POLICY BRIEF:
UNDERSTANDING THE ESTIMATION AND TRACKING OF PRIVATE CLIMATE FINANCE

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Acknowledgements

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The views expressed in this paper represent those of CCAP and not necessarily those of any other institutions or individuals mentioned above. For further information, please contact Carolina Aguirre Echeverri at caguirre@ccap.org, and Stacey Davis at sdavis@ccap.org.
Contents
Executive Summary....................................................................................................................................... 2
Introduction .............................................................................................................................................. 3
The Current State of Estimates of Private Climate Finance ............................................................... 5
Considerations for Tracking Private Climate Finance .......................................................................... 6
  Lack of common definitions of private climate finance....................................................................... 6
  Gaps in tracking private climate finance .............................................................................................. 7
  Inconsistent tracking of mobilized private climate finance ............................................................... 9
What is being done to improve private climate finance tracking/reporting ..................................... 12
Conclusions ............................................................................................................................................... 15
Executive Summary

Climate finance is a cornerstone of the Paris Agreement and efforts to realize long-term climate goals. A clear understanding of the volumes of public and private climate investments is essential to (i) support the most pressing mitigation and adaptation needs in developing countries; (ii) raise ambition to deliver on the Paris Agreement’s long-term mitigation and adaptation goals (iii) assess progress toward commitments such as the USD 100 billion/year goal; and (iv) assess the magnitude of financial flows that need to shift from brown to green in line with Article 2.1.c of the Paris Agreement.

A number of organizations have made important strides in tracking and measuring climate finance (public and private). Efforts include those under the United Nations Framework Convention on Climate Change (UNFCCC), the Organization for Economic Cooperation and Development (OECD), and collaborative work among Multilateral Development Banks (MDBs) to report on investments in climate priorities and goals. While there is still a need to improve the methodologies used in reporting and tracking of public climate finance, these initiatives paint a reasonably reliable picture. This contrasts markedly with the limited understanding of private flows.

Estimating private climate finance presents challenges such as:

- Data availability limitations, including (i) limited reporting of climate-related investments from private actors due to concerns about commercially sensitive information that could benefit the competition, and (ii) limited sources of data on private investments such that understanding of private financial flows mainly relates to one sector: renewable energy.
- Methodological limitations, including (i) differing interpretations of what constitutes a “private” investment or flow, and (ii) complexities around geographic attribution of private climate finance sources and destinations.

Estimating “mobilized” climate finance—private finance leveraged by public resources—presents its own set of challenges. Methodologies to estimate mobilized investments are disharmonized and vary in ways that impact comparability. Differences include chosen definitions; causality (whether the private sector would have invested or not in the absence of public funds that leveraged them); financial instruments used; level of aggregation of the data; and attribution (depending on those involved in a given transaction) of the mobilized finance.

While entities are already working to fill some of the identified data gaps and inconsistencies, more work is needed to improve the systematic and accurate estimation and tracking of private climate finance. Conclusions from this brief highlight:

- The need to enhance private sector voluntary reporting of investments, even if it is aggregated information.
- The need for renewed efforts to harmonize methodologies to estimate mobilized climate finance to enhance comparability and increase transparency.
- The need to strengthen UNFCCC-related reporting under the Enhanced Transparency Framework to improve transparency of mobilized private finance.
Introduction
Addressing the climate challenge will demand massive undertakings from public and private actors to curb emissions and limit the global temperature increase to not more than 1.5 degrees\(^1\) as well as to adapt to the dire consequences of climate change. There is thus an urgent need to substantially scale up finance to mitigate and adapt to climate change. A clear understanding of the volumes of public and private climate investments delivered will be critical to support global efforts to raise ambition and evaluate progress towards the Paris Agreement’s 1.5 degrees goal. Furthermore, enhanced clarity and transparency on finance flows will underscore where additional efforts are needed to shift from brown to green investments in line with the goal to make all financial flows consistent with low-carbon and climate-resilient development (Article 2.1.c of the Paris Agreement).

A clearer picture of current volumes of climate finance, public and private, is particularly timely in 2020, as negotiators for the United Nations Framework Convention on Climate Change (UNFCCC) prepare to determine the rules of the game for the process to establish a new climate finance goal for developed countries by 2025.

