



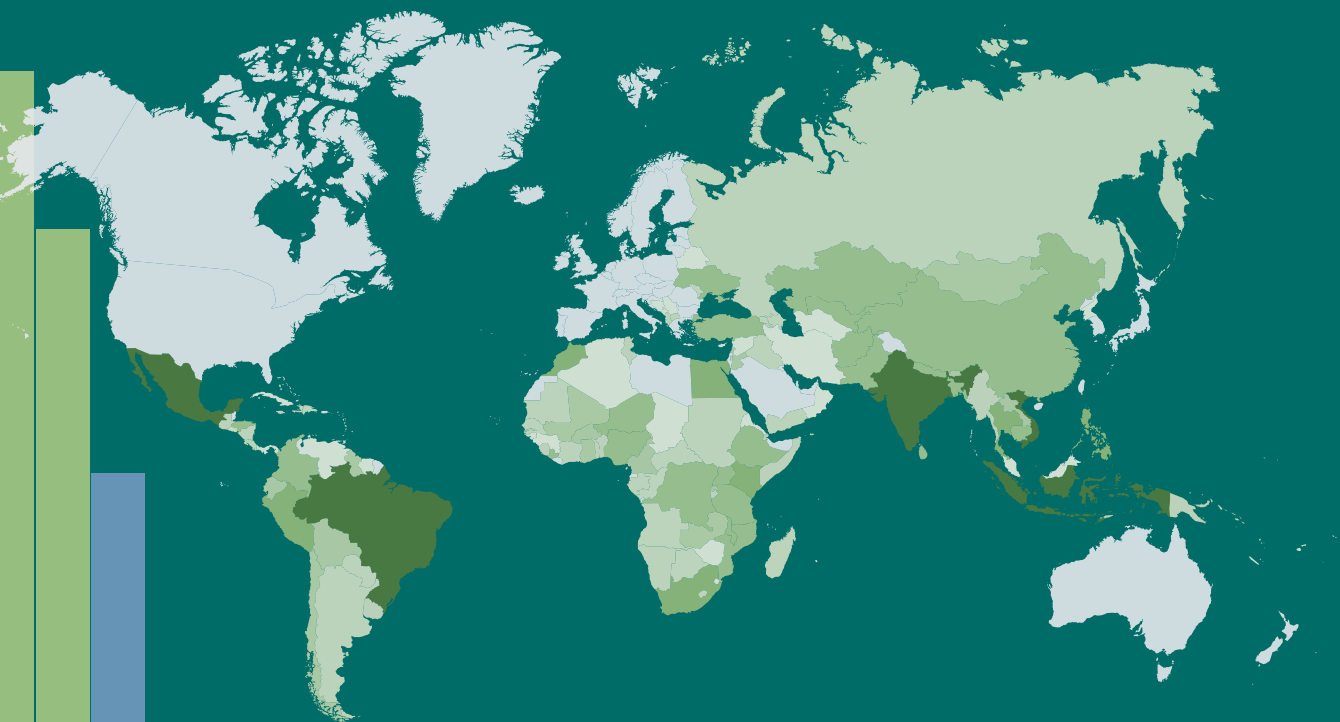
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# Mobilising International Climate Finance:

Lessons from the  
Fast-Start Finance Period

Smita Nakhooda, Taryn Fransen, Takeshi Kuramochi, Alice Caravani,  
Annalisa Prizzon, Noriko Shimizu, Helen Tilley, Aidy Halimanjaya, Bryn Welham



**Note: Country contributions in this version of the report have been updated since its original release on 11 November 2013.**

## ABOUT ODI

ODI is a leading independent think tank on international development and humanitarian issues. Our mission is to inspire and inform policy and practice which lead to the reduction of poverty, the alleviation of suffering, and the achievement of sustainable livelihoods in developing countries. We do this by locking together high quality applied research, practical policy advice, and policy-focused dissemination and debate. We work with partners in the public and private sectors, in both developing and developed countries. In partnership with the Heinrich Böell Foundation North America, ODI coordinates Climate Funds Update, an independent website that manages and verifies dedicated public climate finance ([www.climatefundsupdate.org](http://www.climatefundsupdate.org)).

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The World Resources Institute (WRI) is a global environmental and development think tank that goes beyond research to create practical ways to protect the Earth and improve people's lives. We work with governments, companies, and civil society to build practical solutions to urgent environmental challenges. WRI's transformative ideas protect the Earth and promote development because sustainability is essential to meeting human needs and fulfilling human aspirations for the future.

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The Open Climate Network brings together independent research institutes and civil society to monitor countries' progress on climate change. It seeks to accelerate the transition to a low-emission, climate-resilient future by providing consistent, credible information that enhances accountability both between and within countries.

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# Contents

EXECUTIVE SUMMARY.....	I
I. INTRODUCTION.....	1
II. BACKGROUND AND CONTEXT.....	4
WHY FOCUS ON FSF?.....	4
KEY DEBATES ON CLIMATE FINANCE.....	4
III. DATA AND METHODOLOGY.....	6
IV. WHAT HAS FSF FUNDED? .....	10
V. HOW WAS FAST-START FINANCE DELIVERED?.....	17
VI. WAS FSF NEW AND ADDITIONAL?.....	25
ADDITIONALITY .....	28
SUMMARY – NEW AND ADDITIONAL?.....	29
VII. GEOGRAPHIC DISTRIBUTION AND ITS IMPLICATIONS .....	30
VIII. MAKING LONG-TERM FINANCE SUCCESSFUL .....	39
FINDINGS.....	39
LESSONS.....	42
GLOSSARY.....	44
REFERENCES.....	46
ENDNOTES.....	49

# Acronyms

AF	Adaptation Fund
BMZ	German Ministry of Economic Cooperation and Development
CAIT	Climate Analysis Indicator Tool
CARPE	Central Africa Regional Program for the Environment
CBD	Convention on Biological Diversity
CBFF	Congo Basin Forest Fund
CCPL	Climate Change Program Loan
CCS	Carbon Capture and Storage
CDM	Clean Development Mechanism
CGIAR	Consultative Group on International Agriculture Research
CICERO	Center for International Climate and Environmental Research
CIF	Climate Investment Funds
COP	Conference of the Parties
CP3	Climate Public Private Partnership
CRS	Creditor Reporting System
CSO	Civil Society Organisation
CTF	Clean Technology Fund
DAC	Development Assistance Committee
DARA	Development Assistance Research Associates
DFID	Department for International Development
DNPI	National Council on Climate Change (Indonesia)
ECA	Export Credit Agency
EIB	European Investment Bank
EnDev	Energising Development
ETS	Emission Trading Scheme
EU	European Union
Ex-Im	Export-Import
FCO	Foreign and Commonwealth Office
FCPF	Forest Carbon Partnership Facility
FEWS NET	Famine and Early Warning Systems Network
FIP	Forest Investment Programme
FSF	Fast Start Finance
GAIN	Global Adaptation Institute
GCF	Green Climate Fund
GEEREF	Global Energy Efficiency Renewable Energy Fund
GEF	Global Environment Facility
GHG	Greenhouse Gas Emissions
GIZ	Gesellschaft für Internationale Zusammenarbeit
GNI	Gross National Income
GRIF	Guyana REDD+ Investment Fund
HIC	High-income country
IATI	International Aid Transparency Initiative
ICF	International Climate Fund

ICI	International Climate Initiative
IGES	Institute for Global Environmental Strategies
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KFW	Kreditanstalt für Wiederaufbau
LDCF	Least Developed Country Fund
LDC	Least Developed Country
LIC	Low Income Country
LMIC	Lower Middle Income Country
LTF	Long Term Finance
M&E	Monitoring and Evaluation
MCC	Millennium Challenge Corporation
MIC	Middle Income Country
MoFA	Japanese Ministry of Foreign Affairs
N/A	Not Applicable
NAMA	Nationally Appropriate Mitigation Action
NASA	National Aeronautics and Space Administration
NEA	National Environment Agency
NEDO	New Energy and Industrial Technology Development Organization
NGO	Non-Governmental Organisation
NORAD	Norwegian Agency for Development Cooperation
OCN	Open Climate Network
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows
OPIC	Overseas Private Investment Corporation
PPCR	Pilot Programme Climate Resilience
PPP	Public Private Partnership
PROFOR	Program on Forests
R&D	Research and Development
REDD+	Reducing Emissions from Deforestation and Forest Degradation Plus
SCCF	Special Climate Change Fund
SIDS	Small Island Developing States
SREP	Scaling-Up Renewable Energy Program for Low Income Countries
TFCA	Tropical Forest Conservation Act
UMIC	Upper middle-income country
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
USAID	United States Agency for International Development
WASH	Water Supply, Sanitation, Hygiene
WRI	World Resources Institute





# Executive Summary

## Key points

- Developed countries report that they mobilised US\$ 35 billion for climate change in developing countries from 2010 through 2012, exceeding their target of US\$ 30 billion.
- But not all of this funding is new or additional. Developed countries have had discretion to choose what 'counts' as climate finance, and have taken divergent approaches.
- One objective of the Fast-Start Finance (FSF) period was to increase funding for adaptation. While adaptation received US\$ 5.7 billion, mitigation (including initiatives to address emissions from forests) received US\$ 22.6 billion, more than 70% of the total funding.
- Forty-seven per cent comprises loans, guarantees and insurance, including export-credit finance for developed- country companies to invest in developing countries. These instruments, in particular, have tended to support mitigation.
- Eighty per cent of FSF was also reported as Official Development Assistance (ODA), and the geographic distribution of FSF closely mirrors that of non-climate-related ODA. It is not highly correlated with either total greenhouse gas (GHG) emissions or vulnerability in recipient countries.
- Continued commitment to scaling up climate finance is needed. But to make good use of available finance, developing countries will also need to take the initiative to implement sound strategies for using this finance. They will need to align their policy, regulatory and governance arrangements with climate-compatible development.
- Improved transparency on climate finance in both developed and developing countries will promote understanding of whether countries are meeting their commitments to deliver climate finance in a spirit of mutual accountability, and whether funding is being used effectively.

Developed countries committed to provide US\$ 30 billion in new and additional climate finance between 2010 and 2012 under the United Nations Framework Convention on Climate Change (UNFCCC). This 'Fast-Start Finance' (FSF) was an initial step towards mobilising climate finance at a level that reflects the adaptation and mitigation challenges these countries face. Delivering FSF during a global financial crisis that constrained budgets in many developed countries was challenging. The need for climate finance, however, was urgent then, and will become even more so over the coming decade.

This report reviews the FSF contributions that 37 countries have reported to the UNFCCC. It draws on detailed case studies of the five largest contributors: Germany, Japan, Norway, the UK and the USA. These five countries delivered almost 80% of reported FSF. They also provide a large share of development finance, including Official Development Assistance (ODA) and Other Official Flows (OOF).

## Findings

*Countries reported mobilising US\$ 35 billion in FSF, exceeding the US\$ 30 billion commitment.* However, contributing countries have taken different approaches to defining what qualifies as FSF and have included a wide range of instruments and sources of finance in their FSF reporting. For the most part, they have not used strict thresholds for assessing what is additional. The self-reported FSF figures should be read with these caveats in mind.

*While climate finance reporting and transparency have improved, there has been substantial variation in the level of information that countries disclose.* Towards the end of the FSF period, some countries that had previously reported incomplete or aggregate information moved towards full project-level reporting, while others provided limited or no project-level information (Table 1). Continuing to improve the availability, accessibility and comprehensibility of climate finance reporting remains a challenge.

# Mobilising Climate Finance

**Table 1 | Aggregate and project-level reporting to the UNFCCC by the top five FSF contributors**

	Germany	Japan	Norway	UK	USA
<b>Aggregate Information</b>					
Eligibility Criteria	Specified	Not specified	Partially specified	Specified	Partially specified
'New and additional' Criteria	Specified	Not specified	Partially specified	Partially specified	Not specified
Objectives	Specified	Specified	Specified	Specified	Partially specified
Channeling Institution	Partially specified	Specified	Partially specified	Specified	Partially specified
Financial Instrument	Specified	Specified	Specified	Specified	Partially specified
Recipient Countries	Specified	Specified	Specified	Specified	Partially specified
Disbursement	Partially specified	Not specified	Partially specified	Partially specified	Not specified
<b>Project-Level Information</b>					
Objective	Specified	Specified	Not specified	Specified	Partially specified
Channeling Institution	Specified	Specified	Not specified	Specified	Specified
Financial Instrument	Specified	Partially Specified <sup>1</sup>	Not specified	Specified	Partially specified
Recipient Country	Specified	Specified	Not specified	Specified	Specified
Recipient Institution	Specified	Not specified	Not specified	Partially specified	Not specified
Disbursement	Not specified	Not specified	Not specified	Not specified	Not specified

<sup>1</sup> Fully specified for ODA, not specified for OOF and others

Note: This table is based on information included in the official FSF reports. In many cases additional information is available through further desk research and other reporting channels.

*While climate finance has increased during the FSF period, much of it is not 'new and additional' according to a number of definitions* (Table 2). Although developed countries increased their climate-related spending during the FSF period, many have reported as FSF projects, programmes and funds that they were already supporting before the FSF period. At least one country (Germany) mobilised a new source of finance (revenues from carbon markets) to support its FSF contributions and specified a baseline year (2009) against which it considers its efforts to be additional.

*Mitigation received much more FSF than adaptation did.* Seventy-one per cent of FSF has supported mitigation and REDD+, whereas only 18% supported efforts to assist developing countries in adapting and strengthening their

resilience to the impacts of climate change, and 9% supported multiple objectives. Mitigation finance has largely focused on Asia, which is home to many of the world's fastest-growing economies. Forty per cent of adaptation finance was directed to Least Developed Countries (LDCs) and Small Island Developing States (SIDS).

*There has been significant focus on mobilising and leveraging private investment, including through the use of non-concessional public finance.* Forty-seven per cent of finance was delivered as loans (concessional and non-concessional), guarantees, and insurance, while 45% was delivered as grants and related instruments. To date, countries appear to have more readily identified private investment opportunities for mitigation than for adaptation.

Table 2 | Top five FSF contributions in relation to 'new and additional' criteria

Criteria	Germany	Japan	Norway	UK	USA
<b>New and Additional</b>					
Climate-related spending is higher during FSF than before	Yes	Yes	Yes	Yes	Yes
Climate-related projects and programs receive more funding than prior to the FSF period	In some cases/ Maybe	In some cases/ Maybe	In some cases/ Maybe	In some cases/ Maybe	In some cases/ Maybe
FSF includes contributions to meet pledges made prior to the FSF period	Partially	Partially	Partially	Partially	Partially
Country has met the Monterrey commitments to deliver 0.7% of GNI as ODA	No	No	Yes	No (although target achieved in March 2013)	No*
New sources of finance have been mobilised to address climate change	Yes	No, but dedicated budget contributions	No, but dedicated budget contributions	No, but dedicated budget contributions	No, but dedicated budget contributions

\*The USA has distanced itself from the 0.7% commitment

*The recipients of FSF are diverse, and include non-governmental organisations (NGOs), private companies, and other intermediaries as well as governments of developing countries.* In fact, only around 33% of FSF targeted governments in developing countries. In many cases, FSF is channelled through intermediaries including dedicated funds such as the Climate Investment Funds (CIFs), multilateral development banks, as well as through bilateral cooperation and development agencies. Approximately 68% of FSF was channelled bilaterally.

*A reliance on ODA for climate finance has not so far substantially altered the distribution of development assistance.* The distribution of FSF is similar to that of ODA, in part because a substantial share of ODA targets emerging middle- and lower-middle-income countries (MICs and LMICs). Greater tensions between climate finance and ODA objectives might emerge if climate finance were to more precisely target high-emitting and highly vulnerable countries, however, or if ODA were to prioritise poorer countries, greater tensions between achieving climate finance and ODA objectives might emerge.

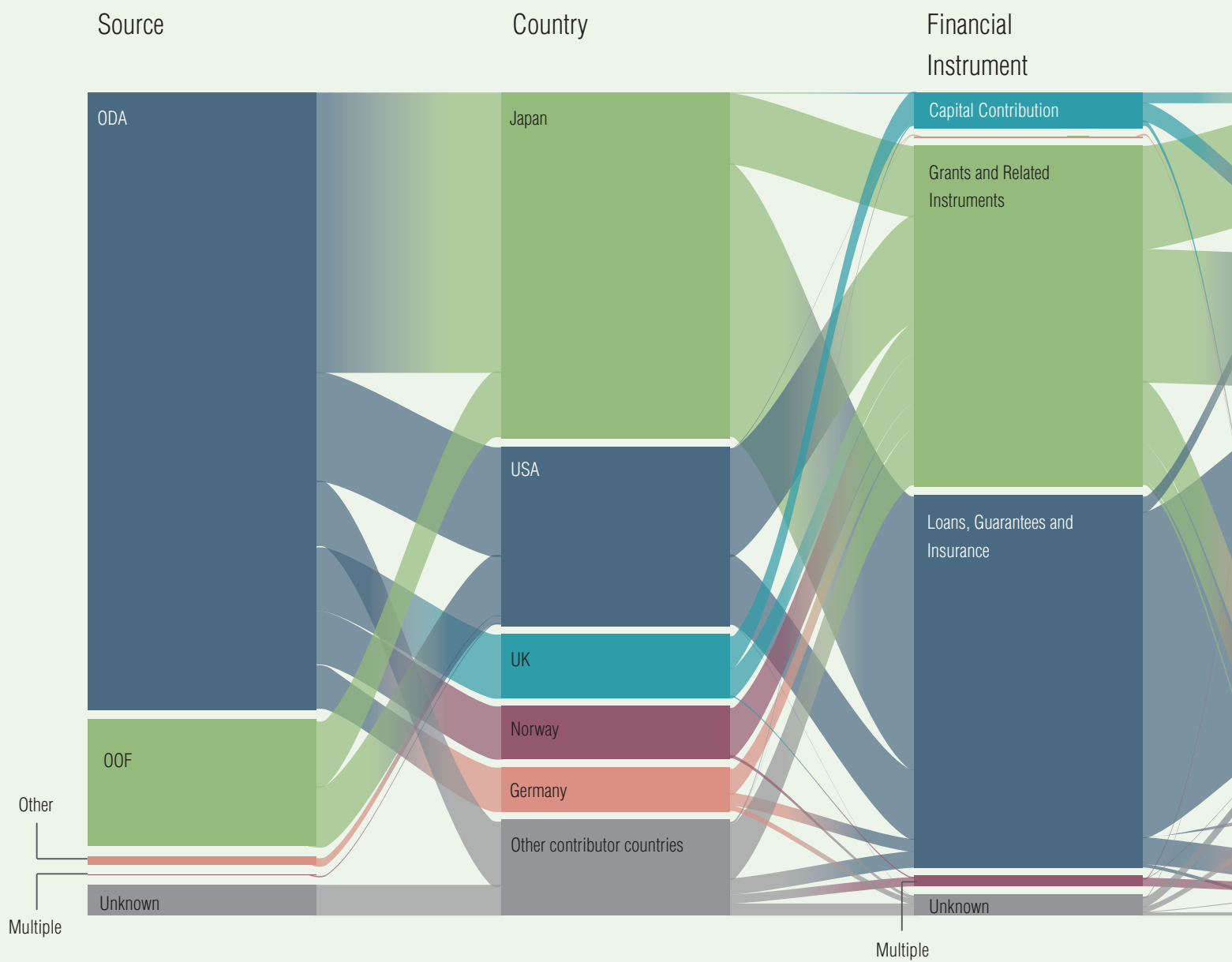
*The distribution of FSF does not appear closely linked to the emission levels in recipient countries or their vulnerability to climate change.* FSF for mitigation has not been highly correlated with GHG emission levels in recipient countries.

Similarly, FSF for adaptation has not been highly correlated with recipient countries' vulnerability as measured by prominent indices. Further work is needed to understand the extent to which the distribution of FSF reflects other climate-related considerations, such as cost-effective opportunities to reduce emissions or vulnerability within countries.

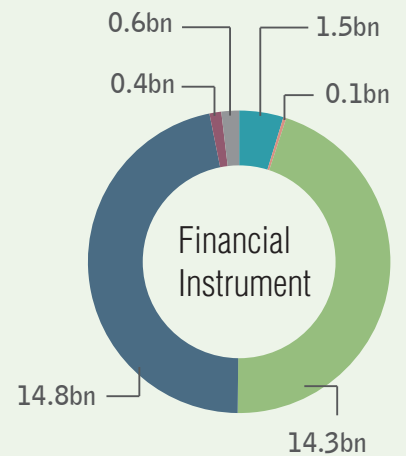
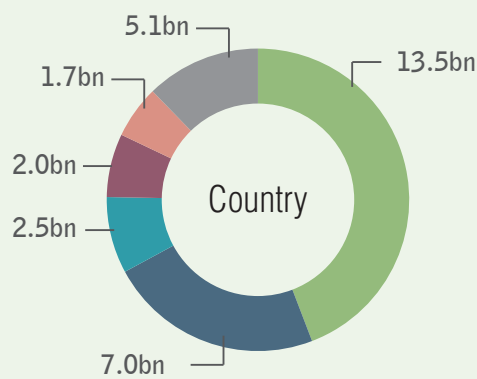
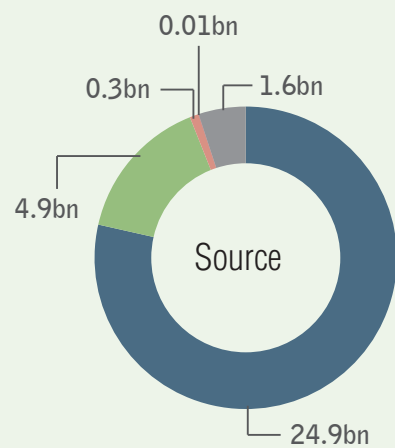
## Lessons

*A continued commitment to scaling up climate finance is needed for both political and practical reasons.* From a global perspective, it is important for developed countries to honour commitments to climate finance in the spirit of mutual accountability. This will be essential to securing a more ambitious global agreement on climate change. Moreover, such investments can create opportunities for developed and developing countries alike to find better paths to prosperity. While more climate finance was provided during the FSF period than before it, only a limited share was additional. Nonetheless, the FSF experience demonstrates the potential for businesses based in developed countries to find new opportunities to invest in low-carbon programmes in developing countries, as well as for businesses and companies in developing countries to promote cleaner and more resilient approaches.

