German Fast Start:

Lessons Learned for Long-Term Finance

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Glossary of terms and acronyms

AAU Assigned Amount Unit. A tradable carbon emission permit under the Kyoto Protocol.

AGF UN Secretary-General's High-level Advisory Group on Climate Change Financing.

BMF Bundesministerium der Finanzen. The German finance ministry.

BMU Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit. The German environment ministry.

BMZ Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung. The German development ministry.

COP Conference of the Parties to the UNFCCC.

CTF Clean Technology Fund. A funding mechanism for mitigation activities, hosted by the World Bank.

EKF Energie- und Klimafonds. A German specialised fund for energy and climate activities outside the regular German budget.

ETS Emissions Trading System.

FACET End-User Finance for Access to Clean Energy Technologies in South and South-East Asia. A FSF project implemented by UNEP.

FCPF Forest Carbon Partnership Facility. A facility by the World Bank, geared toward REDD+ activities.

FSF Fast Start Finance. In Copenhagen 2009, developed countries pledged USD 30 million over three years, starting in 2010.

GEF The Global Environment Facility. Globally the largest funder of environmental projects. The GEF also serves as financial mechanism to the UNFCCC.

GIZ Deutsche Gesellschaft für Internationale Zusammenarbeit. The German development agency, and one of the main implementing agencies of German bilateral FSF.

ICI International Climate Initiative. The ICI is a main pillar of Germany's FSF commitment, and the BMU's climate finance channel.

IIASA International Institute for Applied Systems Analysis. An international research institute based in Austria

IUCN International Union for the Conservation of Nature. An international organisation dealing with environment and development challenges.

KfW Kreditanstalt für Wiederaufbau. The German development bank, and one of the main implementing agencies of German bilateral FSF.

LAC Latin America and the Caribbean.

LCDS Low Carbon Development Strategy.

LDCs Least Developed Countries. May be used in a economic sense, but here mainly used as term for a political union of the least developed countries.

LTF Long-Term Finance. In Copenhagen, developed countries pledged an annual amount of USD 100 billion for climate-related activities.

LULUCF Land Use, Land-Use Change and Forestry.

MCII Munich Climate Insurance Initiative.

MRV Measuring, Reporting, and Verification.

NAMAs Nationally Appropriate Mitigation Actions.

NGO Non-governmental organisation.

ODA Official Development Assistance.

OECD Organisation for Economic Co-operation and Development.

PSB Programa Socio Bosque. An Ecuadorian forest programme.

REDD(+) Reducing Emissions from Deforestation and Forest Degradation. The "+" adds conservation and enhancement of forest carbon stocks, and sustainable management of forests.

SIDS Small Island Developing States. A political union of island states to form a unified block in international negotiations such as the UNFCCC process.

UNDP United Nations Development Programme.

UNEP United Nations Environment Programme.

UNFCCC United Nations Framework Convention on Climate Change.

Executive summary

With this study, we aim to identify lessons learned from Germany's experience with Fast Start Finance (FSF) and to draw a set of recommendations for post-2012 Long-Term Finance (LTF). Since the FSF period ends at the end of 2012, it will be crucial to consider lessons learned from this period for the further negotiations on Long Term Finance. The analysis in the study builds on publicly available data as well as on a small set of interviews conducted with government representatives, representatives of implementing agencies of FSF projects as well as representatives from partner organizations of FSF projects in recipient countries. Below we have compiled the main messages.

The first two years of German FSF show positive results.

- Delivery of FSF in terms of allocation of funds was largely successful in 2010 and 2011. Gross flows have surpassed the self-set targets.
- Germany has made use of existing climate finance infrastructure, which allowed for fast implementation of FSF commitments.

Self-set targets to ensure a balance between thematic areas have not yet been achieved.

- Deficits in the distribution of allocated funds remain: measures for Reducing Emissions from Deforestation and Forest Degradation, as well as the conservation of forest carbon stocks and sustainable forest management, (REDD+) and Adaptation need significant scaling up to meet the self-set targets.
- 'Balanced' allocation between mitigation and adaptation needs to be more clearly defined within the United Nations Framework Convention on Climate Change (UNFCCC).

Not all challenges and shortcomings can be addressed nationally.

- There is an urgent need for clear definitions within the international and EU contexts as well as clarity on the level of ambition within the EU.
- Some decisions are beyond the direct influence of the German government.

Communication and coordination requires increased efforts.

- Communication and coordination are highly important for building trust among Parties.
- Much greater coordination and communication in the donor landscape are necessary to ensure a harmonised approach and to avoid placing an extra burden on recipient countries that are already facing capacity constraints and to avoid significant waste of resources.
- The needs at the international level include better information on the amount of funding and on conceptualisation of LTF.

- The needs at the national level needs include intensifying the use of existing channels and tools, like the foreign service, increasing the information provided, and ensuring a working two-way avenue of communication between donor and recipient.
- Clear communication channels between and within implementing agencies, executing agencies and other key stakeholders are crucial for the success of the project.

Risk Management Tools for 'innovative sources' are required to increase the scale of revenue and predictability of funding flows.

- The use of EU Emissions Trading System (ETS) revenues for climate-related measures, can be considered as an innovative approach because the generated funds are truly new and additional. It should provide a model for other countries to follow.
- Recent difficulties faced in the EU ETS highlight the need to address the price level and volatility risk of the carbon price. Mechanisms need to be designed in a way that allows adjustments and flexibility along with changing external factors.

Simplified modalities and capacity building are needed to enhance access.

- Implementation by recipient countries should be facilitated through capacity building and through simplified procedures at the level of the implementing agencies.

Clear concepts and definitions are needed.

- FSF lacks an underlying conceptual framework which would define clear objectives and structures to guide implementation. This has posed a challenge for communication and the differentiation of FSF projects.
- Lack of clarity has lead to misconceptions and differing expectations about the nature and delivery of FSF, and the subjective feeling of some countries that FSF funds are not flowing.
- More clarity on developed countries' LTF commitment to mobilise USD 100 billion in public and private funding by 2020 is needed. We recommend:
    - Clarifying the nature of the USD 100 billion commitment, including criteria and definitions regarding which sources of funding will be counted;
    - Ramping up the funding towards 2020 in distinct commitment periods;
    - Considering options to define a 'top-down' approach for mid-term finance, based on an internationally agreed burden-sharing formula;
    - Establishing common definitions of key parameters;
    - Developing a common reporting format for transparent and comparable delivery of funds.

Key findings at a glance.

Some positive and negative elements both within the German climate finance system and external to it, i.e. at the European or international level, are shown here in the form of a Strengths-Weaknesses-Opportunities-Threats (SWOT) analysis.

	Helpful	Harmful
Internal	**Strengths** • The use of existing structures allowed for streamlined, fast allocation of the German FSF commitment to climate-focused projects. • In terms of gross flow Germany has surpassed its annual FSF commitment by EUR 70 million in the last two years. • Use of auctioning revenues of ETS allowances as a truly new and additional financial source while constituting a mitigation measure in developed countries according to the 'polluter-pays-principle'. • The specific budgetary structure through the Special Energy and Climate Fund guarantees the earmarking of the resources, i.e. targeted use of auctioning revenues for climate action only for the time after the FSF period.	**Weaknesses** • Germany so far has not achieved its self-set targets in the focal areas of adaptation and REDD+. • Communication efforts involved stakeholders at different levels but were only partly successful. Not all project stakeholders were aware of the fact that their project was part of the German FSF commitment; information at the negotiator level was not sufficient.
External	**Opportunities** • Developing countries need to empower their Environment and Climate Change Ministries and Departments to ensure that climate change is fully integrated into development plans and concrete action can be taken to combat climate change and its impacts. • Coordination between and buy-in of all stakeholders, especially ministries, including the finance ministry, and UNFCCC negotiators on the recipient side is essential. • Transfer of knowledge and expertise to all recipient country partners is essential for the sustained impact of the individual project outcomes and to ensure country ownership and increase the ability of recipient countries to absorb and implement climate finance. • Using a mix of revenue sources at the national and international level will enable a spread of risk and increase predictability of funding. • Agreeing on a clear concept for LTF on the international level, which has been lacking for FSF, would support common understanding and expectations of LTF.	**Threats** • The carbon price needs to be stabilized to secure revenues from EU ETS allowance auctioning and any market-linked or based source. This includes setting ambitious mitigation targets and establishing mechanisms to address external factors. • No detailed parameters for FSF and LTF have been agreed upon at the international level. • Lack of criteria and definitions at the international level, e.g. new and additional, on accounting rules for non-grant financial instruments. Lack of a common reporting format for the UNFCCC biennial reporting guidelines for developed country Parties currently under development, which would allow for transparency and trust-building and prevent some donors free-riding on others' commitments. • Lack of capacity at recipient country level to access funding from various channels needs to be addressed, since it can lead to marginalisation of countries in climate finance.

Content

1 Introduction

With this study, we aim to identify lessons learned from Germany's experience with Fast Start Finance (FSF) and to draw up a set of recommendations for post-2012 Long-Term Finance (LTF). Learning from FSF is indeed timely and can prove very useful in the context of the work programme on long-term finance decided at COP 17 in Durban. This work programme includes as one of its key inputs the "lessons learnt from fast start finance and best practices from developing and developed country experiences in the analysis of sources and needs" (UNFCCC 2012a).

Furthermore, FSF experience may also generate important inputs for the second stage of the design process of the Green Climate Fund (GCF) where the Board is – after the launch of the GCF in Durban – left with many operational questions to address in order to complete the design of the fund in the course of the next months. In this context, experiences of FSF can help to ensure expeditious, efficient and effective operationalisation of the GCF. This includes the distribution of funds across thematic areas, the results achieved and the challenges in measuring them, or various access modalities and procedures for funding.

This report is divided into eight parts. Following the introduction, the second section will recall the context of FSF and provide an insight into the German approach to and implementation of FSF. Germany has a good track record in delivering climate finance and has become the second largest contributor after Japan to finance related to climate change mitigation (OECD DAC 2011). After specifying Germany's commitment under the Copenhagen Accord in section 3, we will provide an explanation of Germany's institutional set-up for the delivery of the committed amount of climate finance in section 4. This section will describe the evolution of national arrangements and initiatives and will also analyse how they were instrumental to delivering on Germany's FSF commitment. Based on the analysis of the institutional structure we will explain in section 5 in more detail what has been funded by Germany under the umbrella of the FSF commitment. In the following section the report will then analyse communication processes used by Germany in order to enhance transparency in the delivery on the commitment (section 6) as well as provide an insight by different stakeholders involved in the delivery and implementation of German FSF (section 7). The last part of the report summarizes the findings and lessons learned (section 8).

2 Setting the Scene: the History of Fast Start Finance

2.1 The context for Fast Start Finance

Ideas before Copenhagen. In September 2009, when the negotiations towards a post-2012 agreement reached a near-deadlock, the European Commission tabled a communication titled "*Stepping up international climate finance: A European blueprint for the Copenhagen deal"* (European Commission 2009). Released only 90 days before the summit in Copenhagen the document was an attempt to move the negotiations forward and unlock the impasse between developed and developing countries. With this blueprint document the European Commission provided a conceptual framework for how climate finance in a post-2012 regime could be organised, and an indication of the order of magnitude that would be required to implement an ambitious agreement.

Part of this conceptual framework was a funding package designed to make use of the time span (2010 – 2012) between the adoption of a post-2012 agreement and its entry into force. This package had a twofold purpose:

- Firstly, the time before 2013 was to be used to **assist developing countries in their preparation for implementing mitigation actions** they would agree on under the new post-2012 regime. **The term "fast start" coined in this context is therefore essentially related to the fact that this preparedness phase should take place before the actual agreement would come into force in 2013.** The European Commission recommended that during this phase, assistance should focus on capacity building for the establishment of effective and efficient domestic institutions in developing countries. These institutions should become a key to preparing and implementing effective national low-carbon growth plans, databases for emission inventories and monitoring mechanisms for Reducing Emissions from Deforestation and Forest Degradation, as well as the conservation of forest carbon stocks and sustainable forest management (REDD+).
- Secondly, the time before the new treaty's entry into force was to be used to address the **immediate adaptation needs** of the most vulnerable countries in the face of the adverse effects of climate change. Emphasis was given by the European Commission to providing assistance in the implementation of the immediate priorities identified in National Adaptation Programmes of Action (NAPAs) and the accumulation of experience in areas requiring further work, e.g. synergies between disaster risk reduction and climate adaptation.

Taking these elements together, the European Commission's idea for a FSF phase can be best described as a **programmatic approach for a transition into a new climate regime,** providing incentives and confidence to developing countries to commit to ambitious mitigation actions, and building trust by providing a bridge towards post-2012 adaptation funding. The European Council on 30 October 2009 supported the Commission's idea for a preparatory FSF phase. However, it was envisaged that the idea would become part of a comprehensive, balanced and ambitious Copenhagen agreement (EU 2009a)[1].

The Copenhagen Accord. With the Copenhagen summit unable to agree on a process to establish a post-2012 climate regime, the concept of FSF acquired a new meaning. Based on the idea developed by the European Commission, developed countries' Heads of States committed to providing "new and additional" resources of USD 30 billion for the period 2010-2012 at the closure of the Copenhagen summit. This collective pledge constituted a significant first step to scaling up the provision of climate finance. In a situation where the Copenhagen summit failed to meet the aspirations attached to it, the FSF announcement was essentially of political significance and left aside the conceptual aspects that had been under discussion as laid out in the EU communication discussed above. The commitment only included broad provisions such as a **balanced allocation between adaptation and mitigation**, **prioritisation of vulnerable countries for adaptation funding,** and that the funding should be comprised of **new and additional resources**. An important contextual element of the FSF commitment was the longer term goal of USD 100 billion per year by 2020, hence politically FSF was seen by many as a stepping stone towards the achievement of a longer term system of funding.

> "The collective commitment by developed countries is to provide new and additional resources, including forestry and investments through international institutions, approaching USD 30 billion for the period 2010–2012 with balanced allocation between adaptation and mitigation. Funding for adaptation will be prioritized for the most vulnerable developing countries, such as the least developed countries, small island developing States and Africa. In the context of meaningful mitigation actions and transparency on implementation, developed countries commit to a goal of mobilizing jointly USD 100 billion dollars a year by 2020 to address the needs of developing countries. This funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance."
>
> *(Para 8 – Copenhagen Accord)*

Framed as a broad political commitment, no further objectives or guidelines were defined to steer the implementation of FSF. Through the Cancún Agreements in 2010, Parties to the United Nations Framework Convention on Climate Change (UNFCCC) formally took note of the commitment and agreed to submit information annually, on its implementation.

2.2 Building Trust

The need for reassurance. After the Copenhagen summit failed to deliver an agreement on a post-2012 climate regime, developing countries looked for reassurance that developed countries were willing to lead the international community's efforts to combat climate change. Many stakeholders eyed the effective and transparent delivery on the FSF

[1] The Presidency Conclusions on FSF read as follows: "*The European Council stresses that fast-start international public support is important in the context of a comprehensive, balanced and ambitious Copenhagen agreement. The purpose should be to prepare for effective and efficient action in the medium and longer term and avoid delay of ambitious action, with a special emphasis on least developed countries.*"

commitment as an opportunity to restore trust and confidence among the negotiating blocks. In her address to the Geneva Ministerial Dialogue on Climate Finance, on 2-3 September 2010, UNFCCC Executive Secretary Christiana Figueres called the delivery and allocation of FSF *"the golden key"* to an outcome at the subsequent Conference of the Parties (COP) in Cancún (UNFCCC 2010a).

Indeed the Cancún Agreements acknowledge the crucial need for transparency in delivering FSF by inviting developed country Parties to submit information on the resources provided to fulfil the commitment[2]. Transparency is also in the interest of developed countries themselves in order to ensure that the implementation of their FSF commitment is internationally visible and therefore nationally justifiable. Previous experiences have shown that without frequent reporting this is hard to achieve.

Past failures to build confidence. A political commitment to providing financial support to developing countries is not without precedent in the UNFCCC process. At COP6bis in Bonn, 2001, the 20 signatories to the Bonn Declaration (the EU15, Canada, Iceland, New Zealand, Norway and Switzerland) agreed collectively to provide USD 410 million in additional climate funding per year by 2005 to assist developing countries. The information provided by contributing countries to date has been insufficient to enable a reliable judgment about the volume of support for climate activities over and above 2001 levels that has effectively been provided (Pallemerts/Armstrong 2009, De Marez 2009, Enting/Harmeling, 2011). This experience highlights the need for solid, transparent, comparable and frequent reporting of funding provided.