The international community has considerable experience reporting on and tracking public climate finance delivered to developing countries, with relatively strong data. Efforts to measure climate finance (public and private) include those under the UNFCCC, the Organization for Economic Cooperation and Development (OECD), and collaborative work among Multilateral Development Banks (MDBs) to report on investments in climate priorities and goals, including the USD 100 billion/year goal. The United Nations (UN) climate negotiation process has also defined further reporting obligations under the Paris Agreement for climate finance received by developing countries, which may improve the tracking of climate finance in the future. Non-governmental organizations such as Oxfam\(^2\) have also published estimates of climate finance delivered through public channels. There are, however, remaining methodological inconsistencies and additional data sources to account for, such as south-south cooperation numbers and International Development Association (IDA) statistics of contributors.

While there is still a need to improve public climate finance reporting, particularly to resolve methodological issues to support comparability, the strength of public sector data on climate finance contrasts markedly with the much more limited state of reporting on private climate flows. Tracking and measuring private climate finance presents additional challenges, such as limited available data and disharmonized methodologies to estimate investments “mobilized” (that is, leveraged) by public resources.

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1 Per findings and recommendations from the Intergovernmental Panel on Climate Change in its Global Warming of 1.5 degrees special report [https://www.ipcc.ch/sr15/](https://www.ipcc.ch/sr15/)
Much of the available data on private climate finance comes from climate reporting by public entities seeking to quantify the degree to which their support has leveraged private sector investments, which is used as a measure of the overall impact of their investment strategies. Usually this includes private investments that are “mobilized”³ or “catalyzed”⁴ by public finance. Additional data (e.g. those for power sector investments) come from private databases. Fundamental data limitations to account for private investments that fall outside these categories make it difficult to understand the full picture and trends in private climate finance. Moreover, private sector data are also impacted by comparability challenges that make aggregating these flows quite difficult.

Improving estimates, comparability and, where possible, tracking of private climate flows is important to: (i) credibly determine whether developed countries are (or are not) on track to achieve the USD 100 billion/year goal (see Box 1 for details⁵); (ii) clarify the composition of the USD 100 billion/year delivered when it comes to private climate finance, and further understand financial instruments used, asset classes etc.; (iii) provide a clearer picture of where overall finance is flowing and where gaps remain toward the goal of shifting all financial flows from brown to green (in line with Article 2.1.c of the Paris Agreement); and (iv) direct public finance to those areas that require de-risking or have no potential for commercial returns (and therefore no market).

A shared sense of progress toward meeting international finance commitments (or lack thereof) has implications for trust in the multilateral process, negotiation of the new climate finance goal by 2025, the Paris Agreement’s ambition mechanism and the Nationally Determined Contribution (NDC) cycle, including plans to update NDCs.

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³ According to the 2018 Biennial Assessment and Overview of Climate Finance Flows, there is currently no common understanding of what constitutes “mobilized private finance”. UNFCCC’s Standing Committee on Finance, the body in charge of preparing the Biennial Assessment, was tasked by the Conference of the Parties at its nineteenth meeting (decision 3/CP.19) to consider operational definitions of climate finance, including private finance mobilized by public intervention. The OECD, IDFC and the MDBs have developed specific definitions for the finance that flows as a consequence of their operations. The section on mobilized climate finance in this policy brief provides further detail.

⁴ There is no common definition of “catalyzed private finance” in the context of climate change. The concept has been used by stakeholders in the context of development finance as public finance that is used to leverage private finance, as well as in reference to the use of blended finance to finance low-carbon, climate resilient projects.

⁵ Per reference in Box 1, the Cancun Agreements can be found at [https://unfccc.int/sites/default/files/resource/docs/2010/cop16/eng/07a01.pdf](https://unfccc.int/sites/default/files/resource/docs/2010/cop16/eng/07a01.pdf)
in 2020 as scheduled. Private climate investments are, as noted above, an essential part of those commitments.

This brief examines progress to date in estimating and tracking private climate finance flows. In particular, it (i) compares and contrasts different initiatives that estimate private climate finance; (ii) elucidates the accounting and estimation approaches being used; (iii) articulates critiques and measurement challenges; and (iv) spells out unresolved issues.

Note that this brief does not focus on reporting, tracking, or measuring public climate finance, nor does it focus on the full scope or Article 2.1.c. of the Paris Agreement.

### The Current State of Estimates of Private Climate Finance

CCAP has mapped and analyzed four widely known climate finance tracking and measurement exercises that include private climate finance. Table 1 below presents an overview of these climate finance tracking initiatives.

