EDC2020

[WORKING PAPER]

International Climate Finance: Principles for European Support to Developing Countries

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Project funded under the
Socio-economic Sciences and
Humanities theme

No. 6 . March 2010

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Summary

The commitment to provide new finance in support of climate change actions in developing countries was one of the few areas where tangible progress was made at the Copenhagen COP meeting. In light of this, securing a system that supports such financial flows to developing countries is an immediate challenge for the international community. This paper examines Europe's approach to the provision of such finance.

The estimates of global needs for climate finance are considerable and it is expected that the requirement for funding will see a significant upwards trajectory over the next decade. Despite considerable uncertainties, the European Commission's own estimates suggest that up to €15 billion of additional public financing will be required each year from the EU by 2020 to support both mitigation and adaptation needs in developing countries.

As new funding initiatives have been established, a number of principles have been proposed to assess their relative worth. However, little emphasis has been given to how these principles might fit together in a coherent, over-arching framework. This paper proposes such a framework and describes the criteria and indicators by which compliance with the principles could be assessed. The commentary identifies three sequential phases that relate to the mobilisation, administration and disbursements of funds, examining the principles, criteria and indicators that are relevant for each of these three phases.

A number of European initiatives are compared using this analytical framework. Three initiatives of the European Commission: the Global Climate Change Alliance, the Global Energy Efficiency and Renewable Energy Fund and the Global Climate Financing Mechanism are examined, together with two prominent Member State initiatives: the UK's Environmental Transformation Fund and Germany's International Climate Initiative. There is considerable diversity in approach and varying degrees of compliance with the proposed principles of climate finance, making any assessment of overall European coherence difficult.

Over the immediate period up to 2012 there are a number of choices for Europe: whether to continue the focus on fund mobilisation or to direct more effort at the design of optimal disbursement channels within developing countries; whether to continue with a range of initiatives or to acknowledge any redundancy or competition and address these; and how to align with outside global interests, including the United States, in order to keep the UNFCCC process alive.

Much would be gained if the international community were to adopt a set of principles for climate change in the same way that the development cooperation community built confidence between developed and developing countries through the Paris Declaration on Aid Effectiveness. Climate finance needs to become more effective.

International climate finance: principles for European support to developing countries

By Neil Bird and Jessica Brown

Introduction

The European Union places considerable emphasis on tackling climate change, both within Europe and internationally. Recognising that climate change is a global concern, much attention is focused on supporting developing countries. Europe has a long-standing relationship with developing countries through its programme of development cooperation and so is well placed to understand some of the challenges these countries face regarding the impacts of climate change. As the largest contributor of official development assistance, Europe has considerable experience in delivering substantial international public finance at appropriate scale and has sought, through the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action, to improve the effectiveness of aid delivery.

Prior to the COP15 meeting in Copenhagen in December 2009, the European Commission (EC) published an EU policy paper on financing climate change actions in developing countries (EC, 2009a). Referring to this paper as a European blueprint for increasing international finance to help developing countries combat climate change, the EC sought to establish a leadership role at Copenhagen. As it transpired, the main tangible output of the COP meeting was the Copenhagen Accord, a document in which the European Union played only a minor role in drafting. In addition, the lack of progress towards a legally binding global agreement was seen by many as a failure of the meeting. After such high expectations, this outcome raises questions over Europe's future role in any international climate change regime. 2010 will be a critical year to secure progress on an international response that is both adequate to the needs of the poorest countries and equitable in the sharing of responsibility of action to remain within a global $2^{o}C$ temperature rise. The EU therefore needs to have a credible strategy for assisting developing countries cope with climate change, in which public financing plays an important role.

As a contribution to the debate, this paper examines Europe's approach to the provision of international public finance for climate change. The focus on public finance does not detract from the importance of private finance, but simply acknowledges that public spending has to be accountable to national citizens within Europe and is presently subject to considerable scrutiny. The scale of likely financing needs in developing countries is first outlined to set the context for the European response. A number of principles that may guide international action are then described and used to examine several European initiatives that have been promoted recently, in order to determine whether these actions add up to a coherent strategy of support for developing countries.

Estimating global needs for climate finance

Some understanding of the scale of the overall financing required by developing countries should underpin international action, in order to gauge whether such action is commensurate to need. However, all current estimates employ a

global, top-down approach. There is huge uncertainty in this method, which can be seen in the widely differing figures that alternative assessments have determined (World Bank, 2009, IIED, 2010). The notion that climate finance will respond to definite needs has not been well tested, as the number of such needs assessments at the national level remain few.

