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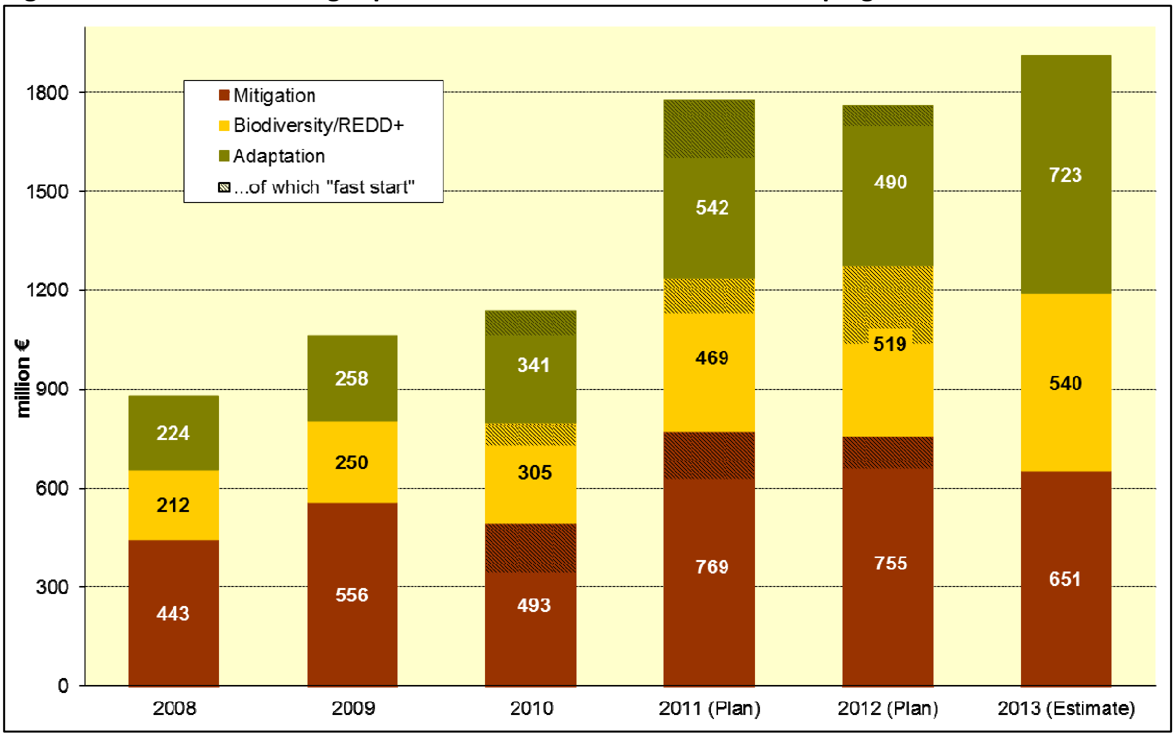
Contact: Jan Kowalzig
jkowalzig@oxfam.de
+49-30-453069-54

German Climate Support for Poor Countries: An Overview

The German contribution to international climate finance[1] for 2008-2013

Two important commitments by industrialised countries end of 2009 saved the Copenhagen UN climate summit from complete failure: Firstly, developed countries pledged 30 billion USD in new and additional fast start finance to help developing countries to reduce emissions and adapt to the impacts of climate change. Chancellor Angela Merkel announced 1.26 billion Euros as the German contribution to the overall pledge. Secondly, industrialised countries committed to mobilise long-term climate finance to reach 100 billion USD per year by 2020. Whilst this amount is decidedly too low for fair sharing of globally needed mitigation efforts and for adequate support to help poor and vulnerable countries to adapt to climate change, this commitment nonetheless represents an important political milestone.

