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Swiss Confederation



Fostering climate- friendly growth

SECO's commitment under
economic development
cooperation



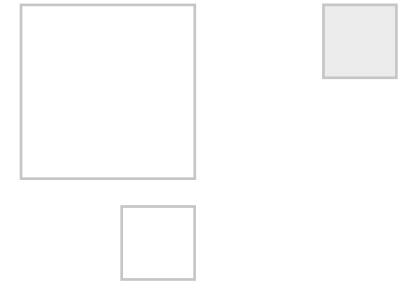
Contents

■ Climate change as a challenge for economic development	4
■ The role of SECO	5
■ Areas of intervention	6
■ Promoting energy efficiency and renewable energy sources	8
■ Sustainable management of natural resources	10
■ Strengthening innovative financing and market mechanisms	12
■ Effectiveness	14
■ Further information	14

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Climate change as a challenge for economic development

■ With the proliferation of storms, flooding, droughts and glacier retreat, climate change is already making itself felt across the world. Developing countries are particularly badly hit by the negative impacts of climate change. Meanwhile, their contribution to global-warming greenhouse gas emissions is rising steadily, with over half of global greenhouse gas emissions now attributable to the developing world. To limit climate change effectively, therefore, developing and newly industrialised countries will have to step up their efforts alongside the industrialised world to reduce their emissions of greenhouse gases. SECO, the State Secretariat for Economic Affairs, provides support in this respect as part of its economic development cooperation.

The negative consequences of climate change threaten to wipe out the progress made in combating poverty over past decades. Extreme weather events caused by climate change often damage a region's infrastructure and production plants, resulting in loss of income in agriculture and forestry. What's more, the high costs they cause can exacerbate the problems of poverty. The main challenge in development policy is thus to generate sufficient economic growth that will lead to progress and withstand the unavoidable consequences of climate change (i.e. climate-resilient growth). At the same time, the economies of developing countries should seek to display low-carbon growth, having minimum impact on the climate.

The role of SECO

■ The overriding objective of Switzerland's international cooperation is sustainable development that will reduce poverty and global risks such as, for instance, climate change. SECO's economic development cooperation contributes to this by supporting climate-friendly growth in its partner countries that reduces poverty. The Federal Council's 2013-2016 Message on International Cooperation lists the fostering of climate-friendly growth as one of the five priority topics of SECO's economic development cooperation.

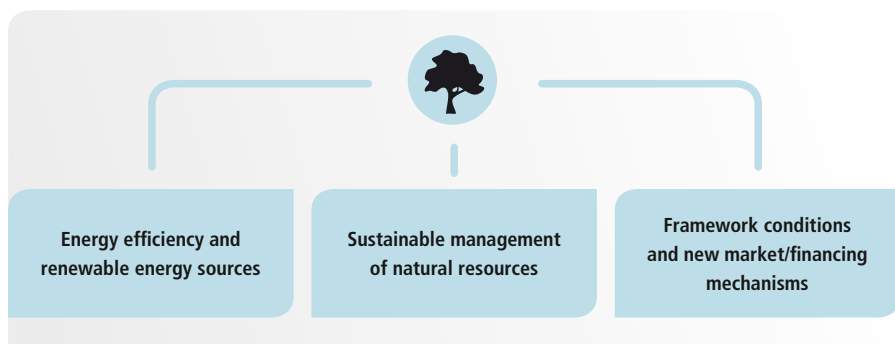
Economic growth and climate protection are not contradictory but, in fact, can be mutually supportive. This applies for the economy as a whole as well as for individual firms. Climate-compatible development pathways not only preserve the livelihoods of present and future generations; they also help to make more efficient use of valuable natural resources and open up new, future-

oriented business fields. Both of these make a contribution to improving the living standards of developing countries' populations.

In its climate-related activities, SECO focuses primarily on the mitigation of greenhouse gas emissions. It also supports specific measures for adapting to the climate change that is already underway. It does so in close cooperation with its partners, such as multilateral development banks and other international organisations. Apart from the implementation of concrete projects, SECO maintains a dialogue on climate-related issues with stakeholders and decision-makers in its partner countries. At a global level, SECO also participates actively in the formulation of climate strategies and programmes in international institutions such as the World Bank.

Areas of intervention

■ Energy supply is the sector accounting for the highest proportion of global greenhouse gas emissions. Other major sources of global-warming greenhouse gases are industry, forestry, agriculture and the transport sector. Consequently, the climate-related priorities of SECO's economic development cooperation include the promotion of energy efficiency and renewable energy sources as well as the sustainable management of natural resources. Another area of intervention is the strengthening of new market and financing mechanisms in relation to climate change.