The 2009 EC Communication estimates the total net additional costs for both mitigation and adaptation that need to be financed in developing countries at €104-118 billion (in 2005 prices) per year by 2020. Of this figure, the costs for mitigation are estimated at €94 billion, whilst the costs for adaptation are estimated at €10 to €24 billion. Importantly, this finance is expected to come from a range of sources, including domestic (public and private) funding in developing countries, an international carbon market, and international finance from public sources. The EC proposes that domestic finance from developing countries could cover between 20-40% of the total finance needed, the carbon market up to 40%, leaving international public finance to meet the remaining amount, estimated at €22 to 50 billion per year by 2020.

In the short-term, the Commission further estimates that developing countries will need €5-7 billion from international public sources per year between 2010 and 2012 (for fast start financing), €9-13 billion in 2013, building to a level between €22 and €50 billion per year by 2020 (Table 1). These estimates are based on the assumption that developed countries commit to emission reduction targets of 30% below the 1990 baseline in aggregate (something that has yet to be achieved) and that developing countries limit the growth of their emissions to roughly 15-30% below business as usual by 2020. With less ambitious emission reduction pledges by developed countries, the EC suggests that the international public finance needs would more than double, rising to €120 billion per annum in 2020.

Table 1. Total international public finance required per annum assuming high emission reduction levels in developed countries

Year	Amount (€ billions)
2010	5 to 7
2013	9 to 13
2020	22 to 50

Source: EC, 2009a, Table 1, p.10.

Europe's contribution to the global response

The EC staff working document (EC, 2009b) accompanying the EC Communication provides estimates of contribution levels for sharing a global financial effort. Gross domestic product (2008, international $, at market prices, source: the World Bank) and greenhouse gas emissions (2005 energy and industrial emissions plus 2000 land use, land use change and forestry activities, source: WRI-CAIT database) are used to calculate different levels of contributions. Four combinations of these two indicators show a range in the European Union's contribution to the global effort of between 15 and 30% (Table 2), which translates into a figure of €3 to 15 billion by 2020 (Table 3) .

Table 2. Possible European contribution levels to global climate finance

Country	Contribution to the global financial effort from differing combinations of GHG emissions and GDP (as a % of the global figure)			
	GHG 75%, GDP 25%	GHG 50%, GDP 50%	GHG 25%, GDP 75%	GHG 10%, GDP 90%
EU-27	16.4	21.8	27.2	30.4

Source: EC, 2009b, Table 4, p.13.

Table 3. EU contributions based on 15-30% of global contributions

Year	Amount (€ billions)	
	At 15% of global contributions	At 30% of global contributions
2010	0.8-1.1	1.5-2.1
2013	1.4-2.0	2.7-3.9
2020	3.3-7.5	6.6-15.0

Source: derived from Tables 1 and 2.

These estimates are based on securing ambitious emission reduction commitments by developed countries. As stated above, if an ambitious agreement is not quickly made, the EC estimates that up to €120 billion will be needed each year by 2020 from international public finance sources. This suggests that the EU would have to contribute between €18-36 billion per year beginning in 2020. The imperative of acting quickly is clear. It is noteworthy that the recent commitment by the European Council for fast start finance set the contribution of the EU and its Member States at €2.4 billion annually for the period 2010-2012 (European Council, 2009), a figure that is higher than that indicated in the 2009 EC staff working paper (of up to €2.1 billion).

Determining Europe's contribution to the global effort, and individual Member State's contributions, is an intensely political process. The sums suggested are very large and with Europe moving slowly out of recession the scope for securing additional public finance in the short-term would appear limited. Guidance therefore needs to come from credible analysis and whilst the two criteria used by the European Commission – GHG emissions and GDP – are highly relevant, they are not as well defined as might first appear, as is highlighted in the next section.

Principles of climate finance under the UNFCCC

As new funding mechanisms to tackle climate change have developed in response to the very high level of need, as indicated in the previous section, a number of principles have been proposed to assess their relative worth. There has been, and continues to be, considerable debate over these proposed principles, and the criteria by which they might be judged (ActionAid, 2008, Hillman, 2009, Müller, 2008). There is less clarity over what performance indicators might be used to measure compliance and as yet little emphasis given

to how these principles might fit together into a coherent over-arching framework. Table 4 proposes such a framework, which brings out two important points: first, it provides the elements of a working definition of what constitutes 'climate finance'; and, second the set of principles should be seen as a collection of inter-dependent attributes, all of which are necessary.

