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## Keeping a big promise: options for baselines to assess “new and additional” climate finance

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# Keeping a big promise: options for baselines to assess “new and additional” climate finance

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## **Abstract**

All major climate policy agreements - the UN Framework Convention, the Kyoto Protocol and recently the Copenhagen Accord - have stated that climate finance for developing countries will be “new and additional”. However, the term “new and additional” has never been properly defined. Agreeing a system to measure a baseline from which “new and additional” funding will be calculated will be central to building trust and realising any post-Kyoto agreement. We explore eight different options for a baseline, and assess each according to several criteria: novelty to existing pledges, additionality to development assistance, environmental effectiveness, distributional consequences, and institutional and political feasibility. Only two baseline options do well on these criteria and are therefore viable: “new funds only” and “above pre-defined business as usual level of development assistance”. The final section assesses the impact of the baseline definition on the novelty and additionality of “fast start finance” pledged under the 2009 Copenhagen Accord, showing that values can vary from 0 to 100% depending on the definition.

Keywords: Climate finance, Copenhagen Accord, Development assistance, Additionality, UNFCCC

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## **1. Introduction**

Since the original Stockholm Earth Summit in 1972, developing nations have feared that attention to protect the natural environment would sideline their ardent quest for meeting basic development needs like health, education and economic growth (Hicks et al. 2008). Therefore, from the very beginning of international environmental statecraft, gaining these nations’ cooperation in efforts to address global environmental issues required promises for funding above current development assistance (“foreign aid”). Early phrasings described “The Earth Increment”, making clear that this funding would not come from other promises, such as the 1970 Monterrey pledge of most wealthy countries to send 0.7 percent of their GNI to assist poor countries overcome their poverty. The phrase “new and additional” financial resources was used at the Rio 1992 drafting of the Framework Convention on Climate Change (UNFCCC 1992), and the language has appeared in every major climate agreement since, including the Kyoto Protocol (1997) and the 2009 Copenhagen Accord (UNFCCC 2009).

The Copenhagen Accord promises of \$30 billion in “new and additional” fast start finance” over 2010-2012, “scaling up” to \$100 billion a year of public and private climate finance by 2020. These promises appear very ambitious, and were fundamental to the reaching of any agreement in the contentious atmosphere in the Danish capital. Both wealthy and poor nations agree on the need for such funds: developing countries need funding to grow their economies without becoming locked in to fossil fuel dependence and its high-carbon footprint. Most vulnerable developing countries also need substantial funds to prepare for, cope with, and recover from the growing number and intensity of climate-related disaster.

However, as happened many times before, the terms “new and additional” were never clearly defined at Copenhagen. “New and additional” to what exactly? Additional to what year as a baseline? Which funds get considered in such a baseline and in new funds – only those addressing climate change? Given the failure of most industrialized nations to meet their previous pledges of foreign aid, from the 1970 0.7% of GNI pledge to the Gleneagles 2005 promises, developing countries rightly question what the term “new and additional climate finance” means in practice. As a result, the phrase’s usefulness for removing distrust is plummeting. To restore trust, an agreement on the interpretation of “new and additional” is urgently needed. Here, two major challenges arise. First, countries have totally different understandings of the term “new and additional” (Brown et al. 2010; Stadelmann et al. 2010; WRI 2010). Second, the assessment of “additionality” is methodologically challenging, as both realized by the Commission of Sustainable Development (Yamin and Depledge 2004, p. 277) and scholars (Dutschke and Michaelowa 2006).

One can argue that the phrase “new and additional” has been less relevant for global environmental treaties<sup>1</sup> in the past, as official financial payments for developing countries have not reached more than \$0.15 billion annually per treaty and thus the potential for diversion of large amounts of development assistance did just not exist.<sup>2</sup> This has significantly changed with Copenhagen where industrialized countries pledged \$10 billion and more per year. This raises serious questions about both compliance with these substantial pledges and their additionality to development assistance.

In this article we address both challenges, the varying baseline definitions of different parties and the methodological challenges: First, a series of options for baselines are analysed and second, the eight options are assessed on six criteria (novelty to existing pledges, additionality to development assistance, effectiveness, distributional consequences, and institutional feasibility). We also examine the practical implications of these baseline proposals, and estimate political resistance and support for each. We show how fast start finance pledges have very different meanings, depending on the baseline options we propose. Billions of dollars are at stake, as are trust in the international policy system and the ability of developing countries to address the climate challenge.

## **2. Criteria for a baseline**

A baseline can be defined as the level against which a commitment or action is measured. In the 1997 Kyoto Protocol, for example, Annex 1 countries pledged to reduce their emissions by certain percentages below a 1990 baseline. That very clear (but not without its own problems) fixed baseline might be contrasted to a hypothetical counterfactual that describes a business-as-usual (BAU) situation, where the effect of a policy measure is assessed against what would have happened without it. These kinds of pledges of reductions in emissions below BAU projections were offered by major developing nations such as India and China in the Copenhagen Accord. In the context of new and additional climate finance, the baseline seems to logically mean the finance volume that would have flowed to developing countries in the absence of climate finance flows. The question is now how to define this business-as-usual level<sup>3</sup>.

The two obvious criteria for setting climate finance baselines are additionality and novelty, as these are the criteria they have to fulfil according to various international agreements. Furthermore,

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<sup>1</sup> Such as for biodiversity, climate change and ozone depletion

<sup>2</sup> It has to be noted that these pledges were much smaller than the \$ 125 billion of annual international grants or concessional flows needed to implement the Agenda 21 activities as estimated in 1992 (UNDESA 1992), which never materialized. However, compliance with the low pledges for biodiversity, climate change and ozone has been high (see Benedick 1998; GEF 2006, 2010; Pallemarts and Armstrong 2009; UNEP 2010).

