LDC PAPER SERIES

LDC perspectives on the future of the Least Developed Countries Fund

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List of acronyms

COP	Conference of the Parties (to the UNFCCC)
GCF	Green Climate Fund
GEF	Global Environment Facility
FY	financial year
LDCs	Least Developed Countries
LDCF	Least Developed Countries Fund
LEG	Least Developed Countries Expert Group
NAP	national adaptation plan
NAPA	national adaptation programme of action
SCCF	Special Climate Change Fund
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change

Introduction

The 48 countries categorised as Least Developed Countries (LDCs)[1] are the only country grouping to be accorded a dedicated article in the text of the United Nations Framework Convention on Climate Change (UNFCCC). This is paragraph 9 of Article 4, which mandates all countries party to the Convention to "take full account of the specific needs and special situations of the least developed countries in their actions with regard to funding and transfer of technology" (UN, 1992). The Conference of the Parties' (COP) decision in 2001 to establish a fund explicitly for LDCs were therefore significant, as this not only reflected progress towards the implementation of this provision, but also reaffirmed the need to address the LDCs' unique circumstances.

The Least Developed Countries Fund (LDCF) was initially set up to support the preparation and implementation of LDCs' national adaptation programmes of action (NAPAs), to identify priority activities to respond to immediate and urgent climate change adaptation needs. Besides this, the fund was to support other elements of the LDC work programme (of which the NAPAs are a major component), such as efforts to strengthen LDCs' national climate change secretariats, and/or focal points to enable the effective implementation of the Convention and Kyoto Protocol, and capacity building for LDC delegates to engage meaningfully in the negotiations. In recent years, its functions have further been extended to support LDCs as they initiate national adaptation plan (NAP) processes to identify and address medium- and long-term adaptation needs.

The LDCF is a voluntary fund, to which 25 countries have contributed under US$961.87 million in its fourteen years since inception (GEF, 2015a). Yet the cost of implementing LDCs' NAPAs alone is estimated *at the very minimum* to be US$2 billion with co-financing (LEG, 2009), and US$5 billion without (Ciplet et al., 2013). These costs are also expected to increase as more time passes between the completion of NAPAs and their actual implementation, as well as with the advent of new information on adaptation costs and needs and the identification of new and additional challenges (LEG, 2009). The challenge of demand for resources from the fund far exceeding supply is now clearer than ever. In October 2014, the Global Environment Facility (GEF) – the entity which administers the LDCF – declared the LDCF 'empty' (GEF, 2014d). More than a year later, it is still urgently seeking resources amounting to almost US$255 million for 35 projects technically cleared by the secretariat for implementation (GEF, 2015a).

1 34 LDCs are in Africa, 13 in Asia and 1 in Latin America.

As a result of these resource challenges, and along with the advent of the Green Climate Fund (GCF), towards which much climate finance attention has turned, the future of the LDCF is increasingly uncertain. At the 21st Conference of the Parties (COP-21) in Paris, parties to the UNFCCC are expected to adopt a new, universal and legally binding agreement on climate change that will form the basis of the future global climate governance. Further technical elements and details of the new regime are expected to be discussed and agreed in the years between 2016 and 2020, before the Paris agreement enters into force. How parties decide to address or disregard the LDCF's resource problem in discussions at COP-21 and beyond, as well as its role as a dedicated funding stream for LDCs separate from the GCF, will therefore have a direct bearing on the fund's existence and relevance in the post-2020 period.

This paper will begin by introducing the context in which the LDCF was established, its mandate and its governance structure. Section 2 will present an overview of how the fund has been uniquely designed to respond to the specific situations of LDCs, and will be followed by a presentation of the current status of the fund (Section 3). Section 4 will then explore the perspectives of LDC stakeholders on how the fund has been running over the years. Finally, in Section 5, the paper will introduce options for the way forward, in the context of the fund continuing in the post-2020 climate regime, and next steps.

Section 1. Background

Context and mandate

While today adaptation is generally understood as an essential element of the global response to climate change, the focus of global climate change discussions has historically been on the mitigation agenda. It was only in its third assessment report, published in 2001, that the Intergovernmental Panel on Climate Change warned of the unavoidable impacts of anthropogenic climate change, and identified adaptation assistance as necessary for poor countries and communities to cope (Huq and Ayers, 2009; Huq and Toulmin, 2006). This was subsequently translated into policy at the international level when, in December of the same year, parties to the UNFCCC established new funds to assist developing countries in their adaptation efforts. Among these was the LDCF.

That year, the COP adopted Decision 5/CP.7 on the implementation of Articles 4.8 and 4.9 of the Convention, which has a section addressing the specific needs and special situations of the LDCs (UNFCCC, 2002). Here, a work programme was set up for LDCs to support them in preparing their NAPAs. These NAPAs were to serve as a simplified and direct channel of communication for information on LDCs' vulnerabilities and urgent and immediate adaptation needs. Besides this, the work programme was also to establish or strengthen LDCs' existing national climate change secretariats and/or focal points, to enable the effective implementation of the Convention and the Kyoto Protocol in these countries. It furthermore included a provision for training in negotiating skills and language, where needed, to develop the capacity of LDC negotiators.

