

## HOW TO INTEGRATE INDIA'S NEEDS WITH POTENTIAL SOURCES OF FUNDS FROM THE EUROPEAN UNION?

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### 1. India's needs

According to the *Greenhouse Development Rights (GDRs) framework*<sup>i</sup>, the global capacity of India to pay for mitigation and adaptation will be 0.7% in 2010, compared with 28.8% for the European Union (EU). This data shows that India urgently needs some help from the EU in order to cope with the costs of global warming and that the EU is better equipped and could indeed help be of assistance to India. No one is suggesting that all the support that India needs to pursue a low carbon pathway should come from the EU. It is interesting to note, nevertheless, that, again using the GDRs framework, the obligation by the EU to support mitigation in other countries<sup>ii</sup> (8700 millions of tonnes of CO<sub>2</sub> reduction from 2012 to 2030) significantly exceeds the amount of emission reductions that India will need to be funded internationally<sup>iii</sup> (3800 millions of tonnes of CO<sub>2</sub> reduction from 2012 to 2030).

#### *Processes and institutional arrangements*

- a) Creation of the necessary institutions for the EU and India to implement and maintain their enhanced cooperation
- b) The possibilities of linking India/Indian companies with the EU-ETS in due course
- c) Greater communication of best practice and more effective transfer of technology

#### *Research and development*

- a) Technological research, innovation and experimentation as well as research collaboration between the EU and India on climate related-issues such as energy, black carbon
- b) Technological research, innovation and experimentation as well as research collaboration between the EU and India on adaptation aspects such as protection against high levels of sea rise, infrastructure or building

#### *Incremental financial needs*

According to TERI<sup>iv</sup>, a renewable energy pathway would involve:

- a) Higher capital costs but lower operating costs
- b) On a conservative basis, a total of \$ 700 billion would be required but this could come down to \$ 200 billion assuming an aggressive learning curve
- c) Consequently, a fund of \$ 20 billion/year for 10 years would be a good starting point, subject to review

### 2. Sources of funds

To successfully address the climate challenge and sustainable development, new Funds, and sources of revenue for those funds, will be required. There are existing mechanisms and funds which should not be disregarded but instead improved and strengthened. The main problem lies with the voluntary nature of existing mechanisms and funds, both in terms of who will participate and how much will be given, as their success relies unrealistically on

the good will of participating countries. New mechanisms must be created to fill the existing gaps and complement the existing funds.

#### *The existing mechanisms*

Existing mechanisms include:

a) The Clean Development Mechanism (CDM): CDM is an important tool to reduce the costs of mitigation and to finance adaptation. Some of its proceeds finance for example the Adaptation Fund. But the CDM needs to be significantly revised by including a programmatic and sectoral approach and by simplifying the procedure with standard norms and baselines for registration and verification. Today, over 20% of the Certified Emission Reductions circulating in the carbon market are flawed<sup>v</sup>.

b) World Bank<sup>vi</sup>: the World Bank offers low-interest loans, interest-free credit and grants to India. The key is to influence the drafting made by the government of the Poverty Reduction Strategy Paper so that climate change becomes a top priority. This paper, which is submitted for approval to the Board of the Bank, enables a country to get a loan or a grant.

Climate Investment Funds (CIFs): linked to the World Bank and focusing on clean technologies and new development approaches and activities, CIFs offer additional grants and concessional financing to developing countries. \$6.3 billion was agreed between 12 donor countries in November 2008. There is criticism of the fact that this fund provides loans and not grants which could increase the already excessive debt of developing countries<sup>vii</sup>.

c) Global Environmental Facility (GEF)<sup>viii</sup>: \$250 million per year is available through the GEF for projects in renewable energy, energy efficiency and sustainable transportation; the GEF also includes a Special Climate Change Fund (pledges of \$60 million) in adaptation, transfer of technologies, energy, transport, industry, agriculture, forestry and waste management. But its whole capacity must be much bigger, as proposed above by TERI.

d) European Investment Bank<sup>ix</sup>: the European Investment Bank (EIB) only provides loans for projects in renewable energy (€800 million per year minimum), CCS, reduction of GHG other than CO<sub>2</sub> in industries and utilities and land use change. In addition, the EIB has four climate change initiatives: the Climate Change Financing Facility, the Global Authorisation Mechanism, the Climate Change Technical Assistance Facility and the Post 2012 Carbon Credit Fund, with an average of €330 million available for projects outside the EU.

e) The European Commission's funding: made through calls for proposals notably in research and external aid.