<sup>3</sup> Substantial experience of how to define baselines has been collected in the context of climate change mitigation in developing countries financed through the CDM, see Michaelowa et al. (2007).

baselines can be assessed according to the four criteria for climate policies set out by the 4<sup>th</sup> Assessment Report of the IPCC (Gupta et al. 2007): environmental effectiveness, cost-effectiveness, distributional considerations and institutional feasibility. We divide institutional feasibility into three sub-criteria: a proposed method’s political acceptability, its feasibility under budget constraints, its transparency, and whether it interferes with other international regimes. The importance and definition of each of these criteria is explained in the following;

#### *Additionality to development assistance*

The discussion about development assistance baselines began essentially with the pledge of “new and additional” resources in Rio 1992. The Commission on Sustainable Development unsuccessfully tried to establish an indicator for “new and additional” financial resources (Yamin and Depledge 2004, p. 277). The question was further taken up in the discussion on “diversion” of development assistance in the context of CDM projects from 2000 onwards (Asuka 2000; Dutschke and Michaelowa 2006). Apparently, the lessons from this debate did not inform the discussion about climate finance that has taken off since 2007. Here “additionality” is an often used term but its meaning has never been clearly defined. Some understand “additional” as “additional to existing aid flows”, while most developing countries and NGOs understand it as additional to existing developed country promises to provide 0.7% of their GNI as “official development assistance” (ODA) (Dutschke and Michaelowa 2006; Müller et al. 2010; Oxfam 2009). We use a middle-ground definition: *climate finance is additional if it leads to an increase both compared to present and projected future development assistance*. Climate finance may be counted as ODA but the development part of ODA<sup>4</sup> is not allowed to be reduced below “business-as-usual” projections. This is a technically clear definition but international institutions as well as recipients may find it difficult to assess the “business-as-usual” (BAU) levels of development assistance (DA). Donors may have some incentives to not reveal the real BAU level of development assistance, similar to the distortion of investment parameters by project owners in the context of CDM projects. We will later assess which definitions for baselines can minimise gaming.

#### *Novelty to existing flows and pledges*

According to Müller et al. (2010) “new” mainly refers “to funds which are separate from those that have already been promised, for climate change or as overseas development assistance”. However, novelty” is also increasingly understood as new funding sources such as a tax on financial market transactions, auctioning of emission allowances or levies on air and maritime transport (Müller et al. 2010). The idea behind defining novelty as “new sources” is that industrialized countries’ government budgets, especially the part dedicated for developing countries, are always subject to domestic

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<sup>4</sup> Official Development Assistance (ODA) as defined by the OECD-DAC currently consists of real development assistances but also of other funds such as for global environmental goods (e.g. Multilateral Fund in the ozone regime or several climate funds).

pressures (Bulír and Hamann 2008; Doornbosch and Knight 2008; Fischer and Easterley 1990). Therefore, governmental funds for climate finance can always be funds that had already been pledged in the past, or promised as development assistance; and funds are only then really “new” if they stem from new sources other than government pledges. While the “new sources” definition has clearly its merits, it does not clearly distinguish between old and new commitments. Therefore, we define “new funds”, following Müller et al. (2010) *as funds that have not yet been promised for supporting developing countries’ climate or development actions.*

#### *Environmental and cost-effectiveness*

The IPCC (Gupta et al. 2007) lists environmental effectiveness as the first criterion to evaluate environmental policies. Environmental effectiveness is understood here as the level of climate change mitigation and adaptation achieved<sup>5</sup>. Assuming that an increase in funds leads to an increase in mitigation and/or adaptation<sup>6</sup>, *a baseline is environmentally effective if it increases funds useable for climate mitigation and adaptation compared to business as usual.* We can assume that the more stringent a baseline is regarding novelty to existing *climate* funds, the more climate funds will be paid. On the other hand, stringency for additionality to existing *development* funds may limit climate funds and environmental effectiveness, as the baseline definition does not allow for diversion of development assistance.

The (IPCC) criterion “cost-effectiveness” cannot be judged, because the baseline does not influence how the funds are spent. Moreover, a baseline leveraging more funds can have different impacts: scale and learning effects linked to the size of the programmes may increase cost-effectiveness, while the exhaustion of cheap options can decrease it. If one assumes monotonously rising mitigation and adaptation cost curves, the latter effect is likely to dominate.

#### *Distributional considerations*

As with any economic policy measure, climate policy measures will have distributional impacts. For this reason, commonly used terms in the climate policy context are “equity” and “fairness”, while responsibility, capability and needs are the accepted principles for equity (Ringius et al. 2002). Distributional considerations have focused on the phrase “fair burden sharing” (see e.g. Müller et al. 2009). In our study we consider distributional questions by assessing the impact of different baselines on burden sharing between developed and developing countries. We assume that current climate

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<sup>5</sup> Strictly speaking, only mitigation has an “environmental” impact by reducing climate change, while adaptation has mainly direct economic benefits. However, we can easily assume that at least part of climate finance is used for mitigation.

