

Contact

Jan Kowalzig
jkowalzig@oxfam.de
+49-30-453069-54

Selling Old Wine in New Skins

Chancellor Merkel's Copenhagen Promise:

€1.26bn in Fast Start Finance 2010-2012 for poor countries

Already in 2010 the German government provided only €70m in „fresh” money to fulfil its €1.26bn fast start climate finance pledge made in Copenhagen, to support mitigation and adaptation in poor countries. This amount is provided through two specialised budget lines that now have been cut to zero for the 2011 budget. Yet it would be crucial for trust building to provide substantially more new and additional resources, to meet the pledge from the *Copenhagen Accord*. What's worse, the German government is now planning to count the full loan volumes for the World Bank's CIFs rather than, as planned initially, only the grant element i.e. the actual contributions from the German federal budget, to make such loans concessional. On the positive side, the government is now planning to provide new (i.e. not previously pledged) resources to the LDCF and the SCCF, two UNFCCC funds to support adaptation and mitigation in developing countries.

Oxfam critique at a glance

1. The government will count all resources towards its 0.7% ODA target. Yet climate change is an additional burden to poor countries that require additional commitments and resources.
2. Of the promised €1.26bn, only €152m are “fresh” money. All other resources to meet the Copenhagen promise had been pledged before Copenhagen, in some cases years ago. Two fast start budget lines introduced after Copenhagen have now been scrapped from the federal budget 2011.
3. Regarding the World Bank's *Climate Investment Funds* the government is counting the full loan volumes (that poor countries will have to pay back) for the World Bank's CIFs rather than only the grant element i.e. the actual contributions from the federal budget, to make these loans concessional.

One of the few positive results of the Copenhagen UN climate summit is the commitment by rich countries under the *Copenhagen Accord* to provide \$30bn over the years 2010-2012 as new and additional fast start finance to support adaptation and mitigation in poor countries.¹ German Chancellor Merkel promised a German share of €1.26bn over the three years (on average €420m per year). At least one third of this amount is to be reserved for adaptation, roughly another third for energy related mitigation and the last third for reducing emissions from deforestation (REDD), for which the government recently affirmed a €350m share of the total €1.26bn pledge. In January 2010, German development minister Dirk Niebel claimed that Germany's contribution would be ‘fresh’ money: “These resources will be new and additional and will not be offset against other measures, for instance for poverty reduction measures.”²

At best €152m is “fresh” money. For the rest, old promises have been recycled

The government considers all these amounts as *new and additional*, arguing that the amounts either constitute an increase over 2009 or stem from innovative sources (namely revenues from auctioning permits under the EU emission trading system that finances the German *International Climate Initiative*). In reality, €152m (i.e. 12%) of the total pledge can reasonably be labelled “fresh” money. The remaining

amounts have been committed, pledged elsewhere, or planned before, sometimes years ago, even if some of it has become relevant for the federal budget only now (which is the reason why the government can now claim the resources to be an increase over the 2009 budget). Current planning for the federal budget lists titles relevant for fast start finance reaching a total of just above one billion Euro. The gap to the €1.26bn pledge will be met by counting the full loan volumes (that poor countries will have to pay back) Germany is providing to the World Bank's CIFs, rather than counting only the actual contributions from the German federal budget, to make these loans concessional.

Table 1: Resources to be counted towards Merkel's Copenhagen promise (in million €)

