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E3G SUBMISSION TO UNFCCC SCF CALL FOR EVIDENCE

Information and Data for the Preparation of the 2018 Biennial Assessment and Overview of Climate Finance Flows

Introduction

E3G has been conducting research and analysis on greening of financial flows by the Multilateral Development Banks (MDBs) and their alignment with the Paris Agreement. The first paper, published in October 2017, focuses on green compared to brown energy finance flows in the main six MDBs¹. The full report² provides a broad assessment of MDB's progress in their commitment to aligning financial flows with the Paris Agreement against 16 different metrics, informed by the Taskforce on Climate-related Financial Disclosures³. The 16 criteria were identified and refined in consultation with more than 25 experts from development institutions, civil society, government and academia⁴. Metrics included progress on portfolio emission reductions, shadow carbon pricing, and private finance mobilised⁵. The call for evidence requests evidence on emerging practices and metrics relevant for tracking progress on the goal outlined in Article 2, paragraph 1 (c), of the Paris Agreement and this paper provides a summary of relevant information from the report⁶. **The following metrics covered in the report may be relevant to assessments against Article 2, paragraph 1 (c), of the Paris Agreement:**

- Green/brown energy ratio and high-carbon exposure in the portfolio
- Portfolio greenhouse gas (GHG) accounting and reduction
- Shadow carbon pricing
- Emission performance standards (EPS)
- Sectoral split of climate finance – level of climate-related finance within the portfolio

Green/brown energy finance ratio

Best practices for assessing progress in greening financial flows include assessments of financed emissions using a carbon footprint methodology (see below) or measuring the ratio of exposure of “green” to “brown” assets or infrastructure in the portfolio⁷. By the MDB's own

¹ See: <https://www.e3g.org/library/greening-financial-flows-what-progress-has-been-made-development>

² See: <https://www.e3g.org/library/banking-on-reform-aligning-development-banks-with-paris-climate-agreement>

³ See: <https://www.fsb-tcf.org/>

⁴ Each of the MDBs were approached to input into the methodology.

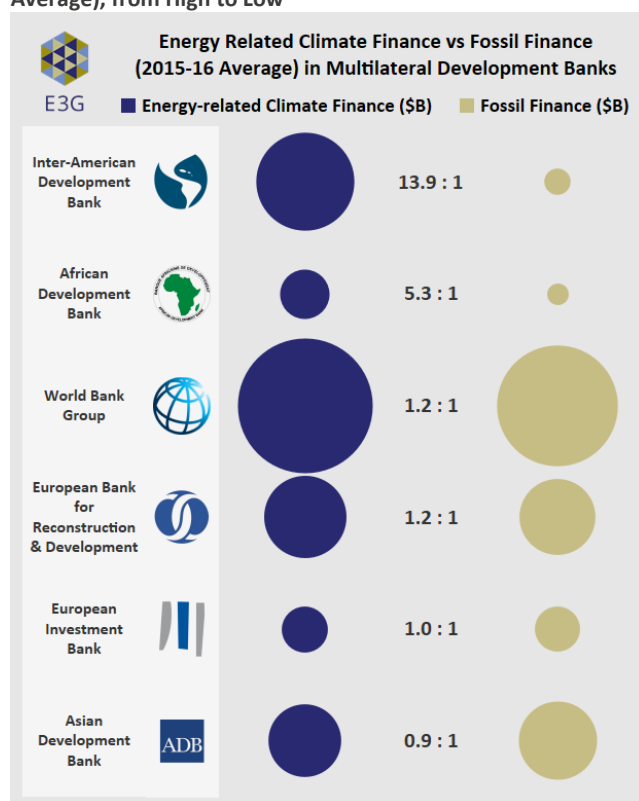
⁵ See: <https://www.e3g.org/library/banking-on-reform-aligning-development-banks-with-paris-climate-agreement> This report assesses the progress of the six main MDBs; the African Development Bank (AfDB), Asian Development Bank (AsDB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), Inter-American Development Bank (IADB) and World Bank Group (WBG).

