



Federal Ministry for the  
Environment, Nature Conservation  
and Nuclear Safety

Federal Ministry  
for Economic Cooperation  
and Development

# Together for a common cause

Germany's contribution to international climate financing



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# International climate financing

## Objectives, commitments and implementation

Published in November 2012, the World Bank's report 'Turn down the heat: why a 4°C warmer world must be avoided' describes in powerful terms how the Earth would look if its average temperature rose by four degrees Celsius. Storms, flooding and droughts; food shortages, sea level rises and salinisation; developing countries in tropical regions the hardest hit: this is the scenario that almost all scientists predict for the end of this century if no ambitious political efforts are made to reduce the levels of greenhouse gas emissions. The uncertainties and the barely foreseeable risks connected to global warming of this kind make it hard to anticipate the extent of future adaptation needs, or to plan for those needs and finance appropriate measures.

If we do nothing in response to climate change, prosperity will remain unattainable for many people in developing countries. Above all, many development successes of recent decades – including those related to the Millennium Development Goals – will be devalued. For this reason, the international community came to an agreement: in order to avoid the worst consequences of climate change, the average global temperature increase must be lim-

ited to two degrees Celsius. Achieving this will require huge investments around the world for the reduction of greenhouse gas emissions to set in motion a transition to a low-carbon society. Meanwhile, the need to adapt to the already noticeable effects of climate change presents a big challenge to many countries, in particular a large number of developing countries.

The industrialised nations are aware of their responsibilities and have promised to provide financial support for mitigation of emissions and for adaptation measures in developing countries. By 2020, the annual contributions to international climate financing, which are to be mobilised through both private and public channels, should amount to USD 100 billion (Copenhagen Accord).

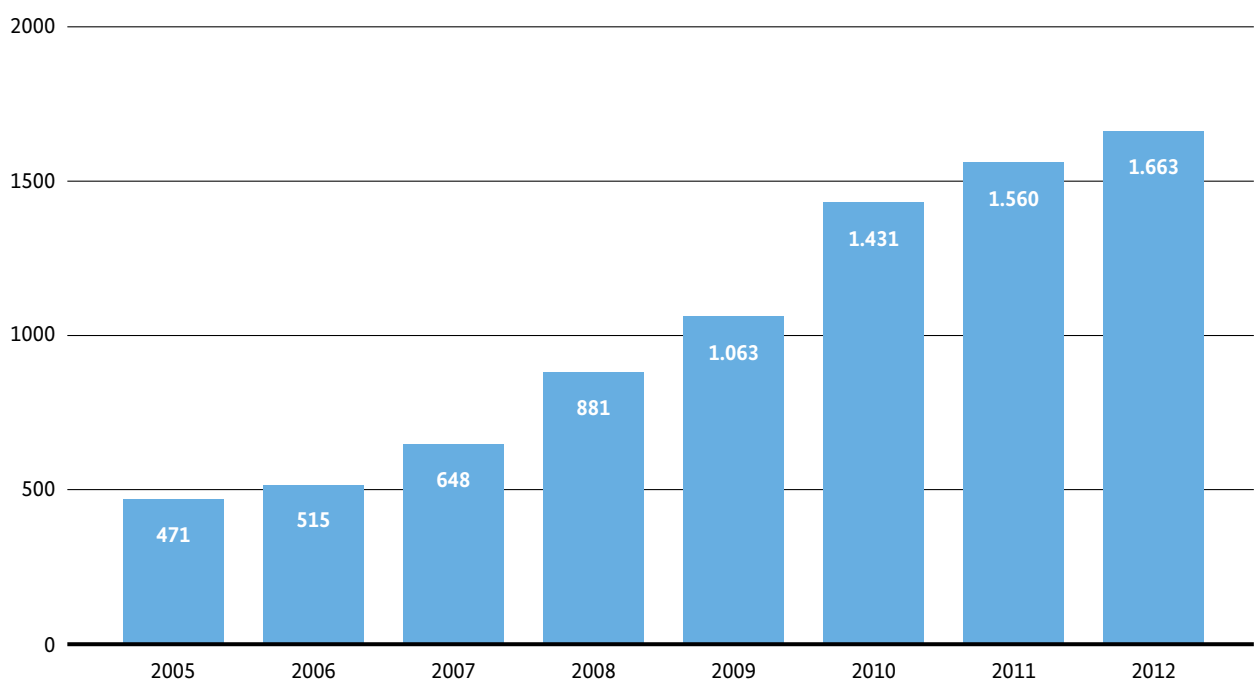
The Green Climate Fund (GCF), whose creation was agreed at the Cancún Climate Conference, will be a pivotal instrument for multilateral climate financing. The structure and operation of the Fund are currently being elaborated by its Board. The Fund is intended to support a paradigm shift redirecting development onto a low-carbon and climate-resilient path, thereby promoting the objectives