In providing financial support for climate change actions in developing countries, the process can usefully be characterised to consist of three sequential phases that relate to the mobilisation, administration and disbursement of funds. The following sections examine the principles that have been advocated as relevant for each of these three phases. The commentary pays particular attention to the question of what indicators of performance would demonstrate adherence to the principles and criteria concerned. An overview of the proposed principles and criteria is included in Table 4 (for a complete tabulation of the principles, criteria and possible indicators see Annex).

<u>Fund mobilisation</u>

In terms of resource mobilisation, there is increasing consensus that the 'the polluter pays' principle should apply to national contributions towards the global costs of climate change and that the level of funding should be relative to national wealth ('respective capabilities'). In addition, developed countries assumed an obligation to provide new and additional financial resources to meet 'the agreed full costs by developing countries Parties' under Article 4 of the UNFCCC. It was also acknowledged that the implementation of these commitments should take into account the need for adequacy and predictability in the flow of funds. This was subsequently re-emphasised under Paragraph 1 (e) of the Bali Action Plan and can therefore be taken as a core commitment of developed countries under the climate change convention. But how compliance will be assessed remains unclear. Some of the issues that need to be addressed to ensure clarity over the selected assessment standards include:

The polluter pays – whilst it is acknowledged that the amount pledged should relate to the level of greenhouse gas emissions of the countries concerned, whether this includes 'historic' emissions is uncertain, in part because of data constraints. The EC staff working document (EC, 2009b) that accompanied the Communication put forward an EU-27 2005 estimate of contribution to global GHG emissions at 11.1%; in contrast, Baumert et al. (2005) cite a cumulative CO2 estimate for the period 1850-2002 for the EU-25 of 26.5%. These two examples demonstrate that the timescale over which emissions are measured matters in determining national, and regional, contributions and is therefore the subject of intense political negotiation. Unfortunately, historic data are lacking and limit how far back in time reliable estimates can be made. A pragmatic performance indicator could be developed using 1990 as the base year, as comparable national estimates began to be collated from this date.

Table 4. Principles and criteria for European support for actions on climate change in developing countries

Phases in delivery of funding	Principle	Criteria
Mobilisation – how funds are raised	The polluter pays	Financial contributions are relative to the quantity of emissions
	Respective capability	Financial contributions are relative to national wealth
	Additionality	Funds are more than existing aid commitments
	Adequacy	Funds generated are equal to the scale of the task of maintaining global temperature rise to below 2°C
	Predictability	Funding is known and secure over a multi-year funding cycle
Administration – how funds are managed	Transparency	Funding structure, financial data, board members, decision making processes and decisions are put in the public domain
	Accountability	Fund management reports to a recognised authority
	Equitable representation	There is broad representation of all stakeholders on the decision making of the fund
Disbursement – how funds are spent	National ownership	Recipient countries exercise leadership over their climate change policies and strategies
	Timeliness	Funding is delivered when required
	Appropriateness	The funding modality does not result in additional burdens for the recipient
	Access for the most vulnerable	Credit, resources and technologies are made available to vulnerable groups

Respective capability – contributions should relate to a measure of national wealth, such as gross domestic product (GDP) or gross national income (GNI). However, major changes are underway in countries' relative economic performance, with strong comparative growth occurring in countries such as China, Brazil and India at a time when many developed country economies have experienced a decline in growth of national wealth. The choice of the reference year for any international comparison is therefore another key concern. One approach would be to use the same period of time for emissions and national wealth estimates, so as to derive indicators with a common time period. We are not aware of any analysis that has yet taken this approach.

Collectively, Europe remains highly placed within economic league tables, although this masks considerable national variation, particularly since the expansion of the EU in the early 2000s. There is therefore an internal European dynamic to consider, similar to the debate over national contributions to the European budget.

New and additional – funding should be additional to existing official development assistance (ODA) commitments to avoid the displacement of financial flows that are needed for development. This principle has been the subject of much discussion, yet the statistics collected do not appear to allow for the separation of existing ODA expenditure from climate finance classified as ODA and hence a suitable criterion (and performance indicator) remains elusive. Discussions are ongoing at the World Bank, UNFCCC and OECD regarding ways to track and monitor international public contributions to climate change related actions in developing countries (World Bank, 2009). The possibility of labelling national contributions as being non-ODA transfers has not achieved traction with any of the major contributors, although this would provide a performance indicator that could be readily assessed. Much depends on what weight the principle of additionality is given in the international negotiations and it raises the question of whether a principle should be retained if it cannot be reliably assessed in a manner that engenders widespread confidence.

