

“Cool Earth Partnership”

Financial Mechanisms to Support Climate Change Efforts by Developing Countries

“The other pillar of International Environment Cooperation is assistance to developing countries that are aiming to achieve both emissions reductions and economic growth and working to contribute to climate stability.

As one measure, Japan will establish a new financial mechanism, Cool Earth Partnership, on the scale of US\$10 billion. Through this, Japan will cooperate actively with developing countries’ efforts to reduce emissions, such as efforts to enhance energy efficiency. At the same time, we will extend the hand of assistance to developing countries suffering severe adverse impacts as a result of climate change. In addition, Japan aims to create a new multilateral fund together with the United States and the United Kingdom, and we call for participation from other donors as well. We will use such instruments to strengthen our solidarity with developing countries and work towards the reduction of greenhouse gases globally.”

- Statement by Prime Minister Fukuda in Davos (Jan 26, 2008)

Given the climate change already underway, the following assistance for developing countries are urgently needed.

Adaptation

- Measures to assist developing countries vulnerable to the adverse effects of climate change (e.g. African and Pacific island countries) to take adaptive measures (e.g. measures to manage damages related to climate-change such as afforestation, disaster prevention, drought management, flood prevention)

Assistance to Improve Clean Energy Access

- Measures to promote economic development through utilizing clean energy in developing countries which has insufficient access to modern energy supply (e.g. electrification of rural communities by introduction of solar power generation or small-scale hydro power)

Mitigation

- Measures to mitigate climate change by reducing GHG emission (e.g. improvement of energy efficiency of electric power plants)

“Cool Earth Partnership” Financial Mechanisms

Starting from 2008, Japan will provide funds amounting approximately to US\$ 10 billion (JPY 1,250 billion) in aggregate over the next five years. Details are as follows.

1. Assistance to adapt to climate change and improve access to clean energy: US\$ 2 billion (JPY 250 billion)

- (1) Japan will initiate policy consultations with developing countries that are making efforts to reduce GHGs emissions and achieve economic growth in a compatible way, and based on the needs of such countries, Japan will give assistance in the form of grant aid, technical assistance and aid through international organizations such as UNDP. The amount is estimated as JPY 250 billion during 5 years starting from 2008.
- (2) Assistance will be given to measures to adapt to climate-change such as afforestation, disaster prevention, adaptation planning, rural development through clean energy electrification, drought management, flood prevention, etc.

2. Assistance to mitigate climate change: US\$ 8 billion (JPY 1 trillion)

- (1) Japan will initiate policy consultations with developing countries that are facing the financial and technical constraints while making efforts to reduce GHG, and Japan will give financial and technical assistance based on the needs of such countries.
- (2) “Climate Change Japanese ODA Loan” with concessional conditions will be established to provide loans amounting to JPY 500 billion to implement projects to address global warming in developing countries.
- (3) Equity investments, guarantee, export insurance, subsidies through JBIC (Japan Bank for International Cooperation) and commercial financial sources will be mobilized to assist projects to reduce GHG in developing countries.

In addition to the assistance above through bilateral channels, Japan intends to establish a new multilateral fund together with the U.S. and the U.K., and is inviting participation from the wider donor community.

1. Assistance to adapt to climate change and improve access to clean energy: US\$ 2 billion (JPY 250 billion)

- (1) For adaptation efforts in developing countries, Japan will give assistance in the form of grant aid, technical assistance and aid through international organizations. A new scheme of grant aid, “Environment Program Grant Aid”, will be established.
- (2) Assistance to improve clean energy access such as geothermal rural electrification research (METI), co-benefit approach assistance project (MOE) will be implemented.

*(1)& (2) do not exclude the possibility of assisting mitigation efforts.

2. Assistance to mitigate climate change: US\$ 8 bil. (JPY 1 tril.)

(1) Climate Change Japanese ODA Loan (US\$ 4 bil. /JPY 500 bil.)

- Japan will initiate policy consultations with developing countries that are making efforts to reduce GHGs emissions and achieve economic growth in a compatible way, and the loan will be given to such countries that are financially eligible for ODA loans.
- The loan is mainly for projects/programs intended to generate mitigation impacts, but based on the needs of borrowing countries, cleaner energy access and adaptation efforts might be identified as a scope of assistance.
- This new loan category will be more concessional than the current Japanese ODA lending conditions.

(2) Assistance for private projects (US\$ 4 bil. /JPY 500 bil., which includes private sources)

- Establishment of JBIC-Asia Environment Facility
 - Through equity investments and guarantee, OOF window of JBIC will assist the private sector to engage in mitigation efforts in developing countries.
- International Energy Saving Project
 - NEDO (New Energy & Industrial Technology Development Organization) will assist energy saving/alternative energy initiatives in developing countries, and GOJ subsidies are usable for such initiatives.
- Export Insurance
 - To support Japanese companies engaged in mitigation projects (energy saving, new energy, etc.), Global Environment Insurance Facility will be established at NEXI (Nippon Export & Investment Insurance) to assist export, investment, and lending of Japanese companies. Country risk insurance rate will be increased.
- Assistance through ADB
 - GOJ will establish a fund at ADB to promote the use of clean energy/energy saving within the Asia-Pacific region.