Introduction

In Copenhagen three years ago, leaders from developed countries committed to mobilise $100 billion per year by 2020 to help poor countries reduce their greenhouse gas emissions and adapt to the unavoidable impacts of climate change. As a sign of their intent, they also made a down-payment of $30 billion over the three years 2010 – 2012, called ‘Fast Start Finance’.

As governments meet in Doha at the very end of this period, they are facing a climate ‘fiscal cliff’. Developed countries have yet to make any concrete financial commitments for the period 2013 to 2020. Oxfam’s research suggests that levels of public climate finance are set to fall in 2013 compared to the past three years. At the very moment that finance must be scaled up to meet the $100 billion per year Copenhagen promise, rich countries look set to scale down.

In this briefing, Oxfam presents new research which evaluates the finance flows from developed countries towards the initial $30 billion Fast Start Finance commitment. It reveals that many of the contributions so far are more of a ‘false start’ than a fast start. It is vital that the lessons of the past three years are learned by negotiators and ministers meeting in Doha, to ensure that long-term finance needs are met. At stake are the lives and livelihoods of poor and vulnerable communities on
the front lines of the climate crisis, and the chance of keeping global warming below the 2°C target set in Copenhagen, let alone the 1.5°C needed.

A catalogue of extreme weather events during 2012 serves as another reminder of why climate finance is critical. Not far from the conference centre in Doha, 10 million people in Yemen do not have enough to eat – their daily struggle to feed their families is made even more difficult by the impacts of severe droughts in the US and Russia which have pushed world prices of wheat to record highs this year.

Oxfam’s Fast Start Finance score-card is a mixed one for developed countries. There is no question that funds have flowed, and in many cases will have been put to good use, but Oxfam estimates only 33 per cent of these funds were really new – the rest was made up of money which had already been pledged before the Copenhagen conference, or from plans and budget lines that had already been adopted. Only 24 per cent can be considered additional to the long-standing promise to provide 0.7 per cent of Gross National Income (GNI) as Official Development Assistance (ODA). This risks the re-direction of funds away from other urgent development priorities, like health and education.

Climate change is an additional burden for poor countries, and they require additional funds to tackle it. Unless new sources of revenue can be found development aid budgets – already under threat in many rich countries – may be further cannibalised to keep climate commitments.

Oxfam is also concerned at the continuing gap in adaptation financing, which has received just 21 per cent of Fast Start flows, and the fact that loans rather than grants make up nearly 60 per cent of funds. We are also concerned about the overwhelming preference of developed countries to spend revenues through their own bilateral channels, rather than through multilateral channels, especially those where developing countries can have a greater say over the use of resources.

No contributing country has a perfect record, and many should be commended for their performance in at least some respects. Now is not the time for recriminations. Poor people already grappling with climate change impacts around the world do not need a blame game in Doha, they need concrete decisions that will make a difference to their lives in the years ahead. This research assesses some of the shortcomings of the Fast Start Finance period so that lessons can be learnt and life-saving long-term climate finance commitments can be met.

2012: Extreme weather and extreme prices are the new normal

Superstorm Sandy smashed through Haiti, Jamaica, the Bahamas and the US East Coast last month creating, for many, the iconic image of climate change’s destructive power in 2012. Over the last one hundred years, sea levels have risen nearly a foot around the New York area, which amplified the storm surge that wreaked havoc on communities in Staten Island and New Jersey.

Oxfam and many others have warned that such events are a harbinger of what is to come in a rapidly warming world. 2012 showed that the future we warned about is already here. As well as devastating people’s lives and livelihoods directly, 2012 also highlighted how they can be hit by the impact of climate change on the world’s food prices.

The Northern summer saw severe droughts in the US – the worst the country had seen in 60 years – and in Russia, helping to drive food prices to reach historic peaks. In August, the World Bank reported that the price of maize and soybeans had reached all-time highs in July. Poor people in the Arab region, where this year’s UN Climate Change talks will be held, illustrate what vulnerability to high food prices means. Yemen is in the grip of a severe food security crisis and some 10 million people – almost half the population – do not have enough food to eat, five million people need urgent emergency assistance, and one million children are at risk of malnutrition. High global food prices could further threaten its food security as the country imports 90 per cent of its wheat.

