General Guidance for Tracking Green Finance

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CLIMATE POLICY INITIATIVE

Trinomics

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ABOUT INTERNATIONAL DEVELOPMENT FINANCE CLUB

IDFC, created in 2011, is a leading group of 26 national and regional development banks from all over the world. IDFC members have the unique function of supporting domestic policies while transferring international priorities into their own constituencies. IDFC members are aligned with and work together to implement the Sustainable Development Goals (SDGs) and the Paris Climate Agreement agendas. Through IDFC, and in close partnership with other development bank networks, members join forces as a platform to promote and leverage sustainable development investment worldwide.

ABOUT CLIMATE POLICY INITIATIVE

CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has seven offices worldwide, in Brazil, India, Indonesia, South Africa, the United Kingdom, and the United States.

ABOUT TRINOMICS

Trinomics is an international research and consultancy firm that provides specialist policy advice in the fields of environment, climate change, energy and sustainability, supporting businesses, governments and organizations in the development and implementation of effective policies and broader strategies.

CONTENTS

1. INTRODUCTION

Rigorous standards of consistency, transparency, and accountability in the tracking of green finance are vital for International Development Finance Club (IDFC) members as they strive to amplify their green investments. As pioneers in this field, IDFC members contributed over a third of global public climate finance in 2021/2022 (CPI, 2023), providing more than USD 1.5 trillion since the adoption of the Paris Agreement in 2015 (IDFC, 2023a).

The three-year *IDFC Capacity Building Initiative for Tracking Green Finance* is designed to substantially enhance the ability of IDFC members to consistently track and report their green finance flows. It aims to deepen IDFC members' understanding of the principles of climate finance tracking, streamline their tracking processes through tools such as decision trees, and address related challenges. The initiative is focused on high-level issues and specific needs identified via a survey sent to all IDFC members in the second half of 2023.[1] In-depth bilateral meetings were also held with ten IDFC members to build on insights from this survey and leverage members' experience in green finance mapping. Sector-specific guidelines will be developed following this General Guidance document, aimed at ensuring that the tracking and reporting processes are not only standardised but also cater to the unique characteristics of five sectors: energy; transport; water; agriculture and forestry; and urban.

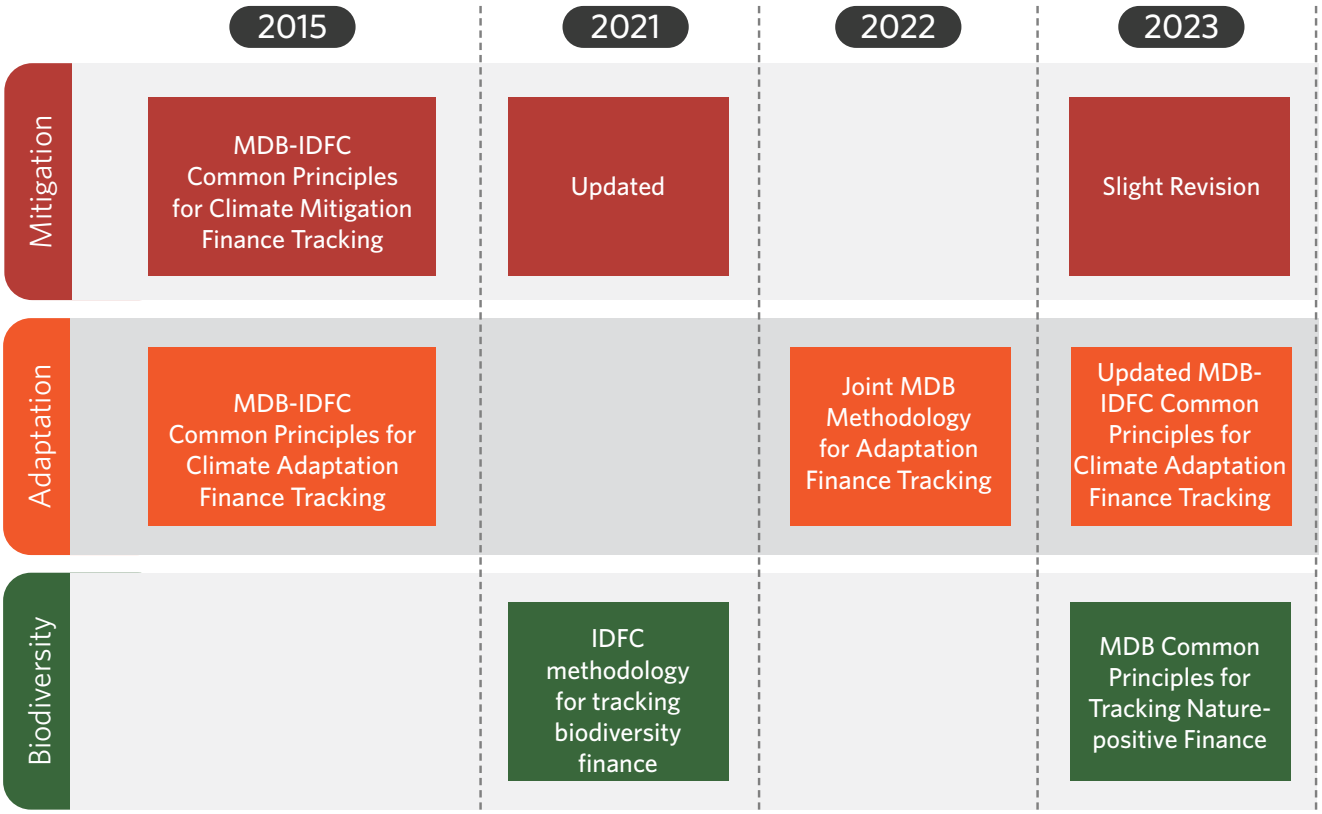
While primarily intended for use by IDFC members and multilateral development banks (MDBs), the Common Principles are designed to serve as a framework for other institutions tracking and reporting their climate finance. This broader application aims to enhance the overall transparency and credibility of green finance reporting, providing comparable data on global climate finance flows. This can contribute to high-level publications including the UNFCCC's Biennial Assessment and Overview of Climate Finance Flows (UNFCCC, 2022) and Climate Policy Initiative's Global Landscape of Climate Finance (CPI, 2023).

1 This survey was conducted by the IDFC Climate Change Facility and Climate Policy Initiative, which was sent to all 26 IDFC members in July 2023 and received 16 responses. It covered five areas: 1) Familiarity with green finance tracking methods; 2) Current tracking methodology; 3) Internal systems and processes; 4) Team composition; and 5) Technical capacity needs.

1.1 EVOLUTION OF IDFC GREEN FINANCE TRACKING METHODOLOGIES

The evolution of the IDFC's green finance tracking methodologies since 2015 demonstrates its commitment to enhancing the transparency and efficacy of green finance, as shown in Figure 1.1.

Figure 1.1: Evolution of the IDFC's green finance tracking methodologies over time



COMMON PRINCIPLES FOR CLIMATE MITIGATION FINANCE TRACKING

In 2015, the IDFC collaborated with the group of MDBs and published the Common Principles for Climate Mitigation Finance Tracking (the Mitigation CPs), which lay out definitions and guidelines for tracking and reporting mitigation finance, emphasising transparency and the need for consistent, project-specific data to substantiate claims.

In 2021, the Mitigation CPs were updated to incorporate stricter eligibility criteria aligned with the Paris Agreement and to introduce a more robust framework for regular reviews in order to account for technological and economic shifts towards a low-carbon future.

COMMON PRINCIPLES FOR CLIMATE ADAPTATION FINANCE TRACKING

Also in 2015, the IDFC collaborated with the group of MDBs to publish the MDB-IDFC Common Principles for Climate Adaptation Tracking (the Adaptation CPs). In recognition of the complexity

of distinguishing adaptation finance, the guidance includes the key definitions, principles, and provisions for qualitative assessments for when precise disaggregation is not possible.

In 2022, the Joint MDB Methodology for Adaptation Finance Tracking (JMDBs, 2022) was introduced in a move towards greater alignment across MDBs. This updated methodology is based on the initial Adaptation CPs, while also enhancing the operational application.

In 2023, following the knowledge exchange between the IDFC and MDBs on financing adaptation activities, the IDFC adopted the joint MDB Methodology for Adaptation Finance Tracking. As a result, MDBs and IDFC have both adopted the updated Common Principles for Climate Change Adaptation Finance Tracking (IDFC, 2023c).

COMMON PRINCIPLES FOR BIODIVERSITY FINANCE TRACKING

Although collective commitments are absent in the current biodiversity finance tracking methodologies, both the IDFC and the MDB group are actively addressing this gap. The IDFC's biodiversity tracking methodology builds on its Benchmarking report on Biodiversity Practices of Development Banks (IDFC, 2020a) and Testing of Reporting Methodologies on Biodiversity Finance (Belvaux, 2020). The MDB group has made efforts to start tracking biodiversity finance by adopting the MDB Common Principles for Tracking Nature-Related Finance at COP28 (JMDB, 2023).

While both the IDFC and MDBs have committed to applying the Mitigation and Adaptation Common Principles, their reporting has diverged in terms of focus. The annual Joint Report on MDBs' Climate Finance covers only climate finance, while the annual IDFC' Green Finance Mapping covers climate finance, and has also tracked biodiversity finance since 2021.

1.2 UNDERSTANDING THE COMMON PRINCIPLES

The Common Principles, including the mitigation, adaptation, and biodiversity CPs, aim to support a collaborative initiative to standardise the tracking and reporting of climate finance. Their key features are outlined in Table 1.1.

Table 1.1 Comparative guide to the Common Principles

	What the CPs are	What the CPs are not
Common Principles (both mitigation and adaptation)	A set of definitions and principles for climate finance tracking.	They do not cover implementation aspects, such as quality control, which remain each institution's responsibility. While they provide a framework, they do not manage or oversee the project-level details of participating entities.
		They are not a method for assessing Paris Agreement alignment or a system rating the 'greenness' of projects, activities, operations, or investments.

	What the CPs are	What the CPs are not
Mitigation CPs	Activity-based, focused on the type of activity executed for mitigation purposes. Independent of greenhouse gas (GHG) emissions accounting.	They are not focused on the purpose, financial origin, or actual results of financing activities. Rather, the principles emphasise the nature of the activity rather than its financial backing or outcome assessment.
	A means of classifying activities as mitigation if they avoid or reduce GHGs, increase GHG sequestration, or contribute substantially to the stabilisation of GHG concentrations.	They are not a substitute for project-specific evidence of GHG emissions mitigation. While they guide classification, they do not replace detailed, empirical assessments of and data on individual projects.
Adaptation CPs	Based on a three-step process: 1. Stating the context of climate change vulnerability 2. Providing evidence of intent to reduce that vulnerability 3. Establishing direct link(s) between project activities and identified vulnerability See Section 4.2 for details.	They are not an activity-based or "positive list" tracking approach. They integrate broader assessments of climate-related impacts into financial tracking.
	A means of categorising adaptation activities into three types: 1. Type 1: Integrate measures to manage physical climate risk and ensure that projects are realised despite these risks. 2. Type 2: Directly reduce physical climate risk and build the adaptive capacity of the system. 3. Type 3: Enable adaptation by reducing the underlying causes of vulnerability to climate change at the systemic level and/or removing (knowledge, capacity, or technological) barriers to adaptation. They also provide guidance on quantifying certain percentages of the entire finance for an activity, using either an incremental or proportional approach. See Section 4.3 for details.	They do not automatically quantify 100% of the finance on the activity as long as the activity qualifies as an adaptation activity.
CPs for tracking nature-positive finance	Focused on establishing a higher benchmark for nature-positive finance, ensuring investments contribute significantly to nature's recovery aligned with the Kunming-Montreal Global Biodiversity Framework goals.	They do not provide a one-size-fits-all solution for environmental sustainability projects; they specifically exclude those that, while supportive of broader environmental goals, do not meet stringent criteria for nature-positivity.

1.3 IMPLEMENTING THE COMMON PRINCIPLES

THE OVERARCHING PRINCIPLES FOR GREEN FINANCE TRACKING

***Conservativeness:* Under-report rather than over-report green finance in cases where data is unavailable or uncertain.** This approach helps to prevent overestimation and to avoid double counting in scenarios where a (sub-)project or (sub-)component contributes to two or more areas of mitigation, adaptation, and/or biodiversity. In such cases, the tracking institution's processes should determine the allocation between different kinds of finance.

***Granularity*: Project activity/component-based**. Eligible activities are identified and tracked at the most granular level possible. For instance, for a project with a cost of USD 50 million with a documented USD 20 million component for GHG reduction, only the USD 20 million should be reported as mitigation finance.

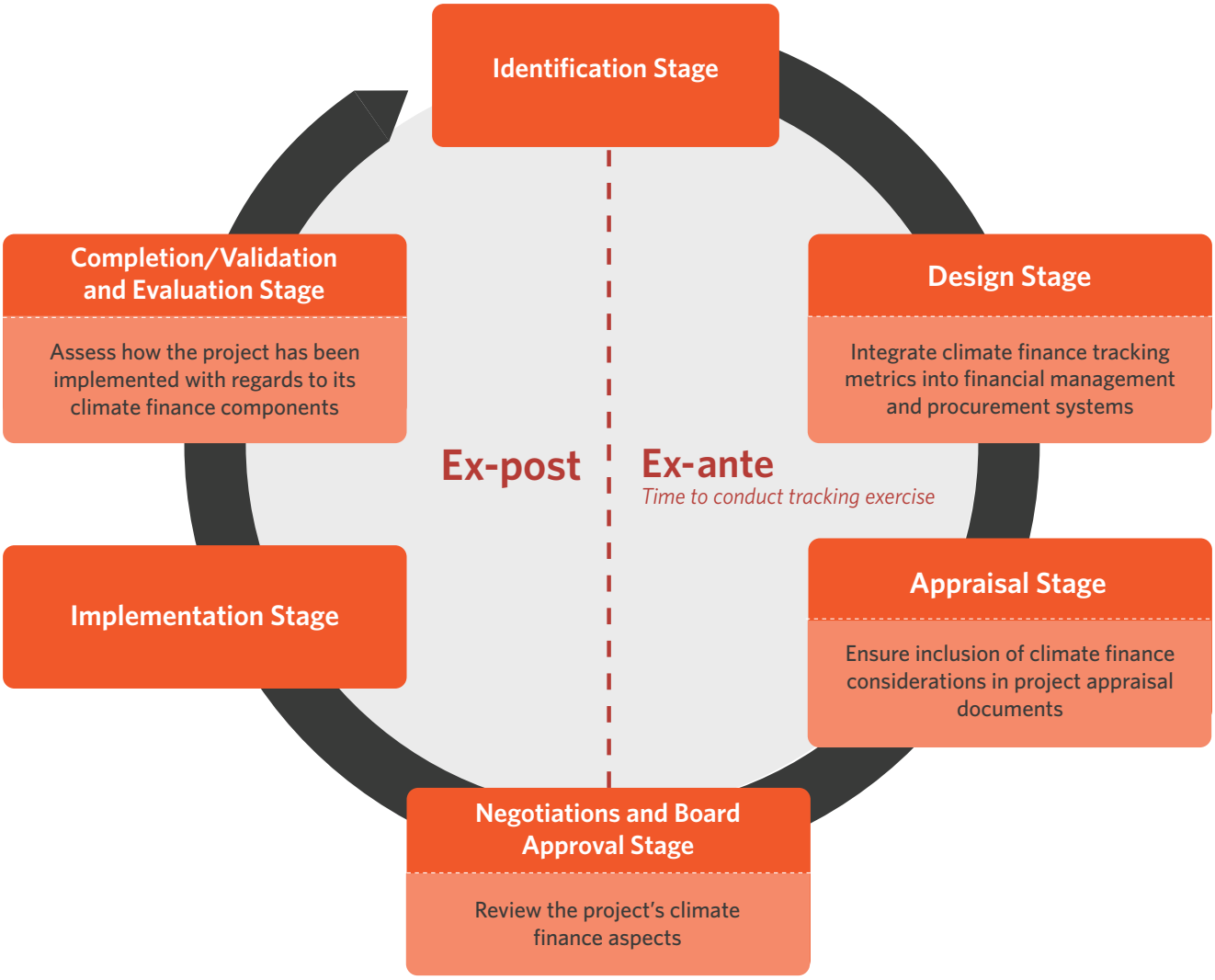
***Complementarity*: Align with broader sustainability goals.** The Common Principles emphasise that the selection of activities for climate change mitigation/adaptation and biodiversity should align with the wider objectives of the UN Sustainable Development Goals.

BEST TIME TO CONDUCT GREEN FINANCE TRACKING

Green finance tracking should be largely conducted before project implementation. MDBs and IDFC members start this process at the design stage to assess whether elements of a project qualify as mitigation, adaptation, or biodiversity finance.

While individual IDFC members may have distinct procedures, Figure 1.2 illustrates the optimal touchpoints for climate finance tracking in a typical project cycle.

Figure 1.2: Example of a project cycle and optimal timing for conducting green finance tracking



EX-ANTE STAGE

Initiating green finance tracking at the **design stage** helps to ensure that climate and biodiversity considerations are embedded in project activities from the start. This includes screening for short- and long-term climate and disaster risks, and proactive incorporation of related risk mitigation measures.

Project details are then finalised at the **appraisal stage**, including the climate and biodiversity considerations identified during design. This is important to ensure that climate finance considerations are explicitly included and accounted for in project appraisal documents.

At the **negotiations and board approval stage**, the project's climate finance aspects should be thoroughly reviewed to ensure alignment with the institution's sustainability strategy. This is the final checkpoint to confirm that all green finance tracking elements are in place before implementation.

EX-POST STAGE

Monitoring and evaluation is also important during the *ex-post* phase. This involves assessing project implementation, including with regard to green finance components. Actual expenditures must be reviewed against the budgeted amounts for climate/biodiversity-related measures and their effectiveness in achieving their objectives should be evaluated. The *ex-post* assessment also provides an opportunity to learn from project implementation, identifying best practices and areas for improvement that can inform future projects.

KEY ELEMENTS FOR EFFECTIVE GREEN FINANCE TRACKING

MDBs and IDFC members operate across diverse contexts and have unique objectives, rendering a one-size-fits-all approach to tracking green finance impractical. Each organisation must develop a tracking format that aligns with its own strategic aims and operational needs. However, certain key elements that form the backbone of effective green finance tracking should be integrated across all institutions and projects, ensuring a robust framework for organisations to report on and assess the impact of their investments (see Table 1.2).

Table 1.2 Key elements for effective green finance tracking

	Project name	Description	Action	Activity categorisation	Screening criteria/ guidance	Financial instrument	Green finance (USD)[2]	Green finance share of total project cost
Description	Identifier for each project	Summary of project objectives, activities, and expected outcomes	Climate Mitigation	Negative/Low emissions; Transitional; Enabling	Methodology and criteria used to determine whether a project qualifies as climate finance	The type of financial instrument used to disburse green finance	Amount of funding specifically allocated to climate or biodiversity initiatives within the project	Proportion of the project budget dedicated to climate/ biodiversity-related activities
			Climate Adaptation	Type 1/2/3 (See Section 4.3 for details)				
			Dual benefits[3]	Mitigation: Adaptation ratio				
			Biodiversity	Protection; Restoration; Sustainable use and management; Fair sharing of benefits; Enabling conditions				
Example	*Manila Bay Coastline Protection*	*Seawall construction and road elevation*	*Climate Adaptation*	*Type 3*	*Adaptation Coastal Protection*	*Loans*	*3,000,000*	*100%*

TYPES OF FINANCING

In the evolving climate finance landscape, an array of financing types and instruments has emerged, each playing a role in global climate mitigation and adaptation efforts. This diversity in financing strategies and instruments presents challenges for tracking and reporting. Table 1.3 presents an overview of the types of financing that IDFC members can provide.

