

USAID – German Cooperation on Climate Finance

Joining forces to help countries mobilize and manage climate finance effectively

The Paris Agreement has set the stage for urgent and ambitious action to limit the effects of climate change. Securing finance and capacity-building support is of crucial importance for developing countries to implement their national climate change commitments and to pursue new opportunities for social development and sustainable economic growth. Germany and USAID have begun to cooperate on climate finance readiness in a programme implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) to advise developing country partners on mobilising financial resources from domestic and international public and private sources and on building the capacity of partner countries to effectively access and manage these resources. The initiative aims to implement specific activities on financing climate change measures, especially in the priority areas of climate change adaptation, clean energy and sustainable landscapes. Responding to the demand from partner countries, activities have been launched in Cambodia, Peru and Viet Nam.

BACKGROUND

During the UNFCCC COP21 in Paris, the global community reached an historic agreement which addresses one of the world's biggest challenges: limiting the effects of climate change by reducing greenhouse gas (GHG) emissions and adapting to its impacts by implementing specific measures at the national level. For many countries, this need for action opens up new opportunities for social development and sustainable economic growth that is resilient to climate change. New alliances with the private sector and non-governmental organisations will be important for achieving the climate change targets set in the Nationally Determined Contributions (NDCs).

The Paris Agreement stresses the importance of financial and capacity-building support to assist developing countries in implementing their NDCs. In order to meet the ambitious climate change targets, fundamentally transformative approaches to adaptation and mitigation are crucial. This requires an unprecedented mobilisation of financial resources from national and international public and private sources, and improved capacity to effectively access and manage these resources.

USAID's climate change work is guided by its Global Climate Change and Development Strategy (2012–2016), with the objective of supporting emission reductions while achieving growth, promoting climate change adaptation, and integrating good climate change practices into development programmes and operations. The Climate Finance Readiness Programme (CF Ready), which is funded by the German Federal Ministry for Economic Cooperation and Development, the Ministry of Environment of the Czech Republic and USAID and implemented by GIZ, complements their objectives with its focus on climate finance. The global programme aims at improving

the conditions needed to achieve results-oriented, transformational and efficient use of climate finance. This cooperation opens up new opportunities for implementing specific activities to finance climate change adaptation and mitigation measures. These are based on the needs of partner countries and fall within the USAID priority areas of climate change adaptation, renewable energy and sustainable landscapes. The approach complements existing climate change activities at the national level with much-needed expertise on climate finance.

GIZ's Climate Finance Readiness Approach

The Ready for Climate Finance approach forms the conceptual foundation for GIZ's support in the field of climate finance. It consists of the following five modules, which address key areas of climate finance:



With more than 130 country offices worldwide, GIZ offers a strong implementation structure underpinned by highly qualified long-term experts. We are currently implementing energy projects in 60 partner countries, and working in 50 countries in the field of climate change. In order to strengthen institutions in recipient countries, GIZ offers advisory services to develop the capacities of individuals, organisations and social systems.

FINANCING CLIMATE CHANGE ADAPTATION

In order to develop effective, sustainable and long-term solutions for addressing countries' vulnerabilities, adaptation needs to be considered at all levels of development planning. Many existing expenditures are relevant to adaptation, and making these linkages transparent provides an important overview of national resources available. However, public financial resources will not be sufficient to finance adaptation (and mitigation) measures to the extent needed. An effective response to climate change therefore requires the engagement of the private sector.

In addition to drawing on national public and private resources, many countries are seeking to develop strategies to access international climate financing for adaptation. Overall, 50% of the Green Climate Fund's budget is to be dedicated to adaptation, with at least 50% of this adaptation funding benefiting least developed countries (LDCs) and small island developing states (SIDS).

In order to tap the potential of international sources of funding and mobilise financing from other private and public sources, countries need to have the skills and knowledge to develop programme and project proposals that fundamentally transform existing models. However, actors at the national level often have limited capacities in this area. Besides a lack of knowledge on the relevance of climate change adaptation for policy planning and budgeting in relevant sectors (e.g. agriculture or infrastructure), some countries face challenges in developing and managing investment projects.

