CLIMATE ANALYTICS

Policy Brief

Cashing-up

At the end of Fast Start Finance: What can we learn for long-term finance?

Fast Start Finance was a collective political commitment by developed countries in the 2009 Copenhagen Accord, reaffirmed in the 2010 Cancun Agreements. The intention behind the commitment was to build trust in the climate negotiation process while moving towards a new climate agreement as result of the Bali Action Plan.
In May 2013, developed countries were scheduled to submit their final reports on the delivery of their commitment to the UNFCCC secretariat[1]*. This Policy Brief provides an assessment of data reported and presents a set of lessons learned for long-term climate finance.*

Origin of "Fast Start" Finance: The idea for the delivery of an envelope of Fast Start Finance (FSF) originated in a working paper published by the European Commission ahead of the Copenhagen climate conference in 2009[2].

The paper outlined a conceptual framework for the institutional delivery of climate finance under a post-2012 climate change regime. In this framework, a special funding envelope was planned for assisting developing countries in their preparation for mitigation actions they would agree on under a new post-2012 regime and for addressing the immediate adaptation needs of the most vulnerable countries.

It was recommended that special focus should be capacity building for effective and efficient domestic institutions in developing countries. In this conceptual framing, FSF was essentially intended as a programmatic approach for a prompt start in the new climate regime.

In the final negotiations of the tumultuous Copenhagen summit the original concept behind fast start finance was lost, essentially because countries were unable to agree on a new post-2012 climate change regime. Nonetheless, the collective political commitment by developed countries to provide USD 30 billion over the period 2010-2012 – labeled as fast start finance – as part of a longer-term commitment to mobilize USD 100 billion from a variety of sources by 2020, provided an important impetus to the climate change negotiations post 2009.

Has Fast Start Finance achieved its objectives?

Framed as a broad political commitment, FSF included only a broad set of provisions for the delivery of funding, contained in the Copenhagen Accord and endorsed in the Cancun Agreement.

Next to an agreement on a collective amount, developed countries also committed to two broad objectives:

- That allocation of funding would be balanced between adaptation and mitigation, prioritizing the most vulnerable countries for adaptation funding.
- That funding should comprise of "new and additional" resources.

Since 2010, after a request by developing countries for enhancing transparency, developed countries have been requested to provide annual reports on the delivery of their fast start support, including reporting on how to access these resources. However, the level of detail they have provided varies significantly between the reports - and information has not always been consistent between different iterations of the reports.

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1 As of 5 June 2013, Australia, Iceland and Liechtenstein, New Zealand and Norway have not yet provided their final reports and therefore the following analysis is based on information previously provided by these countries.

2 European Comission (2009): Stepping up international climate finance: A blueprint for the Copenhagen Deal, 11 September 2009, 13183/09 Council of the European Union

Result Area 1: Volume of Funding

The delivery of FSF demonstrated the capacity of developed countries to scale-up and mobilize substantial amounts of public funding in a short period of time.
When simply adding up volume of funds reported by developed countries in their reports, it appears that they have fulfilled or even exceeded their collective commitment with a grant total of USD 38.9 billion over the period 2010-2012 and a total of USD 35.9 billion when looking at public funding only.

Indeed, the vast majority of this amount is constituted of public funding, but takes into account all figures reported including USD 3 billion in private funding reported by Japan. It is worth noting that the United States also reports that USD 2.7 billion of their FSF was delivered through its Export Credit Agencies.

Recommendation 1-1: Reporting Matters

The reporting of private financial flows in some FSF reports, their growing role in climate financing and the intention expressed by many developed countries to account for these flows in their post-2012 commitments, create the need to better define the various components of climate finance (origin and type of financing). This will be especially important to enable an informed assessment of whether developed countries are on track to fulfill their pledge to jointly mobilize USD 100 billion annually from a variety of sources, including public, private and innovative sources.

The common format for developed countries to report on support provided as part of their Biennial Reports marks a significant step forward but fails to include provisions on how to account for private finance. Further work on that remains a pressing need when turning to long-term finance.

Overall the reports by developed countries on the delivery on their FSF commitment marked a significantly improvement in the level of information on support provided for developing countries gradually over the three year period compared to information made available through National Communications.

For example, the reports of the European Union featured searchable excel sheets with information on FSF on a project-by-project level and other countries also adopted project-by-project reporting. While this increased the availability of data, the various definitions applied - and reporting formats used - made it difficult and, in some cases, impossible to compare the information in different reports.