Purpose	Budget Title	Fast Start per year			Period 2010-2012		Additional?	When pledged or budgeted?
		2010	2011	2012	Counted towards pledge	Of which additional		
Kyoto Adaptation Fund	1602 687 05	10 m€ ^a	-	-	10 m€	10 m€	✓	2010, appears in federal budget 2010
Forest Carbon Partnership Facility (FCPF) ^b	2302 896 09	20 m€	9 m€	14 m€	57 m€	14 m€	○	2007, UN climate summit; 2008, UN biodiversity summit
	1602 687 05	10 m€ ^a	-	-				
	2302 687 05	4 m€ ^a	-	-				
Clean Technology Fund (CTF), World Bank CIFs ^c	2302 896 09	125m€ ^g (66 m€)	125m€ ^g (63 m€)	125m€ ^g (58 m€)	375 m€ (187 m€)	-	✗	2008, G8 summit in Tokayo (Japan)
Pilot Program for Climate Resilience (PPCR), World Bank CIFs ^c	2302 896 09	9 m€	12 m€	17 m€	38 m€	-	✗	2008, G8 summit in Tokayo (Japan)
Contributions to LDCF and SCCF ^d	2302 896 09	-	68 m€	15 m€	82 m€	82 m€	✓	2003-2008, some new money 2011
International Climate Initiative (ICI) ^e	1602 896 05	110 m€	110 m€	110 m€	330 m€	-	✗	2007, appears in federal budget 2008
Multi- and bilateral measures ENV ministry "Climate Action in Developing Countries"	1602 687 05	15 m€ ^a	-	-	15 m€	15 m€	✓	2010, appears in federal budget 2010
Bilateral measures DEV ministry "Climate Action in Developing Countries"	2302 687 05	31 m€ ^a	-	-	31 m€	31 m€	✓	2010, appears in federal budget 2010
Biodiversity / REDD (through bilateral FA/TA) ^f	2302 866 01, 2302 896 03	-	109 m€	190 m€	299 m€	-	✗	2008, UN COP9 biodiversity summit
Other bilateral Financial & Technical Assistance (FA/TA)	2302 866 01, 2302 896 03	23 m€	unklar	unklar	unklar	unklar	○	N/A
Sums of resources provided in federal budget for individual years and three year totals		357 m€ (298 m€)	433 m€ (371 m€)	471 m€ (404 m€)	1261 m€ (1073 m€)	152 m€		

The amounts are the *increases* over the 2009 budget, the key government's criterion for additionality, except for the ICI, where the government does not use this criterion. The spending under each title may be larger than given here, but the table shows what is counted towards Germany's fast start finance pledge.

^a These resources are from the two new budget titles introduced after Copenhagen but now cut back to zero for 2011.

^b Resources for the FCPF derive from various channels (including the two 2010 fast start titles in the ENV and DEV ministries). Most of it is also double-counted towards the biodiversity pledge made in 2008 (€500m until 2012) and also a pledge towards the FCPF made back in 2007 (€40m). The contribution in 2012 is not confirmed.

^c The budget plans list €75m each year for both the PPCR and CTF. For the PPCR, the government counts its actual contributions to the funds (in total €50m over 2009-2013). For the CTF however the government counts the full loan volumes (that poor countries will have to pay back) rather than only the grant element i.e. the subsidy to make these loans concessional. The €375m represent the 2010-2012 share of the €500m total loan volume channelled through the German development Bank KfW.

^d Over the period 2010-2012, €114m will be channelled to the LDCF and the SCCF. Even if a proportion of these funds are fulfilling some of the older pledges to these funds, the amount that the government counts towards its fast start pledge is indeed additional.

^e The budget shows €120m per year, but only €110m per year are being counted towards then pledge as the remaining €10m are earmarked for EITs.

^f In 2008 chancellor Merkel had promised €500m until 2012 at the CBD COP9, for forest protection and biodiversity. Amounts given here (plus most of the amounts reserved for the FCPF) are being counted ('recycled') towards this pledge.

^g The loan volumes are listed here, €125m per year (in brackets are the actual contributions from the federal budget).

German fast start resources are disbursed as follows:

