapping?	Yes / No	If no, refer to Step 5
	Does an entity or team that oversees all tasks related to climate finance management exist?	Yes / No	If no, refer to Step 5
	If so, does the oversight body include both public and private actors?	Yes / No	If no, refer to Step 5
	Has the government set clear procedures or guidance on collaborative mechanisms for tracking and mobilizing climate finance flows?	Yes / No	If no, refer to Step 5
	Has the government conducted an assessment on the areas of expertise of different ministries, departments, and staff?	Yes / No	If no, refer to Step 5
	Has the government had systems in place to ensure that institutional settings are monitored and reviewed on a regular basis?	Yes / No	If no, refer to Step 5
	Has the government already designated a focal point from each ministry and sector for climate-related data collection?	Yes / No	If no, refer to Step 5

Category	Survey questions	Responses	Guided steps
Scoping, planning, and institutional arrange-ments	Has the government had procedural systems in place to collect climate finance data?	Yes / No	If no, refer to Step 5
	Has or will the government put a legislative process in place for the data collection process?	Yes / No	If no, refer to Step 5
	Has the government identified key capacities and roles required for climate finance management?	Yes / No	If no, refer to Step 6
	Has the government planned and conducted a set of trainings for enhancing the technical capacity of relevant staff?	Yes / No	If no, refer to Step 6
	Based on this assessment and objectives for implementing this guide, did the country develop a work plan?	Yes / No	If no, refer to Step 4
Defining and classifying climate finance	Does the country have a collective definition of climate finance at the national level?	Yes / No	If no, or a country aims to have an advanced definition, refer to Step 7
	Does the country have a classification of economic sectors and eligible activities based on the climate finance definition?	Yes / No	If no, or the country aims to have an advanced classification, refer to Step 7
	If there is a tracking of climate finance, which of the following sources does the country currently track? (Select all that apply)	On-budget Off-budget	For a wider coverage of climate finance tracking, refer to Step 8
	If there is a climate finance tracking or budget tagging, what is the aggregation level currently in place in the country to estimate financial flow?	Pro-ect-based Component-based	For more information, refer to Step 8
	If there is a tracking of climate finance or budget tagging, did the country set the following parameters? ▪ Granularity of financial instruments ▪ Information on recipients ▪ Information on the type of intervention ▪ Committed/disbursed climate finance ▪ Frequency of transparency framework	Yes / No	If no, refer to Step 8
	Had the country already identified climate impact indicators?	Yes / No	If no, refer to Step 9

Category	Survey questions	Responses	Guided steps
Climate finance needs assessment	Did the country estimate financing for NDC implementation? How accurate is the estimation?	Yes / No	For more information, refer to Phase 3
	Has the country elaborated an investment plan to achieve NDC objectives considering the estimated costs?	Yes / No	
	If yes to previous question, how accurate is the estimation?	Accurate Inaccurate	For more information, go to Phase 3
	What is the coverage of NDC targets? (Select all that apply)	Mitigation Adaptation	For more information, refer to Step 10 For more information, refer to Step 10
	Does the country have a work plan for NDC financing needs assessment based on the institutional arrangements?	Yes / No	For more information, refer to Step 11 and reference Table 12.
	Is there a regular verification process in place in the country for NDC financing assessment?	One-time, periodic, etc.	For more information, go to Step 13
Climate finance tracking	What are the current sources of the climate finance data collection?	On-budget Off-budget	For more information, refer to Step 14
	Does the country use any tracking methodologies for the following sources of climate flows? ▪ National public ▪ National private ▪ International public ▪ International private	Yes / No	
	Is there any need to improve/change these methodologies?	Yes / No	
	Does the country have any database or information system in place to record climate finance data?	Yes / No	
	Is the process for classifying programmes and projects based on the established climate finance definition in place?	Yes / No	If no, refer to Step 14
	Is the verification process of climate finance data in place?	Yes / No	If no, refer to Step 16
	Is the process of assigning weights to the climate finance data in place? (e.g., Rio Markers, CPEIR, and CBT)	Yes / No	If no, refer to Step 15

Category	Survey questions	Responses	Guided steps
Climate finance tracking	How often is the climate finance data collected/ estimated?	One-time, periodic, etc.	
	Has the country developed and implemented sustainable/green taxonomies?	Yes / No	In either case, wrefer to Step 7
From transparency to enhanced climate action	Did the country assess the ex-ante finance needs assessment against ex-post measuring and verification of climate finance flows? By doing so, did the country accurately assess the financing gap?	Yes / No	If no, refer to Step 17
	Is the country planning to report under the BTR, particularly support needed and received?	Yes / No	If yes, refer to Step 20
	Is the country aiming to optimize public resource management for climate finance?	Yes / No	If yes, refer to Step 18
	Did the country develop the long-term road map for the more advanced level and granularity for the next cycle?	Yes / No	If no, refer to Step 21

Climate Finance Transparency Tool

The Climate Finance Transparency Tool is an Excel-based tool that supports the steps in Phases 4 and 5. Please note that it is limited to complexity Level 1. For further enhanced and country-tailored approaches, it is recommended to engage in setting up specific IT-based transparency systems.

The Tool includes the following interlinked spreadsheets:

- **Climate Finance Tracking Template (on-budget and off-budget):** This spreadsheet represents the core database of the Tool. It serves to track on- and off-budget climate finance ex-post. It comprises all discussed complexity Level 1 information patterns, such as the source, year, sector, climate relevance, or climate finance amounts per financial instrument. Many of the values are standardized and can be selected through drop-down menus. This facilitates aggregation, comparison, analysis, and reporting.
- **Dashboard:** A dashboard lets users analyse information from the Climate Finance Tracking Template based on pivot-generated tables and figures. Predefined assessments exist for the climate finance volume per thematic area (adaptation, mitigation, and/or cross-cutting) and year, per channel/source, and per sector.
- **Comparison of ex-ante and ex-post climate finance:** This sheet allows to compare the ex-post climate finance volumes with the needs derived ex-ante. The ex-post data is generated by the information contained in the Climate Finance Tracking Template. Ex-ante needs are required to be inserted manually, based on the respective approach and methodology selected in Phase 3.
- **CTF-Reporting Table:** The Tool includes a spreadsheet that transfers relevant information from the Climate Finance Tracking Template into a separate sheet that is structured to align with CTF III.7 'Information on financial support received

by developing country Parties under Article 9'. Hereby, the required data will be extracted from the tracking template in an automatic manner. This is helpful to allow countries to see how the information will appear in the CTF tables, but countries will still have to upload this information through the ETF reporting tool for support as part of an official BTR submission.

- **Parameters and Categories:** This supportive sheet lists and explains all applied parameters and categories used in the tool, e.g., for the drop-down menus. It can be adjusted to the needs and priorities of the user country.

Matrix for identifying key implementing agencies

This example matrix can be further developed with a greater level of detail when conducting institutional settings and establishing a national climate finance landscape (Phase 1); however, it could be useful to countries for identifying key implementing international agencies or cooperation agencies per sector.

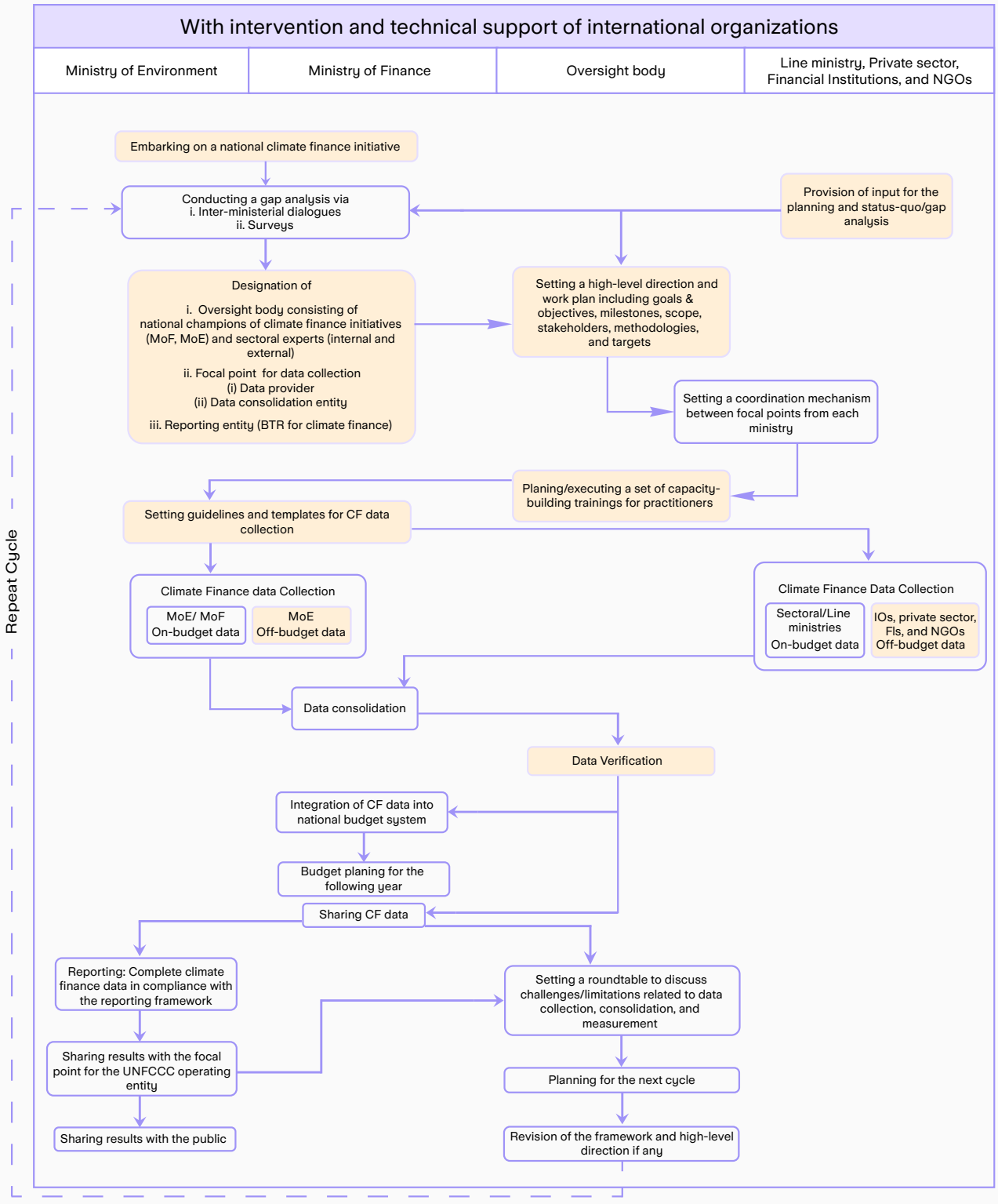
TABLE 20

Example of key implementing agency identification

Sector Organization	Energy			Agriculture	
	Power	Transport	Buildings	Crop management	Livestock
UNEP	X	X	X		
World Bank	X	X	X		
FAO				X	X
GIZ	X	X	X		

FIGURE 12

Flowchart and institutional settings for climate finance data collection and MRV



Stakeholder mapping template

TABLE 21

Example of stakeholder roles and mapping

Key areas of work	Subtasks	Stakeholders				Time and frequency
		Responsible	Accountable	Consulted	Informed	
i. Planning	Advisory/steering/oversight body					
	Set a high-level direction					
	Provide resources needed					
	Develop/update frameworks ▪ Data collection process ▪ Coordination mechanism ▪ Communication mechanism					
	Establish an institutional MRV system					
	Plan and coordinate capacity-building training for staff					
	Monitor and evaluate progress					
	Coordinate meetings with focal points from line ministries and key stakeholders					
	Share results with key stakeholders for the planning of the next cycle					

Key areas of work	Subtasks	Stakeholders				Time and frequency
		Responsible	Accountable	Consulted	Informed	
ii. Data collection	Collect project-level sectoral data					
	Verify data with a focus on the degree of climate relevance of a project					
	Consolidate climate finance data					
	Leverage challenges or limitations related to data collection to a steering body					
iii. Reporting	Complete climate finance data in compliance with the reporting framework					
	Share results with the focal point for the UNFCCC operating entity					
	Incorporate climate finance data into the national budget system					

Default work plan

TABLE 22

Default work plan for countries

Phase	Objectives	Complexity level	Responsible entities	Expected outcomes	Year 1												Available tools/ templates
					Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Phase 1. Scoping, planning, and institutional arrangements	Activity 1.1 Identify all stakeholders	NA		Detailed baseline report and stakeholder analysis													Country baseline assessment
	Activity 1.2 Conduct country baseline assessment	NA															Stakeholder identification table
	Activity 1.3 Define objectives and scope	NA		Defined objectives and scope													Stakeholder mapping template Matrix for identifying key implementing agencies
	Activity 1.4 Mapping of the current national institutional arrangements, roles and responsibilities, and governance structure	NA		Report on the established institutional arrangements for climate finance transparency													
	Activity 1.5 Develop the required institutional arrangements and the related roles and responsibilities for climate finance transparency	NA															Flowchart and institutional settings for climate finance data collection and MRV

Phase	Objectives	Complexity level	Responsible entities	Expected outcomes	Year 1												Available tools/ templates
					Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Phase 1. Scoping, planning, and institutional arrangements	Activity 1.6 Identify the required institutional and technical capacity to implement the institutional arrangements for climate finance transparency	NA		Report on the developed and implemented customized set of training modules, catering to the specific needs of relevant stakeholders and staff, to ensure sufficient institutional and technical capacities for climate finance transparency													List of recommended training
Phase 2. Defining and classifying climate finance	Activity 2.1 Articulate climate finance definition and classify sectors and subsectors			Report on the national climate finance definition and transparency framework parameters													Guiding table on climate finance definition with complexity level selection
	Activity 2.2 Set transparency framework parameters and climate impact indicators																
	Activity 2.3 Define climate finance impact indicators	NA		Defined climate impact indicators													Appendix B

Phase	Objectives	Complexity level	Responsible entities	Expected outcomes	Year 1												Available tools/ templates
					Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Phase 3. Ex-ante climate finance needs assessment for NDC	Activity 3.1 Set the framework for the establishment of a national methodology for climate finance needs assessment	NA		Report on the methodology for identifying climate finance needs and the road map for its implementation													
	Activity 3.2 Develop the methodology for identifying climate finance needs																Table 26: List of widely used methodologies and approaches
	Activity 3.3 Road map for integrating the methodology for identifying climate finance needs into the overall climate finance transparency system	NA															
Phase 4. Climate finance tracking	Activity 4.1 Develop the methodology to track climate finance flows			Report on the methodology for tracking climate finance flows and the road map for its implementation													Climate finance transparency tool – Climate Finance Tracking Template (on-budget and off-budget)
	Activity 4.2 Road map for integrating the methodology to track climate finance flows into the overall climate finance transparency system	NA															Quality control checklist for climate finance tracking

Phase	Objectives	Complexity level	Responsible entities	Expected outcomes	Year 1												Available tools/ templates
					Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Phase 5. From transparency to enhanced climate action	Activity 5.1 Compare ex-ante planning and ex-post financial flows to formulate the persistent financial needs.	NA		Report on the climate finance strategy and resource mobilization guidelines													Climate finance transparency tool – Comparison of ex-ante and ex-post Climate Finance
	Activity 5.2 Define the approach to optimize public resource management and mobilize additional climate finance resources	NA															
	Activity 5.3 Develop a road map for reporting climate finance information as part of the international reporting requirements	NA		Report on the road map to communicate data on the financial support received and on the financial support needed to the UNFCCC													Climate finance transparency tool – CTF-Reporting Table
	Activity 5.4 Develop a plan for the implementation of the next climate finance transparency cycle.	NA		Improvement plan for the national implementation of the climate finance transparency cycle													

Quality control checklist for climate finance tracking

TABLE 23

Template for conducting quality control for climate finance tracking

QC activity procedures	Execution					
	Performed?	Date	Person responsible	Comments / observations	Improvements or corrective measures taken	Supporting documents
Data processing: check completeness of collected data						
Check that relevant information on the size of the financial flow, the source, the recipient, the title, the description, etc., is recorded in the database.						
Data processing: check for correct format of data						
Check that data has been input in the database in the correct format.						
Check for transcription errors in data input and references (e.g., from local currency to USD, from local languages to English, as applicable).						
Data verification: conduct quality control						
Check that projects or activities have been assigned to the correct sector.						
Check if projects (and activities, as applicable) have been correctly allocated to mitigation, adaptation, or cross-cutting.						
Check that the identified projects correspond to the selected timeframe / years of climate finance tracking.						

