

# Common Principles for Climate Change Adaptation Finance Tracking

## Preamble

On 31<sup>st</sup> March 2015, the group of Multilateral Development Banks (MDBs)<sup>1</sup>, who jointly report on Climate Finance, and the International Development Finance Club (IDFC)<sup>2</sup> announced that they had agreed to work jointly towards improved understanding of definitions of the different approaches and principles for climate change adaptation finance tracking. Considering adaptation as a crosscutting development issue, both groups confirmed their intent to collaborate and develop Common Principles for Climate Change Adaptation Finance Tracking, and would aim to reach reasonable progress on this process by June 2015.

In order to demonstrate the significant progress made to date, MDBs and IDFC have agreed some outline principles as an essential and important first step. These define the context of adaptation finance in development and lay the base for further joint work that includes addressing comparability of the reporting process and relevant process-based concepts and guidelines.

## Introduction

MDBs and the IDFC are fully committed to promoting and supporting climate resilient development, as an essential element of the sustainability of their investments, by integrating climate resilience and adaptation into their investments, operations and initiatives. This may include support at the national, territorial, local or project level to prepare and respond to the impacts of climate change, while capitalizing on the diversity of adaptation strategies and investments to further improve the quality of their contribution to climate resilient development pathways. This includes, among other steps, integrating project vulnerability assessments into their financing procedures and processes.

Climate resilience and adaptation are intrinsically linked to development. This may make it challenging to identify what can be defined solely as adaptation finance, and has resulted in different approaches and methods for tracking and reporting. Recognizing the challenges and the need for comparable approaches, MDBs and IDFC are committing to the development of appropriate initiatives and transparent reporting of methodologies, data and information related to adaptation finance. Therefore, the purpose of the Common Principles for Climate Change Adaptation Finance Tracking is to set out an agreed approach and next steps for tracking adaptation finance.

The Common Principles, intended to be primarily applied in development finance, consist of a set of initial principles related to tracking commitments in adaptation finance. They are a voluntary joint MDB and IDFC initiative and as such do not preclude any international mandatory standards under the UNFCCC. Recognizing institutional differences, including mandates and capacities, at this stage they do not cover aspects related to their operationalization, including quality control procedures.

## Purpose

The MDBs and the IDFC commit to developing common principles and guidelines based on their respective, groupbased climate change adaptation finance tracking and reporting. MDBs and IDFC invite other institutions to adopt the Common Principles and therewith further increase transparency and credibility of adaptation finance reporting.

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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) and World Bank (IDA/IBRD) from the World Bank Group (WBG)

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

As an inherent and important part of improving climate change adaptation finance tracking, the Common Principles will be subject to further revision by MDBs and IDFC jointly, based on amassed experience and following the identified next steps. In this respect, MDBs and IDFC are committed to work together, maintaining an open and transparent exchange of information around institutional experience and learning, as well as to jointly discuss potential proposals to improve the Common Principles. To the extent possible, parties will strive to reach consensus around proposed changes or additions. Alignment requires a process that improves common understanding and facilitates convergence of different approaches. In case of differences in defining or tracking climate change adaptation finance, the parties commit to communicating these in full when reporting.

## Principles

- Adaptation finance tracking relates to tracking the finance for activities that address current and expected effects of climate change, where such effects are material for the context of those activities<sup>3</sup>.
- Adaptation finance tracking may relate to activities consisting of stand-alone projects, multiple projects under larger programs, or project components, sub-components or elements, including those financed through financial intermediaries.
- Adaptation finance tracking process consists of the following key steps:
  - Setting out the context of risks, vulnerabilities and impacts related to climate variability and climate change;
  - Stating the intent to address the identified risks, vulnerabilities and impacts in project documentation;
    - Demonstrating a direct link between the identified risks, vulnerabilities and impacts, and the financed activities.
- Adaptation finance tracking requires adaptation activities to be disaggregated from non-adaptation activities as far as reasonably possible. If disaggregation is not possible using project specific data, a more qualitative or experience-based assessment can be used to identify the proportion of the project that covers climate change adaptation activities. In consistence with the principle of conservativeness, climate finance is underreported rather than over-reported in this case.

## Next Steps

- Discuss the alignment of adaptation tracking processes where possible, by sharing and exchanging MDBs' and IDFC's experience, thereby increasing capacity and knowledge on the topic. This shared knowledge will inform and improve further versions of the Common Principles.
- Advance our understanding and work on the main areas of difference identified, taking note of user needs, with the aim of providing increased transparency on areas where differences in tracking approaches continue to exist: in particular on further refinement of definitions for adaptation activities in the context of adaptation finance tracking; on the tracking process of disaggregation in adaptation finance; and on tracking options for

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<sup>3</sup> The purpose of this Principle is to frame the space of activities that can be classified as adaptation finance tracking in the context of MDB and IDFC developmental work. As such, it recognizes the existence of differing scientific and institutional definitions of adaptation to climate change and does not attempt to define adaptation to climate change in a wider global context e.g. whether to include adaptation to current climate variability or not. However, as a next step the joint MDB and IDFC group will work on further refinement of definitions for adaptation activities in the context of adaptation finance tracking.

climate resilience. Include improved explanation and clear terminology of the various tracking concepts in updated versions of the Principles.

- Develop and collate good practice on topics that will add clarity and substance, for example in guidelines on the key steps for adaptation tracking; good practice in climate vulnerability assessments; avoidance of maladaptation; adaptation decision pathways; and the importance of non-financial adaptation.