Africa
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Financing Climate Change Adaptation and Mitigation in Africa: Key Issues and Options for Policy-Makers and Negotiators

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LIST OF KEY ACRONYMS

AAUs – Assigned Amount Units	IET – International Emissions Trading
AMCEN - African Ministerial Conference on the Environment	IMERS - International Maritime Emissions Reduction Scheme
APF - African Partnership Forum	JI - Joint Implementation
AWG-LCA - Ad-hoc Working Group on Long-term Cooperative Action	KP - Kyoto Protocol
BAP - Bali Action Plan	LDCF - Least Developed Country Fund
CDM - Clean Development Mechanism	MDG-F - MDG Achievement Fund
CEIF - Clean Energy Investment Framework	MRV - Monitor, report, and verify
CIF - Climate Investment Funds	NAMA - Nationally appropriate mitigation actions
COP - Conference of the Parties	NAPA - National Adaptation Programmes of Action
CO_2 - Carbon dioxide	NCCF – National Climate Change Fund
CTF - Clean Technology Fund	ODA - Official Development Assistance
ETS – Emissions Trading Scheme	PPCR - Pilot Program for Climate Resilience
FIP - Forest Investment Program	SCCF – Special Climate Change Fund
G77 - Group of 77	SCF - Strategic Climate Fund
GCCA – Global Climate Change Alliance	SPA - Strategic Priority for Adaptation
GEF - Global Environment Facility	SREP - Scaling Up Renewable Energy Program
GHG - Greenhouse gas	UNECA - United Nations Economic Commission for Africa
IAPAL – International Air Passenger Adaptation Levy	UNFCCC – United Nations Framework Convention on Climate Change

INTRODUCTION

1. BACKGROUND AND RATIONALE

In light of Africa's unique vulnerability to climate change and the unprecedented challenges this poses, the African Ministerial Conference on the Environment (AMCEN) at its twelfth session turned its attention to climate change in Africa. The Ministers underscored the need for Africa to actively and strategically participate in the negotiations on a global climate change agreement to ensure that the region's interests and requirements are taken on board.

Given the intensive international negotiations necessary to reach a desirable outcome by the end of 2009 in Copenhagen, AMCEN meeting stressed the need for Africa to identify key political messages to inform its negotiating process, in terms of the commitments that it seeks from the international community, as well as the actions that African countries would take themselves. The meeting stressed the importance for an African consensus on ways of enhancing implementation of the United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol beyond 2012, when the current Protocol expires.

The Secretariat of AMCEN has been working with African regional organizations, the United Nations Economic Commission for Africa (UNECA), and other strategic partners to organize a series of preparatory meetings for Africa's climate change negotiators. These preparatory meetings aim to provide African negotiators with substantive technical and policy support to strengthen their preparations for the upcoming negotiations.

Given the importance of financing climate change for Africa, the AMCEN Secretariat requested UNECA, in partnership with the OECD-African Partnership Forum (APF), to produce a technical paper and policy brief for African negotiators and policy makers as part of their technical and policy materials package. This technical paper will serve as a background document for the African negotiators' meeting and for the high-level experts' meeting preceding the AMCEN special session on climate change to be held in May 2009. The paper will also inform African Ministers of Finance and feed into the deliberations of the Financing for Development Conference scheduled for 21-22 May 2009. The policy brief is intended to inform policy makers of the financing climate change debate, to present different policy options for consideration and to make recommendations on the way forward.

1.1 Climate Change in the Context of Africa

Although Africa as a continent contributes less than four percent of the total global greenhouse gas emissions, it is among the most vulnerable to climate change. Africa's climatic vulnerability is coupled with a very low capacity to adapt to the adverse effects of climate change. In its Fourth Assessment Report, the Intergovernmental Panel on Climate Change (IPCC) emphasizes the likelihood that climate change and variability will negatively impact Africa's economic activities and exacerbate its current development challenges. With this warning in mind, various efforts are being made to reduce greenhouse gas emissions, plan for immediate and future adaptation, and integrate climate change considerations into development programmes and strategies at national and regional levels.

Current estimates of financial resources needed to support African countries as they attempt to alleviate and adapt to climate change are still vague, but they all indicate that costs will be in the tens of billions of dollars per annum. Carbon market investments into Africa are scarce,

and the money that is generated through international public funds, both bilateral and multilateral, is in short supply. It is increasingly clear that these voluntary contributions by developed countries will not be enough to meet the needs of the developing world.