FSF as an opportunity. Developed country Parties were invited by decision 1/CP.16 to provide regular updates on the delivery of their FSF and thereafter made a conscious effort to do so. This regular reporting significantly increased the overall availability of data on climate finance. However, there are still varying levels of depth in the reports and different reporting methodologies are applied. Different initiatives by non-governmental organizations (NGOs), governments and the UNFCCC secretariat were established to keep track of FSF flows.[3]

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[2] Para 98 Decision 1/CP.16

[3] For example: www.faststartfinance.org , www.climatefundsupdate.org , UNFCCC Finance Portalhttp://unfccc.int/pls/apex/f?p=116:1:2164347062605481

3 Germany's commitment: national targets and definitions

The German Fast Start Finance Commitment

Total 2010-2012	**EUR 1,260 million**
2010	EUR 356 million
2011	EUR 433 million
2012	EUR 471 million
Mitigation	not specified (approx. EUR 500 million)
Adaptation	at least 1/3 of contributions
REDD+	at least EUR 350 million

German Chancellor Merkel committed to a contribution of EUR 1.26 billion in the final hours of the Copenhagen summit in 2009. This forms part of the EUR 7.2 billion that has been pledged by the EU27 member states for the period 2010 – 2012. Germany and France, having pledged EUR 1.26 billion, are the second largest contributors to the EU27 countries' FSF pledge after the UK (EUR 1.8 billion).

New and additional. The Copenhagen language on FSF includes a provision to deliver funding that is "new and additional". The terminology is important for developing countries because they want to avert a situation where existing development funding is redirected and repackaged as climate finance. There is currently no agreed international definition of what constitutes "new and additional" funding. It is therefore left to countries' discretion as to how they define their baseline. In a situation without an agreed definition it is important to be transparent about this baseline.

Germany is one of the few states to have made public their definition of "new and additional" (Bundesregierung, 2010):

a) Committed in addition to a 2009 baseline (as part of Official Development Assistance [ODA] spending);

b) Generated from innovative financing sources, notably the auctioning revenues under the EU ETS.

The European Commission has initiated steps to work towards a common definition of "new and additional" for the EU and has requested the EU member states to publish their respective definitions (EU 2011).

Balance between adaptation and mitigation. Developed countries committed to a balanced distribution of FSF between adaptation and mitigation measures. In this context, it is important to acknowledge that there is no universal political or expert-level agreement on the meaning of "balance" in this context. It cannot be assumed, for example, that 50% of funding directed towards adaptation would ensure the "correct" balance. Further complicating an assessment is the question of what role REDD+ plays in this equation: does it count as mitigation or as building the climate resilience of natural ecosystems and ecosystem-based livelihoods (adaptation)?

Germany set a national target to direct one third of its FSF to adaptation. Historically, international climate finance has focused on the provision of mitigation-related finance. However, developing countries, especially those most vulnerable to the adverse effects of climate change identified in the Copenhagen Accord, see adaptation and building long-term climate resilience as one of their national development priorities and have advocated for rebalancing the allocation between the two areas.

Forest protection and management has been an important focus of German bilateral and multilateral cooperation. As part of its engagement in the REDD+ partnership initiated by Norway, Germany announced at the Petersberg Dialogue on 2-4 May 2010 that it will provide at least EUR 350 million of its FSF for REDD+ projects.

4 Germany's institutional set-up for delivery

The provision of financial assistance to developing countries to address climate change was an integral part of Germany's international climate policy even before the FSF period (OECD 2012). In 2008-09 Germany, after Japan, was the second largest donor of both bilateral and multilateral climate change mitigation related finance (OECD DAC 2011). This commitment to providing climate finance has been backed by enhanced institutional and budgetary arrangements that formed the basis for the delivery of German FSF.

- **The use of existing structures allowed the fast implementation of the German FSF commitment through the continuation of ongoing climate-related efforts. While this was useful for taking action in the short period allocated for FSF, it should not preclude institutional arrangements for LTF, especially at the international level.**
- **Generating revenues through auctioning ETS allowances proved to be a feasible way to raise truly additional financial resources for FSF while constituting a mitigation measure in developed countries according to the 'polluter pays principle'.**
- **The use of EU ETS auction revenues represents a pilot for an "innovative" source. In order to ensure 'earmarking', a specific budgetary structure, the Special Energy and Climate Fund, was put in place to guarantee the targeted use of revenues.**
- **Carbon price volatility needs to be anticipated to ensure the stability of revenues. This includes setting ambitious mitigation targets, establishing mechanisms to address external factors and using a mix of revenue sources for international climate finance.**

4.1 Institutions and context

German international climate finance is deployed through the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) and the Federal Ministry for Economic Cooperation and Development (BMZ). Both ministries receive funding for climate-related assistance through the German federal budget.

- The BMZ channels FSF through their bilateral development cooperation activities as well as through several multilateral funds.[4]
- The BMU channels FSF through the International Climate Initiative (ICI).As the ICI is a "key element" of German FSF it will be explained in more detail below. [5]

[4] The BMZ has provided the following amounts as FSF: EUR 236 million in 2010; EUR 313 million in 2011; and EUR 351 million in 2012.

[5] The BMU provided the following amount as FSF for the period 2010 to 2012: EUR 120 million annually

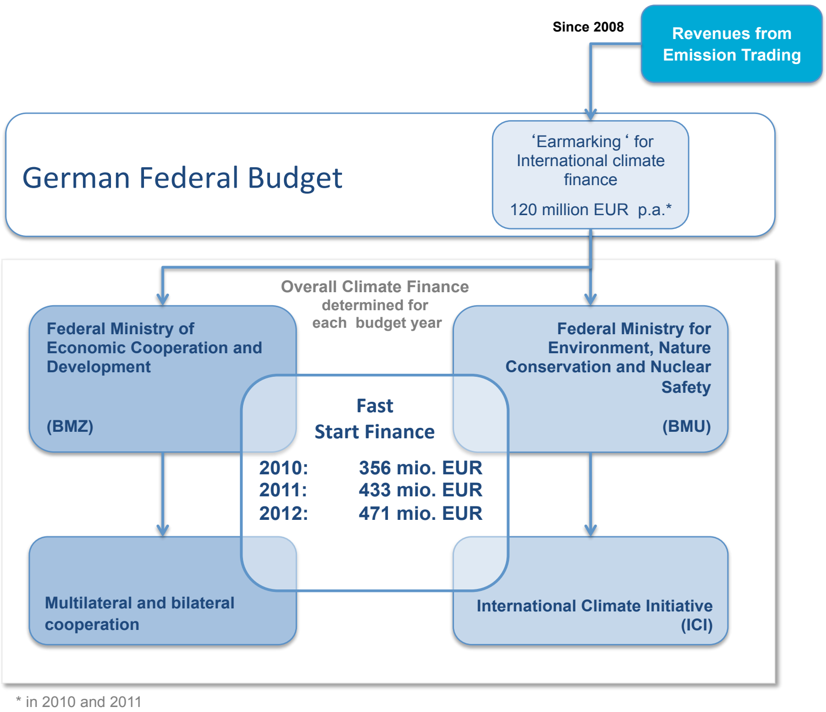

Figure 1 German funding structure for the delivery of Fast Start Finance

The International Climate Initiative. The ICI is "a key element of Germany's implementation of fast start financing. […] [It] helps to implement the Bali Roadmap, the Copenhagen Accord and the Cancún Agreements and facilitates consensus with regard to an ambitious, comprehensive and binding post-2012 climate protection agreement" (BMU 2011).

As early as 2007, it was decided that EUR 400 million of the auction revenue from the EUETS (see section 4.3 for details) would be allocated to the budget of the BMU (BMU 2007) for climate finance. These new revenues were used to establish two new initiatives: the *National* Climate Initiative and the *International* Climate Initiative (BMF 2009).

The ICI initially[6] received an earmarked allocation of EUR 120 million annually to become a new instrument for implementing climate-related projects in developing countries and economies in transition. This created a completely new channel for delivery exclusively dedicated to climate finance and it positioned the BMU as a new actor in the climate finance landscape.

Scope for FSF. Donor countries are free to use different approaches and channels in delivering on their FSF commitments. Some countries have taken a rather broad approach and also included funding such as for the Montreal Protocol Fund or funding provided in response to natural disasters.

[6] Earmarking in a "budgetary way" was only valid for the fiscal years 2008 and 2009 (see Bundeshaushaltsplan 2008, Bundeshaushaltsplan 2009). Starting in 2010, BMF received all ETS revenue (see Bundeshaushaltsplan 2010)).

Within the ICI, Germany has applied a narrow scope and focused on climate-related projects and initiatives that can be categorised and reported mostly without ambiguity.[7] This was enabled by the fact that the infrastructure was in place to deliver on these kinds of projects. Germany had already been engaged in climate-related activities in developing countries before the FSF period, having scaled up its financial engagement on climate from EUR 470 million in 2005 to 900 million EUR in 2009 (BMU/BMZ, 2010a,EU 2011a).[8]

4.2 Process of delivering FSF and the eligibility criteria

Countries have adopted different approaches in implementing their FSF commitments. Without an agreed delivery system, countries used a wide array of channels and implementing agencies and as many procedures and modalities. Differences also exist in the type of financing provided, ranging from ODA to private funding and other official flows such as funding provided through export credit agencies (Fallasch/De Marez, 2010)[9].

Delivery of BMU FSF funds through ICI. The ICI has four focus areas, namely: "promoting climate-friendly economies, fostering measures to adapt to the effects of climate change, ensuring the conservation and sustainable use of natural carbon reservoirs, and conservation of biodiversity"[10].To ensure that funds effectively target climate change programs, project applicants have

ICI criteria for the selection of projects

Priority given to projects that:

- Support creating an international climate protection architecture;
- Are transparent;
- Are innovative ("technologically, economically, methodologically, institutionally" (BMU 2011, 8)); and
- That have an impact beyond the individual project.

(See: www.bmu-klimaschutzinitiative.de/en/objectives)

Modalities for BMZ funded projects

Projects should

- Take place in one of BMZ partner countries of bilateral ODA
- Be supportive and in line with international guidelines such as the Millennium Development Goals (MDGs, the Paris Declaration on Aid Effectiveness, Accra Agenda for Action (which recommends including a capacity building component and ensuring ownership)
- Harmonised and aligned with partner strategies;
- Support long-term transformational change towards sustainable development and poverty reduction;

(See: www.bmz.de/en/what_we_do/principles/aims/index.html)

[7] This statement has to be seen in relative terms as an assessment for all German FSF projects is not yet possible. In the past, "coding problems" have occurred, also for German climate-related projects. See Michaelowa/Michaelowa, 2010: Coding Error or Statistical Embellishment? The Political Economy of Reporting Climate Aid.

[8] Before 2008, only BMZ was in charge of the German contribution for international climate financing (including bilateral and multilateral cooperation). Since 2008, with the establishment of the ICI, BMU has been involved as well.

[9] Japan is the only donor countries also reporting private capital in their FSF reports and presentations, although they do not officially count it towards fulfilling their FSF commitment.

[10] www.bmu-klimaschutzinitiative.de/en/objectives

to demonstrate at the outset of the procedure that their projects meet a set of climate specific criteria to be eligible to receive funding from the ICI[11](examples are given in the box).

Delivery of BMZ FSF funds through bilateral cooperation. Projects are selected in the same way as in bilateral development cooperation through a consultation process involving partner government representatives at various levels in the framework of bilateral development cooperation (Interview BMZ 2012).

Applicants for FSF provided by BMZ also have to follow specific process modalities – mostly along the generic procedures in place for bilateral development cooperation (see Enting/Harmeling, 2011), to be able to access climate-related funding (see Appendix E). BMZ pays particular attention that project proposals include a capacity building component, that they are developed by recipient countries and actually proposed by the relevant coordination point of the recipient country to ensure their ownership of the project.

Clear focus. Using delivery channels that have clear climate-specific criteria attached to them has kept most of Germany's bilateral FSF focused on relatively indisputable climate-related measures. These criteria and modalities also fostered the implementation of innovative piloting projects (see box below).

No specific treatment of FSF. BMU and BMZ applied these criteria/modalities to *all* climate–related projects, irrespective of whether these projects were funded through FSF or overall regular climate finance. Thus, with regard to the implementation on the ground, FSF projects are not different from other climate-related projects.

Piloting incentives for forest conservation in Ecuador

Delivering on national FSF commitment, the German implementing agency KfW (Kreditanstalt für Wiederaufbau) is currently implementing a programme in Ecuador for Forest Conservation and Emission Reduction (08/2011-07/2016). The project is based on the "Programa Socio Bosque" (PSB), which was developed by the Ecuadorian Environment Ministry in 2008 and was until now exclusively financed through Ecuador's own funds. The German-Ecuadorian negotiations about financial cooperation regarding this project started in 2008 and its design, which is especially geared towards supporting the financially and socially sustainable expansion of Socio Bosque as well as ensuring its compatibility with REDD+ international criteria, took place in 2009. This project puts a special emphasis on "innovative potential" in particular regarding its piloting character, since it focuses on the establishment of incentives for forest conservation at a national level (complementing traditional control systems).This approach (that so far has been successfully applied only by few countries, e.g. Costa Rica and Mexico) could work as a precedent for other countries as well

(Interview KfW, 2012).

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[11] The ICI has strategically focused on the BASIC countries (Brazil, South Africa, India, China) where almost a third of ICI projects have taken place as these countries play a crucial role in the UNFCCC negotiation context (See: http://www.bmu-klimaschutzinitiative.de/en/theme_and_projects).

4.3 The use of innovative sources in German Fast Start Finance

An array of instruments and mechanisms are potentially available to generate additional revenue streams for international climate finance. The potential and feasibility of these instruments have been recently assessed and analysed in several studies, including two high-level reports in the context of the G20 and at the initiative of the UN Secretary General (World Bank Group 2011, AGF 2010). Both reports identified a number of public funding instruments that go beyond budgetary contributions. Most of these instruments are often described as 'innovative' or 'alternative' resources. Contrary to a common misperception, most of these resources are public in nature and not part of private sector finance.

What is 'innovative'? Most of the identified sources (e.g. in the UN Secretary-General's High-level Advisory Group on Climate Change Financing (AGF) and the World Bank G20 reports) are innovative in the sense that the underlying revenue-generating mechanisms are primarily implemented to reduce greenhouse gas emissions. For example, the Kyoto Protocol's flexible mechanisms (Joint Implementation, Clean Development Mechanism and Emissions Trading), as well as different national initiatives, provide countries with options to utilise climate policies to generate additional resources for climate finance.

Germany's use of ETS revenues for climate finance. Germany is a pioneer in utilising the European ETS auction revenue to directly generate resources for national and international climate finance, with EUR 120 million per year delivered as FSF through the BMU's ICI. Since the beginning of the second period of the EU ETS (2008-2012), the German government auctioned 9% of its total emission allowances. Within the EU, this constitutes the largest share of auctioning emission allowances. For the first time in 2008, revenues amounting to about EUR 900 million were generated[12].

'Earmarking'. Within the budget of the BMU for 2008-2009 the revenues from auctioning of allowances were explicitly earmarked to fund the ICI.[13] Since 2010 – the first year of FSF – the earmarking of the EU ETS revenues was no longer technically in effect. Since then, these revenues are listed in the budget of the Federal Ministry of Finance (BMF), and thus are used to cover the entire federal budget.[14] Even though the revenues and expenditures are no longer earmarked in a *budgetary* way, the earmarking remains in a *political* sense since the allocation of funds to climate activities at the national and international levels has de facto been maintained.

Return on experience. Thus, irrespective of budgetary technicalities, the German government had anticipated the implementation of some of the recommendations contained in the AGF report. It therefore allowed experiences to be gathered for the scaled

[12] According to Deutsche Emissionshandelsstelle, the following revenues have been generated from emissions trading in Germany: EUR 949million in 2008 (certificate price EUR 23.03);EUR 543million in 2009 (certificate price EUR 13.21); EUR 590 million in 2010 (certificate price EUR 14.36); EUR 561 million in 2011 (certificate price EUR 13,81); and EUR 345.2 million expected by BMFin 2012.

[13] See footnote 5.

[14] In line with the budgetary principle of "universality", meaning that all revenues should cover all expenditures.

up use of innovative sources for international climate financing on the basis of the polluter-pays-principle. The ICI has shown how the revenue from EU ETS can be used for a "self-financing climate protection system".[15]This principle was first applied within the framework of ICI and has been further advanced within a new budgetary structure, the Special Energy and Climate Fund (Sondervermögen "Energie- und Klimafonds", EKF).

4.4 Beyond Fast Start Finance: The Special Energy and Climate Fund

During the FSF period, the use of auction revenue from the EUETS within the ICI established a precedent for the use of an "innovative" source for international climate financing. With this approach the German government has gained positive experience which it has already built up - by setting up a similar mechanism within the Special Energy and Climate Fund.

Institutionalising 'earmarking'. With the announcement of the "energy concept" in 2010,[16] the German government established the EKF as a separate budget structure to finance national and international climate action.[17] This fund is separate from federal budget[18] and is dedicated to energy and climate activities. The EKF is based on the EU ETS, a policy instrument for *transformational change,* motivating the move away from nuclear power and fossil fuels towards the promotion of renewable energies and energy efficiency.

From 2011 onwards, the financing of ICI was partly channelled through the EKF. The establishment of the EKF was an important step not only for *earmarking the ETS revenues,* but also for *bundling climate-related expenditures* (Esch 2012).

Preparing for LTF. While international climate finance under the EKF between 2010 and 2012 does not constitute FSF, the fund represents an advancement of previous practices within the ICI and indicates Germany's preparedness to provide its fair share of the USD 100 billion goal in 2020.Its set-up as such provides an interesting lesson for the LTF discussion as a model for institutionalising the concept of 'earmarking'. The effect of this new fund on the climate finance landscape in Germany is shown in Figure 2.