Adequate – this is presently understood to mean the level of funding required to keep within a global 2°C temperature increase scenario. However, at the COP meeting in Copenhagen there were strong calls from developing countries that the global temperature rise target should be reduced to 1.5°C, which would have a significant impact on the funding needed. Yet, as described above, the estimate of need remains an area of considerable uncertainty. To make progress may require moving away from the present global, top-down approach and replacing it with national estimates of need as documented within national climate change strategies.

Predictable – financial flows should be sustainable over the medium term to allow national investment programmes to plan, scale-up and implement priority actions for adaptation and mitigation. However, it is unlikely that public finance can be secured over more than a few years, due to national treasury rules within contributing countries. The proposed introduction of MDG contracts for the EC's European Development Fund, with secure funding over a six-year period for those countries eligible for budget support and with a well defined national development strategy, is an initiative to increase the predictability of aid funds (EEPA, 2007) and provides a model that could be replicated for climate finance. An indicator of performance would therefore consider the proportion of funding pledged over successively longer time periods.

Fund Administration

Three principles can be identified as underpinning the management of climate funds. The first two of these have featured strongly in debates over how development cooperation funds should be administered and relate to the high standards of probity expected over public finances in democratic states: that such funding should be administered in a transparent and accountable manner. The third principle, that of equitable representation, can be characterised by the need for a broad representation of all stakeholders on the fund decision making body. This represents a significant departure from development cooperation

norms, where a donor-recipient relationship has applied. Much of the early discussion surrounding the Kyoto Protocol Adaptation Fund and the World Bank-administered Climate Investment Funds (CIFs) centred on this point. In both cases, the outcome was novel; with regards to the CIFs, decision making is undertaken by trust fund committees, which have equal representation from developed and developing countries. Similarly balanced representation from major constituencies occurs on the AF Board. For all three principles, however, specific performance indicators have yet to emerge. Who will be responsible for assessing such performance is also unclear. We offer possible criteria and indicators for each of these principles in the accompanying Annex.

Fund disbursement

Less attention appears to have been given to the principles that underpin how climate finance should be disbursed. Yet this is a key element of the overall financial architecture that will help determine whether climate finance will be effective, efficient and equitable (Stern, 2009). Four principles of action to be considered are:

National ownership – as measured by the extent to which recipient countries exercise leadership over their climate change policies and strategies. This principle is mirrored in the Paris Declaration on Aid Effectiveness (see Box), reflecting the centrality of self determination in all international relations. It implies that countries determine their own spending needs based on national strategies. Once the appropriate definition of a national climate change strategy is agreed upon this should become a reasonably straightforward performance indicator.

The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action

A major landmark in development cooperation was reached with the signing of the 2005 Paris Declaration on Aid Effectiveness[1], in which developed and developing country governments jointly undertook five key commitments to improve aid effectiveness. These commitments involved supporting national ownership, donor harmonisation, alignment with national systems, managing for results and mutual accountability between donor and recipient. Indicators and time bound targets were also agreed, providing an explicit framework for all groups to monitor and assess progress made by national governments and donor agencies with the implementation of the Declaration.

A formal review of progress towards the targets set was undertaken at the third High Level Forum on Aid Effectiveness in Accra in September 2008. A survey on the implementation of the twelve indicators was published and a Ministerial Statement (the Accra Agenda for Action[2]) issued.

Timeliness – the timing of funding does not feature as an implementation principle in the Paris Declaration, but is subsumed within the principle of alignment with national strategies, institutions and procedures. However, it may be worth elevating this issue to the principle level for climate finance as the timing of action is becoming ever more important as the science of climate change advances our understanding of what needs to be done. An appropriate

performance indicator could be the time taken from when political statements on funding are made to the disbursement of such funds to support national actions. The history of aid commitments, with the goal of aid disbursement of 0.7% GNI that was set in 1970 being met by only a handful of European countries forty years on is a salutary reminder of the challenges associated with the provision of timely support.

Appropriateness – there is a consensus that the funding modality should not result in additional burdens for the recipient country, but as yet little consensus over the appropriate performance indicator by which this could be measured. European civil society has raised concerns over climate finance delivered as loans, not grants, but some Member States hold firmly to the view that loan finance may be appropriate under specific national conditions, depending upon what is being financed. A more nuanced indicator is required.

Access for the most vulnerable – equity is a strong underlying principle of international climate funding. Climate finance should be distributed in an equitable manner, responding to the needs of all regions and countries and taking into account the social and economic reality of the recipients. This will require that credit, resources and technologies are made available to vulnerable groups. How this can be measured in an explicit and unambiguous way has yet to be determined. At the national level the relative allocation of international funds between middle income and low income countries would be an early indicator of whether this principle was being upheld.

