SUBMISSION BY LITHUANIA AND THE EUROPEAN COMMISSION ON BEHALF OF THE EUROPEAN UNION AND ITS MEMBER STATES

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Subject: **Strategies and Approaches of the EU and its Member States for mobilising scale-up climate finance towards the developed countries' goal to jointly mobilise USD 100 billion**

This submission contains information on strategies and approaches of the EU and its Member States for mobilising scaled-up climate finance towards the developed countries' goal to jointly mobilise USD 100 billion per year by 2020 in the context of meaningful mitigation actions and transparency on implementation.

Key Messages

- At COP 16 in Cancun in 2010, Parties agreed to the goal of limiting the global average temperature increase to a maximum of 2^{o}C above pre-industrial levels. Climate finance is an important element toward reaching this goal. Scaling up climate finance by 2020 will be an iterative process. Ambitious domestic climate strategies, policies and conducive regulatory frameworks will stimulate climate change actions and concrete viable projects. Therefore, scaling up climate finance will need to go hand in hand with solid preparatory work for scaled-up, effective action and improved enabling environments, including by developing countries.
- The EU and its Members States remain committed to contribute their share of the developed countries' goal to jointly mobilise USD 100 billion per year by 2020 from a wide variety of sources public and private, bilateral and multilateral, including alternative sources of finance and in the context of meaningful mitigation and transparency on implementation. The mobilisation of climate finance requires global participation and fair burden sharing among developed countries.
- Mainstreaming climate policy into public and private investment is crucial to increase low carbon and climate resilient investments while phasing down high carbon investments. Therefore, development and climate finance, both for adaptation and mitigation, are intrinsically linked. Achieving synergies between Official Development Assistance (ODA), other official flows and climate finance will be crucial.
- It is essential that national governments take the lead in designing and implementing climate policies as a basis for enhanced action and enhanced support. Scaled up climate finance should be used to shift development towards a low-emission climate resilient path.

- The most sustainable and effective strategies for scaling up climate finance will draw on a wide variety of sources. The EU and its Member States have a range of strategies and approaches in place to unlock the potential of different sources and will continue to enhance them. They will provide some of the components of pathways to scaled-up climate finance.
- Public climate finance has played and will continue to play an important role. The EU and its Member States continue to provide public climate finance, despite being subject to tight budgetary constraints, which together with public policy measures will be key to catalysing larger financial flows. The EU and its Member States exceeded their Fast Start finance commitment to provide EUR 7.2 billion. Furthermore, the EU and several Member States announced in Doha voluntary climate finance contributions adding up to EUR 5.5 billion from their respective financial provisions. The EU and its Member States encourage other developed country parties to provide their fair share of public climate finance.
- The EU and its Member States see private finance as key to scaling up levels of climate finance, but not as a substitute for public finance where public finance is needed. Private finance and investment will be pivotal to achieve long-term transformation of developing countries into low-carbon and climate-resilient economies. The EU and its Member States are working constructively to develop public interventions that mobilise private sector finance for climate actions. There is a need to continue sharing experiences and best practices on the efforts by developed countries to mobilise private finance.
- Carbon pricing is a tool which could be used to reach the overarching objective of reducing greenhouse gas emissions to limit global warming, as it can provide the incentives to (re)direct investment in support of that ambition. The EU and its Member States welcome and support the implementation of carbon pricing at the global level. Carbon pricing is furthermore an important part of an enabling environment for fostering private sector mitigation activity.
- Carbon pricing may in some cases represent an innovative source of finance that contributes to the overall climate finance goal, although it is up to each Party to determine the use of public revenues in accordance with national budgetary rules and in consistency with a sound and sustainable public finance policy framework.
- Financing adaptation actions to make development strategies and livelihoods climate resilient is essential. Parties should mainstream adaptation into economic development strategies and make use of the many synergies between mitigation and adaptation financing.
- The variety of sources counting towards the USD 100 billion goal will demand a robust and harmonised MRV framework and the development of clear definitions to ensure the necessary transparency and trust. Proper accounting and transparency can also help to increase the effectiveness of the sources provided. Further work should build on existing reporting systems, while taking into consideration cost-effectiveness and feasibility. In the same spirit, the EU and its Member States also emphasise the need to advance towards an agreed definition, accounting and monitoring of private climate flows and express their strong support to on-going research on this crucial matter, among other by the Research collaborative group hosted by the OECD.

Contents

1. Context

In Cancun, the Parties agreed to the goal of limiting the global average temperature increase to a maximum of 2°C above pre-industrial levels, which requires mitigation action by both developed and developing countries. Climate change is a collective problem, which can only be resolved if developed and developing countries work closely together. The EU and its Members States remain committed to the developed countries' goal to jointly mobilise USD 100 billion per year by 2020 in the context of meaningful mitigation and transparency on implementation. This funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance.

The EU and its Member States has a strong track record on delivery of climate finance, including fast-start finance. As part of the Fast-Start Finance (FSF) commitment by developed countries of USD 30 billion, the EU and its Member States committed to providing EUR 7.2 billion over the period 2010-2012. Despite the difficult economic situation and tight budgetary constraints, the EU and its Member States more than fulfilled their commitment by providing EUR 7.34 billion of FSF over that period, as reported in the submission to the UNFCCC in May 2013. The EU and its Member States have been significant contributors to the funds of the Convention and the Kyoto Protocol. For the GEF-5 (Global Environment Facility) replenishment (covering the period 2010-2014), sixteen EU Members States altogether contributed 53% in new funding out of the total amount of 2.277 billion Special Drawing Rights (SDR). For the SCCF (Special Climate Change Fund), the cumulative contribution by end January 2013 of ten EU Member States was 67% of the total amount of USD 259 million. For the LDCF (Least Developed Countries Fund), the cumulative contribution by end January 2013 of sixteen EU Member States was 74% out of the total amount of USD 605 million. For the Adaptation Fund, five EU Member States have contributed 92% of the total of USD154 million provided so far in voluntary contributions from donors. Some of these contributions to the funds of the Convention and the Protocol were counted as FSF by the respective Member States.

2. Climate Finance Flows

The most sustainable and effective strategies for mobilising scaled-up climate finance are likely to draw on a wide variety of sources that target different activities and/or market failures. In aggregate, this variety of sources can increase the overall predictability of climate finance.

Sources can be mobilised collectively or individually by the EU and its Member States, according to their national budgetary rules, circumstances and experience. Therefore, the EU and its Member States are exploring ways to cooperate internally and with other actors and institutions to create synergies in climate financing efforts, whilst recognising that it is not feasible or efficient for all actors to offer all forms of climate finance. Furthermore, economic conditions are still challenging in a number of EU Member States, constraining the level and type of instrument that can be applied by some Member States in the short term.

Progress towards the USD 100 billion goal requires a context of meaningful mitigation action. Developing countries' low emission and climate resilience strategies and their integration and prioritisation of mitigation and adaptation action in national development or poverty reduction strategies and budgetary planning are all important for informing the planning of developed countries' climate finance mobilisation. Pathways for scaling up climate finance of the EU and its Member States towards 2020 will be an iterative process in close partnership with recipient countries. Ambitious domestic climate strategies and policies and conducive regulatory frameworks will stimulate climate actions and concrete viable projects, which will stimulate scaled-up climate finance and vice versa. This can trigger a virtuous circle of more ambitious climate action and more climate finance. Experience shows that countries with a sound climate policy framework are well positioned to attract international and domestic climate finance. Therefore, scaling up climate finance will need to go hand in hand with solid preparatory work for scaled-up, effective action and improved enabling environments.

The EU and its Member States are already mobilising various sources of climate finance, examples of which are provided in the relevant sections below. The approach of the EU and its Member States is based on collaboration with other parties on this agenda, most notably with other developed countries and International Financial Institutions (IFIs).

In order to maximise overall climate finance, the EU and its Member States reiterate their call for emerging economies to contribute to financing of climate change in line with their respective responsibilities and capabilities.

