

Baseline for trust: defining 'new and additional' climate funding

Climate finance is becoming a dark curve on the road from Copenhagen to Cancún. Poorer nations fear that richer ones will fulfil the US\$30 billion 'fast-start' climate finance promises made in the non-binding Copenhagen Accord by relabelling or diverting basic development aid, or by simply delivering on past climate finance pledges. The problem is simple: contributor countries are operating with no clear baseline against which their promise of 'new and additional' funding can be counted – and they do not accept the baselines put forth by developing countries. A viable solution for the short term is to use projections of business-as-usual development assistance as baselines. The longer-term benchmark could be the provision of truly 'new' funds from new funding sources. Substantial up-front negotiations may be required, but seizing this opportunity to define baselines will build confidence on both sides and create predictability for future finance.

A promise without a baseline

Nearly 40 years ago – at the first UN environment summit, in 1972 – the Stockholm Declaration stated that 'additional international technical and financial assistance' should be made available for environmental protection in developing countries. At the Rio Earth Summit in 1992, 'new and additional financial resources' were pledged to support sustainable development. But most of these funds have never been delivered.¹ Both the UN Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol repeated the promise of 'new and additional' funding to meet the climate mitigation and adaptation needs of developing nations.

With this and other promises still unmet, trust between North and South has eroded. According to most assessments, this lack of trust lay behind the failure to produce a treaty at the 2009 Copenhagen climate conference. In the run-up to the meetings, some European leaders made well-intentioned efforts to generate pledges of climate finance transfers worth billions of euros,² but these pledges did not create the hoped-for goodwill. Meanwhile, campaigners

and representatives of the G77 and China banded about various proposals for the minimum amount of climate finance the agreement should include to gain widespread participation. The most common figure was US\$100 billion per year by 2020.

One hundred billion dollars a year is a lot of money: all official foreign aid from all sources is estimated to be under US\$150 billion a year.³ The Copenhagen Accord, drawn up as a placeholder when a binding agreement could not be reached, attempted to meet this challenge by leaving open the possibility that long-term funding could also come from other sources:

The collective commitment by developed countries is to provide new and additional resources... approaching USD 30 billion for the period 2010 to 2012 with balanced allocation between adaptation and mitigation. ...[D]eveloped countries commit to a goal of mobilizing jointly USD 100 billion dollars a year by 2020 to address the needs of developing countries. This funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance.

Policy pointers

- **Rebuilding trust after** the Copenhagen climate talks requires clarification of the climate finance promises made there, especially on the baseline above which 'new and additional' funding is counted.
- **The current lack of a** definition (having no agreed baseline) is not an option – billions of dollars may be spent with no trust gained. The road from Copenhagen to Cancún requires international agreement about what 'new and additional' means.
- **Finding an acceptable** option both for contributor nations and developing-country partners requires that neither side will entirely get its way.
- **A UN-based system is** needed to define which development projects count as climate related and to monitor and review pledges and payments. The organisation should assess effectiveness of this massive flow of funds.

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Here, eight options for setting the baseline of the new funds are reviewed – the first crucial step in measuring whether the North's promises to the South are being met. Most of the options have fatal flaws, as summarised in the Table opposite: either they are vacuous, which would damage international trust, or they are too directive, demanding restrictions that contributor nations would likely reject. Only two approaches avoid these pitfalls.

Options for a baseline

A definition of 'new and additional' is important for mutual trust, yet hotly contested, as several reports⁴⁻⁸ have acknowledged. In the end, establishing whether funding is new and additional demands that we determine what is old and established. In other words, the central question is 'new and additional to which baseline?'⁹ The eight possible baselines assessed here vary in viability and in how well they guarantee a genuine boost in funding (see the Figure and Table opposite for an overview).