⁶ See: <https://www.e3g.org/library/banking-on-reform-aligning-development-banks-with-paris-climate-agreement>

⁷ UNEP (2015) *Greening China's Financial System*

estimates, they committed more than \$27bn in climate finance in 2016, an increase of \$2bn from the previous year⁸. To assess the MDB's overall progress in aligning with the Paris Agreement we assessed the ratio of "green" to "brown" energy finance, using publicly available project-level data from OECD-DAC on climate finance⁹, and project-level data on fossil finance from Oil Change International (OCI)¹⁰, for the last 2 years of data available (2015-16). Inter-American Development Bank (IADB) was a leader on this metric in 2015-16. The African Development Bank (AfDB) also performed well in 2015-16 and it is worth noting that in 2017 the AfDB only financed renewable energy projects¹¹. The Asian Development Bank (AsDB) was the worst performer against this metric among the MDBs based on the data from 2015-16.

Ratio of Energy-related Climate Finance to Fossil Finance Directed to Developing Countries (2015-16 Average), from High to Low



Source: E3G analysis of OECD Climate Finance data¹² and OCI database¹³. IFC only includes data for 2015¹⁴. Countries not eligible for aid have been excluded from fossil fuel data as these countries are not in the OECD-DAC database.

⁸ IADB (2017) **MDB 2016 Joint Report on Climate Finance**

⁹ <http://www.oecd.org/dac/stats/climate-change.htm>

¹⁰ <http://priceofoil.org/shift-the-subsidies/>

¹¹ AfDB (2017) **African development bank achieves 100 investment in green energy projects in 2017** The OCI data for 2017 is not yet available but if correct, this is a notable achievement.

¹² OECD (2018) **OECD DAC External Development Finance Statistics** Project-level climate finance data was screened for energy-related projects. Robustness of the estimation of 'energy related climate finance' is limited by the completeness/extent of reporting to the OECD DAC by the development banks.

¹³ OCI (2017) **Shift the Subsidies**

¹⁴ The IFC did not report the sectoral breakdown of its climate finance in 2016. The IFC is the only bank where 2015 has been used for both climate finance and fossil finance, all other banks use a 2015/16 average for both. The World Bank Group

Notably, for EIB and EBRD, non-recipients of Official Development Assistance (ODA) are excluded from the green/brown energy ratio to ensure consistency, as these countries were and not found in the OECD-DAC dataset. Issues with reporting of data to OECD may have impacted on the ratios for EIB and EBRD¹⁵, noting that EIB's internal green energy finance figures are greater since the reporting to OECD-DAC reflects a sub-set of projects¹⁶.

There was insufficient public data available from the MDBs on green/brown energy ratios, therefore we had to draw upon secondary data from OECD-DAC for the 'green' energy data and OCI data for 'brown' energy data. It is therefore recommended that the MDBs begin tracking and self-reporting on the green/brown energy ratio within their portfolio, for example in the MDB Joint Report on Climate Finance. The report also recommends MDBs should assess their level of exposure to high-carbon assets, in line with the Task Force on Climate-Related Financial Disclosures¹⁷.

More information can be found at pages 87-100 of the report under Chapter 12: Green/brown energy ratio and scaling up climate investment¹⁸

Financed emissions – Portfolio GHG accounting and reduction

UNEP's Roadmap for a Sustainable Financial System has noted that "consensus is building around methodologies for the disclosure of certain types of information (such as the carbon footprint of investment portfolios)"¹⁹. For the MDBs, the majority of emissions are likely to come from funded projects, also known as 'financed emissions' (part of scope 3 emissions)²⁰. Disclosure of emissions is not a sufficient step to reducing emissions, and many private sector companies are setting science-based targets to reduce their emissions²¹. The group of six MDBs have agreed on a common approach to calculating project emissions for an average year of operation²² which emphasizes the importance of reporting on absolute (gross) emissions of projects. It has been suggested MDBs must establish a portfolio-wide GHG gross emissions reduction target²³. Among MDBs, only Asian Development Bank (AsDB) has made a commitment reduce its portfolio GHG emissions²⁴. However, the commitment of "peaking" emissions by 2030 is weak as global emissions need to peak as soon as possible if the world is to have a chance of staying below 2°C of warming. IADB has a portfolio-wide multi-year emission reduction target in its corporate results framework²⁵, but it is not clear if IADB has reviewed whether this target is sufficient to align with Paris Agreement goals. The

aggregates the available IFC data along with IDA and IBRD. MIGA is not included because it does not report climate finance data to the OECD-DAC.