1. **Kyoto Adaptation Fund:** So far, Spain (€45m), Sweden (€11m), Luxembourg (€11m) and now also Germany (€10m) have announced to directly contribute to the Adaptation Fund using their fast start resources. In Germany, the money derives from one of the two fast start budget titles '*Climate Action in Developing Countries*' that were introduced after Copenhagen (and cut back to zero after only one year). *New money.*
2. **Forest Carbon Partnership Facility (FCPF) of the World Bank:** In 2007 the German government made a pledge over €40m for the FCPF. Until end 2011, a total of €54m are to be contributed. €43m of this sum will be counted towards the Copenhagen pledge. There are (unconfirmed) plans for another €14m contribution in 2012. With the exception of €10m, all FCPF contributions will also be counted towards the biodiversity pledge made by chancellor Angela Merkel back in 2008 (€500m over 2009-2012), i.e. yet another case of double counting. **Partially new money.**
3. **Clean Technology Fund (CTF) and Pilot Program on Climate Resilience (PPCR):** Germany's actual contributions to the World Bank's *Climate Investment Funds* (CIFs) will amount to €303m for the period 2009-2013. Since 2010 this translates into an annual €75m in the federal budget over 2010-2012, with finance meant for both the CTF and the PPCR (see table). The pledge was made back in 2008, but the government considers the money as new and additional. The resources for the CTF were handed over to the German development bank KfW that created a loan package (attracting private capital market) and sent a loan package worth €500m to the CTF over the period 2009-2013. For the PPCR only the actual contributions are counted towards German fast start finance pledge. For the CTF, the government is counting the 2010-2012 proportion of the €500m loan volume rather than, as planned initially, only the grant element i.e. the actual contributions from the German federal budget to make the loans concessional. With this clever accounting method, the amounts have been doubled, allowing the government to eliminate the two only additional budget lines it had originally introduced in 2010 (see next item). *Not new money.*
4. **Contributions to the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF):** Through the years 2003 to 2008 the German government has made several pledges to these two funds. New pledges were made post-Copenhagen, in 2010 and 2011. In total, the pledges add up to €175m. €60m had been delivered in the years before Copenhagen; over the period 2010-2012, €114m will be channelled to the LDCF and the SCCF. Even if a proportion of these funds are fulfilling some of the older pledges to these funds, the amount that the government counts towards its fast start pledge is indeed new. *New money.*
5. **The International Climate Initiative (ICI):** The ICI has been set up in 2008 to support mitigation and adaptation in poor countries. It is financed through auctioning revenues from the European Emissions Trading System. Of the €120m per year earmarked for the ICI, €110m are to be counted towards the German fast start pledge. The government considers this money new and additional arguing that it is generated from innovative sources (auctioning pollution permits). However, the ICI has been conceived as early as 2007 and has received money since 2008. *Not new money.*
6. **Multi- and bilateral measures under new budget titles for the Environment and Development Ministries '*Climate Action in Developing Countries*':** In March 2010, i.e. post-Copenhagen, the German parliament introduced two new budget titles in the federal budget, one for the Environment Ministry, the other one for the Development Ministry. Both were equipped with €35m each. Amounts given here are what is being spent for multi- and bilateral measures. However, for 2011 and 2012, these two budget lines are now to be deleted from the federal budget. *New money.*
7. **Biodiversity / REDD:** Back in 2008, German chancellor Angela Merkel promised €500m until 2012 for forest and biodiversity protection in developing countries. Now these resources are to be recycled for Reducing Emissions from Deforestation and Forest Degradation (REDD) and hence count towards the German fast start finance pledge. Because so far the original pledge became budget

relevant only now (i.e. there is an increase over 2009 budget), the government considers these resources as new and additional. *Not new money.*

8. **Other bilateral financial and technical assistance:** In 2010 the government considers €23m of its traditional bilateral and technical assistance resources as new and additional climate related spending. While there is no pledge to compare this against, Germany is lagging far behind to meet its ODA interim target of 0.51 per cent GNI. *Newness unclear.*

The issue of old or new money is overshadowed by the problem that the German government is counting all resources towards the 40 year old pledge to provide 0.7% of the German GNI as official development assistance (ODA). Climate change, however, poses an additional burden to developing countries. If now climate finance is counted towards the ODA target, this automatically reduces finance available for other poverty related spending such as health or education in poor countries. This is even more problematic since Germany is far off track to meet the 0.7% GNI ODA target. Principally, climate finance for mitigation is not aid at all but part of Germany's fair share to the global mitigation effort needed to avoid the worst of climate change. Climate finance for adaptation, in turn, isn't aid either, but rather a form of compensation for future climate damages (or, compensation for the effort needed to avoid such impacts through adaptation).

