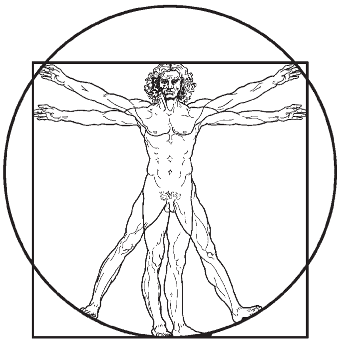

Least Developed, Most Vulnerable:

Have Climate Finance Promises Been Fulfilled for the LDCs?

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April 2013

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Low ambition in cutting greenhouse gas emissions, particularly by the world's wealthy nations, is now expected to create highly dangerous risks to the stability of the climate system.[1] In Copenhagen in 2009, the multilateral climate change regime shifted from a mandatory system of emissions reductions under the Kyoto Protocol to a mostly voluntary, and apparently inadequate, system. As part of the Copenhagen Accord, wealthy nations pledged to help developing countries transition to a lower-carbon economy and to deal with the current and future impacts of climate change. The pledges were substantial, but by no estimate adequate: US$ 30 billion of 'fast-start finance' (FSF) over three years from 2010-2012 which was to be 'new and additional,' with a 'balance' of funding between mitigation and adaptation.

This paper includes a systematic review of the reports filed to the UN Framework Convention on Climate Change (UNFCCC) in 2012 of the nations that promised to provide this US$ 30 billion in FSF over the period. Expanding upon our FSF assessments for 2010 and 2011 and our 2011 transparency scorecard,[2] we assess whether wealthy nations transparently contributed a fair-share of the US$ 30 billion pledge, while balancing adaptation and mitigation funding, sourcing funds through UNFCCC channels, and without reverting to debt-inducing loans in the place of grants.

This report focuses, in particular, on the extent to which wealthy nations are meeting their obligations to the world's 48 Least Developed Countries (LDCs). This is critical given the heightened vulnerability of this group of nations. Over the period from 1980 to 2011, LDCs have experienced 66 percent of all deaths from climate-related disasters, while only constituting 12 of the world's population.[3] Thus, people in LDCs are *five times more likely* to die from climate-related deaths than those in other parts of the world.

In this paper, we address nine key questions related to contributor performance in fulfilling promises made during the FSF period. We then summarize our findings and outline LDC finance demands for this round of UNFCCC negotiations.

QUESTION 1: HAS CLIMATE FINANCE BEEN ADEQUATE?

Current estimates suggest that climate finance of at least US$ 200 billion per year is needed by 2030, with a balance between mitigation and adaptation.[4] But this may prove conservative. The United Nations

1 For example, Climate Interactive's June 2012 Climate Scoreboard finds that current UNFCCC state proposals will lead to global average temperature increase above pre-industrial levels of 4.4 degrees Celsius by 2100. Peters *et al*. (2012) find that "…current emission trends continue to track scenarios that lead to the highest [IPCC scenarios] temperature increases. Further delay in global mitigation makes it increasingly difficult to stay below 2 °C ." [Peters *et al*. (2012). The Challenge to keep global warming below 2 degrees C. *Nature Climate Change*]. Kartha (2011) in the examination of four detailed studies of mitigation pledges under the Cancun Agreements finds that there is "broad agreement that developing country pledges amount to more mitigation than developed country pledges". [Kartha, S. (2011). *Comparison of Annex 1 and non-Annex 1 pledges under the Cancun Agreements*. Stockholm Environment Institute. http://www.ikgroeimee.be/uploads/assets/56/1308928853071-SEI-Comparison-of-pledges-Jun2011.pdf, Retreived 17 March 2013].

2 Ciplet, D. *et al*. (2010). Fast start adaptation funding: keeping promises from Copenhagen. *IIED Briefing*. IIED, London. http://pubs.iied.org/17088IIED; Ciplet, D. *et al.* (2011). Adaptation finance: How can Durban deliver on past promises? *IIED Briefing*. IIED, London. http://pubs.iied.org/17115IIED; Ciplet, D. *et al*. (2011). Scoring fast-start climate finance: leaders and laggards in transparency. *IIED Briefing*. IIED, London. http://pubs.iied.org/17100IIED

3 Calculations by the Brown University Climate and Development Lab, 2011 and 2012, based on CRED-EMDAT database.

4 Haties, E. (2011). "Climate change finance". *Climate Policy*. http://www.tandfonline.com/doi/abs/10.1080/14693062.2011.582292, Accessed 7 March 2013.