2 IDFC GFM takes the US dollar as its standard currency for reporting purposes. Institutions using a different currency should convert their local currency to dollars and include this conversion in an additional column.
3 Dual benefits encompass both the positive outcomes of reducing GHG emissions, which help to mitigate climate change, and the support for project or programme beneficiaries to adapt to the impacts of climate change, as climate change adaptation.

Table 1.3 Types of financing from IDFC members' accounts

Type	Definition	Use of proceeds[4]	Guidance on calculating portion of green finance
Project Financing	Used to fund specific projects, such as renewable energy installations, energy efficiency improvements, and reforestation efforts. It typically involves securing finance for individual projects with a clear set of objectives and expected outcomes.		If the activity is included in the Common Principles, then finance can be quantified as 100% green.
Policy-based Financing	Supports national and subnational policy reform programmes and institutional actions that promote growth, poverty reduction, and sustainable development. Financing is made available as non-earmarked general budget financing upon satisfactory implementation of the overall policy and institutional reform programme, which includes a set of critical policy actions.		If the policy actions are fully dedicated to climate/ biodiversity activities included in the Common Principles, then finance can be quantified as 100% green.
			If the policy actions are designed to simultaneously support other development objectives, then the green finance component is estimated at the policy action level using a proportional approach. For climate adaptation policy, adaptation finance is allocated to each policy action that articulates a clear and direct link between the climate change vulnerability context and the specific policy action.
Results-based Financing	Results-based financing directly links the disbursement of funds to measurable results in a government-owned programme. This aims to increase accountability and incentives for delivering and sustaining results, improve the effectiveness and efficiency of government-owned sector programmes, promote institutional development, and enhance the effectiveness of development.		If the expected outcomes are fully dedicated to climate/biodiversity activities included in the Common Principles, then finance can be quantified as 100% green.
			Where multiple objectives are pursued, a proportional approach should be applied to determine the share of finance that can be classified as green, based on the portion of results delivering environmental benefits.
Working Capital	Financing provided to an entity to cover operational expenditures.		Green finance is estimated as the finance associated with the mitigation, adaptation, and/or biodiversity activities included in the business model of the recipient using a proportional or incremental approach. The estimate is based on the operational expenditures associated with the mitigation, adaptation, and/or biodiversity activities.
Intermediated Financing	Financing provided by development finance institutions (DFIs) through banks, non-banking financial institutions, funds, or other intermediaries.		When use of proceeds is known, green finance is estimated as the percentage of finance associated with mitigation, adaptation, or nature-positive activities included in the initial project pipeline.

4 A traffic light system has been adopted to indicate whether the use of proceeds is known or not. A green light indicates that the use of proceeds is known, whereas a yellow light signifies that the use of proceeds is unknown.

Type	Definition	Use of proceeds[4]	Guidance on calculating portion of green finance
			There is often uncertainty over the use of proceeds of intermediate financing. Estimating green finance requires a robust understanding of the activities that can contribute to mitigation, adaptation, or biodiversity within the geographical and sectoral scope of the transaction, and the capacity of the recipient to use this information to scope, implement, and monitor these activities. For example, if a project pipeline is still being developed at the time of approval, or in the case of a general credit line, IDFC members may estimate green finance using a projected allocation, as committed in the agreement. This can be based on the percentage of the recipient's existing portfolio financing mitigation, adaptation, or biodiversity activities at the time of the transaction, a client survey, or a market assessment.
Municipal Financing	Revenue sources used by municipal governments: taxes (e.g., property, income, sales, excise taxes), user fees, and intergovernmental transfers. It includes ways of financing infrastructure through the use of operating revenues and borrowing as well as charges on project developers and public-private partnerships. Municipal finance also addresses issues around expenditures at the local level and the accountability for expenditure and revenue decisions, including the municipal budgetary process and financial management (UN-Habitat, 2009).		If the financing activity is included in the Common Principles, then the flows can be 100% quantified as green finance.
			Where multiple projects are invested, a proportional approach should be applied to determine the share of finance that can be classified as mitigation, adaptation, and/or biodiversity.

2. KEY CHALLENGES FOR TRACKING GREEN FINANCE AND CAPACITY-BUILDING NEEDS

This section discusses the challenges of tracking green finance and related capacity-building needs. This analysis is informed by our survey and subsequent bilateral meetings with IDFC members, which aimed to assess institutions' readiness to implement the Common Principles and track biodiversity finance, and pinpoint their institutions' internal capacity-building needs in relation to these tasks. Each of the following three subsections addresses a distinct challenge: alignment with other taxonomies, ambiguities in the Common Principles, and resource limitations.

2.1 ALIGNMENT WITH OTHER TAXONOMIES

DFIs are often faced with multiple regional and sectoral taxonomies for identifying and tracking green finance which may not align with one another, making it difficult and costly to conduct tracking exercises that also adhere to the Common Principles.

While IDFC members have collectively committed to adhering to the Common Principles, our survey found that only 50% of surveyed institutions are currently using them, and only 38% have integrated them into their internal systems.

Our survey also shows that 19% of the institutions use the OECD Development Assistance Committee (DAC) Rio Markers for Climate for tracking purposes, and 19% are guided by the EU taxonomy for sustainable activities. Furthermore, numerous institutions are in regions that have developed or are developing their own green taxonomies (see Table A2.1 in Annex II), such as the South Africa Taxonomy (2022) and the Mexico Taxonomy (2023), among others. Another challenge highlighted by IDFC members is the incompatibility between the Common Principles and the Rio Markers, necessitating time-consuming matching from Rio Markers tracking templates to IDFC Green Finance Mapping tracking templates.

To navigate these complexities, there is a need for capacity building on methodology harmonisation to facilitate better alignment with the varied frameworks in use. Annex 3 presents an alignment between the OECD Rio Marker, EU taxonomy, and the Common Principles.

Another challenge is connecting the Common Principles and the Paris Agreement. Although the IDFC has developed a document outlining the operationalisation of the Paris Agreement (see Box 2.1), further efforts are required to elucidate its application of the Common Principles.

Box 2.1 Connecting the Common Principles with the Paris Agreement alignment

In 2017, IDFC members and MDBs jointly committed to aligning their financial flows with the objectives of the Paris Agreement (AFD, 2017). This commitment was further elaborated at COP24 in 2018, where IDFC members released a position paper outlining six key principles for alignment (IDFC, 2018):

1. Mobilising finance for climate action,
2. Supporting national climate policies,
3. Stimulating private investment,
4. Emphasising adaptation and resilience,
5. Transitioning from fossil fuels to renewable energy, and
6. Transforming institutional processes.

By June 2021, an Operationalization Framework on Aligning with the Paris Agreement had been developed to offer more specific guidance to IDFC members (I4CE, 2021).

The Common Principles are crucial for IDFC members to fully align with the Paris Agreement, particularly on Principle 1 above (IDFC, 2018). To be in line with the Paris Agreement, IDFC members must consider the following.

- First, IDFC members need to define what constitutes climate finance. This is where the IDFC-MDBs Climate Finance Common Principles come in, providing a shared definition for climate mitigation and adaptation finance.
- Second, for mitigation projects, the Common Principles offer a detailed list of eligible activities. They assist operational and management teams in identifying and prioritising projects that contribute to the Paris Agreement's mitigation goals. This includes setting and tracking progress toward climate mitigation finance targets.
- Third, in terms of adaptation projects, the joint MDB-IDFC Principles for Climate Adaptation Finance Tracking provide a clear and concise definition of what constitutes climate finance for adaptation, which helps to identify eligible projects and activities, set priorities, shift investment flows to such projects and activities, set a climate adaptation finance target, and track progress towards that target.
- Lastly, for transparent reporting, IDFC members are advised to base their climate finance reporting on these Common Principles. Group-level reporting is also encouraged via the IDFC Green Finance Mapping, which aligns with these principles.

2.2 AMBIGUITIES IN THE COMMON PRINCIPLES

The Common Principles define a set of core principles and an accompanying whitelist of mitigation activities, which grants members considerable autonomy to adapt their climate finance tracking methodologies to their specific national and regional contexts. While this approach is simpler than some technical screening criteria based taxonomies, like the EU

taxonomy, additional judgment, and technical screening standards may be required to define the eligibility of certain activities and projects.

Moreover, the Adaptation CPs present additional hurdles. In contrast to the provided "positive list" in the Mitigation CPs, adaptation finance tracking takes a context-based approach. This requires members to pinpoint vulnerabilities, provide proof of intention to mitigate these vulnerabilities, and demonstrate the link between project activities and the identified climate change vulnerabilities on a case-by-case basis.

Our IDFC member survey indicates that eight of the 16 responding institutions have either moderate or low readiness to track climate adaptation finance. Some have yet to incorporate adaptation projects into their portfolios, while others have not categorised existing adaptation activities, attributing this to a lack of precise definitions or screening criteria in Adaptation CPs. Furthermore, in terms of quantification, several members have not adhered to the principle of granularity, incorrectly allocating entire project values to adaptation when only a portion applied.

There is a common need among institutions for detailed and actionable guidance to enhance their green finance tracking within specific project contexts. Case studies are sought after to enhance understanding of the Common Principles' application methods and procedural steps. There is also strong demand for more comprehensive support and instruction to grasp overarching principles (58%), to quantify green finance (44%), and on eligibility criteria for projects (44%). Providing case studies could elucidate these aspects and enhance understanding of eligibility criteria across various sectors. In addition, there is demand for a simplified version of the Common Principles for smaller institutions and projects, where thresholds for eligible project activities are not currently defined.

2.3 RESOURCE LIMITATIONS

Challenges also lie in the time-intensive and laborious nature of the tracking process. Interviewed institutions largely attributed this to the absence of standardised operational procedures, as well as a lack of systematic data collection and processing. Compounding this is the absence of dedicated departments or teams for tracking green finance. This creates challenges for the collection of data and gathering of feedback from different departments. Levels of staffing and expertise for green finance tracking vary across institutions, increasing the complexity and unpredictability of the tracking process.

To overcome these challenges, capacity building is needed in three key areas:

- First, establishing standardised operational procedures for tracking processes can elevate the efficiency and quality of work while minimising redundant efforts.
- Second, creating a specialised tracking department or appointing personnel specifically responsible for tracking tasks within existing financial disclosure processes is imperative. This would not only guarantee the professionalism and continuity of tracking work but would also enable the refinement of data collection mechanisms, processing, and feedback, leading to more effective and streamlined tracking.
- Third, emphasis training for staff involved in green finance tracking can augment their understanding and proficiency.

Several IDFC members are already transforming their green finance data systems to enhance the efficiency, accuracy, and overall effectiveness of their green finance tracking. Notable examples are included in Box 2.2.

Box 2.2 Advancements in IDFC members' green finance data systems

The **Brazilian Development Bank** is undergoing a significant transformation of its IT systems and green finance classification process, which will improve its green finance data collection system.

The **West African Development Bank** is moving towards a centralised data collection process. The bank's Department of Environmental Climate Finance initiates its data collection process each year, starting in March or April, sourcing information from the previous year from all operational domains and departments. This includes evaluating financed projects and providing comprehensive reports on aspects such as cost, duration, and objectives, as well as providing an assessment report. This approach helps to maintain accuracy, especially in distinguishing between adaptation and mitigation projects. The rationale behind centralising the process is to address past challenges in disseminating methodologies and definitions across the organisation.

The **Development Bank of Southern Africa** is creating an environmental, social, and governance data system that will align with South Africa's national green finance taxonomy and Common Principles. Its goal is to systematically categorise asset classes and associated activities, to move away from manual tagging of green projects, and to integrate the Common Principles into all systems. The expected outcome is the ability to identify green projects across its entire loan portfolio, leading to improved reporting of financed projects and better assurance reporting for stakeholders.

3. GUIDELINES FOR MITIGATION FINANCE TRACKING

3.1 DEFINITION OF MITIGATION TRACKING

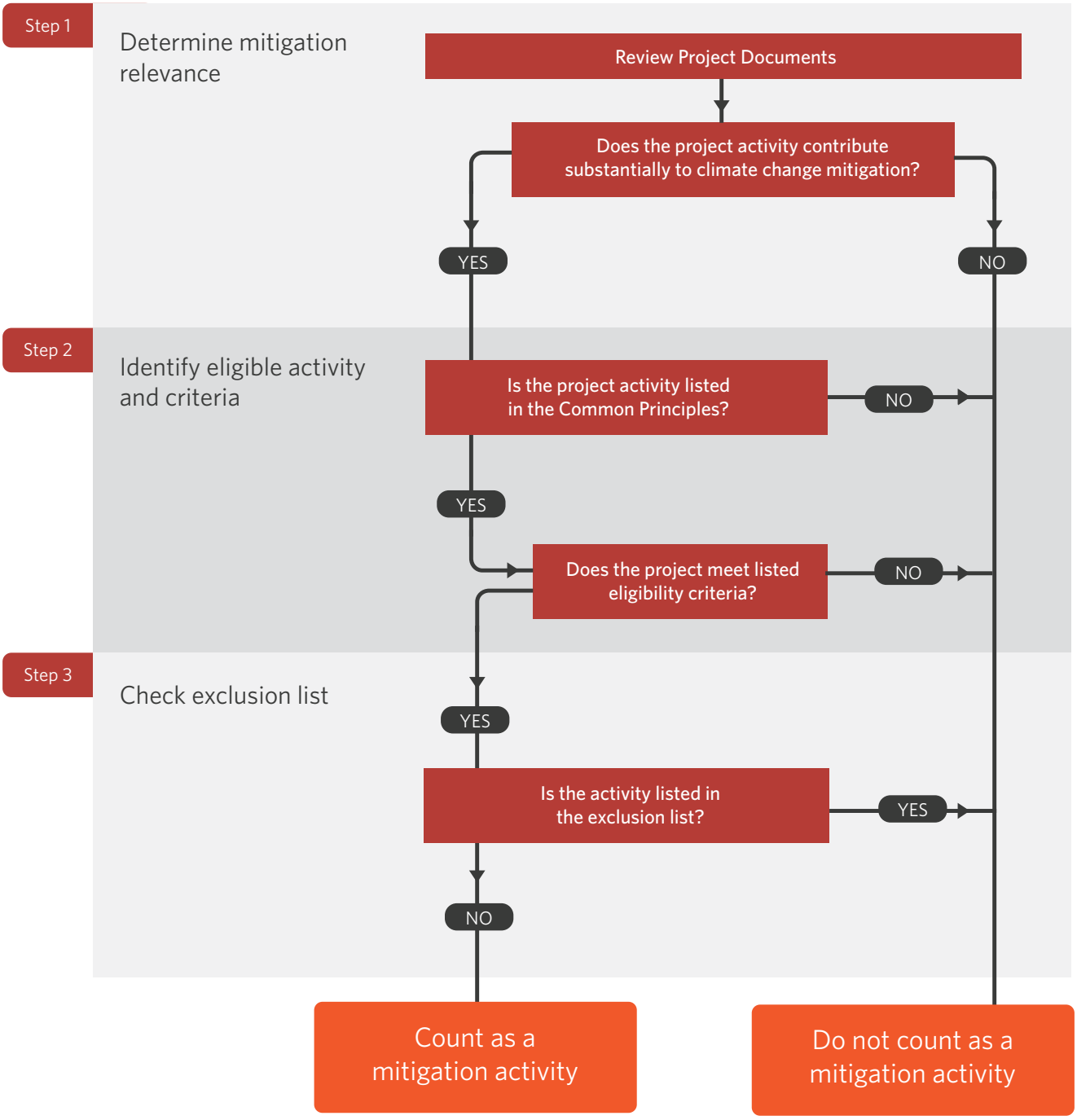
Mitigation finance is defined by the Common Principles as financial flows to activities that either (i) reduce GHG emissions or (ii) increase GHG sequestration and as a result contribute substantially to climate change mitigation by reducing or stabilising the concentration of atmospheric GHGs. Such activities may include stand-alone projects, multiple projects under larger programmes, as well as project components and sub-components, including those financed through intermediaries. See Annex 1 for detailed definitions of climate, mitigation, and adaptation finance.

To determine if a project or activity should be classed as mitigation finance per the Common Principles, an institution should:

1. Determine if the activity contributes substantially to climate change mitigation;
2. Ensure that the project's activity is listed in the Common Principles and meets the eligibility criteria; and
3. Check that the project is not on the Common Principles exclusion list.

Figure 3.1 illustrates the process for determining whether a project qualifies as mitigation finance.

Figure 3.1 Decision tree for determining qualification as mitigation finance



STEP 1: DETERMINING MITIGATION RELEVANCE

The Mitigation CPs identify three categories of activities that substantially contribute to climate change mitigation, as outlined in Table 3.1.

Table 3.1 Mitigation activities definitions and eligibility principles

Category of activity	Summary of eligibility principles[5]	Examples of projects
Negative or very low emissions	Have negative or near-zero relative GHG emissions.	▪ Projects involving carbon sequestration, such as agricultural activities that increase the carbon stock of soil, or livestock projects that improve carbon sequestration through rangeland management. ▪ Projects that increase renewable energy generation, such as wind or solar PV plants, with lifecycle emissions that are substantially lower than the generation of energy from fossil fuel alternatives.
Transitional	Activities that are still part of GHG-emissive systems but are important for and contribute to the transition towards a climate-neutral economy. These include projects that: ▪ Lack technologically or economically feasible very-low-emission alternatives. ▪ Comply with high-performance country- or sector-specific standards, benchmarks, or thresholds for GHG emissions or emission intensity. ▪ Do not hamper the development or deployment of very-low-emission activities. ▪ Do not lead to a lock-in of GHG-emission-intensive assets that is inconsistent with the long-term goal of net zero GHG emissions.	Energy efficiency improvements in manufacturing equipment that directly or indirectly uses fossil fuels, but result in a substantial reduction in relative GHG emissions.
Enabling	These activities are necessary for developing or implementing other eligible climate mitigation activities. In addition, they: ▪ Do not hamper the development or deployment of negative- or very-low-emission activities. ▪ Do not lead to a lock-in of GHG-emission-intensive assets that is inconsistent with the long-term goal of net zero GHG emissions.	Manufacture of very-low-emission technologies, such as projects that support the production of metals or alloys used in renewable energy technologies (e.g., technical assistance, policies, etc.).

Given that IDFC institutions must show that GHGs are substantially reduced, Box 3.1 describes methods and existing tools for calculating GHG-emission reductions.

Box 3.1 How to calculate substantial reductions in GHG emissions

The Mitigation CPs do not generally assign specific quantitative thresholds to enable institutions to adapt them to their own mandates and operating contexts. However, some activities may require GHG assessments in order to meet eligibility requirements.