of the United Nations Framework Convention on Climate Change (UNFCCC). Its purpose will be to channel funds mobilised by industrialised countries to developing countries and emerging economies, and to ensure their efficient and transparent use. It is important that the necessary expertise and technical prerequisites for the receipt of payments into the Fund be established as soon as possible, so that the Fund can begin its supportive activities.

### Germany – a reliable partner for climate financing

Both domestically and in the context of international negotiations, Germany has long been committed to sustained and ambitious reductions in greenhouse gas emissions, and supports the adaptation activities needed to cope with the changes already occurring in the climate. Consequently, the German Government has for many years been one of the biggest donors to developing countries and emerging economies in the fields of climate protection and climate change adaptation. In recent years it has been consistently expanding its commitments in this area.

**German international climate financing 2005 – 2012 (in million EUR)**



\* Actual figures: commitments for all bilateral projects except Energie- und Klimafonds (Energy and Climate Fund, EKF), disbursements for EKF and multilateral projects



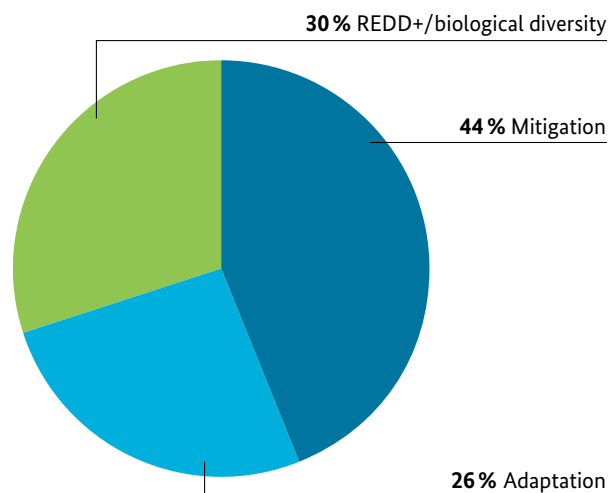
In 2005, the combined funding for climate financing purposes from the German Federal Ministry for Economic Cooperation and Development (BMZ) and the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) amounted to about EUR 470 million. In only seven years this figure increased more than threefold to EUR 1.66 billion (2012). According to OECD DAC statistics, Germany is the second largest donor worldwide in this field, after Japan.

The German Government contributed extensively to the Fast-Start Financing for the period 2010–2012, which was agreed to by the industrialised countries in Copenhagen in 2009. With its contribution of EUR 1.29 billion, Germany even exceeded its commitment.

During the COP 18 in Doha 2012, Germany announced an increase in its available budget for international climate financing to around EUR 1.8 billion in 2013. It is expected to reach that target.

German climate financing consists of funding for the mitigation of greenhouse gas emissions, adaptation to the consequences of climate change, and the reduction of emissions from deforestation and forest degradation (REDD+)/protection of biodiversity. The aim is to distribute funds evenly between these areas. To achieve that, in recent years Germany has placed higher priority on adaptation measures and REDD+/biodiversity projects. As a result, their share of the total funding has risen since 2010. In 2012, 26 % of funds were allotted to bilateral projects supporting adaptation, 30 % went to projects in the field of REDD+/biodiversity, and 44 % to mitigation activities. Chapter 2 takes a more detailed look at the increasingly important topic of financing for adaptation measures.