Development Program, for example, has estimated costs for adaptation alone ranging from US$ 86-109 billion a year by 2015.[5] Given this, have wealthy countries stepped up to provide adequate finance?

Wealthy countries have not provided even US$ 12 billion annually to support mitigation and adaptation measures in developing countries. Although they have committed US$ 3 billion more than the pledged US$ 30 billion during the three-year fast start period, as we discuss below, only a fraction of this climate finance is new and additional, rather than simply being diverted from other pressing development needs such as health and education.

The unmet benchmarks in climate finance are reminiscent of the collective failure of wealthy countries to fulfill previous promises in development assistance. Against pledges of 0.7 percent of Gross National Income for Official Development Assistance (ODA), a global average of less than 0.4 percent was actually fulfilled between 2005 and 2010.[6]

The paucity of climate finance contrasts sharply with defense spending. The UN Secretary General's comment is very appropriate here: "Last year, global military spending reportedly exceeded $1.7 trillion – more than $4.6 billion a day, which alone is almost twice the United Nations' budget for an entire year. This is hard to explain in a post-cold War world and amid global financial crisis. Economists would call this an `opportunity cost.' I call it human opportunities lost."[7] The paucity of climate finance also contrasts sharply with national subsidies to fossil fuels, which may have been as high as US$ 1 trillion in 2012.[8]

Although the global economic recession may have led to the tightening of national budgets, clearly old-paradigm priorities have still maintained high-levels of funding, while climate change finance has not been made a priority.

QUESTION 2: WHO IS BEING TRANSPARENT IN REPORTING FSF?

We scored ten FSF reports from contributors to the UNFCCC on 24 transparency metrics, awarding 0, 0.5 or 1 for each measure to produce an overall score. The 24 metrics fall under three broad categories: 'summary information', 'measuring and allocating funds', and 'project data'. Summary information covers basic data in the report, such as its timeliness, clarity, and whether it includes the most essential information (such as the overall amount committed and the percentage of funds directed to adaptation, among other measures). 'Measuring and allocating' metrics explore how countries define new and additional funding, and how they determined their 'fair share' contribution. 'Project data metrics' look for specific details on funded activities that are accessible, complete, and easy to use. The methodology for the 2012 transparency scorecard is almost

5 UNDP (2007). *Human Development Report 2007/08*. p. 109. http://hdr.undp.org/en/media/HDR_20072008_EN_Complete.pdf, accessed 15 March 2013.

6 OECD (2011). *Aid effectiveness 2005-2010*. The point to note here is that collective failure to fulfill a development assistance promise is not unique to climate finance. Like ODA promises, some states have met their obligations, while others have failed to do so.

7 Ki-moon, B. (2012). Time to explode the myth that nuclear weapons bring security. *The Nation*. Bangkok, Thailand. http://www.nationmultimedia.com/opinion/Time-to-explode-the-myth-that-nuclear-weapons-brin-30189402.html

8 Oil Change International (2012). "No Time to Waste: The Urgent Need for Transparency in Fossil Fuel Subsidies." http://priceofoil.org/wp-content/uploads/2012/05/1TFSFIN.pdf, accessed 15 March 2013.

identical to our 2011 scorecard.[9] The only difference is that this year, if a country did not report all project level data, that country could not score higher than 0.5 in the rest of the project level criteria.

Last year, Norway, Japan and the EU were the only contributors scoring near or over 50 percent for transparency (*see Table 1*). This year, Switzerland, Liechtenstein and Australia have supplanted them at the top. Most contributor countries scored in the low 40s. By not including any specific project level-information and failing to submit a report by the agreed deadline of May 2012, Norway fell from first to being tied for worst with New Zealand. Nevertheless, Switzerland's 67 percent – the top score – is still low.

Table 1: Summary of the 2012 Transparency Scorecard

Transparency rank	Contributor	Summary information	Baseline definition	Project level data	Overall score
1	Switzerland	75%	67%	59%	67%
2	Liechtenstein	40%	67%	59%	52%
3	Australia	80%	67%	18%	50%
4	Iceland	45%	17%	50%	44%
4	United States	75%	17%	23%	44%
6	EU	55%	33%	32%	42%
6	Japan	55%	17%	27%	42%
6	Canada	70%	50%	14%	42%
9	New Zealand	50%	33%	32%	40%
9	Norway	75%	33%	0%	40%

An earlier version of this table was originally published at http://pubs.iied.org/17141IIED with details of scoring on the 24 sub-indicators. Here, we have updated the table to include revised reports submitted by the US, EU and Norway as well as making other select revisions.

