CLIMATE ANALYTICS NYU LAW New York University School of Law

Policy Brief

MATH and AFTERMATH of FAST START FINANCE

KEY RECOMMENDATIONS FOR WARSAW FINANCE OUTCOME BUILDING ON LESSONS LEARNED FROM FAST START FINANCE:

1) International climate finance is an essential means to help achieve the long term global temperature limits set by the international community to hold global mean temperature increase below 1.5°C or 2°C. For this reason, Long Term Finance should follow a programmatic and transformative approach for adaptation and mitigation, with a strategic focus on these goals.

2) Achieving a paradigm shift towards low emission and climate resilient development pathways requires at scale shifts of investment away from fossil fuel and other high-emission technologies. Mobilising the private sector is key for this task. Nonetheless, scaled-up public climate finance will continue to play a central role in climate finance and will be required to achieve both leveraged private investment for realising emission reductions needed to keep warming below 1.5°C and 2°C as well as to assist the most vulnerable developing countries to adapt to the effects of climate change.

3) Developing countries, in particular those most vulnerable to the effects of climate change, are already experiencing severe impacts. Scaled-up resources are urgently needed to enable these countries to adapt to the adverse effects of climate change and build resilience of their economies and societies.

4) The AGF and other organisations have identified a number of mechanisms and sources for scaling up climate finance. The UNFCCC Work programme on Long Term Finance studied these sources in 2012 as well as how to enhance enabling environments. Those issues are now widely understood. Some options can be implemented in the short-term but ultimately depend on the overall ambition in reducing carbon emissions. The new multilateral climate agreement currently being negotiated under the ADP process - if well designed - has the ability to generate significant amounts of new funding streams through carbon pricing mechanisms.

5) Key to both building trust and boosting ambition are continued transparency and standardised methodologies of reporting. This should be through annual, informed assessments of progress towards fulfilling developed countries' commitments to mobilise USD 100 billion by 2020. To facilitate the reporting of financial flows, the Standing Committee on Finance could be tasked to advance work on definitions and methodologies in 2014, especially by identifying methodologies how to better track private sector finance.

Introduction

This Policy Brief provides an updated analysis[1] on the delivery of Fast Start Finance with the new information contained in developed countries' successive and final reports.

We also present a set of lessons learned for long-term climate finance and recommendations for taking the finance discussion forward in Warsaw and, with it, other areas of the climate negotiations.

Doing the math on fast-start finance has been a challenging task. Information submitted to the UNFCCC by developed country Parties does not follow a common reporting format. We reviewed reports that were quite diverse in their level of detail and that used different metrics and categories for reporting.

The analysis presented here is based on a dataset that aggregates the information provided in the reports of 10 developed country Parties (Australia, Canada, EU, Iceland, Japan, Liechtenstein, New Zealand, Norway, Switzerland, US) to the UNFCCC.[2]

There are significant differences in what countries report as Fast-Start Finance. While most countries only reported grants and concessional loans, Japan and the US counted funding provided through export credit agencies as well as guarantees and non-concessional loans. Japan also reported on private finance mobilised through the *Japan Bank for International Cooperation* and *Nippon Export and Investment Insurance* during the fast-start finance period.

The diversity of funding types, and reliance on self-reported information, limits our ability to compare different countries' efforts and make definitive statements whether countries have individually and collectively fulfilled their pledges. The broad nature of the commitment, and limited global coordination in its delivery, means it is not yet possible to evaluate the climate efficiency and effectiveness of the Fast-Start Finance experience. An aggregated view on Fast-Start Finance can nonetheless provide important insights for mobilising and delivering long-term finance.

Background

Fast Start Finance was a collective political commitment made by developed countries in the 2009 Copenhagen Accord and reaffirmed in the 2010 Cancun Agreements *"to provide new and additional resources, including forestry and investments through international institutions, approaching USD 30 billion for the period 2010-2012, with a balanced allocation between adaptation and mitigation; funding for adaptation will be prioritized for the most vulnerable developing countries, such as the least developed countries, small island developing States and Africa."*[3]

The Fast Start Finance (FSF) commitment was meant to build trust in the climate negotiation process while moving towards a new climate agreement.