The LDCF's mandate (contained in Decisions 5/CP.7 and 7/CP.7), therefore, was to support NAPA preparation and implementation, as well as the other elements of the new work programme. In response to Decision 5/CP.16 in 2010, the scope of the fund was further extended to enable activities for the preparation of LDCs' NAPs focusing on medium- and long-term adaptation needs (UNFCCC, 2011).

LDCF governance structure and relationship with the COP

Parties decided that the LDCF would be administered, under the guidance of the COP, by an entity entrusted with operating the financial mechanism of the Convention – this was later agreed to be the Global Environment Facility.[2] The GEF is required to report annually to the COP on all GEF-financed activities undertaken in implementing the Convention. Accordingly, the LDCF administration also reports back to the COP on the specific steps it undertakes to implement the fund's mandate.

2 The GCF joined the GEF in 2011 as an operating entity of the UNFCCC's financial mechanism.

All operational policies and procedures, as well as the governance structure of the GEF, apply to the LDCF – unless the COP requests for other arrangements to be made (GEF, 2002; 2011).[3] As with the GEF Trust Fund, the World Bank acts as trustee of the LDCF. Elements unique to the LDCF rules and procedures in comparison to the GEF Trust Fund's operational model, established based on COP guidance, are meant to take into account LDCs' specific needs and special situations (see Section 2).

The LDCF has its own council for decision-making purposes, jointly with the Special Climate Change Fund (SCCF; the council is known as the LDCF/SCCF Council). The LDCF/SCCF Council's primary responsibility is to develop, adopt and evaluate LDCF (and SCCF) policies and programmes. It meets twice a year, back-to-back with GEF Council meetings. Any of the 32 GEF Council constituencies[4] can participate or attend as an observer. LDCs may be members of the council, or be otherwise represented by a member of the constituency they belong to (though the representing country may not be an LDC).

Since the establishment of the fund, the COP has been agreeing on further guidance to the LDCF including on policies, programme priorities and eligibility criteria, which the LDCF/SCCF Council acts on (see Annex I for an overview of COP guidance issued thus far). LDCF programming modalities are also guided by advice from the Least Developed Countries Expert Group (LEG).[5]

3 The governing structure of the GEF is made up of the Assembly, the Council, the Secretariat, the Scientific and Technical Advisory Panel and the Independent Evaluation Office.

4 The GEF Council is the GEF's governing board of directors, who are responsible for developing, adopting, and evaluating policies and programmes for GEF-financed activities. It includes 14 from developed country (donor) constituencies, 16 members from developing country (recipient) constituencies, and 2 from constituencies of countries with economies in transition (recipients). For further information, see: www.thegef.org/gef/council

5 The Least Developed Countries Expert Group (LEG) was also established at COP-7, to provide technical support and advice to the LDCs on NAPAs, and other elements of the LDC work programme. More recently, it has additionally been providing technical guidance and support for the preparation of national adaptation plans (NAPs) to address medium- and long-term needs.

Section 2. A unique fund for LDCs

Based on the guidance received from the COP and the LEG, the GEF developed three key documents to support LDCF operations, particularly in the context of NAPA implementation. These are: the Programming Paper for Funding the Implementation of NAPAs under the LDC Trust Fund (GEF, 2006), the Updated Operational Guidelines (GEF, 2012b), and the GEF Programming Strategy on Adaptation to Climate Change for the Least Developed Countries Fund and Special Climate Change Fund (GEF, 2014a). A review of the three papers shows how LDCF programming has been designed to take into account the specific circumstances and needs of LDCs since the fund's inception. Features unique to the fund deal with eligibility, equitable access, grant-based full-cost funding for adaptation, and a streamlined project cycle, among others. These are outlined below.

Eligibility and country ownership

The fund was established in the first place as a dedicated funding stream for LDCs, with the acknowledgment that LDCs are not in a position to 'compete' for finance for climate change actions against other, more capable, developing countries. Thus, in order to be eligible for funding under the LDCF, a country must be categorised as an LDC and be party to the UNFCCC.

Furthermore, each LDC party must have submitted a NAPA to the UNFCCC Secretariat (which is subsequently made public on the website), although LDCF resources are also available to help prepare it. NAPAs from 47 of the 48 members of the LDC Group have been communicated so far, along with an additional three from countries which have since graduated from the LDC category. South Sudan, the newest member of the group, is in the process of preparing theirs.

According to the 2006 Programming Paper, 'country ownership' is among the review criteria for LDCF proposals. There are two considerations for whether proposals meet this criterion. One is country eligibility, as described above. The other is 'country drivenness,' which demands that the project in question is identified as a priority activity under the country's NAPA. The NAPA must demonstrate evidence of stakeholder consultation and support, and take into account other relevant local, national or regional studies and projects. It also requires the endorsement of the focal point(s) of the country (or countries) where the project will be implemented.