DFIs should follow, where appropriate, the International Financial Institution (IFI) Framework for a Harmonised Approach to Greenhouse Gas Accounting (IFI, 2015) and the harmonised standards or approaches adopted by the IFI Technical Working Group on Greenhouse Gas Accounting (IFI TWG, n.d.).

5 Eligibility principles may not be universally applicable to all activities. Exceptions are defined in the criteria and guidance included in Table 3.3.

Where IFI standards or approaches do not exist, relevant alternative methodologies or standards may be applied. GHG accounting must include Scope 1 and Scope 2 emissions, as defined in the GHG Accounting Protocol. The Mitigation CPs also recommend that Scope 3 emissions be quantified where relevant and to the extent possible.

Some examples of tools, methodologies, and frameworks for GHG assessments are listed in Table 3.2. A longer list of tools and frameworks, including sector-specific guidance, compiled by the World Wildlife Foundation, can be found here.

Table 3.2 Impact measurement standards and tools

Resource	Description	Tools available
GHG Protocol-GHG accounting tools	A set of tools and step-by-step guidance to enable companies to develop comprehensive and reliable inventories of their GHG emissions.	▪ Cross-sectoral tools ▪ Country-specific tools ▪ Sector-specific tools ▪ Tools for countries and cities
The Global Reporting Initiative (GRI)- Sustainability Reporting Guidelines	Aiming to encourage organisations to increase reporting, accountability, and transparency on their contribution to sustainable development, GRI has developed a set of standards to help organisations understand their impacts on the economy, environment, and society.	▪ Universal standards ▪ Sector standards ▪ Topic standards
The Carbon Trust – Route to Net Zero Standard	Three certification tiers to guide organisations towards achieving net zero, which include managing emissions, and setting and achieving emission reduction targets. Carbon Trust's footprint manager offers guidance on measuring, managing, and reducing Scope 1, 2, and 3 emissions.	▪ Carbon Trust Footprint Manager
Carbon Desktop – Energy and Carbon Reporting	Carbon reporting software that enables stakeholders to monitor progress towards energy and carbon performance targets. Can be used to meet Streamlined Energy and Carbon Reporting (SECR) requirements.	▪ Equipment-specific monitoring ▪ Automated data collection ▪ Data analysis and reporting ▪ Benchmarking ▪ Goal setting and tracking
Accuvio – SECR Software	Software package for streamlining data collection and reporting for SECR requirements.	▪ GHG calculations ▪ Energy efficiency project tracker ▪ Trend analysis
Ecometrica - Sustainability Reporting & Management Software	Software platform that analyses climate-related risks and conducts Scope 1, 2, and 3 GHG reporting for mandatory Task Force on Climate-Related Financial Disclosers (TCFD) requirements, or organisational sustainability reporting.	▪ Econmetrica Platform ▪ TCFD reporting framework ▪ GHG emissions and intensity calculations
CDP - Guidance for companies for reporting	Questionnaires and guidance documents help organisations through information requests for disclosures on climate change, forests, and water security.	▪ Questionnaires ▪ Reporting guidance ▪ Webinars ▪ Technical materials for guidance

In some cases, it may be challenging or inappropriate to calculate a reduction in relative GHG emissions (for example, because of difficulties in defining the baseline scenario), whereas there may be suitable benchmarks for intensity metrics—such as tonnes of carbon dioxide equivalent (tCO_2e) or gigajoules of energy per unit of output or outcome. Comparison with such benchmarks may be adequate for assessing the likely mitigation impact. To accommodate such cases, some eligibility criteria (specified in the sectoral tables of the Common Principles) allow the option of substituting the reduction in relative GHG emissions with that in the intensity of CO_2e emissions or energy consumption or meeting a high-performance threshold for CO_2e emissions as defined in standards, taxonomies, regulations or benchmarks (IDFC, 2023d).

STEP 2: IDENTIFYING ELIGIBLE ACTIVITIES AND CRITERIA

The Common Principles provide a full list of activities that are eligible to be tracked as mitigation finance. Table 3.3 below summarizes the types of activities that are eligible as mitigation finance by sector.

The full positive list of activities can be found in the sectoral tables (Tables 2-12) of the Common Principles, along with project-specific eligibility and screening criteria. A project must meet all eligibility and screening criteria to be tracked as mitigation finance.

Table 3.3 Types of eligible activities for mitigation finance tracking

Sectors	Activity type
Energy	Renewable energy generation
	Lower-carbon energy
	Energy efficiency
	Energy storage and network stability
	Transportation of energy
	Fugitive emissions
Mining and metal production for climate action	Mining for climate action
	Metal production for climate action
Manufacturing	Energy and carbon efficiency
	Lower-carbon energy generation
	Electrification
	Energy storage
	Support for low-carbon development
Agriculture, forestry, land use, and fisheries	Agriculture: energy efficiency, carbon sequestration, GHG-emission reduction
	Livestock: GHG-emission reduction, carbon sequestration
	Forestry: GHG-emission reduction and carbon sequestration
	Marine and other water habitats: GHG-emission reduction

Sectors	Activity type
	Fisheries and aquaculture: GHG-emission reduction
	Food and diet: resource-use efficiency
	GHG reduction through biomaterial production
Water supply and wastewater	Water supply: GHG-emission reduction, energy efficiency, and demand management
	Wastewater management: GHG-emission reduction, energy efficiency, and demand management
	Efficient use of wastewater
Solid waste management	Waste collection, transport, storage, and transfer
	Product reuse and Material recovery from solid waste
	Recovery and valorisation of bio-waste
	Treatment of mixed residual waste
	Landfill gas capture, abatement, and utilisation
	Energy efficiency
Transport	Urban and rural transport
	Low-carbon inter-urban transport
	Low-carbon vehicles, low-carbon fuels, and demand management
	Maritime transport: low-carbon mode and efficiency improvement
	Aviation: efficiency and renewable energy
Buildings, public installations, and end-use energy efficiency	Energy efficiency, renewable energy, CO_2e-emission reduction, and carbon sinks in buildings and public areas
	End-use energy efficiency
Information and communications technology (ICT) and digital technologies	Energy efficiency, renewable energy, and CO_2e-emission reduction
Research, development, and innovation	Research, development, and innovation
Cross-sectoral activities	Energy and resource-use efficiency
	Demand reduction
	Electronic service delivery
	Energy transition
	GHG-emission reduction
	Policy support, technical assistance, capacity building, and information dissemination
	Support for climate change mitigation

STEP 3: CHECK LISTED EXCLUSIONS

Some activities—largely those related to fossil fuel dependence or deforestation —cannot be counted as mitigation finance in any case. Excluded activities include:

- Those that support upstream and midstream activities in natural gas processing, storage, transport, liquefaction and regasification, and crude oil refining. For example, capture and utilisation for enhanced oil recovery;
- Electricity generation from coal or peat;
- Activities that lead to deforestation (except for small-scale tree clearance);
- Carbon offsetting, or the purchase of carbon credits or other market-based instruments (e.g. renewable energy credits), to offset GHG emissions directly generated by the activity cannot generally be used as an eligible mitigation approach, with certain limited exceptions.

Other exclusions may be found within the eligibility criteria for specific projects.

3.2 QUANTIFICATION OF MITIGATION FINANCE

Only those costs that are integral to the reduction or sequestration of GHGs should be counted as mitigation climate finance. In cases where all project expenditure contributes to these ends, the **total project cost** can be counted. For example:

- For renewable energy generation projects with low lifecycle GHG emissions (Activity 2.1 in the Common Principles), all expenditures throughout the life of the renewable energy-generating assets can be counted.
- For livestock projects that improve carbon sequestration through rangeland management (e.g., improved pasture or grazing management to increase soil carbon stocks, Activity 5.5), all project costs can be tracked as mitigation finance if a substantial increase in above- or below-ground carbon stock can be demonstrated.
- All costs for dedicated public transport infrastructure (Activity 8.1), including new infrastructure and improvements to existing systems can be considered mitigation finance.

On the other hand, those project costs that do not contribute to mitigation cannot be counted. Project costs should be assessed with the principle of conservativeness to determine if they are integral to climate change mitigation. For example, expenditures such as for purchasing land that is required for the project overall, but does not directly lead to a reduction in atmospheric GHG concentration cannot be counted. Only the **isolated costs** of the mitigation-relevant activities can be counted. For example:

- For a project deploying joint use of renewable energy and fossil fuel to supply electricity, heat, mechanical energy, or cooling (Activity 2.1), only the portion of financing allocated to renewable energy may be counted.
- For a project that includes grid upgrades for improved transmission and distribution (Activity 2.12), only costs related to the transmission and distribution of renewable energy may be counted.

- For building construction or public installations that incorporate energy efficiency, renewable energy, or plant-based carbon sinks (Activity 9.1), only project funding dedicated to these mitigation measures may be counted, rather than the cost of the project as a whole.
- Similarly, for the construction of new efficient or low-carbon manufacturing lines or facilities (Activity 4.3), the share of total finance devoted to enabling high efficiency should be counted, in line with the principles of conservativeness and granularity.

The eligibility criteria for listed activities within the Common Principles may provide project-specific guidance on whether to consider **total costs** of a project as mitigation finance **or an isolated proportion of mitigation-relevant costs**, and how to calculate these costs.

4. GUIDELINES FOR ADAPTATION FINANCE TRACKING

4.1 DEFINITION OF ADAPTATION FINANCE TRACKING

Adaptation finance tracking relates to activities that address the current and expected effects of climate change. Such activities may include stand-alone projects, multiple projects under larger programmes, as well as project components and sub-components, including those financed through intermediaries. The Common Principles (CPs) encourage disaggregation to the greatest extent possible, tracking the adaptation-specific (sub-)components within a given project or programme.

4.2 QUALIFICATION OF ADAPTATION ACTIVITIES

Unlike mitigation finance, where tracking eligibility is assessed based on a list of activities, adaptation finance is highly context-dependent. The Adaptation CPs outline a three-step process for qualifying an activity as adaptation-relevant:

- **Step 1:** The context of climate change vulnerability is clearly stated.
- **Step 2:** There is evidence of explicit intent to reduce the identified climate change vulnerability.
- **Step 3:** A direct link is made between project activities and the identified climate change vulnerability.

The updated Joint Methodology for Tracking Climate Change Adaptation Finance (JMDBs, 2022), further classifies adaptation activities by type, as shown in Table 4.1.

Table 4.1 Categorisation of adaptation activities

Type	Nature of activities	Examples	Status of adaptation tracking
1	"Adapted activities" integrate measures to manage physical climate risks and ensure project objectives are realised despite these risks; adapted activities can be thought of as enhancing the *resilience of* the project.	▪ Adapting a road to flood risk (see Case Study 1). ▪ Adapting water supply infrastructure to extreme heat by installing cooling systems.	<100% of project finance since adaptation is not the primary project objective
2	Activity that directly reduces climate risk but has adaptation as a joint objective (alongside wider development objectives); these can be thought of as enabling *resilience through* the project.	▪ Rural agricultural development project including the distribution and uptake of drought-resistant seeds to respond to climate change-induced drought (see Case Study 2).	

Type	Nature of activities	Examples	Status of adaptation tracking
3	Activity that has adaptation as its primary objective. The activity is likely to have been identified by assessing the physical climate risks of the wider system in which the project takes place (whether a country, region, city or town) and is expected to address one (or some) of these risks to a significant extent; these can be thought of as enabling *resilience through* the project.	▪ Funding capacity building and technical assistance for adaptation planning and policy responses (see Case Study 3) ▪ Building flood defences to adapt to sea-level rise	100% of project finance, since adaptation is the primary objective of the project

Box 4: Type 2 versus Type 3

Experience of implementing the 2022 updated Joint Methodology has yielded some contention in clearly and objectively differentiating between Type 2 and Type 3 activities. This is especially because "adaptation" and "development" are highly overlapping concepts in practice and therefore clearly differentiating between separate project objectives ("adaptation" versus "development") is challenging for DFIs implementing the methodology.

One criterion that is arguably an important characteristic specific to Type 3 activities is the potential for more transformational impact; that is, reducing the underlying vulnerability to climate risk at a systemic level. A potential checklist for determining if an activity is Type 3, rather than Type 2, could involve 'yes' answers to the following questions:

1. Is adaptation stated as the primary objective at the initial project planning stage?
2. Has a climate risk assessment been conducted for the wider system within which the project takes place?
3. Is there a commitment to monitor the impact/performance of the project with metrics relating to adaptation and resilience?

If in doubt, staff conducting the tracking should always adhere to the principle of conservativeness: a commitment to under-count, rather than over-count, climate finance, opting for Type 2 (<100% finance) rather than Type 3 (100% finance).

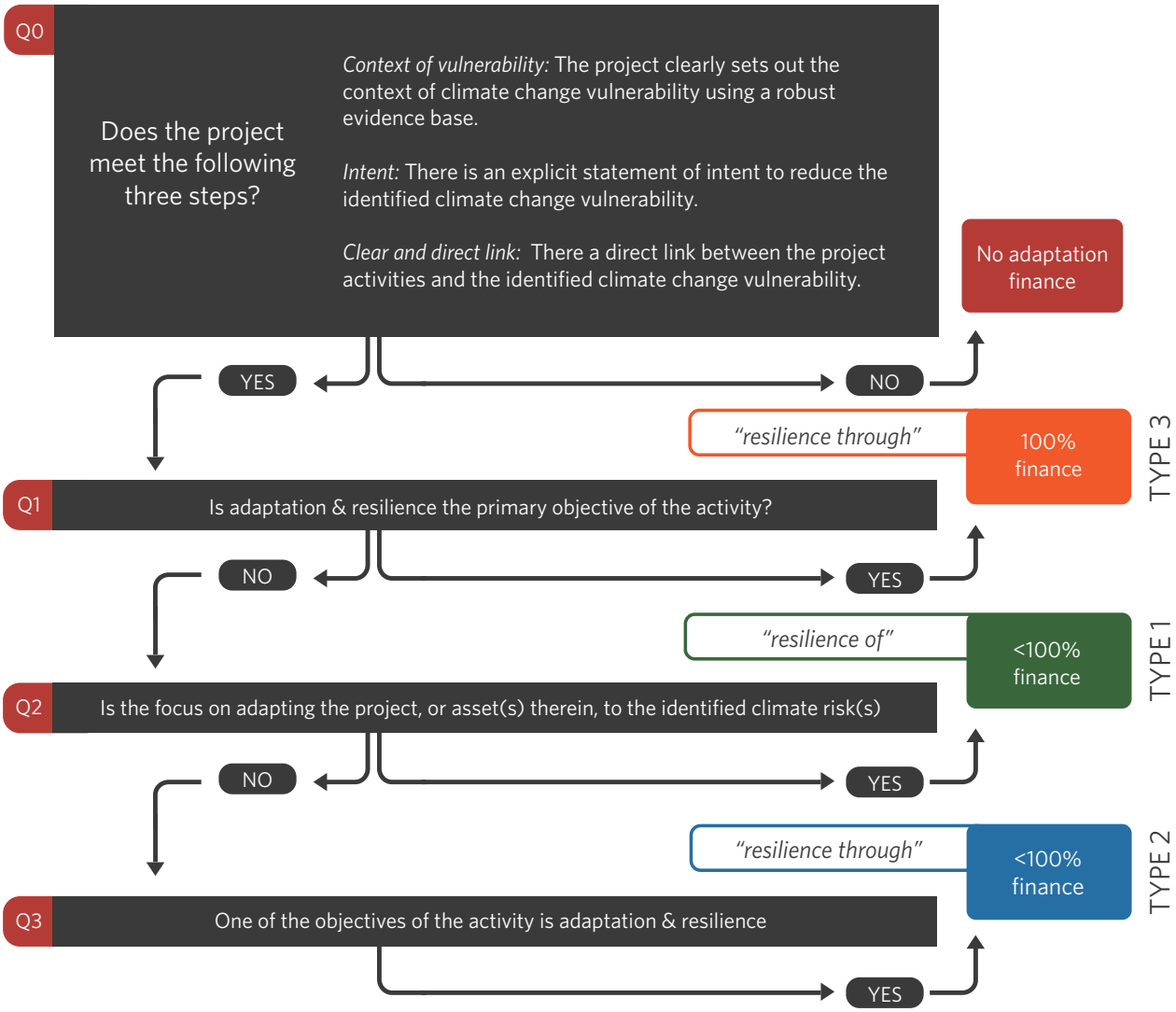
4.3 QUANTIFICATION OF ADAPTATION ACTIVITIES

There is no universal approach to calculating the adaptation finance embodied by each of the activity types described above. The 2022 updated Joint Methodology nonetheless provides the following guidance with regard to scoring each identified activity type.

- **Type 1:** Less than 100% of total activity finance, since adaptation is not the primary objective of the project.
- **Type 2:** Less than 100% of total activity finance, since adaptation is one of the multiple development objectives of the project.
- **Type 3:** 100% of total activity finance, since adaptation is the primary objective of the project.

Figure 4.1 shows a decision tree illustrating a practical approach to categorising, and then subsequently quantifying adaptation finance under the 2022 Joint Methodology.

Figure 4.1. Decision tree to categorise adaptation activities and quantify adaptation finance



Reporting banks have to quantify associated adaptation finance using one of the following two approaches:

- **Incremental approach**[6]**:** estimating the additional costs of activities relating to adaptation relative to a hypothetical baseline for a scenario in which the project does not address any physical climate risks**.** However, this type of analysis may not be possible in every case, and an alternative approach could involve efforts to isolate the costs of the adaptation-relevant activities, taking as granular an approach as possible. Institutions can then track a proportion of these adaptation-relevant activity costs or the costs in entirety, depending on whether it is a Type 1, Type 2 or Type 3 activity.

6 This does not involve calculating a baseline to determine the difference in cost between the "with adaptation" project scenario and the "without adaptation" project scenario, but rather simply isolating the (CAPEX/OPEX) cost of the adaptation (sub-)component.

- **Proportional approach:** Applying fixed shares to wider costs to estimate adaptation-relevant costs.

