The $100 billion question:
How do we secure a climate-resilient future for the world's children?

Climate change is a key development challenge. Many developing countries, and particularly children in these countries, are already suffering the most from climate changes despite being the least responsible for the emissions that cause them. The effects of climate change are endangering progress made towards achieving development goals and fulfilling children's rights in vulnerable countries. The effects are likely to intensify in the future.

We need action now to help children and communities in these vulnerable countries to 'adapt' to current and future climate changes and to ensure they have the skills; knowledge and resilience to survive and thrive in spite of the challenges presented by climate change. At the same time, emerging economies need support to pursue the path of low carbon development and mitigation in order to reduce emissions in emerging economies. Adaptation and mitigation will provide a more sustainable, safer and cleaner future for current and future generations.

Such action requires considerable financial resources. The solution is 'climate finance' (financial transfers from developed countries that have a historical responsibility for the carbon emissions that are causing these changes). These new resources are essential to ensure that developing countries have the money they need to address the multiple challenges presented by climate change.

Key recommendations

1. The UK Government needs to accelerate the schedule for deciding its contribution to 'new and additional' long-term climate finance.

2. In 2011, the UK Government must announce an ambitious commitment to international climate finance goals that consists entirely of 'new and additional' funds.

3. The UK Government should adopt a financial transaction tax and taxes on bunker fuels used in shipping and aviation to source its annual climate finance contributions.

On 25 October, a boy steps across stones to avoid the floodwater around his school in Benin.

Developed countries have recognised this financial need: the concept of 'climate finance' is not new. In 2000, as part of their commitments under the Kyoto Protocol, 20 developed countries signed the Bonn Declaration, agreeing to make regular transfers of climate finance to developing countries.[1] In recent years, countries such as the UK have begun funding adaptation and low carbon growth projects as part of their international aid commitments.[2] In 2009, at COP 15 in Copenhagen, developed countries committed to a much greater quantity of climate finance: 'new and additional' finance which must reach $100 billion per year by 2020[3], equally split between adaptation and mitigation ($50 billion a year for adaptation and $50 billion a year for mitigation).

Whilst this commitment sets a high level of ambition in financing, mobilisation of these funds has been slow. The key questions now are:

1. When will developed countries make public their long-term contributions to this $100 billion per year goal?

2. How will they fund such contributions?

We need urgent answers to these questions to ensure that the promises of Copenhagen are not broken and to ensure sufficient resources are available to help prepare and protect children from the effects of climate change.

1 Bonn Declaration http://unfccc.int/resource/docs/cop7/misc04.pdf
2 DFID annual reports 2007-2010, www.dfid.gov.uk/About-DFID/Finance-and-performance/
3 Copenhagen Accord, page 3, http://unfccc.int/files/meetings/cop_15/application/pdf/cop15_cph_auv.pdf

Investing in children: The need for additional funds

Ensuring that developed countries mobilise long-term climate finance is essential to guarantee a 'climate safe' future for children. Climate change can cause children to drop out of school, put them at risk of disease and impact on their well-being. In other words, jeopardise their rights under the UN Convention on Rights of the Child. Almost every country in the world has signed up to the Convention. To fail to provide funds for adaptation and mitigation and to allow climate change to infringe on these rights would break a promise to the world's children: the promise of a better life.

Funding for low carbon development and mitigation will help limit global carbon emissions, which will in turn help limit warming of the atmosphere beyond 2°C. This will ensure current and future generations do not suffer the dangerous effects of further climate change.

Funding for adaptation is essential to ensure that children in vulnerable countries have the skills, education and tools to cope with the effects of climate change now and the predicted increased effects in the future. For example, climate change is leading to an increase in the frequency and intensity of natural hazards such as cyclones and heavy rains, posing a greater risk to already vulnerable communities. In these situations, children are often most at risk. Minimising the impacts of such hazards requires increased investment in disaster risk reduction, a form of adaptation. This could include, for example, developing emergency warning systems or providing disaster preparedness education in schools.

