

# Common Principles for Climate Mitigation Finance Tracking

## 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)<sup>1</sup> and the International Development Finance Club (IDFC)<sup>2</sup> 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”<sup>3</sup>
- 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

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<sup>1</sup> 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)

<sup>2</sup> see [www.idfc.org](http://www.idfc.org)

<sup>3</sup> 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 only cover mitigation activities as these are to be disaggregated from non-mitigation activities as much as possible and to the extent that data is available<sup>4</sup>. In case such disaggregation is not possible or data is not available, groups may choose to report a proportion of the project using a more qualitative/experience based assessment of the part of the project that addresses climate change, consistent with the conservativeness principle. This is applicable to all categories, but of particular significance for energy efficiency projects.
- Mitigation activities or projects<sup>5</sup> 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. For example, a project with a total cost of USD 100 million may have a USD 10 million documented component for energy efficiency improvements—in this case only the USD 10 million would be reported. Another example may be 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—in this case only USD 60 million would be reported.
- 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, both greenfield and brownfield renewable energy and transport modal shift 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 brownfield energy efficiency investments, 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.

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<sup>4</sup> See Table 1 for specific project type disaggregation issues.

<sup>5</sup> Ibid.

**Table 1 - List of activities eligible for classification as climate mitigation finance**

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 that does not decrease biomass and soil carbon pools (only if net emission reductions can be demonstrated)
		Ocean power (wave, tidal, ocean currents, salt gradient, etc.)
		Hydropower plants (only if net emission reductions can be demonstrated)
	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 Transmission systems, greenfield	New transmission systems (lines, substations) or new systems (e.g., new information and communication technology, storage facility, etc.)and mini-grid to facilitate the integration of renewable energy sources into the grid,.
		Renewable energy power plant retrofits
		Improving existing systems to facilitate the integration of renewable energy sources into 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, excluding capacity expansion
	2.2 Power Plants	Thermal power plant retrofit to fuel switch from a more GHG-intensive fuel to a different, less GHG-intensive fuel type
		Conversion of existing fossil-fuel based power plant to co-generation technologies that generate electricity in addition to providing heating/cooling
		Waste heat recovery improvements.
		Energy-efficiency improvement in existing thermal power plant,

<b>3. Energy efficiency</b>	3.1 Brownfield energy efficiency in industry	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
		More efficient facility replacement of an older facility (old facility retired)
	3.2 Brownfield energy efficiency in commercial, public and residential sectors (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
		Retrofit of existing buildings: Architectural or building changes that enable reduction of energy consumption
	3.3 Brownfield energy efficiency in public services	Energy-efficiency improvement in utilities and public services through the installation of more efficient lighting or equipment
Rehabilitation of district heating 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 Greenfield energy efficiency in commercial and residential sectors (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	
<b>4. Agriculture, forestry and land-use</b>	4.1 Agriculture	Reduction in energy use in traction (e.g. efficient tillage), irrigation, and other agriculture processes
		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.)
	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.)
	4.4 Biofuels	Production of biofuels (including biodiesel and bioethanol)
<b>5. Non-energy GHG reductions</b>	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 intend to prevent release of large quantities of CO <sub>2</sub> 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
<b>6. Waste and wastewater</b>		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 emission reductions can be demonstrated)
		Waste management and waste-to-energy projects that reduce methane emissions and generate energy (e.g. incineration of waste, landfill gas capture, and landfill gas combustion)
		Waste-recycling 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).
<b>7. Transport</b>	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 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)
<b>8. Low-carbon technologies</b>	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
<b>9. Cross-cutting issues</b>	9.1 Support to national, regional or local policy, through technical assistance or policy lending, fully or partially dedicated to climate change policy or action	Mitigation national, sectorial or territorial policies/planning/action plan policy/planning/institutions
		Energy sector policies and regulations (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 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	
9.3 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.	