A framework is therefore emerging by which initiatives that provide resources for developing countries to combat the effects of climate change could be judged. This framework has yet to secure international acceptance in the same way that the Paris Declaration on Aid Effectiveness has achieved for development cooperation, but something may yet emerge from the UNFCCC negotiations. In the meantime, it provides a useful analytical framework by which different European funding initiatives can be compared.

European initiatives for supporting international climate change actions

There has been a flurry of initiatives in recent years to develop new ways of channelling international climate finance. European Member States and the Commission have been very active experimenting with a number of novel approaches. In the short term this has increased the fragmentation of international assistance – contrary to the Paris Declaration on Aid Effectiveness, of which Europe is a strong proponent. Perhaps an optimal approach will emerge out of this diversity, but at the global level the number of initiatives appears to be increasing rather than diminishing. This has obvious cost implications at the point of delivery, where national capacity is often limited and not well placed to cope with the multiple administrative demands of different funding sources.

Table 5 lists five European initiatives that have generated considerable discussion and that represent a variety of approaches. An important over-riding consideration is to determine how Europe can best contribute to the global challenge, as climate change is a shared policy area, in which both the EC and the Member States have their own competences (Strob, 2008). Member States can therefore choose to act unilaterally or through the European institutions and there is already experience of these two approaches being employed. A second

issue concerns how climate change funds are channelled to the recipient. This encompasses not only the use of bilateral and/or multilateral systems, but also the way in which public finance might be blended with private funding.

Table 5. European Climate Change funding initiatives

Initiative	Instigator	Funding channel
GCCA	European Commission	Multilateral
GEEREF	European Commission	Public-private funds
GCFM	European Commission	International bond issue
ETF-IW	Member State (UK)	Multilateral
ICI	Member State (Germany)	Bilateral

European Commission initiatives

The Global Climate Change Alliance (GCCA) – the 2008 EC staff working document that described the implementation framework of the GCCA referred to the initiative as 'an EU answer to the development dimension of climate change' (EC, 2008:4). Yet, the EC has been unable to mobilise financial support for the Alliance from the Member States. Only two countries (Sweden and the Czech Republic) have made modest contributions, which clearly raises questions of whether this could be considered an adequate response, on its own, from the EU. The intention that the GCCA would become a 'clearing house' for European countries' support to developing countries on climate change appears to have been too optimistic in this area of shared competency, with the availability of alternative multilateral channels perhaps explaining the lack of uptake by some Member States.

There are challenges to be addressed in the GCCA's administrative arrangements, which have yet to demonstrate the high levels of transparency expected of climate change finance. There is little information about the Alliance in the public domain, although the recent creation of a help desk facility may lead to more publically available information.

With regards to fund disbursement issues, GCCA practices have yet to demonstrate strong compliance with the proposed principles of climate finance, with, for example, initial country selection appearing to have been largely an internal EC decision. Yet the intent of the GCCA to use budget support arrangements should allow for larger volumes of financing to be disbursed without resulting in additional administrative burdens for the recipient country (and parallels the EU's commitments on aid delivery). However, this appears to be a medium-term goal at best: of the twelve countries where initial support programmes have been identified, funding will be channelled through budget support arrangements in only four (Guyana, Mauritius, Rwanda and Seychelles). The transition from projects to more programmatic forms of support will likely be as challenging for climate change actions as it has proved for development cooperation.

The Global Energy Efficiency and Renewable Energy Fund (GEEREF) – is an innovative risk capital fund, managed by the European Investment Bank Group

that aims to accelerate the transfer, development and deployment of environmentally sound technologies in developing countries. The advantage of its structure is that it provides equity, not debt. It therefore represents a very different approach to the GCCA: one that focuses on working with the private sector to deliver climate change mitigation technologies in developing countries.

This initiative dates back to 2004 when the EC launched the Patient Capital Initiative. It has gone through several iterations and was re-launched as GEEREF in 2006 (EC, 2006). €80 million was subsequently pledged by the EC, followed by two smaller investments by Germany and Norway. In terms of public funding, GEEREF has been registered as ODA by the OECD Development Assistance Committee (DAC), with the EC contributions to be reported in the annual DAC co-operation report. This makes any assessment of additionality very difficult. On the other hand, the private investment component is clearly not part of ODA.

