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Recent initiatives for climate financing: what is the European view?

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Three key questions for Europe:

- First, the mechanism of providing finance (and technology) to support developing countries is one of the most prominent issues in the climate change debate. Many options are being tabled, including traditional public and private sector investment and more innovative approaches such as levies and market mechanisms.
- Second, the balance between adaptation finance and paying for international mitigation efforts that will be based in developing countries is not yet clear.
- And third, the relationship between the financial flows associated with official development assistance and climate finance has yet to be clarified.

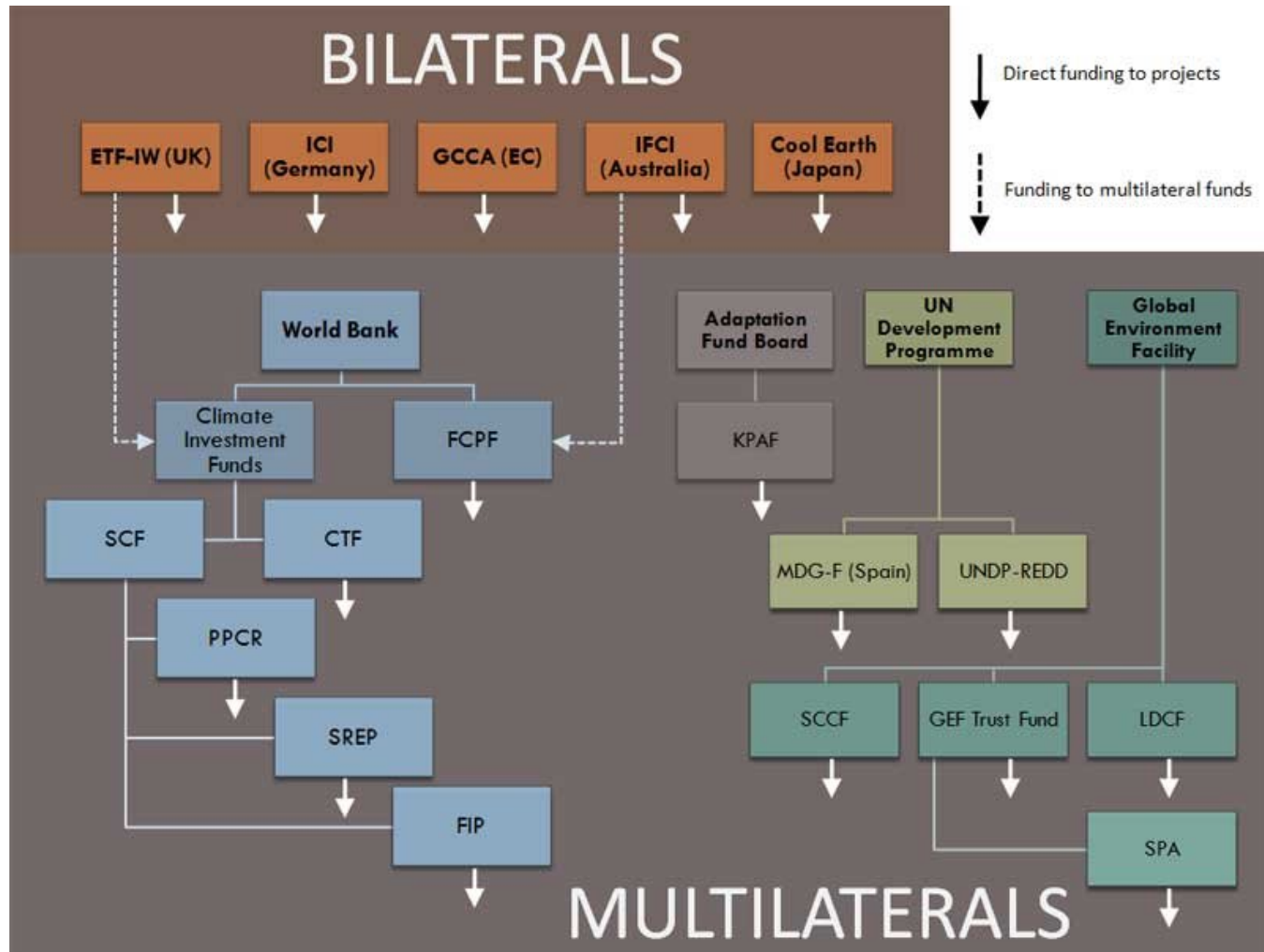


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What is the European view?