QUESTION 3: WHO HAS CONTRIBUTED THEIR FAIR SHARE?

What portion of climate finance should each contributor deliver? Are those most responsible and able to contribute fulfilling their obligations?

While the Copenhagen Accord makes no reference to individual country responsibility as it relates to the collective US$ 30 billion pledge, the text of the 1992 UNFCCC makes clear that "The implementation of these [financial] commitments shall take into account the need for adequacy and predictability in the flow of funds *and the importance of appropriate burden sharing among the developed country Parties*" (italics added).[10] Whether or not countries had offered their own rationale, we assessed a 'fair share' of the overall US$ 30 billion pledge based on an average of two scores. These include 'responsibility' for the problem of climate change and 'capability' (national income), compared across contributors (*see Table 2*).

We define the degree of contributor's responsibility as its share in total historical carbon dioxide emissions by contributors between 1960 and 2008, and its capability share as the share in the total contributor 2011 Gross Domestic Product (using the most recent World Bank data).[11] Its "fair share" is the average of the two

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9 Ciplet, D. *et al*. (2011). Scoring fast-start climate finance: leaders and laggards in transparency. *IIED Briefing*. IIED, London. http://pubs.iied.org/17100IIED

10 United Nations (1992). United Nations Framework Convention on Climate Change. Article 4.3

11 These methodologies can be seen as a simplified approximation of the Oxford Approach to operationalising common but differentiated responsibilities and respective capabilities (see http://www.oxfordclimatepolicy.org/publications/documents/DifferentiatingResponsi-

(as represented as a percentage). The fair share is applied to assess the contributor FSF performance. This is represented as a 'performance ratio': the contributor's actual committed share of the US$ 30 billion pledge is divided by its fair share. For example, the EU committed 31.4 percent of the US$ 30 billion pledge, but its fair share would be to contribute 39.4 percent. Thus, its performance ratio is .80, below par.

Over the fast-start period (2010–2012), Norway and Japan have performed the best of any contributors, contributing several times above their fair share based on responsibility and capability. New Zealand and Canada contributed nearer their fair share, while all other actors have contributed below what they should based on our criteria.

Table 2: Meeting Expectations? FSF Contributions – 2010-2012

	Fast-start finance commitment (US$ millions)‡	Performance ratio	Adaptation	Grants	Through UN funds
Norway	734	5.09	10-14%	100%	2%
Japan	13,800	4.19	9-27%	18%	7%
New Zealand	69.8	0.88	32-35%	100%	0%
Canada	1,015.60	0.84	9-12%	25%	2%
EU	9,425	0.80	29%	62%	2%
Australia	624	0.77	50%	100%	7%
Switzerland†	135.5	0.75	39%	100%	11%
Liechtenstein	2.1	0.70	67%	100%	0%
USA	7,457.80	0.63	19%	63%	2%
Iceland	1	0.15	23-47%	100%	13%
Total	33,265	1.11	18-25	45%	4%

A more detailed table for fair share figures is available at http://pubs.iied.org/17143IIED. This Table has been updated to include the most recent reports submitted to the UNFCCC by contributors including the EU, US and Norway

† *Total Swiss finance for climate change for during the fast start period was US$ 387 million; however, this includes funding that is not new and additional.*

‡ *Currency exchange rates to US$ are either as given by the country report or, where this was not provided, we used an exchange rate as of June 2012.*

QUESTION 4: WHO IS PROVIDING "BALANCED" FUNDING FOR ADAPTATION?