In response to the adequacy principle, the total amount of money expected to be mobilised by the GEEREF initiative may be as large as €1 billion, which if realised would make a substantial contribution to climate-related finance. However, this figure is based on securing a significant amount of leverage of private finance, which will depend on prevailing market conditions. The present low level of international investment could constitute a significant obstacle to the expected scaling-up of this fund, at least over the short-term.

GEEREF is an innovative approach that, if successful, could have a significant impact in terms of climate change mitigation and in the delivery of sustainable energy supplies in developing countries. To-date, the main focus of the initiative appears to have been on establishing a new mechanism, a public-private partnership, to attract private investment and this has taken considerable time to see through to fruition. A number of delivery issues appear unresolved, which include securing the necessary pipeline of fundable clean energy projects, as well as ensuring country ownership over the subsequent development. Yet the attempt to blend international public finance with private capital is seen by many as a critical strategy to secure the necessary scale of funding for climate change actions.

The Global Climate Financing Mechanism (GCFM) – is another approach, which applies the idea of an 'International Finance Facility' – a tool that has been used to address urgent large-scale vaccination funding needs – to fund priority climate change actions. The EC has proposed this as a 'bridging initiative' to be used before the new international financial architecture is agreed upon through the UNFCCC negotiations (EC, 2009c). Bonds would be issued on the international markets to raise funds by an appropriate financial institution, enabling the 'front-loading' of funding for immediate use. Repayment over a long period (e.g. 20 years) would likely be financed through revenue raised by EU Member States from the future auctioning of emission rights.

Initially, the front-loaded finance would be provided by the private sector through the purchase of bonds and therefore represents finance that is additional to existing aid commitments. The money would be secured through the EU Member States, and eventually repaid most likely by the auctioning of emission rights. Ultimately the burden of payment would therefore be met by entities under compliance (private businesses). In the context of the polluter pays principle, this means that the financial burden would fall squarely on the

shoulders of those polluting entities within the EU Member States, and is therefore well applied. As the GCFM would be financed through the future auctioning of emission rights, any finance raised through this initiative would be more predictable than general budgetary expenditures, as it would be underwritten by legally binding commitments.

Although it has not received much favour to-date, this EC initiative may re-surface as the need to identify sources of fast start finance becomes more pressing.

Member State initiatives

Several Member States have been developing their own strategies towards securing new funding for climate change actions in developing countries. The UK and Germany, in particular, have been active in this regard. A key issue is whether, and how, these national initiatives complement the broader European strategy.

The Environmental Transformation Fund, International window (ETF-IW) – is an initiative of the UK government that focuses on poverty reduction, environmental protection and helping developing countries tackle climate change. In the course of its development, all ETF-IW funding has been allocated to three multilateral funds: the World Bank-administered Climate Investment Funds (CIFs), the Forest Carbon Partnership Facility (FCPF) and the Congo Basin Forest Fund (CBFF). Civil society has found the transparency of these arrangements hard to follow at times, although the funding structure, financial data, board members and decision making processes are now all in the public domain and can be found on the World Bank's website.

The funding source is the UK's budget, with all funding flowing to the CIFs, FCPF, and CBFF considered as ODA. However, donors to the CIFs agreed that the funding would be additional to existing ODA contributions (though not necessarily additional to ODA commitments, meaning it is likely the funds will still count towards the 0.7% GNI target of the CIF contributors). Because the funds are coming from general budgetary expenditure, the predictability of the financial flows are in question, as it is based on a voluntary budgetary contribution from the UK government, rather than through a source of finance that would automatically generate the funds.

For the ETF investments that have gone to the CIFs they will each be managed by a board with equal representation from donor and developing countries, thus ensuring equitable representation on the fund decision-making body. Finance will be part concessional loans and part grant. The exact division of grants and loans will emerge as the detailed design of the CIFs is finalised over the coming months and financing of investment plans is agreed. This division will be established on a case by case basis for each CIF.

The UK has shown a strong commitment to the global climate finance debate, which continues with Gordon Brown's co-chairing of the UN Advisory Group on Climate Change Financing. It is noteworthy that considerable UK resources have gone into strengthening the CIF architecture administered through the World Bank, rather than aligning behind the European initiatives instigated by the European Commission.

The International Climate Initiative (ICI) – This German initiative provides finance to international projects supporting climate change mitigation, adaptation and biodiversity projects with climate relevance. It aims to ensure that such investments will trigger private investments of a greater magnitude as well as supporting projects that contribute to the post-2012 climate change negotiations (e.g. providing support to delegations from the Least Developed Countries and Small Island Developing States).