2.1 Public Climate Finance

Public climate finance has played and will continue to play a key role, particularly in areas where the private sector is reluctant to engage. The EU and its Member States continue to provide public finance to support mitigation and adaptation actions in developing countries, both for specific climate activities and through the mainstreaming of climate change considerations into a wide range of instruments for supporting sustainable development actions and investments. Indeed, the EU and several Member States announced in Doha voluntary climate finance contributions adding up to EUR 5.5 billion from their respective financial provisions.. Against this background and recalling paragraph 63 of Decision 1/CP.18, the EU and its Member States ask other developed countries parties to also continue their financial support beyond the fast-start period.

Public climate finance can be contributed via bilateral and multilateral channels that are further described in sections 2.1.1 and 2.1.2 below. It can include inter alia: direct grants, loans, guarantees and risk sharing mechanisms. Public climate finance can also be a means of delivering technical assistance to developing countries to build capacity and improve enabling environments.

For the EU and its Member States, enhancing the effectiveness of public contributions to fight climate change is key, especially in current economic conditions, where public funding sources are constrained by the need to ensure sustainable public finances. Aspects of improving effectiveness include;

a) Mainstreaming climate change in public financing flows is essential to ensure coherence and consistency of both Official Development Assistance (ODA) and Other Official Flows with the below 2°C goal, taking into account the need for balance between mitigation and adaptation and

b) Increasing the impact of public financing flows for climate change whether through direct mitigation and/or adaptation outcomes, or through supporting longer term transformation to low carbon climate resilient development. Leveraging private finance through strategic investment of public finance is another way of increasing the impact of public finance. This is further discussed in section 2.2.

2.1.1 Bilateral channels

The EU and its Member States continue to provide bilateral public finance to support mitigation and adaptation actions in developing countries. A number of Member States are making plans to further mainstream climate considerations into wider Official Development Assistance (ODA).

Some examples of continuous public finance activities by the EU and its Member States are as follows:

e.g. This year EU Heads of State and Government agreed under the Multi-annual Financial Framework for 2014-2020 that climate action objectives will represent at least 20% of EU spending in the period 2014-2020 and therefore be reflected in the appropriate instruments to ensure that they contribute to strengthen energy security, building a low-carbon, resource efficient and climate resilient economy. This comprises spending inside and outside the EU.

e.g.: **Ireland**: **Irish Aid** is working with the World Meteorological Organisation and the National Meteorological Agency of Ethiopia to generate and distribute accurate, timely and user-friendly agri-met data to smallholder farmers in the Tigray Region of Northern Ethiopia. Irish Aid currently supports an operational research programme in Tigray which has been successful in involving farmers in the region to test and trial drought-resistant crop varieties and climate smart agricultural techniques while making best use of existing local knowledge and local technologies. Farmers involved in the operational research programme, which itself was built on the success of a community-based watershed management project that was piloted with Irish Aid support a number of years ago, will form the basis of the pilot programme currently being developed jointly by the Meteorological Organisation and the National Meteorological Agency of Ethiopia with funding from Irish Aid. The project is in its early stages yet, but further progress will be reported over the coming 12 months. (For more information, see Irish Aid website: http://irishaid.ie)

e.g.: **United Kingdom (UK)/Netherlands**: **The Adaptation Smallholder Agriculture Programme (ASAP)** is a five year initiative, implemented by the International Fund for Agriculture Development (IFAD), a specialised UN agency working on financing agriculture and rural development. The UK and the Netherlands will provide up to GBP 150 million and EUR 60 million respectively to this multi-donor initiative. ASAP will work in up to 40 developing countries, investing in practices and knowledge to help smallholder farmers adapt to the impacts of climate change, through small scale water-harvesting and storage, flood protection, irrigation systems, agroforestry, and conservation agriculture. This programme will also invest in strengthening farmers' access to better seeds, markets and information, and supporting their access to weather forecasts through use of text messages to know when best to plant and harvest crops. ASAP is expected to benefit six million smallholder farmers worldwide, many of which will be women. (For more information, see: http://projects.dfid.gov.uk/project.aspx?Project=202817)

e.g.: **UK**: The UK will provide GBP 20 million to support the **Nepal Multi-stakeholder Forestry Programme**, which will assist local forestry groups and institutions effectively, implement good governance, sustainable forest management and climate change adaptation, promoting sustainable management of forests and trees. This programme will build the capacity of local communities, supporting them to form forest user groups to ensure forest resources generated are shared equitably and inclusively between the members of the communities, with poor and excluded groups gaining disproportionately. The Nepal Multi-stakeholder Forestry programme is expected to increase the forestry sector's contribution to Nepal's GDP, reduce climate vulnerability of over half a million households and contribute towards lifting 1.7 million poor and disadvantaged people out of poverty. (For more information, see: http://projects.dfid.gov.uk/project.aspx?Project=200773)

e.g.: **UK/Germany: NAMA Facility**. The Nationally Appropriate Mitigation Actions (NAMA) Facility was launched by the UK Department of Energy and Climate Change (DECC) and the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) in December 2012. The UK has committed GBP 25 million to the NAMA Facility with Germany committing another EUR 40 million to co-finance the concrete implementation of transformational NAMAs in developing countries and emerging economies. NAMAs are bottom-up and voluntary climate protection projects, policies, or programmes that shift a technology or sector in a country onto a low-carbon development trajectory. This Facility will focus on those parts of the projects that are stretching and aspirational, and that are pushing to do much more than business as usual to mitigate the impacts of climate change. Germany's development organization GIZ and KfW are currently being commissioned with implementing the NAMA facility; partner countries and delivery organizations from around the world will be invited to submit proposals shortly. NAMA projects will be selected for support through an open competitive process, which will ensure that the best and most ambitious projects from around the world go forwards. (For more information, see: https://www.gov.uk/government/publications/information-about-the-nationelly-appropiate-mitigation-actions-nama-facility - or http://www.international-climate-initiative.com/en/issues/nama-facility/)

e.g.: **Germany: The program "Integrated Coastal and Mangrove Protection in the Mekong Provinces for the Adaptation to Climate Change" (ICMP/CCCEP)** is supporting Viet Nam in managing its coastal and delta-ecosystems in order to strengthen their resilience and reduce human vulnerabilities. Germany (BMZ) is contributing to this program with up to EUR 29,5 million in technical and financial cooperation. It is co-financed by the Australian Government's overseas aid programme (AusAID). Currently the program is working in five provinces with a population of roughly 6 million people and on the national level. It is implementing activities in the fields of coastal governance including climate change mainstreaming in development planning using the "climate proofing" approach, area management, sustainable livelihoods and environmental awareness. Among others, a major impact is coastal stabilization for rural areas through measures like mangrove rehabilitation and afforestation as well as technology transfer, e.g. the introduction of low cost wave breakers and sediment traps in close cooperation with German universities. The experiences made are exchanged among the provinces and feed a participatory and evidence-based policy development in particular regarding climate change mainstreaming, mangrove planning and management, hydrological management as well as payment for environmental services. (For more information, see: http://www.giz.de/themen/en/32339.htm)

e.g.: **Germany: The Ecosystem-based Adaptation (EbA) Flagship Programme** was launched at the UNFCCC COP-16 in December 2010 in Cancun. It is set up as a multi-donor trust fund administered by the United Nations Environment Programme (UNEP). Germany's Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) provided the first contribution of 10 million Euros (2010-2014) for an EbA programme in mountain ecosystems in Nepal, Peru and Uganda. It is implemented by a partnership of UNEP, the UN Development Programme (UNDP) and the International Union for Conservation of Nature (IUCN). The programme's underlying approach is to support countries and communities to adapt to the adverse impacts of climate change through improved biodiversity and ecosystem services, while taking into account risk management and resilience enhancement, as part of overall local and national level adaptation strategies. In addition, the EbA programme promotes the further conceptualization of EbA by bringing together various stakeholders working on EbA issues. It has also contributed to the decisions by the UNFCCC Decision 6/CP17 calling for a technical workshop of EbA under the auspices of the Nairobi Work Programme (NWP), which took place in Dar-es-Salaam, Tanzania, in March 2013. What emerged from the discussions was that the EbA Flagship Programme seems to provide an optimal avenue for consolidated and coordinated action and future work around EbA focusing both on practical implementation and development of relevant tools & methodologies. (For more information, see: http://www.ebaflagship.org)