Enhancing coherence in reporting will be an important challenge for long-term finance as the role of private sources, channels such as export credit agencies; loans and other financial instruments are expected to grow in the long term.

It will be important to further build on the Common Reporting Format agreed at COP 18 in Doha and to adopt common rules and definitions how to account for sources other than public sources.

Recommendation 1-2: Make use of climate policy to generate finance

Fast Start Finance also featured the implementation of sources of funding on the national level. Germany, for example, set aside a portion of its revenues from auctioning of European Trading Scheme (ETS) allowances for climate finance. These revenues are clearly new and additional and earmarked for climate financing. They also showed their limits and risks. However, this was an isolated case and developed country governments need to focus more on this aspect and make use of the negotiations for the 2015 agreement to embed climate finance in the overall climate regime.

Recommendation 1-3: Share the burden

The assessment of funding reported by developed countries shows that some countries have been providing considerably more than expected, while others lagged behind. We have calculated an “indicative fair share” for countries proportionate to the index: per capita emissions multiplied by total country GDP weighted by the Human Development Index (HDI).

Under this calculation, several stark results emerged: the EU almost exactly met its indicative fair share, Japan and Norway's contributions far exceeded theirs, while the US clearly lagged behind. Agreeing on a burden-sharing formula that is perceived as fair by all countries will give leaders confidence to go ahead with ambitious contributions for long-term finance and avoids free riding by others.

This burden-sharing approach can apply to both developed and developing countries if a principle of universal contribution is agreed upon. In such a case, SIDS and LDCs would be de facto exempted. Emerging economies would contribute significantly, but the system could be designed in a way that they still remain net beneficiaries.

Recommendation 1-4: Make Long-Term Finance Predictable

Some developed countries, such as the US, did not at the outset indicate their contribution for the entire period, instead making announcements every year or only disclosing their contribution in their reports. This is not providing certainty and predictability in the delivery of support and should be changed post-2012.

Last year's discussion on a possible intermediate target (e.g. another three year period) was not agreed upon in Doha, for reasons including the difficult global fiscal situation, but the concern over the continuity of climate finance remains for developing countries. An intermediate target would ensure predictability and avoid a financial gap post-2012.

Announcements made by individual countries in Doha amount to USD 10.4 billion so far and cover different periods of time, i.e. it is not guaranteed that current FSF levels will even be maintained, let alone allow for scaling-up of support.

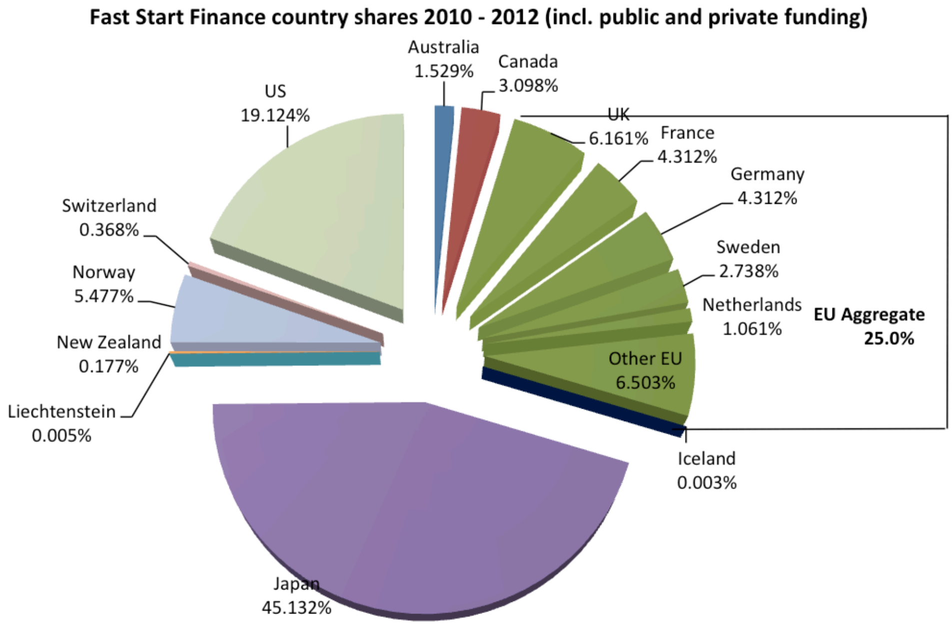


Figure 1: Fast Start Finance shares by country. In total a volume of USD 38.99 billion has been reported by developed countries as of 2 June 2013, as pledged, allocated and implemented Fast-Start Finance. This includes USD 35.9 billion in public finance and USD 3 billion in private finance (Japan).