The key innovation of this national initiative lies in the way that funds are mobilised. ICI raises its funds from private companies (compliance buyers) under the framework of the European Union Emission Trading Scheme. In 2008, the German government began the auctioning of a percentage of its allowable emission permits to businesses. Of the amount raised, € 120 million each year is earmarked for developing countries and countries in transition. This innovative approach to the mobilisation of funds means that the finance generated is additional to current ODA contributions (though it is unclear if it will be additional to ODA commitments). Given that the source of funding comes from the auctioning of domestic allowable emission permits, this should also be more predictable than voluntary contributions made through general budgetary expenditure, although it does depend on the auction price achieved.

In terms of fund disbursement, project selection is said to be made with regard to the criteria of the Paris Declaration on Aid Effectiveness: for example, from 2009, country ownership will become an explicit criterion for project selection. In addition, this initiative has demonstrated early success in providing climate finance in a timely manner, perhaps in response to the internal incentive that unspent money is returned to the Federal treasury each year. Using existing development cooperation channels, the ICI has been able to establish a pipeline of fundable projects quickly, finance these projects and move forward with implementation.

Coherence of approach?

This set of European initiatives shows a diversity of approach towards raising public finance and varying degrees of compliance with the proposed principles of climate finance. It appears that individual Member States are making more progress than the European Commission in delivering tangible results. The quickest initiative has been the German ICI that has already supported a large number of projects on the ground in developing countries. As this has been a continuing, strong call from developing countries – to see timely action and the provision of additional finance – it would appear to be a model that other Member States could consider adopting, although this might be at the expense of any EC-coordinated approach. The challenge remains in defining the added value of the latter. The multilateral route may offer the possibility of greater scale, but this comes at the expense of delayed delivery, as experience with both the GCCA and the CIFs have shown. However, the lesson learning associated with the design of these multilateral initiatives may have a lot to offer the international climate finance architecture that emerges over the next two years.

Issues arising from the European initiatives for climate change funding

The outcome of the Copenhagen COP meeting suggests a turning point may have been reached in the international negotiations on climate change. Up until

Copenhagen there had been the widespread expectation that a well defined post-2012 regime would emerge. That outcome now appears much less certain. It is even possible that the first commitment period of the Kyoto Protocol will come to an end in 2013 without a global agreement on what happens next. Europe – and the world – is a very different place to what it was when Europe played a leading role in drawing up the protocol in 1997. A pressing issue for the European Commission's new Commissioner on Climate Action (and the newly created Directorate-General) should be to help determine Europe's role during this period of uncertainty.

Learning from development cooperation. A key concern for Europe, and one where there appears to have been mixed experiences in the climate finance initiatives described in this paper, is the emphasis given to matching international financial resources with defined needs within developing countries, as identified through National Communications, NAPAs and now NAMAs. In this context, something can be learned from the earlier experience of the development cooperation relationship. Prior to the Paris Declaration on Aid Effectiveness national ownership over the development process was a principle of engagement that donors at times ignored. What may be needed now is a similar 'Paris Declaration' for the provision of climate finance (whilst recognising the very different relationship that exists between North and South over climate change compared to development cooperation). The value of the Paris Declaration was that it drilled down, going beyond vague statements of principle to agree explicit criteria and indicators by which progress could be impartially monitored.

Where to focus attention: fund mobilisation or disbursement? Much of the international debate so far has focused on the means of mobilising climate finance. There has been considerable experimentation with this, as the examples in the previous section have shown. However, more effort now needs to be directed at the design of optimal disbursement channels to developing countries. In this regard, the principles of disbursement raised in this paper will need careful scrutiny in whatever transfers take place between Europe and developing countries. Although there has been discussion on looking beyond the present reliance on project delivery for international finance within both the GEF and the Kyoto Protocol Adaptation Fund, progress has been painfully slow. The EU's experience with budget support arrangements for development cooperation should be reviewed to help chart out the necessary financial architecture.

A fragmented or a united Europe? A major challenge for the incoming EC Commissioner on Climate Action is to see whether a credible European strategy on international climate finance can be developed for the post-2012 period, where the case for collective action at the European level is clearly laid out. From the brief review outlined in this paper it is clear that some key Member States are pursuing their own national interests over adopting a common European position. The UK is perhaps a good test case. The UK determined at an early stage to use the World Bank as the account manager for its national climate finance, with funding to be channelled through the multilateral development banks. This position appears to have been taken with little regard for the emerging European initiatives.

