

## SUBMISSION BY CROATIA AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

Zagreb, 4 May 2020

**Subject: Submission on views on the operational definitions of climate finance for consideration by the Standing Committee on Finance in order to enhance its technical work on this matter in the context of preparing its 2020 Biennial Assessment and Overview of Climate Finance Flows**

### Summary

- Although the Standing Committee on Finance has agreed an operational definition of climate finance in the context of the Biennial Assessment since 2014, it should continue to advance its ongoing technical work on operational definitions of climate finance in a **dynamic manner**, building on COP decisions and continued progress outside the UNFCCC on taxonomies, accounting principles, principles and methods developed by the Financial Stability Board's Task Force on Climate related Financial Disclosures (TCFD), Principles for responsible investments (PRI) and other developments in the financial sector.
- **Development of a single definition is neither feasible nor useful.** A single definition risks to impose a narrow view on climate finance that would not be adequate to cover the wide and dynamic range of climate relevant finance and could lead to the exclusion of finance allocated to low-emission and climate-resilient development activities, for example when considering measures which do not strictly reduce emissions but rather put the country on a low-emissions development path.
- Considering the urgent need to reduce GHG emissions and to meet adaptation challenges, as expressed in the three recent IPCC Special Reports, all finance flows should increasingly be made consistent with the objectives of the Paris Agreement. Finance flows relevant to Article 2.1(c) needed to finance the transition are not tracked, thus could not be captured in a single, static definition; but those flows and investments are key to progress in the implementation of the Paris Agreement.
- European Union **development finance flows** integrate climate action and methodologies are already set in place to enable us to show how much of development finance is dedicated to climate action. Methodologies are continuously developed to better reflect that cross-cutting projects and programs enhance the enabling environment that allow to progress towards a climate-resilient and low-emissions development pathway.
- **Changing realities of climate finance** and the importance of **national budget and planning processes** must be taken into account.

## Introduction

The COP in its decision 11/CP.25, paragraph 10, underscored the “important contributions of the Standing Committee on Finance in relation to the operational definition of climate finance, and invited Parties to submit via the submission portal, by 30 April 2020, their views on the operational definitions of climate finance for consideration by the Standing Committee on Finance in order to enhance its technical work on this matter in the context of preparing its 2020 Biennial Assessment and Overview of Climate Finance Flows.” The European Union and its Member States welcomes this invitation and is pleased to offer its views on the matter.

We believe this invitation for submissions can be a useful one off exercise, as a means of providing additional information in support of the important technical work of the Standing Committee of Finance (SCF) on operational definitions of climate finance, including of private finance mobilised by public interventions. The SCF has proved to be effective in assisting the Conference of the Parties (COP) and we believe the Biennial Assessment and Overview of Climate Finance Flows (BA) reports have become one of its most useful products, in good part due to developing and applying a strong methodological framework. We especially appreciate that starting in 2018 the BA has included information relevant to Article 2.1(c), of the Paris Agreement and furthermore discusses climate finance flows in the broader context of Article 2.1 (c).

We appreciate the opportunity to provide further information to the 2020 BA, in accordance with the transparency, accuracy, completeness, comparability and consistency principles set out in decision 1/CP.21, in the continued effort to improve the harmonization of reporting approaches and operational definitions of climate finance over time, which also serves to inform the Global Stocktake.

## Detailed position of the European Union and its Member States

### **1. Continued commitment to consistency and transparency in climate finance**

The European Union and its Member States are closely engaging with providers and receivers of international climate finance. To this end, the European Union and its Member States are pleased to continue to provide relevant climate finance information to promote a mutual understanding of the level of international climate finance to the benefit of all actors, including description of climate finance definitions, methodologies and assumptions used. Thereby, the European Union and its Member States are committed to help enhancing overall transparency in climate finance e.g. by making data more easily accessible and comparable to the public and recipients. Given the vast variety of reporting frameworks and methodologies used in the public and private sector, the European Union and its Member States are of the view that a single one-size-fits-all definition of climate finance would not be beneficial for allowing the SCF to thoroughly assess all instances of provision and mobilization of climate finance accelerating the climate neutral and climate-resilient transition.

## **2. Ensuring methodological consistency and comprehensiveness in reporting**

The overview of climate finance flows provided in the Biennial Assessment (BA) by the Standing Committee on Finance (SCF) presents information on the multitude of finance flows e.g. international and domestic, bilateral and multilateral, public and private. The technical reports of the BAs prepared in 2014, 2016 and 2018 demonstrate a variety of commonly used definitions of climate finance. This includes compilations of definitions of climate finance and criteria used by various institutions and compilation of information on how Parties define mitigation and adaptation in their national communications, biennial reports, biennial update reports, nationally determined contributions, national adaptation plans and nationally appropriate mitigation actions.

Since 2014, the BA has aggregated the approaches of data collectors and aggregators into an operational definition framed as: “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.”