1. Developing countries overwhelmingly prefer that new and additional funding starts after countries have contributed 0.7 per cent of their gross national income (GNI) to 'official development assistance' (ODA), a measure of aid defined by the Organisation for Economic Co-operation and Development. The 0.7 per cent GNI threshold is also a favourite of European countries that already meet this ODA standard. Although this threshold seems crystal clear and takes into account past pledges by developed countries,¹⁰ it is not viable for two reasons. First, most developed countries will never accept this threshold – especially the United States, with around 0.2 per cent GNI going to ODA. Second, countries like Sweden and Denmark, which today exceed the 0.7 per cent mark, may just divert existing ODA commitments and call them new and additional climate finance.
2. At the other end of the spectrum, most developed countries favour having no agreed baseline, so that each contributor defines its own baseline. This option is clearly not acceptable for developing countries, as 'new and additional' loses any meaning. Comparing funding across nations becomes very difficult, and there is little transparency. This option prevents billions of dollars from having any trust-building value – and it is the current state of affairs.
3. A simple option for avoiding this mess is to count only funding disbursed through new UN channels, such as the Adaptation Fund or the Copenhagen Green Climate Fund. Although clear, the 'new channels only' approach reduces flexibility for

contributors and potentially leaves them less willing to use the term 'new and additional'. Some existing channels may be better suited for certain types of flows or certain efforts to address climate change. A variant that may be more acceptable to developed countries is to consider all new kinds of funds. This approach, however, could have absurd consequences if old commitments are redirected into new funds.

4. Another straightforward option would allow for using the best channels and mechanisms, but would not count ODA money as climate finance, to clearly separate between development and climate funds. Double-counting could be avoided and transparency enhanced. This approach forces contributors to decide whether the main goal of funding is development or climate related. Despite the advantages of this approach, it is rejected by most industrialised countries.
5. A baseline acceptable to contributors may be current climate finance: the existing funds and those pledged before Copenhagen would define the unchanging baseline. (This could be a five-year average from before Copenhagen, 2004-2008.) On the downside, diversion of development-oriented aid is possible, and it is difficult to distinguish between old and new finance (see 'Are the CIFs new and additional?' below). Another crucial point for this option and several others is that of inflation. Are baselines set in inflation-adjusted currencies? If not, then future promises are a fraction of what developing nations would otherwise expect to receive.
6. As a compromise between options 4 and 5, one could assess how much foreign assistance countries would be expected to provide in any given year,

Are the CIFs new and additional?

The Copenhagen Accord includes fast-track climate finance for 2010-2012; however, it does not say whether this novel funding includes the vast sums that were pledged to the World Bank's Climate Investment Funds (CIFs) in 2008 but were mostly not paid by the time of the Copenhagen negotiations in December 2009. It may be very tempting for the wealthier nations to argue that the CIFs are there 'to bridge the financing and learning gap between now and a post-2012 global climate change agreement' (to quote the Bank)¹¹ and therefore are part of new and additional fast-track funding. But past CIF pledges cannot be regarded as 'new' by the most common definition ('funds which are separate from those that have already been promised')¹².

in the absence of new climate finance. If updated projections of development aid were used as a baseline, business-as-usual funding levels would be renegotiated every year, taking into account current economic growth and ODA commitments. This option may be more acceptable to contributors as it allows future spending on climate finance to drop during economic downturns. Of course, obligations would also increase in boom years. Although this method is theoretically close to the perfect assessment of 'new and additional', in practice it would be difficult to negotiate – and it might fail to create trust between parties, as developed countries will always be suspected of fixing the baseline.

7. A baseline of predefined projections of development aid would avoid this permanent renegotiation by defining the projected business-as-usual level of ODA in advance, according to a realistic growth path for ODA. The predefinition task would create a debate on which ODA growth path is most realistic. Industrialised countries may be concerned about agreeing to specific levels of development aid and climate finance without knowing their future GDP growth and related tax income. It is straightforward, however, to use a formula that takes into account real GDP growth in later years. The GDP dependence of the funds would be a downside for developing countries, but by avoiding renegotiation of the formula they would benefit from better predictability.
8. A final solution combines all issues: newness, additionality and acceptability. This baseline would count new sources only, meaning that only assistance from novel funding sources – such as international air transport levies, currency trading levies or auctioning of emission allowances – would be seen as new and additional. Such funds are new by definition, and they are likely to be additional to ODA, as it is highly improbable that new funding instruments – especially the ones related to climate change – would be used for development aid without a climate policy regime. The obvious drawbacks are that it inflexibly bars the use of effective current funding streams, and would arbitrarily define which sources are new. Although we believe that this baseline could be acceptable for contributors, they have ruled it out for 2010-2012 fast-track financing, which will mainly draw on existing sources such as the general budget.¹³ Therefore, the 'new sources only' option is probably one for longer-term (post-2012) climate finance.