Depending on the project and the context, these three areas of intervention apply various instruments and measures, ranging from investments and start-up funding to consulting and policy dialogue and on to technology transfer and capacity building.



Promoting energy efficiency and renewable energy sources

■ The energy sector is the leading source of greenhouse gas emissions. Energy-saving thus plays a key role in tackling climate change. Efforts to improve energy efficiency begin by optimising the production and the use of energy. It is also crucial to limit the consumption of fossil fuels and to make increased use of renewable energy sources such as solar, wind, biomass and geothermal power.

SECO contributes to raising energy efficiency and the prevalence of renewable energy sources by providing financial grants, improving the framework conditions and offering professional consultancy services. SECO places particular emphasis on sustainable forms of energy use in urban areas,

such as in mobility, water and waste-water systems, and waste management. This is an important point to focus on as some 70% of today's global CO₂ emissions have their origin in urban areas.

At a multilateral level, SECO supports several different initiatives, such as UNIDO's *Resource Efficient and Cleaner Production (RECP)*. This programme, implemented in developing and transition countries, aims to increase the efficiency of resources used in industrial production and improve companies' environmental performance. It thus makes an important contribution to mitigating greenhouse gas emissions.

Example: Sustainable energy management – The case of Vinnitsa, Ukraine

■ Ukraine is one of the most energy-intensive countries in the world and has tremendous potential for energy efficiency improvement. The district heating infrastructure is often in a poor state, greenhouse gas emissions are high and energy efficiency is almost non-existent. Therefore, SECO supports the Municipality of Vinnitsa in South-western Ukraine on its way to becoming an energy-efficient city and fi-

nces the rehabilitation of the municipal district heating system. SECO also helps Vinnitsa become more sustainable and finances soft components, such as the introduction of the European Energy Award system and a better management of the public utility in charge of district heating, with a view to promoting policies to save energy and avoid greenhouse gas emissions.

Example: Promoting renewable energy solutions through multilateral cooperation

■ SECO supports the *Scaling Up Renewable Energy Programme (SREP)* in low-income countries of the World Bank's Climate Investment Funds with a contribution of USD 26 million. Along with Switzerland, ten other donor countries have committed grants or capital allocations to the SREP, bringing the total funding up to about USD 550 million. The SREP currently supports eight pilot countries (Ethiopia, Honduras, Kenya, Liberia, Maldives, Mali, Nepal and Tanzania) in their efforts to scale up renewable energy solutions and to demonstrate the viability of low-carbon development pathways. By providing grants and

capital contributions to the pilot countries to support their endorsed investment plans in renewable energy, the SREP aims to mobilise additional funds, from the private sector, multilateral development banks, other development agencies, and local governments to the extent of a leverage factor of 6.4. Thus, with so far USD 340 million in grants and capital contributions pre-allocated for the eight endorsed investment plans, the SREP is expected to mobilise an additional USD 2.2 billion for projects and programmes in the fields of biomass, geothermal, small hydro-, solar and wind power generation and their associated infrastructures.



Sustainable management of natural resources

■ Apart from energy consumption, the main causes of increased concentrations of greenhouse gases in the atmosphere are the destruction of the rainforest, unregulated changes in land use and an intensification of farming and livestock production. The tropical rainforests are also suffering from the effects of climate change with, for instance, higher temperatures and extreme weather conditions.

SECO promotes the sustainable management of tropical forests, as these form an important carbon sink. In particular, SECO supports the formulation of global mechanisms that create financial incentives to protect the rainforests. SECO also participates in initiatives seeking to establish sustainability standards for renewable commodities, such as tropical timber, but also cocoa or cotton.



Example: Sustainable management of tropical rainforests

■ The massive deforestation of tropical rainforests not only destroys ecosystems and the livelihoods of indigenous communities but is also a major contributor to releasing carbon previously stored in trees and in the ground into the atmosphere. Against this background, the *Forest Carbon Partnership Facility* launched by the World Bank supports countries such as

Indonesia or Ghana in taking appropriate measures to preserve their tropical rainforests and thus ensure their sustainable management. This also entails formulating a corresponding national strategy with the participation of the local population. SECO has been involved in this initiative since the beginning and continues to play an active role.