Result Area 2: Balance between mitigation and adaptation

Although FSF generated an increase in climate financial flows, our assessment of information provided in FSF reports shows a mere continuation of the historical trends, in particular the imbalance in the distribution of climate finance between thematic areas. Over the three-year period, in up to 71% of all FSF reported (if including REDD+) funding was primarily allocated towards mitigation programmes and projects (see figure 2 below).

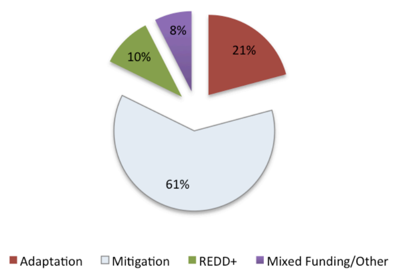


Figure 2. As of 02 June 2013 information on allocations or projected allocations across thematic areas is available for USD 31.4 billion. A number of countries use their own categories outside the traditional adaptation/mitigation/REDD+ categories (e.g. funding serving both adaptation and mitigation purposes). These allocations are summarized under "mixed funding". The US, in particular, uses the following categories: "Adaptation", "Clean Energy" and "Sustainable Landscapes". Switzerland uses "Adaptation", "Forest" and "Energy". For comparability purposes, these allocations have been included in the respective traditional categories (Adaptation, Mitigation, REDD+).

While the terminology *balanced allocation* does not imply a numerical equal distribution across thematic areas, developing countries have been looking for FSF to scale-up adaptation finance as they are now experiencing significant economic and human costs from the adverse impacts of climate change.

Our analysis of the distribution of funding in iterative versions of the reports in 2010, 2011 and 2012 shows that allocations for adaptation funding remained on the same level for all three years of the FSF period, with only a 21% share of the total FSF (see figure 3).

Some balancing between adaptation and mitigation happened at individual country level over the period. However, at the aggregate level, FSF represents merely a continuation of previous trends and no major re-adjustment of the overall distribution can be seen over the period

Recommendation 2-1: Define approaches and strategies to also appropriately, jointly and individually scale-up adaptation funding

While the provision of support and incentives for mitigation actions will continue to be of high importance for long-term finance, developed countries will need to find approaches and strategies to also appropriately jointly and individually scale-up adaptation funding. They will need to prioritize public funding for adaptation to assist developing countries, in particular the most vulnerable, to meet their most urgent adaptation needs but also for those slow onsets that will occur even if the international community achieves limiting global mean temperature increase of 1.5°C or 2°C.

Given that the private sector is expected to continue to largely focus on mitigation investment, it will be even more important for developed countries to advance strategies to scale-up public finance for adaptation.