QC activity procedures	Execution					
	Performed?	Date	Person responsible	Comments / observations	Improvements or corrective measures taken	Supporting documents
Check that there are no multiple entries of the same climate finance project or activity (e.g., based on budget IDs and titles).						
Check that the previous processing steps have been correctly followed.						
Check if calculations have been carried out correctly after applying all the proposed classifications according to the climate finance tracking methodology.						
Data verification: conduct plausibility checks						
Check that the number of identified climate finance projects corresponds with the number of projects carried out in the country.						
Check if there are any unusual projects or activities identified in the databases that have no climate relevance.						
Check if there are outliers regarding the financial sum (extremes at the lower and upper end).						
Check for trends regarding climate finance tracking results of previous years (e.g., as a baseline comparison).						

Appendix B: Structure of the methodology and background research

Appendix B contains background research on the methodology and detailed explanations for the recommendations provided throughout the guide. It is divided into four sections as follows:

1. Defining climate finance
2. Institutional settings for climate finance data collection and MRV
3. Ex-ante climate finance estimation
4. Ex-post tracking of historic climate finance flows

Each section includes brief descriptions, international practices, and methodological approaches.

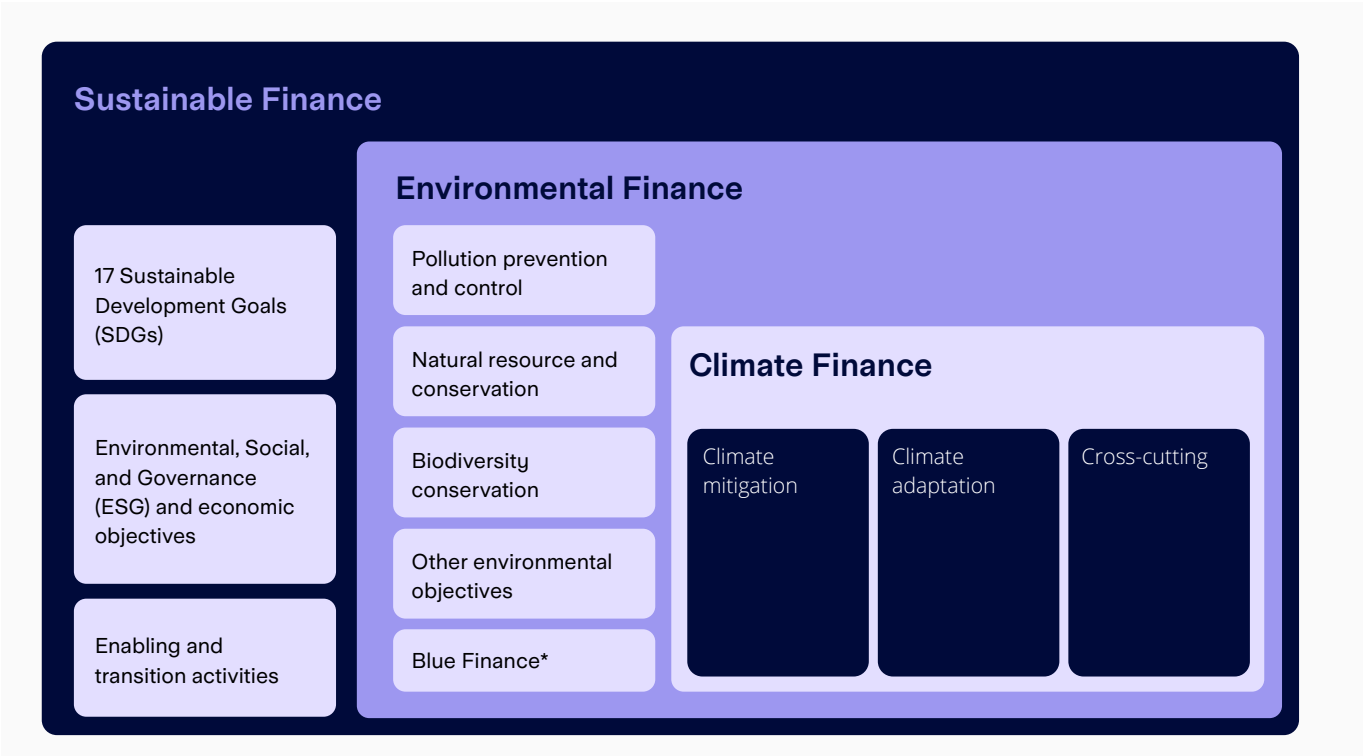
1. Defining climate finance

Climate action, sustainability issues, and protection of the environment have become key dialogues at the centre of political agendas for international organizations, national and local governments, and private sector institutions.

New language has emerged in response to address these challenges, as is shown in Figure 13. In the financial sphere, such terms include sustainable finance, environmental finance, climate finance, social finance, biodiversity finance, green/ blue finance, and Environmental, Social, and Governance (ESG) finance.

FIGURE 13

Relation of sustainable, environmental, and climate finance definitions. **Source:** Adapted from the International Capital Market Association (ICMA), 2020.



Since Part II covered the definition of climate finance substantially in Phase 2, this section focuses more on the rationale behind recommended sectoral classification and parameters.

Definition of sectors

Review of international practices

A sectoral classification related to climate mitigation and adaptation measures is a key element of the climate finance definition. By classifying climate-related projects and programmes per subsector of the real economy, economic activities can be identified at the industry and entity levels. It is recommended to make national economic sector classifications compatible with an international categorization such as UNFCCC, IPCC, or OECD.

Approach adopted for climate finance transparency guide

In this guide, the sectoral classification is undertaken in line with the CTF. For the subsector classification, the OECD DAC Rio Marker was used as a reference (please refer to the Parameters and Categories tab in the Climate Finance Transparency Tool).

TABLE 24

Economic sectors classification for climate finance tracking. **Source:** BTR CTF, OECD DAC Rio Markers, and CPI.

Sectors (BTR CTF)	Subsectors (OECD DAC Rio Marker)	Subsectors (CPI)
Energy	▪ Energy policy ▪ Energy generation, renewable sources ▪ Hybrid energy plants ▪ Nuclear energy plants ▪ Energy distribution ▪ Banking and financial services ▪ Business and other services	▪ Power and heat generation ▪ Power and heat transmission and distribution ▪ Fuel production ▪ Fuel transmission and distribution ▪ Policy and national budget support and capacity building ▪ Other
Transport	▪ Transport policy and administrative management ▪ Road transport ▪ Rail transport ▪ Water transport ▪ Air transport ▪ Storage ▪ Education and training in transport and storage	▪ Private road transport ▪ Rail and public transport ▪ Waterway ▪ Aviation ▪ Policy and national budget support and capacity building ▪ Transport-oriented infrastructure and urban development ▪ Other

Sectors (BTR CTF)	Subsectors (OECD DAC Rio Marker)	Subsectors (CPI)
Industry	▪ Industrial policy and administrative management ▪ Industrial development ▪ Small and medium sized enterprises (SME) development ▪ Cottage industries and handicraft ▪ Agro-industries ▪ Forest industries ▪ Textiles, leather, and substitutes ▪ Chemicals ▪ Fertilizer plants ▪ Cement/line/plaster ▪ Energy manufacturing (fossil fuels) ▪ Pharmaceutical production ▪ Basic metal industries ▪ Non-ferrous metal industries ▪ Engineering ▪ Transport equipment industry ▪ Modern biofuels manufacturing ▪ Clean cooking appliances manufacturing ▪ Technological research and development	▪ Industrial, extraction, and manufacturing processes ▪ Industry infrastructure and warehouse ▪ Policy and national budget support and capacity building ▪ Other
Agriculture	▪ Agricultural policy and administrative management ▪ Agricultural development ▪ Agricultural land resources ▪ Agricultural water resources ▪ Agricultural inputs ▪ Food crop production ▪ Industrial crops/export crops ▪ Livestock ▪ Agrarian reform ▪ Agricultural alternative development ▪ Agricultural extension ▪ Agricultural education/training ▪ Agricultural research ▪ Agricultural services ▪ Plant and post-harvest protection and pest control ▪ Agricultural financial services ▪ Agricultural co-operatives	▪ Agriculture, forestry, other land uses, and fisheries ▪ Agriculture ▪ Fisheries ▪ Food and diet ▪ Policy, national budget support, and capacity building ▪ Unspecified

Sectors (BTR CTF)	Subsectors (OECD DAC Rio Marker)	Subsectors (CPI)
Forestry	▪ Forestry policy and administrative management ▪ Forestry development ▪ Fuelwood/charcoal ▪ Forestry education/training ▪ Forestry research ▪ Forestry services	
Water and sanitation	▪ Water sector policy and administrative management ▪ Water resources conservation (including data collection) ▪ Water supply and sanitation - large systems ▪ Water supply - large systems ▪ Sanitation - large systems ▪ Basic drinking water supply and basic sanitation ▪ Basic drinking water supply ▪ Basic sanitation ▪ River basins development ▪ Waste management/disposal ▪ Education and training in water supply and sanitation	▪ Waste ▪ Solid waste ▪ Policy and national budget ▪ Support and capacity building ▪ Wastewater treatment ▪ Water supply and sanitation ▪ Wastewater treatment ▪ Policy and national budget support and capacity building ▪ Other
Cross-cutting		▪ Policy, national budget support, and capacity building ▪ Biodiversity, land, and marine conservation ▪ Disaster-risk management ▪ Other
Other		

Parameters

The following parameters can help countries to define and track climate finance at the national level.

Parameter 1. Scope of the sources for climate flows

Parameter 2. Granularity of reporting

Parameter 3. Financial instruments

Parameter 4. Information on recipients of climate finance

Parameter 5. Type of intervention

Parameter 6. Committed and/or disbursed climate finance to be tracked

Parameter 7. Frequency for monitoring of the transparency framework

Parameter 1. Scope of sources

Review of international practices

The review of international best practice methods for climate finance tracking shows that the scope of climate finance sources included in the assessment varies. While most methodologies focus either on international public climate finance flows or on public sources mobilized within governments' budgets, some explicitly target climate finance flows from the private sector, like the CPI methodology, which takes a holistic approach of including the entire range of sources.

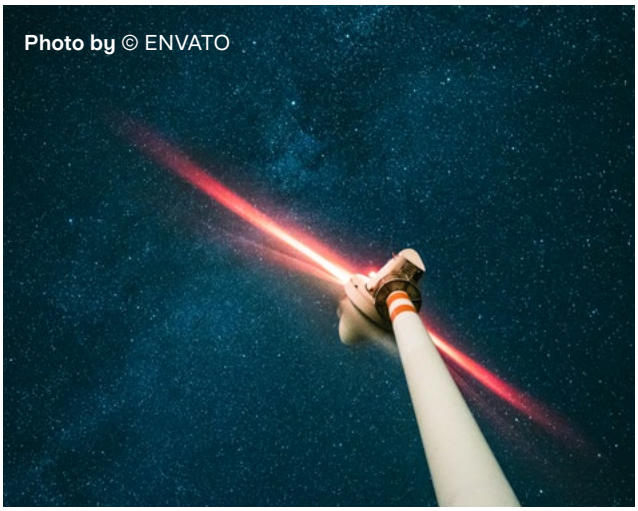


TABLE 25

Comparison of the scope and focus of climate finance sources per international best practice for climate finance tracking

	Public sources of climate finance	Private sources of climate finance	Both public and private sources of climate finance
National climate finance flows	▪ UNDP CBT ▪ UNDP Climate Public Expenditure and Institutional Review (CPEIR)	▪ Private Sector Climate Expenditure Review (PCEIR)	▪ Climate Policy Initiative (CPI) Global Landscape of Climate Finance[25] ▪ Investment and Financial Flows (I&FF), UNDP[26]
International climate finance flows	▪ OECD DAC Rio Markers ▪ Multilateral Development Banks (MDB) Joint Reporting		▪ CPI Global Landscape of Climate Finance[27]

25 While the CPI Landscapes includes public and private sources to present a broad climate finance landscape, countries implementing the CPI Landscapes have flexibility to focus on selected sources of climate finance only, and for example only consider public climate finance flows.

26 For this methodology, please review the introduction and the result of the assessment.

27 The CPI Landscapes allow for including international sources of climate finance if this is reflected in the objectives of the implementing country.

Approach adopted for the climate finance transparency guide

As the existing methodologies serve diverse objectives and follow different approaches, no universal best practice can be identified. This observable trend finds that the majority of existing methodologies focus on national and international public sources of climate finance while providing less focus on private sources or a holistic climate finance landscape. This directly relates to the complexity of collecting reliable data.

Collecting data on climate finance flows from public sources presents fewer challenges, as this information can often be drawn from more centralized focal points (i.e., ministries and MDBs) with their budgets and expenditure records, which are public information and can be easily accessed. Obtaining data on climate finance flows from non-public sources—and especially from the private sector—is more difficult because of the need for data collection from various non-centralized sources, as well as due to confidentiality and privacy concerns. Therefore, this guide suggests a complexity level approach for defining the scope of sources as shown in Table 7.

Parameter 2. Granularity of reporting

Review of international practices

The review of international practices shows that most of the international methodologies determine climate relevance at the project level. The MDB Joint Reporting of climate finance, however, distinguishes between project-based and component-based climate finance tracking. This approach offers several advantages, including enhanced clarity and transparency on how climate finance is used, facilitated comparability, and improved accountability of climate impacts.

Component-based tracking provides a more comprehensive and granular view of how climate finance is being used, which can help ensure that resources are being used more effectively and efficiently. However, such an increased level of granularity also faces several challenges in operationalization. A precondition is a high level of data availability and quality, particularly regarding the details for each specific component, which may not always be available or may be of varying quality. Moreover, component-based tracking can be complex and time-consuming, requiring significant resources and expertise. This can make it challenging for developing countries and smaller organizations to implement. Finally, inconsistencies between tracking schemes for components are likely higher than for project-based reporting. This can impose an additional burden to compare and aggregate data across different schemes.

Approach adopted for the climate finance transparency guide

This guide highlights that determining the climate relevance of investments presents the key methodological element for climate finance tracking and significantly impacts the quality of the quantitative results. However, acknowledging the different capacities and capabilities of developing countries, the guide recommends countries to engage in project-based tracking.

Parameter 3. Financial instruments

Review of international practices

The review finds that the specific financial instruments targeted in the individual best practice methods differ, which is due to the differences in focus and objectives of these methods. With regards to the granularity in distinguishing between financial instruments, there are two broader approaches observable among the reviewed international methodologies.

