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# Tracking Climate Co-Finance: Approach Proposed by MDBs

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## Background and Purpose

A consortium of MDBs<sup>1</sup> (hereafter referred to as “MDBs”) has jointly reported their investments in climate change adaptation and mitigation projects (“climate finance”) on an annual basis since 2011, with the latest report published on June 2015<sup>2</sup>. The objectives of this work are as follows:

- ▶ Improved transparency and better understanding of MDB’s own and external resources channelled through the MDBs for climate finance;
- ▶ Improved cooperation between International Financial Institutions (IFIs);
- ▶ More and better climate change adaptation and mitigation financing.

The approach outlined in this briefing document seeks to expand the MDB climate finance tracking to also estimate financial resources invested alongside MDBs by external parties. A Technical Working Group (TWG) composed of MDB representatives, supported by an external consultant (International Financial Consulting Ltd), launched work towards a common practice in early 2015.

The purpose of this briefing document is to define a common tracking and reporting practice for MDBs that:

1. defines a common approach on how to report on climate co-financing flows that are invested alongside each MDBs’ climate finance activities;
2. harmonize definitions and indicators that estimate climate co-financing alongside MDB-managed resources for climate projects.

In parallel, the OECD issued a study on *Climate Finance in 2013-14 and the USD 100 billion goal*, which provides estimates of public and private climate finance mobilized by developed countries towards their UNFCCC 2010 Cancun commitment, for climate action in developing countries.<sup>3</sup> The MDBs contributed to this study by sharing their climate finance data, including on co-financing. The OECD made specific use of private co-financing data, using it “as best-available evidence of mobilization” of private finance by public finance, though acknowledging that private co-financing may not always equate to mobilization. The OECD took a number of analytical steps with MDB data, including to attribute, where relevant, private co-finance at the project level among public co-financiers involved (multilateral, bilateral and domestic alike). The methodology proposed by MDBs which is described in this briefing document does not focus on measuring or on attributing private finance mobilization. It focuses solely on reporting resources contributed by external entities (both public and private) alongside MDB climate finance.

This briefing document should be considered as an extension of the *Joint Report on MDB’s Climate Finance* by giving insight into the co-finance on the same set of project/activities reported previously for MDBs’ own climate finance.

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<sup>1</sup> Includes the African Development Bank (AfDB), the Asian Development Bank (AsDB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank (IDB), as well as the International Finance Corporation (IFC) and the World Bank (WB), both part of the World Bank Group (WBG).

<sup>2</sup> See <http://www.worldbank.org/content/dam/Worldbank/document/Climate/mdb-climate-finance-2014-joint-report-061615.pdf> for the most recent report.

<sup>3</sup> See <http://www.oecd.org/env/cc/oecd-cpi-climate-finance-report.htm>

Consequently, it uses the same countries, definitions, and attribution methods for defining climate projects and co-finance volumes, in a manner consistent across all the MDBs.

## Definitions

**Climate Finance** is defined as the amount of financial resources that are contributed to climate change mitigation and/or adaptation activities, as defined by the *Joint Reports on MDB's Climate Finance*:

Includes those financial sources which are managed by the MDBs such as trust funds, international climate funds, etc.

**Climate Co-Finance (CCF)** is defined as the amount of financial resources contributed by external entities alongside climate finance invested by MDBs:

- ▶ encompasses financial resource providers that are government or government-affiliated, as well as those that are private;
- ▶ includes all forms of financial instruments, including grants, loans, equity, guarantees, etc.;
- ▶ broader support programs that do not provide resources directly into the financing package for a given project/program are not included;
- ▶ is quantifiable and traceable to investment documentation kept by the individual MDB.

## Guiding Principles

Guiding principles governing the reporting of CCF include the following:

- ▶ **Causality:** CCF does not imply a causal relationship as to who catalyzed whom in a particular investment, but rather measures the amount of co-financing that has been invested alongside contributions made by MDBs.
- ▶ **Climate Finance attribution:** total co-financing for each project is prorated for the same climate component percentage as the data set used for the 2014 Joint Report on MDB's Climate Finance, resulting in CCF.
- ▶ **Conservativeness principle:** Following the Joint Report on MDB's Climate Finance guidelines, CCF follows the conservativeness principle that "Where data is unavailable, any uncertainty must be overcome taking a conservative approach, where under reported rather than over reported climate finance is preferable."

When the co-financing cannot be explicitly tracked, MDBs do not estimate indirect financing but simply report it at known levels, which may be zero. For instance, while MDBs know that credit lines to financial intermediaries trigger additional investments, no co-finance is reported if investment volumes were not explicitly identified in advance.

- ▶ **Source of data:** Aligned with the data set from MDBs in the Joint Report on MDB's Climate Finance, data is sourced from information available to the Board of Directors of the relevant MDB, at the time of project approval by the Board. No corrections are issued where a project's scope has changed to either increase or decrease total financing. CCF therefore represents ex ante project conditions

For the most part, Board Documentation provides enough information to accurately determine whether the source of financing is a public or a private entity. In cases where sufficient information is not available, MDBs use expert judgment and best available project categorization to attribute the financing to public or private sources.

- ▶ **Public and Private sources:** CCF is segmented into public and private sources, based primarily on the shareholding structure of the external institution providing the co-financing. Public source co-financing nominally includes other development finance institutions; however, to the extent possible, the contributions made by other members of the reporting initiative are removed from the public source co-financing figures reported by each institution.
- ▶ **Double counting:** CCF does not double count co-finance reported by different MDBs from the same source (including from other MDBs themselves as well as external entities), and as such overall co-finance reported subtracts or "nets out" resources already reported.