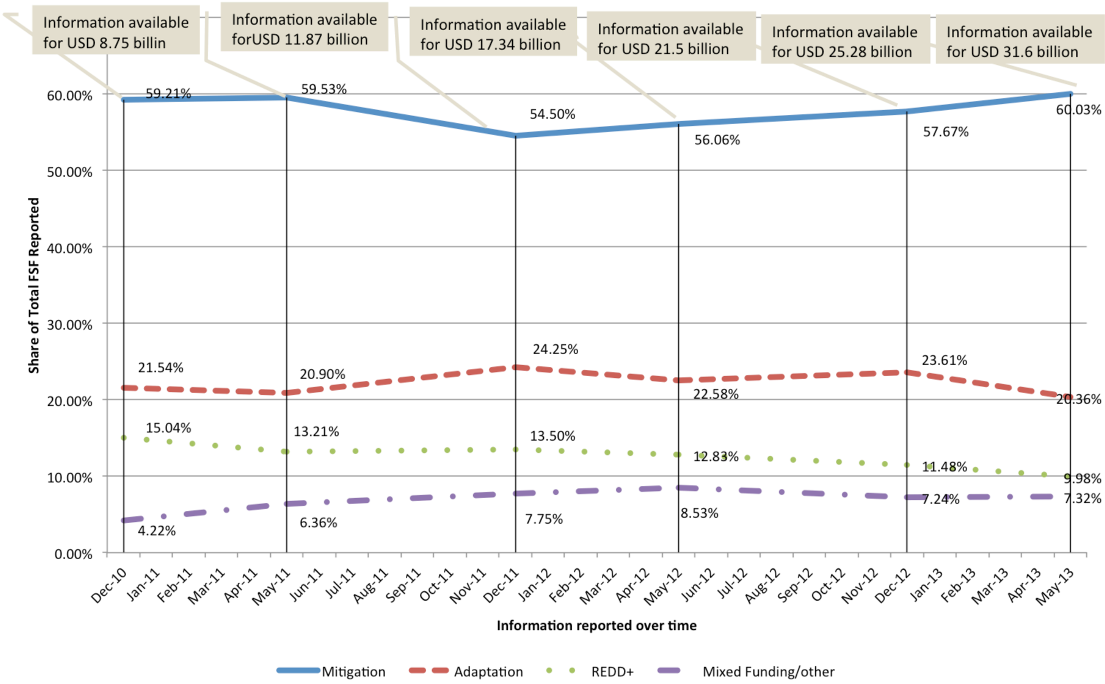


Figure 3. Evolution of FSF distribution between thematic areas over 2010-2012. The figure summarizes the information as provided by Parties in update reports in December 2010, May 2011, December 2011, May 2012, December 2012 and May 2013. Information on allocation across thematic areas is provided for USD 31.6 billion out of the total amount reported.

Result Area 3: Prioritization of vulnerable countries

Part of the developed countries' commitment was to prioritize most vulnerable countries for adaptation funding when allocating their FSF. Most FSF reports provide few details on the amounts that have been allocated to SIDS and LDCs. Only Japan, Australia and New Zealand provided statistics showing the aggregate share of funding directed to LDCs, SIDS and African countries. For some countries, we were able to reconstruct this information from their funded projects lists but the level of information provided did not allow drawing an overall aggregate picture of FSF funds flowing to most vulnerable countries. Especially, little funding has been allocated to delivery channels such as the Adaptation Fund which pilot direct access modalities that can improve country ownership and effectiveness of climate finance. Overall we traced allocations of USD 138 million to the Adaptation Fund, which is just 0.35% of the funding reported as FSF.

Recommendation 3-1: Invest in Readiness to ensure country ownership and ambition, increase the efficiency of climate finance and ensure better access for the most vulnerable

The most vulnerable countries, such as SIDS and LDCs, are the most severely capacity-constrained. Many of them largely missed out on FSF because they were not ready. It must be ensured that they will be in a better position to benefit from the post-2012 scaled-up climate finance, especially for adaptation.

Providing the Means of Implementation for staying below 2°C

Readiness is key to ensuring access but also the efficiency of climate finance. Strengthen capacity can ensure country ownership in the whole implementation cycle – from the formulation and design of projects and programmes to the efficient use and implementation of funds. Climate finance should be at a scale and be delivered through modalities that aim at maximizing its transformational impact.

This means a massive effort is needed to get developing countries ready for climate finance, through the development and strengthening of their capacities to develop and implement ambitious actions and to monitor wise spending and results. Strengthened institutions will also allow for reporting by recipients on the results of funding received, get international recognition and therefore building confidence in the negotiations.

Conclusions

UNFCCC Executive Secretary Christiana Figueres predicted in 2010 that “the delivery and allocation of the promised short-term funding of USD 30 billion up to 2012 is the golden key to an outcome in Cancun.” She went on to say: “Developing countries see the transparent, real and balanced allocation of this money as a critical signal that industrialized countries are really committed to progress.” Three years later these words are still highly relevant.

The same can be said for what assurances and commitments developed country governments provide for the post-2012 period, not only for long-term finance, but also in relation to enhancing ambition under work stream 2 of the ADP. This will be the golden key in facilitating the negotiation process towards a new agreement.

The nature of the Fast Start Finance commitment, resulted in a variety of scattered, voluntary and aid-like projects. For Long Term Finance a more programmatic approach should be adopted where finance is delivered under agreed global goals and objectives, while aligning with the recipient’s priorities.

This approach should focus Long Term Finance on delivering funding to keep global warming below 1.5°C or 2°C - the “paradigm shift” for developing countries that’s at the heart of the Green Climate Fund’s Governing Instrument.