Fig. 1: German federal budget provisions for climate-related developing finance



The numbers shown here are the sum of bilateral commitments plus transfers to multilateral climate funds in a given year. The official government numbers for the years 2010-2013 for mitigation are 60-75 million Euros higher, because, in the case of the *Climate Investment Funds* of the World Bank, the federal government does not count the actual contributions from the federal budget but the leveraged loans at face value. The numbers for 2011 and 2012 are target numbers by the BMZ. The number for 2013 is an (optimistic) estimate by Oxfam based on the government plans for the 2013 budget. Numbers given represent finance available for climate-relevant programmes, which is not necessarily the same as climate finance in a strict definition. See also main text. *Sources: BMZ 2011 und BMZ 2012a.*

[1] The term “international climate finance” refers to financial support provided to poor countries for their efforts to reduce greenhouse gas emissions as well as adapting to climate change impacts. This support is derived from the commitments industrialised countries have under the UN framework convention on climate change (UNFCCC) as well as the promises made by industrialised countries in the context of the UN climate negotiations.

Also Germany has the obligation to contribute adequately to the overall promises made by developed countries. Over the past years, German support for climate-related measures (within development co-operation) has been increasing, not least due to the *fast start* funding commitment by the German government, as illustrated in Fig. 1.[2] The remarkable increase in 2011 is due to the new "*Energy and Climate Fund"* (ECF) that received almost all German revenues from auctioning carbon permits under the EU Emission Trading Scheme and that includes a title for international climate finance. While substantial amounts of actual revenues will be received only from 2013 (when some sectors no longer receive carbon permits for free), forward budget authorisations within the ECF allowed an increase of bilateral commitments already in 2011. From our assessment, funding levels have decreased slightly in 2012, mostly because of the low price for carbon permits in the EU. But in 2013, we might see another modest increase.

At first sight, the numbers in Fig. 1 seem remarkable. But it is important to keep in mind that *climate finance* as a commitment by industrialised countries under Article 4 of the Climate Convention is not necessarily the same as *climate-related (development) finance*, which is what this paper analyses. In particular, bilateral climate-related activities financed through the Development Ministry's budget usually do not exclusively target climate change, but often pursue several (development-related) goals simultaneously. German contributions to multilateral climate funds, finance channelled through the *International Climate Initiative* (ICI) of the Environment Ministry as well as bilateral funds of the "*Energy and Climate Fund*" will usually have a clearer

German Climate Finance in 2013

The German contribution to international climate finance mainly consists of funding from the federal budget's *Einzelplan 16*, the *Einzelplan 23* as well as the "*Energy and Climate Fund*" (ECF) .[3] According to the plans by the German government for 2013, Germany might be able to provide almost 1.9 billion Euros in climate-related bilateral funding commitments as well as contributions to multilateral climate funds (see *BMZ 2012a* and *Bundesregierung 2012*).

The most important programs in 2013 will be the "***International Climate Initiative***" (ICI) through which the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) as in previous years intends to spend 120 million Euros; the "***Initiative for Climate and the Environment***" (*Initiative für Klima und Umweltschutz*, IKLU), for which the KfW is to receive approx. 250 million Euros, as well as close to another 890 million Euros for ***bilateral financial and technical cooperation,*** which the German Federal Ministry for Economic Cooperation and Development (BMZ) will dedicate to emission reductions, protection of tropical forests (because of their important role as natural carbon sinks) as well as adaptation to climate impacts (in particular measures in the agriculture and water sectors). Additionally, in 2013 multilateral climate funds are to receive nearly 200 Mio. Euros, including the World Bank *Clean Technology Fund*, the *Least Developed Countries Fund* and the *Global Environment Facility*.

In 2013 it is planned that an additional 480 million Euros will be made available (in the form a budget authorisation) for further bilateral action via the international budget title of the "***Energy and Climate Fund****" (ECF)* including most likely close to 140 million Euros for the "***German Climate Technology Initiative"*** (*Deutsche Klimatechnologieinitiative*, DKTI). This same budget authorisation also contains a further 750 million Euros for a pledge to the Green Climate Fund (GCF). In 2013, only about 18 million Euros are envisaged for the GCF in actual payments