The unaddressed impacts of climate change could also undo progress already made towards the Millennium Development Goals (MDGs). In sub Saharan Africa, climate changes have altered growing conditions for crops, which in turn has affected livelihoods, nutrition and child survival – all key development goals. Adaptation responses funded by climate finance such as developing hardier crops are crucial to the development of sustainable, climate resilient livelihoods. The recent MDG Summit in September reaffirmed this point, stating that financial and political action to address climate change is essential if we are to meet the MDGs by the target date of 2015. It states "addressing climate

On 22 August, a girl stands in front of a sprawling camp for people left homeless by the 2010 floods in Pakistan.

change will be of key importance in safeguarding and advancing progress towards the Millennium Development Goals."[4]

The scale of the challenge presented by climate change should not be underestimated. The figure of $100 billion dollars per year by 2020, agreed in the Copenhagen Accords[5] for climate change adaptation and mitigation in developing countries, is based on the projected need from 2020 onwards and must be made up of 'new and additional' resources. This sum is roughly equivalent to the total current global flows of Official Development Assistance (ODA).[6] Climate change thus presents a significant additional challenge that requires resources equal to ODA. It is not as simple as just 'slotting in' climate finance obligations into ODA budgets. There needs to be the guarantee of sufficient existing funds to meet the MDGs and new and additional funds for climate mitigation and adaptation in order to respond to climate change. Long-term climate finance (additional to ODA) is essential to protect those most vulnerable to climate change.

The UK must ensure it plays its part in these global commitments, and keeps its promise to contribute towards the $100 billion per year collective goal, helping to create in a climate resilient future for children.

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4 MDG Summit Document, www.un.org/en/mdg/summit2010/pdf/mdg%20outcome%20document.pdf
5 Copenhagen Accord, page 3, http://unfccc.int/files/meetings/cop_15/application/pdf/cop15_cph_auv.pdf
6 In 2009, the OECD (Organisation for Economic Cooperation and Development) recorded that global ODA flows reached $118 billion. In 2010 this figure is projected to be $108 billion. OECD reporting, 2009. Retrieved at www.oecd.org

Climate finance from Copenhagen: The story so far

Alongside the commitment to mobilise annual climate finance reaching $100 billion per year by 2020, in the Copenhagen Accords developed countries also committed to collectively mobilize $30 billion of 'Fast Start Finance' between 2010 and 2012 for adaptation in the most vulnerable countries and mitigation in emerging economies. This 'Fast Start Finance' was to be made up of existing ODA commitments and intended to cover the period of 3 years in which developed countries can agree and implement their 'new and additional' commitments to the $100 billion per year.

The UK Government's autumn 2010 Comprehensive Spending Review committed the UK to meeting its Copenhagen promise of £1.5 billion in 'Fast Start' contributions. These funds will not be new or additional, coming instead from existing global ODA contributions from three government departments: Department for International Development (DFID), Department of Energy and Climate Change (DECC) and the Department for Environment, Food and Rural Affairs (DEFRA).

Whilst the UK has been transparent and proactive in mobilising its Fast Start commitments, the same cannot be said for progress towards the long term $100 billion per year goal.[7] The Government has currently postponed further public discussion of additional financing until late 2012. This situation is not unique: currently no other developed country has publically made any movement towards announcing how much it will give and how it will source finances to meet their commitment to combat climate change. However, time is running out, and we need urgent action.

Decision on long-term finance: a ticking clock

Developed countries such as the UK need to accelerate their decision making on long term climate finance commitments. Next year, 2012, is too late for the UK Government to announce its long-term climate finance commitments. The Government needs to make these commitments now in 2011, so that long-term finance is ready to flow in 2013.

Why is it important for the UK and other developed countries to speed up their decisions? There are four major reasons.

