Briefing

Climate change

Keywords:
UNFCCC, Least Developed Countries (LDCs), climate finance, Paris Agreement

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Issue date
July 2016

Policy pointers

The Least Developed Countries Fund (LDCF) needs strengthening — through increased transparency, simplified procedures, alternative sources of funding and a review of its mandate — if it is to effectively support LDCs in addressing their specific needs and priorities.

Relying on voluntary contributions does not work. Opening up the LDCF to alternative funding sources would improve the scale, sustainability and predictability of its income.

Enhanced or direct access to the fund would give LDCs quick access to climate change finance while building their ownership of activities and their institutional capacity to absorb and manage finance.

Vigorous advocacy from LDCs and other stakeholders is critical, not only to capitalise the fund in the immediate term, but also to help secure its future in the post-Paris finance architecture. The Fund's programming policies must be strengthened to enable it to fulfil its new mandate to serve the Paris Agreement.

A vision for the Least Developed Countries Fund in a post-Paris climate regime

The 48 Least Developed Countries (LDCs) are the only country grouping to have a dedicated article in the UN Framework Convention on Climate Change (UNFCCC). Article 4.9 commits all parties to the convention to take full account of their specific needs and special situations with regard to funding and technology transfer. As part of efforts to implement this commitment, in 2001 the Least Developed Countries Fund (LDCF) was established to support LDCs in their climate change actions. But 15 years later, the fund is empty while the backlog of projects waiting for resources continues to grow. Is there a future for the LDCF in the post-Paris climate regime? The LDCs argue that there should be, but the fund needs strengthening.

The text of the Paris Agreement, like the UNFCCC before it, reiterates the need for all countries to take full account of the specific needs and special situations of the Least Developed Countries (LDCs), including with regard to funding. Parties also agreed that the Least Developed Countries Fund (LDCF) — the fund they established exclusively for these 48 countries — has a role to play in helping developing countries implement the new agreement.

When it was set up in 2001, the LDCF's primary mandate was to help LDC parties prepare and implement their National Adaptation Programmes of Action (NAPAs). These were to serve as a direct channel of communication for their most urgent and immediate adaptation needs and priorities. The Conference of Parties later asked the fund to help LDCs prepare their National Adaptation Plans (NAPs) to identify medium- and long-term adaptation needs. But the LDCF has faced a number of challenges in its lifetime, including the inadequate scale of resource contributions, which have affected its ability to deliver this mandate effectively.

Status of the fund

The demand for resources from the LDCF has far exceeded the funds available, and although contributors have pledged US$1,193.75 million, US$202.18 million remains outstanding.[1] With most of these resources already committed to other projects established since the fund's formation, the balance of available resources stands at US$9.84 million. However the LDCF has 34 projects cleared for implementation that will need grants totalling US$227.07 million.

At the 2015 Paris Climate Conference (COP21), LDC stakeholders engaged in vigorous advocacy to replenish the LDCF. At the same time, there was a collective effort among other parties to build a spirit of trust and confidence before finalising the new agreement. Indicating their commitment to

Despite 11 countries announcing new pledges, the status of the Least Developed Countries Fund remains precarious

supporting developing countries to adapt to climate change, 11 countries announced new pledges to the LDCF.[2] Amounting to US$248 million, these contributions will allow the fund to clear most of its backlog of projects. But its status remains precarious: it needs more resources to support future projects.

Under the UNFCCC, the global climate finance landscape has continued to evolve and the Green Climate Fund (GCF) increasingly draws donors' attention away from smaller funds. In its 15 years of existence, the LDCF has received less than a tenth of the US$10.2 billion that the parties pledged to the GCF barely a year into its initial resource mobilisation period.[3] Now, parties have decided that the LDCF should serve the Paris Agreement in addition to fulfilling its original mandate, yet it remains severely underfunded. This begs the question: is there a viable future for the LDCF?

