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Global Solidarity in Financing Adaptation –

A Swiss Proposal for a Funding Scheme

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Agenda

- Situation and challenges
- Objectives and principles
- General outline of the proposed funding scheme
- The three pillars of the funding scheme
- Financial flows between regions
- Impacts of the funding scheme
- Implementation questions
- Further steps and discussion

Situation and challenges

- DCs/LCDs most vulnerable to Climate Change, CC is a threat to achieving MDGs

- Funding incremental adaptation cost crucial for further economic development of DCs/LCDs

- Financing needs exceed resources available from Marrakesh Funds/GEF by far

- Adaptation Funding on basis of polluter pay principle

Objectives

→ Establishing a global burden sharing system for financing CC measures – especially adaptation

→ Overcoming the burdens for financing effective adaptation measures in non-Annex I countries

→ global CO_2 tax is a fair and effective mechanism to finance adaptation and mitigation

→ **Multilateral Adaptation Fund** (MAF) proposed as governing body for operating **prevention** and an **insurance pillar** of funding mechanism (50% each)

→ Further developing national activities through national climate change funds (NCCF)

Principles

Polluter pays principle and solidarity (*common/differentiated responsibility*) :

- Contributions according to responsibility for CC
- Contribution to Fund according to economic capacity

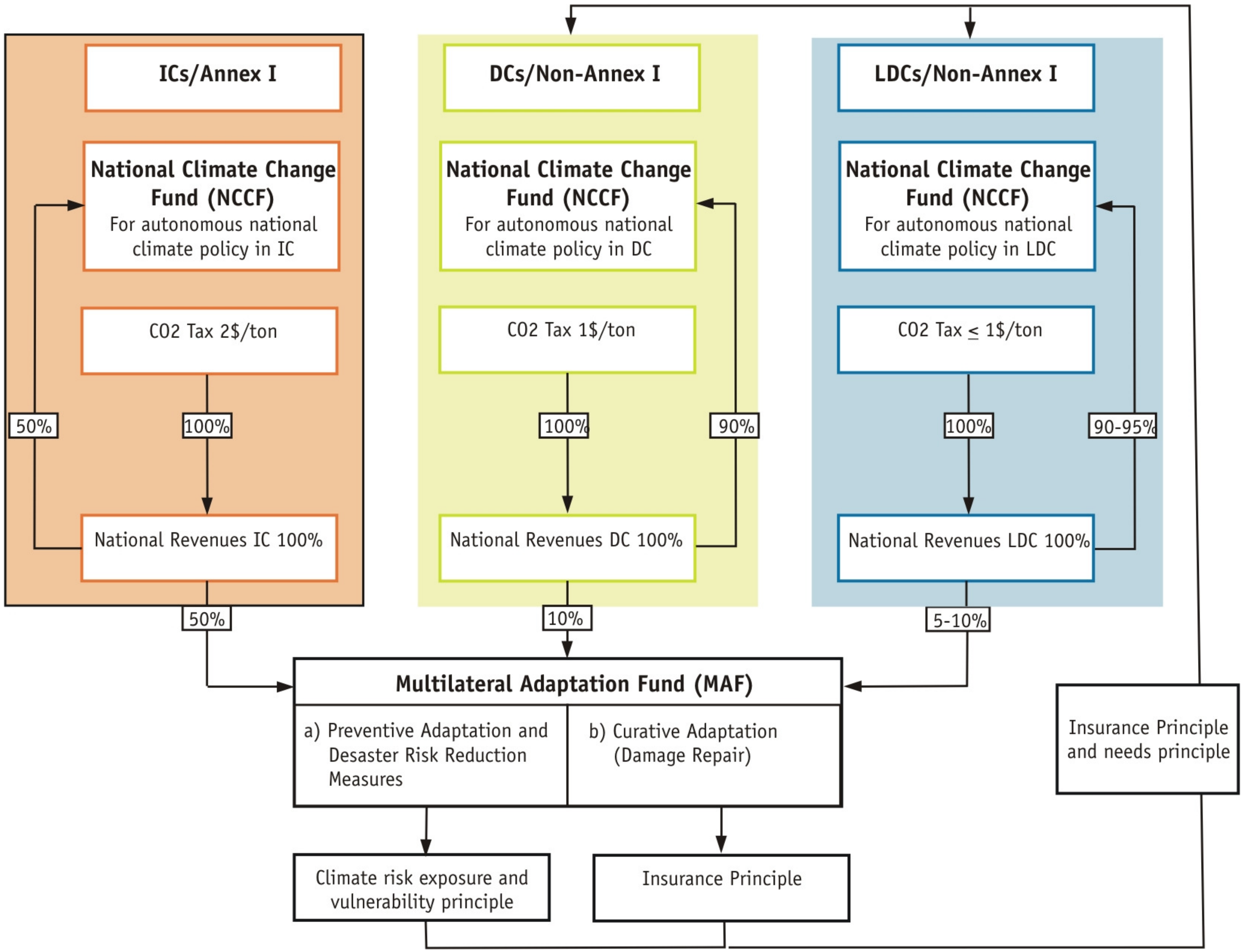
Subsidiarity:

- National responsibilities for **NCCFs**
- Priorities according to national CC programmes

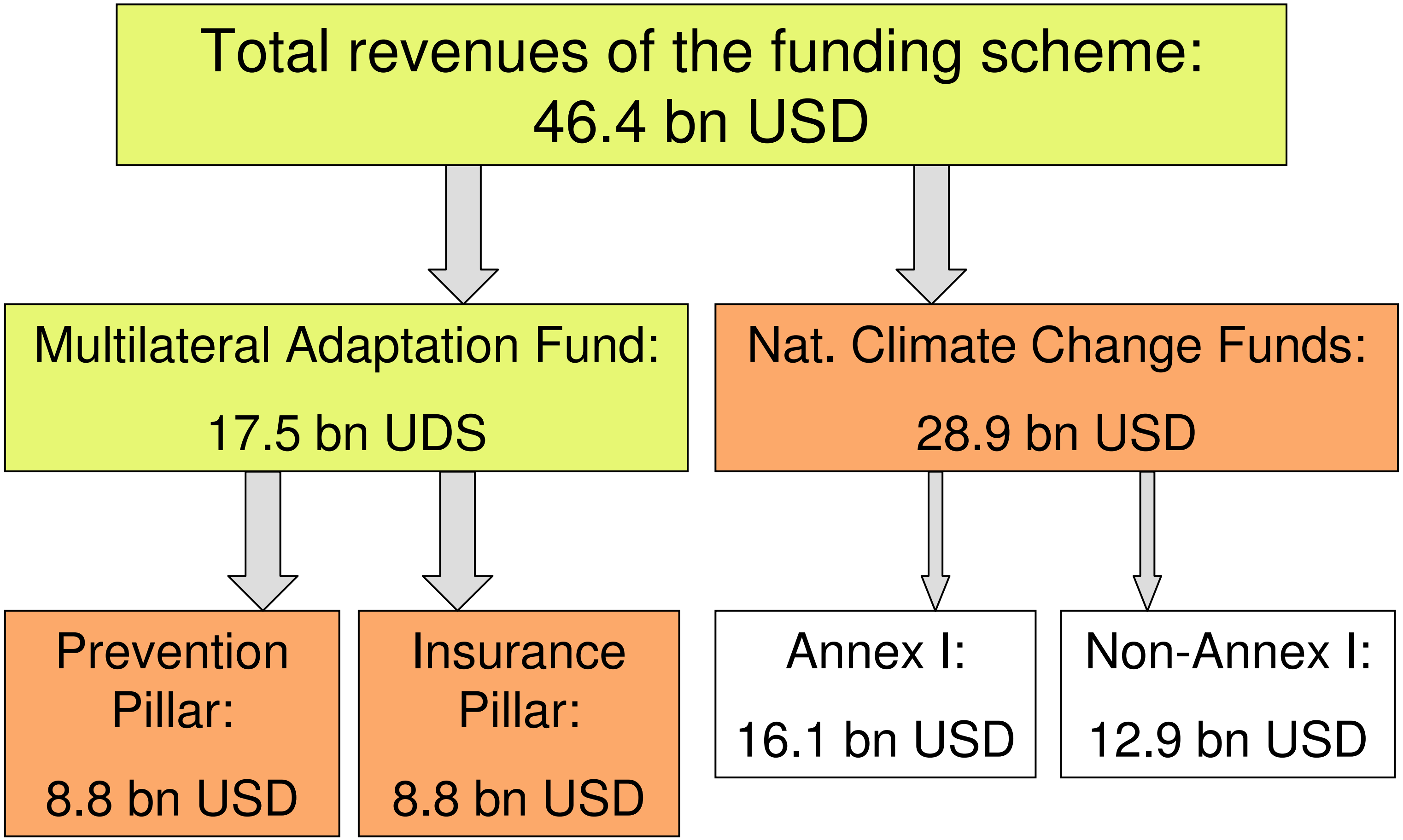
Efficiency and effectiveness:

- Flexibility in national tax collection systems
- Policy/Programme based transfers: No project-based approach

