

Financial Mechanisms

COORDINATORS

J. Oppenaeu (France)

P. Vellinga (Netherlands)

A. Ibrahim (Egypt)

CONTENTS

FINANCIAL MECHANISMS

10.1	INTRODUCTION	249
10.2	GENERAL CONSIDERATIONS	249
10.3	GUIDING PRINCIPLES FOR COOPERATION	250
10.4	USES OF FINANCIAL RESOURCES	251
10.5	SOURCES OF FINANCIAL RESOURCES	252
10.6	INSTITUTIONAL MECHANISMS	253
10.7	FUTURE WORK PROGRAMME	254
10.8	CONCLUDING REMARKS	255

10.1 INTRODUCTION

10.1.1 The financial approach presented in this document is based on discussions within the Intergovernmental Panel on Climate Change (IPCC) Response Strategies Working Group (RSWG). A workshop on "Implementation Measures" including "Financial Measures" was held in Geneva, October 2-6, 1989. Prior to that workshop, views on this topic were submitted by Australia, Canada, France, India, Japan, Malta, the Netherlands, New Zealand, Norway, and the United Kingdom. Views were also submitted by the following Non-governmental Organizations (NGOs): the Natural Resources Defense Council (NRDC) of the United States, and the Stockholm Environment Institute (SEI) of Sweden. Since then, additional contributions on the topic were sent to the coordinators by Canada, Japan, Norway, Switzerland, and the United Kingdom, as well as by NRDC. The document is intended to reflect a wide variety of ideas and opinions and should lead to effective action to tackle the problem of global climate change.

10.1.2 Scientific analysis on the issue is not yet finalized. The nature and the scale of the economic and technical measures which are needed will determine the scope and conception of finance. Response measures will, in part, be determined as a result of ongoing deliberations within the IPCC. The financial options listed here are discussed with a view to defining a sufficiently broad, flexible, and cooperative framework for action.

10.1.3 Although the scope of the discussed mechanisms is not limited to developing countries, this paper pays special attention to the mechanisms that

should help countries where the protection of the atmosphere would entail a special or abnormal burden, in particular due to their level of development or their effective responsibility in the deterioration of the atmosphere.

10.1.4 The objective is to encourage adoption by industrialized and developing countries alike, of strategies to adapt their economy to control, limit, or reduce greenhouse gas emissions and at the same time increase the capacity of the natural environment to absorb these gases.

10.2 GENERAL CONSIDERATIONS

10.2.1 The following considerations require special attention. The first tangible results in limiting climate change by these actions will not appear for some time. We are thus engaged in a long-term process.

10.2.2 Environmental problems caused by global warming can often not be disassociated from other environmental problems or from other development factors. This interdependence of environment and development must be recognized and taken into account in the actions of the international community.

10.2.3 The programmes to be undertaken will require actions in both industrialized and developing countries, under the following broad categories: limitation/reduction measures, adaptation measures, research and development, transfer of technologies, public awareness, and education.

10.2.4 The special needs of developing countries, including their vulnerability to problems posed by climate change and their lack of financial resources, must be recognized and cooperation and assistance tailored to meet their individual needs. Financing requirements might be considerable. Substantial economic gains, however, could be achieved, for example, through measures that result in energy conservation and efficiency. Economic and technological measures are described in more detail in a separate implementation paper.

10.2.5 The presence of a positive international economic environment, including further reduction of trade barriers, will also be important to support economic growth of developing countries, and to generate resources that can be applied toward pressing needs.

10.2.6 The scale and diversity of the environmental requirements in developing countries, together with their development problems, favor an approach that ensures mobilizing a wide variety of international organizations, possibly including new ones. It will also be important to ensure the full participation of existing regional organizations.

10.2.7 Priority should be given to those financial measures and policies that can have an early impact in limiting or reducing emissions of greenhouse gases and that make economic sense in their own right.

10.3 GUIDING PRINCIPLES FOR COOPERATION

10.3.1 The following principles derived from, *inter alia*, the UNGA Declaration 43/53 and the Noordwijk Declaration on Climate Change should guide the financial approach. They do not, of course, predetermine legal issues arising from a future climate convention. These issues are discussed in a separate implementation paper as well.