Because of this shortcoming, financing climate change has become one of the hottest topics in the international negotiations. Indeed, at the recent March 2009 interim session in Bonn, developing countries underscored finance as a 'make or break' component of an agreement in Copenhagen[4]. The UNFCCC Executive Secretary de Boer echoed this sentiment, highlighting financial support for mitigation and adaptation as one of the four minimum requirements for a successful Copenhagen agreement. In light of this, several proposals to generate new funds are being put forward within the context of the UNFCCC that could make a substantial contribution towards the resources needed to respond to this global crisis. This paper aims to provide African negotiators, policy makers and finance ministers with information on existing and proposed financial mechanisms, and offer an assessment of the proposed financing options, to help inform Africa's negotiating position.

1.2 Structure of the paper

The paper is structured as follows:

INTRODUCTION

1. Background and rationale to climate change finance in Africa

CURRENT CONTEXT

2. Existing climate change funding mechanisms for developing countries (both public initiatives and the market-based Clean Development Mechanism)
3. The funding gap: funds available from existing initiatives compared against the finance needed
4. Key principles and specific concerns for Africa
5. Priorities for the short term

OPTIONS FOR THE FUTURE

6. Framework for a future financial mechanism: 'revenue raising', 'governance', and 'distribution'
7. Analysis of current negotiating positions for a future financial mechanism, organized by the framework introduced in Section 6
8. New and innovative 'revenue raising' options proposed for a future financial mechanism
9. Assessing 'revenue raising' proposals
10. A summary of recommendations on the way forward: recommendations of African negotiating positions based on the three branches of the financial mechanism

[4] ENB, 10 April, 2009.

CURRENT CONTEXT

The financial resources needed to support African countries as they attempt to adapt to climate change will be huge. There is a convergence in the most recent cost estimations at around US$100 billion to $200 billion for developing world costs for climate change mitigation[5]. Adaptation cost estimates vary widely, anywhere between the World Bank's $10-$40 billion in 2020 to the UNDP's 2007 estimate of $86 billion per year in 2015[6]. Within the UNFCCC negotiations, developing countries (e.g. G77 plus China) are calling for between $200 billion and $400 billion per annum for both mitigation and adaptation[7].

The *Current Context* section provides a discussion on existing climate change funding initiatives that have been established to address these costs, and an assessment of the large funding gap that still exists. Section 4 highlights specific concerns and priorities for Africa, and concludes with Section 5, an overview of some short-term priorities to increase access to existing finance.

2. CURRENT CLIMATE CHANGE FINANCING INITIATIVES

Existing financial mechanisms can be grouped into two categories:

- Existing international public financing initiatives, for both mitigation and adaptation (including both multilateral and bilateral initiatives)
- The Clean Development Mechanism (CDM)

This section concludes with an assessment of the available mechanisms against the criteria established in the Convention and Bali Action Plan.

2.1 Existing international public financing initiatives

There has been a recent proliferation of new international climate funds. These seek to mitigate climate risks and help the most vulnerable adapt to climate change. Given that the focus is on African UNFCCC negotiations, the emphasis is to highlight funds on which the UNFCCC process can have some influence. Many of the funds currently mentioned are either established or have 'sunset clauses' meaning their operations are projected to end by 2012. However, it is far from clear what the future funding landscape will look like, with the emerging governance standards of these funds likely to influence the post-2012 regime. Also worth discussing are initiatives that fall outside the UNFCCC process, given their potential impact on the established and future UNFCCC/KP funding initiatives.

The initiatives below, while not entirely comprehensive, demonstrate the current landscape of international public funds available for climate change in the developing world, grouped by (a) multilateral initiatives and (b) bilateral initiatives. The table which follows includes funding pledged, deposited and disbursed.

[5] Pendleton & Retallack, 2009.
[6] Pendleton & Retallack, 2009.
[7] See G77 plus China proposal submitted to the UNFCCC

2.1.1 Multilateral Initiatives (organized by fund administrator)

Global Environment Facility

The Global Environment Facility (GEF) is at the centre of the existing system of financing programs and projects to protect the global environment. The *GEF Instrument* states that the GEF shall operate for the purpose of providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve global environmental benefits in the GEF focal areas. It has provided primarily grants and, to a lesser extent, concessional funding to recipient countries for projects and programmes that have the explicit purpose of protecting the global environment in six focal areas: climate change (mitigation and adaptation), biodiversity, international waters, persistent organic pollutants, ozone depletion and land degradation (desertification and deforestation). It works with 10 multilateral agencies: the World Bank, United Nations Development Programmes (UNDP), United Nations Environment Program (UNEP), International Fund for Agricultural Development (IFAD), Food and Agriculture Organization of the United Nations (FAO), United Nations Industrial Development Organization (UNIDO) and four regional development banks (Inter-American Development Bank (IADB), African Development Bank (AfDB), Asian Development Bank (ADB) and European Bank for Reconstruction and Development (EBRD).