e.g.: **Spain**: **The Iberoamerican Climate Change Offices Network (RIOCC)** is a platform for Iberoamerican countries that works with the aim of integrating climate change considerations into the highest political dialogue, exchanging lessons learnt and experiences and identifying common problems, solutions and priorities for the region. The RIOCC meets formally on an annual basis and promotes several regional capacity building workshops and regional studies in those areas identified as a priority for the countries. It also organises workshops to discuss matters such as the possible use of existing climate change funds (bilateral or multilateral) for specific activities and programmes on adaptation and mitigation to climate change in the region. The Spanish Climate Change Office has been acting as the secretariat of the RIOCC network and has been giving financial and technical support for most of its activities like the annual meetings, the regional workshops as well as the regional studies. (For more information, see: www.lariocc.es)

e.g.: **Sweden**: **The Swedish International Development Cooperation Agency** will continue to work with climate change as a mainstreaming issue. Examples of continued support include extreme weather insurance scheme designed to help African Union member states resist and recover from the ravages of natural disasters (the Africa Risk Capacity, http://www.africanriskcapacity.org/), climate proofing of water and sanitation systems in Bolivia, integration of climate change adaptation into the decentralised forest management in Mali, preparation of Asian countries' public finance systems in order to budget for and track climate finance.

e.g.: **France**: **The AFD (Agence Française de Développement) Group** has pledged to reach a high level of climate activity for 2012-2016: at least 50% of AFD's activity in developing countries and 30% of Proparco's activity (private sector arm) in developing countries will be dedicated to climate actions. For

AFD, these targets are broken down by geographical area: 70% in the Asia and Latin America regions, 50% in the Mediterranean region and 30% in Sub-Saharan Africa.-

2.1.2 Multilateral channels

Apart from the various bilateral initiatives undertaken by individual Member States, various multilateral channels (such as IFIs) also play an important role through which public finance is delivered. IFIs are, and will continue to be, an important vehicle through which public climate finance, including that of the EU and its Member States, can be channelled. They are also important institutions for scaling up climate finance and creating new channels of leveraging and mobilising finance through their ability to:

- channel capital raised from capital market towards climate relevant investments in accordance with their business models; -;
- leverage private investment by co-financing with the private sector; and
- assist developing countries in creating the policy and regulatory environments to attract private investment.

Moreover, with their established role in supporting developing countries' development objectives, mainstreaming climate change is of particular importance in the case of IFIs.

The impacts of climate change tend to compound or amplify the challenges of developing countries in addressing poverty and promoting economic growth. Therefore, the EU and its Member States would encourage IFIs to ensure that climate change is mainstreamed in the strategies and objectives of IFIs in a manner that is relevant and complementary to their core objectives. The EU and its Member States encourage IFIs to systematically reflect an adequate cost of carbon (GHGs), expected climate impacts and risks in project design and appraisal. An example of including climate concerns in appraisal is that of the European Investment Bank (EIB), which incorporates a carbon price of EUR 30/tCO2e rising over time to EUR 50/tCO2e in the central scenario in its economic project appraisal. The EIB and its objectives are further discussed below.

Some examples with a particular EU and/or climate interest are elaborated below.

2.1.2.1 Green Climate Fund (GCF)

The EU and its Member States want to see the expeditious operationalisation of the GCF as an innovative, cost effective and efficient fund that will support the paradigm shift towards low–carbon and climate-resilient development in beneficiary countries. The GCF should play a coordinating and catalytic role within the fragmented international climate finance architecture and strive to maximise transformational impact of its action in order to drive the necessary paradigm shift towards sustainable low carbon and climate resilient development.

In this perspective, the EU and its Member States consider that the GCF should play an important role in the support for readiness in strategies and approaches for mobilising scaled-up climate finance. However, the extent to which the GCF will be in the position to play such pivotal role depends on the efficiency of the business model and procedures eventually designed for the Fund, ensuring that the fund can deliver results and value for money.

e.g. **Germany**: **Green Climate Fund readiness programme**: Germany has committed to supporting developing countries in strengthening their national capacities to access the GCF, and to thereby help operationalise the GCF as soon as possible. Getting countries ready in terms of strategy, institutional capacity and project pipelines is a vital pre-condition for the GCF to have the transformational impact towards low-emission and climate resilient development. Germany will provide EUR 40 million for the GCF Readiness Programme to support the preparation of a number of developing countries to effectively and efficiently plan for, access, manage, deploy and monitor financing through the Green Climate Fund once it is fully operational. The programme offers needs-oriented capacity building support on all aspects of institutional and strategic preparation for the GCF, including preparation for the access modalities and expanding the capacity of partner countries' institutions charged with the implementation of GCF financed projects. It also includes support with strategic planning and the preparation of investment plans and the development of pipelines of suitable projects which can be funded by the GCF and setting up in-country monitoring tracking systems for climate finance and its effectiveness. It will disseminate lessons learned in the course of the implementation back to the GCF Board in order to support its work in designing the GCF operations. These readiness activities will be closely coordinated and in line with GCF policies and progress made in the design of the GCF.

2.1.2.2 European Investment Bank (EIB)

The EIB, whose shareholders are the 28 EU Member States, invests in support of the policy priorities of the EU and its Member States. The EU provides a budgetary guarantee to the EIB covering sovereign and political risks in connection with EIB loan and loan guarantee operations conducted outside the EU, in support of EU external policy objectives.

The EIB has a minimum annual target for climate action projects of 25% of its total lending volume. Thus, the EIB supports the EU's goals of low-carbon and climate-resilient growth. Overall, the EIB is one of the largest multilateral providers of climate finance among IFIs. The vast majority (86%) of climate action lending overall is related to investments in renewable energy, energy efficiency and sustainable transport. In recognising that developing countries are particularly vulnerable to current climate variability and to future climate change, the EIB is increasing the mainstreaming of climate resilience into projects. This includes providing technical assistance and appropriate planning measures as well as supporting specific adaptation investments such as flood control and defence measures. Flood prevention projects initiated in 2012, for example, are expected to reduce the risk of flooding for some 97,000 people. For the period 2013 - 2015 the Bank plans to further support EU policy goals in the area of climate change, with an on-going (but not exclusive) focus on energy projects for increased access to affordable and sustainable energy services.

The EIB's recently released climate strategy in external mandate countries foresees a more proactive approach in supporting "upstream" processes setting the framework for innovative climate projects (e.g. engagement in NAMA development, the Green Climate Fund, etc), including through strengthening its collaboration with the EU and its Member States, and with other IFIs. The EIB is undertaking more comprehensive work on emissions monitoring and reporting, on tracking climate financing flows, and on integrating carbon foot-printing into its strategic planning[1]. In 2011 and 2012, the EIB invested EUR 1.9 billion and EUR 1.6 billion, respectively, in climate relevant actions outside the EU, which corresponds to more than 25% of the EIB's lending mandate outside the EU.

2.1.2.3 EU and Member State Activities

A number of EU Member States are exploring strategic interaction with IFIs for the efficient and effective mobilisation of climate finance.

e.g.: **Germany:** Germany has used public resources to mobilise additional funds from the capital market through national and international public finance institutions (KfW and MDBs) and from private sector investors. Through various instruments, Germany reached EUR 2.6 billion climate relevant ODA flows through KfW development bank in 2012 (leverage ratio budget funds to KfW funds approx. 1:3.5). In addition, EUR 580 million climate relevant funds have been attained through DEG (DEG is comparable to IFC and to a large extent not ODA eligible). That makes a total of roughly EUR 3.2 billion (equivalent to USD 4.1 billion) of which a significant share has triggered additional private investments that holds inherently for DEG business and to certain extent in KfW development bank's mitigation portfolio.

