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Raising climate finance to support developing country action: some economic considerations

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often assumed to be justified despite arguments to the contrary. Fifth, two sets of proposals do particularly well when judged against this analysis: (i) expanding the scale and scope of the Clean Development Mechanism (CDM) and (ii) expanding the use of international financial institutions' balance sheets.

Cet article explore les principes devant guider les efforts visant à lever des fonds pour l'action climatique dans les pays en développement. Les conclusions principales sont, en premier lieu, le rôle important du financement privé, lequel serait facilité par l'établissement d'un prix des émissions généralisé et suffisamment uniforme mondialement. Deuxièmement, la finance publique garantit une série d'échecs liés aux marchés _ et aux politiques _ associés au changement climatique et à sa lutte. Troisièmement, l'augmentation des recettes fiscales serait préférable à l'emprunt comme moyen de mobilisation de la finance publique, bien que les processus économiques impliqués ne soient pas toujours nets. La théorie de la finance publique préconise l'imposition du « non vertueux », dont une partie échappe encore à la base d'imposition. Mais elle décourage l'hypothèque sur les flux spécifique de revenus réservés à des usages particuliers. Quatrièmement, la quantité des fonds qui pourraient ou devraient être levés en fonction des nombreuses propositions spécifiques de financement de la lutte contre le changement climatique dans les pays en développement est incertaine. Il en est de même du mode d'interaction entre les multiples systèmes. Certains systèmes pourraient faire baisser le prix du carbone.

L'affectation des fonds à des usages particuliers, malgré les arguments en faveur de la portée du MDP (ii) et des investissements dans les

Keywords

climate fin

intern

hypothecation

Mots clés

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Notes

Defined as non-Annex 1 countries under the Kyoto Protocol.

Defined as Annex 1 countries under the Kyoto Protocol. The 47 countries in the UNFCCC's category of Least Developed Countries, in contrast, accounted for just over 4% of emissions, and their aggregate emissions had been growing at an average 1.5% per year – a reminder that developing countries are by no means a homogeneous group as far as emissions are concerned.

Different ethical frameworks point to different allocation schemes in global cap-and-trade proposals, as illustrated by Höhne et al. ([2005](#)). However, virtually all entail large transfers to developing countries. A more general discussion of the interaction of economics, ethics and climate change can be found in Dietz et al. ([2009](#)).

The second fundamental theorem of welfare economics states that, under certain (rather restrictive) conditions, every Pareto-efficient allocation of resources can be achieved by a competitive market equilibrium. When it holds, the problems of efficiency and distributional impacts across individuals can be separated (Varian, [2009](#)). If introducing emissions pricing to correct the inefficiency induced by the GHG externality



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there is no need for
a public good, where
the good is non-excludable
and non-rivalrous, unless
there is a market failure.

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Stern (2019) argues that the market-based approach behind Kyoto is synthetic to the markets-based approach behind Kyoto.

I am grateful to an anonymous referee for raising the issue of fossil-fuel exporters. Aggressive mitigation policies are likely to lower the value of their resources and may depress (carbon-price-exclusive) fossil-fuel prices. To avoid Sinn's 'green paradox' according to which climate change policies may accelerate emissions (Sinn, [2008](#)), it is important that they participate in any global deal. What side payments might be required is a moot point.

Concern about the size of rents on intramarginal abatement opportunities has led to various proposals for price discrimination in carbon markets, not least with respect to the treatment of abatement opportunities in forest management.

The relationship between environmental policy and business cycles is discussed in Bowen and Stern ([2010](#)).

Unfortunately, governments are often better at identifying goods that they should subsidize because of the presence of market failures than they are at identifying untaxed bads. However, revenues from environmental taxes are surprisingly low in many countries (European Commission, [2008](#), [2010a](#)).

This literature is extensive and represents perhaps the richest strand of discussion of public finance issues in the climate change policy arena. See, inter alia, Bovenberg and Goulder ([2002](#)) and Schöb ([2003](#)).

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countries. The base – issued or traded – makes a huge difference when a levy is to be applied to emission reduction units and AAUs. In the case of AAUs, it would be virtually identical to the Norwegian proposal.

Some useful references include Müller and Hepburn ([2006](#)), Faber et al. ([2010](#)), IMO ([2009](#)), ODI ([2008](#)) and McCollum et al. ([2009](#)).

I am indebted to an anonymous referee for alerting me to this argument.

The IMF proposals are discussed in IMF ([2010](#)). Williamson ([2009](#)) reviews the economics of SDRs, which are essentially an international form of fiat money. The opportunity cost of using them for a green fund would be the reduction in their utility as reserve assets for the subscribing countries.

A basis point is 1/100 of a percentage point.

Of course, more aggressive mitigation and higher carbon prices would also warrant more action by developing countries and more finance from developed nations. It is not clear whether policy makers see the US\$100 billion target as consistent with the needs of developing countries in a world that takes the 2°C limit seriously.

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