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Fact Sheet

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Substantial Finance Required for Mitigation and Adaptation Measures

The cost of mitigating further climate warming and adapting to the effects of climate that have already arisen, in developing countries in particular, is estimated at several billion US dollars per year. Options for the financing of these costs are due to be discussed at the UN Climate Change Conference in Copenhagen from 7 to 18 December 2009. These options include Switzerland's proposal for a global CO_2 levy.

Estimates of the finance required for climate change mitigation and adaptation in developing countries vary between one and several hundred billion US dollars per year. The individual country groups refer in part to completely different estimates, and the developing countries, in particular, work on considerably higher projections for the cost of adaptation to climate change than other groups. The EU was the first group to commit to a reference figure (up to EUR 100 billion annually for both mitigation and adaptation).

These forecasts show that from 2012 the financial support provided will have to be increased significantly as compared with current levels. It is proposed that two main sources of finance be mobilised simultaneously: i.e. the public and private funding, mainly in the form of investments and through the carbon market.

Switzerland generates finance from public and private sources

Switzerland currently devotes approximately CHF 80 million per year to the financing of mitigation and adaptation measures in developing countries. In addition, the charge levied on petrol and diesel imports by the Climate Cent Foundation finances emissions reductions in developing countries to the value of CHF 53 million through the CO_2 market.

At the preparatory meetings held in advance of Copenhagen, there was unanimity as to the fact that a substantial increase in the financial and investment flows for climate protection measures from public and private channels is necessary. The questions as to the sum to be derived internationally from public sources and how the burden should be shared among the donor countries remain open, however. It is possible that an agreement will be reached on a reference sum in Copenhagen thus enabling the equitable distribution of the public finance to be provided by the industrialised countries.

Burden sharing

The Action Plan adopted at the 2007 Climate Change Conference in Bali requires the provision of adequate and predictable climate change finance (tailored to requirements) on top of the sums already provided in the context of international development cooperation. A number of proposals for the public financing of mitigation and/or adaptation in developing countries are on the negotiating table in Copenhagen. With respect to public funding, the industrialised countries must share the effort to be made vis-à-vis the developing countries as they are all obliged to contribute.

Burden sharing is dependent, *inter alia*, on whether a binding funding mechanism for the collection of contributions or a system based on voluntary participation will be established. A central element of the individual proposals for the generation of public funding is a specific distribution key for the national contributions. With the exception of the proposals submitted by Switzerland and the G77 group (newly industrialised and developing states), the crucial parameters for the quantification of the financial impacts involved for the individual donor countries have not yet been determined for most proposals.

A series of proposals, including one by Switzerland:

- **Swiss proposal**: The Swiss proposal is based on the polluter-pays principle and stipulates that countries all over the world pay a contribution of USD 2 per tonne of CO_2 (or other greenhouse gases converted into CO_2 equivalent) emitted. The first 1.5 tonnes of CO_2 emitted per capita are exempt which means that many developing countries would be excluded from the levy.

  Quantitative estimation for Switzerland: ca. CHF 60 million/per year for a multilateral climate fund and CHF 24 million for adaptation measures in Switzerland.

- **Mexican proposal**: Mexico suggests levying the national contributions of all countries on the basis of certain indicators (i.e. per capita emissions, gross domestic product and population size).

  Qualitative estimation for Switzerland: the quantification of the national contribution depends on the number and weighting of the indicators and the total sum of the public financial contribution.

- The **EU** has proposed a similar distribution key which recommends burden sharing based on greenhouse gas emissions and GDP.

  Qualitative estimation for Switzerland: quantification of the national contribution depends on the weighting of the indicators.

- **Norwegian proposal**: Additional funding should be generated through the auctioning off of a proportion of the emissions rights of the states with binding reduction commitments. The burden sharing would, therefore, be proportional to national emissions and dependent on the reduction objective.

  Qualitative estimation for Switzerland: the quantification of the national contribution depends on the specific proportion of the emissions rights to be auctioned off and their price (market price vs. fixed price)

- **G77 + China proposal**: 0.5% to 1% of GDP of the industrialised countries in addition to the internationally agreed target of making 0.7% of GDP available for public development aid.

  Quantitative estimation for Switzerland: additional CHF 2.5 to 5 billion per year

- **Japan and the USA**: as an alternative to international burden sharing based on a defined distribution key, both countries propose that the public funding be generated through defined national and voluntary contributions.

Possible agreement

It is possible that agreement will be reached on a reference sum enabling the equitable distribution of the public finance to be provided by the industrialised countries. At best, the agreement on the financing of mitigation and adaptation measures in developing countries will specify an annual contribution that the contributing countries must provide collectively. In the absence of such an objective, it is more likely that the contributions to be made by the countries will be announced unilaterally.

A number of questions remain to be resolved on the following points:

- Which countries will be contributors?
- Which criteria will be adopted for defining the sums to be contributed?
- What will be the nature of the contributions?
- What will be the role and volume of the private financing of mitigation and for adaptation?

Major question marks surrounding the future financial architecture

The institutional architecture that currently exists for the financing of mitigation and adaptation measures in developing countries is complex and relatively decentralised. Various funds with different aims and governance coexist and there is little or no coordination between them.

In the current regime, access to financial resources depends on the fund that manages them. Access conditions differ according to whether the resources originate from the Global Environment Facility (GEF), the Adaptation Fund or the climate funds managed by the World Bank.

The ideas of the developing countries and industrialised countries in relation to the control and monitoring of the institutions that will manage significant public resources in the future differ significantly. The developing countries support the creation of new institutions that would be subordinate to the Conference of the Parties and should have a say in operational matters. In addition, the recipient countries would like direct access to financial resources without the intermediation of an international financial institution or international organisation.

The industrialised countries, on the other hand, support the continuation of the existing decentralised financial regulations with bilateral and multilateral institutions which each have their own rules and regulations governing the distribution and control of the funding and are organised and managed by bodies in which the donor countries have a greater say.

Greater emphasis on environmental concerns

In principle, a solution is emerging that will involve the existing institutions (in particular the Global Environment Facility (GEF) and funds operated under the auspices of the World Bank). At the same time, these institutions will also be reformed so that greater consideration can be taken of environmental concerns and the needs of recipient countries; easier and quicker access to the finance will also be provided. The institutions are also to be made more efficient. These elements also feature in the reform process of the GEF and in proposals presented by the USA and Japan.

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