International Climate Fund (ICF)
Implementation Plan 2011/12 – 2014/15

Technical Paper

Context

1. Recognising the growing importance and urgency of tackling climate change and its impact on growth and poverty reduction, the Coalition Government has set up the International Climate Fund (ICF). The purpose of the ICF is to support international poverty reduction by helping developing countries to adapt to climate change, take up low carbon growth, and tackle deforestation.

2. The Spending Review 20101 allocated £2.9 billion of Official Development Assistance (ODA) to the ICF for the period 2011/12 – 2014/15. The ICF will fully fund the UK's commitment to deliver £1.5 billion Fast Start between 2010-12 and demonstrates the UK's commitment to meeting its fair share of $100bn of public and private international finance per year by 2020.

3. All spending from the ICF must be consistent with the DAC definition of ODA and help maintain the UK's exemplary reputation for providing high quality ODA. The overall purpose of UK development assistance is poverty reduction.

4. Funding for the International Climate Fund (ICF) will be provided by DFID (£1.8bn), DECC (£1bn) and Defra (£100m) (the latter with respect to forestry finance).

Oversight

5. There will be joint ministerial oversight of the ICF between the Secretary of State for International Development, the Secretary of State for Energy and Climate Change and Chief Secretary to the Treasury, and (on forestry) with the Secretary of State for Environment, Food and Rural Affairs, and in consultation with the Foreign Secretary.

6. Proposals for ICF expenditure will be prepared for Ministers by an ICF Board comprising of Directors General from DECC, DFID, FCO, Defra, HMT, and chaired by DFID.

Policy coherence

7. Ministerial decisions on the ICF will be taken in the context of the international climate change strategy agreed by the National Security Council and other related NSC decisions. Decisions have also been guided by

the outcome of DFID's Bilateral and Multilateral Aid Reviews. The Board will be further guided by the strategy set by the cross Whitehall International Climate Change Programme Board.

Strategic objectives

8. The ICF will contribute to the delivery of the UK's 2020 international climate change objectives as reaffirmed in Cancun in December 2010 and related EU Council Conclusions:

i) Developing countries have adopted low carbon development pathways in line with the trajectory to a 2 degree goal.

ii) Poor and vulnerable people in developing countries supported to respond effectively to existing climate variability and future impacts of climate change.

iii) 50% reduction in deforestation achieved in developing countries

iv) Mobilisation of $100 billion per annum for low carbon, climate resilient development.

9. Ministerial direction for climate funding suggests three priorities for the ICF:

i) **Demonstrate that building low carbon, climate resilient growth at scale is feasible and desirable**. This will build confidence that climate resilient growth and adaptation to climate change are achievable, and it will also help to lay the foundations of a global deal.

ii) **Support the negotiations,** particularly through providing support for adaptation in poor countries and building an effective international architecture.

iii) Recognise that climate change offers real opportunities to **drive innovation and new ideas for action, and create new partnerships with the private sector** to support low carbon climate resilient growth.

10. To support the delivery of these priorities, Spending Review 2010 ICF resources will be used to:

i) **Build global knowledge and evidence** that low carbon, climate resilient development, including Reducing Emissions from Deforestation and Forest Degradation (REDD), supports growth and reduces poverty.

ii) **Develop, pilot and scale up innovative low carbon, climate resilient programmes** and approaches to reduce emissions, support adaptation and protect forests, including biodiversity.

iii) **Support country level action** on low carbon, climate resilient development, including REDD.

iv) **Build an enabling environment for private sector investment** and to engage the private sector to leverage finance and deliver action on the ground.

v) **Mainstream climate change** into UK overseas development assistance, EU development assistance and Multilateral Development Bank (MDB) lending.

Guiding principles for ICF Expenditure

11. ICF spending decisions will be guided by the following principles:

i) consistent with the DAC definition of ODA and maintain the UK's exemplary reputation for providing high quality ODA;

ii) consistent with UK commitments on aid effectiveness agreed under the Paris Declaration (to be modified in Busan);

iii) results driven both in terms of poverty reduction and climate impacts;

iv) open and transparent to scrutiny from the Independent Commission for Aid Impact and the British taxpayer and other partners;

v) use appropriate aid instruments to maximise value for money and impact;

vi) take into account development experience and invest in countries with a conducive political and policy environment for taking climate action.

Thematic spending split

12. The ICF will aim for a balanced allocation between adaptation (50%), low carbon development (30%) and forestry (20%). This is in line with the HMG agreed thematic split for Fast Start. The split recognises the political imperative of UK support to the most vulnerable countries to adapt to climate change.

13. The thematic split will be kept under review so that it is responsive to new opportunities in developing countries, political priorities within the negotiations, and ongoing assessment of impact and value for money across the three themes.

Results and value for money

14. Climate change is a new sector for development. The evidence base to inform investment decisions is of variable quality, and the results chains to demonstrate impact and value for money are still limited. Building a more robust evidence base will be a priority for ICF spend during the Spending Review period.