- 1) Industrialized and developing countries have a common responsibility and need to limit and/or adapt to climate change. The interdependence of the causes of global warming and the interweaving of the necessary economic solutions require a collaborative approach, with due respect to national sovereignty. This concept is based upon the recognition that:
- 2) The atmosphere and climate are vital to all human beings.
- 3) It is important for every person and country to contribute to limiting climate change caused by human activities.
- 4) In pursuing economic growth as a legitimate means of improving standards of living, countries need to integrate environmental considerations with development policies in order to ensure sustainable development.
- 5) The elements outlined above apply to industrialized countries as well as to developing countries. All countries are likely to face increased costs associated with preventive and adaptive measures necessary to address climate change.

10.3.2 Industrialized countries have specific responsibilities on two levels.

- 1) Major part of emissions affecting the atmosphere at present originate in industrialized countries where the scope for change is greatest. They should therefore adopt domestic measures to limit climate change and take the lead in setting an example by adapting their own economies in line with future agreements to limit or reduce emissions. The field of action involves faster suppression of the production and consumption of chlorofluorocarbons, energy savings or recourse to non-fossil energy sources, a rational use of forestry resources to commence active reforestation, limiting, or reducing CO₂ emissions, etc.
- 2) They should help developing countries participate in international action without compromising their development, by contributing additional financial resources, by appropriate

transfer of technology, by engaging in close cooperation concerning scientific observation, by analysis and research, and finally by means of technical cooperation and assistance geared to forestalling and managing ecological problems. Additional resources should over time be mobilized to help developing countries take the necessary measures that are compatible with their development requirements, and thus compensate for the additional specific effort they would be ready to make. Furthermore, they should show scientific leadership in addressing climate change issues including systematic observations, modeling, prediction, and assessment.

10.3.3 Emissions from developing countries are growing and may need to grow in order to meet their development requirements and thus, over time, are likely to represent an increasingly significant percentage of global emissions. Developing countries should take measures to adapt their economies. They should undertake, according to their individual circumstances, to set out on a course to make a rational use of forestry resources to commence active reforestation and to promote energy savings or recourse to non-fossil energy sources. International cooperation and urgency plead in favor of the adoption of such programs, which are likewise applicable in industrialized countries. The immediate development needs of developing countries would under present conditions require an increase in their present level of CO₂ emissions. The developing countries should attempt to minimize such increases in emissions.

10.3.4 Multilateral development banks, bilateral assistance programs, and United Nations development and scientific and technological organizations should be used in their respective fields of competence. A number of delegations have observed that it is necessary that these institutions expand their fields of competence into new areas that are responsive to environmental necessity. What is justified is a reinforcement of external support for revised internal priorities, policies, and measures, including internal resource allocation, which are in the country's own interest. In addition, regional coopera-

tion bodies should adopt the required initiatives and implement the appropriate solidarity action at their level. A concerted effort by all of the above-mentioned institutions to formulate coordinated, integrated strategies that assure that all development assistance investments, whether undertaken with existing or additional funds, would further the goal of climate stability.

10.4 USES OF FINANCIAL RESOURCES

10.4.1 The Working Group reached a general consensus on priority use for financial resources channeled to developing countries. It was accepted that some activities contributed both to limiting/reducing greenhouse gas emissions and promoting economic development, and that early priority should be attached to these.

10.4.2 It was noted that some activities would require a much greater scale of resources than others, and that considerations of cost effectiveness should apply in deciding particular priorities. It was further noted that there was already a significant amount of activity being funded by existing assistance organizations in some of the priority areas.

10.4.3 Among the highest priority areas for cooperation and assistance are those enumerated below.

- 1) Efficient use of energy, including appropriate use of technologies, increasing the use of non-fossil fuels, and switching to fossil fuels with lower GHG emission rates.
- 2) Forestry—to promote the rational management of forest resources and reforestation.
- 3) Agriculture—to limit or reduce greenhouse gas emissions from agricultural activities.
- 4) Measures taken under the Montreal Protocol to help developing countries in the develop-

ment and introduction of alternatives to CFCs and halons.