Funds established under the Convention

As an operating entity of the financial mechanism for the UNFCCC, the GEF is obliged to respond to the guidance of the Convention. The funding available under GEF for adapting to climate change includes The GEF Trust Funds, which are earmarked for national communications processes, vulnerability and adaptation assessment, capacity building efforts for adaptation and pilot and demonstration projects that address local adaptation needs and generate global environmental benefits in GEF focal areas. They also support community-based adaptation activities under the GEF's small grant programme.

Under guidance from the UNFCCC, the GEF was asked to manage the following two funds focused on adaptation, both of which are based on voluntary contributions from donor countries:

- The Special Climate Change Fund (SCCF) was established to finance the special needs of developing countries, including Africa, in adaptation, technology transfer, climate sensitive sectors and economic diversification for country economies dependent on the fossil fuel sector.
- The Least Developed Country Fund (LDCF) was established to support preparation and implementation of National Adaptation Programmes of Action (NAPA). These NAPAs provide a prioritized list of immediate adaptation projects.

As of January 2009, 14 SCCF adaptation projects have been approved, six of which are in Africa (Egypt, Ethiopia, Kenya, Mozambique, Tanzania, Zimbabwe). 62 projects have been approved and eight are under preparation for the LDCF. Of the 62 projects approved, only 12 are in the implementation phase (Bangladesh, Bhutan, Burkina Faso, Cape Verde, DRC, Djibouti, Eritrea, Malawi, Sierra Leone, Sudan, Tuvalu and Zambia). In addition, eight implementation projects are under preparation (Benin, Gambia, Guinea, Haiti, Mauritania, Niger, Samoa and Vanuatu).

Funds under the GEF Trust Fund
The Strategic Priority for Adaptation is part of the GEF Trust Fund, but does not fall under COP's guidance. The Strategic Priority for the Adaptation (SPA) Fund is intended to reduce vulnerability and increase adaptive capacity to climate change.

As of April 2009, less than one-half of the money pledged for these three funds has been disbursed to fund recipients[8]. The table below gives detail on the pledged, deposited and disbursed funds to date.

Debate over GEF
There has been much debate over the governance of GEF. Many developing countries have felt very little if any ownership over GEF, which they see as dominated by donor concerns. According to some, GEF has not prioritized the adaptation needs of the most vulnerable and has disproportionately funded projects in countries that have relatively low rates of poverty. Other criticisms of GEF governance include:

- The governance structures are seen by developing countries as complex and weighted in favour of donor countries;
- The rules and structures make accessing funding difficult and time-consuming;
- There is a lack of transparency in decision-making that appears to be the prerogative of powerful individuals;
- There is an emphasis on supporting projects rather than programmatic approaches; and
- The focus on securing environmental projects over development projects results in fewer global benefits[9].

Given that GEF financing is likely to continue, even if another financial mechanism is established, Africa should push for governance reforms within GEF.

Kyoto Protocol's Adaptation Fund

The Adaptation Fund has been established by the Parties to the Kyoto Protocol of the UN Framework Convention on Climate Change to finance adaptation projects and programmes in developing countries that are Parties to the Kyoto Protocol. Funding is derived primarily from the proceeds of the two per cent levy on transactions under the CDM (although it may also be complemented with other sources of funding). An Adaptation Fund Board was created in 2007 to operate the Adaptation Fund, and it is fully accountable to the Conference of the Parties.

The governance and management of the Adaptation Fund have been paid considerable attention both within and outside the Kyoto Protocol negotiation process, primarily because of its uniqueness as a model for climate change funding governance:

- To avoid the lack of ownership many developing countries felt over the GEF-administered funds, a 'one country one vote' rule was made along with a majority representation for developing countries on the governing body. Parties also have direct access to the funds, unlike the GEF-run funds. This has been seen as a victory for the developing world in creating a new governance system for funding adaptation activities.
- The Adaptation Fund is unique among the financial instruments of the international climate change regime in being exclusively dedicated to the funding of *concrete*

[8] Based on analysis of information from www.climatefundsupdate.org.
[9] Mitchell, Anderson & Huq, 2008.

adaptation activities (programmes and projects)[10] as opposed to research or knowledge building.

- The Adaptation Fund also operates on the following principles: accountability in management, operation and use of funds; short and efficient project development and approval cycles and expedited processing of eligible activities; and the need for projects to be country driven, taking into account existing national planning exercises and development activities.

The Adaptation Fund can potentially serve as a model for future international financial mechanisms. However, the Adaptation Fund is not yet operational, and likely will not be operational until the end of 2009.

