



THE GOVERNMENT  
OF THE GRAND DUCHY OF LUXEMBOURG  
Ministry of the Environment, Climate  
and Sustainable Development

**Grand Duchy of Luxembourg**  
**International Climate Finance Strategy**  
**2021 – 2025**  
*Final version, July 2021*

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**International Climate Finance Strategy**  
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## Introduction

Providing sufficient financial resources internationally to support climate change mitigation and adaptation action is a cornerstone of global efforts to combat climate change. Developed countries have committed to scale up their level of financial support and to facilitate adequate investment, technological innovation, and capacity-building support in developing countries. International climate finance will have to come in many forms from across the entire funding spectrum to achieve this aim. Luxembourg sees a specific role for public climate finance support both to help developing countries design and fund important climate interventions and to mobilize low carbon and resilient investments from the private sector.

Luxembourg is one of the largest per capita donor of public international climate finance in the world. For the period 2014-2020, Luxembourg, a country with some 590,000 inhabitants, has made available 120 million EUR for mitigation, adaptation and land-use action (including Reduced Emissions from Deforestation and forest Degradation, “REDD+”) in developing countries. For the period 2021 through 2025, Luxembourg will significantly increase international climate funding to 200 million EUR. The international climate finance funds are both new and additional funds, provided by Luxembourg on top of its official development aid (about 1% of gross national income in 2018).

As part of the Luxembourg’s new, forward-looking mandate, the Luxembourg Government seeks to update its strategic approach for the disbursement and use of future funding. The revised International Climate Finance (“ICF”) Strategy remains deeply rooted in the objectives defined by the United Nations Climate Change Conference (UNFCCC) and the Paris Agreement, and it also seeks to address the goals of climate action, environmental and social protection, as expressed in the UN Sustainable Development Goals (SDGs), the Aichi Biodiversity targets, and the Sendai Framework for Disaster Risk Reduction.

The 2021-2025 revision responds to recent regulatory developments, notably the adoption of key elements of the Paris Rulebook, and is meant to reflect both Luxembourg’s own climate finance experience as well as good international practice.

The ICF Strategy reconfirms and enhances the key principles and objectives underlying its approach, design and operations. These were also included in the previous ICF Strategy, namely:

- *Role of public funds.* While climate financing will have to come from a wide range of sources, private and public, multilateral and bilateral, and should include the use of alternative sources, the specific role for public climate finance is to ensure predictable levels of support, remove barriers and risk levels for private investment, deliver funding where private investment is absent, and to fully align with the principles set out below.
- *Focus on needs, vulnerability and climate justice.* Funds should be made available for both mitigation and adaptation interventions in a balanced manner and according to needs of the recipient. As the impacts of climate change accelerate, extreme weather events are taking a major toll in developing countries, particularly in Africa, Asia and Latin America, home to some of the world’s most vulnerable people. Specific attention will be given to least developed countries (LDCs), small island developing states (SIDS) and other vulnerable countries.
- *Equal and direct access and a participatory approach.* Equal social access for beneficiaries and recipients of the funds must be guaranteed, with funding decisions made in favor of *country-driven* initiatives involving a wide scope of stakeholders, in particular, at the local level and non-state actors (including indigenous peoples, environmental organizations and other NGOs).

- *High ambition, effectiveness and impact.* The financial commitments must be in line with the targets and pathways on mitigation, adaptation and resilience as defined by the Paris Agreement; and they must be effective in facilitating innovative and lasting impact.
- *Integrated action.* Funds provided should seek to augment the climate response while at the same time yielding sustainability benefits in accordance with the Sustainable Development Goals (SDGs), including with respect to health, resilient infrastructure, sustainable consumption, gender equality, and more. Integrated action will also be sought on the level of climate and pollution control.
- *High value intervention, safeguards and integrity.* Funding must meet strict requirements for environmental integrity, social benefits and gender equality.
- *No recourse to nuclear energy.* Luxembourg advocates the transformation towards a zero-carbon, resource-neutral and renewables-powered circular economy. Nuclear energy does not meet this threshold due to its lasting environmental footprint as well as its inherent risks to health and sustainability.
- *Additionality.* The funds provided should be both new and additional to existing national ODA commitments; in addition, funding should be provided on an as-needed basis, with a focus on complementarity and leverage.
- *Transparency and continuity of support.* Developed countries should regularly report on the level of financial resources provided and planned, and funding should be known and secured over a medium-term multi-year funding cycle.
- *Transparency of the process.* Funding decisions must be disclosed in line with applicable laws and government practices; and the implementation of funding must be monitored and evaluated in accordance with decisions adopted within the framework of the Paris Agreement (Paris Rulebook) and European legislation.

Guided by these principles and objectives, Luxembourg continues to support climate interventions in developing countries and reconfirms its commitment to move climate action “in tandem,” i.e. both at the international and at the domestic front. Luxembourg will reduce its national GHG emissions by 55% in 2030 and achieve net zero emissions by 2050. The ICF Strategy responds to and builds on the Luxembourg Climate Law of [15 December 2020](#), the Integrated National Energy and Climate Plan (NECP) [2021-2030](#) for Luxembourg; the Luxembourg Climate Adaptation Strategy and Action Plan for [2018-2023](#); and the Luxembourg Sustainable Finance Roadmap ([2018](#)) and Strategy (2021). It shares the goals and complements Luxembourg’s new Aid & Development Strategy (“[The Road to 2030](#)”) and seeks alignment where feasible, with the EU’s Action Plan on Financing Sustainable Growth ([2018](#)), as well as the EU Taxonomy for Sustainable Activities for climate mitigation and adaptation (delegated act [2021](#)), where feasible.

The funding provided as international climate finance will continue to be administered by the Climate and Energy Fund, presided over by the Ministry of Environment, Climate and Sustainable Development. With the adoption of the new Luxembourg Climate Law, the Climate and Energy Fund underwent several changes to better support national and international climate activities. The Minister for the Environment, Climate and Sustainable Development will sign off on all approved international climate finance after consultations with a special advisory board composed of representatives from various ministries.

## 1. Funding

In accordance with the objectives of Article 2 of the Paris Agreement, Luxembourg's international climate finance aims at strengthening the global response to the threat of climate change, in the context of sustainable development, by assisting developing countries with measures directed at:

- Holding the increase in global average temperatures to well below 2 °C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5 °C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;
- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production; and
- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

### 1.1. Funding themes

The specific support Luxembourg provides will be directed at interventions across the spectrum of mitigation and adaptation measures in developing countries with a number of key priorities.

The priorities have been selected for: their potential to achieve significant mitigation and adaptation impacts; their synergetic value of integrating wider benefits in the context of achieving the Sustainable Development Goals (SDGs); and their ability to leverage additional climate finance from the private sector. The selected thematic focal areas also take into account the principle of integrated climate action and pollution reduction, as embodied in Luxembourg's Climate Law and NECP, and highlight those sectors for which Luxembourg has strategic comparative advantages due to its role as a leading sustainable finance center and a hub for pioneering technologies and climate solutions for a zero-carbon economy.

Activities not falling within the scope of the key priorities may still be supported, provided they feature very high mitigation and/or adaptation impacts values, SDG co-benefits, transformative change and offer exceptional opportunities for private sector co-financing.

#### a. Natural Capital, Biodiversity, Forestry and Land-Use

This thematic focus builds on SDG 2: Zero hunger; SDG 5: Gender equality; SDG 6: Clean water; SDG 7: Affordable and clean energy; SDG 9: Resilient infrastructure; SDG 11: Resilient cities and communities; SDG 12: Sustainable consumption and production; SDG 14: Life below water; SDG 15: Life on land; alongside SDG 13: Climate action.

Natural capital is the most fundamental among the different forms of capital, as it provides the basic conditions for human existence. It includes fertile soils, robust and thriving wetlands and forests, as well as clean inland waters and the oceans.

Deforestation and the degradation, fragmentation and unsustainable use of land increasingly threaten the provision of several key ecosystem services, putting biodiversity at risk and increasing the world's vulnerability to climate change and natural disasters.

Protecting, restoring and enhancing natural capital and biodiversity – in forests, wetlands, grasslands and other habitats – can play a key role in combating the twin crisis of climate change and biodiversity loss. Nature-based Solutions (NbS) help securing the ecosystem services on which communities rely, thereby strengthening their resilience to climate change. They are also an essential part of the world's mitigation strategy, as they can together deliver one-third of the total carbon reductions required by 2030 to remain on track to reach zero-net emissions globally by 2050.<sup>1</sup>

Luxembourg's ICF Strategy targets policy, technology and project initiatives that create climate change mitigation and/or adaptation benefits by, inter alia,

- Conserving, restoring and enhancing natural ecosystems, including forests, grasslands, peatlands as well as coastal wetlands, and their ecological services;
- Targeting biodiversity-rich afforestation and reforestation campaigns;
- Using renewable energy sourcing and energy efficiency measures to enhance nature and biodiversity investments;
- Implementing organic agricultural systems, agroforestry, sustainable forestry, sustainable pasture grazing, sustainable aquaculture, as well as natural carbon farming practices to sustainably built fertile topsoils; and
- Developing climate-friendly sustainable agricultural technologies and practices that do no harm to the environment or threaten the integrity of ecosystems and that contribute to long term resilience of communities; and
- Building resilience with nature-based solutions in infrastructure planning, design and implementation.

#### b. Clean Air and Water Resources

This thematic focus builds on SDG 3: Good health; SDG 6: Clean water; SDG 7: Affordable and clean energy; alongside SDG 13: Climate action.

The combustion of fossil and biomass fuels for power generation and in industrial processes generate greenhouse gas emissions as well as other air pollutants like nitrous oxides, sulfur oxides and particulate matter including black carbon ("soot"). Black carbon is of specific concern as it is a strong air pollutant, responsible for a host of health problems, and aggravates global warming. Supporting investments in cleaner production and cleaner living, tackling the release of emissions with dual effect on climate change and the health of humans and the environment is of utmost importance. While governments across the globe are introducing air pollution control and wastewater treatment regulations, which largely address the big emitters, not enough is done in incentivizing and facilitating investment in pollution prevention and control on the level of small and medium enterprises as well as in households to combat both pollution and climate change.

In water management, access to clean drinking water is becoming one of our greatest challenges for the coming decades. Because climate change impacts evaporation and precipitation cycles, making

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<sup>1</sup> Griscom, B et al, Natural climate solutions, Proceedings of the National Academy of Sciences (PNAS) 114 (2017) 11645-11650.

droughts and floods more frequent and severe and causing sea-level rise and salination of ground water, ensuring communities have safe access to clean water is one of world's key challenges from an adaptation and resilience perspective.