[1] See: EIB Climate Strategy in External Lending Mandate countries – 2007-2013

http://www.eib.org/infocentre/publications/all/eibs-climate-strategy-outside-the-eu.htm

e.g.: **Climate Change windows under the EU Regional Blending Facilities:** Since 2007, the EU has set up a number of regional blending facilities: the EU - Africa Infrastructure Trust Fund (ITF) and Investment Facilities for the Neighbourhood (NIF), Latin America (LAIF) and Central and East Asia (IFCA and AIF). Through these facilities, all of which have support for climate change and adaptation actions as part of their strategic objectives, EU grants are "blended" with non-grant financing such as loans or equity to leverage funding for investment in infrastructure and private sector development. EU grant contributions in line with EU development policy related to climate action amount to some EUR 320 million and have leveraged almost EUR 3 billion of loans from European Finance Institutions, unlocking a potential total project financing volume of more than EUR 5 billion.

2.1.2.4 The International Finance Corporation (IFC)

The International Finance Corporation, part of the World Bank Group, supports climate financing in a number of ways. The IFC has had an active role in the carbon market over the past decade managing carbon facilities, providing up-front loans and advisory services. However, perhaps of most relevance in the context of mobilising climate finance is the IFC's involvement with the private sector. The IFC is the world's largest multilateral financial institution investing in private enterprises in emerging markets (EM). The IFC has invested in emerging market private equity funds since the 1980s. The IFC has become a significant player in the emerging market (EM) funds space, including in specific climate related projects – for example the IFC Catalyst Fund (part of the CP3 -Climate Public Private Partnership – platform). The IFC also provides advice to governments on designing and implementing Public Private Partnership transactions. The Netherlands have invested USD 20 million through the Netherlands-IFC partnership programme (NIPP-RE programme).

2.1.2.5 The global Climate Investment Funds (CIFs)

The global Climate Investment Funds (CIFs) are trust funds which aim to deliver large scale finance in the form of grants and loans to support developing countries' own plans for low carbon, climate resilient development. Funds are delivered through multilateral development banks such as the African Development Bank and the World Bank. The CIFs enable developing countries to pilot new, innovative and transformational approaches at scale. Approximately USD 7.6 billion has been pledged to the CIFs by 13 donor countries. This will leverage USD 43.6 billion from both public and private sources for low carbon, climate resilient projects in 49 developing countries. To date, the UK has provided over GBP 1 billion to the CIFs, the Netherlands have provided a total of USD 76 million through the SREP. Sweden

has provided approximately USD 138 million to the CIFs, France has contributed over USD 500 million, including USD 300 million of direct contribution to the Trust fund and more than USD 200 million of bilateral project co-financing. Germany has provided EUR 550 million. Spain has provided a total of EUR 73 million (EUR 50 million through the CTF and EUR 23 million through the SCF).

2.2. Mobilising Private Climate Finance

Private climate finance will be a key part of the USD 100 billion goal and can be an efficient and effective means to deliver many climate actions. The EU and its Member States see private finance as key to scaling up levels of climate finance, but not as a substitute for public finance where public finance is needed. The EU and its Member States highlight that private climate finance is not just a source of climate finance but is also central to achieving the paradigm shift towards low-emission and climate-resilient development pathways.

The scale of private finance that could potentially be unlocked for climate-related investments is substantial. For example, private climate finance to developing countries is estimated by the CPI at a level which is less than 1% of total OECD outflows of foreign direct investment (FDI) which amounted to USD 1 293 billion in 2011 (CPI, 2012, OECD, 2013[2]). To stay on track to our 2°C goal, the task is not just to direct some of these amounts towards 'green investment' but also to encourage a "climate check" for investment in high carbon assets or projects in order to eventually phase them down in favour of low or zero GHG options. In addition to work by public sector actors, private sector initiatives, such as the Institutional Investors Group on Climate Change (IIGCC), representing over USD 6 billion under management, aims to ensure that the risks and opportunities of climate change are addressed and reflected in investment practices and decisions[3]. A key issue for consideration is how to trigger a shift in private investments towards low-emission, climate resilient activities in developing countries' economies and what support is therefore needed, e. g. what support is needed for small and medium enterprises in developing countries to transform their investment.

The EU and its Member States are continuing efforts to develop and deploy instruments and approaches to mobilise private sector finance for climate measures. Interventions to mobilise private finance can focus on the enabling environment[4], elaborated in section 4, or on ensuring appropriate risk-return structures as below:

[2] CPI, Buchner et al. (2012) "Landscape of Climate Finance 2012", available at: <http://climatepolicyinitiative.org/> private sector investors from OECD contributed approx. USD 12.75bn of climate finance flows in developing countries in 2010/11. OECD estimates that outflows of FDI from the OECD were 1,293,347, OECD (2013); OECD Statistics. [online] Available at: http://www.oecd.org/statistics/ [Accessed 22 August 2013].

[3] http://www.iigcc.org/

[4] G20 (2011); "Climate Finance: Engaging the Private Sector". A background paper for the "Mobilizing Climate Finance" report prepared at the request of G20 Finance Ministers

a) **Appropriate return**

Usually private sector investors will only invest in low-emission climate resilient projects and activities if there is an adequate return on investment and they are comfortable with the associated risks. A part of setting the right incentives or framework conditions is the creation of an appropriate price on carbon / GHGs that internalises the cost of greenhouse gas emission externalities to inform decision making. This can be achieved through a carbon tax, an emissions trading system, fossil fuel subsidy reform or creation of national guidance which reflects the cost of carbon in appraisal of projects. However, in creating such structures it is important to pursue the clear objective of avoiding burdensome bureaucratic, time and cost consuming procedures. In case of market failures public interventions may be appropriate in order to influence the risk return profile. Developed countries' public sector experience can support developing countries in this, and examples undertaken by some of the EU's Member States are set out below.

Market interventions could include introducing concessional elements to financial products such as loans, equity, or risk sharing instruments. Examples include: interest rate subsidies, providing long maturity loans, or considering non-standard conditions to qualify for funding. Financial product innovations may also be considered where appropriate: for example, investment of 'patient' (long-term) capital is useful where returns exist but deployment may be delayed where money has to be tied up for a long period because it does not have the same liquidity requirements as the private sector. One innovation to be assessed for potential to attract the capital market is the "Green Bond" issued by MDBs.

b) Reducing risk

The private sector is usually limited in the type and magnitude of risk it can willingly accept in an investment. It can be the case that the public sector is better able to absorb certain types of risk that the private sector is neither willing nor able to bear. In such cases, a public intervention by a developed country to share or mitigate risk can be highly effective in mobilising private climate finance.

Risk absorption, including risk sharing and risk mitigation, is not without cost to the public sector and thus is also subject to public budgetary rules, which may restrict the amount of risk they can absorb. Nevertheless, some Member States and IFIs based in the EU are developing risk sharing and risk mitigation tools to engage the private sector in climate action in developing countries. Financial instruments that adjust risk-return ratios to attract private investment include for example:

- Debt-based instruments e.g. the provision of credit lines to commercial finance institutions (CFIs) for on-lending, where conventional CFIs are unwilling or unable to provide such financing themselves,
- Equity-based instruments include public investment in private equity and / or debt funds (potentially taking a 'first loss' position) or deal-flow facilitation in the form of project development facilities,
- Insurance products or guarantees may include covering sovereign risk (of policy change), "off-taker" or other contractual performance risk or, currency risk,
- Guarantees for banks or other private sector actors if their borrowers default. These can be structured in many different ways.
- Export credits: The risk balance for transactions in renewable energy, climate change mitigation and water projects[5], is likely to benefit from export credit insurance provided by the public sector in line with OECD criteria.

[5] As defined in the Sector understanding on export credits for renewable energy, climate change mitigation and water projects.

It is important that the various finance instruments target specific market failures and are carefully designed so as to not crowd out or over-subsidise the private sector.

