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DEVELOPMENT FINANCE CHALLENGES 2010 TO 2015: ISSUES PAPER FOR THE SENIOR LEVEL MEETING

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This document is submitted for DISCUSSION under Item 4 of the Draft Annotated Senior Level Meeting Agenda [DCD/DAC/A(2010)5/REV3].

This document has been approved by the DAC for submission to, and discussion at, the Senior Level Meeting.

This paper looks at the DAC's collective delivery against key global development finance challenges. Members' comments have been incorporated and annexes included in the current version. Key questions for the SLM are framed at the beginning.

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1. OVERVIEW AND KEY QUESTIONS FOR THE SLM

- 2010 is a watershed year for development finance.
- This paper looks at delivery against key global development finance challenges.
- These challenges combine accountability for past pledges toward the MDGs; leaning against the current economic crisis; responses to emerging needs, such as climate change; and frontier issues, such as innovative finance.
- Many DAC members are delivering on both their aid quantity and quality commitments. But overall there is still much to be done.
- In addition, donors face bunched calls for recapitalisation of several major multilateral funds and banks, alongside other multi-year claims on scarce ODA.
- Innovative financing and contributions from non-DAC donors are useful complements to DAC members' ODA, but not substitutes for the achievement of their ODA volume commitments.
- The sections below explore key policy issues for DAC members.

Four key sets of questions for consideration

On crisis responses and the HLM Action Plan

1. At the onset of the crisis, widespread development damage was feared, arguing for intensified international coordination around national recovery strategies. Such concerns also drove the DAC HLM Action Plan. Impact so far has been less consistently severe than expected, thanks to greater diversity and resilience in developing countries and prompt support mandated notably by the G20, providing a new centre of governance for the global economy. Much of the support has been delivered, appropriately, by multilaterals, especially the IMF and World Bank. In future systemic crises they will undoubtedly remain the spearhead of the international response, with additional coordination supplied by the G20. *Do members agree with this assessment? Is the current DAC response monitoring process providing added value?*

On resource availability and uses in the medium term

2. Most DAC members have adopted quantitative development assistance objectives through 2015, and others have declared their intentions well beyond 2010. *In the context of the upcoming UN MDG Review Summit, how would the development of overall resource availability scenarios through 2015 help the review process and subsequent action? Should these scenarios exclusively focus on DAC ODA, or also cover other flows?*

On additionality of public aid for new global challenges, especially climate change, to ODA

3. The role of ODA in climate change finance, as well as in other global initiatives, needs more elaboration. *What does "new and additional" public finance support to such purposes mean in practical terms? What steps are needed to enable DAC members to rise to such accountability challenges, as and when they are further defined through international negotiations*?

On leveraging other sources of development finance

4. Increasing access to new revenue streams and encouraging effective public-private mixes all hold the promise of leveraging ODA more effectively, and eventual exit from aid dependence. *Do members agree that ODA complements, but does not substitute for, such sources of finance? How much importance do they attach to DAC consideration of innovative uses of existing ODA and innovative sources or pools of funds?*

2. EMERGING LESSONS FROM THE ECONOMIC CRISIS AND THE DAC-HLM ACTION PLAN IN RESPONSE TO IT

The global crisis is having widely differing impact, cutting across country income groups. Duration and severity are still uncertain.

5. Information on crisis impact across and within developing and low-income countries, and especially on vulnerable communities and families, is still patchy. Country case analyses by ODI and IDS, among others, as well as World Bank and IMF work nonetheless point to a few key patterns.

6. The first is that net impact depends not just on exposure, in most cases to second-round shocks on trade, tourism and remittance earnings and FDI, but also on the extent of resilience, public and private, to these shocks. Some middle-income countries, especially commodity exporters, took a larger income and public finance hit than low-income ones, and some appear to be recovering much faster than others.

Opportunities arose for new strategies and faster reform. Policy space was greater than anticipated. Governance weaknesses have been exposed.

7. The second is that many developing countries, including many in Sub-Saharan Africa, had earlier created more policy space for themselves thanks to sustained pre-crisis reforms and thus had some room to absorb shocks, especially given flexible stances by the IFIs. The positive impact of international debt relief under the enhanced HIPC and MDRI initiatives added to this space. Sustained shifts in terms of trade (including new demand from emerging economies) provided some opportunities to shift economic strategy, as well as threats to established flows. Countries with chronically poor political governance and/or conflict conditions were least able to make room for change, or to claim transitional support effectively. Ownership, good and bad, continues to matter. A large majority of crisis-affected low-income countries, including in Africa, were able to develop recovery programme with IFI assistance.

IFIs responded to country demand mainly through reallocation. IMF facilities were overhauled and sustainably funded.

8. The World Bank, regional development banks and EU all moved rapidly to offer crisis-related finance from within existing concessional envelopes. In FY09, IDA commitments reached record levels. IDA's Financial Crisis Response Fast Track Facility has made it possible to frontload up to half of a country's allocation. In November 2009, a pilot Crisis Response Window was created to help non-oil exporting, IDA-only countries to access additional resources. The World Bank Group has also moved to expand the use of non concessional resources (IBRD and IFC) in IDA-eligible countries. The IMF implemented G20 calls to issue new SDRs, of which about USD 19 billion were allocated in August 2009 to low-income countries, about two-thirds available to countries most affected by the crisis. The IMF also overhauled its concessional lending framework, improving terms and access, and scaling up its concessional lending. It will also more than double the resources available for low-income countries to up to USD 17 billion through 2014, including through the use of profits from gold sales.

Yet overall projected financing gaps for LICs remain large. Non-DAC financial partners have helped stabilise overall flows. But there will also be compression of imports and public spending.

9. Nonetheless, estimates by the IFIs converge on substantial remaining financing gaps, from complementary perspectives. In September 2009, the IMF projected external financing needs of low-income countries to be on average in 2009-10 about USD 25 billion per year higher than in 2008. The World Bank, looking at critical MDG-safeguarding public spending not covered by domestic resources and existing aid, assessed net needs on a similar scale. The one-time SDR issue and special IFI concessional finance windows have helped bridge these gaps. The presence of emerging economy sources of financial co-operation, such as China, has had a substantial further stabilising effect, hard to quantify yet. Undoubtedly however a substantial remaining portion of these twin gaps will not now be closed by additional

external financing, but rather by import compression and delayed or foregone public and private spending, some of which will aggravate MDG-related needs.

Estimates of the crisis impact on poverty and MDGs are distressing: ground-truthed observations need to be made systematic.

10. Published World Bank estimates of the net negative MDG impact of the crisis, such as 64 million more people falling into poverty by the end of 2010 in developing countries and associated heavy rises in child mortality, are distressing. These calculations are based on past observed relationships between growth reduction episodes and poverty rates, and between income poverty and key human capital indicators. This could under- or over-estimate impact in specific countries now. The UN is proposing a networked approach to regular impact monitoring on the ground (GIVAS) that could yield more robust results.

HLM Action Plan commitments were only partly met. (See details in accompanying Action Plan monitoring report)

11. The HLM, meeting on May 27 and 28 May 2009, adopted a compact but demanding Action Plan (Annex 1) around six themes:

- delivering on past pledges in the face of pro-cyclical pressures;
- flexibly supporting crisis management and long-term growth and the MDGs;
- embedding the Paris Declaration (PD) and Accra Agenda for Action (AAA) into the crisis response;
- signalling greater predictability;
- ensuring complementarity between ODA and other flows; and
- mutual accountability around partner country crisis responses.