<table>
<thead>
<tr>
<th>Tracking Initiative</th>
<th>Scope in relation to private sector</th>
<th>Data sources</th>
<th>Illustrative (non-exhaustive) data and methodological limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Biennial Assessment and Overview of Climate Finance Flows (UNFCCC’s Standing Committee on Finance)</td>
<td>Estimated private climate flows. Data availability limits tracking to renewable energy investments, with progress being made for the estimation of energy efficiency and sustainable transport (see details in sections below).</td>
<td>For estimated private flows: Renewable energy estimates were derived primarily from Bloomberg New Energy Finance (BNEF) data. Energy efficiency and electric vehicle estimates were derived from the International Energy Agency (IEA).</td>
<td>Insufficient understanding of private sources of finance and the financial instruments behind those investments.</td>
</tr>
<tr>
<td></td>
<td>Private finance mobilized through bilateral, regional and multilateral channels.</td>
<td>For private finance mobilized: Estimates were gathered from MDB Joint Reports, IDFC and OECD.</td>
<td>Incomplete or no data on private investment in sectors besides renewable energy.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2016-2017 Data</td>
<td>Reporting may include finance that is not climate relevant as mobilized climate finance. This could lead to over-reporting.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Method is inconsistent</td>
</tr>
</tbody>
</table>
Reported in OECD DAC datasets, using instrument-specific methods taking into account the role of risk taken and/or amount provided by public providers. with that used in the MDB Joint Reports.

<table>
<thead>
<tr>
<th>Multilateral Development Banks (MDBs) Joint Reports</th>
<th>Private finance mobilized by participating institutions.</th>
<th>Based on data individually reported by MDBs under Common Principles developed/adopted by the joint group of MDBs and IDFC. The Common Principles include definitions and guidelines to harmonize climate finance tracking across institutions.</th>
<th>Attributes private finance mobilization only to MDBs rather than sharing credit with other actors (e.g., national development banks) involved in the transaction. Method is inconsistent with that used by the OECD.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Landscape of Climate Finance (Climate Policy Initiative CPI)</td>
<td>Estimated private climate flows. Data availability limits tracking to renewable energy investments. CPI relies on BNEF and progress by the IEA to estimate energy efficiency and sustainable transport (see details below).</td>
<td>Renewable energy estimates were derived primarily from BNEF data. Energy efficiency and electric vehicle estimates were derived from the IEA.</td>
<td>Incomplete or no data on private finance for sectors besides renewable energy.</td>
</tr>
</tbody>
</table>

**Considerations for Tracking Private Climate Finance**

As indicated in the overview sections above, current approaches to estimating (and where possible tracking) private climate finance have important limitations, including significant data gaps and inconsistent methodologies. This section hones in on some of the key issues in more detail, including issues related to definitions used in estimation and tracking methodologies, as well as considerations with tracking overall private climate finance and mobilized private climate finance.

**Lack of common definitions of private climate finance**

At a fundamental level, tracking private climate finance requires definitions of what counts as “climate” finance and what counts as “private” finance. Varying definitions can make it difficult to compare estimates across initiatives.

Climate finance is generally accepted to refer to finance in support of climate mitigation and adaptation activities. While this may seem straightforward, differences in how climate finance is defined can have

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6 There is no formal definition of climate finance under UNFCCC. The 2014 Biennial Assessment and Overview of Climate Finance Flows offered the following operational definition: “climate finance aims at reducing emissions and enhancing sinks of greenhouse gases and aims at reducing the vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts”.

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significant impacts on tracking results. The 2018 Biennial Assessment and Overview of Climate Finance Flows categorized operational definitions by OECD, MDBs, the International Development Finance Club (IDFC), CPI and the Intergovernmental Panel on Climate Change (IPCC). While there are basic elements that these definitions share (finance aiming to reduce greenhouse gases emissions and enhance resilience), there are differences in the elements that each decided to emphasize and exclude. For example, CPI and OECD both exclude investments in energy efficient fossil-fuel generation. The joint group of MDBs\(^8\) and the IDFC, however, include several activities aimed at improving thermal generation in their list of eligible activities for tracking as climate finance.

Defining “climate” finance can also be inconsistent on a project level, creating discrepancies in how much finance is counted as climate-related. The OECD methodology for reporting climate finance uses a method called “Rio Markers”\(^9\). Under this method, the objectives of projects are rated as “significant” (but not primary) or “principal”. When climate change is flagged as the “principal” objective of a project, the entire value of the project can be considered climate-relevant. When climate change is flagged as a “significant” objective, countries are meant to determine which activities within the project are climate-relevant and only count the value of those as climate finance. However, the proportion that is counted as climate finance is determined by individual countries, with some countries counting all finance as “principal”. A study by Oxfam\(^10\), however, found that countries’ approaches to counting the climate finance component of mixed-theme projects varied significantly. This can reduce consistency and comparability of climate finance estimates and lead to over-reporting.