Framed as a broad political commitment, FSF included only a set of broad provisions for the delivery of funding,

[1] Climate Analytics (2013) "Cashing-up: At the end of Fast Start Finance: What can we learn for long-term finance?" Felix Fallasch, Laetitia De Marez, Climate Analytics Policy Brief, June 2013.

[2] Reports are available at http://unfccc.int/documentation/submissions_from_parties/items/5916.php

Japan also provided an update on its submission on pathways for long-term finance

[3] Decision 1/CP.16, paragraph 95

contained in the Copenhagen Accord and then endorsed in the Cancun Agreement.

Along with promising to provide a collective total of around USD30bn for 2010-2012, developed countries also initially committed to:

- Provide “new and additional” resources for FSF
- Balance their funding between adaptation and mitigation,
- Prioritise the most vulnerable countries for adaptation funding.

Since 2010, after a request by developing countries for increasing transparency, developed countries have also been requested to provide annual reports on ways to access FSF.

Result Area 1: Was the USD 30bn pledge met?

In light of the commitment to provide new and additional resources, it is worth looking at the experience so far. There has been an on-going debate around the “new and additional” character of resources provided for FSF. Were the funds already committed before 2009? Are they just diverted from regular ODA? Do they represent an increase in a country’s climate finance support? The lack of an agreed definition on this notion, prevent making a definitive judgment on the delivery of the USD30bn in light of the commitment to provide new and additional resources.

If one was to simply add up the volume of funds reported by developed countries, the impression given is that they have not only fulfilled – but even exceeded - their collective commitment, with a grand total of USD 36.2 billion in public funding and a reported USD 3.4 billion in mobilised private finance (Japan).

It is likely that the bar of USD 30 billion has been reached, even without including non-traditional sources like the private funding share in the Japanese pledge and USD 2.7 billion reported by the US channelled through its export credit agencies.

But the central lesson learned from the delivery of FSF is that it does demonstrate the capacity of developed countries to scale-up and mobilise substantial amounts of public funding in a short period of time, even in times of serious budgetary constrains.

TRANSPARENCY: Reporting needs to be further enhanced, including on private financial flows.

Both the level of detail provided and the methodologies used by developed countries vary significantly between the reports. The information has also not always been consistent between different iterations of the reports. While the level of transparency has gradually improved over the different reporting periods, several grey areas remained. In particular, there was a lack of information around the new and additional character of the funds provided and the prioritisation of their allocation for the most vulnerable.

The terminology *new and additional* is enshrined in Article 4.3 of the Convention, with the original intent to ensure that no ODA funds would be diverted into climate finance. It has since been used in a number of COP decisions but has never been formally defined in the UNFCCC context. Developed countries have therefore applied various *ad hoc* definitions in defining their FSF pledge and reported accordingly.

The reporting of private financial flows was not central in some FSF reports, since the USD30bn was understood as being mostly, if not exclusively, from public sources.

However, the growing and necessary role of private climate finance, 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 private sector components of climate finance, including private flows leveraged by public funds. This will be especially important to enable an informed assessment of whether developed countries are on track to fulfil their pledge to jointly mobilise USD 100 billion annually from a variety of sources, including public, private and innovative sources.

Overall, the reports by developed countries on the delivery of their FSF commitment significantly improved. Over the three years, there was an increased level of information about what support was given for developing countries - compared to the scattered 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. Other countries also adopted project-by-project reporting. However, 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.

The tables for developed countries to report on support provided as part of their Biennial Reports adopted in Doha, mark a significant step forward. However, they fail to include provisions on how to account for private finance.

It will be important to 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 in 2014.

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

PREDICTABILITY: Provide clarity on support for ambition

Despite its shortcomings and questions raised in its delivery, the FSF period provided some clarity to developing countries on the level of support to be expected over the three-year period, on the way towards the USD100bn.