Originally 20% of the revenues for the EKF were supposed to be provided by the nuclear power sector and 80% from EU ETS auction revenue. After the decision in 2011 to phase out nuclear power, the income concept of the EKF was revised. From 2012 the fund will be fully sourced from EU ETS auction revenue (Bundesregierung 2011)).

[15] The price and volatility risk of the carbon market (relating to the "self-financing climate protection system") will be discussed in chapter 4.5.

[16] In autumn 2010 the Federal Government adopted an energy concept which included Germany's energy policy until 2050 and specifically considered measures for the development of renewable energy sources, power grids and energy efficiency (http://www.bmu.de/files/english/pdf/application/pdf/energiekonzept_bundesregierung_en.pdf)

[17] http://www.bundesregierung.de/Content/DE/Artikel/2011/06/2011-06-06-energie-klimafonds.html

[18] The fund constitutes a so-called "special fund" or "extra-budgetary fund" (in German: Sondervermögen)

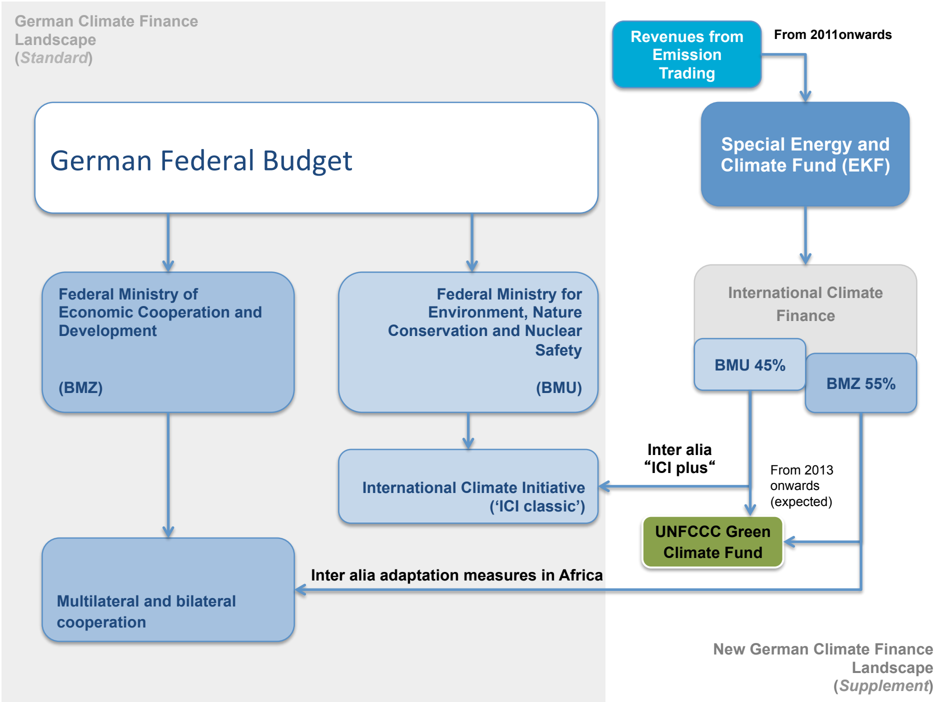

Figure 2 German Climate Finance Landscape – from FSF to LTF arrangements

Revenue expectations from EUETS downscaled. In 2011 the government expected revenue of EUR 3.3 billion for the year 2013, based on a carbon price of EUR 17 per ton. In 2012 this was revised due to a lower outlook for the carbon prices. The current price of around 8 EUR (compare section 4.5) could require a further revision if the development continues.

Table 1 2012 Expected auction revenue for the Special Energy and Climate Fund

	2013	2014	2015	2016
Revenue	EUR 2.18 billion	EUR 2.4 billion	EUR 2.5 billion	EUR 2.6 billion
Price per t CO_2e	EUR 10	EUR 11.2	EUR 11.8	EUR 12.4

Source: BMF 2012a

Increased auctioning in the EUETS. From the third emissions trading period, starting in 2013, the auctioning of allowances in the EU will become the rule, with at least half of the total amount of allowances being auctioned. The share of auctioned emission rights will increase in a linear way, reaching almost 100%[19] in 2020. Depending on the auctioning share and the carbon price on the market, the revenues from the ETS could significantly rise. The revenues are fundamentally driven by the carbon price and there are a variety of policy settings under discussion at the European Union level which would result in significantly increased prices should they be adopted.

[19] For the power sector free allocation is to be phased out by 2020 with small exceptions. Industrial sectors that are classified as 'deemed to be exposed to a significant risk of carbon leakage' will still receive up to 100% of allowances for free based on sector specific performance benchmarks, other industrial sectors up to 30%.(EU 2009b)

Budget allocation for the EKF. From the total amount allocated to the EKF, approximately 15% will be provided for international climate financing (BMF 2012a). According to the recently published treasury report (03/2012) on the further development of revenues and expenditures of the EKF and according to the publication of the "benchmark figures" of the federal budget plan, the revenue allocation for 2013 is predicted to be as follows(pending parliamentary approval for the year 2013 and 2014):

Table 2 The Budget plan for the EKF

Budget line: International climate financing	**2011**	**2012**	**2013**	**2014**
Cash funds	EUR 35 million	EUR 41.5 million	EUR 394 million	EUR 439.6 million
Budget authorisation	EUR 505 million	EUR 430 million	(not decided yet)	(not decided yet)

Source: BMF 2012b

The amounts are channelled through the BMU (45%) and through the BMZ (55%), which developed allocation plans in close cooperation. These amounts will be spent between 2012 and 2018 as follows (according to the budget authorisations[20] of fiscal year 2011 and fiscal year 2012, BMF 2011 and BMF 2012a):

- 23% biodiversity and forest protection.
- 45.5 % enhancement of existing climate-related activities. BMZ focuses on adaptation; BMU enhances the ICI (in an initiative referred to as "ICI plus").
- 31% German Climate Technology Initiative (DKTI).

Although in the end they still depend on the future carbon price, the budget authorisations (see Table 2)signal the political will to earmark revenues for international climate financing and guarantee a certain degree of predictability. This could be an important trust-building element between developed and developing countries, especially in the light of ongoing negotiations towards an international climate agreement in the lead-up to 2015. Starting in 2013, Germany will also provide its contribution to the GCF through the EKF (BMF 2012c).

4.5 Facing the Risk: CO_2 Prices

Most innovative financing instruments are based on mitigation policies and measures and are characterised by the fact that they simultaneously trigger emission reductions and generate financial resources by making emitters internalise the costs of their emissions.

[20] A "budget authorisation" is a financial binding commitment of spending a certain amount over several fiscal years. This financial commitment refers to a future allocation, as opposed to the commitment of "cash flows", which refers to the present fiscal year.

Such revenue flows depend on the level of carbon prices and are subject to volatility, as are tax revenues that are linked to levels of economic activity.

Mitigation ambition as a prerequisite for higher revenues. The AGF report (2010) outlines the link between mitigation ambition and climate finance revenues. It uses three scenarios to explore potential funding for developing countries from auctioning of allowances in the national and international ETS. In the report, low, medium and high carbon prices are applied, corresponding to low, medium and high ambition levels for Annex-I reduction targets by 2020. The AGF assumed that 2-10% of estimated auction revenues might be dedicated to international climate finance.

Table 3 shows the range of funding that could be generated according to this analysis:

Table 3 Carbon prices in AGF report and associated levels of abatement (reductions from BAU) by 2020

AGF Carbon price scenario	Carbon price (USD/ton)	Revenue potential (USD)	Mitigation ambition level	Abatement ($GtCO_2e$)
Low	15 USD/ton	USD 2-8 billion	Low ambition bound by Copenhagen Accord	5 $GtCO_2e$
Medium	25 USD/ton	USD 8-38 billion	High ambition bound by Copenhagen Accord	9.2 $GtCO_2e$
High	50 USD/ton	USD 14-70 billion	Developed country aggregate reduction to 25% below 1990 (low ambition end of IPCC AR4)	14 $GtCO_2e$

(Adapted from Schaeffer, Fallasch and De Marez 2010)

Price development in the EU ETS. Within the EUETS system, both the level of mitigation ambition and the over allocation of emission allowances have played a role in the negative evolution of prices. Over-allocation of emission allowances, particularly in Eastern Europe, has exacerbated the low level of demand due to the financial crisis and the relatively low level of mitigation ambition. The financial crisis has led to lower-than-expected emissions and hence a significant surplus of allowances. As a consequence, prices in the current phase II of the EU ETS have been following a downward path – starting from EUR 20-30 per ton in 2008 to currently below EUR 7 per ton (Point Carbon 2012, McGarrity 2012). Thus, the price of EU allowances has adjusted its value to lowered demand as shown in Figure 3.

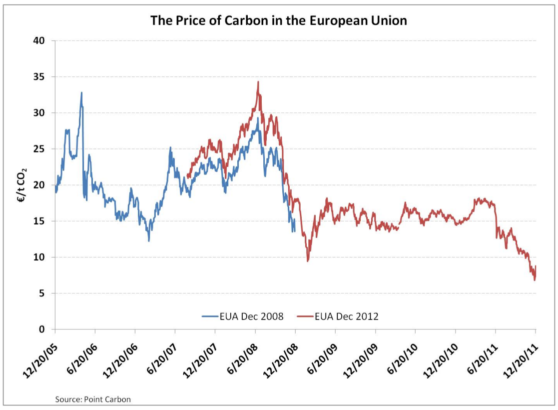

Figure 3 Carbon price development in the EU ETS

Options to maintain carbon revenues. It is clearly necessary to address the low carbon price if this is to become a reliable source for long-term climate finance. Apart from the level of ambition the allocation system has the most important impact on the development of the carbon price. The current economic crisis within the EU illustrates the risk to the carbon price should these two factors not be adequately addressed. On the allocation issue, the 'set-aside'[21] model discussed within the EU could be an interim solution (European Parliament 2011). But above all, the binding European reduction target for greenhouse gas emissions is essential for the evolution of the carbon price.

At the end of July 2012, the European Commission proposed a specific technical amendment to the ETS Directive related to the timing of the auctions of emission allowances. Also a draft for a possible future amendment of the Auctioning Regulation, including on the amount of auctioned allowances that should be back-loaded,[22]was transmitted for consultation to the Climate Change Committee, which may decide on the future amendment before the end of 2012. The Commission expects that changing the auction time profile, with less auctioning early in phase 3 and more later on, can improve the orderly functioning of the market (European Commission 2012a/2012b).

If the European Union were to increase its emission reduction target for 2020 to 30% (instead of 20%) it would not only be an important signal for the international climate negotiations, but also a significant factor for stabilising and potentially increasing the carbon price,[23] thus making the innovative financing instrument even more effective.

Elimination of over allocation and crediting from outside the EUETS system. Rules on the carry-over of surpluses and the use of Land Use, Land-Use Change and Forestry**(**LULUCF) credits have a large potential to counteract efforts to increase ambition or adjust to changing external parameters. Allowing, for example, the use of Assigned Amount Unit (AAU) surplus units under a 30% target for the EU would undermine the effectiveness of the higher targets (Den Elzen et al. 2012).

4.6 Preparing for long-term finance

From the experiences of the German institutional set-up for climate finance - *during* and *beyond* the FSF period - we recommend the following for consideration in the design of LTF:

Use of existing institutions allows fast action. Germany was engaged in climate action in developing countries before the FSF period. During FSF, Germany benefitted from the fact that it already had an infrastructure in place to deliver on these kinds of projects. While this was useful for taking action in the short time provided for FSF, it should not preclude institutional arrangements for LTF, especially at the international level.

How to integrate innovative sources into national budgets? Germany can be considered a pioneer in the use of auction revenues from the EU ETS and the implementation of the ICI.

[21] "Set aside" model means that ETS certificates should be taken out of the next phase of trading in order to lift the sinking carbon price. This set aside model has been discussed mainly by Environment Committee MEPs in December 2011.

[22] The term „setaside" means that the removal of the ETS certificates is definite, whereas the term "back-loading" emphasises that the removal of the certificates is temporary: "The back-loading concerns the distribution of auctioned allowances across the eight years of phase 3 (2013-2020). It sees auctioned volumes reduced in the first three years of phase 3 and brings them back later in phase 3."See http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/12/600

[23] The effects were estimated in a European Commission Staff Working Paper to be "€7 billion or around one-third higher than with the current 20%target" (European Commission 2012c).

Germany is the first country that has utilised the EU ETS to directly generate resources for national and international climate finance. The establishment of the EKF as a new budget structure is a model example and can transfer the approach taken during FSF to LTF. Countries that have difficulties in earmarking auction revenues in a strict budgetary way due to budgetary rules could indicate the equivalent of these revenues in their budgets for international climate action.[24]

Continued advocacy for innovative sources is needed. The German example sets a precedent, particularly considering that the EU ETS Directive recommends using at least 50% of the ETS revenues for national and international climate action (EU 2003). The German approach goes even further by earmarking 100% of the ETS revenues for climate action (Bundesregierung 2011). Germany could use their experience to promote the use of auction revenues by other donors and at the international level.

Low carbon prices need to be addressed. To ensure a well functioning self-financing system, it is necessary to address the low carbon price. Beyond FSF, it will be essential to determine how reliable and predictable funds for international climate financing can be provided. This requires sufficient levels of ambition both within the EUETS and on the international level. Mechanisms need to be designed in a way that allows flexible adjustment to changing external factors, like economic recession, while maintaining environmental integrity.

Mix of sources increases stability. While the use of auction revenues for climate-related actions can be considered significant progress for international climate financing (for the time beyond FSF), these efforts are not sufficient and can only be one important component of a coherent strategy for international climate financing. A mix of sources will increase the predictability of funding flows (Esch 2012). This needs to include national budgets, revenues from other environmental instruments, such as taxes on fossil fuels, as well as sources at the international level, i.e. a global pricing scheme for the shipping and aviation sector, for which the AGF report calculated a revenue potential of USD 3-25 billion USD by 2020 (AGF 2010). This should be supplemented by concrete commitments by countries over the next years.

Innovative sources have the potential to increase scale and predictability. It will be difficult for most industrialised countries to scale up and provide "new and additional" resources for international climate financing out of often highly constrained public budgets. Economically difficult times in particular pose the danger that funds from government budgets, representing the safety floor for climate finance, will be cut, thereby decreasing predictability and accelerating the need for other sources to be rapidly deployed (Brown et al. 2011).

[24] On the question of earmarking, see also Müller, 2008.

5 Delivering German Fast Start Finance

Germany provides a wealth of information on its FSF-related activities. In this chapter, we analyse Germany's delivery of its commitment and present recommendations on how our findings may inform the future conceptualisation of LTF.

- **In terms of gross funding flows, Germany has surpassed its annual FSF commitment by EUR 70 million in the last two years, judging by official definitions.**
- **Almost 30% of the German FSF commitment so far was directed to the Clean Technology Fund as a loan. No numbers for grant equivalents are provided.**
- **Around half of the German FSF is channeled through multilateral funds.**
- **Funding by regions is balanced overall.**
- **Germany has not achieved its self-set targets in the focal areas of adaptation and REDD+, but has made very strong financial efforts in mitigation.**

In the absence of other definitions at the international or European level, this study analyses German FSF engagement on the basis of the German definition of FSF. Desktop research on available data was employed to gather data on the delivery of Germany's FSF engagement. The main sources used are the most recent project lists for 2010 and 2011 provided by the German government on the website of the ICI (BMU/BMZ 2011a; BMU/BMZ 2012). Data quality is high, but in certain cases lacks detail. The data were compiled into a coherent dataset, and used to analyse and disaggregate Germany's FSF delivery over 2010 and 2011.

Defining the terms.

- A pledge is a voluntary statement of intent by a government.
- A commitment is a pledge with greater force and may be considered politically binding.
- An allocation is a binding obligation within a government's budgetary plan, although the actual payment may be at a later stage.
- A disbursement is the actual flow of money spent for a specific task.

An overview of the parameters used throughout this study is given in Annex A.

5.1 Total allocation in 2010 and 2011

Germany meets its self-set target. Germany has pledged EUR 1.26 billion of FSF in the period of 2010-2012, with planned tranches of EUR 356 million in 2010, EUR 433 million in 2011, and EUR 471 million in 2012. Allocations for 2010 and 2011 exceed the targets planned by EUR 5 million (2010) and EUR 64.2 million (2011).

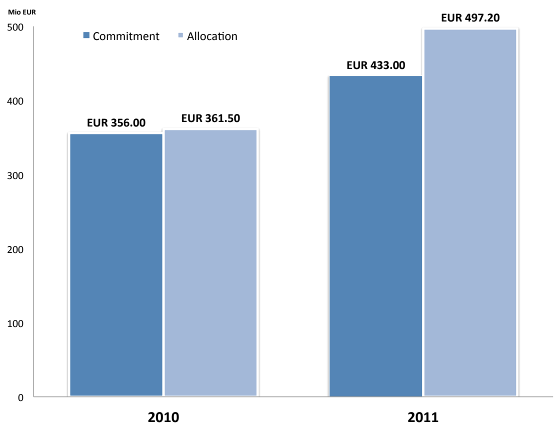

Figure 4 Commitment and allocation per year

Figure 5 Aggregate commitments and allocation for the Fast Start period 2010-2012

In 2010, EUR 361.5 million was allocated for FSF. In 2011, total allocations amounted to EUR 497.2 million.[25] Together this amounts to almost EUR 70 million more than Germany planned to allocate in these two years.

