JOINT MDB REPORT ON MITIGATION FINANCE 2011

A report by a group of Multilateral Development Banks (MDBs) comprising 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), the World Bank (WB), and the International Finance Corporation (IFC)

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INTRODUCTION

The international community recognizes the need to join forces to avert dangerous climate change. This requires mobilizing financial resources from a wide range of sources, public and private, bilateral and multilateral, including alternative sources. It is increasingly important to track and report financial flows that support climate change mitigation and adaptation, to build trust and accountability with regard to climate finance commitments and monitor trends and progress in climate-related investment. Yet there is currently no precise internationally-agreed definition of climate finance and current efforts to track climate finance lack transparency, comparability and comprehensiveness.

This report is based on the joint MDB approach for mitigation finance reporting, developed by a group of MDBs to work towards better tracking of climate finance. It responds to the particular context of the activities that the MDBs carry out in developing and emerging economies and are built on the premise that climate mitigation and development are two sides of the same coin. A separate report on adaptation finance is being published in parallel to this report.

Each MDB's methodology for tracking mitigation finance[1] differs, but the joint MDB approach tries to find commonalities and is an attempt to jointly report on resources mobilized for a set of commonly-agreed mitigation activities (see below). The joint approach is also a work in progress aimed at assisting the MDBs, as well as other organizations that might want to join or more clearly understand their engagement in mitigation. This will lead to gradual convergence towards a harmonized approach for the tracking of climate change finance.

JOINT MDB APPROACH FOR MITIGATION FINANCE REPORTING

The joint MDB approach for mitigation finance reporting is based on the following principles or attributes:

- It is **activity-based**, namely, it focuses on the type of activity to be executed, and not on its purpose, the origin of the financial resources, or its actual results.
- The classification is **ex-ante** project implementation.
- An activity can be a project or a project component: The joint approach aims to report on mitigation activities disaggregated from non-mitigation activities through a reasonable level of data **granularity** by dissecting projects into main components. For example, a project with a total cost of $100 million may have a $10 million component for energy efficiency improvements – only the $10 million would be reported.
- The joint approach measures **financial flows**, rather than greenhouse gas (GHG) emissions reduced by the investment.
- An activity can be labeled as contributing to climate change mitigation if it promotes "efforts to reduce or limit greenhouse gas (GHG) emissions or enhance GHG sequestration."[2] In the absence of a commonly-agreed method for GHG analysis among MDBs, mitigation activities considered in this joint approach are assumed to lead to emission reductions, **based on past experience** and/or technical analysis. Ongoing efforts to harmonize GHG analysis among MDBs will bring more consistency regarding the identification of mitigation activities in the long-term.
- The purpose of this joint approach is to enable **practical**, harmonized climate finance classification categories without having to resort to long, complex studies or highly specialized experts.
- The approach covers both MDBs' own resources as well as external resources managed by the MDBs (such as funding from the Global Environment Facility, the Climate Investment Funds, or Carbon Funds). To prevent double counting (in particular as some external resources may already be covered in bilateral reporting), **external** resources managed by the MDBs are clearly **separated** from MDBs' own resources.

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1 Such as the WB's climate finance tracking system (http://bit.ly/wbcfts) and the IFC's GHG Portfolio Accounting (http://bit.ly/ifcghgpa).

2 OECD DAC. Definition of the Rio Marker on climate change mitigation. http://bit.ly/RioMit.

- The qualification of a project under this methodology does not imply evidence of its climate change effects. Inclusion is not a substitute for project-specific theoretical and/or quantitative evidence of GHG emissions mitigation, and projects seeking to demonstrate such effects must do so through project-specific data.

MDB MITIGATION FINANCE, 2011

The adjacent tables present mitigation finance provided by the MDBs for fiscal year 2011. Data reported correspond to the financing of those components and sub-components within projects that provide mitigation co-benefits (rather than the entire project cost). The MDBs intend to publish a similar report each year in May.

Table 1 reports mitigation finance using the joint MDB approach for reporting that is based on a common list of mitigation activities at the intersection of what all MDBs consider mitigation. Table 2 shows data on mitigation finance reported by each MDB following their own methodologies. Numbers in Table 1 thus represent a subset of numbers in Table 2. Numbers in Table 2 may not be completely homogeneous (as scope of reporting among MDBs varies) and therefore should not be added together.

Table 3 reports mitigation finance disaggregated by sectors: energy (items 1, 2, 3, and 4 on the typology list below), transport (item 5), AFOLU (item 6), and others (items 7, 8, and 9).

Table 1. MDB Mitigation Finance According to the Joint Approach, 2011 (USD millions)

MDB	MDB resources		External resources	
	Investments and technical assistance	Policy-based instruments	Investments and technical assistance	Policy-based instruments
AfDB	859	-	185	-
ADB	2,196	-	224	-
EBRD	3,400	-	132	-
EIB	2,487	-	-	-
IDB	1,284	457	134	3
IFC	1,664	-	17	-
WB	4,592	1,588	412	-
TOTAL	**16,482**	**2,045**	**1,104**	**3**

Table 2. MDB Mitigation Finance According to the MDBs' Methodologies (when Different), 2011 (USD millions)

MDB	MDB resources		External resources	
	Investments and technical assistance	Policy-based instruments	Investments and technical assistance	Policy-based instruments
AfDB	925	-	185	-
IDB	1,304	663	135	3
IFC	1,671	-	17	-
WB	5,379	1,588	412	-

