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## Transforming multinational climate finance

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A successful global agreement to address climate change requires an outcome with substantial and predictable finance in support of Least Developed Countries (LDCs) that are particularly vulnerable to the adverse impacts of climate change. At present, multilateral funding is regarded to come from national governments and mainly stems from national budgetary allocations. It is time for a more innovative approach to climate finance. We argue for using earmarked funds from off-budget sources, like emission allowance auctions and carbon taxes, while involving sub-national governments as well as national governments as providers of climate finance.

### Innovative Financing

In this context, 'innovative financing' refers to (off-budget) earmarked public sector sources, usually but not always related to combatting climate change, for instance revenues from:

- Auctioning of emission allowances (the focus of this article)
- Carbon, or related taxes, for instance on transit or use of fossil fuels
- A share of the proceeds from the Clean Development Mechanism (CDM).

From the provider perspective, earmarking is often considered problematic, but is widely practiced (e.g. national lotteries). In international climate finance, earmarking is less problematic if the revenues have already been earmarked, as is often the case for domestic emission allowance proceeds used to fund domestic climate action. Earmarked sources are usually treated as 'off budget' and, as such, are treated as being more predictable or automatic than budget allocations, which helps with long-term planning.

From the LDC recipients' perspective, the rationale for receiving innovative finance is the same as in the developed countries: predictability and automaticity, but even more so.

Developing countries have been adamant ever since the adoption of the 2 per cent adaptation share on CDM proceeds that any other flexibility mechanism should have a development finance component. Using a small share (2 per cent is the historic UNFCCC benchmark) of auction proceeds for climate finance would hence pave the way to developing country support for international emissions trading.

### Sub-national governments

There is growing interest in the idea of sub-national governments contributing climate finance, in particular for LDCs, through existing multinational channels – see for example, [Finance for the Paris Climate Compact: The role of earmarked \(sub\) national contributions Jun 2015](#). It is important, for example, that at COP 21 Quebec just announced a Cdn\$ 6 million contribution to the multilateral LDC Fund, managed by the GEF. Other sub-national governments, such as California, Ontario, British Columbia, Alberta and Manitoba, could well follow Quebec. This opening of the donor base is a genuine paradigm shift in multilateral (climate and/or development) finance, and could become accepted best practice.

In most countries, governments find it very difficult to commit funds that are tied to future budgets. For this reason, we have argued that public climate finance should derive from off-budget sources, ideally those that are market based and less vulnerable to changing policies. In many countries, for instance in Canada and the US, sub-national governments like the ones mentioned above are directly responsible for raising and managing the funds from emission allowances, carbon and other taxes.

### Conclusion

The combination of innovative financing and the involvement of sub-national governments is an idea whose time has come. In the US, it is one way and perhaps the only way to enable the US to make the sort of financial contribution that is expected. And in Canada, it could be the basis for federal-provincial collaboration on addressing climate change at home and in the most vulnerable countries, re-enforcing the message that Canada is truly back.

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