Common Principles for Climate Mitigation Finance Tracking

Introduction

The purpose of these Common Principles for Climate Mitigation Finance Tracking (or the Principles) is to set out agreed climate change mitigation finance tracking principles for development finance. The Principles have been developed by the joint climate finance group of multilateral development banks (MDBs)[1] and the International Development Finance Club (IDFC)[2] based on their experience on the topic and with the intention to be shared with other institutions that are looking for common approaches for tracking and reporting. The principles consist of a set of common Definitions and Guidelines including the list of activities, but do not cover aspects related to their implementation, including quality control procedures which remain the sole responsibility of each institution and/or group. The Principles, reflect the approach that both groups (MDBs and IDFC) have been following for tracking climate change mitigation activities for the past 4 years, and are based on the application of harmonized terms.

Purpose

The MDBs and the IDFC commit to the Principles in their respective, group-based climate mitigation finance reporting. MDBs and IDFC invite other institutions to adopt the Principles and therewith further increase transparency and credibility of mitigation finance reporting.

As an inherent and important part of improving mitigation climate finance tracking, the Principles will be subject to further revision by MDBs and IDFC jointly, based on amassed experience, and also, as a future step, should address comparability of reporting processes. In this respect, MDBs and IDFC are committed to maintaining an open and transparent exchange of information around institutional experience and learning, as well as to jointly discuss potential proposals to improve the Principles. To the extent possible, parties will strive to reach consensus around proposed changes or additions to the Principles. In case differences arise, the parties commit to communicating these in full when reporting on climate mitigation finance

Definitions

- An activity will be classified as related to climate change mitigation if it promotes "efforts to reduce or limit greenhouse gas (GHG) emissions or enhance GHG sequestration"[3]
- Reporting according to the Principles does not imply evidence of climate change impacts and any inclusion of climate change impacts is not a substitute for project-specific theoretical and/or quantitative evidence of GHG emission mitigation; projects seeking to demonstrate climate change impacts should do so through project-specific data

[1] The African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank (IDB), and the International Finance Corporation (IFC), World Bank (IDA/IBRD) from the World Bank Group (WBG)

[2] see www.idfc.org

[3] OECD/DAC Climate Markers (September 2011)

Guidelines:

- Where data is unavailable, any uncertainty is to be overcome following the principle of conservativeness where climate finance is preferred to be under-reported rather than over-reported
- The Principles are activity-based as they focus on the type of activity to be executed, and not on its purpose, the origin of the financial resources, or its actual results. The list of activities eligible under these principles are illustrated in Table 1
- Project reporting is ex-ante project implementation at board approval or financial commitment
- Climate finance tracking is independent of GHG accounting reporting in the absence of a joint GHG methodology.
- The Principles only cover mitigation activities as these are to be disaggregated from non-mitigation activities as much as possible and to the extent that data is available[4]. In case such disaggregation is not possible or data is not available, groups may choose to report a proportion of the project using a more qualitative/experience based assessment of the part of the project that addresses climate change, consistent with the conservativeness principle. This is applicable to all categories, but of particular significance for energy efficiency projects.
- Mitigation activities or projects[5] can consist of a stand-alone project, multiple stand-alone projects under a larger program, a component of a stand-alone project, or a program financed through a financial intermediary. For example, a project with a total cost of USD 100 million may have a USD 10 million documented component for energy efficiency improvements—in this case only the USD 10 million would be reported. Another example may be a USD 100 million credit line to a financial intermediary for renewable energy and pollution control investments, where it is foreseen that at least 60% of the resources will flow into renewable energy investments—in this case only USD 60 million would be reported.
- In fossil fuel combustion sectors (transport, and energy production and use), the methodology recognizes the importance of long-term structural changes, such as the energy production shift to renewable energy technologies, and the modal shift to low-carbon modes of transport. Consequently, both greenfield and brownfield renewable energy and transport modal shift projects are included. In energy efficiency, however, the methodology acknowledges that drawing the boundary between increasing production and reducing emissions per unit of output is difficult. Consequently, greenfield energy efficiency investments are included only in few cases when they enable preventing a long-term lock-in in high carbon infrastructure, and, for the case of brownfield energy efficiency investments, it is required that old technologies are replaced well before the end of their lifetime, and new technologies are substantially more efficient than the replaced technologies. Alternatively, it is required that new technologies or processes are substantially more efficient than those normally used in greenfield projects.
- The methodology assumes that care will be taken to identify cases when projects do not mitigate emissions due to their specific circumstances.

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[4] See Table 1 for specific project type disaggregation issues.
[5] Ibid.