<sup>6</sup> This assumption is dependent on the allocation of funds. We may imagine situations where climate funding actually leads to an increase in greenhouse gas emissions, e.g. if funds are allocated to energy efficient coal power plants, which would have been built anyway.

policy pledges (mitigation and finance) of developed countries are way below their fair share of the burden, when considering various burden sharing studies<sup>7</sup> (Baer et al. 2007; Bernard et al. 2006; Chakravarty et al. 2009; Den Elzen et al. 2005; Den Elzen and Höhne 2008; Marklund and Samakovlis 2007; Pan 2003). *A baseline, therefore, adequately addresses distribution the more it shifts the burden away from developing nations, least responsible for the problem and least capable to adapt.*

#### *Institutional feasibility*

The last IPCC criterion for environmental policy is institutional feasibility, or broadly speaking the question of whether the theoretical ideas can be implemented, given the existing institutions and political considerations in industrialized and developing countries. *To be institutionally feasible, a baseline has to be politically acceptable by both Northern and Southern governments, it has to be feasible given budget constraints in the North, its assessment has to be transparent, and finally, the baseline has to be consistent with other international regimes.*

#### *Political acceptability (North-South)*

Not even the most objective definition of a baseline will be feasible if it is not accepted by the major Parties to the UN framework convention. Political acceptability is an important precondition for participation, a key criterion for success of an environmental regime (see e.g. Wettestad 1999). Participation is a widespread concern for the climate regime after the US did not ratify Kyoto (Barrett and Stavins 2003); thus the impact of future non-participation has been studied as well (e.g. Keppo and Rao 2007; van Vuuren et al. 2009). As the world's emissions are currently evenly split between developed and developing countries (PBL 2009), while the share of developing countries' emissions will further rise in the future (van Vuuren et al. 2009), the acceptability for both Northern as well as Southern countries has to be assured. Under a universal international climate treaty, horse trading of climate finance and mitigation targets would be possible, which would allow one to bring baseline stringency in as one parameter of negotiations. However, the lack of progress in international climate negotiations makes the fragmentation of the regime more and more likely and thus reduces horse trading options. Furthermore, the room for concessions is narrow at the moment, as the North is dealing with the consequences of a major economic crisis and the South is harbouring mistrust due to past disappointments on finance pledges. Therefore, political acceptability of baseline stringency as part of the climate finance negotiations is a major criterion; *a baseline will be politically feasible if it is expected to be acceptable to the major Parties to the UN framework convention.*<sup>8</sup>

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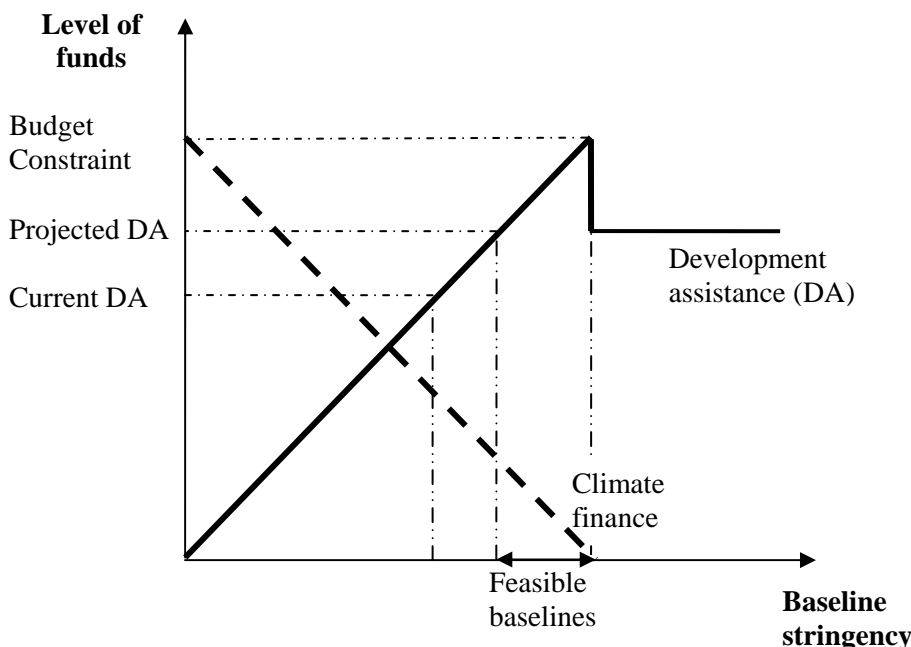
<sup>7</sup> Also advanced developing countries such as China, South Korea or Mexico may have to contribute more. However, the bulk of climate finance will likely flow to poorer countries.

<sup>8</sup> As Copenhagen showed, even one nation can block consensus in the UNFCCC process. Therefore it remains to be seen what combination of countries would have to accept a baseline formula for it to make it into approved UNFCCC text.

*Feasibility under a budget constraint*

Even if the industrialized countries accept a certain baseline definition, it is not clear if it can really leverage additional climate funds without diverting development assistance, given the budget constraints currently faced by developed countries. For a government with a budget constraint, the situation is depicted in Figure 1. The current and future development assistance level does not exhaust the budget, but is seen as politically optimal. We assume that the government willingness to spend on “additional” climate finance is the residual of the budget constraint. In the case of a baseline less stringent than BAU development assistance, the government will increase climate finance at the expense of development assistance as far as the baseline permits<sup>9</sup>, due to the preferences of the electorate to embark on climate policy. In the case of a baseline that is more stringent than BAU of development assistance, the country increases development assistance spending beyond the current level until the entire budget is spent, in order to be able to generate “new and additional climate funds.” If the baseline stringency goes beyond the budget constraint, then the country cannot spend anything on “additional” climate finance and development assistance spending abruptly decreases to the BAU level. Therefore, *the only feasible baselines under budget constraint are the ones between the projected BAU level of development assistance and the budget constraint*<sup>10</sup>.

**Figure 1: Impact of baseline stringency on the level of spending for development assistance (bold line) and climate finance (dashed bold line) in case of budget constraint**



<sup>9</sup> While diversion of projected development assistance is probable, we may hardly see a decrease in the current level of DA funding.

