ANALYSIS

German Climate Finance Put to the Test

An assessment of German financial support for climate-related activities in developing countries from a development policy perspective

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Contents

Tables and Figures

Tables

Figures

Boxes

Executive Summary

The challenge of climate change: why international climate finance is needed

An adequate and ambitious global response to avoid a dangerous or even catastrophic level of climate change, while managing to adapt to the unavoidable impacts of climate change, requires substantially increased investments. The additional costs of these responses are estimated to be well above US$ 100 billion already, and are thus comparable to what is currently provided as Official Development Assistance.

The overall investments which need to be triggered are much higher. The provision of adequate, predictable, reliable, new and additional climate finance to developing countries to cover at least a significant share of these additional costs continues to be a crucial and controversial issue in the international climate and development policy arena.

Developed countries, like Germany, have a moral and legal obligation to provide such finance. It is enshrined in the UNFCCC itself (Articles 4.3 and 4.4), whereby Article 4.7 establishes a link between the extents to which developing countries take action on climate change and the finance they are provided with (UN 1992). Furthermore, it can be argued in view of international human rights law as being consecrated in the Covenant on Economic, Social and Cultural Human Rights that the community of States is obliged to support the fulfilment of human rights – for example, the human right to food, or the human rights to water, housing and health in other States if they cannot, by themselves, ensure the fulfilment of these rights. This obligation to international co-operation is further interpreted as an "obligation to support the fulfilment of human rights" in other countries, as one of the so-called extraterritorial human rights obligations (OHCHR 2009, 27).

The massive and adverse impacts of climate change in many of the so-called "particularly vulnerable countries" means that these States have to shoulder the double burden of being geographically exposed to very high climate hazards (drought, flood, sea level raise) while simultaneously, due to their poverty, standing less resilient and hence notably vulnerable. It can be easily argued that these States in particular need to be supported by the community of States in order to fulfil basic human rights standards (food, water, housing etc.), which are increasingly endangered through climate change.

Shortcomings in the climate finance debate

The climate finance debate under UNFCCC has, for the past years, suffered from a number of central shortcomings – in particular, the lack of political will in developed countries to provide their fair and adequate share of the resources required. Furthermore, the following points are central:

- The lacking definition of what exactly to count as climate finance, which, e.g. in the context of the so-called Rio markers, has led to a significant level of overcoding of projects as being climate-relevant;

- The lacking quantification and voluntary nature of finance pledges, as well as insufficient reporting modes, which make it almost impossible to review compliance with past pledges;

- The lacking definition of what "new and additional" climate finance exactly means, which has resulted in a great deal of mistrust between developed and developing countries, as well as confusion due to a lack of transparency.

Expecting a significant increase in the resources provided to developing countries to address climate change, a first step in this regard has been indicated through the agreement reached in Copenhagen to mobilise annually US$ 100 billion by 2020 from developed countries.

However, it will be crucial to further address, and finally solve, these shortcomings, in order to build the necessary trust and to stimulate positive dynamics towards a low-carbon, climate resilient future.

The state of German climate finance

Germany is an important player in the climate finance arena. According to the OECD, it is the second-largest donor of climate-related finance after Japan, and also a key country within the EU for the negotiating blocks.[1] According to the German government, approx. € 1.27 billion of the federal budget in 2010 are earmarked for spending with – at least a partial – relevance for climate protection and adaptation in developing countries. The largest share out of this (€ 1.13 billion) is allocated through the Federal Ministry for Economic Cooperation and Development (BMZ).

In addition, an increasing amount is provided through the International Climate Initiative set up by the Federal Ministry for Environment (BMU), an innovative instrument which is financed from auctioning revenues from the Emission Trading Scheme and thus keeps resources within the climate change policy cycle.

In total, ca. € 350 million are supposed to be counted in 2010 towards the fast start finance commitment made in Copenhagen. This is the result of the government´s own definition of "additionality", i.e. the increase of climate finance over the base year 2009 or financed through innovative mechanisms.

Germany performs relatively weak with regard to fulfilment of its commitment to provide 0.7% of its Gross National Income (GNI) for Official Development Assistance (ODA), and there are indications that it is currently losing track of reaching this objective by 2015. On the other hand, its climate-related finance pledges have been relatively reliable so far. Many pledges to international funds, as well as for bilateral initiatives, were fulfilled by 100%. Examples include the Global Environment Facility, the Least Developed Countries Fund, or the bilateral special support facility for renewable energies and energy efficiency.

Shortcomings in German climate finance

Increasing but insufficient scale of climate finance

While German climate finance for developing countries has increased over the past years, it still lags far behind the scale that a "fair share" of the required climate finance would entail, which is in the order of € 8 billion annually for additional costs.[2] What is currently being perceived as climate-related finance is usually the whole grant element of climate-related projects. While not specified in the German climate finance reporting, the additional costs covered, hereby must be assumed to be significantly lower than the € 1.27 billion, including the fact that some projects coded as climate-related do not stand this test.

Weakening additionality

Ideally, climate finance should be delivered on top of the 40-year-old commitment to deliver 0.7% of Germany´s GNI for ODA. By counting all climate finance towards the 0.7% objective, those funds are unavailable for other poverty-related purposes, despite the urgent need.

However, the German government is currently risking its reliability by moving further away from an imperfect, but relatively progressive, definition of "new and additional resources" in the context of the fast start finance pledges. In addition to relabeling a number of older promises, it is now likely that for the loans transferred to the World Bank Climate Investment Funds not only the grant equivalent of the fast start pledges will be counted towards the German overall fast start pledge. The entire volume of the concessional loans tends to be included, which is in line with the ODA requirements, but marks a concerning change from what the government indicated earlier this year, just weeks before the decisive climate summit in Cancún.

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1 See OECD DAC statistics for Rio Marker: http://www.oecd.org/document/6/0,3343,en_2649_34421_43843462_1_1_1_1,00.html

2 Applying Greenhouse Development Rights (GDR) that take historical responsibility and financial capability into account, see Santarius 2008.

Need for improving the way of reporting

The way Germany reports its climate finance and marks ODA projects as climate-related (in particular through the OECD DAC Rio Marker) creates similar transparency and coding problems to those in other developed countries. It reflects the problems that have become apparent throughout the UNFCCC climate finance history.

Both the OECD data, as well as the National Communications submitted to the UNFCCC, give only a rather vague approximation of the amounts actually spent on climate related activities. Furthermore, they depict total spending, and not only the amounts used to cover incremental costs. Therefore, they are not an adequate means to assess compliance with the UNFCCC criteria on both counts.

Lack of a coordinated climate finance strategy

Overall, climate finance is expected to be scaled-up by the German government, through bilateral programmes, as well as multilateral ones. With the BMU´s International Climate Initiative, a second significant player emerges alongside the BMZ. This creates challenges in order to effectively integrate and coordinate "conventional" ODA and climate finance, including aspects such as considering the principles of the Paris Declaration on Aid Effectiveness, advancing monitoring and evaluation of the resources, etc. So far, there is no coordinated, coherent strategy on how to address these challenges. Even the BMZ itself lacks a coherent climate strategy. Nevertheless, a recently adopted guideline to examine and consider environmental and climate aspects in the entire bilateral development cooperation, may mark a significant milestone toward such a strategy. Also, there is not yet an institutional place to continuously consider the upcoming challenges and exchange with non-governmental stakeholders, although there are frequent, informal consultations among NGOs and ministry representatives.

Mixed performance in qualitative criteria

With regard to key qualitative development policy criteria, such as country ownership, a focus on the poorest and the most vulnerable in adaptation, effectiveness and coherence, several general conclusions can be drawn. However, the limited scope of this study does not allow for a fully comprehensive analysis of all projects financed through German climate aid. These conclusions include:

Prioritising particularly vulnerable people and countries in adaptation finance: It is difficult to assess how far German adaptation finance aims at prioritising particularly vulnerable people within developing countries. The small, but politically significant financial support for the Adaptation Fund under the Kyoto Protocol is positive in this regard, since such a focus is one of the Fund's strategic priorities. However, the criteria for the BMU´s ICI do not pay explicit attention to a focus on particularly vulnerable people, or a project´s contribution to poverty reduction, apart from a general, but too vague, expected contribution to economic and social benefits.

On the level of vulnerable countries, many of those to be prioritised for fast start finance according to the Copenhagen Accord,[3] are not among the partner countries of the BMZ. Countries like Bangladesh, Senegal or Nepal are thematic partners in renewable energies, but not in adaptation-related issues. Partially, these are covered implicitly through contributions to the World Bank´s PPCR, for example. But there is a risk for some countries to fall through the climate finance grid, whereby coordination with other donors to avoid "climate orphans" is important. At least, a number of Pacific Island countries which are highly vulnerable, are assisted through a recently scaled-up regional programme, although they are not focus countries of development cooperation.

Adaptation resources spent through the BMU´s International Climate Initiative so far do not adequately reflect the Copenhagen Accord´s prioritisation (only roughly

3 As in the Copenhagen Accord and the Bali Action Plan: Least Developed Countries, Small Island Developing States and Africa

30% have been allocated to vulnerable countries, which, however, is also due to a lack of proposed projects).

With regard to country ownership, effectiveness and the emerging requirements to scale-up action on climate change beyond small projects, it becomes apparent that the increasing reservations within the German government towards more macro-level support approaches, such as budget aid, may contradict a trend in the climate debate. Here is a growing consensus, usually expressed by the EU (including Germany) in the UNFCCC negotiations, that financial support must increasingly be oriented towards the development and implementation of programmes, and even national integrated strategies, to tackle climate change in the context of national sustainable development priorities.

Recommendations

Based on the analytical findings in this analysis, a number of policy recommendations will be drawn, recognising that climate finance in general, and fast start finance in particular, are emerging as crucial angles for a global climate policy regime. Given this relevance, it seems to be even more important to constantly and systematically consider lessons learned – now and in the years to come. Thus, these recommendations should be seen as a forward-looking contribution to foster German climate finance and to make it coherent with a view to contributing most effectively to those most in need.

1. Establish a reliable set of sources to raise the required funds

Relying on voluntary contributions from developed countries alone will not deliver the adequacy, reliability and predictability of resource flows that will be required to trigger the transformation to low-carbon, climate-resilient economies in developing countries. In order to mobilise US$ 100 billion and more annually of truly new and additional resources by 2020, it is crucial to raise revenues in addition to the existing funding base of national budgets. Germany has already been a pioneer regarding innovative finance instruments, with the use of auctioning revenues from emission trading for climate purposes. More comprehensive, innovative sources, such as levies or emission trading on international maritime transport and aviation, as well as a financial transaction tax, should be implemented as soon as possible. Ideally, a share of these would flow directly into the international climate finance architecture. Building on the report prepared by the Advisory Group on Finance, the German government should actively work toward implementing these instruments, including to jointly seek solutions with developing countries on a fair distribution of the revenues raised.

2. Ensure transparency and coherence regarding the definition of "new and additional" and work towards a common definition

First, all developed countries should make transparent how they define "new and additional" for their own contributions. This would provide a starting point to try to overcome the trust gap with developing countries, at least for the future. Furthermore, developed countries should work towards a joint definition for the future. The positive political impacts of these steps, even if it would show that much of the fast start finance is not new and additional, would likely be much higher than claiming what is obviously not true, and would thereby widen the trust gap.

3. Establish clearer guidelines for developed countries on how to measure, report and verify climate finance

Given the insufficient and non-transparent state of the current reporting system, clear guidelines for a MRV finance system need to be developed. Such reporting must come with an independent and transparent analysis, e.g. performed by the UNFCCC secretariat, possibly in cooperation with the OECD DAC.

A mere compilation of figures without transparency on the additionality definition, the channels that the resources go through and the end use, would not add value, and would only provide an opportunity for "budget greenwashing". In the future, any double-pledging must be avoided. The guidelines must also address the issue of incremental costs, to provide a clearer understanding of the real relationship between the funding delivered and the estimated needs, and in how far developed countries comply with their commitments under the convention.

4. Improve the overall coherence and performance of the climate finance architecture

Improving the overall coherence and performance of the climate finance architecture is one of the key demands of developing countries who are the recipients of climate finance, and who will feel first and foremost the consequences of a failing international climate finance architecture. The current considerations in the UNFCCC process provide options to contribute to this objective.

A new climate fund with a much larger scale of available funds, thereby able to fund broader programmes and policies in developing countries, would fill an existing institutional gap. Through the provision of direct access and through following guiding principles, such as strong attention to vulnerable or affected groups of societies (such as in adaptation or REDD), it could contribute significantly to the objectives outlined in this analysis. An overarching, institutional approach on climate finance under the UNFCCC could also make a significant difference for overcoming the identified shortcomings, provided there is enough political will. Germany should actively work towards such an improvement of the financial architecture.

In order to enhance the performance of German climate finance, the following recommendations should be pursued:

5. Continue good climate finance reliability

Given the relatively good reliability of Germany´s past climate finance pledges, it is currently putting this reputation partly at risk, through expanding the ways of "creative accounting" to fulfil the Copenhagen pledge on fast start finance, and thus reducing its real, additional contribution. It should develop a roadmap of how to raise funds in order to fulfil the 0.7% target by 2015 and to increase in the years after 2015 to roughly 0.3% of the GNI, or ca. € 8 billion, as its fair share of the global climate finance requirement. As previously stated, in the future, any double-pledging must be avoided.

Fast-starting innovative finance instruments unilaterally such as the already agreed use of auctioning revenues and the aviation levy – which is not yet allocated for climate purposes, is imperative. In addition, this can help pave the way for an international agreement on such instruments.

Furthermore, this reputation can be preserved through the continued provision of adaptation finance only in the form of grants, counting only the grant element towards the climate finance pledges (not the full loans), and through an honest and thorough "coding" of projects reported as climate finance.