Of these possible baselines, the last two are most worth pursuing. They steer clear of the extremes of being too overbearing or too loophole-ridden. Perhaps most to be avoided is the current path of having no agreed baseline, so that billions are spent but no trust is gained.

Figure. A continuum of baseline options

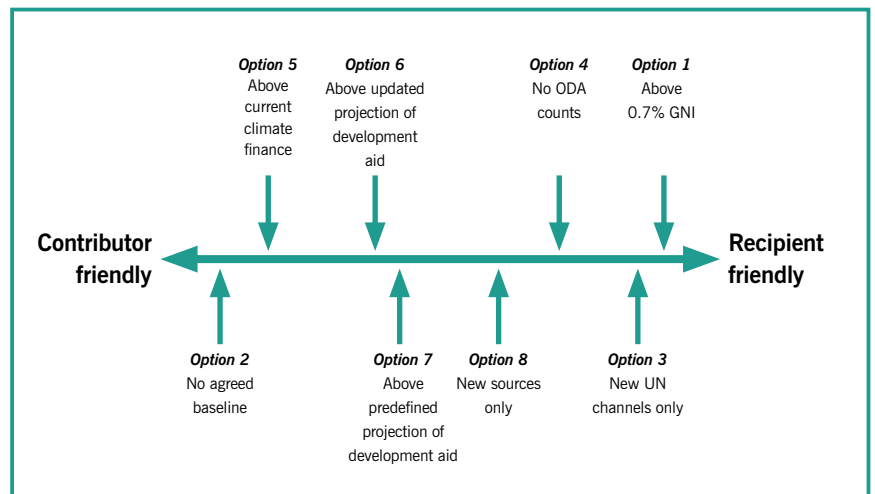


Table. The eight options

Option	Advantages	Disadvantages
1. Above 0.7% of GNI	<ul style="list-style-type: none"> Objective criterion Based on past ODA pledges 	<ul style="list-style-type: none"> No pressure on countries above the threshold Countries very far from the threshold (e.g. the US) likely to ignore the criterion <p>Too directive?</p>
2. No agreed baseline	<ul style="list-style-type: none"> Acceptable for most contributors 	<ul style="list-style-type: none"> No comparability of commitments and disbursements Even low pledges can be labelled as major Front-runners do not get recognition <p>Vacuous</p>
3. New UN channels only	<ul style="list-style-type: none"> Objective criterion Proportion of contributors vs recipients on UN boards is about equal 	<ul style="list-style-type: none"> Existing mechanisms may be more suited for certain purposes Diversion of ODA still possible Contributors provide only token contributions <p>Too directive</p>
4. No ODA counts	<ul style="list-style-type: none"> Objective criterion Relabelling of aid as 'climate finance' is avoided 	<ul style="list-style-type: none"> Likely unacceptable for most contributors Old ODA funding sources may still be used <p>Too directive</p>
5. Above current climate finance	<ul style="list-style-type: none"> Acceptable for contributors 	<ul style="list-style-type: none"> Diversion of ODA still possible Requires controversial decisions on whether projects are climate related^{14,15} <p>Vacuous?</p>
6. Above updated projection of development aid	<ul style="list-style-type: none"> Technically correct definition 	<ul style="list-style-type: none"> Hypothetical, very difficult to assess, very contested Diversion of ODA still possible <p>Vacuous</p>
7. Above predefined projection of development aid	<ul style="list-style-type: none"> Objective criterion after being defined Predictability of funds 	<ul style="list-style-type: none"> Definition of baseline will be contested Diversion of ODA still possible but not likely <p>Workable short-term option</p>
8. New sources only	<ul style="list-style-type: none"> Newness appears guaranteed Additionality likely 	<ul style="list-style-type: none"> Contributors are restricted in their choice of instruments and may reduce funding Not clearly objective in some cases <p>Workable long-term option?</p>

The way forward: baselines attached to pledges

Even with the best-defined baseline, new and additional funds are not guaranteed. For this, clear rules on monitoring, reporting and verifying of funds are needed. Initially, it may be beneficial for both contributors and recipients to monitor pledges and disbursements, and report findings to a central entity (preferably a UN body or other independent registry). The information should then be verified according to rules pre-agreed by the UN. If information from contributors and recipients becomes very similar, monitoring and reporting could be unified. Creating a global accounting framework for finance will be essential, not only to ensure the additionality of funds but also to delineate public funds from carbon market funds, evaluate the grant equivalence of loans¹⁶ and prepare results for enforcement mechanisms.