Further, what counts as “private climate finance” also differs. The very definition of “private sector” changes from one actor to another. For example, the OECD defines private entities based on the principle of majority ownership. The MDB methodology, however, also includes some public entities that are organized with financial and managerial autonomy.

**Gaps in tracking private climate finance**

Ideally, tracking systems aligned with Article 2.1.c of the Paris Agreement would capture the full universe of private climate finance, including the finance mobilized or catalyzed by public sources as well as direct private investment; private finance stemming from and invested in both developed and

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9. The Rio Markers are a set of indicators established by the Development Assistance Committee of the OECD (OECD-DAC) to monitor and statistically report on development financial aid to target the 1992 Rio Conventions: the Convention on Biological Diversity, the United Nations Framework Convention on Climate Change, and the United Nations Convention to Combat Desertification. A scoring system of three values is used, in which development co-operation activities are “marked” as targeting the environment or the Rio Conventions as the “principal” objective or a “significant” objective, or as not targeting the objective.
developing countries; and financial investments across the full range of mitigation and adaptation result areas. In addition, it would be useful to also have reporting on “brown” investments so that shifts from “brown” to “green” can also be tracked. The OECD is already exploring ways to address these challenges, and has proposed a preliminary scope for finance tracking in relation to Article 2.1.c that also considers finance for activities that undermine or do not impact climate objectives\(^\text{11}\).

Challenges unique to tracking private climate finance have resulted in significant data gaps in some of these categories. For example, while public entities have a strong incentive to capture the private finance they mobilize or catalyze towards compliance with their own climate finance commitments, reporting on direct private investment is voluntary, and private companies may avoid divulging commercial information that could benefit their competition. Further, without systems or platforms to voluntarily report direct private investments, any private sector reporting is not systematic or consistent. In fact, the only widespread platform for private actors to report climate-specific information\(^\text{12}\) (although not their climate-related investments) focuses on the identification, management and disclosure of climate risks as reflected in a private actor’s governance structure, strategy, risk management, and/or metrics and targets under the framework proposed by the Task Force for Climate-Related Financial Disclosure (TCFD)\(^\text{13}\). In addition, the international nature of large private financiers can make it difficult to attribute private finance to a single country of origin.

While there are several initiatives tracking mobilized private finance, there are few initiatives tracking broader (total) private climate finance. One such effort, CPI’s Global Landscape of Climate Finance, attempts to capture total global climate finance; however, the only sector with robust data for private finance is renewable energy, largely due to tracking and databases by Bloomberg New Energy Finance (BNEF)\(^\text{14}\). See Box 2\(^\text{15}\) for some detail on their work.

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12 Vis-à-vis other platforms and initiatives that focus more broadly on sustainability practices and/or environmental, social, and governance (ESG) aspects.

13 https://www.fsb-tcfd.org/about/

14 https://about.bnef.com/

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**Box 2. Bloomberg New Energy Finance (BNEF)**

The BNEF database collects and aggregates project-level data on clean energy investments. The data are obtained based on market announcements, active monitoring, and reports from experts in over forty countries that contribute by submitting data that allow Bloomberg to classify projects on renewable energy, power storage, and selected new energy technologies.

BNEF aims to expand coverage to sectors such as energy efficiency and smart grids; however, activity-level investment tracking is more challenging.

Projects are tracked from early stages (first proposal and financing secured) all the way through construction, commission, decommission, and abandonment.
Unlike renewable energy investments, energy efficiency and climate adaptation investments tend to be activities or components within a project. Likewise, there is very limited tracking of climate-investments in other areas such as infrastructure, agriculture, urban transportation and development, water and construction sectors. This makes it difficult to disaggregate and identify how much finance is actually targeting these investment areas at a project-level and more broadly. While the same can be said for public investments in these sectors, the challenges of disaggregating investments can be a deterrent for private actors reporting on a voluntary basis.\textsuperscript{16}

Additional challenges and uncertainty persist, for instance, around geographic attribution of private finance sources and destinations. Geographic attribution is necessary to know what flows can be attributed to developed countries and to more granularly understand where private flows are coming from. Since private financiers may have owners across multiple, dynamic locations and changing ownership structures, it can be difficult to assign a meaningful location of origin to private finance. In the OECD’s 2017 report on mobilized private finance, geographic origin was assigned based on the Balance of Payments’ residence principle, in which geographic origin is based on the transactor’s center of economic interest.\textsuperscript{17} Despite some existing efforts by MDBs and the OECD, the 2018 Biennial Assessment describes geographic attribution of private finance as “the most significant source of uncertainty”.

