

Common Principles for Climate Mitigation Finance Tracking

Version 2 – 15th June 2015

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 require mitigation activities⁴ to be disaggregated from non-mitigation activities as far as reasonably possible. If such disaggregation is needed and not possible using project specific data, a more qualitative/experience based assessment can be used to identify the proportion of the project that covers climate mitigation activities, consistent with the conservativeness principle. This is applicable to all categories, but of particular significance for energy efficiency projects.
- Mitigation activities or projects can consist of a stand-alone project⁵, multiple stand-alone projects under a larger program, a component of a stand-alone project⁶, or a program financed through a financial intermediary⁷.
- 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, for renewable energy and transport projects ensuring modal shift, both new and retrofit 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 energy efficiency investments in existing facilities, 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.

⁴ See Table 1 for specific project type disaggregation issues.

⁵ For example, in a case of a stand-alone energy efficient street lighting project, 100% of the investment will be counted.

⁶ A USD 100 million industrial project that includes production increase may have a USD 40 million documented component for energy efficiency improvements—in this case only the USD 40 million would be reported.

⁷ For example, in the case of 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, only USD 60 million would be reported.

Table 1 - List of activities eligible for classification as climate mitigation finance
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Category	Sub-category	Example
1. Renewable Energy	1.1 Electricity Generation	Wind power
		Geothermal power (only if net emission reductions can be demonstrated)
		Solar power (concentrated solar power, photovoltaic power)
		Biomass or biogas power (only if net emission reductions, including carbon pool balance, can be demonstrated)
		Ocean power (wave, tidal, ocean currents, salt gradient, etc.)
		Hydropower plants (only if net emission reductions can be demonstrated)
		Renewable energy power plant retrofits
	1.2 Heat Production or other renewable energy application	Solar water heating and other thermal applications of solar power in all sectors
		Thermal applications of geothermal power in all sectors
		Wind-driven pumping systems or similar
		Thermal applications of sustainably/produced bioenergy in all sectors, incl. efficient, improved biomass stoves
	1.3 Measures to facilitate integration of renewable energy into grids	New, expanded and improved transmission systems (lines, substations)
		Storage systems (battery, mechanical, pumped storage)
New information and communication technology, smart-grid and mini-grid		
2. Lower-carbon and efficient energy generation	2.1 Transmission and distribution systems	Retrofit of transmission lines or substations and/or distribution systems to reduce energy use and/or technical losses including improving grid stability/reliability, (only if net emission reductions can be demonstrated) ⁸
	2.2 Power Plants	Thermal power plant retrofit to fuel switch from a more GHG-intensive fuel to a different and less GHG-intensive fuel type
		Conversion of existing fossil-fuel based power plant to co-generation ⁹ technologies that generate electricity in addition to providing heating/cooling
		Energy-efficiency improvement in existing thermal power plant,
3. Energy efficiency	3.1 Energy efficiency in industry in existing facilities	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 co/generation plants that generate electricity in addition to providing heating/cooling

⁸ In case capacity expansion only the part that is reducing existing losses is included

⁹ In all cogeneration projects it is required that energy efficiency is substantially higher than separate production.