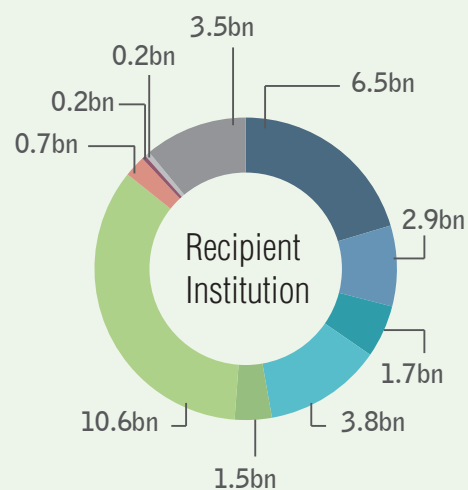
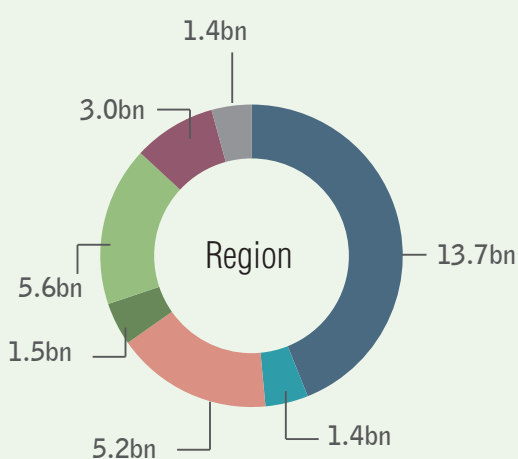
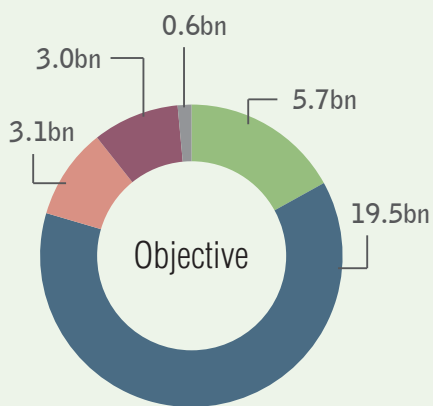
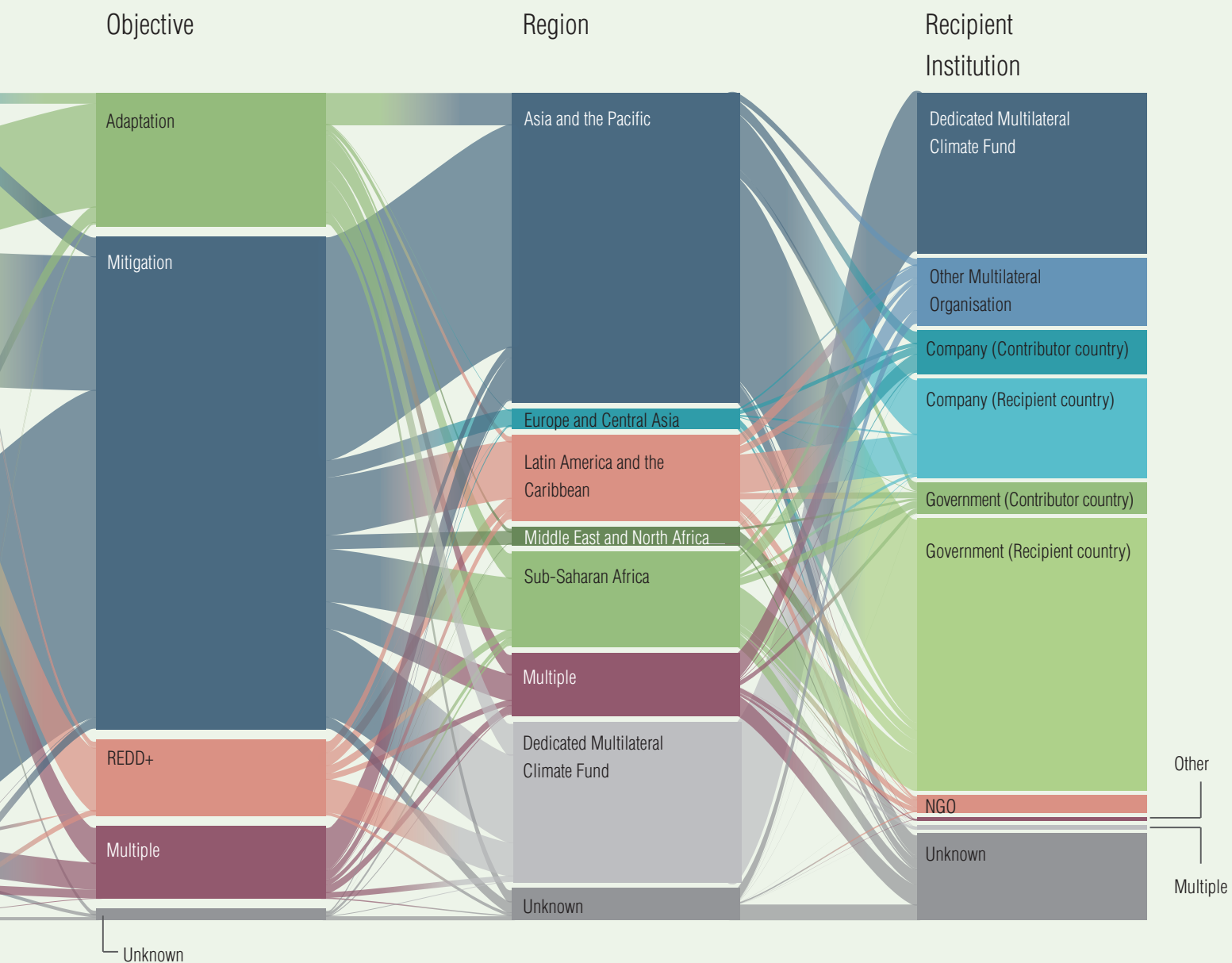
# Overview of Fast Start Finance



All amounts are in US\$



Excludes contributions for which no project- or programme-level information is available: New Zealand's self-reported contribution of US\$ 70 million, as well as the shares of the European Union (EU) and US contributions (US\$ 2.43 billion and US\$ 472 million, respectively) that are not detailed at the project or programme level in FSF reports to the UNFCCC. Japan's leveraged private finance contributions are also excluded.



Dedicated Multilateral Climate Funds have been disaggregated to the regions they supported.

*Scaling up climate finance will also require strengthening enabling environments in recipient countries, including basic absorptive capacity in those with weaker economies and institutions.* The availability of significant public and private dedicated climate finance can help to create incentives to address the underlying policy, regulatory and governance challenges that perpetuate ‘business as usual’. Achieving this goal will require additional effort from developing countries, and support from developed countries for bold action. The non-concessional finance available for mitigation has helped increase deployment in places where underlying enabling environments make low-carbon investments relatively viable. But non-concessional finance is not necessarily well suited to helping countries to strengthen their underlying policy and regulatory regimes and institutions, or to address the additional costs that low-carbon options continue to pose in many contexts.

*Climate finance could better target country needs, circumstances and vulnerabilities.* Our analysis suggests an opportunity for mitigation finance to better target countries with substantial potential to reduce emissions. Seizing these opportunities will require programmes that are grounded in national realities, and creative partnerships with domestic policy-makers and investors. Similarly there is a recognised need to scale up finance for programmes that support adaptation and strengthen resilience to the impacts of climate change, which received a limited share of FSF. Our analysis suggests an opportunity to spend adaptation finance in ways that better target vulnerable countries. Emerging institutions in the global climate finance architecture, such as the Green Climate Fund, could potentially focus their efforts to these ends.

*At the same time, continued public investment in climate-incompatible development is no longer an option.* Climate risk needs to be integrated into all development finance. Responding to climate change requires shifting overarching global investment in key sectors away from business-as-usual approaches towards climate-compatible options, avoiding lock-in to high-carbon technologies. Public finance can help to create the incentives and support the technical and institutional efforts that will enable difficult transitions.

*There is an opportunity for developed countries to sustain and improve on good practices established during the FSF period by reporting at the project and programme level through UNFCCC reporting templates and other tools, providing complete and comparable information on climate finance and its objectives.* Reporting practices varied substantially across countries during the FSF period. It is imperative to continue to improve reporting, rather than reverting to aggregate reporting and opacity about objectives, channels and instruments now that the FSF period is over. The new Common Tabular Format for reporting under the UNFCCC could be used to this end, and complemented with harmonised reporting on other initiatives that monitor spending on climate-related activities including the International Aid Transparency Initiative (IATI) and the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC).

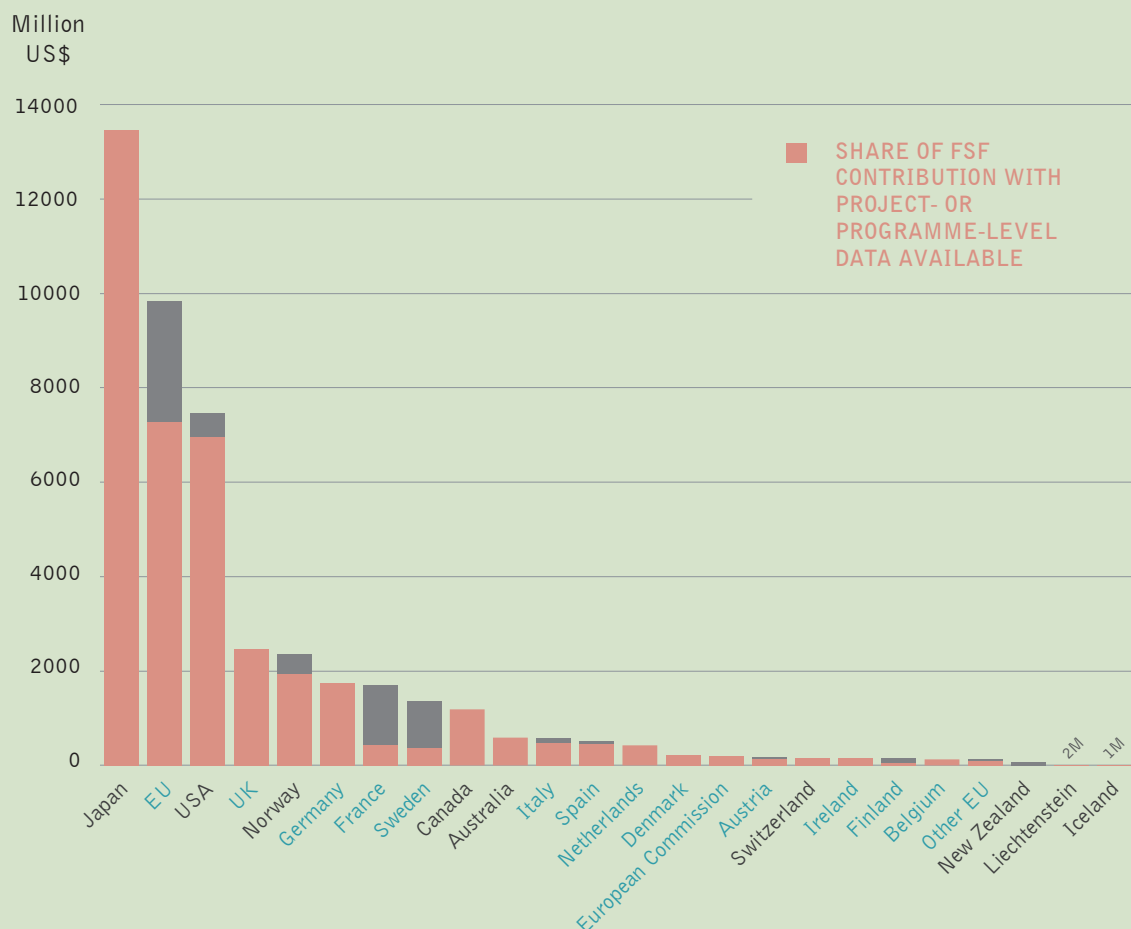
Overall, there is a need for a continued emphasis on learning and improvement in deploying climate finance effectively. Many projects supported during the FSF period are in their early stages of implementation, and it will take some time before their impacts are known. Many organisations, including our own, are gathering empirical information and analysis on the outcomes of programmes supported by climate finance. Continued collaboration in such efforts, and frank reflection on their failures and successes, will be essential.

# I. Introduction

The need for finance to help developing countries to mitigate and adapt has been a central issue in international negotiations on climate change. While various UNFCCC decisions reflect this need in general terms, the 2009 Copenhagen Accord and the 2010 Cancun Agreements resulted in developed countries making substantial, quantitative commitments to offer support to developing countries, pledging to provide US\$ 30 billion in new and additional 'Fast-Start Finance' (FSF) from 2010 to 2012

(Box 1). This commitment was made in conjunction with an agreement that by 2020 developed countries would mobilise US\$ 100 billion of climate finance per year for developing countries from public and private sources. Moreover, FSF would achieve a 'balanced allocation between adaptation and mitigation', and adaptation funding would prioritise Least Developed Countries (LDCs), Small Island Developing States (SIDS) and Africa.

**Figure 1 | FSF contribution by country**



Total figures are based on those reported to the UNFCCC, and for EU member states, those reported in the EU Accountability Report on Financing for Development 2013. Grey reflects the share of the total reported contribution that has not been detailed at the project or programme level in reports to the UNFCCC, and that is therefore not included in the data set on which this report is based. Some data were provisional at time of reporting by governments. The EU is presented both at the EU level and at the member state level. Japan's leveraged private finance is excluded from the figure.

With the FSF period behind us, and efforts to scale up the provision of long-term climate finance now underway, it is timely to reflect on lessons emerging from the FSF experience. Relevant questions include how much FSF was mobilised, what it funded, what delivery channels and instruments were used, which countries it supported and the extent to which it was 'new and additional'. The answers to these questions help to show how far developed countries honoured their commitments, and could inform efforts to mobilise long-term finance from now to 2020.

The interactions between FSF and Official Development Assistance (ODA – see Glossary for definition) also merit scrutiny. Developed countries have relied significantly on ODA to mobilise FSF, but the relationships between climate finance and various forms of finance for development activities are complex and contested. The international community has recently struggled to mobilise ODA to meet development needs (OECD 2013a). While ODA flows increased in 2010, reaching a high of US\$ 129 billion, they have since begun to contract, declining by 2% in 2011 and by 4% in 2012 as developed countries cut budgets for international assistance in response to the global financial crisis (OECD 2013d).

Under the UNFCCC, governments agreed that FSF should be 'new and additional', reflecting a concern to avoid mobilising FSF at the expense of support for development activities not directly linked to climate change (Stadelmann

et al. 2010). At the same time, however, to expedite the global response to climate change and to achieve both climate- and development-related objectives, climate considerations also need to be mainstreamed across investment portfolios. This inherent link complicates efforts to determine which finance is new and additional.

Since 2012, the Overseas Development Institute (ODI) and the World Resources Institute (WRI), in partnership with the Open Climate Network, the Institute for Global Environmental Strategies (IGES, Japan), Germanwatch (Germany), Cicero (Norway), and Climate Advisers (USA), have studied the FSF contributions of developed countries, compiling a detailed data set of FSF-funded projects and programmes, and developing detailed case studies of the top five contributors: Germany, Japan, Norway, the UK, and the USA (Climate Funds Update; WRI 2013). This data set, which reflects information from 36 of the 37 contributor countries (excluding New Zealand, for which project-level information was unavailable), accounts for US\$ 31.79 billion of the total US\$ 35 billion in public finance reported to the UNFCCC. The top five contributors reported providing a total of US\$ 27 billion (Figure 1). Our studies sought to examine the key characteristics of the FSF portfolio using a consistent methodology that would shed light on the concerns outlined above (see Table 1 and Annex 2).

This report synthesises analysis from our data set, the five case studies, and additional sources. It also presents new

## Box 1: What is Fast-Start Finance?

Fast-Start Finance (FSF) refers to a commitment under the 2009 Copenhagen Accord (subsequently confirmed by the 2010 Cancun Agreements) for developed countries to provide US\$ 30 billion in climate finance to developing countries. The relevant language from the Copenhagen Accord is as follows:

*The collective commitment by developed countries is to provide new and additional resources, including forestry and investments through international institutions, approaching US\$ 30 billion for the period 2010-2012 with 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. (FCCC/CP/2009/11/Add.1, paragraph 8).*

As discussed in Section II, the principles noted in the Copenhagen Accord – such as 'new and additional', 'balanced allocation' and what it means to prioritise the 'most vulnerable developing countries' – are not explicitly defined in the international agreements. Likewise, how these principles relate to the modalities that should qualify as FSF is contested. (See Clapp et al. 2012 and Caruso and Ellis 2013 for further discussion.)

FSF makes up one part of a much broader landscape of global climate finance. In addition to FSF, global climate finance – estimated at between US\$ 343 billion and US\$ 385 billion in 2010/2011 (Buchner et al. 2012)<sup>1</sup> – includes North–North and South–South flows and risk-mitigation instruments such as guarantees and insurance, and private finance.



analysis on the interplay between FSF, ODA, and other official flows (OOF – see Glossary for definition), and explores where and how countries have directed their FSF. In doing so, it aims to shed light on the extent to which FSF met its objectives, why it did or did not meet them, and implications for future climate finance and development assistance.

The report is divided into eight sections, including this introduction (Section I):

- Section II reflects on the logic and objectives of the FSF period.
- Section III outlines the methodology and approach, and discusses reporting, data availability, and transparency.
- Section IV examines the specific types of FSF-supported projects, programmes and funds, based on country-specific examples. Our analysis considers the FSF allocation between adaptation, mitigation and REDD+; which sectors were supported; and which type of institution received funding.
- Section V addresses the sources and modalities of FSF, analysing the various channels, institutions and instruments that mobilised FSF.
- Section VI explores the extent to which FSF contributions could be considered ‘new and additional’, drawing on the most widely used definitions of ‘new’ and ‘additional’ in international debates and the academic literature.
- Section VII analyses the geographic distribution of FSF, including the extent to which FSF has targeted countries with high GHG emissions and high vulnerability to climate change. We also compare the geographic distribution of climate finance with the current distribution of ODA in order to explore potential tensions and synergies between these two agendas. We complement our reviews of the individual FSF contributions with reference to wider trends in incorporating climate considerations into ODA, drawing on self-reporting from OECD member states.
- Finally, section VIII reflects on the implications for future efforts to provide both climate and development finance.

## II. Background and Context

Since 1992, developed countries have pledged to help developing countries meet their climate mitigation and adaptation needs (see Box 2), most recently committing to provide US\$ 30 billion in FSF from 2010 to 2012 and US\$ 100 billion annually by 2020. Parties to the United Nations Framework Convention on Climate Change (UNFCCC) have recognised the need to provide the timely transfer of sustainable, predictable and adequate international climate finance to developing countries to help to ensure that these countries – particularly the poorest and most vulnerable – have the resources necessary to adapt and cope with the effects of climate change and to embark on the transition towards a low-carbon and climate-resilient development pathway. Climate finance also has the potential to catalyse and incentivise international cooperation on climate change (Petsonk et al. 2009). The focus of this report is on the supply of finance: the authoring institutions are involved in complementary work understanding the demand for climate finance and its effectiveness in addressing the mitigation and adaptation needs of developing countries.

2010/2011, why should we focus on the relatively small share of funding that FSF represents? While private finance, as well as domestic finance from developing-country governments, plays a significant role in meeting the climate-related needs of developing countries,<sup>2</sup> public finance mobilised by contributor countries – that is, the type of finance that developed countries have reported as FSF – plays a unique role, and merits special scrutiny for four main reasons.

First, developed countries pledged FSF in the context of complex and often contentious international negotiations. Parties to these negotiations have not yet achieved the necessary levels of trust and ambition needed to formulate a successful, collective response to climate change.<sup>3</sup> Delivery on this commitment therefore affects countries' confidence in the UNFCCC process – and in each other – to achieve such an outcome.

Second, the public sector – including public climate finance contributions such as those mobilised by FSF – is instrumental in creating the right policy and macroeconomic conditions to boost returns and reduce risks in order to attract private investment in mitigation and adaptation projects.

Third, some climate-related projects are unlikely (at least in the near term) to provide the required returns to attract private investment. While this is true of both adaptation and mitigation efforts, mitigation has been more successful to date in attracting private finance.

Finally, the FSF period was intended to inform future efforts to scale up the delivery of long-term climate finance, and many of the approaches that have been adopted may point the way to future practices.

### Key Debates on Climate Finance

This report reviews the FSF portfolio with reference to many of the issues that have been debated internationally under the UNFCCC. These include how climate finance is sourced and mobilised (through which channels and financial

4

### Why Focus on FSF?

As noted above, FSF is only part of the climate-finance picture. With total annual climate finance estimated between US\$ 343 billion and US\$ 385 billion in

### Box 2: How much climate finance is needed?

Estimates of the level of funding required to meet developing countries' needs in relation to climate change adaptation and mitigation needs vary widely. For adaptation, the United Nations Development Programme (UNDP) 2007/2008 Human Development Report estimates that additional adaptation finance needs will amount to US\$ 86 billion annually by 2015. The UNFCCC puts the price tag at US\$ 28–67 billion per year by 2030, while a 2010 World Bank study estimates it at US\$ 70–100 billion per year between 2010 and 2050. For mitigation, estimates of annual needs range from US\$ 63 billion to US\$ 565 billion by 2020, and from US\$ 264 billion to US\$ 565 billion by 2030.

Sources: World Bank 2010b; UNFCCC 2007; UNFCCC 2012; UNDP 2007; Haites 2008; World Bank 2010c; Buchner et al. 2012; BNEF and UNEP 2011; WRI 2011; IEA 2010; IIASA 2009; McKinsey & Company 2009; Knopf et al. 2010. IEA estimates are annual averages up to 2050 and are focused on energy-related needs.

instruments), what it supports (objectives, sectors, activities and recipient institutions), the extent to which it represents 'new and additional' support to developing countries and how it is distributed and targeted. Another important debate has been over the amount of funding that individual countries should provide, and how to assess whether countries are providing their 'fair share' of climate finance. We have not focused on this contentious discussion: rather, we have taken the amount of funding that countries self-report to have delivered as a starting point for our analysis.

Parties agreed to provide balanced support for adaptation and mitigation, recognising that finance has historically supported mitigation and that there is a need to expand support for adaptation. However, there is a lack of agreement on how 'balance' should be interpreted in practice, and there is a need to increase investment in reducing GHG emissions even as investment in adaptation is increased.

The issue of how to mobilise climate finance at scale, including from new and innovative sources, has been a topic of significant interest, and was the focus of the High Level Advisory Group on Climate Finance convened after the Copenhagen Conference of the Parties (COP) by the United Nations Secretary General. Parties and experts have proposed alternative sources such as trading scheme auction revenues, carbon taxes and pricing of aviation and shipping emissions.<sup>4</sup> The G20 has also discussed the potential to mobilise these sources (World Bank and International Monetary Fund 2011).

**Financial instruments** have also been a source of debate: many developing countries and NGOs argue that climate finance – especially adaptation finance – should be delivered primarily in the form of grants. This approach avoids burdening developing countries with additional debt. Furthermore, it aligns with the view (discussed in Section V) that climate finance should compensate developing countries for costs incurred due to developed countries' GHG emissions, and so should not be subject to repayment (Schalatek 2010).<sup>5</sup> On the other hand, a number of FSF contributor countries have counted both concessional and non-concessional loans, as well as capital contributions, guarantees, and insurance as FSF (Fransen et al. 2012; Kuramochi et al. 2012).

Developed and developing countries have tended to express different views about **channelling institutions**, with the latter generally (though not universally) preferring their own institutions, to facilitate direct access to climate finance (Ballesteros et al. 2010). There is also a growing emphasis on the need to build capacity in developing countries to address climate change and manage climate finance, with some expressing the view that this requires increasing reliance on institutions based in developing countries (Bird et al. 2013). Developed countries, however, have tended to prefer to work through their own development institutions and international organisations. These entities are perceived to have robust systems for financial management, good programming capacity and generally give contributor countries greater voice (Ballesteros et al. 2010).

The **geographic distribution** of climate finance is also a topic of concern. UNFCCC parties agreed to give priority to the most vulnerable countries for adaptation finance. There is also a need to target finance where it can most effectively achieve adaptation and mitigation goals, and a possibility that a reliance on ODA for the delivery of climate finance could shift its distribution away from countries that are small GHG emitters.

Finally, parties to the UNFCCC have agreed that climate finance should be '**new and additional**'. While there is no universally accepted definition of 'new and additional', international negotiations reflect a consensus that responding to climate change will require new effort and substantial resources, and that these resources should not divert funding from other development goals that are not climate-related. In practice, however, the debate on what constitutes 'new and additional' has been highly contentious, and experts have proposed a range of definitions and criteria. Rather than discussing the advantages and disadvantages of the proposed definitions, which have been explored in detail by other researchers (e.g. Stadelmann et al. 2010; Brown et al. 2010), we assess the top five FSF contributions against a range of proposed definitions without taking a stance on their legitimacy or practicality.

# III. Data and Methodology

Our methodology seeks to shed light on how the concerns described above have played out in the context of the FSF contributions. A working group organised under the auspices of the Open Climate Network developed an earlier version of the methodology, which was reviewed by a range of experts and subsequently refined in the working papers that inform this report (Fransen et al. 2012; Harmeling et al. 2013; Kuramochi et al. 2012; Moe et al. 2013; Nakhooda et al. 2012).

The analysis draws on a data set of approximately 4,400 FSF-supported projects and programmes, compiled on the basis of contributor country reports on FSF to the UNFCCC and complemented by additional desk-based research.<sup>6</sup> Table 3 presents the parameters collected for each project and programme; further detail is available in Annex 2.

Unless otherwise noted, figures are presented in current values since not all reports specified the year in which funds were mobilised, and do not include leveraged private finance.

We categorised each country identified in the data set as a recipient of FSF by region, income group and status as an LDC, SIDS, both, or neither. We also recorded other variables, including how much ODA the country received, its GHG emissions, and its score on the DARA and GAIN vulnerability indices. We used this information to identify correlations between types and amounts of FSF received and important country characteristics.

Finally, we analysed the approaches taken by Germany, Japan, Norway, the UK, and the USA to mobilising FSF, their reporting practices and the extent to which their contributions might be considered new and additional.

While our data set is based on a consistent framework, it is important to note that underlying it is a diverse range of approaches to FSF. The self-reported FSF contributions of the top five contributors differ by an order of magnitude, from Germany's US\$ 1.7 billion to Japan's US\$ 13.46 billion, but these figures are not directly comparable, as there is major divergence in what forms of finance countries have 'counted' (see Section V). Eligibility criteria

for determining what 'counts' as FSF, as well as countries' approach to quantifying FSF,<sup>8</sup> have varied substantially. To illustrate, we briefly outline the general approaches of the five countries that are the focus of our study to identifying FSF projects.

**Germany:** The German Ministry of Economic Cooperation and Development (BMZ) delivers climate finance primarily through conventional bilateral cooperation, and ODA eligibility criteria also apply to FSF projects: recipients must be BMZ partners, and projects must be compatible with the partner country's strategies (Vieweg et al. 2012). The BMU primarily delivers FSF through the International Climate Initiative (ICI). Projects eligible for ICI support must contribute to mitigation, adaptation and REDD+ goals; be based on the policies of the respective partner countries; be implemented in cooperation with local or regional partners; and have clearly defined goals that can be achieved within the project duration (BMU 2012). The additionality criteria for German FSF also apply (see Section VI).

**Japan:** Japan describes the mitigation and adaptation projects it has supported in its final FSF report to the UNFCCC, but the eligibility criteria applied by different implementing agencies are not entirely clear. The Ministry of Foreign Affairs (MoFA) – the ministry responsible for FSF reporting – compiled projects that are classified as 'climate finance' by individual implementing agencies or ministries, some of which have established their own policies without common guidelines and criteria.