This is not the first time that countries in the Middle East have been hit by food price spikes, nor are droughts not a new phenomenon. However scientists have shown how the droughts that hit Russia and Texas in 2010 and 2011 respectively were made much more likely because of global warming. The Russian drought of 2010, combined with erratic monsoon rains in India and flooding in Australia, helped to cause a massive spike in wheat prices. Exacerbated by market panic and government export bans, prices jumped 80 per cent within a year, and 44 million more people were plunged into poverty. Across North Africa and the Middle East, a region dependent on wheat imports, hunger became a bigger problem.

Oxfam’s September 2012 report, titled *Extreme Weather, Extreme Prices*, warned that what happened in both 2010 and 2012 were not coincidences, but should instead be considered the “new normal”.

Oxfam’s report went beyond previous research that considers the gradual impacts of climate change, such as increasing temperatures and changing rainfall patterns, and modelled the impact of extreme weather scenarios on food prices over the next 20 years. The research warns that by 2030 the world could be even more vulnerable to extreme food price shocks, with dependence on US exports of wheat and maize predicted to rise and climate change increasing the likelihood of extreme droughts in North America. Even under a conservative scenario, another US drought in 2030 similar to this year’s could provoke a price spike of maize by as much as 140 per cent over and above the average price of food in 2030 – which is already likely to be double today’s prices².

Since the Northern summer, world food prices have remained high and with tighter food stocks, prices are expected to remain high into 2013. Severe droughts in major world grain-producing areas – either simultaneous or in consecutive years – could plunge the world into major global food crisis. And global warming is stacking the odds in favour of such events.

Now more than ever, farmers need support to adapt and increase their resilience to extreme weather. Farmers in the US are moving crop production North. They have had access to drought-resilient crop varieties and investment and insurance mechanisms that have tempered their crop losses.

But such resources are badly needed too in poorer drought-hit areas. This week, Oxfam announced a weather index insurance payment for more than 10,000 farmers in Northern Ethiopia who will receive cash to help cover crop losses due to drought. It is one of many Oxfam programs around the world that are helping poor communities adapt to extreme weather, yet more programs like this are needed.

Poor communities grappling with extreme weather and impossibly high food prices urgently need support, and they must be front of mind when leaders make their decisions about climate finance in Doha.

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**Fast Start Finance: Problems and solutions**

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European Union

The EU has delivered almost all of its Fast Start Finance commitment of $10bn (7.2bn euros), allocating around 32 per cent to adaptation initiatives. However, Oxfam’s analysis suggests that only around 27 per cent was new money (funds that had not already been planned or announced before Copenhagen) and only 17 per cent was additional to the commitment to provide 0.7 per cent of GNI in ODA.

EU Fast Start Finance has followed sound aid effectiveness principles. However, because nearly 60 per cent is being delivered bilaterally, developing countries have not had a real say over the use and allocation of funds. Just over 40 per cent went through multilateral funds with just above 10 per cent channelled through UN climate funds such as the Adaptation Fund or the Global Environment Facility. Notably, Spain channelled 100 per cent of its contribution through multilateral funds and was the largest contributor to the Adaptation Fund, and Ireland delivered 100% of its contribution as grants, nearly all for adaptation and at least a portion that is truly additional to existing development commitments.

Japan

Japan’s pledge of $15bn, of which $13.2bn has been allocated at the time of the research, amounts to almost half the global total of Fast Start Finance.

While the importance of Japan’s contribution cannot be overstated, the figures do need some qualification. Unlike other countries, Japan has counted “leveraged” private finance of $4bn towards its Fast Start total. $11bn, or nearly three quarters of the Fast Start total had been announced before Copenhagen under the Cool Earth Partnership. Excluding private money, $3.8bn can be considered additional to Japan’s ODA target though it has to be noted this amount is entirely composed of finance that is categorised as “Other Official Flows” which does not qualify as ODA anyway.