African Development Bank (AfDB)

The AfDB has begun to engage in climate funding for the region through its Clean Energy Investment Framework (CEIF). Approved by the AfDB Board of Directors in early 2008, the CEIF focuses on clean energy development and access for Africa, financed through non-concessional resources from the AfDB to provide public-sponsored projects and programmes in the 15 middle-income and 'blend[11]' countries and non-guaranteed financing for attractive private-sponsored operations in all the 53 Regional Member Countries.

The AfDB has also been chosen to host the Congo Basin Forest Fund (CBFF), launched in 2008, which currently has an initial contribution of US$ 200 million from the United Kingdom and Norway. The Board of Directors and the Board of Governors of the Bank Group have endorsed the decision to host the fund up to 2018. Other partners are expected to contribute to the fund which will be used to curb deforestation through local capacity building efforts in the Congo Basin.

United Nations Development Programme (UNDP)

UNDP is committed to supporting developing countries in responding to climate change concerns as part of their overall sustainable development efforts. The UNDP runs the UN Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (The UNDP-REDD Programme), which is a collaborative project between FAO, UNDP and UNEP. Its aim is to generate the requisite flow of resources to significantly reduce global emissions from deforestation and forest degradation. The immediate goal is 'to assess whether carefully structured payment structures and capacity support can create the incentives to ensure actual, lasting, achievable, reliable and measurable emission reductions, while maintaining and improving the other ecosystem services forests provide'[12].

UNDP has also collaborated with the Government of Spain to create the MDG Achievement Fund (MDG-F), to accelerate efforts to reach the Millennium Development Goals. Environment and Climate Change is one of eight thematic areas supported by the MDG-F.

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[10] Muller & Winkler, 2008.

[11] The 'blend' category is used to classify countries that are eligible for IDA resources on the basis of per capita income but also have limited creditworthiness to borrow from IBRD. They are given access to both sources of funds, but are expected to limit IDA funding to social sector projects and use IBRD resources for projects in the 'harder' sectors.

[12] UNDP website, 2008.

The World Bank

In light of the UNFCCC negotiations on the future financial architecture for climate change, the World Bank along with other Multilateral Development Banks have developed Climate Investment Funds (CIF), approved in 2008, as an interim measure to scale up assistance to developing countries and strengthen the knowledge base in the development community. Roughly US$6 billion has been pledged for the CIFs, comprised of both grants and concessional loans to address urgent climate change challenges in developing countries. Within the CIF, there are two mutli-donor trust funds: the Strategic Climate Fund (SCF) and the Clean Technology Fund (CTF). The SCF serves as an umbrella vehicle for the receipt of donor funding and disburses to specific funds and programmes aimed at piloting new development approaches to climate change. There are three funds under the SCF framework: the Pilot Program for Climate Resilience (PPCR, focused on adaptation, designed to build upon NAPAs), the Forest Investment Program (FIP, focused on mitigation in the forestry sector) and the Scaling Up Renewable Energy in Low Income Countries Program (SREP, supporting transitions to low carbon development pathways)[13]. Each of the funds under the SCF has a sub-committee, advised by an independent Expert Group. The Sub-Committee is responsible for approving programmatic priorities, operational criteria, and financing modalities for their respective fund, and are in charge of selecting projects and country recipients.

The CTF, the other multi-donor Trust Fund within the CIFs, aims to finance transformational actions by providing positive incentives for the demonstration of low carbon development and mitigation of greenhouse gas emissions through deployment of clean technologies. While some projects have been approved, none of the CIFs are fully operational and funding has not yet been disbursed.

The World Bank's track record of lending to develop coal, oil and natural gas projects has been severely criticised by a number of environmental organizations[14]. These groups feel that the World Bank's attempt to control climate change funding could undermine the UNFCCC process.

The CIFs have also been criticised by certain civil society groups for creating parallel structures for financing climate change adaptation and mitigation outside the ongoing multilateral framework for climate change negotiations and within a process dominated by G8 countries. The CIFs have also been criticised for the significant speed at which they have been designed, promoted and implemented without due consultation with wider stakeholders[15].

The language of the Funds has been criticised for implying recognition of the UNFCCC principles as merely guidance for the Fund's policies rather than as binding internationally negotiated commitments of State Parties, which must be respected. They have also been characterised as demonstrating a lack of familiarity with the principles negotiated under the Convention and the legal status of commitments under the UNFCCC[16].

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[13] For more information on each of the funds, see www.climatefundsupdate.org.

[14] See for example, critiques by Friends of the Earth. Criticisms are consolidated in the Climate Funds Update website (www.climatefunds.org)

[15] Tan, 2008.