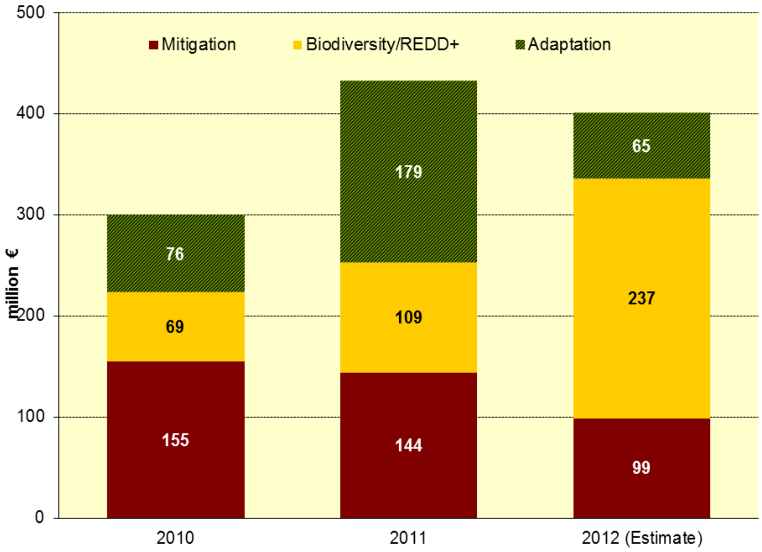
The positive development is that funding levels in 2013 might increase compared to levels in 2011-2012, though not enough for Germany to make good progress towards its fair share of the 100 billion promise. Also, not enough funds are provided for adaptation measures (see Fig. 1). 750 million Euros for the *Green Climate Fund* are considerable, but this amount would be spread out over the next eight years. What is also disappointing is that the German government does not intend to provide more funding in 2013 for the Kyoto Protocol Adaptation Fund, despite the fund working well by now.

Note the 2013 figures presented in this paper (1.9 billion in 2013 and 1.8 billion Euros in 2012) differ from what the government has announced at the UN climate talks COP18 in Doha (1.8 billion in 2013, up from 1.4 billion Euros in 2012). This is so because, in the case of bilateral finance, this paper looks at commitments (with disbursements happening in subsequent years) as has been the practice by the government so far as well. The Doha announcement constitutes a change because it refers to expected actual disbursement during 2013 (stemming to a large extent from previous commitments). The sizeable increase in disbursements by 400 million Euros between 2012 and 2013 is matched by a similarly large increase in commitments between 2010 and 2011 (see Fig. 1).

[2] Whilst the German *fast start finance pledge* of 1.26 billion Euros for 2010-2012 will be fulfilled nominally, about 80 per cent of available finance are either used to in parallel fulfil other international commitments or had already been in the budget planning pipeline prior to Copenhagen (when the fast start finance pledge was made). Thus, most of Germany's fast start finance are thus not truly "fresh" money. See Oxfam 2011a.

[3] *Einzelplan 16* is the budget of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety; *Einzelplan 23* is the budget of the German Federal Ministry for Economic Cooperation and Development (BMZ). The "*Energy and Climate Fund*" (ECF) is a relatively new special asset of the federal government, which receives funding through the auctioning of emission rights of the emissions trading regime and which includes a title for international climate finance.

Fig. 2: German fast start finances 2010-2012 per area



Note these figures show the actual amounts from the federal budget. The German federal government reports higher numbers for mitigation, because it counts the face value of the loan provided by the KfW to the World Bank *Climate Investment Funds*. Hence the discrepancy between official government numbers and the ones depicted here. *Source: BMZ 2012b.*

(though never exclusive) focus on climate change.

Three fundamental problems accompany the increase in funds: *Firstly*, too few funds are available for adaptation to climate change. *Secondly*, there is no clarity as to the future direction German climate finance will be taking. *Thirdly*, the current increase is taking place within a projected mid-term trend of decreasing overall development assistance, and is not additional to it.

Problem 1: Too little funding for adaptation

According to the agreements from Copenhagen as well as Cancún climate finance should be balanced between mitigation and adaptation to impacts from climate change. However, between 2008 and 2012 the German government is providing merely one quarter of its funding to adaptation measures in poor countries; the majority of funding is given to measures to reduce greenhouse gas emissions and protect tropical forests (the latter though often contains adaptation components). This imbalance also holds true for fast start finance (Fig. 2). According to drafts for the federal budget for 2013, next year might bring an improvement here.

