FINANCIAL SUPPORT TO DEVELOPING COUNTRIES FOR CLIMATE CHANGE MITIGATION AND ADAPTATION: IS THE EUROPEAN UNION MEETING ITS EARLIER COMMITMENTS?

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1. Introduction

Ever since the start of international negotiations on measures to address the challenge of climate change in the late 1980s, the provision of financial assistance to support developing countries' efforts in the fields of mitigation of and adaptation to climate change has been high on the political agenda. In the United Nations Framework Convention on Climate Change (UNFCCC), which was signed in 1992 and entered into force in 1994, industrialised countries other than those with economies in transition (the so-called Annex II Parties to the Convention) undertook to make "new and additional financial resources" available to developing countries "on a grant or concessional basis" to fund certain measures to be taken by those countries to implement their obligations under the Convention. A multilateral "financial mechanism" was established by the UNFCCC to channel such aid to recipient countries. Its operation has been entrusted to the Global Environment Facility (GEF). In addition, the UNFCCC provides that developed countries may also make available "financial resources related to the implementation of the Convention through bilateral, regional and other multilateral channels." Finally, it also contains a specific provision under which Annex II Parties are obliged to "assist the developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects".

The operation of the financial mechanism and the implementation of the Convention's provisions on financial resources has been an issue for discussion at every single meeting of the UNFCCC Conference of the Parties (COP) since 1995. Developing countries have been arguing that the level of funding provided has been inadequate and the criteria and procedures for project approval and disbursement of funds by the GEF insufficiently responsive to their needs. However, donor countries have, on the whole, supported the operation of the existing financial mechanism and been reluctant to make additional or more specific financial commitments or create supplementary multilateral funding mechanisms. As part of the overall compromise on the Bonn/Marrakesh agreements laying down the rules for implementation of the Kyoto Protocol and UNFCCC, a number of additional financial measures and channels of funding were approved by the COP in 2001. The implementation of these measures has remained contentious and financial issues now again feature prominently on the agenda of the current multilateral climate negotiations which are scheduled to be concluded at the COP15 in Copenhagen in December 2009. One of the items under discussion is "enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation". According to a study commissioned by the UNFCCC secretariat in 2007,[1] "the additional estimated amount of investment and financial flows needed in 2030 to address climate change is large compared with the funding currently available under the Convention and its Kyoto Protocol." According to this same study, to meet adaptation needs in developing countries alone, the level of additional funding required is estimated to be in the range of USD 28-67 billion per year[2].

Limiting climate change is the first of seven "key challenges" identified in the EU Sustainable Development Strategy (SDS)[3]. One of the objectives of the strategy is to achieve a post-2012 climate regime consistent with the target of limiting average global temperature increase to 2°C.[4] It is clear from the history of the climate negotiations so far that this objective will not be achievable without additional financial assistance to developing countries. Though the SDS does not specifically refer to the need for increased aid to developing countries in the climate context, it does contain a general commitment to "increase the effectiveness, coherence and quality of EU and Member State aid policies in the period 2005–2010".[5]

Against this background, the purpose of this paper is to assess the extent to which the EU and its Member States have lived up to their existing commitments to provide assistance to developing countries under the UNFCCC so far, especially since 2001. In that year, with reference to its general financial obligations under the Convention, the EU, together with a few other Annex II Parties, made a special political

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[1] UNFCCC, *Investment and Financial Flows to Address Climate Change*, Bonn, 2007, available at http://unfccc.int/files/cooperation_and_support/financial_mechanism/application/pdf/background_paper.pdf (an updated version is available at: http://unfccc.int/resource/docs/2008/tp/07.pdf)
[2] *Ibid.*, Executive summary, para. 26.
[3] Renewed EU Sustainable Development Strategy, as adopted by the European Council on 15-16 June 2006, EU Council Doc. 10917/06, 26 June 2006, available at: http://ec.europa.eu/sustainable/docs/renewed_eu_sds_en.pdf (hereafter referred to as SDS 2006)
[4] SDS 2006, p. 8.
[5] SDS 2006, p. 21.

commitment to increase its level of aid by 2005, in a declaration made at COP6bis in Bonn and reiterated at COP7 in Marrakesh. The focus of this paper will be on the implementation of the Bonn Declaration and the scale of financial aid provided by the EU Member States in the specific area of climate change. While the emphasis of this paper is on the level of public resources made available, this should not be taken to imply that the volume of public aid is the only relevant factor in international cooperation to address climate change. As the ongoing debate on international climate finance shows, international public funding is only one of several sources currently under discussion in the run-up to the Copenhagen conference. However, for historical and political reasons it remains a very important one, and observers will be closely watching the positions and performance of the EU in this area both at Copenhagen and beyond.

2. Multilateral funding under the UNFCCC: an overview

Multilateral funding is orchestrated primarily by the Global Environment Facility (GEF) which was set up in 1991 and now acts as the designated financial mechanism for a number of multilateral environmental agreements and conventions such as the UNFCCC. Climate change is one of the GEF’s six focal areas in which it supports a number of projects and provides on average USD 250 million per year. The GEF offers direct financial aid, using the World Bank as one of its implementing agencies, in the form of grants and co-financing directed towards projects supporting adaptation and mitigation in developing countries. It operates under regular replenishments of its Trust Fund by donor countries covering periods of three to four years. Currently the Trust Fund is working with funds provided and pledged under the fourth replenishment (GEF4) running until 2010.

In addition to funding various climate change related projects the GEF also manages two special climate-related funds established under the UNFCCC as a result of the above-mentioned Bonn/Marrakesh agreements: the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF). The SCCF was created to help leverage additional funding or funding complementary to that provided by the GEF as part of its climate change focal area. Adaptation remains the SCCF’s top priority but aid is also given to developing countries, especially those most vulnerable to climate change, in other areas such as the transfer of technologies. The SCCF runs on pledges made by 12 donor countries (of which 9 are EU Member States). To date, the total amount pledged has reached USD 106 million. The LDCF is specifically oriented towards helping the 48 Least Developed Countries (LDCs) establish and implement National Adaptation Programmes of Action (NAPAs) to serve as the cornerstone of these countries’ strategies in the fight against the adverse effects of climate change. The LDCF thus aims to increase the adaptive capacity of these LDCs and help them respond effectively to the most urgent needs with regard to adaptation to climate change. 15 donor countries (including 11 EU Member States) have pledged over USD 172 million to the LDCF so far.

