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

Federal Office for the Environment FOEN
Media Section
Tel.: 031 322 90 00
Fax: 031 322 70 54
medien@bafu.admin.ch
http://www.environment-switzerland.ch

Fact sheet 2

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Today's financial sources

Addressing climate change will require a significant shift in global investment and financial flow paradigms. The United Nations Development Programme estimates that an additional USD 86 billion per year will be needed by 2015 for adaptation. The UNFCCC Secretariat's Investment and Financial Flows to Address Climate Change puts the total additional funding required to return greenhouse gas (GHG) emissions to 2005 levels between USD 200 and USD 210 billion in 2030. At least half of that amount will be needed in non-Annex I countries.

Funding for climate change comes from both public and private sources. Funding for non-Annex I countries under the UNFCCC is provided through the Global Environment Facility (GEF), including under the Special Climate Change Fund and the Least Developed Country Fund; and the Adaptation Fund of the Kyoto Protocol.

The largest multilateral funding sources for climate change in non-Annex I countries outside the UNFCCC are the World Bank's Climate Investment Funds. Funding for reducing emissions from deforestation and forest degradation in developing countries (REDD) is provided, inter alia, through UN-REDD and the World Banks' Forest Carbon Partnership Facility. Official development assistance (ODA) and bilateral initiatives also play a significant role in combating and adapting to climate change in non-Annex I countries. In recent years, various donor countries have launched funding initiatives targeting climate change mitigation and adaptation.

A fundamental issue in the financing negotiations is the requirement for 'new and additional' resources, or ensuring that new funding for climate change is additional to ODA and existing contributions. Recipients of funds are adamant that additionality of funding be proven so that donors cannot simply shift ODA funds from an existing directive to climate change.

In addition to publicly-funded multilateral and bilateral initiatives, the private sector constitutes an important source for climate-related investment in non-Annex I countries. The United Nations Environment Programme (UNEP) states that global investment in sustainable energy—including wind, solar, biofuels, biomass, and waste — rose to USD 155 billion (annually) in 2008. The majority of private financing is concentrated in a limited number of countries, indicating that development of clean energy systems is not happening on a global basis.

Private finance can flow through the carbon market and through investment activities in non-Annex I countries. The Clean Development Mechanism (CDM), a market-based mechanism established under the Kyoto Protocol, provides access to the carbon market for non-Annex I countries. The World Bank reports that CDM transactions were valued at USD 2,678 million in 2009, down considerably from USD 6,511 million in 2008. Large non-Annex I countries have attracted the majority of CDM investment.

For further information:

- Franz Perrez, Head, International Affairs Division, Federal Office for the Environment FOEN, + 41 (0)79 251 90 15