EU MS - Annexes I and II countries	EU MS – Annex I countries	EU MS – Non-Annex I countries
Austria	Bulgaria	Cyprus
Belgium	Czech Republic	Malta
Denmark	Estonia	
Finland	Hungary	
France	Latvia	
Germany	Lithuania	
Greece	Poland	
Ireland	Romania	
Italy	Slovakia	
Luxembourg	Slovenia	
Netherlands		
Portugal		
Spain		
Sw eden		
United Kingdom		
15 Countries	10 Countries	2 Countries

Existing international public financing initiatives



Proposed innovative financing mechanisms

Auctioning of emission allowances:

- Each Annex I country receives a number of greenhouse gas units to release and/or trade (*Assigned Amount Units, AAUs*) in accordance with the Kyoto Protocol during the 2008-2012 commitment period. The underlying funding principle of this scheme is to auction a certain share of these AAUs at the international level to generate revenue.

Carbon market-based levies:

- Adaptation funding can be generated by applying a levy to the Kyoto Protocol's tradable units generated from the CDM, JI, or emissions trading. The 2% CDM levy mechanism used to raise funds for the Kyoto Protocol's Adaptation Fund is an example of a carbon market-based levy.

Proposed innovative financing mechanisms

Charges, levies or taxes on emissions, or on specific activities (such as air travel):

- Funds are raised by charging individuals and companies, based on their Responsibility for climate change and/or their capability to pay. The charges or levies could be applied to air travel, maritime emissions, fossil fuel production, or electricity use.

Defined budgetary contributions:

- Proposals based on defined budgetary contributions.

Proposed innovative financing mechanisms

Hybrids

- Mexico's World Climate Change Fund (WCCF) is a hybrid of defined budgetary contributions and a tax/levy.

Public-private partnerships

- An innovative public-partnership called The Global Energy Efficiency and Renewable Energy Fund (GEEREF) was launched by the European Commission in 2006.

What scale of funding is being proposed?

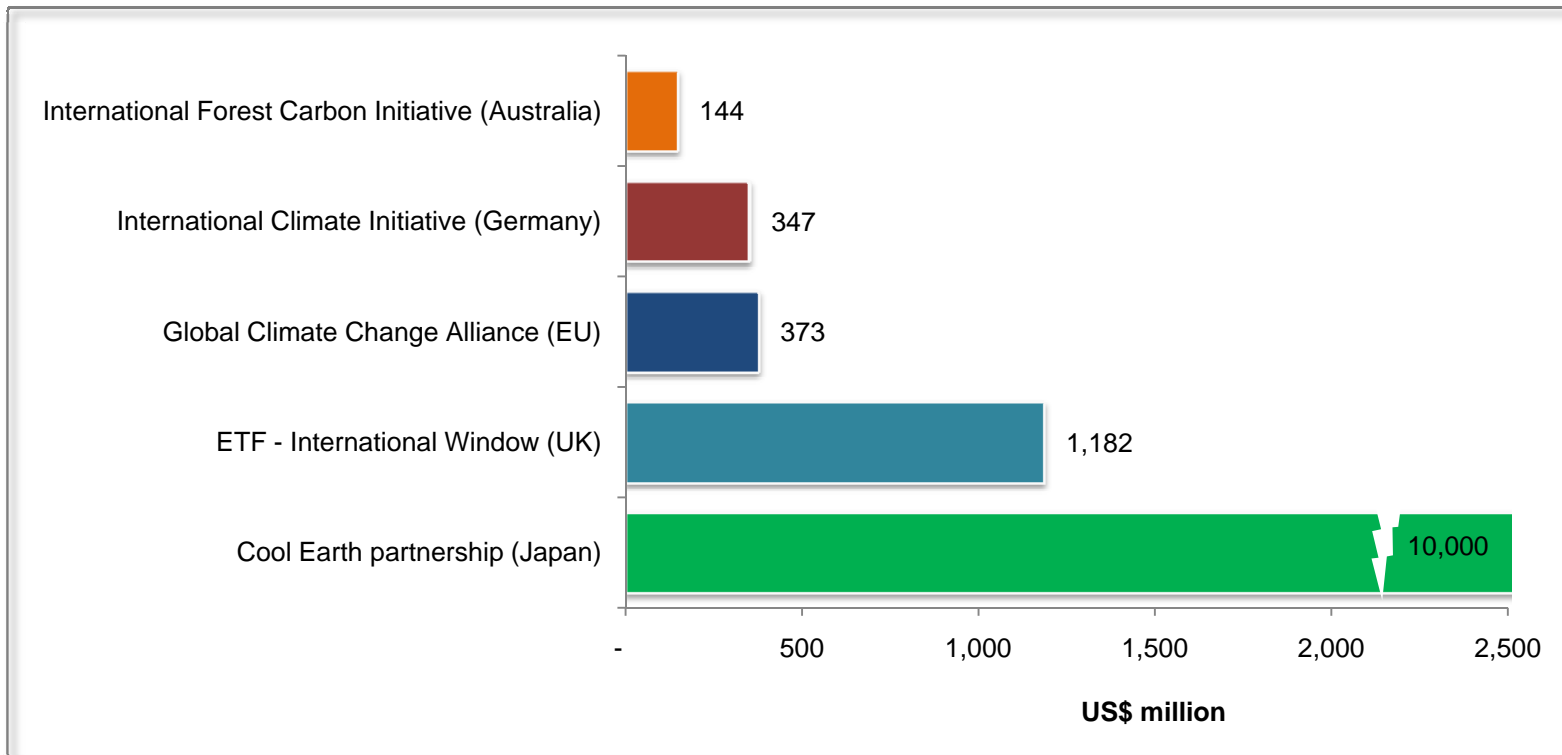
To be credible, these funds need to respond to the level of need. Unfortunately, this is where substantial uncertainty exists.

