



Federal Ministry for the
Environment, Nature Conservation
and Nuclear Safety

Federal Ministry
for Economic Cooperation
and Development



Fast start financing:

Germany's lessons learnt from the first year of implementation

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At the last climate conference in Cancún in December 2010, the industrialised countries reaffirmed the commitment they had made in Copenhagen to provide new and additional resources to finance measures to combat climate change. Up to 30 billion US dollars are to be made available for the period 2010 – 2012 with a balanced allocation between mitigation and adaptation. This fast start finance is designed to kick start immediate action on climate change in developing countries.

Germany's fast start commitment – additional climate funding

Germany has pledged to invest a total of 1.26 billion euros in the period 2010 – 2012 for fast start activities in developing countries. The funding is made available in annually increasing amounts (see fig. 1 and 2). The German fast start funds are deployed by the Federal Ministry for Economic Cooperation and Development (BMZ) and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) through multilateral and bilateral channels, supporting activities in the field of adaptation, mitigation and forest conservation (REDD+) measures. At least one third of the overall fast start contribution will go to adaptation. At least 350 million euros, approximately 30%, are earmarked for REDD+ projects.

These funds are provided over and above any previous financing made available for international

action on climate change. In other words, the funds are either additional to the level of climate-related support already provided in 2009 and/or derived from innovative financing mechanisms, namely the auctioning of emission certificates in Germany. The revenues from emissions trading constitute an innovative source of funding, since they do not come from the taxpayer but from the polluters themselves and are directly invested in climate related programmes of bilateral or multilateral development cooperation, respectively by the International Climate Initiative (ICI) in worldwide action on climate change.

2010 – Germany fulfils its pledges

For 2010, Germany pledged to provide 356 million euros for fast start activities. It exceeded this target, allocating a total of 361.5 million euros (see fig. 1 and 2).

Fig. 1: Implementation of Germany's fast start commitment (in million euros)

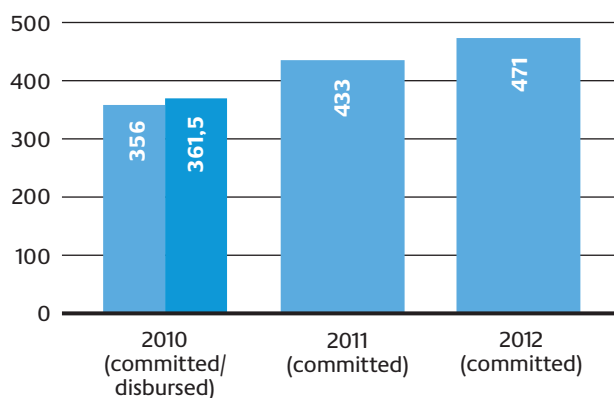


Fig. 2: Germany's contribution to fast start financing (as at 31 December 2010)

Mitigation	Adaptation	REDD+
<ul style="list-style-type: none"> Clean Technology Fund: 125 million euros EU-UNDP¹ Capacity Building Programme on Climate Change: 5 million euros Bilateral projects: 87.4 million euros 	<ul style="list-style-type: none"> Pilot Programme for Climate Resilience: 8 million euros Adaptation Fund: 10 million euros UNEP²/UNDP Ecosystem-based Adaptation Flagship: 10 million euros Bilateral projects: 47.7 million euros 	<ul style="list-style-type: none"> Forest Carbon Partnership Facility: 34 million euros Bilateral projects: 34.4 million euros
Total: 217.4 million euros	Total: 75.7 million euros	Total: 68.4 million euros

¹ UNDP: United Nations Development Programme ² UNEP: United Nations Environment Programme

Secure climate finance through innovative instruments

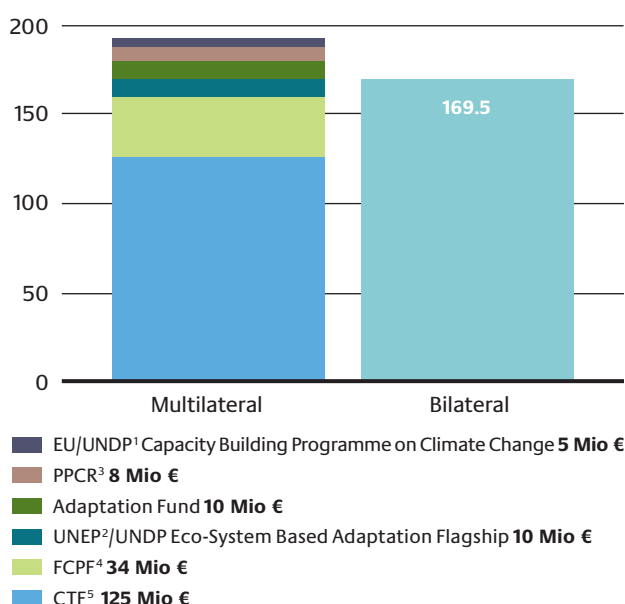
Germany uses the revenue from sales of about 10% of the certificates under the European Emissions Trading System for climate financing. This produces roughly a third of Germany's fast start contribution. Instruments of this kind spread the risks across several sources of finance and – particularly in times when funds are in short supply – can help to increase the reliability of climate financing.

