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Federal Department of the Environment,
Transport, Energy and Communications DETEC

Funding Scheme for Bali Action Plan

A Swiss Proposal for Global Solidarity in Financing Adaptation

New York, 24 September 2008

The need to find a way to financing adaptation

Even if we reduce greenhouse gases immediately, governments must still take additional measures to adapt to climate warming. Incidents of drought and flooding are likely to increase in the years to come as is the spread of various tropical diseases. According to the World Bank, adaptation measures will cost between 10 and 40 billion dollars per year. The poorest countries will be particularly hard hit by these developments and will face serious financial difficulties.

The Swiss proposal on financing adaptation to climate change entails a financing mechanism based on a global CO2 emissions levy. The larger part of the proceeds goes to national measures. The smaller part goes to a multilateral adaptation fund for programs in low to middle income countries. The mechanism differentiates according to levels of development, and generates a flow of resources from high-income to low-income countries. Countries below a threshold of 1.5 t annual CO2 emissions per capita are exempt from the levy

The Swiss proposal on financing Adaptation to climate change contributes to the achievement of the MDGs, specifically Goal 7 aiming at ensuring environmental sustainability. Financial resources levied according to the Swiss proposal can be used by developing countries to pursue a resilient and sustainable path of development whilst coping with the adverse effects of climate change.

Over 48 billion dollars per year

Governments would collect a levy on their country’s emissions. The levy would amount to 2 US dollars per ton of CO2. This mechanism would raise 48.5 billion dollars per year.

Exemption

For each country, a set quantity of CO2 is exempt from the levy. Countries not having reached a level of 1.5 t annual CO2 emissions per capita – for instance least developed countries – would thus be exempt from the levy altogether. Switzerland, for its part, would be liable for a payment of approximately 60 million Swiss francs per year, based on today’s emission levels.

Each country keeps part of the revenue raised from the levy

Each country is entitled to retain a part of the revenue from the levy to finance national climate measures (mitigation and adaptation) through a National Climate Change Fund (NCCF). The percentage retained by countries for their NCCF’s depends on their level of development. The remainder of the proceeds goes to a Multilateral Adaptation Fund (MAF), earmarked exclusively for countries with low or average per-capita incomes.

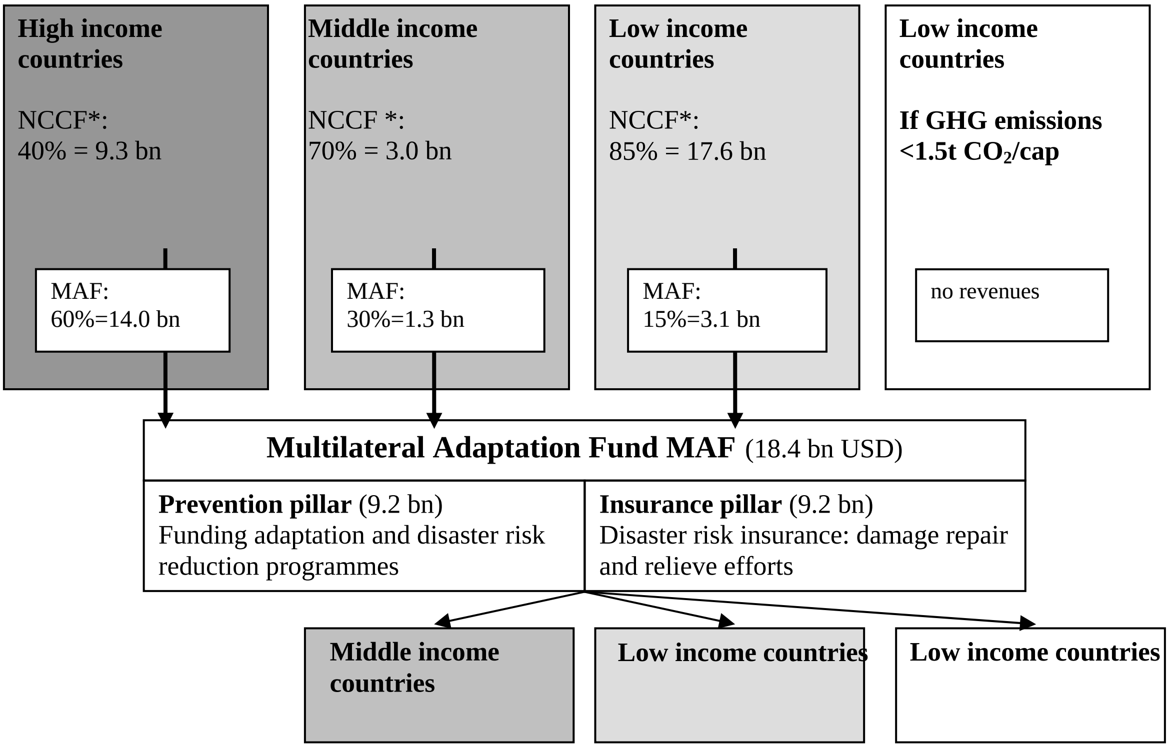
A good balance between developed and developing countries