**Norway:** Norway's Ministry of Foreign Affairs and the Ministry of Environment have steered the selection of climate-related programmes, and dedicated funding for activities related to climate change and the environment (including dedicated finance for REDD+) has been approved through the national budget. In addition, Norway has included all development assistance that is identified as relevant to climate change using the Rio Markers and their associated definitions and criteria as FSF.<sup>9</sup>

**UK:** The UK has developed a set of key performance indicators for its International Climate Fund (ICF). To

be approved, projects must be consistent with agreed adaptation, mitigation and REDD+ objectives and associated indicators. ICF efforts focus on a small number of strategic countries, although the list of priority countries has not been officially disclosed.

**USA:** The US State Department, which is responsible for US FSF reporting, coordinates a number of agencies to ensure that funds reported as FSF adhere to a common set of criteria and guidelines in support of adaptation, clean energy, and sustainable landscapes in eligible countries. These criteria and guidelines are elaborated by the United States Agency for International Development (USAID) and the State Department. Clean energy programmes must prioritise the reduction, mitigation, and/or sequestration of GHG emissions and achieve measurable emissions reductions. Adaptation programmes must have an explicit objective to help developing countries to reduce their vulnerability to the impacts of climate change and be informed by vulnerability analyses. Neither the guidance nor the list of eligible countries has been publicly disclosed.

Countries also differ in their approach to quantifying FSF:

- Germany generally includes the full value of grants and related instruments at their total value and loans at their face value (i.e. the principal to be repaid). The full value of projects appears to have been counted as FSF.
- Japan counted grants and related instruments at their total value and loans at their face value (i.e. the principal to be repaid), and capital contributions at their face value. For OOFs with leveraged private finance, only the public finance portion is counted towards FSF in the UNFCCC reporting.
- Norway counted grants and related instruments at their total value and loans at their face value (i.e. the principal to be repaid). Norway has included the full value of ODA projects tagged as having adaptation or mitigation as an objective, even if this is not their primary goal.
- The UK counted grants and related instruments from the ICF at their total value and loans and capital contributions at their face value (i.e. the principal to be repaid). A small number of projects supported by the Department for International Development (DFID) and Foreign and Commonwealth Office (FCO) that were counted as FSF in 2010 prior to the establishment of the ICF; here the value was based on expert recommendations from government staff.

**Table 3 | Data collected on FSF projects, programmes and funds**

Information Parameter	Options
Name of contributor country	N/A
Name and description of project, programme, or fund	N/A
Amount counted as FSF (in current US\$)	N/A
Year committed	2010 2011 2012 Not reported
Form of finance	ODA OOF Other
Financial instrument	Capital contribution Debt relief Grants and related instruments Loans, guarantees, and insurance <sup>7</sup> Multiple objectives
Major objective	Adaptation Mitigation REDD+ Multiple
Recipient country	N/A
Recipient institution type	Company (contributor country) Company (recipient country) Government (contributor country) Government (recipient country) Dedicated multilateral climate fund Other multilateral institution NGOs Multiple recipients Other (includes industry associations, universities, and regional institutions)
Channel	Bilateral Dedicated multilateral climate fund Other multilateral channel
Sector	Energy Transport Industry Agriculture Forestry Water and sanitation Cross-cutting Other Not applicable

## Box 3 | Transparency in the FSF Reports to the UNFCCC

Transparent and publicly available information on climate finance is essential in order to promote adequate and effective spending on climate-related objectives. At the international level, this information will reveal whether and how developed countries have met their collective pledges under the UNFCCC – on which a number of developing countries, incidentally, have hinged their mitigation commitments. In developed countries, policy-makers and civil society organisations (CSOs) can use this information to advocate for the mobilisation of adequate and effective climate finance. In developing countries, policy-makers and CSOs can use this information to inform national budget decision-making and to ensure fair and effective use of international financial flows.

### The importance of project level reporting

Aggregate reporting – that is, reporting on sums contributed at the level of supported objective (adaptation/mitigation), recipient countries or regions, multilateral fund, or other variable – is helpful. To meet the objectives outlined above, however, there is a need for detailed project-level information, including the institutions involved in channelling the funds and implementing the project. These details facilitate independent scrutiny of whether the funds have flowed as planned, and can support independent analysis of whether they have been used effectively. Furthermore, in order to make information comparable, a clear definition of each category used to characterise each project is required. Multilateral institutions, including the OECD DAC and the multilateral development banks, have begun to gain experience addressing these issues that can offer important lessons for bilateral reporting.

While detailed reporting was not explicitly required during the FSF period, a number of countries made project lists publicly available in their reports to the UNFCCC. The table below presents country reporting practices against the aggregate and project-level parameters necessary to support the functions identified above.

### Summary of FSF reporting practices of top five contributors

	Germany	Japan	Norway	UK	USA
<b>Aggregate Information</b>					
Eligibility criteria	Specified	Not specified	Partially specified	Specified	Partially specified
'New and additional' criteria	Specified	Not specified	Partially specified	Partially specified	Not specified
Objectives	Specified	Specified	Specified	Specified	Partially specified
Channeling Institution	Partially specified	Specified	Partially specified	Specified	Partially specified
Financial Instrument	Specified	Specified	Specified	Specified	Partially specified
Recipient Countries	Specified	Specified	Specified	Specified	Partially specified
Disbursement	Partially specified	Not specified	Partially specified	Partially specified	Not specified
<b>Project-Level Information</b>					
Objective	Specified	Specified	Not specified	Specified	Partially specified
Channeling Institution	Specified	Specified	Not specified	Specified	Specified
Financial Instrument	Specified	Partially Specified*	Not specified	Specified	Partially specified
Recipient Country	Specified	Specified	Not specified	Specified	Specified
Recipient Institution	Specified	Not specified	Not specified	Partially specified	Not specified
Disbursement	Not specified	Not specified	Not specified	Not specified	Not specified

\* Fully specified for ODA, not specified for 'OOF and others'

In 2012, countries adopted a common tabular format for biennial reporting on climate action, including the amount of climate finance mobilised by developed countries. If countries use this format to provide project-level detail on their contributions, it would go a long way towards increasing the transparency of climate finance. Given the potential of climate finance to support ambitious action on the part of recipient countries, there is a strong argument for ensuring that developed countries meet robust standards for reporting on the climate finance they provide in a spirit of mutual accountability.

### Transparency of development finance flows

Debates on how to maximise the transparency of climate finance take place in the context of wider efforts to increase transparency and accountability for a range of development-related finance. Many countries have adopted the International Aid Transparency Initiative (IATI) standards for reporting, as have several climate funds, including the CIFs and the Adaptation Fund. Effort is being invested in incorporating special reporting provisions for climate-related flows within the IATI format. Increasing the transparency of ECA finance is of particular relevance because of the major role that ECAs have played in some countries as channels for FSF.

- The USA counted grants and related instruments at their total value and loans and loan guarantees at their face value (i.e. the principal to be repaid), and insurance at the maximum amount that the issuing agency can pay under the terms of the insurance contract. When only part of a programme or project is related to climate change only that fraction is counted towards FSF.

While reporting on FSF has improved since we began this analysis, it is not yet consistent, complete or transparent, which limited the scope of our assessment. For example, not all countries have published a list of projects and programmes they supported under FSF, and compiling this information from other sources (e.g. development agency web sites) is cumbersome and inexact. Countries that have published project or programme lists have not necessarily included the same information in their lists or used consistent terminology. Finally, it was not practical to cross-reference most FSF project lists with the OECD DAC database because project titles are not consistent, and the reported amounts differ. (For example, a country might report an entire project to the OECD, but only the climate-related fraction in its FSF report.) Box 3 presents an assessment of the FSF reporting practices of the top five contributor countries.

Further information on our methodology can be found in Annex 2 (available online) and at <http://www.climatefundsupdate.org/global-trends/fast-start-finance>.



# IV. What has FSF Funded?

Meeting adaptation and mitigation needs in developing countries will require diverse interventions across a range of sectors, including energy, transport, industry, agriculture, forestry, and water and sanitation. These interventions include investments not only in new, climate-compatible infrastructure, but also in efforts to plan for climate change, in research and development (R&D), in strengthening governance, and in monitoring and evaluation (M&E).

The Copenhagen Accord and the Cancun Agreements do not specify the types of activities that FSF ought to support, noting only that it should support efforts to reduce emissions from deforestation and degradation, and that it should attain a 'balanced allocation between adaptation and mitigation'. We scrutinised descriptions of the FSF-supported projects and programmes to gain a better understanding of the nature of such work. We sorted the projects and programmes by broad objective (e.g. adaptation, mitigation and REDD+) and by sector, and looked in more detail at the largest projects supported by the top five contributors in each objective.

### More than 71% of the FSF portfolio supported mitigation and REDD+

The majority of the FSF portfolio – 61% – has supported mitigation objectives (see Figure 2). Eighteen per cent targeted adaptation, 10% targeted REDD+, and 9% targeted multiple objectives.

A substantial factor in the dominant share of mitigation in the portfolio has been contributor countries' focus on instruments and channels that draw in private sector co-finance.<sup>10</sup>

Directing and identifying private finance has been much more straightforward for mitigation than for adaptation, as the adaptive characteristic of any investment is highly context-specific. This trend is especially visible in the Japanese and US portfolios (Figure 3), which make up a significant share of non-concessional development assistance and export credit in support of mitigation projects (see Section V). These countries' portfolios also reflected a greater share of support for mitigation than the other top contributors. If Germany, Norway, and the UK had also chosen to count assistance for the development of clean energy and export credit as FSF,

the overall portfolio would be larger and even more skewed toward mitigation. Conversely, had Japan and the USA not included non-concessional finance and export credit as FSF, the total FSF portfolio would be smaller, with a greater percentage supporting adaptation.

Adaptation, mitigation and REDD+ spending has tended to focus on distinct sectors (Figure 4). For example, spending in the energy, industry, and transport sectors focuses almost exclusively on mitigation, whereas spending on water and sanitation and, to a lesser extent, agriculture is primarily focused on adaptation. REDD+ spending, obviously, targets the forest sector.

### About a third of the FSF portfolio supports developing country governments directly

Contributor countries work with a broad spectrum of implementing partners, including government agencies, multilateral agencies, the private sector and NGOs. To the extent permitted by project-level data, we identified the recipient institution type for each FSF project. The largest was recipient country governments (33%) followed by dedicated multilateral climate funds (20%), companies based in the recipient country (12%) and other multilateral organisations (9%) (Figure 5). A significant share is directed to institutions other than governments – for example, companies and NGOs. While the channelling institutions may coordinate with recipient country governments in determining these allocations, this nonetheless may in part explain why recipient and contributor countries have at times voiced different perspectives about the extent to which FSF has been mobilised. It also points to the need for more sophisticated systems for tracking climate finance in developing countries (Tirpak et al. 2013).

### What kinds of projects, programmes and funds has FSF supported?

We examined the largest bilateral projects and programmes supported by each of the top five contributors under the adaptation, mitigation and REDD+ portfolios – as well as the major multilateral dedicated climate funds – to provide an indicative sense of the types of projects that FSF has supported (pp 14 - 15). Examples



Figure 2 | Share of total FSF portfolio by objective

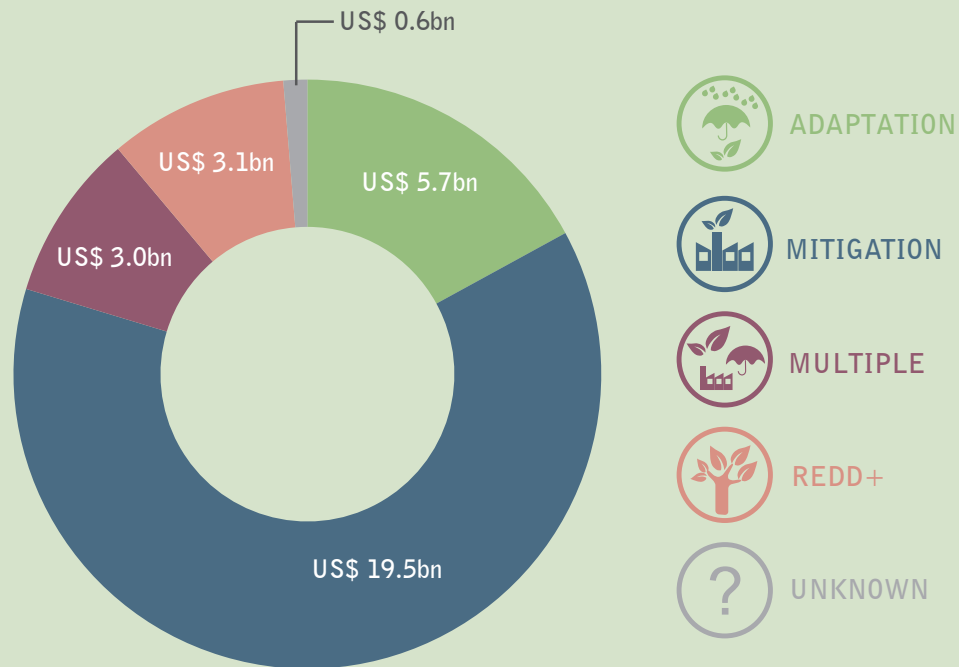


Figure 3 | Breakdown of objectives supported by top five contributor countries

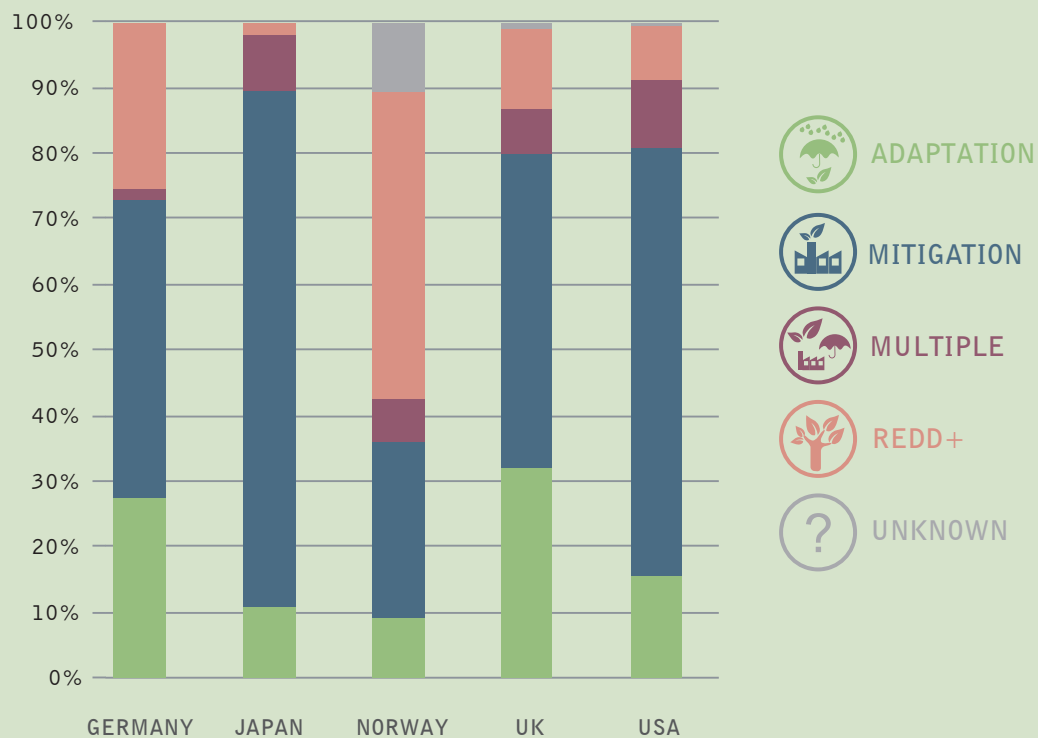
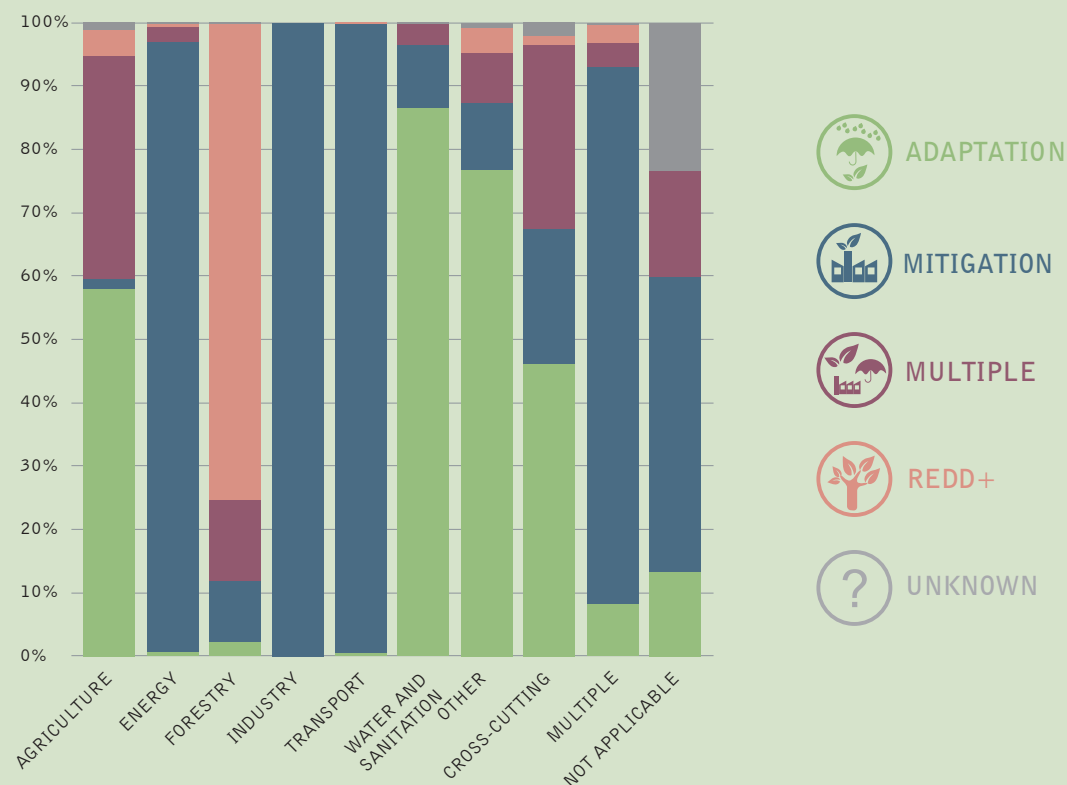
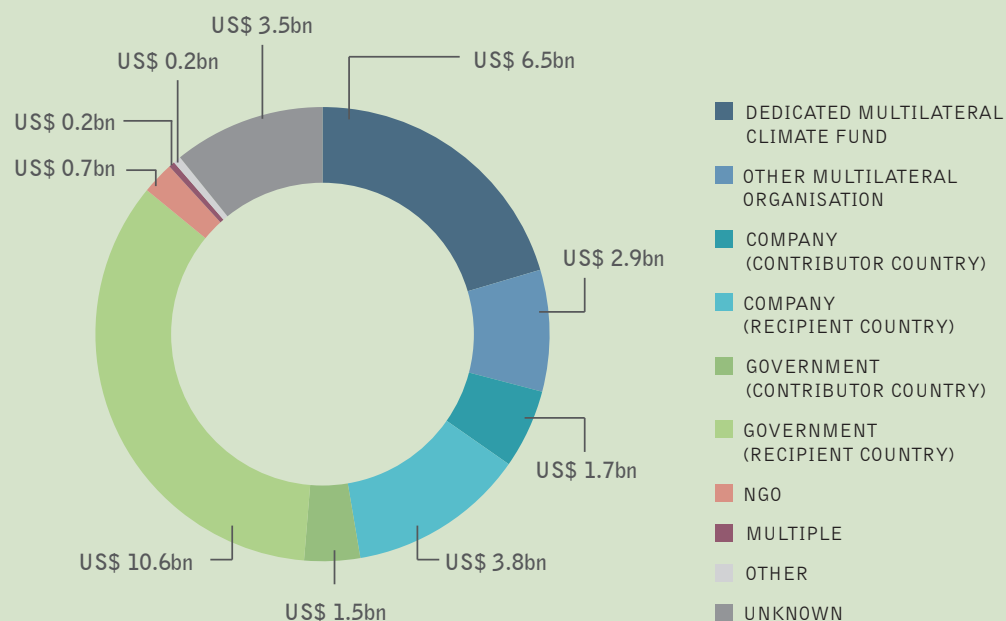


Figure 4 | Breakdown of objectives supported by sector



Sector categories are those specified in the Common Tabular Format adopted in 2012 by the UNFCCC. The UNFCCC has not clarified which activities fall under which sector. In our analysis, we categorised projects that are not sector-specific (e.g. GHG accounting and adaptation planning) as Cross-cutting, projects that are sector-specific but take place in more than one sector (e.g. both energy and industry) as Multiple, and projects for which information was inadequate to make a classification as Not applicable. 'Other' projects included disaster relief and flood control. See Annex 2 for further details.

Figure 5 | Recipient institutions supported by the FSF portfolio



of projects and programmes supported by each portfolio are described below.

**Adaptation:** The average size of bilateral adaptation FSF projects and programmes is US\$ 4 million. The largest such projects are infrastructure to promote flood control and improve water supply, but the publicly available information does not make clear how far these projects have been designed specifically with adaptation. For example, JICA has supported a US\$ 66 million Flood Risk Management Project for three river basins in the Philippines. There is only a handful of large infrastructure projects for adaptation, however. In the mid-range of the adaptation portfolio, long-standing development projects have often been modified to integrate climate concerns. For example, USAID has supported Feed the Future and the Famine and Early Warning Systems Network, both of which reflect growing efforts to take climate change into consideration (USAID 2012). Disaster relief, agricultural research and observation systems are also common project types supported by adaptation FSF.

**Mitigation:** At a value of US\$ 13 million, the average bilateral FSF mitigation project is much larger than the average adaptation or REDD+ project. This reflects the large-scale loans and export credit for energy and transport infrastructure projects included in the Japanese and US FSF portfolios. These projects have primarily supported renewable energy and the development of public transport infrastructure, but in some cases have gone to more efficient thermal-power projects (see, for example, JICA's support for thermal power plants in East Java and Uzbekistan, and discussion in Box 4). It is unclear to what extent these investments have been driven specifically by mitigation interests. While the agencies concerned are charged primarily with delivering development finance, OPIC, for example, also has a mandate to reduce the GHG intensity of its portfolio by 30% over 10 years, and its investment in renewable infrastructure has increased over time.

In addition to large infrastructure projects, FSF also supported a handful of large, climate-targeted funds. The UK, for example, has supported both the Climate Public–Private Partnership (CP3) and a NAMA Finance Facility in partnership with Germany's BMU. A number of smaller projects also support capacity-building on low-carbon development plans; measurement, reporting, and verification standards; and other elements of climate readiness.

**REDD+:** In contrast to the mitigation portfolio, which is skewed towards large energy-infrastructure projects, the bilateral REDD+ portfolio comprises projects that value on average around US\$ 2 million, many of which have focused on governance, readiness and capacity-building. The Norwegian-backed Indonesia REDD+ Task Force, for example, has supported the development of a national REDD+ strategy as well as enabling policies and institutional forms, and will subsequently move on to support larger-scale mitigation actions on a pay-for-performance basis. Likewise, USAID's Central Africa Regional Program for the Environment (CARPE) focuses primarily on building natural resource management capacity in the Congo Basin.

For all objectives, FSF has also supported a large number of smaller projects (less than US\$ 1 million in volume) focused on training, capacity-building, personnel exchanges, study tours, and conferences and workshops.

Taken together, bilateral and multilateral FSF across the major objectives has supported a range of functions along the project lifecycle, from research to capacity-building to infrastructure to M&E (although naturally the infrastructure projects have tended to be the largest). This may reflect an appreciation for the range of capacities necessary for developing countries to embark on the transition towards becoming low-carbon, climate-resilient economies. Interestingly, the REDD+ portfolio appears to focus more on readiness, governance and market-preparedness activities than do the adaptation or mitigation portfolios, reflecting in part the lack of need for major infrastructure investments in the REDD+ sector. In the case of bilateral climate finance, in particular, large infrastructure projects make up a significant share of both the adaptation and mitigation portfolios. While in some cases – such as renewable-energy infrastructure – these projects are poised to deliver climate benefits, in other cases, the benefit is less clear-cut. For example, will FSF-funded thermal-power plants lock-in infrastructure that – while perhaps more efficient than its business-as-usual alternative – will nevertheless compromise countries' long-term emissions goals? (See Box 5.) Likewise, the adaptation rationale for some large infrastructure projects is not clearly based on publicly available information, suggesting the need to ensure robust and transparent criteria to govern what countries count as part of their international climate finance contributions.

# Examples of large projects, programmes, and funds receiving FSF



## ADAPTATION AGRICULTURE & FOOD SECURITY

- **CGIAR Research** (US\$ 20.00 million, USAID; US\$ 6.04 million, UK DFID): Addresses climate-related threats to agriculture and food security and explores options for helping vulnerable rural communities adjust to climate change.
- **Feed the Future** (US\$ 20.20 million, USAID): Supports research and strategy development to help food producers reduce GHG emissions and adapt to climate change in the interests of increasing food security despite changing climate patterns.
- **FEWS NET** - Famine and Early Warning Systems Network (US\$ 37.80 million, USAID): Works with international, regional and national partners to provide 'timely and rigorous' early warning and vulnerability information on food security issues.
- **Gomal Zam Dam Irrigation Project** (US\$ 33.00 million, USAID): Aims to help the Government of Pakistan to meet electricity demand by adding power to the national power grid, storing water for irrigation, and enhancing flood control. Expected to provide electricity to 25,000 households and irrigate 163,000 acres of land to generate economic activity.