Australia

Australia’s approx $620m in Fast Start Finance represented a fair share of the $30bn global goal and is notable for the portion allocated to adaptation (52 per cent of total), the transparency of reporting, the priority given to Least Developed Countries and Small Island Developing States, and for being fully grants-based.

While there has been a substantial increase over earlier levels, of the total pledge, only $366m USD was added after Copenhagen and in our view constitutes new money. While part of a growing aid budget, since Australia’s overall ODA is below 0.7 per cent, its commitment to climate finance cannot be regarded as additional to existing aid promises.

US

Interpreting US Fast Start Finance data has proved more challenging than for other countries. While there has been a substantial increase over pre-Copenhagen levels, the amount of US funding that can be considered new may be only $2.9 billion. The inclusion in this amount of contributions, including loans, through export credit agencies highlights the lack of common accounting rules across Fast Start Finance.

The US has not accepted the 0.7 per cent ODA target. With overall ODA remaining at a low 0.2 per cent and with no significant increase in ODA since Copenhagen, none of the US Fast Start Finance contribution can be considered additional. Moreover, there are many questions about the counting of ongoing food security and other development programs as climate finance.

1 Creative Accounting

Recycled money

Under the Copenhagen Accord, developed countries agreed to provide “new and additional” Fast Start Finance for climate action in developing countries approaching $30bn by 2012.

Varying degrees of transparency and the complexity of national budget processes make some countries’ claims difficult to assess. In many cases it has proven impossible within the scope of the research to determine whether a country’s Fast Start contribution was accompanied by a

| ONLY 33% of Fast Start Finance appears to be new money |
corresponding increase in overall development finance levels (a first key criterion for newness) or has been realised by shifts within a largely stagnant (or even decreasing) aid budget. Even where such increases could be confirmed, it is often unclear whether those increases were newly realised after Copenhagen or if they had been planned, adopted or otherwise in the pipeline before Copenhagen. Finally, some countries have counted finance towards their Fast Start pledge that they are also counting towards other pledges made in other forums and contexts. In many cases, comparing countries’ performance on newness of Fast Start finance is like comparing apples with oranges. Yet, with all these caveats, **Oxfam estimates that between 27 and 43 per cent of FSF appears to be new money – a best estimate would be 33 per cent overall.** However lack of transparency, coherence and completeness of information may mean the actual figure is even lower still.

We estimate that well over half of what developed countries claimed as “new” money seems to have been recycled, made up of funds that were planned, announced or allocated before the Copenhagen Accord was agreed.

For example, while Spain and Switzerland did not count contributions made prior to Copenhagen to the World Bank Climate Investment Funds (CIFs) – a set of instruments agreed in 2008 for channelling support for low-emission and climate-resilient development through the Multilateral Development Banks – other countries including Germany, the US and UK have counted all of the money they contributed to the CIFs since their inception well before Copenhagen. Similarly, while Japan remains a standout performer on Fast Start Finance, its major contribution of $15bn included $11bn that had already been announced under the Cool Earth Partnership well before Copenhagen.

**Diverting aid budgets**

Oxfam is even more concerned by the cannibalising of Official Development Assistance (ODA) to meet climate finance pledges. We believe that for climate finance to be “additional” it should not result in funds being diverted from existing commitments to development aid, notably the long-standing promise to provide 0.7 per cent of the Gross National Income (GNI) of developed countries as aid.

The rationale for this is straightforward – climate change is an additional burden to developing countries that requires additional resources to tackle.

**Oxfam’s analysis reveals that at best only 24 – 26 per cent of public finance within Fast Start Finance appears to be additional to existing aid promises.** This figure would be much lower if it excluded finance that would not qualify as ODA anyway, such as “Other Official Flows” or finance that backs export credits of developed countries.

Regrettably, developed countries failed to establish a baseline against which to assess what should be considered as “additional”. While Australia’s total ODA amounts to 0.35% of GNI, Australia claims its Fast Start Finance contribution is additional on the basis that it is drawn from a growing aid program, in which the overall increase in ODA has been greater than the $620m allocated to climate finance. In cases where ODA has flat-lined or declined, there is a more obvious diversion of resources to meet climate finance commitments. At the other end of the spectrum, with aid budgets already above 0.7 per cent of GNI, Norway, Sweden and Denmark can rightly claim their contributions as additional. Worryingly, the Netherlands, which has previously ensured that its
climate finance contributions are additional to its aid commitments, looks set to reverse this position under its incoming government.