Luxembourg's ICF Strategy targets policy, technology, and project initiatives in the field of clean air and water resources, with a clear and direct link to climate change and a particular focus on community and SMEs. Such interventions often entail significant gender empowerment opportunities. Priority is given to interventions such as:

- Clean cooking and heating (indoor air pollution);
- SME businesses RE supply side/EE demand side improvements (outdoor air pollution);
- Energy access, RE/demand side EE for households, small businesses, sustainable tourism;
- Small vehicle fuel efficiency, electric vehicles, bicycle infrastructure;
- Wastewater management with GHG reductions, energy recovery & ecosystem protection;
- Clean water access with RE/EE conservation measures.

#### c. Resource Efficiency and Waste Management

SDG 5: Gender Equality, SDG 11: Resilient Cities and Communities, SDG 12: Responsible Consumption and Production, SDG 13: Climate Action

Resource efficiency is essential if we aim to produce more from less input, use resources in a sustainable way, and manage them more efficiently throughout their life cycle. Resource efficiency is one of the core elements necessary to create a green economy and achieve the sustainable management and efficient use of natural resources. Alongside waste prevention and recycling efforts, it can lead to considerable greenhouse gas reductions and support climate adaptation and resilience. Priority intervention activities include:

- Reduce, Reuse, Recycling ("3 Rs") activities, including along supply- and value chains across economic sectors;
- Shifting to regenerative, carbon-absorbing production and adoption of healthy, predominantly plant-based diets that are affordable, accessible and delicious;
- Promotion of plant-based alternative protein products or food products;
- Measures to reduce food waste and loss;
- Waste (including plastic) prevention and responsible consumption more broadly, including reduced indirect energy use;
- Waste management with direct GHG reductions like landfill gas capture and utilization;
- Waste management with adaptation components in the field of flood management and ecosystem protection.

#### d. Community-Based Adaptation and Resilience

SDG 5: Gender equality, SDG 6: Clean water, SDG 7: Clean energy, SDG 11: Sustainable Cities and Communities; SDG 13: Climate action

Increasing temperatures, changing rainfall patterns, sea-level rise, and extreme weather events caused or aggravated by climate change accelerate increasingly adverse impacts on society, especially on the



vulnerable sections of the population. It is imperative to strengthen and empower vulnerable groups to become climate resilient.

Community-based adaptation (CBA) offers opportunities for raising adaptive capacity and resilience, increasing local inclusivity and participation, and improving livelihoods across vulnerable groups. Luxembourg is committed to ensuring that substantial amounts of international climate finance reach the most vulnerable communities and allow them to implement urgently needed adaptation activities in their local context.

The following activities are especially encouraged:

- Early warning systems and access to accurate local weather information;
- Emergency disaster risk management preparedness;
- Community level capacity building for resilience;
- Improved flood management planning;
- Resilient housing;
- Water efficiency programs, addressing climate impacts on water resources and reducing energy use for pumping and treating water;
- Access to renewables and energy efficiency technology for diversified livelihoods, distributed energy;
- Saving and insurance solutions for climate related financial risk reduction<sup>2</sup>.

### Energy-Related Interventions

Energy is an important sector for climate change mitigation and cited in most (I)NDCs as key climate change mitigation priority. However, nearly 70% of all (I)NDCs also list the energy sector as priority sector for climate adaptation. Clean, efficient and modern energy sources are crucial enablers of sustainable development and indispensable for the realization of many SDGs, especially those catering to basic needs and economic growth and productivity.

Luxembourg's ICF Strategy addresses energy activities from the combined mitigation/adaptation angle, with a *focus on affordable and clean energy access and climate resilience, the role of energy in the management of natural capital projects, local air pollution, clean water access and in relation to waste management and resource efficiency*. Energy activities can be directly supported from ICF funding, when incorporated as a component within any of the thematic focal areas.

Investments in medium to larger scale renewable energy projects may be indirectly supported by the ICF funding through the Luxembourg-EIB Climate Finance Platform, Luxembourg's International Climate Finance Accelerator (ICFA), or future guarantee, equity or debt vehicles, that the Luxembourg ICF may support. Project preparation activities to prepare investments in energy projects may be supported through facilities like the City Climate Finance Gap Fund or directly on a case-by-case basis.

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<sup>2</sup> People suffering damage from climate change related events can draw on their savings or receive payouts from their climate insurance to pay for costs to recover from climate damage. Such cash flows from savings or insurance make them more financially resilient and reducing their financial risk in the face of climate change.

#### e. Support for transparency requirements of the Paris Agreement

Reserved for Luxembourg's Climate Dialogue Partners (see section 1.3 below), an additional thematic focus will be put on capacity building activities to meet the transparency requirement of the Paris Agreement. Depending on the needs of the partner countries/region involved, support measures may include assistance with the preparation of institutional, legal and financial frameworks to enable the preparation of NDCs, reporting formats, GHG (greenhouse gas) inventories; development of technical capacities for tracking progress in the implementation of NDCs. This funding stream is limited to 5% of the total ICF funding for the period 2021-2025. Global support facilities could be potential partners in this effort for example the NDC Partnership.

#### f. Leveraging and Mainstreaming Climate and Sustainable Finance

This thematic focus builds on SDG 13, SDG 7 clean energy, SDG 9 infrastructure and innovation, and SDG 11 sustainable cities.

Luxembourg's financial center is developing fast into an internationally recognized, leading hub for sustainable finance, having transformed into the world's primary center for listing green bonds – with a global market share of more than 50%, having issued in 2020 the first sovereign, triple-A rated sustainability bond aligned to the new EU sustainable finance taxonomy and being Europe's capital for microfinance and impact funds. Under the joint leadership of the Ministry of Finance and the Ministry of Environment, Climate and Sustainable Development, Luxembourg has recently adopted a Sustainable Finance Strategy (2021) to further develop Luxembourg's financial center's role as an international leader in sustainable finance. At the international level this strategy will be part of implementing actions to be undertaken under the UN 2030 and the Paris Agreement and states a clear set of actions towards achieving the goal of making finance flows consistent with pathways towards low greenhouse gas emission and climate-resilient development (Art. 2.1 (c) Paris Agreement). While preparing the way at home to transform its financial sector, Luxembourg seeks to offer through the ICF program its expertise and capacity building to help willing developing countries set similarly ambitious objectives and provide support for their implementation.

With that programmatic and results-driven perspective, Luxembourg's ICF Strategy is oriented towards existing and new financial instruments that strengthen the focus on climate interventions in developing countries and leverage new and additional funding, including from private sources. Special focus is put on collective investment vehicles and financial risk mitigation structures for low carbon and resilient infrastructure for sustainable cities, clean energy production and efficient use, as well as wider measures aimed at realizing NDC commitments.

The Luxembourg ICF in the area of sustainable finance will be used to support the following:

- Fostering sustainable financial market development and products with the aim of implementing Art. 2, para (1)c of the Paris Agreement<sup>3</sup>;
- Supporting de-risking financing solutions, aggregation and collective investment vehicles, project preparation facilities for financing renewables, energy efficiency, land-use, natural capital, decarbonized and resilient infrastructure and other climate finance solutions to attract private capital;

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<sup>3</sup> This may include a large range of products and services from supporting legislation on reporting obligations, green and sustainable taxonomies, labels, rating systems, standards, funds, bonds, loan facilities, and guarantee facilities.

- Climate results-based finance, REDD+ participation, readiness support for using of cooperative approaches under Art. 6 of the Paris Agreement;
- Support for putting in place carbon pricing approaches, taking into account the polluter pays principle and social equity;
- Carbon market readiness support for higher NDC ambitions in line with the San José Principles.

#### g. Climate change induced migration

A new small funding envelope will be earmarked for climate change induced migration also referring to human mobility as an adaptation strategy. Climate change already causes population movements on account of certain geographies losing their viability as a consequence of sea-level rise, the increased frequency and severity of floods and storms, growing scarcity of food and water supply, and other diminishments in living standards and economic prospects. Such movements will become more prominent in the years to come and are in some instances inevitable despite ongoing and increasing adaptation efforts. Projects eligible for support under this new funding theme would be cases where:

- *internal or international migration has occurred* in response to gradual environmental changes such as changes in the level or variability of temperature, precipitation or rapid onset events such as severe flooding, heavy storms or landslides<sup>4</sup>; or

- in locations where climate events – such as persistent droughts and resulting lack of food and water supply, fires, storm-related erosion, saltwater intrusion – have occurred or are expected to reoccur *causing foreseeable migration of people*.

The Luxembourg ICF already supports, through its community-based adaptation and resilience thematic focus, adaptation measures that may allow people to remain in-situ and discourage out-migration. This is achieved mainly through improving access to water, assisting with food security through building and improving organic agricultural systems, sustainable agricultural productivity, and income diversification.

Under the climate migration window, the ICF can support activities that facilitate safe and orderly migration upholding climate migrants' dignity, human rights, and prospects, as listed in table 1 below. Activities or programs supported need to provide a convincing link that the migration is climate change related<sup>5</sup> and need to adhere to strict safeguards, especially in the area of stakeholder consultation. This new funding stream is limited to 2% of the total ICF funding for the period 2021-2025.

The approach is compatible with the Luxembourg's signature in 2018 of the UN Global Compact of Safe, Orderly and Regular Migration<sup>6</sup>, especially its objective 5 h), relating to enhancing pathways for regular migration by cooperating to identify, develop, and strengthen solutions for migrants compelled to leave their territories and countries of origin due to climate change and environmental degradation.

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<sup>4</sup> See A meta-analysis of country-level studies on environmental change and migration <https://www.nature.com/articles/s41558-020-0898-6>

<sup>5</sup> Showing that climate change plays an important contributing factor.

<sup>6</sup> <https://www.un.org/press/en/2018/dev3375.doc.htm>

It also integrates recommendations of the workstream<sup>7</sup> for enhanced cooperation and facilitation in relation to human mobility, including migration and planned relocation under the UNFCCC Warsaw International Mechanism for Loss and Damage.

Table 1 provides a summary of all activities that can be funded under each thematic area.

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<sup>7</sup> <https://unfccc.int/process/bodies/constituted-bodies/executive-committee-of-the-warsaw-international-mechanism-for-loss-and-damage-wim-excom/areas-of-work/migration--displacement-and-human-mobility>.