Governance and operational structure

The LDCF has many design features that make it valuable to the LDCs. These include:

Eligibility criteria: as its name suggests, the LDCF is to be used exclusively by the LDC parties to the UNFCCC. All 48 LDCs, plus the three countries that have since graduated from the group, have tapped into the fund (see Figure 1). This eligibility criterion acknowledges that LDCs are not in a position to 'compete' with other, more capable developing countries for climate change finance. Data provided by the Organisation for Economic Co-operation and Development (OECD) shows that public finance for climate change activities tends to flow into middle-income countries, with six of these receiving the same amount obtained by all the LDCs put together.[4,5]

Principle of equitable access: the LDCF programming strategy includes a principle for balanced access, reflecting the reality that the level of human and institutional capacity to absorb and manage funds varies greatly, even among members of the LDC Group.[6] So, rather than disbursing resources on a first come, first served basis, the LDCF caps the total amount each country can receive to ensure that it allocates resources equitably. As the fund grows, this ceiling rises: when the LDCF was established, each country could access up to US$3 million; today they can cumulatively receive US$40 million.

Grant-based support for adaptation: from public and private sources, the vast majority of climate finance flows support mitigation, rather than adaptation, activities. In 2013–14, only 16 per cent of climate finance was allocated to adaptation activities.[4] This figure would be lower still, if it did not include funding delivered through instruments other than grants, such as concessional loans which eventually need to be repaid. Disbursing resources exclusively through grants is a critical characteristic of the fund. Without climate change, there would be no need for adaptation. Because they did not cause climate change, the LDCs argue that they should not be expected to take out repayable loans to fund adaptation activities. It is vital, therefore, to have grant-based public finance for adaptation.

Portfolio snapshot

The LDCF has been operational since 2002. The projects it has supported have a number of common elements that reflect current LDC needs on agriculture, disaster risk management, water resources, early warning systems, coastal zone reclamation and rehabilitation, among others.

Activities across scales: although most have been at a national level, the LDCF has contributed to four regional and three global projects.[1] In the early years of its operations, the fund focused on supporting countries to prepare their NAPAs, as its mandate dictated. It then moved on to implementing the priority activities identified in these NAPAs. Since approving the first project to implement NAPA priorities in 2008, the average grant size for NAPA implementation projects has been around US$5.08 million. Most national projects include a subnational or local element; seeking to support community-based adaptation, for example, or focusing actions on one or two regions within a country. Most also aim to integrate climate change adaptation into development policies, plans and frameworks across climate-sensitive sectors, such as disaster risk management, water resource management and agriculture.[7]

Supporting capacity building, public awareness and learning: capacity building is often central to the fund's project portfolio. Many projects contain aspects of individual and institutional capacity building. The former includes training for vulnerable groups on innovative approaches; the latter, support for integrating climate change adaptation in national or subnational policies, plans and strategies and enhancing government capacity for informed decision making and planning. Projects often also include activities to raise public awareness on climate change issues and share best practice and lessons learned.

Potential for replication and scaling up: LDCF-supported projects often reflect an explicit intention to scale up or replicate the project if it achieves the desired or expected results and further financing is available, through the LDCF or other sources. Many label themselves as 'pilot' projects for new adaptation solutions in the country or region and their design lays the foundations for continuing or replicating them in future. Introducing new technologies also helps to scale up and replicate actions and is a component of more than half of the project proposals in the LDCF portfolio.

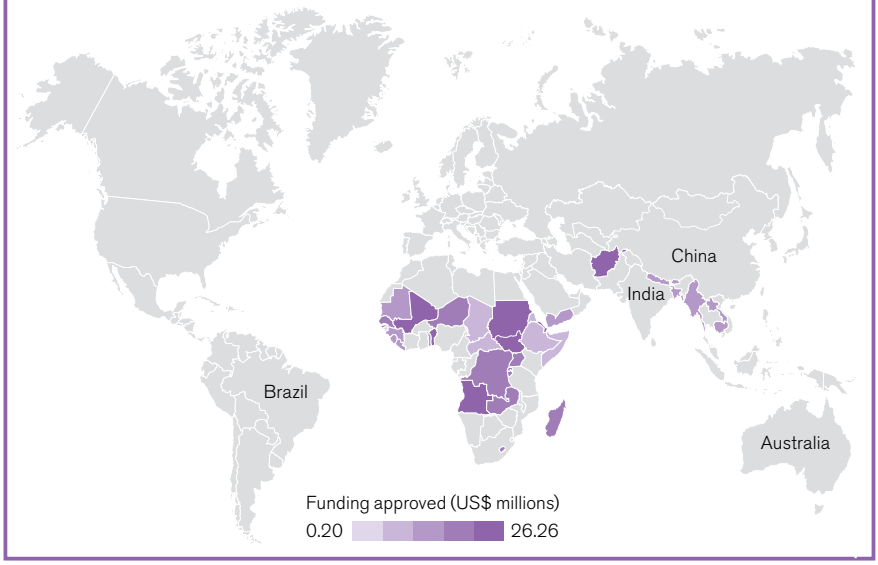
Challenges

The LDCs have expressed concern over some of the fund's characteristics.

