IDFC green finance tracking methodology 2014

Eligible project categories

In a collective effort to contribute to the efforts of defining, tracking, and reporting mobilized climate finance, IDFC has set up a methodology, built on its two green finance mapping initiatives of 2012 and 2013.

The methodology revolves around four key aspects of defining, tracking and reporting climate finance that dictate its robustness and accuracy:

- *Transparency*: to adopt a standardized financial reporting format with common definitions and methodologies to quantify climate finance.
- *Comparability*: to encourage a universal methodology/approach by which institutions can assess and estimate mobilized climate finance.
- *Consistency*: to promote a yearly accounting requirement for financial institutions and national governments on climate finance.
- *Flexibility*: to allow for a practical, adaptable and coordinated universal reporting system to track climate finance.

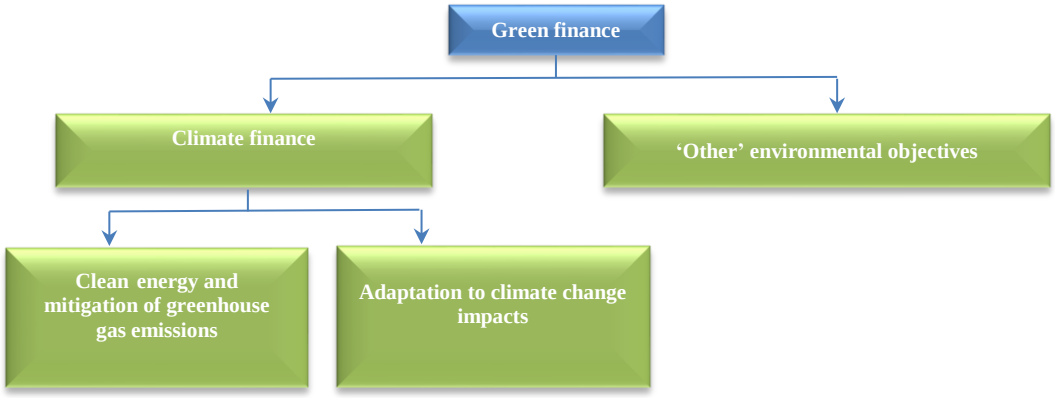
Definitions and terminology

As there is no internationally agreed definition for green and climate finance, this methodology provides working definitions for both terminologies. Green finance is a broad term that can refer to financial investments flowing into sustainable development projects and initiatives, environmental products, and policies that encourage the development of a more sustainable economy. Green finance includes climate finance but is not limited to it. It also refers to a wider range of 'other' environmental objectives, for example industrial pollution control, water sanitation, or biodiversity protection. Mitigation and adaptation finance is specifically related to climate change related activities: mitigation financial flows refer to investments in projects and programs that contribute to reducing or avoiding greenhouse gas emissions (GHGs) whereas adaptation financial flows refer to investments that contribute to reducing the vulnerability of goods and persons to the effects of climate change.

Thus for the purposes of the mapping exercise, green finance is split into three separate categories/themes[1]:

- Clean energy and mitigation of greenhouse gas emissions
- Adaptation to climate change impacts
- Other' environmental objectives

[1] Last year, an additional option was given to banks to categorise separately projects with elements of both adaptation to climate change and, clean energy and mitigation of greenhouse gas emissions.



Green finance mapping categories/ themes

In order to provide accurate and comparable data for the mapping exercises, a consistent categorisation of mitigation and adaptation activities was agreed between the IDFC members. The methodology adopts a two-step approach based on:

- A global definition of mitigation, adaptation and 'other' environment projects: A list of definitions is provided in Annex A.
- A core list of project categories that were consensually accepted by all IDFC members as projects that typically contribute to tackling climate change: A list of project categories is provided in Annex B.

As there are significant challenges to unambiguously attribute specific investments to only one of the three themes, it was decided to split each theme into separate sub-categories. This approach also helps avoid double counting of projects. Additional details on the themes and sub-categories are provided in Annex B. In those cases where IDFC members do not have, or refrained from, providing sub-category information, non-attributed data is provided.

Each mapping exercise collects data for financial flows committed in the year 2012 in the form of inter alia loans (concessional and non-concessional), grants, guarantees, equity and mezzanine finance used by financial institutions to finance investments..

Data collection approach

The mapping exercise draws on first hand data provided by IDFC members. A desk-based data collection approach is carried out using a customized financial survey tool. Most of the data is from direct responses from the banks using the survey tool, with some remaining data collected from publicly available sources (with the permission of the respective institutions).

Detailed guidelines are provided to IDFC members on the categorization of projects (as listed in Annex B). Any deviations from the guidelines were recorded and reported. During the data collection process, IDFC members are asked to use these definitions and eligibility criteria (defined in Annex A and B).