Thematic Area	Type of activity
<b>Natural Capital, Biodiversity, and Land-Use</b>	<ul style="list-style-type: none"> <li>▪ Conserving, restoring, and enhancing natural ecosystems, including forests, grasslands, peatlands and coastal wetlands, and their ecological services</li> <li>▪ Preventing deforestation and forest degradation</li> <li>▪ Targeting biodiversity-rich afforestation and reforestation campaigns</li> <li>▪ Using renewable energy sourcing and energy efficiency measures to enhance nature and biodiversity investments</li> <li>▪ Implementing organic agricultural systems, agroforestry, sustainable forestry, sustainable aquaculture, as well as natural carbon farming practices aiming at sustainably built fertile topsoils</li> <li>▪ Developing climate-friendly sustainable agricultural technologies and practices that do no harm to the environment or threaten the integrity of ecosystems and that contribute to long term resilience of communities</li> <li>▪ Building resilience with nature-based solutions in infrastructure planning, design, and implementation</li> </ul>
<b>Clean Air and Water Resources</b>	<ul style="list-style-type: none"> <li>▪ SME businesses RE supply side/EE demand side improvements (outdoor air pollution)</li> <li>▪ Clean energy access, RE/demand side EE for households, small businesses, sustainable tourism</li> <li>▪ Small land and water-borne vehicle fuel efficiency, electric vehicles, bicycle infrastructure</li> <li>▪ ‘Smart Cities’ transport solutions;</li> <li>▪ Wastewater management with GHG reductions, energy recovery &amp; ecosystem protection</li> <li>▪ Clean cooking and heating (indoor air pollution)</li> <li>▪ Clean water access with RE/EE conservation measures</li> </ul>
<b>Resource Efficiency and Waste Management</b>	<ul style="list-style-type: none"> <li>▪ Reduce, Reuse, Recycling (“3 Rs”) activities, including along supply- and value chains across economic sectors;</li> <li>▪ Shifting to regenerative, carbon-absorbing production and adoption of healthy, predominantly plant-based diets (that are affordable, accessible and delicious);</li> <li>▪ Promotion of plant-based alternative protein products or food products;</li> <li>▪ Measures to reduce food waste and loss;</li> <li>▪ Waste prevention (including plastic waste) and responsible consumption, including reduced indirect energy use;</li> <li>▪ Waste management with direct GHG reductions like landfill gas capture and utilization;</li> <li>▪ Waste management with adaptation components in the field of flood management and ecosystem protection.</li> </ul>

<p><b>Community based Adaptation and Resilience</b></p>	<ul style="list-style-type: none"> <li>▪ Early warning systems and access to accurate local weather information</li> <li>▪ Emergency disaster risk management preparedness</li> <li>▪ Community-level capacity building for resilience</li> <li>▪ Improved flood management planning</li> <li>▪ Resilient housing</li> <li>▪ Water efficiency programs, addressing climate impacts on water resources and reducing energy use for pumping and treating</li> <li>▪ Access to RE/EE for diversified livelihoods, distributed energy</li> <li>▪ Saving and insurance solutions for climate related financial risk reduction</li> </ul>
<p><b>Support for the transparency requirements of the Paris Agreement</b></p>	<ul style="list-style-type: none"> <li>▪ Prepare institutional, legal, and financial frameworks to enable the preparation of NDCs</li> <li>▪ Creating reporting formats</li> <li>▪ Greenhouse gas (GHG) inventories</li> <li>▪ Develop technical capacities for tracking progress in the implementation of NDCs</li> </ul>
<p><b>Leveraging and Mainstreaming Climate and Sustainable Finance</b></p>	<ul style="list-style-type: none"> <li>▪ Fostering sustainable financial market development and products with the aim of implementing Art. 2, para (1)c of the Paris Agreement<sup>8</sup></li> <li>▪ Supporting de-risking financing solutions, aggregation and collective investment vehicles, project preparation facilities for financing for RE/EE/land use/natural capital/low carbon and resilient infrastructure and climate finance solutions to attract private capital</li> <li>▪ Climate results-based finance, REDD+ participation, readiness support for using of cooperative approaches under Art. 6 of Paris Agreement</li> <li>▪ Support for putting in place carbon pricing regulations, taking into account the “polluter pays” principle and social equity; carbon market readiness support for higher NDC ambitions in line with the <a href="#">San José Principles</a></li> </ul>
<p><b>Climate change induced migration</b></p>	<ul style="list-style-type: none"> <li>• Development of systems, infrastructure, plans, programs, and policies to support adaptive capacity for rural communities for internal migration or relocation of coastal communities or households in response to climate hazards.</li> <li>• Resettle/ give access to protecting facilities to exposed population that lives in vulnerable areas and providing housing in safer areas to decrease the number of people living in vulnerable areas.</li> <li>• Support climate migrants’ primary health care needs by providing water, sanitation and medicines.</li> <li>• Development and implementation of urban planning and sustainable development plans for cities affected by flooding that include displacement of population.</li> <li>• Programs providing targeted training to develop the skills that are required for migrants to adapt in their new places of residence.</li> <li>▪ Provide shelter, including communal areas in transit centers and reception centers.</li> </ul>

<sup>8</sup> This may include a large range of products and services from supporting legislation on reporting obligations, green and sustainable taxonomies, labels, rating systems, standards, funds, bonds, loan facilities, and guarantee facilities.

Table 1: Activities that may be funded under the relevant themes.

## 1.2. Distribution of funding

Luxembourg’s ICF Strategy no longer applies strict and siloed quotas for mitigation, adaptation and REDD+ support. Instead, the update of the international climate finance strategy includes a rebalancing towards the intrinsic relationship between three pillars: mitigation, adaptation and REDD+. Rather than perceiving the three pillars in isolation, Luxembourg’s new strategy recognizes and takes into account their numerous inter-relations. It focuses on and prioritizes activities that are complementary in how they address mitigation and adaptation. This does not mean that each activity has to have a dual, “cross-cutting”<sup>9</sup> purpose per se, but that for each proposed measure, the relevance in terms of mitigation, adaptation, and resilience should be highlighted. This will ensure that Luxembourg’s international climate finance achieves *an overall balanced impact in terms of mitigation, adaptation, and REDD+*. Adaptation elements shall be included in a majority of supported activities. Nature-based solutions should become an integral part of this balanced approach, rather than a separate category.

Luxembourg will seek to balance its ICF portfolio in line with the funding themes established, it being understood that the sustainable finance development theme has an overarching character and may be overlapping with other themes. Through the various funding themes, Luxembourg intends to maintain a strong focus on adaptation activities addressing the adverse effects of climate change and building resilience through the proposed thematic areas.

## 1.3. Funding destinations, geographical focus

There is no general restriction in country eligibility. All developing countries, which are eligible to receive international climate finance, may receive such funding from Luxembourg.<sup>10</sup> The thematic priorities defined for the ICF will guide the selection towards countries, which have the highest potential to achieve climate impacts in the specific focal theme, taking also into consideration all other eligibility and selection criteria of the ICF Strategy. Overall, the ICF seeks a balanced geographical distribution of supported activities.

Nevertheless, for about half of its bilateral support window (which excludes funding provided to international or multilateral funds or organizations), the ICF Strategy grants enhanced consideration for climate finance support to:

- Least developed countries (LDCs) and low-income small island developing states (SIDS) as well as low-income communities or regions highly exposed to climate risks in other developing countries; and
- Countries with which Luxembourg has entered a climate action dialogue (“**Climate Dialogue Partners**”).

Such dialogues are often facilitated as part of the strategic partnerships (past and present) Luxembourg has built over the years with a number of ODA countries linking multiple areas including

<sup>9</sup> See CPI Climate Finance Landscape Methodology Document 2019 p. 10 for definition of dual benefit classification. <https://climatepolicyinitiative.org/wp-content/uploads/2019/11/GLCF-2019-Methodology-Document.pdf>

<sup>10</sup> For a current list see [Green Climate Fund](#) (2020).

aid and development, cultural, political and security cooperation, aside from enhanced cooperation on climate change.<sup>11</sup> Yet, Luxembourg may also initiate and entertain climate action dialogues with countries not or not yet considered strategy partner countries. At the moment, the list of Climate Dialogue Partners includes the following countries:

<b>Burkina Faso</b>	<b>Cabo Verde</b>	<b>El Salvador</b>	<b>Laos</b>	<b>Mali</b>
<b>Nicaragua</b>	<b>Niger</b>	<b>Senegal</b>	<b>Vietnam</b>	<b>Rwanda</b>

The list will be regularly updated.

As before, assistance for mitigation and land-use (including REDD+) focused interventions in transition countries and emerging economies, on the other hand, will be conditional on exceptional mitigation benefits, the transformational nature of the underlying climate finance concept and high levels of private (co-) funding that will be mobilized through the measures.

Generally, Luxembourg puts a strong emphasis on activities that are promising for mobilizing financing from the private sector. It is assumed, but certainly not required, that such activities will predominantly be located in more advanced developing countries equipped with an appropriate enabling environment, policies and a strong recognition of the rule of law that will attract private sector investments. For measures meant to enhance sustainable finance flows (Art. 2.1 (c) Paris Agreement), there is no geographic or income-dependent country scope per se; however, such measures need to target regions or countries with a clear strategic vision and aptitude for transformational change in this regard and which demonstrate a strong willingness to introduce relevant reforms for green finance.

The small funding window on climate migration is focusing on areas where climate change and environmental degradation create unacceptable levels of human insecurity and lead to movements of people. Priority countries will include activities in or in relation with countries in North Africa's Sahel region, sub-Saharan Africa and East Africa, where high levels of migration are predicted as a response to climate change.<sup>12 13</sup>

#### 1.4. Implementation Partners & Eligible Applicants

Luxembourg counts on a number of partners for implementing the activities in the host countries or for assisting in channeling the ICF funding to appropriate recipients and beneficiaries directly.

In this context, Luxembourg recognizes the specific role and leverage capacity of the Green Climate Fund. A significant part of the 200 million ICF funding over the period 2021-2025 will hence be dedicated to the Green Climate Fund (40 million EUR). Luxembourg also values the contributions of civil society to combat the climate emergency and to achieve climate justice. A total budget of 25 million EUR is earmarked for climate projects implemented by Luxembourg NGOs and other not-for-

<sup>11</sup> For the context of enhanced cooperation: National Energy and Climate Plan (NECP) [2021-2030](#), sec. 3.1.3 (ii).

<sup>12</sup> See Hoffmann, R. et al, A meta-analysis of country-level studies on environmental change and migration (2020), at <https://www.nature.com/articles/s41558-020-0898-6>.

<sup>13</sup> <https://unfccc.int/news/migration-and-climate-change-need-to-be-tackled-together>.



profit environmental organizations together with local partners in Climate Dialogue Partner countries and more generally in poor and vulnerable regions, LDCs and SIDS.

Luxembourg will continue to finance successful initiatives and implementation partners such as the Luxembourg-EIB Climate Finance Platform and will put emphasis on further developing the climate investment fund and sustainable bond ecosystem in Luxembourg targeting climate investments in developing countries. This will partially be driven in collaboration with the “Luxembourg Sustainable Finance Initiative”, a public-private entity set up for implementing the recommendations under the Luxembourg Sustainable Finance Roadmap (2018) and Luxembourg’s Sustainable Finance Strategy (2021), and based on valuable experiences of ICF funded initiatives like the Luxembourg International Climate Finance Accelerator, the Forestry and Climate Change Fund, the Blue Natural Capital Financing Facility, UN Environment Land Use Finance Programme and its Restoration Seed Capital Facility, and the City Climate Finance Gap Fund.

