



Bilateral Finance Institutions & Climate Change

A Mapping of Public Financial Flows for Mitigation and Adaptation to Developing Countries in 2010



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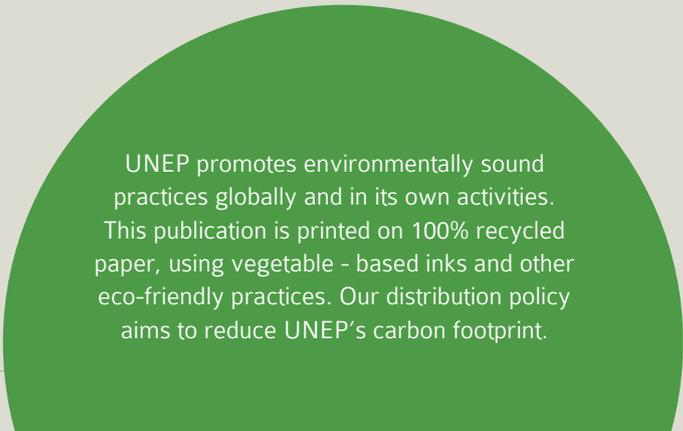
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This report is an annual initiative of members of the United Nations Environment Programme (UNEP) Bilateral Finance Institutions Climate Change Working Group ('UNEP BFI CCWG'), to report on climate change financial flows to developing countries.

The UNEP BFI CCWG is comprised of Agence Française de Développement (AFD), European Investment Bank (EIB), Japan International Cooperation Agency (JICA), KfW Entwicklungsbank (Germany's Development Bank), Nordic Environment Finance Corporation (NEFCO), and UNEP.

The Stockholm Environment Institute (Clarisse Kehler Siebert, Juan Hoffmaister, Richard J.T. Klein) and staff of the UNEP BFI CCWG collaborated in preparing this report.

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Table of Contents

Table of Contents	1
About the UNEP Bilateral Finance Institutions Climate Change Working Group	2
List of Abbreviations	3
1. Introduction	4
2. The landscape of global climate finance	6
3. Climate change finance to developing countries	7
3.1 Total BFI climate change financial flows	7
3.2 Financing by region	7
3.3 Financing of mitigation related projects	8
3.4 Financing of adaptation related projects	8
3.5 Financial instruments	9
4. Carbon Finance	10
5. Conclusion	12
Appendices	13
Appendix I – ‘Climate finance’: Definitions and terminology	13
Appendix II – Countries receiving climate finance from participating BFIs	15
Appendix III – Climate finance to Eastern and Southern Europe	16
Appendix IV – BFI finance data by region, sector, financial instrument	17
Appendix V – Data collection sheet	20

About the UNEP Bilateral Finance Institutions Climate Change Working Group

In its third year, this mapping exercise of climate change financial flows to developing countries is an initiative of the United Nations Environment Programme (UNEP) Bilateral Finance Institutions Climate Change Working Group ('UNEP BFI CCWG'). The UNEP BFI CCWG originated from a workshop on bilateral financing for climate change convened in January 2009 at UNEP in Paris. Present members of the UNEP BFI CCWG are UNEP and five bilateral finance institutions: Agence Française de Développement (AFD), European Investment Bank (EIB), Japan International Cooperation Agency (JICA), KfW Entwicklungsbank (Germany's Development Bank), and Nordic Environment Finance Corporation (NEFCO). These financing institutions act, and provide financing, on behalf of their respective

governments. In this report, 'bilateral' means that beneficiaries or clients of these institutions are not direct shareholders. UNEP facilitates the operation of the UNEP BFI CCWG, providing the opportunity for closer interaction and co-ordination of BFIs' climate change activities and investment modalities.

The financial data reported and analysed in this report is provided by the participating finance institutions through a financial survey and interview process. The report is part of a growing global effort to make available comparable, transparent and accurate data on financing to address climate change mitigation and adaptation in developing countries. This type of reporting is an annual initiative of the members of the UNEP BFI CCWG.

List of Abbreviations

AF	Adaptation Fund
AFD	Agence Française de Développement (French Development Agency)
BFI	Bilateral Finance Institution
BMU	Federal Ministry for the Environment (Germany)
CDM	Clean Development Mechanism
CER	Certified emission reductions
CFE	Carbon Fund for Europe
CHP	Combined heat and power
CIFs	Climate Investment Funds
COP	Conference of the Parties (to the UNFCCC)
CTF	Clean Technology Fund
DAC	Development Assistance Committee (of the OECD)
EIB	European Investment Bank
EU ETS	European Union Emission Trading Scheme
FCCM	Fonds Capital Carbone Maroc
GCF	Green Climate Fund
GEF	Global Environment Facility
JI	Joint Implementation
JICA	Japan International Cooperation Agency
KfW	KfW Entwicklungsbank (Germany's Development Bank)
LDC	Least Developed Country
LDCF	Least Developed Countries Fund
MCCF	Multilateral Carbon Credit Fund
MDB	Multilateral development bank
MRT	Mass Rapid Transit
NCF	Nordic Climate Facility
NDF	Nordic Development Fund
NeCF	NEFCO Carbon Fund
NEFCO	Nordic Environment Finance Corporation
NOAK	Nordic Ad Hoc Group on Climate Change
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
ProCF	ProClimate Facility
SCF	Strategic Climate Fund
SME	Small and medium enterprise
TGF	Baltic Sea Region Testing Ground Facility (of NEFCO)
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States dollars

Introduction

Since the Bali Action Plan¹ of 2007, which identified ‘financing’ as a key component in reaching a global agreement on climate change, climate change financing has continued to grow in political import, complexity, number of actors involved, and total amounts. In Bali, developed countries agreed to finance efforts of developing countries to pursue low-carbon development and to adapt to the adverse effects of climate change.

At the fifteenth Conference of the Parties to the United Nations Climate Change Convention (UNFCCC COP15) in Copenhagen in 2009, the needs and sources for short- (‘fast-start’) and long-term climate financing were discussed. Developed countries pledged to mobilise fast-start finance to the amount of 30 billion US dollars (USD) for 2010-2012, as well as a long-term 100 billion USD per year from 2020, coming from both public and private sources. The Cancún Agreements² reached at UNFCCC COP16 in 2010 formalised these pledges, and proposed, among other things, new institutions to manage them. Among these new institutions is the future ‘Green Climate Fund’ (GCF). While its form and governance are still under consideration, the anticipated function of the GCF is to be a source of climate financing, providing a ‘balanced’ allocation of funding between mitigation and adaptation.³

Climate finance has raised a host of questions from public and private donors and investors, recipient countries, civil society and academia about how much financing is needed to address mitigation and adaptation, how and from where this finance will be generated, who manages it, how and to whom it is disbursed, and how it is used. While most can agree that more climate finance is needed, the United Nations Secretary-General’s High-Level Advisory Group on Climate Change Financing report⁴ of 2010 demonstrated that there is less convergence on what combination of public and private, concessional and non-concessional, carbon finance or not, should be ‘counted’ as climate change finance, how

it can be scaled up, and which institutions should govern its disbursement.