One of the key stipulations of the FSF concept was to strike a balance between adaptation and mitigation funding. So far, this has not been achieved, as many nations have long histories of funding energy projects and are just beginning to fund adaptation action. Some contributors see "balance" as meaning 1/3 for mitigation, 1/3 for adaptation, and 1/3 for REDD+. This is not how the word 'balance' is understood by many developing countries, which have called for 50 percent to go for adaptation.[12]

bility.pdf and http://www.oxfordclimatepolicy.org/publications/documents/TheOxfordApproachecbi.pdf)

12 For example, the Africa negotiating group in its 2009 submission to the UNFCCC said, "At least 50% [of climate finance] will be for adaptation activities in developing country Parties". http://unfccc.int/files/kyoto_protocol/application/pdf/algeriaafrican111209.pdf, Accessed 15 March 2013

In the 2010 country reports, the percentage of funds allocated for adaptation projects was in the low teens. By 2011, countries had slightly improved, with 18–25 percent allocated for adaptation projects. In this briefing we consider the share of funds that have been committed to adaptation during the entire FSF period, 2010-2012. We find that our high estimate now sits at 25 percent for the period, but that number could be as low as 18 percent – far from a balanced allocation.

Although Australia, Switzerland and Liechtenstein lead in this criterion, allocating around half of their contributions to adaptation, many more countries gave less than a third of their funds for adaptation (*see Table 2*).[13] Some estimates of the amount of funds developing countries actually need to adapt to climate change impacts range from US$ 86 billion to US$ 109 billion by 2015.[14] In comparison, our estimate is that contributors have committed less than US$ 3 billion per year for adaptation, a mere 3 percent of this need. Unless the balance tilts a lot more the other way, funding for adaptation is likely to be inadequate.

QUESTION 5: WHICH CONTRIBUTORS ARE PROVIDING GRANTS INSTEAD OF LOANS?

FSF falls into one of two categories: grants or loans. Projects funded with loans leave recipient nations with an obligation to pay back at least some of the money to the donor nation with interest. This is particularly inappropriate for adaptation because the expenditure is usually a response to a damage caused by other nations, many adaptation actions create no substantial lasting economic benefit, and increasing debt can leave countries 'double exposed' to future climate and economic shocks – thus increasing rather than reducing vulnerability.[15]

Although six of the ten contributors assessed committed grant funding alone, the overall portion of FSF that is debt-free is roughly 45 percent – about US$ 15 billion – as calculated from the country reports for the whole fast-start period. This is because it was the four largest contributors – the United States, the European Union, Japan and Canada – that did not commit to exclusively grant-based funding (*see Table 2*). Due to lack of transparency in contributor country reporting, we are unable to provide a figure for the percentage of adaptation finance that is grant-based.

In addition, and also due to transparency issues, we do not have data on the percentage of FSF loans that had a grant element. To qualify as ODA (by the Development Assistance Committee of the OECD), loans must have a grant element of at least 25 percent (called 'concessional loans'), and they must have promotion of economic development and welfare as their main objective. However, there is no system of accountability to ensure that FSF meets this standard, nor an UNFCCC requirement to do so.[16]

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13 Adaptation percentages by country and overall are presented as a range. Low estimates are based on adaptation funding listed in each country's 2011 and 2012 reports. High estimates also include a third category of projects besides adaptation and mitigation (i.e. 'multi-sector', 'capacity-building', or 'both'). For contributors that listed such a category, we applied 50% percent as an estimate for the extra portion counting as adaptation.

14 UNDP (2008). *Human Development Report 2007/08*. As cited in Agrawala, S., Fankhauser, S. (*eds*) (2008). "Economic Aspects of Adaptation to Climate Change. Costs, Benefits and Policy Instruments". OECD, Paris.

15 O'Brien, K and Leichenko, R.M. (2000). Double exposure: assessing the impacts of climate change within the context of economic globalization. *Global Environmental Change*.

16 We do know that the US, in particular, has included US$ 2.7 billion of development finance and export credit finance in its FSF report that does not meet the criteria for ODA.

QUESTION 6: ARE UN CLIMATE FUNDS BEING SUPPORTED?

The Copenhagen Accord called for new multilateral funding for adaptation to be "delivered through effective and efficient fund arrangements, with a governance structure providing for equal representation of developed and developing countries". In addition, it called for "a significant portion of such funding should flow through the Copenhagen Green Climate Fund".[17] This was in response to rising calls for climate finance to be governed more democratically, and was intended to let UNFCCC Parties better guide fund management and be sure critical needs received attention.

