African Development Bank Group

Climate Finance Tracking

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Why is Climate Finance Tracking Important?

- 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…

- 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 the current efforts to track climate finance lack transparency, comparability and comprehensiveness.

Why is Climate Finance Tracking Important?

- For AfDB it is also important because it will…
  - support better project design;
  - allow us to track and report climate finance flows internally and externally;
  - facilitate the assessment of results from climate investments;
  - facilitate the mobilization of resources from capital markets.

Current Tracking Systems

- **UNFCCC National Communications**: Annex II countries report funding activities in developing countries to promote CC mitigation and adaptation. Non-Annex I countries requested to provide information on support received. Lack of harmonization of definitions one key weakness.

- **OECD "Rio Markers"**: mitigation since 1998, adaptation since 2010. The activity "should be classified as climate-change-related" if it "…contributes to the integration of climate change concerns with the recipient countries' development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research…" (OECD, 2011b)

Current Tracking Systems

- **OECD Rio Markers**

Coders have three options: that adaptation/mitigation is a "principle objective", "significant objective", or "not targeted to the policy objective" (OECD, 2011a). For an activity to be classified as having adaptation/mitigation as a "principle objective", it must be established that it "would not have been funded but for that [adaptation/mitigation] objective" (OECD, 2011a). This is in contrast to activities categorized as having adaptation/mitigation as a "significant objective" which have "other prime objectives, but have been formulated or adjusted to help meet climate concerns." (OECD, 2011a).

- ***How did we want to improve these systems?***

Mitigation Finance Tracking – Conceptual Framework

- **Mitigation:** implies either reduction in emissions of Greenhouse Gases (GHG) into the atmosphere or absorption of them from the atmosphere. Reductions are measured against a “no-project” baseline.

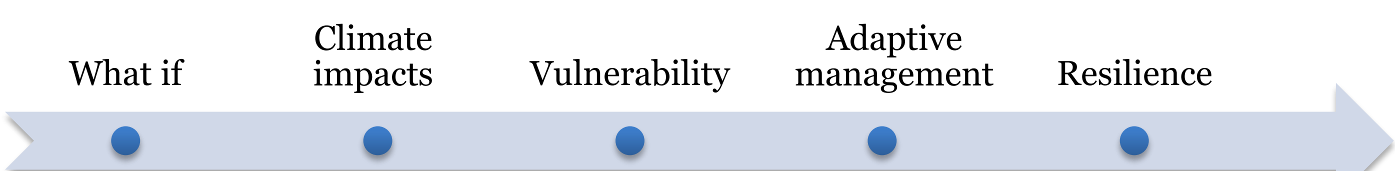
- An activity is considered mitigation if it:
  - Contributes to the reduction of GHG intensity per unit of output;
  - Limits the burning of fossil fuels for energy and uses lower carbon or renewable sources;
  - Uses energy more efficiently in agriculture, homes, offices and industries;
  - Plans transport systems and urban development appropriately;
  - Reduces emissions from poor forest and land use practices; or
  - Stores carbon in the soil through conserving forests and managing land more sustainably.

Adaptation Finance Tracking – Conceptual Framework

- **Adaptation** implies reduction in the vulnerability of human or natural systems to the impacts of climate change and climate variability related risks by maintaining or increasing adaptive capacity and resilience.

- In general an activity is considered as an adaptation activity if it:

    - Reduces the risk, exposure or sensitivity of human or natural systems to climate change and climate variability;
    - Increases the potential or capability of a system to adapt to effects and impact of climate stimuli;
    - Builds problem solving capacity to develop responses to climate variability and change;
    - Incorporates climate risk information into decision-making.



Adaptation Finance Tracking – Principles

- **The methodology is purpose, context and activity based:** A project must fulfil three design process criteria for finance to be reported.

  - **Include a statement of purpose or intent** to address or improve climate resilience in order to differentiate between adaptation to current and future climate change and good development;

  - **Set out a context of climate vulnerability** specific to the project location based on current available data (climate data, exposure and sensitivity), considering the possible impacts from climate change-related risks;

  - **Link project activities to the context of climate vulnerability** (e.g., socio-economic conditions and geographical location), reflecting only direct contributions to climate resilience.