- 5) Cooperation with and assistance to developing countries for their full participation, as recommended by the Special Committee on the participation of developing countries in the meetings of the IPCC; a simple system of mobilization and coordination (with a leading role for coordinating the participation of developing countries by the IPCC Secretariat) should be elaborated.
- 6) Cooperation and assistance, including transfer of expertise such as that required to develop and operate forest management programs and large-scale reforestation programs, to help developing countries plan how to tackle problems posed by climate change, including cooperation and assistance in the design of policies and programmes. This holds for adaptation as well as for limitation/reduction-oriented policy planning. It was noted that small investments in policy or programme design could yield large returns.
- 7) Research and development programmes — including monitoring climate change and research on technologies that might be used to reduce/limit emissions of greenhouse gases and develop adaptive strategies.
- 8) Technology transfer arrangements, including the training of experts.
- 9) Public awareness and education.

10.4.4 Some delegations also suggested that financial resources might be used for the following purposes:

- 1) Cooperation with developing countries, which in future abstain from activities that produce greenhouse gases. In this context, regional banks, which have so far not been actively involved in the IPCC process, should play a coordinating role by introducing environmentally sound criteria in their projects. Furthermore, cooperation with and assistance to developing countries to support their activities that reduce net emissions of greenhouse gases or that introduce alternative technolo-

gies (i.e., those that emit low levels or no greenhouse gases) should be considered.

- 2) Assistance to developing countries in adjusting to the problems presented by climate change. It was noted that there might be a parallel with support for current economic or structural adjustment programmes.
- 3) Funding to support the developing countries in fulfilling their obligations under a climate convention, and subsequent related protocols, thereby ensuring widespread implementation of the required measures to limit, reduce, and, as far as possible, prevent climate change.

10.5 SOURCES OF FINANCIAL RESOURCES

10.5.1 The Working Group noted that the question of ways by which financial resources could be generated to assist developing countries was separate from the issue of how to channel those resources. It was agreed that all avenues should be considered. Among the options for generating official resources were mentioned:

- 1) General taxation or other revenues not necessarily related to climate change or the natural environment which might be allocated for specific budgetary purposes.
- 2) Specific taxes or levies related to the emission of greenhouse gases, including taxes or levies on the use of fossil fuels.

10.5.2 Other creative proposals for generating resources have included:

- 1) Undisbursed official resources, which might result from savings on government energy bills and lower levels of military expenditures.
- 2) Levying a fixed percentage tax on travel tickets issued worldwide.
- 3) A world climate lottery.

- 4) Once any future agreement or protocol on limiting/reducing greenhouse gas emissions is in place, it may be that one source of resources would be levies on or payments from countries unable to meet their treaty or other obligations.

10.5.3 Some delegations stressed the importance of assuring the additionality of resources. It would not always be possible to identify precisely all the resources thus allocated. However, whenever such identification is possible, separate statistics should be kept. The statistics relating to official development assistance of industrialized countries should be adapted so as to record the special effort that these countries would be prepared to make.

10.5.4 Some delegations expressed serious difficulties with proposals for prior dedication of resources, such as all or part of any revenues from taxes, levies, or fees on greenhouse gas emissions, but agreed that these should be studied among future options.

10.6 INSTITUTIONAL MECHANISMS

10.6.1 The Working Group agreed that a progressive approach should be adopted to meet the need for financial assistance and cooperation and the mechanisms to be utilized or developed. This approach would parallel that being pursued in the implementation of the Montreal Protocol on the phasing out of CFCs and halons.

10.6.2 There was agreement that resources should flow in a timely, coordinated, and cost-effective manner throughout the response tracks described below.

- 1) One track builds on work under way or planned in existing institutions. In this regard, the World Bank, a number of the regional development banks, other multilateral organizations, including the UN specialized agencies

such as UNDP, and the bilateral assistance agencies have initiated efforts to incorporate global climate change issues into their programs. The September 25th Communiqué of the Development Committee and the work plans of the new OECD Development Assistance Committee Group on Development Assistance and the Environment are particularly noteworthy. Each organization is expected to define coherent guidelines for action, and to review the need for additional resources and expanded programmes. Bilateral donors should further integrate and reinforce the environmental component in their assistance programmes, and develop co-financing arrangements with multilateral institutions: the deployment of *existing* development assistance monies should, therefore, be re-examined. In this regard, the Working Group welcomed recent initiatives to increase allocations of bilateral funds to support environmental programmes. The second track is described below.