The Special Climate Change Fund, Adaptation Fund and Least Developed Countries Fund are now better established, and promise more transparency and voice to recipient Parties than other multilateral sources of aid. But the overall percentage of FSF channeled through these funds remains a dismal 4 percent (*Table 2*). Only Australia, Switzerland, Iceland and Japan contribute more than 6 percent of climate finance through these channels, but Switzerland's report confounds contributions to the LDCF and SCCF with other GEF climate contributions. Will the new Green Climate Fund face a similar fate of being devoid of funds?

QUESTION 7: WHOSE FUNDS ARE TRULY 'NEW AND ADDITIONAL'?

The Copenhagen promises were for US$ 30 billion 'new and additional' funds. Beneficiary nations are gravely concerned that FSF must not be money reallocated from previous promises on basic needs, such as health and education. There has been some progress on transparency in this. Four of the country reports submitted to the UNFCCC in May 2012 contain better baseline definitions for determining which funds are in fact new and additional. Six out of ten contributors have now received points for clarity.

Nevertheless, transparent definitions are not enough to confirm that funds are not diverted from other pressing development needs. We did not analyze this issue in this study, but a 2012 report by Oxfam International estimates that only 33 percent of FSF can be considered new – the rest was meeting pledges from before the Copenhagen conference – and at most only 24 percent was additional to existing aid promises.[18]

Indeed, if FSF is new and additional, overall levels of ODA should be increasing by about US$ 10 billion a year. Yet, according to the OECD, between 2008 to 2011 all ODA for all purposes from all countries (not just the fast-start contributors) rose only by about US$ 11.7 billion a year by the end of the period.[19] This includes everything – road building, health, education, agricultural aid, and so on. It is also the case that new contributors such as Russia and Korea began reporting to the OECD DAC during that period – one would expect that the inclusion of these contributors would contribute to the overall boost of funding levels. It is almost unimaginable that US$ 10 billion average per year of this new funding is being given to climate change, especially as other treaties and pledging conferences for other issues have seen similar 'new and additional' language during the same period.

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17 UNFCCC (2009). The Copenhagen Accord. http://unfccc.int/resource/docs/2009/cop15/eng/11a01.pdf, Accessed 16 November 2012.

18 Oxfam International (2012). *The climate 'fiscal cliff': an evaluation of Fast Start Finance and lessons for the future*. http://www.oxfam.org/sites/www.oxfam.org/files/oxfam-media-advisory-climate-fiscal-cliff-doha-25nov2012.pdf, Accessed 18 March 2013.

19 Query by the authors of OECD ODA Flows Data at http://stats.oecd.org/qwids.

There is an important tension here. Mainstreaming or integration of climate change into plans at the national, provincial and district levels is critical to advancing readiness and country ownership. This ensures policy coherence, and political will including acknowledgement of inflows through budgeting process. The LDCs clearly understand the rationale of mainstreaming adaptation into development strategy, but the impediment that stands in the way of its full ownership is the fact that this mainstreaming completely blurs the distinction between adaptation finance and ODA. Therefore, it is suggested that accounting on generation of sources for adaptation funding should be kept separate from ODA, while utilization of that fund in vulnerable developing countries could be integrated into the conventional ODA as additional. Without this separation at source level, the apprehension in developing countries of diverting ODA to implementation of projects of donor interests and preference will persist.

QUESTION 8: ARE THE MOST VULNERABLE BEING PRIORITISED?

Since the Bali conference in 2007, UNFCCC negotiations have called for the needs of the particularly vulnerable, including LDCs, the Africa Group and the Alliance of Small Island States (AOSIS), to be prioritized.[20] Only two of the ten contributors assessed provided data to indicate whether they had done this.

Poor information makes it very difficult to assess how contributors take vulnerability into account. But there is one indicator: the most urgent and immediate adaptation needs identified by LDCs in their National Adaptation Programmes of Action (NAPAs) require an estimated US$ 5 billion. A total of US$ 3 billion in contributions to the Least Developed Countries Fund (LDCF) is necessary to enable the implementation of NAPAs, excluding co-financing.[21] To date, only US$ 603 million has been pledged to the LDCF since it was established at in 2001 (*see Table 3*). This total represents only 4 percent of total FSF committed to developing countries.[22] US$ 2.46 billion is still needed in contributions to the LDCF in order to enable implementation of NAPA projects.