## ADAPTATION WATER & SANITATION

- **Flood Risk Management Project for Cagayan River, Tagoloan River and Imus River** (US\$ 65.62 million, JICA): Supports structural and non-structural measures to mitigate flood damage in the Cagayan, Tagoloan, and Imus river basins in the Philippines.
- **Water Supply, Sanitation, Hygiene (WASH)** (US\$ 41.00 million, Millennium Challenge Corporation): Aims to establish a financially sound, transparent, and accountable institutional basis for the delivery of water and sanitation services in Cape Verde through national institutional and regulatory reform, utility reform, and an infrastructure grant facility.



## ADAPTATION OTHER

- **Post Ondoy and Pepeng Short-Term Infrastructure Rehabilitation Project** (US\$ 86.19 million, JICA): Aims to protect against further damage and restore access to various socio-economic activities in the typhoon-affected areas by rehabilitating the damaged roads and bridges to at least their pre-typhoon function.
- **SERVIR observation system** (US\$ 37.80 million, USAID): Joint venture between NASA and USAID providing satellite-based Earth observation data and science applications to help Central American, East African and Himalayan countries to improve environmental decision-making, assess environmental threats, and respond to and assess damage from natural disasters.



## ADAPTATION DEDICATED FUNDS

- **Adaptation Fund (AF)**: Supports countries to adapt to the impacts of climate change, and is partially financed through a 2% levy on the sale of emission reductions generated through the Clean Development Mechanism.
- **Least Developed Country Fund (LDCF)**: Supports the implementation of National Adaptation Programmes of Action (NAPAs) in 49 LDCs.
- **Pilot Programme Climate Resilience (PPCR)**: Pilots and demonstrates ways in which climate risk and resilience may be integrated into core development planning and implementation by providing incentives for scaled-up action and initiating transformational change.
- **Special Climate Change Fund (SCCF)**: Covers the incremental costs of interventions to address climate change relative to a development baseline. It focuses on adaptation to climate change, although it can also support technology transfer and its associated capacity building activities.



## MITIGATION RENEWABLE ENERGY INFRASTRUCTURE

- **Geothermal Development Acceleration Program** (US\$ 480.86 million, JICA): Provides project engineering services for the Tulehu Geothermal Power Plant. Aims to improve stability of power supply and ease power demand. JICA supports a number of other renewable energy infrastructure projects, including the Gulf of El Zayt Wind Power Plant Project, the Olkaria I Unit 4 and 5 Geothermal Power Project, and the Lumut Balai Geothermal Power Plant Project.
- **Export Credit for Honduras Wind** (US\$ 158.60 million, Ex-Im): Finances the export of 51 wind turbines from Gamesa Wind US for the 102-megawatt (MW) Cerro de Hula Wind Farm in Honduras. This was Ex-Im Bank's first renewable-energy deal to use new carbon policy incentives, including an 18-year repayment term.
- **Solar Power Plant Ourzazate** (US\$ 20.91 million, Germany's ICI): Finances the first phase of a 500MW concentrated solar power project in Morocco through the formation of a public-private partnership (PPP) and operational support.



## MITIGATION RURAL ELECTRIFICATION

- **Rural Electrification Cabo Delgado II** (US\$ 4.82 million): Supports a substation, including a shunt reactor, and radio system, for rural electrification in Mozambique.
- **EnDev** (US\$ 11.36 million): A German-Dutch-Norwegian energy partnership that aims to provide 5 million people with access to sustainable energy services. Supports grid expansion by national electricity provider NEA, training and capacity for communities, and micro-loans for communities.



## MITIGATION LOW-CARBON/EFFICIENT THERMAL POWER

- **Capacity Building for CCS** (US\$ 74.47 million, DECC): Builds technical and institutional capacity for deployment of CCS technologies in China, Indonesia, and South Africa.
- **Highly energy-efficient thermal power plant project in East Java** (US\$ 729 million, JICA): Provides loan to PT Paiton Energy for the construction of an additional 815 MW power plant to expand the capacity of the currently operating 1,230 MW Paiton power station in Paiton, East Java, which is also funded by JBIC (JBIC 2010b).



## MITIGATION GRID IMPROVEMENT

- **Tamil Nadu Transmission System Improvement Project** (US\$ 528.17 million, JICA): Contributes to stable power supply and economic growth by constructing transmission lines and substations throughout Tamil Nadu (in Southern India), stabilising the power system and reducing transmission losses. JICA supports a number of additional transmission projects, including the Madhya Pradesh Transmission System Modernisation Project, the Olkaria-Lessos-Kisumu Transmission Lines Construction Project, and the Habarana-Veyangoda Transmission Line Project.



## MITIGATION TRANSPORT

- **Delhi Mass Rapid Transport System** (US\$ 1404.84 million, JICA): Expands Delhi's mass rapid transit system, promoting regional economic development and improving the urban environment by mitigating traffic jams and decreasing pollution. JICA supports a number of additional mass transit projects, including the Ho Chi Minh City Urban Railway Project, the Kolkata East-West Metro Project, and the Bangalore Metro Rail Project.



## MITIGATION CROSS-CUTTING

- **Climate Public-Private Partnership (CP3)** (US\$ 82.78 million, DFID): Equity investment to foster low-carbon investments in Asia and to strengthen financial infrastructure for low-carbon investments globally; grant financing to assist with project pipeline and fund development.
- **NAMA Facility** (US\$ 40.25 million, DECC): Supports developing countries that show leadership on tackling climate change and want to implement transformational country-led NAMAs within the existing global mitigation architecture in the short term. (The NAMA Facility is also supported by the BMU.)
- **Foundation for the Future of the Carbon Market** (US\$ 13.94 million, BMU): Promotes the use of programmatic CDM activities by providing initial financial support and boosting awareness of the concept. Funding will largely be provided for investment in small-scale emission-reduction measures such as the use of energy-efficient cookers, upgrading generic lighting with energy-saving lightbulbs, and the construction of biogas facilities and small-scale hydropower plants.



## MITIGATION DEDICATED FUNDS

- **Clean Technology Fund (CTF)**: The CTF promotes scaled-up financing for demonstration, deployment and transfer of low-carbon technologies with potential for long-term GHG emissions savings.
- **Global Energy Efficiency Renewable Energy Fund (GEEREF)**: The GEEREF is a PPP that specialises in financing small and medium-sized project developers and enterprises to implement energy efficiency and renewable energy projects in developing countries and economies in transition.<sup>16</sup>
- **Global Environment Facility Trust Fund (GEF)**: The GEF is an operational entity of the UNFCCC, and is the longest standing source of dedicated public climate change finance. Its activities have largely focused on mitigation and have broad regional distribution.
- **Montreal Protocol Fund**: Created to help developing countries meet the agreed incremental cost of fulfilling the Protocol's control measures.<sup>17</sup>
- **Scaling-Up Renewable Energy Program for Low Income Countries (SREP)**: The SREP aims to demonstrate the economic, social and environmental viability of low-carbon development pathways in the energy sector in LICs by exploring opportunities to increase energy access through the use of renewable energy.



## REDD+

- **Guyana REDD+ Investment Fund** (US\$ 66.96 million, Norway through the World Bank): Multi-contributor trust fund for the financing of activities identified under the Government of Guyana's Low Carbon Development Strategy. Pending the creation of an international REDD+ mechanism, the GRIF represents an effort to create an innovative climate finance mechanism which balances national sovereignty over investment priorities while ensuring that REDD+ funds adhere to the highest internationally recognised standards for financial, environmental and social safeguards.
- **Indonesia REDD+ Task Force** (US\$ 29.78 million, NORAD administered): Agreement between UNDP Jakarta and the Ministry of Foreign Affairs to develop and implement REDD+ National Strategy.
- **Central Africa Regional Program for the Environment (CARPE)** (US\$ 13.9 million, USAID): Supports implementation and establishment of improved natural resource management capacity in order to reduce deforestation and conserve biodiversity. The strategic objective of CARPE is to reduce the rate of forest degradation and loss of biodiversity in the Congo Basin by increasing local, national, and regional natural resource management capacity.
- **Tropical Forest Conservation Act** (US\$ 32.0 million, Department of the Treasury): Offers eligible developing countries options to relieve certain official debt owed to the US Government while at the same time generating funds in local currency to support tropical-forest conservation activities. In addition to forest conservation and debt relief, TFCA is intended to strengthen civil society by creating local foundations to support small grants to NGOs and local communities.



## REDD+ DEDICATED FUNDS

- **Amazon Fund**: Aims to raise donations to enable investments to prevent, monitor and combat deforestation, as well as to promote the conservation and sustainable use of forests in the Amazon Biome.
- **Congo Basin Forest Fund (CBFF)**: Aims to support transformative and innovative projects to complement existing activities, which will develop the capacity of people and institutions of the Congo Basin to enable them to preserve and manage their forests.
- **Forest Carbon Partnership Facility (FCPF)**: Supports piloting new approaches to reduce emissions from deforestation and degradation in developing countries. It has the dual objectives of building capacity for REDD+ in developing countries, and testing a programme of performance-based incentive payments in some pilot countries.
- **Forest Investment Programme (FIP)**: Provides scaled-up financing for developing countries for REDD activities through readiness reforms and public and private investments, identified through national REDD readiness or equivalent strategies.
- **UN REDD**: Supports the capacity of national governments to prepare and implement national REDD strategies with the involvement of a broad range of stakeholders.



## MULTIPLE

- **Green Prosperity** (US\$ 332 million, MCC): Provides technical and financial assistance to support rural economic development that raise the income of Indonesian households while reducing reliance on fossil fuels, improving land-management practices, protecting natural capital and complementing efforts to reduce emissions from deforestation and environmental degradation. Includes a funding facility to support investments in the expansion of renewable energy and sustainable management and use of natural resources.
- **Climate Change Program Loan (CCPL)** (US\$ 236.48 million, JICA): Aims to assist the development of climate-change policy in developing countries by budget-support loan co-financed by JICA and other aid agencies to the Ministry of Finance of a recipient country. As a condition for receiving the loan aid, the recipient country develops a multi-year climate change policy action plan ('policy matrix'). JICA's CCPL was/has been implemented in Indonesia and Vietnam. Aid agencies including JICA signed three loan agreements with the Government of Indonesia, based on year-round monitoring on policy matrix and now completed.

## Box 4: Financing new 'clean fossil power' plants

What 'counts' as climate finance is contested. As noted, contributor countries have employed different approaches to determine which projects bring adaptation or mitigation benefits, and which should be included in the FSF portfolio. One of the key questions is whether low-carbon, or 'clean', fossil energy investment should count as climate finance. On one hand, many developing countries face an urgent need for affordable and reliable energy, and tend to use the cheapest (and often most polluting) technologies to meet these needs. If finance is used to help them adopt less emission-intensive, fossil-based technologies, this generates a relative climate benefit.

On the other hand, even efficient and relatively low-carbon fossil-fuel energy facilities can result in significant GHG emissions, and these facilities often have long lifespans of more than 40 years. Investing in fossil-fuel energy systems therefore locks-in GHG emissions for a substantial period of time. Furthermore, in many countries the gains associated with adopting more efficient technologies such as supercritical coal technology render them commercially viable even in the absence of climate finance.

Some multilateral climate funds, such as the Clean Technology Fund (CTF), have adopted minimum standards that any investments in fossil-fuel power plants must meet in order to qualify for finance, and have required that to receive funding coal plants must be designed to be carbon-capture and storage (CCS)-ready. However, while retrofits might be technically possible, it is unclear that they would be viable – the associated costs may prove prohibitively high.

The top five FSF contributors took different approaches to relatively 'clean' fossil-fuel technologies. Japan counted several 'clean fossil' projects as FSF, including a concessional ODA loan for a gas-fired combined-cycle power-plant project in Uzbekistan (US\$ 238 million), and two large non-concessional OOF loans through JBIC for coal plants in Indonesia (US\$ 729 million in East Java and US\$ 214 million in West Java respectively<sup>13</sup>), as well as several small preparatory projects (feasibility studies and local surveys) for high-efficiency coal-fired plants. These types of project represent about US\$ 1.2 billion of the total bilateral FSF portfolio. In addition, Germany, Japan, the UK and the USA all also contributed to the CTF, which, as noted, can provide finance for low-carbon fossil-fuel technologies under some circumstances (Nakhooda 2010). Except in the context of the CTF, the USA explicitly excludes fossil fuel investments from its FSF portfolio (Fransen et al. 2012). Finally, Norway and the UK have provided some support for CCS-related capacity-building.

There is declining support for the use of international public finance for coal. The USA released a Climate Action Plan (CAP) in June 2013 committing to ending US government support for public financing of new coal-fired power plants overseas, except in the world's poorest countries or if facilities use CCS technologies (The White House 2013). The CAP also calls on other countries and multilateral development banks to take a similar approach. Denmark, Finland, Iceland, Norway and Sweden endorsed this call in September 2013. In July 2013, the World Bank adopted a new energy strategy that will limit financial support for new greenfield coal-fired power plants to 'rare circumstances' such as 'meeting basic energy needs in countries with no feasible alternatives' (World Bank 2013). Moreover, the European Investment Bank (EIB) also announced that it will stop financing fossil-fuel-fired power plants with CO<sub>2</sub> emissions higher than 550 g/kWh, which effectively rules out all coal-fired power plants without CCS (EIB 2013a; EIB 2013b).

## V. How was Fast-Start Finance delivered?

As noted in Section II, the Copenhagen Accord and the Cancun Agreements provided limited guidance on the sources, financial instruments and channels that should contribute to FSF. Each country interpreted the agreements differently and counted different sources, instruments and channels towards its FSF contribution. These differences have implications for the scale and characteristics of the FSF portfolio as a whole. This section considers four aspects of FSF: sources of FSF, financial instruments used to deliver it, the concessionality of these instruments and their link to ODA, and institutions through which FSF was channelled.

### FSF was sourced primarily from existing government revenue and development finance

Germany's FSF contribution is notable in that it mobilised an 'innovative' source of FSF. In addition to traditional government revenue, Germany raised funding from auction revenues from the EU Emission Trading Scheme (ETS). These revenues indirectly support international and domestic climate-related spending, specifically the BMU's<sup>14</sup> International Climate Initiative. This represents an initial effort to diversify sources of international climate finance,

but with carbon prices currently at unprecedented lows, there is a risk that continued reliance on carbon revenues for climate finance will not be adequate or predictable (Harmeling et al. 2013).

FSF from Norway and the UK, by contrast, was funded from existing government revenues. Japan and the USA also included funding from non-concessional development finance and export-credit agencies (ECAs), namely Ex-Im, OPIC and JBIC. While Germany, Norway and the UK also have active development finance and export-credit programmes (which have sought to promote low-carbon technologies), they have not counted these funding sources as FSF (See Table 4).

Finally, while Japan and the USA did not count private finance in their contributions to developed countries' collective pledge of US\$ 30 billion, they reported leveraged private finance in their FSF self-reports to the UNFCCC.<sup>15</sup> In their 2012 FSF reports, the Japanese and US governments state that they leveraged private finance of US\$ 3.6 billion and US\$ 2.7 billion respectively (Government of Japan 2013; US Department of State 2012).<sup>16</sup>

17

Table 4 | Sources of FSF from top five contributors

	Germany	Japan	Norway	UK	USA
Existing government revenues	yes	yes	yes	yes	yes
Innovative sources	yes	no	no	no	no
Export-credit and bilateral non-concessional development finance	no	yes	no	no	yes
Leveraged private finance	not included	included in its US\$ 15bn pledge, but excluded from the collective contributions by developed countries as a whole	not included	not included	not included, but quantified and reported separately from total FSF

Figure 6 | Share of total FSF portfolio by financial instrument

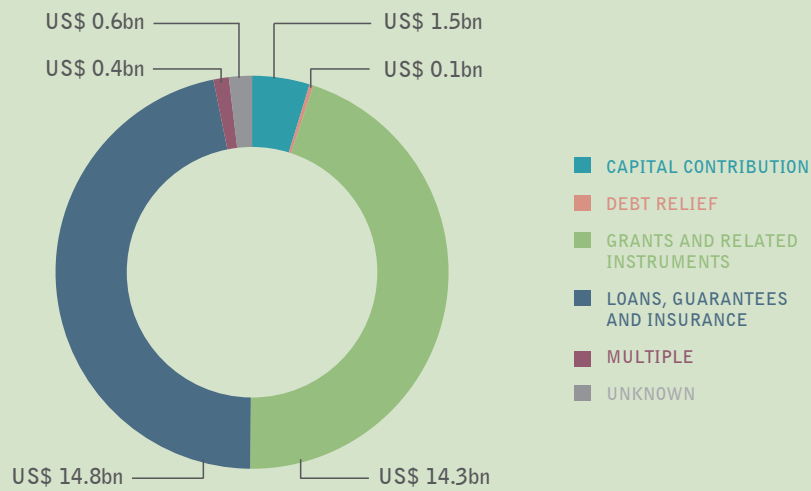
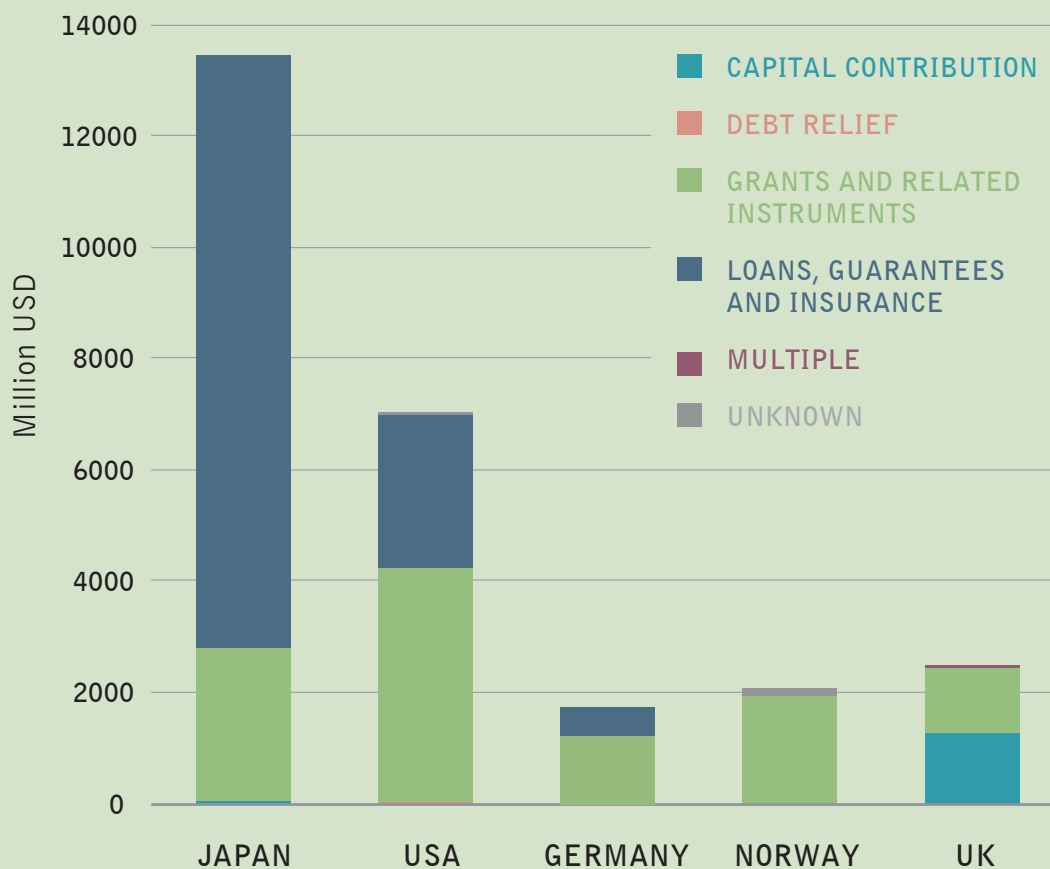


Figure 7 | Breakdown of top five FSF contributions by financial instrument





## FSF has been delivered primarily as loans and grants

Almost half (47%) of the total FSF portfolio took the form of loans, guarantees and insurance (Figure 6). This is largely explained by the heavy reliance on loans by Japan and the USA (Figure 7). Japan issued concessional loans to governments of developing countries and non-concessional loans to private companies (US\$ 8.3 billion and US\$ 2.3 billion respectively), while the USA issued non-concessional loans to private companies as well as export credit, guarantees and insurance. The interest rates at which these non-concessional loans have been made available have generally not been publicly available for a number of reasons, including business confidentiality. Other countries, such as Norway and the UK, have only counted funding provided as grants or capital contributions as FSF. Germany largely provided FSF as grants, with the exception of its US\$ 501 million loan contribution to the CTF. In total, about 45% of FSF appears to have been mobilised in the form

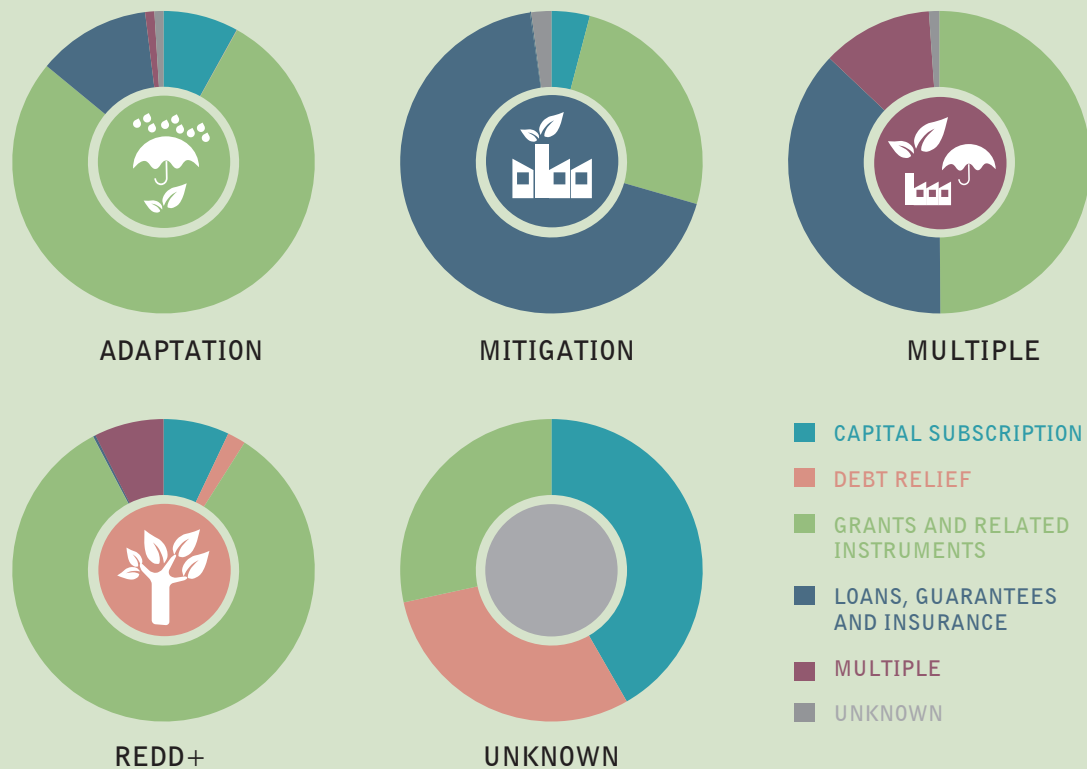
of grants. Adaptation projects were supported primarily by grants (Figure 8).

The balance of loans and grants in FSF has important fiscal implications for the recipient governments. Loans have debt-service implications, even if they are concessional. Furthermore, grants and loans are instruments that lend themselves to different kinds of interventions and outcomes, as discussed below.