It is generally preferable to define the baseline first, before pledges are made: this can prevent developed countries from endlessly renegotiating and adjusting the baseline, both of which hamper trust-building. As we already have pledges without a baseline after Copenhagen, a viable solution would be to prepare parties to agree on a baseline at the Cancún conference in 2010, as well as to set a deadline this year for contributors to define a clear baseline for their Copenhagen pledges. Later, the old pledges could be translated into pledges with a unified

Baselines and climate justice

Developing countries must adapt to climate impacts they barely had a hand in creating. In these countries climate finance is often seen as compensation for damages caused by past and present greenhouse gas emissions of industrialised nations. Thus, efforts to address the issue of climate justice hinge on assistance with adaptation, as well as on reducing emissions sharply. And without agreed baselines for what counts as new and additional funding, a clear sense of justice cannot emerge.

baseline, and new commitments would have to use that baseline. This would be a first step towards mutual trust and accountability, and a clear effort towards addressing climate justice (see 'Baselines and climate justice', above).

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Notes

- ¹ Hicks, R.L. et al. 2008. *Greening Aid?* Oxford University Press, Oxford. ■ ² *Will the EU Backtrack or Fast-forward on Global Climate Money?* Oxfam press release. 9 December 2009. ■ ³ See AidData.org. ■ ⁴ Doornbosch, R., Knight, E. 2008. *What Role for Public Finance in International Climate Change Mitigation.* OECD/IEA, Paris. ■ ⁵ Corfee-Morlot, J., Guay, B., Larsen, K.M. 2009. *Financing Mitigation Support: Towards a framework for measurement, reporting and verification.* OECD/IEA, Paris. ■ ⁶ Moncel, R., McMahon, H., Stasio, K. 2009. *Counting the Cash.* World Resources Institute, Washington DC. ■ ⁷ Roberts, J.T., Stadelmann, M., Huq, S. 2010. *Copenhagen's Climate Finance Promise: Six key questions.* IIED, London. ■ ⁸ Ballesteros, A., Hurlburt, K., Stasio, K. 2010. *Summary of Climate Finance Pledges Put Forward by Developed Countries.* World Resources Institute, Washington DC. See www.wri.org/stories/2010/02/summary-climate-finance-pledges-put-forward-developed-countries. ■ ⁹ Actually we need two baselines: one for newness relative to existing pledges and funds, and one for additionality to development aid. Some baseline options we lay out here are better at guaranteeing newness, whereas others better match additionality. One may even use two baselines to guarantee both newness and additionality. In fact, such a 'double baseline' would be preferred by developing countries, but may not be accepted by industrialised countries. ■ ¹⁰ For example, the European Union pledged to reach the 0.7 per cent GNI threshold by 2015. ■ ¹¹ See wording at www.climateinvestmentfunds.org/cif/designprocess. ■ ¹² Müller, B. 2010. *The Reformed Financial Mechanism of the UNFCCC. Part II: The question of oversight post Copenhagen synthesis.* p74. Oxford Institute for Energy Studies, Oxford. ■ ¹³ Many contributions for 2010 have already been included in budgets made before Copenhagen. It is questionable to call those contributions new. ■ ¹⁴ Michaelowa, A., Michaelowa, K. 2010. Old wine in new bottles? The political economy of reporting climate aid. Paper presented at AidData.org conference, Oxford, 22 March 2010. ■ ¹⁵ Roberts, J.T., Peratsakis, C., Weissberger, M. Trends in official climate finance: evidence from human and machine coding. Paper presented at AidData.org conference, Oxford, 22 March 2010. ■ ¹⁶ 'Grant-equivalence of loans' means the proportion of a (low-interest) loan by a development bank that can be considered to be a grant, when considering market interest rates and the average conversion of loans to grants.

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