12. Overall, while hard evidence in several cases is not yet available, the assessment of progress in implementing commitments is mixed: some pledges were only partly met. Box 1 below summarises progress on each action area (more details are found in the accompanying Monitoring Report of the DAC HLM Action Plan on Responding to Global Development Challenges at a Time of Crisis [DCD/DAC(2010)7/REV2]).

The need for additional DAC interventions was less than expected thus far, but could loom larger in future systemic crises. Is there a need to continue current monitoring efforts?

13. The crisis impact thus far, whilst varying widely across countries, seems to be "manageable" through existing processes led by the IFIs, with less need for additional systematic bilateral coordination than originally predicted. The international community as a whole may have proved fortunate, as well as competent, in avoiding more serious, synchronised damage. Unforeseen developments and known risks, such as prolonged weaker growth in advanced economies, are not however to be excluded. The future need for heightened national and international coordination remains an open question. The G20 provides a new element for generating rapid international responses.

- *Do members agree with this assessment? Is the current DAC response monitoring process providing added value?*

Box 1: Action Plan Monitoring Scorecard

Action Area: *progress assessment*	Detailed assessment
Action Area A: Delivering on pledges: *Significant progress, but further action is still required.*	Aid to developing countries is expected to reach record levels in dollar terms in 2010, but still fall short of commitments. While the global economic crisis partly explains the difficulty in meeting these commitments, some countries, despite being hit hard by the crisis have maintained aid increases in line with earlier commitments. There is no evidence of further tying as a result of the crisis even though there is still room for further progress by members. On meeting trade commitments, the OECD's crisis related monitoring shows no evidence of increased trade protectionism, compared to previous crises, which is positive given the severity of the crisis.
Action Area B: Integrating crisis management with long-term growth and the MDGs: *Change underway, but progress on the ground not yet sufficient.*	At this stage there is little reported evidence of special bilateral support at partner country level in the context of the crisis, apart from earmarked contributions to IDA crisis facilities, totalling some USD 600 million. The priority for bilateral donors, as indicated in the 2010 DAC survey on future allocations, has been to maintain short-term predictability of funding to partner countries. The crisis has not led to significant cross-country reallocations of their original pre-crisis aid portfolios. Recipient countries have been able to juggle their priorities reasonably well with the help of IFIs, where the IMF has adopted a flexible stance in terms of fiscal policy and debt sustainability limits.
Action Area C: Embedding PD and AAA into the crisis response: *Insufficient progress in order to reach the action goals.*	Existing aid effectiveness efforts have proceeded independently from the crisis, rather than being centre stage in the crisis response. Improvements in the use of country systems, predictability and conditionality have not been identified as clear objectives to be accelerated in the crisis context, and have yet to be fully assessed. Progress in delivering on PD/AAA commitments remains a serious concern. Much of the crisis response activity, focused on thematic "vertical" initiatives, could conceivably reduce country ownership, but it is it too soon to assess this impact.
Action Area D: Signalling greater predictability in the international response: *Modest progress, but still short of action goals.*	The IFIs and the EC have quickly provided scaled-up, more flexible and crisis-tailored access to finance, mostly by frontloading resources within existing portfolios. How this has affected the medium/long term predictability of funding remains to be seen as it is not clear whether some frontloaded resources will be at the expense of reduced regular concessional allocations later. But the creation of the IDA crisis response window and EU flex mechanism in 2009, over and above country allocations at least for 2009 and 2010, are encouraging. Additionality of bilateral donors' earmarked contributions to multilateral crisis response initiatives are difficult to assess at this stage.
Action Area E: Ensuring complementarity between ODA and other development flows: *Significant progress, but further action is still required.*	A number of measures have been implemented in the course of 2009 to give some impetus to trace and benchmark other forms of development finance flows. The IMF and the World Bank have jointly adopted a more flexible approach as regards debt sustainability which may allow partner countries for more access to non concessional financing from MDBs and non-DAC donors. The DAC Secretariat is proposing to benchmark the landscape of other forms of development finance, which will also include innovative sources of development finance. The DAC is also pursuing its core mandate to promote a better understanding of development flows.
Action Area F: Monitoring and accounting for the crisis response by donors and partner countries: *Modest progress, but still short of action goals.*	The crisis' impact and response has been satisfactorily coordinated by the IFIs and in the context of their governance structures. There is limited evidence of additional crisis related country level coordination and impact measurement efforts, mainly because the dire circumstances which might have justified them have not materialised. In the course of 2009, the DAC Chair and Secretariat have made considerable efforts to flag the potential impact of the crisis on ODA. Discussion of the current Progress Report is the main locus of DAC accountability for the Action Plan.

3. PROGRESS WITH ODA COMMITMENTS AND CALLS ON ODA 2010-2015

Historic aid commitments in 2005, projected to increase ODA by $50b a year by 2010, included absolute targets set by some countries and minimum ratios of ODA/GNI by others.

14. The headline 2005 "goal" on aid, to raise it from around USD 80 billion to USD 130 billion a year by 2010 (in 2004 dollars), was in fact the sum of a series of announcements and aims, echoed and amplified/clarified, made within the EU, the G8 and later UN. The USD 50 billion figure was backed by UN and World Bank estimates of incremental MDG costs, net of domestic resource contributions.

15. The OECD performed this aggregation. Some countries announced absolute aid increases, in some cases only for some regions or some years: others committed to specific minimum levels of ODA/GNI ratios through 2010 and 2015. The intermediate annual steps were (and are) defined by individual members. The EU has a distinct monitoring process for its Member States' individual and collective commitments.

Due to lower subsequent income growth, the headline increase for 2010 is now valued at $44bn in constant prices

16. No-one had of course explicitly factored in the severe fall in incomes which subsequently hit DAC economies and the world. Given the linkage of most DAC aid commitments to income growth; this reduces the projected value of the 2005 announcements, in 2004 dollars, to USD 44 billion.

Against this test, the OECD projects DAC ODA to achieve a record real increase of $27bn or 35% in six years. Two thirds of members have met their commitments.

17. Based on 2008 actuals[1] and member spending plans to 2010 (see Annex 2), we expect that USD 27 billion out of this adjusted aggregate will be achieved by the end of this year. The good news here is twofold: DAC ODA will have risen to an historic high in nominal terms, and by 35% in real terms in six years, the fastest growth on record. And, fifteen out of 22 DAC member countries in 2005[2] will have met or surpassed their minimum commitments.

The remaining 2010 global gap is $17bn in real terms. This shortfall is concentrated in seven member countries. Performance also needs to be compared to starting points.

18. The bad news is that the DAC is still USD 17 billion short of the aggregate commitments in real 2004 terms, or USD 21 billion in 2008 dollars. Seven DAC members, among whom four G8 members, failed to meet their targets and account for the bulk of the shortfall.[3] Such performance should be compared to starting-points, as well as to declared ambitions, and what matters most is actual delivery[4].

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1. 2009 figures will be published at about the same time as the SLM but are not expected to change the thrust of this section.
2. The DAC has 24 members, including Korea which joined in 2010 and the EC which has responsibilities under the collective EU goal.
3. These are Austria, France, Germany, Greece, Italy, Japan and Portugal. Some other countries will meet their minimum EU target of 0.51% of GNI, but the dollar level of their aid will fall short of the Secretariat's 2005 simulation. See Annex 1 for details.
4. Some commentators have suggested further categorisation; see for example Homi Kharas, Brookings Institution http://www.brookings.edu/opinions/2010/0219_foreign_aid_kharas.aspx.