Some examples of initiatives taken forward by Member States and the Commission on mobilising private finance are as follows:

e.g. **The Global Energy Efficiency and Renewable Energy Fund (GEEREF)** is a fund-of-funds that provides risk capital for small and medium scale investments in sustainable energy in developing countries. GEEREF invests in specialist renewable energy and energy efficiency private equity funds with a regional focus. To date investments have been made in Africa, Asia, Latin America and the Neighbourhood region, showing that private sector can be attracted also in countries with perceived high risks. The initial capital of GEEREF of EUR 112 million was almost fully invested in 2012 and fundraising has commenced to attract further private and public investors in order to scale up the initiative. The catalytic effect of GEEREF is significant by helping first time renewable energy and energy efficiency funds get started with assistance from the GEEREF Regional Fund Support Facility and by committing to invest at an early stage. At this stage, GEEREF has mobilised more than seven times its seed capital in its initial investments. This leverage factor is expected to further increase at project level (some projects achieved a leverage ratio of 47:1 for both equity and debt) as clean energy projects reach financial close and start producing renewable energy. Generally, the investments of GEEREF have achieved a high leverage factor in terms of private capital leveraged as well as in megawatt of renewable energy per Euro invested.

e.g. **Green for Growth Fund SE Europe**. The mission of the Green for Growth Fund **(GGF)**, Southeast Europe is to contribute, in the form of a public private partnership with a layered risk/return structure, to enhancing energy efficiency and fostering renewable energies in the Southeast Europe region including Turkey. This mission is reached predominantly through the provision of dedicated financing to businesses and households via partnering with financial institutions and direct financing. GGF is a unique public-private partnership established in December 2009 to promote energy efficiency in its target region and to reduce CO2 emissions. (For more information, see: http://www.ggf.lu)

e.g. **Germany: Global Climate Partnership Fund**. The Global Climate Partnership Fund (GCPF) is a structured public-private-partnership fund under private law that was initiated by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) and KfW within the International Climate Initiative (IKI). The fund mainly provides refinancing to local financial institutions to promote energy efficiency and renewable energy investments in emerging and developing countries. It also (co)-invests directly in stand-alone projects and provides technical assistance helping to design, set up and implement sustainable energy lending. Objective of the investments is a reduction in greenhouse gas emissions by at least 20% compared to the baseline situation. Until the end of 2012 GCPF has built up a global portfolio with partner banks of more than USD150 million and recently, has made one direct investment (a photovoltaic plant in South Africa).

Besides the two founding parties BMU and KfW, the Danish Ministry of Foreign Affairs, the IFC and Deutsche Bank became shareholders of the fund. In 2012 the fund successfully mobilised its first institutional private investor. Until the end of 2012 the total committed fund volume amounted to USD 234 million. GCPF aims for a fund volume of USD 400 million by 2016.

e.g. **Denmark**: **Danish Climate Investment Fund**: In 2012, the Danish Government established The Danish Climate Investment Fund. Through investment in developing countries and emerging markets the fund will contribute to reducing global warming and promote transfer of Danish climate technology. The Danish Government and the Danish Investment Fund for Developing countries (IFU) have injected DKK 275 million into the fund. The aim is a capital base of DKK 500 million – DKK 700 million. The remaining funds are expected to be provided by institutional investors. The Danish Climate Investment Fund can invest in a broad range of climate projects, including wind and solar parks, biogas plants, energy efficiency projects and upgrading of power and industrial plants. Irrigation systems and climate-friendly agricultural crops are also within the investment scope.

e.g. **Spain**: **COFIDES S.A.** is a state- and private-owned company that provides cost-effective medium and long term financial support for viable private direct investment projects undertaken by Spanish companies in foreign countries. The ultimate aim is to conduct a profitable business that contributes both to host country development and the internationalisation of Spanish enterprise and the Spanish economy. The resources at COFIDES' disposal to meet this dual objective include its own shareholders' equity, to back direct investment project located in emerging or developing countries, and the resources of the State-owned Fund for Foreign Investment (FIEX) and Fund for SME Foreign Investment Operations (FONPYME), managed by COFIDES, which enables the Company to support financially direct investment projects in any foreign country. COFIDES total financing capacity exceeds EUR 1 billion COFIDES has specific instruments related to environmental investments such as FINCARBONO and FINER. Certain projects currently co-financed by COFIDES own shareholder´s equity achieve leverage ratios between 7:1 to 10:1.

e.g. **Sweden**: **Sweden's Development Loans and Guarantees** provides new opportunities to expand and leverage available resources for developing countries that are in need of investments in areas such as environment and climate by linking grant aid with market finance. (For more information, see: http://www.sida.se/English/Partners/Private-sector/Collaboration-opportunities/Innovative-Finance-/)

e.g. **France**: **Climate Change Credit Lines**: Instruments (dedicated to local banks) which promote the financing of private investments that comply with climate friendly eligibility criteria; support the private companies in elaborating their green investments; help local banks to develop their climate strategy and climate finance portfolio and mitigate credit risk via the risk-sharing facility developed by AFD (ARIY guarantee mechanism). Cumulative commitments by AFD in the field of climate change credit lines have exceeded EUR1 billion in 2010 and continue on a strong growth path; tripling since 2007.

e.g**. France: (AFD Group) - Climate Change Programme Loans (CCPL):** Instruments to improve country attractiveness for national and international investments through the definition and setting up of efficient and ambitious climate friendly public policies and national strategies to fight climate change. Cumulative commitments by AFD on CCPLs represents EUR 1,215 million since 2008 for eight CCPLs. Other donors have also contributed by working on joint projects and new initiatives as well as sharing lessons and experiences on what interventions have been successful (and what hasn't). In this regard, lessons can be learned from the UN sustainable energy for all initiative and the clean air coalition.

e.g. **UK - Climate Public Private Partnership (CP3):** The UK will invest GBP110 million as an anchor investor in two commercial private equity funds, which will aim to leverage private co-investment. Investments will be made into renewable energy, energy efficiency, and clean technology projects in developing countries across the world. These funds will be run on a strictly commercial basis by professional fund managers and will create a track record of reliable, climate-friendly sub-funds that will help to facilitate follow-on investments in the climate market. In addition to the equity investment, up to GBP 20 million will be available for technical assistance to support the development of the project pipeline and facilitate pioneering projects. CP3 is expected to save an estimated 265mt of CO2e, generate more than 7,000 megawatts of clean, reliable energy and create an estimated 40,000 new jobs. (For more information, see: https://www.gov.uk/government/case-studies/climate-public-private-partnership-cp3)

e.g. **UK - Green Africa Power (GAP)**: The UK has developed GAP to tackle constraints to private sector investment in renewable power generation in Africa. GBP 95 million will be provided to capitalise GAP - a new entity that has been established under the Private Infrastructure Development Group (PIDG) Trust. GAP will invest in renewable energy projects to demonstrate the viability of renewable energy in Africa so that future projects are more likely to happen and attract private developers and investors. GAP aims to support projects that will install ~270MW of renewable energy in Africa in 4 years, avoiding an estimated 2.3mt of CO2 emissions. Up to GBP 3 million will be available to support monitoring and evaluation and dissemination of knowledge products. (For information, see: https://www.gov.uk/government/case-studies/green-africa-power-gap)

e.g. **Multidonor (UK, Germany, European Commission and other (Norway)**: **On Grid Small Scale Renewable Energy in Uganda (GETFiT):** GET FiT will support small-scale renewable energy projects in Uganda in an effort to promote private sector investment in renewables and help meet an anticipated increase in energy demand in Uganda. The project will provide a mix of financial incentives and technical assistance which include: a top up grant, provided by KfW to the existing financial incentives (Feed-in-Tariffs) for renewables and capacity building support to the Ugandan Energy Regulatory Authority. GET FiT aims to demonstrate to private sector developers that investment in renewable energy in countries like Uganda is financially attractive. It will also demonstrate to Ugandan and regional governments that incentivising investment in renewable energy can mobilise private sector investment. It is expected that GETFiT will support at least 125 MW of additional installed capacity from at least 15 small scale renewable projects and deliver greenhouse gas savings of between 1-10mt of CO2. The multi-donor project includes support from the UK (GBP 20 million), Germany (EUR 15 million) and Norway (EUR 17 million). It is being implemented by KfW. (For more information, see: http://www.getfit-uganda.org)

e.g. **UK: Capital Markets Climate Initiative (CMCI)**: UK's CMCI was established to help accelerate and scale up private climate finance flows to developing countries by bringing together policymakers with

some of the most significant institutions in the finance and investment sectors – institutional investors, investment banks, multilateral development banks and professional services. The platform pools this knowledge and expertise to address the barriers and constraints currently inhibiting development of markets for low carbon investments. The aim is to test and design innovative financing solutions that will shift investment away from high carbon and climate vulnerable investments and into climate compatible technologies, solutions and infrastructure. (For more information, see: https://www.gov.uk/capital-markets-climate-initiative)

New initiatives

The 'access to sustainable energy for all'-initiative of UN Secretary General Ban Ki Moon has shown that setting clear targets within a sector can bring together a wide spectrum of partners. In this programme partners vary from OPEC to the EU, Siemens and Unilver to a wide range of financial institutions (public and private).The EU considers this kind of cooperation an example of a modern and effective way to bring sufficient resources (financial, technical and management) together from all possible sources. In addition, access to sustainable energy addresses poverty and climate challenges simultaneously. Synergies between different fields of international cooperation should be maximised. Other fields where such new initiatives could be considered are water and food security.