\section*{Inconsistent tracking of mobilized private climate finance}

Mobilized private finance generally refers to private finance leveraged by public resources. This can be considered separate from private investments attributed to activities such as capacity building and policy support, which can have different names, as shown in Table 2 further below. For simplicity, this paper will refer to private finance attributable to capacity building or policy reform as “private investment catalyzed”. Currently, progress towards developing methodologies to measure private investment catalyzed is in its infancy, so this section will focus on private finance that is mobilized.

Many climate finance tracking initiatives led by international organizations (e.g., OECD, Joint Group of MDBs, IDFC) track the mobilization of private climate finance to elucidate their members’ contributions to total climate finance. In doing so, these initiatives need to make choices and assumptions to calculate estimates. This entails specific trade-offs when selecting, for instance, the point of measurement (e.g. approval date, commitment date, treatment of investments in tranches), causality (whether the private sector would have invested or not in the absence of public funds that leveraged them), and attribution (cross-regional projects, pro-rata calculations) of the mobilized finance.

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{15}https://unfccc.int/sites/default/files/resource/2018%20BA%20Technical%20Report%20Final%20Feb%202019.pdf
\end{itemize}
\end{footnotesize}
While significant progress has been made in the last few years on tracking mobilized private finance, methodologies are still evolving. Further, the approaches developed by different institutions vary in important ways that impact comparability. The OECD and Joint Group of MDBs are two of the most advanced initiatives tracking mobilized private climate finance. There are, however, significant differences between them pertaining to key elements to calculate mobilized private finance such as attribution and definitions. For instance, in determining attribution, OECD attributes private mobilization to all official development finance institutions (DFIs) that intervened in a transaction\(^{18}\). In contrast, MDBs only attribute private mobilization to investments that come from MDBs contributing to the project or deal. There are also discrepancies in core definitions. For instance, OECD’s definition of infrastructure considers exclusively economic infrastructure whereas the MDBs’ approach partially includes social infrastructure.\(^{19}\)

Key methodological differences between the two are listed in Table 2 below.

**Table 2. Comparison of Initiatives Tracking Private Finance Mobilization**

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Definitions</th>
<th>Methodology</th>
<th>Other Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>OECD</td>
<td>Mobilization, or “direct mobilization”: The OECD seeks to demonstrate a causal link between the official and private investment. Mobilization refers to the ways in which specific mechanisms stimulate the allocation of additional financial resources to particular objectives. Catalytic effect, or “indirect mobilization”: usually refers to the result of actions aimed at stimulating positive change, and can materialize either through financial means (funds mobilized) or non-monetary contributions (e.g., transfer of knowledge).</td>
<td>Private finance reported as “co-financing” is used to estimate private finance mobilized. Methodologies are instrument-specific to take into account financial characteristics and the role and position of all official actors involved.</td>
<td>Does not distinguish between direct and indirect mobilization (as the MDB approach does). Attributes private finance mobilization to all public institutions (including MDBs and DFIs) involved in a transaction.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Covers five instruments: guarantees, syndicated loans, shares in climate investment vehicles (CIVs), credit lines, and direct investments in companies.</td>
</tr>
</tbody>
</table>

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\(^{19}\) Ibid.

as the mobilization effect of financial support provided by South Africa and international policies. 

<table>
<thead>
<tr>
<th>Joint Group of MDBs</th>
<th>Private Direct Mobilization: financing from a private entity on commercial terms due to active and direct involvement of an MDB leading to commitments from other private financiers.</th>
<th>Private finance reported as “co-financing” is used to estimate private finance mobilized.</th>
<th>Attributes private mobilization only to MDBs involved in a transaction.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Private Indirect Mobilization: financing from private entities supplied in connection with a specific activity for which an MDB is providing financing, where no MDB is playing an active or direct role that leads to the commitment.</td>
<td>Direct mobilization is tracked as co-financing arrangements under which MDBs have been paid a fee for setting up the deal (“fee-based” criterion).</td>
<td>Covers a range of financial instruments: long-term loans, equity, Islamic finance, guarantees, short-term finance (trade finance, supply chain finance and other programmatic support for real economy activity with a tenor of less than 12 months).</td>
</tr>
<tr>
<td></td>
<td>Private Investment Catalyzed: Private investment beyond/after MDB supported investment and advisory projects, or triggered by activities such as policy reform, capacity building, etc.</td>
<td>Provides only aggregated data, no details on composition of mobilized private finance. Indirect mobilization is tracked as all other co-financing arrangements.</td>
<td>Ongoing work is being conducted by the joint group of MDBs to estimate private investment catalyzed. Their 2018 paper provides case studies for estimating catalyzation but has not identified a single approach.</td>
</tr>
</tbody>
</table>

Methodological differences outlined above have implications for mobilized private climate finance estimates. Diverging estimates, in turn, have often led to questioning by some stakeholders of the reliability of total estimated climate finance flows and whether there has been over-reporting. This, in turn, may lead to conflicting views on, for instance, whether or not developed countries are complying with their commitments under UNFCCC.