The World Bank estimates the incremental costs for developing countries to adapt to the projected impacts of climate change may range from \$9 billion to \$41 billion *per year*.

However, this appears to be little more than a 'back of the envelope' calculation and more work is urgently needed to agree on a sound methodology and conducting regional cost assessments.

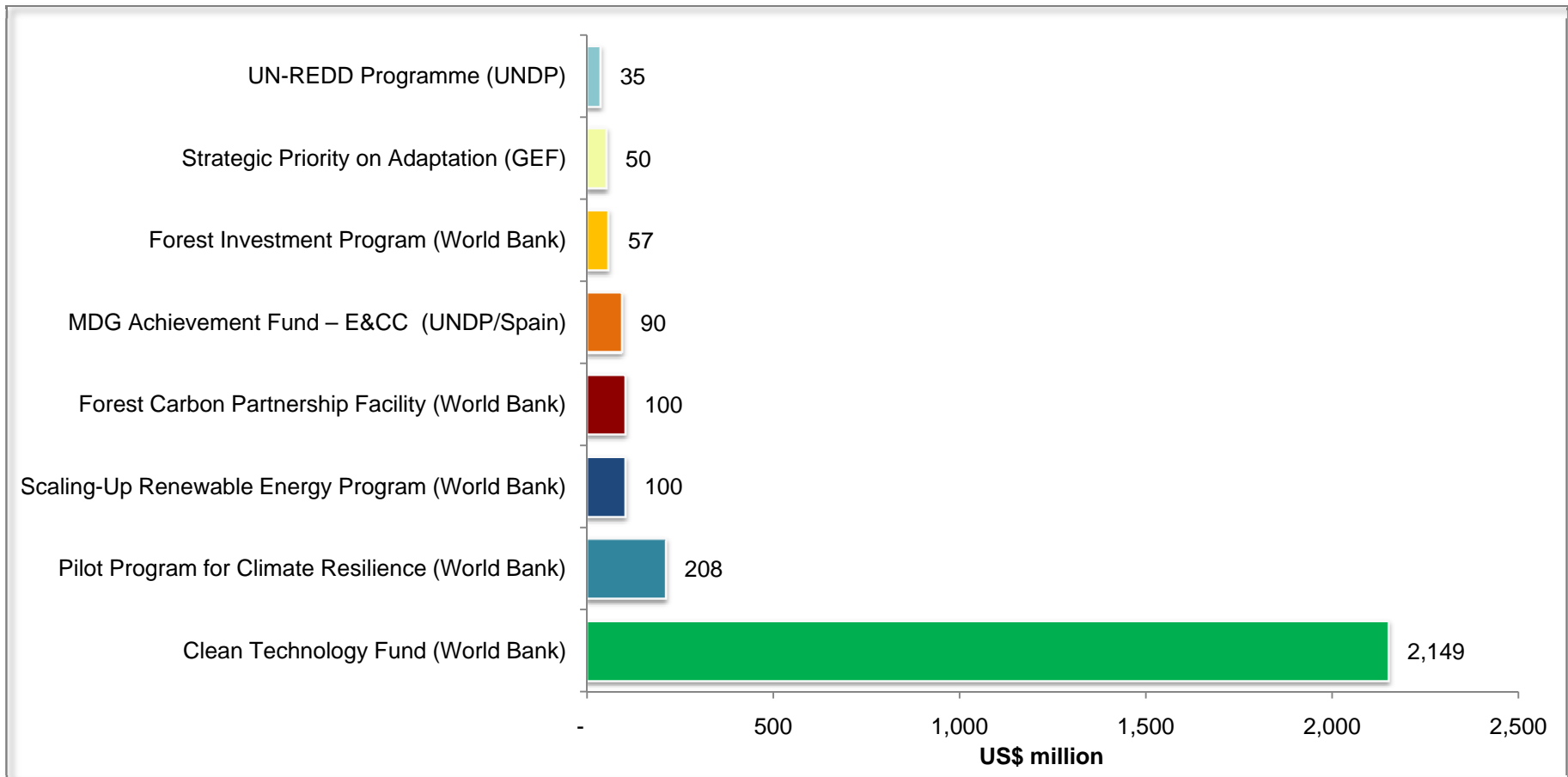
What scale of funding is being proposed?

a. Bilateral and regional initiatives – amounts pledged (US\$ million)



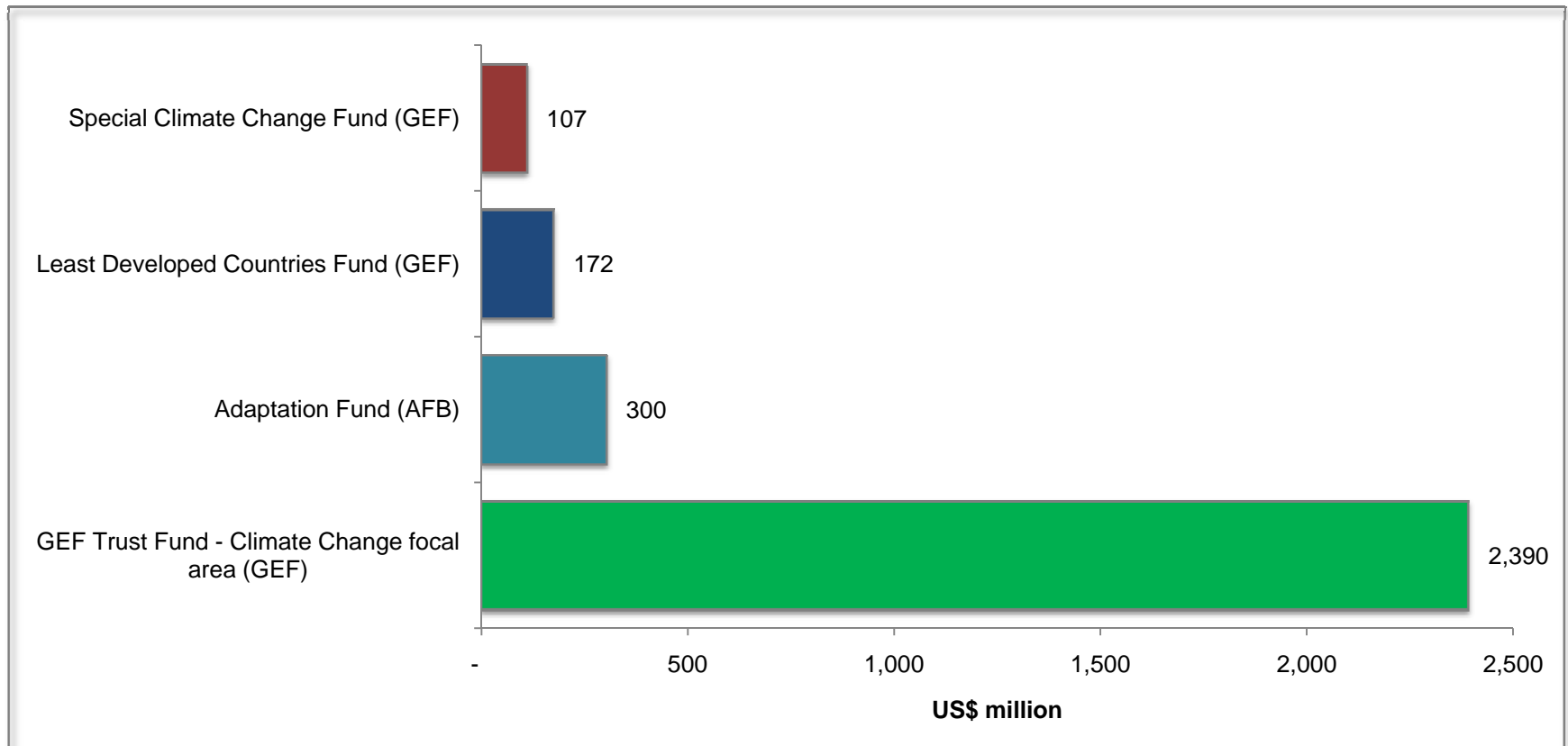
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b. Multilateral initiatives – amounts pledged (US\$ million)