#### German bilateral climate financing in 2012, by sector

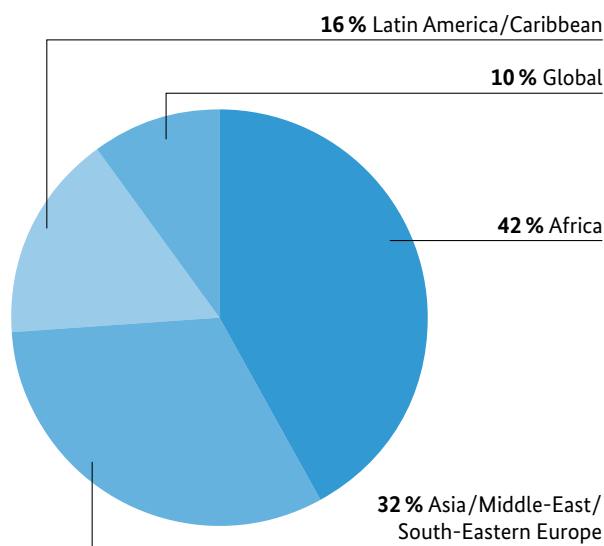


Energie- und Klimafonds (Energy and Climate Fund, EKF) funds for 2012 are not included in the diagram

German climate financing is used to support projects in developing countries and emerging economies all around the world. In 2012, 42 % of Germany's bilateral climate financing was channelled to Africa, while 32 % went to Asia, the Middle East and South East Europe, and 16 % to Latin America and the Caribbean. A further 10 % of projects were regional or global in nature.



### German bilateral climate financing in 2012



Energie- und Klimafonds (Energy and Climate Fund, EKF) funds for 2012 are not included in the diagram

Meanwhile, Germany is also pursuing ambitious climate and energy policies of its own, thereby demonstrating that effective climate policies can go hand-in-hand with economic growth. With its planned major energy transformation (known as the 'Energiewende'), Germany is promoting a very determined programme of reforms, the aim of which is to ensure the country's energy supply is derived from predominantly renewable sources by 2050. Measuring against the levels of 1990 as the base year, Germany aims to have reduced its emissions of greenhouse gases by 40 % in 2020, 55 % in 2030, 70 % in 2040, and finally by 80–95 % in 2050. Today, 25 % of the electricity supply is already generated from renewables and greenhouse gas emissions have fallen by around 25 % compared to the 1990 level.

Germany will remain committed to providing international climate financing commitments to developing countries and emerging economies. At international climate negotiations, it will also remain a strong advocate of a reliable, efficient and effective international climate financing architecture. An area of special focus is currently the development of the Green Climate Fund (GCF), to which Germany is an ardent member of its Board. The Fund's capital is to be built up as rapidly as possible, with financial contributions also coming from Germany. So that countries can benefit from the instruments of the GCF as quickly as possible, Germany has launched an initiative of bilateral support for partner countries, providing them with assistance in their preparations to access the GCF, where there is demand. The following chapter on climate finance readiness provides more information about this initiative.





# Climate finance readiness

## The challenge

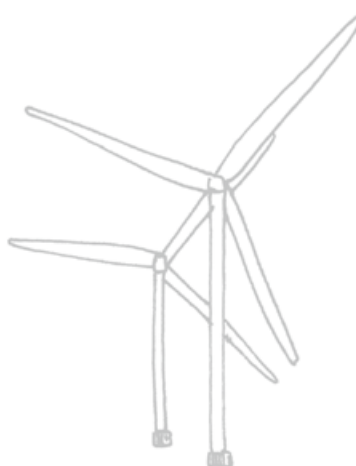
The Green Climate Fund (GCF), which is currently being set up, will become a central pillar in the evolving global climate finance architecture. Developing countries and emerging economies will be able to access funding from the GCF to support their mitigation and adaptation programmes. The Fund's aim is to promote a paradigm shift towards low-emission and climate-resilient development.

The GCF is expected to achieve great effectiveness and efficiency, and to have an extensive transformational impact. It will also uphold demanding international environmental, social and fiduciary standards. This presents opportunities as well as challenges for both developing and donor countries. Some implementing institutions might find it difficult to meet the necessary standards for directly accessing GCF resources.