<sup>10</sup> One can also interpret this criterion as both covering the criteria of “political acceptability in the North” and additionality to development assistance.



*Transparency: clarity of definition and availability of data.*

The importance of transparency for environmental regimes is acknowledged by academic scholars, governments and NGOs (Mitchell 1998). Transparency helps for achieving and assessing compliance and effectiveness, which has been studied both for security and environmental regimes (Mitchell 1998; Roberts and Parks 2007). In the climate regime, financial contributions have haphazardly been included in national communications, but transparency only came to the forefront when the notion of “national appropriate mitigation actions [...] supported and enabled by technology, financing and capacity-building, in a measurable, reportable and verifiable manner” was included in the Bali Action Plan (UNFCCC 2008). By this wording, not only the actions of developing but also the financial support of developed countries was to be measured and verified. While the Parties are still negotiating the way this has to be done, scholars have already identified the need for more transparency: the new climate funds set up in the last few years lack transparency (Stewart et al. 2009) and more transparent guidelines for finance reporting are needed under the UNFCCC (Roberts et al. 2010a; Tirpak et al. 2010). This seems especially important when considering the incoherent labelling of climate-related ODA in the past (Michaelowa and Michaelowa 2010).

*The transparency of a baseline is given if international organizations or parties can easily assess whether the baseline for climate finance has been complied with.* This assessment is possible if two conditions are met: first, the definition of a baseline must be crystal clear to avoid renegotiation and redefinition. Second, the data for measurement and verification must be accessible and assessable. Therefore, we will assess the transparency of baseline definitions by both analysing the clarity of the definition and the availability of data.

*Consistency with other regimes*

Rules within the climate change regime may interfere with rules of other regimes. This has especially been studied for the case of border carbon adjustment and the trade regime (see e.g. Biermann and Brohm 2005; Brewer 2004; Charnovitz 2003). In the case of climate finance, we may have some interference with the rules for accounting development assistance. The Organization of Economic Co-operation and Development (OECD) has established standards for what counts as ODA, and it has also set up accounting categories for both mitigation and adaptation under its Rio Markers system (OECD 2009). The re-definition of what counts as ODA would be a major challenge given the established OECD rules, while the re-definition of climate finance is more probable, as the existing Rio Markers system is not very well elaborated, leading to misreporting. Beside the definition of ODA or climate finance, a baseline definition may also include assumptions on the pledged level of ODA, which is an even larger intervention into the development assistance regime. Therefore, *we define the consistency with other regimes as the level of non-interference with the development assistance regime.*

### *Incentives for enforcement*

Institutional feasibility is a necessary condition for adoption of a climate finance baseline, but it does not ensure that the countries actually adhere to the baseline definition. To avoid gaming and outright non-conformity with baseline rules (e.g. by converting current development assistance into climate finance and counting both in their full amounts), incentives for developed countries are needed. Gupta et al. (2007) distinguish between soft incentives (e.g. side payments) and hard incentives (e.g. trade measures) for climate policy compliance. However, neither of them is currently particularly feasible: while soft measures<sup>11</sup> like payments for payments are a non-sum game, trade measures are not feasible given the relative unimportance of climate finance in international relations. Therefore, we set enforcement incentives to one side for this analysis, assuming transparency and measurability will be the most critical elements of whether contributors could be held to account for not meeting their agreed share of “new and additional” climate finance.

### **3. Eight options for a baseline**

In this section we describe the baseline options and assess how well they perform on the criteria just listed.<sup>12</sup> For all options denominated in absolute currency units, real values should be chosen to avoid that a baseline devalues over time.

#### *Option 1: 0.7% of GNI*

Developing countries overwhelmingly prefer that the ticker for new and additional funding start only after countries have contributed 0.7% of their gross national income (GNI) to ODA. The target that developed countries provide 0.7% of their Gross National Income (GNI) as ODA has first been mentioned in the Report of the Commission on International Development (Pearson 1969), without any clear explanation on how this has been calculated (Clemens and Moss 2005). The 0.7% target has been several time restated, e.g. at the “Earth Summit” in Rio de Janeiro 1992 and importantly in the final declaration of the UN’s International Conference on Financing for Development in Monterrey 2002, where many heads of state attended (Clemens and Moss 2005)<sup>13</sup>. Until now, the 0.7% has been reached by only a very small number of countries, and the highest overall ratio of ODA

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<sup>11</sup> Among soft measures, moral pressure by NGOs and media may have some impact but it does not guarantee compliance.

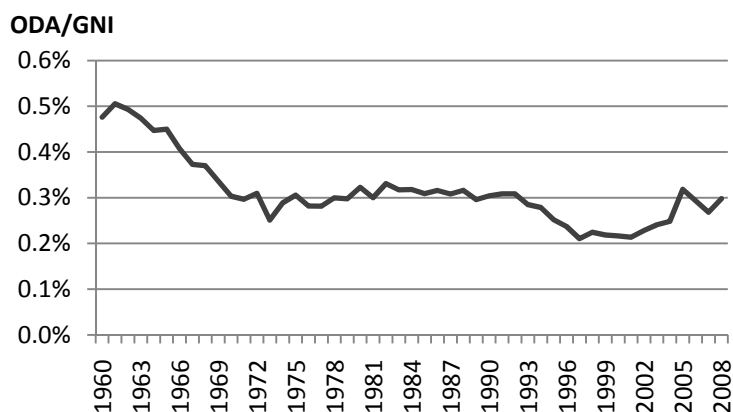
<sup>12</sup> This selection of baseline options is expanded from Stadelmann et al. (2010) and adapted to newest policy trends as well as ideas of Brown et al. (2010).