Both the OECD and MDBs have in the past weighed in on the different approaches to estimate mobilized private finance. On the one hand, the OECD has noted that estimates of mobilization based on two different methodologies can lead to inconsistent data and messaging, and create a risk of double-counting.

Concerns from the OECD about the MDBs methodology emphasize that the latter fails to take into account the role of other actors (such as DFIs). Some DFIs that do not necessarily arrange transactions can still have the mandate to promote private finance by sharing or mitigating risks and provide funding

to mobilize private climate finance. The OECD is wary that this might be a disincentive for DFIs to engage in blended finance transactions with MDBs and provide co-financing. The OECD has stressed that this has been a recurring critique from developing countries. Further, there are issues with the absence of disaggregated figures on mobilization, as the credibility of the information depends on “the possibility for the public to access information (ideally at the project level) on the purpose and recipients of funds”.

The OECD has also expressed concern that the MDBs’ approach to tracking mobilized private finance has already been adopted and there is therefore little flexibility for adjusting both approaches.

On the other hand, MDBs have not directly addressed perceived issues with OECD’s methodology. In their “reference guide to private investment mobilization”, MDBs have stressed that both approaches have common underlying principles, but different scope of application and formulas.

It is unclear at this point if there are renewed efforts underway to harmonize methodologies with a view to enhance comparability.

**What is being done to improve private climate finance tracking/reporting**

Availability of data and confidentiality concerns have been ongoing hurdles to efforts to track and estimate private climate investments. Efforts by various organizations and institutions such as the International Energy Agency (IEA), OECD and MDBs are underway to (1) reduce gaps in sectoral estimates of private climate finance, (2) improve estimates of “catalyzed” private finance, and (3) enhance transparency and reporting by the private sector.

As discussed above, estimates of overall private flows are largely limited to renewable energy investments. The IEA, however, has made progress on developing methodologies for calculating private investments in energy efficiency and sustainable transportation. The IEA’s methodology for tracking investments in energy efficiency is divided into three sub-sectors: industry, transport and buildings. Their approach calculates the incremental costs of deploying technologies more energy efficient than minimum standards for buildings and market averages for industry and transport. For sustainable transportation, the IEA has made progress in estimating investments in electric vehicles. By tracking the retail sale of electric vehicles and their incentive structures in different countries, the IEA has been able to break down total electric vehicle investment by domestic public investment (value of the subsidy/tax break) and private investment (subsidized/pre-tax sale price).

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23 OECD (2018) Measuring Mobilisation: Briefing on efforts to harmonise OECD and MDB measurement methodologies
24 Ibid
25 Ibid
Besides their ongoing work calculating mobilized private finance, MDBs and the OECD are also working on developing methodologies to estimate catalyzed private finance. The joint group of MDBs has published seven case studies that estimate catalyzed private investment for different MDB projects. While these are not specifically climate finance projects, they are meant to illustrate the type and scale of catalyzation of MDB activities and explore different estimation techniques that can be applied. The techniques explored vary widely based on the type of activity and catalyzing effect. For some case studies, specific private investments were identified as attributable to the MDB activities. Other projects were large enough to have macro effects on a national scale (national totals for private fixed capital formation). One such project, the case of canal expansion in Panama, used a control methodology for estimation of follow-on private investments.

See Box 3 below for additional details. Similarly, the OECD has published a case study in South Africa exploring estimation techniques for catalyzed private investment.

Box 3. Estimation techniques for catalyzed private investments

A group of MDBs analyzed a series of case studies on the catalytic effect of MDBs investments in driving private investments, including the example of the announcement of the Panama Canal expansion. The macroeconomic impacts of the announced expansion and the strategic nature of the project make the example unique. It nevertheless illustrates the types of analyses and calculations that MDBs use to estimate the catalytic effects of their investments.