Annex A -Definitions

Definitions of categories

Other environment	
Definition	An activity will be classified as 'other environment' category if it does not directly target climate change mitigation or adaptation however is related to sustainable development with a positive impact on the environment.
Climate change mitigation	
Definition	An activity will be classified as climate change mitigation related if it contributes to reducing or avoiding greenhouse gas (GHG) emissions or to enhance GHG sequestration.
Criteria for eligibility	The activity contributes to (a) The mitigation of climate change by avoiding or reducing emissions of GHGs, including gases regulated by the Montreal Protocol; or (b) The protection and/or enhancement of GHG sinks and reservoirs; or
Climate change adaptation	
Definition	An activity will be classified as climate change adaptation related if it intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience. This encompasses a range of activities from information and knowledge generation, to capacity development, planning and the implementation of climate change adaptation actions and investments.
Criteria for eligibility	For a project to be recognized as a “climate/adaptation” project, the analysis must therefore demonstrate that it potentially contributes to reducing the vulnerability to climate change identified in the project area. To demonstrate, the following should be made available (i) a study of the vulnerabilities to climate change of the project’s geographical area with (ii) an analysis of the activities planned by the project in the light of a positive list of actions that can contribute to reducing vulnerability or to strengthening the resilience of communities, goods or ecosystems to climate change.

Definition of financial instruments

Instrument		Definition
Grants		Grants are transfers made in cash, goods or services for which no repayment is required
Loans		A loan is a debt evidenced by a note which specifies, among other things, the principal amount, interest rate, and date of repayment.
of which concessional loans		Loans that are extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by longer pay back periods periods, or a combination of these.
of which non-concessional loans		Loans with regular market conditions
Other instruments		
of which guarantee		Formal assurance that liabilities of a debtor will be met, if the debtor fails to settle the debt
of which equity		A stock or any other security representing an ownership interest
of which other (please specify)		

Annex B Eligible project categories

A key challenge of mapping green and climate finance is to overcome the varying definitions for green finance themes, and to distinguish between the 'other' environmental, clean energy and mitigation of GHGs, and adaptation categories for which data was collected. In order to distinguish between these categories, a framework was created for IDFC members. Much of this guidance is based on the understanding of IDFC members of the three categories and was determined in close coordination with representatives of IDFC. Data disaggregated are collected as shown in Table below.

Category	Examples
'Other Environment'	
Water supply	Water supply - municipal / industrial / agricultural
Waste water treatment	Waste water treatment - municipal / industrial / agricultural
Industrial pollution control	Reduction of fluid and air pollutants from industry
Soil remediation and mine rehabilitation	Clean up of hazardous waste sites
Waste management	Solid waste collection and treatment, recycling
Biodiversity	Forest species protection, biodiversity
Sustainable infrastructure	Improvement of general transport logistics such as reduction of empty running

Category	Examples
Green energy and mitigation of greenhouse gas emissions	
Renewable energy supply	Electricity generation
	Wind power
	Geothermal power
	Solar power (concentrated solar power, photovoltaic power)
	Biomass or biogas power that does not decrease biomass and soil carbon pools
	Ocean power (wave, tidal, ocean currents, salt gradient, etc.)
	Hydropower plants, only if net emission reductions can be demonstrated
	Heat production
	Solar water heating and other thermal applications of solar power in all sectors
	Thermal applications of geothermal power in all sectors
	Thermal applications of sustainably-produced bioenergy in all sectors, including efficient, improved biomass stoves
Lower-carbon and efficient energy generation	Waste and wastewater
	Waste management and waste-to-energy projects that reduce methane emissions and generate energy
	Transmission and distribution systems
	Retrofit of transmission lines or substations and/or distribution systems to reduce energy use and/or technical losses, excluding capacity expansion
	Improving existing systems to facilitate the integration of renewable energy sources into the grid
	Power plants
	Renewable energy power plant retrofits
	Energy-efficiency improvement in existing thermal power plant
	Thermal power plant retrofit to fuel switch from a more GHG-intensive fuel to a different, less GHG-intensive fuel type
	Waste heat recovery improvements
	Conversion of existing fossil fuel based power plant to cogeneration technologies that generate electricity in addition to providing heating/cooling
Production of long-lived products or equipment for the generation of renewable energy	Projects producing components, equipment or infrastructure dedicated for the renewable energy sector, e. g. blades for windmills, photovoltaic cells, boilers for co-generation projects

