

## Making Climate and Development Finance Coherent and Sustainable

2010



**A Call on the Federal Government**

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## Summary

Arresting global greenhouse gas emissions and limiting the temperature increase to 2 degrees Celsius is a global task. Undoubtedly, industrial nations have to reduce their emissions dramatically. However, developing countries and emerging economies also have to pursue climate-friendly development strategies – for instance by protecting their coastlines, by sustainable water use, suitable agriculture, improved energy technologies, access of poor people to energy, primarily renewable energy. All that is expensive. A climate-friendly future in developing countries has to be supported by the rich nations – at the following conditions:

### **Making Climate and Development Strategies Coherent**

Adapting to climate change has to become an integral component of development strategies. Transparency and accountability are key for donors and recipients alike – just as it has been agreed for development finance in the Accra Plan of Action. Interministerial programmes have to deliver coherence between climate and development policies. We call upon the Federal Government to establish an interministerial committee between the ministries for environment and development cooperation (and if necessary other ministries) with civil society participation.

### **Promoting National Strategies and Self-responsibility**

In the medium term, the parallel existence of various funds and programmes for climate finance has to be reduced. National climate funds such as the one in Bangladesh should be strengthened. Donors should jointly fund such initiatives or engage in budgetary support for programmes that are designed and accounted for by the partner country. The Federal Government should insist in the UN climate negotiations on the establishment of a fund supporting integrated national programmes.

### **Keeping the most vulnerable people in mind**

All climate strategies have to keep those parts of the population in mind that are most affected by climate change, such as the poor. Local civil society has to participate in the programmes and projects in due time.

### **Providing Additional Money for Climate Finance**

Chancellor Angela Merkel has promised €1.26 billion for climate finance until 2012. This has to be truly fresh money and must not be accounted for as ODA. It is unacceptable that the new interministerial budget line “Climate protection in Developing Countries”, funded half by the environment and development cooperation ministries each, has been put at zero. It urgently needs to be continued. Furthermore, not later than 2015 0.3 percent of the Gross National Income should be provided as climate finance in addition to the 0.7 % for ODA.

### **Promoting Innovative Finance Instruments**

This refers to emissions trading, taxes on aviation and shipping, and on financial transactions. We call upon the Federal Government to use proceedings from the already existing aviation tax partly for climate funding and poverty alleviation in developing countries. Germany would meet its shared global responsibility for climate change with these measures and would assist developing countries to cope with the consequences.

## Making Climate and Development Finance Coherent and Sustainable

The consequences of global warming are already visible everywhere. People in developing countries are particularly affected. They can not do very much about climate change because of their poverty.

The continuing growth of the world's greenhouse gas emissions must be halted during this decade in order to limit the temperature increase to 2 degrees Celsius compared to pre-industrial levels. There is no controversy that industrial countries have to cut their emissions dramatically. It is also in the self-interest of developing and newly industrializing countries to pursue sustainable, climate-friendly development strategies. However, they are worried that this could constrain their development.

Climate change makes long overdue reforms and programmes for good governance, poverty alleviation and resource protection even more urgent in order to reduce developing countries' vulnerability to climate risks. Furthermore, investments in coastal protection, sustainable water use and treatment, disaster preparedness, construction of protective shelters, local capacity building and the development of well adapted plant varieties and agricultural techniques are necessary. This costs money and would overburden governments and local communities particularly in the Least Developed Countries (LDCs).

Germany has to support developing and newly industrializing countries to initiate an economic transformation towards climate-friendly development strategies. This transformation can only succeed by massive investment in improved local energy technology as well as technology and knowledge transfer for the development of adapted local technologies. At the same time there have to be safeguards that poor people have access to energy and energy is not produced at the expense of such communities.

In Germany, climate and development policies at least partly follow different sectoral and geographical priorities. The existing climate finance architecture encompasses many parallel international and national funds. In addition there are the manifold actors and institutions of development cooperation. All these projects, programmes and strategies are not harmonized. This causes high transaction costs, and there is a lack of ownership in developing countries and options for participation for those parts of the population most heavily affected by climate change.

The non-governmental organisations cooperating in VENRO, the Forum Environment & Development, and

the Climate Alliance call upon the Federal Government to improve the coherence between climate and development finance by initiating a dialogue between ministries and civil society. The federal Government should further help the stagnating international climate negotiations by implementing its financial commitments for climate funding. Such a strategy needs to be oriented towards sustainability and poverty alleviation, towards human rights, transparency and good governance, needs to prioritize support for vulnerable groups, and it needs to provide the necessary funds for mitigation, biodiversity and adaptation measures.