Report objectives

For the past three years, members of the UNEP Bilateral Finance Institutions Climate Change Working Group (‘UNEP BFI CCWG’ – see p. 2) have mapped their climate change financing in an effort to transparently disclose their part in climate change financial flows to developing countries, and to demonstrate their future potential as vehicles for the delivery of significant amounts of climate finance. Building on these prior efforts,⁵ this report again finds that members of the UNEP BFI CCWG channel significant amounts of climate finance for both mitigation and adaptation, and demonstrates an increase of 22% in bilateral finance institution (BFI) climate financing in 2010 over 2009, despite a trying economic year. By annually and collectively reporting on climate finance, the UNEP BFI CCWG members aim to demonstrate the size and nature of their contributions to global financial flows for climate change to developing countries and their contribution – at least by order of magnitude – relative to global climate change financial flows. At the same time, they hope to contribute to global efforts to track these flows by disclosing data collection and reporting methods, definitions and challenges.

Section 2 of this report scopes global climate change financing in 2010 as a reference point against which to understand BFI climate change financing, and presents some of the difficulties in trying to answer the question, ‘How much climate finance was committed in 2010?’ Section 3 summarises total climate financing to developing countries from UNEP BFI CCWG members, with a breakdown by mitigation, adaptation, region, sector and financial instrument. Section 4 presents amounts invested by the UNEP BFI CCWG members in carbon finance and related initiatives which benefit developing countries.

1 Decision 1/CP.13. Agreed to in 2007 at the thirteenth Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC COP13).

2 Decision 1/CP.16.

3 Appendix to the Cancún Agreements on ‘Terms of reference for the design of the Green Climate Fund’ (1/CP.16, Appendix III at paragraph 1c).

4 **Report of the Secretary-General’s High-Level Advisory Group on Climate Change Financing**, 5 November 2010. Available online at <http://www.un.org/wcm/content/site/climatechange/pages/financeadvisorygroup/pid/13300>.

5 The mapping of 2008 data was published in 2009 as an SEI Working Paper: Atteridge et al., 2010, **Bilateral Finance Institutions and Climate Change: A Mapping of Climate Portfolios** (hereinafter ‘Atteridge et al (2009)'), available online at <http://sei-international.org/publications?pid=1324>. The mapping of 2009 data was published as UNEP, 2010, **Bilateral Finance Institutions and Climate Change: A Mapping of 2009 Climate Financial Flows to Developing Countries** (hereinafter ‘UNEP (2010)'), available online at <http://sei-international.org/publications?pid=1687>.

Methodology

Challenges for reporting climate change finance

As detailed further in Appendix I, mapping the amounts of climate financing and the mechanisms through which this financing flows is rife with terminological and methodological challenges. Globally, there is no standard definition of what is counted toward 'climate finance'; it is conceptually difficult to distinguish between funds that support mitigation, adaptation or both; and it is difficult to track funds committed from source through to disbursement.

This report acknowledges and addresses these challenges by providing clear information about what is and is not included as climate finance, by disclosing methodological challenges, and by inviting comments on how to overcome these challenges in future reporting.

Definitions and terminology

For the purposes of this report, a working definition of 'climate finance' is as follows: Climate finance is finance flowing from developed to developing countries, including support for mitigation, adaptation, and related policy and capacity-building. Mitigation projects include renewable energy projects, energy efficiency and fuel switch, forestry and land use, sustainable urban transport and sequestration projects, and technical assistance and capacity-building dedicated to addressing climate change. Adaptation projects may involve water, agriculture, infrastructure, capacity-building or other purposes, but must be dedicated, at least in part, specifically to adaptation to climate change. Also included is direct budgetary support for climate policy.

To determine what qualifies as mitigation and adaptation, the UNEP BFI CCWG is guided by the Rio Markers⁶ for climate change mitigation, and the new adaptation marker of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD DAC), combined with other methodologies or accounting methods such as carbon footprint tools. Where funds support an activity with both an adaptation and mitigation benefit, the UNEP BFI CCWG members reported half of the total amount under mitigation and half as adaptation.

That this working definition leaves much to be desired reflects a global need for further work and increased cooperation among finance institutions on precision and transparency in reporting financial flows. It is further acknowledged that future refinement of this definition must consider that many projects with clear 'climate relevance' may in fact have a high carbon footprint and/or contribute to an overall net increase in greenhouse gas (GHG) emissions. To illustrate, energy efficiency or sustainable transport projects may result in a net increase in GHG emissions, even if causing a reduction in emissions intensity. In this case, they are clean-technology projects. The difference between 'climate-specific' finance and 'climate-relevant' finance is discussed in Appendix I.

In sum, this mapping exercise assumes that providing data on public financial flows for climate change is essential, despite the present lack of standardisation. As work continues on developing definitions and reporting methods that allow data to be compared across institutions, it is necessary to be explicit about what is included as 'climate finance' and what is not.

Data collection

Data related to activities financed by the UNEP BFI CCWG members was collected through a financial survey. The data collection tool was co-developed by the UNEP BFI CCWG members, and organises information regionally, by sector, and by financial instrument. The information was compiled and analysed by an independent research organisation, the Stockholm Environment Institute, in dialogue with members of the UNEP BFI CCWG. The raw data used for analysis in this report is summarised in Appendix 4, while the data collection tool is available in Appendix 5. Data related to other stakeholders has been collected from publicly available sources, appropriately cited throughout the report. All financial data is reported in millions of United States dollars (USD). The data assessed in this report is based on funds committed in 2010. Please refer to Appendix 1 for a discussion of the scope of and reason for reporting committed funds.

Finally commitments by BFIs to multilateral development banks, including the approximately USD 615 million committed in 2010 by KfW in concessional loans to the World Bank's Clean Technology Fund (CTF), have been excluded from the present mapping exercise to avoid any potential for double counting of bilateral and multilateral contributions.

