



# Count down to Copenhagen: international finance for mitigation and adaptation

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CANA International Climate Summary Sheet #2

## Background

Unlocking low carbon industry and adaptation financing for developing countries is central to solving the climate crisis. Not only is this required to ensure developing countries transition into the low carbon economy and have the means to protect themselves from the impacts of unavoidable climate change, it is also essential politically. Without measurable, reportable and verifiable financing from developed countries, developing countries will not accept commitments to enhance their existing actions to slow emissions growth. Without greater effort by developing countries, industrialised countries will not accept more ambitious emission targets. Hence the financing package in Copenhagen is central to whether an ambitious deal is struck - or not.

Developed countries are historically responsible for greenhouse emissions, have greater capacity to finance emission reductions and still have high per capita emissions relative to many countries in developing world. While all parties to the UNFCCC take responsibility for averting climate change, these are expressed as "common but differentiated responsibilities," differentiated on the basis on capacity, historical responsibility and the need to continue supporting sustainable development.

To further this acknowledgment, the UNFCCC negotiations in Bali in December 2007 agreed that nationally appropriate mitigation actions and adaption in developing countries would be supported by measurable, reportable and verifiable (MRV) financial support from developed countries. Estimates for funding mitigation and adaptation actions are generally based on the additional, or incremental, investment required. For example, the cost difference between building a low emission power station – like a wind farm – and building a coal-fired power station to generate the same amount of power.

Estimates of the required funding for adaptation and mitigation are several hundreds of billions of US dollars every year. A draft treaty proposed by international NGOs recommends US\$160 billion in public funding annually for adaptation and mitigation, including REDD, technology transfer and an "insurance pool" to help countries afflicted by climate-related disasters. In context, the total GDP of Annex 1 nations in 2007 amounted to \$40 trillion, and around \$4 trillion has been spent so far to stem the impacts of the global financial crisis. The UK recently proposed a working target of \$100 billion (US) by 2020 for public and private sector investment in developing countries to reduce emissions and adapt to climate change.

## Key finance questions

- How can we ensure that poorer countries are financially able to make cuts to greenhouse gas emissions, and undertake adaptation planning and action?
- What mechanism for transferring finance from Annex 1 to non-annex 1 countries will ensure that funding is equitable, predictable, transparent and abundant?
- Should existing institutions (many of which are not bound by UNFCCC decisions) be used or should new institutions that fall under the jurisdiction of the UNFCCC COP be established for this purpose?
- How should the nexus between public and private finance be managed?

- Should finance be tied to mitigation activities?

### **Problems and issues to consider:**

- How can funding needs for adaptation be accurately costed? Current approximations vary significantly.
- Should finance be provided on a project, sector or country basis? Should funding be prioritised for least developed countries and those most vulnerable to the effects of climate change?
- Should rapidly industrialising developing economies, such as China, South Korea and Singapore also provide international financial assistance?
- How can finances be delivered? Current proposals include auctioning or selling a proportion of assigned amount units (AAUs, Kyoto emissions units) to raise the funds, levying international civil aviation and marine bunker fuels, proportional contributions from domestic and regional ETSs and increasing the contribution from the CDM to the Adaptation Fund.
- Which mechanisms are durable, secure, predictable and adequate? Do they enable mitigation actions additional to Annex 1 commitments, including market-based offsets? Is this funding additional to existing (or committed but unfulfilled) overseas development aid? Are governance structures sufficiently transparent and robust to build confidence in financing mechanisms in developing countries?

### **Australia's position**

- As a wealthy and developed Annex 1 country, Australia has a responsibility to contribute to financing mitigation and adaptation in developing countries.
- In the past, Australia has been one of the few industrialised countries to attempt to engage the G77/China group on their proposals to generate financing.
- Australia has committed to financial help for forest preservation in PNG and Indonesia and to adaptation in the Pacific. However, Australia has yet to commit additional public money to international finance.
- Like most industrialised countries, Australia believes that the majority of financing will be delivered through the private sector and the carbon market. The exception to this is adaptation funding which Australia believes should be public sector based.
- Beyond agreeing to broad principles around financing, Australia is yet to take a position on what mechanisms should be implemented to deliver additional public sector financing.
- Unlike the current Waxman-Markey Bill before Congress in the USA, no commitment has yet been made to dedicate a proportion of the billions raised by the auction of pollution permits under a Carbon Pollution Reduction Scheme or any other Australian economy wide carbon price mechanism.
- Australia's failure to date to commit to finance for mitigation and adaptation in developing countries is a serious blockage to a global agreement for effective climate action at Copenhagen.

### **Further information:**

See the other 'Count down to Copenhagen' summary sheets in CANA's international climate series:

Summary Sheet #1 What to look for, What to expect

Summary Sheet #2 International finance for climate mitigation and adaptation

Summary Sheet #3 Global adaptation to climate change

Summary Sheet #4 Legal architecture

Summary Sheet #5 Mitigation

Summary Sheet #6 LULUCF and REDD

Summary Sheet #7 International climate acronyms

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