Some developed countries, such as the US, never quantified what their FSF contribution for the three-year period would be. Instead, they disclosed their contribution *ex post* in their reports to the UNFCCC. This is not sufficient for providing certainty and predictability in the delivery of support and should be changed post-2012.

Three ways of providing predictability of climate finance should be considered: 1) setting a new intermediate financial target before 2020; 2) defining burden sharing between contributors and 3) implementing new sources of climate finance.

1) A second financial commitment period

The discussion of a possible intermediate financial target (USD60bn per year by 2015, proposed by the G77), often mistaken with a “second FSF period”, culminated at COP18 in Doha. However this did not find consensus in Doha. An intermediate target has the advantage that it would ensure predictability, provides a milestone against which progress towards the USD100bn could be assessed and would respond to concerns about a potential financial gap post-2012.

Instead of committing to a joint target individual countries in Doha made voluntary pledges of USD 10.4 billion. These pledges cover different periods of time (one, two or three years), i.e. it is not guaranteed that FSF levels will be maintained in 2013, let alone any scaling-up of support. Expectations are high for more ambitious and longer-term announcements by developed countries in Warsaw.

2) Defining a formula for sharing the burden amongst contributors

The assessment of funding reported by developed countries shows that some countries have been providing more than expected, while others lagged behind. We calculated an "indicative fair share" of the USD30bn for developed countries according to a formula that includes: per capita emissions multiplied by total country GDP weighted by the Human Development Index (HDI).

While most developed countries met or exceeded their indicative fair share, the US clearly lagged behind. A definitive burden-sharing formula that is perceived as fair by all developed countries would give political leaders confidence to go ahead with ambitious contributions for long-term finance and avoid free-riding by others.

The idea of a burden sharing formula is likely to re-emerge in the discussion on long-term finance pre-2020 and post-2020, including in the context of the initial capitalisation and subsequent replenishment of the GCF.

There are several possible approaches to burden sharing. Some proposals include universal contributions to climate finance by all Parties and in particular emerging economies, with the assumption that the system will be designed in such a way that developing countries remain net beneficiaries of international support.

3) Make use of climate policies to generate new resources

Fast Start Finance also featured the implementation of alternative 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 such as carbon price volatility as a consequence of the low overall level of mitigation ambition. 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.