Recipient countries will therefore need to demonstrate that they possess the appropriate institutional capacities, while pursuing suitable national strategies, programmes and projects. It is important that they build up the appro-

priate institutional structures and establish their capacities for coordinating climate activities. Implementing entities must also ensure compliance with the required fiduciary standards and provide the necessary environmental and social safeguards. Countries will also need the capacities to develop low-emission, climate-resilient development strategies, and to devise programmes and projects that have a transformational impact – in both the public and private sectors.

Given the importance of early action and expedient access to resources, activities should begin as soon as possible to support countries in their preparations and ensure their readiness. This will also allow countries to feed the lessons they learn back into the ongoing design of the modalities and procedures of the GCF. Developing countries gain general benefits from readiness measures, in terms of the planning of national transformation strategies. Efforts to improve countries' readiness should be seen as 'no-regret' measures, since they prepare countries for the efficient use of climate finance and support them in pursuing a strategic approach to climate change, irrespective of the source of climate finance.



Many countries have now expressed an interest in capacity development measures and technical assistance to enable them to benefit from the GCF.

## The German GCF readiness programme

The German Government is committed to the objectives of the GCF and offers assistance to a limited number of partner countries. As announced at the COP 2011 in Durban, Germany is making EUR 40 million available for readiness support. Activities undertaken to prepare countries for the GCF will be closely coordinated with the Fund itself, in line with its policies and its ongoing development. To ensure the best possible coordination, BMU has invited the United Nations Environment Programme (UNEP), the United Nations Development Programme (UNDP) and the World Resources Institute (WRI) to carry out elements of the GCF Readiness Programme. Meanwhile, BMZ has entrusted the implementation of its parts of the programme to the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and KfW Entwicklungsbank.

The programme offers customised, long-term capacity development and technical assistance. This support is structured into the following components.

**Institutional support (e.g. for direct and international access):** The German GCF Readiness Programme builds up management and technical capacities in national climate finance institutions and national coordination bodies, thereby enabling them to access and implement climate finance successfully and self-reliantly. In particular, the programme will assist a number of institutions in acting as national designated authorities (NDAs), and it will support other institutions in gaining accreditation as national implementing entities (NIEs) under the direct access modality of the GCF. 'Direct access' describes the situation in which domestic institutions (e.g. development banks) in developing countries and emerging economies can obtain

and administer financial resources directly from the Fund. To become accredited as NIEs, some institutions will need to build up their capacities to fulfil the selection criteria, and they may need assistance with the application process.

The programme offers targeted capacity development activities to the prospective NIEs selected by the recipient countries. These measures will serve to establish 1) the selection criteria for investment projects, 2) the requisite fiduciary standards, and 3) the relevant environmental and social safeguards.

A further goal, pursued independently of any efforts to secure direct access, is the rapid creation in partner countries of an institutional framework that will enable them – initially at least – to use the international access modality for the implementation of projects.

**Strategic advice:** The programme will provide advice on updating and implementing national climate strategies and policy packages aimed at ambitious, climate-resilient, low-carbon development. To develop strategies as a basis for funding decisions, it is important to identify clear priorities and articulate financial needs. It is also necessary to establish links with and between national and sectoral climate strategies, and to integrate these into development strategies.

Establishing ties between climate activities and development activities will enable countries to pursue a more coherent approach. This is one of the keys to achieving the visionary goals of the Green Climate Fund.

**National GCF investment plans and related projects:** Here the aim is to support the development of a pipeline of bankable projects for the GCF through national investment plans in key sectors. This includes analysing barriers to investment and providing technical, financial and economic advice for the evaluation of investment proposals. Pre-feasibility studies may be financed for the most promising project proposals.



#### **In-country tracking systems for climate monitoring:**

The programme will assist its partners in setting up tracking systems for the monitoring of climate finance and to assess its effectiveness.

