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PROJECT CATALYST BRIEF: Making Fast Start Finance work

The Copenhagen Accord outlines a pledge by many developed countries "to provide new and additional resources, including forestry and investments through international institutions, approaching $30 billion for the period 2010 to 2012 with balanced allocation between adaptation and mitigation."

Successful deployment of this "Fast Start Finance" will be critical to the future development of climate negotiations and also act as a vital bridge to the larger amounts of long-term climate finance needed to address adaptation and mitigation needs in developing countries.

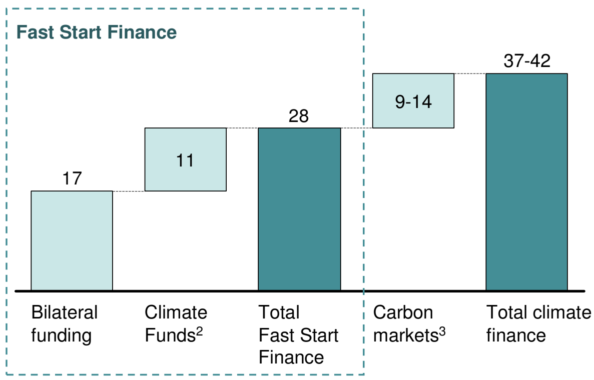
The Project Catalyst publication "Making Fast Start Finance work" aims to provide a fact base on the current sources of Fast Start Finance, including size, composition, and intended use, as well as recommendations on the Fast Start Finance priorities and the institutional mechanisms needed to ensure that it delivers real impact. This paper is a brief summary of that analysis.

Current Fast Start Finance pledges for 2010–2012 to developing countries for adaptation and mitigation add up to a gross amount of approximately $28 billion, falling to $25 billion when grant-equivalency is considered.

Based on publicly available data, current "Fast Start" pledges of public financing to developing nations for 2010–2012 add up to approximately $28 billion – see *Exhibit 1*. Publically pledged funds comprise both grants and investment capital. Using OECD methodology and historical data on the 'grant element' of past loans from each contributor country, the grant-equivalent component of funding is estimated to be $3 billion less than the pledged amounts (i.e. $25 billion) – see *Exhibit 2*.

Exhibit 1 – Current pledges of Fast Start Climate Finance for 2010-2012 to developing countries add up to approximately $28b

$b, 2010-12[1]



1 Includes climate finance pledges of Australia, Canada, EU (EU commission and member states), Japan, Norway, and US; numbers may not sum to total due to rounding. Exchange rate from April 26, 2010 used ($1.33 to €1)
2 Multilateral funds include the World Bank climate funds, GEF, and other funds providing concessional climate-related financing; excludes general funding for the World Bank and other development bodies; share for some donor countries based on historical allocation of multi- and bilateral funding
3 Expected CDMs issued from 2010-2012 at an assumed price of EUR 10-15 per tonne CO_2

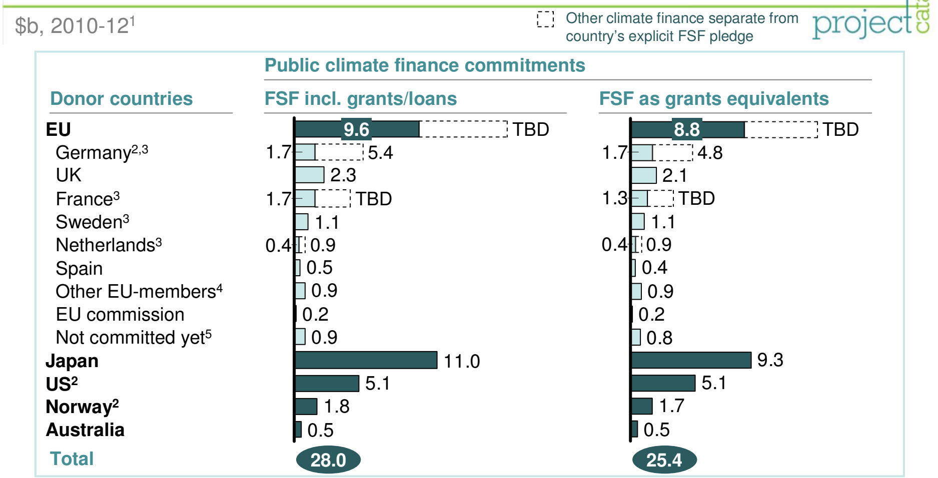
SOURCE: Press search; Team interviews

Because the sources of funding are fragmented it is hard to pinpoint the intended uses of the funds. Historically, more than 80 percent of climate funds have been directed to mitigation (including REDD) and less than 20 percent to adaptation. However, this balance could change substantially going forward as contributor countries increasingly focus on addressing adaptation concerns. The Commonwealth, for example, has recently agreed to allocate Fast Start Finance equally between adaptation and mitigation activities.

The Copenhagen Accord states that funding should be “new and additional”, but the baseline of comparison is not stated. Given the volatility of existing ODA funding, the fungibility of funds, the lack of transparency on how countries define additionality and other measurement constraints, it is difficult to provide an accurate assessment of additionality. However, it is clear from our preliminary analysis that only a share of this total funding will be new and additional. Our analysis of other sources of public climate finance in the 2010-12 period, which are not considered by donor countries to be ‘Fast Start finance’, amount to roughly an extra $4-7 billion.

Preliminary analysis indicates that $21–54 billion of climate finance could be needed from 2010–12.

