EDC2020

SEVENTH FRAMEWORK PROGRAMME

Project funded under the Socio-economic Sciences and Humanities theme

[OPINION]

European Climate and Development Financing Before Cancun

By Imme Scholz, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

Official development assistance finances climate-relevant activities in developing countries to a much larger extent than the funds under the UNFCCC. Pledges for new and additional fast start and long-term finance in the Copenhagen Accord made in December 2009 aim at increasing funding available for mitigation and adaptation activities in developing countries. Nearly 12 months later, the relationship between climate and development finance remains a controversial issue. While the overlaps and possible synergies between development-oriented and climate-related investments are largely acknowledged, concerns on the definition of newness and additionality at international level are still large. These concerns are justified, for three main reasons: first, as long as development budgets don't grow the risk increases that – under the pressure of the Copenhagen pledge – large shares of ODA are diverted from poverty reduction to emissions reduction. Second, this risk increases as long as there is no agreed definition of additionality. And third, in the absence of agreed and transparent procedures and criteria for reporting on climate funding, there is a high degree of uncertainty on how much funds were really invested in climate-related activities.

This opinion paper focuses on these three issues and analyses what Europe has to offer in order to reduce these concerns and risks and promote trust at international level.

Development budgets and climate financing

With public budgets under pressure following the financial crisis, European Development Commissioner Andris Piebalgs alerted member states on the risks of missing their joint commitments on increasing ODA to 0.51 % of GNI by 2010. The picture was bleak, indeed: in 2009, EU-27 ODA increased as a share of GNI from 0.40 % in 2008 to 0.42 %, but decreased in volume (to € 49 billion). 12 member states increased or maintained their aid volume (i.e. France, Belgium, UK), but others (Germany, Italy, Austria, Greece, even the Netherlands) cut their budgets. Forecasts for 2010 predict a collective outcome of 0.45–0.46 % of GNI, around €55 billion. But mid term prospects are not auspicious, as the Euro crisis is far from over and public budgets are unlikely to grow. In Germany, for example, the budget controlled by the Ministry of Economic Cooperation and Development (which stands for nearly 70 % of German ODA) will be reduced from € 6 billion in 2010 to € 5.6 billion in 2013. In total, the financial gap between targeted ODA for 2010 and expected ODA expenditure in 2010 amounts to nearly € 10 billion.

Compare this figure with the confirmed pledges for climate fast start finance in 2010: € 2.39 billion (France, Germany and the UK being the largest contributors). The collective EU pledge for fast start financing amounts to € 7.2 billion between 2010–12. Whether these funds are new and additional or not is different for each member state. But the overall picture is clear: in case EU member states do not make an effort for increasing their ODA, the risk of aid diversion cannot be avoided.

Definitions of additionality

What do European donors say about additionality? Here, the picture is mixed. While the UNFCCC does not exclude ODA as a legitimate source of funding, it is is necessary to distinguish it as a funding source. ODA's main objective is to promote development and welfare in developing countries, while climate financing refers to supporting developing countries in adapting to the impacts of climate change (a local benefit directly linked to development and welfare) and in mitigating greenhouse gas emissions (which has global benefits and local ones as it reduces the need for adaptation).

European donors have different approaches to additionality. All count fast start climate finance as ODA but some put forward their own definitions such as Germany which only counts expenditure above the levels of climate finance already achieved in 2009. This means that the plafond will be kept, and total climate funding will grow (albeit in the context of shrinking budgets).

The point is that the EU did not manage to agree on a harmonised definition of additionality for Cancun (it is planned for 2013 only). The European Commission, Belgium, Finland, Luxemburg and Spain either endorse or come very close to the German definition. The so-called early achievers in the EU – such as Denmark, Sweden and the Netherlands – which have ODA quotas beyond the 0.7% target each follow their own (and sometimes less clear) line. Sweden declares fast start finance to be a substantial part of ODA and the Netherlands declare it to be new and additional to ODA (at 0.8% of GNI); both provide a detailed list of activities on the Internet. Denmark only excludes its contribution to the 5th replenishment of the GEF from its fast start finance, while the UK states that »fast start commitment is drawn from the aid budget which is due to rise to 0.7% of GNI by 2013« (www.faststartfinance.org). France is the most tied up of all: although it is the largest contributor in 2010, it denies detailed information on anything, very much in contrast to its EU partners.

This situation is clearly not satisfactory, especially as EU documents prepared for Cancun do not provide country data, only in the aggregate. This is a disservice to the EU as a significant source of climate funding, and it will not help to improve trust in Cancun.

Reporting on climate funding

The procedure agreed in the DAC for measuring bilateral climate finance is highly unsatisfactory. Two independent empirical studies have shown that donors systematically tend to over report: only 25% of measures reported by donors as relevant for mitigating climate change could really be classified as such. The DAC procedure (so-called Rio Markers) is based on self-reporting by donors. Each donor defines independently which measures contribute either »principally« or »significantly« to the declared aim; there are no ex-post corrections made (i.e. in order to adjust to aborted projects). A marker for mitigation was agreed in 1998, a marker for adaptation at the end of 2009.

A way forward

In the face of these problems, the EU could embark on the following way forward:

- require member states to adopt multi-annual plans for achieving the 0.7% target, explain the role of climate finance therein, and report annually to the Commission;
- promote new financing instruments as additional sources of climate funding, as transparent reporting is easier and more adequate from the perspective of sources than of delivery (as integrated delivery makes most sense with regard to low-carbon and climate-resilient development);
- agree on a joint definition of additionality by the end of 2011, include a transition period of 3–5 years for its implementation and require member states to transparently report on climate funding on the basis of agreed criteria;
- agree on a joint definition of criteria for the Rio Markers for mitigation and adaptation by 2011.

About the author: Dr. Imme Scholz, deputy director of the German Development Institute/Deutsches Institut für Entwicklungspolitik (DIE), is a sociologist. At DIE, she was the first head of the environmental department and set up the climate change team of the institute.

EADI
Kaiser-Friedrich-Strasse 11
D-53113 Bonn

Tel.: (+49) 228.2 61 81 01
Fax: (+49) 228.2 61 81 03
www.eadi.org

www.edc2020.eu

This publication is an outcome of ongoing research in the framework of the project on European Development Co-operation to 2020 [EDC2020]. This project carries out research on three major emerging issues: new actors in international development, the linkage between energy security, democracy and development and the impact of climate change on development.

Consortium partners: European Association of Development Research and Training Institutes (EADI, Germany), Overseas Development Institute (ODI, United Kingdom), Institute of Development Studies (IDS, United Kingdom), German Development Institute (DIE, Germany), Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE, Spain), Society for International Development (SID, Netherlands).

SEVENTH FRAMEWORK PROGRAMME