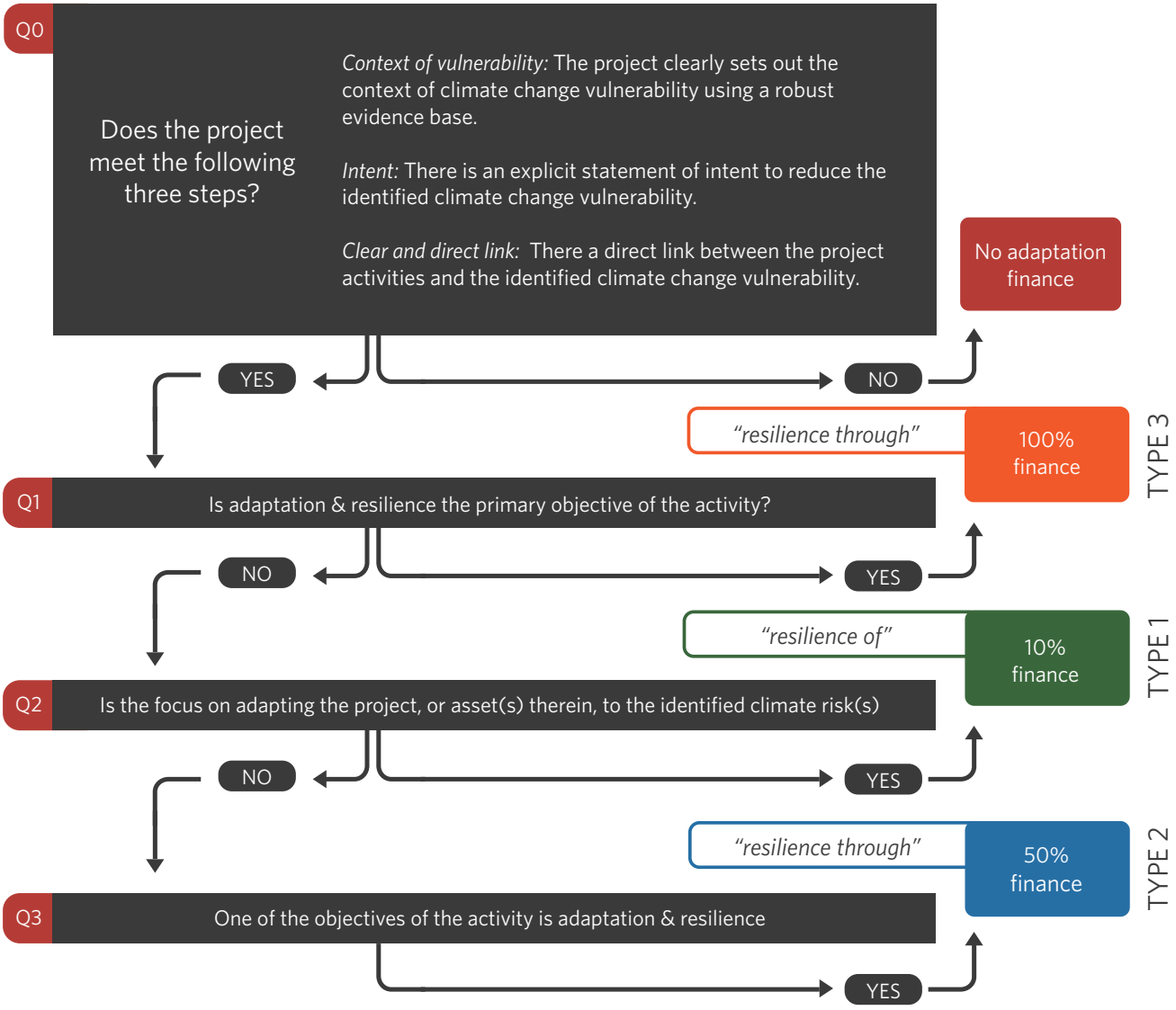
Figure 4.2 shows a decision tree that illustrates a possible approach to categorising, and subsequently quantifying, adaptation finance under the 2022 Joint Methodology, allocating particular shares per activity type (the proportional approach). This is provided for illustrative purposes; in practice, IDFC members can either decide on their own shares or work towards a consensus across members to apply the same share.

For illustrative purposes here, and in the case studies that follow, Type 1 activities are allocated a 10% share (based on the assumption that climate-proofing infrastructure costs are in the realm of 10% of total project cost), and Type 2 activities are allocated a 50% share (based on the assumption that in these general development activities, adaptation and resilience accounts for approximately half of the project objectives/project outcomes).

In practice, IDFC institutions are invited to do a backward-looking exercise on past projects, examining the cost of climate-proofing prior investments. Calculating an average of these costs could help to determine a suitable Type 1 share, which could even be done by sector (e.g., for water, energy, and transport respectively).

For Type 2 activities, IDFC institutions are advised to determine a suitable share based on either: 1) the share of adaptation and resilience objectives out of total project objectives; or 2) the extent to which these activities deliver adaptation and resilience outcomes, relative to the wider (non-adaptation) outcomes of the project.

Figure 4.2. Example of decision tree to quantify adaptation finance using a proportional approach



Box 4.1 outlines the steps for conducting a climate risk assessment, an essential aspect of Q0 to determine the context of vulnerability.

Box 4.1 Conducting a climate risk assessment

Step 1 of the adaptation finance qualification process requires the context of climate vulnerability to be clearly stated. In order to do so, banks must conduct a climate risk assessment, checking whether particular sectors, geographies, and/or clients are vulnerable to climate risks, and the implications for the proposed project. Risk is the interaction of a hazard with vulnerability (susceptibility, sensitivity, or lack of capacity of the exposed system to cope with and adapt to the hazard) and exposure (the extent to which the project is exposed to, or likely to be affected by, the identified hazard). Climate hazards can be either acute (extreme weather events) or chronic (slower-onset events).

1. **In screening for climate hazards,** banks may use past and current weather/disaster records and data, and model-based climate forecasts. For example, the World Bank's

Climate Change Knowledge Portal for development practitioners and policymakers provides global data on historical and future climate trends, with country-specific profiles yielding insights on nationally relevant climate hazards. It is important to consider the possible negative impacts (economic and non-economic losses or damages) that could stem from an identified hazard; then consider how exposed the project is to that hazard and the extent of vulnerability arising from exposure.

2. **Assessing exposure of projects** is often a case of considering the location of project components and infrastructure; and the topography of the area in which the project is to be implemented (e.g., low land, coastal, or mountainous areas).
3. **Assessing a project's vulnerability** is about assessing its sensitivity to the negative impacts associated with exposure to an identified hazard – in this case, the adverse effects of climate change. It requires establishing or predicting causal relationships between the expected negative impacts (e.g., of a flood or drought) and that project's performance or integrity. Vulnerability is more difficult to clarify, referring to the degree to which a system is susceptible to and unable to cope with the adverse effects of climate change (ADB, 2016). It typically requires an account of socioeconomic conditions in the project area (income and employment levels; industrial structure); the state of the surrounding natural environment; and existing legal policies and planning relevant to adapting to climate change. Vulnerability assessments may be top-down (using census data on household characteristics, for example), bottom-up (using local knowledge on the ground), or a combination of both.

Banks can integrate climate risk assessments into their existing risk management processes (e.g. credit risk assessments). External resources and tools can be used to identify climate risks and the options to mitigate them. For example, the *ThinkHazard!* Tool, developed under the Global Facility for Disaster Reduction and Recovery, provides an overview of hazards for a given location, highlighting the likelihood of different natural hazards affecting project areas (from very low to high likelihood). It also provides guidance on how to reduce the impacts of these hazards and where further information can be found.

IDFC members can consider opportunities for knowledge exchange on climate risk assessments in areas where some members are more experienced. For example, the Japan International Cooperation Agency recently consolidated its internal Climate-FIT (Adaptation) tool, publishing extensive *Guidance on Climate Risk Assessment and Adaptation Measures Consideration* (JICA, 2023).

4.4 ADAPTATION CASE STUDIES

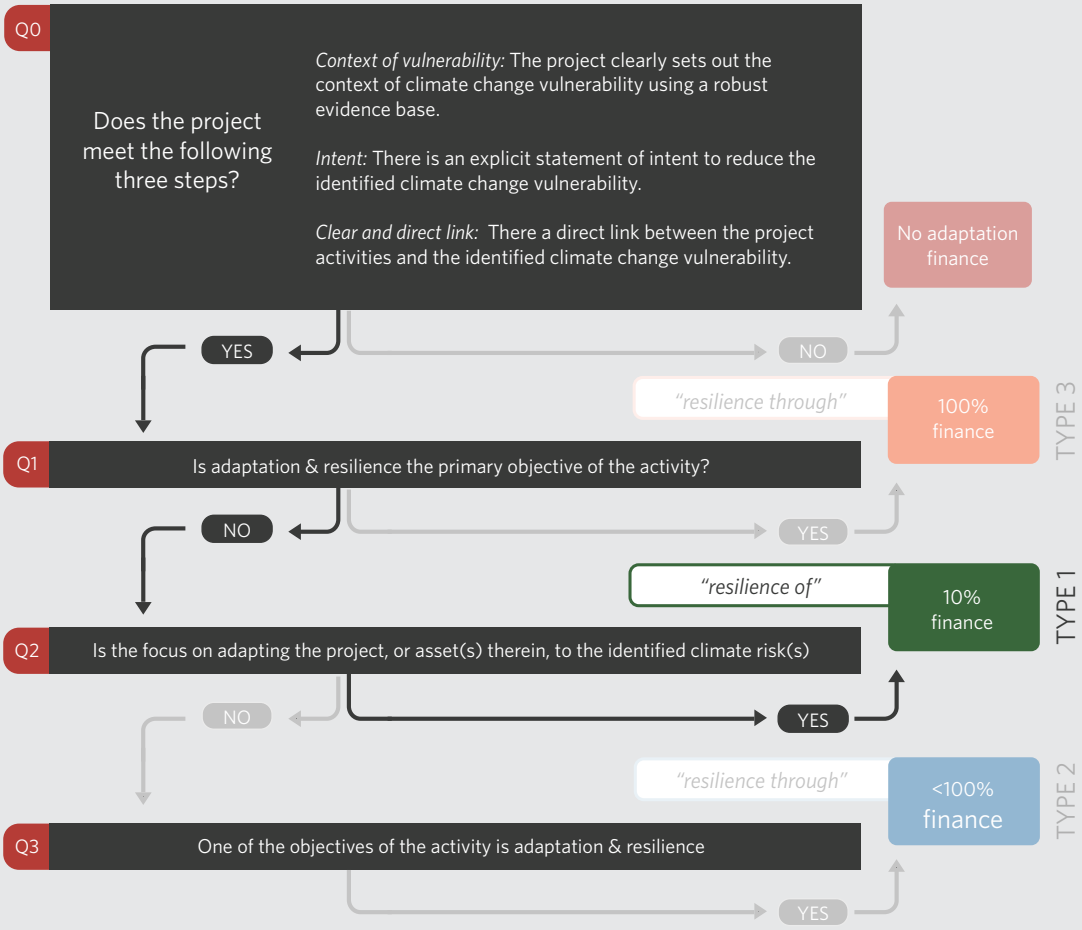
CASE STUDY 1: Type 1 Adaptation

Adapting a road to flooding using enhanced culverts

An IDFC member is implementing an extension and upgrading project for a road that has been identified as being at risk from climate change-induced flooding. To address this, enhanced culverts will be integrated into the road design to divert floodwater and ensure that the road will be usable in the event of heavy precipitation.

The project appraisal clearly states the vulnerability (to flooding) and the intent to reduce this vulnerability directly, through the use of enhanced culverts. Following the below tracking decision tree, the project meets the three steps outlined in Q0. However, as per Q1, adaptation and resilience-building are not the primary objective of the activity, which is focused on general road infrastructure development. Therefore, this is not a Type 3 activity. As for Q2, the focus is indeed on adapting the project (road construction) to the identified climate risk (flooding). As such, this is a Type 1 activity.

Adaptation may be quantified by applying a pre-determined Type 1 coefficient (e.g., 10%) to the exact cost (CAPEX; OPXE) of integrating the enhanced culverts.



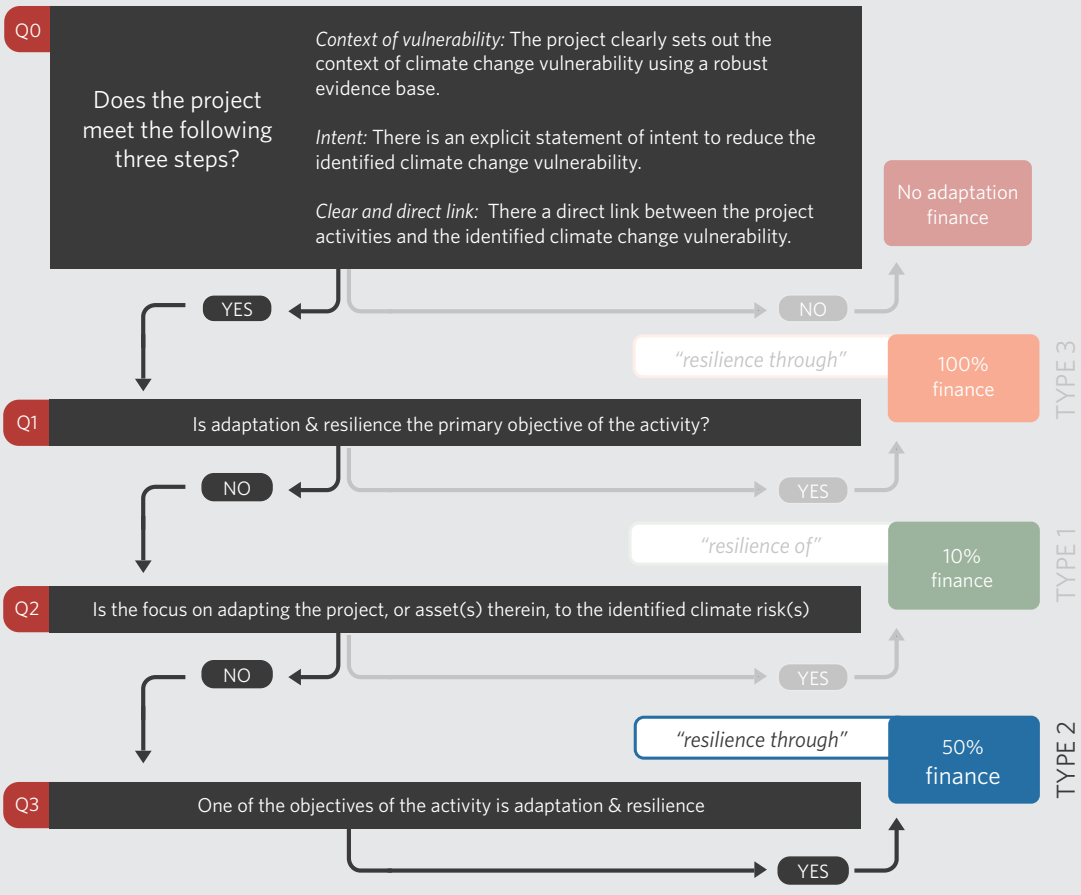
CASE STUDY 2: Type 2 Adaptation

Water Supply Infrastructure Development Project

An IDFC member is investing in the upgrade and rehabilitation of existing water supply infrastructure. The broader objective is the development of the water sector, however, one of the objectives is also to reduce water losses and supplement existing water sources, since the area is identified as at risk from climate change-induced water shortage. Reducing water losses is achieved via more efficient infrastructure and a leak detection system, while a groundwater reserve is added to the existing sources of water in the system.

The project appraisal clearly states the vulnerability (to climate change-induced water shortage/stress) and the intent to reduce this vulnerability directly, through more efficient infrastructure, the leak detection system and the addition of a groundwater reserve. Following the below tracking decision tree, the projects meets the three steps outlined in Q0. However, as per Q1, adaptation and resilience-building are not the primary objective of the activity, which is focused on general water sector development. Therefore, this is not a Type 3 activity. As for Q2, the focus is not on adapting the project or assets (the water supply infrastructure) to an identified climate risk. As such, this is not a Type 1 activity.

Moving to Q3, one of the objectives of the activity is indeed adaptation & resilience-building. Therefore, this is a Type 2 activity and adaptation finance may be quantified by applying a pre-determined Type 2 coefficient (e.g. 50%) to the exact cost (CAPEX/OPEX) of the water savings measures.



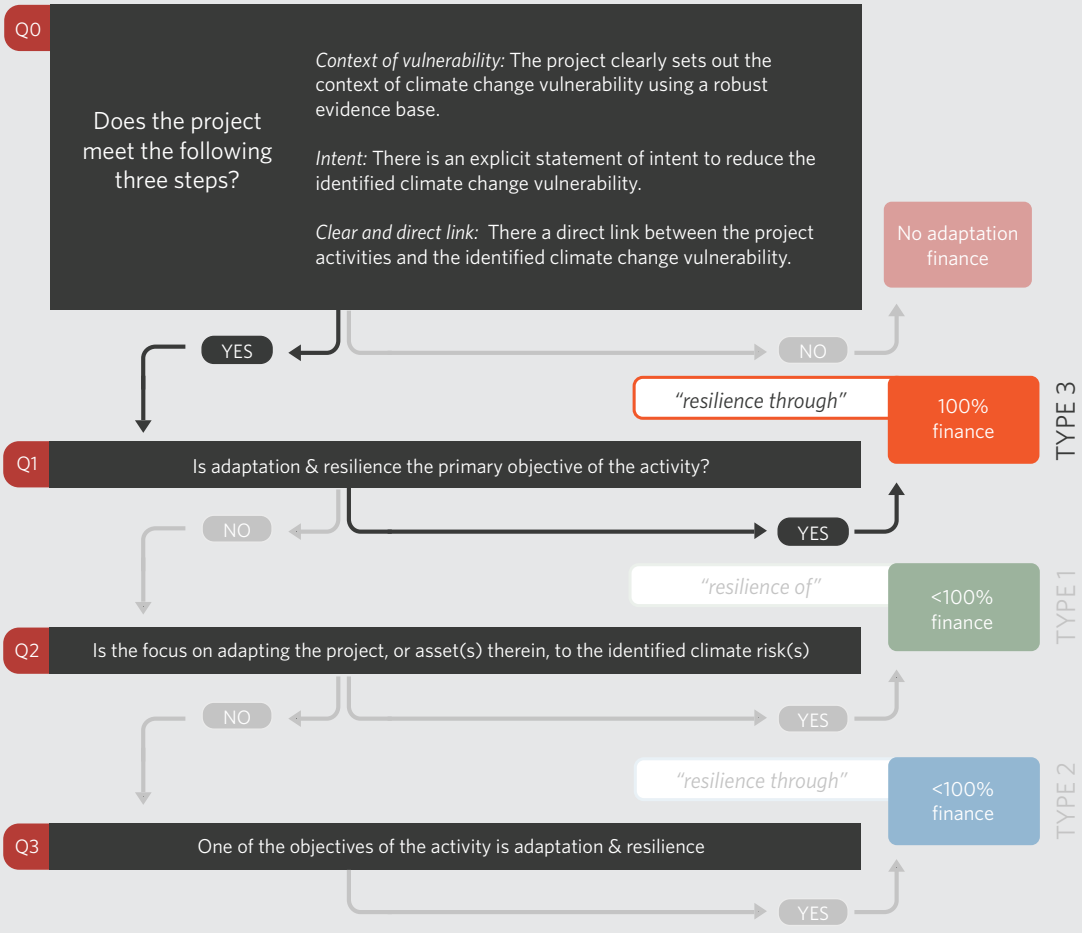
CASE STUDY 3: Type 3 Adaptation

Support for National Adaptation Planning, including capacity building on assessing climate risk.

An IDFC member is supporting a government to develop its National Adaptation Plan, through capacity building and technical assistance for assessing climate risk and developing locally-feasible solutions. The total investment value is USD 100 million.

The project appraisal involves clearly stating the context of vulnerability to climate risk and the intent to reduce that vulnerability. Climate risk assessment is undertaken at a systemic level; in this case, at the national level. The project therefore satisfies the three steps in Q0. Moving to Q1, adaptation & resilience is clearly the primary objective, therefore this is a Type 3 activity, with the potential for transformational impact (reducing vulnerability to climate risk at a systemic level).