2.3 Alternative Sources/Mechanisms

Alternative sources of climate finance can include many different possibilities. From an EU perspective, we recognise that the carbon pricing of global aviation and maritime transportation could generate the necessary price signal to efficiently achieve more emission reductions from these sectors and could generate large financial flows, part of which could also be used for climate finance. The report "mobilising climate finance", prepared at the request of the G20 finance Minister in October 2011, has outlined that a globally coordinated carbon charge of USD 25 per ton of CO2 on these fuels could raise approaching USD 40 billion per year by 2020, and would reduce CO2 emissions from each sector by perhaps 5%, mainly by reducing fuel demand. Against this background, the EU and its Member States are strongly supporting the introduction of corresponding market based instruments via the relevant organisation:the International Maritime Organization (IMO) and the International Civil Aviation Organization (ICAO).

The appropriate foruma for discussions on measures to reduce emissions from the international aviation and maritime sectors are ICAO and the IMO. The EU and its Member States have supported and continue to support progress in both of these fora in relation to action to reduce emissions. We therefore welcome the progress made since 2010 in the ICAO and the substantive discussions which have taken place under ICAO's High-Level Group on Climate Change established at the 197th session of the ICAO Council.

The EU and its Member States supports agreement of a "roadmap" for development of a global Market-Based Mechanism (MBM). The EU and its Member States view agreement to a global MBM roadmap as a potential contributing factor as part of their wider strategies and approaches to reducing emissions and possibly mobilising scaled-up climate finance, subject to national budgetary rules and in consistency with a sound and sustainable public finances framework within EU Member States. We call on all ICAO States to support such a roadmap and welcome the proposals by the International Air Transport Association (IATA) for a global MBM.

The EU and its Member States welcome the efforts to reduce emissions from the international maritime sectors undertaken by the IMO. The EU and its Member States reiterate their congratulations to the IMO for the introduction of the Energy Efficiency Design Index (EEDI) for new ships and the Ship Energy Efficiency Management Plan (SEEMP) for all ships, the first ever mandatory global greenhouse gas

reduction regime for an international industry sector. Although no revenues will be generated from the regime as yet, it will be helpful to achieve the overarching goal of reducing greenhouse gas emissions to the benefit of all in the longer term.

Acknowledging that discussions on the carbon pricing of global maritime transportation are only in their early stages within the IMO, the EU and its Member States reiterate that a robust price on carbon would generate the necessary price signal to efficiently achieve more emission reductions from these sectors and could generate large financial flows, part of which could also be used for climate finance.

Some EU Member States have chosen to hypothecate revenues from other taxation on other areas to fund development and climate actions

e.g:**. France**: France has set up a tax on financial transactions (FTT). According to the three-year (2013-2015) fiscal provisions approved of by the Parliament, 10% of the revenues from the FTT will be directed to development and climate actions.

3. Carbon Markets and Pricing Measures

The primary objective of carbon markets and other pricing measures, such as emissions trading, offsetting mechanisms, emissions crediting and carbon taxation, is to cost-effectively contribute to mitigation efforts. They are a crucial part of an enabling environment and a conducive policy framework. However, they could also be a source of climate finance in two distinct ways: firstly by raising revenues for developed countries that they can choose to use for climate finance purposes; and secondly creating climate finance flows to developing countries through the purchase of emissions reductions units. They can also have the added benefit of transfer of technologies and knowledge to developing countries, increasing their capacity to achieve future emissions reductions.

3.1 Carbon Pricing and Raising Revenue

In relation to provision of public climate finance, some Member States have the option to earmark individual tax revenue streams to public climate finance. Other Member States due to institutional or legal constraints cannot earmark such revenue streams, or choose not to in order to retain the important flexibility in managing public finances. In these cases, tax revenue streams are used to fund general Government expenditure.

A number of Member States have experience with direct or indirect carbon taxation measures which have enhanced the enabling environment for low carbon growth. This experience could help inform developed and developing country actions.

3.2 Carbon Pricing as 'Pulling' Private Investment

Projects funded through carbon markets can help leverage additional low carbon investment For example, over a ten year period the Clean Development Mechanism has mobilised more than USD 215 billion of investments in developing countries, helping accelerate their growth and alleviating poverty[6]. The UN Secretary General's Advisory Group on Finance (AGF) estimated in 2010 that carbon pricing could mobilise financial flows up to USD 30 billion by 2020[7]. The EU recognises the importance of a robust carbon price in order to promote low carbon investments and drive innovation towards green technology. The EU Emissions Trading System (ETS), while covering only approximately 5% of global GHG emissions, accounts for over three-quarters of the trading volume of the international carbon market and functions as its engine. As the main market for credits generated by emission-saving projects around the world, the EU ETS has been a major source of investment in environmentally sustainable development in developing countries.

The linking of domestic and regional ETS has the potential to broaden liquidity and further decrease emission abatement costs worldwide while possibly generating cross-border financing flows. The EU and its Member States welcome positive developments in carbon markets around the world, which contribute to mitigation efforts and could help increase flows of climate finance to developing countries provided that they are designed in a way that ensures the environmental integrity of the system. The European Commission and Australia announced agreement in August 2012 on a pathway for linking the EU ETS and the Australian ETS. The EU is also negotiating with Switzerland on linking the EU ETS with the Swiss ETS. The EU looks forward to new cap-and-trade schemes to be carried out in the developing world as a cost-effective instrument to achieve widespread emission reductions and welcomes on-going initiatives in China, South Africa and Korea.

The EU and its Member States will continue to advocate for the development of carbon markets and international instruments to incentivise business investment, for example, through the creation of a New Market Mechanism under the UNFCCC and through support for the World Bank Partnership for Market Readiness. These will assist countries to develop and test carbon market and emissions trading tools to enable both emissions reductions and resulting financial flows to be scaled up.

[6] Climate Change, Carbon Markets and the CDM: A Call to Action, Report of the High Level Panel on the CDM Policy Dialogue, September 2012.

[7] These calculations were based on price assumptions that were valid at that time but are now questioned by current developments on the carbon markets where the global carbon price is substantially lower than previously predicted.

e.g. **Multidonor - Partnership for Market Readiness (PMR)**. The UK, GER, SE and others have contributed cumulative over USD 120 million to the PMR, which is a grant-based trust fund that supports middle income and developing countries to build capacity to design, implement and pilot market-based approaches for greenhouse gas mitigation. The PMR brings together policy makers from governments with experts and stakeholders to provide a platform for knowledge sharing and readiness building. Initial preparatory funding is helping countries to design their Market Readiness Proposals (MRPs), detailing domestic work to be undertaken towards or on market mechanism implementation. Since it began operating in 2011, the PMR has awarded preparation grants of USD 350,000 to 16 Implementing Countries and further implementation funding of USD 3 million to USD 8 million each to 5 of those countries (China, Chile, Costa Rice, Mexico and Turkey). Work is currently underway within the PMR to establish a monitoring and reporting framework and having well surpassed its funding target of USD 100 million the PMR is now considering the possibility of expanding the scope of its work. Options under consideration by the PMR include the possibility to develop new tools to assist participants developing market readiness capacity and to support additional countries currently outside of the Partnership but interested in establishing domestic market mechanisms for greenhouse gas mitigation. (For more information, see: www.thepmr.org)

e.g. **UK - Carbon Market Finance (CMF)**. The Carbon Market Finance programme is being developed for approval by the Department of Energy and Climate Change and Department for International Development over 2013 to 2025. CMF will increase the flow of international carbon finance to Least Developed Countries, supporting climate change mitigation and poor peoples' access to clean energy and other poverty reducing technologies. The programme will develop models that enable the international carbon market to finance projects with high development benefits in Least Developed Countries, as well as reduce carbon emissions. It will support projects to test these models in practice by purchasing emission reductions from those projects. All credits purchased by the UK through CMF will be cancelled and not used for compliance with UK GHG targets. It will disseminate the new models and results of demonstration projects to influence the future carbon market so that less developed countries, especially in Sub-Saharan Africa, receive a greater and fairer share of carbon finance that results in both high development benefits and reduced emissions. Based on an illustrative portfolio of potential projects, the programme would improve access to clean energy for 2.9 million people and reduce 2.6 mt of greenhouse gas emissions.