Equitable access to the fund by eligible parties

Among the LDCF's more notable characteristics is its principle of equitable or balanced access by LDCs to resources for implementing NAPAs, in accordance with COP guidance contained in Decisions 6/CP.9 and 9/CP.11. This principle takes into account the fact that even within the LDC category, certain countries will have higher institutional or absorptive capacity for project development and accessing funds than others. In order to ensure equitable access within the group (and avoid disbursing resources on a first-come, first-served basis), a 'ceiling' or maximum amount that LDCs can access is put in place, adjusted over time to correspond proportionately to the increasing size of the fund. For example, in 2006, LDCs could access not more than US$3.5 million each; this limit was later raised to US$6 million in 2009, and US$8 million in 2010 (GEF, 2011; LEG, 2009). At present, each LDC is able to access a total of up to US$30 million (taking into account all the resources the country has been allocated since the establishment of the fund) (GEF, 2015a).

The principle of equitable or balanced access also means that the regional distribution of LDCF funds reflects the regional distribution of the 48 LDCs. African LDCs have accessed about 68 per cent of LDCF financing, compared to about 29 per cent accessed by Asian and Pacific LDCs (UNFCCC, 2015).

Full-cost funding for adaptation

LDCF programming acknowledges that poverty eradication and LDCs' development priorities – such as water supply and sanitation, food security, and health – are threatened by the adverse impacts of climate change (GEF, 2006, 2011, 2014a). For this reason, the fund encourages adaptation actions to be undertaken in the context of climate-resilient development, rather than in isolation. This approach requires that LDCF-financed adaptation interventions (including those identified in NAPAs) are integrated into the development policies, plans, programmes, projects and actions of each recipient country.

The GEF put forth a set of criteria for the LDCF to support activities on an agreed full-cost basis. Following the logic that the fund should finance adaptation action in the context of development, as described above, the criteria that were developed are based on the identification of *baseline costs* of a business-as-usual development intervention and the *additional costs* the project incurs to adapt to the adverse impacts of climate change. The LDCF provides funding for the full additional costs of adaptation (but not the baseline costs). In this manner, these criteria also form the basis for the level of co-financing that will be required, and determine, in less frequent cases, whether the LDCF will fund the total costs of an intervention that is exclusively on adaptation.

The logic of having LDCF adaptation interventions co-financed is to ensure that they are undertaken in the context of existing development priorities. Moreover, co-financing allows the fund to leverage or top up resources from national development budgets, including in-kind contributions, reflecting a cost-sharing approach between the fund and business-as-usual development financing (GEF, 2006, 2012b). As a result, the GEF argues, this approach has the potential of having a greater impact, taking advantage of synergies and economies of scale.

Box 1. Clarifying 'project baselines', 'additional costs' and 'co-financing'

Because the methodology and definitions used to determine the level of co-financing that is required is unique to the LDCF, it has taken some time for all stakeholders to understand them. At the request of the COP, the GEF has had to further clarify the concept of project baselines, and how to determine the 'additional' costs of adaptation projects (GEF, 2012a, 2012b; UNFCCC, 2012)

Project baseline: Before proposing a project to be financed from the LDCF, baseline situations and projects must be addressed. The baseline project comprises the set of relevant existing or planned activities and resources that are, or will be, funded by sources outside the GEF Trust Fund, the LDCF itself, and the SCCF. In other words, it is an analysis of the business-as-usual scenario which happens or is expected to happen without additional funding from the LDCF (ie in the absence of climate change adaptation needs). This should provide quantitative cost estimates of the baseline project (which may include baseline activities that would happen in the absence of climate change) to be funded and implemented by the government or other financing sources. In-kind contributions can also constitute a component of baseline financing, and should therefore be evaluated and accounted for (GEF 2006, 2012a, 2012b).

Additional costs: The fund interprets the additional costs of adaptation as the extra costs imposed on countries to undertake existing development efforts resulting from the need to address the adverse impacts of climate change; in other words, they constitute what would not need to be financed in the absence of climate change (GEF 2006, 2012a, 2012b).

Co-financing: This is "the financing associated with the baseline project and any non-LDCF [and non-GEF] financing associated with the adaptation project, committed as part of the initial financing package" (GEF 2012b: 6). Co-financing can come from a variety of sources including GEF agencies, governments, other multilateral and bilateral development cooperation agencies, the private sector, private foundations, civil society organisations and beneficiaries. It could also be employed through a number of instruments such as grants, credits, loans at concessional market rates, and equity investments, among others. However, financing for activities that are part of the overall project package but not part of the baseline of the LDCF project (ie not prerequisites for achieving LDCF objectives) do not count as co-financing.

Streamlined project cycle/expedited project processing

From the LDCF's inception, the GEF was asked to adopt streamlined procedures for operating the fund (UNFCCC, 2002). In order to deliver expedited support, the LDCF has adopted a modality for project review and approval to occur on a rolling basis. This enables a proposal to the LDCF for a full-sized project (requesting more than US$2 million of LDCF financing) to be submitted to the GEF Secretariat whenever deemed ready to enter the project pipeline. As the GEF explains, entry into the pipeline not only serves to give early reassurance that projects to be developed are in line with the LDCF mandate, but also allows the secretariat to manage requests and ensure equitable access of resources among

LDCs based on the amount of resources available in the fund at a given time (2006). Once in the pipeline, the projects can be circulated (by the secretariat) to the LDCF Council for approval on a 'no objection' basis. A project is approved unless four Council members object in writing and request that it be further considered at the next council meeting. Because approving project proposals on a rolling basis in this manner is a feature unique to the LDCF, the LDCF project cycle is said to be more streamlined than that of the GEF Trust Fund.