In this instance, 100% of project finance counts as adaptation finance i.e. USD 100 million.



5. GUIDELINES FOR BIODIVERSITY FINANCE TRACKING

The below guidelines introduce clear and cohesive instructions for conducting biodiversity finance tracking, and are designed to suit the needs of all IDFC members. This guidance builds on the biodiversity finance tracking methodology applied in the Green Finance Mapping reports (2021, 2022, and 2023), drawing upon prior work by the IDFC (IDFC, 2020a; Belvaoux, 2020) and is based on the logic of the OECD DAC Rio Marker approach.

WHY NATURE FINANCE?

Nature sustains all life on earth and provides essential benefits to human well-being and economies. Human activities have led to immense and accelerating nature loss worldwide. The significant decline of species, habitats, natural capital, and ecosystem services, compounded by climate change, presents a formidable threat to the stability and resilience of our economies and societies, which depend on nature to fulfil a diverse range of roles, including the supply of food and medicines. Over the past decade, addressing biodiversity loss and ecosystem degradation has emerged as a paramount concern on the global policy agenda. Most prominently, in December 2022, the Convention on Biological Diversity (CBD) adopted the new Kunming-Montreal Global Biodiversity Framework (GBF), which sets out an ambitious pathway to achieve the convention's vision of "Living in harmony with nature by 2050". The framework introduces four main goals for 2050 (see Box 5.1) and 23 targets for 2030, which Parties have committed to achieve via national strategies and targets.

The financial sector will have a key role to play in this transition. As the enabler of economic activity, it will have to steer financial flows towards activities that have positive outcomes for nature and reduce flows to activities that harm it. As stipulated in the GBF, private finance will be a primary source of funding for biodiversity action. To achieve that, financial institutions will have to align investment, lending, underwriting, and insurance activities with the goals and targets of the GBF.

WHY DO WE NEED GUIDANCE AND WHAT DOES IT COVER?

At the 2020 Finance in Common Summit, IDFC members committed to addressing their negative impacts on biodiversity, assessing and mitigating their nature-related risks, enhancing their positive biodiversity impacts through their investment portfolios, exploring opportunities to contribute to the goals of the new GBF, and tracking their biodiversity contributions and co-benefits (IDFC, 2020b). Some IDFC members have started working on developing their biodiversity finance operations and tracking methodologies. However, our survey of IDFC members highlighted that many have a limited understanding of biodiversity finance tracking and are at different stages of integrating such processes in their operations.

The below guidance presents key considerations for biodiversity finance tracking, as well as approaches for IDFC members to track their contributions. Given that nature conservation involves a wide range of complex and specialised activities, it is important to determine which biodiversity investments are relevant to track. In addition, since IDFC members' finance flows can

deliver nature benefits to various degrees, a weighting system that scores activities according to their relevance can enable accurate tracking.

This guidance covers two main issues: the qualification and quantification of biodiversity finance. Establishing a common understanding around these elements will assist IDFC members in engaging in biodiversity protection, and developing and implementing frameworks and internal methodologies, and ensuring comparability of their reported nature-related financial contributions. This will also enhance their ability to communicate to stakeholders and the public on their resource mobilisation to address the biodiversity crisis.

5.1 QUALIFICATION OF BIODIVERSITY FINANCE

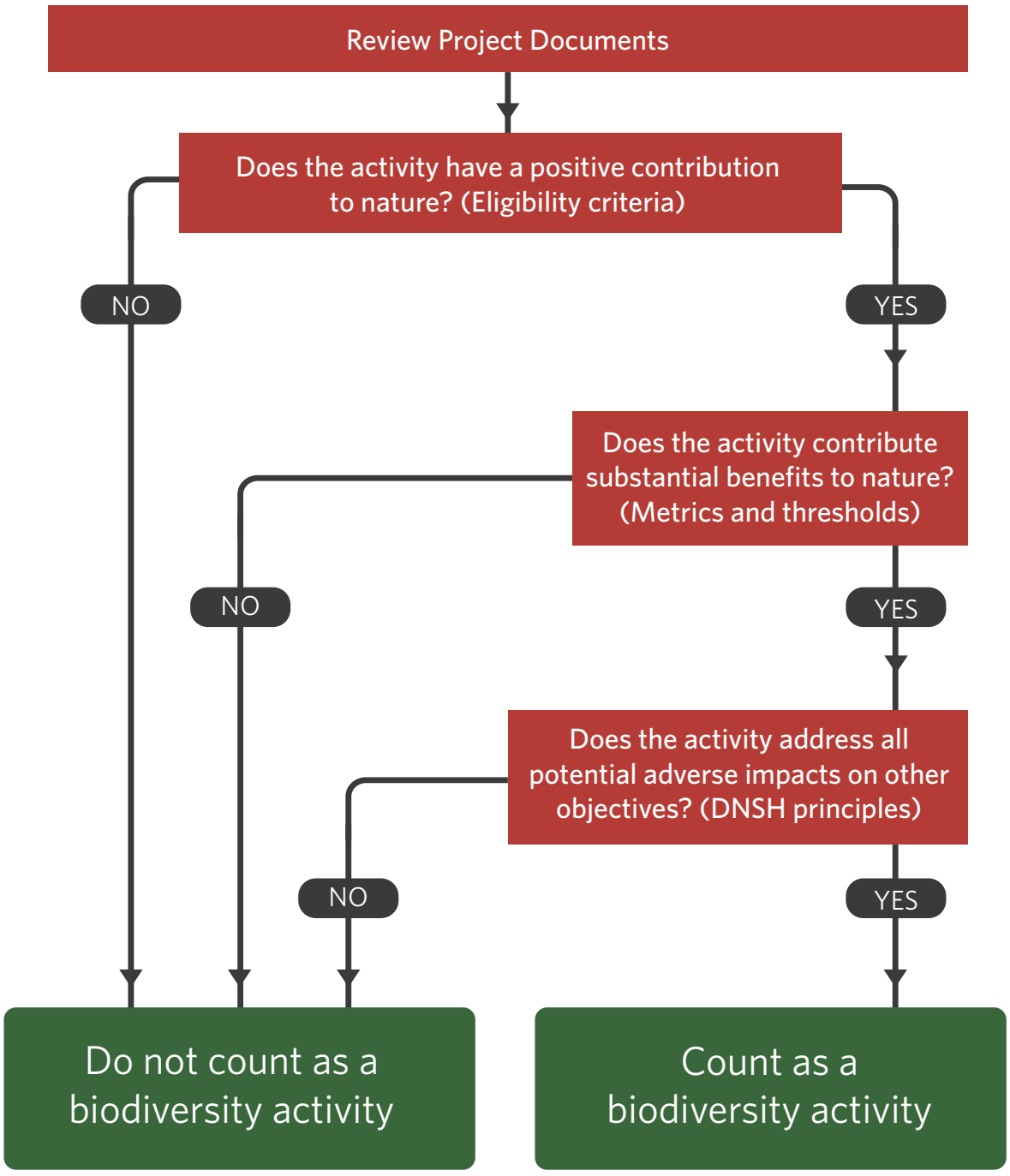
The IDFC methodology for tracking biodiversity-relevant finance uses the OECD's Creditor Reporting System (CRS) codes[7] and the Rio Markers rating system (IDFC, 2022). Under this methodology, only positive contributions to biodiversity, also known as "net gains" or "co-benefits", qualify as biodiversity finance, thereby excluding investments made to comply with "do no significant harm" principles and for mitigation of environmental damage inflicted on nature by the implementation of projects. Therefore, financial flows may be considered to have biodiversity benefits only when they support activities that improve current conditions, and not when they merely prevent further deterioration.

Further criteria are also required to determine whether an investment qualifies as biodiversity-relevant. An additional consideration is whether the positive impact is significant enough to make a meaningful contribution to nature. Any successful project that aims to address an environmental issue will have to some degree a positive contribution to nature. Therefore, to qualify as biodiversity finance, projects must have the explicit intention to benefit nature and adhere to specified biodiversity-related metrics and thresholds that are set to a level that ensures a meaningful contribution. While biodiversity investments have the intention of benefiting nature, they may include efforts to address other challenges, such as climate change or eradicating poverty. It is also important to consider potential adverse effects on other environmental or development objectives that may arise from the implementation of nature-related projects.

Taking the above into consideration, to qualify as biodiversity finance, financial resources must make a **positive** and **substantive** contribution to nature, while **not adversely impacting** other environmental and development objectives. This can be expressed as the decision tree shown in Figure 5.1. The review of project documents has to first examine whether project activities have an overall positive contribution to nature, based the eligibility criteria listed below. If the activities comply with at least one of these criteria, it should be determined whether the activity makes a substantive contribution to nature, based on its expected outcomes as documented using nature-related metrics and thresholds. Finally, if the activity does not give rise to adverse impacts on other environmental and development objectives, its expenditure can be tracked as biodiversity finance.

7 The CRS Aid Activity database provides data on where aid goes, what purposes it serves and what policies it aims to implement, on a comparable basis for all DAC members. Data are collected on individual projects and programmes. Focus is on financial data but some descriptive information is also made available.

Figure 5.1 Decision tree to determine whether an activity qualifies as biodiversity finance



To ensure that financed activities contribute positively to nature, they should comply with specific **eligibility criteria**. The IDFC methodology for tracking biodiversity finance follows the six eligibility criteria of the OECD DAC approach, as outlined below:

1. Conservation or enhancement of ecosystems, species, or genetic resources, and/or enhancement of the sustainability of their use, through in-situ or ex-situ measures, or the restoration of existing damages.
2. Integration of biodiversity and ecosystem services concerns within recipient countries' development objectives, economic decision-making, and sectoral policies, through measures

such as institution building, capacity development, research, technology transfer, knowledge management, and stakeholder engagement.

3. Elimination, phasing out, or reform of incentives, including subsidies, harmful to biodiversity, and provision of positive incentives for the conservation and sustainable use of biodiversity.
4. Maintenance of genetic diversity of seeds, cultivated plants, and farmed and domesticated animals and their related wild species.
5. Fair and equitable sharing of the benefits arising from the utilisation of genetic resources, including by appropriate access to these resources and by appropriate transfer of relevant technologies, as internationally agreed.
6. Developing countries' efforts to meet their obligations under the CBD.

The above criteria largely build upon the overarching CBD objectives of: (1) conservation of biodiversity, (2) sustainable use of its components; and (3) fair and equitable sharing of the benefits arising from the use of genetic resources. The 2022 Kunming-Montreal GBF includes four new global goals for 2050, as shown in Box 5.1.

Box 5.1 Kunming-Montreal Global Biodiversity Framework Global Goals for 2050

A. **Protect and restore**: The integrity, connectivity, and resilience of all ecosystems are maintained, enhanced, or restored. Human-induced extinction of threatened species is halted, and, by 2050, the extinction rate and risk for all species are reduced tenfold and the abundance of native wild species is increased to healthy and resilient levels. The genetic diversity within populations of wild and domesticated species is maintained, safeguarding their adaptive potential.

B. **Prosper with nature**: Biodiversity is sustainably used and managed and nature's contributions to people, including ecosystem functions and services, are valued, maintained, and enhanced, with those currently in decline being restored, supporting the achievement of sustainable development for the benefit of present and future generations by 2050.

C. **Share benefits fairly**: The monetary and non-monetary benefits from genetic resources are shared fairly and equitably, while ensuring traditional knowledge associated with genetic resources is appropriately protected.

D. **Invest and collaborate**: Adequate means of implementation, including financial resources, capacity building, technical and scientific cooperation, and access to and transfer of technology to fully implement the GBF are secured and equitably accessible to all Parties, especially developing country Parties, progressively closing the biodiversity finance gap of USD 700 billion per year, and aligning financial flows with the GBF and the 2050 Vision for biodiversity.

Reorganising the OECD eligibility criteria to align with these new goals could be an opportunity to align the IDFC methodology more closely with the new GBF. The GBF goals essentially refer to four types of biodiversity action, which could translate into four broad categories of biodiversity finance activities, as proposed below:

1. Nature conservation activities, encompassing **protection** (maintaining the current status and conditions of natural ecosystems and species populations); and **restoration** (assisting the recovery of ecosystems that are damaged, degraded, or destroyed and species that are endangered, vulnerable, or threatened).
2. Activities that enhance the **sustainable use and management** of nature and its resources, including the integration of the value of ecosystems and their services into natural resource management decisions and a shift from processes driving nature loss.
3. Activities that promote the **fair sharing of benefits** from genetic resources. This refers to activities that maintain genetic diversity in seeds, plants, and animals and the fair and equitable sharing of the benefits of genetic resources with local communities and indigenous populations, as well as activities aiming at protecting traditional knowledge associated with genetic resources.
4. Activities that create **enabling conditions** for the implementation of the above measures, including providing knowledge and data, financial resources, capacity building, technical and scientific cooperation, and access to and transfer of technology to implement activities with a direct contribution to nature.

5.2 QUANTIFICATION OF BIODIVERSITY FINANCE

When projects qualify as biodiversity-relevant based on the six OECD eligibility criteria listed above, financial flows can be tracked and reported as biodiversity finance. To that end, the proportion of the total project investment to be counted as biodiversity-relevant should be determined. The IDFC currently follows the Rio Markers rating system, according to which:

- For projects undertaken with the **principal objective** of positively contributing to biodiversity and nature, the entire amount is considered biodiversity finance.
- For projects undertaken for a different purpose that contain elements that contribute positively to biodiversity and nature as **significant objectives**, 30% of the project's value is considered biodiversity finance.

Although the Rio Markers approach has been extensively used to track biodiversity-related spending, a more granular approach could enhance the accuracy of the estimation of biodiversity finance flows. The finance allocated to biodiversity activities can be determined using approaches that generally fall under two categories:

- **Incremental approach:** This approach can be used when the precise budget allocation is known (CAPEX/OPEX). Using this information, the amount of biodiversity finance invested in a project corresponds to the additional costs (CAPEX/OPEX) associated with the project activities that (are expected to) deliver biodiversity and nature outcomes.
- **Proportional approach**: Under this approach, a coefficient is assigned to the total amount of the investment according to its relevance to biodiversity. As the Rio Marker system, the biodiversity finance invested in a project is estimated as a proportion of the total finance invested. While the Rio Marker scoring system assigns two coefficients, IDFC members could adopt a proportional approach that employs a greater number of coefficients. As shown in the next section, the French Development Agency (*Agence Française de Développement*, or AFD) uses six coefficients for quantifying biodiversity finance. In addition, although the Rio Markers

use the project objectives to determine the biodiversity relevance of a project, coefficients may be linked to other factors, including:

- **Project objectives:** whether benefiting nature is a primary or secondary objective of the project;
- **Project impacts and outcomes**: different coefficients are assigned to activities with direct positive impacts on nature compared to activities that deliver indirect nature outcomes;
- **Project types of activities**: different coefficients are assigned to core biodiversity-enhancing activities (e.g., protection and restoration) and to activities that tackle harmful biodiversity impacts (e.g., reducing underlying pressures).

The selection of an approach depends on what project information is available and on the type of financial instrument being tracked. As the incremental approach follows separate budget lines within a project, it can provide a more accurate indication of the amount spent on biodiversity-related activities. Therefore, IDFC members are advised to use the incremental approach whenever feasible.

5.3 OVERVIEW OF AVAILABLE TOOLS, DATA, AND METHODOLOGIES

DFIs have only recently started considering biodiversity finance tracking. Significant progress has been made on tracking in public sector budgets, but less in financial portfolios. While the IDFC references the Rio Markers to track biodiversity finance, some member institutions have also developed their own frameworks, as illustrated by the example from the AFD shown in Box 5.2.

Box 5.2 The AFD's biodiversity finance tracking methodology

The French Development Agency (AFD) released principles for tracking nature and biodiversity finance in 2022 to enhance its reporting through science-based, reliable, and transparent metrics that are aligned with international biodiversity finance standards (AFD, 2022).

Its methodology takes a proportional approach, weighting each investment according to its contribution to CBD objectives. It is structured around four main principles:

1. Full compatibility with OECD DAC Official Development Assistance reporting directives;
2. Alignment with the new GBF and the 2030 Agenda for Sustainable Development;
3. Applicability to all investments regardless of sector, geography, and financial instrument type; and
4. Ease and speed of use by non-expert users.

The methodology includes three steps:

1. Determine whether the project aligns with the GBF goals.

2. Qualify the project's principal impacts (net gains) for biodiversity using eligibility criteria for each of the six biodiversity levers of the AFD's framework, which are: (i) protection; (ii) restoration; (iii) integrated spatial planning; (iv) policies and governance; (v) sustainable management of resources; and (vi) ecological performance of investments.
3. Weighting of the project's "biodiversity finance" as shown in the table below, based on the hierarchy of pressures established in a report by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services released in 2019.

Lever of action for biodiversity	Weighting factor	Main degradation factor alleviated
Protection and conservation	100%	Net loss of natural habitats
Ecological restoration	80%	Degradation of ecosystems
Integrated spatial planning	60%	Fragmentation of ecological corridors
Governance and policy	50%	Weak biodiversity governance
Sustainable management of resources	40%	Overexploitation of resources and pollution
Efficiency actions	20%	Cumulative chronic pressures

Tracking should occur at the project identification stage, based on the intended activities described in the project documentation. This approach could inform other IDFC members in developing their own standards for mainstreaming biodiversity in development investments, assessing a project's contribution to the CBD goals, and assessing the share of investment considered as a contribution to biodiversity finance.

More guidance on aligning with the GBF is being made available. For example, the CBD has published a guidance (SCBD et al., 2021) on how financial institutions can engage with the CBD processes and strengthen their nature goals, which could inform IDFC members in the development of their biodiversity finance frameworks. The guidance explains why the COP15 is relevant to financial institutions and how they can act to meet the goals of the Kunming-Montreal GBF through:

1. Enabling synergies and accelerating collaboration with each other;
2. Adapting their investment strategies and engaging with companies;
3. Assessing their impacts and dependencies on nature;
4. Setting targets that align with the Kunming-Montreal GBF; and
5. Reporting publicly on positive and negative contributions to biodiversity.

Similarly, the UNEP Finance Initiative released a high-level roadmap in 2023 on how public and private financial institutions, as well as corporate investors, can align financial flows with the GBF (UNEP FI, 2023). This roadmap could be used by IDFC members to develop their own biodiversity finance frameworks, including three steps:

1. **Prepare** by setting a clear and consistent environment to catalyse action;
2. **Implement** by taking action to align public and private financial flows with the shared vision of the GBF; and
3. **Support** the mainstreaming of biodiversity through effective engagement.

In addition, a set of common principles for tracking nature-positive finance was released at COP28 in 2023 (see Box 5.3). While this was developed by and targeted at MDBs seeking to create biodiversity finance frameworks and tracking approaches, it can inform other institutions, including IDFC members (JMDBs, 2023). These principles provide a definition of nature-positive finance, including eligibility criteria, and guidance for screening and tracking nature-positive financial flows.