6. Develop a joint coherent and strategic approach to climate finance

The overall coherence of German climate finance must be improved, whereby deepening the cooperation between the key ministries BMZ, BMU (and also Foreign Office) and developing an overall coherent climate finance strategy are key elements. This does not necessarily imply merging the different existing instruments, but it should provide guidance on how they complement each other in the best way. It is also advised to establish a forum for continuous exchange among ministries, the implementing entities, as well as with non-governmental stakeholders who play a role in climate finance.

7. Strengthen the prioritisation of the most vulnerable in adaptation finance

With regard to adaptation finance, there is the particular need and the potential to strengthen the prioritisation of the most vulnerable in adaptation finance. At least for the fast start finance, the government should identify how much of the adaptation finance has been allocated overall to the group of particularly vulnerable countries as contained in the Copenhagen Accord, and seek to increase their share in particular under the BMU´s International Climate Initiative.[4] Through coordination with other donors, the emergence of "climate finance orphans", particularly vulnerable countries which fall through the funding grid, must be avoided. Financial support for multilateral funds should be steered where special attention is given to particularly vulnerable parts of the population, such as the Adaptation Fund.

8. Improve stakeholder participation

In bilateral programmes, the active engagement of civil society, and in particular vulnerable communities in the design, planning, and implementation of adaptation programmes, should be pursued. Hereby the employment of well-established human rights procedures (e.g. in development co-operation programmes) to include and to empower people should be expanded, and should become at best an obligation in such programmes. The already agreed BMZ action plan on human rights, which refers to the climate change and human rights nexus, provides an important political basis. This should also include support for inclusive, national-level institutional arrangements to guide adaptation policies.

9. Increase the effectiveness of climate finance

While of course there are many good examples for effective and efficient projects implemented through what is titled climate finance, there is an overall need to further increase the effectiveness of climate finance. The following aspects provide important guidelines which should be – and partially are already being – pursued:

- Account for the principles of the Paris Declaration and subsequent process on aid effectiveness, such as country ownership which can be increased e.g. through allowing direct access in multilateral funds;

- Develop bilateral programmes and initiatives in a way that they also complement multilateral funds as effectively as possible;

- Assist developing countries who progress to broader climate change programmes and comprehensive climate change strategies, including institutional arrangements such as national climate change trust funds, through programme, budget and sectoral aid delivery;

- Invest mitigation finance in a way that it ideally leverages private investments (without counting these private flows towards German climate finance).

10. Prepare annual reports on its delivered climate finance to the German Parliament

The responsible ministries should report annually on the state of climate finance in a transparent and comprehensive manner. This should inter alia include ex-ante allocations of climate finance, as well as an ex-post consideration of how climate finance was allocated in the previous year.

4 Since the question of which countries are particularly vulnerable is scientifically extremely difficult and politically very sensitive, the categories for prioritisation may be further developed in the future.

1 Introduction

Global warming is real. It is here, and it is already being felt today by millions of human beings as well as ecosystems and their inhabitants around the world. Adaptation to the (uncertain) adverse impacts of climate change increasingly becomes a necessity across the globe. This is not for its own sake, but to ensure that sustainable development will be possible, that investments into poverty reduction, food and water security, and health will not be undone and that progress achieved towards the Millennium Development Goals will not be reversed (Harmeling et al. 2010).

At the same time, there is increasing scientific certainty that cutting harmful greenhouse gas emissions is of high urgency, with the need to achieve a global peak in emissions as soon as possible, if the goal of limiting global warming to below 2°C or even 1.5°C above pre-industrial levels should remain achievable. Thus, "addressing climate change requires a paradigm shift towards building a low-emission society", an understanding which interestingly made its way into the current draft negotiating text debated in the follow-up to the Copenhagen climate summit (UNFCCC 2010a, 4).

However, a debate that accompanied the UN climate change negotiations since its entry into force, and even before that, is that of how and by whom the costs for responding to climate change should be covered. The transition to low-carbon, climate-resilient economies will, at least in the short term, require additional investments at a scale that most of the developing countries are not able to capture without support. Germany, as one of the biggest economies in the world and one of the historically significant contributors to climate change, will of course have to play its adequate part in this financial cooperation.

Thus, this analysis seeks to assess the current state of play on climate finance in Germany, addressing quantitative and qualitative aspects. After a brief summary of the climate finance debate under UNFCCC so far (Chapter 2), Chapter 3 explains how German climate finance works and summarises quantitative aspects of past delivery of climate finance. Chapter 4 highlights most recent climate finance data – Germany compared with some other developed countries – in the context of the so-called "fast start finance" commitments pledged at the 2009 climate summit in Copenhagen.

Based on these quantitative analyses, Chapter 5 provides a qualitative assessment of German climate finance with regard to selected criteria, both those established under the UNFCCC as well as additional human rights and development criteria. These include principles such as the prioritization of particularly vulnerable people and countries and increasing country and target group ownership. Chapter 6 finally draws conclusions and provides recommendations in particular to German policymakers with a view to contributing to the improvement of the quality and quantity of German climate finance, and the way that climate finance is dealt with overall under the UNFCCC.

2 Global climate finance and the UNFCCC

2.1 Scale of the climate finance challenge

Numerous reports published in the last years have tried to assess the investments and additional costs associated with an adequate response to climate change, both for adaptation and mitigation. While there is, not surprisingly, no one and only figure, the order of magnitude has become clearer. Only for adaptation, the additional costs in developing countries are estimated to be in the order of US$ 70 to 100 billion annually over the next decades (World Bank 2010a). The additional mitigation costs are estimated to be at least US$ 100 billion.[5]

It is important to understand the concept of "additional" or "incremental" costs. Every project requires a certain investment, be it renewable energies or an adaptation project, but usually only a certain share of project costs can be regarded as additional costs to cope with future climate change. Thus,

> *"the costs of measures that would have been undertaken even without climate change are not included in adaptation costs, but the costs of doing more, doing different things (policy and investment choices), and doing things differently are." (World Bank 2009)*

Subsequently, not every water-related project is necessary adaptation, but every water project is likely to have additional costs to climate-proof it – these are the additional costs of climate change, and these additional costs are what Annex-2-countries to the Kyoto Protocol promised to finance in Article 4.3 UNFCCC. In practice, it is often difficult to distinguish the costs, and pragmatic approaches are required. The concept of additional costs is important when comparing the order of magnitude of climate related aid finance and the demand for additional costs.

Given the difficulties in tracking climate finance by developed countries, only estimates exist regarding the scale of the resources provided per year and the overall amount spent to date. Yet all of them indicate the same conclusion, namely a) that a funding gap of tens of billions exists and b) that there has been a clear imbalance between mitigation and adaptation finance so far.[6] Furthermore, the climate aid reported, usually does not only comprise additional costs but the total financial support provided. For example, a grant for a renewable energy programme is most often fully counted as climate aid, rather than only counting the cost difference to a conventional power station (that would have been built without the need to tackle climate change). Consequently, the gap between climate finance delivered at the moment and the amount needed to cover the estimated additional costs, is even higher than the comparisons of the figures suggest at first glance.

2.2 Finance related obligations under the UNFCCC

A key reference point for addressing this discussion adequately is the UNFCCC itself as the basis for international negotiations to address climate change. In the UNFCCC, its signatories agreed upon key principles. While all Parties committed to take action on climate change (Article 4.1), the principle of common but differentiated responsibilities and respective capabilities indicates that the particular nature of these commitments vary between Parties. This is especially true for the provision of support to enhance action on climate change. The UNFCCC establishes a legally binding obligation for developed countries to "provide new and additional

5 See World Bank 2010b, for an overview of cost estimates.

6 See e.g. Roberts et al. 2008 which estimated a) the climate finance delivered through aid (excluding large-hydro dams) to be around US$ 2.1 billion and b) the adaptation-related funds to be about 1/34th of mitigation funding in development aid; see also Persson et al., 2009

Table 1: Political milestones of climate finance under UNFCCC

Event	Year	Milestone
UNFCCC	1992 (entry into force 1994)	Establishment of key obligations on climate finance and the principle of common but differentiated responsibilities
Global Environment Facility (GEF)	1994 (pilot phase 1991-94)	Establishment of the operating entity to fund the implementation of the Rio Conventions
Kyoto Protocol	1997 (entry into force 2005)	Agreement on a new and innovative source to fund adaptation: a levy on certificates generated through the Clean Development Mechanism
Marrakesh Accords	2001	Establishment of the Special Climate Change Fund and the Least Developed Countries Fund
Bali Action Plan	2007	Agreement of a negotiation roadmap towards a comprehensive agreement, including financial support Establishment of the Adaptation Fund under the Kyoto Protocol
Copenhagen Accord (CA)	2009	Heads of States commit to provide US$ 30 billion for near-term finance (2010-2012) and to mobilise US$ 100 billion annually by 2020. CA includes establishment of a new green climate fund that might be legally established at COP17 in Mexico, 12/2010.

Source: own compilation

financial resources”. Further political milestones for climate finance are listed in Table 1.

What is remarkable for the overall ambition of the Convention is the direct link between the provision of support by developed countries and the extent to which developing country Parties will effectively implement their commitments under the Convention (Art. 4.7). This link has been prominently reaffirmed in the Bali Action Plan, which was adopted in 2007 with regard to developing country mitigation (UNFCCC 2007).

Negatively speaking, one could argue that without the provision of adequate support developed countries do not have the right to demand substantial action by developing countries. Positively speaking, developed countries have the chance to trigger developing country action by providing adequate support, and thus they have a double responsibility towards the ultimate objective of the Convention, namely to avoid dangerous climate change. Furthermore, the Bali Action Plan implies the commitment to increase the adequacy, predictability and sustainability of the provision of financial resources (UNFCCC 2007).

In the Copenhagen Accord, developed countries promised to provide new and additional climate funds at a scale of US$ 30 billion for the period up to 2012. These funds are commonly referred to as “fast start finance”. Moreover, a promise to mobilise US$ 100 billion per year by 2020 was made. That signals a change into the right direction due to its quantification and intended magnitude. Nonetheless, this money will most likely not be sufficient to close the gap between funds provided and needed entirely, even if this US$ 100 billion would be used to only cover the additional costs. The promise might even get diluted if already pledged development aid is diverted to fulfil these pledges, or if private sector finance is accounted towards these goals. Eventually, developed countries might not even keep their promises since these are just political commitments, not (yet) legally binding.

2.3 Key shortcomings of the UNFCCC process on climate finance

Although key principles were agreed upon in the UNFCCC, a number of shortcomings in the fulfilment of the financial obligations came to light in the last 20 years. These shortcomings need to be dealt with in the future. The following are seen to be the most important issues with regard to fast start finance.

Lack of definition of "climate finance": What to count?

There is no clear agreement on what should exactly be counted as climate finance. However, there is legal clarity on what counts as commitments to provide finance under the UNFCCC, namely the "agreed incremental costs", which, however, in practice is less easy to apply.

At present, there are two international systems where developed countries report on their climate finance activities. Firstly, they have to address the issue in their National Communications sent to the UNFCCC on a four years basis. In these communications all measures to implement the Convention have to be reported, including financial support. Although the UNFCCC has provided guidance on what to report on, no sharp definition exists for climate finance. A second reporting system is operated by the OECD Development Assistance Committee (DAC). It has introduced the so called "Rio Marker" to mark ODA spending serving the objectives of the three Conventions established in Rio de Janeiro in 1992. The UNFCCC "climate" marker is broadly applied, but its extensive definition gives room for countries´ own interpretation.

Both definitions do not describe climate finance merely as the additional costs, but allow for marking the total cost, respectively the full volume of support provided. Hence, neither of the two is fully able to give an account on developed countries' fulfilment of their promises under the UNFCCC. Beyond doubt there is a methodological challenge to separate the additional costs due to climate change, especially for adaptation activities, that raises the question whether a strict separation is advisable.

Lack of quantification of funding obligations and transparency: How much to provide and how to report?

Another key shortcoming exists with regard to the quantification of funding obligations. The problem has different dimensions. In the first place, there have been very few quantified objectives, and secondly, these objectives have only been made in form of voluntary pledges by developed countries. Thirdly, even if specific numbers have been put on the table, it has been extremely difficult, if not impossible, to clearly track if these objectives have been met.

For example, in 2001 20 developed countries – the EU-15 plus some others – committed in the "Bonn Declaration" to contribute US$ 410 million of climate finance by 2005, a political commitment which helped save the Kyoto Protocol process, as it was severely at stake at that time (Pallemaerts and Armstrong 2009). However, monitoring if these commitments have been met proved extremely difficult, and there has not been

> *"a single official document issued by the EU with reliable and verifiable information on the total level of financial support to developing countries for climate change mitigation and adaptation purposes provided by the Union and its Member States." (Pallemaerts and Armstrong 2009)*

This problem also results in a lack of predictability and reliability regarding the delivery of support.

With respect to the fast start finance for 2010-2012, only an aggregate number has been promised in the Copenhagen Accord. Subsequently, several countries have announced individual pledges, but again, only voluntary ones. The quantification of the actual fast start finance flows faces then the described problems – no common definition of climate finance, and none for "new and additional".

However, some efforts have been undertaken to increase transparency in reporting. The EU has presented a preliminary report on its Member States' fast start finance activities (which, however, revealed very little and gave no clarity on what was new and additional) and will deliver a final report by the next climate summit in Mexico in December. An annual report is planned thereafter. The Dutch government has additionally launched a website with the support from other governments where details of fast start finance pledges can be disclosed voluntarily.[7] Unfortunately, a request to the UNFCCC secretariat to compile and analyze information on countries' pledges has been rejected by some Parties so far.

Lack of definition of "new and additional": How to count?