Alongside these two funds under the UNFCCC there is a third fund specifically oriented towards adaptation in developing countries which was also established as part of the Bonn/Marrakesh package of measures, but is directly linked to the Kyoto Protocol rather than the Framework Convention: the Kyoto Protocol Adaptation Fund (KPAF). The KPAF was established to provide funding for concrete adaptation projects and programmes in developing countries that are Parties to the Kyoto Protocol. The Fund relies on an original funding mechanism which is not dependent on voluntary pledges of public funds by donor countries: it draws on the "share of proceeds" from the Clean Development Mechanism (CDM), a mechanism established by the Kyoto Protocol under which investors in industrialised countries invest in projects in developing countries which result in verifiable reductions of emissions of greenhouse gases or increases in removal of carbon from the atmosphere by sinks in those countries and contribute to their sustainable development.

There are currently 800 registered CDM projects with a further 1600 pending approval or in the approval process due to be completed at the latest by 2012.

Combined, these 2400 projects would generate around 400 million CERs per year, approximately 2.3% of the total annual emissions allowed from Annex 1 countries (excluding the US)[6]. CDM approved projects cover different project types including; hydro-power projects, waste energy projects and HFC-23 and N_2O emissions reduction/destruction projects.

Following verification of the results of these projects, the CDM Executive Board issues certified emission reductions (CERs) for each tonne of CO_2 equivalent saved to the host country of the project. These emission credits will be transferred to the investor under the project agreement and can be credited towards the fulfilment of the investor country's commitments under the Kyoto Protocol. However, only 98% of the amount of CERs generated by each CDM project are effectively issued to the project sponsors; a "share of proceeds" amounting to 2% of CERs issued is withheld at source and allocated to an account in the name of the KPAF. These CERs are intended to be sold (monetized) by the Fund and the resources raised in this way to be used to fund adaptation projects in developing countries. In short, through this levy on the CDM, mitigation action in developing countries funded by private or public investors from industrialised countries is seen as "paying for adaptation"[7].

The KPAF may also receive additional voluntary contributions, but not a single donor country has made any pledge so far. In fact, though the decision to establish the KPAF was taken in 2001, Parties to the Kyoto Protocol have spent years arguing over the way in which this fund should be managed and its resources disbursed. Final agreement on this issue was reached only at COP14 in Poznan in December 2008[8]. Meanwhile CERs have been accumulating in the KPAF account but not a single project has been implemented yet. Based on current CER holdings and their value on the global carbon market, it is estimated that the KPAF already has the potential to raise about EUR 37 million[9]. According to a UNFCCC secretariat study, the resources that could be generated for the KPAF from the "share of proceeds" from further CERs anticipated to be issued during the period 2008-2012 may yet reach USD 80-300 million, though such financial projections are uncertain as they depend on the future evolution of the carbon market.[10]

[6] CDM Watch, data available at http://www.cdm-watch.org/

[7] UNFCCC Secretariat, Press Release 'Kyoto Protocol's Adaptation Fund Board Holds Inaugural Meeting', 28 March 2008, p.1

[8] The KPAF was initially established by a decision of the UNFCC COP (Decision 10/CP.7) which was later endorsed by the Kyoto Protocol's COP/MOP (Decision 28/CMP.1). However, the Fund only became operational following the adoption of the necessary financial and legal arrangements by the COP/MOP in Poznan in 2008. See Decision 1/CMP.4, *Adaptation Fund*, 12 December 2008, Doc. FCCC/KP/CMP/2008/11/Add.2, available at http://unfccc.int/resource/docs/2008/cmp4/eng/11a02.pdf

[9] UNFCCC Secretariat, Press Release 'Kyoto Protocol's Adaptation Fund Board Holds Inaugural Meeting', 28 March 2008, p.1

[10] UNFCCC, *Investment and Financial Flows to Address Climate Change*, *supra* n. 1, p. 169.

3. The Bonn Declaration: a major political commitment

As mentioned above, during the negotiations on the 'Buenos Aires Plan of Action'[11] – the package of measures for the operationalisation of the Kyoto Protocol and further implementation of the UNFCCC which was the subject of protracted negotiations in the COP between 1998 and 2001 – one of the major demands of the developing countries was that developed countries make a specific, quantified commitment to provide "new and additional resources" for climate change activities. In the 'consolidated negotiating text' he proposed as a basis for the compromise package, COP President Jan Pronk suggested a formal commitment to be made by Annex I Parties "to contribute new and additional resources for climate change activities in Parties not included in Annex II, on a grant or concessional basis", with total contributions reaching USD 1 billion by 2005 at the latest. According to this proposal, contributions were to be apportioned between Annex I Parties based on their relative share of 1990 CO_2 emissions, with Annex I Parties in transition (i.e. those Annex I Parties not included in Annex II of the UNFCCC) contributing half their proportionate share[12].

This proposal was rejected by many Parties, foremost by the United States, which had just announced its decision not to ratify the Kyoto Protocol, but also by Japan, which did not wish to subscribe to any quantified commitment, and by the transition countries, which referred to the Convention language putting financial obligations only on Annex II Parties. In the end, only the EU-15 plus a handful of other Annex II Parties (Canada, Iceland, New Zealand, Norway and Switzerland) were prepared to make a "political commitment" to collectively provide a specified amount of financial aid by 2005. This commitment was made in a joint 'Political Declaration on Financial Support for Developing Countries' which was read out on behalf of those Parties during the closing plenary of COP6bis in Bonn on 23 July 2001 by the minister representing the Belgian Presidency of the EU. This 'Bonn Declaration', pursuant to which the 21 signatories agreed to collectively contribute USD 410 million by 2005, formed an essential element of the Bonn Agreement which paved the way for the successful conclusion of the negotiations on the 'Buenos Aires Plan of Action' at COP7 in Marrakesh a few months later.[13] The key paragraph is worded as follows:

> *We reaffirm our strong political commitment to climate change funding for developing countries. We are prepared to contribute US$ 410 million, which is 450 million Euro, per year by 2005 with this level to be reviewed in 2008. Funding to be counted can include: contributions to GEF climate change related activities; bilateral and multilateral funding, additional to current levels; funding for the special climate change fund, the Kyoto Protocol Adaptation Fund and the LDC fund; and funding*

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[11] The Buenos Aires Plan of Action mentioned here was established under UNFCCC Decision 1/CP.4 at the Fourth Session of the Conference of the Parties held in Buenos Aires in November 1998 (more information available at: http://unfccc.int/resource/docs/cop4/16a01.pdf#page=4)

[12] UNFCCC, Doc. FCCC/CP/2001/2/Rev.1, 18 June 2008, p. 5. Proposed percentage shares for all Annex I Parties were included in a table annexed to Doc. FCCC/CP/2001/2/Add.1.

