Fast-Start Finance

Lessons for Long-term Climate Finance under the UNFCCC

Update Paper

Introduction

In November 2011, we issued a paper¹ that analysed the mid-term performance by developed countries in meeting their pledge made at the 2009 UN summit in Copenhagen, to provide 30 billion US-Dollars over the period 2010-2012 as fast start finance to support mitigation and adaptation activities in developing countries.

The paper specifically also looked at the qualifications that were attached to the commitment such as that fast start finance would be new and additional, or that there be a balance between adaptation and mitigation. The figures in the original paper showed clearly that very little money was new and additional; that there was a heavy balance towards mitigation over adaptation; that much finance was provided as loans; and that developed countries gave preference to bilateral channels over multilateral climate funds.

That assessment was made half way through the fast start finance period, and figures presented were based on the years 2010 and 2011. With the fast start period now ending, we publish this short piece as an update, now covering all three years. While the figures have changed, the overall trends have, unfortunately, remained as they were.

Figure: Fast-start finance of $30 billion (percentages pledged and made available)

¹ UNECA 2011: Fast-Start Finance: Lessons for Long-term Climate Finance under the UNFCCC
Available at [http://www.uneca.org/acpc/publications](http://www.uneca.org/acpc/publications)
The updated figures

The figures are the result of a country-by-country assessment, using both publicly available documents (e.g. submissions to the UNFCCC) as well as additional information obtained through direct request for information etc. It is no surprise that the last four figures have a small uncertainty range, as reporting on these aspects is relatively complete. The only figure with a higher uncertainty range is the one on newness of fast start finance – most developed countries have kept information on meeting our criteria on newness very obscure.

**Newness:** We considered fast start finance to be “new” if it comes in the form of public grants or public concessional loans that a) have not been planned, pledged or announced before Copenhagen; b) constitute an increase over climate finance levels since 2009; and c) are matched by an increase in overall development finance over 2009. In many cases not all three criteria could be assessed – which essentially means the true proportion of “newness” could be lower. We assess that between 20 and 31 per cent of total fast start meets the above criteria, with our best guess being 24 per cent. If one would soften the criteria and accept private finance and Other Official Flows, then the proportion of finance that can be considered “new” would increase to about 33 per cent.

**Additionality:** We considered Finance to be additional, if it was public grants or public concessional loans provided on top of developed countries commitments to provide 0.7 per cent of their GNI as annual official development assistance. By this criterion, only 9-11 per cent of total fast start finance can be considered additional. However, if one would accept finance other than grants and concessional loans (e.g. non-concessional loans, export credit finance or private finance), then the additional finance increases to 24 per cent. Taking both together (and only considering public finance in the form of grants or concessional loans), then the proportion of fast start finance that is both new and additional is around 9-11%.

**Adaptation:** Over the years 2010-2012, certainly less than a quarter has been made available for adaptation. Our best estimate is that the proportion is actually lower, probably at around 20 per cent. This means essential investment in vital sectors such as food security have not taken place sufficiently. A balance between mitigation and adaptation has not been reached.

**Grants:** Based on country-by-country data, about 43 per cent of total fast start finance has been available in the form of grants. The majority of fast start finance, hence, has been made available in the form of (concessional) loans, capital contributions or other non-grant instruments. While concessional loans can be a viable instrument under certain circumstances (though not for adaptation), they do not reflect the true effort by a donor country, as the loans will have to be repaid.

**Multilateral funds:** Less than a quarter (23 per cent) has been channelled through multilateral climate funds, and only a proportion of that through the UNFCCC funds such as the Adaptation Fund or the Least Developed Countries Fund. The vast majority of finance was provided through bilateral channels.

**Recommendations**

The original paper, to which this short piece is an update, contained a number of recommendations following the analysis. All of these recommendations remain valid. In this

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New and additional: Any future climate finance should be truly new and additional. This means finance must come on top of already planned or existing budget lines and volumes, not re-cycle pledges from elsewhere, and in particular provide climate finance on top of resources provided to make progress to meeting developed countries’ 0.7% GNI ODA targets. To achieve this, the OECD-DAC could agree that, while climate related measures continue to qualify as ODA, they would not be counted towards the ODA target if developed countries wish to report them towards meeting their UNFCCC obligations. Inversely, the COP could decide that finance that developed countries wish to report to the OECD-DAC towards progress in meeting the 0.7% target. Such a reciprocal reporting exclusion is possible, as both bodies (COP and OECD-DAC) set rules under their own “jurisdiction” only.

Adequacy and predictability: Developed countries should commit (at COP17) to provide a detailed climate finance roadmap 2013-2020 by which they demonstrate how they intend to fulfil the 100 billion promise by 2020, i.e. a scenario showing the gradual increase of climate finance between 2013 and 2020. Such a scenario would include intermediate targets (say for 2013 and 2017), the share of public finance, and provide clarity on the mix of both direct budget contributions from developed countries as well as alternative sources of public finance (see also below).

Alternative sources: Developed countries will have to continue (and scale up!) climate finance directly from their national budgets through assessed contributions. At the same time, Parties should agree new instruments to raise public finance. Ideally, such instruments would (a) collect revenues ”internationally”, i.e. bypass developed countries’ national budgets; (b) ensure no net incidence on developing countries to be consistent with the UNFCCC principle of ”common but differentiated responsibilities and respective capabilities”; and (c) allow these revenues to be sent directly to the Green Climate Fund.

Green Climate Fund: Developed countries should prepare to make early pledges to the Green Climate Fund, to be deposited in the fund as soon as it becomes operational. These pledges, however, need to be part of the comprehensive climate finance roadmap described above, to avoid a situation whereby the GCF remains dependent on regular “pledging rounds”.

Adaptation balance: Developed countries should commit to ensure that 50 per cent of the climate finance they provide should be used for adaptation, whether it is channelled through the GCF, other UNFCCC funds, other multilateral funds or bilateral finance. Developed countries should specifically ensure that 50 per cent of their bilateral climate related assistance be allocated for adaptation. Parties should also agree that the adaptation window of the Green Climate Fund (GCF) should receive 50 per cent of funding going through the GCF.

Multilateral Climate Funds: Developed countries should commit to increasingly use the UNFCCC financial mechanism and its operating entities to channel climate finance. By 2020, 50 per cent of what developed countries report towards meeting their UNFCCC obligations should flow through the UNFCCC financial mechanism, especially the Green Climate Fund.
- **Transparency**: Parties should agree a common tabular format that developed countries use when reporting on their provision of climate finance towards progress in meeting their UNFCCC obligations. Such a common tabular format should require listings of bilaterally financed actions (i.e. not just aggregate figures per country or per sector) as well as contributions to multilateral climate funds.