The fact that there was never an agreement on the definition of "new and additional" has always been a key problem for adequate delivery, and has furthermore created mistrust. For many years developing countries as well as NGOs have been demanding that climate finance, and in particular adaptation finance, should be additional to commitments to provide Official Development Assistance (ODA), since climate costs come on top of development needs and have a different legal and moral character, including the "polluter pays principle".

However, throughout the process developed countries have failed to find such a common and agreeable definition, largely because most of the countries tended to count climate finance towards ODA, or even re-label old pledges. In the following chapters, if not stated differently, "additional" will mean committed on top of ODA targets and "new" characterizes fresh money that has not been pledged before.

2.4 The role of Germany in international fast start finance

Germany is the fourth largest economy of the world and the biggest economy within the EU. Given this international weight, and by being one of the commonly progressive forces within the international climate change political arena, Germany will undeniably play a key role in determining whether the fast start finance promised in Copenhagen will deliver the best possible outcome. This holds true both for the quantitative promise and for the allocation of the resources. The role of fast start finance has to be seen not just as funding some projects, but as a bridge to higher volumes of climate finance post 2012 that will allow the developing world to adequately respond to climate change, through coping with the adverse effects, as well as making progress on the way towards low-carbon economies. The so called BASIC group – Brazil, South Africa, India and China – announced a similar position by highlighting that the US$ 30 billion fast start funding should be used

> *"to develop, test and demonstrate practical implementation approaches to both adaptation and mitigation, which can be used to inform the comprehensive package"*

negotiated under the UNFCCC (BASIC 2010).

7 www.faststartfinance.org

3 An overview of German climate finance

The 2010 German federal budget contains climate-related appropriations of around € 1.26 billion, according to the government's own assessment. These funds originate of two Federal Ministries' budgets: the Federal Ministry for Economic Cooperation and Development (BMZ) and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

The funds earmarked for climate finance will not only be spent as grants, but partially also as concessional loans. The loans are entirely counted as ODA in the year of their emission. The repayments effectuated by developing countries are afterwards discounted gradually from the overall ODA volume. By that, the climate-related ODA equivalent to the € 1.27 billion in 2010 will be much higher, presumably around twice as much. It has to be mentioned here that this 1.27 billion does not give an indication of how much can be regarded as additional costs of climate change, in the sense of meeting the commitments developed countries have made under the UNFCCC (see above).

3.1 How does climate finance work under the BMZ?

By providing € 1.13 billion for climate purposes out of its overall budget of € 6.07 billion, the BMZ is by far the larger climate financier of the two ministries. In 2010, the BMZ channels app. 85% of its overall climate finance budget – not to be confused with what is marked as fast start finance – through bilateral channels. A huge imbalance between adaptation and mitigation can be noted in the bilateral funds. The vast majority (73%) goes to mitigation activities as outlined in Table 2.

Table 2: Preliminary figures of BMZ climate finance in 2010

Channels and objectives	2010 in million €[8]
Bilateral Funding	930
Mitigation	680
Adaptation	250
Multilateral funding	166.5
New budget line[9]	35
Total	**1131.5**

Source: German Federal Government 2010a

On a thematic level different issues are summarized under the headings mitigation and adaptation. Mitigation includes sectors such as transport, energy, industry and forest protection. Spending in the water sector or agriculture is often (partly) counted as adaptation.

Implementation of bilateral cooperation and financial nature

The BMZ's bilateral support is divided into financial and technical cooperation. The former is executed exclusively by the KfW Entwicklungsbank, the German development bank, the latter predominately by the GTZ. The support channeled through the GTZ is entirely ODA eligible since no counter value of the service has to be paid back. The KfW Entwicklungsbank provides grants and concessional loans.

Concessional loans are emitted through three large programs:[10]

- Special facility for renewable energies/Energy facility (4E): Supports investments in the energy sector to promote renewable energies and energy efficiency.

8 All figures are planned spendings as of the beginning of 2010. The actual performance will only be known and made public after finishing the fiscal year of 2010.

9 Funds earmarked to the budget only in March 2010 as part of Germany's fast start finance pledge in the Copenhagen Accord. No official allocation information available yet. It is expected to be used for adaptation and REDD.

10 See http://www.kfw-entwicklungsbank.de/DE_Home/Sektoren/Energie/Engagement_der_ KfW_Entwicklungsbank/Innovative/index.jsp

■ Initiative for Climate and Environmental Protection (IKLU): Provides at least € 2.4 billion in grants and concessional loans during the period 2008-2011. It supports mitigation activities beyond the energy sector.

■ German contribution to the World Bank's Climate Investment Funds: The pledge of € 550 million for 2010-2012 will be channeled mostly through the KfW that passes on concessional loans to the CIF, except for the 50 million that will be given to the Pilot Programme for Climate Resilience as grants.

Selection of countries and projects

Bilateral funds are allocated according to a set of broader strategies and agreements, meaning that climate change related projects are no isolated activities. Sector strategies, developed by the ministry, describe principal goals of the German development cooperation on a specific topic. While there are strategies for the energy sector, biological diversity and the water sector that affect a large part of the climate change related activities, surprisingly there is not yet an overall strategy to tackle climate change. A so-called "action programme on climate change and development" has been published in 2007, but cannot be regarded as strategy due to its lack of substance.[11] Apart from this the BMZ only offers an information flyer on climate change and development. Spending one sixth of its budget on climate change related activities, the BMZ urgently ought to have a proper coherent climate change strategy or concept that outlines its rationale, priorities and strategies.

Usually, only countries that maintain development cooperation with Germany are able to receive climate finance. Whereas until the late 1990s Germany was active in 120 developing countries, at present, the BMZ maintains cooperation with around 85 countries in order to increase aid effectiveness.[12] In 17 countries cooperation will be completed and phased out in the coming years, meaning that the number of partner countries will be limited to 58 countries. Initially a country needs to have a climate related priority area in order to be eligible for BMZ's climate funds, which is also currently the case in 60 countries. These priority areas are determined in an intensive dialogue between the German government and the partner government, and finally set down in priority area strategy papers. In the course of donor harmonization, there are usually no more than three to assure effective and efficient use of funds. These intergovernmental negotiations take place on an approximately biannual basis, and result in internationally binding agreements.[13]

Only in cases where it has not been possible to fulfil the thematic target figures for climate finance by regular agreements in partner countries, within climate related priority areas, it is possible that suitable activities in other partner countries are supported to meet the target. An example of this flexibility is a regional adaptation programme to assist 12 pacific island states that are no regular partner countries of the BMZ. This has been scaled up recently from € 4.2 to 14.2 million.[14]

The selection of climate related projects and programmes follows the same procedures as any others do. Project or programme proposals are made by partner countries. They are sent to the BMZ, accompanied by a short statement of one of the German implementing agencies depending on the type of support requested. On the basis of this statement, the BMZ decides whether an activity is able and worthy to be appraised.

In case of a positive decision the implementing entity starts the project appraisal. Apart from the different strategies, certain aspects need to be considered, such

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11 See BMZ 2007; it is a 5-pager that explains the rationale for climate related measures on 2 pages and lists corresponding German activities throughout 3 pages.

12 See http://www.bmz.de/en/what_we_do/countries_regions/index.html

13 See http://www.bmz.de/en/what_we_do/approaches/bilateral_development_cooperation/index.html

14 See http://www.gtz.de/en/praxis/27718.htm

Box 1: BMZ's formal conditions to provide bilateral climate finance

Steps to take to receive BMZ's climate finance

1) Be a partner country with a climate relevant focus[15]
2) Project proposal submitted by partner country convinces German implementing agency (that writes first statement for BMZ) and BMZ (that decides on whether to appraise the proposal in depth)
3) Implementing agency's appraisal comes to positive results, i.e. recommends funding
4) BMZ decides that the project it suitable for funding and assigns the German agency with its implementation

Source: based on http://www.bmz.de/en/what_we_do/approaches/bilateral_development_cooperation/index.html

as legal, institutional and macro-economic framework; economic and management capacities of the project-executing agency; technical adequacy of the project; potential impacts (socio-economic, economic, socio-cultural, gender specific, ecological). It is the implementing agencies' responsibility to choose which aspects they concentrate on most in their analysis and report. The BMZ takes its decision based on the implementing agencies´ results and report.

The implementing agencies usually prepare their own guidelines on climate change related aspects. Content wise there are no common guidelines provided by the BMZ, apart from the country strategies that have to be followed, since there is no sector strategy. Nonetheless, a positive development appears to be the mandatory climate proofing that the BMZ approved in 2010. From 2011, it demands the implementing agencies to analyze the mitigation and adaptation potential and effects of any new project proposal, irrespective of the specific sector. If necessary, the project proposal has to be adjusted. This process aims to move forward the mainstreaming of climate change in all sectors. The results remain to be seen. The GTZ started climate-proofing their projects already in 2010, the KfW Entwicklungsbank will follow in 2011.[16]

Another entry point for coherent climate-related criteria within the BMZ and the German implementing entities could be through ex-post evaluations. In addition to the standard criteria for evaluating development assistance – namely relevance, efficiency, effectiveness, impact, sustainability and coordination, complementarity and coherence –, the BMZ chooses also certain topics that will be analyzed in more depth during a period of time. Climate change has not yet been one of those topics, which does not reflect the high relevance of climate change related activities in the BMZ's portfolio.

In a similar manner the implementing entities conduct their evaluation. At least, energy-related projects were in the focus of GTZ´s annual evaluation in 2007 (GTZ 2009). In the case of the KfW, the thematic focus lies on decentralization since 2007.[17] Considering the KfW's increasing role as an international climate financier (already 40% of all ongoing projects in 2008 with a volume of approx. € 7 billion were climate related),[18] climate change should become a topic for in-depth evaluation as soon as possible.

3.2 How does climate finance work under the BMU?

The BMU's tradition in international climate finance started only in 2008 when it first had funds for climate protection measures in developing countries at its dis-

15 With exceptions where no climate focus is required

16 see http://www.gtz.de/de/themen/26101.htm

17 see http://www.kfw-Entwicklungsbank.de/DE_Home/Evaluierung/Themenbezogene_und_ sonstige_Evaluierungen/index.jsp

18 see KfW website: http://www.kfw-entwicklungsbank.de/DE_Home/Sektoren/Klimawandel/Engagement_der _KfW_Entwicklungsbank/Klimarelevantes_Portfolio.jsp

posal. According to the "Integrated Energy and Climate Program" from December 2007 a part of the auctioning revenues of the European Trading Scheme (EU-ETS) has been earmarked for this purpose. With an amount of € 120 million annually the "International Climate Initiative"(ICI) was founded.

For the year 2010 the selection of projects has been finalized, but approved projects have not yet been made public. In previous years, funds have surged mainly into mitigation projects. It remains to be seen if this trend will continue. In 2010, for the first time, the BMU received funds of € 35 million additional to the ICI. Altogether the BMU has € 140 million[19] at its disposal to finance climate activities in developing countries (see Table 3). Out of this, € 10 million were pledged to the Adaptation Fund under the Kyoto Protocol during the climate ministerial in May 2010 in Bonn.[20]

The BMU's ICI has three thematic foci: a) Emission reduction/climate-friendly economy, b) Adaptation, c) Preservation and sustainable use of carbon reservoirs/REDD. Funds are provided as grants and ODA eligible concessional loans. The funding is open to all developing countries, no matter if they are an official partner country of the BMZ´s German development assistance or not.[21]

Twice a year, currently by 15th of April and 31st of December, project proposals can be submitted for selection. Selection criteria are quite numerous and contain amongst others:

- Innovative character (technologically, economically, methodologically, institutionally);

Table 3: Indicative BMU climate finance for developing countries in 2010[22]

Channels	2010 in million €[23]
ICI (mostly bilateral)	110
Multilateral funding[24]	35
Total	**145**

Source: German Federal Government 2010b

- Sustainability of project effects;
- Possibility of duplicating results, visibility and multiplier effect;
- Transferability of projects to the level of international climate cooperation in the context of the UN climate negotiations;
- Integration in national strategies, in international cooperation and synergies with other projects and sectors;
- Contribution to economic and social development in the partner country;
- Significance of the partner country in the context of the international climate negotiations and interest in cooperation with Germany.

The BMU has mandated the GTZ with the management of the ICI, and to give strategic advice to the BMU. For that reason a "Programme Office ICI" has been established as an independent entity, operated by the GTZ, where proposals can be handed in. It conducts a first evaluation of the project outline. Based on that, and on a final review, the BMU decides on the applications. The

19 The ICI´s volume is € 120 million, but with € 10 million allocated to Eastern European countries and Russian Federation.

20 http://www.bmu.de/english/current_press_releases/pm/45968.php

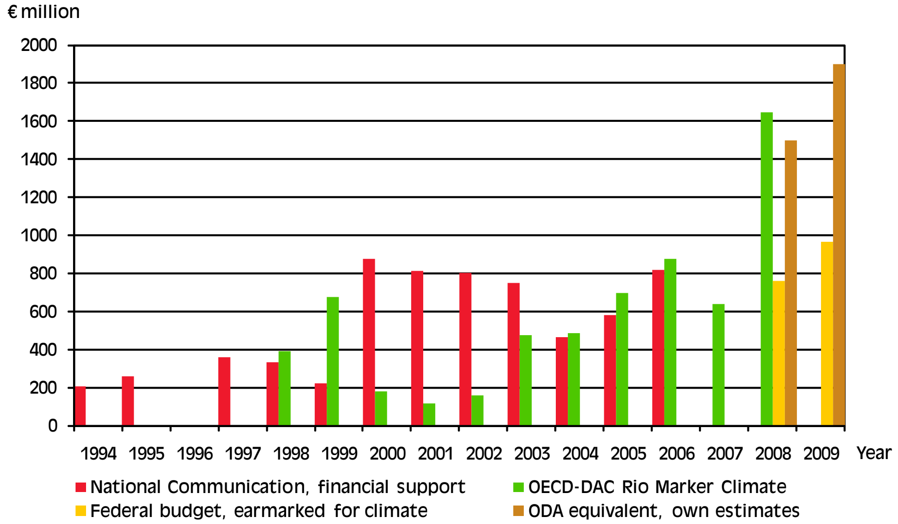
21 See http://www.bmu-klimaschutzinitiative.de/en/home_i

22 As with other climate finance flows, final figures will only be available after the termination of the fiscal year 2010

23 All figures are planned spending as of the beginning of 2010. The actual performance will only be known and made public after finishing the fiscal year of 2010.