#### **Global exchanges on climate finance and GCF readiness:**

National and international workshops organised by the German GCF Readiness Programme will provide a platform for partner countries to share their experiences with respect to climate finance readiness. They will also collect lessons learnt, which can be fed back to the GCF Board. Regional workshops held in the partner countries themselves will make possible the direct exchange of experiences between countries that share a similar context.

In addition to these components, the programme is active in the field of knowledge management, processing and evaluating experiences of climate finance readiness in order to provide other countries and institutions with important information on the topic.

## **A customised approach**

The activities of the German GCF Readiness Programme will be based on an initial assessment in each country of the challenges and barriers affecting access to climate finance and its efficient use. These assessments will be conducted in close collaboration with the respective partner countries.

Measures will be customised to provide the best possible support for each country's needs, and they will be an ideal complement to existing programmes in this field. They will be carried out in a results-oriented manner, based on the use of specific milestones and indicators. In doing so, it is a very important principle of the programme that the partner countries should be able to take ownership of their own change processes.

In each country the programme will work with the key domestic stakeholders with responsibility for access, management and monitoring of climate finance. These include institutions such as ministries of environment, finance, energy, development and planning, as well as other public institutions and local government bodies relevant to climate change activities. The programme will also collaborate with institutions that hold fiduciary responsibility for national and international funds.

The projects and programmes of BMZ and BMU operate in different countries but they share the same goals and work in close cooperation.





# Adaptation support

## The challenge

Financial support for adaptation to the impacts of climate change in developing countries is one of the core issues of the climate negotiations under the United Nations Framework Convention on Climate Change (UNFCCC). The parties to the UNFCCC are acting to fight climate change, while also taking measures to adapt to its present and future impacts. Established in 2010 under the auspices of the UNFCCC, the Cancun Adaptation Framework offers a wide range of instruments to enhance international action on adaptation. At the same time, important sources of financing for adaptation measures are also available through other multilateral, bilateral and regional channels. Germany has long been an active supporter of the efforts developing countries are making to adapt to the impacts of climate change.

## Status of adaptation support for developing countries

Estimates vary widely regarding the cost of adaptation in developing countries, but they all exceed by far the considerable efforts these countries are currently making, or the international support available. This means that, even after using their own resources, developing countries will need substantial support for their adaptation efforts.

Around the world, official development assistance (ODA) provided for climate-related activities almost doubled from USD 9.5 billion to USD 17.1 billion, between 2009 and 2011. Funds for adaptation measures, which account for a third of overall funding, increased proportionally during that period. In addition, multilateral development banks provided USD 4.2 billion in adaptation support in 2011. The main regions in which international adaptation support is concentrated are sub-Saharan Africa, the Asia-Pacific region, Latin America, the Caribbean, the Middle East and North Africa.

<sup>1</sup> <http://www.oecd.org/dac/stats/FactsheetRio.pdf> · [http://www.oecd.org/dac/stats/factsheet%20on%20climate%20change\\_update%202013.pdf](http://www.oecd.org/dac/stats/factsheet%20on%20climate%20change_update%202013.pdf)

<sup>2</sup> <http://www.worldbank.org/content/dam/Worldbank/document/Joint%20MDB%20Report%20on%20Adaptation%20Finance%202011.pdf>

A number of multilateral funds have been set up to support adaptation in developing countries, which have already been supplied with fund capital and are now disbursing funds for specific activities:

Fund	Overall contributions (in million USD) <sup>3</sup>	German contributions (in million USD/EUR)
Least Developed Countries Fund (LDCF)	775	220/165
Special Climate Change Fund (SCCF)	368	160/120
Pilot Program for Climate Resilience (PPCR)	1,300	66/50
Adaptation Fund (AF)	341 <sup>4</sup>	14/10

Germany is by far the biggest contributor to the LDCF and the SCCF. Together, these two funds are responsible for most of the financial support for adaptation provided through the financial mechanism of the UNFCCC. Germany has also contributed to the AF and the PPCR. In the future, a significant proportion of any new multilateral funding for adaptation purposes is expected to flow through the Green Climate Fund. Germany remains committed to getting the Fund operational as quickly as possible, with adaptation as one of its core areas of work.