<sup>13</sup> In contrast to the public perception, industrialized countries actually for a long time never promised to reach the 0.7% target but only to make efforts to attain it (Clemens and Moss 2005). This changed when the EU pledged that their old member states reach the 0.7% level by 2015 (EU 2005).

to GNI has been achieved before the target was even set (see Figure 2 and Annex 2 for industrialized countries individual ODA/GNI ratio).

The 0.7% GNI threshold is also a favourite of European countries like Sweden and the Netherlands that already meet this ODA standard. Although this threshold seems transparent and takes into account past pledges by developed countries, it is not viable for two reasons. First, many developed countries will in the next few years neither accept nor reach this threshold—especially the United States, with less than 0.2% of its GNI going to ODA. Second, countries like Sweden and Denmark, which today exceed the 0.7% mark, may just divert existing ODA commitments and call them new and additional climate finance. The non-feasibility of the 0.7% threshold has already been explained by Dutschke & Michaelowa (2006) for the case of the CDM.

**Figure 2: Ratio of ODA to GNI over time**



Sources: OECD 2010 (ODA), World Bank (GNI of OECD countries)

### *Option 2: No agreed baseline*

On the other end of the spectrum, most industrialized countries favour having no agreed baseline, so that each contributor defines its own baseline. This option is clearly not acceptable for developing countries, as 'new and additional' loses any meaning. Comparing funding across nations becomes very difficult, transparency is hardly given, and diversion of development assistance is likely. This option is the current state of affairs at this writing.

### *Option 3: New UN channels only*

A simple option for avoiding this situation with unclear baselines is to count only funding disbursed through new UN channels, such as the Adaptation Fund or the planned Copenhagen Green Climate Fund. Although technically clear, the “new channels only” approach reduces flexibility for

contributors and potentially leaves them less willing to use the term “new and additional”. Some existing channels may be better suited for certain types of flows or certain efforts to address climate change. A variant that may be more acceptable to industrialized countries is to consider all new kinds of funds. Regardless, this approach could have absurd consequences if old commitments are simply redirected into new funds.

*Option 4: No ODA counts*

Another straightforward option would allow using the best channels and mechanisms, but would not count ODA money as climate finance, to clearly separate between development and climate funds.<sup>14</sup> Double-counting could be avoided and transparency enhanced. This approach forces contributors to decide whether the main goal of funding is development or climate related. Despite the advantages of this approach, it is rejected by most industrialized countries, as they prefer to use climate funds to reach their ODA targets, and argue that climate change issues should be “mainstreamed” into existing development assistance (but see note 15). Furthermore, this baseline approach could quite heavily interfere with the development assistance regime, as it sets conditions of what can be counted as ODA. A softened version of this option is the idea of former British Prime Minister Gordon Brown to limit the climate finance that can be accounted as ODA to 10% of overall ODA contribution. All climate finance beyond this 10% need to come from other sources to be seen as “new and additional” (Brown et al. 2010).

*Option 5: Current climate finance*

A baseline acceptable to contributors may be current climate finance: the existing climate funds and those pledged before Copenhagen would define the fixed baseline. This could be the final year before Copenhagen, or a five-year average such as 2005-2009 or 2004-2008. On the downside, with this model diversion of development-oriented aid is possible, it is difficult to distinguish between old and new finance, and information on current climate finance is scarce. In three analyses, we have attempted to quantify current levels of climate finance (Michaelowa and Michaelowa 2010; Roberts et al. 2008; Roberts et al. 2010b). Many definitional problems arise, showing starkly conflicting numbers between OECD “Rio Marker” totals and those of our independent categorizations at the project level. However with clear definitions and sufficient resources, such a baseline could be constructed for major contributor nations.

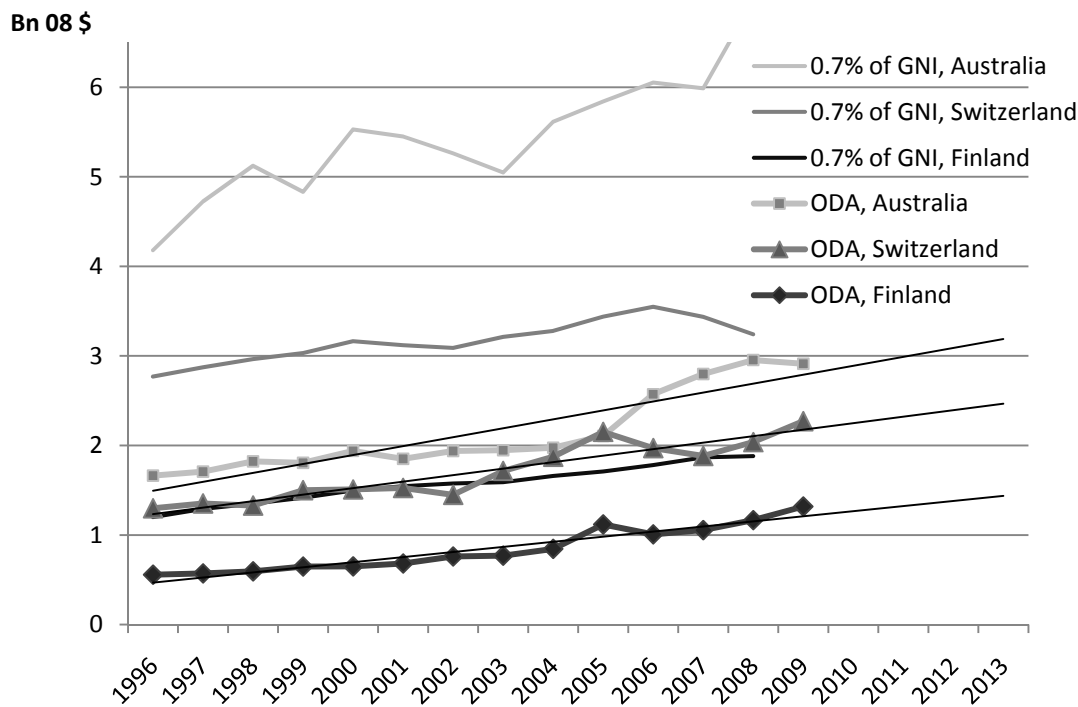
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<sup>14</sup> Separation of development and climate funds in accounting does not mean that the two kinds of funds could not be combined in the practical implementation. Indeed, integration of climate considerations into development planning is very important.

