

# Hard cash could make or break Copenhagen

Financing for tackling climate change in poor countries can make or break the Copenhagen agreement. Unless poor countries see hard cash on the table, there is a real danger they will simply walk away. As EU Environment Commissioner Stavros Dimas said at the beginning of 2009, “No money, no deal”. To seal a fair and safe deal in Copenhagen, Oxfam estimates that rich countries must provide at least \$200bn per year of new and additional public money to help poor countries cope with the devastating impacts of climate change and to develop without making the problem worse. This money is not charity – it’s a legal obligation. Climate finance is about the responsibility of rich countries, who have caused the climate crisis, to support poor countries, who are least to blame but suffering first and worst from its effects. This means a clean break with the aid paradigm - cash must be additional to existing aid promises; and not subject to the political whims of rich countries, but spent according to need.

## What’s the money for?

*“The reason we’re suffering so much is we don’t have resources to cope. We’re simply demanding that rich nations meet existing commitments of financial help.” Bernarditas Muller, chief negotiator for the G77 and China grouping at UN climate talks, October 2009*

Climate finance is needed in poor countries for two purposes: to support low carbon development; and to help countries adapt to the disastrous impacts of climate change.

Money for low-carbon development (or mitigation finance) is needed to cover the incremental costs of clean development - of the extra costs of investing, for example, in a new wind farm over a new coal-fired power plant. Without additional mitigation in developing countries – over and above minimum reductions of 40% below 1990 levels by 2020 in rich countries – global emissions will not be cut enough to keep global warming danger levels.

Spending on adaptation to climate change can range according to local needs:

To cope with more severe hurricanes: upgrading early warning systems and community awareness; planting a mangrove ‘bio-shield’ along the coast to diffuse storm waves; changing building regulations for new infrastructure.

To cope with lower, more erratic rainfall: upgrading national meteorological systems and forecasts; researching, testing and growing drought-tolerant crop varieties; installing efficient, low-cost irrigation systems; installing rain-water harvesting systems; spreading water-conserving farming practices.

To cope with increased flooding: upgrading national flood early warning systems and raising community awareness; building new homes and schools on raised foundations; building high platforms for emergency flood shelter; integrating flood risks into governmental planning and budget processes; creating a community-based action plan for responding to floods.

In Bangladesh, following the disastrous 2004 floods, which affected 600,000 people and forced thousands from over 100 villages to be displaced, Oxfam has helped people prepare for the yearly floods. For example, it has helped build flood shelters where people can bring their

livestock, possessions, and even their homes. Oxfam has also supported the set up and running of disaster preparedness committees that help people before, during, and after a flood.

## How much is needed?

*"We have set a minimum figure beyond which we will not go... If needs be we are prepared to walk out of any negotiations that threaten to be another rape of our continent." Ethiopian Prime Minister Meles Zenawi, speaking on behalf of the African Union*

Estimates of total climate finance needs vary, but the scale is only increasing as more robust research is conducted. A September 2009 report by the World Bank concluded that on average between \$75bn and \$100bn is needed every year from 2010-2050 for adaptation alone (assuming global warming can be kept to 2°C). At present, Oxfam estimates that at least US\$100bn per year is needed for mitigation and \$100bn per year for adaptation in poor countries by 2020.

Rich countries should pay their fair share of the total climate finance needs according to their responsibility for causing the climate crisis (historic and ongoing emissions), and their financial capacity to tackle it (GDP). Oxfam calculates this would mean an annual contribution from each of the EU and the USA in the order of \$50bn; Australia of \$3.5bn; Japan of \$14.6bn; and Canada of \$5.3bn.

A big issue in Copenhagen will be "fast start" finance – money provided immediately from 2010-2012, before the Copenhagen regime begins – to address urgent adaptation needs and kick-start clean development. The EU and Commonwealth countries have proposed approximately \$10bn per year for this period. While this may be a good first step, rich countries need to increase the ambition of short-term finance given that Oxfam has estimated the costs of meeting the immediate adaptation needs of developing countries to be at least \$50bn per year. This money is needed but mustn't distract from the obligation of rich countries to commit in Copenhagen to adequate, long-term, predictable financial support for poor countries.

## New and additional, or nothing

*"Climate finance must be additional to existing aid commitments of 0.7% national income by developed countries." Prime Minister Hasina Wajed of Bangladesh, European Development Days, October 2009*

Climate finance must be new money, not simply old pledges on development aid re-branded to meet new obligations on climate change. This means climate finance must be additional to the existing commitment made by rich countries to spend 0.7% of their national income as aid. This goal was first agreed as a UN resolution back in 1970 but current flows average only 0.3 percent.

In a recent report, 'Beyond Aid,' Oxfam warned that at least 75 million fewer children are likely to attend school and 8.6 million fewer people could have access to HIV/AIDS treatment if aid is diverted to help poor countries tackle climate change. Without new money, recent progress toward the Millennium Development Goals could stall and then go into reverse.

## Why the carbon market doesn't count

Climate finance must be public money from governments in rich countries for governments in poor countries. Some rich countries suggest that the "carbon market" will provide all the money for tackling climate finance in poor countries so they don't have to. This is a myth.