1. Once the period of Fast Start Finance ends in 2012, long-term finance needs to start flowing. It is not the case that there is no need for climate finance between 2012 and 2020, but rather it should begin flowing from developed countries, growing gradually over the seven-year period to ensure it reaches $100 billion per year by 2020 onwards. Considering long-term finance is likely to come from innovative finance sources, which will need establishing, postponing decision making until 2012 will make the goal of mobilising money by 2013 untenable.

2. The recent COP 16 talks in Cancun established the 'Green Fund', a new multilateral mechanism to distribute the forthcoming increased flows of 'new and additional' international climate finance from developed countries. The Green Fund is due to be operational and distributing funds by 2013. However, this will only be possible if developed countries deposit funds by 2013. The UK has a seat on the Transitional Committee of the Green Fund, which is working to design the architecture of the Fund in the run up to COP 17. The UK Government should build on this position, and take a leadership role by committing to long term financing in 2011, to ensure the Green Fund can be successful from 2013.

3. Accelerated action on long-term climate finance is also vital to help secure progress in the ongoing negotiations for a new global climate deal. In fact, Christiana Figueres, the Executive Secretary of the United Nations Framework Convention on Climate Change (UNFCCC), has described climate finance as 'the golden key' to unlock the negotiations.[8] The UK Government has delivered Fast Start Finance in a timely, transparent way. The UK Government must repeat this for its long-term commitments, setting an example for other developed countries to follow and helping to build trust between the developed and developing worlds that will help progress towards a global climate deal.

7 'UK Fast Start Climate Finance Brochure', 2010 (DFID/DECC), www.dfid.gov.uk/Documents/BROCHURE%20UK%20FAST%20START.pdf

8 Christina Figueres, 2010, http://unfccc.int/files/press/news_room/statements/application/pdf/100903_speech_cf_geneva.pdf

Why is climate finance so crucial for trust in the negotiations?

High-profile examples of developed countries reneging on climate finance promises to developing countries prior to Copenhagen has lead to much distrust between the developed and developing worlds.

Under the Bonn Declaration agreed in 2001, 20 developed countries (the 15 countries of the EU at the time plus Canada, Switzerland, Iceland, New Zealand and Norway) pledged to deliver $410 million a year from 2001 to 2008, channelled through UN climate funds. By 2008, these funds should have totalled $2.7 billion. However, by mid 2009, these countries had only deposited $260 million. Developed countries must not repeat the same mistakes.

How much to pay?

Questions abound as to how much each developed country should pay towards long-term climate finance. Currently, there is no official figure for each country, and no country has declared their commitment. However, contributions from developed countries should reflect their ability to pay and their historical responsibility for the causes of climate change. Proposals in the United Nations Framework Convention on Climate Change referenced in the UN High Level Advisory Group on Climate Finance (UN AGF) report suggest each developed country should contribute a sum of new and additional resources that is equal in value to 0.5–1 per cent of their GNI per year. China and the G7 have suggested that developed countries should go further and give the equivalent of 1.5 per cent of GNI. If international climate finance flows are going to match ODA, a sum equivalent to between 0.5–1 per cent of each country's GNI per year will be the absolute minimum that is required. This would be a significant increase on Fast Start Finance.

While there is no solid calculation on how much each country should give, and the onus is on each country to decide their contribution, it does not mean that countries should use this to make minimal long-term commitments. Developed countries need to make now an ambitious commitment to long-term climate finance for 2012 onwards.

4. The UK Government, as a powerful and high profile player in the climate negotiations and in the EU negotiating bloc, has the opportunity to lead by example on long-term climate finance. Other nations regard the UK as a leader in international climate finance and the UK Government should strive to maintain this reputation. Postponing a decision on climate finance to 2012 will undermine this and potentially reduce the UK's global position and reputation in this arena.

For these reasons, the UK Government should make a public commitment to an ambitious contribution of 'new and additional' climate finance in advance of the negotiations in South Africa.

Finding long-term climate finance in an age of austerity

Given the current economic context and the tight restraints on public expenditure, it is hard to argue that new and additional funding for climate finance should come purely from existing sources of public funds. Instead, the UK Government must support and foster innovative means of financing from new sources to ensure that money committed is truly additional and matches the scale needed.