## The concessionality of FSF

Almost 80% of the total FSF portfolio was reported as ODA grants or ODA-eligible loans (Figure 9). A combined 17% constituted OOF, export credit, guarantees, and insurance, while the remainder could not be identified. The non-concessional share of the FSF portfolio is split nearly evenly between Japan and the USA; no non-concessional contributions from other countries were identified (Figure 10). Japan has stated that their approach reflects the use

Figure 8 | Financial instrument by objective – total FSF contribution



# Mobilising Climate Finance

Figure 9 | Total FSF contribution by source

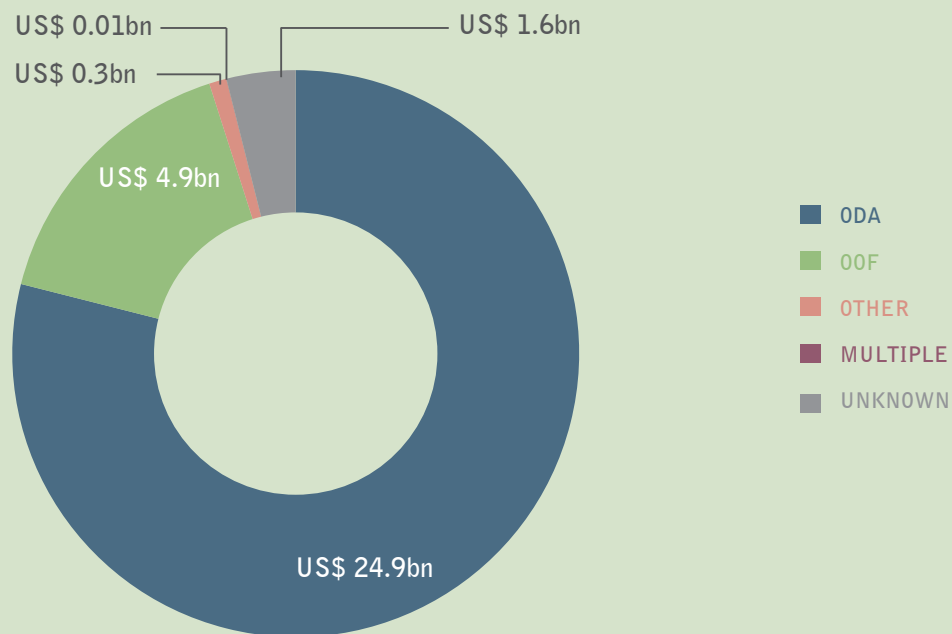
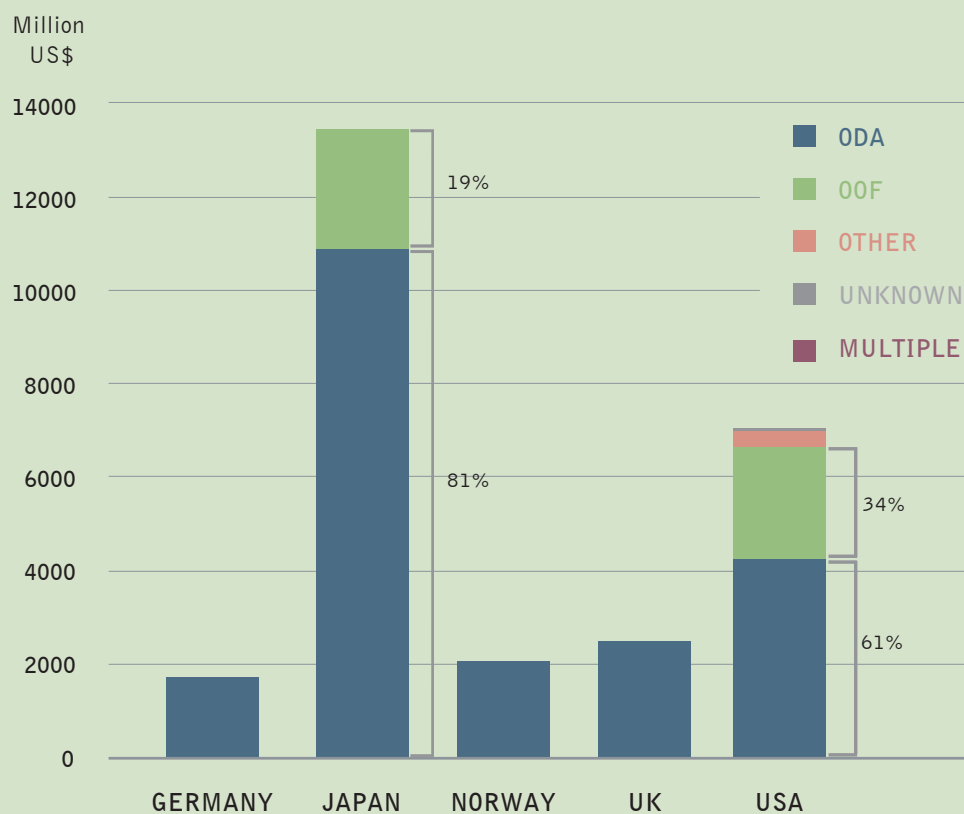


Figure 10 | Breakdown of source by top five FSF contributors



of concessional loans as an ODA instrument to encourage developing countries' 'self-help efforts' and eventual financial independence (Government of Japan 2003).

## The implications of reliance on non-concessional climate finance

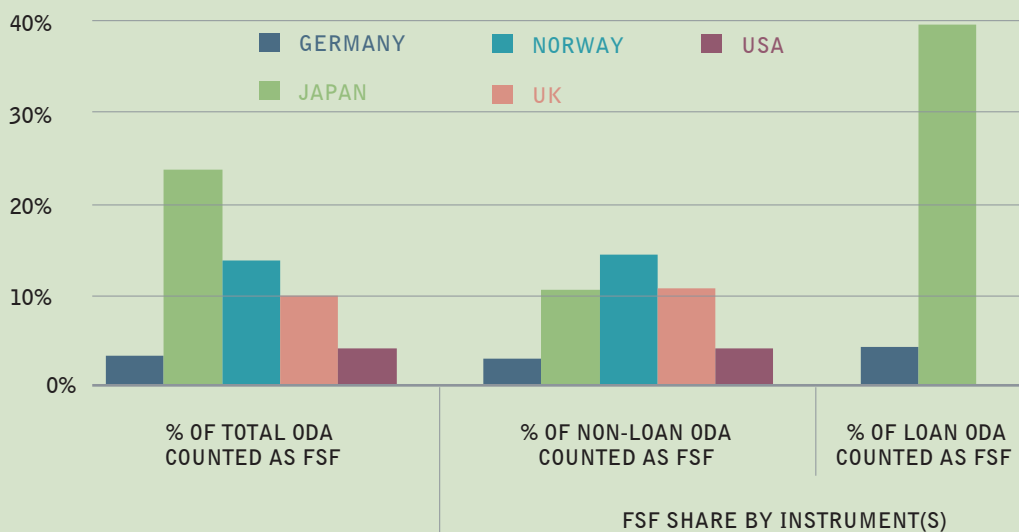
Non-concessional public finance reported as OOF played a substantial role in developed countries' efforts to meet their FSF commitments. Given the increasing prominence of OOF in development finance efforts (Greenhill et al. 2013), there are many reasons to expect OOF to continue to play a substantial role in climate finance. OOF instruments – as well as guarantees and insurance – can help to address risks that impede private investment (Chelsky and Morel 2013), and may appeal to the climate-finance community given its focus on mobilising and leveraging private investment in climate-compatible development. Some OOF institutions now have a mandate to help to tackle climate change, as in the case of JBIC, or rigorous climate policies that prompt them to seek mitigation-related investment opportunities, as in the case of the US OPIC. The prospect of significant reliance on OOF in efforts to scale up climate finance has several important implications.

A primary mandate of OOF is generally to support contributor countries' economic and business interests.<sup>17</sup> Moreover, ECAs are often subject to local content requirements. These policies may facilitate mobilisation of finance by contributor countries, many of which are under substantial political pressure to support domestic industries and to reduce international spending (particularly in countries seen as economic competitors). These interests, however, may not always align perfectly with the priorities of the recipient country. Furthermore, as discussed above, counting non-concessional instruments towards international obligations is at odds with the compensatory view of climate finance held by some stakeholders (Schalatek 2010).

In addition, the FSF experience suggests that OOF is more likely to be used for mitigation activities than for adaptation. This is in part because business models for investment in mitigation activities are relatively better established. The potential role of OOF in future adaptation finance remains to be seen.

Discussions on Long-Term Finance (LTF) have emphasised the importance of recipient-country ownership for the

Figure 11 | Relationship between FSF and ODA in top five FSF contributors



Source: Authors' calculations based on data from national FSF reports and OECD DAC database (OECD 2013b). Based on average ODA commitments counted as FSF for three calendar years (2010–2012) and the average total commitments for 2010 and 2011.

effective deployment of resources (UNFCCC 2013; IISD 2013), indicating that there will be an increasing need to tailor financial instruments to country-driven plans. There is an important opportunity, then, to explore ways of tailoring non-concessional development finance to country-driven mitigation and adaptation plans.

## The link between FSF and ODA

Figure 11 presents the following comparisons:<sup>18</sup>

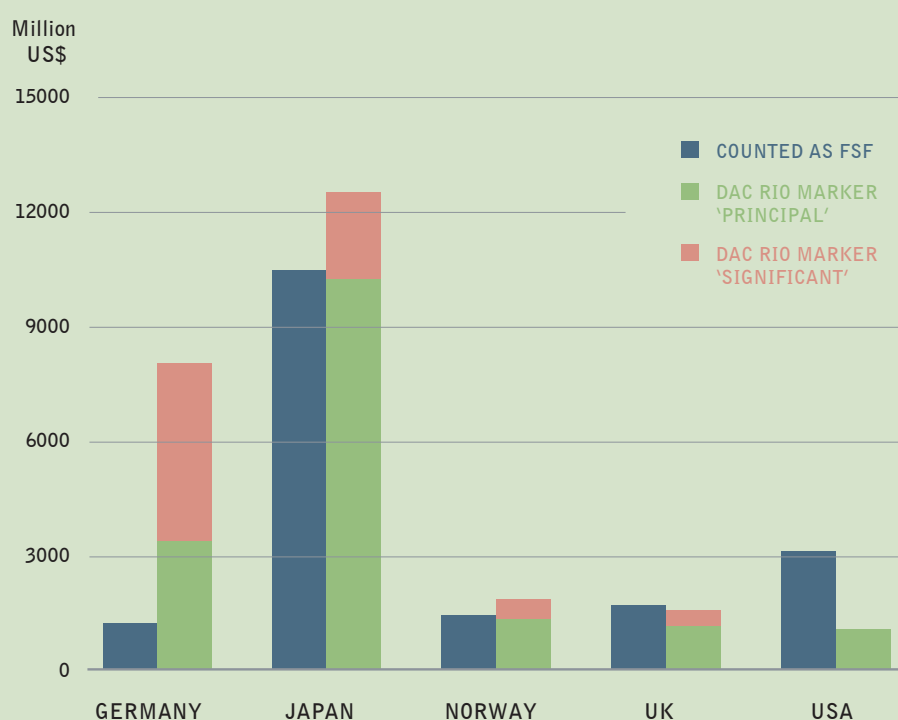
1. Percentage of total ODA counted as FSF: Total ODA FSF divided by total ODA
2. Percentage of total non-loan ODA counted as FSF: Total non-loan ODA FSF divided by total non-loan ODA
3. Percentage of loan ODA counted as FSF: Concessional loan FSF divided by total loan ODA

As shown, the percentage of total ODA commitment counted as FSF varied by country, from 3% for Germany to 25% for Japan. Germany's figure is low due primarily to its relatively strict additionality criteria (see Section VI), which results in a significant share of climate-related ODA not being counted as FSF. Japan's figure is relatively high because nearly 40% of

its loan ODA commitments, which represents nearly half of its total ODA commitment,<sup>19</sup> was counted as FSF. While large-scale loan projects often support infrastructure development and thus address multiple issues (including climate change), Japan appears to have counted its commitments to climate-relevant ODA loan projects in their entirety even though only a fraction of each project may relate to mitigation or adaptation. In some cases, the project documents do not refer to climate change.<sup>20</sup>

Looking only at the fraction of non-loan ODA counted as FSF, however, the range between countries was much smaller (11% to 16%). This share was highest for Japan and Norway, which counted commitments to climate-relevant ODA projects in their entirety (Kuramochi et al. 2012 and Moe et al. 2013). The UK and the USA, on the other hand, accounted only for the climate change component of projects with multiple objectives (Nakhouda et al. 2012; Fransen et al. 2012).

**Figure 12 | ODA counted as FSF versus ODA tagged with Rio Markers for years 2010 and 2011**



Note: Total ODA tagged with mitigation and adaptation Rio Markers 2 (principal) and 1 (significant) based on two calendar years 2010 and 2011.

In addition to reporting on climate finance through FSF reports to the UNFCCC, members of the OECD DAC also identify projects related to climate change adaptation and mitigation through the Rio Marker system (Box 6). In principle, total ODA commitments reported as FSF may be expected to be somewhat smaller than total ODA tagged with the climate change Rio Markers, since the former is subject to 'new and additional' criteria and the latter is not (OECD 2013d). Figure 12 shows the share of ODA tagged with the climate change Rio Markers to the share reported as FSF, for years 2010 and 2011. Rio Marker data were available only for 2010 and 2011.<sup>21</sup>

Germany applies relatively strict 'new and additional' criteria to its FSF, but not to Rio Marker tagging, so the former are lower than the latter. The USA, on the other hand, tags only its 'core' climate appropriations with the Rio Markers, but casts a much wider net in its FSF identification, including non-core climate appropriations that meet certain criteria for climate relevance. Moreover, the USA does not use 'new and additional' criteria for its FSF. As a result, it claims a significantly higher share of its ODA as FSF than it tags with the Rio Markers. The reasons for the differences between ODA claimed as FSF and ODA tagged with the climate Rio Markers for Japan and Norway are not clear.

## The majority of FSF was channelled bilaterally

FSF has been channelled via various types of institutions. The choice of institutions affects perceptions of their legitimacy in managing climate finance, their responsiveness to recipient countries, as well as the modalities through which they engage. As discussed in Section II, many recipient countries have made the case for climate finance to be channelled through multilateral institutions with formal links to the UNFCCC, and in whose governance they have a voice. Only 20% of FSF, however, was committed through dedicated multilateral climate funds, while over two thirds was channelled bilaterally (Figure 13).

When looking at individual contributor countries, however, it is clear that they adopted diverse modalities to honour their commitments, reflecting in many cases their underlying approach to international cooperation and finance (Figure 14 and Table 5). Both Germany and the UK established dedicated climate funds through which decisions were made about how to allocate finance to achieve climate-related objectives. The UK has relied heavily on multilateral channels (via which approximately 80% of its FSF contribution was committed). Norway, Japan and the USA did not set up new climate funds, although they all established new climate-focused 'initiatives' managed by their bilateral development agencies.<sup>22</sup> Japan and the USA both channelled more than 75% of their contributions through bilateral institutions.

## Box 6 | The OECD CRS and the Rio Markers

The OECD Creditor Reporting System (CRS) was established in 1976 to disclose information on individual aid activities reported by countries to the Development Assistance Committee (DAC). The CRS provides data on the geographical and sectoral distribution of grants and other forms of lending to developing countries, and supports monitoring attention to specific policy issues through development assistance. In 1998, the DAC introduced the Rio Markers for aid activities targeting the objectives of the three 1992 Rio Conventions covering biodiversity, desertification and climate change mitigation. In 2009, a climate change adaptation marker was approved (and implemented from 2010) (OECD 2013d). Countries report whether activities (a) target the convention as a 'principal' objective, (b) target the convention as a 'significant' objective, or (c) do not target the objective (OECD 2011). Efforts are currently underway to extend the Rio Markers to OOFs recorded in DAC statistics, in addition to ODA.

Rio Marker data need to be handled carefully. Reporting practices differ among contributors, so data are not always comparable, although there are efforts to strengthen clarity and accuracy. In addition, projects may be reported against multiple objectives, as the CRS was designed to monitor attention to policy priorities across development assistance rather than to monitor progress against international commitments. Finally, reporting on climate activities using the Rio Markers is a relatively recent practice, and countries are still gaining experience and strengthening their data systems to accommodate it. The OECD is exploring processes to strengthen the quality of these data (OECD 2013d).

# Mobilising Climate Finance

Figure 13 | Total FSF contribution by channel

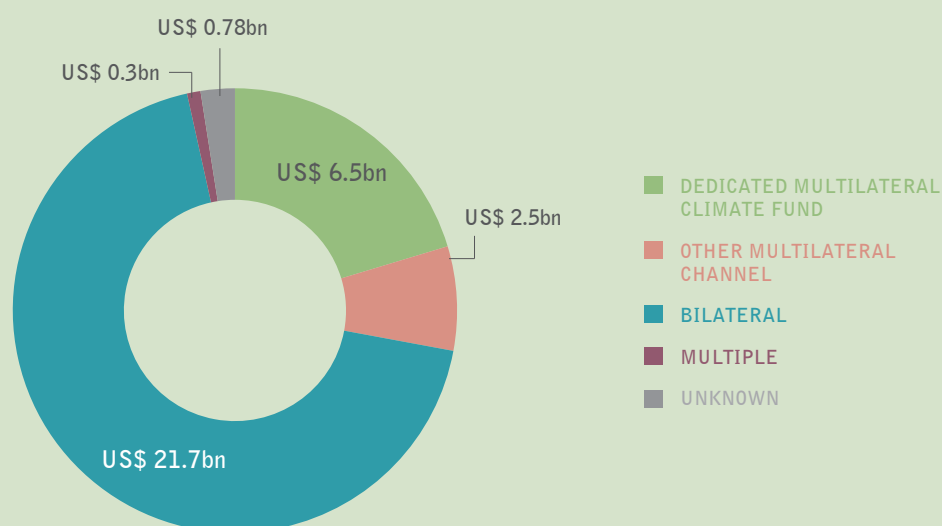


Figure 14 | Breakdown of channel for top five FSF contributors

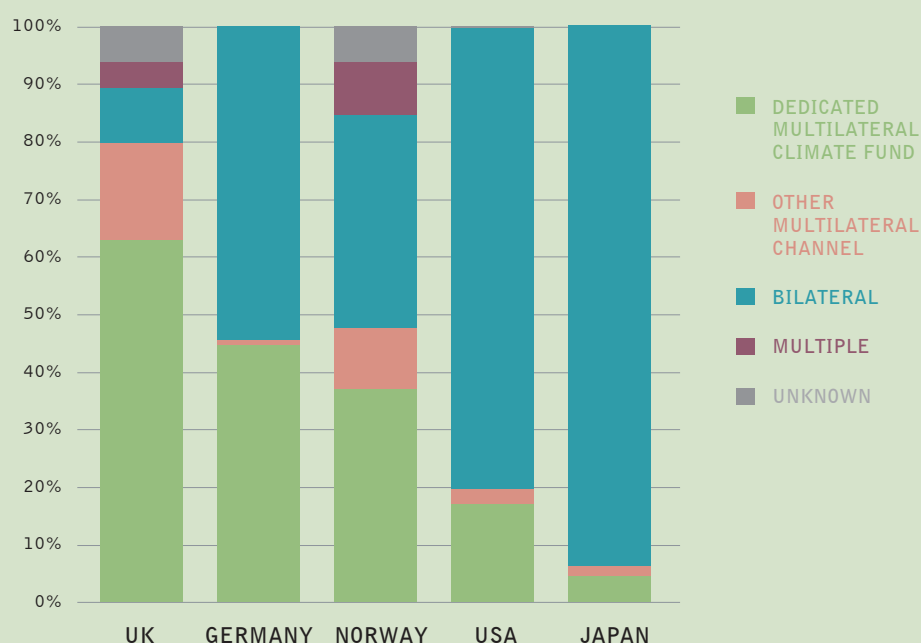


Table 5 | Major channelling contributor institutions used to mobilize FSF and leveraged private finance

		Germany	Japan	Norway	UK	USA
ODA	Bilateral	Through ICI, GIZ, KfW	JICA	NORAD	Through ICF, DFID	USAID, MCC and others
	Multilateral	Direct from ministries	Direct from ministries			Direct from State, Treasury, etc.
OOF, export credit, and other non-concessional development assistance		---	JBIC, NEDO, direct from ministries	--	---	OPIC Ex-Im
Leveraged private finance		---	Through JBIC	---	---	Through OPIC and Ex-Im

## VI. Was FSF new and additional?

Parties to the UNFCCC agreed in principle that FSF should be ‘new and additional’ to ODA. The issue of additionality, of course, is not unique to climate change: it is a concern that has often arisen when countries have committed to provide new forms of financial support for specific development agendas (UNDESA 2012).<sup>23</sup> It has been a dominant theme in debates on climate finance in part because of concerns that addressing climate change may increase the costs of achieving core development objectives. Consequently, development stakeholders have sought to ensure that scaling up climate finance does not displace support for development priorities not directly linked to climate. Additionality has also taken on heightened importance in development debates during the global financial crisis, as the resulting austerity measures have created pressure among developed countries to reduce international aid spending.

Understanding and measuring additionality relative to ODA flows is difficult. Most climate-related programmes are also likely to support development. Adaptation and mitigation projects may justifiably substitute for high-carbon projects.<sup>24</sup> Climate finance is closely interlinked with development finance. Indeed, few would argue that ODA should not include considerations of climate change: rather, the concern is to ensure that there is also sufficient ODA to meet development objectives without a strong link to climate change.

How to apply the ‘new and additional’ principle in the context of climate finance remains unclear and contested. For example, some experts have advocated sourcing and channelling climate finance separately from traditional development finance on the grounds that this would help prevent the former from ‘encroaching’ on the latter. This approach, however, may limit incentives to integrate climate considerations into development programmes (e.g. health and infrastructure), which is ultimately necessary to ensure their sustainability.

As noted, this report does not propose or endorse a consensus definition of ‘new and additional’ climate finance. Rather, it considers a number of criteria to assess whether

climate finance might be considered ‘new and additional’ as the term is employed in international debates and in the literature on climate finance (e.g. Brown et al. 2010; Stadelman et al. 2010). The following analysis concentrates on FSF contributions of Germany, Japan, Norway, the UK and the USA. The criteria we scrutinise include:

- ‘New’ criteria:
  - › Does annual FSF exceed pre-2010 annual climate finance (either at the portfolio level, or in the context of specific projects and programmes)?
  - › Does the FSF contribution avoid ‘recycling’ pledges made prior to 2010?
- ‘Additional’ criteria:
  - › Has FSF been committed in addition to the pledge to achieve the 0.7% of GNI as ODA target?
  - › Is FSF generated from new (non-ODA) sources while maintaining existing ODA expenditure?

We based our analysis of whether self-reported FSF contributions are new and additional on a variety of sources, including reporting on climate- and environment-related spending prior to 2010, reports to legislators of the five countries studied, climate-related ODA spending as recorded in the OECD DAC database using Rio Markers (Box 6) and other relevant studies.

### Annual FSF exceeds annual pre-2010 climate finance

One approach to ‘newness’ is simply to ensure an increase in climate finance relative to the pre-FSF period. In this view, an increase in climate finance compared to a baseline year represents ‘new’ funding. Since FSF began in 2010, and there are no comprehensive data prior to 2009,<sup>25</sup> we look at 2009 as a baseline.<sup>26</sup>

In reviewing the five largest FSF contributions, we compared self-reported climate- or environment-related spending in 2009 with the annual level of FSF reported, with the exception of Norway, for which 2009 data were not available. In all four countries, expenditures reported as FSF contributions were significantly higher than the 2009 expenditure related to climate and the environment

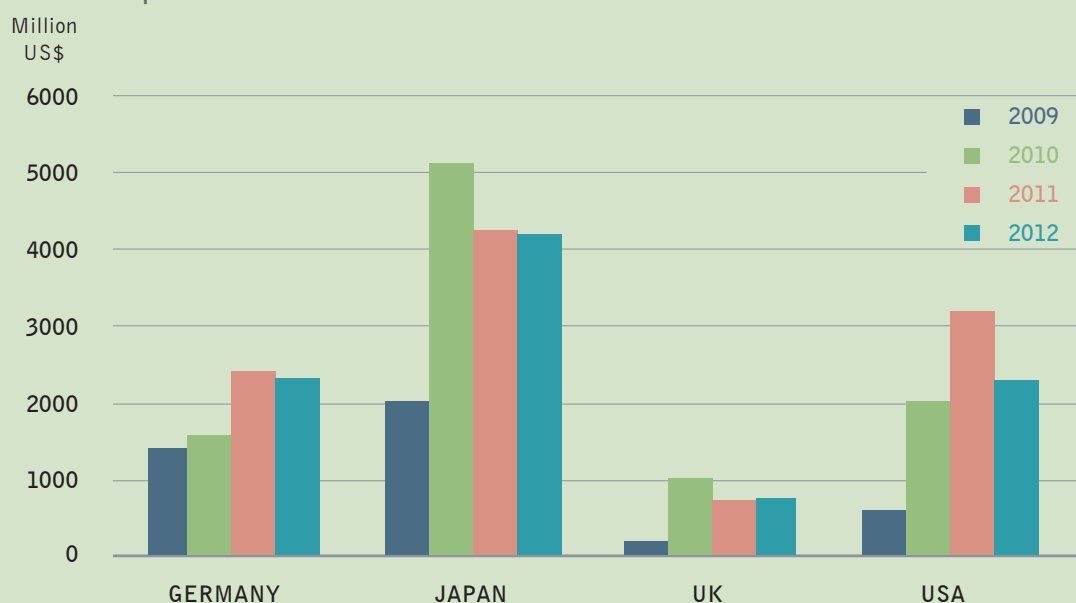
reported by the institutions involved in delivering climate finance (Figure 15). These comparisons are indicative, since countries' accounting procedures have evolved since 2009. Nonetheless, analysis of mitigation-tagged ODA (see Box 6) tells a similar story (Figure 16).

While it is possible that some of this reported increase reflects a re-categorisation of development projects with climate linkages as climate finance in order to meet FSF obligations, it is likely that a significant proportion reflects real increases. A large share of US climate finance, for example, comprises additional OPIC spending on low-carbon funding and dedicated Congressional appropriations at levels reliably documented to be higher than before the FSF period. Similarly, most programmes supported through the UK's ICF and Germany's ICI represent new funding approved on the basis of demonstrated contributions to meeting the objectives of these funds.