## More Effectiveness: Using the Paris/Accra/Busan Process for Climate Finance

Development cooperation budgets currently contribute far more to activities relating to climate change than the funds that have been established under the UN Framework Convention on Climate Change (UNFCCC) at the Global Environmental Facility (GEF). The contribution of bi- and multilateral development cooperation will continue to be essential for funding mitigation, biodiversity and adaptation in developing countries. It is obvious that the experience of 50 years development cooperation has to be taken into account for climate finance.

The global dialogue process initiated by the Paris Declaration 2005 on improving aid effectiveness can offer valuable guidance and principles. In 2008 160 governments, including Germany, have agreed in the “Accra Agenda for Action” the most important principles for effective cooperation. According to the Accra agenda, development cooperation funds are used effectively, when they are used by the partner country in an independent, democratic process. Donors should invest their funds whenever possible directly into the budgets and programmes of the partner country to achieve concrete development results. Donors and recipients are accountable to each other: recipients about effectiveness and about meeting the targets, donors about transparent decisionmaking processes and longterm reliability. Donors should use the national procedures of the partner country for planning, implementation and accountability, promote capacity building, harmonize their procedures among themselves and with the partner countries and agree to a division of labour. Parliaments, local government, the private sector and civil society should actively participate in planning, implementation and accountability. Civil society has been recognized as independent development actors whose political and operational role should be increased.

The principles of “Aid Effectiveness” are well suited to increase the effectiveness of measures for adaptation to climate change and greenhouse gas reduction alike.

Climate finance can only be sustainable if developing countries can assume their own responsibility for adaptation and mitigation strategies. In this sense new approaches such as “direct access” in the Adaptation Fund of the Kyoto Protocol or the establishment of national climate funds for the implementation of national climate strategies like in Bangladesh are positive examples in line with the principles of the Paris Declaration and the Accra Agenda that should generally be supported.

### We call upon the Federal Government:

- to use the multilateral and bilateral climate funds in line with the principles of “Aid Effectiveness”. Particular emphasis should be put on the establishment of monitoring and evaluation systems of climate projects.
- to use programme-based approaches for climate finance according to the Paris Declaration and the Accra Plan of Action, i.e. budgetary, sectoral and pooled support. Donor activities can be harmonized in this way and be integrated into country-led programmes.
- to support developing countries actively in the implementation of national climate strategies for greenhouse gas reduction by advisory services and reliable longterm funding of national climate funds, if these are also used as a way to integrate the climate dimension into development strategies.
- to support countries that are most vulnerable to climate change even if they do not belong to the priority countries. The list of supported countries should be reassessed according to the particular vulnerability to climate change. The Government should coordinate itself with other industrial nations in order to avoid “climate orphans”.

## Developing Common and Ambitious Strategies and Programmes

Programmes for climate-friendly development and adaptation to climate change are difficult to separate from development cooperation. There is no clear borderline. Since there is a large intersection between climate and development projects on the local level, they need to be planned and implemented together.

If development and climate finance are to be closely coordinated, not only development cooperation must become “climate proof” or “climate friendly”, but adaptation to climate change and mitigation potentials must be integrated into development cooperation strategies. This is very important and needs considerably more attention to avoid investments literally being washed away.

Climate finance for mitigation and adaptation are based on the perception that climate finance for mitigation is part of the fair share of industrial nations to meet their historic responsibility for the global mitigation effort. They also have higher financial and technical resources. Only if global emissions will be reduced by 80 percent by 2050 global warming can be limited to less than 2 degrees. Climate finance for adaptation results from the responsibility of industrial nations for causing climate change in the first place and consequently for the poor countries being forced to adapt to climate change.

Official Development Assistance (ODA) should be monitored and mainstreamed towards funding climate-proof development. At the same time increased climate mainstreaming must not take place at the expense of programmes for poverty alleviation, human rights, gender and promotion of democracy.

Effective climate finance needs improved, efficient, transparent and participative procedures and structures in the partner countries as well as the donor countries. In many developing countries climate change and development are only slowly brought together, however, there are more and more positive examples. Strategic processes are often insufficiently linked in institutional terms, both in developing countries and in Germany.

### We call upon the Federal Government:

- to develop interministerial and coherent strategies and programmes for reliable climate finance oriented towards “climate proofing” in all ministries, not only the ministries for environment and for development cooperation.
- to establish an interministerial working group including civil society representatives. The ministries for development cooperation, for environment the implementing agencies and civil society could jointly establish this group, aiming at involving other ministries at a later stage.
- to make sure that women are participating in all processes of negotiation, development, administration and implementation of programmes and strategies.
- to allocate sufficient human and financial resources to the responsible ministries to meet the challenges of climate change.