6 Information on the Rio Markers is available at <http://www.oecd.org/dataoecd/56/18/48785310.pdf>.

The landscape of global climate finance

In addition to demonstrating the total climate change financial flows from BFI Members of the UNEP BFI CCWG, an objective of this mapping exercise is to situate the amount of BFI climate finance committed in 2010 within the larger picture of global climate change financing. However, answering to how much climate change financing was made available in 2010 is a question both daunting and perhaps impossible to answer. Numerous efforts are underway to track and disclose the amounts of climate change finance from source to disbursement, with each producing different results, and raising as many methodological challenges as answers.⁷

A recent report from the Climate Policy Initiative⁸ has introduced a diagram to depict the complex landscape of global climate change financial flows (see Figure 1). Within this diagram, the BFI members of the UNEP BFI CCWG are situated, along with other bilateral banks,

within the purple box called 'Bilateral banks'. While the estimates in the diagram are approximate and cover a one-year period of 2009-2010 which does not perfectly coincide with the 2010 period covered by this present mapping report, they are robust in order of magnitude. Of the USD 24 billion flowing from 'Bilateral agencies' and 'Bilateral banks' combined, Section 3 of this report demonstrates that approximately USD 15.5 billion of this total is financing committed by the BFI members of the UNEP BFI CCWG. This is roughly equivalent to the estimated USD 15 billion in climate change finance made available through 'Multilateral agencies' and 'Multilateral banks' combined.

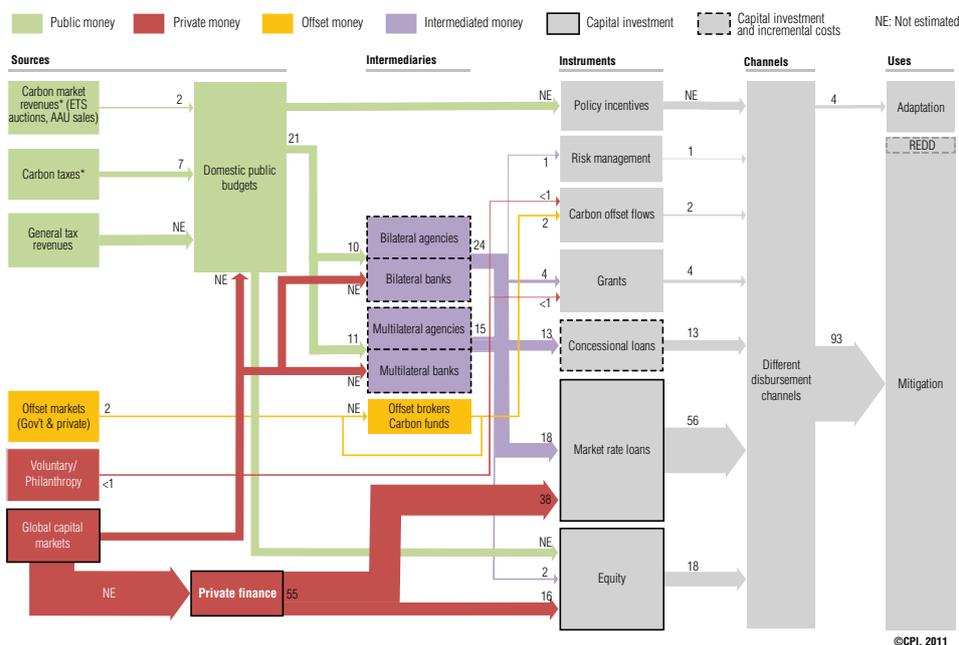
In reference to Figure 1, it is necessary to clarify that members of the UNEP BFI CCWG are a subset of the UNEP BFI CCWG. As such, the USD 15.5 billion from UNEP BFI CCWG members is part of the USD 24 billion that is shown to be flowing from bilateral agencies and banks.

Section 3 now presents a mapping of the BFI climate change financial flows for 2010, amounting to approximately 15.5 billion USD.

7 See, for example Buchner, B. et al, 2011, **The Landscape of Climate Finance**, Climate Policy Initiative, available at http://climatepolicyinitiative.org/generic_datas/view/publication/117; Climate Funds Update: www.climatefundsupdate.org; Fast-start Finance: <http://www.faststartfinance.org/>

8 Buchner, B. et al, 2011, op. cit.

FIGURE 1:
Current climate change financial flows



Figures presented are indicative estimates of annual flows for the latest year available, 2009/2010 (variable according to the data source). Figures are expressed in USD billion and are rounded to produce whole numbers. Estimates spanning multiple years are adjusted to produce annual-equivalent estimates. Where ranges of estimates are available, the mid-point is presented. All flows are incremental except for those identified as full or partial 'capital investment'. Most data presented relate to commitments in a given year, due to limited availability of disbursement data. *Estimated carbon pricing revenues indicated are not necessarily wholly hypothecated for climate finance.

Climate change finance to developing countries

3.1 Total BFI climate change financial flows

In 2010, a climate change financing grand total of just over 15.5 billion USD was channelled through the four BFI members of the UNEP BFI CCWG to developing countries, representing a 22% increase in climate change financing over 2009. Table 1 demonstrates that approximately 80% of these funds were allocated to mitigation, and the remaining 20% to adaptation. Despite the overall increase in climate finance, a net decrease in reported adaptation spending is observed from 2009 to 2010.

TABLE 1:
Total BFI climate finance committed for mitigation and adaptation (USD millions) ⁹

	AFD	EIB	JICA	KfW	Total 2010	Total 2008*	Total 2009**	Change 2009-2010
Mitigation	3156	2099	5927	1683	12865	7249	8926	+44%
Adaptation	516	0	2243	95	2854	3029	3963	-28%
Total	3672	2099	8170	1778	15719	10278	12889	+22%

* The 2008 figures are taken from Atteridge et al. (2009), Bilateral Finance Institutions and Climate Change: A Mapping of Climate Portfolios (hereinafter 'Atteridge et al. (2009)'), available online at <http://sei-international.org/publications?pid=1324>. While the 2008 data included flows to Eastern Europe, these amounts (€637m for mitigation and €68m for adaptation) have been subtracted from the figures in Table 1, to ensure comparability and that only flows to developing countries are reported. The 2008 data is converted from Euros using the exchange rate of 31 December 2008, consistent with 2009 and 2010 methodology in this report.