[13] The importance of the statement is apparent from the fact that the Bonn Declaration is "welcomed" in the preamble to the relevant COP decisions (Decision 7/CP.7 and Decision 10/CP.7) and a *verbatim* transcript of it has been printed in an official note published by the UNFCCC secretariat at the explicit request of COP6bis, which is referenced in a footnote to those decisions.

deriving from the share of proceeds of the clean development mechanism, following entry into force of the Kyoto Protocol. [14]

The Bonn Declaration represents a collective commitment made by 20 countries (the 15 Member States of the EU in 2001 plus five non-EU countries) and one regional economic integration organisation (the EU) to jointly reach a certain target figure by 2005. It does not specify how much financial support is pledged by each of the signatories. However, at the time the declaration was made, there was an understanding between the EU and the other signatories, roughly based on the emissions-based allocation method initially proposed by the COP President, as to their respective share of the total financial commitment.

According to this understanding, the EU share of the total of USD 410 million per year pledged towards climate change funding as of 2005 amounts to USD 369 million.[15]

According to the terms of the declaration itself, the overall level of funding promised could be contributed by donor countries through a number of different channels. Firstly, "contributions to GEF climate change related activities". This entails that a proportion of each party's total contributions to the GEF Trust Fund specifically used by the GEF to support climate change related projects can be counted towards the USD 410 million a year. Secondly, using funding levels of 2001 as a baseline figure, any additional funds provided, be it through bilateral or multilateral channels, could be counted towards the required USD 410 million. Under this item, the Bonn Declaration refers explicitly to funding "additional to current levels"; it is the only place where it does so. Thirdly, any funds directed towards either the SCCF, the LDCF or the KPAF, could be considered as a contribution to the target. To date, USD 278 million have been pledged or given to the first two funds by donor countries, but no direct contributions to the KPAF have been recorded, which is not surprising given that final agreement on the rules for the management of this fund was reached only in December 2008. Finally, countries could also include funding deriving from the "share of proceeds" of the Clean Development Mechanism, the levy on CDM projects discussed above, following entry into force of the Kyoto Protocol. Funding falling within the last two categories would by definition be additional to 2001 levels, since these funding channels did not yet exist in 2001.

[14] UNFCCC, Statements made in connection with the approval of the Bonn Agreements on the implementation of the Buenos Aires Plan of Action (Decision 5/CP.6), Note by the secretariat, Doc. FCCC/CP/2001/MISC.4, 23 October 2001, pp. 6-7.

[15] European Commission, *Fourth National Communication from the European Community under the UN Framework Convention on Climate Change (UNFCCC),* Doc. COM(2006) 40 final, p.110, available at: http://unfccc.int/resource/docs/natc/eunce4add.pdf. The same amount is also mentioned in the Conclusions of the General Affairs and External Relations Council of 22 November 2004 on climate change, para. 7.

4. Implementation of the Bonn Declaration: difficult to monitor

This paper will now focus on the concrete action taken by the 15 Member States of the EU which subscribed to the Bonn Declaration in accordance with the terms of the declaration. Member States were given four options through which they could, collectively, raise USD 369 million per year as of 2005 onwards. Though the EU is also a signatory of the declaration, there was an understanding between the Member States and the Commission at the time that the financial commitments would be the responsibility of the Member States, as the signatories' shares had been calculated on the basis of their 1990 CO_2 emission levels, and the EU as such has no emissions additional to those of its Member States. As the Commission put it in a 2003 Communication on climate change and development cooperation, "the EU share of the pledge is to be met by the Member States, given that the Community has no CO_2 emissions of its own. The Commission will probably still make a contribution, even though by definition truly additional funds under the current financial perspective are not available."[16] Accordingly, our analysis will focus on Member State contributions.

In order to assess the implementation by the EU-15 of their Bonn Declaration commitments, we have relied on official information available in documents of the GEF and the UNFCCC secretariat, as well as information provided by the countries themselves in their individual National Communications submitted pursuant to Article 12 of the UNFCCC. According to the UNFCCC reporting guidelines:

> *Parties shall provide any information on any financial resources related to the implementation of the Convention provided through bilateral, regional and other multilateral channels*[17].

As will be further explained below, the information available from National Communications makes it difficult to comprehensively assess compliance, because of problems with the quality and interpretation of the data provided. This paper does not follow the structure of the Bonn declaration but rather starts with contributions to dedicated multilateral climate change funds for the sake of coherence in the argument developed throughout.

4.1 Contributions to dedicated multilateral climate change funds

4.1.1 Contributions to the Global Environment Facility (GEF)

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[16] European Commission, Communication from the Commission to the European Parliament and to the Council, *Climate change in the context of development cooperation*, COM(2003) 85 final, p. 6. In fact, the Commission has taken some initiatives in recent years in order to provide support to developing countries for climate-related activities from the budgetary resources it manages. See, for example, European Commission, *Building a Global Climate Change Alliance between the European Union and poor developing countries most vulnerable to climate change*, COM(2007) 540 final, 18 September 2007, and European Commission, *Mobilising public and private finance towards global access to climate-friendly, affordable and secure energy services: The Global Energy Efficiency and Renewable Energy Fund*, COM(2006) 583 final, 6 October 2006.

[17] UNFCCC, COP5, *Review of the Implementation of Commitments and of other Provisions of the Convention: UNFCCC guidelines on reporting and review*, 16 February 2000, p. 92.

When looking at funds levied for the climate change related activities of the GEF, the focus will be on the fourth replenishment of the GEF Trust Fund that runs from 2006 to 2010. Table 1 provides an overview of the total contributions pledged by Bonn Declaration signatories to the GEF for this five-year period. For purposes of comparison, this table also includes data about contributions by non-EU signatories, though the further analysis will focus on contributions by EU Member States only.