Programmatic approach for NAPA implementation

At COP-17, parties requested the GEF to support the development of a programmatic approach for the implementation of NAPAs (UNFCCC, 2012). The 2012 Operational Guidelines note that in fact, the GEF Trust Fund's programmatic approach applies to the LDCF (until or unless the council decides otherwise). The objective of this approach, the GEF explains, is to secure a larger-scale and sustained adaptation impact by implementing medium- to long-term strategies for achieving specific adaptation objectives that are consistent with countries' NAPAs. Thus, a programme includes several projects within it, which are implemented in a sequential manner (GEF). Taking this approach, the LDCF can disburse large-scale resources effectively and efficiently to countries and regions with enhanced accountability and oversight. The GEF further notes that programmes can provide an opportunity for interested donors and other partners (including the private sector) to invest additional, focused funding that seeks to achieve the same impacts.

In response to guidance from the COP to the GEF, as well as from the LEG, in support of implementing the LDC work programme, LDCF programming features have in this manner been designed and further developed over the years to better respond to the LDCs' specific situations. Before moving on to LDC stakeholders' perspectives on these, a brief overview of the fund's current status is presented in the following section.

Section 3. Status of LDCF resources

In September 2015, the GEF reported that US$935.69 million has been pledged and paid to the LDCF since the fund's inception. Of this amount, US$12.20 million has supported 51 LDCs in the preparation of their NAPAs, and US$905.63 million disbursed for 161 projects supporting the implementation of these NAPAs. Three global projects worth US$13.69 million have also been released to support LDCs in preparing their NAPs, as well as in implementing other elements of the LDC work programme. Germany, the United Kingdom and the United States have been the largest contributors to date (GEF, 2015b).

While cumulative contributions have grown steadily over the years, the LDCF's current resource situation is grave. In the fiscal year 2015 (FY15), pledges to the fund amounted to only US$29.04 million, compared to US$175-225 million predicted based on previous years' annual pledges (GEF, 2015e). Since May 2014, the GEF has been reporting that the demand for funds from the LDCF far exceeds the resources available for new project approvals (GEF, 2014c). In October 2014, the fund was declared empty; six projects technically cleared by the secretariat for implementation were waiting in the pipeline for resources amounting to US$48.10 million (GEF, 2014d). By the end of April 2015, US$11.96 million became available, but the number of approved projects in the pipeline rose to 26, valued at US$198.96 million (GEF, 2015d). The latest report, dated 25 September 2015, states that despite US$17.78 million of new funding since April, the total funding demand has increased to US$254.48 million for a total of 35 projects in the pipeline. Moreover, US$72 million will also soon be needed for another 13 proposals endorsed by LDCs and submitted to the secretariat for review and technical clearance (GEF, 2015a). The fund is in urgent need of replenishment.

Section 4. LDC perspectives on the fund

Over the lifetime of the LDC Fund, the LDC Group has been actively engaged in discussions with the COP and the LDCF/SCCF Council on how the fund has been functioning. In particular, the LDC Group has reiterated the importance of having a unique grant-based funding stream dedicated to supporting their specific, immediate, medium- and long-term adaptation priorities. It has likewise highlighted the fund's principle for equitable or balanced access as a key factor that has enabled all members of the group to access funding. The group has also, however, raised concerns over certain aspects of the fund's operations, with a view to improving them to better meet their needs. These perspectives are important to understand when considering the LDCF's future under the post-2020 climate regime.

Availability, scale and predictability of resources

The most prominent concern, in particular in recent years, has without a doubt been over the inadequacy of resources contributed to the LDCF thus far. The LDCF has been successful in providing funding for one aspect of its mandate, which is to meet the agreed full cost of preparing NAPAs. However, with less than US$1 billion contributed so far, it is clear that the scale of resources made available comes nowhere close to what is needed for the fund to implement its mandate, let alone to cover the full cost of NAPA implementation.

Indeed, a report by the Least Developed Countries Expert Group (LEG) concluded that the *lowest limit* of required financing to fully implement the actions outlined in the LDCs' NAPAs is US$2 billion (LEG, 2009). This figure, which was based on the NAPAs received at the time, is conservative; however, the report also underlines evident underestimates in project costs presented in the NAPAs. One factor that led to low estimated costs in several NAPAs, for instance, was a misinterpretation of GEF guidance that each LDC will only be able to access US$3 million; in fact, this ceiling is raised as contributions to the LDCF increase over time. Another was the influence of the sliding scale[6] then applied, which determined the level of resources that would be needed to co-finance projects; because projects with higher cost estimates required higher, and less achievable, levels of co-financing, several LDCs had downscaled the cost estimates of some or all of their NAPA

6 The sliding scale assumed that smaller projects would typically focus on 'soft' activities such as capacity building and training. Because such actions would be unnecessary in the absence of climate change, it assumed that the additional costs of the project would constitute a larger fraction of the total costs. On the other hand, larger projects would most often correspond to, for example, infrastructure investments, for which the adaptation component would be smaller. The sliding scale would thus infer that the additional costs for larger projects would constitute a smaller proportion of total project costs (GEF, 2006).

activities. The report also clearly states that costs are expected to grow with the passage of time since the completion of the NAPAs, new information, and new and additional impacts. In line with the LEG report's reasoning behind the underestimation of NAPA costs, the findings of an independent evaluation of the LDCF published in 2009 further suggest that inadequate resources – coupled with limited knowledge on the true costs of adaptation (as already touched upon) – also likely led to less aspirational and less programmatic approaches to NAPA preparations (COWI and IIED, 2009).