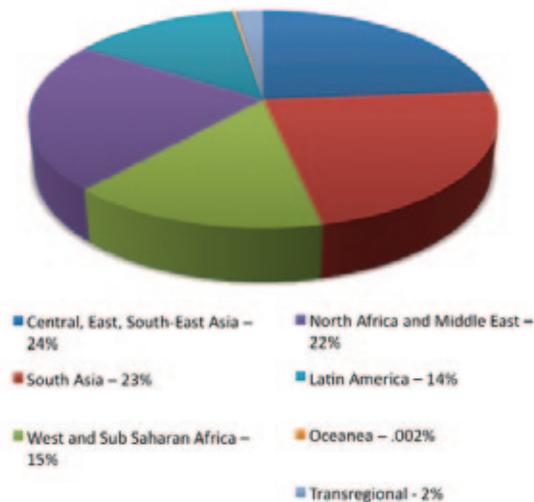
** The 2009 data is taken from UNEP, (2010), Bilateral Finance Institutions and Climate Change: A Mapping of 2009 Climate Financial Flows to Developing Countries, available online at <http://sei-international.org/publications?pid=1687>.

A regional analysis is presented in section 3.2, while more detailed sectoral and regional breakdowns for mitigation and adaptation finance are provided in sections 3.3 and 3.4.

3.2 Financing by region

Figure 2 presents the global regional distribution of climate finance from AFD, EIB, JICA and KfW. Just under half of the total 2010 financing was directed to Asia, which continues a trend in decreased financing to Asia from 2008 to 2009. Financing to West and Sub Saharan Africa and to Latin America all increased slightly as compared to 2009, while financing to North Africa and the Middle East decreased by a similar amount. Transregional financing comprises 2% of the reported financing. Transregional financing constitutes, among other things, finances going to the Global Climate Partnership Fund.¹⁰

FIGURE 2:
Regional distribution of BFI climate finance – 2010



⁹ While NEFCO is member of the UNEP BFI CCWG, NEFCO data does not figure into the calculation in Section 3 of this report. NEFCO's finance to developing countries is primarily, though not exclusively, in the form of carbon finance, which is discussed in Section 4.

¹⁰ Information available at <http://www.bmu-klimaschutzinitiative.de/en/projects?p=98d=567>.

3.3 Financing of mitigation related projects

Financing for mitigation increased both relatively and in absolute terms, from USD 8.9 billion in 2009 to USD 12.3 billion in 2010. Figure 3 shows the breakdown of mitigation finance by region for 2010.

FIGURE 3:

Regional distribution of mitigation finance – 2010

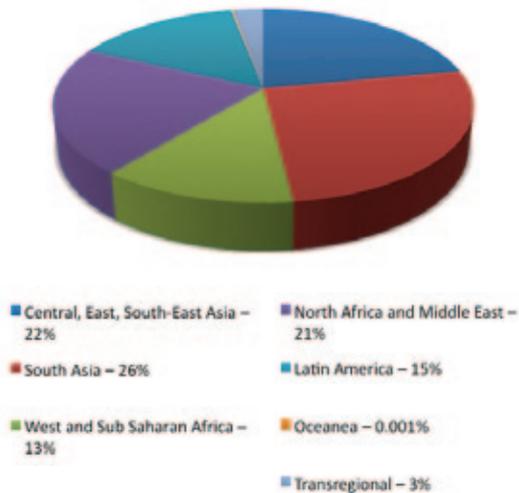
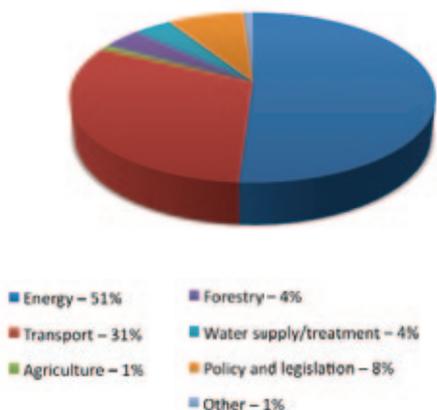


Figure 4 provides the sector breakdown of mitigation finance. As in the past, the largest shares of financing are directed to the energy sector (51%, a 7% increase from 2009) and the transport sector (31%, a 9% decrease from 2009). New developments in mitigation financing include financing to the forestry sector, provided by AFD; EIB, JICA and KfW. It should be noted that activities reported under forestry include commitments to biodiversity, conservation, and sustainable use of natural resources, where these activities also have climate primary or secondary climate change benefits.

FIGURE 4:

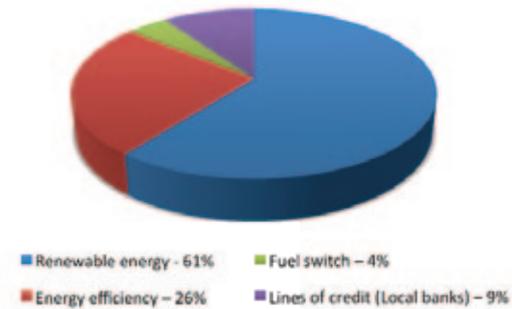
Sectoral distribution of mitigation finance – 2010



As the energy sector receives such a large proportion of mitigation financing, it is illustrative to further break down energy expenditures. Figure 5 presents the breakdown of energy financing for 2010. In terms of percentage, an increase of nearly 50% from 2009 is seen in financing for renewable energy.

FIGURE 5:

Energy sector finance – 2010



3.4 Financing of adaptation related projects

Financing for adaptation from the participating BFIs decreased from 2009 to 2010, both as a share of total financing proportionately (by 28%) and in absolute terms (by USD 1 billion). This decrease is attributable mainly to a more rigorous definition of 'adaptation project' applied in the water supply and treatment sector, which receives the highest proportion of adaptation financing from UNEP BFI CCWG members (see Figure 7 below). This stresses the need to refine reporting standards on adaptation.

Figure 6 shows the regional distribution of adaptation spending. As in 2009, North Africa and the Middle East received a significant amount of financing (27% in 2010, 34% in 2009). Proportionally, adaptation financing to South Asia decreased from 17% to 8%, while financing to West and Sub Saharan Africa increased slightly.