- 2) A number of delegations from both industrialized and developing countries strongly urged that the parallel creation of new mechanisms or facilities, like a new international Fund, is already justified. They stressed that such new instruments should be directly related to a future climate convention or subsequent protocols. It was added that such new instruments could be located within the World Bank system (with new rules), or elsewhere. With respect to this, WMO, UNDP, and UNEP were mentioned. It was also noted that the Global Environmental Facility proposed by the World Bank in collaboration with UNEP and UNDP was welcomed. Moreover, some suggested that these instruments should receive guidance from an executive body to be created under a climate convention. Other delegations suggested and it was agreed that proposals for new instruments should be clarified. Some delegations stated that full assessment of existing mechanisms or facilities should be made before studying the need for new mechanisms or a new international Fund.

10.6.3 While generation of funds might be distinguished from allocation of funds, additional resources could be generated by a new mechanism from among the options described above (see section on sources of funds) but allocated to existing institutions to administer programmes.

10.6.4 The issue of additionality was discussed in some detail. A number of delegations both from industrialized and developing countries felt strongly that funds raised should be clearly additional and distinct from those provided for development assistance, and that they should be provided through separate windows or facilities to make clear that they would be provided under different terms than normal official development assistance. A number of industrialized countries indicated that they could not, at present, offer significant additional resources. This approach does not preclude the creation of a body, for consultations among the main multilateral partners, similar to the consultative group on international agricultural research. Furthermore, it was noted that unless serious attempts are made to minimize or eliminate contributions to atmospheric burdens of greenhouse gases from *existing* development assistance portfolios, it would be difficult or impossible to justify *additional* funds for this purpose.

10.6.5 Some delegations expressed the strong view that supportive economic measures would be important in the context of assistance provided. Others expressed reservations about the appropriateness of certain types of economic policy dialogue in this respect.

10.6.6 With regard to the two tracks outlined above, the group agreed that individual developing countries should initiate studies on their current and projected emissions levels and assistance needs in limiting/reducing them, across the three most important sectors—energy, forestry, and agriculture. A number of delegations advocated the involvement of the World Bank from the start. Each RSWG Subgroup should take these into consideration in its deliberations. Donors were urged to provide resources for such studies, which should be com-

pleted as expeditiously as possible. In advance of such studies donors and recipients should agree on the terms of reference. The Working Group noted that this approach paralleled that currently under way to implement the Montreal Protocol in which an accelerated effort is under way to complete assessments and country studies (supported by external resources) of the increased needs for cooperation and assistance to make possible a phase-out of production and use of CFCs.

10.6.7 While recognizing the complexity of such studies, the Working Group expressed the hope that such assessments and strategy plans would proceed expeditiously to permit early consideration of the magnitude of financing requirements, which might be encountered by developing countries. Some delegations strongly expressed the view that such information is indispensable to assess the capabilities of existing institutions, once strengthened and reoriented, to meet the financing needs identified, and to assess the need and scope for new mechanisms.

10.7 FUTURE WORK PROGRAMME

10.7.1 The Working Group agreed that further progress was needed in a number of areas, particularly in assessing the magnitude of the financing needed for developing countries, the need for new mechanisms, and the contribution of the private sector.

10.7.2 Individual country studies of current and projected emissions of greenhouse gases and plans for limiting or reducing emissions are needed to permit the assessment of the magnitudes involved. It was noted that the application of efficient technologies can have a major bearing on future capital requirements.

10.7.3 Such information is fundamental to determining the future demands on existing institutions

and the potential need for new mechanisms. There was consensus on the need to further study the context of a new mechanism, in the concept of a future climate convention or its protocols.

10.7.4 The Working Group further noted the important contribution that the private sector might make in cooperating with developing countries to respond to climate change. In particular, the private sector can facilitate effective technology transfer, and, through foreign direct investment, support economic growth and provide additional resources. The potential for co-financing and other forms of public and private sector collaboration should be explored.

10.8 CONCLUDING REMARKS

The framework for action that has just been presented, and the financial mechanisms that could accompany it, are of a progressive nature. The first far-reaching measures (for example, research, swifter reduction of the emissions of chlorofluorocarbons, reinforcement of the scientific observations system, technical assistance for developing countries, support for forestry) are already under way and should be strengthened expeditiously.