Table 3: LDCF replenishment

	Amount in million US$
Total amount needed to fund NAPAs (including co-financing from LDCs)	5,000
Total contributions to the LDCF needed to enable implementation of initial set of NAPA projects (excluding co-financing from LDCs)	3,000*
Amount pledged to LDCF	602.7*
Remaining contributions needed to enable implementation of initial NAPA projects	2,397
Amount disbursed (as of October 1st, 2012)	91.6**
Amount pending disbursement (as of October 1st, 2012)	240.9**
Remaining amount available (as of October 1st, 2012)	171.4**

* *Author personal communication with GEF manager, January 10, 2013*

** *Status Report on LDCF as of September 30, 2012 "cumulative cash transferred to projects" (http://www.thegef.org/gef/sites/thegef.org/files/documents/LDCF%20Trustee%20report-September%2030-2012.pdf)*

20 Relevant UNFCCC decisions include: CP.13 1. (i); CP.16 II (11); and CP. 16 IV (a) 95.
21 Authors' personal communication with GEF manager, 10 January 2013.
22 Some finance contributed to the LDCF took place prior to FSF period.

Table 4: Individual country contributions to the LDCF		
Country	**Contribution to LDCF (millions of US$)**	**Contribution to LDCF as a percentage of donor's overall fast start finance***
Australia	24.61	4%
Austria	0.58	Not Specified
Belgium	33.81	18%
Canada	27.36	3%
Czech Republic	0.03	Not Specified
Denmark	30.23	15%
European Commission	0	0%
Finland	24.30	18%
France	14.62	1%
Germany	153.08	10%
Hungary	1.34	Not Specified
Iceland	0.13	13%
Ireland	13.01	8%
Italy	1.00	Not Specified
Japan	0.25	0%
Luxembourg	5.70	52%
Malta	0	0%
Netherlands	48.24	12%
New Zealand	5.81	8%
Norway	25.06	3%
Portugal	0.06	0%
Romania	0.21	Not Specified
Slovenia	0	0%
Spain	1.77	0%
Sweden	58.22	6%
Switzerland	7.39	5%
United Kingdom	66.26	3%
United States	80.00	1%
Total	602.68***	2%**

* *FSF figures for individual countries in the EU taken from Ciplet, D. et al. (2011).* [23] *All other FSF figures come from 2012 reports to UNFCCC*

** *Funds channeled to LDCF overall during 2001-2012, as percentage of FSF totaling US$ 33,265 million.*

*** *The total figure was derived from author personal communication with GEF manager, January 10, 2013. Due to inconsistent reporting, the individual contributor pledges sum to $20.4 million greater than the total reported by GEF.*

QUESTION 9: WHO IS ACTUALLY DELIVERING ON PLEDGES?

Although large fast-start pledges are appreciated by recipients, what really matters to developing countries is the actual delivery of funds (or 'disbursements'). There are usually many 'claimants' along the way, including for instance international agencies and consultants that reduce the flow to a stream, and sometimes the

23 Ciplet, D. *et al*. (2011). "Adaptation finance: How can Durban deliver on past promises?" *IIED Briefing*. IIED, London. Note: some finance contributed to LDCF took place prior to FSF period.

stream to a trickle. Recipient governments and local beneficiaries are often uncertain about how the original pledge translates to how much they actually receive. One estimate indicates that on average, climate finance disbursements are less than 25 percent of the amount approved for delivery, and less than 10 percent of the totals originally pledged.[24]

Unfortunately, most of the contributors have failed to disclose how much they have disbursed thus far. In 2012, only Canada, Iceland, and Australia provided useful figures for disbursements in their reports. Switzerland also mentioned disbursements, but conflated projections of future with current disbursements. Because there is no agreed classification for the status of project funds, nor consistent reporting of 'deposited', 'approved' and 'disbursed' finance, we could not score countries on how much they have disbursed.

A report by Bloomberg New Energy Finance estimates that only US$ 11.3 billion had been delivered to different funding agencies by September 2011 as FSF.[25]

PRIORITISING LDC NEEDS

Climate finance, particularly for adaptation, has been an important issue for the LDC Group in the UNFCCC negotiations – unsurprisingly, given that this group of countries is already facing the brunt of climate impacts, but has the least capacity to deal with them. As noted above, their experiences with the LDCF have not engendered trust that the global community is taking sufficient heed of their predicament, with committed amounts to the Fund falling well below needs and promises. Even when funds have been provided, disbursement practices have hindered access.