The International Finance Corporation (IFC) used a synthetic control method in which data for multiple countries are used to construct a "synthetic" counterfactual for Panama’s private investment growth in absence of the canal expansion. The analysis identified a certain amount of private finance linked to different policies and applied a “volume-based pro-rated attribution by instrument” to estimate how much of the private finance could be attributed to the announcement of the canal expansion. A detailed analysis of investment data in the country showed that participation of private gross fixed capital formation increased from around 18 percent of GDP on average to 30 percent of GDP on average post announcement of the expansion. The participation of foreign direct investment in GDP also increased from 6 percent to 9 percent after the announcement.


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Several new initiatives to improve the transparency of green and brown private sector finance have emerged; however, these are largely qualitative and do not provide uniform methodologies for reporting finance numbers. For instance, the Principles for Responsible Banking (PRB)29 aim to improve transparency, focusing on the banking industry (private and public) and their contributions to the Sustainable Development Goals and the Paris Agreement. While PRB does provide a template for banks to report on their progress towards the six principles, the information provided is largely qualitative. Banks also choose their own targets to report on, which can be qualitative or quantitative.

Still in early development, CPI has proposed an analytical framework and dashboard to measure and present shifts in private capital in response to climate change. This approach seeks to depart from a focus on tracking mainly infrastructure investments for emissions reductions or resilience enhancement. Infrastructure investments typically involve equity finance from government agencies or corporations or specialized or debt finance from commercial banks. CPI proposes to widen the scope and include transactions within capital markets, as well as tracking climate-related internal policies, business models and risk management strategies adopted by private sector actors. The proposed framework would be built around three factors—sentiment, integration, and flows30—to describe different actions private actors can take in response to climate change.

While sentiment and integration focus on market signaling and integrating climate into decision making, respectively, flows aims to capture financial allocations, transactions and investments. CPI’s framework proposes that flows are tracked through three indicators: (i) new flows quarterly and annually, (ii) total stock annually, and (iii) new real investment quarterly and annually. Currently, the proposed framework and dashboard are in an early stage of development. CPI has identified data gaps as a key limitation of the proposed dashboard and cited the need for collaborative data collection efforts.

**Reporting under UNFCCC**

Reporting of mobilized private finance through public interventions under the Paris Agreement’s Enhanced Transparency Framework (ETF) will rely on Biennial Transparency Reports. The Paris Rulebook has set modalities, procedures and guidelines (MPGs)31 for the transparency framework for action and support. Countries will use MPGs when reporting support provided (including support mobilized), received and needed.

The MPGs for reporting finance mobilized through public interventions outline the information that should be included “as applicable and to the extent possible”32 (e.g., the year, amount mobilized, amount used to mobilize the support, etc.). This includes the “type of public intervention used (e.g. grant, concessional loan, non-concessional loan, equity, guarantee, insurance, policy intervention, etc).”

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32 Ibid.
capacity-building, technology development and transfer, technical assistance). Based on this list of potential public interventions, and the definitions used in this brief, the MPGs encompass reporting on both private finance mobilized and private finance catalyzed (e.g., through policy intervention or capacity-building). However, MPGs and corresponding tabular formats (currently under negotiation) thus far lack further methodological guidance on estimating or reporting private finance mobilized. This includes grant equivalency and climate relevance in the provision of bilateral and multilateral finance.

Further, the MPGs ask that developed countries include information on how the support was identified as being “climate-specific”, as well as “what new and additional financial resources have been provided, and how it has been determined that such resources are new and additional”. However, there is no common interpretation of “climate-specific” or “new and additional”. Also, the methodology to determine “climate-specific finance” is not applied consistently across developed countries. Absent a clear definition of these terms, there could be issues with comparability and aggregation of results. An additional problem is that the reporting of this information on climate finance mobilized is voluntary to developed country Parties, thus reducing its potential for comparability and usage if not widely reported by this group of countries.

Conclusions

Accurate estimates and reliable tracking of private climate finance are essential to address gaps and measure progress to adapt to climate change and reduce emissions in line with Paris’ 1.5 degrees goal. More efforts are needed to improve private finance estimates and tracking, particularly if we are to have a clear picture of finance available and remaining gaps toward the USD 100 billion/year goal, as well as for discussions on post-2020 finance under the UNFCCC.

Enhanced transparency of private climate finance would also contribute to efforts to track progress towards aligning all financial flows with climate objectives per Article 2.1.c of the Paris Agreement. In addition to private climate finance, a full, clearer picture of finance flows alignment with Article 2.1.c would require the tracking of private brown flows to assess the magnitude of flows that need to shift from brown to green.

Basic fundamental challenges remain to understand flows of private climate finance, as summarized below.