24 Funds earmarked to the budget only in March 2010 as part of Germany's fast start finance pledge in the Copenhagen Accord.

Figure 1: German bilateral climate finance 1994-2009



Note: German National Communications for the years 1994-1995 (2nd), 1997-1999 (3rd), 2000-2003 (4th), 2004-2006 (5th). OECD-DAC in constant 2007 US$ prices converted at exchange rate US$1 = € 0.8.

Source: Own illustration, based on OECD DAC statistics; German National Communications 1-5; German Federal Government 2010a

entities implementing the projects are mainly KfW Entwicklungsbank and GTZ and other bilateral actors such as NGOs or research institutions. International organizations are eligible as well.

Projects implemented by GTZ and KfW Entwicklungsbank follow the same internal procedures as BMZ projects. Since the ICI funds are supposed to be counted as ODA, the final evaluation according to the OECD DAC criteria has to be conducted as well.

While the BMZ is partially included in the process to consider the projects, there is no overarching climate finance strategy, which, for example, outlines the strategic context and roles of the different instruments, and identifies how they can best complement each other. In particular when the ICI was initially set up in 2008, the relationship between BMU and BMZ can rather be characterized as competitive and based on suspicion. While the project selection and approval procedure has been consolidated since then and has become more coherent, it still lacks a joint strategy. This would also be particularly useful since BMU and BMZ follow more common interests and should join forces in order to strengthen their position in debates with the finance or the economic ministry, which usually are either reluctant to scale-up international climate finance or follow significantly different paradigms.

3.3 Historical development of German climate finance

3.3.1 Bilateral climate finance

BMZ's funding of climate-relevant activities has a long history, even though the label climate finance only came up in the mid-nineties. One of the oldest records available in the 1st German National Communications is support for the energy sector in the period 1961-1993, where app. € 7 billion were provided through bilateral cooperation. Data from National Communications and data reported to the OECD DAC are illustrated in figure 1.

German climate finance has increased substantially in the past 15 years, whereby a real boost can be noted after 2007, meaning after the agreement on the Bali Action Plan (BAP). According to OECD data, mitigation-related funding accounted for € 640 million ODA in 2007 and jumped to € 1.65 billion ODA in 2008, due to the introduction of new credit lines for the energy sector (see previous chapter).

Data from the 5th National Communication and government's recent information on climate finance indicate the same tendency. To date, only information on the volume of the federal budget earmarked to climate related activities is available for the last two years. However, based on previous years and details of concessional credit lines, a rough estimate on its ODA equivalent can be made.

National Communications

In the National Communications submitted to the UNFCCC, reporting on bilateral climate finance is structured according to recipient countries and climate relevant sectors, namely energy, transport, forestry, agriculture, industry and waste. The energy sector strikes the eye as well, due to its high funding. In the most recent Communication it is cited explicitly that the data are based on the Rio Marker, and broken down into sectors (German Federal Government, 2010b). In previous communications it is not clear if the same has been done, or if the whole spending on the sectors has been counted as climate relevant. Linked to this, there is no explanation of federal budget figures having been used or the ODA eligible amount of the support.

In the first years a separate category, "adaptation", was added to the mitigation sectors that had later been replaced by the category, "Water supply and sanitation", to represent adaptation funding measures. From 2000 onwards the water/adaptation sector received a more or less steady funding of € 260 million on average, and by that has always received higher funding than the energy sector. Nonetheless, the sum of all mitigation relevant sectors is by far higher than the adaptation / water sector.

There is no proof that all the water and sanitation projects counted as adaptation really have an adaptation element. The mere fact that it is a sector impacted by the adverse effects of climate change does not automatically turn these projects into a response to the specific climate change impacts expected in the given region or country. Theoretically, some of these projects may even contribute to maladaptation – for example, if they implement new sanitation infrastructure for a projected level of precipitation, which might drastically change with climate change already in the near future.

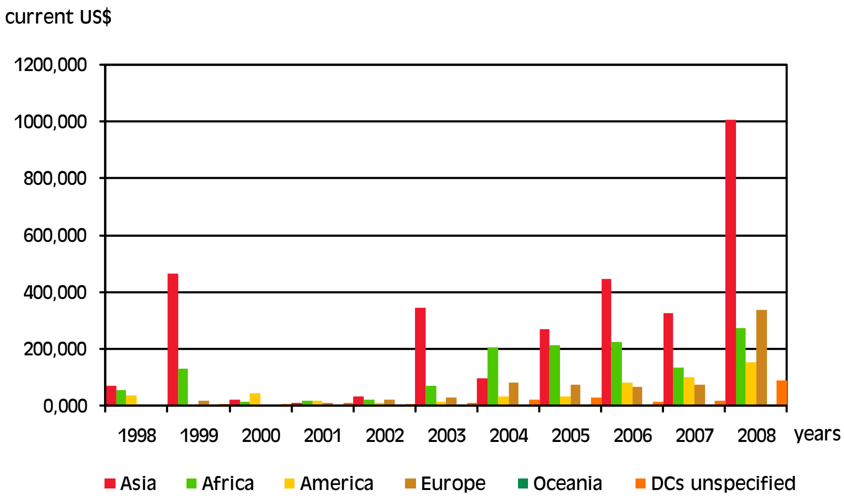
OECD-DAC Rio Marker Climate and its shortfalls

The attempt to use the Rio Marker on climate to get a consistent chronological view about climate finance will not succeed either. Since 1998 the DAC has monitored aid targeting climate change (mitigation), but reporting on them became mandatory only starting 2007 flows. Its voluntary character might have tempted some DAC members not to be as accurate as one would expect them to be since 2007. Even though Germany applied the climate marker since its introduction, for some years the provided information differs strongly from that reported in the National Communications. This fact is particularly interesting because countries report on their own responsibility in both systems. For the years 2000-2002 the data show very different realities, e.g. the financial support reported in the National Communications for 2000 and 2001 is around € 700 million higher than the marked activities at the OECD. On the other hand the data are quite similar in the years 2004-2006.

The Rio Marker for climate has some clear shortfalls. The most striking is that its definition until recently has only been applicable to mitigation activities. This could partially explain lower figures. Reacting on this deficit the OECD-DAC has introduced a new adaptation marker that will be used for the first time in 2010.

A different problem arises from the methodology used to mark the activities. Both projects that have mitigation of climate change as principle objective, and those that pursue this objective amongst others, can be marked. Therefore, the Rio Marker cannot provide exact data, but merely trends. At the same time, an overestimation of climate-related funding as understood by the UN-

Figure 2: Allocation of climate-related finance according to world regions



Source: own calculations based on OECD statistics[25]

FCCC, is virtually certain, not to mention an intended overestimation by some countries, in order to "greenwash" their ODA. Indeed, a recent study by Michaelowa and Michaelowa (2010) concluded that only one fourth of all projects that were marked as climate relevant in the year 1995-2008 actually fulfilled this purpose. For Germany, the authors discovered cases of coding errors such as "Protection of Maya archaeological sites".

With 6.6% the total number of projects being over-coded, Germany holds the 5th place (US: 45.5%, Netherlands: 20.6%, Norway: 12.6%, Portugal: 9.7%). The authors acknowledge that some of this over-coding might be related to a misunderstanding of the procedures and rapid coding habits, but certainly not all of it (Michaelowa and Michaelowa 2010).

To conclude on the development of German bilateral climate finance administrated by the BMZ it has proven to be strikingly difficult to collect, operationalise and compare data. More transparency and completeness seems to be essential to successfully monitor climate finance in the future. Clearly that requires adequate technical and human capacity, which does not seem to be given at the present time, due to the fact that BMZ statistics are outsourced to the Federal Statistical Office.

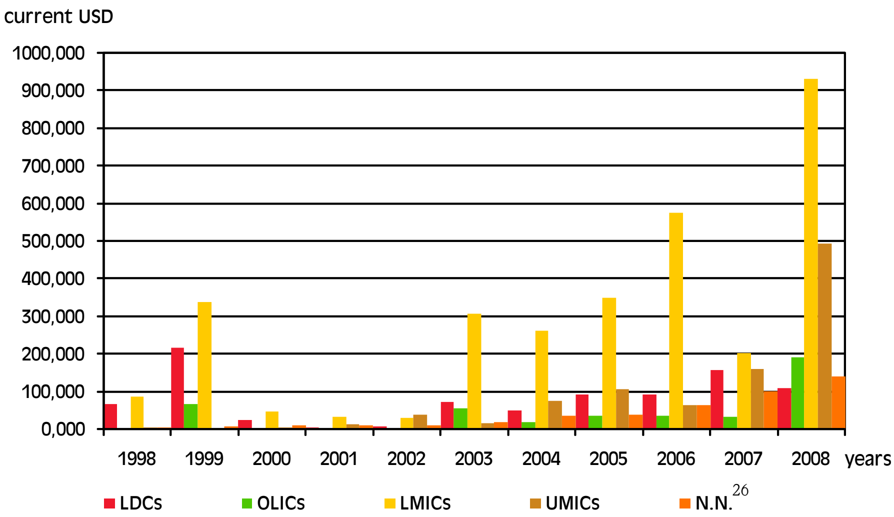
Regional distribution of climate finance according to the Rio markers

Of course it is also of interest to look at the regional distribution of climate-related finance spent by the German government. Unfortunately it is almost impossible to aggregate the OECD statistics on a country basis, due to a number of inconsistencies in the available data. For example, from 2002 on, the spending information to developing countries varies. For some countries there are only figures for the commitments, for others only for the actual disbursement, and for some countries for both aspects. Thus, only the regional allocations according to the OECD statistics are reported here. Generally one can summarise that Asia has been by large the main recipient of climate-related finance in particular over the period (2003 to 2008), with African countries being the second largest recipient (Figure 2).

Except for the year 2007, there has been an upward trend in overall climate finance, but also in these re-

25 http://www.oecd.org/document/6/0,3343,en_2649_34421_43843462_1_1_1_1,00.ht

Figure 3: Allocation of climate-related finance according to income groups



Source: own calculations based on OECD statistics[27]

gions. With regard to income groups, lower middle-income countries and upper middle-income countries are by large the key recipients of climate-related finance, while the LDCs, a group with a population of more than 800 million,[28] receives a relatively small share of the resources provided (Figure 3).

BMU´s International Climate Initiative

Due to its much smaller scope, the BMU's ICI allows for a much easier analysis. The overall volume continued to be stable since 2008. Around 60% of the funding has been allocated to mitigation projects, most of them with energy efficiency or renewable energy focus. Carbon Sinks/REDD has been the subject of approximately 30% of funds. Only 10% of the resources have been provided for adaptation measures. Regarding the type of finance, mainly concessional loans have been provided – for example in 2008, out of the ICI's € 120 million budget € 25 million were grants, and concessional loans of about € 300 million were approved.[29]

3.3.2 Multilateral climate finance

Neither National Communications nor Rio Marker provide adequate information on multilateral funding, the former due to inconsistencies, the latter since they exclude this category per se.[30] An overview of Germany´s pledges to multilateral climate funds and their fulfilment needs to be derived from the funds´ information (see Table 4).

In several examples, in particular the GEF where Germany is the third-largest contributor, the pledges have been fulfilled by 100%, or are expected to be concluded in 2010 or 2011. Certainly some pledges have been made very recently, e.g. the € 10 million to the Adaptation Fund in May 2010, or the actual work of these funds

26 LDCs = Least developed countries; OLICs = Other low income countries; LMICs = Lower middle-income countries; UMICs = Upper middle-income countries; N.N. = Unallocated by income

27 http://www.oecd.org/document/6/0,3343,en_2649_34421_43843462_1_1_1_1,00.ht

28 http://www.oecd.org/document/6/0,3343,en_2649_34421_43843462_1_1_1_1,00.ht

29 See http://www.bmu-klimaschutzinitiative.de/en/results for preliminary results of the ICI.

30 For more info on Pros and Cons of reporting systems see Moncel et al. 2009.

Table 4: German multilateral climate finance up to date – pledges vs. deposits

Multilateral Funds	Publicly pledged	State of fulfilment[31]	Further aspects
Contributions to GEF[32]	**US$ million**	**in % of pledge**	
GEF 1 (1994-1998)	242	100	
GEF 2 (1998-2002)	236	100	
GEF 3 (2002-2006)	294	100	
GEF 4 (2006-2010)	295	100	
Total GEF 1-4	**1,067**	**100**	
GEF 1-4 overall climate change share (approx. 33%)	355	100	
Total GEF 5 (2010-2014)	479	0	Pledged in second half of 2010
GEF 5 overall climate change share (approx. 33%)	160	0	
Other funds	**In million**	**In million**	
Least Developed Countries Fund (LDCF)[33]	€ 40	€ 30	Fulfilment expected in 2011
Special Climate Change Fund (SCCF)[34] (adaptation programme)	€ 20	€ 12.4	Fulfilment expected in 2011
Adaptation Fund (AF)[35]	€ 10	0	Fulfilment expected in 2010
Climate Investment Funds (CIF)	€ 550	€ 515	
Pilot Programme for Climate Resilience (PPCR)[36]	50	15	Grants, pledged in 2008
Clean Technology Fund (CTF)[37]	500	500	Concessional loans, 50% grant element, pledged in 2008
Forest Carbon Partnership Facility (FCPF)	Ca. € 20[38]	€ 30	To be delivered in 2010
Global Energy Efficiency and Renewable Energy Fund (GEEREF)[39]	€ 24	€ 22.5	
Total of other funds	**Ca. € 665**	**Ca. € 610**	

is just about to reach the state where larger amounts of resources are expected to be released. This is the case for the World Bank´s Climate Investment Funds. Overall, the average annual contribution to climate finance is significantly lower than the bilateral allocations, with ca. € 355 million annual climate-related finance under the GEF, and around € 65 million in total for the other funds over the last years (annual average).

