



## The Preliminary Report on EU Fast Start Finance: NGO Comment and Analysis - Bare Bones, No Meat

The EU was a driving force behind the adoption of so-called “fast start” finance commitments by developed countries, pledging €7.2bn for the period 2010-2012, or €2.4bn per year, as its contribution under the Copenhagen Accord. Since Copenhagen, the EU has reiterated its commitment to accountability towards these pledges. The conclusions signed by all countries at the recent Petersberg Climate Dialogue subsequently noted that “transparency and coherence of countries’ contributions to fast-start financing is of utmost importance.”

NGOs welcome the EU’s preliminary report initiative as a first step toward rebuilding trust with developing countries; ensuring effective delivery of resources; and making progress towards full Monitoring, Reporting and Verification (MRV) of long-term climate finance under the UNFCCC. This document sets out an NGO analysis of the progress made towards the objectives of transparency and coherence in the EU’s fast start finance interim report and highlights improvements that must be made for the first annual EU report on fast start finance at COP-16 in Cancun.

### The need for transparency on contributions of each Member State and the EC

EU reporting must demonstrate transparency on both the sources and uses of EU fast start finance. This means full disclosure of information on contributions from all Member States (MS) and the European Commission (EC) regarding the following issues:

- the relationship of their contributions to targets for increasing Official Development Assistance (ODA) to 0.7% GNI or higher;
- the scale of finance and criteria used for allocation between: adaptation and mitigation (with appropriate detail on thematic expenditure within each), different regions and countries, bilateral and specific multilateral channels, and the use of grants and loans; and
- their disbursement.

### Demonstrate whether fast start finance is really “new and additional”

The pledge by developed countries under the Copenhagen Accord, as under the Convention and Bali Action Plan, is to provide “new and additional” resources. Member States have yet to agree a common definition of the principle of “additionality” and have therefore not reported on this aspect of their commitment. The report does not mention this principle, but merely notes that fast start financing should not undermine or jeopardise progress towards the Millennium Development Goals (MDGs).

NGOs maintain that both fast start and long-term climate finance must be “new and additional” to the commitments already made by EU member states to provide 0.7% GNI in ODA by 2015. Climate change places a new burden on developing countries; therefore, new resources are required to tackle it. Only the provision of new resources, beyond those already committed, can guarantee that the development gains of recent years will be protected and not go into reverse.

NGOs are gravely concerned that the large majority of EU fast start finance is not “new and additional” by this definition. In the absence of agreement on this common definition, the EU must as a minimum report on the definition used by each Member State and the EC - as required under the UNFCCC - as the basis for an honest, mature and constructive debate.

### **Demonstrate whether EU fast start finance is “balanced between adaptation and mitigation” and “prioritised for the most vulnerable”**

The commitment by developed countries under the Copenhagen Accord is to provide resources “with balanced allocation between adaptation and mitigation” and with adaptation finance “prioritised for the most vulnerable countries”. The EU report indicates merely that funding will flow to both adaptation and mitigation with an emphasis on the former, giving no quantifiable indication of the relative shares. Similarly, the report merely notes that the EU will give priority consideration to the most vulnerable, without offering any evidence to show that is the case.

NGOs maintain that, in the absence of a global co-ordination mechanism, the EU should ensure a balanced share of close to 50% for both adaptation and mitigation, and demonstrate clearly which countries are in receipt of financing and according to which criteria. Only full transparency on the thematic and regional balance in all Member State and EC contributions will build confidence amongst the most vulnerable countries in need of adaptation finance that they will benefit, having failed to benefit from the CDM, and with promises to fully fund NAPAs still unfulfilled after nine years.

### **Facilitate co-ordination and learning between developed and developing countries**

The Petersberg Climate Dialogue notes the utmost importance of coherence across fast start finance pledges. The EU interim fast start finance report notes the principles of aid effectiveness established by the Rome and Paris Declarations and Accra Agenda for Action. However, the report fails to deliver the information necessary to ensure these principles can be met, suggesting only that bilateral channels will be primarily used. In addition, it provides no information on the relative shares of finance that will be channelled as loans or as grants.