Exhibit 2 - Japan is the largest individual country contributor to Fast Start Finance



1 Includes climate finance pledges of Australia, Canada, EU (EU commission and member states), Japan, Norway, and US; includes bi-lateral financing and financing for multi-lateral climate funds. Exchange rate from April 26, 2010 used ($1.33 to €1)
2 For US, assumes that 2012 contribution is equal to budget commitments in 2011; for Germany, assumes that non-FSF-commitment in 2011 and 2012 is equal to budget commitments in 2010; for Norway, assumes that overall commitments in 2011 and 2012 equal to 2010 budget commitments
3 Includes climate finance in addition to explicit Fast-Start-Financing; additional climate finance for Sweden and France still to be confirmed
4 Other EU-commitments including e.g., Austria, Belgium, Denmark, Finland, Ireland, etc.
5 Represents gap to overall amount pledged by EU (not yet matched by individual member states); potentially committed by Italy - to be confirmed
SOURCE: Team interviews; press search; Project Catalyst analysis

The needs for climate finance are likely to range between $21–54 billion from 2010–12 (excluding China which has indicated it will not seek Fast Start Finance); the proposed Fast Start Finance of $28 billion, taken together with the $4-7 billion of other public climate finance identified over the period, would reach the lower end of this range. Applied effectively, this could be a start towards a 450 ppm pathway, maintaining the potential to limit global warming to 2°C above pre-industrial levels. It would also help ensure that developing countries are ready to adapt to this change. The precise impact of the funds will depend on factors such as private capital leverage, avoidance of longer-term locked-in emissions, absorption capacity and the rate of learning on critical technologies.

It is difficult to estimate the current pipeline of available projects for investment. Limited preliminary analysis suggests that the current value of registered projects ($16-23 billion) could be lower than the estimated needs for climate finance. If this is indeed the case, it will be critical to address the current shortfall in projects by investing in capacity building to create a larger pipeline of projects while simultaneously investing in programmatic schemes with longer term investments (beyond 2012). If more climate finance is made available this could also potentially spur more climate change programmes to be created in developing countries.

Given actual needs ($21–54 billion) are likely to be greater than available funding ($28-35 billion), funds must be prioritised to address urgent mitigation and adaptation needs, whilst also building absorptive capacity.

There are opportunities to broaden the impact of Fast Start Financing through careful prioritization. We have identified 6 key questions that should be considered by donors to ensure that Fast Start Financing maximizes the impact of scarce resources:

(1) Is the specific project/programme part of a broader development strategy addressing low carbon growth or part of a NAMA in the developing country? **(Policy prioritization)**

(2) For mitigation projects, does the project result in emission reductions incremental to those financed by carbon markets, and avoid lock-in to high-carbon infrastructure? **(Mitigation prioritization)**

(3) For adaptation projects, is the project proposal the result of a robust analysis? **(Adaptation prioritization)**

(4) Does the project have both adaptation and mitigation benefits? **(Synergy prioritization)**

(5) Is the project designed in such a way that it will leverage private sector funding? **(Private sector prioritization)**

(6) For capacity-building support, does the support include the creation of a LCGP/NAMA/NAPA (where absent) and also allow for input from likely investors and the local communities? **(Capacity prioritization)**

Whilst it is unlikely for projects and programmes to satisfy all of these questions, they can nevertheless serve as useful guidelines for ensuring that Fast Start Finance is being used most effectively. More detail on these questions and how they can be assessed is provided in the full paper.

A high performing Fast Start Finance system will need to ensure effective delivery of funds, based on 5 principles.

In addition to carefully prioritizing *what* is funded, the question of *how* Fast Start Finance is delivered is also of critical importance. Discussions with developing and developed countries have highlighted several principles that a Fast Start Financing system must satisfy to effectively deliver the available funding (which are consistent with the principles in the Paris Declaration on Aid Effectiveness):

- **Support flexibility and predictability to encourage forward planning**: The need to spend Fast Start Finance in the year it is included in donor countries' budgets is a serious threat to effective spending. In addition, many of the climate change challenges in developing countries require transformational changes to a country's economy which developing countries cannot commit to without assurances of future financial support. Fast Start Finance needs to be sufficiently flexible to allow earmarking of funding for future attractive projects that may not be available until after 2012. Norway and Brazil's sizeable pledge to the Amazon Fund, which is contingent upon the delivery of reductions in deforestation, provides a good example for how this can be done in a way that creates certainty that funds will flow as results are delivered.
- **Boost harmonization:** There is currently little coordination between nations on Fast Start Finance. Coordination of spending might be required to allocate money strategically and effectively.
- **Manage for results:** Performance assessment frameworks need to be developed to serve as system-wide standards for specific areas (e.g., REDD, energy efficiency).
- **Create more transparency:** Currently there is no clear definition of what Fast Start Finance entails. Clear definitions and standards for what constitutes Fast Start Finance are needed, including grant equivalence guidelines and additionality requirements. At a minimum, donor countries should disclose their working definition for these issues. Clarity is also needed on how the funds are deployed and their performance.
- **Ensure efficient disbursement:** From a developing country's perspective, the current, fragmented system of donor funding makes it hard to apply for funding. The system could be enhanced by seeking to harmonize requirements of major funding channels (e.g., climate investment funds and the Hatoyama Initiative) and assessment processes, with efforts to minimize time for approval and multiplication of administrative procedures.

Whilst there are sizeable challenges to creating a successful Fast Start Finance system, the potential rewards are even greater. A Fast Start Finance system which can prioritize and deploy funds effectively can provide a strong foundation for future action, create trust in both developed and developing countries and will be critical to the successful development of climate negotiations.

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Project Catalyst is an initiative of the ClimateWorks Foundation and the European Climate Foundation. For more information see www.project-catalyst.info.

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