[16] www.climatefundsupdate.org

2.1.2 Bilateral Initiatives

The Japanese Cool Earth Partnership (CEP)

The Japanese CEP has three priorities: (i) establishing a post-Kyoto framework that will ensure the participation of all emitters and aim at fair and equitable emission targets; (ii) strengthening international environmental cooperation, under which Japan will provide assistance to help developing countries achieve emissions reductions and to support adaptation in countries suffering from severe climate change impacts; and (iii) supporting innovation that will focus on the development of innovative technology and a shift to a low carbon society.

The UK's Environmental Transformation Fund – International Window (ETF-IW)

The international window of the UK's ETF aims to support poverty reduction, provide environmental protection and tackle climate change in developing countries by addressing unsustainable deforestation, access to clean energy and activities that support adaptation. Most of the finance available under this initiative will be channelled through the World Bank's Climate Investment Funds, although early support to the Congo Basin Conservation Fund has been provided[17].

The European Commission's Global Climate Change Alliance (GCCA)

The GCCA will address mitigation, adaptation and poverty reduction via a proposed partnership with developing countries that will include the provision of both technical and financial assistance. In addition, it aims to provide an informal forum that will facilitate negotiations for a post-2012 climate agreement. The GCCA also plans to add value by acting as a clearinghouse mechanism to coordinate the international adaptation initiatives of EU member states.[18] The GCCA is the only scheme that can be considered to fall under the *EU-Africa Partnership*, a political partnership focused on establishing a shared Africa-EU vision for climate change.

The German International Climate Initiative (ICI)

The German ICI has three objectives: (i) supporting sustainable energy systems, adaptation and biodiversity projects related to climate change; (ii) ensuring that investments will trigger private investments at a greater magnitude; and (iii) ensuring that financed projects will strategically support the post-2012 climate change negotiations. The German ICI is unique in terms of how funds are generated. The German Federal Environment Ministry (BMU) raises funds by auctioning nine per cent of its nationally allocated carbon allowances for the second phase (2008-2012) of the EU Emissions Trading Scheme (ETS), rather than giving the permits away for free[19]. Of the 800 million Euros expected annually, half will be used for both domestic and international climate initiatives. One hundred and twenty (120) million Euros of the money will be allocated to developing countries, half of which will be allocated to adaptation and forest protection. Germany's ICI is in addition to a much larger sum of money already spent bilaterally by the German government on adaptation.

The Australian International Forest Carbon Initiative (IFCI)

Australia's IFCI aims at facilitating global action to address emissions from deforestation by providing incentives to developing countries to reduce deforestation.

[17] www.climatefundsupdate.org
[18] Porter, et al, 2008.
[19] APF, 2008c.

Annex B provides an overview of the existing international climate change funding architecture. The table below provides a summary of each multilateral and bilateral funding initiative, including its primary funding instrument (grant versus loan), and the amount pledged, deposited, and spent/disbursed to donor countries and to Africa.

TABLE 1: Summary of multilateral and bilateral climate change funding initiatives

MULTILATERAL FUNDING INITIATIVES								
Name of fund	**Acronym**	**Administered by**	**Funding instrument**	**Pledged (millions)**	**Deposited (millions)**	**Disbursed (millions)**	**Disbursed to Africa**	**Currency**
Adaptation Fund	AF (AFB)	Adaptation Fund Board, UNFCCC	grants	300 (est. revenue from CERs)	300 (est. revenue from CERs)	0	0	USD
Clean Energy Investment Framework	CEIF (AfDB)	African Development Bank	part non-concessional resources, part non-guaranteed financing	unknown	unknown	unknown	unknown	USD
Congo Basin Forest Fund	CBFF (AfDB)	African Development Bank	unknown	200	unknown	unknown	unknown	USD
Strategic Priority on Adaptation	SPA (GEF)	GEF	grants	50	50	50	9	USD
Special Climate Change Fund	SCCF (GEF)	GEF	grants	107	94	60	15	USD
Least Developed Countries Fund	LDCF (GEF)	GEF	grants	172	131	48	42	USD
GEF Trust Fund - Climate Change focal area	GEF TRUST FUND	GEF	grants	3130 (4th replenishm ent)	3,130	2,389	407	USD
MDG Fund – Environment and Climate Change	MDG (UN/SPAIN)	UNDP	grants	90	90	86	16	USD
UN-REDD Programme	UN-REDD	UNDP	grants	35	12	0	0	USD
Pilot Program for Climate Resilience	PPCR (WB)	The World Bank	part grants, part concessional loans	208	-	0	0	USD
Scaling-Up Renewable Energy Program	SREP (WB)	The World Bank	part grants, part concessional loans	100	-	0	0	USD
Strategic Climate Fund	SCF (WB)	The World Bank	grants, concessional loans, guarantees, credits	1,585	-	0	0	USD
Forest Carbon Partnership Facility	FCPF (WB)	The World Bank	grants	100	unknown	0	0	USD
Forest Investment Program	FIP (WB)	The World Bank	unknown	57	-	0	0	USD
Clean Technology Fund	CTF (WB)	The World Bank	grants, concessional loans, guarantees	2,149	1,011	0	0	USD
BILATERAL FUNDING INITIATIVES								
Name of fund	**Acronym**	**Administered by**	**Funding instrument**	**Pledged (millions)**	**Deposited (millions)**	**Disbursed (millions)**	**Disbursed to Africa**	**Currency**
Cool Earth Partnership	CEP (JAPAN)	Japan	2,000 in grants, 8,000 in ODA loans	10,000	unknown	unknown	unknown	USD
Environmental Transformation Fund - International Window	ETF-IW (UK)	United Kingdom	blend (part grants, part concessional loans)	800	100	0	0	GBP