Reliance on voluntary contributions from developed countries: the scale and predictability of contributions to the fund has been far from adequate. Pledges have only recently hit US$1 billion; this is half of the (early, conservative) estimate of the US$2 billion cost to implement all of the LDCs' NAPAs.[8] And NAPA implementation is only one element of the fund's mandate. Over time, LDCs' urgent and immediate priorities and needs and their associated costs will escalate to levels far beyond that which they included in their NAPAs five to eight years ago. Also, due to perceived resource constraints, LDCs designed their NAPAs on a project-by-project and sector-specific basis. A more programmatic and cross-sectoral approach could have led to more aspirational, strategic and effective adaptation planning that is integrated with national development agendas.[9] But relying on voluntary contributions — and thus being unable to predict the level of resources that will become available — hampers the LDCF's ability to allocate enough financing to support a more programmatic approach to NAPA implementation and the NAP process.

Complicated institutional arrangements: the perceived lack of transparency means that LDCs have little involvement in LDCF governance. LDC stakeholders choose which of the 18 Global Environment Facility (GEF) agencies to work with, but have little say in how these agencies manage the resources or implement the projects.[10,11] The eight GEF agencies that have managed LDCF projects to date — Asian Development Bank; African Development Bank; Food and Agriculture Organization; International Fund for Agricultural Development; United Nations Development Programme; United Nations Environment Programme; United Nations Industrial Development Organisation and World Bank — act as intermediaries. They submit the funding applications, receive resources directly from the LDCF trustee and are accountable to the GEF. LDCs have called for the LDCF to enhance country ownership of the financing, including through a direct access modality that could help build countries' institutional capacity to absorb and manage finance.

Figure 1. Geographical distribution of approved LDCF funding (Climate Funds Update 2016)



Complicated procedures: LDCs have had similar concerns over the fund's procedures for accessing grants, particularly its co-financing requirements and the length of time it takes to get a project approved.[--5,10] For example, project proponents have to identify the baseline costs of business-as-usual development — to be financed through other sources — and the additional costs of the adaptation intervention, which the LDCF will cover fully. There was so much confusion around the terms and procedures for accessing funds — for example, what constitutes 'baseline costs' and 'adaptation costs' and the definition of 'co-financing' — that the COP had to request the GEF for clarification.

Options for a post-Paris LDCF

It is clear that there is added value to having a dedicated fund for LDCs in the growing climate finance landscape and context of support needs for the implementation of the Paris Agreement. So it is important to keep the design aspects that have made the fund unique. However, there is also room for strengthening programming policy to allow the LDCF to address the challenges described above. Actions could include:

Enhanced or direct access for LDCs: giving the LDCs enhanced or direct access to the fund would increase their ownership of activities and strengthen their capacity to manage funds,

although it might affect the implementation period or the level of resources needed.

Fast-track financing for LDCs: there is no question that LDCs' urgent and immediate adaptation priorities, including those already identified in their NAPAs, need financing without delay. LDCs struggle to gain quick access to the GCF. Strengthening the LDCF mandate would allow it to serve as a fast-track channel for upfront grant-based support for LDCs.

Scaling up successful projects: LDCF-financed adaptation interventions could act as 'incubator' projects, which could later be scaled up into larger activities or programmes, including those in LDCs' nationally determined contributions under the Paris Agreement. Incubator projects would include an element of capacity building — which the LDCF already supports — to strengthen LDCs' absorptive capacity to access larger funds. Once incubator projects were ready to be scaled up, they would be commercially viable interventions that could be supported through a variety of financial instruments including concessional loans provided by other funds, such as the GCF.

