

ACCOUNTING PRINCIPLES FOR ENVIRONMENTAL REPORTING

NEFCO has requested annual environmental status reports for every project and from every client since it was established in 1990. The environmental and sustainability indicators of NEFCO-financed projects enable comparison and follow-up of the actual impact of each project. Environmental and resource efficiency indicators are selected to allow evaluation of the situation prior to the implementation of each project. The selected indicators are followed in the annual environmental reporting process.

Environmental benefits can be achieved as a direct consequence of investments and indirectly by supporting companies manufacturing environment-related products or services. The direct environmental impacts are reported by the projects. The indirect environmental impacts are typically calculated based on reporting by the project companies, e.g. production of equipment that decreases emissions.

Harmonised approaches in project impact accounting

The International Financial Institutions (IFIs) have been working together to agree on a harmonised approach to project-level greenhouse gas (GHG) accounting. The rationale for this work is to harmonise GHG accounting in project appraisals. The aim is also to establish minimum requirements for appraisals, which can be exceeded with additional considerations and reporting.

Environmental benefits gained through completed projects (Investment Fund and NMF Credit), or in which NEFCO's involvement has ceased, are calculated as total emission reductions. The assessment of the environmental performance of projects is calculated with the realised annual reductions and the expected annual reductions based on the project baseline prior to implementation. The assessment is normally expressed as a mass unit (e.g. kg, tonnes) on an annual basis. For the purposes of comparison, the data are shown as reductions or savings per annum.

In order to avoid double accounting with co-financiers, the emissions reductions are also given as prorated to NEFCO's share of the financing.

The harmonised approach encourages reporting of long-term project impacts. The report on the estimated results of a project aims to provide users with a basis for understanding the impact of the project over its economic lifetime. NEFCO's environmental database also takes into account projects in which its involvement has ceased. In its environmental monitoring, NEFCO applies an annual linear depreciation rate of 5% on all actual reductions as of the beginning of the year of the final repayment. This method was first applied in 2011.

It is good to note that this methodology is limited to measuring the environmental effects of NEFCO's projects since it ignores additionality, which has a high relevance in financing decisions. The purpose of NEFCO's investment in a project is to reduce the environmental impact of the whole project, not only NEFCO's share of the environmental impact. This has been the main rationale for NEFCO's project reporting.