Global Climate Change Alliance	GCCA (EC)	European Commission	grants	286	unknown	unknown	unknown	Euro
International Climate Initiative	ICI (GERMANY)	Germany	blend (part grants, part concessional loans)	120	120	110	61	Euro
International Forest Carbon Initiative	IFCI (AUS)	Australia	unknown	200	unknown	unknown	unknown	AUD

Source: www.climatefundsupdate.org

2.1.3 Assessing existing international public financing initiatives

Despite the recent proliferation of international public financing initiatives, it is clear that available resources are inadequate to meet the scale of need.

If international public funds rely on voluntary contributions (as all initiatives do, except the Adaptation Fund and the German ICI) at the level of currently pledged amounts, they will not raise sufficient financial flows estimated to be needed for mitigation and adaptation in Africa or any region of the developing world.

Furthermore, looking at what portion of the pledged money has actually been *deposited* and *disbursed*, clearly shows that developing countries have received a fraction of the money that has been promised to them by Annex I countries. While some of the funds have only been established in the last year, many have been in existence for several years, a failure on the part of developed countries to deliver on their financial commitments. For example, as previously stated, the three GEF administered funds directed by the UNFCCC have delivered less than 50% the amount of funds originally pledged. Overall, less than 15% of the pledged funds have been spent in developing countries[20].

A widely discussed issue associated with most funding initiatives, GEF funding in particular, is one of accessibility: the funding application processes tend to be time consuming and administratively cumbersome, particularly for overstretched African countries with insufficient capacity to deal with such managerial burdens. Of the funds actually disbursed, Africa has received less than 12 per cent of all the climate fund money spent in the last four years, and moreover, it can take more than three years to access money[21].

However, given that resources are very limited and African governments (and those of other developing countries) need to act urgently to make their economies more resilient to climate change, proactive efforts should be made to pursue the appropriate funds currently available.

2.2 The Clean Development Mechanism (CDM)

The CDM was established under the Kyoto Protocol to assist Annex I Parties comply with their emission reduction commitments, and to promote sustainable development in developing countries. As of end-2007, proceeds from the sale of emission credits from CDM projects amounted to US$7.4 billion, a 50 percent increase in value over 2006, and triple the value in 2005. The overall carbon market has also risen sharply over this period, reaching $60 billion in 2007 or 6 times its value in 2005 and is set to continue its exponential growth over the coming years[22].

[20] Based on analysis of information in table above, taken from www.climatefundsupdate.org.
[21] Vidal, 2009.
[22] Capoor & Ambrosi, 2008.

The CDM thus provides developing countries with a significant source of carbon finance to help promote sustainable development. But although the CDM has proven successful in generating emission reduction projects in many developing countries, Africa accounted for only 5 per cent of CDM transactions in 2007, and roughly 2 per cent of CDM activities overall. It is reported that, as of October 2008, only 17 out of 1186 CDM projects were located in Sub-Saharan Africa, most of which (14 out of 17) were located in South Africa[23].

The CDM is currently inadequate as a tool to support the needs of Africa in its fight against global warming. Given that Africa gets less than 2 per cent of all CDM investments, the mechanism is not geographically equitable, preferring the low-hanging fruit projects in China, India and Brazil. The mechanism does not include non-Annex I countries in its governance framework, given that the primary objective is to provide an offset mechanism for Annex I countries.