Grants versus loans

There may be a place for concessional loans to support some mitigation activities, for example where cheap capital is needed to cover high start-up costs of renewable energy projects, which will be paid back over time. But paying for adaptation should always be provided in the form of grants. Loan-based financing, even if concessional, can become crippling for poor and vulnerable communities who should be prioritised for support in adapting to climate change.

Nonetheless, some countries, like France, have instead provided substantial loans for adaptation. Furthermore, there has been no common standard for accounting for climate finance provided as loans. France, for example, has counted the full value of loans given, with an estimated 15 per cent of its $1.75bn reported Fast Start Finance contribution being in the form of grants. This means France is counting as their contribution the money that developing countries must repay. Other countries originally planned to count only the actual finance in their budgets earmarked for leveraging loans, and not the final loans at face value, but later reversed that position when they saw how other countries were planning to account for loans.

We estimate that only 42 – 44 per cent of Fast Start Finance has been provided as grants.

Lessons to be learned in Doha

One of the most important lessons from Fast Start Finance is that common accounting rules and standard reporting formats are needed.

It is difficult to compare one country’s performance against another because there are no common baselines against which claims of newness and additionality can be assessed and no common standard for accounting for loans. Coupled with the poor health of many developed country economies, too often it has become a race to the bottom for ever looser accounting standards.

Doha needs to decide on the “Monitoring, Reporting and Verification” of climate finance to ensure a fair, transparent and common accounting system for climate finance. Key elements of the common accounting system include:

- Recognition that “new” excludes funds already planned, pledged and/or allocated at the time the commitment is made.
- Agreement that “additional” means on top of the 0.7 per cent of GNI already promised as ODA by developed countries.
- Ensuring that for loans, guarantees, or other non-grant financial instruments through which public funds may be channelled, only the grant equivalent should be counted against developed countries climate finance commitments (as is the standard in accounting for Official Development Assistance flows).
- Project (or programme) listings of supported actions.

2 Failing the most vulnerable

An ongoing adaptation gap

From the Sahel to the Pacific islands, communities living in climate-sensitive regions or exposed to climate risks face no choice but to adapt.
While it is vital that we invest in low-carbon development strategies, money spent solely on mitigating greenhouse emissions does little to help poor and vulnerable communities cope with climate impacts today. Adaptation finance is needed, for example, to help poor farmers to access faster maturing or drought-tolerant seeds, to install small-scale irrigation systems, or to access reliable weather and climatic forecasts.

The Copenhagen Accord recognised both the severity of these adaptation challenges, particularly for the poorest and most vulnerable countries, and the fact that the vast majority of existing climate finance was flowing towards mitigation, when it called for a “balanced allocation between mitigation and adaptation.” But it did not define how such a balance should be assessed.

Regrettably, “Fast Start Finance” has continued to heavily favour mitigation over adaptation. We estimate that over the period 2010 – 2012, only 20 – 22 per cent of resources flowed to adaptation.

As with every other measure in this report, there was considerable variation in performance between countries. Positive examples include Australia and the UK, which allocated a little over half of their resources to adaptation, and Ireland who committed nearly all their resources to adaptation. Australia also prioritized the needs of Least Developed Countries (LDCs) and Small Island Developing States (SIDS). At the other end of the scale, the Netherlands contributed less than 5 per cent of approximately $430m (announced pre-Copenhagen) to adaptation. Further uncertainty surrounds the criteria and guidelines against which countries have categorised finance flows as supporting adaptation. There are many questions that must be answered, for example, about how the US has counted aid money for food security and other development programmes as adaptation.

**Limitations of private finance**

The private sector must play a huge role in meeting the challenge of climate change. Trillions of private dollars are expected to go towards the development and rollout of renewable energy sources alone.