The voluntary nature of contributions to the LDCF has certainly impacted the size of the fund. Furthermore, ever since the Green Climate Fund embarked on mobilising resources, the LDCF has had even more difficulty attracting the scale of financing that the fulfilment of its mandate demands. This is reflected in the sudden drop of resources pledged to the LDCF in FY15 (ending on 30 June 2015) from approximately US$175 million in FY13 and US$100 million in FY14, to under US$30 million, as well as the ever-increasing backlog of approved projects in the pipeline (GEF, 2013, 2014d, 2015a). The total amount of resources paid to the LDCF in its almost fifteen years of existence is less than one tenth of what was pledged to the GCF barely a year into its initial resource mobilisation period.[7]

While the GCF is required to allocate at least 50 per cent of its adaptation funding to the most vulnerable countries, including LDCs, Small Island Developing States and African states, many LDCs are deeply concerned that they lack the human and institutional capacity to access and absorb resources from the GCF. By contrast, they have been successful in absorbing resources and undertaking priority adaptation actions under the LDCF (GEF, 2014a). Project proposals submitted by LDCs to implement NAPA actions are unlikely to be investment-ready and 'bankable' enough to meet GCF standards, the LDC Group argues. Furthermore, grants are only one of various financial instruments that the GCF intends to use to deliver its mandate to enable the shift towards low emission and climate resilient development pathways; others include concessional senior and subordinated loans, equity and guarantees (GCF, 2015). For LDCs, however, grant-based funding for adaptation (as provided by the LDCF) is crucial, and cannot be a financial instrument to be used only in exceptional cases.

Relying on countries to contribute to the LDCF on a voluntary basis (rather than, for example, having a four-year replenishment cycle as with the GEF Trust Fund) has also made it difficult for the GEF to predict the level of funding that will be made available over the years. Yet predictable funding continues to be among the key climate finance asks of LDCs and other developing countries, to enable effective long-term planning, institutional

7 By the end of COP-20 (December 2014), total pledges to the GCF neared US$10.2 billion (GCF, 2014).

and technical capacity building, and investments (GEF, 2014a; Müller, 2015). The lack of predictability of resources to the LDCF has certainly hampered the LDCF administration's ability to allocate sufficient financing to support a more programmatic approach to NAPA implementation (COWI and IIED, 2009).

Co-financing

A common opinion about LDCF procedures, particularly in the early years of its operations, has been that they are too complex (COWI and IIED, 2009; LDC Group, 2012; Uprety, 2015). This is especially true for the fund's co-financing requirements and approach to identifying baseline and additional costs, which the COP had to request clarification on from the GEF in 2011.

As explained, the LDCF demands that all projects estimate the additional costs of the proposed action in order to justify a request for LDCF financing, based on the difference between the costs of the project baseline and the adaptation scenario. In the early years of the LDCF's operations, the GEF acknowledged that this may be difficult in practice, as developing detailed baseline and adaptation scenarios can be complex, time-consuming and imprecise. This was particularly true at the time, when experience in implementing adaptation measures was very limited. In response to COP guidance, it therefore proposed the use of an optional sliding scale for simplifying the estimation of additional costs and preparing NAPA projects. The sliding scale was phased out, however, once there was more overall experience in designing and implementing adaptation interventions.

The GEF recognises that certain interventions will be required for NAPA implementation, though they might be unrelated to existing development activities (2006). However, it notes that such stand-alone adaptation projects that require funding to cover the full costs (or total costs) of the intervention are less frequently expected than those that require co-financing. It furthermore posits that better results are normally achieved when communities help raise additional resources or contribute in-kind (both of which qualify as co-financing), as this leads to greater project ownership and sustainability. Nevertheless, the LDCs' preference would be for the co-financing clause to be removed or made more flexible.

Enhancing country ownership and access

Over the years, the LDCs have called for better country ownership of LDCF financing. Indeed, the manner in which the LDCF administration determines whether the review criterion for 'country ownership' is met in a project proposal (as described above) is arguably weak. The findings of an independent evaluation from 2009 found that LDCs have had little control over decisions and resources for implementing LDCF-financed projects

(COWI and IIED, 2009). While each eligible LDC can choose which GEF agency to work with, they have limited negotiating power in their relationship with the GEF agencies (which receive LDCF resources directly from the trustee – the World Bank – submit applications for funding to the GEF, and are accountable to the GEF). Moreover, some LDCs express concern over GEF agencies' use of international consultants rather than using, or collaborating with, national consultants – which does little to enhance country ownership of LDCF-financed interventions or strengthen LDCs' capacities.