Innovative finance mechanisms are widely seen as the 'solution' to finding new and additional resources for climate finance. The Copenhagen Accords state that the funding should come from "a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance."[9] In early 2010, UN Secretary General Ban Ki Moon convened the UN High Level Advisory Group on Climate Finance (UN AGF) consisting of members of both developed and developing country governments (including the UK's Energy and Climate Change Secretary Chris Huhne) and prominent economists such as Lord Stern. The UN AGF concluded that the $100 billion per year target was achievable, and there were several potential innovative finance mechanisms that could be adopted to resource it.[10]

9 Copenhagen Accord, page 3: http://unfccc.int/files/meetings/cop_15/application/pdf/cop15_cph_auv.pdf
10 www.un.org/wcm/webdav/site/climatechange/shared/Documents/AGF_reports/AGF%20Report.pdf

Whilst there is an ongoing debate on the role of private investment in climate finance for low carbon development and mitigation, UNICEF UK believes that the best options proposed by the UN AGF for sourcing climate finance for adaptation are a financial transaction tax (or 'Robin Hood Tax') and a tax on 'bunker' fuels. The UK government should support and pursue these two options to help meet our international obligations.

Innovative sources for climate finance

Financial Transaction Tax (FTT)

A Financial Transaction Tax (FTT) is a small tax of 0.05% (on average) on transactions such as bonds and derivatives, potentially implemented domestically or globally. A UK FTT could raise £20 billion a year, with £5 billion of that going to climate change. Estimates vary as to what a globally implemented FTT could raise, but experts suggest that at a typical rate of 0.05%, global revenues could be as much as $400 billion every year[11].

Bunker taxes

Bunker taxes are taxes on 'bunker' fuels used in shipping and aviation (applying to freight travel) and which are currently not subject to taxation, despite being highly polluting. Estimates vary on how much bunker taxes could raise. The EU Commission recently stated that a global bunker fuel emissions tax on shipping and aviation could raise $25-37 billion per year by 2020[12], while others suggest these taxes could raise $12 billion globally a year[13].

Financial sector taxes

Taxes on the financial sector could raise new and additional money for climate finance. Since the financial crisis of 2007, the idea of placing new taxes on the financial sector has been gaining momentum. Any new tax on the financial sector should see the proceeds spent on the poorest and most vulnerable, with 25 per cent going towards funding for the most vulnerable countries to adapt to climate change.

While there are many options for new and additional taxation of the financial sector that could provide additional resources for climate finance, the best option is a Financial Transaction Tax. The box above highlights the potential revenue of a Financial Transaction Tax.

An issue often raised in relation to the Financial Transaction Tax is the ability of the financial institutions to pass on the tax to their consumers in increased charges. While it is impossible to guarantee that this would not occur, it is possible to overcome through regulation and by ensuring that these considerations are part of the design of a Financial Transaction Tax. Additionally, even if the tax passed to consumers, it would remain a progressive tax, as these charges would fall predominantly on the largest users of financial services who tend to be the richest section in society[14].

The biggest barrier remains the political feasibility of a Financial Transaction Tax. The UN AGF report highlights that strong international coordination and implementation would increase the efficiency of a Financial Transaction Tax and limit any distorting effects, but that this may be difficult to achieve.[15] However, it is feasible, especially with further work to achieve cooperation in the implementation at a national or regional level.

There are 16 different national financial transaction taxes already present in the G20 countries[16], so global agreement, while preferable, is not a prerequisite for a functioning Financial Transaction Tax.

There is also growing international momentum for a Financial Transaction Tax, with the French Government calling for a coalition of willing nations to press ahead and implement a tax in 2011. The German Government has already budgeted for Financial Transaction Tax revenue in 2012 and the European Parliament and Eurozone Heads of State have also voted for a Financial Transaction Tax at either global or EU level. This suggests that it would be plausible for the UK also to adopt a Financial Transaction Tax to help provide new and additional resources for an ambitious climate finance contribution.