Aid to Africa is likely to increase by less than half the $25 bn aggregate aim. Aid fragmentation has worsened overall, especially among bilaterals.

19. The 2005 aim to increase aid to Africa by USD 25 billion, at the time thought to be half the overall ODA increase, is less easily attributable to individual efforts. Again, the subsequent increase is likely to be remarkable: an additional USD 12 billion or about 40% in six years[5]. However, again, the shortfall is substantial also: USD 13 billion, roughly three-quarters of the global shortfall. The original Africa aim was not explicitly linked to donor incomes. Some European donors who give large shares of their ODA to Africa account for a significant part of the shortfall.

20. Recent DAC work has drawn attention to other aid allocation imbalances. Cross-country fragmentation of aid, for example, has continued to worsen since 2005, despite the Paris Declaration and Accra Agenda for Action endeavours to improve it. One indicator is the significance in financial terms of aid relationships: 50% of the 4000 aid relationships tracked by the DAC account for about 5% of all country programmable aid (CPA), with the 25% smallest aid relationships involving only 0.1% of CPA.[6]

Growth of country programmable aid is slowing, with significant regional variations.

21. The 2010-2012 Survey of country aid allocations shows that:

- Growth in overall CPA is slowing, from 5% p.a. over 2005-2009 to 2% forecast for the next three years. This includes reserves not yet allocated to specific countries.
- CPA to least developed countries (LDCs) is growing at the same rate as overall CPA.
- CPA to Sub Saharan Africa is however growing somewhat faster (3% approx)
- CPA to fragile states however is set to grow slower than the average, with wide variations, from -6% in Cote d'Ivoire to +13% in Nigeria.

(Work is underway to map these forward country allocations also in terms of MDG status and trend: further information will be provided to the SLM in a room document)

Demands on DAC and other donors are high in 2010.Bunched decisions are needed on replenishment of several large concessional funds and development banks. These will claim scarce ODA.

22. 2010 also calls for simultaneous decisions - by coincidence - on the replenishment of all major concessional funds. These include, (brackets refer to last replenishment), IDA (USD 42 billion over 3 years); the AfDF (USD 8.9 billion over 3 years); GEF (USD 5.5 billion over 4 years); and the Global Fund (USD 8 billion over 3 years). Obviously real needs and inflation are generally increasing, and absorption capacity is also rising, so these historical references may be considered floor estimates. Contributions by non-DAC funders to these funds will also be substantial: for example the current IDA replenishment has 45 contributors.

23. At the same time, recapitalisation of several major international development banks and finance corporations, which provide market-related finance to creditworthy borrowers, is being actively discussed. While the loans they leverage do not count as ODA, shareholder contributions to their equity definitely do. The DAC share of the costs will vary depending on the relevant shareholder bases, around 50% for the global institutions (the pre-reform DAC

5 Measured against actual ODA to Africa of $29.5 billion in 2004.

6 2009 OECD Report on Division of Labour: Addressing Fragmentation and Concentration of Aid across Countries

share in IBRD is 59%) and different mixes elsewhere. Note that substantial calls will be made on emerging economy governments, boosting their ODA also, and proportionate burdens will fall on on the wider membership.

Relative shares of multilateral institutions vary widely across DAC member portfolios. DAC can build on Multilateral Report findings to address identified problems in the international architecture.

24. Multilateral aid is relatively concentrated: (83% of multilateral aid goes to just 5 multilateral clusters: IDA, EU institutions, UN Funds and Programmes, the Global Fund, and two main regional development funds (AfDF and ADF). DAC members appear to allocate multilateral aid based on very different rationales. For example, shares of DAC members' multilateral portfolios allocated to the Global Fund range from 1% to 19%. By this one can infer that donors have different assessments of the value of their core contributions to the same multilateral agencies. The Secretariat can provide harmonised comparisons of agencies' funding, activities and assessed effectiveness. Many allocation decisions are based on political preferences and established relationships. More DAC members are establishing systematic approaches to multilateral allocations. There is however considerable added scope for the DAC, as shown by the discussion of the first Multilateral Report at the last SLM, to address identified problems in the overall aid architecture. The next report will issue in June 2010.

In this "congested" situation, it is all the more striking that there are no consensus milestones for aid beyond 2010. Should DAC develop overall ODA availability scenarios through 2015?

25. The UN MDG Review Summit on the road to 2015 is fast approaching, in a general context of maximum fiscal pressure, and of this relatively congested sequence of multilateral initiatives. This argues for the development of consistent scenarios of resources likely to be available, or already committed, through 2015, against which various estimates of needs could be mapped. This would be relatively easy to cover for DAC ODA within the current work programme.

26. Mapping of possible future uses of ODA against this availability would be a more problematic task. It is possible to indicate orders of magnitude associated with recent thematic initiatives (see next section). Allocation of ODA among uses will however remain a subject for DAC tracking and review rather than forward coordination. Other uncertainties apply to generating even rough forward estimates for non-DAC donors and emerging economies, and for non-concessional public flows (Other Official Flows - OOF) from all sources. OOF is arguably less predictable over the medium term, as well as much smaller than ODA, after netting out loan reflows.

- *In the context of the UN MDG Review Summit, how would the development of overall resource availability scenarios through 2015 help the review process and subsequent action?* [7] *Should these scenarios exclusively focus on DAC ODA, or also cover other flows?*

[7] The US points out that as a matter of policy it does not forecast ODA.

4. STOCKTAKING ON RECENT THEMATIC INITIATIVES SUCH AS L'AQUILA FOOD SECURITY INITIATIVE (AFSI)

Food security, health and other thematic challenges compound the economic crisis, and are the object of several concurrent and proposed funding initiatives.

27. Before the financial and economic crises unfolded, there were other known underlying challenges, including critical fuel and water scarcity, food security and agriculture, HIV-AIDS and other dimensions of the health and education MDGs, some of which are mutually reinforcing. In several cases, most recently on food security, leaders have taken up these challenges in G8, UN and other forums, and marked their resolve with specific funding initiatives linked to thematic results.

Their focus on specific verifiable results is welcome, but can raise systemic coherence questions, especially if financing is narrowly earmarked by purpose.

28. Defining objectives by broad earmarked purpose (e.g. global food security) or more specific interventions (e.g. combating a specific disease) raises the public profile of the challenge. Such initiatives are not only beneficial for the specific results area, but also have the potential to generate greater public support for aid in general. The evidence on whether this happens on a large enough scale to prevent substitution is not clear-cut. It is often argued, for example, that strong support for HIV-AIDS interventions translates not just into increased funding to fight the disease directly, but also into increased aid budgets for health more broadly, within a rising overall ODA. Whether there is net crowding-out or crowding-in of aid overall as a result of earmarked programmes is difficult to determine, especially when several initiatives overlap.

Aid effectiveness concerns rise with the increasing complexity and fragmentation of delivery and governance channels and likely loss of country choice.