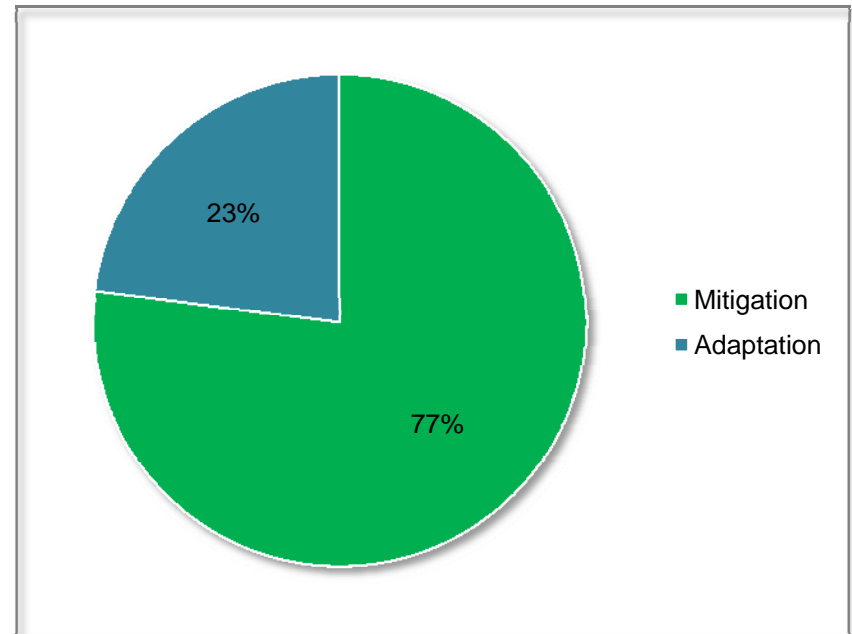
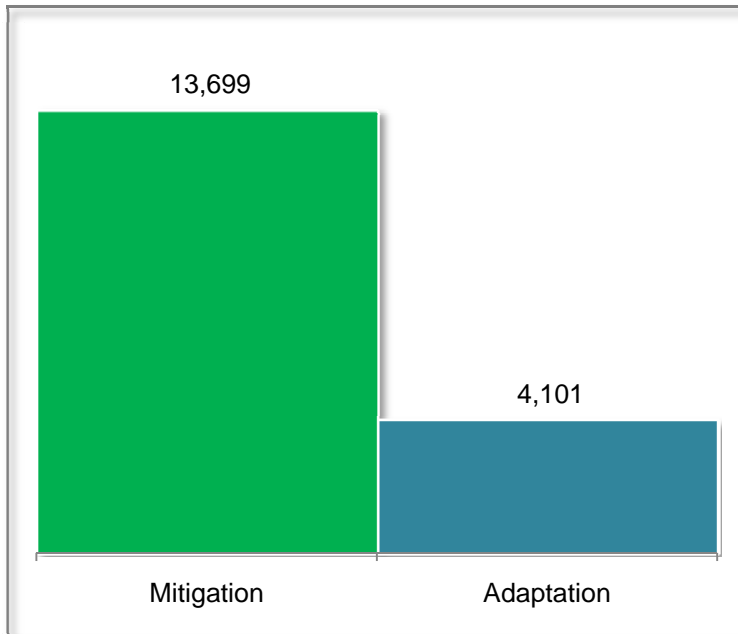
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b. Multilateral initiatives – amounts pledged (US\$ million)