This skewed situation means that too few investments are made into areas such as securing food production or reducing water scarcity. On the one hand, that imbalance is probably at least to some extent due to the lack of demand by partner countries within bilateral development co-operation. On the other hand, mitigation measures are particularly attractive for the German government, because unlike adaptation measures they can be funded through the provision of concessional loans. Through providing such loans, comparatively few resources from the federal budget are able to leverage substantially higher flows. For example the *Initiative for Climate and the Environment* (*Initiative für Klima und Umweltschutz*, IKLU), created in 2008 and run by the KfW, has a leverage factor of 5.5 (2011) to 6.5 (2010). Since a country may count the face values of concessional loans toward as ODA, countries are able to increase their ODA quota considerably in the short-term with a small amount of finance from its budget[4]. In the long-run, however, paybacks from loans will be deducted from their ODA quota.

Similarly other industrialised countries provide funding chiefly for mitigation: Less than one quarter of the 30 billion USD committed to in Copenhagen for 2010-2012 is spent on adaptation (Oxfam 2012b). This puts those poor and vulnerable countries into a difficult situation as due to their strong vulnerability they have to prioritise adaptation to looming climate damages over mitigation.

Problem 2: Lack of clarity over German climate finance after 2012

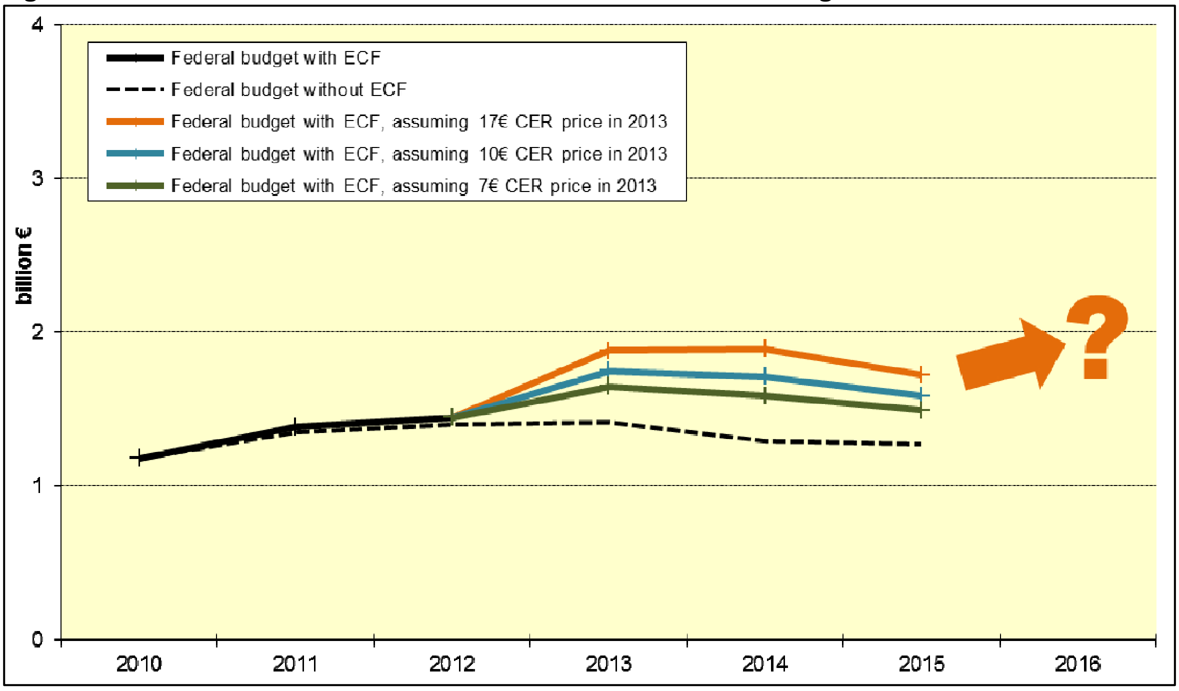
The federal government has repeatedly stated that Germany will contribute its fair share to international climate finance. This would mean increasing funding from 1.2 billion Euros in 2010 to 7-10 billion Euros per year in 2020 (see VENRO 2010). This increase is considerable, but