e.g. Germany: Foundation "Future of the Carbon Market". Germany has established the foundation "Future of the Carbon Market" with €10 million. The foundation works on the basic assumption that, in the current development phase of the carbon market, Programme of Activities (PoAs) of the Clean Development Mechanism are strategically important for both the existing and future mechanisms of international climate finance. The foundation aims at funding measures that support the dissemination of the programmatic project approach. Its intention in funding single PoAs is to use the market to harness further potential for emission reduction, acquire knowledge and experience that might be valuable for future carbon market mechanisms, and enhance the ability of countries hosting the PoAs to develop more far-reaching climate policies. The foundation also aims to use PoAs to illustrate how the finance sources of the host country, the carbon market and the direct support services of the industrialised countries can work together within the climate finance framework. In this context, it is also important to consider which finance sources in which areas are more appropriate than others. (For more information, see: http://www.carbonmarket-foundation.org/home).

4. Effective Deployment and Enabling Environments

The purpose of international climate finance is to help implement low carbon development and climate resilient actions on the ground in developing countries. If these actions are to deliver outcomes that both developed and developing countries want to see, it is crucial that we focus on the effective use of climate finance, and not treat targets for cumulative deployment as an end in themselves. Furthermore, demonstration of results is becoming increasingly important for developed country governments to make the case nationally for scaling up international climate finance contributions, particularly given current economic constraints.

Effective mobilisation and deployment of climate finance can be promoted in a number of ways:

a) **Developing effective enabling environments**

Enhancing enabling environments in developing countries is essential since climate finance requires developing country capacity to effectively attract and absorb such support for mitigation and adaptation. This can be hindered by low institutional capacity, underdeveloped financial markets in the developing country with a limited range of financial instruments available, limited fiduciary standards to ensure effective disbursement, the existence of barriers like fossil-fuel subsidies, and also a lack of conducive climate policy. Conducive policy can include inter alia: clear national goals and targets for mitigation and adaptation; carbon pricing measures; mainstreaming of climate change concerns into sectoral planning; sound regulatory frameworks and compliance systems; product and building standards; etc...

Enabling environments in developed countries can also be important for mobilising climate finance, including from the private sector in developing countries. While advancing domestic goals, experience gained in the EU and its Member States can also reduce perceived risk of similar activities in developing countries. Policies and in particular product standards of the EU and its Member States can lead to global technology cost reductions that benefit the EU, its Member States and other countries as technologies achieve economies of scale. The EU and its Member States are exploring how enabling environments in developed countries can facilitate the mobilisation of climate finance for developing countries.

b) **Planning and country ownership**

Climate finance is a means to implement action on the ground. As such development of actions that are country owned and relevant to the particular circumstances of each country will be important to ensure that support provided is relevant and interventions are more likely to be sustainable in the long term. It can also ensure that we avoid possible contradictions in development and climate finance activities.

c) **Coordination and harmonisation**

Institutional capacity and coordination is not only an issue within developing countries. A key element of effectiveness in climate finance will depend on actors on the supply side of climate finance working together to ensure our efforts are appropriately coordinated, avoiding overlaps or gaps in provision of climate finance and minimising the demands on developing countries for example in differentiated monitoring and evaluation requirements.

d) **Mainstreaming**

Climate change and sustainable development should be addressed coherently as climate change impacts threaten development achievements, particularly in the most vulnerable countries and can hinder further progress in some developing countries. Climate change should become an integral part of development strategies of both donors and developing countries, to combat poverty and promote inclusive green growth. We need to further explore how we can promote results that contribute to climate resilience and to achieving the global target of 2^{o}C.

Many of these concepts are already enshrined in the learning and principles developed as part of the aid and development effectiveness agenda from the Paris Declaration to the Busan principles are highly relevant in the context of climate finance, in particular for delivery of public finance which we should build on as we work towards effective mobilisation and deployment of climate finance.

Developed countries can assist developing countries with their enabling environments through capacity building and awareness raising. Capacity building to develop the finance sector and potential project pipeline within a developing country via training or other measures is important to facilitate continued future engagement between the government and private sector on climate action. This can be done in support of the public sector and local financial intermediaries, project developers, suppliers and manufacturers of equipment, and consultants. Capacity building support complements efforts to develop and improve enabling environments and to address knowledge gaps such as imperfect understanding of alternative technology solutions. The emphasis should be on durable impact on the developing country's capacity in the public and private sectors.

Some Member States are exploring initiatives to increase developing countries' capacity to effectively absorb and use climate finance.

e.g:. **European Commission: The Global Climate Change Alliance (GCCA)** provides technical and financial support to more than 35 LDCs and SIDS and eight regional bodies in five priority areas: integrating climate change into poverty reduction strategies; adaptation; reducing emissions from deforestation and forest degradation in developing countries; and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries (REDD+); enhancing participation in the Clean Development Mechanism; and disaster risk reduction. The programme is committed to the aid and development effectiveness principles and seeks to pilot their application in climate finance. The GCCA promotes alignment and ownership, including through support to mainstreaming of climate change in development planning processes, sector-wide approaches, and direct access via (sector and general) budget support. It fosters harmonisation and coordination through joint programming, financing and implementation and by contributing to multi-donor funds and initiatives. Further, the GCCA is helping countries increase their absorptive capacity and readiness for long term climate finance by strengthening planning capacities, public financial management and monitoring systems, already supporting or paving the way for nationally owned climate change trust funds and climate related budget support. (for more information, see http://www.gcca.eu /)

e.g. **Germany**: **MAIN** dialogues for identifying and preparing **NAMAs in Latin-America and Asia**. Through its International Climate Initiative (IKI), Germany provides EUR 1.9 million to support the preparation of ambitious NAMAs in Latin America and Asia through the Mitigation Action Implementation Network (MAIN). The network brings together different stakeholders through regional dialogues and prepares and presents good practice examples and policy papers. This serves to develop international guidelines on the design, financing, implementation and MRV of NAMAs through peer-to-peer learning and knowledge exchange at regional and global levels. With the support of the project, a number of partner countries are now preparing bankable NAMA proposals. By engaging the private sector and facilitating dialogue with international donors, the project also supports partner countries in identifying potential sources of funding for the implementation of ambitious NAMAs.

e.g.**: Germany**: **Bilateral programmes**. Germany is actively supporting bilateral partners in developing and implementing their climate strategies for greenhouse gas reduction and adaptation within key sectors. Through its International Climate Initiative (IKI), the BMU implements bilateral projects in the Philippines, Thailand, South-Africa, Morocco, Mexico and the Dominican Republic, amongst others. The main purpose in these projects is to develop and strengthen climate policy capacity within the partner countries' political entities, e.g. by supporting the Philippine Climate Change Commission on the implementation of the National Climate Change Strategy and Action Plan. The implementing agencies, such as GIZ, provide advice at strategic level on climate policy and innovative mechanisms (in the German-Mexican Climate Change Mitigation Alliance) and support e.g. the implementation of the Climate Compatible Development Plans (CCDP) like in the Dominican Republic's cement and waste sectors. Since 2009, EUR 37.9 million have been spent in eight different projects with this specific thematic focus, on average EUR 4.7million.

