



Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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Japan International Cooperation Agency (JICA) Promotes Climate Change-Related Projects through Program Loans

Principle

Related Work Stream(s)

<p>PRINCIPLE 3: PROMOTE Climate Smart Objectives</p>	 <p>CLIMATE RISKS: APPROACHES, TOOLS, METHODOLOGIES</p>	 <p>MAPPING REPORTING INITIATIVES AND UNDERSTANDING IMPLEMENTATION CHALLENGES</p>	 <p>CITY-LEVEL CLIMATE SMART APPROACHES AND FINANCIAL INSTRUMENTS</p>	 <p>SPREADING A CLIMATE STRATEGY INTO A WHOLE ORGANISATION</p>
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Date Policy/Tool Established	How Established?	How Implemented	Additional Capacity Required (e.g., staff, resources, other)
2008	JICA organized a special team to develop the CCPL project in Indonesia.	It was initiated first in Indonesia and then in Vietnam under collaboration with other development partners.	• N/A

Key Lessons

- CCPL offers a framework for high-level political dialogue among the relevant authorities of partner countries and the donors.
- CCPL is effective in avoiding duplications among donor's assistance, and brings concerted supports by donors.
- Despite these advantages, CCPL has some challenges to overcome. It has not been easy to secure commitments from sectorial ministries especially at the initial stage, due to insufficient awareness of CCPL and a lack of incentives for these ministries.

Introduction

In 2008, JICA introduced the Climate Change Program Loans (CCPL), a scheme to facilitate the implementation of climate change policies through financial and technical assistance for developing countries in alignment with their national development policies and strategies. The CCPL came on the heels of the Japanese government's 2007 announcement of "Cool Earth 50," an initiative that called for action to cut global greenhouse gas emissions in half by 2050. JICA established CCPL as one tool for achieving this target. The first project of this new instrument was in Indonesia, a country that showed a strong commitment to lead climate actions by hosting COP 13 in Bali in 2007.

CCPL is based on a policy matrix of multi-year pillars identified in policy dialogues between JICA and its beneficiary country with participation of other development partners. JICA and other donor agency partners coordinate to provide developing countries with concessional loans and grants as un-earmarked budget support, and annual contributions are released for the achievement of actions and outcomes outlined in the policy matrix (See Figure 3). The developing country government then allocates this as part of their overall budget expenditure system. In addition, donors also provide technical assistance to support implementation of the policy matrix.

Development and Design

JICA developed the CCPL instrument based on its existing Development Policy Loan (DPL) instrument, which aims to motivate developing countries to carry out reforms by providing necessary funds. CCPL, however, has a distinct difference from a traditional

DPL. In a CCPL project, the realization of policy matrix is not a conditionality of disbursement of the concessional loans. Instead, JICA designed the CCPL so that it first provides the concessional loans to a developing country so that the country can carry out, with those funds, necessary measures according to the agreed policy matrix. Then, in the course of the project, JICA holds dialogues with the country as well as other donors to discuss what has been done and what has not, as well as how to overcome the challenges.

Implementation

A special team was organized inside JICA, inviting staff from different departments, to develop CCPL projects. Experts on country operations, international trends on climate change, and environment analysis worked together, especially to assist beneficiary countries to establish an effective policy matrix.

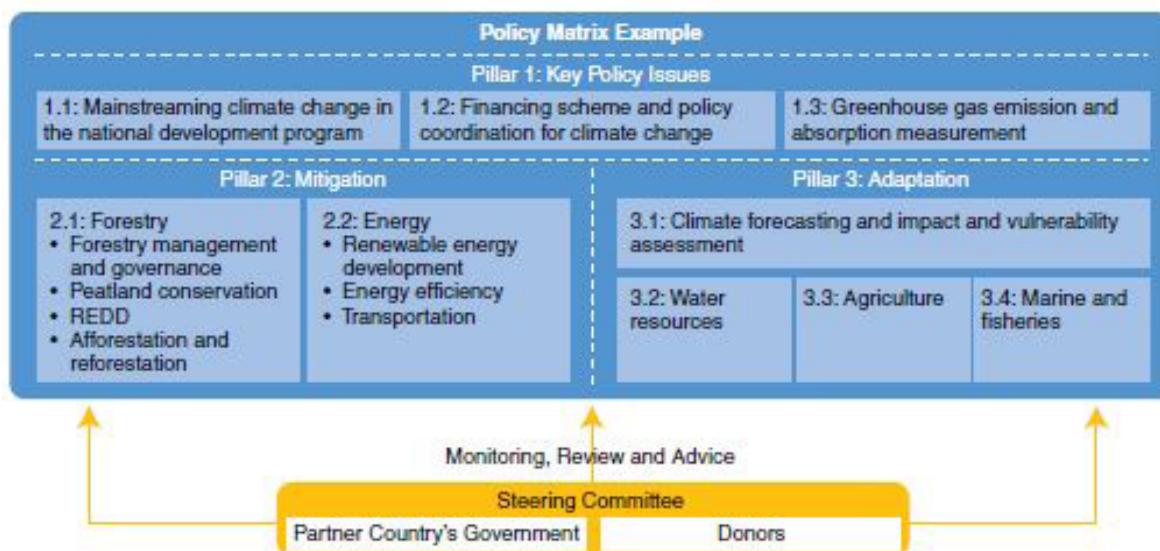
The process of developing a policy matrix, which is a basis for CCPL, took about a year in the case of Indonesia. During this process, policy dialogues were held between the Japanese (including JICA) and Indonesian parties.

Experience and Impact

CCPL has several potential advantages.¹ First, it offers a framework for high-level political dialogue among relevant authorities of partner countries and donors. This strengthens ownership and commitments for climate change measures. In addition, priorities

¹ JICA is currently conducting an internal review on the effectiveness of CCPLs.

FIGURE 1 Climate Change Program Loan Policy Matrix



and projects are well identified through dialogues among stakeholders. Second, CCPL brings concerted support by donors.² In the case of Indonesia, three donors¹⁸ jointly provided \$500 million in 2008, \$600 million in 2009, and \$800 million in 2010 (see Box 9). Third, indirect finance for climate action in the form of budget support will ensure that the budget authority is involved in allocation to climate change related actions.

Despite these advantages, there are challenges associated with CCPL. For instance, it has not been easy to secure commitments from sectorial ministries, especially at the initial stage, due to insufficient awareness of CCPL and a lack of incentives for these ministries. In the case of Support Program to Respond to Climate Change (SP-RCC) in Vietnam, there has been limited monitoring of climate change related policy actions and their integration with other existing sectorial plans and policies.

CCPL Experience in Indonesia

JICA signed its first CCPL Agreement with Indonesia in September 2008. Indonesia had established its National Action Plan for Climate Change in December 2007. Under the agreement, JICA conducted monitoring and provided advisory services to support Indonesia's efforts to successfully implement its National Action Plan. JICA and Indonesia signed two subsequent CCPL agreements in 2009 and 2010 after modifying the policy matrix to improve effective, feasible and tangible policy actions based on year-round monitoring.

Note: JICA and AFD (Agence Francaise de Développement) completed a joint evaluation on the Indonesia CCPL and published the report in June 2014; available at: <http://www.afd.fr/webdav/site/afd/shared/PUBLICATIONS/RECHERCHE/Evaluations/Evaluations-conjointes/Evaluation-conjointe-indonesia-climate-change-iccpl>

² JICA, Agence Francaise de Développement (AFD), the World Bank (*WB joined only the CCPL in 2010. The CCPLs in 2008 and 2009 were financed only by JICA and AFD.)