Example: Trade promotion with natural products in Vietnam

■ Vietnam has a large source of natural ingredients with more than 4000 species that could be used as raw materials for the pharmaceuticals, cosmetics and food industries. However, Vietnam's rapid economic transformation has resulted in overexploitation of forests and increased pressure on agricultural land, which in turn has led to deforestation and significant biodiversity loss. To reverse this worrying trend, SECO has started a project in

Vietnam aimed at promoting the sustainable development of the natural ingredient sector. Building upon biotrade principles and criteria, the project seeks to increase the direct economic benefits created by the forest, thereby giving the local population a strong incentive to halt deforestation. By generating a sustainable income for the indigenous people living in and around the forest, the project also contributes to alleviating poverty.



Strengthening innovative financing and market mechanisms

■ Market-oriented approaches are a key element of effective and cost-efficient climate protection. When appropriately designed, they create economic incentives for investing in measures to mitigate greenhouse gas emissions and adapt to the realities of climate change. SECO thus promotes the development and use of innovative financing and market mechanisms in climate protection.

As part of the World Bank's *Partnership for Market Readiness*, SECO supports developing and transition countries in setting up national or regional emissions trading systems and introducing carbon taxes. This programme also helps developing countries to establish the necessary institutional and technical framework conditions to allow them

to participate successfully in international trade with emissions reduction credits. This increases developing countries' participation in international efforts for climate protection and helps to promote capital and technology transfer.

SECO thus supports public authorities and private firms in developing countries, such as SMEs or banks, enabling them to better incorporate the opportunities and risks of climate change into their investment decisions. Furthermore, together with the Swiss Agency for Development and Cooperation (SDC) and the Federal Office for the Environment (FOEN), SECO actively participates in the Green Climate Fund, a new multilateral financing mechanism that will make an important contribution to climate protection in developing countries in the future.

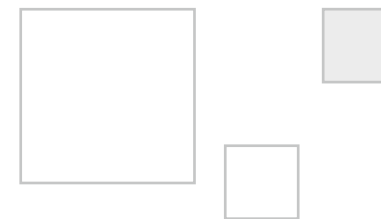
Example: Advice for borrowers from the Energy Access Fund

■ Over 1.3 billion people in developing countries today have no access to electricity and rely on fossil fuels such as coal or petrol for lighting or cooking. The consequences on human life and the environment are serious: apart from annual emissions of more than 200 million tonnes of CO₂, the fuels used pose a health hazard. Recent years have seen sharp growth in the market for lighting products and cooking facilities that work without a mains connection and increasingly with renewable energy sources. Nonetheless, many of the manufacturers of such innovative products fail to secure loans in their countries because they are relatively young and have very little collateral to offer. The *Energy Access Fund* established in 2014 by responsAbility, a Swiss asset manager specialising in development-related sectors, grants loans to such firms and advises them on how to make their distribution channels and management more successful and efficient. SECO has pledged CHF 500 000 to the advisory component (technical assistance) of this 30-million dollar fund. Over the next three years, some 80 million people around the world are set to obtain access to mains-free, greener products thanks to the fund, with a saving of six million tonnes of CO₂.

Example: Insurance solutions against the consequences of natural disasters

■ Since 2011, SECO and the World Bank have jointly implemented the *Sovereign Disaster Risk Financing and Insurance (DRFI)* programme, which strives to better prepare middle-income countries for natural disasters. The programme offers technical assistance and consulting for developing countries to enable them to better understand, evaluate and manage the financial consequences of natural disasters. The programme is based on five project components: i) catastrophe risk modelling; ii) assessment of economic and fiscal impact of natural disasters; iii) review of fiscal management of natural disasters; iv) review of the catastrophe risk insurance regulatory framework; v) capacity transfer and training on the sovereign disaster risk financing strategy in the partner countries. In Colombia, for example, an extensive DRFI strategy was introduced within the context of debt management, and decision-making tools were developed to better assess the risks of natural disasters and plan possible countermeasures.





Effectiveness

■ SECO attaches great importance to the effectiveness and efficiency of its activities. Continuous monitoring and regular evaluations serve to determine the extent to which the projects undertaken are pursuing relevant objectives, whether the objectives have been attained, whether the funds have been used efficiently, and whether the positive effects of development measures will continue after completion. The findings and recommendations from the monitoring and evaluations are used in project implementation and form the basis for any changes to be made to the project portfolio.

In a joint mandate, SECO and the SDC have commissioned an independent assessment of the effectiveness of Switzerland's international cooperation activities since 2000 for the prevention of climate change and adaptation to its consequences. The 2014 Effectiveness Report provides a comprehensive image of SECO's tangible contributions to climate-friendly growth.

Further Information:

■ On economic cooperation and development



■ On the Forest Carbon Partnership Facility



■ On the Scaling Up Renewable Energy Programme



■ On the Partnership for Market Readiness





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