There is not one single "carbon market", but rather a few specific market-based instruments for tackling climate change. Most involve financial transactions either between rich country governments, or between companies in rich countries. The only one which involves financial transactions between rich and poor countries is the Clean Development Mechanism (CDM).

The CDM is an arrangement under the Kyoto Protocol which allows industrialised countries to invest in low-carbon projects in developing countries, as an alternative to more expensive emission cuts in their own countries. The investments buy credits which represent the carbon emissions saved compared to what would have happened without this finance. The credits are known as “offsets”, because they are supposed to “offset” ongoing increases in rich country emissions. The scheme was expanded in the EU to allow European companies to meet the reduction targets set by the EU Emissions Trading Scheme in the same way.

The total amount of finance from rich countries and European companies to companies selling offset credits in developing countries is quite high – approximately \$18bn from 2001 to 2012. But this money cannot be counted towards the climate finance obligations of rich countries because the carbon saved is already counted towards rich country mitigation targets. Climate finance for mitigation is needed to fund additional emissions cuts in poor countries. Counting CDM money as climate finance is called “double-counting”.

Furthermore, there are numerous criticisms of the CDM, which has failed to direct any significant investment to the poorest countries in the world, and caused serious social and environmental concerns in local communities.

## **Where should this money come from?**

\$200bn per year to tackle climate change is entirely affordable. It is less than the annual subsidies provided as agricultural produce support by rich countries (more than \$250bn a year), and it pales into insignificance compared to the costs of inaction on climate change. The International Energy Agency recently estimated an extra \$500bn is needed for each year significant action on cutting emissions is delayed.

But relying on simple pledges by rich countries is not enough. There are no guarantees that rich countries will keep their promises and a lot of evidence that they will break them. So far less than half of pledged amounts have been received, and only 15 per cent have been disbursed. Perhaps the most notorious example of empty pledges is that of the National Adaptation Programmes of Action (NAPAs), produced by Least Developed Countries to access funding for their urgent and immediate adaptation needs. They are still waiting for the money to appear.

The picture is just as stark when bilateral channels are included. At the start of 2009, rich countries had pledged \$18bn in one-off amounts, but less than \$1bn had been delivered. The USA plans to invest 15 times as much as that on flood defences in Louisiana and other low-lying coastal areas following Hurricane Katrina.

Climate finance flows must be reliable and predictable so that poor countries can put in place long term plans for mitigation and adaptation action. The three most promising sources of reliable climate finance under discussion in Copenhagen are:

- 1. Addressing emissions from international aviation and shipping (“bunkers”).** A levy or tax on aviation and shipping fuel or the earmarking of revenues raised by auctioning emissions allowances in a new emission trading scheme for aviation and shipping. Up to \$30bn per year could be raised in this way

- 2. Earmarking revenues from domestic emissions trading schemes (ETS)** such as the region wide European Emissions Trading Scheme. Many rich countries will soon benefit from a new source of finance as emission allowances are auctioned to polluting industries in domestic cap and trade schemes. The EU ETS, for example, is expected to generate up to \$75bn (€50bn) per year in this way by 2020.

- 3. Selling, auctioning or levying a percentage of international emission allowances.** Assigned Amount Units (AAUs) are currently given away to countries for free under the Kyoto Protocol. The sale, auction or levy of a percentage of AAUs – as proposed by Norway – could raise up to \$200bn per year, guaranteeing sufficient sums will flow to poor countries outside of annual national budgetary decisions.

## How should the money be governed?

Poor countries are concerned not only about the scale and reliability of the finance they will receive, but also about how it is managed. Oxfam and poor countries are calling for a new fund, under the United Nations climate convention (UNFCCC), which can guarantee money will flow according to need, not the political preferences of rich countries. Such a fund must have fair representation for poor countries, and ensure total transparency in the management of resources.

Rich countries favour the use of existing institutions such as the World Bank, which they control, to manage the funds. A complex web of existing institutions means huge transaction costs for developing countries, which must jump through a different set of hoops for each channel in order to first access funds and then to monitor and report on how they are spent.

## State of play in the negotiations on finance

Rich, or so-called Annex I countries, have had legal obligations since the 1992 UN climate convention to provide climate finance to developing countries. But so far, the actual amount paid by rich countries is a pittance – a few hundred million US dollars per year at best. Little progress has been made in negotiations ahead of Copenhagen.

Developing countries have called for rich countries to provide 0.5 - 1% of their GDP (up to \$500bn) in new public money per year.

So far, the EU is the only rich country or bloc to put any concrete numbers on the table for the scale of finance needed in Copenhagen, indicating a range of €22 – 50bn (\$33 – 75bn) per year by 2020 is needed (far short of the amounts Oxfam and developing countries say is needed).

A few rich countries, in particular EU member states like the UK, Netherlands and Denmark, have championed the need for all finance to be additional to existing aid promises, but this is not yet agreed by the EU as a whole – and has been actively blocked by Germany. The US has supported a new global fund, but like other rich countries, wants this based on existing institutions like the World Bank. It recently emerged that \$10bn Japan has offered for fast-start finance in Copenhagen consists entirely of past promises on aid.

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