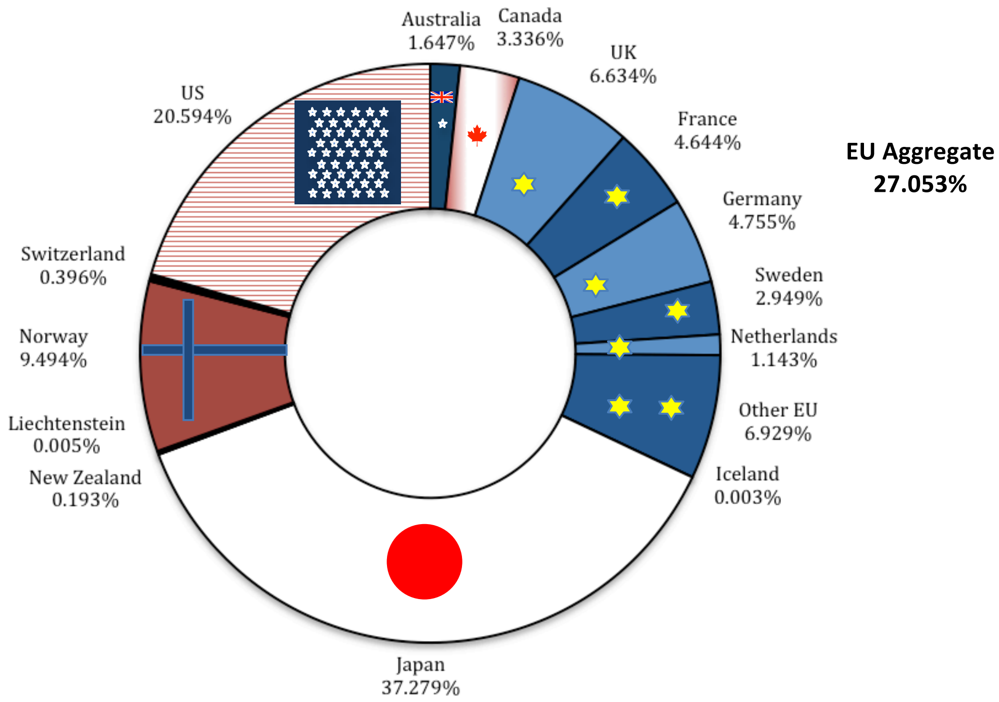


Figure 1. Fast Start Finance shares by country. This graph shows shares in public finance. In total a volume of USD 36.2 billion in public *finance* has been reported by developed countries as pledged, allocated and implemented. Japan additionally reported USD 3.4 billion in *private finance*. Data as of 3 November 2013.

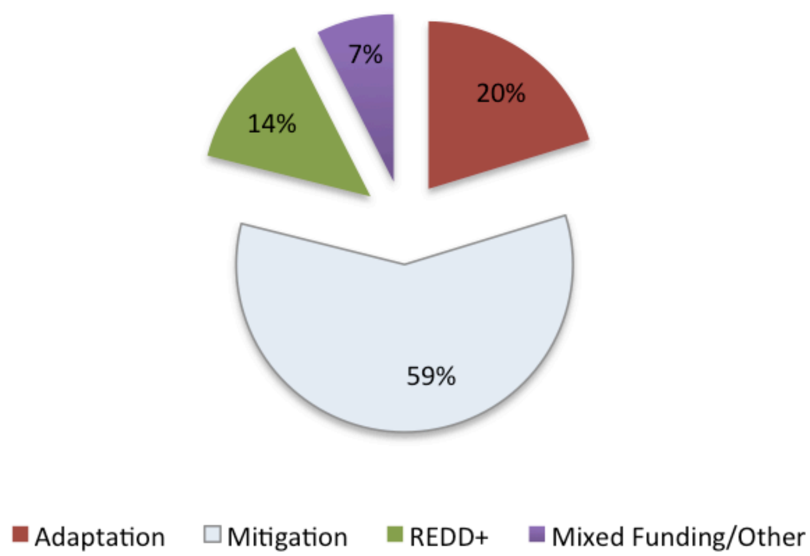


Figure 2. As of 03 November 2013 information on allocations or projected allocations across thematic areas is available for USD 32.2 billion. A number of countries use their own categories outside the traditional adaptation/mitigation/REDD+ categories (e.g. funding serving both adaptation and mitigation 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+).

Result Area 2: Was FSF balanced between mitigation and adaptation?

Developed countries committed to balance the resources they provided between adaptation and mitigation. Historically, the level of international climate finance greatly exceeds available resources for adaptation.

Although FSF generated an increase in climate financial flows, our assessment of information provided in FSF reports shows a continuation of the historical trend in the distribution of resources between adaptation and mitigation. Over the three-year period, in up to 73% of all FSF reported (if including REDD+, 59% excluding REDD+) funding was primarily allocated towards mitigation programmes and projects (see figure 2 below).

While the terminology *balanced allocation* does not imply a numerically equal distribution between adaptation and mitigation, developing countries — confronted with the costs of the impacts of climate change — have been looking for FSF to scale-up adaptation finance.

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 at the same level for all three years of the FSF period, with a 20% average share of the total FSF (see figure 3).

Some balancing between adaptation and mitigation happened at individual country level. However, at the aggregate level, FSF represents merely a continuation of previous trends and there has been no major re-adjustment of the overall distribution.

In terms of judging an appropriate balance between adaptation and mitigation, there are very few studies in the scientific literature dealing with this issue. This points to a need for further research and evaluation to inform policy judgments. Recent reports such as the UNEP Africa Adaptation Gap report have for example shown that strong mitigation actions undertaken by Parties at the UNFCCC contributing to keeping global mean temperature increase below 2°C are projected to have large positive effects in terms of minimizing the costs for adaptation in Africa.[4]

SCALING UP ADAPTATION SUPPORT

While support for mitigation actions, including leveraging the private sector, will be of high importance for long-term finance, developed countries should find approaches and strategies to scale-up and prioritise adaptation funding to assist, in particular, the most vulnerable, to meet their most urgent adaptation needs.