However, adaptation poses different challenges to either mitigation or traditional development assistance. Vital activities such as assessing climate risk at the local level and helping communities develop the capacity to cope is very unlikely to attract private investors. Adaptation measures such as planting mangroves to protect communities from storms are unlikely to generate profits for the private sector. Nonetheless, adaptation is both vital to protecting hard-won development gains and an enabler of sustainable, low-carbon development.

Public, grant-based finance is essential to ensure the adaptation needs of vulnerable communities are met. Oxfam is concerned that developed countries are looking to shift more of their responsibility to provide finance for mitigation and, to a lesser extent, adaptation onto the private sector.

While the private sector will learn to engage in adaptation measures where necessary to protect their investments, such efforts must be complimentary to, rather than a substitute for, meeting adaptation needs as defined and prioritised by local communities.
Lessons to be learned in Doha

The notion of “balanced allocation” must be more clearly defined to ensure that a fair and sufficient proportion of resources are available to meet the adaptation needs of the poorest and most vulnerable countries. In addition, the UNFCCC work program on long-term finance established the need for more information with which to assess climate finance needs. To ensure climate finance serves the needs of poor and vulnerable communities:

- There should be a quantified requirement that 50 per cent of overall climate finance flows are for adaptation
- Urgent support must be provided to enhance the capacity of developing countries and vulnerable communities to assess their adaptation finance needs.

3 The looming climate finance cliff

Under the Copenhagen Accord and reaffirmed in the Cancun Agreements, developed countries committed to jointly mobilise $100bn annually in climate finance by 2020 from a wide range of sources – public, private and alternative.

To date, developed countries have failed to make any concrete commitments to finance between 2013 and 2020 after the end of the Fast Start period. This leaves no guarantee that climate finance flows will increase to ensure that the $100bn commitment is kept. On the contrary, Oxfam warns that climate finance is set to drop below Fast Start levels in 2013.

Signals from a handful of countries, including New Zealand, the Czech Republic and the Netherlands, seem to suggest that their climate finance contributions will continue in 2013 at roughly “Fast Start” levels, though we await public confirmations. Regarding the European Commission, while an overall increase in climate finance seems possible, this will be acutely vulnerable to attacks from member states as part of a wider push to scale back the EU budget. As for the US, we expect, at best, a continuation at “Fast Start” levels, while Canada is planning no new climate finance beyond 2012. Climate finance is almost certain to fall in countries in Southern and Eastern Europe. Should there be any decline in contributions from Japan and other major providers of “Fast Start Finance”, these are unlikely to be offset by increases elsewhere.

The whole experience of Fast Start Finance and the challenging discussions over concrete commitments from 2013 – 2020 is marked by uncertainty and unpredictability. This is in part a consequence of relying solely on the budgetary decisions of national governments, subject to changing political and economic conditions in developed countries.

If developed countries fail to agree a clear trajectory of financing to 2020, and if they fail to mobilize new innovative sources of finance in addition to their national budgets, developing countries will have little confidence that promises made in Copenhagen and reaffirmed in Cancun will be kept.

Without this confidence, the prospects of finalising a comprehensive climate deal in 2015 are greatly diminished.

The Green Climate Fund

Only around 25 per cent of Fast Start Finance was channelled through multilateral funds, creating a complex web of funding arrangements with wide variations in the level of transparency and quality of governance.

The Green Climate Fund (GCF) holds great promise in streamlining channels of climate finance – reducing transaction costs for recipient countries, and putting them and their citizens in the driving seat for spending finance on the ground. The GCF should become the primary channel for climate finance by 2020, to ensure funds are allocated fairly, efficiently and effectively.
But while the GCF Board has now met twice and begun the work of operationalising the fund, still no commitments have been made by developed countries to capitalise the Fund and ensure its ongoing replenishment. Rich countries must not allow Doha to be the third COP to leave the GCF as an empty shell.

Lessons to be learned in Doha

As the Fast Start Finance period comes to an end, political decisions in Doha must ensure climate finance from 2013 goes up, not down. A roadmap for scaled-up climate finance from 2013 to 2020 should be based on a foundation of budget contributions from developed countries, supplemented by new innovative sources of public finance.