Close collaboration with the private sector will be sought throughout Luxembourg’s international climate finance engagement, on one hand on the level of mobilizing funding for investments in developing countries, on the other hand through offering support to export technologies and innovative “climate solutions,” including Nbs, which will be nurtured in Luxembourg over the coming decade to reach Luxembourg’s target of zero-net carbon emissions by 2050. In this context, new risk mitigation and financing solutions will be explored in close collaboration with new implementing partners such as the Luxembourg export credit agency, and with respect to relevant sectors and groups, including the insurance sector and financial service providers.

Generally, a wide spectrum of entities, from Luxembourg and abroad, qualifies as implementation partners and applicants for receiving funding to implement ICF-sponsored programs and activities in developing countries. They include:

- Public implementation organizations/agencies implementing bilateral support programs, national finance institutions of Luxembourg;
- Bilateral and multilateral development finance institutions as well as regional development banks;
- Multilateral organizations such as United Nations organizations and programs;
- Experienced national and international organizations<sup>14</sup> leading in a specific thematic area;
- Dedicated climate funds and facilities, including (micro) financing institutions;
- Research institutions, institutes and universities;
- Non-governmental organizations (NGOs) and not-for-profit environmental organizations accredited by the Ministry of Foreign and European Affairs in Luxembourg or approved by MECSD.

While a portion of funding will be channeled through and to businesses and other for-profit entities in accordance with the principles established in the ICF Strategy, Luxembourg will principally not engage directly with them on the investment level but use its dedicated implementation partners (including international organizations, development finance institutions, funds or facilities) for distributing and managing of relevant funding. Under the ICF Strategy, MECSD may, in the future, organize calls for proposals targeted at businesses for the deployment of innovative climate technologies and at climate friendly business models for markets in developing countries.

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<sup>14</sup> Governmental and usually not-for-profit and non-governmental organizations.

Applicants need to show sufficient climate-relevant and recent experience in the thematic areas, presence in the field, ability to manage projects or climate assets, and financial capacity to carry out the project/program.

### 1.5. Funding Instruments

Luxembourg's ICF can use different funding instruments ranging from grants to first loss equity, guarantees and loans. During the funding period 2014-2020, the majority of funding has been provided through grants. Grants have partially been placed into intermediaries or financial vehicles, which have used this capital to provide equity, guarantees or loans, generating reflows to these intermediaries (e.g., Green Climate Fund contribution). Luxembourg also provided, in several cases directly and in-directly first loss and junior equity investments into themed impact funds (e.g., Forestry and Climate Change Fund, EIB-Climate Finance Platform, which, among others, provides funding for the Land Degradation Neutrality Fund).

During 2021-2025, the Luxembourg ICF intends to further broaden its use of different instruments. The types of instrument to be used under the ICF window will depend on the type of activities financed, the type of applicant as well as the financial needs of the project and decided on case-by-case basis. While a large part of adaptation projects, capacity development, institutional strengthening projects and early project preparation activities, call for plain grants, other projects or climate investments, especially those involving the private sector, are best served by concessional loans, first loss equity and guarantees as well as outcome-based payments.

It is noted that the engagement with the private sector will be accelerated in order to mobilize more private sector climate finance. The selection of instruments can have a determining effect on the amount of private sector finance leveraged, depending on the projects' local and sectoral context and needs in different stages of the investment cycle<sup>15</sup>. In order to mobilize private investment at scale, it is important to identify the unique investment criteria and barriers faced by different private sector segments in order to offer the appropriate de-risking support or risk/return enhancement for private sector investments.

Blended finance structures – see the overview in figure 1 – will absorb most of the non-grant funding provided under Luxembourg's ICF Strategy, targeting activities which can become investable and bankable.

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<sup>15</sup> See also the OECD Principles on Blended Finance (2018).

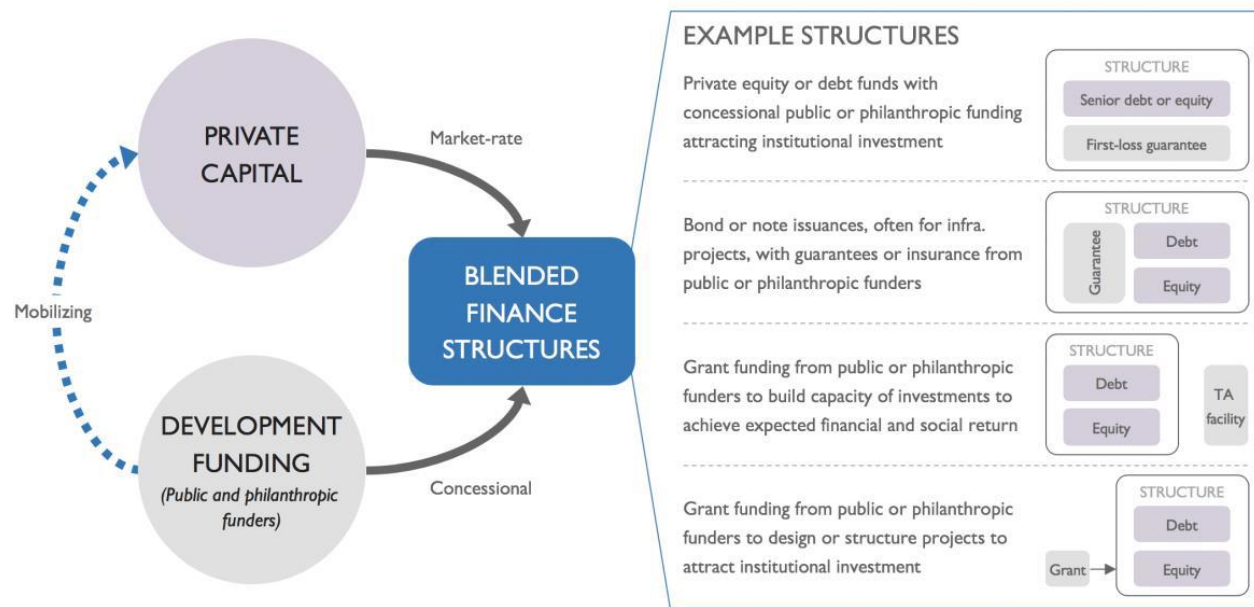


Figure 1: Blended finance structures. Source: Convergence (April 2020), Research Report How to mobilise private investment at scale in blended finance.

The level and degree of public involvement will be strictly calibrated according to objectives, needs and additionality (see below section. 2.2). Much, if not most of the blended ICF from Luxembourg may come in the form of junior equity or first loss guarantees for investment funds and possibly also in form of guarantees for loan portfolios and potentially green bonds. Public and private sector guarantees are particularly apt to improve near-bankable projects to become bankable and to create a larger universe of bankable projects to achieve the climate and SDGs. Benefits of guarantees include (i) issuance on a temporary basis, to bridge the gap between the time a project is near-bankable to when it is bankable (e.g., during project physical completion stage); and (ii) ability to cover some specific risks impeding private investment (e.g., political risk or offtake risk)<sup>16</sup>. Guarantees are the most prominent financial instrument used in blended finance for developing countries.

Especially in the context of providing incentives for the engagement of the private sector, the ICF could be deployed in the form of climate outcome-based payments. Next to significant climate outcomes, such support needs to show direct mobilization of additional private financing for climate activities in developing countries.

There are a number of legal-regulatory implications from amplifying the modes of support from grant finance to equity, loans, guarantees in the form of blended finance. One of these implications relates to climate finance valorization. As yet, there are no clear rules and standards on how to valorize non-grant financial support means. Some countries set concessional loans and even guarantees at their nominal value or report these instruments in grant-equivalent terms for their climate finance contributions, while being non-committal to the future use of funds, once released. There is also little certainty concerning the climate finance reporting of results-based finance and trades with carbon credits or other mitigation outputs.

<sup>16</sup> Convergence (April 2020), Research Report How to mobilise private investment at scale in blended finance.

Another implication relating to the use of different funding instruments for blended finance with the private sector is the potential for market distortion impacts. While it is clear that blended finance can only be deployed for uses where commercial financing is not currently available for deployment towards climate goals, such assessments need profound expertise in local market conditions. These aspects are further addressed in later sections of this strategy report under additionality and mobilization of private finance.

Concerns of contributing to overly indebted developing countries while increasing the use of instruments other than grants are not justified in the Luxembourg context. On one hand due to the limited overall size of the Luxembourg IFC budget and considering that a significant part of the ICF will still be allocated as plain grants for adaptation, technical assistance and project preparation. On the other hand, because the funds placed into financial intermediaries for blended finance will primarily target private sector debt and not public debt. The share of the Luxembourg ICF placed into the Green Climate Fund that could be used for loans by the GCF to public sector entities in developing countries likely does not significantly affect their borrowing capacities.

Generally, in order to attract private investors through concessional or blended finance, easy access to support is needed without complicated or lengthy application processes while ensuring full application of the required safeguards.

The most important factor to consider for broadening the type of instruments is the availability of capacity and expertise. The correct blending of public with private capital requires very specific expertise to effectively and efficiently allocate, take, and manage risks. Therefore, Luxembourg will need to engage increasingly with intermediaries (preferentially Luxembourg-based) and/or build up internal capacities. In the context of guarantees, national export credit guarantees for climate technology solutions may be considered in the future. In the area of equity or loans, Luxembourg could continue to further contribute to equity and loan finance vehicles through intermediaries in collaboration with Luxembourg based EIB, EIF and the growing climate fund industry. Luxembourg could also envisage contributing with ICF to the creation of its own Development Finance Institution in the form of a Fund of Fund, fully or partially capitalized with public funds, which would invest in equity and debt funds for diversified climate action in developing countries and emerging economies.

## 2. General Eligibility Requirements

Any support from Luxembourg's ICF envelope is subject to a number of conditions and requirements:

### 2.1. Clear and Direct Climate Change Focus

Luxembourg supports activities that have a clear and direct link to combatting climate change, i.e., that aim at reducing emissions, protection and enhancement of natural sinks of greenhouse gases and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts.

MECS D uses the two leading, mutually compatible methodologies for defining and categorizing the climate finance scope:

- a) Climate Components Methodology used by Multilateral Development Banks (MDBs) and International Development Finance Corporations (IDFC), based on the MDB-IDFC Common Principles for Climate Finance Tracking.<sup>17</sup>
- b) OECD Rio Marker Methodology.<sup>18</sup>

**Table 2: Mitigation and adaptation finance eligibility by institution**

Institution	Mitigation Finance Eligibility	Adaptation Finance Eligibility
OECD-DAC	<p>Activity contributing to:</p> <p>(a) The mitigation of climate change by limiting anthropogenic emissions of GHGs, including gases regulated by the Montreal Protocol; <b>or</b></p> <p>(b) The protection and/or enhancement of natural carbon sinks and reservoirs; <b>or</b></p> <p>(c) The integration of climate change concerns with the recipient countries' development objectives through institution building, capacity development, strengthening the regulatory and policy framework, or research; <b>or</b></p> <p>(d) Developing countries' efforts to meet their obligations under the Convention.</p>	<p>Activities following the three-step approach of:</p> <p>(a) Setting out the climate vulnerability context of the project using a solid evidence base<sup>19</sup>, <b>and</b></p> <p>(b) Making an explicit statement of intent to address climate vulnerability as part of the project, <b>and</b></p> <p>(c) Articulating a clear and direct link between the climate vulnerability</p>

<sup>17</sup> Based on the MDB-IDFC common principles for climate finance tracking (AfDB, ADB, EBRD, et al., 2015c and AfDB, ADB, EBRD, et al., 2015d).