[4] The German Climate Technology Initiative (DKTI) lists this fact explicitly as an advantage; at the same time the DKTI does not have alleviating poverty as an aim in its own right. Clearly, this matter needs to be addressed.

would not have to solely be provided for by the federal budget or the "*Energy and Climate Fund*", but could also be generated through those future international financial instruments, where it is possible to attribute a German share (see Oxfam 2012a).

It is not clear how things will continue after 2012, although federal government plans for the federal budget for 2013 indicate an increase in funds (see Fig. 1 and box on page 2). Only rough estimates can be made how funding levels for climate-related action will evolve over the coming years, based on the mid-term budget plans announced by the finance ministry, and based on the potential development of the carbon price, as shown in the below Fig. 3. How the funding might continue beyond 2015 is completely uncertain; there is no roadmap for climate finance, for instance until 2020 in the context of the 100 billion promise. Preparing such a plan should be on the agenda of the government for the coming months, no least because clarity on available climate finance between 2013-2020 will be a central condition for the successful conclusion (in the year 2015) of a new climate treaty for the post-2020 time period.

Fig. 3: Estimation of climate finance cash flow from the federal budget and the ECF until 2015



Unlike the previous charts, this chart depicts (planned) *cash flow* rather than *finance commitments*. This is so because for the period 2013-2015, only planned cash flow figures are available. The black line is the planned cash flow in the relevant budget titles of the budgets of the environment and the development ministries. The coloured lines show the potential volumes of climate-related finance from the "*Energy and Climate Fund*" (ECF). These volumes directly depend on the carbon price of the EU emissions trading scheme. The orange line describes the original assumptions by the federal government back in 2011. The blue line corresponds to an adjustment in expectations from March 2012 that puts the 2013 price at 10 Euros. However, should the EU be unable to limit the number of available emissions trading CO_2 permits and fail to increase the EU climate target to at least 30 percent reductions in the European Union for 2020, the carbon price in 2013 might only be at about 7 Euros (green line). Expected volumes for the international title of the ECF assume that that title would be cut proportionally to the overall expected decrease in acutioning revenues. *Sources: BMF 2012 and BMF 2011.*

Problem 3: Climate finance Is not additional

According to the agreement struck under the UN Framework Convention on Climate Change (UNFCCC), financial support for poor countries should be *new* and *additional* - but there is no generally accepted definition what this actually means. For example, the German government considers German fast start finance (1.26 billion Euros for 2010-2012) to be new and additional, because they stem either from the auction revenues of carbon permits under the EU ETS, or from an increase in finance for climate-related measures above 2009 levels (when the fast start finance pledge was made). However, not only did German fast start finance not lead to a corresponding increase in overall development finance (i.e. resulted in shifting priorities within a largely stagnant overall volume); also, about 80 percent of German fast start finance had either been committed previously (for example for biodiversity, at the COP9 of the Biodiversity Convention in 2008; finance that is now counted as REDD+ finance), or had been in the planning pipeline well before Copenhagen (Oxfam 2011a). Those funds are therefore not "fresh" money. Furthermore, Germany counts *all* climate finance toward its long-standing commitment to dedicate 0.7% of its gross domestic product (GDP) to development cooperation. Climate finance is therefore not additional vis-á -vis this old commitment, which incidentally holds true for almost all donor countries.

This constitutes a severe and growing problem, because climate change poses an increasing, additional challenge to poor countries, for example, if activities need to be financed which would not have been necessary in the absence of climate change or at least not at the same scale. If no additional funds are made available, other areas for alleviating poverty such as health services or primary education will increasingly be deprived of funding.