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33 FCCC/PA/CMA/2018/3/Add.2 Annex Modalities, procedures and guidelines for the transparency framework for action and support referred to in Article 13 of the Paris Agreement
https://unfccc.int/sites/default/files/resource/CMA2018_03a02E.pdf#page=39

34 FCCC/PA/CMA/2018/3/Add.2 Annex Modalities, procedures and guidelines for the transparency framework for action and support referred to in Article 13 of the Paris Agreement
https://unfccc.int/sites/default/files/resource/CMA2018_03a02E.pdf#page=39
**Critical Data Gaps**

Reporting of private climate investments ultimately relies only on a handful of databases, of which BNEF for renewable energy is the most widely used. BNEF, however, does not cover investments below certain thresholds, and uses default assumptions for missing deal values.  

Data for sectors other than renewable energy is basically unaccounted for through direct private sector reporting. As a consequence, and due to the absence of data on direct private investments for most sectors, data are limited to the portion of private finance mobilized by the public sector. We do not have enough information to assess whether such mobilized investments can be viewed as a reliable proxy for private sector mitigation and adaptation investments as a whole, but suspect that choices made by MDBs and the OECD may not be representative of private sector investment decisions.

Since reporting from private actors remains limited due to sensitivities around commercially valuable data and given the vast numbers of private investors, there seems to be little chance of getting comprehensive and accurate bottom-up reports on private investments on mitigation and adaptation. That being said, initiatives to encourage sharing of project-level or even aggregated investment data from the private sector could bring significant clarity, as the TCFD has done for climate-related risks and potential impacts.

At the same time, the international community can look to top-down approaches. Recent progress by IEA in developing top-down estimates of private sector investments in energy efficiency and electric vehicles is quite promising and suggests that similar approaches could be extended to other sectors and result areas. The main advantage is that the top-down estimates can be made based on data and assumptions that are likely to be already available, such as technology penetration and incremental costs of lower carbon solutions, and which do not require estimates or reports from specific companies.

In using top-down estimates of private climate finance, it becomes necessary to reconcile top-down and bottom-up reports to minimize the risk of double-counting and avoid inflated volumes of finance.

**Methodological Inconsistencies**

As argued in this paper, methodological issues still hinder reporting of mobilized private finance. This includes differences in the choices for presenting the data (e.g. aggregated versus disaggregated), of selected working definitions, attribution, and points of measurement, among others.

MDBs, bilateral institutions and the OECD should work together to harmonize methodologies and improve the current system to account for mobilized private finance. This would require that multilateral and bilateral development finance institutions and UNFCCC reporting systems coordinate reporting metrics and key decisions around attribution, measurement, and definitions in their methodologies. MDBs’ and the OECD’s approaches to tracking catalyzed private climate finance are already in late stages, and consistent approaches will be hard to develop, as was noted in this document. Their approaches to tracking catalyzed private finance, however, are significantly less

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developed and not yet adopted. This presents an opportunity for OECD, MDBs, and others such as IDFC to work together to develop consistent approaches, and in a best-case scenario, a unified one.

**Challenges under UNFCCC’s System**

The sections of the Paris Rulebook on the ETF provide the basis for more clarity and consistency; however, common tabular formats for reporting of climate finance provided from developed countries, which are still under negotiation, would need to provide considerable specificity to ensure reporting occurs in a uniform manner. This level of specificity, however, will be difficult to achieve via the UNFCCC consensus process, through which all countries must agree on the common tabular formats to be used for reporting. There are, for instance, ongoing challenges to reconcile estimates of private climate finance mobilized by different institutions. Estimates are calculated based on different underlying (and sometimes diverging) definitions and assumptions. These include the interpretation of concepts such as “new and additional” climate finance and “climate-specific”. Unless addressed, the risk of having some developed countries deem all finance as “climate-specific” would continue, which may lead to over-reporting, including of mobilized private finance.

To increase overall comparability and facilitate aggregation (including of mobilized private finance), negotiators could consider if proposals under development for the common tabular formats align with existing OECD methodologies. Common tabular formats could build on the Rio Markers system already used by contributor countries, focusing on finding ways to address its shortcomings. The formats should use, to the extent possible, methodologies and metrics that contributor countries already use to report under OECD DAC, but ensure that: (i) information on support provided is clear and sufficient, and (ii) developed countries apply those existing methodologies in a consistent manner. As this paper noted, this is not necessarily the case, for instance when contributors determine whether activities have a “principal” or a “significant” climate component.

Unless methodologies to report are used consistently, aggregation and comparability challenges of support provided will continue to hinder understanding of finance flows. Negotiators could explore options such as identifying common principles or phased approaches that allow adjustments over time.
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