All certificates will be auctioned from 2013 onwards, with the additional revenue being used for national and international climate finance activities.

Balanced use of bilateral and multilateral funding channels

Germany uses bilateral and multilateral fast start financing instruments consistently (see fig. 3).

Fig. 3: Bilateral and multilateral funding channels in 2010 (in million euros)



In the field of mitigation, 59.8% of the funds were spent through multilateral institutions and 40.2% by bilateral activities. In the field of adaptation, the

share of funds being transferred to multilateral agencies amounted to 37%, for REDD+ to 49.7%. These funds were made available for climate-related programmes of the World Bank (Climate Investments Funds, Forest Carbon Partnership Facility), the Kyoto Protocol's Adaptation Fund as well as for financing instruments under the United Nations Development Programme and the United Nations Environment Programme.

Germany's bilateral fast start activities

In 2010 Germany supported 63 bilateral cooperation projects. They include numerous innovative projects, as for example:

- In Vietnam, a 1.2-million-euro grant is being used to make the livelihoods of coastal communities more resilient to the impacts of climate change. This has been achieved by introducing innovative financing tools, in particular using income from ecosystem payments to build capacity to adapt to climate change issues and establish an insurance scheme to insure households against adverse weather events.
- The Global Climate Partnership Fund is an innovative funding instrument, to which the German government contributed 10 million euros in 2010. Its purpose is to mobilise private capital for climate change mitigation activities. The fund is providing credit lines to local financial institutions, with which they can in turn offer loans for investments in renewable energy, energy efficiency and reduction of greenhouse gases.
- A project in Latin America follows the Bali Roadmap's call for climate adaptation by building frameworks for governance on climate change responses. 2.5 million euros have been invested to develop climate change governance capacity in the target countries. Applied research, demon-

³ PPCR: Pilot Programme on Climate Resilience ⁴ FCPF: Forest Carbon Partnership Facility ⁵ CTF: Clean Technology Fund

stration sites and public participation contribute to establishing effective ecosystem-based water management.

- In the Sahel region, a 10.7-million-euro contribution to the Fonds de Bonification of the Banque Ouest Africaine de Développement is intended to finance adaptation-related activities by member states of the West African Economic and Monetary Union to reduce people’s vulnerability to climate change in Mauritania, Senegal, Mali, Burkina Faso and Niger.
- In South Africa, the German Government is providing 10 million euros to support technical cooperation in the field of renewable energies and energy efficiency, focusing on collaboration with the private sector. Working at national level and in cooperation with universities and local authorities, the programme strengthens personnel, institutional and procedural capacities to improve the conditions for implementing and developing technologies and procedures for promoting renewable energy and energy efficiency.

Types of investment – concessionary loans for mitigation only

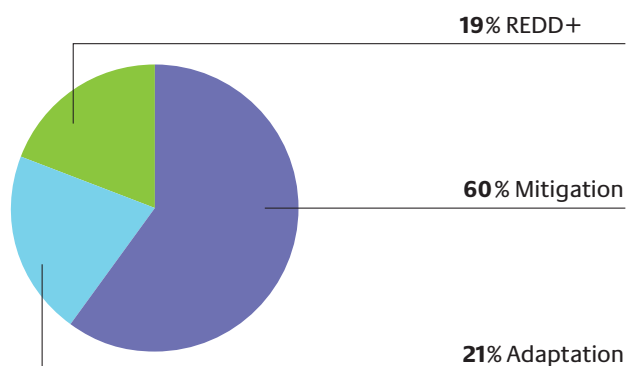
In 2010, as part of Germany’s fast start contribution, a loan was given by the KfW to the World Bank’s Clean Technology Fund. It is thus confined to mitigation. This and all future loans are concessionary to ensure that they can be classified as Official Development Assistance.

Breakdown by sector – adaptation, mitigation and REDD+

The challenge – now and in the future – is to achieve a balanced distribution of funds across the three areas of mitigation, adaptation and REDD+ within the fast start period.

Identifying suitable adaptation projects is proving to be a demanding task, especially for the ICI, which is an important instrument in the implementation of Germany’s fast start commitment. Hence, although there has been a gradual increase in applications for adaptation projects, their numbers still lag behind those for mitigation projects. Only a quarter of applications met the formal and/or technical requirements.