29. The narrower the earmark of aid at source, the more it restricts (by definition) choice and flexibility for the user whose own allocation preferences are likely to be different. Recipient governments with enough financial and managerial capacity may be able to redeploy their own resources within and across sectors so as to dampen or neutralise the final impact of donor-driven earmarks. Further transaction costs and inefficiencies arise if each earmark comes with a different rulebook, independent of national systems. This is a key issue of systemic coherence, all the more so when partner countries are not typically centre-stage in the design phase of such initiatives, yet face the brunt of subsequent adaptation costs.

Additionality of funding to new initiatives is becoming harder to prove, as claims on constrained ODA overlap. This could damage credibility.

30. In an expanding aid context, these costs and uncertainties could be tolerated by partner countries that might see beyond them a potentially attractive increment to their "normal" aid allocations. (Were they told, as a thought experiment, that each new initiative was to be paid dollar for dollar by cuts in their existing aid envelope, they might have other views).As initiatives multiply and their purpose overlap with existing programmes becomes greater, especially if growth in ODA is seen as slowing, the question of demonstrating "additionality" to public opinion reaches acute proportions. At the extreme, the credibility of such initiatives, essentially involving a repackaging of earlier announcements, can be undermined.

The OECD has supported the tracking of L'Aquila food security commitments.

31. Since the adoption of the Action Plan, 12 members have adopted the L'Aquila Food Security Initiative (AFSI), which is mobilising USD 22 billion [8]in ODA resources over three years through a coordinated, comprehensive strategy focused on sustainable agriculture development, while keeping a strong commitment to ensure adequate emergency food aid assistance. The extent to which the pledges of this large and informal group will be additional

[8] Current Secretariat estimate based on updated pledged amounts.

to the existing aid resources is still unclear. The OECD/DCD has been mandated with other partners in the AFSI group, including the Committee on Food Security (CFS), the World Bank, IFPRI, Global donor platform for rural development, the UN HLTF on the Global Food Security Crisis, and in close co-ordination with the group co-chairs, to track and report on AFSI commitments. Moreover, AFSI partners, with CFS taking the lead, are also discussing ways to devise a mapping and monitoring exercise on the ground, to complement the tracking of financial pledges.

Aid effectiveness and accountability must be hard-wired into new international initiatives. Should the DAC provide explicit guidance based on best practices?

32. More generally, in framing future global initiatives, the principles of effectiveness and result-orientation should be incorporated from the outset, making their objectives more measurable and contributing to greater accountability. The proposed DAC work programme incorporates a modest work stream to develop best practice in this area.

- *Do members consider that specific best-practice lessons on framing international initiatives to build in maximum development effectiveness and accountability would be helpful?*

5. COPENHAGEN IMPLICATIONS FOR DEVELOPMENT FINANCE, ESPECIALLY ODA

Development finance implications of the Copenhagen agreement have similar connotations, albeit on a greater scale and complexity.

33. The Copenhagen Accord (CA) implies major obligations for member countries, including financing commitments for the 2012 and 2020 horizons, in conjunction with emission reductions, technology transfer and other matters. The CA also provides for the creation of a new fund: the Copenhagen Green Climate Change Fund. The development finance dimension of the challenges post-Copenhagen have many of the complexities of the other global challenges just discussed, though on an altogether different scale, at least in the medium term and perhaps sooner.

Fast Start commitments aim to mobilise an additional USD 30bn over the next three years for adaptation and mitigation.

34. For example, fast start commitments ask for "new and additional" funding approaching USD 30 billion over 2010-2012 with balanced allocation between adaptation and mitigation, coming from developed countries collectively. This fast-start funding will mostly need to take the form of ODA and market-terms official finance, the latter bilaterally and through multilateral development banks, as new private and innovative sources will take more time to come into in place.

This is to be funded largely by DAC member tax bases and delivered mainly through existing channels, more than doubling their throughput.

35. This endeavour compares to World Bank estimates of current total flows for climate change mitigation and adaptation to developing countries through official channels of around USD 10 billion a year. If the collective commitment by developed countries is to provide new and additional resources approaching USD 30 billion for the period 2010-2012, taken literally, it implies roughly a doubling of effort. This will be harder to achieve if non-creditworthy countries are the main target for adaptation, as that constrains market-term loans and investments.

36. Moreover most climate change official finance is still bilateral today, especially from US, Germany and Japan. Therefore doubling this base would require for most of the increase to be channelled through (even if not financed by) those countries, for other bilaterals to ramp up their operations very fast, for the multilateral throughput, which is growing fast from a low base, to be

multiplied several-fold, or a mixture of all three. All three tracks raise practical absorption issues the DAC may wish to discuss. The pipeline will also be harder to expand fast to the extent that it is based on calls for proposals and their competitive assessment (see Box 2).

Box 2: The overlap of climate change with other development programmes requires full integration behind national priorities.

There is a substantial overlap between climate change and development programmes. Adaptation programs have a high degree of overlap with "regular" development programs in-country, as they seek to strengthen, repair and make climate-resilient a wide range of investments in, for example, water, agriculture, crops, transport, and coastal area development, which are prominent in national development strategies. For mitigation, the overlap is also large, especially in terms of close linkages with important development objectives in energy production, transport and forestry.

Given this fundamental overlap, developing countries will want to build any additional climate change financing streams closely into their national cross-cutting development strategies and their national systems of financial accountability. They should have control of how this is done institutionally, via *nationally-owned adaptation and mitigation plans and strategies*, as well as associated monitoring mechanisms, as clearly set out in the joint DAC-EPOC "Policy Guidance on Integrating Climate Change Adaptation into Development Co-operation." A recent EPOC-WPEFF meeting in Malawi explored the application of national systems strengthening to climate change programs.

International funding for adaptation should key off the same national strategies, and not try to superimpose elaborate proposal-based assessment machinery. For mitigation, a global public good where international value-for-money considerations are stronger, cross-country comparisons are more relevant, but the forms of assistance should still be as flexible and nationally-owned as possible. (For more information and analysis, see OECD consultation paper "Post-Copenhagen Climate Financing Architecture.")

Beyond 2012, even more ambitious resource goals ($100m/year by 2020) invoke a diversified financing pool and greater institutional innovation, guided by a High Level Panel.

37. Clearly the Copenhagen development finance challenges looking out to 2020 and beyond are of a different order again-but institutions developed in the next 2-3 years will powerfully shape them. The overarching goal of USD 100 billion a year by 2020 calls for much greater reliance on new financing streams, including those derived from carbon trading, forestry offset programs, etc. Many of these will be public-private partnerships and involve new international, regional and national arrangements. Crucial to this evolving architecture will be the findings of the High Level Panel (created by the UN Secretary-General) on the potential sources of revenue, including alternative sources of finance, towards meeting this goal.

38. Also ahead is the idea of a Copenhagen Green Climate Change Fund, whose form and scope remains to be defined. It is essential (see Box 2) that the development "fundamentals" of ownership, predictability, national accountability for results and reduced fragmentation inspire its development. Moreover, there are opportunities for networking across multiple existing funds and actors that need to be thoroughly explored as an integral part of this exercise, before yet new institutions are launched.

Box 3: Tracking adaptation and mitigation finance

1. Existing instruments and further options.

Key post-Copenhagen processes, including the Mexico CoP-16, will need to find robust mechanisms for monitoring, reporting and verification (MRV) of actions undertaken, including of course their financial dimension. At the moment, the DAC climate change "marker" for mitigation and the recently approved new marker for adaptation provide the only systematic way to track what components of public finance flows by reporting countries serve clearly defined adaptation or mitigation objectives. This tracking service will also apply to non-concessional financing from international financial institutions and could form a useful basis for wider tracking of non-DAC and even private flows, if resources are available and stakeholders agree.