31 As of October 2010

32 see National Communications 2-5 and GEF 2010a

33 as of September 2010, see GEF 2010b: Contributions have been paid in annual rates of € 5 million in the last years, commitment likely to be fulfilled by 2012

34 as of September 2010, see GEF 2010b

35 for 2010, € 10 million have been allocated in the national budget, but not yet delivered to the AF.

36 World Bank 2010c

37 World Bank 2010c; Concessional loans with a grant element of € 250 million.

38 See FCPF 2010: pledge of US$ 24.5 million.

39 See http://www.climatefundsupdate.org/listing/geeref

4 Germany´s fast start climate finance in international comparison

A specifically important element of climate finance is the so-called fast start finance (FSF), This refers to the promise made in Copenhagen to provide US$ 30 billion for the years 2010-2012. Thereafter, countries have announced their individual pledges e.g. the EU (27 member states and European Commission) committed to deliver € 7.2 billion over the three years.

A crucial aspect of the Copenhagen Accord is that it requires funds to be new and additional without having defined what that means. Ever since, great attention is directed to the question whether and how developed countries fulfil their promise. That is also where the difference between general climate-related finance for developing countries, as it has been described before in the case of Germany, and those resources which are counted towards the Copenhagen Accord pledges comes in, and may also cause confusion.

The question of which resources are counted towards the Copenhagen pledge becomes even more relevant, given the potential trust-building – or trust-undermining – effect of fast start finance for the UN climate negotiations in light of the historic shortcomings of climate finance outlined in the beginning.

This chapter compares the German FSF pledge and approach of fulfilling these to four other major climate financiers, namely UK; Norway, USA and Japan (see Table 7 for a summary of the comparison), in order to base the judgement of German fast start finance on a broader foundation.

Germany is historically one of the largest donors for bilateral climate change related activities, ranking second after Japan in 2008 with a climate related ODA of US$ 2.6 billion, according to the OECD.[40] In Copenhagen, chancellor Angela Merkel pledged to deliver € 1.26 billion FSF for 2010-2012, which, however, has to be backed annually by respective parliamentary budget decisions. Since a common definition is lacking regarding what "new and additional" means for FSF, a comparison must look more into detail than just comparing the height of the pledge.

Actually, Germany is one of the very few countries that made transparent their definition of additionality, that is all funds that are additional to the FY 2009 budget for climate finance (2009 baseline), or funds that originate from innovative sources. The latter criterion applies to the ICI which is funded through revenues from auctioning in Germany´s share of the European Emission Trading Scheme, where Germany is the only country which has earmarked a significant amount of revenues for climate purposes. This innovative approach as such can be seen as a positive "early mover" impulse, which, strictly speaking, does not generate new and additional money beyond 2009. However, its introduction was based on the expectation that such an early move could positively contribute to a successful Copenhagen outcome, and thus deserves some merit.

Table 5 provides an overview of how the German government plans to achieve its fast start finance pledge. As described earlier, all these figures are preliminary. The additionality definition applied here (4th column) is stricter than the German government´s one and only includes resource flows which truly originated after Copenhagen.

Applying the German government´s definition, there was almost no need for really fresh money after Copenhagen, because an increase over 2009 levels was already allocated for several budget posts before Copenhagen. Partially these originate from previous political commitments, such as to increase the funds for biodiversity protection which was made in 2008. Therefore, the majority of the money is recycled pledges (made before the Copenhagen Accord). Only € 70 million in

40 See http://www.oecd.org/department/0,3355,en_2649_34447_1_1_1_1_1,00.html

Table 5: Planned contributions to Germany´s fast start finance commitment

Position	Resources allocated in national budget (in million EUR)			Counted towards CPH pledge	Additional to pledges/allocations made before 2009	Date of pledge (budget post)
	2010	2011	2012			
International Climate Initiative (BMU)	110	110	110	330		2007, first allocated in the budget 2008
BMU budget post „Climate protection in developing countries"	35	-	-	35	35	2010, first allocated in the budget 2010
BMZ budget post "Climate protection in developing countries"	35	-	-	35	35	2010, first allocated in the budget 2010
Clean Technology Fund (CTF), World Bank	66	63	58	375[41]	-	2008, G8 summit in Japan
Pilot Programme for Climate Resilience (PPCR), World Bank	9	12	17	35	-	2008, G8 summit in Japan
Contributions to the LDCF and the SCCF	-	68	Unclear	68	58.4	New resources in 2011
Forest Carbon Partnership Facility (FCPF)	20	9	14	43	22	2007, new resources in 2011
Biodiversity/REDD (via bilateral cooperation)	30	100	200	330	-	2008 Convention on Biological Diversity (CBD COP9)
Further bilateral cooperation	23	Unclear	Unclear	Unclear	Unclear	N/A
Annual sum	328	362	399	1251	150.4	
Total sum	**1089**					

Source: Kowalzig 2010, as of October 2010 (see for more details on the specific figures)

pledges were added in 2010 as truly new money, € 35 million each for specific budget posts in the BMZ and the BMU budget.

The other countries subject to comparison in this study have been silent so far on their definition. The US counts its entire climate finance as FSF (2010: US$ 1.3 billion). Since the country has historically spent very little on climate (2009: US$ 315 million), applying the German definition of additionality results in quite a high number of "additional" climate finance (2010: US$ 989 million). Japan has a very high FSF pledge, totaling US$ 15 billion, but they count private finance into the pledge that is planned to reach US$ 4 billion. Norway has not yet decided what to count for FSF in addition to their REDD+ pledges.

41 The full loans and not only the ODA grant equivalent are expected to be counted towards the FSF pledge.

Table 6: Distribution of Germany´s fast start finance in 2010

Mitigation		Adaptation		REDD+	
Clean Technology Fund	€ 125 million	Pilot Program for Climate Resilience	€ 9 million	Forest Carbon Partnership Facility	€ 30 million
EU-UNDP climate capacity building (MRV, NAMA, LDCs)	€ 5 million	Adaptation Fund	€ 10 million		
		UNEP/UNDP Ecosystem-based adaptation flagship (under preparation)	€ 10 million		
Bilateral projects	€ 67 million	€ 53 million		€ 47 million	
Total	**€ 197 million**	**€ 82 million**		**€ 77 million**	

Source: Gorißen 2010

Apart from this, the five countries show quite similar patterns. All of them count the FSF towards their 0.7% target of GNI for ODA. Furthermore, all of the countries recycle intensively old pledges, made in occasions previous to the Copenhagen Accord. As Germany is doing with its International Climate Initiative, it is particularly striking that Norway recycles its "Climate and Forest Initiative," and Japan does so with its "Cool Earth Partnership".

According to a presentation held by a German government representative in November 2010, German fast start finance in 2010 is distributed to mitigation, adaptation and REDD+ as indicated in Table 6.

Comparing these "official" figures with Table 5, some differences and slight inconsistencies become apparent. On the one hand these are due to changes in the allocations late in the year. On the other hand, the most significant change can be explained through a change in what is counted towards the fast start finance commitment. While approx. only € 66 million of resources allocated in the budget are spent to finance the Clean Technology Fund under the World Bank (see Table 5), € 125 million are counted towards the commitment. This can be explained by the government´s decision to count the whole loan volume acquired through the € 66 million generated through the KfW Entwicklungsbank on the private capital market. While this is in line with ODA accounting rules, it is a position change which further weakens the "new and additional" components in Germany´s fast start finance.

Summarising the table, a majority of finance (ca. 77%) goes to mitigation and REDD+, while only 23% go to adaptation. Since the primary focus of REDD+ is mitigation, despite some potential benefits for adaptation, it seems more appropriate to count it towards mitigation. Regarding the distribution between bilateral and multilateral channels, approximately 53% are expected to be spend for multilateral channels, which, interestingly, is a much higher figure than assumed earlier in the year.

Regarding the latter aspect, donors have clearly different preferences. Norway and Japan plan to use mainly bilateral channels, the UK and the USA will channel the majority of their FSF through multilateral organizations.

The German FSF will be provided as grants and loans. The same holds for UK, US and Japan. However, the Japanese FSF funds will be mostly delivered through loans, and 50% of the funds are not ODA eligible since their grant equivalent is not high enough, which means that they at least come on top of ODA. Norway only gives grants for REDD+.

Table 7: Country comparison of fast start finance approaches

Criteria	Germany[42]	UK	Norway[43]
Role as (climate) donor[44]	0.35% GNI on ODA in 2009 Average proportion of its bilateral ODA on climate 2005-2007: 9.8% 2009 climate finance budget: € 1 bn	0.52% GNI on ODA in 2009 Average proportion of its bilateral ODA on climate 2005-2007: 0.4%	1.06% GNI on ODA in 2009 Since 2008 "Climate and Forest Initiative" for REDD+ (approx. $ 500 m annually)
Fast Start Finance (FSF) pledge	2010-12: € 1.26 bn FSF Average: € 420 m annually (2010: € 350 m, 2011: € 409 m, 2012: € 501 m)	$ 800 m/year (£ 1.5 million total) pledged with £ 511 committed to specific programmes and £ 190 m delivered	2010-12: $ 1 bn REDD+ plus amount X tbd 2010: $ 360 m REDD+ plus X tbd
Additionality of FSF	Official definition: funds additional to 2009 climate finance budget or funds originating from innovative sources (=ICI funds) 2010: all recycled pledges except € 70 m Entirely counted towards 0.7% target	No official definition After reaching 0.7% target blending of non-climate ODA and climate finance, e.g. max 10% ODA for climate 2010-12: mostly recycled old pledges Entirely counted towards 0.7% target	No official definition 2010: mostly recycled old REDD+ pledges Entirely counted towards 0.7% ODA/GNI target
Objectives for FSF	2010 BMZ total climate funds: 77% mitigation (incl. REDD), 23% adaptation	Distribution targeted: 30% adaptation, 50% mitigation, 20% REDD	64 - 100% REDD+ (depending on other funds yet to be declared as FSF)
Channels for FSF	2010 BMZ total climate funds: approx. 47% bilateral, 53% multilateral	DFID: £ 19 m PPCR: £ 202 m CTF: £ 155 m FIP: £ 88 m SREP: £ 35 m Congo Basin Forest Fund: £ 35 m GEF (climate change element): £ 11 m FCPF: £ 10 m	2010 allocations for REDD+:- Brazil-Amazon Fund: $ 142 m- FIP: $ 48 m Civil Society Funding Scheme (through NORAD): $ 29 m- UN-REDD Programme (multilateral): $ 29 m Congo Basin Forest Fund: $ 28 m- Other (Including Indonesia, FCPF, overhead, conferences etc): $ 20 m Tanzania (bilateral): $ 17 m- FCPF Readiness Fund: $ 11 m- ITTO REDDES: $ 4 m- Indonesia (bilateral): amounts TBD
Type of finance for FSF	grants & loans	Loans < grants	All REDD+ funds are delivered as grants

42 German Federal Government, 2010; Kowalzig 2010

43 Norway 2010; WRI 2010

44 see OECD DAC statistics for ODA figures and Rio Marker

USA [45]	Japan [46]
0.2% GNI on ODA in 2009 Average proportion of its bilateral ODA on climate 2005-2007: 0.2% 2009 climate finance budget: $ 315 m	0.18% GNI on ODA in 2009 Average proportion of its bilateral ODA on climate 2005-2007: 11.3% Since 2008 "Cool Earth Partnership" ($ 10 bn for 2010-2012)
2010-12: N.N. ($1bn REDD+) 2010: $ 1.3 bn total climate finance, $ 989 m increase to 2009	2010-12: $ 11 bn public, $ 4 bn private ="Hatoyama Initiative" (remaining $ 7.5 bn of the "Cool Earth Partnership" + additional funds)
No official definition i.e. all climate finance counted as FSF. 2010: mostly new, except approx. $ 230 m Entirely counted towards 0.7% target	No official definition 2010-12: 25% of all projects decided and implemented prior 2010, majority are recycled Cool Earth funds Only approx. 50% of FSF is ODA eligible and counted towards 0.7% target
2010 total climate funds: 35% adaptation, 45% mitigation, 20% REDD +	2010: 3% adaptation, 95% mitigation, 4% REDD+
Roughly 60% of the funds will flow through multilateral channels, and the rest bilaterally. CIFs: $ 375 m in FY 2010; estimated appropriation of $ 575 m in FY 2011. CTF: $ 300 m in FY 2010; $ 370 m in FY 2011. PPCR: $ 55 m in FY10; $ 65 m for FY2011. FIP: $ 20 m in FY2010; $ 95 m in FY 2011. SREP: $ 45 m in FY 2011.- FCPF: $ 10 m in FY 2010, $ 15 m in FY 2011. LDCF and the SCCF: $ 50 m in FY 2010; $ 70 m in FY 2011. GEF: $ 26 min FY2010; $ 90 m in FY2011 ($ 49 m for clean energy & $ 27 mfor sustainable landscapes).	$ 7.2 bn ODA includes: $ 6 bn of ODA and $ 1.2 bn CIFs (CTF: $ 992 m, PPCR: $ 99 m; FIP: $ 60 m; SREP: $ 40 m) $ 7.8 bn in other official financing will be channelled through:- Japan Bank of International Co-operation (JBIC)- Nippon Export and Investment Insurance support for counter-risk measures-Unknown private sources, but will likely include Japanese private sector
Grants	ODA eligible funds: mostly loans ($7.2bn), non-ODA eligible funds: blending of public and private ($7.8bn)

45 US treasury 2010; WRI 2010

46 Japan 2010; WRI 2010

5 Performance of Germany's climate finance against UNFCCC and development criteria

Based on the previous analyses, it is important to assess whether the German approach to climate finance complies with the key criteria set out in the Convention, in the Bali Action Plan and in the Copenhagen Accord. In addition to these three, further criteria will be introduced that are drawn from development cooperation, and whose objectives are to ensure that key target groups are reached and that climate finance is effective in the sense of the aid effectiveness debate.