Allocation and disbursement. While funds are committed in a certain fiscal year, the actual disbursement may take place at a significantly later date - some projects extended their duration beyond the FSF period, and a few of the 2011 projects show starting dates as late as 2013 because of long preparation phases. Also, project starts may be delayed due to internal or external problems, leading to a delayed disbursement of the allocated finance. It is the understanding of the German government that allocations made during the FSF period will be counted towards the FSF targets, although the actual disbursement may also take place beyond 2012. Stadelmann et al. (2012) argue that due to the integration of different agency layers - especially for multilateral channels - actual disbursement of funding can take significant amounts of time, while from a donor's perspective finance has long been 'disbursed', i.e. allocated to this specific task. The data presented in this study therefore represent committed and allocated amounts, not disbursement.

Grants and loans. Almost 30% (EUR 250 million) of the allocated funding in 2010 and 2011 have been provided as loans to the World Bank's Clean Technology Fund (CTF). These contributions have been counted in full sum, rather than their grant element only. No approximates for grant elements are given.[26] Without further analysis of the share of disbursements within the CTF and other instruments used by the fund (e.g. guarantees), a calculation of the grant element of the German contribution is not possible within the scope

Grants, loans, and grant elements: The OECD-DAC definitions

The OECD-DAC defines *grants* as "Transfers made in cash, goods or services for which no repayment is required."

Loans, on the other hand, need to be repaid. To be included in the DAC statistics, a loan must have a maturity of more than one year. Notably, DAC statistics include data on net loans. " This means that when a loan has been fully repaid, its effect on total net ODA over the life of the loan is zero."

For a loan to be counted as concessional within the OECD-DAC system, it needs be lower than the reference rate applied to commercial loans - the OECD statistics count 10% as the reference rate. " Thus, the *grant element* is nil for a loan carrying an interest rate of 10 percent; it is 100 per cent for a grant; and it lies between these two limits for a soft loan. If the face value of a loan is multiplied by its grant element, the result is referred to as the grant equivalent of that loan."

(all citations from OECD-DAC online glossary, emphasis added)

[25] Official cumulative figures amount to EUR 497.1 million. We assume that this may be due to rounded numbers in the project list (BMU/BMZ 2012).

[26] The CTF itself generally calculates grant elements of between 45% for hard concessional loans, and 75% for soft concessional loans for funded projects.

of this study.[27] But it is worth noting that Germany's contribution in terms of net flows is probably lower than the indicated gross flows.

On the other hand, the German contribution to the Credit Programme for Climate Protection in Turkey is listed only as a EUR 5 million grant, while the website of the ICI lists the same project with a total contribution of EUR 68.5 million. A German representative explained that the rest of the funding was not derived from ICI and hence not counted. Anyhow, for an onlooker without access to further information, there seems to be a significant disparity. Reporting could in this case be more consistent and transparent, so as to avoid misconceptions.

On the international level, there is no specification if grants and loans should be counted differently towards a country's finance pledge. So for this analysis, we take the figures provided by the German government at face value.

5.2 Allocation by thematic area

Adaptation needs to be scaled up. Germany recently demonstrated conscious efforts to increase the share of adaptation allocations. The country is getting onto the path to reaching its self-set target of allocating at least one-third of its FSF funding to developing countries' adaptation to the adverse effects of climate change. Allocations for adaptation reached 28% of the total funding in the period 2010-2011. While the allocations in 2010 (21%) were significantly below the self-set target, notable efforts could be observed in 2011 to allocate more funding (34%) for adaptation projects and programmes. To achieve the self-set target in 2012 around 41% of the planned funding will have to be allocated to adaptation.

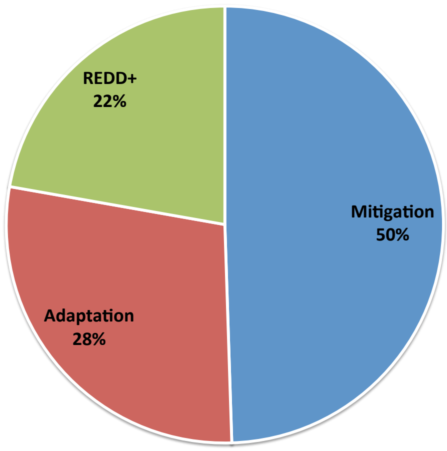

Figure 6 Total allocation by thematic areas 2010-2011

REDD+ not on track. Funding for REDD+ would need to be drastically scaled up in 2012 to reach Germany's goal of at least EUR 350 million, or approximately 30% of the financing provided. At this point, allocation for REDD+ amounts to only about EUR 190.8 million, representing approximately 22% of the total allocation. While also for REDD+ significant efforts can be observed to increase funding allocations (25% in 2011 vs. 19% in 2010) it is still far off-target and it remains to be seen whether Germany will reach its target for the whole period 2010-2012 (this would require that 46% of the 2012 funding is allocated towards REDD+.

[27]The United Kingdom takes a different approach: While still counting the full sum of the loan as its FSF contribution, the government of the United Kingdom at least gives an example of the grant element of its funding. In its 2011 FSF Brochure, its contribution to the World Bank's Pilot Programme for Climate Resilience is calculated to contain a grant element of about 77% of the contribution(DECC/DFID 2011).

Mitigation prioritised. The highest amount of finance has been provided to activities in the field of mitigation - EUR 425 million, about half of the total sum. This includes the highest single contribution in Germany's FSF portfolio with EUR 250 million allocated to the World Bank's CTF.

Prioritisation of vulnerable countries. The Copenhagen Accord states that, for FSF, "Funding for adaptation will be prioritized for the most vulnerable developing countries, such as the least developed countries, small island developing States and Africa" (Copenhagen Accord, para 8). While Germany's overall adaptation commitment is not yet met, the share of funding for adaptation specifically directed to SIDS, LDCs and Africa is more than half of the total (53.7%). It may even be higher, as the multilateral funds targeted at adaptation (22.9% of adaptation funding) might also finance projects in these countries.

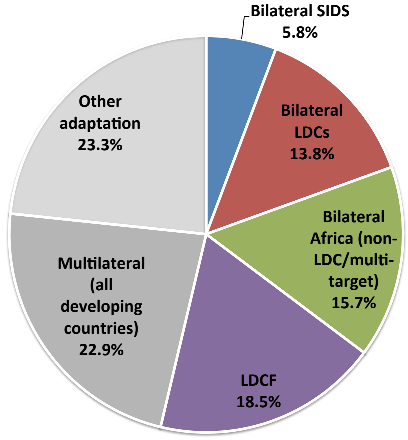

Figure 7 Share of adaptation flows to vulnerable countries

5.3 Funding by geographic regions

Focus on supra-regional activities. The greatest amount of funding provided (58%) goes to funds, projects and activities that either are not region specific or are supra-regional. Examples are the aforementioned CTF and the UNFCCC specialised funds (Adaptation Fund, Special Climate Change Fund, and Least Developed Countries Fund). Furthermore there are projects that target several countries in different regions, such as the implementation of REDD+ policy assessment centres both in Brazil and the Congo Basin by the International Institute for Applied Systems Analysis (IIASA), which allows the identification of thematic allocation, but not straightforward geographical distribution.

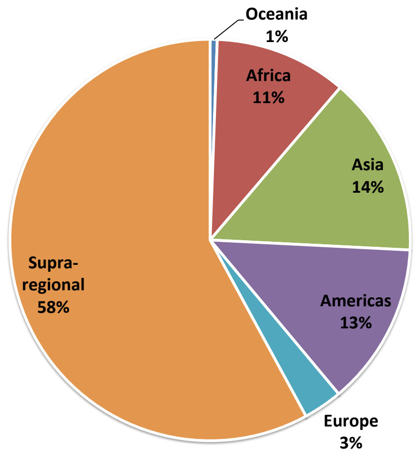

Figure 8 Total funding by regions 2010-2011

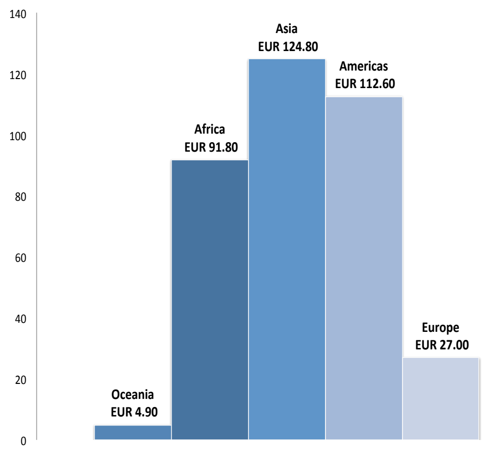

Figure 9 Allocation by regions excl. non-region specific funding 2010-2011

Regional groupings are balanced. Asia, Latin America and the Caribbean, and Africa show a fairly balanced representation of targeted funds. In comparison, Oceania and Eastern/South-Eastern Europe receive only small shares of the contributions.

FSF and ODA eligibility. Part of German FSF funding is used to support an ODA eligible Annex-I country (Ukraine). While ODA eligibility implies status as developing country, and there are no rules for eligibility for FSF of Annex-I countries, this may be a political concern on the international climate policy level with respect to eligibility for LTF.

High shares for Brazil and Indonesia. Brazil is the main recipient country of funding overall (EUR 32.1 million received). The largest single-sum beneficiary to date is a REDD+ forestry programme in Indonesia, which will receive a EUR 23 million grant implemented by the German Development Bank KfW.

5.4 Multilateral funds and other channels

Defining bi- and multilateral. Germany does not provide information on whether different allocations are part of bilateral or multilateral contributions in the main project lists. BMU and BMZ apply different concepts of what constitutes bi- and multilateral projects: BMZ counts projects carried out by multilateral institutions as multilateral projects, whereas BMU does not.

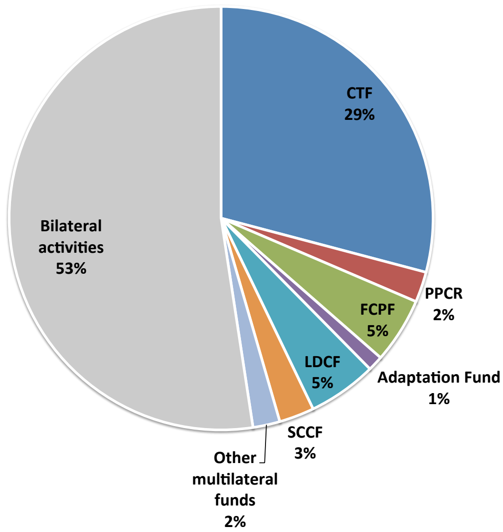

Figure 10 Share of multilateral funds 2010-2011

In the context of this study, we apply a narrow definition of multilateral contributions: contributions are multilateral only if they support activities that are beyond the direct influence of the donor, and are channelled through an international institution. Funding provided to the Adaptation Fund would for example be a multilateral contribution under this definition. Projects mandated by Germany, but implemented by a UN agency (UNEP, UNDP) would be part of bilateral contributions. Finance flowing to national funds is also counted as bilateral, because while beyond the donor's control, it is still part of a recipient country's national allocation. This is in line with BMU's conception, but not with BMZ's.

Applying this definition, only Germany's contributions to multilateral funds are counted as multilateral. All other projects and activities are counted as bilateral because they are not mandated by a multilateral intermediary.

High shares for multilateral funds. Under this preface, we have calculated a multilateral share of 47.3% (EUR 406 million) of total allocations over 2010 and 2011. The largest share – 29.1% of total allocations – has been allocated to the CTF. Shares are significantly smaller for the Special Climate Change Fund (SCCF) with 2.7%, and the Least Developed Countries Fund (LDCF)with 5.2% of overall allocations in 2010 and 2011. Both are specialised funds under the UNFCCC and operated by the Global Environment Facility (GEF). The Adaptation Fund, operating under the authority of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP), received a contribution of EUR 10 million in 2010 - no contribution was made in 2011. The Adaptation fund and the GEF, including the LDCF and the SCCF, are currently the only funding mechanisms in existence that provide direct access to finance by recipient countries. A combined share of 1.8%, or EUR 15 million, have been allocated to two smaller multilateral funds.

Table 4 German contributions to multilateral funds in detail

Fund	Purpose	Objective	Contribution in EUR million
Clean Technology Fund (CTF)	Finance scaled-up demonstration, deployment and transfer of low carbon technologies.	Mitigation	125 (2010) 125 (2011)
Pilot Programme for Climate Resilience (PPCR)	Programme for climate change adaptation under the Strategic Climate Fund (SCF).	Adaptation	8 (2010), 12 (2011)
Forest Carbon Partnership Facility (FCPF)	Assist developing countries in their efforts to reduce REDD by providing value to standing forests.	REDDplus	34 (2010) 9 (2011)
Adaptation Fund	Finance concrete adaptation projects and programmes in developing countries that are Parties to the Kyoto Protocol.	Adaptation	10 (2010)
Least Developed Countries Fund (LDCF)	Address the special needs of the LDCs. This includes preparing and implementing National Adaptation Programmes of Actions (NAPAs).	Adaptation	45 (2011)
Special Climate Change Fund (SCCF)	Support of activities and programmes in adaptation to climate change, technology transfer, energy, transport, industry, and waste management, among other things, in developing countries.	Adaptation	23 (2011)
Other multilateral funds			
Trust Fund for Ecosystem Based Adaptation	Strengthen the capacities of developing countries to promote EbA options and reduce the vulnerability of communities.	Adaptation	10 (2010)
Thematic Trust Fund	Strengthen the capacity of developing countries to a) MRV GHG; b) identify opportunities for NAMAs and support the design of LCDS; and c) to facilitate the uptake of mitigation actions by selected sectors.	Mitigation	5 (2010)

5.5 Implementing agencies

Focus on German agencies and the World Bank. The share of agencies entrusted with German FSF is dominated by the World Bank and the two German implementing agencies, GIZ (22%) and KfW (19%), which account for a total of EUR 346.2 million of FSF finance. The World Bank receives by far the largest single share of 38%, equalling EUR 323 million, due to the large share(EUR 250 million) allocated to the CTF, of which the World Bank is the trustee.[28] A combined share of 2.2% is allocated directly to the UN Implementing Agencies UNEP (2.3%) and UNDP (0.9%). All other agencies combined amount to just over 10%. Through its operation of the LDCF and the SCCF, the GEF manages close to 8% of the funding, equalling EUR 68 million.

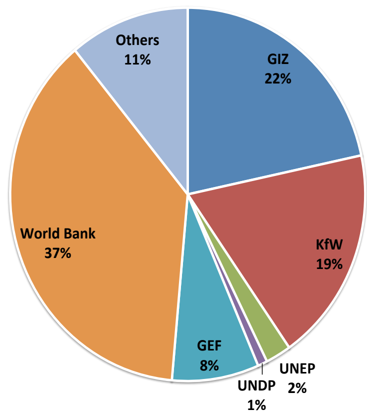

Figure 11 Total funding by implementing agencies 2010-2011

5.6 Germany: on track with its overall commitment

Gross flows surpass commitments. Germany has so far fulfilled its pledge made in Copenhagen, and made significant contributions to FSF. In terms of numbers, annual tranches have surpassed commitments significantly in both 2010 and 2011, which, if continued in 2012, will lead to a visible “over achievement” of pledges. It needs to be kept in mind though, that a significant tranche has been provided as loan.

REDD+ needs strengthening. The one area where it remains to be seen if Germany will fulfil its self-set objective is REDD+. If the pledged EUR 350 million is to be achieved, about 46% of the remaining funding commitment would have to be spent in this area. As the Informal Working Group on Interim Finance of REDD (IWG-IFR) has pointed out, activities in REDD+ could lead to a significant reduction of deforestation rates in developing countries, if the right amount of financing is provided. This would put developing countries in a strong position on climate change mitigation (Project Catalyst 2010). In order to tap this potential, the focus on developing countries' mitigation potential through REDD+ should therefore be strengthened for LTF, provided mechanisms and methodologies are finalised and in place.

Mitigation is the main focus. Almost half of the allocated funding has been or will be spent on non-REDD related mitigation activities. This is undoubtedly attractive for a donor country, because mitigation projects can in most cases be assessed more easily, benefits can often be measured in a simpler fashion, and thus effectiveness can more easily be reported and communicated at several levels. Also, some argue that more effective mitigation in the short term means less need for adaptation in the medium and long term. This, however, should not detract from the fact that adaptation action is already urgently needed in some parts of the world, no matter how effective global mitigation may be in the next few years.