Interventions to promote climate resilience call for financing through grants and loans, as well as technical assistance and adapted insurance solutions. Adaptation measures include steps to integrate climate change into planning processes, disaster prevention and risk-reduction measures. They also include climate insurance mechanisms for the transfer of risk, which help to manage the residual risk that cannot be addressed efficiently through the prevention and risk-reduction measures (loss and damage).

Recent initiatives, such as the Caribbean Catastrophe Risk Insurance Facility and the African Risk Capacity, show that these approaches can also benefit poor communities. Collective insurance mechanisms and microfinance can be used in a targeted manner to help poor people and communities adapt to climate change.

## The German response

In recent years, Germany has significantly stepped up its support for adaptation activities in developing countries, increasing its financial contributions from EUR 335 million in 2010, to EUR 614 million in 2012. Besides its multilateral contributions, Germany provides a large part of its support through bilateral cooperation with its partner countries. In 2012, it invested about EUR 231 million in particularly vulnerable countries, i.e. least developed countries, small island developing states and African countries.

Climate change adaptation is closely related to sustainable development as a whole. There is a need to analyse the impacts of, and vulnerabilities to climate change, after which specific adaptation measures have to be planned and integrated into national development plans. Then these measures must be implemented, monitored and evaluated. Until now, Germany has provided most of its support in sectors like water, agriculture and health, and for areas such as natural resource management (including forests), climate-resilient economic development, disaster risk reduction, insurance projects and ecosystem-based adaptation. Germany maintains a differentiated portfolio of cooperation activities in each of its partner countries, tailored to suit those countries' specific needs and capacities.



<sup>3</sup> until Oct. 15, 2013

<sup>4</sup> Including CER proceeds, contributions from donors and investment income from undisbursed funds.



## Project examples

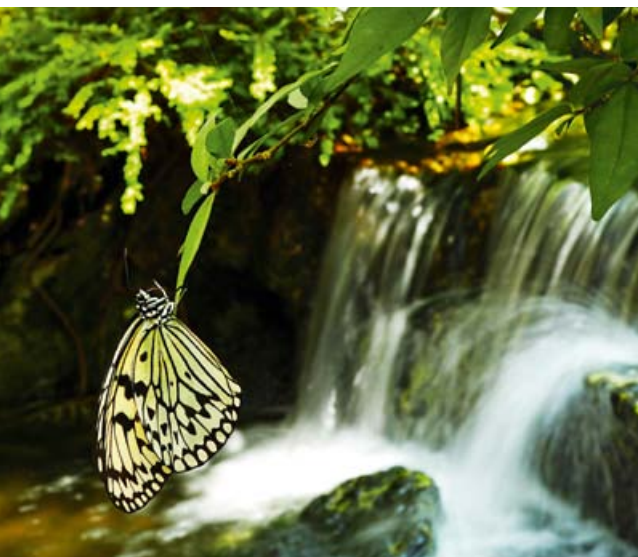


### West Africa: Regional adaptation finance pool

- **The challenge:** Only limited adaptation financing is available for West African countries.
- **The response:** Germany provides its partner, the West African Development Bank (BOAD), with grant funding that it can use to offer low-interest loans to the governments of its member states. The funds are used for adaptation projects related to agriculture, natural resources management, drainage and flood protection.
- **Volume:** EUR 10.9 million

### Bolivia: Water storage and irrigation

- **The challenge:** Agriculture is by far the largest single consumer of water in Bolivia. The country's water resources are coming under increasing strain due to melting glaciers and changing weather patterns, with phenomena such as droughts.
- **The response:** At a time when precipitation levels are expected to change, Germany is supporting the expansion of water storage systems and improvements in the efficiency of irrigation systems.
- **Volume:** EUR 12.9 million



### Global: Ecosystem Protection for Infrastructure and Communities (EPIC)

- **The challenge:** Significant gaps exist in our understanding of the role of ecosystems as protective barriers against climate-induced hazards, or about the effectiveness (impacts and costs) of simple ecosystem-based practices for reducing the direct and indirect risks of such hazards at the local level.
- **The response:** In an innovative approach that involves five case studies in Nepal, Chile, Thailand, China and Burkina Faso/Senegal, a consortium of international non-governmental organisations and universities is working to identify and comprehensively document the many benefits of ecosystem-based practices. This will provide stakeholders around the world with an improved basis for decision making.
- **Volume:** EUR 4 million