Another way to look at the 2009 baseline is to examine individual FSF-supported projects and programmes to determine whether (a) they are new since 2009; (b) they existed in 2009 but have received more funding during

the FSF period than previously; (c) they existed in 2009 and have not experienced an increase in funding since the FSF period began; or (d) whether the climate-focused component of the programme in question has received additional funding, even if other components have not. While a comprehensive, historical review of the individual projects and programmes funded by FSF is beyond the scope of this study, we note that the top five contributors counted as FSF several projects that they began supporting before the FSF period. For example, in 2010 the UK included support for the World Bank's Program on Forests (PROFOR). PROFOR has evolved to focus increasingly on climate issues since 2007; however, PROFOR is a long-standing programme that the UK has supported since its inception in the late 1990s. Similarly, the Government of Norway has included support for the Renewable Energy and Energy Efficiency Partnership as FSF, despite having supported the initiative since 2006. In these examples, the full contribution since 2010 appears to have been counted. Some countries, however, such as the USA, report that they have only counted the climate-focused components of long-standing programmes on the basis of agreed criteria. These criteria, however, have not always been evident to the public. These are important initiatives

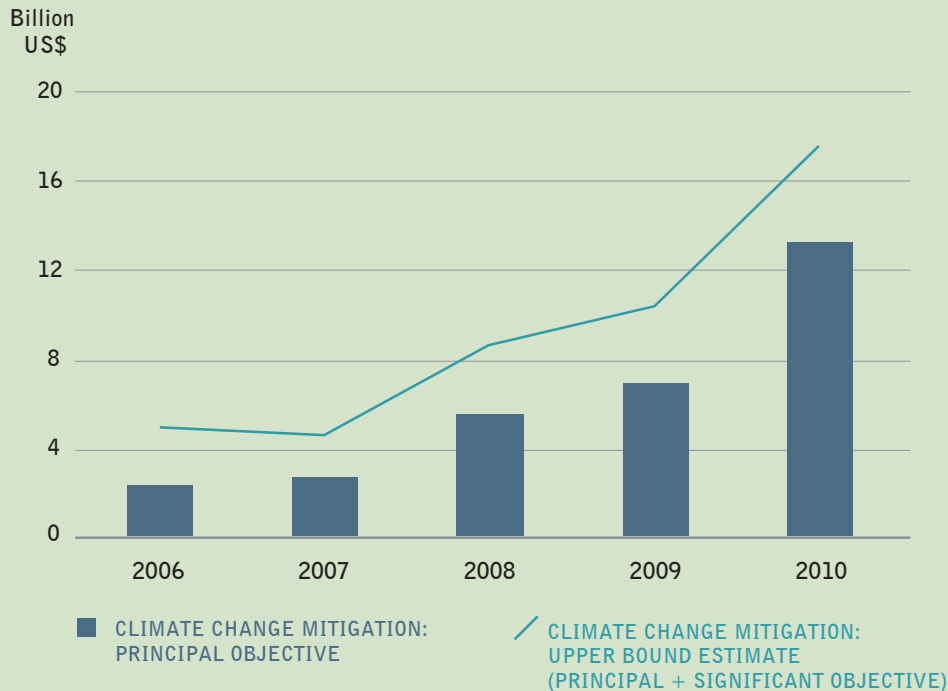
**Figure 15 | Approximate levels of annual climate finance before and during the FSF period**



Sources: German figures from Kowalzig, 2013; Japan 2009 data are an average annual commitment under the Cool Earth Partnership (including leveraged private finance), and 2010–2012 data are based on FSF spending (excluding leveraged private finance); UK 2009 data based on DFID Climate & Environment spending and 2010–2012 data based on FSF spending; USA 2009 data based on USG reporting and 2010–2012 data based on FSF spending.



Figure 16 | ODA tagged with climate mitigation Rio Marker (2006-2010)



Source: OECD <http://www.oecd.org/dac/stats/rioconventions.htm>

worthy of sustained support, but it is not always clear that they have received increased finance as part of honouring their FSF commitments.

## FSF contributions are also counted towards other pledges

A second criterion by which one might consider whether contributions are new would be to analyse whether the FSF contribution includes funding to follow through on pledges made before the start of the FSF period. In practice, we find that a substantial volume of FSF was pledged several years before 2010. As one example, contributions to the Climate Investment Funds (CIFs) constitute US\$ 3.9 billion of all five countries' multilateral FSF, although pledges to fund the CIFs were made in 2008. (All five countries have only counted as FSF the deposits made during the FSF period; payments made in 2008 and 2009 are excluded.) Some countries, including Germany, Norway and the UK, pledged more than US\$ 1 billion in new funding to the CIFs during the FSF period. Nevertheless, the majority of CIF funding was pledged prior to the FSF period.

More than US\$ 10 billion of the Japanese FSF contribution was originally pledged through the Cool Earth Partnership announced in 2008 (although Japan, likewise, has only counted as FSF the funding committed during the FSF period). Japanese officials have stressed that although the US\$ 10 billion was pledged prior to FSF, funding was not spent on individual projects counted as FSF out of this pool until after 2010. In Norway, much of the REDD+ funding committed under FSF was originally pledged in 2007 and 2008 in the context of efforts to accelerate progress on a global mechanism to reduce emissions from deforestation and degradation in advance of the 2009 UNFCCC negotiations in Copenhagen. Germany's contribution to REDD+ is linked to its pre-existing commitment to increase funding for the implementation of the Convention on Biological Diversity (CBD). While there are obvious synergies between implementing UNFCCC commitments through REDD+ and delivering on CBD commitments, the connection raises questions about whether pledges have been recycled. The USA has included funding for the Montreal Protocol Fund as FSF. While the implementation of the Montreal Protocol offers climate benefits, finance for the

Montreal Protocol Fund meets a long-standing commitment to the implementation of a separate multilateral agreement.

Excluding contributions that also meet previously pledged commitments would significantly reduce the amount of the FSF portfolio that can be considered 'new.'

## Additionality

There are several different approaches to assess the 'additionality' of climate-related funding reflected both in international policy discussions and in the literature on climate finance (Brown et al. 2010; Stadelman et al. 2010; World Bank 2010a). This section reviews the self-reported FSF contributions of the five countries under discussion against these measures and extends it, where feasible, to the other OECD DAC countries.

### **Most FSF is not additional to the commitment to provide 0.7% of GNI as ODA**

In the view of some stakeholders (including many developing countries), the additionality of FSF should be assessed with reference to the pledges that developed countries have already made to increase development assistance (Brown 2010; Stadelman et al. 2010; World Bank 2010a). Beginning with the original Pearson Commission report in 1969, and re-affirmed at the Monterrey Summit in 2002, developed countries agreed to increase ODA to 0.7% of their GNI. From this angle, FSF spending should be 'additional' to this pledge. This view reflects concerns that increasing climate finance will divert ODA from other development priorities, and it also seeks accountability for honouring both ODA and climate finance-related commitments. Implicitly, this approach seeks to separate climate finance from ODA, although there is a wide recognition that the two are inextricably linked and that it is important to incorporate climate considerations in ODA.

Of the five countries that we surveyed in detail, only Norway had met the 0.7% target when the Copenhagen Accord was negotiated. Furthermore, Norway's domestic policy commitment is to deliver 1% of GNI as ODA, and some Norwegian stakeholders therefore maintain that the additionality of its FSF contribution should be assessed against this commitment. Of the 25 DAC donors surveyed

in April 2013 (OECD 2013b), only five met the 0.7% target for ODA when the Copenhagen Commitment was made (Denmark, Luxembourg, the Netherlands, Norway and Sweden). Total ODA has in fact declined in recent years, and many of the largest ODA contributors in absolute terms, such as Japan and the USA, are far from meeting the 0.7% target (at 0.17% and 0.19% respectively in 2012) and do not plan to reach the 0.7% target in the near future.

There are several practical challenges to applying this approach to additionality. First, not all Annex II countries consider themselves accountable to the 0.7% target, which represents an aspirational pledge (Easterly 1999; Clemens and Moss 2005). Some countries, notably the USA, were not part of the Monterrey Consensus, and have distanced themselves from the 0.7% target. Second, as noted, only five countries had met the 0.7% target at the time when the commitment to deliver new and additional finance was made. Given the difficulties of securing political approval for increasing ODA budgets, it was unlikely that countries would increase their total ODA to 0.7% by 2010, simply to ensure that supplementary commitments to climate finance would be additional by this standard. Third, reductions in GNI can place the 0.7% target within reach without actually increasing ODA flows. The UK, for example, met the 0.7% target in 2013 despite a small decline in its ODA from 2011 to 2012 (OECD 2013c).

### **Is funding from new sources?**

A final option that has been proposed is to include only new sources of finance as additional, which may in theory separate budgets for aid and climate finance (see also Section VI). As discussed in Section II, the international community has explored options for mobilising new sources of finance, including levies on international air transport, financial transaction taxes, and revenues from auctioning emission allowances. Because such sources of finance would not be mobilised if not for climate change, they therefore could be considered inherently additional.<sup>27</sup> To date, only Germany has mobilised innovative sources (from emission auctioning under the EU ETS) for climate finance.<sup>28</sup> As developed countries gain experience in mobilising international climate finance, more of them may experiment with similar approaches, as discussed in the UN Secretary General's High Level Advisory Group on Climate Finance and ensuing discussions in the G20.

Table 6 | Performance of top five against broad criteria for 'new and additional'

Criteria	Germany	Japan	Norway	UK	USA
<b>New and Additional</b>					
Climate-related spending is higher during FSF than before	Yes	Yes	Yes	Yes	Yes
Climate-related projects and programs receive more funding than prior to the FSF period	In some cases/ Maybe	In some cases/ Maybe	In some cases/ Maybe	In some cases/ Maybe	In some cases/ Maybe
FSF includes contributions to meet pledges made prior to the FSF period	Partially	Partially	Partially	Partially	Partially
Country has met the Monterrey commitments to deliver 0.7% of GNI as ODA	No	No	Yes	No (although target achieved in March 2013)	No*
New sources of finance have been mobilised to address climate change	Yes	No, but dedicated budget contributions	No, but dedicated budget contributions	No, but dedicated budget contributions	No, but dedicated budget contributions

\*The USA has distanced itself from the 0.7% commitment

## Summary – New and Additional?

Table 6 summarises how the top five contributor countries perform against the various criteria for new and additional discussed above. All five have provided some new finance relative to 2009 as a baseline year, although substantial amounts were pledged prior to the FSF period. More attention to climate spending may well have resulted in increased labelling of financing as related to climate or as FSF. In all of the cases that we analysed, however, more climate finance was committed during the FSF period than before it. Only one of the four countries we studied provided more than 0.7% of GNI as ODA before and during the FSF period.

## VII. Geographic distribution and its implications

The FSF commitment reflected a broad agreement that there was a need to increase climate finance – and particularly adaptation finance – for poor and vulnerable countries. Specifically, the UNFCCC decision stated that ‘funding for adaptation will be prioritised for the most vulnerable developing countries, such as the least developed countries, small island developing states and Africa’ (UNFCCC. Decision 1/CP.16 Paragraph 8). Vulnerability tends to correlate with lower per capita income; relatively wealthier small island states are also highly vulnerable, as are nations with a coastline metropolis development pattern and consequent exposure to climate risks (Kharas and Rogerson 2012). Recent analysis suggests that in developing countries the urban poor in fast-growing cities that have poor infrastructure and recovery services may be some of the most affected by climate change (World Bank 2013). The FSF commitment also reflected the continued need to increase mitigation funding, which might reasonably be expected to focus on fast-growing economies that are responsible for a large and growing share of global GHG emissions.

Climate finance might favour a somewhat more affluent set of countries than would ODA, for which poverty and development needs are ostensibly the primary considerations. This tension might be expected to grow more acute in coming years, as many experts suggest that ODA increasingly needs to be focused on low-income countries (LICs), especially in Africa, in order to reduce global poverty (Kharas and Rogerson 2012). There is also growing political resistance within developed countries to the continued provision of ODA to fast-emerging economies that are increasingly perceived as ‘competitors’ (Glennie 2012). The practical implications for ODA allocation of the intended FSF priorities warrants consideration, given that a large share of FSF has been counted as ODA.

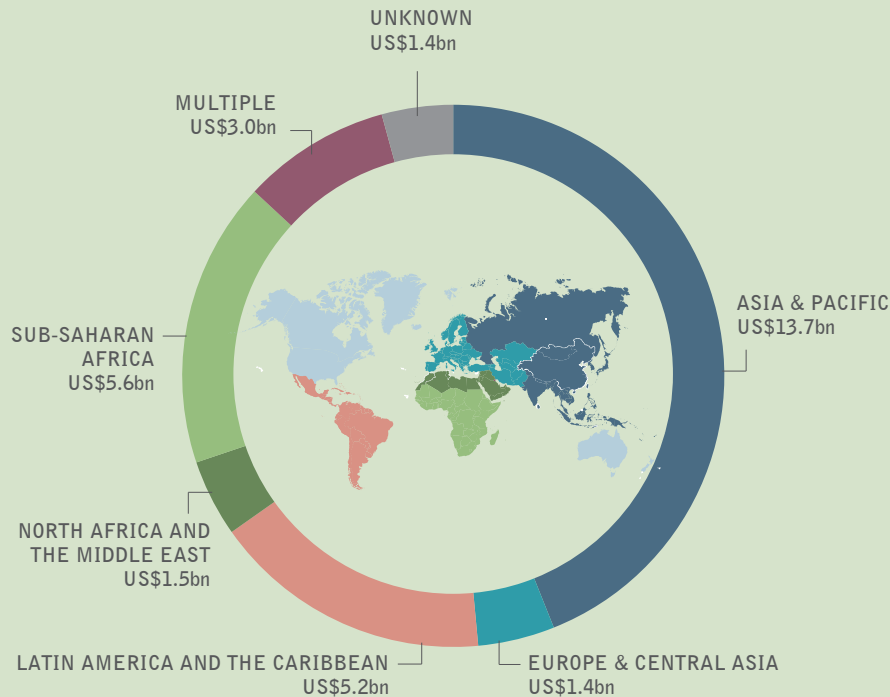
In this section we therefore consider (a) how FSF has been distributed, and how this distribution correlates with (b) the current distribution of ODA. We then turn to consider the extent to which the distribution of (c) adaptation finance is correlated with the vulnerability of recipient countries and (d) mitigation finance is correlated with the GHG emissions of recipient countries. Global programmes that target multiple countries are only partially represented in this analysis: we have imputed geographical allocations for finance channelled through dedicated climate funds,<sup>29</sup> but were unable to break down allocations from other global programmes due to the lack of available data. We have therefore excluded some programmes that target multiple unspecified countries in the last three subsections, which correlate FSF with country-specific variables.

### The majority of FSF has been directed to Asia

Figure 17 presents the regional distribution of FSF across five regions, and suggests that Asia was the intended beneficiary of nearly half (43%) of FSF committed. Many Asian countries are major GHG emitters, and many of Asia’s poorer and coastal countries are highly vulnerable to climate change. It is also, of course, the world’s most populous region. Eighteen percent was directed to sub-Saharan Africa, and 16% to Latin America. Much of the funding to these regions was directed through global and regional programmes.

Japan and the USA are the largest contributors of FSF, and have directed a substantial volume of finance to programmes in Asia. This in part reflects Japan’s general approach to ODA and OOF, which tends to focus on Asia for geopolitical reasons. Norway has been one of the largest FSF providers in Latin America, in part because of its large commitment to the regional REDD+ programmes in Brazil through the Amazon Fund and in Guyana through the Guyana REDD+ Investment Fund.

Figure 17 | Total FSF contribution by recipient region<sup>30</sup>



## Most FSF has been directed to Lower Middle-Income Countries

About 45% of FSF has been directed to lower middle-income countries (LMICs) (such as India, Indonesia and Vietnam) (see Figure 18). High-income and upper middle-income countries (HICs and UMICs) (such as Brazil, China and Colombia) received 22% of the total spending we analysed. In turn, LICs (for example, Chad, Eritrea and Guinea Bissau) received around 15% of the total.

The distribution of climate finance is linked to the ability of countries to absorb this money (and it is the experience of ODA that it is most difficult to spend money well in the poorest countries most in need of assistance). It can also be explained by the extent to which institutions, policies and regulations at the country level have equipped countries with a good basis on which to programme available finance (or to which proposed projects reflect those underlying enabling environments).

About 16% of the FSF portfolio was directed to projects and programmes that supported at least one LDC or SIDS (Figure 19). Looking only at the adaptation portfolio, this figure increased to approximately 38%. Some countries,

such as Australia, have focused support for their neighbours in the Pacific island states through their FSF contribution. In addition, FSF to SIDS appears to have increased between 2010 and 2012, albeit from a low baseline. While adaptation-related ODA data have been available only since 2011, adaptation finance channelled through multilateral climate funds amounted to only US\$ 150 million in 2009 (CFU 2010).

## The geographic distribution of FSF mirrors that of ODA

Our analysis suggests that FSF distribution is broadly correlated with the allocation of ODA flows at the country level. We compared the current country-level distribution of FSF to that of total and climate-specific ODA, and to ODA that did not have climate change as an objective (identified using the climate Rio Markers). We compared the country-level distribution of FSF of the 22 contributor countries that are also members of the OECD DAC and whose aid flows are recorded as ODA.<sup>31</sup> We considered the log transformation for ODA flows and FSF for 2010 and 2011 for both variables in order to plot absolute values that are highly dispersed. (See Annex 3, available online, for the full statistical results of our analysis.)

Figure 18 | Total FSF contribution by recipient income level

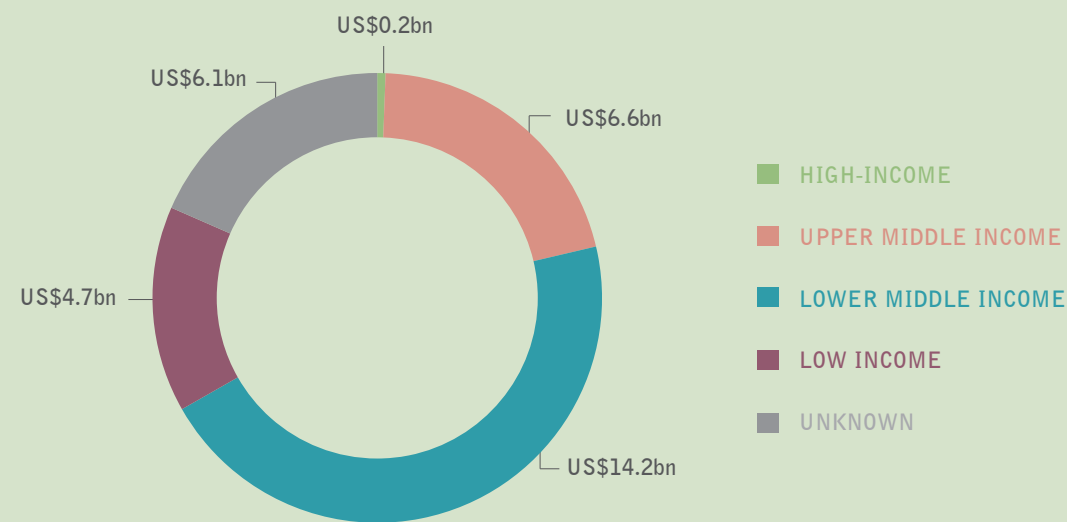


Figure 19 | Total FSF contribution directed to LDCs and SIDS

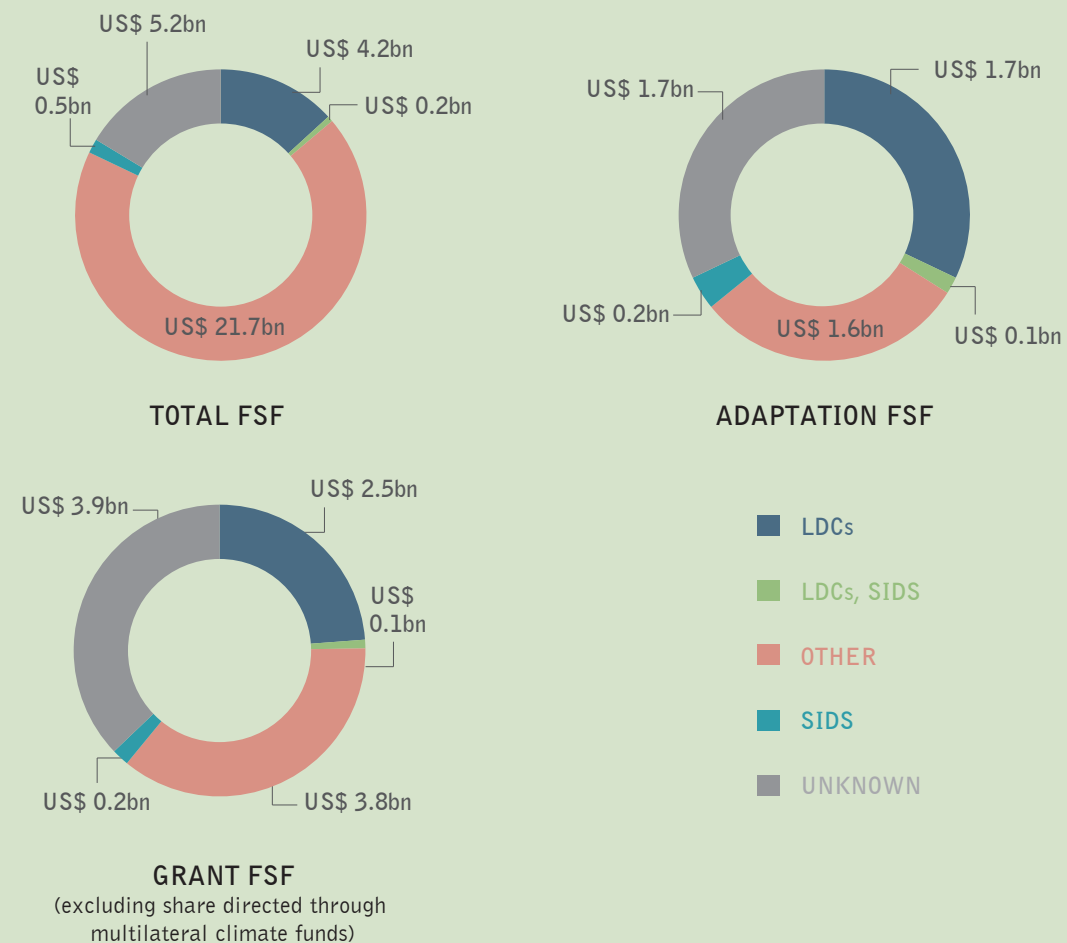
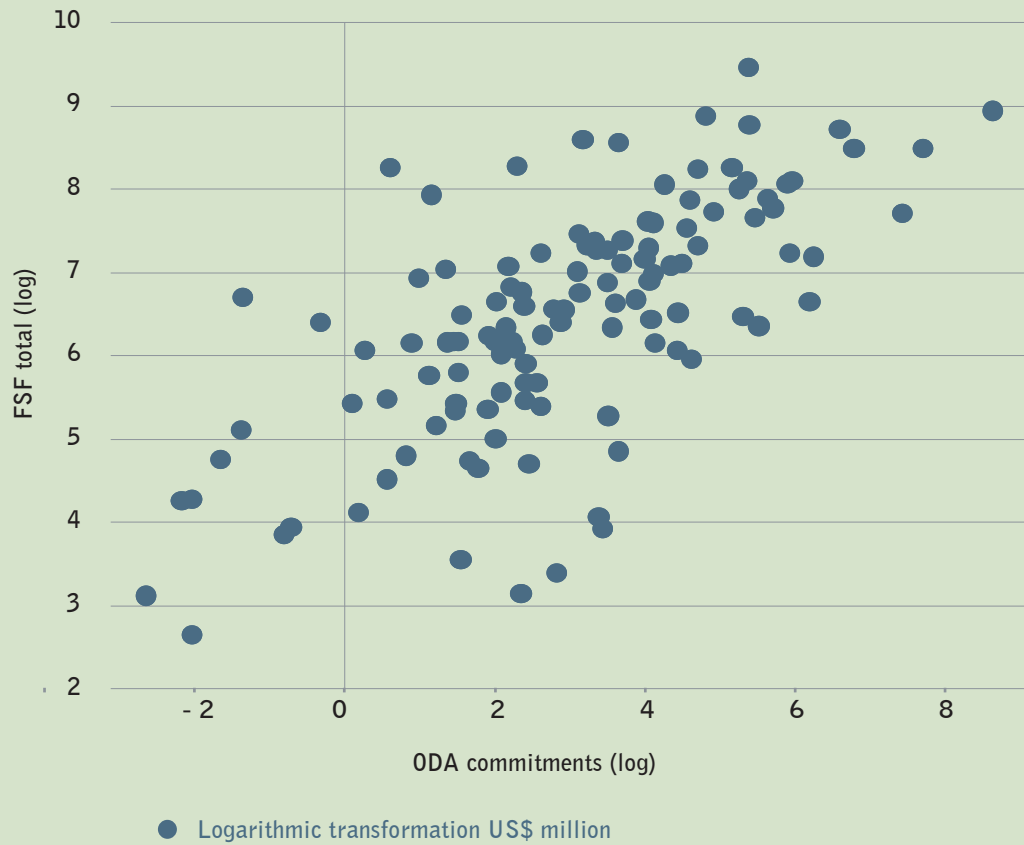