Table 1 – Projected Contributions to GEF-4 Trust Fund Replenishment of Bonn Declaration participants*

Contributing Participants	**Projected Contributions (USD millions)**
Austria	33.57
Belgium	65.14
Canada	137.37
Denmark	58.67
Finland	43.89
France	198.20
Germany	309.69
Greece	8.16
Ireland	8.16
Italy	107.70
Luxembourg	6.16
Netherlands	115.04
New Zealand	6.16
Norway	37.1
Portugal	7.39
Spain	27.87
Sweden	117.35
Switzerland	73.15
United Kingdom	264.73
	1611.18

Indicates EU Member State
*Iceland not included

Using available GEF data, it can be estimated that the 15 EU countries which have subscribed to the Bonn Declaration have collectively committed to raising, annually, a little over USD 86 million directed towards climate change related activities of the GEF[18]. It must be noted that this estimate focuses solely on funds available in the GEF Trust Fund. Most of the climate change related activities of the GEF are carried out under the climate change focal area of the Trust Fund. Special funds and programmes that exist in parallel, such as the SCCF, LDCF, KPAF and the

[18] The 15 signatories, having pledged 1.36$ billion out of 3.93$ billion total, account for 35% of all funds levied towards the GEF. Using this share as a proxy to determine amounts pledged by these countries in the climate change focal area of the GEF, which is due to receive 990$ million out of the 3.93$ billion, the following equation was put forward: 990*0.35=346.5. As GEF4 runs for 4 years and the previous result is only a lump sum covering all of the GEF4 period the following equation is put forward in order to draw up an estimate of the annual amount pledged: 346.5/4=86.63$ million/year.

GEF Trust Fund for Programmes (GTFP) are either covered in a specific mention of the declaration, and will be discussed separately below, or are not yet fully operational as is the case for the GTFP[19].

4.1.2 Contributions to special multilateral climate-related funds

The third channel for financial aid mentioned in the Bonn Declaration consists of three specialised funds; the SCCF, LDCF and KPAF. With pledges made by EU Member States towards the LDCF reaching USD 147 million and the fund having been in place for 8 years the yearly amount contributed towards said fund comes out at over USD 18 million. The SCCF, in place for 4 years, has been provided with over USD 74 million in funds, placing the average annual EU contribution at just over USD 18 million. The KPAF is not yet fully operational and has yet to receive any direct pledges. It is currently relevant to the fourth funding option, using the "share of proceeds" derived from the Clean Development Mechanism (CDM) which will be discussed in the next paragraph.

4.1.3 Share of proceeds of the Clean Development Mechanism (CDM)

As explained above, the "share of proceeds" of the CDM which is held by the KPAF is currently not a monetary amount, but an amound of CERs which are yet to be "monetized" on the carbon market. The recently established KPAF Board was planning to start this process in 2009. In March 2008, the UNFCCC secretariat had estimated the value of the Fund's current CER holdings to be approximately EUR 37 million or USD 57 million.[20] In the absence of any other data, this figure has been used to estimate the contributions of Bonn Declaration signatories through this channel.

This is not a straightforward matter, as the CERs from the "share of proceeds" are not transferred to the KPAF account by the investor parties, but directly by the CDM Executive Board. The UNFCCC secretariat does not publish statistics of CERs issued per Annex I investor Party. The arrangements for the allocation of CERs to these Parties depend on the relevant CDM project agreement and may vary from project to project. Certain CDM projects are funded my multiple investors, which complicates matters even further. The only available statistics which can be used to compute an estimate of the "origin" of the "share of proceeds" are statistics on the *number* of registered CDM projects per investor Party. These are at best a very rough proxy, since these statistics do not take into account the size of the registered projects and hence the volume of CERs and "share of proceeds" they can be expected to generate in their lifetime. Moreover, these statistics are based on current total numbers of registered projects, whereas the CERs already held by the KPAF derive from CERs issued so far for projects already in the process of implementation prior to 2008. Finally, the figure of USD 57 million does not reflect an annual amount, but total

[19] For the latest developments of GFTP, see Conclusions of GEF Council 34, agenda item 12, 'GEF Trust Fund for Programmes', 14 October 2008. Available at: http://www.gefweb.org/uploadedFiles/Documents/Council_Documents__(PDF_DOC)/GEF_C34/C.34.7%20GEF%20Trust%20Fund%20for%20Programs(1).pdf
[20] UNFCCC Secretariat, Press Release 'Kyoto Protocol's Adaptation Fund Board Holds Inaugural Meeting', 28 March 2008, pp. 1-2.

potential income accrued up to 2007. With all these caveats, our estimate of the EU-15 share of KPAF income based on numbers of registered CDM projects is approximately 64 % of the total or USD 36.72 million.

4.1.4 Total EU-15 contributions to dedicated multilateral climate change funds

Based on the above-mentioned data we have compiled an overview of current estimated annual contribution levels for each of the 15 Member States concerned by the Bonn Declaration through the following multilateral funding channels mentioned in the declaration: GEF, SCCF, LDCF and KPAF ("share of proceeds"). The results of these calculations are shown in Table 2 below.

As appears from this table, the estimated total annual level of funding contributed by the EU-15 through these different channels is close to USD 160 million, which is well under half the Bonn Declaration pledge of USD 369 million per year. Whether or not the EU has lived up to the political commitment made in Bonn therefore depends entirely on the results for the remaining, and most problematic category of funding sources: "bilateral and multilateral funding, additional to current levels". An attempt to estimate the volume of funding in this category will be made in the next section of this paper.

