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Climate finance – do developed countries keep their promise?

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Bonn, 14 May 2012. Today, the Bonn Climate Change Conference of the United Nations kicks off. It is the first formal negotiation session since the hectic Conference of the Parties (COP) in Durban last year, and is key for Parties to shape their expectations for the upcoming COP in Qatar later this year. Climate finance is one of the interesting topics.

The agenda is overloaded. Many considered 'Durban' a breakthrough, but climate change remains a problem. Global CO_2 emissions peaked in 2011. The Netherlands Environment Assessment Agency (PBL) shows that the current mitigation pledges are insufficient to keep global warming within a 'safe' 2 degrees Celsius.

All big emitters of greenhouse gasses need to step up their mitigation activities. The less mitigation, the more expensive and unfeasible adaptation becomes. Ironically, developing countries are most vulnerable to climate change, but they have not caused the problem. Countries that owe decades of economic growth to intensive use of fossil fuels need to compensate those that suffer from climate change as a result. Therefore, in the Copenhagen Accord the developed countries pledged to mobilize USD 30 billion climate finance for the period 2010-2012 and USD 100 billion per annum from 2020 onwards. These numbers are based on cost estimates of the World Bank and others. It was agreed that the money should be 'new and additional' to development aid, and it will come from public and private sources as well as 'innovative mechanisms'.

This 2010-2012 period is ending. Have developed countries kept their promise? Was 30 billion mobilized? The truth is: we do not know. We do know how much money was invested, but as I will explain in the following section, we do not know what counts as climate finance.

The good news is: global investment in renewable energy is taking off and surpassed investments in fossil fuels in 2011. Italy's *Climate Policy Centre* looked at the share that was invested in developing countries and at other sources of public and private climate finance. They estimate that climate finance in developing countries is at least USD 97 billion annually, mostly from the private sector. Optimists might say that this exceeds the pledges for the period 2010-2012. But some remarks need to be made. First of all, unlike the prescription in the Copenhagen Accord, the money is not always 'new and additional', not 'balanced' between adaptation and mitigation and not 'prioritized for the most vulnerable developing countries'. Much of the USD 97 billion investments would be done anyway; and mainly in mitigation in China and India, rather than in adaptation in Lesotho and Tuvalu. Second, the USD 97 billion constitutes total investment rather than the additional costs of climate change. Much of this investment comes as loans and equity. But is it climate finance when a Western energy company buys an African one?

The *Heinrich Böll Stiftung* and the *Overseas Development Institute* look at climate finance from a different angle. They monitor 25 special international funds that deliver climate finance to developing countries: www.climatefundsupdate.org. Their website shows that governments pledged USD 33.7 billion so far. But with only eight months to go to the end of 2012, only 2.2 billion is actually spent – or 7% of the USD 30 billion pledge. This money is 'balanced' and 'prioritized' better than the earlier mentioned USD 97 billion. But it is often labelled as development aid too, and in such cases not 'new and additional'.

The positive news is that both examples show that climate finance is increasing. But their estimates are based on completely different premises. That is problematic for all countries involved.

Clear and broadly accepted definitions are part of the solution: definitions for example on when private sector investments count as climate finance, and on when investments in adaptation and mitigation are 'balanced'.

This requires agreement at the international level. But agreement will be controversial. Some countries will win and others will lose. Basically there are two extremes. Either developed countries will have to pay less – or 'win'– when full private investment costs, for instance in renewable energy, count as climate finance. Or developing countries 'win' when the full 100 billion comes from public sources, as grants rather than loans. The compromise will be somewhere in the middle. Furthermore, neither the private nor the public sources can ensure stable and predictable funding. Therefore, the third source of finance is important: innovative mechanisms.

Innovative mechanisms can generate climate finance through taxes and levies on 'bads'. Again, any decision will be controversial. Mechanisms like financial transaction taxes and levies on international transport are being discussed for years already, but progress is slow.

The few existing examples cause turmoil. For example, the inclusion of aviation in the Emissions Trading System of the EU has a limited effect on the costs of flying. Ryanair increased ticket prices by 25 cents. But several US airlines (unsuccessfully) pursued proceedings at the European Court of Justice and China threatened to cancel contracts with Airbus. This shows how fierce the resistance against international pricing of carbon emissions still is.

With the 2010-2012 ending, and eight years to increase climate finance to 100 billion per year, many questions remain on how to organise climate finance. Apart from establishing the Green Climate Fund (Bonn is a candidate to host this huge climate fund), the Parties at the international climate negotiations need to agree on definitions and on implementing 'innovative mechanisms' in order for climate finance to be successful. At the same time, developed countries need to step up their activities individually. Germany gives a good example by using a share of the revenues of the EU ETS system for international climate finance. In this system it is not the taxpayer but the polluter that pays for climate finance in developing countries. On the long term that is the only way forward.

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