2. Quantifying additional ODA for climate change also requires agreement on attribution rules.

The question of "additionality" of climate change finance to DAC, or indeed world, ODA, does not stop there. Markers show us which components of source country assistance portfolios are at least partly dual purpose (development, and one or both aspects of climate change action), but do not apportion amounts within each program to each objective. The high intrinsic purpose overlap discussed in Box 2 makes this problematic. It would be a challenging task for the DAC to decide on attribution guidelines for different types of programs (depending on sectors, extent of earmarks etc) that would help approximate this accounting by volume between "climate" and "non-climate". For this process to be seen as objective, it would moreover have to draw in a broad range of expertise from partner countries and other stakeholders involved post-Copenhagen.

3. Policy considerations intervene in choosing baselines against which to compare ODA progress.

Even if a system were developed to split climate from non-climate ODA within each single project, it is not clear that this would be sufficient for monitoring international commitments. For example, some might see the Copenhagen Accord as allowing the full value of relevant mitigation and adaptation projects to be counted, whereas others might insist that only the "climate-specific" share of an activity qualified. Moreover, does "new and additional" mean additional to future ODA levels already committed to but not yet reached, or only to current levels? What share of the collective commitment can be attributed to any individual developed country? Such issues obviously also need to be seen in a wider setting.

39. Several technical and political issues (see Box 3) would need to be resolved to permit credible monitoring of the fulfilment of Copenhagen commitments, as the DAC has traditionally carried out in respect of its members' other aid volume commitments. The DAC might stand ready to offer its technical expertise to support any international effort to track climate change financing.

- *The role of ODA in climate change finance needs more elaboration. What does "new and additional" public finance support to such purposes mean in practical terms? What steps are needed to enable DAC members to rise to such accountability challenges, as and when they are further defined through international negotiations?*

6. MOBILISING DOMESTIC RESOURCES THROUGH TAXATION

Domestic resources can provide a sustainable long-term exit from aid-dependency. A stronger tax base is also integral to good governance.

40. Taxation provides governments with the funds needed to invest in development and in the longer term offers an antidote to aid dependence in the poorest countries and a predictable fiscal environment to promote growth. The Doha Declaration confirms the need to step up efforts to enhance tax collection, with a view to supporting pro-poor development. More broadly, in addition to providing a platform for development, taxation is integral to the 'good governance' agenda. By stimulating discussion between states and their citizens, the taxation process is central to more effective and accountable states. Recent evidence also indicates that reforms which begin in tax administration may spread to other parts of the public sector.

International tax cooperation is accelerating. Regional tax networks are delivering results. There are high returns to further investments in this area.

41. Developing countries also recognise the need to work globally as an integral part of international efforts to combat illicit financial flows, and especially offshore tax evasion. The call for action is increasingly coming from developing countries themselves. In Africa, the creation of the African Tax Administration Forum, driven, managed, and to be operationally funded by Africans, provides a key platform for peer learning, capacity development and dialogue.[9] There are significant further capacity development needs in developing countries. Up to now, direct support for revenue and customs sectors has attracted a minimal share of aid (around 0.1% of ODA annually). National tax system development is also linked to international investment. Perceptions of tax fairness and transparency shape the climate for foreign direct investment. Moreover international transfer pricing, largely beyond the control of small developing countries, shapes the tax yield from that investment, adding to the case for international cooperation.

The DAC and the OECD's Committee for Fiscal Affairs are developing joint work on tax and development in support of international initiatives. How can this best be advanced?

42. The last few years have seen several new initiatives to promote collective action on taxation as a development priority. These include the International Tax Dialogue (involving the OECD, the IMF, the World Bank, the EU and other development partners) and the German inspired International Tax Compact in collaboration with the EU. The Spanish Presidency of the EU and the G20 are prioritising tax and development in 2010. There is strong work underway by the DAC GOVNET Tax and Development Task Team, and joint work between the DAC and the Committee for Fiscal Affairs, following a first-ever joint meeting in January. A new tax and development programme is being explored, backed by an international multi-stakeholder task force, whose first meeting is scheduled for 11 May. The objective is to combine lesson learning in tax administration and state building with supporting developing countries to access a fairer share of taxes internationally.

- *How best can this joint work by the development co-operation and tax communities be advanced, domestically and internationally?*

[9] There are other important regional initiatives such as the creation of LAC-OECD Fiscal Initiative.

7. INNOVATIVE FINANCIAL RESOURCES FOR DEVELOPMENT AND HOW ODA LEVERAGES THEM

Innovative financing is a large and evolving field, with as yet no clear definitions and monitoring processes.

43. Building on high level commitments since Monterrey, new mechanisms have been created to help raise steady, predictable and concessional funding for achieving human development and other poverty reduction goals. New mechanisms are now being promoted by specific entities such as the UN Secretary General's Office on Innovative Financing, the Leading Group on Innovative Financing for Development, multilateral and bilateral donor organisations, and private foundations. There are alternative definitions of the scope of innovative financing for development. This makes operational tracking of its contribution to overall development funding difficult. Preliminary estimates ranging from USD 1 to 8 billion per year over and above private and charitable contributions have been provided by the World Bank[10], the Leading Group and a recent UN progress report[11].

DAC's initial focus could be on new approaches for pooling revenue streams, new revenue streams, and new incentives

44. Recent analysis by the OECD[12] focuses on the purpose and working features of some of the existing and projected initiatives and gives indications on the revenues mobilised by February 2010 (see Annex 2). This approach suggests primarily identifying innovative financing approaches, primarily:

- ***New approaches for pooling private and public revenue streams*** to scale up or develop activities for the benefit of partner countries.
- ***New revenue streams*** (*e.g.* a new tax, charge, fee, bond raising, sale proceed or voluntary contribution scheme) earmarked to developmental activities on a multi-year basis.
- ***New incentives*** (financial guarantees, corporate social responsibility or other rewards or recognition) to address market failures or scale up ongoing developmental activities.

45. This approach focuses on innovative ***sources*** of development finance. Innovative ***uses*** of traditional development finance - such as counter-cyclical lending, debt swaps and debt conversions or issuing guarantees to leverage private investment in partner countries - and innovative ***delivery mechanisms*** such as "results-based aid" and "cash-on-delivery" are mainly designed to enhance aid effectiveness, and belong in the aid effectiveness agenda.[13]

DAC can analyse each track's scale and net impact, including in ODA. And it can assess options for effective delivery on the ground.

46. The DAC's proposed work programme includes (a) efforts to benchmark each of these tracks and analyse their scale and net impact, including on ODA volume, and (b) assessing options for effective delivery on the ground. Innovative finance will have maximum development impact if it:

- avoids discouraging countries from raising domestic revenues as a fundamental pillar of development;
- complies with the Paris Declaration and the Accra Agenda for Action on aid effectiveness;

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10 World Bank (2009), Innovating Development Finance: From Financing Sources to Financial Solutions.

11 "Progress report on innovative sources of development finance" in view of the sixty fourth session of the United Nations. Report to the Secretary General, page 15.

12 "Innovative Financing to fund development: progress and prospects"- Development Brief, February 2010

13 Although Cash on Delivery can, in theory, be "syndicated" to non-governmental funders, thereby generating major additional flows.