### Caribbean: Climate risk adaptation and insurance

- **The challenge:** Poor people and small businesses in Jamaica, St. Lucia, Grenada, Belize and Guyana are severely affected by extreme weather events and other impacts of climate change. Their assets are increasingly at risk, which constitutes a significant obstacle to development.
- **The response:** Implemented by the Munich Climate Insurance Initiative, the aim of this project is to find ways of safeguarding low-income population groups in the Caribbean against the impacts of climate change, and of managing weather-related risks such as hurricanes and droughts. It is working to design and introduce financial products that combine risk reduction with climate risk insurance.
- **Volume:** EUR 2 million



## The outlook for adaptation support

The demand for adaptation measures is high and continues to grow; it will inevitably require further increases in international support. Public funding will continue to supply the bulk of investments in adaptation, particularly for efforts aimed at the most disadvantaged population groups, as these rarely provide a financial return on investment. Another way of increasing the volume of adaptation finance is to extend financing modalities beyond grants in sectors which have a clear link to sustainable economic development. In the future, Germany will engage actively in efforts to develop and scale up new responses to climate change, such as risk finance, payments for ecosystem services, partnerships with the private sector, and the provision of loans for adaptation measures at subsidised interest rates.

National adaptation plans (NAPs) are to be developed as the basis for each country's efforts to meet its own specific medium and long-term adaptation objectives. These plans could contribute to a more systemic approach to adaptation financing. Programme-based approaches or sector programmes are potential channels for financing the development and implementation of NAPs.

Germany also supports efforts to enhance the overall understanding of adaptation effectiveness. After all, if they are to invest in adaptation and integrate it into economic development, decision makers at all levels need hard facts.

Robust monitoring and evaluation of adaptation activities are also important prerequisites for the accreditation of financial intermediaries and implementing entities. As such, they are essential for any countries that want to access climate funds directly.

Studies on the economics of adaptation to climate change in 18 different locations worldwide have shown that early investment in climate resilience is far more cost-effective than post-disaster relief<sup>5</sup>. Investing in adaptation measures can help avoid a large proportion of potential future losses. Moreover, alongside its adverse impacts, climate change can also create new business opportunities. To complement private sector initiatives, such as those offered by the UNFCCC and the PPCR, Germany will expand its bilateral efforts to inform and engage with the private sector.

To sum up, support for adaptation has increased significantly in the last few years and valuable lessons have already been learnt. However, there is still a need to intensify global efforts even further. Successful adaptation requires the commitment of both the public sector and the private sector at local, national and international levels. It will also necessitate a more structured and diversified approach in terms of the international support for adaptation.

Germany has already invested significantly in its support for developing countries' adaptation efforts, and it will continue to do so.

<sup>5</sup> [http://media.swissre.com/documents/rethinking\\_shaping\\_climate\\_resilient\\_development\\_en.pdf](http://media.swissre.com/documents/rethinking_shaping_climate_resilient_development_en.pdf)

## List of abbreviations

<b>AF</b>	Adaptation Finance
<b>BMU</b>	German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety
<b>BMZ</b>	German Federal Ministry for Economic Cooperation and Development
<b>COP</b>	Conference of the Parties
<b>EKF</b>	Energie- und Klimafonds
<b>GCF</b>	Green Climate Fund
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit
<b>KfW</b>	Kreditanstalt für Wiederaufbau
<b>LDCF</b>	Least Developed Countries Fund
<b>NAPs</b>	National Adaption Plans
<b>NIEs</b>	National Implementing Entities
<b>PPCR</b>	Pilot Program for Climate Resilience
<b>REDD+</b>	Reducing Emissions from Deforestation and Forest Degradation
<b>SCCF</b>	Special Climate Change Fund
<b>UNEP</b>	United Nations Environment Programme
<b>UNDP</b>	United Nations Development Programme
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>WRI</b>	World Resources Institute

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