Fig. 4: Breakdown of how Germany’s fast start finance was allocated in 2010 (in %)



Total volume of Germany’s fast start finance in 2010: 361.5 Mio €

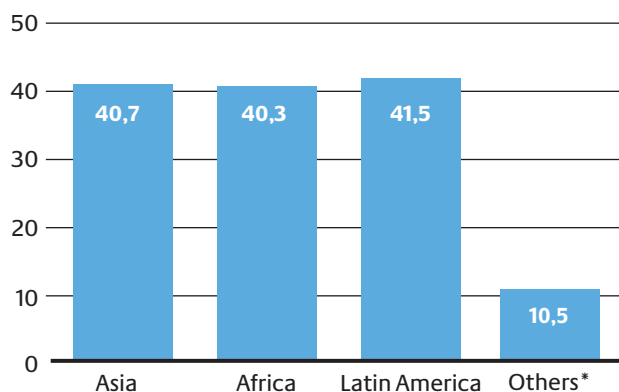
In bilateral development cooperation, it was possible to invest the funds, in addition to existing priorities and programmes, in innovative and effective projects (e.g. in financial cooperation in adaptation projects in the Sahel region). In 2010, most funds channelled through multilateral cooperation were allocated to the Pilot Programme for Climate Resilience to support adaptation to climate change.

Initial practical experience in implementing projects of this kind indicates that there is still a great need for capacity building in the field of adaptation to climate change. The German government will therefore step up capacity building in this area and focus greater attention on it when selecting projects for 2011 and 2012.

Bilateral funds – geographic distribution is balanced

In the first year, bilaterally funded fast start activities were distributed equally across Africa, Asia and Latin America (see fig. 5). German fast start funds support mitigation activities in all regions, with middle-income countries such as Morocco being one of the priorities. REDD+ projects are being carried out predominantly in Latin America. By contrast, adaptation to climate change is being supported in all regions and both multilateral and bilateral activities focus on least developed countries.

Fig. 5: Geographic distribution of Germany's bilateral fast start contribution in 2010 (in million euros)



* All recipient countries are ODA eligible according to OECD DAC (Organisation for Economic Cooperation and Development/ Development Assistance Committee) criteria.

Financing – increase transparency, facilitate access to information

Access to information about how to apply for fast start funding is of decisive importance for carrying out climate-relevant projects, particularly those funded bilaterally. Germany provides information on bilateral cooperation opportunities primarily through its diplomatic missions abroad.

In bilateral development cooperation, the need for support at government level is communicated by the partner country or identified at project level in

direct contact with local authorities, implementing organisations and the population. The support is based on the need of the specific country and integrated into its national climate-relevant strategies.

Germany has also had positive experience with the internet-based information system for its ICI. Information on financing priorities, concrete criteria for allocating funding and its two-stage selection procedures, along with the appropriate application forms, can be found at:

www.international-climate-initiative.com

Germany aims to continue expanding its information services. Use of Germany's fast start contribution is explained in more detail at:

www.faststartfinance.org

Outlook for 2011 – 2012

Looking back at the first year of Germany's fast start financing illustrates some initial lessons learned that are valuable for the next two years:

- There is still a need to adjust the **allocation of funds by sector** across the three areas of mitigation, adaptation and REDD+. Germany intends to take this into consideration when selecting projects in the future. In the field of adaptation, significant contributions will also be made as planned for the Pilot Programme on Climate Resilience and the Least Developed Countries Fund.
- Fast start financing offers an opportunity to **implement innovative approaches to climate financing** (e.g. weather insurance schemes). Germany will incorporate the insights gained here when finalising the details of long-term financing.
- **Transparency and easier access to information** about fast start funding has proved to be a key factor in its successful implementation. Germany

will therefore continue to upgrade its communication instruments, adding information about climate-relevant and environmental financing options for developing countries. The international commitment to regular reporting offers a basis for consistently evaluating and improving Germany's fast start financing.

- **Innovative financing sources** can increase the reliability of international climate finance. Germany will continue to advocate within international negotiations for this kind of financing mechanism to be developed.

- **Strong link between development and climate should be maintained.** Fast start finance helps to accelerate and intensify the efforts to link poverty reduction with adaptation and/or mitigation measures within development cooperation. E.g. cultivation methods in agriculture that are adapted to climate change contribute directly to poverty alleviation. Similarly, adaptation measures in the water sector help to achieve the United Nations' Millennium Development Goals (especially MDG 7 c – halve the proportion of people in the world without sustainable access to safe drinking water and basic sanitation).

Imprint

Published by

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Design

Schumacher. Visuelle Kommunikation,
Darmstadt, www.schumacher-visuell.de

Date

May 2011

Printed by

Druckerei Chmielorz, Wiesbaden

First Print

1000 copies