*Option 6: Current development assistance*

Very close to current climate finance is the idea of a baseline of current development assistance. In this case, all contributions above current development assistance may count as climate finance. Three contributor countries, Australia, Finland and Switzerland, use a similar definition to this when saying that their fast track pledge is part of an increase in development assistance (WRI 2010). This essentially means that all climate finance can be called “new and additional” as long as the development part of ODA is increasing. However, this definition has some fundamental flaws: ODA has been increasing over time and is expected to increase even more in the future as most countries attempt to get closer to their 0.7% of GNI target or their Gleneagles 2005 promises. Australia, Finland and Switzerland all fit this pattern: their ODA has increased in the last few years, they have not yet met the 0.7% target, and it can be projected that their ODA will increase even more in the future (see Figure 3). This baseline will, therefore, not be acceptable for developing countries.

**Figure 3: Possible projections of development assistance (straight line projections)**



Source: Authors’ analysis using data from OECD (2010) and WB (2010); for other countries, see Annex 2.

*Option 7a: Updated projection of development assistance*

Instead of current development assistance levels, updated projections of development assistance could be used as a baseline. Business-as-usual funding levels would be re-assessed every year or two, taking into account current economic growth in industrialized countries and development assistance commitments. This option may be acceptable to contributors, as it could allow future spending on climate finance to fall somewhat during economic downturns. Of course, obligations would also increase in strong growth years. Although this method is theoretically close to the perfect assessment of “new and additional”, in practice it would be difficult to negotiate—and it might fail at creating trust between parties, as developed countries may be suspected of gaming the baseline, and because the details of how projections are calculated may have to be renegotiated again in the future. To be operationalised this method of setting a baseline will need substantial elaboration.

*Option 7b: Pre-defined projection of development assistance (with GDP growth adjustment)*

A variant baseline using pre-defined projections of development assistance would avoid this permanent re-negotiation by defining the projected business-as-usual level of development assistance in advance, according to a realistic growth path for development assistance. The pre-definition task would create a debate on which development assistance growth path is most realistic—very recent years or a longer-term trend<sup>15</sup>. Industrialized countries may be concerned about agreeing to specific levels of development assistance and climate finance without knowing their future GDP growth and related tax income. It is relatively straightforward, however, to use a formula that takes into account real GDP growth in later years. The GDP dependence of the funds would be a downside for developing countries, but by avoiding re-negotiation of the formula they would benefit from better predictability. We do not see any major drawbacks beside some interference with the development assistance regime<sup>16</sup>.

*Option 8: New sources only*

A final solution combines all issues: novelty, additionality and acceptability. This baseline would count new sources only, meaning that only assistance from novel funding sources—such as international air transport levies, currency trading levies or auctioning of emission allowances—would be seen as new and additional. Such funds are new by definition, and they are likely to be additional to development assistance, as it is highly improbable that new funding instruments—especially the ones related to pricing carbon emissions—would be used for development assistance without a climate

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<sup>15</sup> For example in Figure 3 Switzerland and Finland both show steeper increases over the final three years than over the trend—Australia’s ODA was flat and then dropped in 2009, but a longer-term trend since 1996 gives it the steepest slope of the three.

<sup>16</sup> This interference is not very severe, since projections of development assistance do not actually impact the definition of ODA, as we separate here between ODA (all funds counted as Official Development Assistance including climate finance) and development assistance (development funds only; excluding climate finance).

policy regime. The obvious drawbacks are that it inflexibly bars the use of effective current funding streams, and would somewhat arbitrarily define which sources are new. Although we believe that this baseline could be acceptable for contributors, they have ruled it out for 2010-2012 fast start financing, which will draw on existing sources such as the general budget. Therefore, the “new sources only” option is probably one for longer-term (post-2012) climate finance, especially the ramping up of climate finance for the 2020 promise of \$100 billion a year, for which the UN Secretary-General’s High-level Advisory Group on Climate Change Financing is suggesting especially new sources such as carbon taxes, auctioning of emission allowances or levies on international transport (UN 2010).

#### *Summary of options*

When assessing the different baseline options with the criteria discussed (Table 1) most options perform very poorly on at least one criterion. Only the baseline options “above a pre-defined projection of development assistance with GDP growth adjustment” and “new sources only” can guarantee some level of additionality, novelty, and acceptability by parties, as well as transparency and consistency with other regimes.

The option “pre-defined projection of development assistance with GDP growth adjustment” does not perform very well on any particular criterion, but it also lacks any major drawbacks. It only remains to be seen if all parties can accept it, which remains open, as this option has actually never been proposed in the negotiation. The second option with no very negative rating on any criterion is “new sources only,” which we consider very promising given that there is international agreement that new sources are needed. The Copenhagen Accord specifies in its paragraph on financing that “alternative sources of finance“ are needed, but does not provide specific suggestions, which shows that a component of a baseline has to come from new sources.