FIGURE 6:

Regional distribution of adaptation finance – 2010

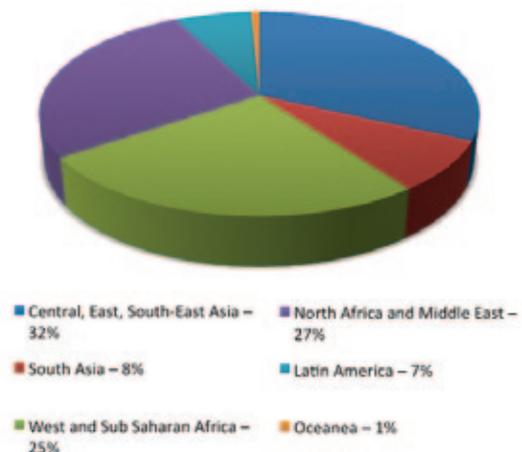
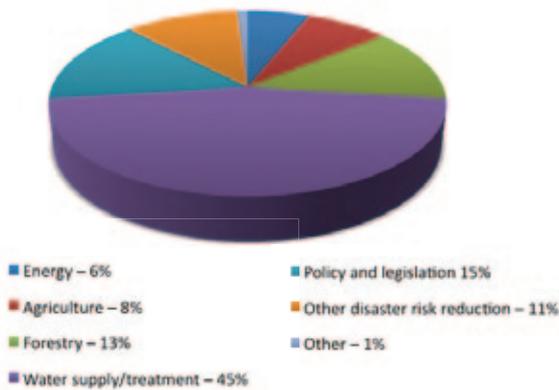


Figure 7 provides a sectoral breakdown of adaptation financing. As in 2009, a significant share of this financing is directed toward the water supply and treatment sector. The sectoral landscape has, however, also seen some changes from 2009 to 2010. Policy loans (reported in this report as part of 'Policy and legislation') have increased. Included as 'Policy and legislation' is support to the Sahel Facility of the West African Development Bank, for social security and peace-keeping. Several sectors received adaptation financing for the first time, including forestry, and transport.

FIGURE 7:
Sectoral distribution of adaptation financing – 2010



3.5 Financial instruments

The type of financial instrument used to distribute financing can be as important as the total amounts. Table 2 provides an overview of the financial instruments used to deliver climate finance in 2010. The use of instruments to support mitigation and adaptation is illustrated by figures 8 and 9, respectively.

At 70%, and as in previous years of reporting, concessional loans continue to be the dominant means of distributing climate finance, both for adaptation and mitigation. Unlike 2009, when concessional lending was used more for financing adaptation than mitigation, 2010 data demonstrates a nearly on-par use of concessional lending for mitigation and adaptation. Non-concessional lending was reported exclusively as a tool for financing mitigation activities, and primarily in the energy and transport sectors. In contrast, and perhaps not surprisingly, grants are made available predominantly to finance adaptation activities. The share of adaptation financing distributed as grants rose from 15% in 2009 to 27% in 2010.

TABLE 2:
Use of different financial instruments (USD millions)

	Mitigation	Adaptation	Total
Grants	857	771	1628
Concessional loans	8904	2030	10934
Non-concessional loans	3100	54	3154
Other	4	0	4
Total	12865	2855	15720

FIGURE 8:
Financial instruments supporting mitigation activities

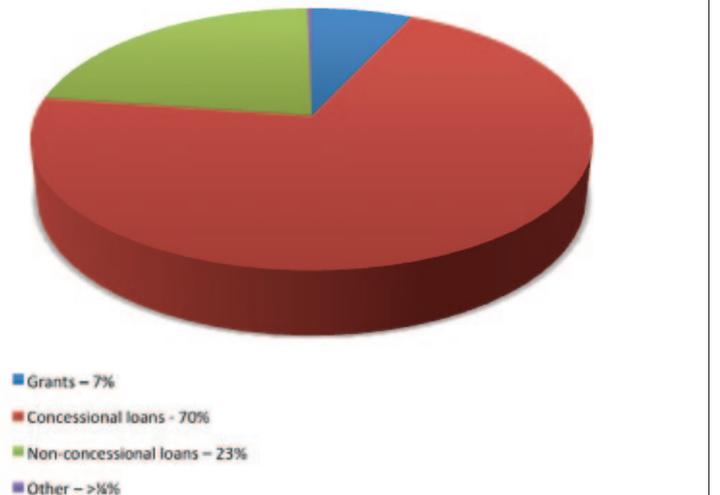
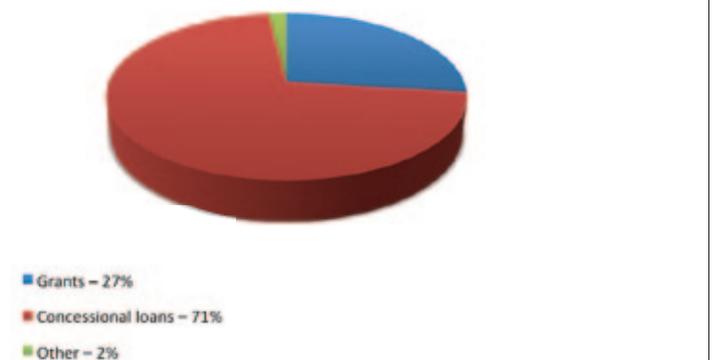


FIGURE 9:
Financial instruments supporting adaptation activities



Carbon Finance

In addition to the commitment of climate finance reported in Section 3, some members of the UNEP BFI CCWG purchase emission reduction credits from carbon markets, most often from projects under the Kyoto Protocol's flexible mechanisms: the Clean Development Mechanism (CDM) and Joint Implementation (JI). In this way, EIB, KfW, and NEFCO all play a 'carbon brokering' role through carbon investment funds. This mapping exercise keeps carbon finance analytically separate from other forms of climate finance. There are various reasons for this: BFIs typically do not invest in these funds, and if they do, it is in form of a temporary capital commitment. Furthermore, while carbon finance may strengthen the carbon market through selling emissions reduction units, it does not achieve new climate change outcomes (Atteridge et al (2009) p.22).

Unlike the global climate change financial flows presented in Section 2, and the BFI climate change financial flows reported in Section 3, the figures presented below are not presented as 2010 expenditures, but as total capitalisation in the given fund or facility. Total investments in carbon funds and financing initiatives established by or involving EIB, KfW and NEFCO are summarised in Table 3.

TABLE 3
Carbon Funds and Financing Initiatives

Fund	Institutions	Total Capitalisation*
Carbon Fund for Europe (CFE)	EIB (+World Bank)	€50 / 66 USD
Post-2012 Carbon Credit Fund	EIB, KfW (+ others)	€125 / 166 USD
Fonds Capital Carbone Maroc (FCCM)	EIB	€26 / 35 USD
KfW Carbon Fund	KfW	€84 / 111 USD
NEFCO Carbon Fund (NeCF)	NEFCO	€165 / 219 USD
EIB-KfW Carbon Programme I and II	EIB, KfW	€ 188 / 249 USD
Baltic Sea Region Testing Ground Facility (TGF)	NEFCO	€35 / 46 USD
ProClimate Facility (ProCF)	NEFCO & NDF	€10 / 13 USD
Nordic Climate Facility (NCF)	NEFCO & NDF	3X €6 = €18 / 24 USD
Africa Carbon Fund	Proparco & CDC Climat	2x €15 = €30 / 40 USD
Mediterranean Carbon Fund	Proparco & CDC Climat	2x €15 €M= €30 / 40 USD

* Reported in millions of Euros/converted from Euro to USD using the exchange rate on 31 December 2010 (1 Euro = 1.32515 USD); amounts are total capitalisation, not per annum.