A Europe aligned with the United States? Not only is internal coherence important for Europe, there is also the question of how Europe relates to other global players, including the United States. A commonly cited success of the

Copenhagen COP was the re-engagement of the US in the UNFCCC process. However, the formulation of the Copenhagen Agenda has raised some fundamental questions over the future of the international climate change regime and its funding. The post-2012 period is likely to see further tensions around country groupings, be it developed and developing countries or Annex I and Annex II countries. Europe needs to develop a position on whether it sees the multilateralism of the UNFCCC as being complementary or in competition with the new, so-called 'minilateralism', which focuses on a much smaller number of countries to effect change.

A Europe remaining under the UNFCCC COP? It is noteworthy that the European initiatives reviewed have not been developed under the guidance of the UNFCCC COP, which is the legitimate global body for international action on climate change. This may have a major bearing on the international financial architecture up to 2020. If there is no resolution at the next COP meeting in Cancun on financing there will be no new funds under the authority of the COP and the future of the Kyoto Protocol Adaptation Fund will be in doubt. The likelihood would then be that funding continues to be channelled through existing institutions, an outcome that many object to on principle.

Conclusion

The funding initiatives described in this paper have relied heavily on the experience of the development cooperation units within the EC and Member States. Much useful experience is being gained in channelling new financial resources to developing countries. However, this early activity needs to be guided by a common set of principles of action that are held up by both developed and developing countries. As with the Paris Declaration on Aid Effectiveness – of which the EC was a leading proponent – much would be gained from the adoption by the international community of such a set of principles, together with an unambiguous set of performance indicators by which compliance could be impartially assessed. In this manner trust could be restored that the actions of developed countries will meet the needs of developing countries, as the latter respond to the challenges set by climate change on their sustainable development.

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Annex.

Development cooperation and climate funding: proposed table of Principles, Criteria and Indicators for European external actions on climate change

Phases in delivery of funding	Principle	Criteria	Indicators
Mobilisation – how funds are raised	The polluter pays	Financial contributions are relative to the quantity of emissions produced	▪ Level of emissions ▪ Amount pledged
	Respective capability	Financial contributions are relative to national wealth	▪ GNI, GDP ▪ Amount pledged
	Additionality	Funds provided are more than existing national aid commitments	▪ National funding is greater than the UN target of 0.7 per cent of donor's national income
	Adequacy	Funds generated are equal to the scale of the task of maintaining global temperature rise to below 2°C	▪ National estimates of need ▪ Amount deposited in national system
	Predictability	Funding is known and secure over a multi-year funding cycle	▪ Source of funding ▪ Timescale of funding
Administration- how funds are managed	Transparency	Funding structure, financial data, board members, decision making processes and decisions are put in the public domain	▪ Website description
	Accountability	Fund management reports to a recognised authority, e.g. the UNFCCC COP, the European Parliament	▪ Statement in Fund Constitution
	Equitable representation	There is broad representation of all stakeholders on the Board of the fund	▪ Membership of fund decision making group
Disbursement – how funds are spent	National ownership	Recipient countries exercise leadership over their climate change policies and strategies	▪ Direct access to the fund by national authorities is permitted
	Timeliness	Funding is delivered when required	▪ Amount disbursed
	Appropriateness	The funding modality does not result in additional burdens for the recipient	▪ Type of funding provided, e.g. grants, loans
	Access for the most vulnerable	Credit, resources and technologies are made available to vulnerable groups	▪ Funding supports micro, small and medium-scale businesses

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Over the next decade, Europe's development policies will have to act on a combination of old and new domestic issues and substantial changes in the global landscape. Change in Europe's internal architecture – with implications for development policy – takes place in times of wide-ranging global shifts, and at a time when questions of European identity loom large in national debates. A key questions is: How will the EU, how will "Brussels" and the member states be working together on common problems? Global challenges include three issues increasingly facing EU's development policy agenda:

- The emergence of new substantial actors in international development,
- The linkage between energy security, democracy and development and
- The impact of climate change on development.

Public and policy-making debates need to be informed about future options and their likely effects; and decisions need to be based on good research and sound evidence. EDC2020 seeks "to improve EU policy-makers' and other societal actors' shared understanding of the above named emerging challenges facing EU development policy and external action." EDC2020 will contribute to this shared understanding by promoting interaction across research and policy-making, aiming at establishing links to share perspectives across different arenas, and mutual learning. To this aim, EDC2020 will provide policy-oriented publications, a shared project website and high-level European policy forums.

The three-year consortium project EDC2020 is funded by the 7th Framework Programme of the European Union. More information about our the EDC2020 project can be found at **www.edc2020.eu**

Project funded under the
Socio-economic Sciences and
Humanities theme

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