On one hand, there are methodologies that focus on specific sources of climate finance that tend to employ highly detailed distinctions among financial instruments. For example, the CPEIR methodology considers only fiscal instruments but demonstrates high granularity for differentiating between: (a) revenue-generating instruments (taxes, green bonds and fees); and (b) behaviour-changing instruments (special allocation grants, earmarked sub-national fiscal transfers, national climate funds, taxes, tax breaks, and subsidies).[28]

28 UNDP, Methodological Guidebook, Climate Public Expenditure and Institutional Review, 2015, <www.undp.org/asia-pacific/publications/methodological-guidebook-climate-public-expenditure-and-institutional-review-cpeir>, accessed 18 April 2024.

Similarly, the PCEIR methodology considers only private finance instruments, and it distinguishes between different kinds of instruments in the broader categories of: (a) debt instruments (over-the-counter loans, market-traded debt instruments, and microfinance); (b) equity instruments (listed, unlisted, and balance sheets); (c) financial guarantees and risk insurance; and (d) grant instruments (Corporate Social Responsibility contributions, and private philanthropy).[29]

On the other hand, there are methodologies with a broader focus that tend to employ less granular categories of financial instruments. For example, the CPI Landscape focuses on the financial instruments of grants, balance sheet finance, concessional loans, commercial loans, bonds, equity, and guarantees,[30] while the joined MDB methodology distinguishes between equity, grant, guarantees, investment loans, lines of credit, policy-based finance, and results-based finance.[31] Countries reporting to the Creditor Reporting System[32] database of the OECD DAC commonly differentiate between debt instruments, debt relief, grant equity, and shares in collective investment vehicles,[33] while the Converged Statistical Reporting Directives for the Creditor Reporting System also lists the additional instruments, including debt relief, and mezzanine.

Photo by © Getty Images

29 UNDP, Tracking Private Climate Finance Flows at the National Level, 2015, <https://procurement-notices.undp.org/view_file.cfm?doc_id=73261>, accessed 18 April 2024.

30 CPI, Global Landscape of Climate Finance 2023, 2023, <www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf>, accessed 7 Oct 2024.

31 MDBs, Joint Report on Multilateral Development Banks' Climate Finance-2020, 2021, <https://thedocs.worldbank.org/en/doc/9234bfc633439d0172f6a6eb8df1b881-0020012021/original/2020-Joint-MDB-report-on-climate-finance-Report-final-web.pdf>, accessed 7 Oct 2024.

32 OECD, Converged Statistical Reporting Directives for the Credit reporting System (CRS) and the Annual DAC Questionnaire, 2016, <www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DCDDAC(2016)3FINAL.pdf>, accessed 14 April 2022.

33 OECD, Climate Change: OECD DAC External Development Finance Statistics, 2021, https://web-archive.oecd.org/temp/2024-06-04/315401-climate-change.htm, accessed 14 April 2024.

BOX 12

Determining the degree of concessionality: The grant equivalent

In the context of international climate finance pledges by donor institutions, such as the US $100 billion goal in the context of the Paris Agreement, a persistent issue of contentious debates is the net value of financial assistance. While many donors report the nominal/face value of their climate finance provisions, many developing countries and NGOs demand a discounted reporting based on the concessionality of the applied financial instruments. The most prominent way to take these varying degrees of concessionality into account is the so-called 'grant equivalent', expressing a monetary value, or a 'grant element' expressing a percentage of the total amount. While grants have a grant element of 100 per cent, loans have lower grant equivalents, depending on the specific characteristics of the loan.

Several leading institutions such as the IMF, World Bank, the GCF, and most prominently, the OECD maintain Grant Equivalent Calculators. Also, NGOs such as Oxfam have contributed their own estimations of the grant equivalent. All those approaches apply slightly different underlying calculation formulas. Hereby, four factors of the loan determine the grant equivalent. Among those are: [34]

- the **interest rate**
- the **grace period** defining the interval between commitment date and the date of the first repayment of principal
- the **maturity** (i.e., the time from the commitment to the last date the loan is expected to be repaid)
- the **discount rate**, which is used to determine the present value of future repayments. This factor differs between the available approaches leading to significantly different results. For instance, the difference between the OECD DAC grant element and the NGO's Oxfam grant element is about 35%, mainly due to varying assumptions regarding the discount rate characteristics.[35]

Since the grant equivalent is internationally considered as valuable information on international climate finance flows, it is recommended that developing Parties consider it in their climate finance transparency schemes. The UNFCCC reporting does also consider this information in the reporting templates.

Helpful grant equivalent calculators that are publicly available online can be found from the following institutions:

- The Green Climate Fund Grant Equivalent Calculator is a publicly available, free-of-charge Excel-based spreadsheet model that comes with detailed guidance. It represents a very comprehensive tool covering grant equivalent calculations for loans, equity investments, and guarantees. It is customized to GCF activities but is also adaptable to other contexts such as climate finance volume tracking and reporting and is therefore recommended as a helpful tool to determine the grant equivalent.
- The Grant Element Calculator by the World Bank provides a quick, easy-to-access, free-of-charge, web-based approach to calculate grant elements for concessional loans. Flexibility is limited, since the discount rate is fixed to 5 per cent, as decided by the World Bank Board, and the tool does not allow the calculation of grant elements for equity investments or guarantees.

34 UK Government, ODA Grant Equivalent Measure-Short Technical Note, <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/854342/Grant-Equivalent-Technical-Note1.pdf>, accessed 14 April 2024.

35 Oxfam, Methodology Note Climate finance Short-Changed, 2022, <www.germanclimatefinance.de/files/2022/10/mn-climate-finance-short-changed-methodology-note-191022-en_J5gckXo.pdf>, accessed 14 April 2024.

While these international methodologies differentiate between various financial instruments for recording data, they do not treat instruments differently in their quantitative tracking of climate finance. A long-standing critique developing in the most vulnerable countries is that large shares of the finance reported as climate finance provided by developed countries comes as loans. The Oxfam Climate Finance Shadow Report estimates that only 20 per cent of reported public climate finance comes as grants, whereas loans and other non-grant instruments account for 80 per cent. Non-concessional loans, which are loans offered at market rates and therefore provide no additional support to developing countries, are estimated to make up 40 per cent of public climate finance.[36]

Approach adopted for the climate finance transparency guide

The review of international methodologies shows that there is no existing best practice. Since a key objective of climate finance tracking for countries is the reporting to the UNFCCC in the context of the ETF, this guide recommends countries to consider the UNFCCC categorization as laid out in the CTF[37] as follows:

- Grants
- Concessional loans
- Non-concessional loans
- Equities
- Guarantees
- Insurances
- Other instruments to be specified.

To reflect the criticism on the practice of counting the face value of (non-concessional) loans as climate finance, this guide goes beyond the best practice identified in international methodologies for differentiating between financial instruments by introducing a grant equivalent discount. Through the discounting mechanism, the numerical value of non-grant instruments around international/bilateral finance (specifically non-concessional loans) will be reduced to estimate the financial volume from developed to developing countries once loan repayments, interest, and other factors are considered.[38] This grant equivalent calculation is provided in the Climate Finance Transparency Tool and aims to avoid exaggerated numbers of climate finance.

36 Carty, Tracy., Jan Kowalzig and Bertram Zagema, Climate Finance Shadow Report 2020: Assessing progress towards the $100 billion commitment, 2020, https://policy-practice.oxfam.org/resources/climate-finance-shadow-report-2020-assessing-progress-towards-the-100-billion-c-621066/, accessed 7 Oct 2024.

37 UNFCCC, Modalities, Procedures and Guidelines for the Transparency Framework for Action and Support Referred to in Article 13 of the Paris Agreement, 2021, <www.unfccc.int/sites/default/files/resource/CMA2018_03a02E.pdf?download>, accessed 7 Oct 2024.

38 Carty, Tracy., Jan Kowalzig and Bertram Zagema, Climate Finance Shadow Report 2020: Assessing progress towards the $100 billion commitment, 2020, https://policy-practice.oxfam.org/resources/climate-finance-shadow-report-2020-assessing-progress-towards-the-100-billion-c-621066/, accessed 7 Oct 2024.

Parameter 4. Information on climate finance recipients

Review of international practices

This review finds that most international best practice methods for climate finance tracking do not recommend countries to record detailed information on the recipients of climate finance.

For example, the CPEIR methodology does not emphasize tracking the recipients of climate finance, as the methodology assumes a perspective that analyses public expenditure for climate objectives in the broader institutional and climate policy framework of a country. Based on its nature of identifying climate-relevant finance flows in Official Development Aid, the OECD DAC only records information on the recipient country. The MDB Joint Report broadly differentiates between public and private recipients, as well as income categories of recipient countries.[39] The CPI Landscapes work with detailed information on disbursement channels through which the recipients of climate finance are approximated and suggests the following recipient groups:

- Central governments and implementing ministries
- Local governments
- Public agencies
- Public-private partnerships
- State-owned enterprises
- Unions/industry associations and funds
- NGOs
- International partners
- Private companies
- Academic and research centres
- Other civil society actors.[40]

Approach adopted for the climate finance transparency guide

As the reviewed methodologies exhibit great diversity with regards to recording information on recipients, no universal best practice can be identified. Both the extremes of not tracking any information on recipients and differentiating between recipients with high granularity are present among the international methodologies. Therefore, this guide opts for a balanced approach and suggests the following classification of recipients according to their societal function:

- Academia
- Government institutions
- Local governments/ Municipalities
- NGOs
- Private sector companies
- Local communities
- Media
- Other

39 MDBs, Joint Report on Multilateral Development Banks' Climate Finance-2020, 2021, <https://thedocs.worldbank.org/en/doc/9234bfc633439d0172f6a6eb8d-f1b881-0020012021/original/2020-Joint-MDB-report-on-climate-finance-Report-final-web.pdf>, accessed 7 Oct 2024.

40 CPI, Global Landscape of Climate Finance 2023, 2023, <www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf>, accessed 7 Oct 2024.

Parameter 5. Types of intervention

Review of international practices

This review shows that some of the international methodologies detail information on the type of intervention when projects/activities cannot strictly be categorized as specific sectoral measures. Usually, this concerns capacity-building activities. For example, the MDB Joint Report lists climate finance flows towards institutional capacity support or technical assistance in its sectoral overview.[41] The OECD DAC explicitly includes activities of institution building, capacity development, strengthening the regulatory and policy framework, or research as principal or significant mitigation objectives, information, and knowledge generation to capacity development, planning, and the implementation of climate change adaptation actions as principal or significant adaptation objectives.[42]

The CPI Landscape suggest categorizing three different types of end-use investments, depending on the scope and national context. These include:

A. climate-specific (e.g., carbon sequestration) versus climate-related or climate-relevant (e.g., retrofits of transmission lines) activities;

B. tangible investments towards gross fixed capital formation (e.g., manufacturing of photovoltaics cells) versus intangible investments (e.g., campaigns, capacity building, and R&D); and

C. incremental cost reflecting additional expenditure rather than business-as-usual practices (e.g., additional cost of a high energy efficiency appliance compared to a standard one) versus total capital investment (e.g., total cost of a renewable energy installation).[43]

Approach adopted for the climate finance transparency guide

This review finds that only some of the international methodologies include additional information on the type of intervention financed that is not captured in specific sectoral activities already. A commonality among these methodologies is that they explicitly capture capacity and institution-building activities. Since a key objective of climate finance tracking for countries is reporting to the UNFCCC in the context of the ETF and considering that the CTF guidelines also reflect contributions to capacity building, this guide recommends countries to follow the UNFCCC guidelines:[44]

- Article 6 of the Paris Agreement, corresponding to the cooperative approaches that countries can use to achieve their climate goals
- Physical interventions
- Capacity building activities
- Technology development and transfer
- Support for the implementation of Article 13 of the Paris Agreement and transparency-related activities, including transparency-related capacity-building.

41 MDBs, Joint Report on Multilateral Development Banks' Climate Finance-2020, 2021, <https://thedocs.worldbank.org/en/doc/9234bfc633439d0172f6a6eb8df1b881-0020012021/original/2020-Joint-MDB-report-on-climate-finance-Report-final-web.pdf>, accessed 7 Oct 2024.

42 OECD, Climate Change: OECD DAC External Development Finance Statistics, 2021, https://web-archive.oecd.org/temp/2024-06-04/315401-climate-change.htm, accessed 14 April 2024

43 CPI, Global Landscape of Climate Finance 2023, 2023, <www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf>, accessed 7 Oct 2024.

44 UNFCCC, Modalities, Procedures and Guidelines for the Transparency Framework for Action and Support Referred to in Article 13 of the Paris Agreement, 2021, <www.unfccc.int/sites/default/files/resource/CMA2018_03a02E.pdf?download>, accessed 7 Oct 2024.

Parameter 6. Committed versus disbursed climate finance flows

Review of international practices

This review demonstrates that there is no universal best practice but that the existing methodologies differentiate between committed and disbursed climate finance flows. The CPI Landscapes emphasize that tracking disbursements is preferable to tracking commitments, as this will reflect the volume of climate finance flows more adequately.[45] However, both the CPI Landscapes[46] and the PCEIR methodology[47] highlight that data on commitments are more commonly available than data on disbursements, and the OECD DAC guidance states that data on climate-related development finance in the database are currently only available in the form of commitments.[48] Commitment data are also currently used for the OECD DAC database and MDB Joint Reporting.[49] Several CPI Landscapes are also based on commitment data and additionally track disbursements when available.

Approach adopted for the climate finance transparency guide

This review of international methodologies shows that tracking committed versus disbursed climate finance flows is not only a matter of ambition but also of data availability. Consequently, this guide recommends committed finance at first and advancement to disbursed finance if possible.

45 CPI, Global Landscape of Climate Finance 2023, 2023, <www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf>, accessed 7 Oct 2024.

46 Ibid., p. 8.

47 UNDP, Tracking Private Climate Finance Flows at the National Level, 2015, <https://procurement-notices.undp.org/view_file.cfm?doc_id=73261>, accessed 18 April 2024.

48 OECD, Climate Change: OECD DAC External Development Finance Statistics, 2021, https://web-archive.oecd.org/temp/2024-06-04/315401-climate-change.htm, accessed 14 April 2024.

49 MDBs, Joint Report on Multilateral Development Banks' Climate Finance-2020, 2021, <https://thedocs.worldbank.org/en/doc/9234bfc633439d0172f6a6eb8df1b881-0020012021/original/2020-Joint-MDB-report-on-climate-finance-Report-final-web.pdf>, accessed 7 Oct 2024.

Parameter 7. Frequency and timeframes of climate finance transparency

Review of international practices

The reviewed international methodologies do not offer much guidance on the frequency of conducting climate finance analyses, as this also depends on the respective country's capacities and objectives. A distinction is made between annual versus multiple-year approaches. The CPI Landscapes explains that while a multiple-year approach allows for a more comprehensive landscape as well as an overview on trends, it requires more efforts for data collection and reconciliation of inconsistencies across the years covered.[50]

Approach adopted for the climate finance transparency guide

As there is no universal best practice, this guide emphasizes the importance of implementing this framework in the context of international reporting requirements. Thus, to allow timely reporting of financial support received from developing countries under the ETF and to reflect the government budget execution cycle in countries, this guide recommends an annual or biennial frequency.

50 CPI, Global Landscape of Climate Finance 2023, 2023, <www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf>, accessed 7 Oct 2024.

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2. Institutional settings for climate finance data collection and MRV

Setting clear institutional arrangements for collecting climate finance data and conducting climate finance MRV is important for a government to allocate national resources in the most effective manner, avoiding overlapping responsibilities and facilitating collaboration between different ministries. There is no single institutional arrangement that fits universally. A tailored approach based on national context and particularities in governance structure is recommended. A country can build the optimal institutional settings for climate finance data collection and MRV by benchmarking other country situations.