## Establish Complementarity Between Bi- and Multilateral Funds

The existing mosaic of funding options causes high transaction costs and overstrains the capacities of the partner countries. Therefore the objectives and procedures of bi- and multilateral development cooperation and their funds need to be harmonized and designed for as much complementarity as possible. Fragmentation and duplication between different funds and programmes should be reduced. According to the Paris Declaration principles, priority should be effective improvements for integrated resource use in the countries in the responsibility of the recipient countries and organisations. Industrial and developing countries are both responsible for improving the absorptive capacity for climate and development finance on national level.

Currently it is impossible to get a comprehensive and correct picture of the ways public funds are used for climate finance since there are no agreed reporting standards. Transparency in the level as well as allocation of such funds is essential for more effective climate finance and mutual accountability.

Poverty alleviation, gender justice, protection of biodiversity, emissions reduction and adaptation to climate change need to be integrated. It makes sense that climate finance makes the development of integrated strategies and contributes to their implementation. The “Bangladesh Multi Donor Trust Fund” is a very good example. Previous funds did not make it possible to support such initiatives to develop integrated strategies and fund the implementation of the climate-related measures. The new climate fund to be created in the climate negotiations could and should help to close this gap.

### We call upon the Federal Government:

- to design the bilateral German initiatives and instruments as much as possible in complementarity to functioning multilateral initiatives.
- to work towards improving and harmonizing the reporting systems for climate finance, and towards establishing comparable standards and procedures for measuring climate-related financial transfers, aiming at increasing transparency in international climate finance.
- to report annually to Parliament about the state of German climate finance and the use of the funds.
- to mainstream its voting policy in the World Bank, the International Monetary Fund (IMF) and the regional development banks with social and environmental criteria and exclude investments harming the climate from ODA.
- To promote in the UN climate negotiations the establishment of a new climate fund funding particularly integrated, innovative, national programmes focusing on the most affected and vulnerable groups in developing countries.

## Reaching the Most Vulnerable People

If adaptation finance is to aim primarily at reducing the vulnerability of the poorest to the consequences of climate change, in line with the UN Framework Convention on Climate Change commitments, there have to be safeguards that this objective is actually achieved. The Kyoto Protocol's Adaptation Fund has defined (one) strategic priority to meet particularly the needs of the most vulnerable communities, for example.

For this purpose, these communities need to be identified ("Impact and Vulnerability Assessments") and involved in the development, implementation and evaluation of the adaptation strategies and measures. This includes comprehensive preparations in terms of "capacity buildings" on climate change and its potential consequences.

Furthermore, we need instruments to protect the most vulnerable groups and the poor in adaptation and emissions reduction whose implementation has to be transparent and legally binding.

### We call upon the Federal Government:

- to promote particularly those elements of the climate finance architecture that have been developed jointly with government and civil society in the partner country as integrated development plans to allow for broad participation. Those climate and adaptation strategies need to prioritize particularly vulnerable groups.
- to actively promote civil society participation in developing countries already in an early stage, for instance in the public discussion of sectoral policies, but also in the practical implementation of development and climate projects.
- to support the partner countries in building governance structures and in strengthening national institutions as well as instruments for the protection of the most vulnerable population groups. This should ensure the effective use of the funds and establish synergies between climate, biodiversity and development finance.

## Provide New and Additional Funds in a Transparent Way

In the last two decades the Federal Government has been comparatively reliable in implementing its financial commitments for climate finance (contributions to GEF, UNFCCC climate funds, bilateral initiatives for renewable energies and energy efficiency). However, Germany's reputation as reliable partner of developing countries is now at stake. In our view it is extremely counterproductive and cannot be justified when the new budget line in the 2010 budget "climate protection in developing countries" is not going to be expanded but, on the opposite, is put at zero after only one year. This budget line consists of new and additional funds and is jointly administered by the ministries for development cooperation and for environment.

Suspending this new budget line would block a potentially promising new approach of interministerial

and complementary linkage between climate and development finance. Furthermore, this would cancel the only funds that in 2010 could seriously be counted towards meeting Chancellor Merkel's commitments at the Copenhagen Summit. Chancellor Merkel had promised to provide €1.26 billion in new and additional funds in 2010–2012 for fast-track finance for adaptation and climate protection in developing countries. Cancelling those funds from this budget line would be a highly problematic signal for the UN climate negotiations and would jeopardize Germany's credibility. On the contrary, these funds should be increased. For the developing countries, the reliability of funding for development and climate finance is essential for effective planning and implementation.

