UNCTAD LDC Report shines light on climate funding shortfall ahead of COP28

Emily Pender

The 2023 Least Developed Countries (LDCs) Report released by the United Nations Conference on Trade and Development (UNCTAD) finds that LDCs have not received enough financial assistance to prepare for climate change. The report – released in early November – provides a comprehensive analysis of the financial challenges faced by LDCs in their pursuit of climate-resilient development. It concludes that existing global financial architecture fails to meet the needs of LDCs. The report makes suggestions to address the shortfall of climate-related funding in LDCs, ranging from debt management strategies to redirection of Official Development Assistance (ODA). Importantly, the report emphasises the significance of the Loss and Damage Fund – set to be launched at COP28 in early December – which could be used to bridge this financial gap for LDC climate resilience.

LDCs, despite contributing and having contributed the least to the climate crisis, find themselves the most vulnerable to climate change. UNCTAD emphasises the substantial gap between funds required by LDCs and what has been provided. At present, the world is lagging behind on its commitments to climate finance targets, which are themselves insufficient for meeting SDG (Sustainable Development Goals) and Paris Agreement targets.

In 2021, financial flows made up less than a tenth of a percent of the Gross National Income (GNI) of members of the Development Assistance Committee (DAC); a far cry from the 0.15 – 0.2 percent of GNI required by SDG 17 and the Doha Programme of Action. Furthermore, a significant portion of ODA comes in the form of loans, adding to the mounting debt burdens in LDCs. Of the funding that is given, only 67% of ODA was in the form of grants (in 2020). This is a dramatic reduction from 2002-2011 where the average share was 85%.

Obtaining financial support has become more difficult and complex in recent years – one factor contributing to this is the surge in the number of organisational bodies offering financial assistance. While the increased number of options available to LDCs stand to benefit them, this also results in higher transaction costs for LDCs with limited capacities. Funding sources each have different application processes, selection and reporting requirements and conditions that ultimately increase the administrative burden on recipient nations. Given that LDC states have limited institutional capacities and are resource constrained, this de facto limits LDC access to finance.

An increase in the number of actors offering aid also makes aligning donor agendas and national policy strategies more difficult as different donors often impose different agendas. This is especially the case with growing geopolitical tensions that amplify the challenges of coordinating different sources of external finance.

The scope of aid financing has broadened over time such that a wide range of goals (ranging from more traditional development goals to climate assistance and humanitarian aid) compete for available funds. Geopolitical factors like increased migrant flows into developed countries have meant that donor countries have been redirecting their ODA to refugee assistance within their borders rather than offering direct assistance to LDCs.

Finally, while there are new initiatives to improve financing LDC development, these initiatives are not ambitious enough to produce results that will meet development goals and prevent a financial crisis in LDCs (a crisis that has been arising due to over-indebtedness).

Financing climate initiatives proves to be particularly difficult, with most funds coming through non-specific channels, leading to a lack of transparency. Despite the fact that LDCs are disproportionately vulnerable to climate change, in the period between 2016 and 2020 they received a share of total climate finance flows that roughly equates to their population share in the pool of developing countries. Climate adaptation – crucial to LDCs – only accounted for 45% of total climate finance during this time period. The UNCTAD report expresses concern over the substantial portion (over a third) of climate finance to LDCs that has been provided in the form of loans, potentially leading to a 'climate debt trap.'

Debt emerged as a significant obstacle to development by reducing fiscal space, making it challenging for LDCs to support structural transformation and become climate-resilient. Factors such as a high export commodity dependence and the inability to mobilise private investments contribute to the debt crisis. The pandemic, coupled with crises between 2020 and 2023, has led to a rise in debt servicing costs, surpassing expenditures on education in some cases.

To address the debt burden, the report suggests providing LDCs with a clear path out of debt, including granting access to loans from the International Development Association (IDA) and introducing a multilateral debt workout mechanism. It emphasises the importance of increasing emergency lending on affordable terms, and converting short-term loans to long-term loans, boosting the share of grants (rather than loans) in long-term financing for investments.

The report advocates for advancing reform in development finance for LDCs, focusing on three issues: quantity, quality, and easier access. It calls for increases in ODA to meet committed amounts (working towards meeting actual needs), the simplification of financing processes, the reduction of administrative burdens on recipient nations, and the redirection of funding from carbon-emitting activities to climate-resilient initiatives.

The report also raises concerns about global investments financing carbon-emitting activities. It urges funders to focus not only on financial returns but also on net-zero commitments. Recognising the limited capacities of central banks in LDCs, the report recommends that funders play a supportive role in the fight against the climate crisis, aligning policies with development and industrial goals of LDC governments.

The Loss and Damage Fund and COP28

The establishment of the Loss and Damage Fund (LDF) at COP27 marked a significant step towards providing financial assistance to nations most vulnerable to the effects of climate change. The fund aims to cover both disasters and slow-onset loss and damage caused by climate change, and is expected to be finalised and launched at COP28, being held in Dubai from the 30th of November to the 12th of December. However, challenges and disagreements within the committee tasked with launching the LDF may come to hinder progress.

The committee failed to present its recommendations in October at its fourth and penultimate meeting ahead of COP28. According to the Institute for Security Studies, there was disagreement over who would host, administer and contribute to the fund. Ultimately, a draft framework was produced at an impromptu final meeting in early November, where it was decided that the World Bank would host and administer the fund. COP28 discussions will focus on questions of eligibility, conditions, and limitations regarding the use of the fund.

The UNCTAD report outlines conditions to enhance the impact of the LDF, emphasising the commitment of developed countries to contributing adequate funds without diverting existing ones. It calls for the prompt operationalization of the LDF, keeping access uncomplicated, and ensuring that funds come in the form of grants to avoid increasing debt burdens. The report also suggests planning for scenarios where claims exceed available funds, considering economic and climate-related vulnerabilities.

As the international community prepares for COP28, it must prioritise the recommendations outlined in the report to bridge the funding gap and support LDCs in their journey towards climate-resilient development. The deliberations at COP28 will play a crucial role in determining the future of climate finance and the effectiveness of initiatives such as the Loss and Damage Fund.

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