¹⁵ For EIB, 61 of the project descriptions for 2015 were identical to the data in the 'short description' field. In addition, for EBRD, it was found that some project 'short descriptions' also matched the 'sub-sector' field.

¹⁶ 4 EIB have clarified that EIB only report projects to the OECD where there is a EU subsidy (Pers Comm, 2018). EIB fossil fuel investment figures (€0.31bn or \$0.34bn avg over 2015-6 to non-EU) are broadly similar to OCI figures (\$0.32bn avg 2015-6).

¹⁷ See: <https://www.fsb-tcfd.org/>

¹⁸ See: <https://www.e3g.org/library/banking-on-reform-aligning-development-banks-with-paris-climate-agreement>

¹⁹ UNEP (2017) **Roadmap for a Sustainable Financial System**

²⁰ <https://www.carbontrust.com/resources/faqs/services/scope-3-indirect-carbon-emissions/>

²¹ Although definitions differ, we define 'science based' to mean a target which the MDB has reviewed against available evidence and updated to align with the Paris Agreement goals.

²² EIB (2015) **IFI Approach to GHG Accounting for Energy Efficiency Projects**

²³ BIC and Sierra Club (2015) **MDB Climate Change Scorecard**

²⁴ AsDB (2017) **Climate Change operational framework**

²⁵ IADB (2016) **Corporate Results Framework**

International Finance Corporation (IFC - a part of the World Bank Group) has a target for reducing portfolio emissions²⁶ but the target appears to be based on reductions from mitigation projects only²⁷.

Portfolio emissions reporting compared across the MDBs

Bank	Year started	Inclusion threshold (CO ₂ e/ year)	Sectors covered	Target?
African Development Bank	None – only project level	None	None	None
Asian Development Bank	2018/9	Unknown	Unknown	Yes
European Bank for Reconstruction & Development	2003	25Kt	All new projects are screened	None
European Investment Bank	2009	Absolute emissions >100Kt Relative emissions >20Kt	Carbon footprinting methodology is applied to all sectors	None
Inter-American Development Bank	2009	25Kt	Energy, industry, agriculture, water, transport, urban development, tourism	8 million metric tons (2016-19)
World Bank Group	2018/9	IFC has a 25kt threshold	Unknown	IFC target of 6.9 million tons in 2017

Sources: AsDB (2017); ERBD (2017); EIB (2014); EIB (2017); IADB (2012); IADB (2016) IFC (2012) IFC (2017). Dark Green = Excellent, Green = Good, Orange = Average, Red = None, Grey = Unknown.

Development banks also have significant funding going through intermediaries and other banks which are not usually subject to emissions assessments, as IFIs are committed only to “accounting for the GHG emissions of direct investment projects that they finance”²⁸.

More information can be found pages 69-75 under Chapter 9: Portfolio greenhouse gas accounting and reduction²⁹

Shadow carbon pricing

Shadow carbon pricing is an instrument which encourages low-carbon investment. If set at the correct level then theoretically, only projects compatible with a low-carbon transition would go ahead³⁰. Therefore, a strong carbon price can support MDBs to mobilise sustainable finance. But this needs to be complemented by other tools to initiate a transformation. Carbon pricing is not enough to encourage green investment in some sectors, e.g. buildings and

²⁶ IFC (2017) IFC Annual Report 2017

²⁷ IFC (x) IFC Development Goals (IDGs) Overview CLIMATE CHANGE MITIGATION

²⁸ IFC (2012) International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting

²⁹ See: <https://www.e3g.org/library/banking-on-reform-aligning-development-banks-with-paris-climate-agreement>

³⁰ Please see the E3G blog on this topic from which some of the material in this section is taken: <https://www.e3g.org/library/how-are-development-banks-performing-on-shadow-carbon-pricing>

transport³¹. The High-Level Commission on Carbon Prices (HLCCP), a World Bank initiative, recommends carbon prices of \$40-\$80 per tonne of CO₂ by 2020 and \$50-100 per tonne by 2030³² to keep global warming below 2°C. The application of the carbon pricing depends on what tools or appraisals it is used for; whether this is used as a hurdle or merely for information purposes; and since the price is applied to project greenhouse gas emissions, it depends on the robustness of the GHG accounting methodology. In terms of best practices among MDBs, the World Bank has recently aligned its prices with the HLCCP range³³ while the EIB applies the shadow carbon price in all projects where cost-benefit analysis is done. The report recommends AsDB and EBRD update their internal carbon price while IADB and AfDB should consider applying a shadow carbon price.