Another source of frustration about the fund for its LDC stakeholders has been the length of time it takes to obtain resources for NAPA actions (which, by definition, are priority adaptation actions) (COWI and IIED, 2009; LDC Group 2014a; LDC Group 2012). This issue has of course been aggravated in recent years by the fact that there have been no resources available in the fund and the backlog of projects in the pipeline continues to increase. Although this concern is reflected in COP guidance to the fund adopted between 2006 and 2012, the LDCF did not make operational changes to speed up the process by which LDCs access funding in this period (GEF, 2012b). Additional efforts and ways to streamline the project cycle continue to be considered by the GEF, however (GEF, 2012b; 2014b).

One way in which LDCs have sought to address both these issues has been by calling for direct access to LDCF resources, as is possible for the Adaptation Fund under the Kyoto Protocol. A direct access option would allow recipient countries to more quickly tap into resources, and be able to directly contract the GEF agency they choose to work with (COWI and IIED, 2009). Furthermore, it would foster greater ownership of LDCF interventions as well as build human and institutional capacity within LDCs to mobilise, access and manage funds. Unfortunately, parties collectively have not agreed to include a request for a direct access modality in any of the COP guidance given to the LDCF thus far.

Efforts from the GEF to advance this agenda have also been limited. In 2010, the GEF Council did approve and launch a new direct access modality for the GEF Trust Fund, which also applies to the LDCF. However, while the initiative allows for direct access to the LDCF without accreditation for grants up to US$500,000, the scope of the modality is rather narrow. The GEF explained that recipient countries can only take advantage of this direct access modality for 'enabling activities' financed under the LDCF, namely, for preparing convention reports (such as national communications) (GEF, 2012b).

The following year, the GEF Council decided to broaden its partnerships by approving the policies, procedures and criteria for a pilot on accrediting (up to ten) new institutions to implement GEF projects. In line with LDCs' concerns, it explained that allowing new institutions to act as GEF partners in this manner would serve to enhance country ownership of GEF activities and give recipient countries greater choice in which agencies they would like to work with. Moreover, the pilot would allow for newly accredited national/regional institutions, or 'GEF Project Agencies', to enhance their capacity to prepare and implement GEF-financed projects, and access resources from the GEF Trust Fund directly. The same direct access policies from this pilot programme would apply to the LDCF (unless or until the LDCF Council decide otherwise), where GEF Project Agencies would assist countries in preparing and implementing LDCF-financed projects and access resources from the LDCF directly. By the pilot programme's completion (May 2015) however, 8 out of 16 applicants were successively accredited and none were from LDCs. This supports LDCs' view that the stringency of existing accreditation processes remains a major barrier (Uprety, 2015).[8]

The LDCs have raised a number of important issues about the manner in which the LDCF has been functioning since its establishment, and challenges remain. These can and must be addressed however, and are certainly not reason enough to close the fund down completely in the near future. The following section introduces ways to secure and strengthen the LDCF's role in the post-2020 climate regime.

8 The Evaluation of the Accreditation Process for Expansion of the GEF Partnership was made available in May 2015, and is contained in GEF/ME/C.48/Info.03; the GEF secretariat's response to the Independent Evaluation Offices' report is contained in GEF/ME/C.48/03. Out of 16 entities that applied, 8 applicants met the GEF's minimum fiduciary standards and environment and social safeguards and were approved for accreditation by the end of the pilot accreditation programme (May 2015) (GEF, 2015c, 2015e). These comprise three national entities (from Brazil, China and South Africa), two regional entities and three international civil society organisations.

Section 5. Proposing a 'fit-for-purpose' LDCF

There is no doubt that the international climate finance architecture is evolving. At COP-16 in 2010, developed country parties committed to a goal of jointly mobilising US$100 billion per year by 2020 to address the needs of developing countries. Parties also established the Green Climate Fund as a new operating entity of the Convention's financial mechanism through which a share of these resources should flow. Still further developments on climate finance are expected as part of the new, universal and legally binding agreement to be adopted in Paris at COP-21.

The LDCs want to see the key role played by the LDCF continue in the post-2020 climate regime (LDC Group 2015, 2014b), but the fund's current situation is extremely precarious. In the immediate term, developed country parties and other partners must contribute funding, without further delay, for projects 'in the pipeline' that have already been technically cleared by the secretariat and are ready to implement. This can send a positive signal and build confidence ahead of COP-21 that developed countries are taking the lead in providing finance for the poorest and most vulnerable, and honouring their commitment to Article 4.9 of the Convention. However, to ensure that the LDCF remains a primary, reliable funding channel for LDCs under the new agreement, much more is needed than simply clearing the project backlog. The fund requires scaled-up and predictable financial contributions in order to operate effectively in the post-2020 period.

Certain reforms could attract scaled-up and more predictable funding, and thus secure the LDCF's future (Gaspar-Martins, 2015). For example, setting up a replenishment cycle would enable resources to flow into the fund in a sustainable and more predictable manner. This could coincide with the GEF Trust Fund's four-year replenishment. Parties could alternatively agree on a replenishment cycle for the Convention's entire financial mechanism under the Paris agreement, as advocated by Müller and Ngwadla (2015).