15. Departments will use a common approach to achieving impact and value for money. Resources will be allocated in line with ICF objectives and an agreed set of expected results. All programmes will be subject to rigorous appraisal and risk assessment. Monitoring and evaluation systems for ICF spend will be aligned across departments to ensure a coherent approach to assessing impact and that lessons are fed back into the design of future programmes. The Independent Commission on Aid Impact (ICAI) will also conduct independent evaluations of impact and value for money in the second year of the ICF.

16. The ICF will use a set of high level indicators to measure impact and value for money. Table one sets out some illustrative examples of indicators that will be used to monitor the results of the ICF.

Table one: measuring impact and results

Theme	Indicator
Low carbon development	i)Tonnes of C02 equivalent reduced or avoided (with cost per ton of emissions abated as measure of VfM) ii) Number of poor people (women and men) with access to low carbon energy iii) Gigawatts (GW) of low carbon energy capacity supported in developing countries iv) Number of jobs created (women/men/poor people) in low carbon development v) Volume of leveraged low carbon finance (including private finance and MDB finance) vi) Leveraged ratio of UK public finance (including to private finance, and MDB finance) vii) Number of low carbon policy plans drawn up and implemented

Forestry	i) Percentage reduction in hectares deforested and degraded (percentage and number) ii)Percentage and number of people living on less than $1.25 a day who are dependent on forests for their livelihoods iii)Number of UK partner countries with costed REDD+ national plans iv)Scale and increase in private sector investment in REDD+ in UK partner countries v) Value of ecosystem services saved
Adaptation	I) Numbers of people, including women and girls, less vulnerable to the effects of climate change. ii) Value of assets protected/ losses avoided iii) Number of people receiving support through a mechanism with a private sector delivery partner. iv) Number of sector and national plans under implementation that mitigate risks and ensure adaptation to climate change by poor people.
Cross-cutting	i)Green Climate Fund meets DFID Multilateral Aid Review tests of relevance and effectiveness
Cross-cutting	ii)Number of DFID country offices who have completed climate change strategic programme reviews (SPRs)

Low Carbon Development (LCD)

17. All countries will ultimately need to move to lower carbon pathways to meet a 2 degree goal. Public finance, and its ability to leverage private finance, is one of the key options available to us in closing the gap to 2 degrees.

18. The ICF can be used to demonstrate a range of approaches to low carbon development in different geographical and economic contexts. We should test and scale-up low carbon efforts in countries with higher emissions and/or higher projected emissions in order to help reach a 2 degree goal. There is also value in demonstrating low carbon pathways in smaller, lower income countries who could demonstrate transformational change at pace and scale. This can help the energy poor living in countries with low emissions, whilst helping those countries avoid the potential for future high carbon lock-in.

19. Our preliminary analysis suggests three priority interventions to help shift a country onto a low carbon development pathway:

> i) building **knowledge and innovation** through **research and development;**
>
> ii) enhancing **policy capabilities and capacity building** for relevant stakeholders;
>
> iii) supporting **implementation,** either at a programmatic or project level.

20. Our analysis identified four priority sectors/themes for LCD investment through multilateral and bilateral engagement:

> i) the **power and energy** sector offers numerous opportunities for HMG finance, either through direct financing of renewable energies or tackling energy efficiency measures for households and businesses or addressing access to energy concerns.
>
> ii) there are a set of countries embarking on **rapid urbanisation** that need support to grow in a sustainable and climate resilient way including through more low carbon transportation.
>
> iii) a number of countries highlight **agriculture** as a main source of carbon emissions that could offer strong climate resilient and development co-benefits as well as broader linkages to REDD+.
>
> iv) Finally there are a number of measures that are **cross-cutting** such as economy wide low carbon transition plans.

2 Investment in sectors that DFID traditionally does not engage in will be taken forward through multilateral channels e.g. transport, urban and agriculture.

21. Innovative and effective engagement with the private sector will be required across all these sectors/themes in order to leverage the level of investment required for low carbon development.

22. Given the untested nature of low carbon development, ICF investment will be used to help demonstrate a range of approaches, with a rigorous focus on lesson learning and learning by doing.

Forestry

23. Tackling deforestation offers big opportunities to reduce poverty, reduce emissions and protect biodiversity. A cross Whitehall independent review was commissioned to identify opportunities for scaling up UK REDD+ finance. The review assessed the effectiveness of existing multilateral and bilateral engagement and identified a menu of options for potential scaled up HMG investments during the Spending Review period.

24. The review recommends that options for bilateral engagement are explored to build on our existing leadership in the sector. The review also recommends that the UK continues to invest in multilateral channels which have an important role to play – the UK's current support to Forest Investment Programme and Forest Carbon Partnership Facility has helped to develop both institutions and will ensure that they have the capacity and resources to develop effective interventions in the next two years.