Overview


ICs/Annex I
National Climate Change Fund (NCCF)
For autonomous national climate policy in IC
CO2 Tax 2$/ton
50%
100%
National Revenues IC 100%
50%
DCs/Non-Annex I
National Climate Change Fund (NCCF)
For autonomous national climate policy in DC
CO2 Tax 1$/ton
100%
90%
National Revenues DC 100%
10%
LDCs/Non-Annex I
National Climate Change Fund (NCCF)
For autonomous national climate policy in LDC
CO2 Tax ≤ 1$/ton
100%
90-95%
National Revenues LDC 100%
5-10%
Multilateral Adaptation Fund (MAF)
a) Preventive Adaptation and Desaster Risk Reduction Measures
b) Curative Adaptation (Damage Repair)
Insurance Principle and needs principle
Climate risk exposure and vulnerability principle
Insurance Principle

Revenues of the three pillars



National Climate Change Funds (NCCF)

- Adresses priorities of national climate change programmes mitigation, adaptation, public awareness
- Financial flows into NCCF:
  Annex I: 50% of revenues (16 bn. USD),
  non-Annex I: 90% of revenues (12 bn. USD)
- Institutional architecture: national needs and responsibilities (e.g. GIS in Russia, China CDM fund)

Multilateral Adaptation Fund –
Prevention pillar

- MAF steers financial flows from Annex I to non-Annex I countries
- Distribution of funds (8.7 bn. USD/a) on the basis of a combined vulnerability/per capita approach
- Transfers to non Annex I Parties as financing contributions based on agreements, no project by project approach
- Builds on existing adaptation initiatives (NAPAs, AF)

Multilateral Adaptation Fund –
Insurance pillar (tentative design elements)

- Insures growing risks of non-insurable extreme, climate change related weather events (8.7 bn)

- Covers in participating DCs and LDCs:
  - Low probability, high consequences risks: Infrastructure & productive capital assets
  - Sub-regional pilots “micro weather risks”

- Cooperation with private insurance sector (PPP)
- -> Tenders insurances at a regional/sub-regional level based on agreements MAF - Parties in a sub-region
- -> Pays insurance premiums of agreed schemes
- Link to prevention pillar: Level playing field, check free riders/perverse incentives

Financial Transfers between regions

NET FINANCE FLOWS BETWEEN PARTICIPATING REGIONS						
	Total revenue of tax	Revenue going to MAF	Funding obtained from adaptation pillar	Payments obtained from insurance	Net payments to and from MAF	Receipts from national pillar and contribution from MAF
OECD North America	15010	7505	0.0	0.0	-7505.0	7505
OECD Europe	8948	4474	0.0	0.0	-4474.0	4474
East Asia (Japan, South Korea)	3616	1808	0.0	0.0	-1808.0	1808
Oceania (Australia, New Zealand)	924	462	0.0	0.0	-462.0	462
Russia	3598	1799	0.0	0.0	-1799.0	1799
China	5857	585.7	1487.2	2577.4	3478.9	9336
India	1369	136.9	1947.6	2114.2	3924.9	5294
Non-OECD Asia	1853	185.3	2313.6	2245.8	4374.1	6227
Middle East	1463	146.3	474.1	191.8	519.6	1983
Africa	1188	118.8	1657.8	838.8	2377.9	3566
Latin America/Carribean	1270	127	533.4	463.0	869.4	2139
Rest of the World (non-Annex I)	1314	131.4	326.0	308.7	503.3	1817
Total World	46410	17479	8739.7	8739.7	17479.4	46410.0

Impacts

- Low level of CO_2 tax will not lead to negative economic effects (GDP, employment)
- No significant effect on competitiveness as tax is introduced on a global scale
- Positive economic and social impacts in DCs/LDs if damages from CC can be reduced
- Solidarity in financing climate change related adaptation needs and climate risks:
  - ➔ Resources of MAF would be about 50 times higher than resources in existing mechanisms

Implementation

- Collection of the CO_2 tax: on national level, upstream
- Integration of LDCs: Need for grace period in taxation?
- Integration of bunker fuels: which share of the revenue from bunker fuels flows into MAF?
- Preventing moral hazard in subregional schemes: Coherence between prevention and insurance pillar to reduce the risk
- Institutional development: Cooperation with private sector (PPP)

Further steps and discussion

- Can proposal be integrated into current negotiation process for post 2012 regime?
- Views of Parties on leading idea and proposed design of the scheme?
- Would an insurance pillar work on basis of *agreed risk coverage* on sub-regional basis?
- Criteria to reach a consensus how a fair distribution of resources under prevention pillar could look like?
- Develop governance and implementation modalities of the scheme further

Further steps and discussion

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- Thank you