



Bundesministerium für
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Financing of Development through Proceeds from Emissions Trading

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Germany's Approach to Innovative Financing for Development

- Germany primarily looks towards **solutions beyond taxes and levies**.
- Currently, Germany is employing/assessing the following:
 1. Revenues from **emission allowances**
 2. **Blending** of budget funds with capital market funds, thereby leveraging sustainable development outcome.
 3. **Mobilising private and institutional investment** in emerging and developing economies to increase the benefit of their poor populations.
 4. **Re-use of repayments from development loans** provided to partner countries in addition to the development budget.



How Does Emissions Trading Work?

- Basic idea of EU Emissions Trading System (ETS): cap overall amount of emissions allowances and reduce annually.
- Allocation of allowances to companies: free allocation or auctioning. → Auctioning creates public revenues.
- If companies need more allowances, they must buy from others.



Allocation of Allowances in the EU

- First phase 2005-2007: 100% free allocation
- Second phase 2008-2012:
10% of allowances are sold/auctioned to energy utilities
- Third phase 2013-2020:
100% of allowances will be auctioned to energy utilities
(exemptions for industry and new EU Member States)



Revenue and Expenditure

	Revenue	Domestic climate programs	International climate and development (ODA)
2008	€ 933 mn (23 €/t)	€ 280 mn	€ 120 mn
2009	€ 528 mn (13 €/t)	€ 370 mn	€ 230 mn
2010	~ € 560 mn (14 €/t)	€ 370 mn	€ 230 mn



Third Phase of Emissions Trading (2013-2020)

- Legislation for third phase of EU ETS (2013-2020) already in place:
21% emission reduction in ETS sector from 2005 to 2020
- Generally, EU allowances for the energy sector will be auctioned.
- National parliaments decide on spending of auction revenue.
- Germany will channel additional revenue (additional to level 2008) in a special fund under public law (~ € 1.5 billion p.a. at CO₂ price of 15 €/t). Funding will be decided on yearly basis for:
 - National programmes for energy efficiency and climate mitigation.
 - International programmes for climate mitigation, adaptation and environment (ODA).



Benefits of this Innovative Financing of Development

- Market-based instrument, based on responsibility for emissions.
 - „Fresh money“ and large financing potential.
 - No new administrative structures necessary, funds are channelled through existing bi- and multilateral mechanisms.
 - Potential to earmark auctioning revenues in other EU member states and emerging economies.
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- **Resume: Proceeds from emissions trading are an innovative source for financing development with high potential.**