5.1 German climate finance against criteria spelled out in the UNFCCC process

The challenge in assessing the "compliance" of German climate finance with regard to the UNFCCC criteria is obvious given the fact that there are no agreed definitions (see Chapter 2). Thus, this exercise cannot be carried out in a box-ticking approach. Nevertheless, a more general judgement seems also possible.

5.1.1 New and additional

As addressed before, the criterion "new and additional" has a long history in the UNFCCC process, without having led to an agreed definition to date. The German fast start finance definition of "additional" has its positive and negative aspects.

A clearly criticisable aspect is that all resources are counted towards the 0.7% ODA target. The relabeling of pledges made before Copenhagen is another problem. Moreover, the biodiversity funds in the FSF pledge have evoked critique since they are based on a promise made by Chancellor Merkel during the Convention on Biological Diversity COP in 2008, and hence, are double-counted to fulfil promises made under two different Conventions. Controversial is also the fact of counting the ICI to fast start finance since it is definitely not new. On the other hand, it is additional to resources originating from the "conventional" national budget, and there are good arguments as to why the early introduction of innovative sources should not be "punished" through not taking them into account.

A more recent change into a negative direction is that now for 2011 not only the grant equivalent of contributions counted towards the fast-start pledges, but the entire volume of the concessional loans in included. By doing so, the German government follows the negative example of other developed countries to reduce the budget resources that are needed to reach its promise.

However, overall and unfortunately, one has to admit that the German approach has even been more progressive and transparent than the approach applied by other countries. Most developed countries took their decision on what to count into their fast start finance in a very non-transparent manner, or just counted their whole support for climate activities as such.

This means, however, that developed countries are failing to use the Copenhagen Accord pledge of new and additional resources as an opportunity to build up trust with developing countries and to start overcoming the existing climate finance shortcomings. While it could be argued that the Copenhagen Accord pledges came too late for the budget year 2010 to show effect, there is no sign that developed countries would try to step up their ambition in the remainder of the fast start finance period (2011 and 2012).

Actually, it is no secret to developing countries that most of the fast start finance will not be new and additional. The only way forward to regain trust is to confess this, to try to arrive at a joint definition for "new and additional" resources which for the future can ensure that new pledges result in really additional resources, and determination to find ways for a more coherent and transparent reporting.

5.1.2 Predictability

There are two ways to address predictability. German overall financial support is not predictable if the commitment to reach the 0.7% ODA target is taken as the reference. Already the mid-term target to provide 0.51% of the GNI in 2010 will not be fulfilled, in 2009 the ODA share was only 0.35% (OECD DAC, 2010).

However, at the level of specific climate related initiatives, the picture is more diverse and gives reason for optimism. One of the biggest programmes, the German special facility for renewable energies and energy efficiency, was promised to make available € 500 million of concessional loans between 2005 and 2010 (Renewables 2004). Due to the high demand by developing countries, the full amount had been allocated already in 2007. Therefore, the programme was extended until 2011, and its overall volume raised to a total of € 1 billion (German Federal Government 2009). This case of over-fulfilment can be seen as a positive example of predictability.

As shown in Table 4, Germany fulfilled all its pledges to the GEF so far. There are also examples where the pledges have not yet been fulfilled, such as the LDCF and the SCCF. While fulfilment is expected in 2011, it reveals the problem of unscheduled pledges, where it is not clear in which timeframe resources will be delivered. This limits the predictability and the possibilities of funds to take funding decisions.

Nevertheless, the overall performance of Germany in fulfilling climate-related finance commitments has been quite good so far. However, as described in the previous chapter, in the context of fast start finance, negative developments loom ahead in respect to the predictability of German fast start finance.

Within the German government's debate about budget cuts, its definition is under attack and may not survive into 2011. As of October 2010, it is likely that the only genuinely fresh money, the two new budget lines in the BMZ and the BMU budgets, will be sacrificed and cut to zero. At the same time, accounting tricks like counting in the full loan element instead of just the budget contribution are being used to fulfil the commitment. Thereby, Germany is further weakening its "new and additional" definition.

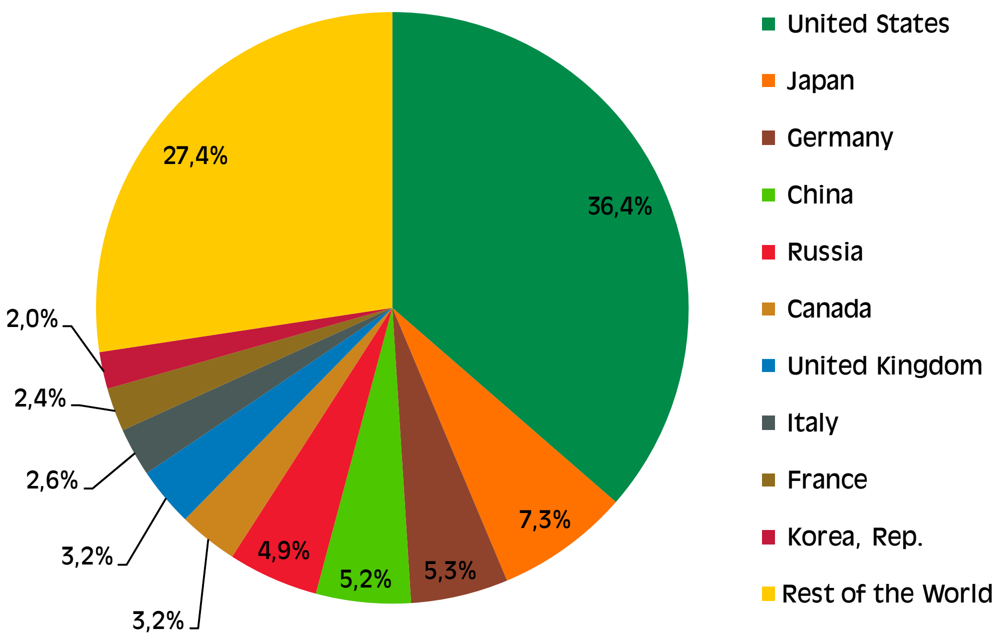
5.1.3 Adequacy

It is not easy to judge whether German contributions to climate finance are adequate since there are different reference levels that can be taken into account. The indicators of historic responsibility and financial capability are the most commonly used to address the UNFCCC-enshrined principle of "common but differentiated responsibilities and respective capabilities" (Art. 3.1) (UNFCCC 1992), although their concrete interpretation varies. For historical responsibility, a conservative, but politically reliable approach is to take into account emissions from 1990 onwards. With the adoption of the first IPCC report in that year, every country confessed to be aware of the climate change problem. It is important to note that the calculations under the Greenhouse Development Rights Framework apply a so-called "development threshold", which means that "emissions that correspond to consumption below the development threshold" are excluded (Baer et al. 2008, 18). This takes into account more realistically the effects of unequal distribution within a country, such as India or China. According to this concept, Germany has the third largest responsibility for emissions after the US (36.4%) and Japan (7.3%) with a share of 5.3% of total global emissions since 1990 and followed closely by China and Russia (see Figure 4). Of course these relations are expected to change significantly in the coming decades (see Baer et al. 2008).

If the historical responsibility is combined with the financial capability, according to the Greenhouse Gas Development Rights Framework, Germany's "fair share" increases slightly to 5.5% and by that it is at the same level as China. Assuming that only developed countries have a legal obligation under the UNFCCC to contribute to international climate finance, Germany is responsibly to deliver a share of 7.1% (US: 43%, EU 27: 33%) (see also Satorius 2008).

Taking the in itself inadequate US$ 100 billion envisaged in the Copenhagen Accord, and assuming it would be mobilised as public contributions from developed countries, which is closer to the actual needs identified by many studies, Germany would have to contribute ap-

Figure 4: Historical responsibility for emissions from 1990 to 2010



Source: own illustration based on Baer et al. 2008

proximately US$ 8 billion a year. This is still significantly higher than the current delivery. If this US$ 100 billion would be interpreted as additional, incremental costs, which seems to be politically unlikely at the moment, the gap between the envisaged delivery and the current spending would be even bigger.

In the context of the new energy concept, the German government has decided to establish a new internal Fund for national and international energy and climate purposes. It will be fed through the increasing resources from the Emission Trading Scheme and from revenues obtained from the major power companies as a means to benefit from their extra rents caused by the cancellation of the nuclear phase-out. It is not yet clear what the scale of resources allocated for international climate purposes will be, and they likely will be counted fully towards the 0.7% target. Still, a scale of 7 to 8 billion, be it US$ or EUR, is not in sight.

This is one of the reasons why the implementation of additional innovative instruments, which either go directly into international funding mechanisms or flow into national budgets to then fill up countries´ contributions, is of crucial importance. The Advisory Group on Climate Finance (AGF), set up by Ban Ki Moon after Copenhagen, has published a report outlining possible instruments, which, depending on their design, could mobilise a US$ 100 billion or significantly more (AGF 2010). In the view of the authors, raising revenues from international transport (maritime and aviation) is of particular importance, also because of additional mitigation benefits. Supporting these approaches and trying to find solutions concurrently with other developed and developing countries is an important task for the German government and an opportunity to scale up their climate finance to an adequate level.

Of course, one could also apply the adequacy principle on a lower level, to the specific funding instruments, at least where there is a clear reference. For example, in the case of the Least Developed Countries Fund it is estimated that approx. US$ 1.8 billion are required to cover the needs for all National Adaptation Programmes of Action (NAPAs). Most of the LDCs have now submitted their NAPAs. Assuming a German share of ca. 7.1% out of the up to US$ 1.8 billion, the German contribution would be US$ 128 million, approximately twice of what has been pledged so far. Other countries (e.g. Denmark) have a much higher contribution compared to their responsibility. There are also other cases where Germany contributes more than that 7.2%, e.g. Germany's contribution to the GEF amounts to 13,5%.

However, it would not be appropriate to judge Germany´s contribution to each Fund by that formula. Different international Funds have different purposes, advantages and shortcomings, so a country should also have some flexibility regarding where it puts its money. Furthermore, giving a large amount of money into a Fund which does not work well may be more problematic than helpful.

5.2 Development cooperation criteria to guide climate finance and Germany´s performance

While the previous chapter assessed the performance of German climate finance in quantitative terms, this sub-chapter looks more closely into some relevant, qualitative criteria. Given the dispersed and incomplete information on climate finance that is available today, as well as its complexity, this qualitative assessment can only look at some key aspects. Reviewing every project financed in the context of climate change, with regard to its performance in the criteria, is beyond the scope of this study. The focus of this chapter is thus more on the current process in the context of fast start finance.

It is critical to understand that the allocation of climate finance should be guided by certain qualitative criteria. This is in particular the case, since there is not yet an overall, coherent strategy within the German government. At the same time, there are established criteria which have to be applied in the climate finance context. These may vary between areas, such as adaptation and mitigation.

Given the crucial role of poverty reduction and the objective of the organisations which have prepared this study to contribute to sustainable livelihoods of the poorest and most vulnerable, this analysis will have a certain adaptation focus.

5.2.1 Prioritising the poorest and particularly vulnerable people and countries

The debate about the "most vulnerable" has to distinguish between the level of people and the level of countries. From a human rights point of view, the perspective of those people who are particularly vulnerable to the adverse effects of climate is central. It has to be noted that vulnerability is a very complex concept and that it is challenging to identify the most vulnerable people, as well as countries. Nevertheless, addressing this challenge as such is an important criterion to contribute to serving the needs of particularly vulnerable.

Particularly vulnerable people

Poverty reduction is an overarching goal of international development policies, as enshrined in the Millennium Declaration and the Millennium Development Goals. In many cases, the poorest are also the most vulnerable to the adverse effects of climate. Thus, one could generally assume that strategies serving the poorest will also serve the most vulnerable.[47] As Persson et al. (2009) point out, integration of adaptation with pro-poor focused development strategies, both by the public sector as well as e.g. civil society, is potentially effective in reaching the most vulnerable groups. There is also increasing work going on to target different types of poverty through differentiated adaptation concepts (Mitchell and Tanner 2009). Furthermore, it is important to recognise that

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47 Nevertheless, this is site- and context-specific. Theoretically it could be the case that the poorest in a country live in an area which is relatively safe from climate change, while better-off people live in an area frequently hit by climate related disasters. But this is likely the exception.

an obligation for developing countries to focus adaptation efforts on the poorest and most vulnerable can be derived from the obligations under international human rights law, where basic human rights such as the right to adequate food, water, housing etc. are threatened by climate change. This includes the need to avoid maladaptation, which has adverse effects on these groups.

On the multilateral level, the Adaptation Fund is an interesting starting point, since one of its strategic priorities is "to give special attention to the particular needs of the most vulnerable communities" (Adaptation Fund 2009). The first two projects approved in September 2010 explicitly target particularly vulnerable communities (Kaloga and Harmeling 2010).