Box 5.3 MDB Common Principles for tracking nature-positive finance

Defining nature-positive finance

The group of MDBs has defined nature-positive finance as "finance that supports actions that protect, restore or enhance sustainable use and management of nature, or enables these actions, contributing to the implementation of the Kunming-Montreal GBF and its broad ambition to halt and reverse nature loss by 2030, with a view to full recovery by 2050."

Criteria for determining nature-positive finance

To ensure that nature-positive finance delivers clear gains for nature, investments must fulfil three eligibility criteria:

1. *Finance makes a substantive contribution to nature*: They i) reduce pressures on biodiversity and ecosystems; ii) directly improve the state of nature; and/or iii) create the enabling conditions for (i) and (ii).
2. *Expected positive outcomes are measurable*: They can be assessed against a baseline or a business-as-usual scenario.
3. *Finance is not expected to introduce significant adverse environmental risks and impacts*: Environmental and social risks and impacts associated with nature-positive projects and investments are identified, assessed, and managed, so that these projects and investments do not introduce direct significant risks to, or impacts on, nature or undermine other environmental or development objectives, such as climate change or circular economy transition.

Assessing nature-positive finance

Identifying nature-positive finance involves a two-step process:

1. Screening investments for activities that protect, restore or enhance sustainable use and management of nature, or enable these activities according to the definition;
2. Applying the three eligibility criteria to determine if investments can be tracked as nature-positive finance.

To complete screening, a combination of a "taxonomy of eligible activities" and a "process-based approach" can be used.

MDB financing instruments that fall within the scope of the screening include investment loans, policy-based financing, results-based financing instruments, equity investments, MDB assistance to clients in developing sustainable or thematic bonds, guarantees, credit lines, advisory services, and grants, among others.

MDBs' overarching principles for tracking nature-positive finance are aligned with the Common Principles for Climate (Mitigation and Adaptation) Finance. To track nature-positive finance, the following principles apply:

a. *Conduct ex-ante tracking:* Tracking takes place based on expected contributions to nature identified at the time of or after board approval or financial agreement signature, and based on available documentation.

b. *Track direct financial commitments:* Tracked investments represent financial commitments, not disbursements, and should only encompass funds committed directly by respective MDBs.

c. *Conservative assessment:* If data to support a detailed analysis of nature-positive activities is unavailable or unreliable, eligibility for inclusion is assessed by adopting a conservative approach.

d. *Granularity:* Qualifying finance should be identified at the most granular level feasible (project activities, sub-components or components).

e. *Clear tracking of climate finance and nature-positive finance.* Finance that qualifies as nature-positive and climate (mitigation or adaptation) finance should be identified and tagged separately and in a transparent manner.

In addition, recently developed taxonomies could also support IDFC to provide a structure for developing their own biodiversity taxonomies, or offer a framework for identifying which of their investments contribute positively to nature. For example, the EU taxonomy for sustainable activities (2020) includes activities that aim to support the "protection and restoration of biodiversity and ecosystems."[8] Meanwhile, the International Finance Corporation has developed a Biodiversity Finance Reference Guide (IFC, 2023), which provides financial institutions and investors with an indicative list of activities that help protect, maintain, or enhance biodiversity and ecosystem services, and promote the sustainable management of natural resources.

While it is important to ensure coherence among the taxonomies used by different IDFC members, it is also necessary for members to be able to tailor their approaches to best fit their finance operations. Ultimately, if the taxonomies adopted by members are comprehensive, they will essentially capture the same types of activities that make a positive contribution to nature in each sector. Therefore, the biodiversity finance amounts tracked by each member will be consistent and comparable with the amounts tracked by other members following different taxonomies.

8 European Commission (website). EU taxonomy for sustainable activities. Available at: https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en

ANNEX 1: COMPILATION OF CLIMATE FINANCE DEFINITIONS

While there is no standardised and internationally agreed-upon definition of climate finance, mitigation finance, or adaptation finance, Table A1.1 provides an overview of those definitions adopted by major climate finance data collectors and aggregators.

Table A1.1 Overview of existing climate finance definitions

Institution	Climate finance definition	Mitigation finance definition	Adaptation finance definition
IDFC (2019)	Green finance comprises climate finance and finance for other environmental objectives; with climate finance comprising "green energy and mitigation of greenhouse gases" and "adaptation to climate change".	An activity will be classified as related to climate change mitigation if it promotes "efforts to reduce or limit GHG emissions or enhance GHG sequestration".	An activity will be classified as related to climate change adaptation if it addresses current and expected effects of climate change, where such effects are material for the context of those activities.
Joint MDB group (2021)	MDB climate finance refers to the financial resources (from own accounts and MDB-managed external resources) committed by MDBs to development operations and components thereof that enable activities that mitigate and support adaptation to climate change.	An activity can be classified as climate change mitigation where the activity, by avoiding or reducing GHG emissions or increasing GHG sequestration, contributes substantially to the stabilisation of GHG concentrations in the atmosphere at a level that prevents dangerous anthropogenic interference with the climate system consistent with the long-term temperature goal of the Paris Agreement.	Financial resources associated with only those components, elements, or proportions of projects that directly contribute to or promote adaptation, to lower current and expected risks or vulnerabilities posed by climate change.
OECD DAC (OECD DAC Rio Markers for Climate Handbook)	Not applicable	Climate mitigation finance activities are those that contribute to the stabilisation of GHG concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system, in line with the goals of the Paris Agreement. This could include promoting efforts to reduce or limit GHG emissions or enhancing GHG removal via sinks.	Climate adaptation finance activities are those that intend to reduce the vulnerability of human or natural systems to the current and expected impacts of climate change, including climate variability, by maintaining or increasing resilience, through increased ability to adapt to or absorb, climate change stresses, shocks, and variability and/or by helping reduce exposure to them. This encompasses a range of activities from information and knowledge generation to capacity building, planning, and the implementation of climate change adaptation actions.

Institution	Climate finance definition	Mitigation finance definition	Adaptation finance definition
IPCC (2023)	There is no agreed definition of climate finance. The term "climate finance" is applied to the financial resources devoted to addressing climate change by all public and private actors from global to local scales, including international financial flows to developing countries to assist them in addressing climate change.	A human intervention to reduce emissions or enhance sinks of GHGs.	In human systems, the process of adjustment to actual or expected climate and its effects, in order to moderate harm or exploit beneficial opportunities. In natural systems, the process of adjustment to actual climate and its effects; human intervention may facilitate adjustment to expected climate and its effects.
CPI (2021)	Aligned with the recommended operational definition of the SCF. Capital flows directed towards low-carbon and climate-resilient development interventions with direct or indirect GHG mitigation or adaptation benefits.	Mitigation finance is defined as resources directed to activities contributing to reducing or avoiding GHG emissions, including gases regulated by the Montreal Protocol; or maintaining or enhancing GHG sinks and reservoirs.	Adaptation finance is defined as resources directed at activities aimed at reducing the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience.
EU taxonomy for sustainable activities (TEG, 2020)	Not applicable	An economic activity shall be considered to contribute substantially to climate change mitigation where that activity substantially contributes to the stabilisation of GHG concentrations in the atmosphere at a level that prevents dangerous anthropogenic interference with the climate system by avoiding or reducing greenhouse gas emissions or enhancing GHG removals through any of the following means, including through process or product innovation, consistent with the long-term temperature goal of the Paris Agreement: a. generating, transmitting, storing, distributing, or using renewable energy in line with Directive (EU) 2018/2001, including through using innovative technology with a potential for significant future savings or through necessary reinforcement or extension of the grid; b. improving energy efficiency except for power generation activities that are referred to in Article 14(2o); c. increasing clean or climate-neutral mobility; d. switching to the use of sustainably sourced renewable materials; e. increasing the use of environmentally safe carbon capture and utilisation and carbon capture and storage technologies that deliver a net reduction in greenhouse gas emissions;	An economic activity shall be considered to contribute substantially to climate change adaptation where: a. that economic activity includes adaptation solutions that either substantially reduce the risk of adverse impact or substantially reduce the adverse impact of the current and expected future climate on that economic activity itself without increasing the risk of an adverse impact on other people, nature, and assets; or where b. that economic activity provides adaptation solutions that, in addition to the conditions laid down in Article 11a, contribute substantially to preventing or reducing the risk of adverse impact or substantially reduces the adverse impact of the current and expected future climate on other people, nature or assets, without increasing the risk of an adverse impact on other people, nature and assets.

Institution	Climate finance definition	Mitigation finance definition	Adaptation finance definition
		f. strengthening land carbon sinks, including through avoided deforestation and forest degradation, restoration of forests, sustainable management and restoration of croplands, grasslands and wetlands, afforestation, and regenerative agriculture; g. establishing energy infrastructure required for enabling the decarbonisation of energy systems; h. producing clean and efficient fuels from renewable or carbon-neutral sources; i. enabling any of the above in accordance with Article 11a. 1a. For the purposes of paragraph 1, an economic activity for which there is no technologically and economically feasible low-carbon alternative, shall be considered to contribute substantially to climate change mitigation as it supports the transition to a climate-neutral economy consistent with a pathway to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels including by phasing out greenhouse gas emissions, in particular from solid fossil fuels, where that activity: I. has greenhouse gas emissions levels that correspond to the best performance in the sector or industry; II. does not hamper the development and deployment of low-carbon alternatives; and III. does not lead to a lock-in in carbon-intensive assets considering the economic lifetime of those assets.	1a. The adaptation solutions referred to in point (a) of paragraph 1 shall be assessed and prioritised using the best available climate projections and shall, as a minimum, prevent or reduce: a. The location-specific and context-specific adverse impact of climate change on the economic activity; or b. The adverse impact that climate change may have on the environment within which the economic activity takes place

Source: *UNFCCC, 2022.*

ANNEX 2: COMPILATION OF GREEN, CLIMATE, AND BIODIVERSITY FINANCE TRACKING METHODOLOGIES

Tracking climate and biodiversity finance flows in a consistent, comparable, and transparent manner is essential to ensure accountability and the effective allocation of resources towards global climate goals. A full list of current tracking methodologies, guidelines, and taxonomies is shown in Table A2.1. Tables A2.2, A2.3, and A2.4 then describe select key methodologies for mitigation, adaptation, and biodiversity/nature-based finance.

Table A2.1 Overview of existing tracking methodologies, guidelines, and taxonomies

Methodology, guideline, or taxonomy		Scope		
Title and hyperlink	Publication year	Mitigation	Adaptation	Biodiversity and nature
Coalition methodologies and overarching guidance documents				
OECD-DAC Rio Markers	2009, 2013, 2014, 2016, 2018 (revisions)	X	X	X
Climate-ADAPT Adaptation Support Tool	2012		X	
Convention on Biological Diversity	2012		X	
MDB-IDFC Common Principles for Climate Change Adaptation Finance Tracking	2015		X	
WRI Tracking Adaptation Finance Report	2015		X	
Task Force on Climate-related Financial Disclosures guidance	2015	X	X	
BIOFIN (The Biodiversity Finance Initiative)	2018		X	
Climate Bond Initiative Climate Resilience Principles	2019		X	
Adaptation SME Accelerator Program's Adaptation Solutions Taxonomy	2020		X	

Methodology, guideline, or taxonomy		Scope		
Title and hyperlink	Publication year	Mitigation	Adaptation	Biodiversity and nature
Climate Bond Initiative Climate Bonds Taxonomy	2021	X		
WBG Reference Guide on Adaptation Co-Benefits	2021		X	
IDFC Green Finance Mapping	2021	X	X	X
MDB-IDFC Common Principles for Climate Change Mitigation Finance Tracking	2021, 2023	X		
MDB New Joint Methodology for Tracking Climate Change Adaptation Finance	2022		X	
Green Climate Fund (GCF) Taxonomy	2022	X	X	
International Platform on Sustainable Finance Common Ground Taxonomy	2022	X		
Bank or country-level guidance, methodology, or taxonomy documents				
AfDB Methodology for Adaptation and Mitigation Finance Tracking	2013	X	X	
Evaluation of European Investment Bank (EIB) Support for Climate Change Adaptation (2015-2020)	2015		X	
EU Budget	2015 and ongoing	X	X	X
Asian Infrastructure Investment Bank, Environmental and Social Framework	2016, (2019, 2021 amended)		X	
European Investment Bank (EIB), Environmental and Social standards	2018	X	X	X
EIB Guidance Note for Standard 3 on Biodiversity and Ecosystems	2018		X	
International Network of Financial Centres for Sustainability Guiding Principles for the Development of Taxonomies	2018			
EBRD, Environmental and Social Policy (ESP)	2019	X	X	X
Mongolia Green Taxonomy	2019	X	X	X
Sri Lanka Green Taxonomy	2019	X	X	X
EU Taxonomy for Sustainable Activities Regulation	2020	X	X	X

Methodology, guideline, or taxonomy		Scope		
Title and hyperlink	Publication year	Mitigation	Adaptation	Biodiversity and nature
EU Taxonomy for Sustainable Activities Technical Expert Group Report	2020	X	X	X
CARE Climate Finance Adaptation Study Report in Ethiopia	2020		X	
Bangladesh Bank Sustainable Finance Policy for Banks and Financial Institutions and green taxonomy	2020	X	X	X
Netherlands Enterprise Agency, Mapping Dutch Financial Flows to Biodiversity	2021		X	
EU Taxonomy for Sustainable Activities Delegated Acts	2021	X	X	X
European Bank for Reconstruction and Development (EBRD), Green Economy Transition Approach	2021	X	X	X
Inter-American Development Bank (IDB), Environmental and social policy framework, Performance Standard 6	2021	X	X	X
ASEAN Taxonomy for Sustainable Finance	2021	X	X	X
Bank Negara Malaysia Climate Change and Principle-based Taxonomy	2021	X	X	
Russia National Taxonomy for Green Projects	2021	X	X	
Kazakhstan Green Taxonomy	2021	X	X	
South Korea K-Taxonomy on Green Industries	2021	X	X	X
China Green Bond Endorsed Project Catalogue	2021	X	X	
AFD Principles for Tracking Biodiversity and Nature-Positive finance	2022			X
Islamic Development Bank, Guidance on the Use of Nature-Based Solutions for Climate Change Adaptation	2022		X	
Asian Development Bank, ADB Ocean Finance Framework	2022		X	
International Finance Corporation (IFC), Guidelines for Blue Finance	2022		X	
South Africa Green Finance Taxonomy	2022	X	X	

Methodology, guideline, or taxonomy		Scope		
Title and hyperlink	Publication year	Mitigation	Adaptation	Biodiversity and nature
Canadian Taxonomy Roadmap Report	2022	X		
Colombia Green Taxonomy	2022	X	X	
International Platform on Sustainable Finance Common Ground Taxonomy	2022	X		
Georgia Sustainable Finance Taxonomy	2022	X	X	X
Indonesia Green Taxonomy	2022	X	X	
Sustainable Taxonomy of Mexico	2023	X	X	
Taiwan Green Taxonomy	2023	X	X	X
Singapore Sustainable Finance Taxonomy	2023	X		
Thailand Sustainable Finance Taxonomy	2023	X		
UK Green Taxonomy	Forthcoming	X	X	
Australia Sustainable Finance Taxonomy	Forthcoming	X		
ADB Training on Counting Climate Finance			X	

Table A2.2 summarizes key aspects of comprehensive mitigation tracking methodologies and guidance documents. These methodologies have global or comparably wide scopes. Country-level methodologies are not summarized below but are referenced in Table A2.1 above.

Table A2.2 Summary of key mitigation finance tracking methodologies

Title and hyperlink (if available)	Sectoral coverage	Taxonomy	Eligibility	Exclusions	Quantifying
MDBs' Joint Methodology for Tracking Climate Change Mitigation Finance	Eligible activities are described for the following sectors: 1. Energy 2. Mining and metal production for climate action 3. Manufacturing 4. Agriculture, forestry, land use, and fisheries 5. Water supply and wastewater 6. Solid waste management 7. Transport 8. Buildings, public installations, and end-use energy efficiency 9. ICT and digital technologies 10. Cross-sectoral activities	Establishes a full list of activities for each sector that are eligible to be tracked as mitigation finance.	Identifies three categories of activities that substantially contribute to climate change mitigation: **1. Negative or very-low-emission activities** **2. Transitional activities** **3. Enabling activities** For each activity, sector- and project-specific eligibility criteria are defined. An activity must meet all of its eligibility criteria to be tracked as mitigation finance.	Excluded activities include: ▪ Activities that support the fossil fuel industry, natural gas processing, storage, transport, liquefaction and regasification, and crude oil refining (e.g. carbon capture and utilisation for enhanced oil recovery) ▪ Electricity generation from coal or peat ▪ Activities that lead to deforestation ▪ Carbon offsetting or purchased carbon credits or other market-based instruments, such as renewable energy credits, to offset GHG emissions directly generated by the activity (with some limited exceptions). Other exclusions may be found in the project-specific eligibility criteria.	Only costs that are directly integral to mitigation may be counted. If all expenditure contributes to mitigation, the **total cost** of the activity can be counted. In the case that some project costs are relevant to mitigation and others are not, only the **isolated cost** of the mitigation-relevant activities should be counted.

Title and hyperlink (if available)	Sectoral coverage	Taxonomy	Eligibility	Exclusions	Quantifying
OECD-DAC Rio Markers	The Rio Markers can be applied to any sector. Guidance and indicative scoring have also been developed for the following sectors/activities: ▪ Education ▪ Health ▪ Water and sanitation ▪ Government and civil society ▪ Other social infrastructure and services ▪ Transport and storage ▪ Communications ▪ Energy generation, distribution, and efficiency ▪ Banking and financial services ▪ Business and other services ▪ Agriculture ▪ Forestry ▪ Fishing ▪ Industry ▪ Mineral resources and mining ▪ Construction ▪ Trade ▪ Tourism ▪ General environmental protection ▪ Other multisector ▪ Developmental food aid/ security assistance ▪ Humanitarian aid	Development finance activities' objectives are scored and categorized as follows: ▪ **Principal (score 2):** Activities for which mitigation is explicitly stated and is fundamental to design or motivation. ▪ **Significant (score 1):** Activities in which *mitigation is explicitly stated but is not the fundamental driver or* motivation. ▪ **Non-eligible (score 0):** Activities do not target climate change mitigation.	The activity will score "**principal objective**" if it directly and explicitly aims to contribute to one or more of the four eligibility criteria: 1. Mitigation of climate change by limiting anthropogenic emissions of GHGs, including gases regulated by the Montreal Protocol. 2. Protection and/or enhancement of GHG sinks and reservoirs. 3. Integration of climate change concerns with recipient countries' development objectives through institution building, capacity development, strengthening regulatory and policy frameworks, or research. 4. Developing countries' efforts to meet their obligations under the Rio Convention.	The following sectors/ activities are generally excluded: ▪ General budget support ▪ Debt ▪ Administrative costs ▪ Support for refugees in donor countries Multilateral contributions should not be marked by members individually; instead, international organisations report on the allocation of their funds (multilateral outflows), and the climate-related share of their portfolio is determined on that basis.	The amount of funding considered mitigation finance is determined by the activity's score: **(a) principal objective:** 100% **(b) significant objective** 0-100%

Title and hyperlink (if available)	Sectoral coverage	Taxonomy	Eligibility	Exclusions	Quantifying
EU Taxonomy Regulation, Technical Expert Group, and Delegated Acts	Technical screening criteria are available for over 80 mitigation activities, in the following sectors: 1. Forestry 2. Environmental protection and restoration activities 3. Manufacturing 4. Energy 5. Water supply, sewerage, waste management and remediation 6. Transport 7. Construction and real estate activities 8. Information and communication 9. Professional, scientific, and technical activities. Technical screening criteria available for adaptation.	The taxonomy's six objectives are: 1. Climate change mitigation, 2. Climate change adaptation, 3. Sustainable use and protection of water and marine resources, 4. Transition to a circular economy, 5. Pollution prevention and control, and 6. Protection and restoration of biodiversity and ecosystem. Mitigation activities also have two classification categories: ▪ **Enabling activities**, which allow other activities to make a substantial contribution to one or more of the six objectives, and ▪ **Transitional activities**, which contribute to climate change mitigation and a pathway to the Paris Agreement.	To be eligible, an activity must meet the following conditions: 1. Making a substantial contribution to at least one environmental objective (e.g. mitigation); 2. Doing no significant harm (DNSH) to any of the other five environmental objectives; 3. Complying with minimum safeguards; and, 4. Complying with the technical screening criteria set out in the Taxonomy delegated acts. Transitional activities are only eligible if they: ▪ Have no technologically feasible low-carbon alternatives ▪ Have the best possible GHG levels, and ▪ Do not contribute to carbon lock-in or hamper the development of low-carbon alternatives. Risk assessments may be required for some activities according to technical screening criteria to determine that the activity does not undermine climate change mitigation. Activities must also meet all technical screening criteria for their categories.	Activities that do not meet their eligibility criteria are excluded. Fossil fuel activities, related to dedicated storage and/or transportation of any fossil fuels, including gaseous or liquid fossil fuels, should not be considered as making a substantial contribution to climate mitigation, as this risks leading to lock-in. Energy generation from gaseous or liquid fossil fuels should only be considered to make a substantial contribution to mitigation where it meets the technical screening criteria.	Costs that meet the screening criteria for substantial contribution to climate change mitigation and relevant DNSH criteria can be counted.