- is regularly reviewed with a view to balance the costs and benefits of alternative financing approaches; and
- is simple, transparent and uses existing institutions rather than contributing to an ever more complex aid architecture.

47. Learning and sharing the lessons of good and less good practice, benchmarking and updating new financial instruments from an aid effectiveness perspective will be achieved through contributions from interested members and other relevant stakeholders, as well as case studies. It will be reflected in existing outputs including the Development Cooperation Report, the Multilateral Aid report and contributions from the Task Team on Health as a Tracer Sector, linked to the Working Party on Aid Effectiveness. Inclusion of developing country stakeholders, for example through the WP, is essential to successful work on definitions and policies for IF.

This agenda is demanding, of both the Secretariat and members. Do members support it? Would they also innovative uses within the aid effectiveness agenda?

48. ODA commitments complement innovative finance, which can provide leverage to fund development. The DAC has a specialised role in understanding the sources of innovative finance and providing information on best practice to guide developments in this area.

- *Are members willing to support such an effort, including through their own greater engagement in further classification and reporting? Would they also support discussion of innovative uses and delivery mechanisms for existing ODA in the context of the AAA follow-up?*

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ANNEX 1 – DAC MEMBERS' COMMITMENTS AND PERFORMANCE: SUMMARY TABLE OF OECD SECRETARIAT PROJECTIONS

Country	Actual ODA 2004	Net ODA (2004 USD m) 2005 projection for 2010	Growth-adjusted 2005 projection for 2010	Current projection for 2010	ODA/GNI Actual 2004	2005 projection for 2010	Current projection for 2010
Austria	678	1 673	1 621	1 178	0.23%	0.51%	0.37%
Belgium	1 463	2 807	2 620	2 620	0.41%	0.70%	0.70%
Denmark	2 037	2 185	2 213	2 299	0.85%	0.80%	0.83%
Finland	680	1 475	1 426	1 112	0.37%	0.70%	0.55%
France	8 473	14 110	13 241	9 955	0.41%	0.61%	0.46%
Germany	7 534	15 509	14 408	11 300	0.28%	0.51%	0.40%
Greece	321	1 196	1 276	525	0.16%	0.51%	0.21%
Ireland	607	1 121	972	842	0.39%	0.60%	0.52%
Italy	2 462	9 262	8 892	3 426	0.15%	0.51%	0.20%
Luxembourg	236	328	313	313	0.79%	1.00%	1.00%
Netherlands	4 204	5 070	5 323	5 323	0.73%	0.80%	0.80%
Portugal	1 031	933	864	576	0.63%	0.51%	0.34%
Spain	2 437	6 925	6 552	5 652	0.24%	0.59%	0.51%
Sweden	2 722	4 025	3 803	3 915	0.78%	1.00%	1.03%
United Kingdom	7 905	14 600	13 670	12 975	0.36%	0.59%	0.56%
DAC EU members, total	**42 789**	**81 221**	**77 191**	**62 009**	**0.35%**	**0.59%**	**0.48%**
Australia	1 460	2 460	2 530	2 460	0.25%	0.36%	0.35%
Canada	2 599	3 648	3 648	3 542	0.27%	0.33%	0.33%
Japan	8 922	11 906	11 906	9 546	0.19%	0.22%	0.20%
New Zealand	212	289	266	324	0.23%	0.28%	0.34%
Norway	2 199	2 876	2 995	2 995	0.87%	1.00%	1.00%
Switzerland	1 545	1 728	1 593	1 820	0.40%	0.41%	0.47%
United States	19 705	24 000	24 705	24 705	0.17%	0.18%	0.20%
DAC members, total	**79 432**	**128 128**	**124 834**	**107 401**	**0.26%**	**0.36%**	**0.33%**

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ANNEX 2 – PURPOSE AND MAIN FEATURES OF IMPORTANT INNOVATIVE FINANCING MECHANISMS *(PROPOSED SCHEMES IN ITALICS)*

Initiative	Purpose	How does it work?	Revenues	Is it ODA?
NEW AGENCIES				
GAVI Alliance (2000)	Public-private partnership to expand access to immunisations	Pooled funds distributed, based on proposals from poorer developing countries.	About USD 350m. a year. USD 4 b. approved for 2000-15, as of 2009.	Yes, but only for official contributions.
The Global Fund (2002)	Public-private partnership to fight AIDS, TB and Malaria	Pooled funds distributed, based on proposals from poorer developing countries.	About USD 3 b. a year. Total of USD 21 b. raised by 2009.	Yes, but only for official contributions.
NEW MECHANISMS				
(a) New revenue raising				
Air-ticket levy (2006)	Fund a purchase facility (UNITAID) for AIDS, TB and malaria treatments.	13 countries apply a domestic tax (2009). UNITAID funds are channelled through existing institutions.	USD 300 m. a year.	Yes, when funds collected are paid to UNITAID or other international agencies.
Auctioning/sales of emission permits (2009)	Provide funds for climate mitigation and adaptation	Under EU regulations, EU Allowances (EUA) for carbon dioxide emissions are sold to emitters.	Germany's 2009 budget allocates EUR 225m. in EUA sales to development.	Yes, when proceeds spent on development.
Currency Transaction Levy	*Increase the funds allocated to finance development*	*Governments apply a tax on foreign exchange transactions.*	*Levying 0.005% on major currencies would yield USD 33b. a year.*	*Yes, when funds collected are spent on development assistance.*
(b) Bonds (frontloading)				
International Finance Facility for Immunization (IFFIm, 2006)	Frontloads donor funds for GAVI immunisation and health systems campaigns	Bonds are sold in the international capital markets against legally binding long-term ODA commitments from 9 donor countries.	USD 2.4b. raised by 2009; aim is to raise a total of USD 4b.	Yes, for government payments to meet bond interest and principal.
(c) Voluntary contributions				
Global Digital Solidarity Fund (2003)	Promote an inclusive information society	Public or private bodies voluntarily contribute 1% of digital procurement contracts.	Since 2003, more than EUR 30m. allocated to 300 grantees.	Yes, but only for official contributions.

Initiative	Purpose	How does it work?	Revenues	Is it ODA?
(PRODUCT) RED (2006)	Provide additional funding to Global Fund's activities in sub-Saharan Africa	Product RED trademark licensed to global companies that pledge a share of profits from sales of RED Products to Global Fund programs.	USD 140 m. transferred to Global Fund to date.	No, only private funds are involved.
MASSIVEGOOD (Airline ticket voluntary solidarity contribution, 2010)	*Provide additional resources to fund MDGs 4, 5 and 6 activities*	*Individuals or corporations elect to contribute to development when booking flights, hotel rooms or renting cars.*	*USD 2 per ticket contribution might raise up between USD 636 m. and USD 892 m. a year.*	*No, only private funds are involved.*
(d) Guarantees (incentives)				
Advance Market Commitment (AMC, 2007)	Stimulate the development and manufacture of affordable vaccines for developing countries	Donors commit funds for the purchase of a new vaccine, incentivising manufacturers to invest in vaccine development and production. Manufacturers commit to supply the vaccine at a lower, pre-agreed price in the long term.	USD 1.5bn. pledged by 5 donors and Bill & Melinda Gates Foundation for AMC for pneumococcal disease.	Yes, but only when donor governments pay for vaccines.
Index-based weather insurance	*Reduce the vulnerability of the rural poor to extreme weather events*	*IFAD-WFP partnership provides farmers with weather-indexed insurance.*	*Weather insurance schemes already piloted in Ethiopia, Malawi, Nicaragua, Honduras, and India.*	*Yes, but only for official contributions to insurance premia.*