<sup>18</sup> <http://www.oecd.org/dac/environment-development/Annex%2018.%20Rio%20markers.pdf>

<sup>19</sup> This could take a variety of forms, including use of material from existing analyses and reports, or original, bespoke climate vulnerability assessment analysis carried out as part of the preparation of a project.

<b>MDBs-IDFC</b>	Based on a positive list of activities <sup>20</sup> that are compatible with low-emissions pathways, and recognizes the importance of long-term structural changes.	context and the specific project activities.
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Table 2: Mitigation and adaptation finance eligibility by institution. Source: Compilation of operational definitions of climate finance, presented in the UNFCCC Standing Committee on Finance 2018 Biennial Assessment and Overview of Climate Finance Flows, Technical Report (2019).<sup>21</sup>

Luxembourg will also consider those **activities eligible that apply the EU sustainable finance taxonomy** for the climate mitigation and climate adaptation activities<sup>22</sup>.

In applying these methodologies, Luxembourg will, as a rule, only consider as eligible:

- Activities, that are directly and clearly related to mitigation, adaptation or REDD+ with a significant climate impact;
- Activities for which the climate objective is the principal element of the activity and which would not have been achieved without this climate objective (e.g. OECD Rio Marker Climate 2); and
- Activities that directly contribute to making finance flows consistent with a pathway towards low GHG emissions and climate-resilience investments (Art. 2.1.c Paris Agreement) targeting climate investments in developing countries.

In exceptional cases, climate funds may be used to fund measures with an OECD Rio Marker Climate 1 (significant climate element) and/or to also fund those elements in a measure that go beyond having a direct climate benefit (as long as it is an integral part of the program). However, this will require that the measure in question yields significant benefits in terms of climate and sustainable development, has a transformative effect for the combat against climate change, and would stand little chance of being developed without funding from Luxembourg.

Once the eligibility is established, the activity is reviewed according to its contribution to the priority thematic areas.

## 2.2. Additionality of Support

For all interventions, but specifically for commercial business and private sector investments, projects and programs, an additionality analysis is required at the investment level to assess what form of support is needed and appropriate. This analysis is done to ensure that the support meets the test of additionality – the measure in question would not be implemented to the proposed extent without the support – and does not crowd out other private or public investments.

<sup>20</sup> EBRD (2019), 2018 Joint Report on MDB's Climate Finance.

<sup>21</sup> <https://unfccc.int/sites/default/files/resource/2018%20BA%20Technical%20Report%20Final%20Feb%202019.pdf>

<sup>22</sup> [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf)

To ensure additionality and to be eligible for ICF funding, applicants must demonstrate (a) that the commercial projects/programs in question are economically and financially sound, and at the same time, that (b) the need for (concessional) support exists. All subsidized finance for businesses and commercial operators must be designed to close a gap between private returns and returns for society and the environment, being people-centered<sup>23</sup> and reflecting on the presence of a market failure, e.g., resulting from (non-priced) externalities or other barriers. Specific barriers must be demonstrated. Such a demonstration includes an analysis to show that ICF support can remove identified barriers to project/program implementation often encountered by the private sector, such as,<sup>24</sup> among others:

- High initial costs;
- Technologies that are not available under local (market) conditions;
- Technologies that are only in an initial adoption stage with poorly developed support structures;
- Limited expertise or capacity of the actors involved;
- Little knowledge of the new technologies proposed in the project;
- Introduction of innovative business models, new financing instruments;
- Underdeveloped capital market instruments;
- Absence of other sources of financing or dysfunction of the commercial financing market for proposed projects or programs;
- High third-party risk, such as currency risk, regulatory uncertainty, risk of default by local institutions;
- Inadequate capacity of local institutions;
- Other barriers.

For mitigation projects, the beneficiary must demonstrate, through the proposed financial structure and barrier analysis, that it is applying for the smallest (concessional) amount necessary to make the project economically attractive (achieve the minimum required rate of return<sup>25</sup>) or to remove the barriers described.

For adaptation projects, such an additionality analysis is not always necessary because private sector involvement in purely adaptation activities is often rare due to the lack of clearly defined sources of income. Such projects can be fully funded by international climate finance support, through grants or concessional financing that is complemented by other sources of public and/or alternative financing (such as the valuation of co-benefits to sustainable development). This approach follows the recommendations of the Green Climate Fund<sup>26</sup> and the MDB joint approach.

The following documents provide further information on guiding applicants for the demonstration of additionality:

- Climate Policy Initiative (2018), Approaches to assess the additionality of climate investments; AfDB et al (2018);
- MDB's Harmonized Framework for the Additionality in Private Sector Operations;

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<sup>23</sup> E.g., UNECE's new people's first approach to public private partnerships to implement the SDGs; [ECE\\_CECI\\_2019\\_05-en.pdf](https://unece.org/ece_ceci_2019_05-en.pdf) ([unece.org](https://unece.org)).

<sup>24</sup> Green Climate Fund, 2013, Business Model Framework: Private Sector Facility, GCF/B.04/07.

<sup>25</sup> Economic and financial.

<sup>26</sup> Green Climate Fund (2015), Further Development of the Initial Investment Framework: Sub-Criteria and Methodology GCF/B.09/07.

- World Bank Group (2018), Strategic use of climate finance to maximize climate action.

### 2.3. Alignment with host country climate strategies and NDCs

Luxembourg's ICF Strategy is guided by the principles and approaches defined in the Paris Agreement. It recognizes in particular, the principle of country-driven assistance. That means, as countries make their own choices concerning the nationally determined contributions (NDCs) and identify their climate change priorities, targets and implementation pathways, Luxembourg seeks to give support to those interventions which are anchored in and aligned with these national choices of the target countries. A country's NDC as well as national adaptation plans and strategies and other national policies with a direct climate change impact are of specific relevance.

While the alignment with host country priorities is essential, this requirement is not restrictive in the sense that only those elements explicitly referred to in an NDC would be supported and only to the level of ambition reflected therein. On the contrary, interventions seeking to realize extra premium in or to mitigation and/or adaptation benefits and generally reflecting higher ambition are encouraged under Luxembourg's ICF Strategy, as long as they fit into the larger strategic framework of a country and does not go against specific policies and country choices.

In practice, applicants for ICF support will need to provide evidence for the positive strategic (country-driven) framework, including – where appropriate – by submitting relevant support letters from government agencies.

### 2.4. Safeguards and Gender

The Paris Agreement confirms that international climate cooperation should be based on the recognition of human rights, realize gender equality and non-discrimination, and seek the active engagement of local communities and marginalized groups, including indigenous communities.<sup>27</sup> Luxembourg commits to these values on all levels of international engagement, including climate finance, in a horizontal perspective.

In practice, this means that all funding is conditional on showing that applicants observe the “do no harm” and the precautionary (prevention rather than cure) principles, comply with leading human rights and gender equality standards; and engage actively with relevant stakeholders, including: people marginalized and/or potentially discriminated against due to their sexual orientation, race or color; indigenous peoples; and other local communities. It follows that:

- All applicants must confirm and – if so requested – demonstrate in detail their commitment to core performance standards concerning labor and working conditions, public health and safety, as well as social, community, environmental and cultural protection. The respect and support for children's rights, the interdiction of child labor and all forced labor of any kind must be recognized as a fundamental institutional and operational strategy. Importantly, these commitments concern an applicant's own operations, but they also encompass an applicant's

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<sup>27</sup> Cf. the preamble of the Paris Agreement which reads: “... *Acknowledging* that climate change is a common concern of humankind, Parties should, when taking action to address climate change, respect, promote and consider their respective obligations on human rights, the right to health, the rights of indigenous peoples, local communities, migrants, children, persons with disabilities and people in vulnerable situations and the right to development, as well as gender equality, empowerment of women and intergenerational equity...”



relationships with business partners, entities in its value chain, and any other non-State or State entity directly linked to its business operations, products, or services. Applicants must show that they have adequate due diligence processes in place to examine compliance on an ongoing basis.

- All applicants must assess gender impacts as well as impacts on the poor, underprivileged and vulnerable individuals and/or communities at all stages of the intervention design and implementation. Applicants must also demonstrate how the specific intervention is gender-sensitive (which includes guarantees in terms of gender equality, women’s rights and women’s full participation) in particular. Guidance for integrating a gender-sensitive and -responsive strategy into a climate intervention is provided in Table 3.
- All applicants must demonstrate the ability to identify environmental and social risks and gender inequality gaps through an adequate risk assessment and to manage significant environmental and social risks through appropriate strategies and action plans. Risk management spans from the design of the intervention in question throughout the entire project lifecycle, in a systematic manner and proportionate to the nature and scale of the project and the potential risks and impacts. In all instances, applicants must seek to anticipate and avoid risks and negative impacts, before considering risk reduction and negative impact remediation. The relevant risks and strategies must be described as precisely as possible in the program outline.
- For context and further details on relevant core commitments, standards and procedural guidance, applicants are referred to guidance from the Green Climate Fund’s [Interim Environmental and Social Safeguards](#) and [Gender Mainstreaming Manual](#), the International Finance Corporation’s [IFC Performance Standards](#), the World Bank’s [Environmental and Social Framework](#), the European Investment Bank’s [Environmental and Social Safeguards](#), the European Bank for Reconstruction and Development’s [Environmental and Social Policy](#) (which includes a detailed gender-sensitive approach to project planning), the Inter-American Development Bank’s [Gender and Diversity Policies](#), the UN [Guiding Principles on Business and Human Rights \(UNGPs\)](#), and the Children’s Rights and Business Principles ([CRBP](#)). For forest interventions both in terms of REDD+ and afforestation/reforestation/forest restoration, compliance with the [REDD+ Safeguards](#) shall be ensured.

