



CAN Finance Position Paper

Scale and Sources of Support for Developing Country Adaptation, Mitigation and Capacity Building

Climate Action Network – International is a coalition of more than 460 environmental and development non-governmental organizations worldwide committed to limiting human-induced climate change to ecologically sustainable levels.

Negotiations towards a Copenhagen agreement hinge on a number of key elements, including strong political signals from developed countries to reassure developing countries that finance and other assistance will be sufficient and available in the short and long term to support them in decarbonizing their economies, reducing deforestation, and adapting to changes in the climate that are now inevitable. Without substantial and upfront commitments of financial resources from developed country Parties in the near and long term there is an increased likelihood of continued stalemate in the negotiations.

The recent economic stimulus investment of trillions of dollars across various countries shows that with the political focus and will, the world can rapidly mobilize investments for dealing with global challenges at the scale required. To reach a stringent global agreement on climate change by Copenhagen is a must. The climate crisis requires at least the same level of focus as the financial crisis, as the costs of failing to address it will be substantially higher.

To keep the global average temperature increases as far below 2°C as possible compared with pre-industrial levels, CAN believes there is an urgent need for developed countries to show leadership in the negotiations, by clearly stating their commitment to fulfilling their obligations under the Convention to deliver the necessary support on financing, technology and capacity-building for developing countries' activities on adaptation and mitigation.

1. Scale of required **public funding**¹ for developing country actions

To effectively support and enhance developing country's efforts on adaptation and mitigation, the world will need to mobilize significant public funding for developing country actions—at the

¹ A number of the sources used in building the values in this paper make an assessment of how much of the incremental cost is to come from public versus private financing. We have followed those breakouts where they have been assessed. We will be continuing to develop a position on how the incremental finance can be most effectively mobilized, including how much should come from public versus private financing.

scale of **at least US\$ 150 billion per year**.² This figure is based on conservative estimates of the minimum resources required to meet the developed country obligations for support to developing countries for mitigation and adaptation measures. More robust and longitudinal financial studies are needed that take into account a range of different emissions and impact scenarios, in order to better estimate the needs in developing countries. Furthermore, the figure is dependant upon the scale of reductions achieved as well as the prices of goods, so it requires constant revision in light of new science, relevant studies, and improved policy frameworks.

The amounts identified in this paper are based on a 2020 reference year. Ideally these resources should be provided well in advance of this date. It is expected that they also will need to be scaled up over time. Beyond 2020 the resources needed could be much greater, depending on success by that date in shifting to low carbon development paths and changing global emissions trajectories downward.

The needs of public financial support in developing countries include:

- **At least US\$ 50 billion per year for adaptation in developing countries.** A wide range of estimates of adaptation costs exist in the literature, and \$50 billion is at the low end of this range. UNHDR estimates the costs of adaptation to be \$86 billion, and other estimates are beyond that. However, the cost of adaptation is highly dependent on the scale of global emission reductions, and with the current global emissions soaring well above the required emission reduction pathway, the risk of severe climate change damage is increasing fast. If rapid cuts in GHG do not take place, the level of public finance needed for adaptation will be significantly higher and increase exponentially as emissions and temperature rise. Furthermore, none of these figures incorporate the true costs of climate damage, including economic intangibles such as death, misery and the degradation and loss of ecosystem goods, services and livelihood. Additionally, these current estimates do not include the true costs required for rehabilitation, compensation or restitution for climate change damage where adaptive capacity is exceeded.

² Adequate funding under the UNFCCC, while crucial, is only one part of the equation. Existing national, bilateral and multilateral financial institutions now invest and will likely continue to invest trillions of dollars in climate-related economic activities. These funds must be redirected into those activities that produce positive outcomes for climate mitigation, adaptation and sustainable development. In 2008 cross border bank lending shrank by almost \$ 5 trillion, or 14% - the greatest decline on record.² This "deglobalization" of finance is likely to be only temporary, and there is a crucial opportunity, in the current discussion of the regulation of the global financial system, to ensure that when the financial taps start to reopen that these resources are directed into climate-friendly investments. (Financial Times. "Reopen the taps of global finance." Published April 30 2009 19:26 <http://www.ft.com/cms/s/0/933e828a-35b1-11de-a997-00144feabdc0.html>)