There are opportunities for synergies between adaptation and mitigation activities, which can build climate resilience to both cope with projected changes - and reduce emissions of greenhouse gases and other pollutants that could enhance warming in the future.

Given that the private sector is expected to continue to largely focus on mitigation investments, it will be even more important for developed countries to advance strategies to scale-up public finance for adaptation. Further research and piloting initiatives will be needed to explore opportunities of private sector engagement in adaptation activities, especially through incentivising developing country private sector actors to climate-proof their investment decisions.

4 UNEP (2013) Africa Adaptation Gap Technical Report :Climate-change impacts, adaptation challenges and costs for Africa

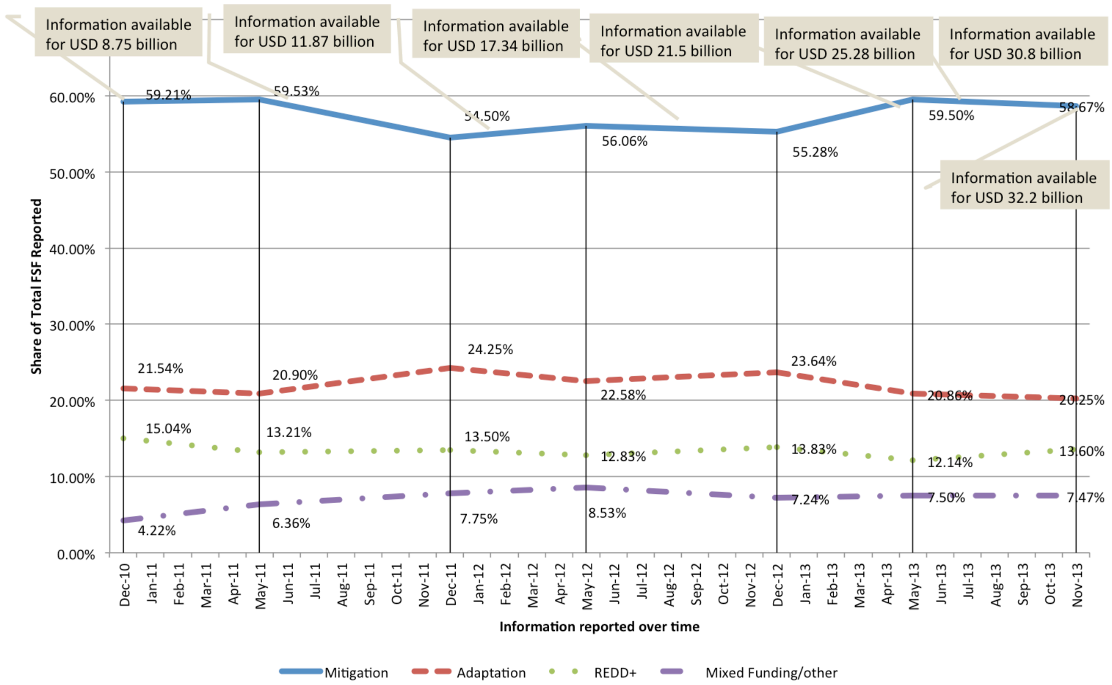


Figure 3. Evolution of FSF distribution between thematic areas over 2010-2012. The figure summarizes the information as provided by Parties in update reports in December 2010, May 2011, December 2011, May 2012, December 2012 and May 2013.

Result Area 3: Were the most vulnerable countries effectively prioritised?

Part of the developed countries' commitment was to prioritise most vulnerable countries for adaptation funding when allocating their FSF. Most of the FSF reports provide insufficient details on the amounts that have been allocated to SIDS, LDCs and Africa, with the exception of Japan, Australia and New Zealand who all provided specific statistics reporting the aggregate share of funding to these countries.