Table 3. Sector-disaggregated MDB Mitigation Finance According to the Joint Approach, 2011 (USD millions)

Sector	MDB resources		External resources	
	Investments and technical assistance	Policy-based instruments	Investments and technical assistance	Policy-based instruments
Energy	11,324	1,530	534	-
Transp.	3,795	191	25	-
AFOLU	545	100	110	-
Others	818	224	435	3
TOTAL	**16,482**	**2,045**	**1,104**	**3**

Notes:

a) **Reporting period:** Data cover fiscal year 2011. Even though MDBs don't follow the same reporting cycle, data remains comparable as they all correspond to a 12-month period.

b) **Point of reporting:** Data correspond to commitments at time of Board approval or contract signature. There are however some exceptions, such as result-based financing or carbon finance transactions, where data correspond to disbursements, given the performance-based nature of the instruments. All due efforts have been taken to prevent double-counting.

c) **Sources covered:** MDBs' own resources as well as a range of external resources managed by the MDBs.

d) **Financing instruments:** All instruments associated with the resources covered (grant, loan, guarantee, equity, performance-based instrument).

e) Some activities provide **both mitigation and adaptation co-benefits**. As a result, the financing for adaptation and mitigation should not be added together to prevent double counting. Although not been possible for all MDBs in this first trial year, it is expected that, going forward, where reported, climate finance figures would have any overlap netted out.

f) EIB figures include only financing outside the 27 members of the European Union. EBRD, IFC and WB figures include some European Union countries.

g) A preliminary version of this report was released in June 2012, on the occasion of the United Nations Conference on Sustainable Development (Rio+20). This new version includes revised figures and sector disaggregation.

TYPOLOGY OF MITIGATION ACTIVITIES

Demand-side, brownfield energy efficiency[3]

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
- Retrofit of existing buildings: Architectural or building changes that enable reducing energy consumption
- Waste heat recovery improvements

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.

Agriculture

- Reduction in energy use in traction (e.g. efficient tillage), irrigation, and other agriculture processes

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 cogeneration plants
- More efficient facility replacement of an older facility (old facility retired)

Demand-side, greenfield energy efficiency[4]

Construction 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

Supply-side, brownfield energy efficiency

Transmission and distribution systems

- Retrofit of transmission lines or substations to reduce energy use and/or technical losses, excluding capacity expansion
- Retrofit of 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

Renewable Energy

Electricity generation, greenfield projects

- 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

Transmission systems, greenfield

- New transmission systems (lines, substations) or new systems (e.g., new information and communication technology, storage facility, etc.) to facilitate the integration of renewable energy sources into the grid

Heat production, greenfield or brownfield projects

- 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

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)

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[3] The general principle for brownfield energy efficiency activities involving substitution of technologies or processes is that (i) the old technologies are substituted well before the end of their lifetime and the new technologies are substantially more efficient, or (ii) new technologies or processes are substantially more efficient than those normally used in greenfield projects.

[4] The general principle for greenfield activities is that they prevent a long-term lock-in in high-carbon infrastructure (urban, transport and power sector infrastructure).

Inter-urban transport and freight transport

- Improvement of general transport logistics to increase energy efficiency of infrastructure and transport, e.g. reduction of empty running
- 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.)

Livestock

- Livestock projects that reduce methane or other GHG emissions (manure management with biodigestors, etc.)

Biofuels

- Production of biofuels (including biodiesel and bioethanol)

Waste and wastewater

- Solid waste management that reduce methane emissions (e.g. incineration of waste, landfill gas capture, and landfill gas combustion)
- Treatment of wastewater if not a compliance requirement (e.g. performance standard or safeguard) as part of a larger project
- Waste recycling projects that recover or reuse materials and waste as inputs into new products or as a resource

Non-energy GHG reductions

Industrial processes

- Reduction in GHG emissions resulting from industrial process improvements and cleaner production (e.g. cement, chemical)

Air conditioning and cooling

- Retrofit of existing industrial, commercial and residential infrastructure to switch to cooling agent with lower global warming potential

Fugitive emissions and carbon capture

- Carbon capture and storage projects (including enhanced oil recovery)
- Reduction of gas flaring or methane fugitive emissions in the oil and gas industry
- Coal mine methane capture

Cross-sector activities

Policy and regulation

- National mitigation 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

Energy audits

- Energy audits to energy end-users, including industries, buildings, and transport systems

Supply chain

- Improvements in energy efficiency and GHG reductions in existing product supply chains

Financing instruments

- Carbon markets and finance (purchase, sale, trading, financing, guarantee and other technical assistance). Includes all activities related to compliance-grade carbon assets and mechanisms, such as Clean Development Mechanism (CDM), Joint Implementation (JI), Assigned Amount Units (AAUs), as well as well-established voluntary carbon standards like the Verified Carbon Standard (VCS) or the Gold Standard.
- Renewable energy and energy efficiency financing through financial intermediaries or similar (e.g. earmarked lines of credit; lines for microfinance institutions, cooperatives, etc.)

Low-carbon technologies

- Research and development of renewable energy or energy efficiency technologies
- Manufacture of renewable energy and energy efficiency technologies and products

Activities with greenhouse gas accounting

- 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 that are higher than a commonly agreed threshold

This report was prepared by professional staff at Multilateral Development Banks. The opinions expressed in this publication are those of the authors and do not necessarily reflect the views of the MDBs, their governing bodies or their members.