Table 2 – Average yearly output of multilateral climate funds (USD millions)

	GEF (Climate Change focal area[21])	LDCF[22]	SCCF[23]	KPAF[24]	Total
Austria	2.23	0.07	0.00	1.08	**3.38**
Belgium	4.21	0.00	0.00	0.29	**4.50**
Denmark	3.71	2.00	2.26	0.86	**8.83**
Finland	2.72	0.76	0.86	0.86	**5.20**
France	12.46	1.91	0.00	1.14	**15.51**
Germany	***19.55***	***7.02***	3.54	2.28	**32.39**
Greece	0.50	0.00	0.00	n.a	**0.50**
Ireland	0.50	0.97	0.40	n.a	**1.87**
Italy	6.69	0.25	2.50	1.20	**10.64**
Luxembourg	0.40	0.71	0.00	0.34	**1.45**
Netherlands	7.18	2.04	0.78	5.93	**15.93**
Portugal	0.50	0.01	0.33	n.a	**0.84**
Spain	1.73	0.12	1.72	1.94	**5.51**
Sweden	7.18	0.11	1.53	3.42	**12.24**
UK	16.58	2.42	***4.65***	***17.38***	***41.03***
Total	**86.14**	**18.39**	**18.57**	**36.72**	**159.82**

[21] The following method was used to estimate funds given by each country to climate change focal area: Amount given and pledged by country to GEF/Total funds available to GEF=share of the country in GEF funding. Then multiply that share by amount specifically used in climate change focal area, that is to say USD 990 million. Then divide the result by 4 as GEF4 runs for 4 years. For Austria, who gave USD 33.57 million out of the USD 3.93 billion this would give the following equation: 0.03357/3.93=0.009; 990*0.009=8.91; 8.91/4=*2.23*

[22] To give an estimate of yearly contributions of a given country to the LDCF the sum, in USD millions, total pledges outstanding and contributions finalised was divided by the amount of the years the LDCF has been running, that is to say 8 years. For example, Austria has contributed, to date, USD 0.58 million to the LDCF, yearly output average would be 0.58/8=*0.07*. Facts and figures are available at http://www.gefweb.org/uploadedFiles/Documents/LDCFSCCF_Council_Documents/LDCFSCCF5_November_2008/LDCF.SCCF.5.Inf.2%20Status%20Report%20on%20the%20Climate%20Change%20Funds.pdf

[23] Estimates given are based on the same methodology and data as used for the LDCF, however the SCCF has been running for 4 years so changes to the formula were made accordingly.

[24] Estimates of amounts given to the Kyoto Protocol Adaptation Fund (KPAF) were based on the estimate of the total value of CER holdings of USD 57 million. Monetization started in 2009, and, according to the Fund's report to the COP/MOP a portion of the Fund's holdings (1.13 million CERs) have been sold, generating revenues of approximately USD 18.7 million. See Report of the Adaptation Fund Board, Doc. FCCC/KP/CMP/2009/14, 19 November 2009, p. 6, para. 24. The average price at which CERs were sold was lower than the price used to estimate the total value of CER holdings in 2008. Nevertheless, for the purpose of this article, we shall use the original estimate and break it down into estimated national 'shares' for the EU-15. To compute the amount raised by each Member State under this heading of the Bonn Declaration the total figure of USD 57 million was multiplied by the percentage of registered CDM projects given for each Member State. As an example, Austria has a total of 31 registered projects out of a total of 1640; this means it accounts for 1.9% of all registered

4.2 Bilateral funding (and national contributions to other multilateral funds)

As mentioned above, the UNFCCC reporting guidelines for Annex I Parties' National Communications require these Parties to provide information on financial resources provided "through bilateral, regional and other multilateral channels". In view of these guidelines, we have sought to draw upon the information in the latest National Communications of EU Member States to measure the scope and scale of their bilateral funding, and, to the extent possible, climate change related contributions to multilateral (including regional) funds not specifically dedicated to climate change (and not covered by the other Bonn Declaration funding categories).

The analysis of the dynamics of climate change-related bilateral funding faces a number of methodological and practical problems. Firstly, the 2005-2008 period within which the actual commitments of the Bonn Declaration are supposed to have materialised is not covered by most summaries of bilateral activities found in the 4th National Communications and Reports Demonstrating Progress under the Kyoto Protocol submitted by Annex I Parties as the latest deadline for reporting was 1 January 2006. In the majority of cases, the most recent data available relate to 2004. So it is not yet actually possible, based on those information sources, to compile comprehensive information for the year 2005.

Secondly, and most importantly, the reporting quality of bilateral funding varies greatly between different countries. The Netherlands, for example, has been commended on its excellent reporting quality whereas other countries, including major donors such as Germany, provide very little information on their activities in this field at all. Few Annex I Parties adequately comply with the requirement of the reporting guidelines which provides:

> *Parties shall indicate what "new and additional" financial resources they have provided pursuant to Article 4.3. Parties shall clarify how they have determined such resources as being "new and additional" in their national communications*[25].

In many cases the baseline figures relevant for the purpose of the Bonn Declaration, those of 2001, are not even given. Not all countries were able to properly define what exactly constituted additional levels of funding despite the requirements set out in the UNFCCC reporting guidelines. This becomes apparent in the findings of the in-depth-review of the 4th National Communications of some EU Parties. Denmark, for example, reported to the UNFCCC that it was incapable of establishing an adequate methodology to determine what constituted new and additional.[26] Greece

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projects made by A1 and NA1 investor parties. Thus, 57*0.019=*1.08*. Data available at: http://cdm.unfccc.int/Statistics/Registration/RegisteredProjAnnex1PartiesPieChart.html

[25] UNFCCC Secretariat, *Guidelines for the Preparation of National Communications by Parties Included in Annex I to the Convention*, Doc. FCCC/CP/1999/7, p. 91, para. 51

[26] Report of the centralized in-depth review of the fourth national communication of Denmark, Doc. FCCC/IDR.4/DNK, 1 February 2007, p. 14, para. 52.

and the United Kingdom merely stated that certain funds were new and additional without providing an adequate definition of what they considered new and additional funds.[27]

Linked to the lack of clarity in defining what constitutes new and additional funding is another major issue: the lack of clear uniform criteria for determining those bilateral aid projects which are directly relevant to climate change mitigation or adaptation. The Bonn Declaration does not provide such criteria. Neither do the UNFCCC reporting guidelines, which refer only to very broad sectors in which, for instance, mitigation activities could be undertaken, such as energy, transport, forestry, agriculture, etc. This ambiguity is bound to encourage countries to apply a rather broad scope of climate change-related aid projects. In many cases there would be no distinct separation between funds provided for, say, energy sector projects in general and those specifically earmarked for mitigation projects in this sector. In short, to meet their commitments as to amounts of funding to be provided certain countries may have taken advantage of these ambiguities and included in their National Communications certain funds and aid not entirely relevant to the implementation of the UNFCCC.