In 2010, NEFCO began three new carbon financing initiatives. First, in association with the Nordic

Development Fund (NDF), NEFCO established the ProClimate Facility (ProCF) with an initial investment of EUR 10m. ProCF is set up as a climate guarantee vehicle to assist small and medium-sized investments in climate change mitigation and adaptation projects. ProCF support is award either as partial loan guarantees, or as technical assistance to selected projects.

Also in 2010, NEFCO and the NDF co-developed the Nordic Climate Facility (NCF), which promotes technological innovation in areas susceptible to climate change. A first tranche of EUR 6m was used to sign 14 contracts to support projects in nine developing countries. Two subsequent Calls for Proposals were issued for another EUR 6m each to help finance efforts focused on adaptation in urban areas, the deployment of renewable energy technologies, and recently, climate solutions with a focus on local business development.

NEFCO also established a Nordic Partnership Initiative with the Nordic Council of Ministers to set up a pilot programme to upscale technical support for nationally appropriate climate change mitigation actions (NAMAs) in Peru and Vietnam, with a particular focus on market readiness activities. Announced in late 2010, the Nordic Partnership Initiative will be funded through Nordic funds from NEFCO itself, NDF and bilateral sources.

In addition to these new developments from NEFCO, existing carbon funds continue operations. NEFCO operates two carbon procurement funds. The EUR 165 million NEFCO Carbon Fund (NeCF) was established in 2008 to provide long term (up to 2020) procurement of carbon credits for public and increasingly, private participants. Finally, the Baltic Sea Region Testing

Ground Facility (TGF) established in 2003, is a regional carbon finance facility structured as a Public Private Partnership. The TGF has funded JI projects by buying emission reductions in countries including Estonia, Latvia, Lithuania, Russia and Ukraine.

In cooperation with the World Bank, EIB has established the Carbon Fund for Europe (CFE), which is aimed at the EU Member States and the European private sector. With a capital of EUR 50m, the Fund acquires emission credits from projects eligible under the Kyoto Protocol's flexible mechanisms, compatible with the EU's Emissions Trading Scheme (EU ETS). In addition, the CFE can invest up to 20% of its capital in Green Investment Schemes. An EIB-KfW initiative and tailored to promote projects generating carbon credits from 2012 onwards, the Post-2012 Carbon Credit Fund is an initiative developed by KfW, EIB and three other public finance institutions (Caisse des Dépôts, Instituto de Crédito Oficial and the Nordic Investment Bank). The objective of this carbon fund is to bolster confidence in a regulatory regime beyond the Kyoto Protocol. The Post-2012 Carbon Fund has a budget of EUR 125m and is the first of its kind.

The first carbon fund in French-speaking Africa and the first national fund co-established by the EIB, the Fonds Capital Carbone Maroc (FCCM) supports CDM projects by acquiring carbon credits over the period 2008-2017. The Fund is worth approximately €26m.

The KfW Carbon Fund department became part of KfW Entwicklungsbank in 2009, and has to date completed two purchase programmes. In the first programme, KfW Carbon Fund acquired nearly 8 million carbon credits from 24 projects in twelve countries. The EIB-KfW Carbon Programme also acquired approximately 8 million carbon credits from 20 projects in five countries. In December 2009 EIB and KfW agreed on a follow-on programme, EIB-KfW Carbon Programme II with a target volume of EUR 100 million, which is aimed in particular at acquiring credits in LDCs and from innovative programmatic approaches. Buyers from the programmes are European entities which used the credits to meet their European Emissions Trading Scheme (EU-ETS) obligations.

In 2011, PROPARCO, a subsidiary of AFD, together with CDC Climat which was established in 2010 as a subsidiary of the Caisse des Dépôts to address climate change, signed a partnership agreement for joint investment in greenhouse gas emission reduction projects in Africa.

Two vehicles open to private and public investors have been so far created. One will buy carbon credits in the Mediterranean area, and at first closing is worth a total of €30 million and targets a size of €100 million. The second is a fund dedicated to Sub Saharan Africa, also worth €30 million, which aims at reaching a size of €60-100 million.

Conclusion

The USD 15.5 billion committed by the BFI members of the UNEP BFI CCWG in 2010 is sizable, both in its own right, and as compared to the estimated USD 15 billion in climate change financing from multilateral banks and agencies the same year. As compared to 2009, the UNEP BFI CCWG increased its climate financing by 22% in 2010.

While regional distribution has not changed significantly from 2009, investments have been made in new sectors, namely forestry for both mitigation and adaptation, and transport in the case of adaptation. Sectorally, mitigation finance continues to be destined mainly to the energy and transport sectors, while adaptation finance goes primarily to the water supply and treatment sector.

Globally, climate change finance is delivered through different financial instruments. For the members of the UNEP BFI CCWG, concessional loans remain the predominant means of channelling climate change finance for both mitigation and adaptation activities. Grants are used more frequently to support adaptation than mitigation activities, while non-concessional lending is used exclusively in support of mitigation activities.

The decrease in adaptation financing in 2010 from members of the UNEP BFI CCWG can be attributed in part to the narrowing of the types of water sector and waste sector projects reported as 'adaptation finance'. As part of the global effort to report and track climate change financial flows, this type of revision and precision is important for the evolving standard of what is considered 'climate change finance' in general, and 'adaptation finance' in particular. In their annual reporting, UNEP BFI CCWG members make further methodological contributions by reporting activities that have both mitigation and adaptation benefits as 50% mitigation, and 50% adaptation. This is as opposed to reporting the full sum toward both mitigation and adaptation; a frequent practice which leads to inflated totals. Further, by omitting from this mapping all climate change finance that flows from UNEP BFI CCWG members through multilateral funds, the potential for double counting those funds in a global mapping is eliminated.

Appendices

Appendix I Climate finance': Definitions and terminology

'Climate finance' as used in this report is further defined and qualified in this Appendix. As Parties to the UNFCCC and other actors have so far evaded a decision to develop a common definition of 'climate finance', this report adopts a broad but transparent use of 'climate finance'.

