Counting Mitigation finance-MDB Approach

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Climate-related Investments Needed in Asia's Infrastructure

- From 2016-2030 developing Asia will need to invest about $26T ($1.7 T per year) in infrastructure to maintain its growth momentum, reduce poverty, and respond to climate change. (Power: $14.7 T, Transport: $8.4 T, Telecommunications: $2.3 T, Water and Sanitation: $800B)
- Without mitigation and adaptation costs (climate investment), the region will need to invest $22.6 T ($1.5 T per year) for the same period.
- For the same period, climate investment needed will be about $200 B per year

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ADB's Climate Investment Target

- ADB is responding to Paris agreement by boosting its support to climate action in DMCs in line with their NDCs and the SDGs
- ADB remains committed to scale up it climate financing to $6 B by 2020 ($4B for mitigation, $2B for adaptation)
- This commitment/target makes it necessary to have a robust, consistent, and sound methodology for counting climate finance.

Mitigation

Mitigation Activity

An activity is classified as related to climate change mitigation if it promotes "efforts to reduce or limit GHG emissions or enhance GHG sequestration."

Investment in climate mitigation activity is climate mitigation investment

Joint MDB Approach-Mitigation Finance Tracking

Key Principles

- **Scope** – Mitigation activities can be stand alone projects or components of project.
- **Point of reporting** - mitigation finance figures at board approval
- **Conservativeness**-where data is unavailable, take the conservative approach where under reporting rather than over reporting is preferable
- **Granularity**-Only mitigation activities that are to be disaggregated from non-mitigation activities are covered. If such disaggregation is needed but is 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 activities, consistent with the conservativeness principles.

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Joint MDB Approach-Mitigation Finance Tracking

- **Eligibility**- is determined based on the basic definition of mitigation activities and the typology of mitigation activities defined by the Joint MDB working group:
  - ✓Renewable energy, energy efficiency, fuel switching to less GHG-intensive fuel in all sectors
  - ✓Afforestation and reforestation in agriculture/forestry
  - ✓Urban mass transit in transport sector
  - ✓Waste management activities that capture and use methane emissions in the urban sector
  - ✓Policies, regulations, capacity building, and any other activities that promote GHG emission reduction and/or sequestration (or linked to the above activities)

  Can we explain how these activities reduce or promote reduction of GHG emissions?

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Other considerations in defining eligible mitigation activities:

- Mitigation activities should prevent long-term lock-in to high carbon infrastructure, more specifically to fossil-fuel based infrastructure

- For EE activities that replace old, inefficient technology, replacement should be done well before the end of the life of the old technology and new technology must be substantially more efficient than the old one. Replaced assets should be retired.

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Other considerations in defining eligible mitigation activities:

- For retrofit or replacement activities that improves efficiency AND increases capacity at the same time, only investment in efficiency improvement counts as mitigation finance

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- Ineligible Activities:
  - ✓ Greenfield investments in fossil fuel-based facilities in all sectors except transport (exploration & processing facilities, fuel storage, transport/transmission and distribution facilities and use)
  - ✓ Brownfield investments to retrofit, rehabilitate or replace existing coal-based facilities without switching to cleaner fuel;
  - ✓ hydropower plants with high methane emissions from reservoir that exceed the GHG reduction from renewable energy; these are hydropower plants whose GHG emissions per kWh (90 gCO2eq/kWh) exceeds the grid emission factor in the project area;

Joint MDB Approach-Mitigation Finance Tracking

- Ineligible Activities:
  - ✓ geothermal power plants with high CO2 content in the geothermal fluid that cannot be re-injected;
  - ✓ biofuel projects that deplete carbon pools more than they reduce GHG emissions due to high emissions in production, processing and transportation.
  - ✓ Activities that reduce emission at the project site while causing increased emission somewhere else.

Can we explain the reasons behind the ineligibility of each of these activities?

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General Mitigation Finance Estimating Methodology

1. Identify ADB projects that fit the typology of eligible mitigation activities
2. Identify in those projects the mitigation sub-project or component funded by ADB assistance (loans, grants, equities, guarantees, ADB-administered climate funds).
3. Estimate the cost of the mitigation component funded by ADB (base cost, financial charges, contingencies, etc.) – **this is ADB's mitigation finance**