This mechanism strikes a good balance between the obligations of developed countries and those of developing countries. It generates a predictable source of funding and provides for the equitable sharing of the financial resources raised.

A Model of Implementation[1]

Key parameters of the Swiss proposal are:

- global CO2-based levy: 2 USD/tCO2 (corresponds to 0.5 USD cents/liter of fuel or 1.9 USD cents/US gal)
- Levy free emissions: 1.5 tCO2 /capita
- Total annual revenue: 48.5 bn. USD
- National Climate Change Funds (NCCF): 30,1 bn USD
- Multilateral Adaptation Fund (MAF): 18.4 bn



*National Climate Change Funds (NCCF) for mitigation action and adaptation programmes

Levy free emission level

The revenue model applies a levy-free CO2 emission level of 1.5 tCO2 per capita (1.5 tCO2/cap), applicable to all countries. This level corresponds to a sustainable global emission target envisioned for the second half of this century in accordance with Article 2 of the UN Framework Convention on Climate Change. Developing countries with emissions below 1.5 tCO2/cap will hence be fully exempted from the CO2 levy, but will benefit from the disbursement model.

National Climate Change Funds, NCCF

All participating countries must use the resources flowing into their National Climate Change Funds for climate change adaptation and mitigation programs according to national circumstances and priorities.

Multilateral Adaptation Fund, MAF

Industrialized countries with a high per capita income contribute 60% of their revenues from the CO2-levy to the Multilateral Adaptation Fund MAF; for middle income countries this

[1] Source: Funding Scheme for Bali Action Plan, UVEK, Bern, 21. Mai 2008, www.environment-switzerland.ch/climate

percentage is 30 % and for low income countries 15 %. Low income countries with per capita emissions of less than 1.5 tCO_2/cap do not raise the CO_2-levy and therefore do not contribute to the global fund. These principles amount to a significant resource transfer from rich to poor countries: 15.3 bn USD or 83% of the annual revenues of 18.4 bn USD in the Multilateral Adaptation Fund are contributed by the high and middle income countries.

The financial resources in the Multilateral Adaptation Fund go exclusively to programs and measures in middle and low income countries. The Multilateral Adaptation Fund consists of two pillars:

a) **Prevention pillar**: Contributions to national programs reducing to reduce disaster risks and to make development more climate-resilient.

b) **Insurance pillar**: In cooperation with the insurance industry, the fund insures large risks which cannot otherwise be covered otherwise

The Swiss proposal views the Multilateral Adaptation Fund as a new mechanism, not necessarily as a new multilateral institution. An existing institution such as the Adaptation Fund or the Global Environment Facility could be mandated to manage this fund.