Adaptation Finance Tracking – Examples

Illustrative development activity	Rehabilitate and upgrade urban water drainage systems	Introduce water-saving measures	Enhance rural livelihood through community-driven development
Vulnerability context	Possible changes in the frequency/severity of dashfloods and storm surges brought by CV&C	CV&C likely to aggravate water scarcity, putting at risk irrigated agriculture – an essential source of food security, employment and livelihoods	Farmer communities likely to suffer from CV&C, through longer dry spells
Specific intent	Design of project takes into account the anticipated impacts of CV&C	Activity aims to increase water productivity in existing irrigated areas to increase resilience to CV&C	Activity tackles drought risk. CV&C could otherwise imperil livelihood of rural communities
Activity linkage	Project will help better cope with CV&C through enhanced infrastructure design and improved climate-risk management (e.g., early warning)	Measures to be implemented include crop diversification towards less water intensive and higher value crops, preservation of soil moisture and fertility	Drought adaptation mechanisms through community water resources management, diversification of farm and non-farm livelihoods and climate-risk management tools.

CV&C: Climate variability and change

Adaptation & Mitigation Finance Tracking – Principles

- **Reporting is linked to financial commitments:**

The proposed methodological approach measures financial commitments at time of Board approval or signature.

- The approach measures financial commitments made by AfDB.
- All types of resources are eligible for reporting irrespective of origin - including both AfDB own resources as well as AfDB managed investments.
- To prevent double counting, all external resources are separated from AfDB's own resources.
- All types of instruments deployed by AfDB (debt, equity, guarantees, technical assistance and grants) are included.

Adaptation & Mitigation Finance Tracking – Principles

- **Classification is made ex-ante project implementation:**

The qualification of a project under this methodology does not imply evidence of the eventual delivery of climate change benefits. Inclusion is not a substitute for project-specific ex-post evidence of benefits, and projects seeking to demonstrate such effects must do so through project-specific data.

- **An activity can be a project, a project component, or a proportion of a project:**

The proposed methodological approach aims to report on adaptation and mitigation activities through a reasonable level of data granularity.

Adaptation & Mitigation Finance Tracking – Principles

- The proposed methodological approach measures **financial flows**, rather than greenhouse gas (GHG) emissions reduced by the investment.
- Mitigation activities considered in the Joint MDB mitigation tracking l 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.
- An indicative detailed list of adaptation and mitigation activities is provided by AfDB's sector and sub-sector codes as guidance for project design and coding purposes. This list reflects existing AfDB's and other MDB's experience in delivering climate resilience and mitigation projects.

Going forward:
climate finance tracking

- Improvements to AfDB and Joint MDB approaches
  - further disaggregation (type instruments, sectors…)
  - overlap between mitigation and adaptation finance
  - policy based lending

- Groups working on climate finance tracking should seek further harmonization (OECD, MDB's, UNFCCC MRV group…)

- Come up system for climate private finance tracking

- Support national institutions in their efforts to establish national systems

- Move towards an international system for climate finance tracking

Tracking *versus* Leverage *versus* Effectiveness

- **Finance tracking** *linked to but different from* **leverage** and **effectiveness**

- **Leverage** is very important given scarcity of public money but there are issues of attribution, need for differentiation across types of instruments (enablers like financing for feasibility studies, TA or PBO for policy reform).

- **Leverage** is only one dimension of effectiveness. Excessive leverage raises doubts about the additionality of the public funding. Question: how can such small amounts of public funding switch from an unacceptable risk-return ratio to an acceptable one?

- Leverage needs therefore to be couple with other criteria such as appropriateness of the financing method, the relevance of the initiatives that are financed and the environmental benefits.

- MDB’s can report on leverage in terms of its own financing or co-financing. But who reports private sector flows ? (OECD workstream)

Tracking *versus* Leverage *versus* Effectiveness

- **Finance tracking** *linked to but different from* **leverage** and **effectiveness**

- **Effectiveness**: additionality
- Example: a gas power plant replaces a coal plant is built because a local supply of natural gas is found. The decision to build is economic and climate change is not even a consideration, even though the mitigation benefits are obvious.

Some Reflections on Effectiveness

- Climate funds should have clear and relevant investment criteria: focus on key results (mitigation: GHG emissions, cost-effectiveness; adaptation: reduction in economic losses from climate shocks)

- Over time mainstream such investment criteria in financing policies at the institutional level

- Example of CIF private sector set asides

- Ex-post verification

Thank you!

2011 MDB's Finance numbers…