For some other 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.

It is worth noting that little funding has been allocated to delivery channels such as the Adaptation Fund. The Fund implements concrete adaptation projects and 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. Again, no major change in the use of channels for FSF can be noted from previous trends.

READINESS SUPPORT TO IMPROVE ACCESS AND EFFECTIVENESS

SIDS and LDC's are the most severely capacity-constrained vulnerable countries. Many of them largely missed out on FSF because they were not ready to submit high quality projects and programmes. 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.

Readiness is key to ensuring access but also the efficiency and effectiveness of climate finance. Strengthening capacity can ensure country ownership in the whole funding cycle—from the formulation and design of projects and programmes to the efficient use and implementation of funds on the ground and monitoring of results achieved. Climate finance should be at a scale and be delivered through modalities and channel that aim at maximising its transformational impact.

Conclusions

The context, nature and timing of the Fast Start Finance commitment confirmed that while historical trends were mostly unchanged, signs of a potential evolution towards more effective, at scale and fair climate financing can be foreseen.

For Long Term Finance, a more programmatic and collaborative approach should be adopted where finance is delivered under agreed global goals and objectives, while aligning with the recipients' needs, priorities and circumstances.

At the opening of the Warsaw Climate Conference, one year after the end of the Fast Start Finance period, we are in a different place than in 2009 when FSF was decided.

First, it has become clear that climate finance from various sources, but public sources in particular, is an essential element for meeting the collective goal of staying below 1.5°C or 2°C. Finance is crucial to define and sustain ambition as well as to facilitate commitments. It represents the core of means of implementation that are needed for the implementation of the 2015 agreement.

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.

Second, the soon to be operationalised Green Climate Fund is designed to provide comfort to donors that effectiveness and transformational impact are guiding the Fund's operations. As such, access, readiness and preparatory support are treated as a strategic priority for the Fund. The GCF is also the first fund that has an explicit mandate to seek balance between adaptation and mitigation, which positions it well to be the main channel for scaled-up climate finance post-2012.

Third, this renewed approach to climate finance must recognise the necessity to catalyse private investments especially for mitigation action. Public finance should nevertheless be scaled-up and be prioritised for adaptation, in order to address the immediate needs of the most vulnerable developing countries. Where public finance is used to leverage private investment in the context of recipients' countries own priorities.

To achieve effective and efficient delivery of financial commitments, they should include clear milestones that progress can be transparently and indisputably measured against. Intermediate financial targets and implementation of new sources on the road to the USD100bn as well as clear definitions of climate finance and of accounting modalities for contribution from private sources should be priorities for 2014.

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 only reflects public finance.

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

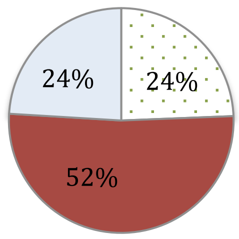
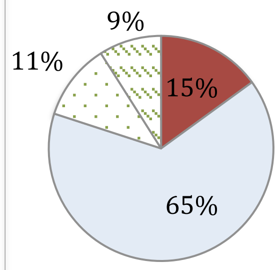
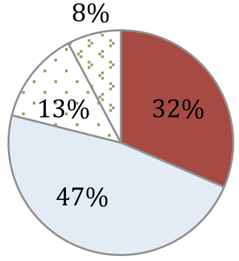
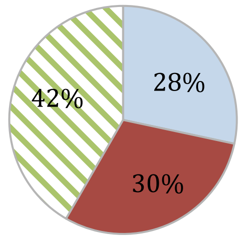
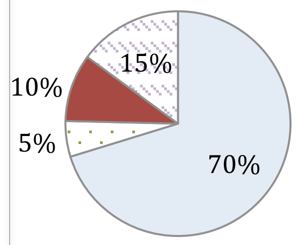
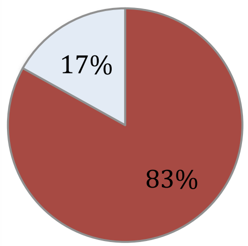
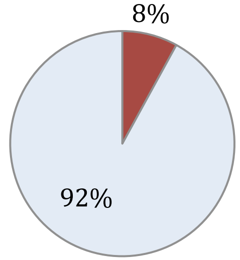
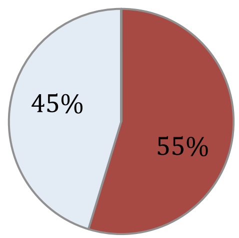
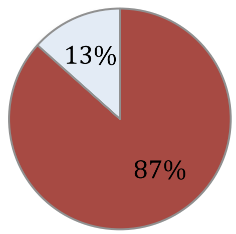
Indicative Fair Share: The indicative fair share is calculated proportionate to the following formula: Per capita emissions multiplied by total country GDP weighted by the Human Development Index (HDI). This is intended to provide an indication of how commitments can be shared. Other burden sharing approaches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