Box 1: The future of the CDM in Africa

The impact of the CDM as a means for providing adequate financial support for mitigation activities in Africa has proven to be limited. It is therefore imperative that African governments both capitalise on existing carbon market opportunities, and develop a clear African position for post-2012 negotiations, in order to increase the flows of carbon finance needed for Africa to meet the challenges of climate change and sustainable development. Negotiating positions should focus on actions that can broaden the CDM approach and coverage in a post-2012 framework to increase Africa's potential share of CDM transactions, including:

- **Encourage simplified methodologies for sectors with high potential in Africa:** This should include simplified rules for determining baselines, monitoring carbon emissions, enforcing offsets and broadening the range of eligible projects to include avoided deforestation and soil carbon sequestration.
- **Encourage expansion of types of projects eligible for CDM, and support the integration of a REDD agreement:** A major inhibiting factor to the growth of the CDM in Africa is the limitation on types of projects currently eligible for CDM. The land use sector holds the greatest potential for carbon finance in Africa. Forestry and agriculture account for 73 percent of emissions from the region[24]. Under the current rules, however, project activities implemented in agricultural, forestry and other land-uses (AFOLU) are limited to narrowly defined afforestation/reforestation activities. Africa's role in global carbon markets will be greatly enhanced if the AFOLU sector is fully recognized. African negotiators should strongly encourage the inclusion of a broad programmatic approach to reducing emissions from deforestation and degradation (REDD).
- **Support the concept of sectoral CDM:** Sectoral CDM is a new approach that is being actively discussed and would allow countries to shift from a project-based to a sector-based approach by establishing sectoral baselines and granting carbon credits for emission reductions relative to these sectoral baselines. By reducing the transaction costs for individual companies, this new approach would provide financing opportunities for sectors that are presently under-represented under the CDM in Africa, such as transport.

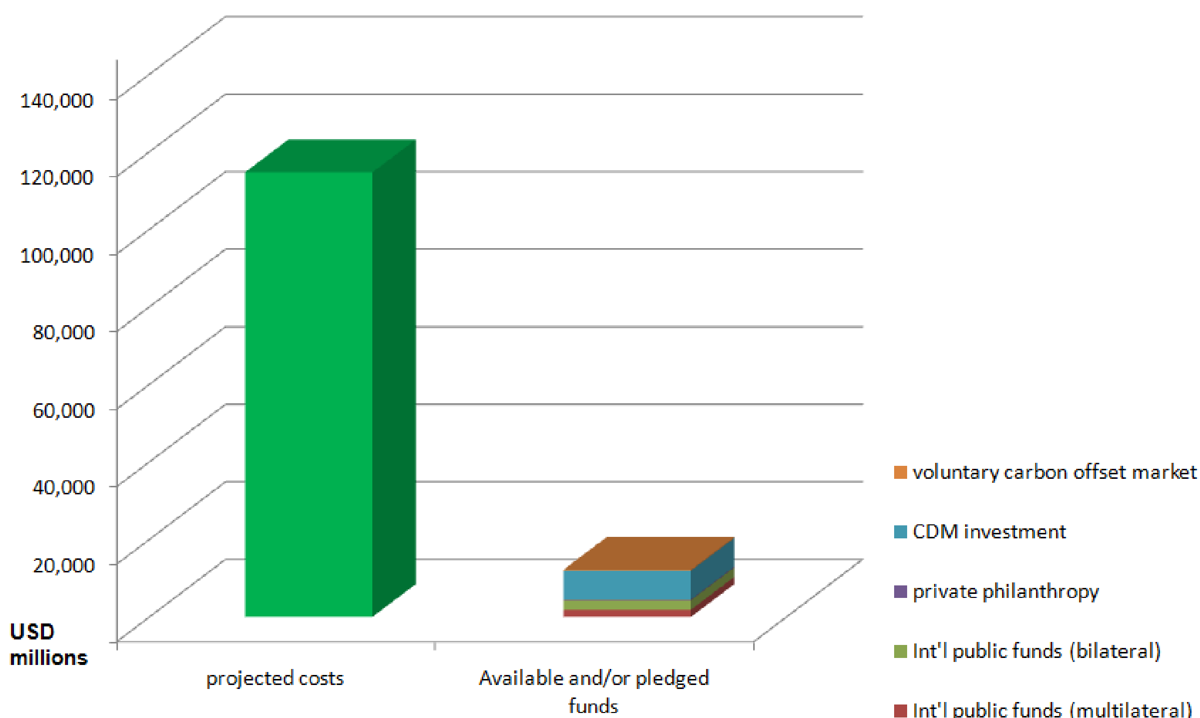
These negotiating positions to encourage CDM expansion for Africa should be accompanied by an effort to strengthen the institutional and technical capacities of African countries to better engage in the CDM process.

[23] IFPRI, 2008.
[24] IFPRI, 2008.