Calls to improve the disbursement practices of the Global Environment Facility (GEF), the institution operating the LDCF, have been discussed many times by Parties to the UNFCCC, and the GEF has taken on board some of the suggestions – for instance, to reduce the time taken to process and approve projects. Although LDCs saw some progress with their project proposals in 2009 and 2010, many challenges remain. The LDCs continue to face problems in getting their project proposals accepted into the GEF project cycle in the past two years, when the process was supposed to have improved, either because of the level of detailed information that is required, burdensome co-financing requirements or other political reasons.

More fundamental changes in the disbursement process will be needed for LDCs to be able to access the US$ 3 billion they need for implementing NAPAs. The LDC Group has made several interventions and submissions related to finance over the years (*see Box: LDC demands*). Of these, three elements are particularly important when it comes to improving disbursement practices: direct access to funds; funding in phases; and greater transparency.

First, direct access to funds will enable developing countries to access funding resources directly, through a National Implementing Entity (NIE), without the intermediation of multilateral development institutions. The Adaptation Fund has demonstrated that direct access can be successful in providing a streamlined funding mechanism that enables developing countries to make their own decisions about the appropriate

24 Climate Funds Update. (2012). "Fund size and spending". www.climatefundsupdate.org/global-trends/size-spending, retrieved 18 March 2013.

25 Cuming, V. (2011). Have developed nations broken their promise on $30bn 'fast-start' finance? *Bloomberg New Energy Finance White Paper*. September 2011. www.newenergyfinance.com/WhitePapers/download/47, Retrieved 18 March 2013.

use of adaptation funds. Accredited NIEs have already been established through the Adaptation Fund in 11 countries. The LDCs have repeatedly requested direct access to adaptation funding, and have expressed concern that development priorities continue to be dictated by donor and/or multilateral institution interests, rather than national and local needs and priorities. Channeling LDCF funds through NIEs could allow for increased national autonomy over planning processes, improve timely access to funding and enable increased coordination across issue areas.

It should also be noted that in the context of the design of the Green Climate Fund (GCF), LDCs have recently introduced the notion of 'enhanced (direct) access' through '(National) Funding Entities.' These entities "*may be sub-national, national or regional legal entities or international organizations, [and are meant to] be entitled to approve programmes or projects in accordance with the relevant guidelines developed by the Board, and shall receive resources from the Fund for that purpose*."[26] Unlike in the case of implementing entities, under enhanced access, funding decisions are meant to be devolved to accredited funding entities. The two concepts proposed by the LDC Group were reflected in the paragraph on direct access of the GCF Governing Instrument, and the idea was endorsed at the last GCF Board meeting, which noted convergence on the idea that the GCF will "*[c]ommence as a fund that operates through accredited national, regional and international intermediaries and implementing entities*."[27]

Second, a phased approach to funding could ease the disbursement process and at the same time promote better implementation and a results-based process. Under this approach, each of the 48 LDCs would be allocated US $10 million to address the high-priority projects identified in the NAPAs. Countries would decide their own priorities for use of this US$ 10 million, but independent experts will be part of the process to examine and report how the funds were spent. The amount allocated to each LDC in the second phase would then depend on the evaluation and reporting for the first allocation.

Finally, despite a mandate to "ensure transparency in all steps relating to the operation of the Fund"[28] data about LDCF activities are still not readily accessible. In preparing this briefing, basic updated information about funding levels and disbursements was not available on the LDCF website. The GEF only publishes data biannually, in anticipation of Council meetings. While the LDCF staff was responsive in providing us with data upon request and answering questions, improved practices of transparency should be implemented such as were highlighted in a Joint External Evaluation of the LDCF carried out in 2009.[29] In particular, standardized reporting with project mapping and progress tracking will sharply improve project accountability and effectiveness, and tools are available to do so.

26 Submission by the LDC member of the Transitional Committee.

27 Green Climate Fund (2013). GCF Board Document GCF/B.01-13/12 (Decisions of the Board), Decision B.01-13/06, p.6; available at: http://www.gcfund.net/fileadmin/00_customer/documents/pdf/Decisions_of_the_Board_V1_15March2013.pdf

28 Global Environment Facility. (2002). *Operational Guidelines for Expedited Funding for the Preparation of National Adaptation Programs of Action by Least Developed Countries*. Available at: http://unfccc.int/files/cooperation_and_support/capacity_building/application/pdf/gefsecnapaguideeng.pdf. Accessed 15 March 2013.