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11 These figures are based on academic papers by Schulmeister (2009) and Baker et al (2009), as well as research by the Robin Hood Tax Campaign.
12 http://ec.europa.eu/clima/policies/brief/eu/index_en.htm
13 Oxfam, March 2011, www.oxfam.org.uk
14 Dolphin, Tony, "Financial Sector Taxes" Institute of Public Policy Research, May 2010
15 See 10.
16 International Monetary Fund, Financial Sector Taxation: The IMF's Report to the G-20 and Background Material, September 2010

Taxing international transportation fuel

In the past few years, both developed and developing countries have proposed taxes on international shipping and aviation at various points in the international climate negotiations. The UN AGF also suggested that taxation on international transportation is a viable option in helping to raise some of the international climate finance pledged by developed countries in the Copenhagen Accords.

One type of international transportation taxation regularly referenced is 'bunker taxes'. Unlike other carbon emitting energy sources, bunker fuels are not currently subject to any taxation nationally or internationally, despite being highly polluting. Bunker taxes for climate finance therefore have the benefit of taxing a direct cause of climate change while also providing 'new and additional' funds to enable adaptation in developing countries. The box above highlights potential revenue from bunker taxes.

Bunker taxes as a source of climate finance has considerable political support. The G20 recently instigated a report into innovative finance for climate change, which will look specifically at the next steps for implementing international transportation taxes. This report may feed into the G20 meeting in France in autumn 2011[17]. Several G20 countries have indicated their support for such taxes, including the UK, where Chris Huhne, the UK's Secretary of State for Energy and Climate Change stated in *The Guardian* (December 2011) that "The AGF contains all the ideas, but frankly the best runners in my view are a tax on bunker fuels for shipping and an aviation tax." The UN AGF noted that international action would have many benefits (for instance, creating a globally accepted tax, raising more money), however domestic action would be quicker to implement[18], again making it a feasible option for the UK's contributions to climate finance.

There are some concerns from emerging economies about the impact of such taxes on their terms of trade and the competitiveness of export industries. Similarly, there is potential for a backlash if taxes result in higher prices for consumers. However, it is possible to design transportation taxes so that they are fair and developed countries bear the majority of the costs. Currently, 67 per cent of bunker fuel is uplifted in Europe and North America alone[19], meaning that this would be largely progressive. Similarly, UN AGF[20] research has indicated that a shipping tax would have a minor impact on developing countries, potentially addressed by building rebate mechanisms into the tax for developing countries.

All analyses of bunker taxes (whether national, regional or international) have found that whatever type of tax is implemented, it is unlikely to raise enough per year to fulfil the $100 billion a year promise, or even the $50 billion per year of this needed for adaptation. Therefore, if such taxes are implemented, they will need to be accompanied by another innovative finance mechanism such as a Financial Transaction Tax.

Amreen, age 8, washes dishes in rainwater at her village in Pakistan. In 2010, floods devastated much of her village and the wider province.

17 G20 Communique, www.korea.net/news.do?mode=detail&guid=54500
18 See 10.
19 See 10.
20 See 10.

Conclusion and recommendations

Long-term climate finance is an essential investment for the world's children. Without the finance for adaptation and mitigation, many children will see their basic rights to health, education and well-being threatened by climate change. It is therefore vital that developed countries fulfil their Copenhagen promise of raising 'new and additional' climate finance of $100 billion per year by 2020. Sticking to this promise means making decisions in 2011 on how much to contribute and the source of this additional contribution. The UK Government should build on its global reputation in climate finance and lead this process, announcing an ambitious commitment to long-term climate finance in 2011, and adopting a financial transaction tax and bunker fuels taxes to source its 'new and additional' contributions to climate finance. Such leadership by the UK is essential to ensure that sufficient resources are available to build a climate resilient future for the world's children.

A girl stands outside her home in Sadra Sharif, Pakistan. The 2010 floods submerged her entire village and damaged most sources of drinking water.

Key recommendations

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