**Table 1: Assessment of baseline options**

Criterion	Basic criterion	Basic criterion	IPCC criterion	IPCC criterion	IPCC criterion “institutional feasibility”, assessed by six different sub-criteria					
	Additional to development assistance	New to existing flows and pledges	Environmental Effectiveness	Distributional considerations	Political feasibility (North)	Political feasibility (South)	Feasibility given budget constraint*	Transparency 1: Clarity of definition	Transparency 2: Availability of data	Consistency with other regimes
<i>Way of assessment</i>	<i>No DA decrease</i>	<i>No double counting</i>	<i>Funds for mitigation &amp; adaptation</i>	<i>Shift of burden away from South</i>	<i>Public statements</i>	<i>Public statements</i>	<i>Total of Development &amp; Climate Funds</i>	<i>Clarity</i>	<i>% available</i>	<i>Non-interference with the DA regime</i>
1) 0.7% GNI	++	++	--	Lower burden of South	--	++	--	++	++	+
2) No agreed baseline	--	-	+	Still high burden of South	++	--	--	--	(not needed)	++
3) New UN channels only	0	+	-	South better represented	--	++	-	++	+	++
4) No ODA counts	++	(+)	-	Lower burden of South	--	+	-	++	++	--
5) Current climate finance	-	0	+	Middle-sized transfers	+	-	0	-(-)	-(-)	-
6) Current development assistance	-	-	0	Low-mid-sized transfers	++	--	0	++	-	++
7a) Updated projection of DA	0	+	0	Middle-sized transfers	+	-	++	--	-	-
7b) Pre-defined projection of DA	+	(+)	-	Middle-sized transfers	0	+	++	+	-	-
8) New sources only	+	++	-	Middle-size transfers	-	+	+	+	++	+

++ given, + partly given, - not given – not given all; DA = development assistance; \* for the allocation of the options in the budget constraint graph, see Annex 1.



#### 4. Implications of baseline choice for fast track pledges

When analysing the Copenhagen fast start pledges (“new and additional” climate finance for the period 2010-2012), it becomes clear that not many baseline options can be assessed. For several baseline options (“Above current development assistance” and “projection of DA”), we are missing data for the 2009 and 2010 ODA level, while for “current climate finance” the needed project level data is not available<sup>17</sup>. As well, “new sources only” is currently not assessable, but the share of funds from new sources is probably close to zero at the moment according to available data (HBS/ODI 2010; WRI 2010). Regarding “new UN channels only”, the information is also scarce: no contributions to the planned Copenhagen Green Climate Fund are known, while €45 million have gone to the Adaptation Fund, which is only 0.2% of total fast start money.

When looking at the remaining baseline options, we see that baseline definition has a huge impact on the assessment of novelty and additionality (see Table 2): the results range from 0% new and additional funds in case of “no ODA counts” to 100% when no baseline is agreed and all contributors can define their own baseline. If “0.7% of GNI”, the preferred baseline of developing countries, is used then at least 8% of pledged funds can be considered new and additional. The middle way is given by another definition, which is not included in the assessment above<sup>18</sup> but close to the option “above current climate finance”: the novelty beyond existing pledges and budgets. Less than 50% of the Copenhagen pledges are new under this definition, while the novelty of funds (compared to finance pledges and budgets before Copenhagen) ranges from close to zero in case of Germany to 100% in the Dutch, Swedish and Canadian case<sup>19</sup>.

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<sup>17</sup> Data from the OECD CRS system is not comprehensive, not up to date (see [aiddata.org](http://aiddata.org) for more encompassing data but with similar problems of timeliness), and referring to the climate change indicators (Rio Markers) not very reliable, see Michaelowa & Michaelowa (2010). Therefore, researchers would need to reassess the official OECD CRS data for 2009 and 2010, when it is available (probably not before 2011 or 2012).

<sup>18</sup> This “new to existing pledges and budgets” definition is not assessed as an option because it is very challenging to assess what to consider as pledge and budgeting, including the timeframe.

<sup>19</sup> These numbers, however, have to be taken cautiously, as some countries like the UK or Germany are much more closely watched than others.

**Table 2: Assessment of current fast start finance pledges according to different baseline options**

<i>Contributor</i>	Existing knowledge on Fast start finance		Fast start finance that is „new and additional” under the following baseline options			
	Fast Start pledge (2010-12) \$ bn	Budgeted or pledged before \$ bn	New to old pledges / budgets %	Above 0.7% GNI %	No agreed baseline %	No ODA counts %
Germany	1.6	1.5	5%	0%	100%	0%
UK	2.4	>1.2	<50%	0%	100%	0%
France	1.6	n/a	n/a	0%	100%	n/a
Sweden	1.1	0.0	100%	100%	100%	0%
Netherlands	0.4	0.0	100%	100%	100%	0%
Spain	0.5	n/a	n/a	0%	100%	n/a
Belgium	0.2	n/a	n/a	0%	100%	n/a
Denmark	0.2	n/a	n/a	100%	100%	0%
Austria	0.12	n/a	n/a	0%	100%	0%
Italy	0.8	n/a	n/a	0%	100%	n/a
Finland	0.1	0.0	91%	0%	100%	0%
Ireland	0.1	n/a	n/a	0%	100%	n/a
EU Commission	0.2	0.0	100%	0%	100%	n/a
Norway	0.6	0.1	89%	100%	100%	n/a
Japan	15.0	10.0	33%	0%	100%	n/a
US	3.0	1.2	59%	0%	100%	n/a
Canada	0.4	0.0	100%	0%	100%	n/a
Australia	0.6	0.2	59%	0%	100%	0%
New Zealand	0.0	0.0	n/a	0%	100%	n/a
Switzerland	0.1	0.0	89%	0%	100%	0%
Total \$ Bn	29.1	14.3	12.8	2.2	29.1	0.0
Total % new & add.			44%	8%	100%	0%
<i>Source</i>	<i>HBS/ ODI and WRI (2010)*</i>	<i>HBS/ ODI and WRI (2010)**</i>	<i>After HBS/ ODI and WRI (2010)</i>	<i>After OECD (2010)</i>	<i>Own assessment</i>	<i>After WRI (2010)***</i>