NGOs maintain that full disclosure of information on uses, channels and impacts – including details on the use of loans over grants and bilateral over multilateral channels - with specifics about all MS and EC contributions is necessary to allow for the identification of gaps or duplication in contributions. It is impossible, on the basis of the interim report, to identify, for example, which countries are in receipt of bilateral loans for which purposes and why. Such information, including appropriate evaluation of impacts as projects develop, is needed both to enable learning between contributing and recipient countries on effective means of delivery in particular national contexts and to reduce transactions costs for developing countries. Both are essential to maximising the impact of contributions and the efficient use of public resources.

### **Dispel concerns over how and if conditions will be imposed on recipients**

There remains damaging ambiguity with regard to the EU’s intention to impose association with the Copenhagen Accord as a condition for receipt of fast start finance. The EU report does not categorically rule out this possibility. The report suggests that “countries showing a high level of ambition in their actions and plans” will be prioritised, without giving any detail as to how this will be defined or operationalised. Furthermore, the EU report risks establishing a precedent of setting thematic and geographic priorities for the use of climate finance, which should occur at national level in developing countries, or in the context of financial mechanisms under the UNFCCC in which developing countries have an equitable say.

NGOs stress that climate finance should not be allocated according to the political priorities of contributing countries. Any conditions attached to fast start finance will break trust with developing countries by suggesting their needs are secondary to political concerns. Political or economic conditionality also serves to undermine national ownership of climate policies, which is vital to effective implementation and claimed in the report as a principle of EU fast start finance delivery. Clear guarantees about a lack of inappropriate conditions for fast start finance should be provided, supported by transparent and objective decision criteria. In the long-run, allocation of climate finance should be decided according to principles agreed by institutions under the authority of the COP.

## **Next steps: towards a common reporting framework for FSF**

NGOs expect these improvements to be made in the first EU annual report on fast start finance. However, the need for a common reporting framework to account for all developed countries' fast start and long-term climate finance commitments remains a fundamental problem.

The EU report recognises the need for “a comprehensive set of statistics” and a reporting framework that is “internationally comparable”, suggesting this could build upon experience with the OECD-DAC system. Ultimately the MRV of financial support must be established by an independent third party, according to common rules and methodologies agreed between contributing and recipient countries. The OECD-DAC may be able to provide some useful inputs into this process, but would be an inappropriate forum to provide the reporting itself, as its membership consists solely of developed countries.

The UNFCCC Secretariat, however, could provide a common reporting function for financial flows under the Bali Action Plan (paragraph 1(e)i), covering “the provision of new and additional financial resources and investment” “now, up to and beyond 2012”. Now, at the half way point between the Bali COP and the end of 2012, there is still no clarity on the extent to which the provision of financial resources has been enhanced and by how much. The Secretariat was asked at the second session of the LCA in June 2008 to prepare an update on its 2007 paper on investment and financial flows. This update, and the original Secretariat report, proved important in providing information to Parties about the state of climate-related financing needs in developing countries.

In light of outstanding commitments under the Convention (Articles 4.3, 4.4, and 4.5), the ongoing nature of actions under the Bali Action Plan (now, up to and beyond 2012), and so-called ‘fast start’ financing pledges made by developed countries under the Copenhagen Accord, it is important to understand the state of provision or delivery of finance to developing countries. An interim progress report by the Secretariat would provide a global overview of financial contributions in a common format, including the transparency required to assess whether resources made available are “new and additional”.

The EU should embrace this opportunity to make a call in the final report of this 10<sup>th</sup> session of the AWG-LCA along the following lines:

**The AWG-LCA requests the Secretariat, subject to the availability of financial resources, to prepare and make available for consideration at its thirteenth session:  
A report on progress in the enhanced provision by developed country parties of new and additional resources for developing country parties, taking into account paragraph 1(e)(i) of the Bali Action Plan.**

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