25. A number of options have been identified for engagement. They include:

- REDD+ payment for results programmes, either working through
- other donors (eg. Norway) or directly with partner governments;
- Strengthening forest governance and building REDD+ capacity,
- including in countries where REDD+ potential is high but capacity is
- still weak;
- Strengthening REDD+ planning; and
- Supporting afforestation and reforestation.

26. Although the opportunity for the UK to lead and deliver results through bilateral partnerships is significant, it is not easy. Structured dialogue with countries and other donors will be needed to assess the political will, feasibility and risk-reward potential of interventions. Furthermore, dialogue will be needed to refine possible interventions and assess the most appropriate delivery mechanisms and HMG resource requirements. Detailed design of investments will follow as this dialogue develops.

Adaptation

27. Three levels of interventions have been identified for adaptation support:

i. Building knowledge, capacity, institutions and evidence.

ii. Scaled up delivery of adaptation programmes in a range of
iii. key vulnerable sectors that are critical to poor people's livelihoods and growth.

iv. Supporting effective national and international level climate architecture to deliver adaptation financing.

28. A number of priority sectors have been identified as highly vulnerable to climate change and critical to poor people's livelihoods and growth. The ICF will prioritise investment for adaptation in the following sectors through multilateral and bilateral channels4:

i) **Agriculture** investments such as new varieties and technologies to support smallholder farmers adapt and intensify production in increasingly uncertain climates and support to help food systems better respond to climate stress.

ii) **Disaster risk reduction (DRR) investments** such as integrated DRR and adaptation planning, critical infrastructure, developing early warning systems, macro and micro insurance and addressing impacts on girls and women.

iii) **Water resources management.** This can range from initiatives at international level (cooperation between neighbouring countries on a shared, but under threat, resource) to local initiatives such as river basin management, rainwater harvesting and irrigation.

iv) **Infrastructure and urban** investments including better building codes, land use planning, population management, and economic development strategies to ensure that vulnerable urban communities are protected from the worst impacts.

v) **Coastal zone and ecosystems management** investments: including better management of natural resources (e.g. floodplains, mangroves, forests) that help the vulnerable adapt to climate change.

vi) **Social protection** measures for the vulnerable, from insurance to safety nets and integrated with DRR initiatives.

vii) Support to **health** systems, addressing impacts of climate changes on health services, and deepening knowledge and action about specific impacts (e.g. vector-borne diseases, malnutrition).

29. The ICF will support a no/low regrets approach to support within these sectors. A no regrets approach supports options which are worthwhile doing (i.e. where benefits exceed costs) irrespective of the climate scenario. No/low regrets interventions may include:

i) continued investment in knowledge and climate data – both globally and at country level;

ii) integrating adaptation into national plans and budgets to strengthen climate monitoring;

iii) strengthening global, regional and national disaster risk reduction strategies';

iv) improved water shed management;

v) supporting sustainable agriculture approaches and improved pasture management.

Cross cutting themes

30. **Building Global Knowledge:** The ICF will respond to global opportunities to tackle climate change. For example, support to global research initiatives e.g. the development of climate resilient crops or new emerging technologies. The ICF will also support global knowledge programmes such as the Climate and Development Knowledge Network which will provide advice and research support to up to 40 developing countries over the Spending Review period.

31. **Private sector:** The scale of finance required to address climate change is enormous compared with the amount of aid from the UK and other donors. The ICF will maximise opportunities to leverage private finance to support ICF objectives.

32. **Supporting the international climate change negotiations and building the international architecture:** The ICF will support the Advocacy Fund which will help the poorest nations participate in the international negotiations through technical advice and training. The UK is also contributing to the design of the Green Climate Fund as one of 40 countries represented in the Transitional Committee, which was established in Cancun.

33. **Mainstreaming:** The ICF will support efforts to mainstream climate change into all UK overseas development assistance, EU development assistance and MDB lending. For example, the ICF will be used to leverage UK influence to increase MDB clean energy lending. In DFID, every country office will undertake a strategic programme review by 2013 to identify how the country programme should engage on climate change.

34. **Women and girls:** All ICF programmes will be required to consider the impacts on women and girls to ensure appropriate design and this will be tracked during implementation wherever possible.

35. **Natural resources:** All ICF programmes will be required to consider the impacts and maximise the benefits on biodiversity and the wider environment in all programmes to ensure appropriate design. For example, forestry can deliver significant biodiversity co-benefits and sustainable agriculture programmes can deliver water resource management, soil and biodiversity benefits.

36. **Fragile states:** Climate change is a threat multiplier in fragile states. How to engage appropriately in these countries in order to contribute to building longer term stability will be considered through further dialogue with the cross Whitehall conflict pool.

Monitoring and evaluation

37. The Independent Commission on Aid Impact (ICAI) will play an important role in undertaking independent evaluations of ICF programmes at key points through the four year period. The **tri-departmental climate change finance programme** has been identified as an area of focus for the ICAI in the second year of its three year work plan.5

38. Departments are working towards the alignment of monitoring and evaluation systems to ensure a coherent approach to monitoring and evaluating the impact of spend.