MULTILATERAL DEVELOPMENT BANKS CLIMATE FINANCE TRACKING WORKING GROUP AND THE INTERNATIONAL DEVELOPMENT FINANCE CLUB CLIMATE FINANCE WORKING GROUP

LESSONS LEARNED

FROM THREE YEARS OF IMPLEMENTING THE MDB-IDFC COMMON PRINCIPLES FOR CLIMATE CHANGE ADAPTATION FINANCE TRACKING

EXECUTIVE SUMMARY

In 2015, as a voluntary joint initiative, the members of the Multilateral Development Banks (MDBs) Climate Finance Tracking Working Group and the International Development Finance Club (IDFC) Climate Finance Working Group agreed on a set of Common Principles for Climate Change Adaptation Finance Tracking.[1]

READ THE FULL REPORT AT
https://www.ebrd.com/what-we-do/get/measuring-impact.html

Since then, these Common Principles have guided the preparation of adaptation-related interventions and the tracking and reporting of adaptation finance by MDBs and several IDFC members, including US$ 18.6 billion of adaptation finance that members of the MDB Climate Finance Group delivered during the period 2015-17, and US$ 20.5 billion of adaptation finance that IDFC members reported during the same period.[2]

The experience of applying the Common Principles over the past three years has generated important lessons, not only on the tracking and reporting of adaptation finance but also of mainstreaming adaptation into investment operations. These may be of interest to a range of public and private organisations working on adaptation finance, climate finance and sustainable finance more broadly. These lessons include the following.

LESSON 1

The context-specific nature of climate change adaptation and climate resilience means that a **process-based approach is appropriate for preparing adaptation-related interventions, and for tracking and reporting adaptation finance.** The "three steps" that form the core of the Common Principles guide the process in a logical sequence: i) setting out a project-specific context of climate vulnerability; ii) making an explicit statement of intent to address that climate vulnerability; and iii) articulating a clear and direct link between the context of climate vulnerability and the specific project activities. This is a fundamentally different approach from that used to track mitigation finance, in which MDBs and the IDFC use an activity-based or "positive list" approach.

LESSON 2

A range of approaches is being used to determine shares of project costs that can be counted as adaptation finance. The Common Principles recommend that adaptation finance should be reported based on the disaggregation of adaptation activities from non-adaptation activities within projects, in line with a conservative principle that guards against over-reporting of adaptation finance. This is being implemented using a range of approaches that reflect the varying mandates and business models of the different MDBs and IDFC members.

LESSON 3

The application of the Common Principles has generated valuable experience of how to determine the project-specific context of climate vulnerability. Approaches to reflecting climate variability and projected climate change in project-level analysis vary. Other challenges include the use of inconsistent and/or uncertain data and information from climate models and other impact models for project design choices, and the limitations on inclusion of climate-related information in project documentation.

LESSON 4

Important progress has been made in integrating technical considerations into adaptation finance tracking. These considerations include clarifying the important role of adaptive management practices, in other words non-structural, technical and/or adaptive capacity-building activities within projects that may make a substantial contribution towards the overall climate resilience of a project without requiring the allocation of significant amounts of finance. The application of the Common Principles has also provided important case studies for handling conflicts and trade-offs between adaptation and mitigation outcomes within projects.

LESSON 5

Setting out the project-specific context of risks, vulnerability and impacts related to climate variability and climate change, an important pillar of the three-step approach, remains challenging for many financing institutions. This particularly affects institutions with limited resources, and is chiefly due to significant uncertainties about projections of climate change and its impacts, or simply due to a lack of data in some countries. However, the application of the Common Principles has helped to **build institutional capacity and expertise in climate change adaptation** within MDBs and IDFC members. This has included the development of a range of technical resources and training or guidance materials, many of which are in the public domain and may therefore benefit a much wider range of organisations working on adaptation and adaptation financing.

LESSON 6

The Common Principles have directly contributed to the consistency of MDB and IDFC adaptation finance reporting over the past three years, by providing clear principles and guidance, facilitating more efficient and consistent tracking and reporting mechanisms, and incentivising the development of technical institutional capacity on adaptation. In addition, as adaptation financing has scaled up, the demand for the **development of additional metrics for adaptation projects and financing** has increased, in order to enable consistent reporting on the results that this financing delivers.

[1] The Common Principles build on and are consistent with the MDB methodology for tracking climate change adaptation finance. The methodology was developed in 2011 by the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank and the World Bank Group. This group of MDBs has applied and further developed the MDB methodology over the years, as illustrated in the yearly joint report on MDB climate finance (see https://www.ebrd.com/2017-joint-report-on-mdbs-climate-finance). The MDB methodology requires a high level of disaggregation to separate the cost of adaptation from the cost of other project activities, resulting in a more granular climate finance reporting than the Common Principles.

[2] https://www.idfc.org/wp-content/uploads/2018/11/idfc_greenfinance_4pager_180913-1.pdf