Higher priority for adaptation urgently required. Germany should continue to strive to at least fulfil its self-setobjective to spend about one-third of FSF on adaptation activities over the duration of the FSF period. If the 2011 trend in increasing allocations towards this area were to be replicated in 2012, it could theoretically be achieved. However, given the need to also scale up REDD+ substantially to be able to meet the set target, this seems unlikely as it would leave a share of only 13% for mitigation activities for 2012.

In this important area, Germany as a bilateral donor can draw from a long line of good practice examples through its long-standing development assistance experience. On the multilateral level, a good approach to increase adaptation efforts would be to further strengthen the major UNFCCC funds (SCCF, LDCF, and Adaptation Fund), and the newly launched Green Climate Fund, which has a specific adaptation window.

This would most strongly benefit vulnerable countries, such as SIDS, LDCs and African countries. These countries face specific circumstances and constraints that result in their low capacity to prevent and respond to climate change impacts. At the EU level strengthening resilience and improving the absorptive capacity of vulnerable countries is being prioritised (EU 2012).

6 Communicating what is being funded

Closely linked to the evaluation of FSF and what we can learn for LTF is the communication of climate finance. As the experiences with the Bonn 2001 political commitment have shown (see section 2), transparent accounting is a crucial element to international climate finance, including FSF - especially since one of its goals was to restore trust between developed and developing countries. One important aspect of transparency is communication. While this also includes measuring, reporting and verification (MRV) on climate finance at the UNFCCC level (i.e. through Biennial Reports, Biennial Update Reports and National Communications), this section will focus on the concrete communication processes between donor countries, implementing agencies and recipient countries.

- **Communication between donor and recipient countries is crucial to increasing transparency and trust.**
- **Germany uses different channels to communicate on the provision of its FSF; however some recipient country partners of FSF projects were not familiar with the term FSF and not all stakeholders knew that their project was part of the FSF commitment.**
- **A two-way communication strategy should be used, which includes all stakeholders and ensures that the information flows back to the UNFCCC level.**
- **In addition to communicating the amount of funding, a clear concept and clear criteria for LTF should be agreed upon and communicated to all stakeholders.**

This section provides an overview of channels used by Germany to communicate with different stakeholders on the delivery of its FSF commitment. We endeavour to identify useful initiatives and provide recommendations for long-term climate finance. For this analysis we have interviewed a small panel of different stakeholders involved in German FSF on different levels.

6.1 What needs to be communicated? Who needs to know?

Actors: who needs to know? On the donor side the Ministry of Environment, Ministry for Development, Ministry of Finance and the German Foreign Office are in a position to communicate on FSF. The different implementing agencies also play an important role regardless of whether they are bilateral or multilateral, in-country or donor-country based. On the recipient side there is also a range of different ministries, local implementation partners and other potential stakeholders involved in FSF. Other actors not necessarily directly involved in the projects, but important for successful communication, include heads of state, high-level diplomats and negotiators at the UNFCCC level from both developed and developing countries. In the end, these are the ones who need to share confidence and a sense of trust to advance international negotiations.

Why communication on various levels matters. Transparent and clear communication can have great benefits on various levels: the international (UNFCCC), national as well as the project level.

- *International level*: reaching a **shared understanding** among different stakeholders on the international, national and project levels regarding the delivery process. This is especially important at the UNFCCC level to **help build confidence and trust** among Parties that current commitments are being met and therefore future commitments are meaningful;
- *National level*: **increasing cooperation and communication** at the national level between all stakeholders in order to create a common understanding of what constitutes FSF on the ground and how it is delivered;
- *National/project level*: **raising awareness** among implementing entities and project partners about the benefits and objectives of the international negotiations process;
- *Project level*: **stimulating knowledge** sharing among FSF implementers in donor and recipient countries, who in turn can then act as multipliers;
- **Increasing information** flows and **awareness** affects the opinions of members of Parliament and of the **public (the tax payers)** in donor and recipient countries, helping to ensure the long-term sustainability of climate finance.

Representatives from developing countries, including ministers and climate negotiators, have repeatedly expressed concerns that FSF funding is not flowing at all or is not reaching the intended recipients. This includes statements in the media as well as within the UNFCCC context (see box).

This contrasts significantly with the scale of funding flows reported by donors (see section 5 Delivering German FSF). So there is an apparent gap in expectation and perception between Parties.

Recipient country views

"...there is a huge lack of clarity on fast start finance... I am leaving aside the issue of whether the $28 billion is 'new and additional'-- that is a vexed issue in itself. But the fact that there has been no disbursement so far is extremely disappointing and is not designed to build confidence in the run up to Durban."

(Indian Environment Minister Ramesh in The Economic Times, 11 July 2011)

Uganda pointed out the difficulties for recipient countries, even for the climate change focal point, to really have an overview of the FSF provided to their country. He said that FSF is still to be "eye-marked" on the ground.

(Workshop on LTF, Bonn, 11 July 2012(UNFCCC 2012b))

What actors need to know. It is of varying importance for stakeholders to know that a project is FSF. On the project level, information about the project's FSF character can be seen as not necessary, because FSF did not create a new set of different or higher standards for climate-related projects. FSF projects are different only in a 'political sense'. Since a more broadly defined concept of FSF at the UNFCCC level is lacking, only the fact that funding is considered as a contribution to the delivery on Germany's FSF commitment remains to be communicated. Nevertheless, communication at the project level allows for bottom-up information about the fulfilment of the political commitment and is therefore important.

6.2 Germany's communication efforts

Coordination between Ministries. The delivery of FSF required a significant effort in coordination among ministries in donor countries, implementing agencies and recipient countries' entities. The challenge was to translate an international commitment into delivery on the ground in a short period of time and to develop processes to inform ministerial departments, implementing agencies and recipient country partners about the nature of the FSF commitment and its delivery process.

Coordination was hence also needed between BMU and BMZ who are both responsible for FSF projects (see section 4) and hence together had to ensure that they address the commitments made in Copenhagen. At the beginning of the FSF period, there was an agreement between BMU and BMZ on who will focus on which areas. Yet there was no FSF specific coordination on the project level between BMU and BMZ – instead they continued the practice applied before. Currently, coordination takes place at the working level at the end of each year regarding the amount of funding each ministry provides for each thematic area. It is further specified from which budget title the respective funding shall come. In addition, projects conducted by the BMU are regularly communicated to the BMZ to assess coherence with developmental aspects while projects funded by BMZ are generally not communicated ex ante to BMU. This changed recently (since the set up of the EKF[29]), at least for projects funded by the BMZ through EKF means. Due to a decision by the Parliament these projects are now communicated to the BMU for commenting (interview with BMU 2012b).

International level. German ministries have pursued different approaches over time to improve their communication on their FSF engagement. Both BMU and BMZ provide information on Germany's FSF engagement via their websites[30] and through joint brochures (e.g. BMU/BMZ 2011b).

Communication at the UNFCCC level was mainly delivered through side events organized at the different negotiation sessions, on the website (www.faststartfinance.org) – initiated by the Dutch government and then handed over to the UNFCCC Secretariat – and later on the UNFCCC finance portal. However, all of these exist on a voluntary basis. In addition, German FSF is reported as part of the EU's FSF submission to the UNFCCC (EU 2012).

To increase information flows and ensure resonance in the UNFCCC context the BMU started to send notifications on FSF projects to the recipient countries' national focal points in 2011.These include the amount of FSF the country received from Germany, including project title, implementing entity and short information on the project itself (interview with BMU 2012b). According to interviews conducted with BMU and BMZ (Interview with BMU 2012 a, Interview with BMZ 2012a), both encourage government officials outside the UNFCCC process to also refer to FSF projects within their general governmental negotiations.

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[29] As mentioned before, EKF funding does not constitute FSF means.

[30] http://www.bmu-klimaschutzinitiative.de/en/news; http://www.bmz.de/en/what_we_do/issues/klimaschutz/finanzierung/transparenz/index.html

The German Foreign Service. The documents provided for top executives (upper management level) of the German Foreign Office also included information on FSF– including information on German as well as EU FSF engagement. Besides this, information about the German and EU FSF commitments has been made available for embassies in the form of an information paper of the European Commission (Europe Aid) about FSF ("Frequently asked questions") (Interview with German Foreign Office 2012). How far each relevant employee within the embassies has been informed about the availability of this information and encouraged to look into it is unclear and might vary between countries.

Demarches ("official announcements") of the embassies in the recipient countries have not been utilised for communicating details regarding FSF during the last two and a half years. Recipient countries of German FSF have not been informed about funding received under the FSF commitment by the embassies. This has changed with the German application as host country for the GCF. Now embassies use the demarches to communicate that Germany has fulfilled its commitment regarding FSF, and to provide information on climate financing in general (Interview with German Foreign Office 2012). Germany's current approach to involving embassies and consulates in communicating its FSF delivery is noteworthy, since this powerful tool has the potential to play a greater role in the future.

German implementing agencies. Implementing agencies are a key channel in multiplying communication efforts. They are working with a wide range of stakeholders on the ground. Within the two German implementing agencies (GIZ, KfW) one central contact person in each organisation is responsible for ICI projects. Together with the communication regarding FSF on the ICI website this lead to the assumption in the Ministries that these agencies know that ICI projects are funded by FSF means (interview with BMU 2012b). Smaller project implementers do not necessarily have such a focal point. Also here it was assumed that smaller implementing agencies, such as NGOs, who were often highly involved in FSF discussions, knew that ICI projects were part of Germany's FSF commitment (interview with BMU 2012b). However, neither of the ministries provides in their project approval letters an indication that this particular project is categorised as FSF (Interview with BMU 2012a and Interview with BMZ 2012a).

> **Lack of information at the implementing level: examples**
>
> One smaller project implementer interviewed indicated that they only assumed that the project was funded by FSF funding since it was an ICI project. Similarly, it was not officially announced that the project for Forest Conservation and Emission Reduction in Ecuador was labelled as a German FSF project, rather this became evident because it was registered in FSF lists. In another case, the responsible person in the national office of a German implementing agency was unaware that their project was categorised as FSF until this study commenced.
>
> *(Interviews)*

6.3 Perceptions from the recipient side

In the recent UNFCC workshop on LTF(UNFCCC 2012b), which also included a session on lessons learned from FSF[31],the persistent lack of information on the receipt of FSF in recipient countries was again highlighted as a problem by several participants, for different reasons.

A mixed picture from selected interviews. One interviewee had not been aware that his project was a FSF project. Another interviewee – from another project, country and entity – knew that his project was an ICI project but not that it was FSF; this project partner was also not directly in contact with the ICI but only through the respective implementing agency. Yet there were other experiences as well, as one interviewee – again from a different project, country and entity – was aware from the beginning of the project that it was funded by FSF means. Therefore they have been able to be and also have been very vocal about the fact that they were receiving FSF means. However, the fact that this particular organisation is also responsible for coordinating climate change work in the country and for the technical delegation to the UNFCCC, is likely to have influenced the level of information.

The Bangkok Call for Action. A result of the Asia-Pacific Climate Change Finance and Aid Effectiveness dialogue (19-20 October 2010, Bangkok), in which seven governments were represented – also points towards the need for improved communication. One of its recommendations is that "Governments need to improve overall coordination of the climate change response in country – including climate finance – by clarifying roles and responsibilities, […] and ensuring effective communication, coordination and appropriate financial transfers of climate finance to sectors and sub national levels" (Bangkok Call for Action 2010).

A lack of knowledge about the 'FSF label' is not seen by recipient country partners as having implications for the effectiveness of a project. They did, however, point out that this information had political significance for placing trust in the UNFCCC negotiation process.

Lack of clarity restrains access to FSF. In addition to the fact that not all stakeholders were aware that existing projects were FSF, unclear communication can also inhibit new projects. The Chilean Department of Climate Change for example found it difficult to access FSF without the assistance and intervention of an implementing agency. According to the interview, they only receive FSF from the government of Switzerland and the government of Germany. However, the interviewee indicated that this has not only been due to capacity constraints within the small department but also that it has not been very clear what is requested by the donor

FSF project: ECUADOR – Forest Conservation and Emission Reduction

Strong internal communication allows for effective implementation of climate finance:

Weekly meetings with the Minister are held within the Ministry of the Environment to ensure a coherent approach to issues affecting the entire ministry. Experience has shown that this ensures that all agencies are fully knowledgeable on issues surrounding projects and can have an integrated approach of tackling these.

(Interviews)

[31] This session took place on July 11, 2012.

side, i.e. criteria for funding and what depth of information is needed to actually get a project funded. These need to be clarified and communicated clearly to recipient countries to allow them to access sufficient climate finance.

6.4 Increasing efforts in communication for a mutual understanding

Moving from information to communication. Communication of FSF delivery – and eventually long-term climate finance – should not only be understood as a supportive tool for showcasing information but as an opportunity for dialogue between donors, recipient countries, implementing agencies, and between actors at the national levels about meaningful climate action. This is not only important for tapping the trust building potential of the FSF initiative, but also for assisting the responsible ministries in their efforts to enhance the knowledge and action on climate change at all levels.

Room for improvement. While Germany has used many different communication channels, some substantial deficits in communication remain, demonstrated by the apparent lack of information at different levels. Therefore it is important that Germany follows up on its statement of 2011 (BMU/BMZ 2011b) that it "will […] continue to upgrade its communication instruments, adding information about climate-relevant and environmental financing options for developing countries". Furthermore it should improve its communication towards an overall communication strategy.

Developing a *mutual* understanding and a *common* shared meaning regarding the concept (and ultimately the fulfilment) of international climate finance commitments is an ongoing process. The 'testing ground' provided throughout the FSF period has revealed the need for improved communication: in the first half of 2012, many developing countries still called for greater transparency, and there have been recent statements from developing country partners regarding the lack of commitment to FSF (LDC group 2012).

Action at all levels required. Mutual understanding requires improvements at all levels. Donor countries, especially Germany as an influential Party in the UNFCCC process and within the EU, clearly need to enhance their communication efforts. But recipient countries also need to ensure effective in-country communication between different entities (see chapter 7.2). At the international level, clarity on the concepts, definitions and reporting requirements for climate finance needs to support national communication efforts.

Potential role of the Standing Committee for improving communication?

The Standing Committee could play a role in improving communication and coordination at the international level – depending on the more detailed definition of its role which still needs to be agreed. While at the time of this study the Standing Committee has not yet met, in Durban at COP 17 some of its tasks were identified, including: "Organizing a forum for the communication and continued exchange of information among bodies and entities dealing with climate change finance in order to promote linkages and coherence" and "Preparing a biennial assessment, overview of climate finance flows, to include information on the geographical and thematic balance of such flows […]" (UNFCCC 2011 para 121 a), f) 3/CP.17). While the former does not explicitly refer to Parties, it might nevertheless create interesting opportunities for increased coordination. The latter can be a helpful tool for ensuring improved communication and coordination.

Proposal for improved German communication. A coherent communication strategy on climate finance involving actors on all levels of the delivery chain (see Figure 12) could include that:

- Representatives from different German government entities are nominated as contact persons to provide information about delivery to the international level, i.e. UNFCCC level or governmental negotiations; contact persons coordinate closely across entities.
- German embassies and consulates are used in a key role in facilitating and multiplying information efforts by Germany;
- UNFCCC focal points are an important link between in-country activities and developing countries' negotiators on finance. Information should be provided more regularly by all involved ministries[32];
- Recipient countries' climate finance negotiators to the UNFCCC are directly informed about FSF projects in their country; and
- Partner organisations in recipient countries are provided with more information to increase familiarity with financing within the UNFCCC process overall and potentially other funding options. The awareness of all actors on the implementation side is essential to deliver knowledge and trust at the higher diplomatic and negotiation levels.

Clear concepts and definitions needed. Besides involving various actors in the FSF communication process, there are further options available to improve communication on climate finance in the long term, based on lessons learned from the FSF period. The FSF period was not defined by clear objectives and guidelines to steer implementation. This allowed for flexibility during this period, but posed a challenge for communication and differentiation of FSF projects from regular climate financing and development financing and thereby led to different expectations and misunderstandings. From 2013 on, communication on climate finance is likely to become easier with fewer different categories of climate finance being relevant to the political dialogue.

[32] The potential of climate change focal points was highlighted several times at the UNFCCC workshop on LTF, Bonn, July 2012(UNFCCC 2012b).