Such an approach must also catalyze private investments for mitigation action. Public finance should however be prioritized for adaptation, to ensure the most vulnerable developing countries such as Small Island Developing States and Least Developed Countries can adapt to climate change and build resilience to current – and future - climate impacts.

To achieve effective and efficient delivery of financial commitments they should include clear milestones that progress can be measured against. A key theme for a potential mid-term commitment could be to strengthen and resource the Cancun institutions, especially the Green Climate Fund. This should include building the necessary capacity in countries to be ready to start implementing the commitments envisaged under the 2015 agreement as soon as possible.

Furthermore future financial commitments should be embedded in the overall climate change regime to be more effective and efficient in their delivery modalities, prioritizing the most vulnerable and being tied to country-owned priorities and objectives and being linked to the goals of the climate regime.

Governments must use the opportunity of the negotiations on the 2015 agreement to adopt a legally binding instrument that provides the required mitigation ambition and architecture as well as a carbon pricing mechanisms for generating large streams of climate finance.

A legally binding agreement will also provide the required strong policy signal for the private sector to shift its investments towards low emission investments and emission technologies.

Appendix 1 – FSF Overview Tables

The following two tables provide an analysis for FSF allocations for individual countries against a list of criteria. All information shown has been collected and/or reconstructed from developed countries FSF reports submitted to the UNFCCC secretariat in May 2011, May 2012 and May 2013. Please note the following explanations:

Volume: All numbers are United States Dollars. Where a country reported in its national currency the figure was converted to USD using average exchange rates for the years 2010-2012 based on statistics of the International Monetary Fund (IMF). The sums are taken at face value as provided in countries FSF reports and no distinction is made between types of funding. Japan for example provided USD 3 billion in private funding.

Share: The share is calculated by setting individual commitments of countries in proportion to the overall sum reported by all countries.

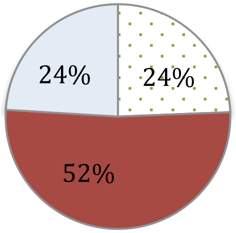
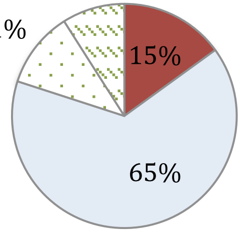
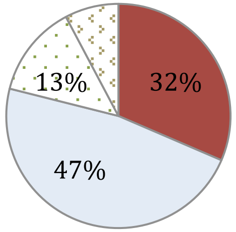
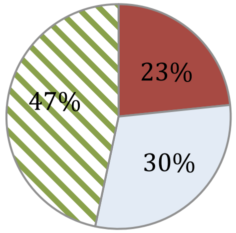
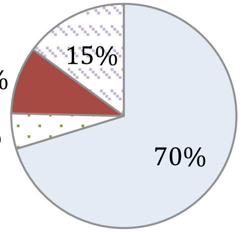
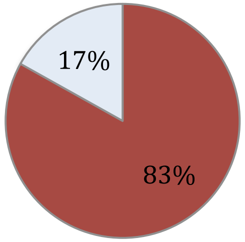
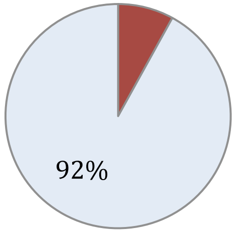
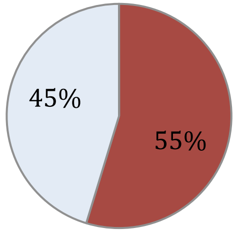
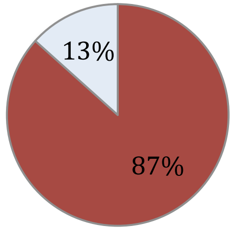
Indicative Fair Share: The indicative fair share is calculated proportionate to the following formula: per capita emissions multiplied by total country GDP weighted by the Human Development Index (HDI). This is intended to provide an indication of how commitments can be shared. Other burden sharing approaches are possible.

