

Climate Finance Tracking

Comparison of the MDBs and IDFC Methodologies

This paper compares two climate finance tracking methodologies used by two major groups of public development banks, namely IDFC and the Multilateral Development Banks group.

IDFC (International Development Finance Club) was formed in 2011, and comprises twenty like-minded development banks of national, subregional and international origin (Europe, Asia, Central and South America, and Africa). In 2012 and 2013, IDFC members did a mapping of their green finance contributions by collating and disclosing their aggregated green finance (including mitigation and adaptation to climate change) flows for respectively 2011 and 2012¹. For climate finance, the methodology of these mapping exercises adopted a two-step approach based on:

- A global definition of mitigation and adaptation based on OECD-DAC climate markers
- A core list of eligible project categories or sub-sectors that were consensually accepted by all IDFC members as projects that typically contribute to tackling climate change.

A group of seven **Multilateral Development Banks** has agreed to undertake efforts leading towards developing a joint methodology for tracking climate change mitigation and adaptation finance². With respect to mitigation, accounting and reporting is based on a common list of activities at the intersection of what all MDBs involved consider mitigation³. With respect to adaptation, a project must fulfill three criteria: setting out a context of climate vulnerability; addressing or improving climate resilience and linking activities to climate vulnerability. Activities should reflect at least one of specific and pre-determined adaptation categories. In addition, a non-exhaustive list of indicative examples provides further guidance.

1. For mitigation projects, the two methodologies definitions are highly consistent

The main conclusion of the comparison analysis is that for mitigation projects, the two methodologies are largely consistent:

- Both methodologies use an activity-based methodology and use exactly the same definition of eligible projects for many of the subcategories;
- Both groups of institutions undertake the classification *ex-ante* project implementation;
- Neither of the two methodologies uses a GHG footprint analysis as information to make the classification. In the absence of a commonly-agreed method for GHG analysis, mitigation

¹ See <http://idfc.org> , [Mapping of Green Finance Delivered by IDFC Members in 2011](#) and [Mapping of Green Finance delivered by IDFC Members in 2012](#)

² See AfDB (2012), [Multilateral Development Banks Join Forces to Track Climate Financing](#). The MDBs involved are African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IDB), International Finance Corporation (IFC) and the World Bank.

³ See for further details see AfDB et al. (2012), [Joint MDB report on mitigation finance 2011](#)

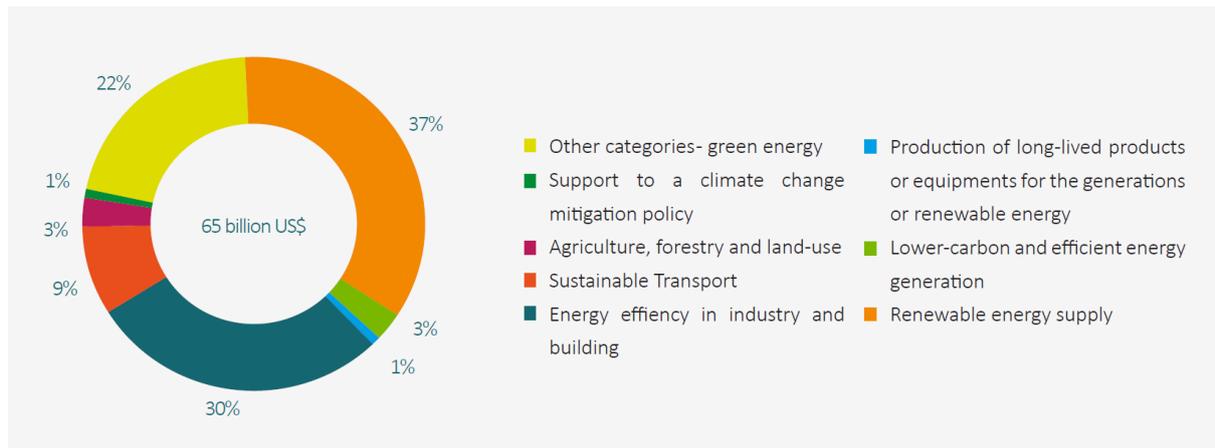
activities considered in both methodologies are assumed to lead to emissions reductions based on past experience and/or technical but empirical analysis.

Regarding the level of granularity of data analysis, the MDBs methodology specifies that an activity can be a project or a project component. It however specifies that it goes until a reasonable level of data granularity (a project of 100 million USD would be dissected into main components). Even if the IDFC methodology stays at project level, it seems to not differ much from the MDBs' approach. Indeed, when considering the list of eligible projects, the level of granularity is of the same order of magnitude in both methodologies. The MDBs' "project components level" actually seems to refer to thematic segmentation when a project or program does have very different components (such as soft and hard components, different investments in a wide sector approach...) and ends up being similar to a list of projects.