Gender elements	Opportunities to integrate gender
<b>Applicant organization</b>	The applicant themselves should aim to have a gender balance in composition/staffing of their organization. They should consider constituting a gender-balanced project team, including women in leadership positions, and engaging local gender experts with expertise on gender analysis and mainstreaming.
<b>Gender integration in project proposal</b>	Applicants are encouraged to present an integrated gender strategy by: <ul style="list-style-type: none"> <li>• Identifying key social, economic and political issues underlying climate change-exacerbated gender inequality by consulting experts, women’s groups, or civil society organizations.</li> <li>• Collecting gender-related information and sex-disaggregated beneficiary data, and to determine the baseline situation.</li> </ul>

	<ul style="list-style-type: none"> <li>Analyzing implications of gender barriers that may prevent women or men from having equal opportunity to benefit from project activities and results.</li> <li>If host countries have national and/or regional policies and initiatives regarding gender equality, it should be taken into account.</li> <li>Ensuring active participation of women in program/ project design and implementation.</li> <li>Designing program/project activities in ways that respond to gender risks, differences, gaps, and opportunities to promote the empowerment of women which may be relevant to the proposed activity.</li> <li>Formulating indicators relating to sex disaggregation and gender sensitivity within the results framework.<sup>28</sup></li> <li>Ensuring that representatives of women's groups/women are involved in stakeholder consultations<sup>29</sup> regarding the development of the strategic framework and decision-making processes at all levels. Ensuring equal access to information, employment, training and education for women; Making efforts to promote women's participation and leadership at all levels throughout the project duration and ensuring that necessary actions continue to be taken during the course of the project/program.</li> </ul>
<b>Gender in evaluation and monitoring framework</b>	The inclusion of gender-sensitive indicators in the project's results framework will allow project developers/applicants to demonstrate the progress toward achieving gender equality or the empowerment of women. Hence, collecting and monitoring quantitative and qualitative gender-responsive indicators is important <sup>30</sup> . Applicants may determine their own indicators and describe how these indicators will be objectively verified.

Table 3: Guidance on gender-responsive design and implementation of climate interventions.

- All applicants must build stakeholder participation, including at the local level, into their intervention design and implementation.
- All applicants must ensure that stakeholders and any other party affected or potentially affected by the intervention are given the opportunity to file complaints against the intervention and to trigger an accountability mechanism within the applicant's organization or outside of it. Each applicant shall be transparent about the accountability process offered and shall file all complaints and the details of the specific procedures.

As the ICF strategy targets the mobilization of financing from the private sector, supported institutions and companies are advised to adopt, and provide evidence for the adherence to, the [UN Global](#)

<sup>28</sup> For guidance see UNDP (NDC Support Programme): Gender Responsive Indicators: Gender and NDC Planning for Implementation 2020, at <https://www.ndcs.undp.org/content/ndc-support-programme/en/home/impact-and-learning/library/gender-responsive-indicators-gender-and-ndc-planning-for-implementation.html>.

<sup>29</sup> For guidelines on how to conduct stakeholder consultations, refer to: <https://globalgoals.goldstandard.org/100-gs4gg-stakeholder-consultation-requirements-guidelines/>

<sup>30</sup> Quantitative methods of data collection produce quantifiable results, so they focus on issues which can be counted. A quantitative gender-responsive indicator might look at the respective number or percentages of women and men among the project/programme beneficiaries; male and female rates for participation or enrolment in outreach programs (ideally also divided by age – boys and girls and women and men – and/or other social identities (rural or urban, indigenous or non-indigenous, upper caste or lower caste, etc.)). Qualitative methodologies capture people's experiences, opinions, attitudes and feelings. Qualitative methodologies capture people's experiences, opinions, attitudes and feelings. A qualitative gender-responsive indicator might focus on women's experiences of the constraints in accessing agricultural extension services or their views on the best way to address those barriers and if they have been applied in a given project. Often participatory methodologies such as focus group discussions and social mapping tools are used to collect data for qualitative indicators.

Compact Principles. They will also have to specify how their organization confronts all forms of corruption, including extortion and bribery, money laundering and other white-collar crimes.

Luxembourg reserves the right to cancel any financial support and to request the immediate return of funds provided, in case of any violation of these safeguards.

## 2.5. Exclusions

Luxembourg's IFC Strategy prohibits funding for:

- Production or activities along value chains involving harmful or exploitative forms of forced labour<sup>31</sup> and/or child labour;<sup>32</sup>
- Production of or trade in any product or activity deemed illegal under host country laws or regulations;
- Trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES);<sup>33</sup>
- Production of or trade in pesticides/herbicides,<sup>34</sup> or ozone-depleting substances<sup>35</sup> subject to international phase outs or bans;
- Transboundary trade in waste or waste products,<sup>36</sup> except for non-hazardous waste destined for recycling;
- Marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net-fishing, harmful to unwanted vulnerable and protected species in large numbers and damaging to the marine biodiversity and habitats;
- Intensive farming of monocultures such as soy and genetically engineered plants;
- Agricultural activities carried out on land that is or previously has been deemed to be “of high carbon stock” (including organic soils);
- Palm oil and timber production, unless the applicant can clearly demonstrate that they are not associated with deforestation, forest degradation, or negative biodiversity impacts;
- Production of or trade in weapons and munitions, including paramilitary materials;

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<sup>31</sup> Forced labour means all work or service not voluntarily performed, that is extracted from an individual under threat of force or penalty.

<sup>32</sup> Child labour means the employment of children whose age is below the host country's statutory minimum age of employment or employment of children in contravention of International Labour Organization.

<sup>33</sup> A list of CITES is available from [www.cites.org](http://www.cites.org)

<sup>34</sup> A list of pesticides and herbicides subject to phase-outs or bans is available from [www.pic.int](http://www.pic.int)

<sup>35</sup> A list of the chemical compounds that react with and deplete stratospheric ozone, resulting in the widely publicized ozone holes is listed in the Montreal Protocol, together with target reduction and phase out dates. <https://ozone.unep.org/?q=home>

<sup>36</sup> As defined by the Basel Convention. See [www.basel.int](http://www.basel.int)

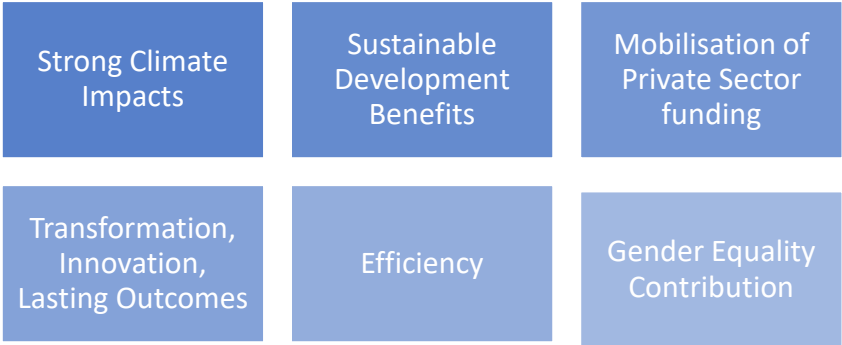
- Production of or trade in radioactive materials, including nuclear reactors and components thereof;<sup>37</sup>
- Nuclear projects as well as any direct and indirect support to companies operating nuclear projects without a clear, near-term nuclear phase-out strategy;
- Prospection, exploration, and mining of coal, oil, and natural gas;
- Infrastructure projects for coal, oil, or gas exploration, transport, storage, and distribution;
- Power generation from coal, oil, or natural gas; activities by companies that derive more than 30% of their revenues from coal-related operations;
- Generally, investments that have a high risk of locking in significant future greenhouse gas emissions; based on this principle, fossil fuel-based lower-carbon and energy-efficient generation transactions, such as financing for efficiency retrofits of coal-fired power plants, are excluded;
- Large dam and hydropower projects that do not incorporate good international practices such as those laid down by the World Commission on Dams;
- Injection and geologic sequestration of carbon dioxide in relation to the burning, extraction, or production of fossil fuels.

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<sup>37</sup> This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment where MECDD considers the radioactive source to be trivial and/or adequately shielded.

### 3. Selection Criteria

Six main selection criteria will be used to analyze the strength of the application and decide on the allocation of international climate change funding, illustrated below. These criteria and their evaluation indicators are described in more detail in the following sections.



#### 3.1. Strong Climate Impacts

The basis for the analysis of the climate impacts is the ex-ante analysis of expected climate impacts, which applicants need to submit in the application. This analysis must include data on the cost-effectiveness of the proposed activities and their capacity to contribute to achieving the ultimate goals of the Paris Agreement, including for mitigation consistency with the need to achieve net zero emissions by 2050.

When implementing the supported activities, the climate finance recipient will have to reassess the level of implementation and performance against the ex-ante expectation. Stringent impact monitoring capacities must be demonstrated.

##### 3.1.1. Mitigation Impact

To quantify, monitor, and report climate impacts, recognized methodologies, metrics, and indicators must be used and applied with respect to an identified baseline or reference *scenario*.<sup>38</sup> The reference scenario is the business-as-usual (BAU) situation, that reflects the most likely scenario to achieve the same result or level of service as proposed by the activity. Any climate indicators used must be specific, measurable, achievable, relevant, and time-bound (SMART).

**Quantification using tCO<sub>2</sub>e emissions reduced as the core metric is required for all mitigation activities to the extent possible.** In all cases, while the calculation of GHG benefits is at the center of measuring mitigation impact, the use of additional impact indicators (“beyond carbon”) as well as a clear beneficiary assessment (who benefits from the intervention in what way).

<sup>38</sup> The reference scenario represents the events or conditions most likely to occur in the absence of the policy or action being evaluated. The baseline is an assumption about the conditions that would exist over the period of policy implementation if the policy or action is not implemented. Source: [GHG Protocol: Policy and Action Standard](#).

Where an intervention targets capacity building, institutional strengthening, policies, and strategies to ultimately yield mitigation impact, indicators other than direct GHG benefits need to be proposed such as trainings given, policies and regulations put in place, and so on.

#### 3.1.1.1. Guidance on Quantification

For the quantification of CO<sub>2</sub>e benefits (reduction, absorption, avoidance) and carbon stocks, widely used or internationally recognized methodologies shall be employed, including:

- Methods recognized by the Intergovernmental Panel on Climate Change (IPCC) used for country GHG inventories;
- Relevant guidance from the UNFCCC;
- WRI Greenhouse Gas Protocol, including its Policy and Action Standard;
- Relevant ISO standards;
- GHG accounting for project evaluation of international finance institutions (IFIs), including the IFI Framework for a Harmonized Approach to Greenhouse Gas Accounting and upcoming EDFI harmonized SDG13 impact methodology;
- Methodologies developed by national or international carbon standards such as Verra, Gold Standard, and the Climate Action Reserve;
- European Commission Delegated Regulation supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council [“Taxonomy Regulation”] by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation and adaptation (as adopted and amended from time to time<sup>39</sup>).

#### 3.1.1.2. Nature-based Solutions (NbS)

For Nature-based Solutions (NbS) that involve conservation, restoration, REDD+, as well as any carbon removal/sequestration activities, tCO<sub>2</sub>e emissions avoided, reduced and/or removed (GHG benefits) shall be the leading metric. In general, other metrics and indicators may be chosen if quantification of GHG benefits or underlying carbon stocks (measured in tC) is not possible (though this requires justification).

#### *Impact requirement for sustainable forestry projects*

Sustainable forestry project shall demonstrate:

- Compliance with recognized Sustainable Forest Management requirements; and
- Establishment of a verified GHG balance baseline, based on growth-yield curves in order to demonstrate that the forest carbon sink continues to increase and GHG emissions from the forest sectors decrease; and
- Permanence of the climate impact and steady progress with carbon stock increase through a forest management plan.