Title and hyperlink (if available)	Sectoral coverage	Taxonomy	Eligibility	Exclusions	Quantifying
AfDB Methodology for Adaptation and Mitigation Finance Tracking	AfDB's major sectors are: 1. Agriculture and rural development 2. Industry, mining, and quarrying 3. Environment 4. Transport 5. Water supply and sanitation 6. Power 7. Communications 8. Finance 9. Social 10. Urban development 11. Multisector	The approach follows the same principles as the joint MDB approach, with activity-based consideration for mitigation tracking. For each sector, activities with mitigation co-benefits are identified.	The methodology provides a detailed list of mitigation activities. in Annex 2.	Climate risk screenings are available for the following sectors: **Agriculture:** Cropping and irrigation, livestock. **Energy**: Excluding hydropower, and hydropower only. **Water supply and sanitation,** and water resources management. **Transport:** Roads.	Classification is made before project implementation, at the approval stage. Activities can be an entire project or a component of a project. The methodology aims to disaggregate mitigation activities from non-mitigation activities where possible with a reasonable level of data granularity.

Table A2.3 describes the main aspects of seven adaptation methodologies, comparing approaches for the attribution and tracking of climate adaptation and/or resilience finance. These methodologies represent key best practices by leading institutions in the field.

Table A2.3 Summary of key adaptation finance tracking methodologies

Title & hyperlink (if available)	Adaptation categories captured	Approach to qualifying adaptation activities	Approach to quantifying adaptation finance
Joint methodology for tracking climate change adaptation finance	**Type 1**/Activities that are ***adapted***: adaptation is **not** the primary objective of the project, but it integrates measures to manage physical climate risk and ensure the project's objectives are realised despite these risks. **Type 2**/Activities that have **shared objectives of *adaptation and development***: adaptation is **one of** the objectives of the project which includes activities that directly reduce physical climate risk and build adaptive capacity of the system in which the project takes place. **Type 3/**Activities that ***enable adaptation***: adaptation **is** the primary objective of the project which constitutes activities that reduce the underlying causes of vulnerability to climate change at the systemic level and/or remove (knowledge, capacity, and technological) barriers to adaptation.	This approach follows a three-step process to determine whether an investment should (fully or partly) qualify as adaptation finance: 1. Setting out the climate change vulnerability context. 2. Making an explicit statement of intent of the project to reduce climate change vulnerability. 3. Articulating a clear and direct link between the specific project activities and the project's objective to reduce vulnerability to climate change.	Adaptation finance can be estimated using one of two approaches, the choice of which may be influenced by the financial instrument used to channel adaptation finance (*e.g.*, policy-based financing can only be estimated using a proportional approach; whereas adaptation finance embodied in loans and grants can be estimated using either): The ***incremental* approach:** estimates the additional costs associated with the activities required to adapt the project to climate change **against a hypothetical baseline** where the project would aim to deliver expected results without addressing physical climate risks. The ***proportional* approach:** refers to adaptation finance estimated as a proportion of the MDB finance that corresponds to the adaptation activities included in a project. This may be informed by a range of credible sources including assessments of the cost of adaptation in similar operations or expert knowledge on the relevant sectoral practice, together with information on the assumptions and calculations used.

Title & hyperlink (if available)	Adaptation categories captured	Approach to qualifying adaptation activities	Approach to quantifying adaptation finance
MDB-IDFC Common Principles for Climate Change Adaptation Finance Tracking	Annex B of the *2016 Joint Report on MDB's Climate Finance* lists examples illustrating sector- and subsector-specific adaptation activities in which MDB adaptation finance may be identified, linking the possible vulnerability to climate change at (sub) sector level to potential adaptation activities that may address that vulnerability. Additionally, the IDFC has operationalised the Common Principles as part of its annual Green Finance Mapping report, according to six sectoral categories.	The MDB-IDFC Common Principles propose a three-step process-based approach to qualifying adaptation finance. a. Set out the context of risks, vulnerabilities, and impacts in relation to climate change. b. State the intent to address identified risks, vulnerabilities, and impacts in the official project documentation. c. Demonstrate a direct link between identified risks, vulnerabilities, and impacts, and the financed activities.	Requires adaptation activities to be disaggregated from non-adaptation activities as far as reasonably possible (**incremental approach**). 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 (**proportional approach**). Some activities without associated incremental costs, such as operational procedures to ensure business continuity or the practice of sitting assets outside the range of a future storm surge, may not be tracked in quantitative terms. When using policy instruments or balance-sheet lending, equity investments, and credit-line lending through financial intermediaries, a proportional approach is more viable.
EU Taxonomy for Sustainable Activities Technical Expert Group (TEG)	Defines activities as eligible to be counted as: An **adapted activity** if: a. the activity reduces all material physical climate risks to the extent possible; b. does not adversely affect the adaptation efforts of others; and c. the reduction of physical climate risks can be measured. An **enabling adaptation** if the activity reduces material physical climate risk in other activities and/or addresses systemic barriers to adaptation The 2020 Technical Expert Group of the EU Taxonomy and the EU Taxonomy provide specific criteria for determining "substantial contribution" for adapted and enabling activities.	The following three-step process aims to demonstrate that an activity contributes to a substantial reduction of the negative effects of climate change: a. Assessing the expected negative physical effects of climate change on the underlying economic climate variability and climate change. b. Stating the intent to address the identified risks, vulnerabilities, and impacts in project documentation. c. Demonstrating a clear and direct link between the identified risks, vulnerabilities, and impacts, and the specific project activities.	For activities enabling adaptation, the economic activity that meets the relevant screening criteria is considered eligible to be tracked. For finance to adapted activities, the TEG recommends that only the direct costs of adaptation can be tracked, not the revenues and/or expenditures associated with the whole activity. The technical expert group notes that methodologies, tools, and metrics to measure adaptation and resilience benefits are under development.

Title & hyperlink (if available)	Adaptation categories captured	Approach to qualifying adaptation activities	Approach to quantifying adaptation finance
EU Taxonomy for Sustainable Activities Delegated Acts	Same as TEG above.	Expands on the technical expert group's definition of **enabling activity:** such an activity must provide a technology, product, service, information, or practice, or promote their uses with one of the following objectives: **a. Increasing the level of resilience** to physical climate risks of other people, of nature, of culture heritage, of assets, and of other economic activities. **b. Contributing to adaptation efforts** of other people, nature, cultural heritage, assets, and other economic activities.	The quantification in the context of the EU Taxonomy legal documents indicates: **a. Non-financial undertakings** to report on and thereby count, the proportion of the turnover, CAPEX, or OPEX. **b. Financial undertakings** (credit institutions, asset managers, investment firms, and insurance and reinsurance undertakings): proportion of environmentally sustainable economic activities in their financial activities (environmentally sustainable as defined in the Taxonomy acts).
OECD-DAC Rio Markers	Activities that **intend** to reduce the vulnerability of human or natural systems to the current and expected impacts of climate change. This encompasses a range of activities, from *information and knowledge generation* to *capacity development*, *planning,* and the *implementation* of climate change adaptation actions. **Principal** activities are those in which adaptation is explicitly *stated* as *fundamental* in the design of, or the motivation for, the activity *i.e.*, the activity would not have been funded (or designed that way) lacking that objective. **Significant** activities are those in which adaptation is *explicitly stated* but it is *not the fundamental* driver or motivation for undertaking it *i.e.*, the activity has other primary objectives, but it has been formulated or adjusted in such a way to tackle climate concerns.	An activity is eligible for the climate change adaptation marker if: a. the climate change adaptation objective is explicitly indicated in the activity documentation; **and** b. the activity contains specific measures that **intend** to reduce the vulnerability of human or natural systems to the current and expected impacts of climate change.	To quantify relevant activities, the Rio Markers uses a scoring system differentiating between a. principal objective (score 2, or 100% of financing) and b. significant objective (score 1, or 0-100% of financing). According to the OECD, the majority of DAC members report 100% of finance marked principal. For those reporting (b), finance with significant (adaptation) objectives, shares vary from country to country and there is currently no common reporting standard.

Title & hyperlink (if available)	Adaptation categories captured	Approach to qualifying adaptation activities	Approach to quantifying adaptation finance
Adaptation SME Accelerator Program's Adaptation Solutions Taxonomy	Targets SMEs that provide two key categories of adaptation solutions: a. Climate Adaptation *Intelligence* (any type of climate data production, information, software, and other tools, that **enable** the identification, evaluation, and/or monitoring of climate risks and related impacts). b. Climate Adaptation *Products and Services* (any product, equipment, technology, or service that helps to **manage**, *i.e.*, avoid, mitigate, and/or transfer, climate risks, and related impacts).	An "Adaptation SME" is a company providing technologies, products, and/or services that: a. Addresses systemic barriers to adaptation by strengthening users' ability to understand and respond to physical climate risks and related impacts and/or adaptation and broader system's climate resilience. b. Contributes to preventing or reducing material physical climate risk and/or the adverse associated impacts on assets, economic activities, people, or nature (e.g., via water-efficient irrigation systems).	The ASAP is largely not concerned with quantifying adaptation finance as such, but rather evaluating adaptation outcomes.
CBI Climate Resilience Principles adaptation	**Asset-focused investments:** Where the intention is to maintain or enhance the resilience of an asset or activity to climate change, specifically to ensure that the asset or activity's performance is fit-for-purpose over its design lifespan. **System-focused investments:** Where the intention is to deliver climate resilience benefits to the broader system (*i.e.*, going beyond merely ensuring an asset's or activity's performance over its design lifespan). To be effective, such an asset or activity will also need to have a sufficient degree of resilience to climate change. The difference between the two types lies in whether the primary intention of the issuer is to increase the resilience of an asset or activity or to increase the resilience of the wider system.	Issuers must **demonstrate** that for the assets and activities (re)financed via the bond they: a. Understand the climate risks faced by the asset, activity, or system in question; b. Have addressed those risks by undertaking risk-reduction measures and adopting flexible management plans that take account of inherent uncertainties around climate change, ensuring that the asset, activity, or system is robust, flexible, and fit-for-purpose in the face of that uncertainty; c. Can deliver resilience benefits over and above addressing identified risks (for system-focused investments); and d. Are undertaking regular (re)evaluation of the asset and/or system's climate resilience performance, adjusting to risk-reduction measures over time as needed.	The Principles do not provide any guidance on how to quantify finance.

As biodiversity and nature-based finance is a developing area of climate tracking, Table A2.4 provides a comprehensive overview of existing methodologies used to track this type of finance.

Table A2.4 Summary of biodiversity/nature-based finance tracking methodologies

Title & hyperlink	Intended use	Concept definition	Screening criteria/ Classification	Thresholds	Metrics	Co-benefits counting	Avoid double counting
Convention on Biological Diversity 2012	Guidance for monitoring and reporting progress on the UN Convention on Biological Diversity (CBD) strategy for resource mobilisation to be used at the country level. The guidance is tailored for developing countries and developed countries and highlights the various categories of financial flows.	Finance for biodiversity (BD) is defined based on activities that directly protect BD and support BD planning and activities that indirectly address **BD conservation and sustainable use in productive sectors**, though those are not their main focus. The definition acknowledges that indirect activities can have ecosystem-based approaches to mitigation and adaptation as primary objectives.	Screening is based on an indicative list of actions that can be included in each category (direct or indirect). Actions directly related to biodiversity are, by design, intended to protect biodiversity and support biodiversity planning. Actions indirectly related to biodiversity have a positive impact on biodiversity but for which biodiversity conservation and sustainable use are not the main focus.	No numerical thresholds, but amounts reported should represent the "best estimate" along with an indication of the level of confidence (high, medium, low) or a range of estimates. It Is assumed that financial estimates of indirect activities will have a lower level of confidence compared with finance for direct activities	Not applicable	It accounts for co-benefits in some of the indirect actions but does not quantify them.	Institutional mapping of various sources of funding is suggested as a way to avoid double counting.

Title & hyperlink	Intended use	Concept definition	Screening criteria/ Classification	Thresholds	Metrics	Co-benefits counting	Avoid double counting
OECD DAC Creditor Reporting System (CRS) – Rio Markers 2009, 2013, 2014, 2016, 2018 (revisions)	Rio Markers system to identify and monitor how development finance mainstreams the Rio Convention objectives on biodiversity.	Definition based on the objectives of the CBD revised in 2018 to better reflect the Aichi Targets. It includes: ▪ Conservation or restoration of ecosystems ▪ Mainstreaming biodiversity concerns within recipient country policies, regulations, and economic activities ▪ Eliminating incentives harmful to BD ▪ Genetic diversity of plants and animals ▪ Equitable sharing of benefits ▪ Contribute to developing countries' efforts under the CBD	**Purpose-based methodology**: activities are thus to be marked according to their stated **objectives** (possible positive side-effects should not count). Typical BD activities were initially considered to take place in the following sectors: ▪ Water and sanitation ▪ Agriculture ▪ Forestry ▪ Fishing ▪ Tourism The revision in 2018 also produced an indicative table of DAC CRS sectors with guidance for scoring BD activities.	**Marker 2**- "principal" when the BD objective is **explicitly** stated as fundamental in the design of, or the motivation for, the activity. **Marker 1** – BD objective **explicitly** stated, but is not the fundamental driver or motivation	A scoring system of three values: 2 – targeting CBD as a "principal" objective 1 - targeting CBD as a "significant" objective 0 – not targeting the CBD objective	Allows for an activity/project to qualify for more than one Rio Marker, including BD, climate mitigation and adaptation, and desertification.	Assigning a double "principal" score (e.g., to both BD and adaptation) to the same activity requires explicit justification. However, to avoid double-triple counting aggregate figures for all four markers cannot be added up.

Title & hyperlink	Intended use	Concept definition	Screening criteria/ Classification	Thresholds	Metrics	Co-benefits counting	Avoid double counting
Europe-an Union budget 2015	Approach for tracking biodiversity-related expenditure in the EU budget for both domestic and international expenditures, compare commitments vs expenditures.	The EU approach defines biodiversity finance as activities contributing to the three broad objectives of the CBD, as well as supporting actions such as research, awareness-raising, capacity building, policy development and enforcement, planning, and monitoring. Finance for activities also contributing to the EU Biodiversity Strategy to 2020 are also tracked.	Proposed typology covers: 1. Protected areas 2. Species conservation measures 3. Infrastructure investments 4. Conservation of genetic diversity 5. Control of invasive alien species (IAS) 6. Sustainable agriculture and agri-environment measures 7. Sustainable forestry and forest environment measures 8. Sustainable fisheries and marine management actions 9. Tourism and recreation 10. Pollution control 11. Climate change mitigation and adaptation 12. Access and benefits sharing 13. Research, surveys, monitoring, and data management 14. Education, training, and capacity building 15. Development and implementation of policies, plans and strategies	The methodology builds on the Rio Markers, distinguishing between expenditures for which biodiversity is a principal objective (100% weighting) and those with a significant objective (40% weighting).	Three markers, in line with the CBD definitions: Primary objective – 100% Significant objective – 40% No contribution – 0%	Climate and BD-related financing figures are tracked through two separate processes. The figures obtained should not be aggregated to avoid double counting.	