However, using the available data for 2004 (or 2003 if later data are not available) a number of indicators on the trends in bilateral funding can be identified. Table 3 has been compiled to provide an indication of the order of magnitude of bilateral funding reported by EU-15 countries, using the most recent yearly data found in the National Communications (2004 or the closest available year). The total amount seems to be in the range of over USD 600 million per year. This figure is certainly lower than the actual level since it does not cover all 15 Member States and in particular does not include any funding provided by two of the largest EU aid donors, Germany and the United Kingdom, which, paradoxically, did not provide any data in their respective 4th National Communications. No data at all is available for Luxembourg from UNFCCC sources, since this Party has so far failed to submit its 4th National Communication altogether. Another interesting indicator is that the largest share of bilateral funding (72%), as reported in the National Communications, is allocated to mitigation projects.

In addition to this aggregate information, using data covering the period ranging from 2001 to the most recent figures available, it is possible to work out that, across the 9 EU Member States for which there was sufficient data, annual bilateral contributions rose, on average, by just over USD 26 million from 2001 to 2004. This rise in yearly bilateral contributions compared to 2001 figures must be put into perspective as three of the 9 countries studied (Denmark, Italy and the Netherlands), account for nearly all of the rise in contributions and four other countries (Austria, Greece, Spain and Sweden) show near-stagnant or even declining levels of bilateral aid rather than increasing ones. The data available are not really sufficiently representative to be able to identify any unambiguous trend.

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[27] Report of the centralized in-depth review of the fourth national communication of Greece, Doc. FCCC/IDR.4/GRC, 8 February 2007, p. 12, para. 47; Report of the centralized in-depth review of the fourth national communication of the United Kingdom, Doc. FCCC/IDR.4/GBR, 18 January 2007, p. 14, para. 52.

As bilateral financial assistance to developing countries for climate mitigation or adaptation would also be reported by the donor countries as Official Development Assistance (ODA), it is interesting to compare the data derived from UNFCCC sources with general statistics on ODA for the same EU Member States. The trends and evolutions in ODA given by the EU-15 over a 15 year period ranging from 1990 to 2005 are highlighted in Table 4. Out of the 14 countries for which data is available there is an even split between countries whose overall ODA levels are on the rise and those whose levels are decreasing. Not only have half the countries not increased ODA, but some of those with decreasing overall ODA levels happen to be amongst the biggest contributors to climate change aid at the EU level with such countries as Denmark, Germany, France, Italy and the Netherlands showing a declining trend in ODA as part of GNI (%). With the exception of Italy, these are the very same countries that implemented a significant effort to 'green' their ODA in the 1990s.

The evolution of climate-related aid must be analysed against the background of overall trends in ODA. In 2002, the year after the Bonn Declaration, in the run-up to the Monterrey Conference on Financing for Development and the Johannesburg World Summit on Sustainable Development, the EU-15 made a general political commitment to increase their ODA levels relative to GNI. As the data in Table 4 shows, many EU-15 Member States have not lived up to this promise. Consequently, where Member States report increasing bilateral aid in the climate change area, this may in some cases be happening in the context of a declining overall aid effort in relation to GNI. The European Parliament, in the preamble of a recent resolution on the EU position for the Copenhagen climate conference, has echoed the concerns of many developing countries by deploring that "most of the money promised for climate change comes from [ODA] budgets, thus diverting funds from development assistance and posing a serious threat to poverty reduction and the attainment of the Millennium Development Goals (MDGs)."[28]

[28] European Parliament resolution of 25 November 2009 on the EU strategy for the Copenhagen Conference on Climate Change (COP 15), preambular clause G.

Table 3 – Funding provided in climate change related bilateral initiatives between EU-15 and developing countries for the year 2004 (or the closest available year) according to 4th National Communications under UNFCCC

Donor Country	**Date of last National Communication**	**Mitigation (US$mil/EUR€mil unless stated otherwise)**	**Adaptation(US$mil/EUR €mil unless stated otherwise)**	**Total (US$mil/EUR€ mil unless stated otherwise)**	**Mitigation (M)-Adaptation (A) Distribution of funds (%)**
Austria	18/10/2006	*2004* (5.30/4.27)	*2004* (0.10/0.08)	*2004* (5.40/4.35)	**M: 98% A: 2%**
Belgium	23/12/2005	n.a	n.a	*2003-2004* (11.55/9.72)	n.a
Denmark	30/12/2005	*2004* (81.32/ 65.38)	*2004* (17.87 14.36)	*2004* (99.19/ 79.74)	**M: 82% A: 18%**
Finland	10/02/2006	n.a	n.a	*2003* (5.40/4.77)	n.a
France	07/07/2006	n.a	n.a	*2004* (275.51/ 221.57)	n.a
Germany	19/10/2006	n.a	n.a	n.a	n.a
Greece	10/03/2006	*2003* (0.27/0.24)	*2003* (0.83/0.73)	*2003* (1.10/0.97)	**M: 25% A: 75%**
Ireland	30/04/2007	n.a	n.a	n.a	n.a
Italy	12/06/2008	*2004* (42.18/ 33.92)	*2004* (20.47/ 16.46)	*2004* (62.65/50.38)	**M: 67 % A: 33%**
Netherlands	22/12/2005	*2004* (67.72/ 54.46)	*2004* (8.18/6.58)	*2004* (75.90/61.04)	**M: 89% A: 11%**
Portugal	26/07/2006	n.a	n.a	*2004* (2.23/1.79)	n.a
Spain	23/03/2006	*2004* (1.08/0.87)	*2004* (0.98/0.79)	*2004* (2.06/1.66)	**M: 52% A: 48%**
Sweden	30/12/2005	*2003* (54.68/ 48.30)	*2003* (52.04/ 45.97)	*2003* (108.19/ 95.57)	**M: 51% A: 49%**
United Kingdom	15/05/2006	n.a	n.a	n.a	n.a
Total		**252.55/ 207.44**	**100.47/ 84.97**	**647.71/530.26**	**M: 72% A: 28%**

Table 4 - Evolution of ODA relative to GNI (%) and 'environmental' ODA relative to total ODA for EU-15 - 1990-2008