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<sup>39</sup>[https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts\\_en](https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852/amending-and-supplementary-acts/implementing-and-delegated-acts_en)

### *Impact requirements for agriculture projects*

For perennial cropland management, low carbon agriculture and carbon farming (carbon stock enhancement through sustainably built fertile topsoils) activities, the impact can be expressed in percentage change of tCO<sub>2</sub>e/ha or tCO<sub>2</sub>e/unit of production or rate of deployment of specific bundles of agricultural management practices that are recognized as essential to delivering low carbon/carbon removal production embedded in organic agricultural systems (# of ha under such organic agricultural land management).

### *Additional impact requirements for REDD+ activities*

Luxembourg's ICF Strategy rests on the principle that fund applicants for REDD+ projects consider, as far as possible, *results-based finance* structures.<sup>40</sup> The Green Climate Fund has prepared a *Logic Model and Performance Measurement Framework for REDD+ Results-based Payments* that can be used in this regard. The Luxembourg ICF can be used to implement such actions, while also promoting wider benefits of the REDD+ intervention, including the benefits of sustainable development.

REDD+ specific guidance on quantification is provided by a range of sources, including the World Bank's Forest Carbon Partnership Facility<sup>41</sup> and the Forest Carbon Markets and Communities Program (FCMC) REDD+<sup>42</sup> Measurement, Reporting and Verification Manual or the guidelines of the UN REDD+ program,<sup>43</sup> as well as specific MRV programs developed by development banks.

#### 3.1.1.3. Carbon Asset Generation

It may happen that mitigation interventions, while seeking climate finance support from Luxembourg, are designed to include a carbon component, i.e., with the intention to generate tradable carbon credits. Carbon asset generation will in these cases likely be linked either to government activities under the Paris Agreement or to voluntary initiatives meant to attract private sector finance.

Luxembourg does not require applicants, when asking for project preparation or financial risk mitigation support, to abstain from carbon crediting efforts or forego any crediting opportunities. Indeed, strategies to monetize interventions through carbon crediting are at the center of many REDD+ efforts, and private sector investment is often conditioned on the potential to use GHG benefits achieved as offsets. With that in mind, Luxembourg is supportive of carbon asset generation from projects and programs in its climate finance portfolio, as long as the environmental integrity of the measure in question is not jeopardized and as long as the measure delivers meaningful sustainable benefits beyond offsetting. That means in practice:

- Luxembourg's support is conditional on the implementation partner's ability to demonstrate that any intended crediting will not give rise to the risk of double counting under an NDC

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<sup>40</sup> For the concept, see Decision 9/CP.19 (Warsaw): "Work programme on results-based financing to support the full implementation of the activities referred to in paragraph 70 of decision 1/CP.16."

<sup>41</sup> <https://www.forestcarbonpartnership.org/carbon-fund-methodological-framework>

<sup>42</sup> <https://rmportal.net/library/content/fcmc/publications>

<sup>43</sup> <http://www.un-redd.org/resources>

accounting framework or under any other reference system (including offsetting or climate neutrality schemes and targets by non-state actors); and

- The implementation partner needs to show that the intervention in question yields benefits beyond offsetting, i.e., where an GHG credit is used to compensate for a GHG debit substantial, measurable and additional impact must be realized in the form of additional GHG credit (not to be used for offsetting), additional adaptation, resilience or sustainable development (see sections 3.1.2 and 3.2 below).

Projects that use grants from the ICF to pay for investment costs of mitigation measures, may not resort to the sale of mitigation impact in form of carbon credits for the purpose of offsetting third party emissions unless approved by Luxembourg.

### 3.1.2. Adaptation Impact

Projects/programs supported by the ICF must focus on activities with a specific adaptation objective, concrete results and outputs that are directly related to vulnerability reduction and are measurable and verifiable.

The applicant shall present climate resilient metrics consistent with the local climate vulnerability analysis as laid out in the three-step approach (see section 2.1.) performed for the eligibility of the activity. The adaptation metrics framework shall be based on the results chain with clear and measurable indicators on the input, output and outcome level, such as:<sup>44</sup>

*Inputs:* capturing the climate resilience contribution of a project. Technical assistance, policy dialogue, physical works, delivery of assets, to *build climate resilience*.

*Outputs:* capturing the broader financial resources, assets, goods, and services being made more climate resilient within the project.

*Outcomes:* capturing the adjustment of physical, human or environmental systems, economic benefits and *increases in climate resilience*, which can go beyond the initial perimeter of the project and representing a larger financial volume than the initial investment.

*Impact:* Long-term resilience, adaptive capacity, reduced vulnerability.

Adaptation indicators are context- and location-specific. However typical adaptation indicators could include the number of beneficiaries with vulnerabilities reduced, early warning systems installed; the assets, goods, and services being made more resilient; increased or diversified income; increased water availability; increased agricultural production due to reduced soil erosion; increased soil carbon content; reduced soil salinity; reduced weather-related disruptions; and weather-related damage.<sup>45</sup>

Reference can also be made to the implementing act on screening criteria under the Taxonomy Regulation (see above, section 3.1.1.1).

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<sup>44</sup> MDBs and IDFC are considering metrics that enable the identification and analysis of the financial and nonfinancial benefit.

<sup>45</sup> EBRD Implementing the EBRD Green Economy Transition (GET).



### 3.1.3. Impact related to implementing Art. 2.1.(c): Alignment of financial flows

Article 2.1(c) of the Paris Agreement identifies the consistency of finance flows with a pathway towards low GHG emissions and climate-resilient development as a means to strengthen the global response to the threat of climate change. Activities in this field seeking support from ICF shall present a concept on how to measure the contribution of the proposed activity to achieving progress towards Art. 2.1.(c).

Different methods and metrics tracking flows are available for: bank lending, bond markets, listed equity, private equity, insurance and re-insurance, assets under management, financial services. Guidance can be sought in the 2020 Biennial Assessment and Overview of Climate Finance Flows.<sup>46</sup>

These metrics may include: (i) *qualitative process indicators* of action like increase in number of investors conducting climate risk assessment, stock exchanges starting to list green bonds, labelling efforts for climate funds or bonds; (ii) *quantitative indicators of flows*, increase in value of green loans, value of green bonds issuance; (iii) public actors shifting finance via fiscal policy and financial regulation in favor of increased climate flows.<sup>47</sup>

Also, metrics in relation to higher adoption of climate-related financial disclosures in developing countries by financial market participants, e.g., using guidance from the Task Force of Climate Related Financial Disclosure.

It is important not to define indicators and metrics in isolation from the intended investment or target of the financial flows. Impact indicators will always need to include thresholds, metrics, and specific indicators to track the ultimate mitigation, adaptation, and/or resilience purpose.

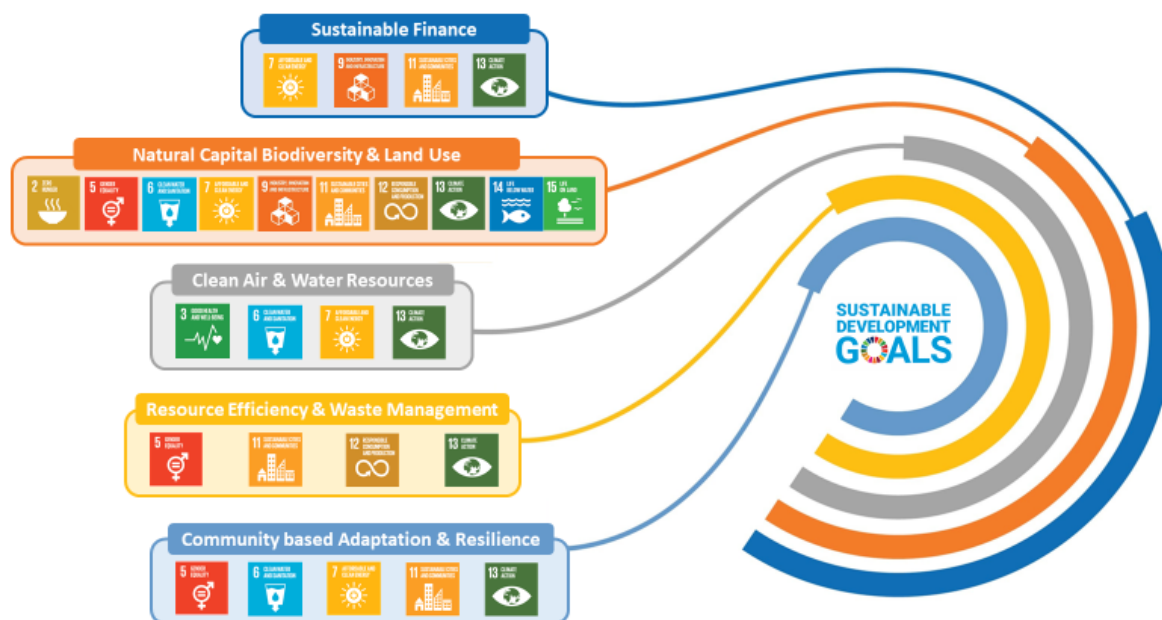
### 3.2. Other sustainable development benefits

Luxembourg aims to enhance other environmental, social, and cultural benefits when providing climate funding. To measure these benefits, the Agenda 2030 and the SDG will be used as the metrical framework. Applicants for ICF funding shall determine key SDG benefits outside climate action, specify at least one appropriate SDG target and suitable indicators, which will be monitored over the course of the project. Below is an illustration of potential SDG co-benefits for the respective thematic focal areas of the Luxembourg ICF Strategy.

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<sup>46</sup> Not yet released by the time of writing. Data sets for tracking Art. 2.1.(c) progress include [https://unfccc.int/sites/default/files/resource/BA\\_Webinar.pdf](https://unfccc.int/sites/default/files/resource/BA_Webinar.pdf)

<sup>47</sup> UNFCCC Standing Committee on Finance 2018 Biennial Assessment and Overview of Climate Finance Flows, Technical Report.



### 3.3. Mobilization of private sector funding

Public financing alone cannot meet the amounts required for effective climate action and the private sector has an important role to play in reaching investment levels required to create low-carbon and climate-resilient communities. The Luxembourg government aims to deploy its public funds to effectively mobilize private funds (both through financial and technical cooperation) for climate change mitigation and adaptation with the highest possible transformative impacts in developing countries. In keeping with this aim, applicants are encouraged to tap into the significant potential for investment in climate solutions by the private sector.

