

2 December 2010

EU Climate financing aid - clarification

Following the EU's presentation of its fast start funding at the Cancun climate conference yesterday, we have seen some media reporting that "*EU says aid must be loans, not grants*".

This is misleading and inaccurate. The European Union has never said that aid to developing countries must take the form of loans rather than grants.

For the poorer and least developed countries it is clear that aid must predominantly take the form of grants. The EU does not want to add to their debt burden.

Of course, loans do also have a role to play in climate finance, as they can maximise the total amount of money available for funding early action in developing countries by helping to leverage private funds. This is especially true in the area of energy efficiency, where many investments are profitable, as they will lower the energy bill of households in developing countries. By establishing revolving funds many more households will be able to benefit.

When it comes climate aid in form of loans, we want to underline that EU loans are often made on highly concessional terms which include a major grant element of up to 75%.

Let us add that EU loans are consistent with the Debt Sustainability Framework, which means we will not make loans to countries that cannot afford to repay them.

The EU's fast start funding commitment for 2010-2012 amounts to 7.2 billion *euros*, not dollars as some media is incorrectly reporting. Our contribution is equivalent to 9.4 billion dollars at current rates, which means that almost one-third of global fast start funding for developing countries is coming from the EU alone.

Transparency in how fast start funding is delivered is important for building trust between North and South. Inaccurate information does not help this process.