Review of international practices

Two examples in different countries where the work of climate finance data collection and MRV is at an advanced level, Fiji and Indonesia, were reviewed in this guide and are summarized in the table below.

TABLE 26

International cases of institutional arrangements

Country	Institutional setting	Involved stakeholders	Roles and responsibilities	Legislation processes	Key takeaways
Fiji	i. The Fiji Ministry of Environment and Climate Change (MECC) is the National Designated Authority and serves as the fundamental intermediary and point of communication between stakeholders in Fiji and the GCF. ii. Currently, the NDA secretariat is facilitated and supported through the Department of Climate Change (DCC) under the MECC. The DCC is the national agency responsible for addressing climate change policy issues as well as coordinating international and national climate finance. Under the new Climate Finance Strategy, cross-sectoral collaboration was outlined to help coordinate action between stakeholders and development partners abroad. As a result, sectoral working groups (SWG) have been created.	1. **MECC** is the National Designated Authority and includes the Climate Change Division (CCD). 2. **Fiji Development Bank (FDB)** is the country's national direct access entity to the GCF. 3. **The Ministry of Agriculture, including the Ministry of Sugar Industry**, is responsible for prioritizing climate finance towards agricultural activities. 4. **Sugar Research Institute of Fiji (SRIF)** assigns stakeholders for improving the collection of microclimate data. 5. **The Greenhouse Gas Management Institute (GHGMI)** provides technical support to improve Fiji's MRV system in GHG inventories for the agricultural sector through Fiji's ICAT project. 6. **Secretariat of the Pacific Regional Environment Programme (SPREP)** is an additional accredited entity of the GCF that mobilizes climate finance in Fiji.	i. MECC, as the NDA, are responsible for overseeing tasks and ensuring a fully inclusive and transparent interface with stakeholders and project developers in the space. ii. DCC is held accountable for national climate change issues as well as coordinating national climate finance. iii. Both the MECC as the NDA and the DCC as the lead in climate change need to be updated and informed of ongoing developments in the scope of climate finance management.	Legislation for defining institutional responsibilities: Fiji enacted the Climate Change Act of 2021, aiming for the mainstreaming of a climate change agenda within all government sectors and promoting effective collaboration among ministries for data collection.[51]	With the recognition of the importance of cross-sector coordination and collaboration and its integration into the institutional arrangement, the Fiji government enacted the Climate Change Act of 2021. The Act facilitated the mainstreaming of climate change within all government sectors by designating focal points within each ministry. Under the Act, Fiji has established committees and councils to collate advice and recommendations from different stakeholders and operationalize the work, including GHG inventory and climate finance data collection and capacity building. For climate finance data, Fiji's MoF takes the lead in collecting and consolidating the information.

51 GHG Management Institute, Fiji Achieves Climate Change Act with ICAT support, 2022, <https://ghginstitute.org/2022/03/22/fiji-achieves-climate-change-act-with-icat-support/>, accessed 7 Oct 2024.

Country	Institutional setting	Involved stakeholders	Roles and responsibilities	Legislation processes	Key takeaways
Indonesia	i. The National Council on Climate Change (NCCC), also known as DNPI, was established by the President to "formulate strategies, programmes, and activities on climate change," to be the coordination function in the implementation of control tasks of climate change activities, and to carry out the monitoring and evaluation of policy implementation. The DNP's operation and staffing were initially funded by the MoE; however, it is currently placed under the coordinating minister for Public Welfare. The MoF houses the Fiscal Policy Agency (Badan Kebijakan Fiskal), which serves as Indonesia's National NDA to the GCF. Also situated in the MoF, the PKPPIM serves as the NDA Secretariat. The Directorate of Environment under BAPPENAS includes the Sub-Directorate of Weather and Climate, who are responsible for the implementation and analysis of policy related to the development of finance planning in climate and weather.	1. **Ministry of Finance (MoF)** 2. The Center for Climate Change Financing and Multilateral Policy (PKPPIM) as NDA Secretariat 3. **Fiscal Policy Agency** 4. Badan Kebijakan Fiskal (BKF) as NDA Body 5. **The Indonesia Climate Change Trust Fund (ICCTF)** 6. **Ministry of National Development Planning (BAPPENAS)** 7. **Ministry of Environment (MoE)** 8. **National Council on Climate Change (NCCC)** 9. **The Indonesian Financial Services Authority (OJK)** 10. **Global Environment Facility (GEF)**	i. The NCCC or 'DNP' is responsible for monitoring and evaluating policy implementation on climate change ii. The Department of BAPPENAS is accountable for tasks related to climate change as they lead the development of Indonesia's emissions reduction target. iii. The MoF is responsible for giving recommendations and providing input during the decision-making process. iv. The ICCTF are responsible for enhancing the effectiveness of delivery of climate finance, ultimately channeling both national and international grants. The ICCTF is managed by Bank Mandiri, which is partially owned by the government of Indonesia.	The Indonesian Financial Services Authority (OJK) is a financial institution that is becoming the regulatory body in Indonesia, as it has the mandate to develop national bank lending policies that could shift credits to sectors where climate investments are necessary.	Indonesia has a solid arrangement in place to manage climate finance tracking. As both the NCCC and BAPPENAS have overlapping responsibilities in formulating strategies on climate change at the national level, it is important that they outline who the primary lead is in this capacity.

Approach adopted for climate finance transparency guide

With the aim of facilitating a country's establishment of institutional settings, the indicative flowchart that includes workflows, roles, and responsibilities for climate data collection and MRV is provided Appendix A: Flowchart and institutional settings for climate finance data collection and MRV. It is expected that the default flowchart can be a useful tool, mainly for countries where role division and institutional readiness for data collection and MRV are in early stages.

3. Ex-ante climate finance needs assessment

Mitigation costs refer to costs needed for decreasing the amount of emissions released into the atmosphere and enhancing sinks. Adaptation costs refer to costs of adjustments in ecological, social, or economic systems in response to actual or expected climatic stimuli and their effects. The costs required for changes in processes, practices, and structures to moderate potential damages or to benefit from opportunities associated with climate change are part of adaptation costs.[52] Adaptation actions and solutions vary by local circumstances, as opposed to international agreements or national public policies, which leads to a variety of adaptation costs that depend on affected entities, both locally and nationally.[53]

This guide, therefore, focuses on collecting international methodologies and approaches for NDC costs regarding climate mitigation and adaptation options.

Review of international practices

The Greenhouse Gas Abatement Cost Model (GACMO) 2.0[54]

GACMO is a GHG emissions projections tool developed by UNEP Copenhagen Climate Centre. The Excel-based tool was developed to support countries in estimating GHG abatement costs, as well as in evaluating the GHG emissions impact of different mitigation options. The embedded formulas and data in the tool were developed using mitigation methodologies, and the project was implemented under the Clean Development Mechanism and the emissions factors from the IPCC guidelines.

Using the GACMO tool, countries can establish two scenarios: 1) a baseline scenario of GHG emissions and 2) a GHG emissions mitigation scenario. The established scenarios allow countries to obtain 1) the estimation of the investment cost and implementation cost of each mitigation option and 2) a marginal abatement revenue curve. The categories—classified as per the IPCC—covered in the model for CO2 emissions are energy production, final consumption (industry, transport), households, services, agriculture and fishery, and non-energy uses, and 115 mitigation options are included.

NDC Investment Planning Guide and Checklist[55]

The NDC Investment Planning Guide and Checklist developed by the NDC Partnership is designed to support countries in their NDC investment planning process.

This step-by-step guide provides tailored methodologies and tools to fit countries' different fiscal circumstances, ambition, and capabilities. The structure of the guide is organized into three main stages—1) cross-cutting investment planning capacity, 2) investment needs identification and prioritization, and 3) investment mobilization. This is followed by a checklist developed to facilitate countries' NDC investment plan developments.

Other international practices of the NDC finance needs assessments and references are summarized in the table below.

52 IPCC, Inter-relations used the terms defined in the website of UNFCCC.

53 ibid

54 UNEPCCC, Implementing Nationally Determined Contributions (NDCs), 2020, <https:/unepccc.org/wp-content/uploads/2020/03/implementing-ndcs-report.pdf>, accessed 7 Oct 2024.

55 NDC Partnership, NDC Investment Planning Guide and Checklist, 2023, <https://ndcpartnership.org/sites/default/files/2023-09/ndc-investment-planning-guide.pdf>, accessed 7 Oct 2024.

TABLE 27

Reference for finance needs assessment for NDC

Category	Sector	Organization	Organization category	Publication name	Year	Country
International and sector-specific methodologies						
All	All	UNEP	IO	GHG Abatement Cost Model (GACMO)	2020	
Mitigation	Energy	International Energy Agency (IEA)	IO	IEA Cost of Capital Observatory Data Explorer	2022	
Mitigation	Energy	International Renewable Energy Association	IO	Renewable Power Generation Costs in 2021		
Mitigation	Energy	National Renewable Energy Laboratory	IO	Levelized Cost of Energy Calculator	NA	
Mitigation	Energy	Analytical Services	Private sector	Pathways to Net Zero: The Impact of Clean Energy Research	2021	
Mitigation	Energy	CIRED-CNRS – International Research Center on Environment and Development	Academia	Energy efficiency policies and the timing of action: An assessment of climate mitigation costs	2014	
Mitigation	Energy (Hydrogen)	IEA	IO	The Future of Hydrogen	2021	
Mitigation	Energy (CCUS)	McKinsey	Private sector	Pathways to a Low-Carbon Economy Version 2 of the Global Greenhouse Gas Abatement Cost Curve	2009	

Category	Sector	Organization	Organization category	Publication name	Year	Country
Mitigation	Agriculture	De Laporte et al.,	Academia	Costs and Benefits of Effective and Implementable On-Farm Beneficial Management Practices that Reduce Greenhouse Gases	2021	
Mitigation	Land-Use Change and Forestry	World Agroforestry Centre (ICRAF)	IO	Reducing Emissions from Deforestation and Forest Degradation ABACUS software	2012	
Adaptation	All	FAO	IO	Cost and Benefit Analysis		
Adaptation	All	UNEP	IO	Adaptation Gap Report 2021	2021	Developing countries
Adaptation	All	UNEP	IO	Incremental costing approach: General approaches to determining the cost of implementing Nationally Determined Contributions		
Adaptation	All	GIZ	IO	Economic approaches for assessing climate change adaptation options under uncertainty	2013	
Adaptation	Coastal	University of Sydney	Academia	The Effectiveness, Costs and Coastal Protection Benefits of Natural and Nature-Based Defences	2016	
Adaptation	All	AfDB	IO	Analysis of Adaptation Components of Africa's Determined Contributions	2019	

Category	Sector	Organization	Organization category	Publication name	Year	Country
Country-specific cases						
Mitigation	Transport, Energy, Residential and Commercial, Oil and Gas, Industry, Agriculture, Solid waste, Land Use, Land-use Change and Forestry	National Institute of Ecology and Climate Change (INECC) and Environmental Ministry (SEMARNAT)	Government	NDC Implementation in Mexico: Identification and Costing of Feasible Mitigation Measures	NA	Mexico
Mitigation	Energy, Waste, Agriculture, Forestry and Other Land Use, Industrial Products and Product Use	Commonwealth	IO	Climate Finance Mapping for NDC Implementation in Zambia	2021	Zambia
Mitigation	Agriculture, Forestry and Other Land Use	Consultative Group for International Agricultural Research	Academia	Reviewing Vietnam's Nationally Determined Contribution: A New Perspective Using the Marginal Cost of Abatement	2019	Vietnam
Mitigation	All	Multi-Actor Partnerships for 100% Renewable Energy	Project	Rolling out of Nepal's second NDC through the federal budget: Good programmes but not enough funding	2021	Nepal
Mitigation and Adaptation	All	Conservation International, EU-Liberia Climate Change Alliance+, UNDP	IO	Joint Analysis of Existing and Proposed Sectors for Updating Liberia's Nationally Determined Contribution (Draft for consultation)	2020	Liberia

Approach adopted for the climate finance transparency guide

Approaches and methodologies for estimating the costs of NDCs vary by countries' data availability and capability. The cost for climate mitigation and adaptation actions has a high variation per country based on the level of maturity of market and technology development. Hence, the guide provides a list of technology options related to climate mitigation per sector and identifies key factors to determine the cost per each technology option.

Among the references presented above, the GACMO and IEA data are used as the core references to develop the general information sheet for abatement cost estimation. Table 27 can be beneficial mainly for countries with no or limited experience in conducting NDC costs, providing useful information for estimating rough approximations of NDC implementation costs.

In complexity levels 2 and 3, countries can also refer to the methodologies of other countries and organizations when further calibrating their NDC expenses.

4. Ex-post tracking of historic climate finance flows

Context of measurement, reporting, and verification (MRV)

MRV refers to the processes of providing, examining, and assessing factual information to evaluate whether and to what degree goals and targets have been achieved.[56] In the context of climate finance, MRV aims to increase transparency on climate finance flows and goals to answer the overarching question regarding whether climate finance meets mitigation and adaptation goals.

TABLE 28

Operationalized MRV of climate finance, provided from international sources as financial support.
Source: WRI87.

Measurement	Reporting	Verification
Measuring data on support (climate finance) for climate change mitigation and adaptation provided to developing countries.	Compiling and reporting this information in standardized formats (CTF) and making it accessible to users (submitting to the UNFCCC in line with the ETF, if possible, in conjunction to the BTR).	Conducting (independent) reviews and analyses of the information to establish completeness and reliability, as well as to ensure and improve accuracy over time.

The supporting MRV is operationalized through the ETF, which establishes reporting frameworks on financial support, technology transfer, and capacity building. Under the ETF, transparency regarding support will be achieved from two angles. On one hand, developed countries should report on the financial support and technology transfer in which capacity building has been provided to developing countries. This language implies mandatory reporting requirements for developed countries. On the other hand, developing countries should report on the financial support, technology transfer, and capacity building needed, as well as received from developed countries. While developing countries are not obliged to report this information, they are encouraged to do so, especially for being able to collectively hold developed countries accountable to deliver on their climate finance promises.

Both developed and developing countries should undertake reporting using specific reporting formats, which are the CTFs.

56 Mucci, Melissa., Measurement, Reporting and Verification: A note on the concept with an annotated bibliography, 2012, <www.iisd.org/system/files/publications/mrv_bibliography.pdf>, accessed 7 Oct 2024.