'Climate finance'

There is no standardised, global definition of 'climate finance'. Recently, attempts have been made to synthesise and classify various uses of 'climate finance'. Within this literature, the distinction has been made between 'climate-specific finance' and 'climate-relevant finance'.¹¹ According to this taxonomy, 'climate-specific finance' flows from developed to developing countries and goes to low-carbon and climate resilient development with greenhouse mitigation or adaptation as its explicit objective, while 'climate-relevant finance' refers to broader financial flows that support development in emitting sector (e.g. power production) and sectors that affect vulnerability to climate change (e.g. water, agriculture). According to this distinction, climate finance reported in this mapping exercise includes both climate-specific and climate-relevant finance; however, the only 'climate-relevant' finance included is that which has a relative climate benefit. To illustrate, no financing to conventional, high-emitting energy sector is reported in the mapping, but energy-efficient projects that provide energy at lower emissions or at less intensity may be counted.

Common working definition

A working definition of 'climate finance' for purposes of this report is proposed as: Finance flowing from developed to developing countries, including support for mitigation, adaptation, policy and capacity-building. Mitigation projects include renewable energy projects, energy efficiency and fuel switch, forestry and land use, sustainable urban transport and sequestration projects, and technical assistance and capacity building dedicated to addressing climate change. Adaptation projects imply that part of the project is dedicated to a specific adaptation purpose such as water, agriculture, infrastructure, or capacity building. Also included is direct budgetary support for climate policy.

Where funds support an activity with both an adaptation and mitigation benefit, the UNEP BFI CCWG members reported half of the total amount under mitigation and half as adaptation. To determine what qualifies as mitigation and adaptation, some members of the UNEP BFI CCWG uses guidance for the Rio Markers and the new adaptation marker of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD DAC).

The Scope of 'climate finance' by institution

AFD	Climate mitigation projects are assessed based on a measurement of the carbon footprint of projects for mitigation. A project is included in this category when the emissions it avoids during its lifetime exceed the emissions it induces. AFD has developed a tool and standard methodology to assess the carbon footprint of its projects. Because of the lack of international standardised accounting methodologies, AFD is working to disseminate this methodology to other financial institutions. A definition of adaptation projects has also been adopted by AFD: they are development projects that help decrease the vulnerability of populations, infrastructures and ecosystems to current and future impacts of climate change. To make this definition concrete, a methodology to define and classify adaptation projects has been developed and can be distributed upon request.
KfW	For climate flows to developing countries, DAC Rio-Marker 1 or 2 in combination with the new DAC adaptation definition is used as key selection criteria.
JICA	For climate flows to developing countries reported for this report, DAC Rio-Marker 1 or 2 in combination with the new DAC adaptation definition is used as key selection criteria.

¹¹ Corfee-Morlot, J., B. Guay and K.M. Larsen (2009), *Financing for Climate Change Mitigation: Towards a Framework for Measurement, Reporting and Verification*, OECD/IEA Informational Paper.

The Scope of 'climate finance' by institution continued...

EIB

Mitigation projects include:

- **Energy efficiency.** All projects that result in:
 - An increase in energy efficiency of at least 20% from the baseline;
 - An increase in energy efficiency of less than 20% from the baseline provided that the energy savings justify at least 50% of the investment cost; or
 - Examples of eligible projects would include combined heat and power (CHP) plants and district heating systems, and energy efficiency investments in buildings and industrial facilities.
- **Renewable energy.** Projects from renewable non-fossil sources such as wind, solar, aero-thermal, geothermal, hydrothermal and ocean energy, hydropower, biomass, landfill gas, sewage treatment plant gas and biogases – and related component manufacturing facilities and infrastructure. Hydro above 20 MW, biomass and biofuels and infrastructure may not be considered climate change projects when their net carbon balance is to be presumed positive – i.e. resulting in an increase in emissions of GHGs.
- **Transport.** All transport projects that contribute to reducing road and air traffic emissions. Examples of eligible projects would be metro, tramways, bus rapid transit, rail, inland waterway and short sea shipping, as well as investments in rolling stock, vessels, and associated equipment.
- **Forestry and land use.** Biological sequestration projects that sequester or conserve at least 20 000 tons/year of CO₂-e; examples of eligible projects would be afforestation, reforestation, forest and cropland management, avoided deforestation, reduced tillage, and revegetation.

Adaptation projects include:

Projects intended primarily as measures taken specifically to anticipate climate change when these measures either exceed €20 m in value or account for at least 50% of total project costs. Examples of eligible projects would be flood control and drought management measures, and measures to increase the climate resilience of vulnerable infrastructure or areas (e.g. coasts).

Funds 'committed' and funds 'disbursed'

It is standard practice by finance institutions to report in terms of total funds committed in a given budget year. This is sometimes questioned by those attempting to track financial flows, because funds committed in a given time period can differ from funds disbursed, and because there is a perceived danger of 'double counting' when funds committed in a given year are not disbursed but reassigned in a different budgetary year. The participating financial institutions provide the following information for what it meant by 'committed' funds.

AFD	Funds that have received Board approval.
KfW	Definition of commitment is to conclude Loan Agreement (L/A) or Grant Agreement (G/A).
JICA	Definition of commitment is to conclude Loan Agreement (L/A) or Grant Agreement (G/A).
EIB	Amount of finance contracts signed with beneficiaries respectively equity contributions subscribed

Appendix II – Countries receiving climate finance from participating BFI

Central, East, and South-East Asia	Cambodia China Indonesia Lao People's Democratic Republic Mongolia Myanmar	Philippines Thailand Timor-Leste Vietnam + The Mekong River Commission
South Asia	Afghanistan Bangladesh Bhutan India	Pakistan Maldives Nepal Sri Lanka
North Africa and Middle East	Armenia Azerbaijan Egypt Georgia Iraq Jordan Lebanon	Morocco Palestine Syrian Arab Republic Tunisia Turkey Yemen
West and Sub-Saharan Africa	Benin Burkina Faso Burundi Cameroon Cape Verde Chad Comoros Cote d'Ivoire Democratic Republic of the Congo Djibouti Ethiopia Gambia Ghana Kenya	Mali Mauritania Mauritius Mozambique Niger Réunion Rwanda Senegal South Africa Togo Uganda United Republic of Tanzania Zambia
Latin America and the Caribbean	Belize Bolivia (Plurinational State of) Brazil Chile Colombia Ecuador Guatemala Guyana	Haiti Martinique Mexico Nicaragua Panama Paraguay Peru
Oceania	French Polynesia Marshall Islands New Caledonia Palau	Papua New Guinea Solomon Islands Vanuatu
Eastern Europe and South Europe	Albania Belarus Bosnia and Herzegovina Croatia Czech Republic Estonia Hungary Montenegro	Poland Republic of Kosovo Romania Russian Federation Serbia The former Yugoslav Republic of Macedonia Ukraine

Note: Does not include carbon finance.