Title & hyperlink	Intended use	Concept definition	Screening criteria/ Classification	Thresholds	Metrics	Co-benefits counting	Avoid double counting
BIOFIN (The Biodiversity Finance Initiative) 2018	▪ Biodiversity expenditure review for the public, private sector, donors, and civil society. ▪ Designed to compare budgets, allocations, and actual expenditures at national or subnational levels.	Biodiversity finance (conservation, restoration, fostering of or eliminating pressure on BD, commercial activities with BD positive outcomes)	1. Based on BD expenditure categories organised according to the three main CBD goals and CBD Strategic Plan: 2. Access and benefit sharing 3. BD awareness and knowledge 4. Biosafety 5. Green economy 6. BD and development planning 7. Pollution management 8. Protected areas and other conservation measures 9. Restoration 10. Sustainable use	Based on explicit/written intent, distinguish: ▪ Primary (direct or principal) expenditures are counted at 100% (similar to OECD Rio Markers and System of Environmental Economic Accounting (SEEA)) ▪ Secondary expenditures (indirect or joint purpose) using either a programme approach or an agency approach.	Range 0 to 100% Suggested milestones at 0, 1, 5, 25, 50, 75, and 100%	Yes, it includes direct expenditures with biodiversity as the principal purpose and indirect expenditures with BD as a secondary or joint purpose.	Double counting due to multiple transfers between agencies is avoided by applying: (1) the "abatement or execution principle" (expense counted only at the executing agency level) or (2) the "financing principle" (expenditure recorded only at the source).
AFD	Monitoring AFD's financial commitments to biodiversity.	Biodiversity conservation, management of environments and natural resources which includes functionality of ecosystems, use of natural resources, inclusion of communities, improvement and sharing of knowledge and relevant technologies, and creation of a favorable environment (economic incentives, regulations, funding).	No complete classification, just a list of project examples.	Financial flows are counted as biodiversity-relevant whether positive impacts on BD are explicitly indicated in the project documents or implicit (no mention, but highly likely positive effects). Weighting approach based on the OECD Rio Markers with weighting varying according to the sector of activity: Marker 2 projects are weighted 100%, whereas Marker 1 projects are weighted at 5, 30, or 80%.	▪ 80% for the management of forests and fisheries ▪ 30% for agroecology, pastoralism, bio-equitable sectors and wastewater treatment, integrated management of water resources ▪ 5% for urban development with a biodiversity component, sustainable waste treatment, or environmental credit lines	Not applicable	Not applicable

Title & hyperlink	Intended use	Concept definition	Screening criteria/ Classification	Thresholds	Metrics	Co-benefits counting	Avoid double counting
IDFC 2021	▪ Tracking financial commitments for positive contributions to biodiversity ("net gains") by IDFC members in a harmonised way. ▪ Aggregation as part of the green finance portfolio of the Club and public disclosure in the annual Green Finance Mapping report. ▪ Designed to track mobilisation of resources aligned with the IDFC Common Position Paper on Biodiversity.	The activities financed should comply with at least one of the following eligibility criteria (a-f) and biodiversity relevance should be justified in the project documentation on the levels of (1) context; (2) objectives; and (3) activities.	1. Based on the OECD approach using the Common Reporting Standard codes for relevant sectors: 2. Agriculture and natural resources 3. Water preservation 4. Water supply 5. Wastewater treatment 6. Industrial pollution control 7. Waste management 8. Biodiversity conservation 9. Support national, regional, or local policy, through technical assistance or policy lending 10. Financing instruments	▪ Project documentation should justify biodiversity relevance in terms of context, objectives, and activities. ▪ Finance for projects that are principally dedicated to biodiversity conservation are weighted at 100% of their value. ▪ Finance for projects in other categories that have biodiversity benefits are weighted 30%, or at the internal rate used by the reporting member institution.	Range 0 to 100% Milestones: 100, 30, or internal rate	Yes, applies the DAC Marker scoring logic: principal objective and significant objective Allows for tracking of climate finance with biodiversity co-benefits.	Reporting DFIs are required to identify the projects tagged as both climate and biodiversity-relevant

Title & hyperlink	Intended use	Concept definition	Screening criteria/ Classification	Thresholds	Metrics	Co-benefits counting	Avoid double counting
EU Taxonomy (TEG) & Regulation (EU) 2020/852	Provides a classification system for environmentally sustainable economic activities following **six environmental objectives**. It aims to create a common framework that investors can use when investing in projects and economic activities that have a substantial positive impact on the climate and the environment. In terms of BD, it is rooted in the EU Biodiversity Strategy for 2030.	**Protection and restoration of biodiversity and ecosystems** is the sixth environmental objective considered in the Taxonomy. The remaining five are: 1. Climate change mitigation; 2. Climate change adaptation; 3. Sustainable use and protection of water and marine resources; 4. Transition to a circular economy; 5. Pollution prevention and control. The mandate of the technical expert group in its final report was limited to technical screening criteria for adaptation and mitigation with only assessment of significant harm to the other objectives, including BD and ecosystems.	A full evaluation of economic activities that can substantially contribute to BD and ecosystems is currently being completed by the Platform on Sustainable Finance.	Substantial contribution to the 6th environmental objective means an activity is substantially contributing to protecting, conserving, or restoring biodiversity to achieving the good condition of ecosystems, or to protecting ecosystems that are already in good condition. A list of five types of activities is defined in Art 15 of the regulation.	Not applicable	Not applicable	Not applicable

Title & hyperlink	Intended use	Concept definition	Screening criteria/ Classification	Thresholds	Metrics	Co-benefits counting	Avoid double counting
EU Taxonomy (Preliminary recommendations, currently in consultation) 2021	These recommendations feed into a second delegated act covering mainly the remaining environmental objectives 3-6 (as well as some additional criteria for the environmental objectives 1-2) will be **adopted in the first half of 2022**.	Same as above	Technical screening criteria: Nomenclature of Economic Activities (NACE) sector and economic activity-based classification system which was supplemented in some areas with additional categories for economic activities not covered by NACE (published in 2008 and not capturing the newest production methods). BD and ecosystems are allocated 14 priority activities across 7 sectors (pp. 79, 92): ▪ Agriculture, forestry, and fishing ▪ Manufacturing ▪ Energy ▪ Buildings ▪ ICT ▪ Restoration and remediation ▪ Tourism	An activity is considered taxonomy-aligned if it makes a **substantial contribution** to at least one of the following environmental objectives: 1. Climate change mitigation 2. Climate change adaptation; 3. Sustainable use and protection of water and marine resources 4. Transition to a circular economy 5. Pollution prevention and control 6. Protection and restoration of biodiversity and ecosystems while not causing significant harm to any of the other five objectives. ▪ Comply with minimum social and governance safeguards ▪ Substantial contribution types: distinction between (1) activities' **own performance** to reduce pressure and improve the state of the environment and (2) activities **enabling** other activities.	Defines a **stepwise approach** to determine if an activity can make a substantial contribution to the biodiversity objective (p 57).		If an economic activity causes significant harm, it cannot be considered Taxonomy

Title & hyperlink	Intended use	Concept definition	Screening criteria/ Classification	Thresholds	Metrics	Co-benefits counting	Avoid double counting
Netherlands Enterprise Agency: Mapping Dutch Financial Flows to Biodiversity	Mapping/ estimating private financial flows to biodiversity from Dutch financial institutions.	Not provided	Based on the classification system of BD expenditures inspired by the OECD and The Nature Conservancy & Paulson report: ▪ Biodiversity Offsets ▪ Sustainable commodities/ sustainable supply chains (including forestry, agricultural, fisheries and seafood products and palm oil) ▪ Natural infrastructure investments or lending ▪ Carbon credits from nature-based solutions ▪ Green financial products (including green /climate bonds; sustainability-linked loans; biodiversity-related impact funds; other green or sustainability-linked products)	Unclear	Unclear	No	No

ANNEX 3: TAXONOMY ALIGNMENT AMONG OECD RIO MARKERS, EU TAXONOMY, AND MDB-IDFC COMMON PRINCIPLES

In addition to their reporting under the Green Finance Mapping (GFM) exercise, many IDFC members are required to follow national and regional taxonomies (e.g., EU Taxonomy), or to report to the OECD DAC using the Rio Markers approach. Table A3.1 provides a high-level comparison of the Rio Marker, EU taxonomy, and MDB-IDFC Common Principles, followed by sector-specific tables matching Rio Marker sector codes and the EU taxonomy with the corresponding GFM reporting rows. These tables provide a useful illustration of how to conduct alignment between different methodologies to IDFC members required to follow national taxonomies.

Table A3.1 High-level comparison of the Rio Marker, EU taxonomy, and MDB-IDFC Common Principles

	MDB-IDFC Common Principles	OECD Rio Markers	EU Taxonomy (CBI, 2022)
Development approaches	Principle-based Whitelist-based	Whitelist-based	Technical Screening criteria based
Users	MDB/IDFC	OECD member country	Financial market participants, mainly investors
Classification	No specific industry classification	DAC and CRS code	NACE code
Mitigation sector coverage	▪ Energy ▪ Mining and metal production for climate action ▪ Manufacturing ▪ Water supply and wastewater ▪ Transport ▪ Buildings, public installations and end-use energy efficiency ▪ ICT and digital technologies ▪ Research, development and innovation ▪ Cross-sectoral activities	▪ Education ▪ Health ▪ Population policies/programmes and reproduction ▪ Water and sanitation ▪ Government and Civil Society ▪ Other social infrastructure and services ▪ Transport and storage ▪ Communications ▪ Energy generation, distribution and efficiency ▪ Banking and financial services	▪ Construction and real estate ▪ Energy ▪ Transport ▪ Water supply, sewerage, waste management and remediation ▪ Manufacturing ▪ Forestry ▪ Information and communication ▪ Environment protection and restoration activities ▪ Professional, scientific and technical activities

	MDB-IDFC Common Principles	OECD Rio Markers	EU Taxonomy (CBI, 2022)
		▪ Business and other services ▪ Agriculture ▪ Forestry ▪ Fishing ▪ Industry ▪ Mineral resources and mining ▪ Construction ▪ Trade ▪ Tourism ▪ General environmental protection ▪ Other multisector ▪ Humanitarian aid	
Adaptation sector coverage	Not developed	▪ Education ▪ Health ▪ Population policies/programmes and reproduction ▪ Water and sanitation ▪ Government and Civil Society ▪ Other social infrastructure and services ▪ Transport and storage ▪ Communications ▪ Energy generation, distribution and efficiency ▪ Banking and financial services ▪ Business and other services ▪ Agriculture ▪ Forestry ▪ Fishing ▪ Industry ▪ Mineral resources and mining ▪ Construction ▪ Trade ▪ Tourism ▪ General environmental protection	▪ Construction and real estate ▪ Energy ▪ Transport ▪ Water supply, sewerage, waste management and remediation ▪ Manufacturing ▪ Forestry ▪ Information and communication ▪ Environment protection and restoration activities ▪ Professional, scientific and technical activities ▪ Financial and insurance activities ▪ Education ▪ Human health and social work activities ▪ Arts, entertainment and recreation

	MDB-IDFC Common Principles	OECD Rio Markers	EU Taxonomy (CBI, 2022)
		▪ Other multisector ▪ Development food aid/food security assistance ▪ Humanitarian aid	

Table A3.2 AFOLU sector alignment

Rio Marker CRS Purpose Code|Sector		EU Taxonomy activity Subsector|Activities		Corresponding GFM subsector [Agriculture, forestry, land use, and fisheries]
311	Agriculture	N/A	N/A	Agriculture: Energy efficiency, carbon sequestration, GHG-emission reduction Livestock: GHG-emission reduction, carbon sequestration Biomaterial: GHG reduction through biomaterial production
312	Forestry	Forestry	Afforestation Rehabilitation and restoration of forests, including reforestation and natural forest regeneration after an extreme event Forest management Conservation forestry	Forestry: GHG-emission reduction and carbon sequestration
41020 41030	Biosphere protection Biodiversity	N/A	N/A	Marine and other water habitats: GHG-emission reduction
313	Fishing	N/A	N/A	Fisheries and aquaculture: GHG-emission reduction
N/A	N/A	N/A	N/A	Food and diet: resource-use efficiency

Table A3.3 Energy sector alignment

Rio Marker CRS Purpose Code|Sector		EU Taxonomy activity Subsector|Activities		Corresponding GFM subsector [Energy]
232 233 23410	Energy generation, renewable sources Energy generation, non-renewable sources Hybrid energy electric power plants	Electricity generation	Production of Electricity from Wind Power Production of Electricity from Geothermal Production of Electricity from Solar PV Production of Electricity from Concentrated Solar Power Production of Electricity from Bioenergy (Biomass, Biogas and Biofuels) Production of Electricity from Ocean Energy Production of Electricity from Hydropower Electricity generation from renewable non-fossil gaseous and liquid fuels .	Renewable energy generation Onshore wind, offshore wind, solar PV, concentrated solar, small hydro (<50MW), large hydro (>50MW), geothermal, biomass/biogas, ocean power (wave, tidal), renewable energy plant retrofit, other technologies, miscellaneous (mix of technologies) Lower-carbon energy
		Heat & power / Cogeneration	Cogeneration of heat/cool and power from solar energy Production of heat/cool from solar thermal heating Cogeneration of heat/cool and power from geothermal energy Production of heat/cool from geothermal energy Installation and operation of Electric Heat Pumps Cogeneration of heat/cool and power from bioenergy Production of Heat/cool from Bioenergy (Biomass, Biogas, Biofuels) Cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels Production of heat/cool from renewable non-fossil gaseous and liquid fuels	
		Biofuels	Manufacture of biogas and biofuels for use in transport and of bioliquids	
23183	Energy conservation and demand-side efficiency	N/A	N/A	Energy efficiency

Rio Marker CRS Purpose Code|Sector		EU Taxonomy activity Subsector|Activities		Corresponding GFM subsector [Energy]
N/A	N/A	Energy storage	Storage of Electricity Storage of hydrogen Storage of thermal energy	Energy storage and network stability
236	Heating, cooling and energy distribution	Transmission and Distribution	Transmission and Distribution of Electricity Transmission and distribution networks for renewable and low-carbon gases District heating/cooling distribution	Transportation of energy
N/A	N/A	N/A	N/A	Fugitive emissions

Table A3.4 Transport sector alignment

Rio Marker CRS Purpose Code|Sector		EU Taxonomy activity Subsector|Activities		Corresponding GFM subsector [Transport]
21020 21030	Road transport Rail transport	Transport Modes	Urban and suburban transport, road passenger transport Operation of personal mobility devices, cycle logistics Transport by motorbikes, passenger cars and light commercial vehicles	Urban and rural transport
		Infrastructure	Infrastructure enabling low-carbon road transport and public transport Infrastructure for personal mobility, cycle logistics	
21020 21030	Road transport Rail transport	Transport Modes	Passenger inter-urban rail transport Freight rail transport Freight transport services by road	Low-carbon inter-urban transport
		Infrastructure	Infrastructure for rail transport	
21010 21081	Transport policy and administrative management Education and training in transport and storage	N/A	N/A	Low-carbon vehicles, low-carbon fuels, and demand management

Rio Marker CRS Purpose Code|Sector		EU Taxonomy activity Subsector|Activities		Corresponding GFM subsector [Transport]
21040	Water transport	Transport Modes	Inland passenger water transport Inland freight water transport Retrofitting of inland water passenger and freight transport Sea and coastal freight water transport, vessels for port operations, and auxiliary activities Sea and coastal passenger water transport Retrofitting of sea and coastal freight and passenger water transport	Maritime transport: low-carbon mode and efficiency improvement
		Infrastructure	Infrastructure enabling low-carbon water transport	
21050	Air transport	Transport Modes	Leasing of aircraft Passenger and freight air transport	Aviation: efficiency and renewable energy
		Infrastructure	Low-carbon airport infrastructure Air transport ground handling operations	

Table A3.5 Water sector alignment

Rio Marker CRS Purpose Code|Sector		EU Taxonomy Subsector|Activities		Corresponding GFM subsector [Water Supply and Wastewater]
14020 14021 14030 14031	Water supply and sanitation: large systems Water supply: large systems Basic drinking water supply and basic sanitation	Water	Construction, extension, and operation of water collection, treatment, and supply systems Renewal of water collection, treatment, and supply systems	Water supply: GHG-emission reduction, energy & resource efficiency, and demand management
14022 14032 14050	Sanitation-large systems Basic sanitation Waste management /disposal	Wastewater Solid Waste	Construction, extension, and operation of wastewater collection and treatment Renewal of wastewater collection and treatment Anaerobic digestion of sewage sludge	Wastewater management: GHG-emission reduction, energy & resource efficiency, and demand management
14015 14040	Water resources conservation River basins development	N/A		Efficient use of wastewater: Resource efficiency

Rio Marker CRS Purpose Code|Sector		EU Taxonomy Subsector|Activities	Corresponding GFM subsector [Water Supply and Wastewater]
14010	Water sector policy and administrative management	N/A	Other
14081	Education and training in water supply and sanitation		

Table A3.6 Urban sector alignment

Rio Marker CRS Purpose Code|Sector		EU Taxonomy Subsector|Activities		Corresponding GFM subsector [Buildings, public installations, and end-use energy efficiency]
323	Construction	Construction and real estate activities	Renovation of existing buildings Construction of new buildings Installation, maintenance, and repair of energy-efficiency equipment Installation, maintenance, and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings) Installation, maintenance, and repair of renewable energy technologies Acquisition and ownership of buildings Installation, maintenance, and repair of instruments and devices for measuring, regulating, and controlling energy performance of buildings	Energy efficiency, renewable energy, CO2e-emission reduction, and carbon sinks in buildings and public areas

Table A3.7 AFOLU sector alignment

Rio Marker CRS Purpose Code|Sector	EU Taxonomy [Water Supply, sewerage, waste management, and remediation] Subsector|Activities		Corresponding GFM subsector [Solid waste management]
N/A	Solid Waste	Collection and transport of non-hazardous waste in source-segregated fractions	Waste collection, transport, storage and transfer
N/A	Solid Waste	Material recovery from non-hazardous waste	Product reuse and material recovery from solid waste
N/A	Solid Waste	Anaerobic digestion of bio-waste Composting of bio-waste	Recovery and valorisation of bio-waste

Rio Marker CRS Purpose Code|Sector	EU Taxonomy [Water Supply, sewerage, waste management, and remediation] Subsector|Activities		Corresponding GFM subsector [Solid waste management]
N/A	Gas / CCUS	Landfill gas capture and utilisation	Landfill gas capture, abatement and utilisation

Table A3.8 Mining and metal production for climate action sector alignment

Rio Marker CRS Purpose Code|Sector		EU Taxonomy Subsector|Activities	Corresponding GFM subsector [Mining and metal production for climate action]
322	Mineral resources and mining	N/A	Mining for climate change

Table A3.9 Manufacturing sector alignment

Rio Marker CRS Purpose Code|Sector		EU Taxonomy Subsector|Activities		Corresponding GFM subsector [Manufacturing]
321	Industry	Industrial sector	Manufacture of cement Manufacture of aluminium Manufacture of iron and steel Manufacture of hydrogen Manufacture of carbon black Manufacture of soda ash Manufacture of chlorine Manufacture of organic basic chemicals Manufacture of anhydrous ammonia Manufacture of nitric acid Manufacture of plastics in primary form	Other

Rio Marker CRS Purpose Code|Sector	EU Taxonomy Subsector|Activities		Corresponding GFM subsector [Manufacturing]
N/A	Low-carbon technologies	Manufacture of renewable energy technologies Manufacture of equipment for the production and use of hydrogen Manufacture of low-carbon technologies for transport Manufacture of automotive and mobility components Manufacture of rail constituents Manufacture, installation, and servicing of high, medium, and low voltage electrical equipment for electrical transmission and distribution that result in or enable a substantial contribution to climate change mitigation Manufacturing of aircraft Manufacture of batteries Manufacture of energy efficiency equipment for buildings Manufacture of other low-carbon technologies	

Table A3.10 Information and communications technology (ICT) and digital technologies sector alignment

Rio Marker CRS Purpose Code|Sector		EU Taxonomy Subsector|Activities		Corresponding GFM subsector [ICT and digital technologies]
220	Communications	Information and communication	Data processing, hosting, and related activities Data-driven solutions for GHG emissions reductions Computer programming, consultancy, and related activities Programming and broadcasting activities	Other

Table A3.11 Research, development, and innovation sector alignment

Rio Marker CRS Purpose Code|Sector	EU Taxonomy Subsector|Activities		Corresponding GFM subsector [Research, development, and innovation]
N/A	Professional, scientific, and technical activities	Close to market research, development, and innovation Research, development, and innovation for direct air capture of CO_2 Professional services related to the energy performance of buildings Engineering activities and related technical consultancy dedicated to adaptation to climate change	Research, development, and innovation

Table A3.12 Cross-sectoral activities sector alignment

Rio Marker CRS Purpose Code|Sector		EU Taxonomy Subsector|Activities	Corresponding GFM subsector [Cross-sectoral activities]
110	Education	N/A	Policy support, technical assistance, capacity building, and information dissemination
150	Government and civil society		

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