Developed countries must agree a climate finance package in Doha that:

- Amounts to a doubling in overall climate finance during the period 2013-15 compared to Fast Start Finance levels
- Guarantees sources and scaling up of climate finance to meet the $100 billion per year commitment by 2020.
- Ensures significant commitments to the Green Climate Fund, towards a total of $10-15 billion being pledged and dispersed to the Fund during the period 2013-15.

In addition, progress must be made on new and innovative sources of public finance, including fair charges on emissions from international aviation and shipping (bunkers). The UN Climate Summit in Doha must make progress in securing new sources of additional public finance. Specifically:

- Countries participating in the European Financial Transaction Tax, that is expected to be implemented next year, should announce that a substantial portion of the revenues will go to the GCF.
- A decision is needed which supports the proposal in the Long-Term Finance Work Programme Co-Chair’s report that the heads of the UNFCCC Secretariat, the International Maritime Organisation (IMO) and International Civil Aviation Organisation (ICAO) establish a high level group of experts to examine options for ensuring that revenues from carbon pricing for shipping and aviation be used for climate finance.
- A decision is needed that urges the IMO and ICAO to develop a global scheme to reduce shipping and aviation emissions, which: generates revenues for the Green Climate Fund; and takes account of the principle of common but differentiated capabilities and respective capabilities (CBD-RC).

KYOTO2 – A Key stepping stone to a global agreement

Alongside the ramping up of climate finance, finalising a second commitment period of the Kyoto Protocol, with as many countries on board as possible, will be a top priority at Doha. Both are necessary to ensure real progress on the Durban Platform - the commitment among all major countries to reach a comprehensive global climate agreement by 2015.

With the first commitment period expiring this year, Kyoto2 offers the necessary political and legal bridge to a fair, ambitious and binding agreement. To ensure environmental integrity, parties must first reach agreement on how to handle surplus emission permits from the first commitment period. Their carry-over could substantially reduce the level of actual emission reductions over the second commitment period, expected to run for eight years. With current emissions pledges wholly inadequate, parties must also build-in a mechanism to unilaterally ratchet up their targets during the commitment period. The new commitment period must be implementable by 1 January 2013.

Conclusion

While the climate negotiations in Doha lack much of the hype surrounding the talks in Copenhagen in 2009 they nonetheless mark a critical juncture. Developing countries currently face a world of uncertainty about the levels of climate finance they will have access to after 2012 draws to a close. However it is not too late to change course. Decisions in Doha will shape climate finance flows until 2020. These next two weeks are crucial to seeing through the commitment to mobilise $100 billion per year by 2020 to help poor countries reduce their greenhouse gas emissions and adapt to the unavoidable impacts of climate change they already facing.
Oxfam’s recommendations for COP18

In Doha, Oxfam is calling for:

1. Political decisions that ensure **climate finance from 2013 goes up not down**: to double the overall amount of climate finance during the period 2013-15 compared to Fast Start Finance levels; to guarantee sources and scaling up of climate finance to meet the $100 billion per year commitment by 2020; and to ensure significant commitments to the Green Climate Fund. Agreement on a robust common accounting framework to measure, report and verify delivery of future finance is also urgently needed.

2. Finalising and adopting a **second commitment period of the Kyoto Protocol**, with as many members as possible and with environmental integrity;

3. Urgent action to **increase mitigation ambition between now and 2020**, including: first and foremost higher mitigation targets from developed countries; a work plan to identify other areas of potential action; and pledges of mitigation action or targets from countries that have yet to make any;

4. Agreement on the **milestones to reach a fair, ambitious and binding deal by 2015**, including steps to a new consensus on equity between countries;

5. Strengthening the commitment to **gender equality** and women’s participation and representation in the UNFCCC;

6. Ensuring that any on-going consideration of **agriculture** is based on equity and takes full account of the recommendations of the UN Committee on World Food Security.

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GROW

GROW is Oxfam’s campaign to build a better food system: one that produces enough for a growing population and empowers poor people to earn a living, feed their families, and thrive in a resource-constrained world. For more information visit www.oxfam.org/grow

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