		More efficient facility replacement of an older facility (old facility retired)
	3.2 Energy efficiency improvements in existing commercial, public and residential buildings	Energy-efficiency improvement in lighting, appliances and equipment
		Substitution of existing heating/cooling systems for buildings by co/generation plants that generate electricity in addition to providing heating/cooling ¹⁰
		Retrofit of existing buildings: Architectural or building changes that enable reduction of energy consumption
	3.3 Energy efficiency improvements in the utility sector and public services	Energy-efficiency improvement in utilities and public services through the installation of more efficient lighting or equipment
		Rehabilitation of district heating and cooling systems
		Utility heat loss reduction and/or increased waste heat recovery
		Improvement in utility scale energy efficiency through efficient energy use, and loss reduction
	3.4 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.)
	3.5 Energy efficiency in new commercial, public and residential buildings	Use of highly efficient architectural designs, energy efficiency appliances and equipment, and building techniques that reduce building energy consumption, exceeding available standards and complying with high energy efficiency certification or rating schemes
	3.6 Energy audits	Energy audits to energy end-users, including industries, buildings, and transport systems
4. Agriculture, forestry and land-use	4.1 Agriculture	Reduction in energy use in traction (e.g. efficient tillage), irrigation, and other agricultural processes
		Agricultural projects that improve existing carbon pools (, rangeland management, collection and use of bagasse, rice husks, or other agricultural waste, reduced tillage techniques that increase carbon contents of soil, rehabilitation of degraded lands, peatland restoration, etc.)
		Reduction of non Co2 GHG emissions from agricultural practices (eg: paddy rice production, reduction in fertilizer use ...).
	4.2 Afforestation and reforestation, and biosphere conservation	Afforestation (plantations) on non-forested land
		Reforestation on previously forested land
		Sustainable forest management activities that increase carbon stocks or reduce the impact of forestry activities
		Biosphere conservation projects (including payments for ecosystem services) targeting reducing emissions from the deforestation or degradation of ecosystems
	4.3 Livestock	Livestock projects that reduce methane or other GHG emissions (manure management with biodigestors, etc.)

¹⁰ ibid

	4 Biofuels	Production of biofuels (including biodiesel and bioethanol) (only if net emission reductions can be demonstrated)
5. Non-energy GHG reductions	5.1 Fugitive emissions	Reduction of gas flaring or methane fugitive emissions in the oil and gas industry
		Coal mine methane capture
	5.2 Carbon capture and storage	Projects for carbon capture and storage technology that prevent release of large quantities of CO2 into the atmosphere from fossil fuel use in power generation, and process emissions in other industries
	5.3 Air conditioning and refrigeration	Retrofit of existing industrial, commercial and residential infrastructure to switch to cooling agent with lower global warming potential
	5.4 Industrial processes	Reduction in GHG emissions resulting from industrial process improvements and cleaner production (e.g. cement, chemical), excluding carbon capture and storage
6. Waste and wastewater	6.1 Waste and wastewater	Treatment of wastewater if not a compliance requirement (e.g. performance standard or safeguard) as part of a larger project that reduce methane emissions (only if net GHG emission reductions can be demonstrated)
		Waste management projects that capture or combust methane emissions
		Waste to energy projects
		Waste collection, recycling and management projects that recover or reuse materials and waste as inputs into new products or as a resource (only if net emission reductions can be demonstrated).
7. Transport	7.1 Urban transport modal change	Urban mass transit
		Non-motorized transport (bicycles and pedestrian mobility)
	7.2 Transport oriented 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 dedicated 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)
	7.3 Inter-urban 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)		
8. Low-carbon technologies	8.1 Products or equipment	Projects producing components, equipment or infrastructure dedicated for the renewable and energy efficiency sectors
	8.2 R&D	Research and development of renewable energy or energy efficiency technologies

9. Cross-cutting issues	9.1 Support to national, regional or local policy, through technical assistance or policy lending,	Mitigation national, sectorial or territorial policies/planning/action plan policy/planning/institutions
		Energy sector policies and regulations leading to climate change mitigation or mainstreaming of climate action (energy efficiency standards or certification schemes; energy efficiency procurement schemes; renewable energy policies)
		Systems for monitoring the emissions of greenhouse gases
		Efficient pricing of fuels and electricity (subsidy rationalization, efficient end-user tariffs, and efficient regulations on electricity generation, transmission, or distribution),
		Education, training, capacity building and awareness raising on climate change mitigation/sustainable energy/sustainable transport; mitigation research
	Other policy and regulatory activities, including those in non-energy sectors, leading to climate change mitigation or mainstreaming of climate action	
	9.2 Financing instruments	Carbon Markets and finance (purchase, sale, trading, financing and other technical assistance). Includes all activities related to compliance-grade carbon assets and mechanisms, such as CDM, JI, AAUs, as well as well-established voluntary carbon standards like the VCS or the Gold Standard.
10. miscellaneous	10.1 Other activities with net greenhouse gas reduction	Any other activity not included in this list for which the results of an ex-ante greenhouse gas accounting (undertaken according to commonly agreed methodologies) show emission reductions