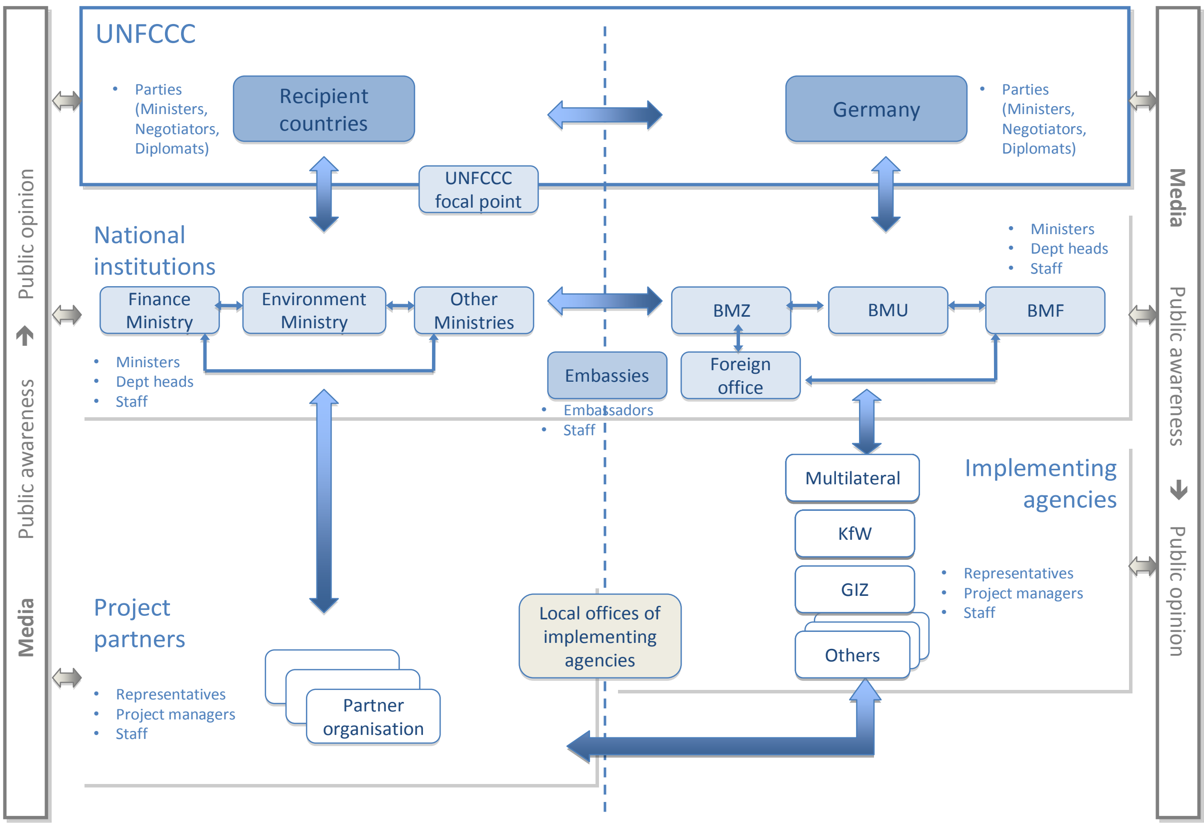

Figure 12 Improving information flows for bilateral communication on the provision of LTF

For LTF it would be helpful to further clarify as a first step the **nature and concept of LTF** at the UNFCCC level, including:

- Providing clear commitments, both for each donor and overall, for scaling up climate finance beyond 2012 in order to ensure predictability and set benchmarks for donor countries on the way to 2020 and the USD100 billion mark; Germany could set a standard here by defining its annual contribution up to 2020; it would also be useful to consider options for defining a 'top-down' approach for finance, based on an internationally agreed burden-sharing formula;
- Providing clarity on where it is different from other development cooperation finance and where not, i.e. providing a definition of "climate finance"
- Providing an agreement on criteria regarding funding sources, especially private finance, on what may count towards which type of activity (e.g. share of mitigation and share of adaptation if the project focuses on both areas) and towards meeting developed countries' UNFCCC climate finance-related obligations;[33] and
- Providing clear guidelines on which countries are eligible for LTF (see section 5.3).

Not only would this facilitate comparability, but it would also be the basis for effective reporting, communication and improving trust on the part of developing countries that

[33] This also entails only including grant equivalents in calculated contributions.

developed countries take their commitments seriously. Once these political decisions have been taken, further steps can be taken in order to implement a coherent communication strategy (see also Table 5):

- Common reporting standards are essential to ensure accountability and transparency for LTF. The existing reporting requirements for Biennial Reports and National Communications under the UNFCCC need to be strengthened and capacities of the expert review teams need to be enhanced to handle the increased information to be analysed in the finance sections of these reports.
- To better disseminate knowledge on LTF all stakeholders involved in project implementation need to be informed about projects delivering on the LTF commitment. For the future larger amounts of finance, an appropriate database and efficient procedures to maintain it, i.e. building upon the OECD DAC database, will be needed to compile the relevant information.
- More regular and in-depth dialogue and communication, i.e. at the end of each year, with/to UNFCCC focal points and finance negotiators would be helpful. In order to avoid the doubling of efforts with other reporting requirements this could be as simple as including summarised information on the funding volume for this country and project titles. If a concept for LTF is agreed, this should also be communicated again. Where possible such communication could also take place in-person, ensuring a two-way communication process.
- Recommendations could be provided to UNFCCC focal points and embassies on how to best distribute the received information. Such recommendations could be distributed together with the information.
- Embassies can play an important role in communicating climate finance. The use of demarches, e.g. regular annual briefings and thematic training of embassy staff could support this role.
- On the recipient country end, setting up special committees or other coordination structures for such information exchange within the recipient country administration could be helpful.[34]
- These means of communication need to be adjustable to potential changes in the climate finance landscape.

In addition the ‘Registry’ set up by the UNFCCC to facilitate matching of finance demand and supply for the implementation of NAMAs could become one of the tools for enhancing communication and dialogue on the provision of LTF. However, with its current scope and form it is not yet able to serve the need for improved communication, but while discussions on the final role and structure of the ‘Registry’ are still under way it could be useful to consider its role in this respect.

[34] For instance a representative of Colombia highlighted at the UNFCCC workshop on LTF that Colombia has set up a “Climate Finance Management Committee” to allow for such information exchange. This Committee includes for instance representatives of the environment ministry, planning ministry, finance ministry, the UNFCCC focal point (i.e. ministry of foreign affairs), development banks, as well as representatives from civil society and academia.

Table 5 Analysis of communication channels deployed by Germany

Channel	Tools	Target Group(s)	Potential to reach the target group	Recommended improvements
UNFCCC (Parties)	Reporting	Parties and observers to the UNFCCC	Very high since this is the main channel to be used	More detailed and common reporting guidelines
	Side Events Presentations at workshops Brochures	Parties and observers to the UNFCCC	High if target group is present at negotiations, but not as accessible for those not present as plain documents of UNFCCC reporting	Provide more detailed information, i.e. ensure reports focused on at the side events are uploaded to the UNFCCC side event website
Web-based information		Parties and observers to the UNFCCC Civil society Media	High potential if: • easy to find • clear and well structured • regularly updated	Place the documents or a link to them on the first page of the website One central website per country Central UNFCCC website linking all country information
UNFCCC Focal Points	Summarising information brochures Individualised information where necessary Personal communication	Recipient country government, delegates of UNFCCC parties	High potential if national communication processes ensure dissemination of knowledge to UNFCCC negotiators	Provide each focal point with a summary of all LTF funding provided to this country at the end of each year Ask focal points to forward this information to governments and UNFCCC negotiators
Intergovernmental negotiations	Personal communication	Recipient country government	High potential if national communication processes ensure dissemination of knowledge to UNFCCC negotiators	Difficult to provide suggestions, since negotiations might differ from case to case
Embassies	Demarches Summarised information brochures Briefing/training sessions Individualised information where necessary Personal communication	Recipient country government	High potential if they disseminate the knowledge further to recipient country representatives, i.e. at the UNFCCC level	Use demarches – potentially annually – to provide information on LTF received Ask embassies to forward this information to the recipient country government and UNFCCC focal point
Implementing agencies	Summarised information brochures Individualised information where necessary Personal communication	Recipient country government Implementing agency	High potential if they disseminate the knowledge further to project partners	Include information on LTF, amount of finance, potential concept of funding in project approval document Highlight LTF commitment and potential concept in discussions
Partner organizations	Summarised information brochures Individualised information where necessary Personal communication	Recipient country government Partner organisations in recipient country	High potential if they disseminate the knowledge further to other stakeholders and back to the recipient country representatives so that the information can flow back in the UNFCC process	If information on LTF, amount of finance, potential concept related to funding is included in project approval document, then this should also be received by project partners Highlight LTF aspect in discussions

7 Experiences in working with German Fast Start Finance

This section will look into the first hand experiences of working with Germany's FSF from the perspective of the implementing agencies and the executing agencies within the recipient countries. Results and responses to interviews within ten selected German FSF case studies are compared against set objectives and it is determined whether the set criteria applied in each case. However it is important to note that neither the international nor the domestic decisions and statements related to FSF provide us with clear-cut identified objectives and criteria. Out of the content of international agreements including provisions on FSF (the Copenhagen Accord and the Cancún Agreements), European Commission working paper (EC FSF concept), and specific objectives of the channels used as discussed in sections 1 and 2, we obtain several sets of complementary and coherent objectives and criteria from which we chose the main axes of work for this study.

- **Although there was a satisfactory level of country ownership within the selected case studies, this can always be improved to ensure that project truly belongs in the context of recipient country development plans and national climate change priorities.**
- **To ensure no country is marginalised in LTF, there needs to be a more comprehensive coordination effort between donors with a variety of approaches for the application of climate finance, taking into consideration recipient countries' national capacities and constraints.**
- **Developing countries need to empower their environment and climate change departments and ministries to ensure that climate change is comprehensively integrated into national development plans and concrete action can be taken to combat climate change and its impacts.**
- **Transfer of knowledge and expertise to recipient country partners to build capacity is essential for the sustained impact of the individual project outcomes and to ensure country ownership and increase the ability of recipient countries to absorb and implement climate finance.**

It is still too early to get a holistic view of the effectiveness and impact of the entirety of Germany's FSF portfolio as the majority of projects are still being implemented, with some only just beginning. For this study we therefore concentrate on aspects that are important to the design of the LTF system, drawing on other objectives in Table 6 within these headings:

- Ensuring recipient country ownership, and
- Ensuring readiness to absorb increased climate finance.

We are aware that this only covers part of the range of explicit and implicit objectives related to climate finance in general and the FSF commitment in particular. Table 6 provides a brief, while not comprehensive, overview of the most important objectives and criteria at different levels.

Table 6Objectives and criteria for FSF at different levels

Levels	Copenhagen Accord/ Cancún Agreements	European Commission vision	International Climate Initiative[1]
Objectives	• Rebuild trust • Help to prepare countries for later increased climate finance	• Assist developing countries in preparation for implementing mitigation actions • Respond to immediate adaptation needs • Facilitating a programmatic approach into a new climate regime	• Support consensus building for a comprehensive international climate agreement • Create as many synergies as possible between climate protection and biodiversity conservation • Promote climate-friendly economies, • Foster measures to adapt to the effects of climate change, • Ensure the conservation and sustainable use of natural carbon reservoirs, and conservation of biodiversity.
Criteria	• Balanced allocation between adaptation and mitigation, • Prioritisation of vulnerable countries for adaptation funding, and • Funding should be comprised of new and additional resources	none	Priority given to projects that • Support creating an international climate protection architecture, • Are transparent, • Are innovative, and • That have an impact beyond the individual project

[1] ICI is used here as an illustrative example only.

We also have a brief look at the lessons learned from private sector involvement in FSF, an issue that was important in many case studies and which was raised repeatedly during the interview process. An important limitation to the analysis relates to the fact that FSF provided by a donor country consists of bilateral funding, as well as through contributions to multilateral funds, the exact implementation of the latter being more difficult to disaggregate. The analysis draws on ten case studies out of the entire portfolio (details on the methodology are outlined in Appendix B).

7.1 Recipient country ownership in Fast Start Finance projects

In order to determine the extent to which German FSF ensured that the ownership of the funded projects lay with the recipient countries, it is important to address questions about project development, the involvement of key ministries and the coherence with national climate change strategies and priorities.

Project Initiation. This is an important basic indicator for determining the degree of ownership for a project. There has been an array of approaches to project development in the case studies. Two of the ten projects selected were initiated by ministries in the recipient countries and were subsequently developed with the local German embassies and GIZ offices. In three other cases the project ideas were initially developed by implementing agencies and submitted to the ICI without any major involvement with the recipient country other than official letters of support prior to approval by the ICI and subsequent comprehensive development of the project proposal. The remaining five projects were developed through a joint effort of both the recipient country and the implementing agencies.

Even though the initial development of three of the ten case studies were done without major involvement of the recipient country, all of the case studies chosen for this study were subsequently tailored to the needs of the recipient country following the initial approval by the ICI and BMZ through consultation at the local level. The extent of this consultation varied across the case studies. Although project initiation is an important basic indicator, what is more important regarding country ownership is ensuring that in the early stages of project development stakeholders are comprehensively involved and are able to influence and re-adjust the design of the project.

Better involvement requires enhanced capacity in recipient countries. The development of project proposals and ideas by implementing agencies without substantial involvement of the recipient country poses the threat of a top-down approach without ensuring that the national priorities of the recipient country are met. There is a need for a more balanced approach to recipient country involvement. Some of the case studies had issues with insufficient stakeholder consultation. This is not exclusively the fault of the implementing agencies employing this approach, but also a problem associated with recipient countries' institutions and human resource capacities to be able to monitor and to participate to a greater extent in project development and implementation. The ministries or departments concerned with climate change are usually the weakest, especially within developing countries, and many do not have the capacity to be able to develop and implement projects without the expertise and assistance of implementing agencies.

The European Commission's vision for the FSF period included assisting developing countries in their preparation for implementing mitigation actions. To this end, the importance of ministries and departments of climate change in this cannot be understated. Since the start of the Fast Start Finance period five out of the six case studies that commented on this point have seen an increase in the central role that their environment and climate change ministries play. That said, it was obvious in the interviews conducted that the extent to which this was the case varied greatly across the different cases and that different departments within the recipient countries have varying perspectives on the role that environment or climate change ministries and departments should play.

The approach to country ownership by the Clean Technology Fund

The modalities for developing projects under the CTF could offer some interesting features for the LTF system and ensuring recipient country ownership. One of the purposes of the Climate Investment Funds (CIFs) was to be a pre-GCF testing instrument.

For the CTF, recipient countries have to first develop 'Clean Technology Investment Plans' based on their already existing national development plans. From this projects are developed. The CTF often provides project preparation grants to ensure that formulation can be carried out comprehensively and with adequate stakeholder participation.

A project-by-project approach can run the risk of the perpetual reliance on international funding without ensuring that sufficient capacity for sustained long-term impacts is built within the recipient country. The approach utilised within the CTF is one way of ensuring that the individual project is set in the context of the recipient country's national development plan and guaranteeing recipient country ownership.

In the case of Chile,[35] the Ministry of Environment was only recently founded in 2010, with the Department of Climate Change located within this ministry. One interviewee within the executing agency described the period since the start of the Fast Start Finance period as the ‘golden era’ regarding to participation, action and the leadership that the Ministry of Environment in Chile has recently taken in climate change-related issues. However, there are still major limitations. The climate change team is small and due to time constraints and lack of human resources they were not able to participate in the discussions on project development and implementation to the extent they had wished.

In the case of Colombia,[36] on the other hand, it became apparent during the interview that there was no agreement that the Ministry of Environment should have responsibility for flows of climate finance. This is not necessarily due to the fact that it is the weakest ministry but rather that it is not seen to be a cross-sectoral government entity. This issue has currently been resolved by the setting up of a cross-sectoral committee called the ‘Climate Finance Management Committee’ as outlined in section 7.2.

There is a common understanding that the ministries and departments of environment and climate change should play a key role but because climate change is not only an environmental problem but also a development issue, it demands a comprehensive approach that involves many other sectors. Several recommendations are outlined below that will help ensure that this capacity is developed in a sustainable manner to ensure that under future climate financing the relevant entities within recipient countries can play a greater role in project design and thus increase ownership.

Different countries require different approaches to ensure ownership. In the specific case of Brazil,[37] the general call for projects by ICI was not Brazil’s preferred instrument for accessing climate finance. It was outlined in the interview process by both interviewees for the Brazilian case study that this method of submission of projects was not seen to guarantee a comprehensive project proposal that would truly meet the needs of the recipient country. It was seen more as ‘cherry picking’ of projects out of the vast array that were submitted. The process that has been developed between the government of Brazil and the BMU now allows for a conversation on project proposals. It further ensures that implementing agencies are notified of relevant policies and are at times requested to have consultations with specific relevant agencies, both ensuring ownership. One interview partner stressed that this would not be an appropriate approach for all countries but only for those that are considered ‘core countries’ for climate finance to the German government. Further, if this procedure were to be applied it would depend solely on a case-by-case decision of the BMU and holds only for the BMU portfolio.

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[35] Chile - Implementing fast-track climate finance - development of proposals for Nationally Appropriate Mitigation Actions (NAMAs).

[36] Colombia - projects funded through the Clean Technology Fund

[37] Brazil - Monitoring of climate-relevant biodiversity in protected areas in consideration of reduction and adaptation measures.

Germany's bilateral FSF funding through the BMZ has been similarly sensitive to building capacity, including institutional capacity, in recipient countries at different phases of the project cycle to ensure ownership and to assist in preparation for implementing actions to combat climate change. As pointed out by an interviewee, the national GIZ office or the German Embassy developed all the projects that were funded through the BMZ in conjunction with the recipient country's executing agencies (including ministries of foreign affairs and environment). This ensured that the projects were in line with national climate policies and development strategies and that the key ministries were aware and fully involved with the project activities. This process utilised by the BMZ to select climate-related projects is the same that they use to select other development aid projects and is therefore generally in line with the Paris Declaration.