Next Steps for German Climate Finance

For Germany, to make progress towards contribute its fair share of climate finance in the coming years, the following next steps are expedient:

1. The German government should <u>work toward industrialised countries putting forward a credible climate finance roadmap for 2013-2020</u>, which outlines how they intend to fulfill the 100 billion-commitment from Copenhagen. This needs to especially include statements as to which funds will be made available after the end of the fast start finance period, through which new national and international alternative sources climate finance will be mobilised, as well as a German pledge to the Green Climate Fund, which in our view should amount to one billion Euros for the first three years.

2. In the coming years, Germany will have to <u>increase its contribution to international climate finance substantially and step by step</u>. If Germany intends to live up to its fair share of the 100 billion-commitment, Germany would have to contribute approximately 7-8 billion Euros per year to climate finance in 2020 – via the federal budget, the "*Energy and Climate Fund"* as well as through new international financial sources, which can be designed so to allow attribution to individual donor countries (see Oxfam 2012a, also point 5 below).

3. The budget plan of the "*Energy and Climate Fund*" should foresee that from 2013, <u>at least 30 percent of German auctioning revenues under the EU Emissions Trading Scheme should be earmarked for international climate finance</u>. By 2020 this share should increase to 50 percent, thus becoming the foundation of German climate finance.

4. The German government should spend <u>at least 50 percent of its bilateral climate funds on adaptation</u> in order to address the past neglect for urgently needed finance to assist poor and vulnerable countries to adapt to the impacts of climate change. It should also work towards securing an international agreement that at least 50 percent of future finance volumnes of the Green Climate Fund will be reserved for adaptation.

5. The German government should actively support putting in place either an <u>emissions trading scheme or a levy for the international shipping sector</u> to limit emissions from this as of yet unregulated sector while simultaneously generating income for the *Green Climate Fund*. This scheme could be designed to cover all ships and routes to prevent market distortions. Yet, negative impacts on developing countries could be addressed through a compensation mechanism. This way the instrument would be compatible with the fact that the 100 billionpromise was made by developed countries only, as well as the principle of "common but differentiated responsibilities and respective capabilities" as enshrined in the UN Framework Convention on Climate Change. It would be possible to attribute proportions of the income form such a mechanism to individual countries (as "contribution" in case of developed countries or "cost"

in case of developing countries). As research has shown, a possible proxy can be sufficiently derived from a country's share of worldwide sea imports. Such an instrument could easily generate 10-15 billion USD per year for the *Green Climate Fund* without any notable impact on world trade (see also Oxfam 2011b).

6. A financial transaction tax (FTT) is another instrument through which substantial finance cooould be mobilised. This tax could be designed to limit socially useless financial speculation without impairing long-term investments. A tiny tax could generate tens of billions to hundreds of billions in new and additional finance, depending on how wide the net is thrown. Not only should the German government continue to push for such a tax, it should also explicitly demand that a third of the income should go to international climate finance (another third should be used for development assistance, and the last third could be used to fund social measures in Germany).

7. Germany should commit itself to providing truly additional climate finance (this means additional to the funds dedicated to reaching the 0.7% target for development cooperation). The OECD development assistance committee (DAC) could agree that climate support, which industrialised countries would like to count toward their UNFCCC funding commitments, can still be called ODA, but cannot be counted toward the 0.7% target. In reverse, an agreement could be put in place under the UNFCCC[5] that funding, which a country counts as contributing to reaching the 0.7% target, cannot be considered to be a contribution to its climate finance commitments under the UNFCCC. This concept of reciprocity of accounting criteria enables true additionally without the need for a counterproductive separation of climate-related finance and "traditional" development finance at the level of implementation on the ground.

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[5] It would be possible come to such an agreement as part of the ongoing negotiations under *Measurement, Reporting and Verification (MRV),* which is on the agenda of the upcoming UN climate conference in Durban (COP17).

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Contact
Jan Kowalzig · Oxfam Germany
Greifswalder Str. 33a · 10405 Berlin
jkowalzig@oxfam.de · http://www.oxfam.de
Tel.: +49-30-453069-54

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