More information can be found pages 82-86 under Chapter 11: Shadow carbon pricing³⁴

Emission Performance Standard (EPS) – EIB only

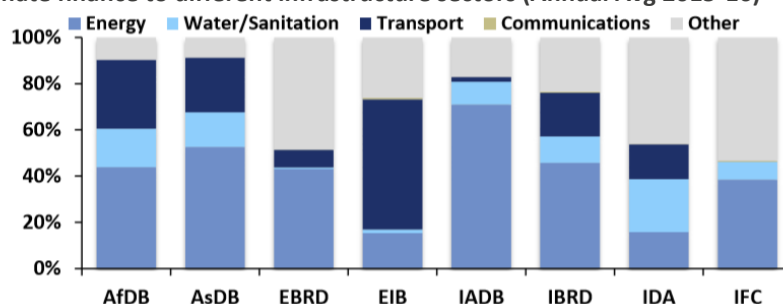
Among MDBs, European Investment Bank (EIB) currently has an emission performance standard in place for power plants, with a requirement that all plants CO₂ emissions must be below the threshold of 550gCO₂/kWh³⁵. However, this would need to be tightened significantly to align with a 2-degree pathway. The International Energy Agency (IEA) has stated that an average EPS for power generation of 100gCO₂/KWh must be reached by 2035³⁶ to ensure power generation aligns with the Paris Agreement.

More information can be found on page 42-43 under Chapter 5: Energy Efficiency Standards and Investments³⁷

Sectoral split of climate finance and level of climate-related finance

The analysis shows that nearly all MDBs may be missing opportunities to scale up climate-related development finance in the water and transport sectors.

Climate finance to different infrastructure sectors (Annual Avg 2015-16)



Source: E3G analysis of climate-related development finance from OECD-DAC³⁸

³¹ Germanwatch (2015) **Developing 2°C-Compatible Investment Criteria**

³² HLCCP (2017) **Report of the High Level Commission on Carbon Prices**

³³ See: World Bank (2017) **Shadow Price of Carbon**

³⁴ See: <https://www.e3g.org/library/banking-on-reform-aligning-development-banks-with-paris-climate-agreement>

³⁵ E3G (2013) **European Investment Bank Turns Away from Coal Financing**

³⁶ IEA (2016) **World Energy Investment 2016**

³⁷ See: <https://www.e3g.org/library/banking-on-reform-aligning-development-banks-with-paris-climate-agreement>

³⁸ In the OECD reporting system, “infrastructure” refers to the sectors of water and sanitation, energy generation and support, transport and communications (see OECD, 2017). We analysed recipient-perspective OECD-DAC data sorted by sector



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Data from the OECD-DAC (see Chapter 12 of the report) shows that in aggregate, the MDBs mitigation finance has risen slightly in 2016 compared to 2015³⁹. However, the increase in fossil finance in 2016 according to the OCI database shows a reversal in progress made by the MDBs as a group⁴⁰. Moreover, E3G's research has previously found that **fossil fuel projects were being counted as climate finance for some of the MDBs**⁴¹. The definition of adaptation finance adopts the three-step approach⁴² (see Chapter on Climate Risk) but further research would be required for a detailed comparison of climate adaptation finance reporting practices among the MDBs.

More information can be found on page 90 & page 94 under Chapter 12: Green/brown energy ratio and scaling up climate investment⁴³

according to sectoral tags. To note that where the sector was not clear, the project was allocated to the 'Other' sector. The method was reliant on a search of the 'Sub-sector' and 'description' fields within the OECD-DAC data and some project data was missing.

³⁹ See: <https://www.e3g.org/library/banking-on-reform-aligning-development-banks-with-paris-climate-agreement>

⁴⁰ See page p94. <https://www.e3g.org/library/banking-on-reform-aligning-development-banks-with-paris-climate-agreement>

⁴¹ See: <https://www.e3g.org/library/greening-financial-flows-what-progress-has-been-made-development>

⁴² IADB (2016) *Joint Report on Multilateral Development Banks' Climate Finance*

⁴³ See: <https://www.e3g.org/library/banking-on-reform-aligning-development-banks-with-paris-climate-agreement>