Figure 20: A comparison of FSF and ODA flows



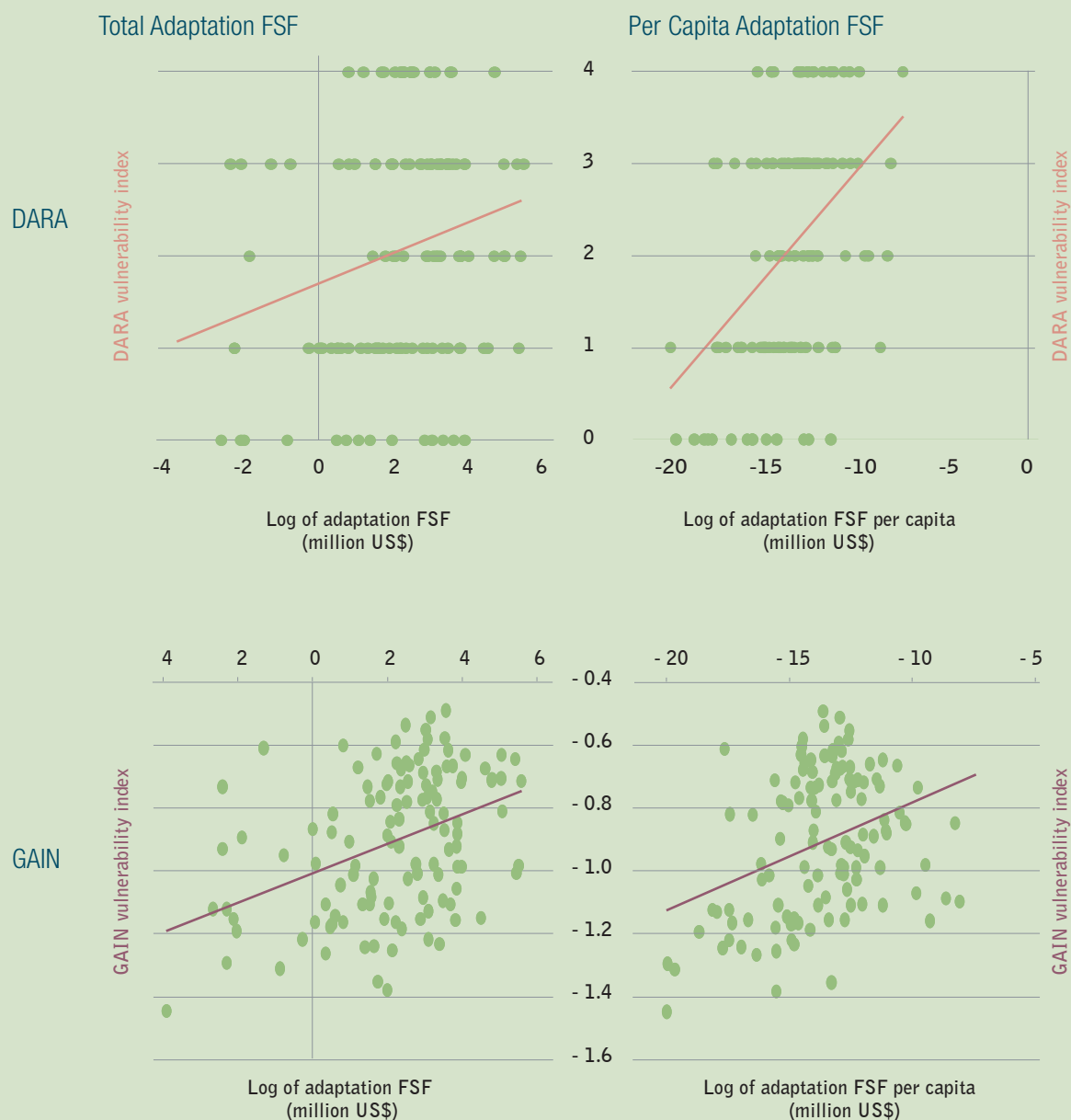
Note: Scatterplot of log of total FSF (in million US\$, 2010-12) and log of ODA inflows (in million US\$, 2010-11)  
Source: Authors' elaboration on the basis of FSF data set and OECD (2013c). Recipient countries are identified by their ISOCODE.

Table 7 | Top 10 recipients of FSF and ODA

	Adaptation FSF		Mitigation FSF		Total FSF		Total ODA	
	Top 10 recipients	Amounts (Million US\$)	Top 10 recipients	Amounts (Million US\$)	Top 10 recipients	Amounts (Million US\$)	Top 10 recipients	Amounts (Million US\$) (2011 figures only)
1	Bangladesh	272	India	5,308	India	5,676	Afghanistan	5,160
2	Vietnam	266	Indonesia	1,950	Indonesia	2,878	Democratic Republic of Congo	4,423
3	Philippines	235	Brazil	1,098	Brazil	1,622	Vietnam	4,091
4	Niger	224	Kenya	891	Mexico	1,176	India	3,634
5	Ethiopia	178	South Africa	836	Vietnam	1,140	Pakistan	2,307
6	Pakistan	160	Mexico	758	Kenya	1,046	Kenya	2,105
7	Cambodia	156	Thailand	644	South Africa	843	Haiti	1,879
8	Mozambique	126	Egypt	538	Thailand	677	Ethiopia	1,740
9	Nepal	124	Morocco	527	Philippines	608	Bangladesh	1,636
10	Kenya	112	Vietnam	523	Morocco	592	Indonesia	1,607

Source: OECD Aggregate Aid Statistics and FSF data set. Highlights indicate countries that are top-ten recipients of both ODA and FSF

Figure 21 | Relationship between adaptation FSF received and recipient vulnerability



Note: Scatterplot of recipient vulnerability and log of adaptation FSF inflows (in million US\$, 2010-12)

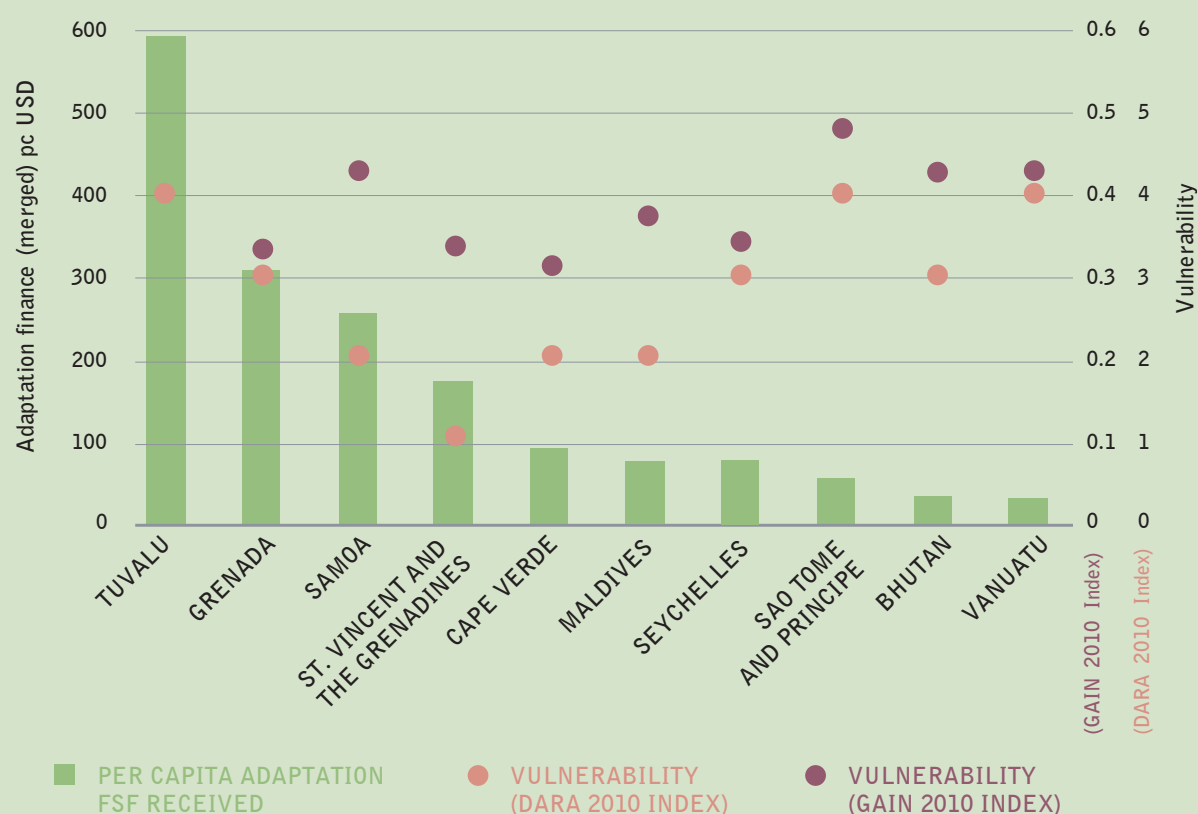
While there is a positive correlation between the two flows (0.68), the allocation of FSF and ODA do not overlap completely (Figure 20). In general, the more FSF a country is destined to receive, the more ODA it also receives. We were not able to complete this analysis for the full FSF period because ODA data were available only up to 2011. As noted, however, finance for mitigation and adaptation target different sets of countries. We find that the coefficient between FSF and ODA is stronger for adaptation finance

(0.58%) and is weaker for mitigation finance (0.45%). These findings would benefit from deeper analysis with more complete data (see, for example, Halimanjaya 2013).

A relatively similar share of FSF and ODA was channelled to upper middle-income countries (UMICs) during the FSF period (17% for ODA and 21% for FSF).<sup>32</sup> However, 45% of bilateral ODA between 2010 and 2011 was channelled to LICs, whereas only 15% of FSF was directed in this way.



Figure 22: Vulnerability score of top ten recipients of adaptation FSF per capita



Thirty-eight per cent was channelled to LMICs, compared to 45% of FSF.<sup>33</sup>

In this vein, we also compared the top ten recipients of FSF and ODA flows in Table 7. We found that the largest recipients of FSF are also among the largest recipients of ODA, with the exception of three countries: Afghanistan, the Democratic Republic of the Congo (DRC) and Haiti.

We tested the correlation between FSF and non-climate ODA flows, because many countries have also reported their FSF contributions as ODA, which might have reinforced the positive associations described above. We found that ODA that does not have climate change as an expressed objective is still positively correlated with the distribution of FSF (0.59%) and is statistically robust.<sup>34</sup>

## SIDS receive high FSF per capita, but FSF is weakly correlated with vulnerability overall

As noted, adaptation FSF was intended to prioritise those countries that are most vulnerable to the impacts of climate change. There is no agreed definition of vulnerability, and assessing vulnerability is both complex and contentious. We also recognise that all countries – rich and poor alike – will be in some way affected by climate change and will need to adapt, even if they are somewhat ‘less vulnerable’ than others. As Figure 19 shows, 38% of adaptation finance appears to have been directed to LDCs and SIDS. (It is not possible to identify countries targeted for an additional 31% of adaptation finance.) Vulnerability indices – which use standard variables to quantify and rank countries’ vulnerability to climate change – can help to give an indicative sense of the extent to which FSF distribution mirrors vulnerability. This analysis may offer some insights into the likely effectiveness of adaptation finance. Because

Figure 23 | Vulnerability scores of top ten recipients of adaptation FSF

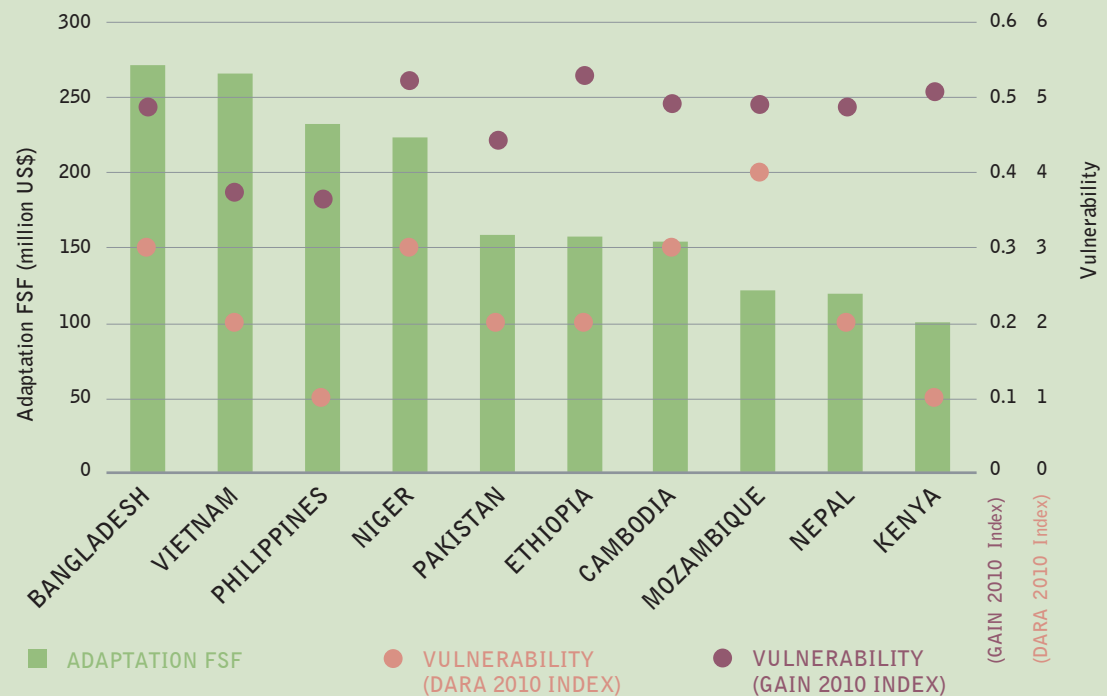


Figure 24: Relationship between mitigation FSF allocation and GHG emission levels<sup>38</sup>



we recognise the limits of this approach, we used two sets of vulnerability indicators to evaluate FSF distribution:

- The Climate Vulnerability Monitor,<sup>35</sup> a DARA project, calculates and compares the vulnerability of 184 countries in four areas of impact (environmental disasters, habitat change, health impact and industry stress) using 34 climate- and carbon-related indicators.
- The GAIN Index, a Global Adaptation Institute project, is based in part on 36 vulnerability indicators, which seek to capture exposure to climate-related hazards, sensitivity to their impacts, and adaptive capacity to cope with them.<sup>36</sup>

For both DARA and GAIN indices, a higher index value indicates greater vulnerability to climate change.

Our analysis suggests that there is only a weak correlation between a country's vulnerability as assessed by these indices and either the total adaptation FSF or the per capita adaptation FSF it received (Figure 21). We did find, however, that the largest recipients of adaptation finance per capita tend to be SIDS, and some are also LDCs (Figure 22).

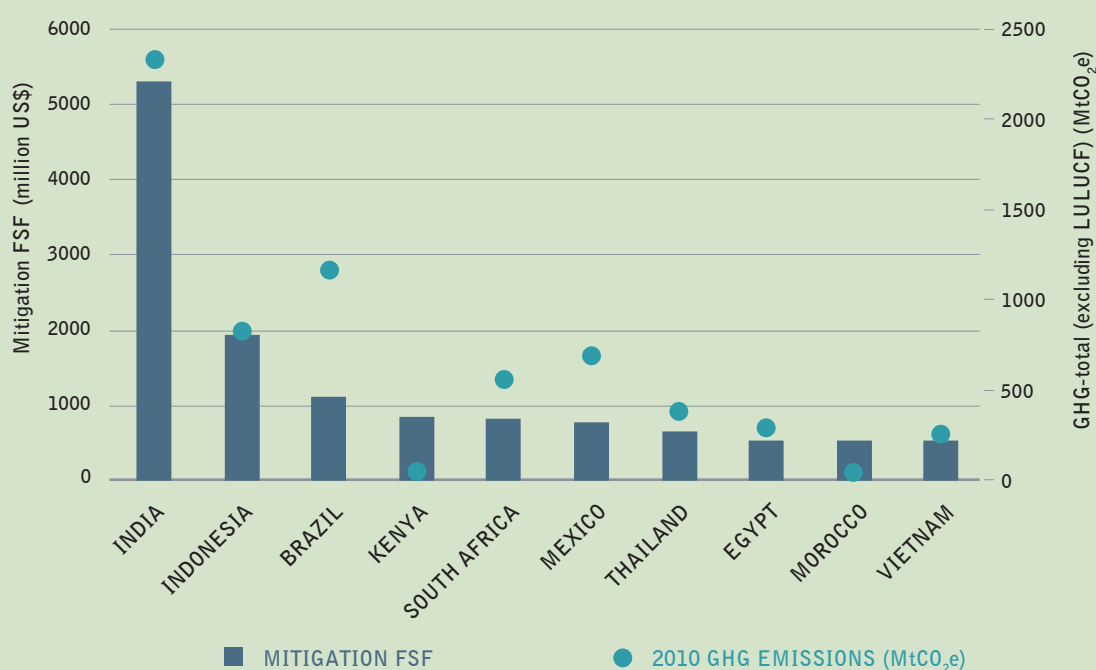
The top recipients of total adaptation FSF have a wide range of vulnerability scores according to the DARA and GAIN indices. The top recipients per capita – with the exception of Bhutan – are SIDS with relatively small populations, but none of the ten most vulnerable countries on either the DARA or the GAIN index are among the top ten recipients of absolute or per capita adaptation FSF.

Figure 23 suggests that adaptation finance targets a number of larger countries, particularly in Asia. Several of the largest recipients of adaptation finance (such as Kenya, the Philippines and Vietnam) are MICs.

## Mitigation FSF is not strongly correlated with GHG emission levels

As discussed, the vast majority of mitigation finance has been directed to MICs, where emissions are relatively high and growing rapidly. We compared the geographic distribution of mitigation FSF with the GHG emissions of recipient countries using data from the Climate Analysis Indicator Tool (CAIT).<sup>37</sup> While we found some correlation between a recipient country's GHG emissions and the amount of FSF it received for mitigation (Figure 24), these correlations were not strong (0.439). The correlation between emissions and

Figure 25 | GHG emissions in the top ten recipients of mitigation FSF



Source: WRI CAIT 2013

mitigation FSF delivered through dedicated climate funds, which may use emission-reduction potential as one indicator for allocation, was somewhat higher (0.51), whereas the correlation between bilateral mitigation FSF and emissions was significantly weaker (0.29).

While many of the largest recipients of mitigation FSF are high emitters, relatively low emitters such as Kenya and Morocco have also received substantial mitigation FSF (Figure 25). Of the top ten recipients of mitigation FSF, all but two have received funding through the CTF, the World Bank-administered fund that has committed US\$ 2.3 billion in climate finance to date. The exceptions – Brazil and Kenya – have been significant beneficiaries of the Forest Investment Program and the Amazon Fund, and DFID, respectively.

Three of the top ten emitters, namely India, Brazil and Indonesia, received 44% of mitigation finance. However, other countries with relatively high GHG emissions – including China, Iran, the Russian Federation, Saudi Arabia, and South Korea – received very limited mitigation FSF. One reason relates to economic status – South Korea, for example, is an OECD member, and as such would not be expected to receive significant assistance. Likewise, developed countries have resisted providing financial assistance to China in recent years, given its strong position in the global economy. (Japan, for example, stopped new disbursement of ODA loans to China in 2007.<sup>39</sup>) As noted, many contributors (notably the UK and the USA) are finding it increasingly difficult to justify expenditure on climate finance for very large and fast-growing emerging economies to politicians and citizens who often resist

financing countries that are seen as economic competitors; there is also a perception that these countries are able to finance responses to climate change themselves. Excluding China from our data set, however, did not result in a strong correlation between GHG emissions and mitigation FSF. Finally, political economy plays a role, particularly in large oil-producing countries, which demonstrate little interest in mitigation finance (Nakhoda et al. 2012). These asymmetries can also in part explain the low correlation between mitigation finance and GHG emissions.

Of course, absolute emission levels are not the only consideration in the allocation of mitigation finance: money may be well spent to help poorer countries move to a low-carbon economic trajectory before they are locked into infrastructure choices that result in large emissions. In addition, the policy and regulatory framework in a recipient country will affect the extent to which less concessional forms of finance (which have been largely used for mitigation finance) may be used for mitigation projects. As in the case of adaptation finance, the capacity of countries to absorb different forms of finance also matters. But an additional explanation is that in financing climate projects during the FSF period countries have built on existing programmes and relationships, or simply counted existing projects and initiatives as discussed above. Together, these factors may help explain the finding that GHG emission levels seem only loosely correlated with mitigation finance allocated, although further study into such variable might be instructive, including to understand the effectiveness such finance.

## VIII. Making Long-Term Finance Successful

FSF – a global commitment to providing US\$ 30 billion of ‘new and additional’ climate-related finance – was an initial step towards providing climate finance at a scale commensurate with the adaptation and mitigation challenges facing developing countries. In many ways, it was also a learning-by-doing process whereby governments began to better understand the various roles of climate finance even as they sought to mobilise it. The FSF period was also a particularly difficult time during which to mobilise finance for new priorities, given the global financial crisis that resulted in substantial austerity measures being adopted in most developed countries. Finance and environment institutions in developed countries made a significant effort to meet agreed commitments in a very challenging financial and political context. The need for climate finance, however, was urgent then and will become still more so over the coming decades.

Our detailed analysis of the FSF contribution presents the basis for informed insights into how FSF was committed, what was to be funded, whether the reported figures represent ‘new and additional’ expenditure according to a number of competing definitions, and the implications of climate finance for wider development assistance. In turn, this analysis provides important lessons for countries seeking to scale up and effectively target climate finance over the medium and long term.

### Findings

#### Honouring the US\$ 30 billion pledge

Reporting by FSF contributors suggests that developed countries mobilised US\$ 35 billion in FSF, exceeding agreed commitments during the FSF period. Of this, we were able to identify US\$ 31.79 billion at the project or programme level. The five countries that we studied in detail reported US\$ 27.25 billion, accounting for nearly 80% of the total contribution. At the same time, FSF contributors have had substantial latitude to define for themselves what counts as FSF, and they have done so in different ways – for

example, including a diverse range of instruments and sources of finance. Moreover, our analysis suggests that much of the finance mobilised would not meet many proposed definitions for additionality. Each of the definitions of additionality considered in this report has its limitations, however, and there is no agreement on how to interpret it in the context of climate finance. It is important to recognise that contributor countries had limited time in which to scale up their programming, and in many developing countries there is a need to strengthen the underlying policies, regulations and governance that will facilitate investment in low-carbon and climate-resilient approaches.

#### Sources and modalities

Contributing countries have used very different modalities in mobilising their FSF contributions. Indeed, the divergence of what they have counted as FSF means that the reported spending of each country is not directly comparable to others. Among the top five contributors, while the self-reported contributions differ by an order of magnitude (from Germany’s US\$ 1.7 billion to Japan’s US\$ 13.46 billion), it does not necessarily follow that Japan’s contribution to international climate finance (as opposed to self-reported FSF specifically) is vastly larger than Germany’s.

The instruments used differed across countries. With the exception of its US\$ 501 million loan contribution to the CTF, Germany counts only grants towards its FSF. In Japan’s case, there has been substantial use of concessional and non-concessional loans, and some finance has been directed to more efficient fossil-fuel options. In general, countries have relied on ODA and other official flows to deliver FSF, and very few countries experimented with innovative sources of finance during this period. An exception to this rule is Germany, which delivered a significant share of its FSF through its International Climate Initiative (ICI), which is indirectly financed through revenues from auctioning EU ETS units.

Japan and the USA include as FSF a large share of export-credit and non-concessional development finance for low-

carbon infrastructure. In contrast, Germany, Norway and the UK also have active development finance and export-credit programmes (which have sought to promote low-carbon technologies), but they have not counted finance delivered through these channels as FSF. This kind of development financing is quite different from traditional ODA provided in the form of grants or concessional loans to poor countries. Guarantees, loans and insurance do not represent an immediate and direct cost to donor budgets in the same way as grants and concessional loans. In addition, such funding enables companies based in developed countries to invest in developing countries. This results in a direct benefit to the contributor as well as the recipient, which may strengthen political support for such approaches.

It is worth noting, however, that while climate-related OOF may represent a significant share of FSF, it appears to represent a small proportion of OOF as a whole. Mainstreaming climate considerations in these investment flows, and redirecting finance to climate compatible options (rather than continuing to invest in business as usual), is a substantial challenge for the international community.

Finally, Japan has reported its total amount of FSF both with and without leveraged private finance. Other contributor countries have also leveraged private finance with their FSF contributions, but they have not counted such finance as FSF.

Looking ahead, while countries have agreed that long-term finance can be drawn from a variety of sources, the modalities for delivery remain contentious. There is an expectation that the Green Climate Fund (GCF) will play a key role in delivering climate finance. Developing countries and many NGOs have contended that a significant share of long-term finance should go through the GCF, and some countries, such as the UK, have a record of channelling the bulk of their international climate finance through multilateral climate funds. But this approach would be a major departure from the current practices of countries such as Japan and the USA, which have relied heavily on bilateral channels, and have also counted diverse forms of finance as FSF.

