FinDev Canada's Greenhouse Gas Accounting Methodology For Financed Emissions

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1. Background

In March 2021, FinDev Canada joined the Partnership for Carbon Accounting Financials (PCAF), a collaboration between financial institutions worldwide to enable them to assess and disclose the GHG emissions of their loans and investments. As part of this partnership, FinDev Canada committed to measure and disclose the greenhouse gas (GHG) emissions associated with its loans and investments. FinDev Canada's financed emissions correspond to scope 3 emissions in the GHG Protocol (Category 15: Investments[1]) and represent FinDev Canada's largest source of GHG emissions.

A company's GHG emissions are classified in three scopes[2]:

- Scope 1: Direct GHG emissions that occur from sources owned or controlled by the reporting company – i.e., emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc.
- Scope 2: Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Scope 2 emissions physically occur at the facility where the electricity, steam, heating, or cooling is generated.
- Scope 3: All other indirect GHG emissions (not included in Scope 2) that occur in the value chain of the reporting company. Scope 3 can be broken down into upstream emissions that occur in the supply chain (for example, from production or extraction of purchased materials) and downstream emissions that occur as a consequence of using the organization's products or services.

[1] Source: WBCSD and WRI (2015). The Greenhouse Gas Protocol.

[2] Source: PCAF (2020). The Global GHG Accounting and Reporting Standard for the Financial Industry. First edition.

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2. Objective

This document describes FinDev Canada's GHG accounting methodology for its financed emissions, including for generated, sequestered and avoided emissions.

3. GHG accounting methodology

FinDev Canada's greenhouse gas accounting methodology is based on the PCAF Global GHG Accounting Standard. However, this Standard does not currently cover fund investments nor loans to financial institutions. As such, FinDev Canada applies an approach aligned with the PCAF Standard for these investment types to assess financed GHG emissions across its entire portfolio.

FinDev Canada follows the principles of absolute GHG accounting, which means that carbon credits are not considered in the financed emissions calculation, neither for generated emissions nor for sequestered emissions.

3.1 Generated emissions

Generated emissions represent the absolute scope 1 and 2 GHG emissions that are emitted on an annual basis by FinDev Canada's investees. FinDev Canada's approach for measuring generated emissions for different types of investments is presented in Table 1.

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Table 1: FinDev Canada's methodology for financed generated emissions

Investment type	PCAF asset class	GHG emission scope	Attribution rule
Loan or equity investment in private company	Business loans and unlisted equity	Scope 1 and 2 emissions of company	$\frac{\text{Outstanding amount}_c}{\text{Total assets}_c}$
Debt or equity investment in a fund	Business loans and unlisted equity, with two levels of attribution	Scope 1 and 2 emissions of fund's portfolio companies	$\frac{\text{Committed capital}_{FDC}}{\text{Total fund commitment}_{fund}}$ X $\frac{\text{Outstanding amount}_{fund}}{\text{Total assets}_c}$
Loan to financial intermediary, with unknown use of proceeds	None	Scope 1 and 2 emissions of financial institution	$\frac{\text{Outstanding amount}_{FI}}{\text{Total assets}_{FI}}$

Table 1 legend: company (c), FinDev Canada (FDC), financial institution (FI)

For the attribution denominator, we use the fall-back option of total assets as defined in the PCAF Standard, since total equity and total debt is difficult to track on a consistent basis across the different types of investments and loans.

For fund investments, we use two levels of attribution based on: 1) FinDev Canada's share of committed capital in the fund and 2) the fund's ownership stake in each of its portfolio companies, as defined in the *Business loans and unlisted equity* asset class of the PCAF Standard. This approach is well aligned with the general guidance and principles included in the PCAF Standard, although specific guidance for funds is not included in the first version published in November 2020.

Scope 1 and 2 emissions are either reported by our portfolio companies or estimated using the Joint-Impact Model (JIM), a tool to estimate indirect economic and environmental impacts of investments based on revenues. For all loans and investments, we also validate the accuracy of reported and estimated GHG emissions through comparison with sub-sector GHG emission factors from the PCAF database.

We also estimate scope 3 emissions of all investee companies using the JIM. However, we currently do not report these scope 3 emissions to avoid double-counting and due to the high uncertainty associated with these estimates. Our approach is aligned with guidance from the PCAF Standard and phased-in approach for scope 3 emissions as defined by the EU Technical expert group on sustainable finance (TEG). We are working with DFI peers to align the JIM methodology with the PCAF Standard to improve the accuracy of scope 3 emissions estimations.

3.2 Sequestered emissions

FinDev Canada estimates the sequestered emissions of its portfolio companies operating in sustainable forestry. Carbon removal related to afforestation and reforestation activities is calculated by investees and takes into accounts the carbon stock changes, the type of wood and harvested wood products. FinDev Canada applies the attribution approach described in section 3.1 of this document for sequestered emissions.

3.3. Avoided emissions

We also measure the avoided emissions of our investments in renewable energy projects in accordance with International Financial Institutions Harmonized Approach to Greenhouse Gas Accounting. They represent emissions that would have occurred without the projects' implementation. Although avoided emissions represent a quantifiable positive contribution to decarbonization, they are calculated and reported separately from the net-zero framework. FinDev Canada applies the attribution approach described in section 3.1 of this document for avoided emissions.

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4. Recalculation policy

In line with requirements from the PCAF Standard, financial institutions shall establish a baseline recalculation policy to define under which circumstances a recalculating of base year financed emissions is necessary to ensure the consistency, comparability, and relevance of the reported GHG emissions data over time. As part of this base year emissions recalculation policy, FinDev Canada set a threshold of 20% of financed emissions for the 2020 base year. Above this threshold, base year emissions will be recalculated.

5. Implementation

FinDev Canada measures generated, avoided and sequestered emissions of every loan and investment using the GHG accounting approach described in this document. For new loans and investments, the assessment is performed during due diligence, and the results are included in the investment recommendation documents. For existing loans and investments, GHG emissions are re-assessment annually over the duration of the investment period.

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