The scale and predictability of income to the LDCF could be further enhanced if the fund accepted contributions from alternative sources of funding (rather than relying entirely on voluntary pledges). The fund could be capitalised by a share of proceeds from units generated by market mechanisms or instruments, for instance, as is done for the Kyoto Protocol's Adaptation Fund. The LDC Group has called for a levy scheme involving the International Civil Aviation Organisation and the International Maritime Organisation (LDC Group, 2008, 2014b; Chambwera *et al.* 2012); a similar idea has been picked up by Chancel and Piketty (2015). Müller (2015) has also introduced the idea of earmarking at the sub-national level, where a small share of proceeds from the joint auctions of allowances generated from California and Quebec's emission trading schemes might be transferred to the LDCF as a solidarity charge for the poorest and most vulnerable to climate change. This concept has already generated positive feedback and interest from all stakeholders, the author notes.

Furthermore, the LDCF's remit could be revised in order to highlight the added value of a dedicated fund for LDCs in the growing climate finance landscape, and render it more attractive to donors. There is no question that LDCs' urgent and immediate adaptation priorities, including those already identified in their NAPAs, need financing without delay. Unlike the Green Climate Fund, which LDCs are likely to have difficulty accessing quickly, the LDCF could serve as the fast-track channel from which they can be provided with upfront grant-based support. Moreover, these LDCF-financed adaptation interventions could act as 'incubator' projects, to be later scaled up into larger activities or programmes. The incubator projects would necessarily include an element of individual and institutional capacity building, to strengthen LDCs' absorptive capacity to access larger funds. Indeed, the intent is that once the incubator projects are 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.

It is critical to further develop and act on the thinking on the LDCF's future under the post-2020 global climate regime in the years immediately following COP-21. However, a number of steps must be taken in the immediate term to lift the fund from its current precarious state. These include vigorous advocacy directed towards donor countries to clear the pipeline of projects currently on hold due to the lack of available resources in the LDCF; if the backlog is not cleared prior to COP-21, it must be singled out as a priority in the COP decision or political declaration accompanying the new legal agreement. At COP-21, parties must then also ensure that the Paris outcome includes a clear provision for the fund to serve the new agreement. Parties should likewise provide appropriate guidance to the GEF in Paris, to review the LDCF's role in the evolving financial landscape in consultation with LDC stakeholders – including considering ideas for the fund's future arrangements, such as those proposed above.

Conclusion

The LDCF provides a funding channel dedicated to supporting the needs and priorities of the LDCs, acknowledging that the capacity of LDCs to access and absorb financing (in general) is lower than that of other developing countries; this is one of the fund's most important characteristics. The arrangement is unique to the LDC Group as a reflection of Article 4.9, and is also reiterated in Decision 3/CP.11, which states that the operation of the LDCF shall not set a precedent for other funding arrangements under the Convention (UNFCCC, 2006). Besides this, the principle for equitable or balanced access to LDCF financing further sets the fund apart from others, as it ensures that all eligible LDC parties have access to the same amount of funding. Allowing them to prioritise and align funding to national priorities has also been a welcome characteristic of the fund.

As a result of severe resource challenges, along with the advent of the GCF – towards which much climate finance attention has turned – the future of the LDCF is increasingly uncertain. Although many of the LDC Group's concerns about the way the fund has been running over the years still need addressing, there is no doubt that it plays an indispensable role as a provider of grant-based finance to countries that are most vulnerable to climate change and most in need of support. Ultimately, the group is adamant for the LDCF to take its prominent place within the post-2020 climate finance architecture.

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Annex I. COP guidance on LDCF operation

COP guidance on the Least Developed Countries Fund		
Decision		**Key provisions**
27/CP.7	Guidance to an entity entrusted with the operation of the financial mechanism of the Convention, for the operation of the LDCF	• Operating entity of the financial mechanism (GEF) to: – provide funding from the LDCF to meet the agreed full cost of preparing NAPAs – ensure complementarity of funding between the LDCF and other funds with which it is entrusted – encourage the use of national and regional experts – adopt streamlined procedures for the operation of the Fund • Operating entity (GEF) to report to the COP on the steps it has undertaken to implement the provisions of this decision. • COP to provide further guidance at subsequent sessions.
8/CP.8	Guidance to an entity entrusted with the operation of the financial mechanism of the Convention for the operation of the LDCF	• GEF and implementing agencies to ensure the speedy release and disbursement of funds and timely assistance for preparing NAPAs. • GEF, under the guidance of the LEG, to support regional workshops to advise LDCs on preparing NAPAs.
6/CP.9	Further guidance for the operation of the LDCF	• GEF to support the implementation of NAPAs as soon as possible after their completion. • When developing operational guidelines for funding NAPAs' implementation, GEF to take into account: – ensuring a country-driven approach in line with national priorities, which ensures cost-effectiveness and complementarity with other funding sources – equitable access by LDC parties to funding – criteria for supporting activities on an agreed full-cost basis, taking into account funds availability – guidelines for expedited support – urgency and immediacy of adapting to the adverse effects of climate change – prioritising activities.
3/CP.11	Further guidance for the operation of the LDCF	• LDCF operations should be consistent with the following principles: – a country-driven approach, supporting the activities identified in NAPAs – supporting the implementation of NAPA activities and other elements of the LDC work programme, to promote integrating adaptation in national development and poverty reduction strategies, plans or policies, with a view to increasing resilience – supporting a learning-by-doing approach. • Full-cost funding shall be provided to the LDCF to meet additional costs of actions identified and prioritised in NAPAs. • GEF to develop a co-financing scale for supporting NAPA activities not supported through full-cost funding. • GEF to develop flexible modalities that ensure balanced access to resources, given the level of funds available, in accordance with 6/CP.9. • Given the unique circumstances of LDCs, the operation of the LDCF shall not set a precedent for other funding arrangements under the Convention.