The European Union and its Member States believe this provides a good working arrangement and is fit for the purposes of the Biennial Assessment, which aims to provide an overview of climate finance flows, drawing on the available sources of information, and including information on the geographical and thematic balance of flows. It is broad enough to encompass different interpretations of the term. It relates to the flow of funds to all activities, programmes or projects that support climate change related projects and enabling environments, whether mitigation or adaptation, anywhere in the world. In this sense, the European Union and its Member States believe that the SCF should continue to advance its ongoing technical work on operational definitions of climate finance in a dynamic manner, building on relevant COP decisions and developments outside the UNFCCC, e.g. on taxonomies, accounting principles, principles and methods developed by the Financial Stability Board’s Task Force on Climate related Financial Disclosures (TCFD), Principles for responsible investments (PRI) and other developments in the financial sector.

The scope of this discussion is also informed by Article 9.3 of the Paris Agreement in terms of “the wide variety of sources, instruments and channels, noting the significant role of public funds, through a variety of actions, including supporting country-driven strategies, and taking into account the needs and priorities of developing country Parties.” Attempting to impose a restrictive definition of climate finance would not be reflective of the diversity in climate investments globally as well as the approaches and solutions that are already being employed and reported on based on operational definitions. Especially when it comes to adaptation one cannot have a clear line to what can be reported as a climate project or development project. It needs to be defined on a case-by-case basis and monitored based on what the project is ultimately aiming at, meaning that one needs to ask whether mitigation or adaptation is an aim in itself or more of a co-benefit. Furthermore, the aim should be to find synergies that help to achieve impact relevant to both broader (sustainable) development and to climate change mitigation and/or adaptation.



The European Union and its Member States encourage international ongoing technical work on climate finance methodologies, including private finance mobilized by public interventions. Nevertheless, there cannot be a “one size fits all” definition, nor would a narrow definition be useful or adequate to capture the wide variety of finance sources, measures, recipients and donors, effects and impacts. In providing data on climate finance flows, reporting entities currently apply different operational definitions, methodologies, assumptions and approaches, as a tool to assess current types and levels of progress in scaling up finance. This provides the basis for a more comprehensive global overview e.g. as delivered in the BA. However, the increasing level of transparency regarding different methods for collecting and reporting on climate finance data employed by countries and institutions opens the possibility for gradual increase in data harmonization and comparability in coming years. This can result in enhanced transparency of climate finance flows and ultimately result in a more robust system for reviewing and aggregating climate finance information, in view of informing the Global Stocktake.

### **3. Including all finance flows that serve low-emissions and climate-resilient development**

In addition to the above, the European Union and its Member States support the use of a multitude of operational definitions of climate finance because this helps capture the dynamic and context-dependency of finance which is relevant to climate change mitigation and adaptation. Green financing and investments that are not labelled as climate finance are still key to financing the transition. Reporting on climate finance flows is typically done according to the type of investment, e.g. mitigation, adaption and cross-cutting categories. Climate finance is also flowing through various structures and mechanisms which benefit the transition to climate neutrality and resilience.

The Paris Agreement, Article 2.1 (c) refers to finance flows that are “consistent with” as opposed to being “aimed at” a pathway towards low-emissions and climate-resilient development. Applying this in practice discourages the use of a single definition of climate finance because this might lead to the exclusion of financing that is consistent with a pathway towards sustainable low-carbon societies, but not solely aimed at reducing emissions or increasing climate resilience.

### **4. Taking into account changing realities, needs and domestic priorities**

Operational definitions must take into account the changing realities of climate finance. Climate finance needs to be understood in the broader context of implementing the Sustainable Development Goals (SDG) and the Addis Ababa Action Agenda (AAAA) on development finance. Climate finance now effectively encompasses public, private and alternative flows from a multitude of providers and recipients, be they public, private, or institutional. Pursuing efforts to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development and mainstreaming climate mitigation and adaptation into budget planning and investments means that the scope of climate relevant finance is broadening even further. It encompasses blended finance, which the OECD defines as the strategic use of development finance for the mobilisation of additional finance towards sustainable development in developing countries, as well as projects with climate co-benefits. Also, it is important to acknowledge that a major part



of climate relevant finance flows from developing countries to other developing countries, e.g. through contributions to established multilateral funds, through bilateral initiatives and new Southern-led international organizations like the 'BRICS bank' and the Asian Infrastructure Investment Bank.

In this context, it is useful to highlight the importance of national budget and planning processes and strategies of developing countries to identify and mobilise climate finance and 'climate finance readiness' as well as the importance of developing countries prioritizing climate action in dialogues with development partners.

The European Union and its Member States highly appreciate the technical work of the Standing Committee of Finance (SCF) on operational definitions of climate finance and looks forward to continuing to discuss this topic in the context of preparing the 2020 Biennial Assessment and Overview of Climate Finance Flows. We commend the SCF's efforts to assist the COP in making efficient use of negotiating time and look forward to the outcome of this work.