ANNEX 3 – PURPOSE AND MAIN FEATURES OF IMPORTANT CLIMATE FINANCING AGENCIES AND FUNDS

Initiative	Purpose	How does it work?	Revenues
Existing Agencies/Funds			
Global Environment Facility (GEF) Trust Fund	An operating entity of the financial mechanism of the UNFCCC. Most of the funding has been used for mitigation.	Governed by the GEF Council. Funds are replenished on a four year cycle through voluntary contributions mainly from developed countries.	From 1991 through 2007 has provided about USD 3,500 million for climate change. This has generated about USD 15,000 million of co-financing.
Special Climate Change Fund (SCCF)	Funds projects, mainly adaptation, complementary to the GEF Trust Fund	Managed by GEF with advice of SCCF/LDCF Board. Countries submit proposed projects for funding.	USD 122 million pledged for adaptation, USD 90 million committed to 21 projects. Waiting list with budget of USD 242 million Funds pledged for technology being used for Poznan Strategic Program
Least Developed Countries Fund (LDCF)	Addresses urgent and immediate adaptation needs of LDCs	Managed by GEF with advice of SCCF/LDCF Board. Countries receive funding to prepare a National Adaptation Programme of Activities (NAPA) and then submit proposed projects for funding.	USD 180 million pledged. About USD 10 million spent on NAPAs. Projects with combined funding need of over USD 100 million being considered.
Adaptation Fund	Funds concrete adaptation projects and programmes in developing countries.	Managed by Adaptation Fund Board. Countries submit projects for funding.	Funded by 2% share of CERs issued for most CDM projects. Value of CERs received to-date about USD 110 million.
Clean Development Mechanism (CDM)	Encourages implementation of emission reduction measures in developing countries.	Managed by CDM Executive Board. Projects receive credits (CERs) for verified emission reductions that are sold to entities in developed countries for compliance with Kyoto Protocol commitments.	CERs issued and market price well known, but amounts received by developing countries are not known. Annual flows estimated at USD 3 to 10 billion.
Poznan Strategic Program on Technology Transfer	Funds updates of Technology Needs Assessments (TNAs) and about 15 technology transfer pilot projects.	Managed by GEF Council. Countries request funds for revised/updated TNA or for technology transfer pilot project. Funds needed for pilot projects submitted exceed the available funds.	Budget of USD 50 million, of which USD 15 million will come from funds pledged to the SCCF for technology transfer.

Initiative	Purpose	How does it work?	Revenues
Bilateral aid	Developed countries provide aid for mitigation, adaptation or other climate-related purposes.	Donor and recipient agree on activities to be funded. Several developed countries have announced climate-related funds that will be operated bilaterally or by multilateral development banks.	Rio Markers have only tracked mitigation; adaptation will be tracked starting in 2010. Mitigation funding about USD 3.5 billion per year.
Multilateral aid	Multilateral development banks provide concessional finance for mitigation, adaptation or other climate-related purposes.	Multilateral development bank and recipient agree on activities to be funded. Several banks have announced climate-related funds to be funded by developed country pledges.	Some MDBs are beginning to use Rio markers in their reporting. The World Bank Group records on average USD 850 m spent annually on climate change mitigation (of which USD 180 m is concessional).
Other official flows	Developed country entities provide support for mitigation, adaptation or other climate-related purposes in developing countries that does not qualify as ODA	Mainly long-term credits provided by export credit agencies.	Amounts are not tracked and hence are unknown, but are believed to be small.
Climate Investment Funds (CIF) consisting of a Clean Technology Fund (CTF) and Strategic Climate Fund (SCF)	Support low-carbon and climate-resilient development through scaled-up financing channelled through 5 multilateral development banks.	CTF and SCF each have their own Trust Fund Committee and sub-committees. CTF finances scaled-up demonstration, deployment and transfer of low carbon technologies. SCF funds pilot approaches with potential for scaling up	Current pledges: CTF -- USD 4.8 billion SCF – USD 1.6 billion including USD 735 m for Pilot Program for Climate Resilience, USD 406 m for Forest Investment Program, and USD 292 m for Scaling Up Renewable Energy
New Agencies/Funds			
Copenhagen Green Climate Fund	Support activities in developing countries related to mitigation including REDD+, adaptation, capacity-building, and technology development and transfer	Established under the guidance of and accountable to the Conference of the Parties (COP). Details of how this will be implemented have not yet been agreed.	A significant portion of the proposed funding of USD 100 billion per year by 2020
High Level Panel	Study potential sources of revenue	Established under the guidance of and accountable to the COP	Will not collect or disburse funds

Initiative	Purpose	How does it work?	Revenues
NEW MECHANISMS **(a) New revenue raising**			
Convention Adaptation Fund, Technology Fund and Insurance Mechanism	Proposed by the Alliance of Small Island States (AOSIS)	Funds would be disbursed as grants rather than loans and Small Islands Developing States (SIDS) and LDCs should be given priority access to the Adaptation Fund. The Technology Fund would focus on accelerating development of renewable energy technologies. The Insurance Mechanism would create a pool of funds to help SIDS manage financial risk from extreme weather events.	The funds would receive revenue from mandatory or assessed contributions from developed countries beyond traditional ODA and levies on carbon markets. The amount to be generated is not specified.
Adaptation Fund and Multilateral Technology Acquisition Fund	Proposed by China	The money would go to mitigation, adaptation and technology cooperation by establishing specialised funds such as a multilateral technology acquisition fund.	Developed countries should contribute 0.5% of GDP, almost USD 170.billion per year, for climate change.
New Fund under the financial mechanism of the Convention	Proposed by the Group of 77 and China	The new fund would have multiple windows for mitigation, adaptation, insurance REDD+, technology transfer, etc.	Developed countries should contribute 0.5% to 1.0% of GDP; USD 220 to 440 billion per year.
World Climate Change Fund	Mexico	The fund would be open to all countries with annual contributions based on agreed criteria such as greenhouse gas emissions, population and GDP. Developed countries would be net contributors and developing countries would be net beneficiaries. Funds would be divided among mitigation, adaptation and clean technology as agreed by the members.	Revenue of at least $10 billion per year is proposed
Multilateral Adaptation Fund	Switzerland	Low-, medium- and high-income countries would forward 15%, 35% and 60% respectively of the revenue collected. The Fund's revenue (USD 18.4 billion) would be divided equally between a prevention pillar and an insurance pillar. The remaining revenue (USD 30.1 billion globally) would go into each country's National Climate Change Fund.	Every country, except those with per capita emissions less than 1.5tCO_2, would collect CO_2 levy of USD 2/tCO_2 and forward part of the revenue to the fund. The tax would generate an estimated USD 48.5 billion of which USD 18.4 billion would go to the Fund