29 Ministry of Foreign Affairs of Denmark and GEF Evaluation Office (2009). Joint External Evaluation: Operation of the Least Developed Countries Fund for Adaptation to Climate Change. p. 18, paragraph 31.

BOX: LDC Demands

The LDC Group has made several submissions and interventions related to climate finance in the previous year – some of these are summarized below.

- The remaining US$ 2.4 billion needed for NAPA implementation should be provided immediately to address immediate and urgent needs in LDCs.
- At least 50% of climate finance should go towards adaptation.
- The needs of LDCs, a particularly vulnerable group,[1] should be prioritised in fund allocation.
- Adaptation funding to the LDCs should be in the form of grants, not loans.
- Agreed principles of climate finance, such as additionality, adequacy, predictability and sustainability of funds, should be operationalised. LDCs are of the view that these principles can be operationalized mainly through establishing automatic sources of funding. Of the several proposals for automatic sources,[2] at least two seem to carry a consensus: a levy on air passengers without incidence to the LDCs, and a bunker fuel levy.
- In view of the diversion of a significant share of ODA to climate finance, LDCs call on donor countries to provide more than 0.20 per cent of their GNP as ODA to LDCs, as they have already committed to at the second United Nations Conference on the Least Developed Countries in September 1990.[3]
- The GEF should expedite the already agreed modalities of `direct access' to the LDCF,[4] in order to speed up the process of NAPA implementation.

1 Relevant UNFCCC decisions include: CP.13 1. (i); CP.16 II (11); and CP. 16 IV (a) 95.

2 For example: United Nations (2010). "Report of the Secretary-General's High-Level Advisory Group on Climate Change Financing". Available at http://www.un.org/wcm/webdav/site/climatechange/shared/Documents/AGF_reports/AGF%20Report.pdf. Accessed 9 April, 2013.

3 United Nations (1991). Report of the Second United Nations Conference on the Least Developed Countries. Paris, 3-14 September. New York. Paragraph 23. http://www.un.org/wcm/webdav/site/ldc/shared/Outcome_%20document_Second_UN_Conference_%20LDCs.%20pdf.pdf

4 The Global Environment Facility (2012). "Accessing Resources Under the Least Developed Countries Fund". p. 17. Available at: http://www.thegef.org/gef/sites/thegef.org/files/publication/23469_LDCF.pdf. Accessed 9 April, 2013.

SUMMARY OF FINDINGS

Wealthy countries have not met expectations during the fast start period. Reports submitted to the UNFCCC in 2012 show that only two of the ten contributors committed their 'fair share' of fast-start climate finance, assessed on their capability and their responsibility for the problem. While contributors have surpassed their commitment of US$ 30 billion during the period, less than a third of this money is 'new and additional' as promised. Only one-quarter of climate finance (or less) supports adaptation in developing countries, in spite of promises to 'balance' it with mitigation funding. Only Switzerland received a 'pass' grade in this year's transparency scorecard. Less than half of committed funds are grants. Only four percent of FSF is flowing through the UN, where they could strengthen trust between contributor and recipient nations. It is past time to meet the long-agreed principles: new and additional, predictable, and adequate climate finance.

In addition, despite the strong commitment by LDCs to respond proactively to address the most urgent climate change impacts through the NAPAs, only US$ 603 million has been pledged to the LDCF since its founding. This is less than one-fifth of what is needed for NAPA implementation, and represents only 4 percent of the total FSF committed to developing countries. Moreover, only a fraction of the funds contributed to the LDCF have been disbursed.

For the LDCs, there is a 'double tragedy': low ambition by the major economies on reducing emissions is now combined with poor performance on promises made at Copenhagen to finance poor nations' efforts to cope with climate impacts and move to a green economy. This risks driving countries into deeper economic woes without adequate resources to save populations and their hard earned economic growths of the last decade.

On the positive side, many LDCs are ready to play a greater role in ensuring awareness of climate change and demonstrating the way forward for other nations to learn the lessons they have on the frontlines of coping with climate change. They are doing their part in ensuring readiness for adaptation and mitigation action supported by international assistance, by mainstreaming climate issues in local and national development planning, in sharply improving accountability for utilization of climate funds, by taking ownership for the success of climate initiatives, and by improving arrangements of the institutions that carry out this work.

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