BOX 13

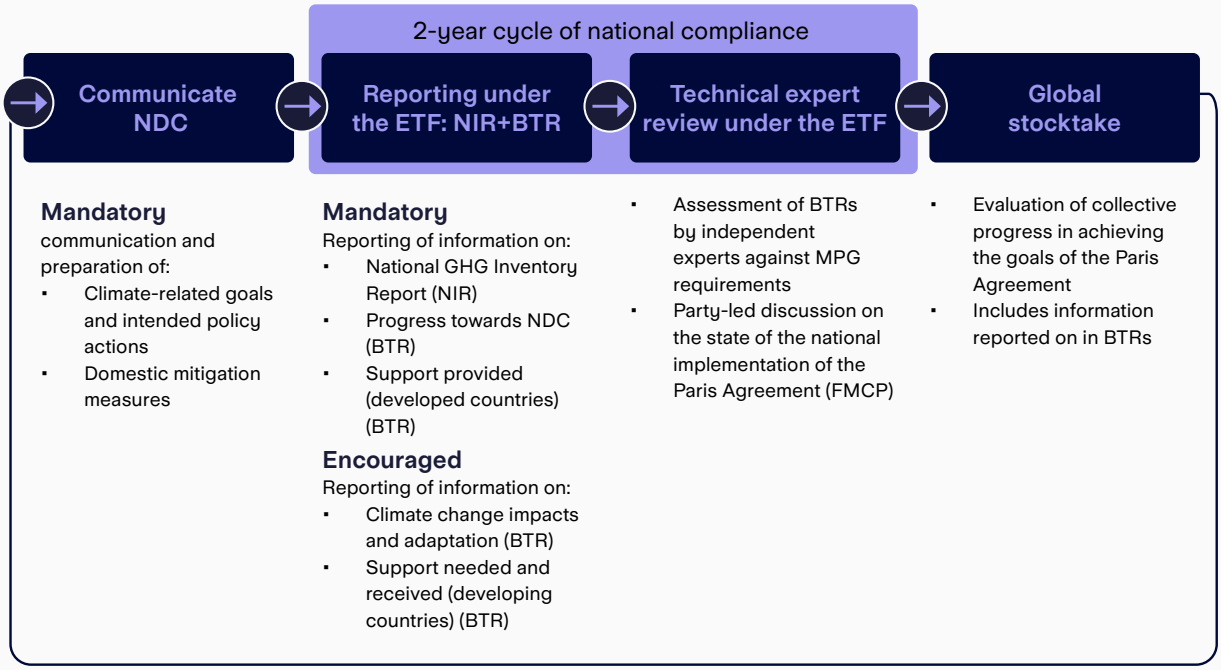
Timelines and formal review under the ETF

Function of the ETF in the larger governance arrangements of the Paris Agreement

The ETF operationalizes MRV for climate mitigation and adaptation action and international support (financial support, technology transfer, and capacity building) through establishing reporting requirements, timeframes, and review processes **(Figure 14, 2-year cycle)**. At the same time, the ETF provides information to the global ambition-setting and 'ratcheting' mechanism that is central to the logic of the Paris Agreement regarding building on voluntary, bottom-up processes, and collectively increasing ambition over time **(Figure 16, 5-year cycle).**

FIGURE 14

Role, function, and requirements of the ETF in the Paris Agreement. **Source:** UNFCCC[57].



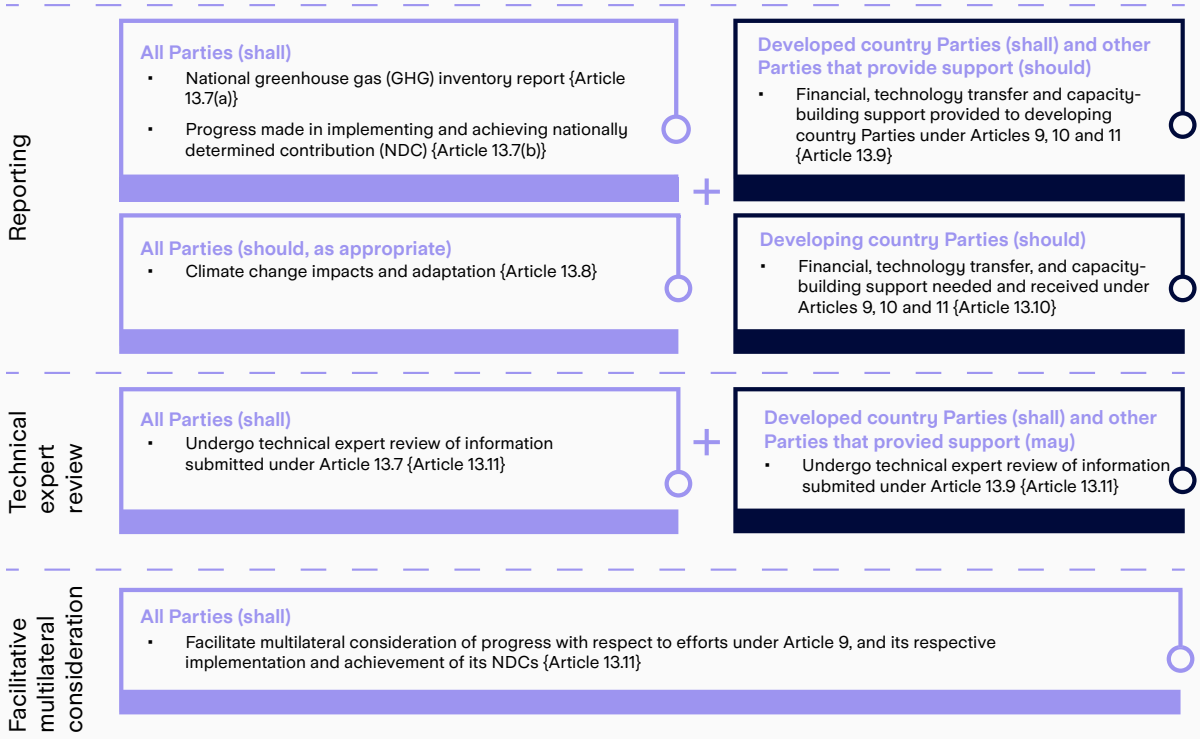
While both developed and developing country Parties had reporting requirements under the MRV provisions of the UNFCCC, the previous framework set out different reporting requirements and vehicles. The ETF now levels the playing field between developed and developing countries by establishing a common set of guidelines for all countries, while providing flexibility to developing countries as needed

57 UNFCCC, Reference Manual for the Enhanced Transparency Framework under the Paris Agreement, 2022, <www.unfccc.int/sites/default/files/resource/v2_ETFreferencemanual.pdf>, accessed 7 Oct 2024.

(see Figure 15 below).[58] All countries must prepare a National GHG Inventory Report (NIR) and report their progress made in implementing and achieving their NDCs through a BTR.[59] At the same time, the ETF reflects the principle of common but differentiated responsibilities and respective capacities in light of different national circumstances. Therefore, flexibility is granted to developing countries. While developed countries must report on the financial, technology transfer, and capacity support provided (the information 'shall' be reported), developing country Parties are encouraged to report on the financial, technology transfer, and capacity support needed and received (the information 'should' be reported).[60]

FIGURE 15

Differential reporting requirements for Country Parties under the Enhanced Transparency Framework for action and support as established by Article 13. **Source:** UNFCCC[61].



58 WRI, Navigating the Paris Rulebook: Enhanced Transparency Framework, <www.wri.org/paris-rulebook/enhanced-transparency-framework>, accessed 7 Oct 2024.

59 UNFCCC, Technical handbook for developing country Parties on preparing for implementation of the enhanced transparency framework under the Paris Agreement, 2023, <www.unfccc.int/sites/default/files/resource/ETF_technical%20handbook_First%20Edition.pdf>, accessed 7 Oct 2024.

60 Ibid

61 Ibid

Timeline and intervals of reporting under the ETF

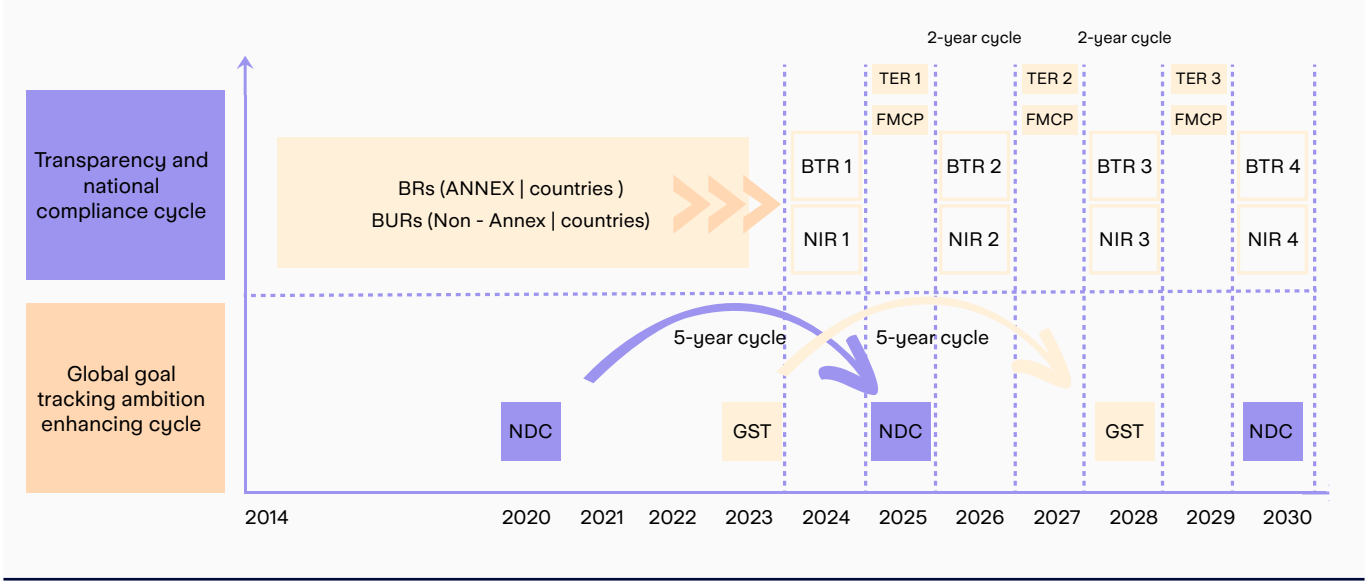
The ETF establishes that Signatory Parties need to prepare and submit both NIRs and BTRs on a biennial basis to drive transparency on global progress in climate action and support. The first BTR must be submitted on 31 December 2024 at the latest. From this point on, the BTR supersedes the existing transparency provisions, meaning BRs to be submitted by Annex I countries and the Biennial Update Reports to be submitted by non-Annex I countries.[62]

Review process under the ETF

After submitting the NIR and BTR, these reports undergo a two-stage process of technical expert review and facilitative, multilateral consideration of progress (FMCP) in the year following the submission deadline. This review process ensures the integrity of the transparency framework. First, the TER assesses whether the information reported by countries is in accordance with the MPGs. The technical experts document their findings regarding the countries' compliance with the reporting requirements and improvement measures in a review report. Second, a country-led public discussion considers the review report and additional information on the status of national implementation of the Paris Agreement called the FMCP. [63] The entire process of reporting (NIR and BTR) and reviewing (TER and FMCP) takes place over the course of a two-year cycle (see Figure 16).

FIGURE 16

Timeline of the New Transparency Cycle under the ETF and the Global Ambition Cycle under the Paris Agreement. **Source:** UNFCCC[64] and CBIT-ICAT[65].



62 Ibid., p. 9.

63 Ibid., p. 15.

64 UNFCCC, Reference Manual for the Enhanced Transparency Framework under the Paris Agreement, 2022, <www.unfccc.int/sites/default/files/resource/v2_ETFreferencemanual.pdf>, accessed 7 Oct 2024.

65 ICAT, Unfolding the reporting requirements for Developing Countries under the Paris Agreement's Enhanced Transparency Framework, ICAT and UNEP DTU Partnership, Copenhagen, 2019, <www.climateactiontransparency.org/wp-content/uploads/2019/11/ICAT-MPGs-publication-final.pdf>, accessed 7 Oct 2024.

Climate finance tracking methodologies

To achieve transparency on climate finance (both domestic and international) from an ex-post perspective, multiple international organizations have developed climate finance tracking methodologies.

Review of international practices

The most used climate finance tracking methodologies are summarized below. These methodologies are subsequently reviewed and compared in relevant aspects in the following sections, which then provide the basis for the development of this climate finance transparency guide.

- **Rio Markers:**[66] The OECD DAC Rio Markers gather data on official development assistance (ODA) to developing countries on an annual basis. Since 1998, the DAC has monitored development finance flows targeting the objectives of the Rio Conventions on biodiversity, climate change mitigation, and desertification using the Rio Markers. Since 2010, the climate change relevance of development finance flows has been extended to adaptation-related climate finance, alongside mitigation-related finance. The latest update of the methodology tool took place in 2017.

- **CPI Landscape:**[67] Since 2011, the CPI, a US-based think tank, has been publishing its Global Landscape of Climate Finance report. This reporting series captures available data, primarily on finance supporting GHG emissions reductions and climate resilience activities. The Global Landscape consolidates data from a wide range of primary and secondary sources and covers flow from both industrialized and developing countries. Along with the Global Landscape, the methodology can also be applied to national landscapes of climate finance.

- **Climate Public Expenditure and Institutional Review (CPEIR):**[68] CPEIR is a qualitative and quantitative analysis tool to assess climate-related public expenditures. However, the Climate Public Expenditure Analysis presents only one pillar of the methodology. The overarching analytical framework also includes a Policy Analysis (consisting of a review of climate policy framework) and an Institutional Analysis (consisting of an analysis of the roles and responsibilities of institutions and their capacities in formulating, implementing, and coordinating climate responses). Since its first introduction in Nepal in 2011, CPEIRs have been conducted in various countries to date, mainly in the Asia-Pacific region, followed by Latin America and Africa. The overall structure aims at not only building country-operated transparency schemes but also external technical support from the UNDP and other development partners conducting the CPEIR.

- **Private Sector Climate Expenditure Review (PCEIR):**[69] Following the inception of the CPEIR methodology in 2011, in 2015, the UNDP developed the PCEIR to provide guidance for developing countries interested in designing and/or enhancing integrated public and private expenditure reporting and planning systems. Efforts have also been made to align this methodology with existing UNDP tracking approaches (e.g., the CPEIR) by anchoring the process in the potential leverage effects of public policy and incentive frameworks.

66 OECD, Climate Change: OECD DAC External Development Finance Statistics, 2021, https://web-archive.oecd.org/temp/2024-06-04/315401-climate-change.htm, accessed 14 April 2024.

67 CPI, Global Landscape of Climate Finance 2023, 2023, <www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf>, accessed 7 Oct 2024.

68 UNDP, Methodological Guidebook, Climate Public Expenditure and Institutional Review, 2015, <www.undp.org/asia-pacific/publications/methodological-guidebook-climate-public-expenditure-and-institutional-review-cpeir>, accessed 18 April 2024.

69 UNDP, Tracking Private Climate Finance Flows at the National Level, 2015, <https://procurement-notices.undp.org/view_file.cfm?doc_id=73261>, accessed 18 April 2024.

- **Climate Budget Tagging (CBT):**[70] Developed by the World Bank in 2012, CBT presents a tool to identify, classify, weight, and mark climate-relevant expenditures in governments' budget systems. The methodology aims to support governments in building systems for tracking the cross-cutting goals of mitigation and adaptation. These often-present challenges to traditional public budgeting, as dominant classifications are organizational, economic, and programmatic. CBT aims to overcome these challenges. It is built on the experience from other thematic budget measurement tools—for example, for gender or poverty reduction.

- **Multilateral Development Bank (MDB) Methodologies:**[71] The Joint Report on Multilateral Development Banks' Climate Finance is an annual collaboration to publish MDB climate finance figures together with a clear explanation of the methodologies for tracking this finance. A group of MDBs (AfDB, ADB, EBRD, EIB, IDB, World Bank, and IFC) agreed to adopt a common approach to tracking climate finance to facilitate transparent reporting and discussions. The joint reporting has been taking place since 2011.

Method for data collection and management

Review of international practices

The review finds that the CPI Landscapes and the CPEIR and PCEIR methodologies provide guidance on data collection for climate finance tracking. The OECD DAC and MDB Joint Report do not include information on data collection that could be useful to individual countries. While the MDB Joint Report draws data directly from the multilateral development banks' records, the OECD DAC methodology focuses on the classification and weighting of ODA flows using the so-called Rio Markers.