In cases where multiple investments are placed in the same project, CCF does not double count the same co-finance between different years. Once co-finance is reported for one year, it cannot be counted in the next year if additional MDB finance is placed without additional co-finance. In order to avoid double-counting, MDBs either group all investments under the first year of reporting, or split the co-finance over a number of years, depending on the type of project and available information.

## Preliminary Results for 2014 Climate Co-Finance

The following table summarizes the aggregate amounts of climate finance investments made by the participating MDBs, as well as the estimated climate co-finance made alongside these investments over 2014 (in USD million).

The estimated climate co-finance alongside the USD 25,189 million MDB own resources and USD 2,601 million external resources managed by the MDBs, totals USD 64,326 million across public and private.

MDB	Own Resources	External Resources	Climate Finance USD million	
			Climate Co-Finance Public Sources <sup>4</sup>	Climate Co-Finance Private Sources
<b>ADB</b>	2,376	480	801	1,154
<b>AfDB</b>	1,548	368	5,809	2,887
<b>EBRD</b>	3,948	163	1,406	4,115
<b>EIB</b>	4,991	223	20,828	2,847
<b>IDB</b>	2,074	387	6,336	2,035
<b>IFC</b>	1,918	85	4,283	5,296
<b>WB</b>	8,334	895	10,471	1,194
<i>Eliminating double reported amount between MDBs</i>			<i>(3,898)</i>	<i>(1,238)</i>
<b>Sub Total</b>	<b>25,189<sup>5</sup></b>	<b>2,601</b>	<b>46,035</b>	<b>18,291</b>
<b>Total</b>	<b>27,790</b>		<b>64,326</b>	

To provide some background to the data, please take note of the following:

- ▶ Own and external resources correspond to definitions in the 2014 Joint Report on MDB's Climate Finance. External resources refers to operations supported by bilateral donors and dedicated climate finance entities such as GEF and CIF, which might also be reported to the OECD Development Assistance Committee by contributor countries and are channeled through the respective MDBs.
- ▶ Different MDBs have different mandates, which explain the different mix of public and private co-financing sources and volumes. For instance, the EIB co-finance is dominated by EU funding, for example through structural funds for climate-related projects.
- ▶ For some MDBs (particularly IFC and EBRD), CCF includes significant amounts of syndicated loans and other investments originated and managed by the MDB. These numbers may be reported by the MDB in its own communication materials.
- ▶ A limited number of large-scale projects influence data and may result in large year-over-year fluctuations in co-finance numbers. Until the MDBs are able to provide a historic perspective, the co-finance data above should be considered as a snapshot and not used to infer trends and set targets. In this report, for example, all CCF from private sources at the WB are from one single large project.
- ▶ Average co-finance numbers, while useful, mask significant variations across project types or risk profiles.

<sup>4</sup> Public finance numbers per institution already account for the overlap in MDB financing.

<sup>5</sup> In the 2014 Joint MDB Report, this figure was reported as US\$ 25,744 million. For the purpose of the co-financing analysis, this briefing document considers only long-term finance. The difference comes from IFC which in 2014 included both short- and long-term finance (STF and LTF) in its climate and overall reporting. In fiscal year 2015, IFC changed its accounting methodology to separate out STF and LTF, with climate tracking focusing on LTF only. In fiscal 2014, IFC's climate-related LTF was \$1,918 or 19% of overall LTF volumes.

- ▶ Co-financing is an important “bang for buck” measure, but not the only one, as it does not capture GHG reductions, employment creation, or any number of other co-benefits.

### **Limitations and Areas for Further Work**

- ▶ No MDB has dedicated systems available for tracking of climate co-finance information, resulting in manual sourcing of data from Board information. The data used to prepare this briefing document was not subject to MDBs’ normal operational and audit processes and should be considered preliminary only.
- ▶ Amongst most MDBs, there is no specific tracking system available to distinguish between public and private sources. Consequently, all co-financing sources had to be assessed individually. When individual assessment was challenging due to time constraint, a more generic attribution was applied based on historic data and project context and further work needs to be done to define and track more precisely and systematically public and private sources.
- ▶ The numbers presented in the table showed the co-finance that went along MDB side finance. Co-finance may also include other DFIs, specific climate funds, or other public sources. In order to use the data to assess the impact of all public finance for the mobilization of private finance, a more in-depth analysis of project-level co-finance data is needed. In future, MDBs will address this issue and attempt to eliminate double-counting across all public sources by further breaking down public sources of co-financing in their tracking system.
- ▶ Assessment of individual projects by the TWG led to more conservative approach for some large-scale projects, preferring under reporting to over reporting, where information was not granular enough to determine the source and expected timing of co-financing. This may have led to a revision of preliminary analysis shared with stakeholders. Further work is needed to develop guidelines for more granular data capture.
- ▶ As mentioned, the reported numbers do not capture indirect co-financing through credit lines to financial intermediaries, equity investments, corporate finance loans, leasing financing, technical assistance, or policy-based instruments that could not be clearly identified in the appropriate documents. For financial intermediaries and equity investments, the MDBs will work together to develop an approach that determines co-financing levels using multiplier methods.
- ▶ As joint reporting is in USD and both EIB and EBRD are predominantly EUR based banks, reporting from year to year will fluctuate with exchange rates.