Disclaimer: This paper is the result of the analysis carried out by a sub-group within the AGF. However, the paper does not purport to represent the views or the official policy of any member of the AGF.

Work Stream 6: Assessed Budget Contributions

Background

Proposals on financing presented in the context of the UNFCCC AWG-LCA negotiations have indicated assessed budget contributions as a source of funding for actions in mitigation and adaptation by developing countries. The proposal made by the G77 and China of a new financial mechanism, for example, refers to a level of new funding set at 0.5% to 1% of the GNP of developed countries. Individual countries have called for funding at the level of 1,5%.

Reference

The General Assembly of the United Nations, in defining equitably the scale of assessed contributions to its general budget, decided to follow the principle of capacity to pay.[1] The criteria chosen to establish burden sharing include estimates of gross national income, debt-burden considerations, a low per capita income adjustment factor and minimum and maximum assessment rates.[2]

Assessed contributions in the context of climate finance

Equitable distribution of effort in the climate change regime, both in mitigation and in financing, often is related not only to “capacity”, but also to “responsibility”. This implies combining economic and climate related criteria, that is, applying both the capacity to pay principle and the polluter pays principle. Since the question on financing in the UNFCCC, and also as reflected in the Copenhagen Accord, applies only to developed countries, both criteria are relevant.

The metrics used to define capacity to pay include GDP, GDP per capita (both in nominal or PPP adjusted totals) and the human development index. Responsibility metrics include historical responsibility for global temperature

[1] Resolution 64/248, paragraphs 2 and 7.
[2] Id., paragraph 5.

increase, accumulated historical emissions, current emissions, emissions per capita and carbon intensity of the economy.

Carbon intensity of the economy is seen as a metric that penalizes countries at a lower level of development. Similarly, an approach based on current emissions would create distortions by penalizing present day high emitters in comparison to the high emitters of the past.

The application of these two sets of metrics produce distinct burden sharing results, as does the use of different specific metrics within the “capacity to pay” set and the “responsibility” set. In the case of the capacity metrics, this is particularly clear when comparing the results of applying GDP or GDP per capita. In the case of the responsibility metrics, this is evident when comparing the results of applying total emissions or emissions per capita, as well as when comparing the results of using current emissions or accumulated historical emissions as preferred criteria.[3]

Range of potential revenue

The potential revenue that could be raised through assessed budget contributions is significant, but essentially will depend on the level of contribution established. As defined in the proposal of the G77 and China, 0,5% to 1% of developed country (understood as Annex I) GNP, this would generate US$ 200 to 400 billion annually, according to UNFCCC estimates.[4]

Practicality

A significant difficulty exists regarding shortfalls. Examples of voluntary assessed contributions, such as the 0,7% of GDP target for development assistance, demonstrate that statements of intent do not guarantee the expected financing. This could be overcome through the definition of enforcement measures.

Political acceptability

A context of fiscal constraint could foster resistance within developed countries.

[3] Project Catalyst, “Setting a benchmark: how developed countries might equitably contribute towards a 450 ppm pathway”, page 17.
[4] UNFCCC, “Investment and Financial Flows to Address Climate Change: an Update”, page 13.

However, the legal obligation of developed countries for financing actions in developing countries is clearly established under the UNFCCC, thus generating strong legitimacy.[5] The issue of additionality would come into play if the financing were to result in relabeling or reduction of other flows, such as ODA.

Reliability

In a context of agreement on the level of contribution and the criteria for burden sharing, this source could generate reliable and predictable funding.

Incidence and equity

Internationally, equity considerations would be met through incidence across developed countries, based on agreed criteria. The equity impact within country would be a variable to be managed nationally, according to specific national conditions.

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[5] UNFCCC, article 4.3