Improving the scale and predictability of contributions to the LDCF: rather than relying on voluntary pledges, setting up a replenishment cycle and opening up to contributions from alternative sources of funding would make the flow of resources into the fund both sustainable and predictable. Suggested options include:

- Channelling a share of proceeds from units generated by market mechanisms or instruments to help build capital, as demonstrated by the Kyoto Protocol's Adaptation Fund
- A levy scheme involving the International Civil Aviation Organisation and the International Maritime Organisation[12,13]
- Earmarking funds at subnational level. For example, transferring a small share of proceeds from the joint auctions of allowances from California and Quebec's emission trading schemes to the LDCF as a solidarity charge for the poorest and most vulnerable to climate change.[14] In December 2015, Quebec's pledge to the LDCF made it the first subnational government to pledge to a multilateral climate fund.

This is only the start of discussions on options for future arrangements for the fund. What is certain is that vigorous advocacy from LDCs and other bodies supporting these countries is critical, not only to capitalise the fund in the immediate term but also help secure its future in the post-Paris finance architecture.

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Acknowledgements

The authors would like to thank His Excellency Pa Ousman Jarju, Minister of Environment, Climate Change, Water Resources, Forestry, Parks and Wildlife and Special Climate Envoy of the Gambia, as well as Achala Abeysinghe, Raju Chhetri, Brianna Craft, Ermira Fida, Tim Gore, Saleemul Huq, Pradeep Kurukulasuriya, Rawleston Moore, Benito Müller, Christoph Schwarte, Tara Shine and Paul Steele for their views and comments at all stages of this research. Any errors remain those of the authors.

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This briefing has been produced with the generous support of Danida (Denmark), Irish Aid and Sida (Sweden).

Notes

[1] Global Environment Facility (2016) Progress Report on the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF). GEF, Washington DC. / [2] Global Environment Facility (30 November 2015) $248 USD million pledged to GEF climate fund for most vulnerable countries. Press release. See www.thegef.org / [3] Green Climate Fund (11 December 2014) Total pledges nearing USD 10.2 billion. Press release. See http://tinyurl.com/gcfpressrelease / [4] OECD (2015) Climate finance in 2013–14 and the USD 100 billion goal. OECD and the Climate Policy Initiative (CPI). See www.oecd.org/env/cc/oecd-cpi-climate-finance-report.htm / [5] Rai, N *et al.* (2015) A fair deal in Paris means adequate finance to deliver INDCs in LDCs. IIED, London. See http://pubs.iied.org/17333IIED.html / [6] Gaspar-Martins, G (25 August 2015) Making the Least Developed Countries Fund fit for purpose. See http://cdkn.org/2015/08/opinion-making-the-climate-fund-fit-for-purpose/?loclang=en_gb / [7] GEF (2015) FY14 Annual monitoring review of the Least Developed Countries Fund and the Special Climate Change Fund. GEF, Washington DC. / [8] LDC Expert Group (2009) Support needed to fully implement National Adaptation Programmes of Action (NAPAs). UNFCCC. See http://tinyurl.com/09ldcnapa / [9] COWI and IIED (2009) Operation of the Least Developed Countries Fund for adaptation to climate change. Ministry of Foreign Affairs of Denmark. See www.oecd.org/derec/denmark/43989776.pdf / [10] Uprety, B (22 April 2015) Financing climate change adaptation in LDCs. See www.iied.org/financing-climate-change-adaptation-ldcs / [11] LDC Group (2012) Least Developed Country Group submission on implementation of LDC work programme, including NAPAs and accessing LDCF. See https://ldcclimate.files.wordpress.com/2012/05/ldc-group-submission-agenda-item-6b_napas.pdf / [12] LDC Group (2008) International Air Passenger Adaptation Levy: a proposal by the Maldives on behalf of the Group of Least Developed Countries (LDCs) within the framework of the Bali Action Plan. See http://tinyurl.com/airlevy / [13] LDC Group (2014) Submission by Nepal on behalf of the Least Developed Countries Group on the ADP co-chairs' non-paper of 7 July 2014 on parties' views and proposal on the elements for a draft negotiating text. See https://ldcclimate.files.wordpress.com/2014/10/submission-by-nepal-adp_21-oct-2014.pdf / [14] Müller, B (2015) Finance for the Paris climate compact: the role of earmarked (sub-) national contributions. Policy brief No 1, 2015. Climate Strategies. See http://climatestrategies.org/publication/cs-policy-brief-finance-for-the-paris-climate-compact