Thus, it is a positive signal that Germany has been one of the first countries to pledge financial resources to the Adaptation Fund. Under the PPCR, the adaptation-related multilateral fund, (where Germany pledged most of its adaptation resources), one of the questions guiding the country missions in the context of stakeholder participation is how specifically vulnerable groups have been consulted, which is quite less significant than having such reference as a strategic priority, like in the AF. At this point in time, it is too early to judge how well the consultative process will be in this regard. It should be closely examined in the future since the PPCR will allocate relatively large amounts of money in some countries.

The easiest starting point for bilateral climate finance here is to look at the criteria of the International Climate Initiative under the BMU. With regard to vulnerable people and communities, ICI adaptation projects do not have to demonstrate that they are paying special attention to the needs of particularly vulnerable people within countries, or something similar. All that is required in the project forms is to lay out how a project contributes to economic and social development in a project region, which is quite broad. Theoretically, thereunder it would also be positive to support the richest parts of the society in adaptation. The BMU criteria also do not demand contribution to poverty reduction, which implicitly would address many of the particularly vulnerable. Since the officially available information on the BMU website only contains very brief summaries of the projects, it is not possible to judge whether the funded projects address this priority to a large extent. A detailed analysis of the currently funded projects would provide a better basis and reveal if perhaps they would contribute to the adaptation needs of the most vulnerable. However, there is no requirement in the project guidelines.

A similar question arises for the situation of indigenous peoples in the context of REDD, which, under the BMU guidelines, neither seems to be addressed.

Whether adaptation projects funded under the BMZ´s bilateral cooperation perform better is not possible to judge. However, on a general level, given poverty reduction is the overarching priority for development cooperation, there is at least a certain probability that more attention is being paid to the situation of particularly vulnerable people.

Particularly vulnerable countries

Particularly vulnerable countries, according to the Bali Action Plan or the Copenhagen Accord, are Least Developed Countries (LDCs), Small Island Developing States (SIDS) and African Countries. At least for fast start finance there has been political agreement in Copenhagen that these countries should be prioritised. The BMZ currently has on-going development cooperation with all types of vulnerable countries, but it does not maintain a focus area related to climate change with all of them (see Table 8).

A climate-related focus, which comprises "Environmental policy, protection and sustainable use of natural resources" and "Renewable energies", is agreed within country programmes with the LDCs Afghanistan, Bangladesh, Benin, Madagascar, Mauritania, Nepal, Senegal and Uganda. Only one single SIDS figures in the list of the BMZ´s partner countries, namely the Dominican Republic, which maintains a thematic/regional cooperation with Germany in the area of environmental policy, protection and sustainable use of natural resources.

Table 8: BMZ's cooperation with particularly vulnerable countries

Country group	Country programme	Thematic/regional coopertation	Thematic focus area related to climate
Least Developed Countries (LDCs)	23	4	8
Small Island Developing States (SIDS)	0	4	1
African Countries	26	6	13
Total	49	14	22

Source: BMZ website, parliamentary inquiry (07/2010)

However, only recently an regional adaptation programme with Pacific Islands States has been scaled-up significantly, from € 4.2 to € 14.2 million.[48]

In the light of the high volumes Germany spends on climate finance, there is indication that so far the politically agreed prioritisation of adaptation finance to these groups of particularly vulnerable countries is not reflected in the real spendings. It would be valuable to officially assess how much of the adaptation resources go to these countries, as part of a more comprehensive reporting by the German government.

Based on the project information available from the BMU´s International Climate Initiative, the authors assessed the quantitative distribution of adaptation finance to these country groups. Table 9 shows the sum of approved finance for these country groups, as of October 2010. One has to take into account that some of these projects will last until 2012, so these are not annual figures. Furthermore, several of the projects in the BMU´s adaptation category have a strong biodiversity component. From the brief project descriptions, it is not always clear if there is a real adaptation component therein, in the sense that the projected particular effects of climate change are taken into account. In total, of the 181 mitigation and adaptation projects that have received funding from the ICI in the last two years about one third is situated in Brazil, South Africa, India and China, mostly in mitigation, but also some adaptation projects.

The table shows that in total, only a bit more than a fourth has been allocated to the group of particularly vulnerable countries. This does not mean that the funding has been allocated to the wrong projects, since undoubtedly other developing countries are also vulnerable and have adaptation needs. However, so far the ICI does not fully reflect the political definition of particularly vulnerable groups on which the German government has agreed.

The case of the SIDS, nevertheless, also shows the difficulty of judging an appropriate funding. Two regional projects for Pacific island states with a total population of ca. 2 million provide € 5 million, € 2.5 per inhabitant.[49] Applying the same ratio to e.g. Ethiopia (which got approved one ICI adaptation project with € 2.2 million), would result in adaptation support of € 220 million.

Part of the problem may be that that too little good projects have been submitted from these countries so far, so the lack of compliance with the intended prioritisation is likely not made with intent. Nevertheless, for the coming years, the BMU should try to work toward increasing the share of the aforementioned groups, in

48 http://www.gtz.de/en/praxis/27718.htm

49 Population estimates according to http://www.un.org/special-rep/ohrlls/sid/list.htm

Table 9: Adaptation finance under the ICI for particularly vulnerable country groups

Country group	Number of projects	Countries/regions	Total amount of adaptation finance in ICI 2008/2009 in million €	Share of all adaptation finance in ICI in 2008/2009
Least Developed Countries (LDCs)	3	Ethiopia, Mali, Rwanda	4.6	10%
Small Island Developing States (SIDS)	2	Regional programmes in the Pacific	5.0	11%
Africa	4	Ethiopia, Ghana, Mali, Rwanda	6.8	15%
LDCs, SIDS and Africa (total)	7	All of the above plus one policy support project for LDCs and SIDS	13.0[50]	28%

Source: own calculation based on http://www.bmu-klimaschutzinitiative.de/de/projekte_iki, as of 30 October 2010

particular LDCs and African countries, in the adaptation finance allocated through the ICI.

5.2.2 Increasing ownership of countries and of target groups based on human rights

Developing country ownership

Increasing developing country ownership is a key objective in development policy, manifested in the Paris Declaration and the Accra Agenda for Action.[51] In the case of adaptation to climate change, country ownership is even more important since adaptation finance is not aid but of a restitutive nature (Mueller and Gomez-Echeverri 2009). For that reason, countries that have not caused the problem of climate change – in particular vulnerable developing countries have contributed very little to global greenhouse gas emissions – are morally, and legally (through the UNFCCC) entitled to receive finance to adapt to climate change. In practical terms, it means that

> *"eligible countries should be allowed to set their own adaptation [and mitigation] priorities through dialogue with other in-country stakeholders, supported by finance delivery mechanisms that promote programmatic approaches to adaptation." (Persson et al. 2009, 75)*

Expanding the opportunities for developing countries to directly access resources from funds, instead of being obliged to go through multilateral entities, such as the World Bank or UNDP, is one of the means to increase ownership in line with the Paris Declaration objectives. Of course, direct access must be designed in a way that ensures that certain standards are met, including the criteria outlined in this chapter. Direct access does not mean giving a blank check to developing countries. The Adaptation Fund under the Kyoto Protocol is currently the only international Fund related to climate change, which provides the option of direct access.

Since the projects funded through the BMZ are usually a result of negotiations with governments in developing

50 Since there are overlaps in the country groups, the figures and percentages can not simply be added up.

51 See http://www.oecd.org/department/0,3355,en_2649_3236398_1_1_1_1_1,00.html

countries, a certain level of ownership is ensured. What cannot be assessed on a general level is in how far specific political conditionalities are applied in these country-to-country negotiations, which would not seem appropriate from a climate change and adaptation point of view. What becomes obvious from the way that projects are approved, is that it is difficult for governments to submit climate change-related proposals if they are not an official partner country of the German development cooperation, or if their cooperation with Germany does not already include a climate-related focus area. This may restrict the possibility for some highly vulnerable countries to benefit from German fast start finance.

In that regard, the BMU´s ICI can be seen as an important complement to the official German development cooperation through the BMZ, since it opens up the opportunity for highly vulnerable countries to access specific climate finance, if they want to. However, it remains to be seen how this plays out in the overall context of development cooperation coordination and coherence.

A tendency which may be undermining the objective of strengthening country ownership is the stronger reservations of the new German government, in particular the party in charge of the BMZ (FDP), with regard to budget and other broader ways of support. While there is a shift in the climate debate moving from a project-based approach to support programmes or even comprehensive, national low-carbon and climate-resilient development strategies (also demanded by the EU), this trend in German development policy is not supportive of a stronger focus on programmes and even policies.

There are of course good reasons to approach budget support carefully, given governance problems in some developing countries, but it a) needs to be distinguished from programme support, and b) there are certain conditions which can put budget support in a functioning framework. Key aspects include that a) adaptation and mitigation strategies and policies need to be embedded and be consistent with poverty reduction and development planning processes, on the basis of national initiatives and strategies, b) the attached policy dialogue must be designed in a participatory manner, and c) an obligatory framework to assess, control and evaluate the use of the resources provided (Horstmann et al. 2009).

Interestingly, the approach pursued by some developing countries recently to set up specific national climate change funds with the objective of implementing national climate change strategies as a means of promoting the integration of climate change into national policies, is one which can provide a way to address the different aspects. For example, Bangladesh has set up a specific climate change trust fund, which, on the basis of the National Climate Change Strategy and Action Plan, functions through an on-budget and an off-budget element.[52] The on-budget part is financing specific governance policies, which already have been outlined in the National Strategy, and include the line ministries taking the lead for the implementation of specific sectoral action plans. It is comparable to a usual budget support. The off-budget part disburses resources to non-governmental stakeholders. The whole fund is governed by a multi-stakeholder committee. The World Bank will oversee due diligence requirements. This approach also facilitates transparency with regard to the level of climate finance provided.

By scaling up support for the Adaptation Fund and such national funding approaches, as well as assisting them through capacity to do their work as good as possible, the German government can create an important stimulus to increase the ownership of developing countries.

Ownership of target groups

The increased ownership of target groups, in the case of adaptation ideally the particularly vulnerable groups of the population, is of course a crucial objective. On

52 See http://gurumia.com/2010/06/02/climate-change-resilience-fund-was-establishedbangladesh-to-receive-110-million/ and Müller, 2009

the one hand, this helps to make the projects and programmes successful, since experience of decades of development cooperation shows that many approaches which have not sufficiently included target groups in the design and implementation of projects have failed. On the other hand it is also important from a human rights point of view. Since climate change affects many human rights, human rights obligations need to be applied, in particular in the case of adaptation (OHCHR 2009). This holds for donors on the international level, but in particular for developing country governments, most of which have committed to the human rights obligations.

A human rights-based approach starts with the identification of those people whose enjoyment of human rights is most at risk through a given threat – here climate change – or certain measures (see Bals et al. 2008). This links in to the issue of particularly vulnerable people outlined earlier. However, it has much broader implications since under the human rights system also certain procedural requirements have been established, which ideally result in a real empowerment of people.

How are human rights treated in German climate finance? Given the overarching role of climate finance under the BMZ, it is important to recognise the fact that the BMZ committed to gear its development cooperation to human rights. It has also adopted two consecutive action plans on human rights. Interestingly, the action plan for the period 2008 to 2010 intends to focus on the relationship between climate change and human rights on the international level (BMZ 2010). The action plan also commits the BMZ to work towards a joint position of the German government, which is of relevance to the climate finance debate.

However, there is still no analysis available on how far human rights procedures were applied to climate-related projects financed by the BMZ. The BMU´s ICI lacks any reference to human rights in the context of climate change. Furthermore, project proponents do not have to explicitly report on how target groups have been consulted in the identification of the projects.

This issue gives an example where a stronger alignment of criteria, used by the BMZ and by the BMU (possibly as part of a joint climate finance strategy), could increase the positive effects of climate finance, in particular adaptation finance, on those people who will be particularly affected by climate change. The procedural aspects applied in the human rights-based approach could serve as an important guideline on how the ownership of target groups should be increased.

5.2.3 Mutual accountability

Another important criterion is mutual accountability. The delivery of resources by developed countries, as well as overall climate finance governance, must be transparent and possess clear lines of accountability (see also Persson et al. 2009). Developing countries on their part are accountable for using the resources appropriately. Nonetheless, in the context of adaptation, they are primarily accountable to their citizens, since they are the ones affected by climate change. Thus, citizens are the ones entitled to receive compensatory adaptation finance or the services to increasing adaptive capacity funded by adaptation finance.[53] This is a different perception of mutual accountability than usually applied in the development cooperation context, with the accountability of recipient countries to their donors.

The execution of projects under German climate finance is subject to general accountability requirements, either to the processes which are common to the government-to-government relationships in development aid, or through certain requirements as part of the ICI implementation.

In terms of accountability of the providers of finance – here the German government – the previous analyses have shown that the overall climate finance reporting faces a number of shortcomings which create a lack of

53 This is slightly different from the mutual accountability usually referred to in ODA, where the accountability is to the donors.

transparency. With the general debate about the transparency of climate finance, in particular in the context of fast start finance, there has been progress internationally. One example is the website www.faststartfinance.org, which was initiated by the government of the Netherlands. Germany was one of the first developed countries to provide information there.

However, this analysis reveals how difficult it is to hold governments accountable of their climate finance pledges, and reveals that there is the need for strongly improved ways of reporting.

5.2.4 Effectiveness and coherence

The effective use of resources must be seen as a crucial criterion in particular for mitigation. The scale of the climate change challenge is so huge and the potential threats so relevant, that resources must be used in a way that they deliver real mitigation in line with the goal to stay as far below 2°C as possible. This includes the need to direct resources for Reduced Emissions from Deforestation and Degradation (REDD+) in a manner that they contribute a REDD-specific mitigation target, in addition to mitigation efforts in other areas.

Effectiveness can also be achieved through realising synergies between mitigation and adaptation, for which REDD is potentially an important approach. While effectiveness in adaptation is also important, there is no single agreed metric by which effects can be measured (unlike CO2 reduction in mitigation). Coherence is linked both to creating synergies and avoiding negative trade-offs as much as possible, and to coherence between the different funding streams.