Whereas the CPI Landscapes[72] and the CPEIR[73] and PCEIR[74] methodologies use various kinds of data for their climate finance tracking, their data collection processes are similar. The common steps in the respective data collection processes are the following:

1. Identification of sources
2. Accessing sources
3. Identification of relevant financial flows/data points within data sources

70 UNDP, Knowing What You Spend: A guidance note for governments to track climate change finance in their budgets, 2019, <www.undp.org/publications/knowing-what-you-spend-guidance-note-governments-track-climate-change-finance-their-budgets>, accessed 7 Oct 2024.

71 MDBs, Joint Report on Multilateral Development Banks' Climate Finance-2020, 2021, <https://thedocs.worldbank.org/en/doc/9234bfc633439d0172f6a6eb8d-f1b881-0020012021/original/2020-Joint-MDB-report-on-climate-finance-Report-final-web.pdf>, accessed 7 Oct 2024.

72 CPI, Global Landscape of Climate Finance 2023, 2023, <www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf>, accessed 7 Oct 2024.

73 UNDP, Methodological Guidebook, Climate Public Expenditure and Institutional Review, 2015, <www.undp.org/asia-pacific/publications/methodological-guidebook-climate-public-expenditure-and-institutional-review-cpeir>, accessed 18 April 2024.

74 UNDP, Tracking Private Climate Finance Flows at the National Level, 2015, <https://procurement-notices.undp.org/view_file.cfm?doc_id=73261>, accessed 18 April 2024.

Another commonality between CPI Landscapes and the CPEIR methodologies is the recommendation for the involvement of experts (such as colleagues in ministries of finance and environment, sectoral experts, etc.) in the data collection process—for example, for identifying relevant national budget expenditure codes and externally-funded programmes,[75] relevant projects, or datasets.[76] It is further recommended to involve experts in later stages too, such as classifying and weighting climate finance flows, as well as validating this data.

Approach adopted for the climate finance transparency guide

Following the review of international methodologies, this guide adopts the common steps in the data collection process as identified above. The data collection usually follows these steps:

1. Identification of sources
2. Accessing sources
3. Identification of relevant financial flows/data points within data sources
4. Verification of data through an expert consultation process.

Photo by John Rae from © UNOPS

75 UNDP, Methodological Guidebook, Climate Public Expenditure and Institutional Review, 2015, <www.undp.org/asia-pacific/publications/methodological-guidebook-climate-public-expenditure-and-institutional-review-cpeir>, accessed 18 April 2024.

76 CPI, Global Landscape of Climate Finance 2023, 2023, <www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf>, accessed 7 Oct 2024.

Classifying and weighting climate finance flows

Classifying climate finance flows

Review of international practices

This review finds that while most international best practice methods for climate finance tracking provide definitions and examples for projects/programmes with mitigation and adaptation objectives, only a few of them offer concrete guidance on classifying finance flows.[77] Among these, the review identified two main approaches for classification: using categorical indicators to reflect the proportional contribution of a programme for mitigation and adaptation (OECD DAC Rio Markers) or determining the exact proportions at the activity level (MDB Joint Reporting).

Approach adopted for the climate finance transparency guide

Following the review of international methodologies, this guide offers two approaches for classifying climate finance flows as mitigation and/or adaptation.

The first approach, which is the recommended approach for countries with limited resources and experience in climate finance tracking, is identical to the OECD DAC Rio Markers. This approach allows for assigning a maximum of two score points, as based on the Rio Markers, for determining the climate relevance. Depending on the respective programme/project, this maximum of two score points may be allocated to either mitigation or adaptation benefits or distributed equally between mitigation and adaptation benefits.[78]

The second approach follows the methodology as set out in the MDB Joint Reporting. It estimates the precise percentage contribution of programmes to mitigation and adaptation, which is done at the activity level. As such, it requires not only availability of detailed project descriptions and objectives[79] but also more extensive review processes. Therefore, this guide recommends this approach only for countries endowed with sufficient resources and experience in climate finance tracking.

Weighting climate relevance

Review of international practices

The review identified the use of markers or indicators to determine the climate relevance of financial flows towards programmes/projects or activities as the most used international best practice. Several international methodologies, including the OECD DAC, CPEIR, and CBT, established their own systems based on markers. And other methodologies, CPI Landscapes and PCEIR among them, refer to these marker systems for determining climate relevance.

Other practices, such as the use of benefit-cost ratios, for determining climate relevance exist.[80] However, these are less common, as they face several challenges such as data availability, capacity constraints, and the complexity of the analysis requiring the engagement of experts.

77 Some of the reviewed methodologies provide examples of classification, as in, for example, the CPI Landscapes and the OECD DAC Rio Markers.

78 For an indicative list of programmes to offer guidance on likely classification as mitigation and/or adaptation objectives, as well as likely climate relevance of different programmes (OECD, p. 11).

79 For a short discussion on this, please refer to also CPI, 2021, p. 15.

80 CPEIR and CBT methodologies

TABLE 29

Comparison of weighting approaches across international best practice methodologies for climate finance tracking

International methodology	Markers	Weight	Criteria and definitions for markers
OECD DAC Rio Markers[81]	Principal objective (score 2)	100%	The objective (climate change mitigation or adaptation) is explicitly stated as fundamental in the design of, or the motivation for, the activity.
	Significant objective (score 1)	30%-100%	The objective is explicitly stated, but it is not the fundamental driver or motivation for the activity. Countries apply different percentages.[82] The UK and USA use their own methods differentiated by the project.
	No targeted objectives (score 0)	0%	Neither mitigation or adaptation objectives are addressed by the activity.
CPEIR[83]	High relevance	>75%	Clear primary objective of delivering specific outcomes that improve climate resilience or contribute to mitigation.
	Medium relevance	50%–74%	Either (i) secondary objectives related to building climate resilience or contributing to mitigation, or (ii) mixed programmes with a range of activities that are not easily separated but include at least some that promote climate resilience or mitigation.
	Low relevance	25%–49%	Activities that display attributes where indirect adaptation and mitigation benefits may arise.
	Marginal relevanc	<25%	Activities that have only very indirect and theoretical links to climate resilience.
CBT[84]	High relevance	100%	CBT does not prescribe fixed percentage weights or a fixed number of markers. The percentage weights presented in the column to the left reflect applications in Ghana and Bangladesh. However, applications in other countries can differ with regards to the specific percentage breaks and number of markers used.
	Medium relevance	50% or 60%	
	Low relevance	20% or 30%	

Approach adopted for the climate finance transparency guide

The guide follows the international best practice of using categorical markers to determine the climate relevance of programmes/projects and related financial flows, as well as to assign percentage weights. Specifically, this guide recommends using a weighting in a style similar to the CPEIR classification, applying for four levels of weights: 100 per cent, 50 per cent, 25 per cent, and 0 per cent.

81 OECD, Climate Change: OECD DAC External Development Finance Statistics, 2021, https://web-archive.oecd.org/temp/2024-06-04/315401-climate-change.htm, accessed 14 April 2024.

82 For a comparative overview, Kowalzig and Zagema, 2020; Oxfam International, p. 13.

83 For an indicative list of activities per marker / weighting, UNDP, 2015, p. 31.

84 Various examples of applications in different countries mentioned in UNDP, 2019, p. 27, 65–71.

Annex 1. IPCC's tier approach

According to the IPCC definition, 'tier' means the overall complexity of a methodology and its data requirements. Higher-tier (i.e., Tier 3) methods are generally more complex and data-intensive than lower-tier (i.e., Tier 1 and Tier 2) methods. The determination of the tier level to be applied is based on national circumstances. Lower-tier methods are applied for countries where activity data, emission factors, or other parameters are not available and are considered acceptable for categories for which emissions/removals are not key to the national economy.

- **Tier 1 methods** are applicable for countries where detailed country-specific data are lacking. Use a global default value for the emission factors and other parameters. The guidance for each category is provided for Tier 1 methods.
- **Tier 2 methods** allow for more flexibility for countries in terms of country-specific emissions factors and activity data while complying with the same methodological approach as Tier 1.
- **Tier 3** is a more complex method, allowing a greater level of flexibility in terms of country-specific methods, including modelling and measuring approaches. This method allows for a higher level of disaggregation.

Annex 2. Ex-ante and ex-post perspectives

The concrete objectives for each perspective on climate finance transparency, as well as the comparison of the two perspectives, are summarized in the table below.

TABLE 30

Objectives of climate finance transparency under the ex-ante and the ex-post perspectives

Ex-ante perspective	Ex-post perspective
▪ Supporting countries in quantitatively assessing the costs of their mitigation and adaptation actions—for example, the implementation costs of their NDCs and LTS ▪ Supporting countries in identifying eligibility for international funds and quantitatively assessing projected climate finance flows, including additional sources in the national landscape	▪ Supporting countries in quantitatively assessing the allocation of public spending on climate-related activities to check the effectiveness and impact of climate finance ▪ Supporting countries in reporting their financial support received from international donors and investors to the UNFCCC to comply with the ETF

Bringing these two transparency perspectives together, thereby aligning climate finance needs with climate finance available to a country, is important when developing national climate finance strategies and policies that facilitate ambitious sustainable actions.

Specifically, comparing the ex-ante and ex-post perspective serves the following objectives:

- Enabling countries to quantitatively identify gaps between the costs of their NDC or LTS and their current climate finance landscape
- Helping countries in reporting their financial support needed (resulting from the gap analysis) from international donors and to the UNFCCC to comply with the ETF
- Supporting countries to use these transparency insights to facilitate the mobilization of additional resources from international, public, and private sources
- Enabling countries to use transparency insights to manage domestic resources effectively

Annex 3. ETF and INFF

ETF: Paris Agreement Article 13

Reporting financial support needed and received to the international community is among the key objectives for countries to enhance climate finance transparency. Therefore, an overarching consideration for developing this guide is to ensure compatibility with the ETF, which establishes requirements, formats, and timeframes for reporting on action and support. For more information of the goals and objectives regarding the ETF, please refer to Box 14 and Figure 17.

Given the relevance of ETF, this guide considers three dimensions for compatibility of the climate finance transparency cycle as outlined in this guide and the reporting requirements under the ETF:

1. the type of information
2. the format of data
3. formal processes and timelines of reporting

BOX 14

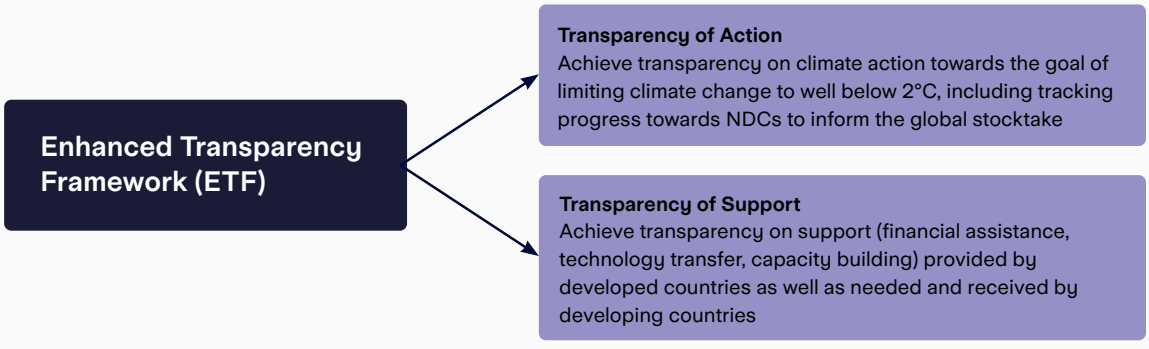
Goals and objectives of the Enhanced Transparency Framework (ETF) [85]

The Paris Agreement builds on a bottom-up process for achieving the global goal of limiting climate change to well below 2°C of global warming. Signatory Parties communicate their ambitions, contributions, and needs through submitting and updating their NDCs. Transparency is needed to assess national progress in NDC implementation regarding mitigation and adaptation impacts, as well as collective progress towards the global goal. To ensure transparency regarding the progress on climate action, the Paris Agreement establishes the ETF as defined in Article 13.

In addition to achieving transparency within climate action, the ETF also enhances transparency for the support provided from developed countries and the support needed and received by developing countries. This includes financial support, technology transfer, and capacity building in the context of mitigation and adaptation (see Figure 14).

FIGURE 17

Transparency goals of the Enhanced Transparency Framework



85 UNFCCC, Reference Manual for the Enhanced Transparency Framework under the Paris Agreement, 2022, <www.unfccc.int/sites/default/files/resource/v2_ETFreferencemanual.pdf>, accessed 7 Oct 2024.

Approach adopted for the climate finance transparency guide

Specifically, the guide ensures that (i) the scope of the climate finance transparency framework covers all relevant information for filling out the CTF, which is the reporting format mandated by the ETF, on the financial support needed and received (Box 13). This is reflected in the climate finance parameters defined during the inception stage of the framework.

In addition, this guide ensures that (ii) the collected data comes in the correct format for reporting under the ETF and through providing tools that allow for presenting the climate finance data aligned with the CTF. Last, this guide provides (iii) the formal processes and timelines for reporting the financial support needed and received to the ETF.

Integrated National Financing Framework (INFF)

INFF was developed by the Inter-Agency Task Force on Financing for Development to help countries—specifically the ones in the process of the national implementation of the Addis Ababa Agenda—establish national planning, including appropriate financing strategies on the road to long-term sustainable development. The following box summarizes the main structure of the framework.

BOX 15

INFF

Countries used the INFF when implementing the Addis Ababa Action Agenda (Addis Agenda)[86] that was adopted by world leaders at the United Nations' Third International Conference on Financing for Development in 2015.

The framework, consisting of the inception phase and four building blocks, supported countries in strengthening national planning and identifying appropriate financing strategies, including policies and instruments, with the consideration of national long-term sustainable development strategies and priorities.

Inception phase components:

I. **Assessing:** analyze the financing landscape.
II. **Scoping:** gather all available information related to four building blocks
III. **Institutionalizing INFF working structures:** establish a central oversight body that governs the INFF development.
IV. **Setting an INFF road map:** establish next steps for operationalizing the INFF based on the consensus among committee members.

Four building blocks

i. **Assessments and diagnostics:** as a starting point for creating a baseline, this step helps develop an integrated financing strategy with the understanding of finance gaps, key risks, bottlenecks, and potential gaps in existing MRV mechanisms.
ii. **Financing strategy required for achieving national sustainable development objectives:** this block entails actions required for financing development strategies and aligning and mobilizing financing with national priorities.
iii. **Monitoring and review:** by identifying available data sources and mapping existing data systems, monitoring frameworks, and mechanisms, this process provides a basis for transparent dialogue among relevant stakeholders.
iv. **Governance and coordination:** enhance the effectiveness of the framework and its implementation while facilitating intra-governmental and multi-stakeholder coordination.

Approach adopted for the climate finance transparency guide

The INFF includes a broader range of coverage (i.e., financing for achieving SDG goals). While benchmarking the INFF approach, this guide selects and rearranges the elements that are related to ex-ante and ex-post climate finance tracking methodologies. As the guide is compatible with the INFF, countries that have already applied to the INFF for existing national climate frameworks could easily use the guide for the development of the climate finance framework.

86 The Addis Ababa Action Agenda was adopted at the Third International Conference on Financing for Development (Addis Ababa, Ethiopia, 13–16 July 2015) and subsequently endorsed by the UN General Assembly in its resolution 69/313 of 27 July 2015. The Action Agenda establishes a strong foundation to support the implementation of the 2030 Agenda for Sustainable Development. It provides a new global framework for financing sustainable development by aligning all financing flows and policies with economic, social and environmental priorities (United Nations, 2015).