Within the framework of USAID-German cooperation, the following support is offered to partner countries by GIZ:

- Advising countries on developing financing strategies to implement their national adaptation strategies or National Adaptation Plans, including analysing financial needs and options for climate finance using national and international public and private sources;
- Supporting the integration of climate change adaptation in national planning and budgeting processes;
- Building institutions' capacities to coordinate a country's climate financing strategy (e.g. supporting National Designated Authorities to the Green Climate Fund) and access adaptation funding; and
- Strengthening programme/project implementation capacities, including planning, implementation and monitoring and evaluation.



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Cambodia: Implementation of the National Adaptation Plan

Cambodia is very vulnerable to the impact of climate change. In order to reduce this vulnerability and to integrate climate change adaptation into the country's planning processes, the Government of the Kingdom of Cambodia has begun implementing a National Adaptation Plan (NAP). GIZ's CF Ready Programme, in cooperation with USAID, is advising the National Council for Sustainable Development (NCSD) on a financing strategy for implementing the NAP. To accomplish this, it has joined forces with other donors, in particular the Cambodia Climate Change Alliance (CCCA). The support also aims at strengthening the capacities of line ministries to integrate adaptation aspects into planning and budgeting processes, thereby making this an inherent part of policy implementation.

IMPLEMENTING NDCs AND FINANCING CLIMATE CHANGE MITIGATION

The Paris Agreement stresses the importance of NDCs for achieving ambitious emission reduction targets. Reducing GHGs will require the conservation of forests, smarter land-use planning, greater efficiency in how we generate and use energy, and efforts to harness less carbon-intensive, cleaner forms of energy (see: USAID Climate Change and Development

Strategy, p. 5). Mobilising the large investments needed for these measures requires the right policy and regulatory framework to create an enabling environment for private sector investments. Other key elements include national capacities to develop and implement transformative projects and programmes, and the upscaling and replication of successful approaches.

For USAID, implementing low-emission development strategies (LEDS) and mobilising private sector funding are high priorities in achieving GHG mitigation. Based on GIZ's implementation structure for climate finance, an effective alliance was established to support a public and private sector financing mechanism for mitigation-related activities.

CF Ready can provide support in areas such as:

- Integrating mitigation into public finance processes and instruments (e.g. programme-based budgets and public investment guidelines) and developing public finance mechanisms which incentivise private investments such as feed-in tariffs or results-based payment approaches;
- Giving strategic advice to partner institutions on implementing their NDCs and LEDS and developing financing strategies, including choosing appropriate policy and financial instruments, and providing support to improve the overall investment climate for the private sector in clean technologies; and
- Increasing the private sector's capacities to overcome barriers and seek financing for investments in clean technologies.



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Peru: Integrating Mitigation into Public and Private Financing Mechanisms

In its NDC, published in September 2015, Peru envisages a reduction of emissions equivalent to 30% in relation to the greenhouse gas emissions of the projected business as usual scenario in 2030. CF Ready is supporting the Peruvian Government in implementing its NDC by integrating mitigation aspects into national public and private financing mechanisms. For example, the Ministry of Economy and Finance is receiving advice on including a social price of carbon in the evaluation of public investment programmes. Support is also being provided to public and private lending institutions in developing climate-friendly credit lines for the construction and agroforestry sectors, which helps drive structural change towards low-emission development.

Viet Nam: Supporting Private Sector Investment in Renewable Energy

CF Ready's work in Viet Nam is focused on supporting the private sector in introducing cleaner technologies, thereby contributing to implementation of the national biomass policy and the Viet Nam Green Growth Strategy. The aim is to fundamentally transform the grid-connected biomass power industry by removing specific barriers to allow for greater utilisation of renewable energy in the sugar sector. This will be accomplished by creating an enabling environment through advanced regional biomass energy planning and by developing new financing mechanisms and business models to help foster the upscaling of renewable energy in other sectors in Viet Nam.



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