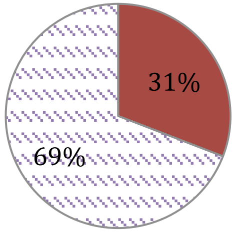
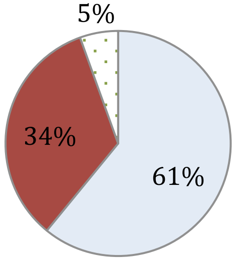
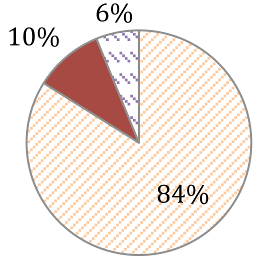
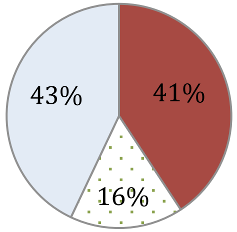
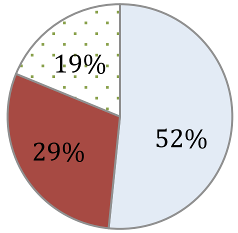
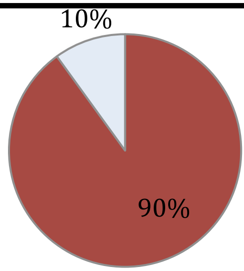
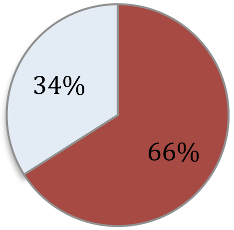
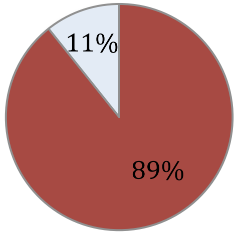
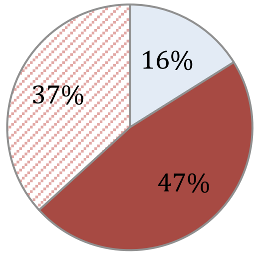
Balance The allocation shares are based on the number provided in individual countries FSF reports. Some countries did not provide information on allocation for all thematic areas. In total only information for allocations of USD 31.6 billion is available. The allocation shares displayed for Japan for example do not include the funding provided in form of private finance. For Norway the allocation across thematic areas is only provided for bilateral funding. The US figure does not include funding provided through export credit agencies.

Channel: Information provided is based on the numbers provided in countries FSF reports. In some cases information was reconstructed from funded project lists annexed to the reports.

Type: Information provided is based on the numbers provided in countries FSF reports. In some cases information was reconstructed.

Prioritization: Information provided is based on the numbers provided in countries FSF reports. In some cases information was reconstructed from funded project lists annexed to the reports.

	Australia	Canada	EU	Iceland	Japan
Total Reported 2010-2012	**USD 595 million**	**USD 1.21 billion**	**USD 9.8 billion**	**USD 1 million**	**USD 17.6 billion**
Share	**1.5%**	**3.1%**	**25.0%**	**0.003%**	**45.1%**
Indicative Fair Share	**3.3%**	**4.6%**	**26.7%**	**0.026%**	**9.3%**
Balance Mitigation Adaptation **REDD+** **Mixed Funding** **Not allocated** **Capacity Building**					
Channel Multilateral Bilateral					**No aggregate information available**
Type	**All Grants**	**Grants: 25%** **Loans 75%**	**Grants: 58%** **Loans 36%** **Not allocated: 6%**	**All Grants**	**Grants: 20%** **Loans: 80%**
Prioritization	**1/3 SIDS** **¼ LDCs**	**No aggregate information available**	**No aggregate information available**	**91% in SIDS and LDCs**	**SIDS: 0.87%** **LDCs: 6.87** **Africa: 11.74%**

	Liechtenstein	New Zealand	Norway	Switzerland	United States
Reported 2010-2012	**USD 1.96 million**	**USD 70 million**	**USD 2.1 billion**	**USD 143 million**	**USD 7.5 billion**
Share	**0.005%**	**0.177%**	**5.5%**	**0.37%**	**19%**
Indicative Fair Share	**Data Lacking**	**0.18%**	**0.76%**	**0.5%**	**54%**
Balance Mitigation Adaptation **Mitigation incl. REDD+** **REDD+** **Mixed Funding**					
Channel Multilateral Bilateral **Export Credit Agencies**	**All Bilateral**				
Type	**All Grants**	**All Grants**	**All Grants**	**All Grants**	**Grants: 63%** **Loans, Guarantees, Insurance: 37%**
Prioritization	**18% LDCs**	**Around 54% to SIDS**	**No aggregate information available**	**No aggregate information available**	**No aggregate information available**