Annex 4. Overview of data sources on international climate finance

This provides an overview of publicly available data sources on international climate finance, (e.g., OECD DAC Statistics on Development Finance for Climate and Environment, BRs, and BTRs of developed countries under the UNFCCC, and independent databases such as Climate Funds Update), explaining what information is available and how it can be used for data collection and verification purposes.

There are different publicly available international data sources countries can use to complement Steps 14 and 16 of this guide, particularly if their ability to cover data sources is limited to Level 1.

Countries should choose the data sources related to their information needs and data gaps. While those data sources are helpful in complementing on-budget data with international climate finance flows and for verifying collected data, there are limitations: these data sources are capturing all climate finance flows, and they consider similar reporting standards and characteristics as defined by the respective countries. The following table presents a selection of mature and easy-to-access, publicly available data sources.

TABLE 31

Data sources to complement climate finance data

Data source	What kind of data is provided?	How can the data be used for climate finance transparency?
OECD DAC External Development Finance Statistics: Climate-related development finance[87]	The OECD DAC Statistics database is one of the most used databases for climate finance transparency. The OECD measures and monitors bilateral development finance targeting climate objectives using the two Rio Markers and estimates multilateral climate-related contributions. The OECD DAC provides datasets on **committed** climate-related development finance at the **project level**, both from the provider's and the recipient's perspective and allows for the granular distinction of climate finance per: ▪ Principal or significant climate objective ▪ Bilateral, multilateral, and private philanthropic sources ▪ Climate objectives (adaptation and/or mitigation). Grants and debt instruments (both concessional and non-concessional) are included, but guarantees are excluded.	To complement on-budget data with off-budget data in Step 14 and/or to assist Step 16, developing countries should refer to the dataset that provides climate-related development finance from the recipient's perspective.[88] This dataset allows recipient countries to access data on bilateral commitments as well as multilateral commitments from MDBs and climate funds.

87 More information on the underlying methodology of the OECD DAC Statistics can be found in the Methodological Note (OECD).

88 Ibid.

Data source	What kind of data is provided?	How can the data be used for climate finance transparency?
Climate Funds Update[89]	The NGO-financed Climate Funds Update database collects data on climate finance flows from the multilateral climate finance initiatives designed to assist developing countries. The dataset records project level data on: ▪ Multilateral sources ▪ Climate objectives (adaptation and/or mitigation) ▪ Recipient institutions ▪ Grants and concessional loans ▪ Approved and disbursed amounts of funding	To complement on-budget data with off-budget data in Step 14 and/or to assist Step 15, developing countries should extract data on climate finance flows for which they are the recipient country.
Biennial reports (BRs) (until 2022) / Biennial transparency reports (BTRs) (from 2024 onwards) of developed country Parties to the UNFCCC	Annex I Parties are requested to submit their BRs to the UNFCCC secretariat every two years. The BRs should come with CTFs to provide data on various aspects, including on the financial support provided to developing countries (CTF Table 7). Annex I Parties provide programme-level data on: ▪ The provision of public financial support: contributions through multilateral channels as well as contributions through bilateral, regional, and other channels ▪ Climate objectives (adaptation and/or mitigation) ▪ The recipient country ▪ Committed and disbursed amounts of financial support	Consulting BRs/BTRs and the associated CTFs are recommended when countries aim to close data gaps or aim to verify climate finance flows of specific providers (Annex I Parties) of climate finance.

89 More information on the underlying methodology of the Climate Funds Update can be found in the Notes and Methodology of the Climate Funds Update.

Annex 5. Identifying potential climate finance flows

Based on the finance gaps identified, this subsequent step serves to identify potential upcoming climate finance flows from the domestic budget, international funding, and private financing. Although estimating the volume of private finance towards climate action is relatively challenging, countries are encouraged to plan and set up enabling environments for unlocking private funding at this stage.

This step includes examining which additional investments and financial flows are available for the respective sectors. This process will enable a country to build an overall climate finance strategy that can facilitate climate finance access and effectively contribute to enhanced climate resilience and mitigation.

In this process, it is recommended to perform the following substeps.

1. **Set the time period for the financial planning, ideally in alignment with the NDC.**

2. **Collate all available and projected domestic budgetary allocation** (on-budget) and international climate finance flows (off-budget). (The data collection format in Phase 4 can be applied).

3. **Verify the alignment of projected climate finance flows with the NDC (and other) targets and priorities.** By assessing the projected level of climate finance flows as well as costs needed for NDC implementation, a country will be able to identify areas where financial and investment gaps exist and map financial sources and types necessary for closing those gaps per each area (by sector, project/programme, or activity).

4. **Identify potential international funding sources, as well as domestic sources (such as national banks or pension funds) and emerging financing instruments.** It is necessary to articulate the potential funding source type for each sector and action. To navigate additional public and private financing sources, it is recommended to check new commitments or pledges from donor countries and their bilateral funds on a regular basis. Here, countries can also identify organizations that have no current partnership or funding relationships but are likely to become funding sources in the future, given the organization's funding criteria and target regions.[90]

5. **Map national climate finance architecture.** Based on the global climate finance architecture and initiatives (Appendix B: Structure of the methodology and background research), a country can map national-level climate finance architecture. This includes the creation of a list of the potential climate funds, initiatives, and accredited entities that can be involved from the project preparatory phase to the implementation and monitoring phase, along with financing instruments. Accredited entities differ by multilateral and bilateral funds, ranging from the United Nations agencies such as UNDP, UNEP, or FAO to development banks and other international organizations.

6. **Engage with potential partners and investors.** Sharing the status of financing needs and communicating these needs with potential partners and investors (refer to Phase 5.3) might happen after the climate finance landscape assessment. However, early communication, specifically when there is an urgent need for technical support grants for capacity building or project preparation (e.g., GCF Readiness funding), could be useful.

90 Useful information on emerging climate finance instruments coupled with country cases are described in ESCAP/ GGGI, 2021.

Annex 6. Communicating transparency insights to public and private stakeholders

This annex provides some inspiration for countries to communicate their transparency results (both ex-ante and ex-post) to the general public and thereby increase domestic transparency of climate finance in the national context by engaging citizens.

Countries will have different goals and objectives for increasing domestic transparency, as well as different means and capacities of communicating with the public. Therefore, this guide makes some suggestions that countries can follow and adapt to their individual situation.

Potential insights to communicate with the public:

TABLE 32

Status quo and future needs of climate finance

Status quo of climate finance (results from ex-post measurement and verification)	Future needs of climate finance (results from ex-ante forward-looking financial planning)
What is the size of the overall climate finance available in the country?	What is the size of what is needed, and how big is the gap between finance needed and available?
What is the distribution of finance between adaptation and mitigation purposes?	How much (additional) finance will be needed for mitigation and adaptation?
What is the distribution between sectors?	How much (additional) finance will be needed in the individual sectors?
How much climate finance is provided by the state, and how much is leveraged from international donors and the private sector?	How much finance is committed by different stakeholders for the future?

Potential approaches to presenting transparency insights:

- Pie charts (or similar visuals) and tables for demonstrating the proportional distribution of climate finance between climate objectives, sectors, sources, etc.
- Bar diagrams (or similar visuals) and tables for demonstrating total amounts of climate finance, as well as comparing the status quo of climate finance available and future needs
- A Sankey diagram (or a similar visual) for mapping climate finance flows from sources to recipients

Potential means of communicating transparency insights:

- Distributing factsheets among relevant institutions and stakeholders
- Hosting a site with climate finance information on the government and relevant ministries' webpages, potentially including accessible data and a point of contact for stakeholders to engage
- Holding stakeholder engagement workshops, such as investor roundtables to communicate findings and discuss stakeholder needs, as well as synergies for increasing climate finance and addressing gaps.

Annex 7. Green and sustainable finance taxonomy

A green and/or sustainable finance taxonomy is a classification system that provides a clear definition of green and sustainable economic activities. By identifying activities aligned with the national climate and sustainability goals, a taxonomy can play a vital role as a policy tool to mobilize and scale up investment towards climate-friendly technologies and projects. It provides common language on sustainable activities to policymakers, investors, and companies. Lastly, it helps countries scale up sustainable investments with greater transparency while avoiding greenwashing.

Governments can use taxonomies when establishing market clarity and integrity as the basis of regulations and other public policy tools. They can also close investment gaps at the national level while enhancing transparency by complying with international agreements and reporting regulations.[91] In addition, taxonomies can help financial institutions integrate climate change–driven risks into their investment planning and portfolio allocations and identify or create green and sustainable financial products. Accordingly, a growing number of jurisdictions and financial institutions have released or have been developing a national-level taxonomy to create common and official definitions of sustainable finance.

As of April 2024,[92] there are 21 taxonomies developed and published, while 18 taxonomies are under development and 7 taxonomies planning to be developed.[93]

EU Taxonomy

Within the taxonomy landscape, the EU taxonomy developed by the EU Platform on Sustainable Finance, an advisory expert group, is recognized as an advanced and comprehensive classification system that indicates environmentally sustainable economic activities as per the EU legislation.[94] The taxonomy regulation allows the EU to implement high-level policy goals and objectives—e.g., the European Green Deal—in a more effective and coherent manner. Using the existing industrial classification, the NACE (level 2), the EU taxonomy comprises environmentally sustainable activities along with transition and enabling activities within six environmental objectives. The four overarching principles and conditions of the EU taxonomy are:

I. Making a substantial contribution to at least one environmental objective

II. Doing no significant harm to any of the other five environmental objectives

III. Complying with minimum safeguards

IV. Complying with the technical screening criteria set out in the Taxonomy-delegated acts

Activity-based metrics with thresholds are set based on climate science in line with existing EU regulations and a net-zero target.

91 OECD, Developing Sustainable Finance Definitions and Taxonomies, 2020, <www.oecd-ilibrary.org/sites/134a2dbe-en/1/3/1/1/index.html?itemId=/content/publication/134a2dbe-en&_csp_=062998fb6eb-20cf4e25d9a4ba3ba529e&itemIGO=oecd&itemContentType=book#section-d1e803>, accessed 7 Oct 2024.

92 Recent publication of taxonomies includes Thailand and Brazil, both published in 2023.

93 CCAP, Shaping the Future of Finance: Exploring the Global Rise of Sustainable Finance Taxonomies, 2023, <www.ccap.org/post/shaping-the-future-of-finance-exploring-the-global-rise-of-sustainable-finance-taxonomies>, accessed 7 Oct 2024.

94 European Commission, Sustainable Finance Teg Final Report Taxonomy, 2020, <www.ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf>, accessed 15 April 2022.

CBI Taxonomy

The CBI taxonomy is a market-based classification tool that supports investors, financial institutions, and other green and climate-related bond issuers to screen bonds to determine whether assets or projects are eligible for green or climate investments, thus helping to issue certified green bonds.[95]
It is noteworthy that the CBI taxonomy's screening criteria are set in coherence with Article 2.1c of the Paris Agreement and efforts in pursuit of 1.5°C. Its methodology, including metric and threshold per asset, is set based on the latest climate science for eight sectors. Since its first release in 2013, this taxonomy has been updated on a regular basis according to the updated climate science, notably from the IPCC and the IEA.

Green Bond Endorsed Projects Catalogue (2021)

Collaborating with the National Development and Reform Commission and the China Securities Regulatory Commission, the People's Bank of China has established the Green Bond Endorsed Projects Catalogue (first released in 2015 and updated to a new edition in 2021) to support government departments and relevant institutions in achieving the alignment of their capital usage with their green and sustainability targets.[96] The catalogue contains green bond–endorsed programmes and corresponding descriptions and conditions for each programme under six areas.

The different approaches and methodologies of these developed taxonomies are summarized in the following table.

TABLE 33

Approaches and methodologies of taxonomy development

Taxonomy	EU taxonomy	CBI taxonomy	Green Bond Endorsed Projects Catalogue (aka the Chinese taxonomy)
Climate goal (national or international)	European Green deal; 50%–55% emissions reduction by 2030	Paris Agreement 2°C goal and net-zero trajectory by 2050	Implementation of the Integrated Reform Plan for Promoting Ecological Progress
First release	2020	2013	2015
Lead entity	EU Commission technical working group	Climate Bond Initiative (CBI)	The People's Bank of China, the National Development and Reform Commission, and the China Securities Regulatory Commission

95 CBI, Climate Bonds Taxonomy, 2021,<www.climatebonds.net/files/files/Taxonomy/CBI_Taxonomy_Tables-08A%20%281%29.pdf>, accessed 7 Oct 2024.

96 The People's Bank of China, Notice on Issuing the Green Bond Endorsed Projects Catalogue (2021 Edition), 2021,<www.climatebonds.net/files/files/the-Green-Bond-Endorsed-Project-Catalogue-2021-Edition-110521.pdf>, accessed 7 Oct 2024.

Taxonomy	EU taxonomy	CBI taxonomy	Green Bond Endorsed Projects Catalogue (aka the Chinese taxonomy)
Coverage of environmental objectives	1. Climate change mitigation 2. Climate change adaptation 3. Sustainable use and protection of water and marine resources 4. Transition to a circular economy 5. Pollution prevention and control 6. Protection and restoration of biodiversity and ecosystems	Issuers must report the use of environmental objectives from projects	1. Energy saving and environmental protection industry 2. Pollution prevention and treatment 3. Clean energy industry 4. Ecology and environment 5. Green upgrade of infrastructure 6. Green services
Screening purpose	Economic activity-based	Asset-based	Economic activity-based
Classification of economic activities	NACE	ISIC	ISIC
Determination of taxonomy eligibility	Technical screening criteria	Technical screening criteria	White-list approach

Annex 8. Climate finance and fiscal policy assessment and refinement

As part of strategic climate finance planning, assessing domestic climate financing and fiscal policies is vital to understanding their alignment and effectiveness for NDC implementation. This section reviews the list of policy tools that need to be revised or extended to achieve higher levels of complexity.

Green fiscal policy plays an important role, not only in raising public revenues but in attracting private capital in climate-responsive products and activities. Using public revenues for creating appropriate financial incentives, such as subsidies, credit, loan guarantees, and tax credits for green and sustainability cycles, can correct market price signals and accelerate green investments.

In addition to fiscal policy, a wide range of financing and financial market regulatory policy mechanisms and instruments that can promote a green economy have been introduced. The following table summarizes the main types of climate finance policy instruments.

TABLE 34

Types of climate finance policy instruments relevant to supporting the achievement of NDC targets.
Source: Implementing NDCs, UNEPCCC [97].

Classification	Type of instrument
Fiscal policy	▪ Taxes and charges: levies imposed on activity (e.g., fuel tax, carbon tax) ▪ Subsidies and incentives: price advantage or supports from the public sector for implementing activities/actions that align with the NDC targets
Other financing policies	▪ National regulation (laws) enabling bond issuance (e.g., green, blue, or sustainability bonds) ▪ Grants and loans (e.g., green loans and small grants for local communities) ▪ Infrastructure programmes: provision of infrastructure or government permits to develop or use infrastructure ▪ Regulations and standards including penalties for noncompliance: technology standards or minimum environmental requirements (e.g., energy efficiency, pollution output)

97 UNEPCCC, Implementing Nationally Determined Contributions (NDCs), 2020, <https:/unepccc.org/wp-content/uploads/2020/03/implementing-ndcs-report.pdf>, accessed 7 Oct 2024.