COP guidance on the Least Developed Countries Fund

Decision		Key provisions
5/CP.14	Further guidance for the operation of the LDCF	• GEF and implementing agencies to improve communication with LDC parties and speed up process to access funding; through, for instance, establishing a time frame within which LDC parties can access funding and other support for NAPA project preparation and implementation. • GEF to assist, in collaboration with its agencies and the LEG, the remaining LDCs that have not submitted their NAPAs to do so as soon as possible. • Invitation to GEF to inform its agencies of relevant provisions of the Convention and COP decisions on the operation of the LDCF, in order to allow the agencies to take these into account in fulfilling their GEF obligations. • Call for submissions with information on preparing and implementing NAPAs, including on accessing funds from the LDCF, for consideration at SBI-33, and request to the UNFCCC Secretariat to prepare a synthesis report of information from the GEF, its agencies, and the submissions. • Invitation to the GEF and its agencies to consider the views and concerns of parties on their experiences with the GEF and its agencies, in relation to providing financial and technical support for preparing and implementing NAPAs and other elements of the LDC work programme. • Invitation to the GEF to raise awareness of the need for adequate and predictable resources under the LDCF to allow full implementation of the LDC work programme.
5/CP.16	Further guidance for the operation of the LDCF	• GEF to provide funding from the LDCF to enable LDCs to update their NAPAs, with a view to further improving their quality, facilitate the integration of adaptation actions into development planning and reflect increased adaptation knowledge and changed priorities in the countries. • Call for submissions with information on experience with the implementation of the LDC work programme, including updating and implementing NAPAs, and in accessing funds from the LDCF, and request to the UNFCCC Secretariat to prepare a synthesis report on progress made in implementing NAPAs, taking into account information from the GEF and its agencies, the reports of the LEG, and the submissions.
9/CP.17	LDCF: support for the implementation of elements of the least developed countries work programme other than national adaptation programmes of action	• GEF to: – continue to clarify project baselines and the application for accessing funding from the LDCF, to develop and implement NAPA projects – support the development of a programmatic approach for implementing NAPAs – further explore opportunities to streamline the LDCF project cycle, particularly during the project preparation stage – further improve the provision of information to LDCs on the project development process for projects being considered under the LDCF. • LEG to provide further specification for each of the elements of the LDC work programme other than NAPAs, in consultation with the GEF, and report to SBI-36 to inform COP on guidance to be provided by the GEF on support for implementing LDC work programme elements other than NAPAs. • Invitation to LDC parties to provide the LEG with details on project processing, for LEG to compile and analyse, with a view to providing result of the analysis to the COP for its consideration as part of the review of the implementation of Decision 5/CP.16 at its 18th session.

COP guidance on the Least Developed Countries Fund

Decision		Key provisions
11/ CP.17	Report of the GEF to the COP and additional guidance to the GEF	• GEF to clarify the concept of 'additional costs' as applied to different types of adaptation projects under the LDCF and SCCF that seek to respond to climate change risks.
9/CP.18	Report of the GEF to the COP and additional guidance to the GEF	• GEF to consider how to enable activities for preparing the NAP process for LDC parties (per Decision 5/CP.17, paragraph 22) through the LDCF.
10/ CP.18	Further guidance to the LDCF	• GEF to: – continue to support LDC work programme activities – continue mobilising resources to ensure full implementation of the LDC work programme, through, inter alia, capacity building to improve coordination at different levels of government and across sectors in order to improve project performance in LDC parties – further facilitate access to the LDCF – further enhance a country-driven process for implementing NAPAs and programmatic approaches – continue raising awareness of the need for adequate and predictable resources under the LDCF – enhance communication with its implementing agencies on the updated operational guidelines for the LDCF. • Call for submissions with information on experience with the implementation of the remaining elements of the LDC work programme, and request to the UNFCCC Secretariat to prepare a synthesis report on progress made, taking into account information from the GEF and its agencies, the reports of the LEG, and the submissions for consideration at SB-41.
10/ CP.20	Further guidance to the LDCF	• GEF to share, in its next report, lessons learned and progress made in its pilot accreditation of GEF national project agencies. • Invitation to GEF to include, in its annual report to the COP, information on specific actions that it has undertaken to implement the remaining elements of the LDC work programme, including updating and implementing NAPAs, with a view to COP-21 determining appropriate further guidance to be provided to the GEF. • GEF to enhance communication with its implementing agencies, to enhance their communication with countries to facilitate a timely implementation of other elements of the LDC work programme, including NAPAs.

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