Country	1990 ODA as part of GNI (%)	2005 ODA as part of GNI (%)	2008 ODA as part of GNI (%)	1990-2005 difference (%)	2005-2008 difference (%)	1990-1999 difference in environmental aid as percentage of total ODA, bilateral donors (%)
Austria	0.11	0.52	0.42	+0.41	-0.10	+4.6
Belgium	0.46	0.53	0.47	+0.07	-0.06	n.a.
Denmark	0.94	0.81	0.82	-0.13	+0.01	+2.1
Finland	0.65	0.46	0.43	-0.19	-0.03	+2.2
France	0.60	0.47	0.39	-0.13	-0.08	+3.1
Germany	0.42	0.36	0.38	-0.06	+0.02	+7.7
Greece	n.a	0.17	0.20	n.a	+0.03	n.a.
Ireland	0.16	0.42	0.58	+0.26	+0.16	n.a.
Italy	0.31	0.29	0.20	-0.02	-0.09	-3.7
Luxembourg	0.21	0.82	0.92	+0.61	+0.10	n.a.
Netherlands	0.92	0.82	0.80	-0.10	-0.02	+1.9
Portugal	0.24	0.21	0.27	-0.03	+0.06	+0.4
Spain	0.20	0.27	0.43	+0.07	+0.16	+3.4
Sweden	0.91	0.94	0.98	+0.03	+0.04	+1.7
United Kingdom	0.27	0.47	0.43	+0.20	-0.04	-1.7

Sources:
1990-2005 levels: http://hdrstats.undp.org/indicators/160.html
2008 data: Commission staff working paper (SEC(2009)444), http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2009:0444:FIN:EN:PDF
1990-1999 comparison: adapted from Hicks, R.L. Parks, B.C., Roberts, J.T. and Tierney, M.J, (2008) *Greening Aid? Understanding the Environmental Impact of Development Assistance*, Oxford University Press, New York, p. 129.

Comparison of the data in Table 3 with data derived from the OECD Development Assistance Committee's ODA statistical database raises even more questions about the reliability of the financial information reported in UNFCCC National Communications and the actual trends with respect to bilateral funding. The figures in Table 5 reflect the amounts of bilateral ODA commitments from 2004 to 2007 which have been reported by the EU-15 to the OECD as specifically related to climate change. There are puzzling discrepancies between these figures and those that can be drawn from the National Communications. Only four EU-15 Member States have reported climate change related bilateral aid to the OECD in 2004, whereas twice as many mention such funding in their National Communications for the same year. For those that appear in both tables, the amounts reported are different. Two of the Member States which did not provide any quantitative data to the UNFCCC (Germany and the UK) did report significant amounts of climate change related bilateral funding to the OECD for at least one of the four years covered by the OECD data. Moreover, the OECD statistics show strong fluctuations from year to year for those countries which reported data for more than one year. Though the number of aid donors reporting bilateral ODA in the climate change area seems to be increasing, the OECD dataset does not show a clear trend. Following a significant increase from 2004 to 2006, there was a sharp drop in bilateral climate aid commitments in 2007.

Table 5 – Amounts (in USD millions) of bilateral ODA commitments from 2004 to 2007 reported to the OECD as specifically related to climate change by EU-15

Donor Country	**2004**	**2005**	**2006**	**2007**
Austria	3.28	3.21	10.27	1.06
Belgium	0.00	5.78	1.51	0.30
Denmark	23.38	..	..	21.82
Finland	..	..	..	0.7
France	..	..	178.61	441.83
Germany	..	611.78	824.51	..
Greece	..	..	0.01	3.19
Ireland	..	..	..	..
Italy	..	..	2.59	..
Luxembourg	..	..	..	..
Netherlands	83.89	..	0.08	..
Portugal		0.51	0.70	..
Spain		..		..
Sweden		0.72		0.30
United Kingdom		..		50.39

Source: data extracted on 20 January 2009 from OECD.Stat

The quality and comparability of the information provided in National Communications about financial assistance given through multilateral channels other than those mentioned above did not allow any meaningful compilation to be made, let alone conclusions to be drawn. Some Member States did not provide any data about such aid at all, while others mentioned support to individual multilateral projects or agencies or provided aggregate information which did not make it possible to identify the relevant channels and identify their relevance to the objectives of the UNFCCC. While Belgium[29], for example, provides a clear breakdown of the amount of funds given to each multilateral institution and aimed specifically at climate change (but does this only for the years 2003-2004), other Member States are much less specific. Greece merely gives a table indicating the overall amount of aid given to multilateral institutions that help promote sustainable development generally[30]. Austria, for its part, simply lists all its contributions to multilateral development institutions with the caveat that "most of these contributions cannot be specifically attributed to the implementation of the Convention".[31] In those circumstances, collecting the relevant information for all 15 Member States would have required considerable additional research based on other (national or international) information sources, research we were unable to perform for this article due to resource constraints.

[29] Belgium, 'Fourth National Communication on Climate Change Under the United Nations Framework Convention on Climate Change', 2006, available at: http://unfccc.int/resource/docs/natc/belnc4.pdf

[30] Greece, Ministry for the Environment, Physical Planning and Public Works, '4th National Communication to the United Nations Framework Convention on Climate Change', 2006, available at: http://unfccc.int/resource/docs/natc/grenc4.pdf

[31] Austria, Fourth National Communication of the Austrian Federal Government in Compliance with the Obligations under the United Nations Framework Convention on Climate, Vienna, September 2006, p. 144, available at: http://unfccc.int/resource/docs/natc/autnc4.pdf

5. Conclusions and outlook

The average annual level of financial support to developing countries collectively provided by the 15 EU Member States which subscribed to the Bonn Declaration through specific multilateral climate change related funding channels falls well short of the level of USD 369 million to which they committed themselves. Whether or not the EU is complying with its political commitment under the Bonn Declaration depends entirely on these Member States' bilateral aid efforts and any additional contributions through other multilateral channels. Unfortunately, the information on such efforts in most of these countries' National Communications under the UNFCCC is insufficient to enable even an informed observer to make a reliable judgment about the volume of aid *additional to 2001 levels* that is effectively being provided at the present time. The orders of magnitude reported would seem to indicate that the Bonn target may have been met, but a higher quality and consistency of information would be required for independent verification.