Appendix IV – BFI finance data by region, sector, financial instrument

(All tables in USD millions)

Summary: Regional breakdown of climate finance

Region	Mitigation	Adaptation	Total
Central, East, South-East Asia	2824	913	3737
South Asia	3361	228	3589
West and Sub Saharan Africa	1641	726	2367
North Africa and Middle East	2726	775	3501
Latin America	1936	192	2128
Oceania	18	20	38
Transregional	357	0	357
Total	12863	2854	15717

Summary: Sectoral breakdown of finance

Region	Mitigation	Adaptation	Total
Energy	6697	2	6699
Transport	3760	3	3763
Agriculture	178	229	407
Forestry	497	412	909
Water supply/treatment	490	1402	1892
Waste	40	424	464
Policy and legislation	1146	14	1160
Human settlements	0	7	7
Coastal protection	0	7	7
Other disaster risk reduction	0	341	341
Capacity building	15	13	28
Other	41	0	41
Total	12864	2854	15718

Summary: Energy sector mitigation finance by sub-sector

	AFD	EIB	JICA	KfW	Total
Renewable energy	619	1117	1563	754	4053
Energy efficiency	149	452	637	471	1709
Fuel switch	289		0	0	289
Lines of credit	646	0	0	0	646
Total	1703	1569	2200	1225	6697

Detailed regional breakdown of climate finance

Mitigation (total)	AFD	EIB	JICA	KfW	Regional total
Central, East, South-East Asia	475	966	1072	311	2824
South Asia	91	0	3139	131	3361
West and Sub Saharan Africa	591	206	566	278	1641
North Africa and Middle East	542	667	875	642	2726
Latin America	1215	194	257	270	1936
Oceania	0	0	18	0	18
Transregional	239	67	0	51	357
Total	3153	2100	5927	1683	12863

Adaptation (total)	AFD	EIB	JICA	KfW	Regional total
Central, East, South-East Asia	232	0	676	5	913
South Asia	0	0	228	0	228
West and Sub Saharan Africa	187	0	522	17	726
North Africa and Middle East	94	0	676	5	775
Latin America	3	0	121	68	192
Oceanea	0	0	20	0	20
Transregional	0	0	0	0	0
Total	516	0	2243	95	2854
Total climate finance to developing countries	3669	2100	8170	1778	15717

Detailed breakdown of climate finance by financial instrument

Mitigation (total)	AFD	EIB	JICA	KfW	Total
Grants	35	0	456	366	857
Concessional loans	2164	0	5471	1269	8904
Non-concessional loans	957	2099	0	44	3100
Other	0	0	0	4	4
Total	3156	2099	5927	1683	12865

Adaptation (total)	AFD	EIB	JICA	KfW	Total
Grants	25	0	705	41	771
Concessional loans	492	0	1539	0	2031
Non-concessional loans	0	0	0	54	54
Other	0	0	0	0	0
Total	517	0	2244	95	2856
Total climate finance	3669	2100	8170	1778	15717

Detailed sectoral breakdown of climate finance

Mitigation (total)	AFD	EIB	JICA	KfW	Sectoral total
Energy	1702	1569	2201	1225	6697
Transport	646	464	2621	29	3760
Agriculture	22	0	0	156	178
Forestry	55	33	282	127	497
Water supply/treatment	0		352	138	490
Waste	0		40	0	40
Policy and legislation	722		424	0	1146
Capacity building	8		7		15
Other	0	33	0	8	41
Total	3155	2099	5927	1683	12864

Adaptation (total)	AFD	EIB	JICA	KfW	Sectoral total
Energy		0		2	2
Transport		0		3	3
Agriculture	44	0	185		229
Forestry	107	0	290	15	412
Water supply/treatment	347	0	1001	54	1402
Waste		0	424		424
Policy and legislation		0		14	14
Human Settlements	7	0			7
Coastal Protection		0		7	7
Other disaster risk reduction	4	0	337	0	341
Capacity building	6	0	7	0	13
Total	515	0	2244	95	2854
Total climate finance to developing countries	3670	2099	8171	1778	15718

(Differences in totals caused by rounding.)

Appendix V – Data collection sheet

Climate Change Financing 2010

(Committed funds in USD millions, exchange rate 2010.12.31)

	Mitigation (Rio Marker)				Total
	Grants	Concessional Loans	Non-Concessional Loans	Other (pls specify)	
Region	Total (USD)	Total (USD)	Total (USD)	Total (USD)	
Central, Eastern, and South-Eastern Asia					
Southern Asia					
West and Sub-Saharan Africa					
Northern Africa and Western Asia					
Latin America					
Eastern and South Europe					
Oceania					
Transregional (pls specify)					
Totals (region)	0	0	0	0	0
Sector	Total (USD)	Total (USD)	Total (USD)	Total (USD)	
Energy**					
Transport					
Agriculture					
Industry					
Fisheries					
Forestry					
Water supply/treatment					
Waste					
Policy & Legislation					
Health					
Human Settlements					
Coastal protection					
Other disaster risk reduction					
Capacity building (not included above)					
Other (pls specify)					
Totals (sector)	0	0	0	0	0

****Energy sector**

	Total (USD)	Total (USD)
Renewable energy		
Energy efficiency		
Fuel switch		
Lines of credit (local banks)		
Other (pls specify)		
Sub totals (energy)		

Adaptation

	Adaptation (Rio Marker)				Total
	Grants	Concessional Loans	Non-Concessional Loans	Other (pls specify)	
Region	Total (USD)	Total (USD)	Total (USD)	Total (USD)	
Central, Eastern, and South-Eastern Asia					
Southern Asia					
West and Sub-Saharan Africa					
Northern Africa and Western Asia					
Latin America					
Eastern and South Europe					
Oceania					
Transregional					
Totals (region)	0	0	0	0	0
Sector	Total (USD)	Total (USD)	Total (USD)	Total (USD)	
Energy					
Transport					
Agriculture					
Industry					
Fisheries					
Forestry					
Water supply/treatment					
Waste					
Policy & Legislation					
Health					
Human Settlements					
Coastal protection					
Other disaster risk reduction					
Capacity building (not included above)					
Other (pls specify)					
Totals (sector)	0	0	0	0	0

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