Classification	Type of instrument
Non-fiscal / financing policy	▪ Emissions trading programmes or cap-and-trade programmes: limits on aggregate emissions ▪ Public procurement policy: rules and principles to be followed during public procurement processes ▪ Information instruments: obligatory information disclosures such as labelling programmes, emissions reporting and rating, and certification regimes ▪ Research, development, and deployment (RD&D) policies (e.g., carbon capture and storage technology) ▪ Voluntary agreements or measures: agreements, commitments, or measures by public or private actors

What are the different climate finance policies, and how do they impact climate finance transparency?

1. Assess existing policies[98]

A country could assess the relevance, feasibility, and effectiveness of climate-related policy instruments that have been introduced and implemented, helping to achieve climate finance transparency. It is important to verify whether these policies are aligned with and contributing to the achievement of NDC targets. It is expected that the scope and level of detail of policy assessment will vary depending on countries' baselines and the complexity levels they desire to achieve.

Level 1 complexity: for countries in the early stages of the development and implementation of green financing and fiscal policy

At Level 1, it is likely that there is insufficient institutional preparation or human and financial resources for a precise comparison and feasibility analysis of policy measures. The first recommended task is to benchmark different policy instruments of other countries for analysing the effectiveness of each instrument and prioritizing policy measures. Reviewing international climate finance and fiscal policies allows a country to identify potential policy instruments and to establish a more comprehensive national climate finance strategy. The Green Economy Tracker developed by the Green Economy Coalition, consisting of members from United Nations agencies, businesses, and NGOs, provides a glimpse into what and how climate finance and fiscal policy instruments have been implemented in different countries.

BOX 16

Green Economy Tracker: Country green finance plan and fiscal policy tracker

The tracker covers progress on six themes—Governance, Finance, Sectors, People, Nature, and Green Covid-19 recovery—towards a green economy. The finance tracker includes green finance, fiscal, and monetary policies for 41 countries and provides useful information on green fiscal reforms, including best practices.

Key information, such as overarching green finance and fiscal policies, plans, and frameworks; relevant stakeholders; and the level of progress (score), along with key references, is available for each country.

98 ICAT, Policy Assessment Guides, <www.climateactiontransparency.org/our-work/icat-toolbox/assessment-guides>, accessed 7 Oct 2024.

If there are time and resource constraints in carrying out this task, one way to approach it is to first collect and process climate finance data in Phase 4 and then proceed with a comprehensive gap and policy analysis in Phase 5.

Level 2 and Level 3 complexity: for countries in the advanced stages of the development and implementation of green financing and fiscal policy

Countries at these levels have experience in designing and conducting comparative analyses of green financing and fiscal policies at the national level. The advanced preparedness of human resources, such as trained staff and institutional settings to perform the tasks, is expected to be in place. Based on previous work and information gathered, it is recommended to undertake the following tasks that allow a country to diagnose the effectiveness and cost of policy measures applied to each sector, programme, and activity more precisely.

1. Identify policy objectives and affected sector, programme, and activity
2. Conduct cost-benefit analysis of a policy measure[99]
3. Analyse a degree of contribution to the NDC targets: 1) negative or 2) the absolute degree of contribution
4. Identify criteria for assessing policy alternatives

The analysis of the effectiveness of existing policies enables the development of a strategic plan that includes the creation and prioritization of national budget and policy instruments for NDC implementation.

99 OECD, Cost-Benefit Analysis and the Environment, 2018, <www.oecd.org/en/publications/cost-benefit-analysis-and-the-environment_9789264085169-en.html>, accessed 7 Oct 2024.

2. Prioritize national budget and policy

In this step, a country can identify how to prioritize public spending in line with its NDC targets and how to carry out national budget system reforms that incorporate climate aspects.

Budget prioritization

At the sectoral level, the climate-sensitive budgeting process allows sectors to identify investments that are the most likely to perform best under a changing climate. Staff can plan and adjust their budget submissions to maximize the benefits of routine investments. When prioritizing a budget, a country can develop criteria aligned with the climate impact indicators determined in Phase 1.

The following subtasks are necessary for the development and implementation of climate-sensitive budgeting processes.

1. Establish guidelines for the annual budget preparation (MoF) which identify the priority areas in line with government climate priorities. Instructions on the cost of climate-related actions can also be included in the guidelines. To ensure the linkage of annual budgets with climate goals, both national long-term objectives and strategies (over 5 years) and medium-term plans (3–5 years), typically set by the National Treasury or Ministry of Economic Planning, should be considered.
2. Conduct a budget cycle (Box 17 below)
3. Establish the process of budget coding (tagging climate activities within budget items). This step will facilitate the process of tracking and reporting of climate finance flows in Phases 4 and 5

Note that organizing and implementing a regular training session for staff and relevant stakeholders (i.e., focal points from ministries and departments) to provide the requisite skills and knowledge will be required.

BOX 17

Budget cycle

1. Sector policy reviews: identify climate change elements of the project, programme, or activity and prioritize the budget.
2. Prepare the budget at the programme and sub-programme levels. (A more granular level can broaden usability, for instance, helping assess the alignment with other climate and sustainability-related goals, such as SDG goals or gender-sensitive climate finance).
3. Budget approval: in addition to reviewing and approving the prepared budget, setting up a legislative process for budget approval can be considered.
4. Budget execution.
5. Monitoring and reviews.

For more information, please refer to **A training handbook climate finance: Budget coding, tracking and reporting, UNDP.**

Policy prioritization

In addition to identifying existing funding gaps, the type of technical and policy support necessary to close those gaps needs to be identified.

1. Set criteria for prioritizing climate finance policies[100]

TABLE 35

Types of climate finance policy instruments relevant to supporting the achievement of NDC targets

Criteria for climate mitigation finance	Criteria for climate adaptation finance
▪ Feasibility (socio-economic, political, legal, and regulatory perspectives) ▪ Benefits and costs of implementation ▪ Alignment with national long-term goals (i.e., LTS) and international climate and sustainability goals (i.e., Paris Agreement, SDGs)	
GHG reduction potential	▪ Urgency of the matter ▪ Efficacy in terms of the level of resilience enhancement ▪ Risk of maladaptation

100 UNEPCCC, Implementing Nationally Determined Contributions (NDCs), 2020, <https:/unepccc.org/wp-content/uploads/2020/03/implementing-ndcs-report.pdf>, accessed 7 Oct 2024.

2. Align climate finance with NDC targets and national climate policies

A key step that should not be overlooked is checking the alignment of policy instruments with national plans and priorities related to climate change. High-level policies related to NDC targets depend on the country's national circumstances, but countries should consider reviewing the following plans and frameworks:

TABLE 36

Types of policy instruments and national climate priorities

National climate change planning	Climate mitigation	Climate adaptation
▪ NDCs ▪ LTS ▪ National Strategy on Climate Change ▪ National Communication development to the UNFCCC ▪ National Climate Change Response Framework (NCCRF) climate finance strategy (if applicable) ▪ National Strategy on Development Integration	▪ Nationally Appropriate Mitigation Actions ▪ National Strategy on Development Integration ▪ National Energy Strategy	▪ National Adaptation Plans ▪ Integrated Cross-Sectoral Plan ▪ The National Tourism Strategy

This UNEP publication is useful to understanding key considerations and actions for the alignment of climate finance with NDCs and long-term climate goals.[101] The four substeps are as follows:

- Identify and prioritize financing propositions for projects that align with NDC needs
- Check if current national climate fund mechanisms function properly for the implementation of priority sectors and actions
- Create and update rules and regulations and set market integrity mechanisms to drive a more prudent finance and capital market: include policy incentives and remove investment barriers
- Help identify relevant and eligible projects

When a country embarks in climate finance and fiscal policy assessment, it understands the priority sectors, projects, or programmes in the short-term (including budgets for the following year) and mid-term budget cycles. Moreover, it better identifies the policy measures and instruments that can address climate mitigation and adaptation challenges that will be the most effective.

101 UNEP, Aligning Climate Finance to the Effective Implementation of NDCs and to LTSs: Input Document for the G20 Climate Sustainability Working Group, 2018, <https://unepinquiry.org/publication/aligning-climate-finance-to-the-effective-implementation-of-ndcs-and-to-ltss/>, accessed 7 Oct 2024.

Annex 9. Overview of programmes that support capacity building and funding resources

To support countries in relation to capacity development and funding resources, the guide outlines the following programmes and donors.

TABLE 37

An overview of common international programmes / donors that offer capacity building and funding resources

Initiative / programme / donor	Objective	Type of support
Capacity-building Initiative for Transparency – Global Support Programme (CBIT-GSP)	Initiative to strengthen the institutional and technical capacities of developing countries to meet the enhanced transparency requirements in the Paris Agreement.	**Technical support** The CBIT-GSP offers targeted transparency support to countries to cover specific needs for transparency in all areas of the Enhanced Transparency Framework. The support is tailored to a country's needs and could include, among others: ▪ trainings on specific topics (e.g., IPCC software) ▪ quality reviews of transparency reports ▪ hands-on support for transparency-related matters (e.g., filling of reporting tables
Initiative for Climate Action Transparency (ICAT)	ICAT works closely with its partner countries to develop policy-focused, priority-driven projects that develop the information and data frameworks and related capacity to improve the implementation, tracking, and enhancement of their NDCs and reporting.	**Technical support** ICAT offers support in many areas for climate transparency. For transparency in climate finance, ICAT supports partner countries in the development and implementation of frameworks for the tracking of climate finance at the national level, in the context of NDC implementation, and the benefits associated with climate action, linked to national development finance. ICAT enables the integration of such data in a country's transparency framework.

Initiative / programme / donor	Objective	Type of support
Green Climate Fund Readiness Programme	GCF Readiness Programme provides grants and technical assistance to National Designated Authorities and/or focal points. It aims to enhance the capacity of national institutions to efficiently engage with the GCF.[102]	Objective 2 Strategic Frameworks: 2.2 Support strategic framework development: ▪ Revising or updating the country's NDC, its financing strategy, or related policies ▪ Developing MRV systems and/or making them operational for tracking internal and external climate finance flows More information available at GCF's Readiness Guidebook
Global Environment Facility	GEF supports countries in the implementation of the Paris Agreement.	The Global Environment Facility supports developing countries in building their institutional and technical capacities to meet the requirements of the ETF through: 1. The CBIT 2. Support for reporting obligations under the Convention (i.e., National Communications (NCs and BTRs) 3. Global support for the ETF
UNFCCC	Requested by COP, the Secretariat of UNFCCC explored opportunities to help developing countries to assess climate finance, facilitate access to funds and mobilize additional funds.	Needs-based Finance' project: This ongoing project assists developing countries in assessing their finance needs and priorities in a country-driven manner. The main approach is analysing situations, developing strategies, and mobilizing climate finance.

102 This section is from the official introduction of the GCF Readiness Programme introduction of the website.

Glossary of terms

Glossary of terms

Baseline assessment – A comprehensive checklist for countries to assess the current status of climate finance transparency, specifically determining which elements of the climate finance transparency framework already exist at the national level and which elements still need to be developed.

Biennial Transparency Report – Biennial transparency report, also known as BTR, is a national report that Parties under the Paris Agreement must submit every two years. According to the modalities, procedures, and guidelines (MPGs) for the Enhanced Transparency Framework (annex to decision 18/CMA.1), BTRs include information on national inventory reports (NIRs); progress towards NDCs, policies, and measures; climate change impacts and adaptation; levels of financial, technology development, and transfer and capacity-building support; capacity-building needs; and areas of improvement. SIDS and LDCs may submit the information required for the BTR at their discretion.

Classification of economic sectors/subsectors – The categorization of economic sectors and subsectors based on shared qualities or characteristics relevant to climate finance transparency.

Climate finance parameters – The criteria and associated indicators used to assess and determine the eligibility, effectiveness, and impact of financial investments and initiatives in the context of climate change.

Climate Finance Transparency – The transparent reporting and reviewing of actions around climate finance, usually through the reporting and reviewing of datasets, activities, and initiatives.

Climate Finance Transparency Cycle – The order of the phase-by-phase process shown in the Climate Finance Transparency Framework.

Climate Finance Transparency Framework – Also known as 'the Framework', this refers to the developed methodology and finalized framework that comprises 5 Phases for strengthening and achieving climate finance transparency.

Climate relevance – The degree of relevance an activity holds relative to climate change adaptation and/or mitigation objectives, directly or indirectly relative to the recorded financial flows.

Committed climate finance – The amount of financial flows committed to achieving climate-related objectives (mitigation, adaptation, etc.).

Complexity level – A measured approach, primarily based on the level of difficulty and resource availability for countries to initiate a specific phase or step.

Disbursed climate finance – The actual or definite amount of finance deployed toward climate-related objectives.

ETF – The Enhanced Transparency Framework, or ETF, is an overarching structure centred on measuring, reporting, and verifying progress in climate change mitigation and adaptation, along with the support provided and received by Parties to the Paris Agreement under the UNFCCC.

Ex-ante climate finance – A perspective that refers to the forecasted or estimated climate finance costs associated with achieving unconditional and conditional NDC targets.

Ex-post climate finance – A perspective that refers to the review and verification of historical climate finance flows and present data available.

Financial instrument – A financial asset, capital, or equity package that can be negotiated. It represents a legal transaction where one Party (actor/entity) transfers monetary resources to another Party (actor/entity) under certain conditions. It has specific timelines and other conditions.

Financial mechanism – A source or structure that supports the deployment of climate finance. The mechanism could be referred to as a fund, trust fund, special purpose vehicle, or programme that manages the deployment of climate finance through different channels and using various financial instruments.

Granularity – The scale of detail or precision in data or information.

Granularity of reporting – The level of detail in data and information reported, such as component- or project-based reporting—in which 'project-based' reflects the climate relevance applied to entire programmes or projects, while 'component-based' reporting reflects the climate relevance for each individual activity.

Guide – The Climate Finance Transparency Framework Guide in its entirety.

Implementing partners – An organization that is implementing a project or a programme, if the climate finance is provided via intermediary from climate funds. These partners can take many forms, such as commercial banks, nongovernmental organizations, private entities, etc.

Measurement, Reporting and Verification – A set of rigorous activities used for strengthening the transparency of information and data relevant to climate finance.

NDC Finance Needs Assessment – The action of conducting an NDC costing exercise, taking into consideration the existing international publications, tools, and methodologies.

Off-budget – Sources and elements not included in the regular national budget of a country.

On-budget – Sources and elements included in the regular national budget of a country, representing national public finance.

Phases – The guide's main phases, as outlined in the Climate Finance Transparency Framework.

Rio Markers – A set of labels and indicators developed by the Organization for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) to monitor and mainstream bilateral development portfolios on environmental objectives.

Stages – The different points in progress in terms of where a country stands in the five phases under the Climate Finance Transparency Framework. There are three main stages: inception stage (Phases 1 and 2), operational stage (Phases 3 and 4), and evaluation stage (Phase 5).

Steps – The optional and mandatory actions highlighted under a particular phase of the Climate Finance Transparency Framework.

Substeps – Sub-elements of a defined step or action under a phase.

Taxonomy – A financial instrument or framework that provides a classification of economic activities that can be screened to determine whether an activity is deemed sustainable or not based on a set of principles or technical screening criteria, among other elements.

UNFCCC – The United Nations Framework Convention on Climate Change, known as the UNFCCC, is the United Nation's main entity tasked with facilitating and supporting the global response toward combating climate change.

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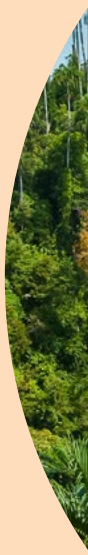

Climate Finance
Transparency Guide

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