Projects are largely in line with national strategies. Based on the UNFCCC Convention principles that also apply to FSF, "policies and measures to protect the climate system against human-induced change should be appropriate for the specific conditions of each Party and should be integrated with national development programmes, taking into account that economic development is essential for adopting measures to address climate change." (UNFCCC 1992: Article 3, para 4). Although, as stated previously, there were no international criteria for FSF, two of the main objectives of German FSF were to help developing countries prepare to implement mitigation actions and to respond to immediate adaptation needs. It was extremely important for Germany to outline these objectives as the FSF period is a very important and useful opportunity to develop institutional capacity in developing countries to take on substantial action that effectively makes use of funding resources.

All case studies with a focus on mitigation or REDD+ either directly fed into a broader Low Carbon Development Strategy(LCDS), for example the development of NAMA proposals in Chile, or laid the necessary groundwork for requirements such as MRV of a future climate regime, for example, the implementation of an effective monitoring system for climate-related biodiversity in Brazil. All projects were implemented in accordancewith national climate strategies and priorities and in such a way that can be recognised as a contribution by developing countries to the global effort to combat climate change. That said, this analysis is based only on a very small selection of Germany's FSF projects and this may not be the case for all FSF projects.

Looking at the selection of projects holistically, there was a good level of participation and ownership within the project development and also within the implementation. Although this obviously can always be improved, it seemed to be a shared top priority for both the BMU and the BMZ as well as recipient country partners.

7.2 Increasing the readiness to absorb climate finance

Increasing the readiness to absorb future climate finance is an important aspect of FSF. Although this was not the explicit objective of any of the selected case studies, it was an expected co-benefit of FSF in general and also in several of the case studies.

Whether Germany's FSF was effective in increasing the readiness of recipient countries to be able to absorb scaled up climate finance in the future is a difficult question to answer after only two years and with a small selection of the entire FSF portfolio. However, a number of challenges on both the donor and recipient sides were identified that need to be addressed within the long-term climate finance system.

Recipient country views

"Many areas need further work that cannot be done without international support but they are not getting the in-country institutional support to access the required funding."

(Ghana)

"The project developed capacity within the country but failed to help raise funds to implement pilot projects or other recommended studies coming out of the project."

(Chile)

Proliferation of channels increases the burden on recipient countries. One of the issues consistently raised in the interview process was the problem of the complex 'patchwork' nature of the funding landscape in climate finance and the proliferation of the number of channels and means of accessing climate finance (Porter et al. 2008). FSF and its lack of a coherent global approach has been seen in some cases as making the funding landscape even more complex and diverse, thus increasing the burden on the recipient country partners in accessing and processing climate finance. It is a very difficult task to balance supply and demand within climate finance and as shown in the box above there is an obvious need for more supply. Without clear national or international criteria for FSF or for LTF in the future it will be very difficult for the supply to adequately match the demand from developing countries and for donors to meet their funding commitments.

The 2005 Paris Declaration on Aid Effectiveness is frequently referred to by donors in the context of climate finance. Within this declaration donors agreed to take steps to increase the harmonisation of efforts and to align aid delivery through many steps including to "work together to reduce the number of separate, duplicative missions to the field and diagnostic reviews (Indicator 10); and promote joint training to share lessons learnt and build a community of practice" (OECD, 2008). As shown through the interview process, this obviously still remains a challenge and needs to be addressed for future climate finance to be more effective.

Better coordination needed to avoid duplication. Some implementing agencies agree that there is a problem of duplication of activity and effort due to the patchwork of donor activity. At the very beginning of the FSF period the balance was hard to find between impatience to show that the money was flowing; finding readily fundable projects; and ensuring full consideration was given to recipient countries' demands and priorities. The duplication of activity does not make climate finance more effective and, as one implementing agency stated, it "should not be about spending money but should be about doing the right thing on the recipient side."[38] Coordination and harmonisation of the donor landscape and activities being implemented is key and without this there will always be a substantial waste of resources (Maclellan, 2011). To ensure this does not happen on the recipient side, it would be beneficial to have a body that consists of the different government entities involved in climate finance to oversee application, implementation and ensure good governance. For example, Ghana[39] has set up an inter-sectoral committee to coordinate all climate-related activities and, as stated in section 7.1, Colombia is going to set up the 'Climate Finance Management Committee' with all the agencies involved in climate finance to ensure that all climate-related activity is harmonised and coordinated.

It is also very important to both recipient and donor countries to have enhanced coordination across conventions, including, for example, the CBD and the UNCCD and relevant regional agreements and objectives. This should involve the exchange of information, outcomes and lessons learned to enhance efficient and comprehensive development and the resolution of issues at hand. Four of the ten case studies chosen have specific inter-linkages with other conventions and regional agreements. The FSF project based in the Caribbean has, for example, specific linkages and feedback into the Jagdeo Initiative[40] on agriculture with its support for insurance to build resilience for small-scale farmers. Further, the FSF project based in the Philippines inputs into the CBD's Programme of Work on Marine and Coastal Biodiversity with its efforts to establish and manage marine protected areas and strengthen institutional capacity, among other objectives.

SIDS, LDCs and Vulnerable Countries within Africa

- When funds are channelled through multilateral banks, capacity constraints put SIDS, LDCs and Vulnerable Countries at a disadvantage due to extensive administrative and reporting requirements. This is compounded by the fact that some of the smallest nations are not members of the UN, World Bank or other multilateral institutions (Maclellan, 2011).
- When funds are channelled bilaterally, the smaller diplomatic presence of these countries puts them at a disadvantage as it is a greater burden to develop and maintain these bilateral relationships.
- Special attention needs to be given to those countries that need extra assistance to be able to access and implement climate finance.

Lack of coordination puts smaller countries at a disadvantage. One of the obvious impacts of this duplication of efforts is that it usually occurs within the countries that already have a greater capacity to access substantial amounts of climate finance. This subsequently means that smaller developing countries could be marginalised more than they already are, as outlined in the box to the left. This situation hampers the capacity of these smaller developing countries to access and absorb climate finance or the anticipated scaled up climate finance. It is a paradox that FSF thus sometimes aggravates the challenges faced by those countries supposed to be prioritised in the delivery of FSF adaptation funding. One way of tackling this issue is to have

[38] South Africa - Open Programme for Renewable Energy and Energy Efficiency

[39] Ghana - Assessing and capitalising on the potential to enhance forest carbon sinks through forest landscape restoration while benefitting biodiversity

[40] The Jagdeo Initiative aims to remove the constraints on the development of the agriculture sector in the Caribbean region, building on a Common Agriculture Policy to ensure food security and poverty reduction.

special access mechanisms in any new financial mechanisms like the GCF for those with the least capacity to access climate finance, such as SIDS and LDCs.

Stakeholder involvement is key. One of the key factors in the success of a project to increase the readiness of recipient countries to be able to absorb climate finance is the involvement of key stakeholders, as well as clear communication channels between them. The FSF project based in the Caribbean[41], with its highly innovative nature, has so far been very successful with their stakeholder consultations and communication between recipient partners and the implementing agency. This has mainly been due to the strong regional bodies that are already in place[42] and functioning very well with strong communication channels and networks. This supports effective implementation of climate finance and assists extensively in adequate stakeholder consultation.

7.3 Private sector engagement

Ensuring long-term sustainability. One of the key aspects of three of the selected case studies was involving the national private sector[43,44]. Many of the implementing agencies within the selected case studies stressed the importance of the involvement of the private sector in ensuring the sustainability and longevity of project outcomes. This requires improving capacity in financial engineering at the recipient country level, since in-country capacity will be crucial in the long term for scaled-up financial flows and in such a complex finance landscape.

Leveraging additional funds. Thus far, of the three case studies which involve the private sector, many have achieved moderately good results regarding private sector involvement. Some implementing agencies are convinced that involving the private sector is the best way to support initiatives and enable financing to be multiplied and sustained. In the case of the FSF project in South Africa, the involvement of the private sector within the project has leveraged substantial funds for renewable energies and energy efficiency from within the South African government but also from other private sources. The overall aim of this project was to encourage the introduction of the private sector into the field of renewable energies and energy efficiency. The approach taken created framework conditions and

[41] Caribbean - Regional institutions, adaptation, and insurance: expanding coverage for medium-level weather extremes in vulnerable countries using risk reduction and innovative insurance solutions

[42] The Caribbean Catastrophe Risk Insurance Facility (CCRIF), the Caribbean Community (CARICOM), the Caribbean Community Climate Change Centre (CCCCC), the Caribbean Institute for Meteorology and Hydrology (CIMH), University of the West Indies (UWI) and the Caribbean Disaster Emergency Management Agency (CDEMA).

[43] Throughout this section, the private sector is defined as every part of the national economy that is not under direct state control. For the purpose of this section, the development banks referred to within section 7.3 are classified as belonging to the private sector as well.

[44] Caribbean - education on issues surrounding climate change and perception of risk to create a business case to make it possible for the private sector (insurance companies and development banks) to get involved in adaptation and building resilience; Asia - providing technical assistance with a temporary financial support system (incentivising banks); South Africa – creating the right framework conditions and incentives and disincentives for their involvement.

incentives for the private sector's involvement to establish the right groundwork for future financial resources that will be needed to comprehensively engage in a global effort.

Private engagement is difficult for the most vulnerable countries. Caution is required regarding the potential role of the private sector in smaller developing countries that may be disadvantaged in accessing climate finance in comparison to emerging economies. Although the national private sector is less developed and diverse in all developing countries, the situation is more difficult in SIDS and LCDs, especially regarding access to adequate resources. Therefore, gains for the private sector will not be as large and incentives will not be in place. If left solely to the private sector financing will be provided to the best functioning markets and where the best investment conditions exist. This fact is clearly outlined by Schalatek et al. (2010) who stated in 2010 that "One can safely assume that many urgently needed adaptation projects, especially in community-based, social development focused settings, will not be attractive to international private investors."

The involvement of the private sector in a way that not only effectively assists in meeting future demands for climate finance but also allows for regional balance, depends on what conditions are put in place for the private sector to mitigate the perceived risks (Zhang/Maruyama 2001). The case studies showed that where adequate involvement and education of the private sector could be found, technological risks were no longer a significant barrier and financial risks were also manageable.[45]

7.4 Learning from German Fast Start Finance experiences

The FSF period represents a financial commitment that was made in a certain political context without many definitions or boundaries being outlined. It was pledged with no specific structure or form, with the donors deciding on the amount, timing, channels and spending of their FSF portfolios. FSF projects were not different from other climate related projects already implemented by Germany.

Lack of concept leads to missed opportunities. It would have been extremely beneficial to utilise the FSF period as an opportunity to develop concepts surrounding NAMAs, LCDS and longer term national adaptation strategies. This would not only advance the negotiations under the UNFCCC through the building of confidence and trust but also to set up key institutional arrangements and structures and to building on capacity constraints to allow for LTF to be able to deliver results more rapidly and efficiently.

Stakeholder participation needs to be improved. It is critical to involve the public and private sectors as well as civil society, in particular local and indigenous groups, at all levels. This is especially important at the start of the project in order to assess the recipient country

[45] This was the case in the project based in the Caribbean region. Within Jamaica, a development bank involved in this project is going to create a new portfolio for a marginalised group as they now have access to the necessary insurance through the project. The bank was therefore much more willing to provide liquidity to the market as their financial institution is protected with the insurance product developed through the project.

conditions and to ensure that the discussion with the potential partners focuses on how best to meet outcomes in the interests of both the recipient country but also the donor partner.

This will ensure that no top-down approach dominates and the project is in line with national development plans and climate change priorities. Projects developed through the future GCF or other climate funds established under the UNFCCC should not be approved until they have adequate, meaningful stakeholder consultation,[46] ensuring country ownership of the project and its outcomes.

It has been shown, based on the interview process, that in the intuitive opinion of the interviewees, the selected projects are either already fulfilling their stated outcomes or are on the right path to achieving these outcomes. However, due to the fact that the majority of the case studies selected are currently still in the implementation phase, this is not a complete picture.

Simplified modalities and capacity building to enhance access. To have a robust and effective long-term climate finance system, giving more recognition to donor countries and allowing for greater country ownership, implementation by recipient countries should be facilitated through capacity building and development and also through simplified procedures at the level of the implementing agencies (such as GIZ, IUCN and UNEP).

To ensure that the project outcomes do not perpetually rely on international climate finance it is important for the project to have sustainability, with a long-term perspective for the project activities that go beyond the project phase before the start of the project. This will ensure that the implementing agency knows how it is going to leave the project after completion and also that the effectiveness of the project intervention can be maintained over the long term and not just for the duration of the project.

Improved coordination and communication required. Clear communication channels between and within implementing agencies, executing agencies and other key stakeholders like regional institutions with already existing knowledge and expertise are crucial for the success of the project. Without these the project implementation may be significantly delayed, incurring an unnecessary burden on time and resources.

Much greater coordination and communication in the donor landscape are necessary to ensure a harmonised approach and to avoid placing an extra burden on recipient countries that are already facing capacity constraints and to avoid significant waste of resources.

A clear concept for LTF for improved accessibility. LTF needs clear global criteria that are effectively communicated to the recipient countries.[47] Without this clarity many developing countries will not be able to access climate finance without the assistance of implementing agencies, which may undermine country ownership.

[46] One project proposal through the CTF within the Philippines was rejected due to criticism of lack of adequate stakeholder consultations. The CTF Board did not approve the application and the project had to complete a more comprehensive consultation process, ensuring that the project was fully country driven.

[47] These are outlined in section 6.4 under the heading 'Clear concepts and definitions needed.'

Good governance encourages the private sector. For the private sector to have security to become key partners in future climate finance, it is necessary for developing country governments to ensure accountability of climate finance and general good governance. Even though there are many risks involved there are also many opportunities for the private sector to be involved if a system is set up that provides for the types of returns that they are accustomed to. Doing this will enable the private sector to see that there is potential for sustained impact.

FSF has rebuilt some trust but it needs maintenance. It was highlighted in several of the interviews and outlined in section 5 that Germany has been delivering on its FSF pledges so far. There is, however, some scepticism about climate finance in the post-FSF period with regard to the functioning of the Registry, the clarity of concepts and definitions for LTF and the actual delivery of funds. There is therefore a great need for coordination and the opportunity to provide feedback to the UNFCCC negotiations, in order to ensure that an agreeable outcome is reached for all.

Building capacity through implementation by local partners. For recipient countries to be able to absorb and make effective use of scaled up climate finance, it is necessary for projects to not only allow for foreign experts to implement projects but also to invest in the capacity of recipient governments and local expertise to practice good governance in order to respond to the realities of climate change.

8 Synthesis and lessons learned

From the assessment conducted, one can conclude that the delivery of German FSF in 2010 and 2011 has been successful overall. While the total provision of funding exceeded the self-set target, there are shortcomings in the distribution between thematic areas. Many of the challenges and good practices identified here from Germany's FSF experience, some of which may be common to all donors, cannot simply be solved at a national level, but may provide valuable insights and models to further develop the work programme on LTF.

The following table outlines some key findings of this analysis in the form of a SWOT analysis. It identifies positive and negative elements both within the German climate finance system and external to it, i.e. at the European or international levels.

<table>
<tr><th></th><th>Helpful</th><th>Harmful</th></tr>
<tr><td>Internal</td><td>Strengths
• The use of existing structures allowed for streamlined, fast allocation of the German FSF commitment to climate-focused projects.
• In terms of gross funding flow Germany has surpassed its annual FSF commitment by EUR 70 million in the last two years.
• Use of the auction revenues of ETS allowances as a truly new and additional financial source while constituting a mitigation measure in developed countries according to the 'polluter-pays-principle'.
• The specific budgetary structure through the Special Energy and Climate Fund guarantees the earmarking of the resources, i.e. targeted use of auction revenues for climate action only for the time after the FSF period.</td><td>Weaknesses
• Germany so far has not achieved its self-set targets in the focal areas of adaptation and REDD+.
• Communication efforts involved stakeholders at different levels but were only partly successful. Not all project stakeholders were aware of the fact that their project was part of the German FSF commitment; information at negotiator level was not sufficient.</td></tr>
<tr><td>External</td><td>Opportunities
• Developing countries need to empower their environment and climate change ministries and departments to ensure that climate change is fully integrated into development plans and concrete action can be taken to combat climate change and its impacts.
• Coordination between and buy-in of all stakeholders, especially ministries, including the finance ministry, and UNFCCC negotiators on the recipient side is essential.
• Transfer of knowledge and expertise to all recipient country partners is essential for the sustained impact of the individual project outcomes and to ensure country ownership and increase the ability of recipient countries to absorb and implement climate finance.
• Using a mix of revenue sources at the national and international level will enable a spread of risks and increase the predictability of funding.
• Agreeing on a clear concept for LTF on the international level, which has been lacking for FSF, would support a common understanding and expectations of LTF.</td><td>Threats
• The carbon price needs to be stabilized to secure revenues from EU ETS allowance auctioning and any market-linked or based sources. This includes setting ambitious mitigation targets and establishing mechanisms to address external factors.
• No detailed parameters for FSF and LTF have been agreed upon at the international level.
• Lack of criteria and definitions at the international level, e.g. new and additional, on accounting rules for non-grant financial instruments. Lack of a common reporting format for the UNFCCC biennial reporting guidelines for developed country Parties currently under development, which would allow for transparency and trust-building and prevent some donors free-riding on others' commitments.
• Lack of capacity at recipient country level to access funding from various channels needs to be addressed, since it can lead to the marginalisation of countries in climate finance.</td></tr>
</table>

The first two years of German FSF show positive results. When assessed against the total commitment set by the German government, the delivery of FSF was largely successful in 2010 and 2011. This was enabled by the use of existing infrastructure and supported by the use of auction revenues from the EU ETS specifically dedicated to this purpose. The overall amount allocated in the first two years of FSF surpassed the German government's own targets.