To measure the private sector mobilization impact, relevant applicants for ICF support are requested to indicate the expected volume of finance to be leveraged/mobilized from the private sector by the proposed project/program financing. For that purpose, applicants must include information on the *direct finance*<sup>48</sup> mobilized by the supported intervention(s), and they need to *prove causality* in the sense that the private financiers would not have invested in the activity in the absence of the funds provided by the Luxembourg government. The applicant shall also include information on *pro-rata attribution*, based on the amounts invested by each official agency, usually based on committed (rather than disbursed) amounts during the year of official investment.<sup>49</sup>

In order to report mobilized private finance, currently two commonly used methodologies exist:

<sup>48</sup> Direct mobilized finance, for example, occurs when public climate finance is used together with private finance for the same project. Indirect mobilized climate finance would be used for activities which support the regulatory environment, capacity, and strategy development or technical assistance, which may lead to the mobilization of private finance. However, establishing the causal link in such cases is complex and often difficult to demonstrate, therefore the Luxembourg ICF focuses on the direct mobilized private climate finance.

<sup>49</sup> Please refer to the OECD DAC Principles of measuring mobilization in an international statistical system. <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/principles-for-mobilisation.pdf>

- 1) The OECD Methodology on how to measure and report mobilized private investments (guarantees, loans, equity, or other finance) mobilized by official development finance interventions.<sup>50</sup>
- 2) MDB reporting which is coordinated by a Task Force of Measuring Private Investment Catalyzation for tracking the private share of climate co-finance. They have developed methodologies for estimating and tracking private finance mobilized by individual MDBs on a project-by-project basis.<sup>51</sup>

Currently, efforts are underway to harmonize the OECD and the MDB approaches at the request of various donors.<sup>52</sup> Therefore, in this interim period, applicants are encouraged to follow the OECD methodology, which defines mobilization as “the stimulation by specific financial mechanisms/interventions of additional resource flows for development.”<sup>53</sup> When ICF applications involve direct financing from multilateral development banks, which is expected to grow in the coming years, special attention has to be given to deal with the discrepancies between the MDB and OECD reporting approaches. While the Luxembourg ICF will endeavor better data collection and management for the calculation of the mobilized private finance, by sharing methodologies and discussing it early on in project application, however full coverage can probably not be ensured.

Where mobilized private finance comes in the form of carbon finance from the private sector (see section 3.1.1.3), information on the carbon transaction and its role in the financial structure shall be provided, confidentiality considerations permitting.

### 3.4. Transformation, innovation, and lasting outcomes

Activities supported by the ICF of Luxembourg need to demonstrate a transformational character. This refers to measures and activities that are motivated to change behaviors in a sustainable way. Transformational character describes the intensity and degree of change<sup>54</sup> and influence to promote low-carbon and climate-resilient development. Blended finance transactions, particularly those involving concessionality, should especially be designed to eventually ensure lasting outcomes through commercial sustainability. This includes having a clear strategy for the duration of and exit of concessional finance and making scalability an important factor in ensuring blended finance reaches its potential.

The table below lists the elements of<sup>55</sup> the transformation criterion as well as the evaluation indicators:

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<sup>50</sup> Note that very recently an updated draft version has been released in 2020. See here: <https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/DAC-Methodologies-on-Mobilisation.pdf>. Therefore, applicants must monitor any final new guidance that has been released by the OECD: <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/mobilisation.htm> and following latest developments under <http://www.oecd.org/env/researchcollaborative/>

<sup>51</sup> <http://documents.worldbank.org/curated/en/495061492543870701/pdf/114403-REVISED-June25-DocumentsPrivInvestMob-Draft-Ref-Guide-Master-June2018-v4.pdf>

<sup>52</sup> [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC\(2018\)25/REV1&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2018)25/REV1&docLanguage=En)

<sup>53</sup> <https://www.oecd-ilibrary.org/sites/5d646dd8-en/index.html?itemId=/content/component/5d646dd8-en>

<sup>54</sup> Source: Shifting Paradigms, Unpacking Transformation for Climate Action, A Guidebook for Climate Finance and Development Practitioners, 2014, Wuppertal Institute for Climate, Environment and Energy, Berlin.

<sup>55</sup> Ministère fédéral allemand pour l'environnement NAMA Facility, Potential for Transformational Change (2014); UK International Climate Funde, What criteria must a programme follow to be transformational? DFID Briefing pack of documentation. Independent Commission for Aid Impact: Review of the UK's International Climate Fund (2016).

Transformation elements	Transformation Assessment Indicators
Reproduction potential ( <i>replicability</i> )	Potential for replication of project or program activities in other sectors, institutions, regions, countries, or communities.
Distribution potential ( <i>scaling up</i> )	Scope and impact of the distribution of project or program activities without significantly increasing implementation costs. We can distinguish between distribution: <ul style="list-style-type: none"> <li>• On a large scale (number of replicates);</li> <li>• By a very rapid and significant change/transformation.</li> </ul>
Elements of <i>innovation</i>	Possibility to introduce innovative solutions, reach new market segments, apply new technologies, new approaches and business models, or processes to the fight against climate change.
Potential for action as a lever for <i>mobilizing co-financing</i> , host country financing and public funds from other donor countries, private finance	<ul style="list-style-type: none"> <li>• Amount of co-financing mobilized by the project or program as a result of international climate financing.</li> <li>• Co-financing ratio (amount of co-financing divided by international climate financing).</li> <li>• Potential to mobilize private sector co-financing in line with industry best practices.</li> <li>• Potential for mobilizing long-term funds for the type of project or program supported.</li> </ul>
Achieving a sustainable, lasting impact	Degree of sustainability of climate impacts through strong political will, local ownership, or private sector participation ensuring continuity.  Presentation of a clear exit strategy (timing, structure, and process of exit) so that promote sustainability of the impact is promoted.
Achieving systematic and collective learning	Presence of a system for monitoring and evaluating the experiences made. Existence of a plan to share experiences and implement them for other projects.

Table 4: Evaluation indicators for transformation potential.

High transformative potential is required for mitigation and REDD+ activities located in advanced developing countries.

### 3.5. Efficiency

The Luxembourg ICF must be used in the most cost-effective and efficient way possible in order to provide the greatest climate impact. Different efficiency concepts are employed, as illustrated below.

#### Economic efficiency

In general, to ensure effectiveness and success, any supported project, program or activity must have a financial structure (amount, type of funding, condition, and duration of funding) adequate to its objectives and ensuring long-term funding. Commercial projects must demonstrate that they are

economically and financially sound (profitability<sup>56</sup> against appropriate benchmarks) while respecting additionality aspects (see section 5.2.2.). Eligible for funding are all expenditures that are both necessary for the realization of the program objective and which are implemented in accordance with the principles of sound financial management and budgetary rigor. Evidence of expenditure efficiency and the economical use of funds must be provided during project preparation through a sound budget reflecting the activities proposed and implemented.

#### Efficiency in relation to investment costs

For mitigation projects (including mitigation through NbS such as REDD+), demonstration of cost effectiveness is required. The efficiency indicator for mitigation projects is the cost per tonne of CO<sub>2e</sub> reduced (investment costs/sum of CO<sub>2e</sub> reductions over the lifetime of the project or program), in relation to comparable reduction opportunities. The cost/CO<sub>2e</sub> relationships are different for the different technologies and vary from country to country. For larger projects a cost analysis in the context of the type of project and the host country should be carried out by the applicant, taking into account the different studies made in the country context, e.g., technology needs assessments and marginal abatement cost curves (MACs).

For adaptation projects, the cost-effectiveness assessment at the activity level should be done by comparing the costs of the activity with the costs of other possible interventions with the same impact for adaptation. Other cost-effectiveness indicators for adaptation can also be used, for example “economic savings in absolute and relative terms” and “human lives saved” in relation to activity costs.

#### Monitoring, reporting, auditing, verification

The activities, the expenditures, and the impacts need to be regularly monitored, reported, and audited (internally or externally). Applicants have to present a clear monitoring and reporting plan.

### 3.6. Gender equality contribution

Luxembourg is committed to ensure that its funding meets the criteria of delivering on international development goals pertaining to gender issues such as promoting gender equality and empowering girls and women. Therefore, applicants must not only themselves aim to promote gender equality within their organizations but also strongly integrate gender considerations within the project/program proposal (see above on **Safeguards and Gender**). As part of the selection process, applications will be assessed against the robustness of the gender-sensitive indicators proposed and the prospect of the measure to perform successfully.

## 4. Process

While much of the funding will be distributed through bilateral and multilateral channels and platforms or through financial intermediaries or facilities, MECSO will provide on its ICF dedicated [website](#) specifics on available funding windows and specific submission requirements, including those for non-state actors, notably non-governmental organizations (NGOs) and not-for-profit environmental organizations accredited by the Ministry of Foreign and European Affairs in

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<sup>56</sup> Economic and financial internal rate of return.

Luxembourg or approved by MECSD. MECSD may decide to issue dedicated calls for proposals in the future to serve specific funding themes.

#### 4.1. Submission

Any direct submission to MECSD must use the relevant submission template provided through its ICF dedicated [website](#) and follow its guidance. Non-compliant proposals may be rejected from consideration without further notice. Applications may be submitted in Luxembourgish, French, German, or English. Applications can be submitted on a continued basis. However specific application windows and deadlines may be published regularly on the MECSD's ICF dedicated [website](#).

#### 4.2. Evaluation

A specific evaluation process applies for applications from NGOs and not-for-profit environmental organizations accredited by the Ministry of Foreign and European Affairs in Luxembourg or approved by MECSD. The financing proposals from those organizations must not exceed 500,000 EUR in total or 100,000 EUR per year over a maximum 5-year funding period. The applicant organizations cannot have more than four current projects supported by the international climate funds of the MECSD and cannot submit more than two projects for assessment at the same time. Further requirements and information on submissions from NGOs and not-for-profit environmental organizations, including submission templates will be posted on the MECSD ICF website. All applications will be reviewed internally by a MECSD in-house or by an independent outside expert, using a short, reasoned statement, within an acceptable timeframe.

For all other funding applications, there are two evaluation tracks, the first – **Simplified Evaluation Track (SET)** – is applicable for funding amounts up to 300,000 EUR (except if applicant is a for-profit private sector entity); the second – **Enhanced Evaluation Track (EET)** – is applicable for funding amounts of 300,000 EUR and above. Applications from for-profit private sector entities will be examined under the EET regardless of the funding amount.

As part of the Simplified Evaluation Track (SET) MECSD will check the compliance with the eligibility criteria and test for a high level of correlation with the selection criteria. If the results are positive, MECSD may grant funding upon its discretion. MECSD will use a standardized template for the evaluation which, as a rule, will not include any detailed explanations. The Enhanced Evaluation Track (EET) will include a close examination against the details of the ICF Strategy and its eligibility and selection criteria and be supported, as a rule, by a reasoned statement of a MECSD in-house or independent outside expert. That EET may use a scoring approach to establish a ranking of different proposals.

Further requirements and information on submissions from applicants under the simplified or enhanced evaluation track, including submission templates, may be posted on the MECSD's ICF dedicated [website](#).

## ***Impressum***

*The Luxembourg International Climate Finance Strategy has been prepared by the Ministry of Environment, Climate and Sustainable Development in close consultations with the management committee of the climate and energy fund, with technical support from the consulting firms 4Climate Environmental Finance Consulting and Atlas Environmental Law Advisory.*

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