\* HBS/ODI (2010) for Austria, Italy, Belgium, WRI (2010) for other countries

\*\* HBS/ODI (2010) for most countries, WRI (2010) for UK, Germany and Australia

\*\*\* The UK number is derived from faststartfinance.org (2010), the number of the Netherlands results from an email communication with Aart van der Horst from the Netherlands Ministry of Foreign Affairs, 14<sup>th</sup> September 2010; the Austrian number from a letter of finance minister Josef Pröll to MP Barbara Prammer on the 6th of September 2010.

## **5. Conclusions**

The current state of no transparency on novelty and additionality of climate finance pledges will perpetuate mistrust in the climate regime. Many options for a baseline for a definition what “new and additional” means have been put forward but the parties to the UNFCCC have not yet agreed on any. From the literature we derive that a meaningful and successful baseline must at least fulfil the following criteria: novelty, additionality, equity, acceptability, transparency and consistency with other regimes. We conclude that only two of the assessed baseline options are not violating any criterion excessively: “Above pre-defined projection of development assistance” and “new sources only”. It is, therefore, warranted that parties consider those two baseline options instead of restating their old extreme positions of either no baseline or a threshold of 0.7% of GNI going to ODA.

Procedurally, the discussion on a baseline should be included in the Ad-hoc Working Group on Long-term Cooperative Action under the Convention, as part of a broader MRV framework for climate finance. Deciding on elaboration of an MRV system including a baseline is possible in South Africa in 2011. If a global agreement on a single baseline definition is not possible, a second-best solution would be to oblige each contributor to transparently declare its own baseline definition, while providing guidance on needed data for each baseline option.

Both industrialized and developing countries can do their part to reach a compromise: while industrialized could agree on elaboration of an internationally defined baseline or at least attach a baseline to each of their pledges, developing countries may acknowledge that it is almost impossible for industrialized countries to contribute \$ 10 billion of “new and additional” funding in 2010, as the 2010 budgets have mostly been determined before Copenhagen.

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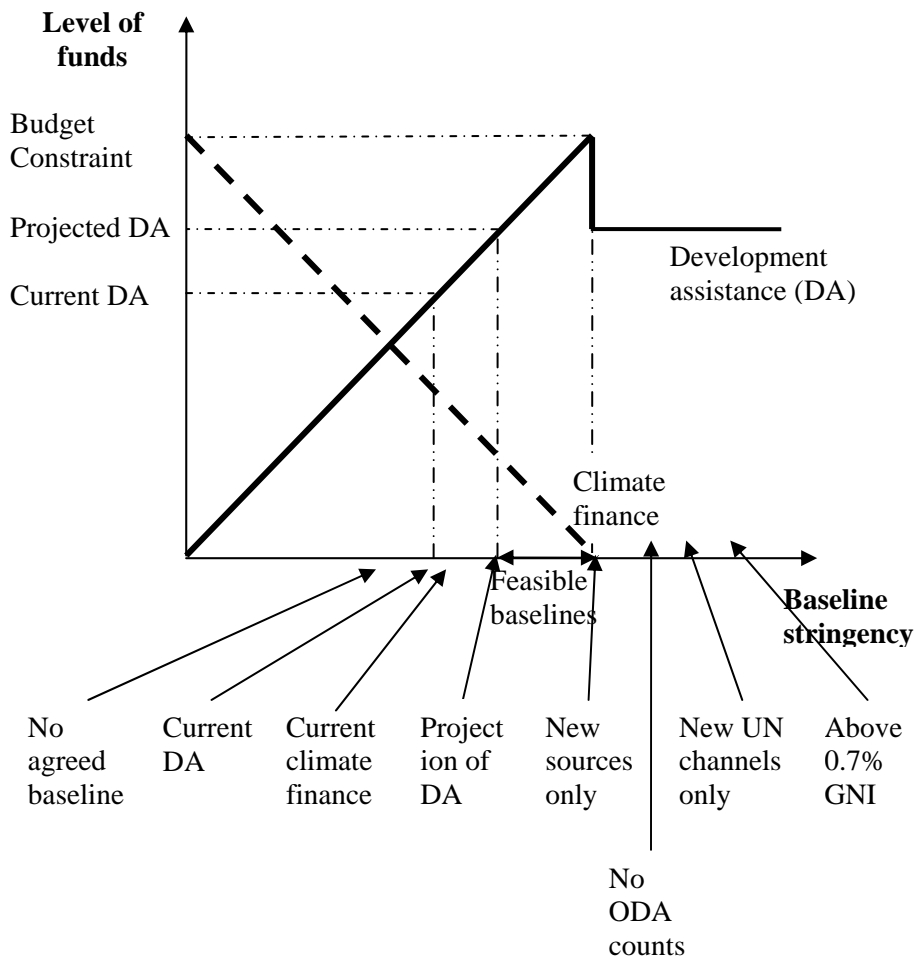
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**Annex 1: Analysis of location of baseline options along the baseline stringency dimension**



**Annex 2: ODA development of developed countries (in billion current \$ per country)**