What is the relationship between adaptation finance and paying for international mitigation efforts?

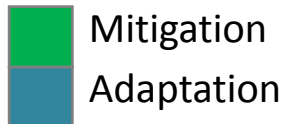
Total amount pledged by the existing financing mechanisms (bilateral and multilateral funds) (US\$ million):



How should financial assistance be delivered?

**Total amount disbursed to date:
number of adaptation projects *versus* mitigation projects**

	International Climate Initiative (Germany)		MDG Achievement Fund - E&CC (UNDP/Spain)		Strategic Priority of Adaptation (GEF)		Least Developed Countries Fund (GEF)		Special Climate Change Fund (GEF)	
Projects	78	56	7	9	0	22	0	62	0	14
US\$ millions disbursed	210	137	40	46	0	50	0	47	0	60



- Project delivery only
- Move to programmatic delivery through support for NAPAs and NAMAs?

Are these funds considered part of official development assistance?

- There are two possible starting points to the debate over financing actions to address climate change.
- The first is rooted in the longstanding relationship between donors and recipient countries, involving the voluntary transfer of financial resources between the North and South as part of the development process.
- The second proposes a new global response to human-induced climate change, in which industrialised countries should respond by applying the principle of '*common but differentiated responsibility*'.

Are these funds considered part of official development assistance?

Fund	Additional to existing ODA?
Adaptation Fund (AFB)	Yes
International Climate Initiative (Germany)	No
Global Climate Change Alliance (EU)	No
ETF - International Window (UK)	No
MDG Achievement Fund – E&CC (UNDP/Spain)	No
Clean Technology Fund (World Bank)	No
Least Developed Countries Fund (GEF)	No
Special Climate Change Fund (GEF)	No
Strategic Priority on Adaptation (GEF)	No
Special Climate Change Fund (GEF)	No

How will these funds be disbursed?

The terms of the two bilateral funds of any scale – namely the Japanese Cool Earth Partnership and the UK’s Environmental Transformation Fund – are offered largely as concessional loans. So, not only are these funds considered part of Development Assistance, but they are loans not grants, which means they will have to be repaid at some point.

	Cool Earth Partnership	ETF-IW	International Climate Initiative	GCCA	UNDP–Spain MDG Achievement Fund
How will the money from these funds be disbursed?	Loans (80%) Grant Aid (20%)	Loans (90%) Grant Aid (10%)	Grants	Grant Aid	Grant Aid



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The recent proliferation of funding initiatives represents an important statement of intent by northern countries to support global actions on climate change.

However, providing more of the same will not do – the opportunity to establish a new global accord on financing climate change is in danger of being missed.

Postscript – Three European Initiatives

The Global Climate Change Alliance of the EU (GCCA)

The GCCA will provide technical and financial support to developing countries targeting five Climate Change priority areas.

The Global Energy Efficiency & Renewable Energy Fund (GEEREF)

The GEEREF is an innovative risk capital fund that will combine public and private finance in clean energy projects. Not yet operational.

Global Climate Financing Mechanism (GCFM)

Based on the issuance of bonds, the proposed GCFM would allow early spending on priority climate-related actions. Not yet operational.