- **At least US\$ 35 billion per year for protecting forests.** This figure is the upper end of the range of estimates of four recent reviews (European Commission 2008, Eliasch 2008, Boucher 2008, Meridian Institute, 2009). However in each of these cases the estimate is for reducing deforestation and forest degradation in half by 2020. CAN believes that the world should eliminate the vast majority of emissions from deforestation and forest degradation by 2020, and therefore the higher figure is the minimum necessary.
- **At least US\$ 50 billion per year for energy-related mitigation.** An estimate by the European Commission concludes that in order to stay in line with a 2°C scenario, mitigation action equal to a total cost of US\$ 59 billion would have to take place in developing countries by 2020 (European Commission (2009), Commission Staff Working Document). CAN believes that global temperature rise needs to stay as far below 2°C as possible. Therefore, developed countries need to show leadership by committing to deliver a minimum of US\$ 50 billion per year as support for energy-related mitigation in developing countries mindful of the ongoing discussion of how nationally appropriate mitigation actions in developing countries shall be supported by developed country financing. This commitment must be in addition to a commitment by Annex 1 countries to reduce their emissions by more than 40% from 1990 levels by 2020. Should offsets be allowed for A1 compliance, they must not count towards this financial requirement
- **At least US\$ 5³ billion per year for an international climate insurance pool for developing countries:** In addition to micro-insurance solutions and alternative financial risk management tools to be adopted as part of national adaptation strategies (and thus covered by the cost figure on adaptation), the rise in extreme events caused by climate change makes it necessary to hedge developing countries through an international risk pool against rare but devastating events, which exceed national capacities.⁴ Technical reasons could make it necessary that also elements of micro-insurance activities would need to be addressed on the global level. The financing needed could therefore be higher than US\$ 5 billion and would in any case need to be borne by developed countries.

³ Munich Climate Insurance Initiative.

⁴ The Climate Insurance Pool (Tier 1) proposed by the Munich Climate Insurance Initiative would cover 30% of losses from rare (return period < 1 in 100 year) climate extreme events in developing countries and purchase reinsurance cover and accumulate fund to prevent the pool from becoming insolvent in case of multiple payouts. Although climate change alters the frequency of extreme events, the assessed return period would remain the same, which implies that the costs of the Climate Insurance Pool increases in future (depending on the rate and scope of climate change).

- **At least US\$ 5⁵ billion per year for agriculture.** The agriculture sector has a significant mitigation potential, e.g. enhancement of soil carbon stocks, and there are many potential synergies between mitigation and adaptation measures in the agriculture sector.
- **At least US\$ 5 billion a year for technology research and development, with increases at later dates as the absorptive capacity of developing countries is increased. The total global** investments in research and development are estimated to be significantly higher than US\$ 5 billion⁶. The estimated US\$ 5 billion represents the portion that **MUST** be committed to developing countries in public investment, so as to incentivize private investment in domestic R&D.

In order to ensure accountability and reliability of support, all international climate financing pursuant to commitments under the Convention should be administered and delivered under the direct authority and control of the COP, through a strengthened UNFCCC financing framework. However, it may be possible for an agreed minority percentage of such support to flow through channels outside of the Convention, but such support would have to be recognized by the COP, according to established criteria for MRV support, in order to count towards developed countries' commitments to deliver on financing, technology and capacity-building support for mitigation and adaptation.

We recognise that one of the roles that public funds will play will be in leveraging the involvement of private finance in research and development and demonstration, and shifting investments to low-carbon technologies. However, the expectation of such private sector investments and shifts cannot replace a clear commitment to provide the public funds necessary to enable private sector participation. In addition, we cannot forget that public funds will clearly be necessary to enable speedy deployment and diffusion of low-carbon technologies in developing countries. Therefore, any private sector funding that gets mobilized will have to be treated as additional to the level of public financing indicated above.

2. Sources and mechanisms for generating financing

Given the financial needs for the effective operation of the Convention, it is essential to identify where these financial resources will come from. In this section, CAN identifies a set of proposed mechanisms to generate these resources. This is not intended to be an exhaustive list of potential mechanisms, but rather one possible configuration of sources that are mutually compatible and conform as much as possible to the principles for financing we identify below. It is essential to

⁵ European Commission (2009), Commission Staff Working Document.

⁶ E3G, which document???

quickly build awareness and support for a range of financing mechanisms, in order to ensure that relevant decisions and legal text can be adopted in Copenhagen.

The optimal sources of financing will collectively conform to the following principles:

- Ability to generate new and additional, predictable and reliable, adequate and sustainable financial resources from diverse sources to meet the needs of the Convention;
- Conformity with the criteria established in the Convention for financing – especially that developed countries provide resources to developing countries.
- To the extent possible, create “automatic” sources of financing that are independent of national budgeting cycles and treasury discretion;
- Based on the “polluter pays” principle, thereby creating incentives to develop alternatives to emission-intense activities upon which a portion of financing is calculated;
- Differentiated financing obligation among developed countries based on capacity to pay and historical responsibility;

A number of international finance options have been tabled that can provide the additional, predictable, and stable financial resources necessary to support adaptation and mitigation activities in developing countries.

International aviation and maritime transport sectors have been identified by country delegations and observers to the UNFCCC negotiating process as sectors where it is possible to reduce greenhouse gas emissions, while generating new and additional financial resources. Such measures can be designed as passenger or fuel levies or as emissions trading schemes with 100% of the allowances auctioned. Current finance estimates vary depending on program design, the size of the levy, and the estimated cost of allowances.