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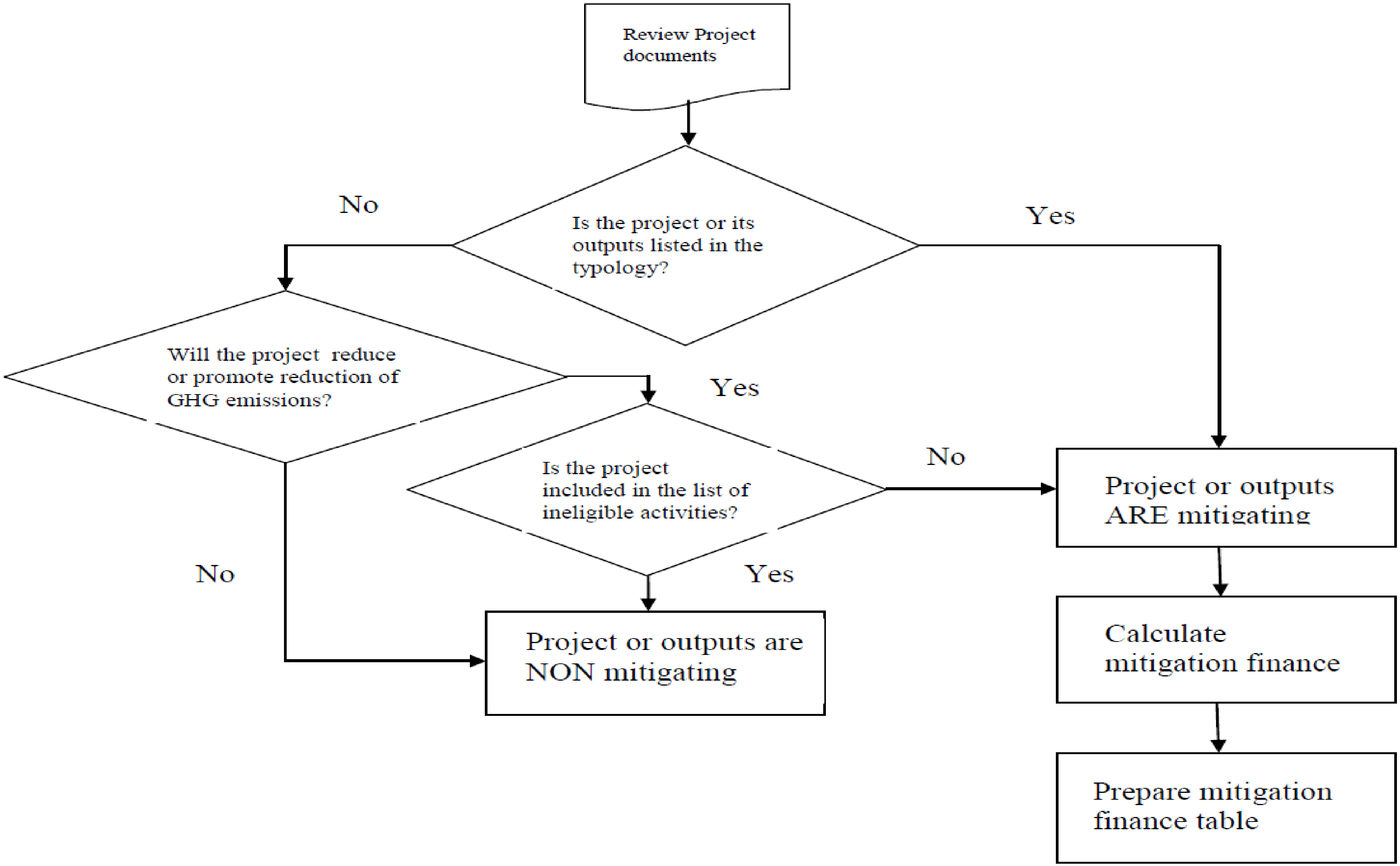
Estimating Mitigation Finance



The best time to estimate mitigation finance is when you are doing the cost estimates for the whole project. At that stage, you have the opportunity to isolate and find the cost of the mitigation components.

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Approaches in Estimating Mitigation Finance (MF)

- Method (A) – Preferred Approach: MF estimates by costing the mitigation components – to be used if mitigation components are clearly identifiable and cost data are available or can be determined
- Method (B)- Next Preferred Approach- MF estimates by using unit cost factor i.e. cost estimate per unit of output– this is similar to estimating the total cost of building using a known typical cost/sq. m. of area or the total cost of a power plant by using typical cost/MW.

Approaches in Estimating Mitigation Finance (MF)

- Method (C): Least Preferred Approach-MF estimates by using %MF factors or proxies – to be used when mitigation components are not identifiable, their costs are not available and/or when the costs are lumped together and cannot be disaggregated.

  % mitigation finance =%MF

  Mitigation finance = %MF x (ADB loan or ADB financing for aggregated cost of outputs)

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Sector-specific Guidance Notes

- The MDB Approach is translated into a more detailed sector-specific guidance notes
- The sector-specific guidance notes will spell out detailed guidelines for different types of projects under the sector

http://www.ebrd.com/2017-joint-report-on-mdbs-climate-finance

Thank you

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