More than eight years after the Bonn Agreements, and given the continued importance of the funding issue on the agenda of the ongoing multilateral climate negotiations, it is amazing that there is not a single official document issued by the EU with reliable and verifiable information on the total level of financial support provided by the Union and its Member States to developing countries for climate change mitigation and adaptation purposes. This lack of transparency is clearly inconsistent with the EU's self-proclaimed global leadership in the climate change process. Though some Member States may find it politically convenient to maintain ambiguity about individual national financial commitments and actual contributions, this is detrimental to the credibility of the Union as a whole.

In September 2009, in an attempt to seize the initiative on the issue of international climate finance and bring momentum back to the negotiations in the run-up to Copenhagen, the European Commission issued a policy paper entitled 'Stepping up international climate finance: A European blueprint for the Copenhagen deal'[32]. The stated aim of this Commission Communication is to "unlock the current impasse" in the negotiations by setting out the likely scale of climate finance required as well as the possible means to generate it. Ironically, in view of the EU's poor performance with respect to transparency of funding delivery under the Bonn Declaration, the Commission Communication argues that "establishing a fully transparent reporting of all public financial flows to and its ultimate uses in developing countries will be essential."[33]

According to Commission estimates, "finance requirements for adaptation and mitigation actions in developing countries could reach roughly €100 billion per year by 2020." International public funding would play a key role in helping reach this figure. The Commission's best estimate gives figures of €22 to 50 billion per year needed from international public finance by 2020. According to the Commission, the appropriate EU share of public funding, depending on criteria used to determine the burden-sharing system that is to be applied between donors, would be between €2 and

[32] European Commission, *Stepping up international climate finance: A European blueprint for the Copenhagen deal,* COM(475) final, available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2009:0475:FIN:EN:PDF
[33] Commission Staff Working Document SEC(2009) 1172/2, p. 19.

15 billion per year in 2020. In the event of a successful agreement in Copenhagen, the Commission argues, fast-start financing will be needed for adaptation, mitigation and capacity building in developing countries and the EU should consider an immediate contribution of €0.5 to 2.1 billion per year as of 2010. Even these short-term figures are already an order of magnitude higher than the Bonn Declaration commitments of 2001, not to mention the medium-term financing needs expressed in billions rather than hundreds of millions of euros. However, none of these figures represent formal EU proposals; they are merely suggestive since any firm commitments would have to be made by Member States either individually or acting collectively through the institutions of the Union. At the time of writing, the debate within the different Council formations concerned and between political leaders within the European Council was still ongoing.

The hot potato of climate finance has been tossed around between environment ministers, finance ministers and Heads of State or Government for most of 2009, with many Member States effectively adopting a wait-and-see attitude. The political decision on the nature and volume of public financial support that the EU-27 would be willing to provide in the context of a Copenhagen agreement was expected to be made by the European Council at its meeting in Brussels on 29-30 October. However, though recognising that "[a] deal on financing will be a central part of an agreement in Copenhagen" and that a "gradual but significant increase in additional public and private financial flows is needed to help developing countries implement ambitious mitigation and adaptation strategies",[34] EU leaders stopped short of making clear commitments as to the EU's likely contribution to the financial part of the Copenhagen deal. They endorsed the Commission's estimates of the overall amount of new funding required in developing countries, but did not take a position on the specific proposals put forward by the Commission in its Communication of September 2009. The 'Guidelines for the EU position on international climate finance', annexed to the Presidency Conclusions, recognise that international public finance has an important role to play, stressing that donor countries "should finance their contributions based on national priorities and in accordance with budgetary frameworks and national budgetary principles."[35] They also call for a "global distribution key" for financial contributions from public sources, which would "ensur[e] trust in the fair distribution of financing" and provide "a benchmark against which financing deliveries can be verified."[36] This key should be based both on emission levels and ability to pay, and applied to all countries, except the least developed. On this basis, the EU and its Member States would be "ready to on their resulting fair share of total international public finance".[37] However, the European Council was not yet prepared, at the end of October, to announce, even conditionally, what would be the approximate volume of that 'fair share'. The issue of burden-sharing, both between the EU and other contributors and within the EU, apparently remains as controversial today as it was in the aftermath of the Bonn Declaration.

The European Parliament, for its part, has made clear its position on international climate finance in a resolution on the EU strategy for Copenhagen, which goes far beyond what the European Council is prepared to commit to. In what

[34] Presidency Conclusions, European Council, Brussels, 29-30 October 2009, p. 5, para. 12.
[35] *Ibid.*, Annex II, p. 20, para. 15.
[36] *Ibid.*, Annex II, p. 20, para. 14.
[37] *Ibid.*, p. 5, para.16.

sounds as a direct rebuttal of the leaders' position, the Parliament's resolution "insists" that "commitments to provide for the required predictable financial support for climate change mitigation and adaptation in the context of the UNFCCC must be new and additional to ODA and *independent from annual budgetary procedures in the Member States*".[38] According to the resolution, the EU's collective contribution should reach the target of €30 billion per year by 2020,[39] a figure several orders of magnitude higher than the previous EU commitment made in the Bonn Declaration.

This is not the first time the European Parliament has challenged the Council on climate finance issues. During the legislative negotiations on the climate and energy package of legislation at the end of 2008, it proposed amendments which would have put a legal obligation on Member States to use a significant share of future revenues from the auctioning of emission allowances under the EU Emissions Trading Scheme for the purpose of providing financial assistance to developing countries, a demand it was eventually forced to abandon in the face of strong opposition from Member States insisting on their fiscal and budgetary autonomy. In the adopted version of the amendments to the ETS Directive, both institutions settled for recommendatory wording only.[40] As the language of the Presidency Conclusions of the October 2009 European Council indicates, similar considerations are still of paramount importance in the run-up to Copenhagen, and there is little support for Commission proposals on future financing mechanisms that would imply a significant shift away from the current system of voluntary national pledges. The attitude of Member States on this question may well prove an important stumbling block in Copenhagen.

[38] European Parliament resolution of 25 November 2009 on the EU strategy for the Copenhagen Conference on Climate Change (COP 15), para. 21 (emphasis added).
[39] *Ibid*., para.23.
[40] Directive 2003/87/EC, as last amended by Directive 2009/29/EC, art. 10(3).