#### *The mechanisms to implement*

##### a) Sources of cash to supply the Funds

Both public funds and private funds are necessary as they act at different stages of the technology development process. Public funds are essential to provide support for the earlier stage of the cycle of the technology development, notably for R&D. Public funds help mobilize and leverage the private funds that are necessary for the next stages of the process, especially for the deployment and diffusion of the technology, when private companies start earning returns. According to the UNFCCC<sup>x</sup>, the private sector currently accounts for 86% of the share of investment and financial flows and has a fundamental role to play in funding the solutions to climate change. In the main, public funds are essential for adaptation actions while private funds are essential for mitigation actions.<sup>xi xii</sup>

Sources of cash for the funds to be created include the following options:

- i. Tax on fossil fuel producers or on aircraft fuel;
- ii. Tax on rich and polluting countries responsible for the release in the past of CO<sub>2</sub> into the atmosphere, following the example of the US Comprehensive Environmental Response, Compensation and Liability Act, commonly known as the Superfund. Under the Superfund, created in 1980, a tax was levied on the chemical and petroleum industries and liability established for people responsible for the release of hazardous waste. A global warming tax could similarly be made in proportion to

greenhouse gas emissions cumulated over some agreed period. Professor Bhagwati<sup>xiii xiv</sup> suggests that payment could be assessed over say 25 years and that the estimated damage reflects the cost of reducing emissions by a corresponding amount in the next 25 years. According to the Greenhouse Development Rights Framework, the European Union will account in 2010 for 22.6% of the global responsibility to the climate problem;

- iii. Border tax adjustment: Imports from countries with less ambitious environmental objectives;
- iv. Auctioning of emissions permits within the framework of the European Union Emissions Trading Scheme;
- v. Penalties for the tonnes of carbon dioxide equivalent emitted beyond the number allowed in the framework of the European Union Emission Trading Scheme;
- vi. Sale of surplus of emissions entitlement under an equal per capita agreement;
- vii. Venture capital.

#### b) Types of Funds

- i. Energy Efficiency Fund: This fund would be for efficiency measures such as greater communication of the knowledge and best practice in order to reduce the cost of emissions reduction. A major global campaign on greater awareness and action could be funded by the donor community. National commitments to energy and carbon efficiency goals would strengthen these efforts;
- ii. Forestry Fund: A specific fund for Forestry would enable the funding for this key issue to be handled in its own way.
- iii. Climate Mitigation Fund: This fund would link the obligation of mitigation actions for developing countries with finance and technology transfer from developed countries in a project or programme based transaction. Ex-post funding of realised carbon savings above some agreed baseline norm could be possible. The funds must be adequate, predictable and regular over a long period;
- iv. Adaptation Fund: The grants would be given for adaptation actions. The fund must be retroactive, strict, and joint and several;
- v. Technology Fund: This fund would promote experimental technologies looking for a carbon-saving return, and would stimulate relevant technological research and research collaboration. Venture capital could be built into the Climate Mitigation Fund or the CDM and would also provide management support. It would cover technological adaptive innovations and transfers. There is a need of capital for the early stages of technology commercialisation and the early stages of renewable energy project development.<sup>xv xvi</sup>

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<sup>i</sup> P. Baer, T. Athanasiou, S. Kartha and E. Kemp-Benedict, *The Greenhouse Development Rights Framework, the right to development in a climate constrained world*, Heinrich Böll Foundation, Christian Aid, EcoEquity and the Stockholm Environment Institute (12/ 2008)

<sup>ii</sup> Supra note i: p75

<sup>iii</sup> Supra note i: p79

<sup>iv</sup> Leena Srivastava, *Mitigation options for India – Role of the International Community*, TERI (12/ 2008)

<sup>v</sup> V. Johnson and A. Simms, *Engineering a transition to benefit human development*, new economics foundation, 2008

<sup>vi</sup> [www.worldbank.org](http://www.worldbank.org)

<sup>vii</sup> N. Goel, *Financing mitigation: case for clean energy investments*, The Energy and Resources Institute (12/ 2008)

<sup>viii</sup> [www.gefweb.org](http://www.gefweb.org)

<sup>ix</sup> European Investment Bank (EIB) Financing outside Europe, Climate change mitigation and adaptation activities,4/2007

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<sup>x</sup> *Report on the analysis of existing and potential investment and financial flows relevant to the development of an effective and appropriate international response to climate change, UNFCCC, Dialogue on long-term cooperative action to address climate change by enhancing implementation of the Convention, fourth workshop, Vienna August 2007*

<sup>xi</sup> S. Sharma, *Enhanced financing for adaptation and mitigation, including technology cooperation*, UNFCCC (12/2008)

<sup>xii</sup> Y. de Boer, *An update of investment and financial flows to address climate change – key findings*, UNFCCC (12/2008)

<sup>xiii</sup> J. Bhagwati, *A global warming fund could succeed where Kyoto failed*, Financial Times, 16 August 2006

<sup>xiv</sup> J. Bhagwati, *Global Warming*, for meeting in Florence, 2 May 2008

<sup>xv</sup> P. Bhandari, *Possible elements of a financial framework to address climate change*, UNFCCC (December 2008)

<sup>xvi</sup> N. Desai, *Funding actions to address climate change*, Contribution to a Meeting on Technology and Finance in Climate Co-Operation, Hafslund Manor, Norway, 5-6 June 2008