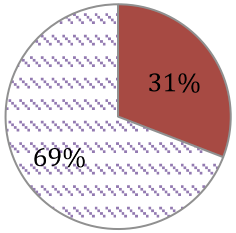
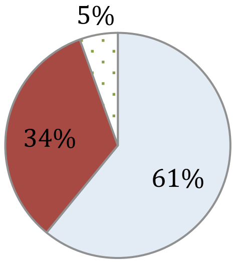
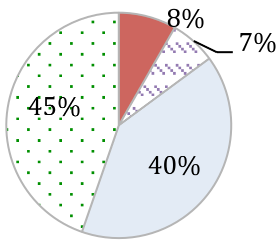
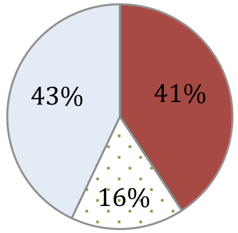
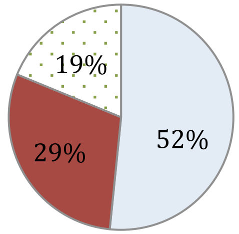
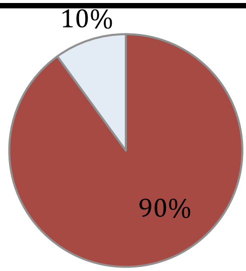
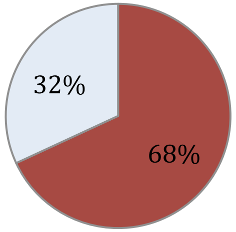
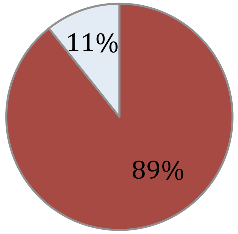
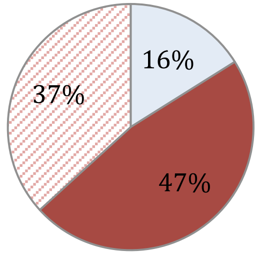
Balance The allocation shares are based on the number provided in individual countries FSF reports. Some countries did not provide information on allocation for all thematic areas. In total only information for allocations of USD 32.2 billion is available. The allocation shares displayed for Japan for example do not include the funding provided in form of private finance. 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 13.5 billion**
Share	**1.64%**	**3.3%**	**27.0%**	**0.003%**	**37.3%**
Indicative Fair Share	**3.3%**	**4.6%**	**24.7%**	**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**	**46% in LDCs**	**SIDS: 0.87%** **LDCs: 6.87** **Africa: 11.74%**

	Liechtenstein	New Zealand	Norway	Switzerland	United States
Reported 2010-2012	**USD 1.8 million**	**USD 70 million**	**USD 3.43 billion**	**USD 143 million**	**USD 7.5 billion**
Share	**0.005%**	**0.2%**	**9.5%**	**0.4%**	**20.6%**
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**	**Primarily Grants**	**All Grants**	**All Grants**	**Grants: 63%** **Loans, Guarantees, Insurance: 37%**
Prioritization	**17% LDCs**	**Around 52% to SIDS**	**No aggregate information available**	**No aggregate information available**	**No aggregate information available**