Assessing the effectiveness and coherence of German climate finance is obviously also challenging, given the huge number of projects supported by German development cooperation, which are somehow linked to climate change. However, some aspects can be addressed here:

- The coding problem of the Rio marker indicates that not all projects labelled as climate finance genuinely and explicitly address climate change, be it mitigation or adaptation. Thus, the relative effectiveness of the overall amount of climate finance is lower than in the case of very good projects and a “conservative” labelling.

- Currently, there are no overall impact analyses available on e.g. adaptation projects financed through German development aid. The GTZ is undertaking sector-specific impact analyses, and the synthesis reports of analyses from 2008 (water sector) (GTZ 2008) and 2007 (renewable energies and energy efficiency) (GTZ 2009) have been those which can be regarded as most relevant to the issue of this analysis. These independent evaluation reports measure the success of projects in the four DAC criteria: relevance, effectiveness, impact and sustainability. On a general basis, 53% of the investigated water projects performed well and 67% of the energy projects performed well or very well. Two things are remarkable in the case of the water projects, which at least indicate shortcomings. First, only one project evaluation report out of ten developing countries investigated even mentions climate change. At the same time, the figures displayed in Germany´s fifth national communication to the UNFCCC suggests that all water-related finance is counted as climate aid. There is an obvious disconnect here. Second, two of the key recommendations of the synthesis report address the lack of poverty focus. This suggests that if these projects e.g. have any adaptation component at all, the poorest people who are often the most vulnerable to climate change have not been the focus.

- As far as the authors could find out, there is not a current, joint-coordinated strategy between BMU and BMZ for how fast start finance should be used, along which criteria it should be spent and what specific objectives should be achieved. Even if approaches by the two ministries vary on a principle basis, a joint strategy could help identify and create synergies, as well as increase the understanding of how both climate finance approaches complement each other.

Further guiding criteria of the BMU´s ICI are aspects like the transferability of projects to the level of international climate cooperation in the context of the UN cli-

Table 10: Potential criteria for Fast Start Finance with a view to promote the UNFCCC process

What to finance	Whom to finance
Activities that address the most urgent needs, e.g. NAPAs Activities that prepare the ground for scaling-up of implementation post-2012 (assuming scaled-up finance), e.g. preparation of integrated climate change and low-carbon development strategies Activities serving as "good practice" examples for other countries, e.g. scaled-up implementation of already existing comprehensive climate strategies Activities that advance institutional innovations under UNFCCC, e.g. KP Adaptation Fund, REDD mechanism Activities to gain experience for new initiatives under UNFCCC/unresolved issues, e.g. pilots for international insurance scheme, to deal with loss and damage	The vulnerable: those who are most in need ■ particularly vulnerable countries, prioritising particularly vulnerable people and ecosystem; ■ countries who want to move but need to build capacity first The willing: those who want to take serious action The forefront-runners: those who show to be more ambitious than others The prepared: those who have concrete proposals for fast implementation and absorptive capacity The FABs: those who are actively pushing the negotiations forward to achieve a fair, ambitious and binding deal

Source: Harmeling et al. 2010

mate negotiations, the integration in national strategies, in international cooperation and synergies with other projects and sectors, or the significance of the partner country in the context of the international climate negotiations and interest in cooperation with Germany. All these are in principle contributing to effectiveness and coherence and those are seen to be positive.

5.3 Spending criteria for climate finance to promote the UNFCCC process

In addition to these criteria, there are specific considerations that could be taken into account to use fast start finance to promote the UNFCCC process, and to prepare for a scaled-up and expanded financial architecture (see Table 10). These criteria can be applied across the different funding purposes, mitigation and adaptation, and the associated means of implementation.

Of course, not all criteria can, and should, necessarily be applied at the same time. There might actually be conflicting objectives, so that trade-offs would have to be accepted. Nevertheless, the criteria can give guidance for the development of an overall strategy on how to use fast start finance.

Overall, this chapter has shown that there are a number of important criteria which have guided the authors` assessment of climate finance. It is not possible to judge Germany´s climate finance in sum, given the broad scope and diverse nature of projects financed through different streams (BMZ, BMU, bilateral, multilateral) and the limited availability of information. Furthermore, it has to be taken into account that, with the new dynamics of fast start finance after Copenhagen, new approaches to climate finance have emerged, and assessments at this point in time are very preliminary. Thus, there are positive aspects as well as critical findings. The latter ones should be seen as recommendations to further improve the effectiveness of German climate finance, rather than as a critique for its own sake. However, what has become apparent is that there is a lack of coherence between the different German funding streams. This leads to another argument that a joint strategy, in particular by BMZ and BMU, can outline why and how different instruments emphasise different purposes.

Some of the criteria applied are more of a procedural nature, such as transparency, ownership and participation, including the application of a human rights-based approach. They are of a cross-cutting nature, and in principle, should be applied to all projects and programmes. Others are more relevant to adaptation than to mitigation, for example the focus on particularly vulnerable people and countries.

From a human rights point of view, an overarching priority for adaptation must be to prioritise funding for projects and programmes which give special attention to the needs of those groups with populations which are particularly vulnerable, specifically, in especially vulnerable developing countries.

6 Towards a more coherent strategy on climate & development financing – conclusions and policy recommendations to the German government

The previous analysis has assessed the financial support provided by the German government under the label of climate finance, in a historical perspective, but in particular with a focus on recent years and initiatives before and after Copenhagen. The paper describes how the allocation of climate finance provided by the key ministries, BMU and BMZ, works, which criteria are guiding project and programme support and how these approaches perform with regard to criteria established under UNFCCC as well as additional important development policy criteria.

Both the quantitative and the qualitative analyses of German climate finance imply changes and advancements, which is not unique to the German debate, but rather underlines why there is a serious debate in the UNFCCC context that business-as-usual on climate finance is no longer a solution – not if developed countries are serious in responding to climate change and addressing their legally enshrined responsibilities. And if they demand transparency and accountability from the recipients of climate finance and other means of support, including from the emerging economies with regard to their domestic mitigation efforts, it would be nothing less than hypocritical to not provide a much increased transparency in climate finance.

Furthermore, all estimates of climate costs in developing countries show that currently available climate finance lags significantly behind the required amount. It also shows that the fast start finance, promised by chancellor Angela Merkel and other Heads of States, will not likely make the difference its scale suggests, given the fact that much of this is relabelled finance and that the trend towards "creative accounting" is even increasing just to fulfil the pledges on paper. However, all governments should be clear that the window of action to avoid dangerous climate change is closing rapidly, and delay in climate action will likely lead to significantly higher costs through climate change damages and the need to adapt to more severe climate change than scaled-up, immediate investments would. Scaling-up climate finance to developing countries is an investment into a safer, more human and more equitable future which will pay off.

Based on the analytical findings in this analysis, a number of policy recommendations will be drawn, recognising that climate finance in general, and fast start finance in particular, are emerging as crucial angles for a global climate policy regime. Given this relevance, it seems to be even more important to constantly and systematically consider lessons learned – now and in the years to come. Thus, these recommendations should be seen as a forward-looking contribution to foster German climate finance and to make it coherent with a view to contributing most effectively to those most in need.

1. Establish a reliable set of sources to raise the required funds

Relying on voluntary contributions from developed countries alone will not deliver the adequacy, reliability and predictability of resource flows that will be required to trigger the transformation to low-carbon, climate-resilient economies in developing countries. In order to mobilise US$ 100 billion and more annually of truly new and additional resources by 2020, it is crucial to raise revenues in addition to the existing funding base of national budgets.

Germany has already been a pioneer regarding innovative finance instruments, with the use of auctioning revenues for climate purposes. More comprehensive, innovative sources, such as levies or emission trading on international maritime transport and aviation, as well as a financial transaction tax, should be implemented as soon as possible. Ideally, a share of these would flow directly into the international climate finance architecture. Building on the report prepared by the Advisory Group on Finance, the German government should actively work toward implementing these instruments, including to jointly seek solutions with developing countries on a fair distribution of the revenues raised.

2. Ensure transparency and coherence regarding the definition of "new and additional" and work towards a common definition

First, all developed countries should make transparent how they define "new and additional" for their own contributions. This would provide a starting point to try to overcome the trust gap with developing countries, at least for the future. Furthermore, developed countries should work towards a joint definition for the future. The positive political impacts of these steps, even if it would show that much of the fast start finance is not new and additional, would likely be much higher than claiming what is obviously not true, and would thereby widen the trust gap.

3. Establish clearer guidelines for developed countries on how to measure, report and verify climate finance

Given the insufficient and non-transparent state of the current reporting system, clear guidelines for a MRV finance system need to be developed. Such reporting must come with an independent and transparent analysis, e.g. performed by the UNFCCC secretariat, possibly in cooperation with the OECD DAC. A mere compilation of figures without transparency on the additionality definition, the channels that the resources go through, and the end use, would not add value, and would only provide an opportunity for "budget greenwashing". In the future, any double-pledging must be avoided. The guidelines must also address the issue of incremental costs, to provide a clearer understanding of the real relationship between the funding delivered and the estimated needs, and in how far developed countries comply with their commitments under the convention.

4. Improve the overall coherence and performance of the climate finance architecture

Improving the overall coherence and performance of the climate finance architecture is one of the key demands of developing countries who are the recipients of climate finance, and who will feel first and foremost the consequences of a failing international climate finance architecture. The current considerations in the UNFCCC process provide options to contribute to this objective. A new climate fund with a much larger scale of available funds, thereby able to fund broader programmes and policies in developing countries, would fill an existing institutional gap. Through the provision of direct access and through following guiding principles, such as strong attention to vulnerable or affected groups of societies (such as in adaptation or REDD), it could contribute significantly to the objectives outlined in this analysis. An overarching, institutional approach on climate finance under the UNFCCC could also make a significant difference for overcoming the identified shortcomings, provided there is enough political will. Germany should actively work towards such an improvement of the financial architecture.

In order to enhance the performance of German climate finance, the following recommendations should be pursued:

5. Continue good climate finance reliability

Given the relatively good reliability of Germany´s past climate finance pledges, Germany is currently putting this reputation partly at risk, through expanding the ways of "creative accounting" to fulfil the Copenhagen pledge on fast start finance, and thus reducing its real, additional contribution. It should develop a roadmap of how to raise funds in order to fulfil the 0.7% target by 2015 and to increase in the years after 2015 to roughly 0.3% of the GNI, or ca. € 8 billion, as its fair share of the global climate finance requirement. As previously stated, in the future, any double-pledging must be avoided. Fast-starting innovative finance instruments unilaterally such as the already agreed use of auctioning revenues and the aviation levy – which is not yet allocated for climate purposes is imperative. In addition, this can help pave the way for an international agreement on such instruments. Furthermore, this reputation can be preserved through the continued provision of adaptation finance only in the form of grants, counting only the grant element towards the climate finance pledges (not the full loans), and through an honest and thorough "coding" of projects reported as climate finance.

6. Develop a joint coherent and strategic approach to climate finance

The overall coherence of German climate finance must be improved, whereby deepening the cooperation between the key ministries BMZ, BMU (and also Foreign Office) and developing an overall coherent climate finance strategy are key elements. This does not necessarily imply merging the different existing instruments, but it should provide guidance on how they complement each other in the best way. It is also advised to establish a forum for continuous exchange among ministries, the implementing entities, as well as with non-governmental stakeholders who play a role in climate finance.

7. Strengthen the prioritisation of the most vulnerable in adaptation finance

With regard to adaptation finance, there is the particular need and the potential to strengthen the prioritisation of the most vulnerable in adaptation finance. At least for the fast start finance, the government should identify how much of the adaptation finance has been allocated overall to the group of particularly vulnerable countries as contained in the Copenhagen Accord, and seek to increase their share in particular under the BMU´s International Climate Initiative. Since the question of which countries are particularly vulnerable is scientifically extremely difficult and politically very sensitive, the categories for prioritisation may be further developed in the future.

Through coordination with other donors, the emergence of "climate finance orphans", particularly vulnerable countries which fall through the funding grid, must be avoided. Financial support for multilateral funds should be steered where special attention is given to particularly vulnerable parts of the population, such as the Adaptation Fund.

8. Improve stakeholder participation

In bilateral programmes, the active engagement of civil society, and in particular vulnerable communities in the design, planning, and implementation of adaptation programmes, should be pursued. Hereby the employment of well-established human rights procedures (e.g. in development co-operation programmes) to include and to empower people should be expanded, and should become at best an obligation in such programmes. The already agreed BMZ action plan on human rights, which refers to the climate change and human rights nexus, provides an important political basis. This should also include support for inclusive, national-level institutional arrangements to guide adaptation policies.

9. Increase the effectiveness of climate finance

While of course there are many good examples for effective and efficient projects implemented through what is titled climate finance, there is an overall need to further increase the effectiveness of climate finance. The following aspects provide important guidelines which should be – and partially are already being – pursued:

- Account for the principles of the Paris Declaration and subsequent process on aid effectiveness, such as country ownership which can be increased e.g. through allowing direct access in multilateral funds;

- Develop bilateral programmes and initiatives in a way that they also complement multilateral funds as effectively as possible;

- Assist developing countries who progress to broader climate change programmes and comprehensive climate change strategies, including institutional arrangements such as national climate change trust funds, through programme, budget and sectoral aid delivery;

- Invest mitigation finance in a way that it ideally leverages private investments (without counting these private flows towards German climate finance).

10. Prepare annual reports on its delivered climate finance to the German Parliament

The responsible ministries should report annually on the state of climate finance in a transparent and comprehensive manner. This should inter alia include ex-ante allocations of climate finance, as well as an ex-post consideration of how climate finance was allocated in the previous year.

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