e.g.: **European Commission/Germany/Australia – Low Emission Capacity Building Programme**. The Low Emission Capacity Building Programme (LECBP) supports 25 participating countries to strengthen technical and institutional capacities at the country level, while at the same time facilitating inclusion and coordination of the public and private sector in national initiatives addressing climate change. For this, LECBP i.a. identifies opportunities for nationally appropriate mitigation actions (NAMA), helps to design low emission development strategies (LEDS) in the context of national priorities and to develop systems for measuring, reporting, and verification of proposed actions and means to reduce GHG emissions. To date, the European Commission, Germany (BMU) and Australia are supporting the Programme, contributing to a budget of more than EUR 32 million.

e.g.: **UK/Netherlands - Climate and Development Knowledge Network (CDKN)**. The UK and the Netherlands are providing GBP 57 million and Euro 17 million respectively to the Climate and Development Knowledge Network (CDKN), a five year initiative, which will support 40 developing countries build their knowledge, capacity and action plans on climate change. CDKN is an alliance of six private and non-governmental organisations working across four continents. Operating as a global network, CDKN draws on world-class knowledge and expertise to support public, private and non-governmental decision-makers to develop new policies, introduce new technologies and mobilise new funding sources. Support is demand-driven, based on local needs. This project is expected to deliver improved access to the latest high-quality, reliable and policy-relevant information on climate change. This will be achieved through technical assistance, research, knowledge management and partnership support, which will assist policy-makers and practitioners in developing countries plan and implement strategies that meet the climate change challenges of their country. To date CDKN has supported policy change in 28 countries across the globe. (For more information, see: www.cdkn.org)

e.g. **UK - Forest Governance, Markets and Climate (FGMC)**. The UK is providing GBP 79 million to the Forest Governance, Markets and Climate (FGMC) programme, which aims to reduce the illegal trade in forest resources by addressing forest sector governance and market failures that permit illegal forest practices. FGMC will make use of trade and market incentives to influence reforms in timber-producing countries where governance failures often result in illegal logging and neglect for poor peoples' rights to forest land and resources. By reducing illegal logging poor people will have a greater voice in what happens to their forest. This will not only reduce the likelihood of conflict over forest tenure, it could also help avoid up to GBP 13 billion in revenue and tax loss to developing countries, by clarifying forest-dependent peoples' tenure rights and supporting improved governance and stronger enforcement of forest laws. The FGMC programme will help protect up to 39 million hectares of forest, avoid billions of tonnes of carbon (CO2e) emissions and protect the livelihoods of tens of millions of forest-dependent people. (For more information, see: http://projects.dfid.gov.uk/project.aspx?Project=201724)

e.g**. Sweden**: Sweden has supported capacity building and the establishment of multi-donor climate change resilience funds in e.g. Cambodia and Bangladesh. The efforts have contributed to increased institutional capacity and increased country ownership. The funds already disperse financial support to pilot projects by line Ministries and civil society.
See:http://www.sida.se/Global/About%20Sida/S%c3%a5%20arbetar%20vi/H%c3%a5llbar%20utveckling/C284950_Broschyr%20Klimatsatsning_SIDA61412en_C5_FINAL.pdf

Finland - Energy and Environment Partnership (EEP) Programmes. Finland is providing EUR 60 million (other donors EUR 40 million in 2013-2016) to increase access to sustainable energy through renewable energy and energy efficiency in 32 developing countries in Central America, Andean region, Southern and Eastern Africa, Mekong Region and Indonesia Energy/mitigation. The programmes provide grants to entrepreneurs, SMEs and NGOs for developing, piloting and scaling up inclusive business models to increase energy access. This flexible, demand-driven funding mechanism includes close coordination at national level with energy/environmental ministries as steering committee members. The programmes provide capacity-building for project development, business advisory services and facilitation of investor interest for scaling-up phase. Technologies transferred include mainly small- and medium-scale biomass, biogas, biofuels, solar, mini-hydro, and wind technologies. The programmes have achieved significant local emissions reductions and supported a number of CDM projects. More information: http://www.eepglobal.org/.

e.g. For their part the EU Heads of State and Government agreed in May 2013 to give priority to phasing out environmentally or economically harmful subsidies, including for fossil fuels.

e.g. **Germany:** Germany is providing EUR 140.4 million to the multilateral **Forest Carbon Partnership Facility (FCPF)** which is hosted by the World Bank. The FCPF is a global partnership of governments, businesses, civil society and Indigenous Peoples focused on reducing emissions from deforestation and forest degradation, forest carbon stock conservation, the sustainable management of forests, and the enhancement of forest carbon stocks in developing countries (activities commonly referred to as REDD+).

The FCPF has two separate but complementary funding mechanisms – the so called Readiness Fund and the Carbon Fund to achieve its strategic objectives. The Readiness Fund supports participating countries in the development of national REDD+ strategies and policies. The Carbon Fund builds on the progress made in readiness and is designed to pilot performance-based payments for emission reductions from REDD+ programs in a small number of FCPF countries. (For more information, see: http://www.forestcarbonpartnership.org/)

5. Transparency of Climate Finance Flows

The EU and its Member States confirm our commitment to continue to report on the flows of climate finance in accordance with the decisions of the UNFCCC in Doha. Climate finance towards the USD 100 billion goal will come from a variety of sources, and through a variety of channels. This complexity demands a robust and harmonised Measuring, Reporting and Verification (MRV) framework for climate finance to ensure transparency and credibility in delivering our commitments. While important progress was made in Doha with agreement of the common tabular format (CTF) for reporting, the EU and its Member States underline the need to continue working actively towards common internationally agreed standards for the MRV of climate finance flows based on available data and building on existing reporting systems, such as the OECD-DAC while taking into consideration cost-effectiveness and feasibility. MRV of climate finance will also help enhance effective delivery and use of both public and private support. It should avoid creating perverse incentives leading to inefficient use of financial resources available for low carbon climate resilient development. For example, an MRV system that did not adequately reflect funding for activities where climate is not a principal, but rather a relevant objective could discourage investment where important climate relevant results could be achieved.

Concerning MRV of public finance, the EU and its Member States are engaged in working towards submission of the first biennial report to UNFCCC by 1st January 2014.

The tracking of private climate finance is particularly complex due to issues surrounding data availability, the multitude of actors involved, diverse channels of finance and rapidly fluctuating activities. There are at present no adequate systems for reporting private climate finance, hence the EU recognises the need to develop enhanced methodologies in this regard. Research by the Climate Policy Initiative shows that there is approximately USD 85 billion of private sector climate investment, including domestic investment, in developing countries in 2010/11 (CPI, 2012), however, according to CPI, only a share would be counted towards the USD 100 billion goal. Due to transparency and accounting reasons there is a need to characterise what is understood under “mobilised by developed countries” and which parts of financial flows can be counted towards the commitment of mobilising USD 100 billion a year by 2020. The EU underlines the importance of reaching a common understanding on the definition of private climate finance to ensure the necessary transparency and trust. As we move forward we will need to clarify the accounting of private climate finance towards the USD 100 billion goal in a way that efforts are recognised and that does not create perverse incentives. The EU welcomes the on-going work coordinated by the OECD, under its Research Collaborative, in developing options for appropriate and shared methodologies for measuring mobilised private climate finance and enabling it to be better defined, recorded, monitored and reported.

The EU will continue its efforts to reach such a common understanding with other Parties in order to ensure the necessary transparency and trust. We also welcome the range of other efforts on-going to improve the transparency of climate finance e.g. within the OECD Climate Change Expert Group (CCXG), in the OECD-DAC, and among the Multilateral Development Banks. Furthermore, the 20th Conference of the Parties in 2014 is expected to take a decision on the further development of methodologies for reporting financial information, taking into account existing international methodologies, and based on the experiences gained in preparing the first biennial reports which are due in January 2014 and submissions made by May 2014 regarding appropriate ways to measure and track climate finance. These processes will deliver valuable information on how to further improve transparency of support and should be built upon in the future.