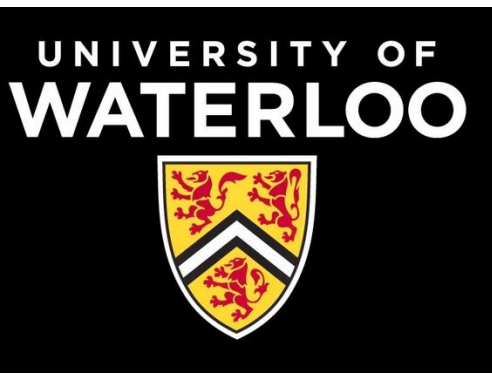


# Climate Change Mitigation Within The Project Financing Sector

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## PROBLEM

**1 Climate Change** is directly or indirectly attributed to human activity that alters the composition of the global atmosphere over comparable time periods. Human interference with the climate system has been a dominant cause for climate change and imposes risks on all components of the climate system. In recent decades, climate change has adversely impacted human life and natural systems on all continents and across the oceans. Scientists believe climate change will become more severe unless specific plans reduce the sources of GHG emissions and enhance the mitigation strategies. Therefore, accurate identification of GHG drivers can support decision makers to select the most effective approach for climate change mitigation (World Bank, 1998).

## 2 Infrastructure Projects:

Economic growth leads to increases in income related with higher energy usage, and it continues to be the most important driver of GHG emissions from fossil fuel combustion. Anthropogenic GHG emissions, driven largely by economic growth, such as infrastructure developments, are responsible for floods, droughts, and other catastrophes related to climate change. Therefore, infrastructure development activities, which are the unequivocal outcome of economic growth, are one of the main sources of GHG emissions, with significant long-term impacts on the global climate system.

## 3 Private Commercial Banks:

Infrastructure projects are extremely capital-intensive and need substantial fiscal resources from financial institutions. Financial institutions are considered to be essential mechanisms to provide financial supports by investing in these projects. As a consequence, financial institutions play a critical role in conducting projects that have significant ecological and social footprints.

NGOs recognize the contribution of financial institutions to facilitating infrastructure projects. They believe that reducing GHG emissions and addressing climate change mitigation can be enhanced by imposing mitigation responsibilities on financial institutions. Therefore, NGOs launch social campaigns against financial institutions to be more environmentally friendly during their investment activities.



## SOLUTION

**7 Climate Change** can be mitigated within the project financing sector through the accurate implementation of revised Equator Principles.

## 6 GHG Reporting:

Equator Principles require banks to report on projects producing over 100,000 tonnes of CO<sub>2</sub> equivalent annually during the operation phase.

**Weakness:** GHG reporting is intentionally restricted to the operation phase of a project. However, parts of project-related GHG are emitted in advance to the actual operation phase. Therefore, the ignorance of GHG emissions over a project's construction significantly affects mitigation strategy within the project financing sector.

**Recommendation:** The extension of GHG emissions reporting to construction phase can lead to more accurate reporting, and consequently, more adequate mitigation strategies.

## 5 Alternative Analysis:

Equator Principles require banks to conduct alternative analysis to evaluate less GHG-intensive alternatives for projects producing more than 100,000 tonnes of CO<sub>2</sub> equivalent annually.

**Weakness:** Equator Principles do not clarify alternative conditions and requirements. They try to explain this term as technically and financially feasible and cost-effective options available to reduce project-related GHG. But this clarification is still unclear and does not explicitly include less GHG-intensive options as a criterion for selecting alternative.

**Recommendation:** Equator Principles should identify less GHG-intensive alternatives as a main criterion for selecting alternative options.

**4 Equator Principles:** Environmental impacts of projects, financed by commercial banks, fuel NGO pressures against banks' reputations. In response, commercial banks have developed the Equator Principles to maintain their corporate legitimacy and maximize their financial credit. Banks have adopted the Equator Principles to manage the environmental impacts of their activities, and consequently, enhanced their reputations and maximized their project revenues.

**However, Equator Principles suffer from two main deficiencies that affect their likely effectiveness in addressing climate change.**

- A) Lack of selecting criteria for alternative analysis
- B) Restricted GHG reporting to operation phase