Energy efficiency in industry and buildings (projects dedicated to a significant energy efficiency improvement)	Industry
	Significant industrial energy-efficiency improvements through the installation of more efficient equipment, changes in processes, reduction of heat losses and/or increased waste heat recovery
	Installation of cogeneration plants that generate electricity in addition to providing heating/cooling
	More efficient facility replacement of an older facility (old facility retired)
	Commercial and residential sectors (buildings)
	Energy-efficiency improvement in lighting, appliances and equipment
	Substitution of existing heating/cooling systems for buildings by cogeneration plants that generate electricity in addition to providing heating/cooling
	Waste heat recovery improvements
	Retrofit of existing buildings: Architectural or building changes that enable reducing energy consumption
	Efficiency of new buildings: Use of highly efficient architectural designs or building techniques that enable reducing energy consumption for heating and air conditioning, exceeding available standards and complying with high energy efficiency certification or rating schemes
Process emissions in industry and fugitive emissions	Industrial processes
	Reduction in GHG emissions resulting from industrial process improvements and cleaner production (e.g. cement, chemical), excl. carbon capture and storage
	Fugitive emissions
	Reduction of gas flaring or methane fugitive emissions in the oil and gas industry
	Coal mine methane capture
	Air conditioning and cooling
	Retrofit of existing industrial, commercial and residential infrastructure to switch to cooling agent with lower global warming potential
Sustainable transport	Vehicle energy efficiency fleet retrofit
	Existing vehicles, rail or boat fleet retrofit or replacement (including the use of lower-carbon fuels, electric or hydrogen technologies, etc.)
	Urban transport modal change
	Urban mass transit
	Non-motorized transport (bicycles and pedestrian mobility)

	Urban development
	Integration of transport and urban development planning (dense development, multiple land-use, walking communities, transit connectivity, etc.), leading to a reduction in the use of passenger cars
	Transport demand management measures to reduce GHG emissions (e.g., speed limits, high-occupancy vehicle lanes, congestion charging/road pricing, parking management, restriction or auctioning of license plates, car-free city areas, low-emission zones)
	Inter-urban modal transport
	Railway transport ensuring a modal shift of freight and/or passenger transport from road to rail (improvement of existing lines or construction of new lines)
	Waterways transport ensuring a modal shift of freight and/or passenger transport from road to waterways (improvement of existing infrastructure or construction of new infrastructure)

Agriculture, forestry and land-use	Afforestation and reforestation
	Afforestation (plantations) on non-forested land
	Reforestation on previously forested land
	Reducing emissions from the deforestation or degradation of ecosystems
	Biosphere conservation projects (including payments for ecosystem services)
	Sustainable forest management
	Forest management activities that increase carbon stocks or reduce the impact of forestry activities
	Agriculture
	Agriculture projects that do not deplete and/or improve existing carbon pools (Reduction in fertilizer use, rangeland management, collection and use of bagasse, rice husks, or other agricultural waste, low tillage techniques that increase carbon contents of soil, rehabilitation of degraded lands, etc.)
	Reduction in energy use in traction (e.g. efficient tillage), irrigation, and other agriculture processes
	Livestock
	Livestock projects that reduce methane or other GHG emissions (manure management with biodigestors, etc.)
	Biofuels
	Production of biofuels (including biodiesel and bioethanol)

Carbon capture and storage	Projects for carbon capture and storage technology that attempts to prevent release of large quantities of CO2 into the atmosphere from fossil fuel use in power generation and process emissions in other industries

Local, sectoral or national budget support to a climate change mitigation policy	Dedicated budget support to a national or local authorities for climate change mitigation policy implementation

Category	Examples
Adaptation to climate change	
Water preservation	Improvement in catchment management planning (to adapt to a reduction in river water levels due to reduced rainfall)
	Installation of domestic rainwater harvesting equipment and storage (to adapt to an increase in groundwater salinity due to sea level rise)
	Rehabilitation of water distribution networks to improve water resource management (to adapt to increased water scarcity caused by climate change)
Agriculture, natural resources and ecosystem based adaptation	Conservation agriculture such as provision of information on crop diversification options (to adapt to an increased vulnerability in crop productivity)
	Increased production of fodder crops to supplement rangeland diet (to adapt to a loss in forage quality or quantity caused by climatic changes)
	Adoption of sustainable fishing techniques (to adapt to the loss of fish stocks due to changes in water flows or temperature)
	Identification of protected ecosystem areas (to adapt to a loss of species caused by sudden temperature changes)
	Improved management of slopes basins (to adapt to increased soil erosion caused by flooding due to excess rainfall)
Coastal protection	Building of dykes to protect infrastructure (to adapt to the loss and damage caused by storms and coastal flooding, and sea level rise),
	Mangrove planting (to build a natural barrier to adapt to increased coastal erosion and to limit saltwater intrusion into soils caused by sea level rise)
Other disaster risk reduction	Early warning systems for extreme weather events (to adapt to an increase in extreme weather events by improving natural disasters management and reduce related loss and damage)
	Improved drainage systems (to adapt to an increase in floods by draining off rainwaters)
	Insurance against natural disasters (to adapt better to extensive loss and damage caused by extreme weather events)
	Building resilient infrastructures such as a protection system for dams (to adapt to exposure and risk to extreme weather impacts, such as flooding, caused by climate change)
	Monitoring of disease outbreaks and development of a national response plan (to adapt to changing patterns of diseases that are caused by changing climatic conditions)
Local, sectoral, or national budget support to a climate change adaptation policy	Dedicated budget support to a national or local authorities for climate change adaptation policy implementation