Norway has proposed that a portion of the international emissions allowances (AAUs) allocated to each developed country with an emissions commitment should be set aside at the international level rather than being assigned to countries and auctioned off. The percentage set aside for auction for each country can be differentiated in accordance with their capability to pay and their historical responsibility for causing climate change. Oxfam has estimated potential revenues from an auctioning of 10% of AAUs at an allowance price of \$45/ton, which is also a conservative estimate for 2020. Carbon market prices are subject to fluctuation, which can generate a certain amount of unpredictability in revenues from such sources. However, robust carbon market prices, ensured by stringent reduction targets with strict limitations on offsets and other potential loopholes, are essential to the success of the climate regime as a whole, as well as

to generation of financing through related mechanisms. Any shortfalls in revenue from mechanisms linked to the carbon market can be compensated by increases in assessed contributions. In addition, there may be a need to have a floor price for the carbon market in order to ensure that market-based revenues do not plummet below a critical threshold.

Finally, we propose that any remaining funds be generated through assessed national contributions made by Annex 1 governments (which may be delivered through multiple mechanisms), and that financing commitments of developed countries be differentiated based on responsibility and capability.

One way of financing the assessed contributions is by redirecting fossil fuel subsidies. Many global leaders including UN Secretary General Ban Ki Moon, Sir Nicholas Stern, Al Gore, and John Browne the former Chief Executive of BP have all spoken out against the ongoing practice of subsidizing fossil fuels with public funds. The Obama Administration has proposed eliminating domestic subsidies to the oil and gas industry in the US.

While there are substantial fossil fuel subsidies within and from Non Annex 1 countries, many of these subsidies are designed to improve energy access for the poor. It is important that Annex 1 countries lead in eliminating their subsidies to fossil fuels, as language in the Kyoto Protocol already calls on them to do so.

Further research is needed to fully quantify the scale of ongoing and historical Annex 1 subsidies to fossil fuels. However, on the basis of available data, annual subsidies to fossil fuels in Annex 1 countries can be credibly and conservatively estimated to be \$67 billion.

CAN is proposing this set of finance generating mechanisms – maritime and aviation-related sources, international auctioning of AAUs and assessed contributions, for example through shifted fossil fuel subsidies – as one potential configuration of sources, components of which conform to many of the principles identified. However, other sources exist, such as a tax on currency transactions, Special Drawing Rights⁷ and the carbon tax proposed by Switzerland, which could also play a role, should the prioritized funding sources not be able to meet all the Convention’s needs.

	Funds generated annually 2013-2020
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⁷ At the G20 Summit in April 2009, \$250 billion in Special Drawing Rights (SDRs) was allocated to respond to the financial crisis. SDRs could potentially be used to help respond to the global climate crisis, but on very different terms than the April IMF deal. See *Solve Climate*, Jeremy Brecher, March 20, 2009 “How to Pay for a Global Climate Deal,” <http://solveclimate.com/blog/20090320/how-pay-global-climate-deal>.

Sources/mechanisms to generate financing	Min	Max	CAN
Aviation mechanism (e.g., Air Travel Levy or emissions trading scheme)	\$4 b	\$12.4 b ⁸	\$12 b
Maritime mechanism (ETS or Levy)	\$6 b	\$16.6 b ⁹	\$14 b
Expanded share of proceeds	\$0.3 b	\$1.7 b	\$1.5 b
Auctioning AAUs (10% of AAUs @ \$4 ¹⁰ 5/ton)	\$15 b	\$69 b ¹¹	\$69 b
Assessed contributions from industrialized countries, for example through shifted fossil fuel subsidies ¹² (remainder) = \$150 b - 96.5 b = \$53.5 b			\$53,5 b
TOTAL			\$150 b

The combination of sources described in the above table is only one potential mix of sources, but it demonstrates that obtaining the required levels of financing is feasible and can be largely achieved with the tools directly under the responsibility of the UNFCCC. The key point is that mechanisms exist that can raise adequate financing – what has been missing until now is the political will and commitment to deliver these resources. It is clear that much greater amounts have been found to address issues that pose lesser threats to the future of the planet and human civilization.

⁸ Oxfam International, *Turning Carbon Into Gold*. Oxfam Briefing Paper, December 2008; Müller and Hepburn (2006)

⁹ Oxfam International, *Turning Carbon Into Gold*. Oxfam Briefing Paper, December 2008

¹⁰ While \$45/tonne is a conservative estimate, the price might double if the mitigation requirements CAN advocates are being met.

¹¹ Oxfam International, *Turning Carbon Into Gold*. Oxfam Briefing Paper, December 2008

¹² See Oil Change International, *Redirecting Public Subsidies for Fossil Fuels in and from Annex 1 Countries*.