Initiative	Purpose	How does it work?	Revenues
International Auction of Assigned Amount Units	Norway	A small percentage of the assigned amount units (AAUs) of each country with an emissions reduction commitment would be transferred to an adaptation fund and be auctioned internationally	With developed country commitments 25 to 40% below 1990 emissions in 2020, auctioning 2% of the AAUs at an average price of USD 25 would generate revenue of USD 5 to USD 6.5 billion per year
Share of national revenue of auctioned emission allowances	Germany	Many national/regional emissions trading systems will auction (sell) a portion of the allowances. A share of the revenue collected would be used for climate mitigation and adaptation	10% to 15% of national auction revenue could generate USD 8 to 30 billion per year Revenue accrues to national governments rather than an international fund as above
Extension of the 2% levy on CDM to other Market Mechanisms	Many developing countries	The 2% share of proceeds collected from most CDM projects for the Adaptation Fund could be applied to joint implementation (JI) and international emissions trading (IET) and the rate could be increased from 2%	Application of a 2% levy to **international transfers** under JI and IET would generate USD10 to 50 million per year for 2008 – 2012. Post 2012 revenues of USD 300 to USD 2,300 million per year depending on the rate.
Extension of the 2% levy on CDM to other Market Mechanisms	As above	As above	Application of a 2% levy to all units **issued** would be similar to the Norwegian proposal for internationally auctioned AAUs and would generate USD 5 to USD 6.5 billion per year after 2012
Levy on Surplus Assigned Amount Units (AAUs)	Center for Clean Air Policy	A levy is imposed on each AAU carried over from 2008-2012 to a subsequent period.	Assuming a fee of USD 1 to USD 5 per AAU and a surplus of 7 to 10 billion AAUs would generate one time revenue of USD 7 to USD 50 billion
International Air Travel Adaptation Levy (IATAL)	Mueller and Hepburn	A levy added to the price of international airline tickets to raise funds for adaptation.	A levy of €5 (2005 USD6.5) per passenger per flight would generate €10 billion (2005 USD 13 billion) annually. The revenue would be collected by national governments and be remitted to the designated international adaptation fund.

Initiative	Purpose	How does it work?	Revenues
Auction of Allowances for International Aviation Emissions	Aviation Global Deal Group	Emissions by international aviation would be regulated through an emissions trading system implemented by the International Civil Aviation Organisation (ICAO). A share of the allowances would be auctioned.	Auctioning allowances equal to the projected international aviation emissions could generate revenue of $10 billion in 2010, rising to $15 billion in 2020.
Auction of Allowances for International Shipping Emissions	France, Germany and Norway	Emissions by international shipping would be regulated through an emissions trading system implemented by the International Maritime Organisation (IMO). A share of the allowances would be auctioned.	Auctioning allowances equal to the international shipping emissions could generate revenue of $12 billion in 2010, rising to $13 billion in 2020.
Levy on Maritime Bunker Fuels	Denmark	A levy on maritime bunker fuel sales to ships above a specified size.	A levy of 1% to 5% on maritime bunker fuel would raise USD 1.5 to 9 billion per year.
International Maritime Emission Reduction Scheme	Stochinol	A charge on the CO2 emissions from international shipping based on fuel use. Fees collected would be used to fund maritime industry GHG improvements; purchase CO2 credits needed to meet the established emissions cap; and contribute to climate change adaptation in developing countries.	A fee of USD 10 per tonne of CO2 would raise about USD 3 billion annually and raise shipping costs by about 3%. Assuming a market price of USD 25 for CERs, about half of the revenue would go to adaptation.
Efficiency Penny	UN Foundation	The revenue would be invested in energy efficiency measures with at least 25% of revenue going to energy efficiency policies, programmes, and projects in developing and transition economies.	G8 countries would impose a small surcharge (e.g., 0.5 to 1% or 1 cent per unit of consumption) on end-use energy consumption to raise about USD 20 billion per year
Access to Renewables Programmes in Developed Countries		Verified deliveries of power by eligible renewable sources in developing countries would receive certificates that could be used toward compliance obligations under a renewables programme in a developed country.	A 5% share of the renewable energy programmes in developed countries in 2005 would have provided approximately USD 500 million for renewables in developing countries
Donated Special Drawing Rights (SDRs)	Soros and Stiglitz	SDRs are a form of intergovernmental currency issued by the IMF to provide supplemental liquidity for member countries. Developed countries that do not need the additional liquidity could **donate** surplus SDRs to fund climate-related actions.	A special SDR issue of $27 billion authorised by the IMF in 1997 would be released, of which approximately $18 billion would be donated.

Initiative	Purpose	How does it work?	Revenues
Donated Special Drawing Rights (SDRs)	Soros	Countries with surplus SDRs **lend** them to a climate fund that reimburses the interest they pay on the SRDs and repays the principal. The interest payments could be raised through a revaluation of IMF gold reserves, new long-term ODA funding for this purpose, or through returns generated within the fund.	A loan of $100 billion in SDRs could allow the fund to invest about $7 billion each year, growing by 3%, per year, with a mix of 80% grants and concessional loans and 20% equity
Donated Special Drawing Rights (SDRs)	International Monetary Fund	Green Fund proposal under development by the IMF. A "Green Fund" could act as a bridge to large-scale carbon-based financing in the medium term. And IMF quotas could provide a key for burden sharing.	A "Green Fund" with the capacity to raise $100 billion a year by 2020.
Currency Transaction Tax (Tobin Tax)			A tax of 0.01% to 0.02% would raise USD 17 to 35 billion per year.
Levy on Insurance Premiums	Prince's Rainforests Project		A levy on the portion of the insurance premium for catastrophic losses to property. A 4.5% levy would generate about USD 3.3 billion per year.
Debt swap programmes		Developed country creditors agree to cancel a portion of the non-performing debt owed to them in exchange for a commitment by the debtor government to invest the cancelled amount in agreed projects.	Difficult to estimate, but probably less than USD 1 billion per year.
Foreign Exchange Reserves		Most foreign exchange reserves are invested in government, mainly American, treasury bills with low yield and significant exchange risk. With an appropriate mix of investments it should be possible to maintain the value of the reserves contributed and earn a small return.	Voluntary contribution of up to 5% of global reserves would create a fund with capital of about USD 350 billion which could sustain funding of USD 9 to USD 34 billion per year.

Initiative	Purpose	How does it work?	Revenues
(b) Market Mechanisms			
Nationally Appropriate Mitigation Measures (NAMAs)	Bali Action Plan	Developing countries earn credits for some of the emission reductions achieved by NAMAs. Credits can be sold to developed country entities and governments for compliance with national emissions limitation commitments.	Depends on the market – the stringency of national emissions limitation commitments, the extent to which NAMA credits can be used and the supply of all types of credits
Sectoral crediting	EU	Developing countries earn credits for emission reductions below a sectoral baseline. Credits can be sold to developed country entities and governments for compliance with national emissions limitation commitments.	Depends on the market – the stringency of national emissions limitation commitments, the extent to which sectoral credits can be used and the supply of all types of credits
REDD+ credits	Several developing countries	Developing countries earn credits for emissions avoided by REDD+ measures. Credits can be sold to developed country entities and governments for compliance with national emissions limitation commitments.	Depends on the market – the stringency of national emissions limitation commitments, the extent to which REDD+ credits can be used and the supply of all types of credits
(d) Guarantees (incentives)			
Index-based weather insurance	Reduce the vulnerability of the rural poor to extreme weather events	IFAD-WFP partnership provides farmers with weather-indexed insurance.	Weather insurance schemes already piloted in Ethiopia, Malawi, Nicaragua, Honduras, and India.