Next steps in German fast start finance

When analysing the failure of the Copenhagen summit, it is often argued that the European Union had marginalised itself early on during the talks for two reasons. On being its reluctance to increase its unilateral target of 20% emission reductions by 2020 to 30% reductions (compared to 1990 levels). The other reason might have been that the EU failed to use its relatively (compared to other Annex 1 countries) progressive thinking on climate finance to forge strong alliances with developing countries, especially the most vulnerable countries. Both mistakes should be corrected as a matter of urgency to rebuild trust to poor countries for the upcoming UN negotiations. Regarding Germany's fast start finance pledge, the following steps should be undertaken:

- **Absolutely crucial: More fresh resources!** The two budget titles introduced in 2010 with €35m each are the only titles that contain truly new money. Deleting these titles for 2011 and 2012 after just one year is probably the worst possible signal the government can send to developing countries. Instead, these titles should not only be maintained but gradually increased over the years and evolve into the central budget lines for Germany's climate finance also in the long term. Only such a long term perspective for climate finance would allow effective and efficient spending. To increase acceptance, both in the government and the parliament but also the general public, the government should urgently abandon the perspective of "cost" or "burden" and start to regard climate finance as crucial investments into our common future, to meet the global challenges of several interrelated crises, such as the financial and economic crisis, the hunger crisis and climate change..
- **No accounting tricks when providing resources for the *Climate Investment Funds*:** It is highly dubious to count the full loan volume (see above) rather than the actual German contributions to the World Bank's CIFs. The loans are repayable by poor countries and hence the loan portion of these funds cannot be considered a contribution by Germany. Only the grant element should be counted and then assessed for additionality.
- **More transparency:** The government would be well advised to ensure the provision of fast start finance is reported on transparently and based on common standards regarding newness and additionality. In particular the German government should communicate what resources are contained in its fast start finance pledge and when these resources have been pledged before. Germany should ensure common reporting standards across the EU and, at a later stage, internationally.
- **More resources to the Kyoto Adaptation Fund:** the €10m that were allocated to the Adaptation Fund have been welcomed by poor countries as an important first (albeit tiny) step to regain trust.

The government should make such contributions on an annual basis and increase the amount gradually.

- **Effective use of fast start finance for adaptation:** The German government has announced that at least a third of its fast start finance would be allocated for adaptation. Such finance should be prioritised to meet the adaptation needs of the poorest and most vulnerable countries. When implementing adaptation on the ground, the most vulnerable communities, populations and people should be prioritised, especially smallholder farmers and in particular the needs of women farmers given their central role in ensuring food security in poor countries. Also fast start finance for adaptation should be used to improve understanding of climate impacts in poor countries, generate and collect data and assess vulnerabilities and establish new or enhance existing participatory and transparent adaptation planning and implementation mechanisms and processes on all levels.
- **Fast start finance for mitigation:** Fast start finance for Mitigation should be used to support the development of comprehensive mitigation strategies in developing countries that are well integrated into their development and poverty reduction strategies. Also, measures related to renewable energies and energy efficiencies that contribute to improve energy access for the poor should be supported. Other areas for support could be to support political measures such as introducing feed in tariffs for renewable energies that create benefits for development and poverty reduction objectives. The promise to provide €350m for forest protection in poor countries over the next 3 years should now be implemented swiftly, however these resources should be provided in addition to the German fast start finance, not as part of it, given the non-additionality of the 2008 biodiversity/forest pledge.
- **Bridge to long term climate finance:** Fast start finance should also be used to strengthen institutional processes and mechanisms in poor countries to prepare these countries for greater influx of climate finance in the mid- and long-term. As part of a fair global climate regime, based on responsibilities for causing climate change and capacity to pay, developed countries should increase financial support for mitigation and adaptation to reach \$200bn per year. To generate these amounts, developed countries should agree to introduce a financial transaction tax (which would also reduce speculation and provide additional revenues for national budgets), and a levy or emission trading system to generate additional revenues from international air and maritime transport.

¹ Paragraph 8 of the *Copenhagen Accord*: „The collective commitment by developed countries is to provide *new and additional* resources, including forestry and investments through international institutions, approaching USD 30 billion for the period 2010–2012 with balanced allocation between adaptation and mitigation.“ (emphasis added)

² „Diese Mittel werden neu und zusätzlich sein und nicht mit anderen Entwicklungsmaßnahmen, zum Beispiel für die Armutsbekämpfung, verrechnet.“, see http://www.bmz.de/de/presse/nl/newsletter_2010_01/index.html, last accessed by author 10 May 2010.