Not all challenges and shortcomings can be addressed nationally. Some require decisions at levels beyond the direct influence of the German government, but where Germany has considerable political influence on decision processes. This includes for example the need for clear definitions regarding levels of ambition within the international and EU contexts..

'Balanced' allocation - Germany's own definition. Deficits in the distribution of allocated funds to the identified thematic areas need to be addressed domestically by giving higher priority to adaptation and REDD+ activities for the last year of FSF. In the medium to long term the question of 'balanced' allocation between mitigation and adaptation needs to be more clearly defined within the UNFCCC to ensure a common understanding and create a basis for reporting and evaluation.

Communication and coordination requires increased efforts. Communication and coordination are essential to build trust between Parties to the UNFCCC and to ensurethat the targets set, i.e. in regard to balanced allocation, are being met. Communication should include information on the amount of funding provided and on the concept of LTF. At the national level communication and coordination can be improved mainly by intensifying the use of existing channels and tools, increasing the information provided[48] and ensuring a two-way communication process is established. Given the much larger flows of finance expected in the UNFCCC LTF context, it is essential to create more internationally coordinated ways of communication, both among donors as well as between donors and recipients. The Standing Committee could play a valuable role in this regard and the 'Registry' established under the UNFCCC could be further developed to contribute to effective communication.

Risk Management Tools for 'innovative sources' are required to increase the scale of revenue and predictability of funding flows. The Special Energy and Climate Fund implemented by the German government demonstrates that truly new, additional and 'innovative' sources earmarked for climate action are feasible, and provides a model for other countries to follow. But the recent difficulties faced on the carbon market also highlight the need to address the volatility risk of the carbon price. This requires sufficient levels of ambition in setting reduction targets and calculating the assigned allowances to actors in the markets both within the EUETS and on the international level. Mechanisms need to be designed in a way that allows adjuster-adjustments and flexibly along with changing external factors, such as economic downturns or irregularity in the operations of the market (fraud, registration issues), while maintaining high environmental integrity.

[48] For instance, it appears that it would have been helpful to include in the FSF project approval process documents that make clear the fact that this project was funded by FSF means.

Clear concepts and definitions needed. FSF lacks an underlying conceptual framework which would define clear objectives and structures to guide implementation. This has allowed for flexibility, but has also posed a challenge for communication and the differentiation of FSF projects. This lack of clarity has lead to misconceptions and different expectations about the nature and delivery of FSF as well as the subjective feeling on the part of some countries that FSF funding was not flowing. Frustration was noted on both sides, with donor countries not getting recognition for their genuine efforts to fulfil their commitments and recipient countries considering FSF yet another broken promise about access to enhanced financing. Therefore, more clarity on developed countries' long-term finance commitment to mobilise USD 100 billion in public and private funding by 2020 is needed, including:

- Clarifying the nature of the USD 100 billion commitment, including criteria and definitions as to which sources of funding will be counted and which means of financing (public/private, new and additional, loans/grants) will be utilised in delivering on the commitment;
- Considering sequencing the ramp-up of funding towards 2020 in distinct commitment periods with dedicated conceptual frameworks for each of the periods which would provide predictability and visibility to all stakeholders and help build trust;
- Considering options to define a 'top-down' approach for mid-term finance, based on an internationally agreed burden-sharing formula;
- Working further on common definitions of key concepts such as 'new and additional' and 'balance' between adaptation and mitigation;
- Developing a common reporting format with a sufficient level of detail for the transparent and comparable delivery of funds.

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List of interviews

List of interviews of stakeholders on section 4.1 Institutions and context and 6 Communicating what is being funded

BMU (German Ministry for the Environment, Nature Conservation and Nuclear Safety), 2012a: Personal interview with BMU representative, 30.05.2012

BMU (German Ministry for the Environment, Nature Conservation and Nuclear Safety), 2012b: Personal interview with BMU representative, 24.07.2012

BMZ (German Ministry for Development and Economic Cooperation), 2012a: Personal interview with BMZ representative, 12.06.2012

Foreign Office, 2012: Personal interview with Foreign Office representative, 24.05.2012

KfW (Kreditanstalt für Wiederaufbau), 2012: Personal interview with KfW representative 12.06.2012

List of interviews of stakeholders on section 7 Experiences in working with German Fast Start Finance and partly section 6

BMU (German Ministry for Development and Economic Cooperation), 2012c: Personal Interview with BMU representative responsible for new Brazilian procedure, 12.07.2012

BMZ (German Ministry for Development and Economic Cooperation), 2012b: Personal interview with BMZ representative for the CTF, 22.06.12

CERSGIS, 2012: Personal interview with executing agency for project based in Ghana of the Mexico/Ghana project, 13.07.12

Ecofys, 2012: Personal interview with implementing agency for project based in Chile, 07.06.12

GIZ, 2012a: Personal interview with implementing agency for project based in Brazil, 08.06.12

GIZ, 2012b: Personal interview with implementing agency for project based in South Africa, 11.06.12

GIZ, 2012c: Personal interview with implementing agency for project based in the Philippines, 13.06.12

GIZ, 2012d: Personal interview with implementing agency for project based in Mozambique, 19.06.12

IP-AMBERO, 2012: Written interview with executing agency for project based in Mozambique, 12.07.12

IUCN, 2012: Personal interview with implementing agency for project based in Mexico/Ghana, 10.07.12

MCII, Personal interview with implementing agency for project based in the Caribbean, 21.06.12

Ministry of Environment, Chile, 2012: Personal interview with executing agency for project based in Chile, 10.07.12

Ministry of Environment, Ecuador, 2012: Personal interview with executing agency for project based in Ecuador, 22.06.12

Ministry of Agriculture, Grenada, 2012: Personal interview with executing agency for project based in Grenada of the Caribbean region project, 21.06.12

National Planning Department, Colombia, 2012: Personal Interview with agency responsible for the CTF in Colombia, 17.07.2012

UNEP, 2012: Personal interview with implementing agency for project based in Asia, 12.06.12

Appendices

Appendix A: Parameter definitions

Parameter	Options	Explanation
Allocation	2010 2011	According to the project lists
Amount	in EUR million	According to project lists
Disbursement	2010-2013	Based on starting dates as provided in the project lists
Geographic region	Supra-regional Africa Asia Europe Latin America and the Caribbean Oceania	Based on countries listed on the project lists. In the figures, we have also used the term "Americas" for the sake of brevity. By this we mean "Latin America and the Caribbean". If activities are global, or target more than one region, we have counted the activity as "supra-regional".
Objective	Mitigation Adaptation REDD+ Prioritisation of vulnerable countries	Based on Germany's self-set objectives, and commitments laid out in the Copenhagen Accord
Recipient institution	UNEP UNDP World Bank KfW GIZ ...	According to the parameter "implementing agencies" in the project lists. We chose this parameter because for the multilateral funds, the institutions receiving the funds may not in every case be the implementers of individual projects.
Title	Project title	As provided in project lists
Type of activity	bilateral multilateral	We have only counted activities as multilateral if they support activities that are beyond the direct influence of the donor, and are channelled through an international institution.
Type of funding	Loans Grants Grant elements	We have taken the data provided by the German government at face value, i.e without determinaton of the grant element of the loans provided. We acknowledge that in some cases, the figures provided as grants in fact represent grant elements of larger loans.

Appendix B: Methodology used for case studies

The analysis is based on selected case studies, through semi-structured telephone interviews with stakeholders in implementing agencies as well as in the recipient countries, supported by publicly available information such as project documents and reports.

The 10 representative projects that are shown in the table below were selected based on criteria, listed below. These criteria were agreed on between the project team and BMU.

Thematic: Adaptation, mitigation, capacity building, technology, REDD

Geographical: LDCs, SIDS, Africa, LAC, Asia, Europe/Caucasus/Central Asia, MENA

Type of support: Loan, Grant

Size of project: Small (EUR 0-1million), Medium (EUR 1-10million) and Large (> EUR 10million)

Channel: Multilateral, Bilateral

Responsibility: Project implementing agency

Funding ministry: BMU, BMZ

Beneficiary Country/ Region	Programme or Project title	Implementation Period	Implementing Agency
Grenada, Jamaica, Belize, Guyana, St. Lucia	Regional institutions, adaptation, and insurance: expanding coverage for medium-level weather extremes in vulnerable countries using risk reduction and innovative insurance solutions	03/2011-03/2014	Munich Climate Insurance Initiative (MCII)
Mozambique	FSF of Adaptation to Climate Change along the River Chile	08/2010-12/2010	Munich Re Foundation/ GIZ
Philippines	Protection and restoration of coastal ecosystems for improved adaptation to climate change in the Philippines and the Coral Triangle.	03/2011-06/2014	GIZ
Global	Clean Technology Fund	Annual	World Bank
South Africa	Open Programme for Renewable Energy and Energy Efficiency	01/2011-12/2013	GIZ
Chile	Implementing fast-track climate finance - development of proposals for Nationally Appropriate Mitigation Actions (NAMAs)	11/2010-12/2011	Ecofys Germany GmbH
Asia	End-User Finance for Access to Clean Energy Technologies in South and South-East Asia (FACET)	09/2010-08/2014	UNEP
Brazil	Monitoring of climate-relevant biodiversity in protected areas in consideration of reduction and adaptation measures	11/2010-10/2013	GIZ
Mexico, Ghana	Assessing and capitalising on the potential to enhance forest carbon sinks through forest landscape restoration while benefitting biodiversity	02/2011-08/2012	IUCN – International Union for Conservation of Nature
Ecuador	Forest Conservation and Emission Reduction	08/2011-07/2016	KfW

Semi-structured interviews

The questions for the interviews were standardised as far as possible to allow for comparability, but also allowed for differentiation depending on, for example, implementation stage, region, size of the project and area of action. The questions are included in Appendix C.

Interviews were conducted,[49] where appropriate, with implementing agencies, national government representatives and local project partners. A number of recipient country partners from the selected projects could not be contacted due to sensitivities, availability and time constraints. One project[50] was in the early stages of its implementation with the negotiations between recipient countries, implementing agency and donor still ongoing. The recipient country partners therefore could not participate in an interview due to the sensitive nature of their developing relationship.

Many project documents, reports and information regarding the case studies are not publicly available which limits the communication of results and independent cross-checks. Interviews were carried out under strict confidentiality and are not cited individually. The interviews were analysed and processed to ensure the findings and the main messages of the interviews are communicated in an objective way.

[49] The full list of stakeholders interviewed is contained in Appendix A.

[50] Asia - End-User Finance for Access to Clean Energy Technologies in South and South-East Asia (FACET).

Appendix C. Questions for Interviews of Stakeholders

General

1. Title
2. Start – Finish dates
3. Size
4. Region
5. Theme
6. Financing type
7. Channel
8. Implementing agency
9. Project coordinator
10. Executing Agency

Funds and Communication

11. How did your department become involved with this project?
12. Were you aware from start through to completion of this project that this project is classified as German FSF?
13. How did you find out about the funds available from German FSF? Channels?
14. What was your process of having the project approved and obtaining funds?
15. Do you consider the process of accessing the FSF adequate/appropriate?
16. Are there any ways the process of accessing the FSF could be made more efficient/effective/faster?
17. Was there a differentiation in the process of receiving funding from German FSF and other developmental aid or other funding? If so, what?
18. BMU got a substantial amount of funds since 2008. How did this change the relationship with the recipient countries and also between the ministries?
19. Were there any difficulties with the dispersal of funds?
20. How many agencies were involved prior to funding being received by the recipient country? How many and what type of actors got paid/received stipends for their involvement?
21. Was the project designed and written for FSF?
22. Are you aware of the channels and ways of accessing German and other FSF? If not, why not? Who are the responsible local, national and international German government organisations/representatives (e.g. GIZ local offices/embassies)?
23. Does the recipient country project coordinator have good/regular communication with the responsible person named above?

Country Driven

24. Is there a national climate change strategy/policy?
25. What type of actor was responsible for writing the project documents and proposals?
26. Did this process involve capacity building within the department to be able to continue similar work in the future without international support?
27. Was this project written in line with the national climate change strategy/policy?
28. Were the project outcomes relevant, effective and economically efficient?
29. Will the project outcomes still be effective/seen over a prolonged period of time? 5/10/20 years?
30. How did FSF influence the institutional setup in the recipient countries? Also here often environment ministries are now involved where they were not before.
31. If loan: what is the interest and conditions of the loan?

Outcomes

32. Was the project effective in delivering the desired and stated goals?
33. Was the project effective in promoting developing countries' readiness to absorb and use most effectively increased climate finance?
34. Will the project have key inputs into the international effort to combat climate change and its impacts?
35. Does this project have any linkages with other international agreements (e.g. CBD, UNCCD)?
36. Has the project laid good and effective groundwork for the implementation of programmes such as Low Carbon Development Strategies? Especially programmes that are non-internationally financed? Sustainability of this in the long term?
37. Difficulties encountered?
38. Recommendations on all aspects?

Appendix D. Questions for Interviews of Stakeholders on communication

German Ministries (BMU, BMZ)

- Criteria
  - What criteria did your institution apply regarding the project selection?
  - Was there a general, FSF-specific tendency, how the projects – initiated by your institution – take capacity building, demonstrational character/replication potential etc. into account?
  - Do you think there should have been a differentiation between FSF (and in the future LTF) projects and other climate-relevant projects not labelled as such? If so, why and how should this differentiation be determined?
- Communication
  - Did the communication of your institution to recipient countries/project implementers point out what makes FSF/LTF projects special? If so, how was this communicated (fora, channels, regularity, etc.)? Was it the purpose of your communication to inform all project implementers about the uniqueness/singularity of FSF (project level)?
  - Which lessons should in your perception be drawn from FSF communication for LTF projects (e.g. when funding for the first time a project in a specific sector or region)?
  - What other lessons should be learnt from FSF for LTF?
  - Coordination between ministries: With the beginning of the ICI, BMU and BMZ both provided international climate finance. How was coordination (regarding country focus, thematic area) ensured in order to fulfil the Copenhagen commitments? Has there been an increased coordination need through Fast Start Finance or has it remained the same since 2008? (only asked to BMU)
  - UNFCCC focal points: BMU provided information to the UNFCCC focal points on FSF funding. What was included in this notification? (only asked to BMU)
  - Implementing entities: It was indicated in the interview before that BMU did not provide any information on FSF in the project approval documents, but that GIZ and KfW have one central person responsible for ICI projects. What was communicated to these central persons and how was this done? And what and how was communicated to other implementing entities? (only asked to BMU)

German Foreign Office

- Which role has German climate diplomacy played in communicating FSF?
- Did your institution/country representations communicate to recipient countries that they are recipients of FSF means? If so, how was this communicated (e.g. fora, channels, regularity)?
- Which lessons should in your perception be drawn in this regard from FSF communication for LTF projects (e.g. when funding for the first time a pioneer project in a specific sector or region)? Which role should in your opinion German climate diplomacy play in communicating climate finance?

Implementing entities

- Criteria
  - Do you know whether your project is a FSF project?
  - Did your project need to fulfil any criteria in order to receive FSF finance? If so, which criteria were these?
  - Do you think there should have been a differentiation between FSF (and in the future LTF) projects and other climate relevant projects not labelled as such? If so, why and how should this differentiation be determined?
- Communication
  - Where you informed about any FSF-specific criteria which needed to be fulfilled by your project? If so, how?
  - Where you informed that your project is a FSF project?
    - If so, how was this communicated?
    - If so, did this knowledge help you? Please explain.
    - If not, would you have perceived such information as helpful? What would you have done differently if you had had that information?
  - Did you need to inform any other stakeholders in your country that your project is a FSF project? Or did the fact that your project was a FSF project have any other implications for your project?

Partner organisations in recipient countries

- Do you know whether your project is a FSF project?
- Did your project need to fulfil any criteria in order to receive FSF finance? If so, which criteria were these?
- Where you informed about any FSF specific criteria which needed to be fulfilled by your project? If so, how?
- Where you informed that your project is a FSF project?
  - If so, how was this communicated?
  - If so, did this knowledge help you? Please explain.
  - If not, would you have perceived such information as helpful? What would you have done differently if you had had that information?
- Did you (need to) inform any other stakeholders in your country that your project is a FSF project? Or did the fact that your project was a FSF project have any other implications for your project?

Appendix E: Planning and implementation processes of BMZ projects

For more details see the BMZ website:

http://www.bmz.de/en/what_we_do/approaches/bilateral_development_cooperation/approaches/index.htm