**We call upon the Federal Government:**

- to provide climate finance in new funds, additional to already committed funds instead of de facto double-counting these commitments. For this purpose the funds in both budget lines “climate protection in developing countries” in the ministries for environment and for development cooperation should be maintained since they guarantee the necessary transparency for the reliable implementation of international commitments and are key for the establishment of an interministerial approach to climate finance.
  - to refrain from counting the full volume of loans for international climate finance as it is the practice in the “Climate Investment Funds”. Only the concessional component of the loans, i.e. the amount listed in the federal budget for this purpose, should be counted rather than the entire volume of the loan to provide at least 0.3 percent of the Gross National Income (GNI) for climate finance in the medium term, i.e. not later than 2015, in addition to the 0.7 percent for development finance. Such an amount of about €8 billion for climate finance alone reflects approximately what could be called Germany’s “fair” share of a total of €100 bn that the international community has to provide.
- to agree with the other industrial nations on a common definition of additionality. The Federal Government should start such an initiative in the EU first. New and additional funds are those that have not yet been covered by existing budget lines when the commitment was made and are not already counted towards previous commitments (including the 0.7 percent target). There have to be safeguards in the future that new international financial commitments are met only by using truly new money.
  - to use public funds for emissions reduction in ways stimulating further investments in climate-friendly development. This means that legislation and/or public investments should be used towards leveraging private investments (for instance feed-in tariffs for renewable energies, public-private partnerships, promotion of investments in energy efficiency, early-stage risk minimization for private investment by public institutions). However, it must be ensured that the private donors observe environment and social standards. Furthermore it has to be demonstrated and reported that the objective and result of public and private investments are indeed real emissions reductions.

## Using Innovative Instruments for Climate and Development Finance

Innovative financial instruments are necessary to activate the necessary funds for climate and development finance. Ideally, not only their application but already the way they generate the money are contributing to alleviating the problems in developing countries and emerging economies. For instance, emissions trading or taxing aviation and shipping could have such an impact as long as they are observing the polluter-pays principle and reflect the real ecological costs. This application of the polluter-pays principle could not only provide funds for finance adaptation to climate change but at the same time incentives for climate-friendly behavior, thus limiting climate change.

Apart from possible further innovative sources the introduction of a financial transaction tax could also have a useful impact for stabilizing financial markets and simultaneously generate considerable amounts of urgently needed money.

For reasons of justice, the income generated from innovative financial sources should not only be used for consolidating national budgets. For instance, if the three proposals outlined above are well-designed they would mobilize enough funds not only for meeting the international commitments for climate and development finance but also for national climate protection policies.

### We call upon the Federal Government:

- to promote the introduction of new financial instruments on international level, particularly taxes on aviation and shipping according to the polluter-pays principle but also a financial transaction tax that should be used to a significant extent for climate and development finance.
- to use revenues from the already introduced national aviation tax partly for climate protection and poverty alleviation in developing countries which could be counted towards meeting Germany's contribution.
- to promote actively in the international debate innovative sources for climate and development finance, for instance in the G-20 meetings and the UN climate negotiations.

## Conclusion

Germany is a rich industrial country and has a historic responsibility to support developing countries in coping with the consequences of climate change and pursue climate-friendly development strategies. This is an essential prerequisite for a legally binding, just and sufficiently ambitious agreement within the UN climate negotiations.

In the run-up to the Rio+20 summit in May 2012, whose agenda focuses on issues such as Green Economy and the international sustainable development governance, Germany has an additional global responsibility because of its membership in the UN Security Council. Germany must meet this responsibility.

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die klima-allianz



**VENRO** is the umbrella organisation of development non-governmental organisations (NGOs) in Germany. The organisation was founded in 1995 and consists of around 120 organisations. Their backgrounds lie in independent and church-related development co-operation, humanitarian aid as well as development education, public relations and advocacy. 16 one-world networks are part of VENRO. These represent about 2000 local development initiatives and NGOs. VENRO's central goal is to promote fair globalisation, with a special emphasis on eradicating global poverty. The organisation is committed to implementing human rights and conserving natural resources.

The **Forum Environment & Development** was established in 1992, after the UN Conference for Environment & Development in Rio. The Forum coordinates the activities of German environment and development NGOs in international political processes related to sustainable development and the national implementation of international agreements. Sectoral working groups and projects agree on common positions, coordinate lobbying and public relations, and organize meetings and conferences. Key issues are biodiversity, climate and energy, food and agriculture, trade policy, forests and water.

The **Climate Alliance** is the largest alliance for climate in Germany. It was established in 2007 and now has a membership of more than 100 organisations such as environment and development NGOs, churches, trade unions, youth organizations, etc. The Climate Alliance organizes joint actions, lobbies for ambitious climate policies and demonstrates the depth of support for such policies in society. A key issue is the prevention of new coal-fired power plants that would undermine the long-term climate targets (Anti-Coal Campaign). The Climate Alliance calls upon the Federal Government to phase out coal and nuclear power and promote actively renewable energies.