Lastly, the interpretation of which projects should be classified under the different categories may vary between - but also within – IDFC and the MDBs.

The comparison analysis concludes the two methodologies substantially converge for definitions of tracking clean energy and mitigation projects. Achieving total consistency would require only small adjustments to IDFC (or MDBs) methodology.

More specifically, the comparison work was done on the basis of IDFC list of eligible projects (see Annex 1) that contains 9 categories. In order to assess the financial volume of differences, the breakdown of total clean energy and mitigation projects of IDFC institutions investments in 2012 is recalled thereafter :



Nota : the above graph actually shows 8 categories, as the two categories "Carbon capture and storage" and "Process emissions in industry and fugitive emissions " have been merged into the category "Other categories – green energy"

The main discrepancies between the two methodologies can be listed as such :

1. Out of these 9 categories, only two categories that represent only 2% of the 65 billion USD investments in clean energy and mitigation projects are not consistent with MDB's definitions. Among these two topics, the most important issue concerns the category "9-Cross-sector activities". MDB's methodology provides a list of 12 activities under this item whereas IDFC methodology gathers all these activities under "dedicated budget support to national or local authorities for implementation of climate change mitigation policies". The main difference is that IDFC methodology focuses on type of financial instruments whereas MDBs methodology focuses on type of project activities or components. This can generate some differences : for instance a Climate Change Development Policy Operation (DPO) may not be counted at 100% according to MDBs methodology as it would be in IDFC methodology.

2. Adding to that a few topics listed in MDBs methodology are not tracked or tracked partly by IDFC methodology:
 - The MDBs subcategory 1.2 “public services” does not exist in IDFC methodology per se. If those items are likely to be tracked by IDFC methodology under “energy efficiency in industry or and buildings”, interventions relating to public services as such is lacking in IDFC methodology.
 - MDBs have in some cases more detailed categories than IDFC within one similar big category than IDFC. It has no impact regarding accuracy of global figures and it concerns wastewater and transport logistics:
 - The MDBs subcategory 5.4.1 “Improvement of general transport logistics to increase energy efficiency of infrastructure and transport, e. g. reduction of empty running” does not exist in IDFC methodology. The topic of logistics in general transport is totally absent in IDFC methodology.
 - The MDBs subcategory 7.1.2 “treatment of wastewater” does not exist in IDFC methodology even if it may be covered by IDFC subcategory “waste and wastewater”.
 - The MDB category “New transmission systems (lines, substations) or new systems (e.g., new information and communication technology, storage facility, etc.) to facilitate the integration of renewable energy sources into the grid” does not exist as such in IDFC methodology. IDFC Approach does not include new transmission systems as a part of 'Renewable Energy' but mentions this activity in the category 'low-carbon and efficient energy generation'

Among these three topics, the only one that could potentially represent an important share of mitigation projects is the first one. However, even if it does not exist as such in IDFC methodology, the projects falling under this category may be partly covered by other IDFC eligible projects. The projects “forgotten” by IDFC methodology may therefore represent a small share of the total clean energy and mitigation projects reported.

3. It can also be underlined that definition of energy efficiency is slightly different for IDFC and MDBs. According to the MDBs, a project can be qualified as brownfield energy efficiency if "(i) old technologies are substituted well before the end of their lifetime and the new technology are substantially more efficient, or (ii) new technologies or processes are substantially more efficient than those normally used in greenfield projects". IDFC's only requires “significant improvement in energy efficiency” which is a lighter definition that does not present a high level of robustness in terms of level of energy efficiency improvement ambition. As a consequence, a small amount of projects that qualified for IDFC may not qualify for MDBs methodology.
4. Some other categories are not directly similar in IDFC and MDBs methodology, such as "budget support", assistance to regulation, assistance to carbon market... For instance, if sectoral budget support to policies and action plan at the state or local authorities are tracked as climate finance in both methodologies, it is not referred to under the same category..
5. Finally, - there may be differences in the implementation of the methodologies and sets of definitions (for instance interpretation of “project components or elements”). The IDFC approach integrated also the option for IDFC members to add other considered climate related investments along with an explanation on their climate accounting methodology. This flexibility does not exist within MDBs’ methodology.

2. For adaptation, the subject is more complex and still raises some question

The comparison of the IDFC list of eligible projects and the MDBs list of activities examples show that even if the two methodologies indicate the need to have a case by case assessment of both i) potentiality of the project to tackle an adaptation goal and ii) existing of a real vulnerability through a vulnerability assessment of the project in its background, the two methodologies are not, at this stage, easily comparable. Further work has to be done to assess differences and convergence possibilities through in particular exchanges on practical cases and examples.