In summary, there is a striking divergence of modalities for delivering FSF, with the countries we studied including (or excluding) different types of finance. The significant differences in what has been counted as FSF raise questions about the robustness of the figures accounted

for in the self-reporting system, given the use of different methodologies across countries. The figure would be significantly higher if other countries included certain types of finance (e.g. the export credits, loans and guarantees counted by the USA and Japan), or lower if all countries had excluded these forms of finance.<sup>41</sup>

## 'New and additional'

### **Climate finance increased during the FSF period.**

Developed countries committed that FSF would be new and additional. This commitment was made to ensure that increasing support for climate-change activities in developing countries would not divert funding from crucial development activities that were not closely linked to climate change. The commitment also recognised that climate finance was needed to add momentum to the efforts of developing countries to respond to climate change, as climate-related investments may not otherwise be well incentivised, and may pose additional costs. On balance, climate-related funding has increased, although it is difficult to precisely quantify how much this was due to a lack of thorough reporting before 2009. In many institutions, commitments are still being translated into expenditures, however. Future analyses should examine trends in actual expenditure, including rate and scale, although the availability of data on disbursement of finance is highly uneven.

### **Not all FSF is new and additional by many proposed definitions.**

Countries have reported as FSF many projects and programmes that they were already supporting prior to the FSF period. While sustained funding for these programmes is important, it is not clear that it represents a new funding commitment, at least relative to the baseline immediately preceding the FSF period. For instance, the USA counts as FSF its contribution to the Montreal Protocol Fund – which it has supported since the early 1990s. A significant share of Japanese FSF was pledged prior to 2010 through initiatives such as the Cool Earth Partnership. All five of the top contributors count contributions to the CIFs as from 2010, although countries pledged to fund these in 2008. It is also not always clear that programmes are receiving additional funding that allows them to do more on climate-change activities, although some certainly are.

Some stakeholders, including many governments of developing countries and prominent development NGOs, argue that only finance beyond the commitment to provide

0.7% of GNI should be considered additional. The ODA contributions of many developed countries have increased since the 1990s in absolute terms. But very few have met the 0.7% GNI target for ODA; of the five countries we studied in detail, only Norway met it during the FSF period.<sup>42</sup> As discussed, there are many limitations to this ODA target, and its value has been questioned on several grounds. On a more practical note, however, ODA appears to have begun to decline in real terms over the last two years, as has its concessionality (driven in part by austerity measures).

The Common Tabular Format that UNFCCC parties have adopted for biennial reporting on climate-change action requires developed countries to report on some of the climate finance they have mobilised, and to clarify the basis on which they have determined that this funding is new and additional. To date, Germany is one of the few countries to have proposed a clear definition for the additionality of its contribution: that is, funding that exceeds a 2009 baseline, or that stems from new sources. There is an opportunity for countries to take more common – or at least more transparent – approaches to this contentious topic. Clarity on baselines and the forms of finance that are counted may also make such finance more predictable.

## Objectives and distribution

**More FSF has been directed to mitigation than to adaptation.** While support for adaptation activities has increased significantly over the FSF period, it made up only 18% of FSF. The vast majority of FSF was directed to support mitigation. Among the top five contributors, the share of FSF for adaptation ranged from about 9% in Norway<sup>43</sup> to about 30% in the UK and Germany. Many contributor countries reported that within so short a period of time it was difficult to identify viable adaptation projects, and easier to implement mitigation programmes. In practice, of course, adaptation and mitigation activities may be quite interlinked. But this split suggests that there is more work to be done in order to meet the Copenhagen commitment to achieve a 'balance' between adaptation and mitigation.

**There has been significant focus during the FSF period on mobilising and leveraging private investment, including through the use of loans and non-concessional public finance.** There is a growing recognition that an effective global response to climate change will need to engage and re-direct private investment towards climate-compatible solutions. This has been a

substantial focus of several of the new initiatives launched during the FSF period. In addition, several countries have used instruments and channels that draw in private sector co-finance as FSF. These instruments often benefit companies based in contributor countries, and in the case of non-concessional instruments, do not represent an immediate cost to national budgets. It has been much more straightforward to direct and identify opportunities where these instruments have been used for mitigation than for adaptation, which accounts in part for the dominant share of mitigation finance in FSF. When only the grant element of FSF is considered, the share supporting adaptation is higher – but is still a relatively small part of the total. There is undoubtedly a role for OOF in supporting low-carbon investment in developing countries, but bigger questions remain to be answered about how to mainstream climate-change considerations in all OOF-supported investments.

**Both FSF and ODA channel significant support to LMICs.** Forty-five per cent of FSF was directed to LMICs and 21% to UMICs. Likewise, ODA has also tended to target LMICs.

**The distribution of FSF does not appear closely linked to emission levels or vulnerability to climate change in recipient countries.** FSF for mitigation has not been strongly correlated with recipient countries' GHG emissions. While it is important to support low-carbon growth in all countries, it is not clear that mitigation finance has prioritised developing countries with the highest emissions. Further work is needed to understand if the emission reductions that have been supported represent low-cost, low-risk or high-volume opportunities. Similarly, FSF for adaptation is not very closely correlated with recipient countries vulnerability as measured by prominent indices. To date, it appears that SIDS have received relatively modest support on an absolute basis, though many of the highest per capita recipients of adaptation FSF are SIDS. Least Developed Countries and African countries overall have not received large shares of FSF.

**Reliance on ODA budgets for climate finance does not appear to have changed distribution of ODA to date.** At least at the level of regions and country income categorisations, FSF does not, yet, appear to be fundamentally changing the distribution of ODA. The geographic distribution of FSF is similar to the distribution of ODA that did not include climate change as an objective.<sup>44</sup>

**If mitigation funding were more targeted to high-emitting countries, or if ODA were to prioritise poorer countries, then greater tensions between mobilising climate finance and ODA might emerge.** This observation raises questions about the viability of continued reliance on ODA for the public share of climate finance, particularly mitigation finance. It is not clear that such a high reliance on ODA for public climate finance in the future is tenable if ODA is more explicitly focused on poverty, particularly given the imperatives to scale up finance for mitigation in fast-growing emerging economies. While from a development perspective, a greater focus on climate change has the potential to divert attention from programmes that do not help address climate change such as health or education, from a climate perspective a focus on poverty may be at the expense of the necessary finance to scale up mitigation action in emerging economies. Our analysis confirms that there is likely to be much greater alignment between such poverty-focused ODA and efforts to support adaptation. Nevertheless, there is a clear need to integrate climate risk into all development assistance, particularly given that the failure to curb the growth in GHG emissions has resulted in significant risks that climate change will reverse developmental gains made in recent years.

## Lessons

**A continued commitment to scaling up climate finance is needed for both political and practical reasons.** From a global perspective, it is important for developed countries to honour their climate finance commitments in the spirit of mutual accountability, which will be essential to securing a more ambitious global agreement on climate change. From a practical perspective, there is growing evidence that public support has been key to unlocking private investment. Such investments can create opportunities for developed and developing countries alike to find better paths to prosperity. The FSF experience demonstrates the potential for businesses in developed countries to find new opportunities to work with stakeholders in developing countries to make investments in low-carbon programmes, as well as for businesses and companies in developing countries to promote cleaner and more resilient approaches.

**Scaling up climate finance will also require strengthening enabling environments in recipient**

**countries, including basic absorptive capacity in countries with weaker economies and institutions.**

The availability of significant levels of public and private climate finance can help to create incentives to address underlying policy, regulatory and governance challenges that dissuade investment in climate-compatible development and perpetuate business as usual. But achieving this goal will require additional effort from developing countries, and support from developed countries for bold action. While more finance for climate change-related activities was delivered during the FSF period than before, only a limited share of this finance was additional. The non-concessional finance made available for mitigation has helped increase deployment in contexts where the underlying enabling environments made low-carbon investments relatively viable. But non-concessional finance is not always well suited to helping countries to strengthen their underlying policy and regulatory regimes and institutions, or to addressing the incremental costs that low-carbon options continue to pose in many developing countries.

**Climate finance could be spent to better target country needs, circumstances and vulnerabilities.**

Our analysis suggests an opportunity for mitigation finance to better target countries with substantial potential to reduce GHG emissions. Seizing these opportunities will require programmes to be solidly grounded in national circumstances and opportunities, and finding creative ways to harness domestic policy-makers and investors. There may be substantial additional benefits to accrue from helping fast growing LICs or LMICs to undertake the transition to low-carbon trajectories, but more work needs to be done to understand the emission reductions that arise, their cost effectiveness, and the development benefits that ensue. Similarly, there is a recognised need to scale up finance for programmes that support adaptation and strengthen resilience to the impacts of climate change. Our analysis suggests an opportunity to spend adaptation finance in ways that better target vulnerable countries. Emerging institutions in the global climate finance architecture could potentially focus their efforts to these ends.

**At the same time, continued public investment in climate-incompatible development is no longer an option.** It will be imperative to ensure that climate risk is integrated into all development finance, and to use



available public finance to help countries seize low-carbon approaches to development where these exist and are viable. Responding to climate change requires shifting overarching global investment in key sectors away from business-as-usual approaches towards climate-compatible options. Public finance can help to create the incentives and support the technical and institutional efforts that will enable difficult decisions to be made to this end. Donor countries should also ensure that the technologies they are installing with climate finance will not result in a long-term carbon lock-in that threatens achieving the UNFCCC's long-term objective to stabilise global temperature increase below 1.5/2°C.

**There is an opportunity for developed countries to sustain and improve on good practices established during the FSF period by using UNFCCC reporting templates and other tools to provide complete and comparable information on climate finance and its objectives.** Reporting practices varied substantially across countries during the FSF period. The reporting obligations for developed countries under the UNFCCC are imprecise. But on balance, it is not clear that financial support during the FSF period meets the same levels of measurement, reporting and verification that are sought of developing countries implementing internationally supported Nationally Appropriate Mitigation Actions. Now that the FSF period is over, it is imperative to continue to improve reporting, rather than reverting to aggregate reporting and opacity about objectives, channels and instruments. It will be particularly helpful to have information on the sectors targeted by climate finance, as such detail may offer useful insights into its likely impacts. The new Common Tabular Format for reporting under the UNFCCC could be used to this end, and complemented with consistent reporting on other initiatives that monitor spending on climate-related activities including the IATI and the OECD DAC.

Overall, we observe a need for a continued emphasis on learning and improvement in targeting climate finance effectively. In this context, it is necessary to better understand the links between public and private finance, and the roles that the latter plays in the response to climate change in developing countries. Such analysis will help put international commitments to mobilise climate finance into much-needed context, recognising that the fundamental role of dedicated climate finance should be to accelerate progress.

Many projects supported during the FSF period are in their early stages of implementation, and it will take some time before there is an adequate basis on which to understand how well these have worked. A significant body of work analysing programme implementation and the conditions that are likely to shape programme effectiveness is emerging. Many organisations are gathering empirical information and analysis on the outcomes of programmes that have been supported by climate finance. There is an opportunity to strengthen systems for real-time learning from these programmes, through better coordination and collaboration in efforts to monitor and evaluate the impacts of climate finance. Continued investment in such efforts, and frank reflection on both the failures and successes of programmes, will remain essential in the years to come.

## Glossary

**Adaptation:** Initiatives and measures to reduce the vulnerability of natural and human systems against actual or expected climate change effects. Various types of adaptation exist, e.g. anticipatory and reactive, private and public, and autonomous and planned. Examples are raising river or coastal dikes, the substitution of more temperature-shock resistant plants for sensitive ones, etc. (IPCC 2007).

**Capital contribution:** One of three forms that contributions to the Climate Investment Funds (CIFs) may take. Capital contributions may be used to finance concessional loans and other financial products, such as guarantees, but not grants. (The other two forms are grant contributions and loan contributions.) (World Bank, 2012)

**Channelling Institution:** The institutions through which finance is channelled to recipients.

**Concessional loan:** A loan extended on terms substantially more generous than market loans. Concessionalism is achieved either through interest rates below those available on the market, by grace periods, or by a combination of these. To qualify as ODA, a loan must have a grant element of at least 25 percent of its face value. (OECD.)

**Debt relief:** Any form of debt reorganization that relieves the debt burden (i.e. lowers the nominal value) either via debt cancellation or debt rescheduling. (OECD.)

**Dedicated multilateral climate funds:** Funds organized by multilateral institutions for the specific purpose of channeling climate finance. For purposes of this report, dedicated multilateral climate funds are as follows: Adaptation Fund, Amazon Fund, Congo Basin Forest Fund, Clean Technology Fund, Forest Carbon Partnership Facility, Forest Investment Programme, Global Call for Climate Action, Global Energy Efficiency Renewable Energy Fund, Global Environment Facility Climate Trust Funds, Least Developed Country Fund, Pilot Programme for Climate Resilience, Special Climate Change Fund, Scaling-Up Renewable Energy Program for Low Income Countries, UN REDD

**Development assistance:** All flows that are cross border, channeled to developing countries, have some level of concessionality, and are provided with a public interest purpose. It includes flows such as official development assistance flows, philanthropic assistance and South-South cooperation. (Greenhill et al., 2013.)

**Development finance:** All financial flows that are, or could be, spent in developing countries, including public, private, domestic, and external sources (Greenhill and Prizzon, 2012).

**Export credit:** Government financial support, direct financing, guarantees, insurance or interest rate support provided to foreign buyers to assist in the financing of the purchase of goods from national exporters.

**Grants and related instruments:** Includes grants, cooperative agreements and contracts administered by aid agencies, as well as similar instruments administered by other bilateral agencies. This includes 'contributions' to multilateral funds that are made in the form of grants as opposed to capital contributions. Grants and related instruments may in some cases be used to support non-grant instruments; for example, the United States capitalizes the CTF with grants, but the CTF issues loans to recipient countries.

**Innovative sources:** Sources of financing that differ from traditional government revenue. Innovative sources represent an attempt to diversify funding for international climate finance. For example, Germany raised funds from auction revenues from the European Union Emission Trading Scheme (EU ETS), making it one of the only FSF contributor countries that mobilised 'innovative' sources of FSF.

**Least Developed Countries:** Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Rep., Chad, Comoros, Dem. Rep. of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Dem. Rep., Lesotho, Liberia, Madagascar, Malawi, Mali,

Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Rep. of Tanzania, Vanuatu, Yemen, Zambia.<sup>45</sup>

**Loan guarantees and insurance:** Insurance and guarantee products protect investors from a borrower's failure to repay as a result of pre-specified events. A guarantee can be a minimum guarantee that protects a portion of the investment through its lifetime, or a back-end guarantee that covers the entire investment after a pre-specified timeframe (Venugopal and Srivastava 2012).

**Mitigation:** Technological change and substitution that reduce resource inputs and emissions per unit of output. Although several social, economic and technological policies would produce an emission reduction, with respect to Climate Change, mitigation means implementing policies to reduce greenhouse gas emissions and enhance sinks (IPCC 2007).

**Multilateral institution:** International institution with governmental membership, spanning several regions, including financial institutions such as the World Bank and IMF, UN agencies and regional groupings.<sup>46</sup>

**Non-concessional loan:** A loan that does not meet the criteria for concessional loans as outlined above.

**Objective:** The broad, climate-related objective that a project or programme supported by FSF is intended to support – in this report, adaptation, mitigation, or REDD+.

**Official Development Assistance (ODA):** The OECD defines ODA as 'those flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are: i. provided by official agencies, including state and local governments, or by their executive agencies; and ii. each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).'

**Other Official Flows (OOF):** Other official flows are official sector transactions which do not meet the ODA criteria, e.g.: i. Grants to developing countries for representational

or essentially commercial purposes. ii. Official bilateral transactions intended to promote development but having a grant element of less than 25 per cent. iii. Official bilateral transactions, whatever their grant element, that are primarily export-facilitating in purpose. This category includes by definition export credits extended directly to a developing country by an official agency or institution ('official direct export credits'). iv. The net acquisition by governments and central monetary institutions of securities issued by multilateral development banks at market terms. v. Subsidies (grants) to the private sector to soften its credits to developing countries. vi. Funds in support of private investment.

**Recipient country:** The country that a project or programme supported by FSF is intended to benefit.

**Recipient institution:** The institution receiving funds from the channelling institution.

**REDD+:** A global initiative comprising a series of activities that developing countries could take to reduce emissions and increase carbon stocks by slowing, halting, and reversing forest loss and degradation as well as the related global mechanism for recognizing and supporting them. (Daviet and Larsen 2012, Watson 2012)

**Small Island Developing States:** American Samoa, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, British Virgin Islands, Cape Verde, Commonwealth of Northern Marianas, Comoros, Cook Islands, Cuba, Dominica, Dominican Republic, Fiji, French Polynesia, Grenada, Guam, Guinea-Bissau, Guyana, Haiti, Jamaica, Kiribati, Maldives, Marshall Islands, Federated States of Micronesia, Mauritius, Montserrat, Nauru, Netherlands Antilles, New Caledonia, Niue, Palau, Papua New Guinea, Puerto Rico, Samoa, São Tomé and Príncipe, Singapore, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Seychelles, Solomon Islands, Suriname, Timor-Leste, Tonga, Trinidad and Tobago, Tuvalu, U.S. Virgin Islands, Vanuatu.<sup>47</sup>

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# Endnotes

- 1 Buchner et al. (2012) note that this estimate is subject to certain limitations, including lack of data on development finance institutions.
- 2 Buchner et al. (2012) place private finance at well over Half of total current climate finance. The UNFCCC (2012) identifies a significant role for domestic resources.
- 3 To date, mitigation pledges under the UNFCCC would reduce emissions by 8 to 13 Gt CO<sub>2</sub>, less than what scientists estimate is necessary to keep warming under 20°C (UNEP 2012).
- 4 For example, countries such as Germany have used revenues from Certified Emission Reduction (CER) sales to help finance their International Climate Initiative (ICI), and the government of Japan has counted Japanese companies' investments in climate-relevant sectors as part of its FSF reporting, except in its last FSF report.
- 5 This is not an argument against the use of non-grant instruments to finance climate-related projects, but it does suggest that such instruments should not be counted towards FSF obligations.
- 6 UNFCCC Finance Portal <http://www3.unfccc.int/pls/apex/f?p=116:8:1388891143228058>
- 7 Since it was not always possible to distinguish between these instruments on the basis of reported information, they are classified together in the data set.
- 8 For instance, how countries quantify loans and insurance, and whether they count only the climate-related costs associated with projects that are only partly climate-related.
- 9 Norway provides around 1% of its Gross Domestic Product (GDP) as ODA.
- 10 While leveraged private finance has not been counted toward the FSF contribution, some countries – Japan and the USA in particular – reflect a focus on mobilising private finance, and their reports include estimates of the private finance leveraged by FSF.
- 11 While Germany also contributes to the GEEREF, our understanding is that it has not counted this contribution as FSF.
- 12 The Montreal Protocol Fund is not a dedicated climate fund, and only the USA counts its contribution to this fund as FSF.
- 13 Although the national FSF report only refers to the projects as 'High energy efficient thermal power plant project in East/West Java', we identified the two projects to be Paiton power plant in East Java (JBIC 2010a) and Cirebon power plant in West Java (JBIC 2010b). The amounts committed in the aforementioned JBIC websites do not match those indicated in the final FSF report submitted to the UNFCCC. It is therefore not entirely clear what portion of these project finance are counted as FSF.
- 14 The Germany Federal Environment Ministry.
- 15 Japan has treated leveraged private finance differently in different reports pertaining to FSF. Some of its FSF reports count leveraged private finance toward the US\$ 15 bn pledge it made during the Copenhagen COP. However, Japan's final FSF report to the UNFCCC states that leveraged private finance will not be counted as part of the collective US\$ 30 billion commitment by the developed countries as a whole. The report states that Japan mobilised US\$ 17.6 billion, which includes leveraged private finance and counts from 25 October 2009. At the same time, the report also states that 'in relation to FSF by developed countries as a whole, the resulting figure is US\$ 13.5 billion'.
- 16 Note that methodologies for quantifying leveraged private finance have not been harmonised and may be inconsistent.
- 17 JBIC's ultimate mission is 'to contribute to the sound development of Japan and international economy and society' (JBIC 2013). OPIC has development objectives, and its purpose is also to advance US foreign policy (US Government 2010).
- 18 Note that the figures are not corrected for small differences in exchange rates used for the OECD DAC database and the national FSF reports except for Japan, which used an exchange rate that is significantly different from the actual market rates. While Japan's FSF reporting uses the constant rate of 1USD = 115JPY, the annual average exchange rates between 2010 and 2012 ranged at 1USD = 80-88 JPY. For a fair comparison, the analysis for Japan was performed on the basis of current JPY.
- 19 Japan committed US\$ 17.4 bn as ODA in 2010, of which US\$ 10.3 bn was in the form of loans (OECD 2013b).
- 20 One example is the Yamuna Action Plan Project (III) committed to India by Japan in 2011 (US\$ 285 million reported in the national FSF report). The main purpose of the project is to upgrade the sewage system. Authors have found no documents from the government and the relevant agencies that refer to climate change.
- 21 For similar reasons indicated in Footnote 18, we recalculated the Japanese FSF commitment in current USD in the following steps: (i) converting the reported amount in USD to JPY by applying the official exchange rate reported in the national FSF report (1 USD = 115 JPY), (ii) converting back to USD by applying the annual average currency exchanges reported by OECD DAC (1 USD = 80-88 JPY).
- 22 These include Japan's Hatoyama Initiative, Norway's International Forest Climate Initiative, and the USA's Global Climate Change Initiative.
- 23 For example, at the UN Conference on Financing for Development in Monterrey in 2002, donors pledged that debt relief to Heavily Indebted Poor Countries (HIPC) would be additional to continued ODA. In practice, however, debt relief has accounted for a substantial share of ODA, and if debt relief were excluded, ODA would have grown by only 1.8% in 2008, rather than the 10.2% officially reported (see Ndikumana, 2004, for a review on 'aid additionality' in the context of debt relief).
- 24 We thank one of the referees for raising this point.
- 25 The adaptation Rio Marker began only in 2010.
- 26 Setting baselines for climate finance is a matter of some debate (see Stadelmann et al. 2011). For example, it has been suggested that the average climate-related spending for a short period (e.g. five years) prior to the FSF period might be more representative than a single year; 2009, in particular, may have been influenced by contracting public spending due to the global economic crisis. Unfortunately, there are limited available data prior to 2009 and ODA-related climate finance tagged with Rio-Markers is available only for mitigation objectives (since 2010 also for adaptation).
- 27 If innovative sources simply offset traditional aid funding, however, this argument might merit further debate.
- 28 As discussed above, while the funding is raised from a new source, in practice these revenues are managed and spent through the national budget. This is consistent with widely accepted principles of good public financial management; as a result, the link between the innovative source and

- international climate finance in the German case is indirect.
- 29 The USA has not formally committed to the 0.7% target.
- 30 Specifically, the funds that ODI monitors on Climate Funds Update – see Annex 2 for details.
- 31 Note: figures from 17 to 25 and Table 7 include an imputed estimate of finance channelled to these regions through dedicated multilateral climate funds monitored on Climate Funds Update as well as contributions through direct programmes in individual countries. These estimates may overlook projects and recipient countries with insignificant amounts of climate finance. These estimates may overlook projects and recipient countries with very small amounts of climate finance.
- 32 These countries are Australia, Austria, Belgium, Canada, Denmark, Finland France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the UK, the USA and EU Institutions.
- 33 Based on net ODA figures for 2010 and 2011 (World Bank World Development Indicators 2013). Shares are based only on allocated assistance (ODA flows unallocated by country represent approximately one-third of total bilateral flows (see <http://www.oecd.org/dac/stats/totaldacflowsatagance.htm>).
- 34 Both coefficients are statistically significant at 5% confidence level.
- 35 Statistically significant at 5% level. Non-climate ODA is ODA not tagged as having a principal objective of adaptation or mitigation.
- 36 <http://daraint.org/climate-vulnerability-monitor/climate-vulnerability-monitor-2012/monitor/#sthash.yr2DaEjG.dpuf>
- 37 The GAIN index also incorporates 'readiness' indicators; we have used only the vulnerability indicators in our analysis.
- 38 [cait.wri.org](http://cait.wri.org)
- 39 IGES data (2010 figures).
- 40 MoFA, 2011. Japan's Official Development Assistance White Paper 2011. Section 3.1: Asia. [http://www.mofa.go.jp/policy/oda/white/2011/html/honbun/b3/s2\\_3\\_01.html](http://www.mofa.go.jp/policy/oda/white/2011/html/honbun/b3/s2_3_01.html)
- 41 It is beyond the scope of this report to quantify how much additional finance could have been claimed on this basis.
- 42 Denmark, Luxembourg, the Netherlands and Sweden also met this target.
- 43 Norway has prioritised investments in REDD+, which is typically categorised as mitigation, but which can in some circumstances offer adaptation benefits.
- 44 This does not rule out the possibility, however, that climate finance has re-distributed ODA among countries within regions and income categories, or changed the nature of activities being supported within a country.
- 45 See [http://www.un.org/esa/policy/devplan/profile/ldc\\_list.pdf](http://www.un.org/esa/policy/devplan/profile/ldc_list.pdf)
- 46 See <http://www.brettonwoodsproject.org/glossary/item.shtml?x=345066>
- 47 See <http://www.un.org/special-rep/ohrls/sid/list.htm>





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