Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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MDBs and IDFC establish Common Principles for Climate Finance Tracking

Principle

PRINCIPLE 4:
IMPROVE Climate Performance

Related Work Stream(s)

MAPPING REPORTING INITIATIVES AND UNDERSTANDING IMPLEMENTATION CHALLENGES

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Date Policy/Tool Established	How Established?	How Implemented	Additional Capacity Required (e.g., staff, resources, other)
Common MDB-IDFC principles for climate finance tracking established in 2015, with program of next steps to continue into 2016.	The MDBs and IDFC have worked together over the past couple of years to bring their approaches and methodologies on climate finance tracking closer, with the objective of further increasing transparency and credibility of climate finance reporting. For mitigation, a common list of activities drawn from MDBs and IDFC's lists was established. For adaptation the key points of commonality between the two groups were articulated, plus identification of key issues that need to be	Harmonized guidelines published in 2012 by MDBs. IDFC also published its joint methodology in 2012. Both implemented independently over the period 2012-2015. Common principles for mitigation and adaptation finance tracking agreed between MDBs and IDFC in 2015 and made publicly available. Other institutions invited to adopt the Common principles and therewith further increase transparency of climate finance data disclosure.	Varies by institution, but many incorporate the work within the teams responsible for other climate finance and/or tracking initiatives within those institutions. Quality assurance remains the role of each institution, but the systematic identification of climate finance does require additional support from internal or external experts.

Key Lessons

- Transparent reporting on climate finance is essential for policy makers and others to understand the scale and scope of climate finance. The Common Principles for mitigation finance tracking help improve data transparency, collection processes, and begin to address comparability of reporting across different institutions. Common Principles for Adaptation tracking have established key principles and also important next steps to start to address more harmonized approaches.
- The cooperative work on the Common Principles for Climate Finance Tracking is allowing for collaboration and crosscapitalization across a greater number of financial institutions. • Establishing Common Principles is an important step that must be followed by further engagement to continue to address comparability of reporting
- Ongoing work within groups using Common Principles is required to identify issues and challenges in climate finance tracking and to use these exchanges to improve and clarify the Principles and their use for tracking.

Introduction

It is increasingly important to transparently track and report climate finance flows, to build trust and accountability with regard to climate finance commitments and monitor trends and progress in climaterelated investment and impacts on the ground.

In 2012, following 1.5 years work, the MDBs published a joint approach for climate finance tracking and reporting that responds to the context in which the MDBs invest in developing and emerging economies. The Mitigation tracking is based on a hierarchy of activities, and the Adaptation tracking is a case and location specific process-based approach. Both require a granular approach.

Similarly, the International Development Finance Club (IDFC)—a group of 22 leading national, regional and international development finance institutions from across the world, 19 of which are from developing countries and regions—have also been tracking and disclosing global climate adaptation and mitigation finance commitments on the basis on a joint methodology and data collection process. In this regard, IDFC has been producing yearly reports mapping the club's green and climate finance activities since 2012.

Development and Design

MDBs and IDFC established in 2015 Common Principles for Climate Mitigation Finance Tracking and for Adaptation Finance Tracking.

Adaptation finance tracking: the Common MDBs-IDFC Principles are a set of initial principles and next steps that relate to tracking the finance for activities that address current and expected effects of climate change, where such effects are material for the context of those activities. Adaptation finance tracking may relate to activities consisting of stand-alone projects, multiple projects under larger programs, or project components, sub-components or elements, including those financed through financial intermediaries.

Adaptation finance tracking process consists of the following key steps:

- Setting out the context of risks, vulnerabilities and impacts related to climate variability and climate change;
- Stating the intent to address the identified risks, vulnerabilities and impacts in project documentation;
- Demonstrating a direct link between the identified risks, vulnerabilities and impacts, and the financed activities.

Adaptation finance tracking requires adaptation activities to be disaggregated from non-adaptation activities as far as reasonably possible. If disaggregation is not possible using project specific data, a more qualitative or experience-based assessment can be used to identify the proportion of the project that covers climate change adaptation activities. In consistence with the principle of conservativeness, climate finance is underreported rather than over-reported in this case.

Mitigation finance tracking: the common MDBs-IDFC Principles follow an activity typology and include a list of mitigations activities that promote "efforts to reduce or limit GHG emissions or enhance GHG sequestration". Mitigation activities or projects 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. The list of activities eligible under these principles is publicly available.

The common principles also require mitigation or adaptation activities to be disaggregated from nonmitigation or non-adaptation 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 or adaptation activities, consistent with the conservativeness principle. 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.

Implementation

In 2015, both MDBs and IDFC have started to align their separate reporting with the two sets of Common Principles and invite other institutions to adopt the Principles for tracking climate finance.

Experience and Impact

The recent MDBs-IDFC collaboration on Common Principles for Climate Finance Tracking, have enabled greater collaboration across the groups, and further sharing of knowledge and experience is planned. Notwithstanding the establishment of Common Principles, differences in reporting are to be expected due to the varying business models across financial institutions. Both groups (MDBs and IDFC) will continue their collaborative effort to constantly improve the quality, robustness and consistency of mitigation finance accounting. In particular, more work is needed to further align adaptation tracking processes currently being used by both groups, as well as terms of ensuring coherent implementation of commonly agreed definitions and methodologies.