3. THE FUNDING GAP IN CURRENT FUNDING INITIATIVES

Based on the detailed information provided in Section 2, the graph below demonstrates the stark reality of the massive gap in available funding for climate change. The graph shows the funding required against the funding that is currently available from international (bi- and multilateral) public funding initiatives, private philanthropy and the CDM. Innovative financing mechanisms are urgently needed to close this gap.

Figure 1: Climate change finance in developing countries: costs vs. funds available (per annum)



Sources: www.climatefundsupdate.org, Capoor & Ambrosi (2008), Design to Win (2007)

4. KEY PRINCIPLES AND SPECIFIC CONCERNS FOR AFRICA

When considering the specific concerns and priorities for Africa, it is useful to look at key principles relating to financing in the text of the UNFCCC and Bali Action Plan. Whether and how these principles are met is the central issue of the current international climate change negotiations. Building on the key principles identified in the texts, specific concerns for Africa are also highlighted below.

Key principles related to finance established in the texts of the Convention and Bali Action Plan, are as follows:

4.1 Key principles of the Convention related to finance

4.1.1 Principles within the 1992 UNFCCC

There are no Articles in the Convention that establish the function, process or structure of a financial mechanism itself. Instead, several articles define what it should be or do from a normative standpoint. The key financial burden sharing principle is that of '**common but differentiated responsibilities and respective capabilities**' enshrined in Article 3.1 of the UNFCCC. Article 4.3 of the Convention maintains that developed countries are obliged to transfer finance to developing countries. The article states:

> The developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in complying with their obligations under Article 12, paragraph 1...The implementation of these commitments shall take into account the need for adequacy and predictability in the flow of funds and the importance of appropriate burden sharing among the developed country Parties.

The key words are '**agreed full costs**' as it states that the full incremental costs of both mitigation and adaptation to climate change in developing countries should be paid by developed countries. It also implies that the volume of these funds must be agreed[25]. Annex I countries assume an obligation to provide '**new**', '**additional**', '**adequate**' and '**predictable**' resources to developing countries to fund the agreed incremental costs of mitigating and adapting to climate change. The commitment was re-emphasized under paragraph 1(e) of the Bali Action Plan, as detailed below. Article 4.4 states 'developed country Parties and other developed Parties included in Annex II shall also assist the developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects.'

Article 11 envisages the establishment of a financial mechanism for the provision of resources. The Article makes it clear that the financial mechanism of the Convention '**shall be accountable to the Conference of the Parties'** (COP) and shall have an '**equitable and balanced representation** of all Parties within a **transparent** system of governance'.

4.1.2 Principles within the 2007 Bali Action Plan

The paragraphs contained in the Bali Action Plan clearly underline the need for financial support for developing country Parties. Paragraph 1e of the Bali Action Plan asserts that the Conference of the Parties will work to adopt a decision at Copenhagen by addressing 'enhanced action on the provision of financial resources and investment to support action on mitigation and adaptation and technology cooperation'. This will include a focus on:

a. 'improved access to adequate, predictable and sustainable financial resources and financial and technical support, and the provision of new and additional resources, including official and concessional funding for developing country Parties';
b. 'innovative means of funding'; and
c. 'mobilization of public- and private-sector funding and investment, including facilitation of carbon-friendly investment choices'.

The Bali Action Plan clearly emphasises the need for funds to be '**adequate**', '**predictable**', '**sustainable**' and '**new and additional**'.

[25] Pendleton & Retallak, 2009.

4.2 Specific concerns for Africa

Based on some of the key principles highlighted above, African countries have emphasized the following specific concerns directly related to the negotiation process on finance. These concerns have been expressed in Algeria's (on behalf of the African Group) 'Key elements of Long-term Cooperative Action (LCA) Negotiation Text' submitted to the UNFCCC 14 April, 2009[26].

In accordance with the needs of African nations expressed in Algeria's submission, the following criteria should be met when creating a future financial mechanism:

- **Adequate**: Recognizing the need to significantly increase the needed amount of money for mitigation and adaptation. The issue of adequacy is of fundamental concern for Africa. Africa has received very little amount of the climate change money so far. There is a need to massively scale up the funding in particular for adaptation which is the area of paramount concern to the continent. However, it is highly unlikely that one of the proposed 'revenue raising' mechanisms will be adequate to meet all the mitigation and adaptation needs of the developing world. The focus should instead be on how to maximize the amount of funding possible, noting that one financial mechanism is unlikely to meet the criteria of adequacy.

- **New and additional:** Any assistance provided by developed countries under climate change needs to be additional to existing Official Development Assistance (ODA).

- **Equitable:** Funding should be in accordance with common but differentiated responsibilities and respective capabilities. Although this is a central principle, the Convention does not specify the means to quantify and differentiate between levels of action. The only differentiation in the Convention is the division of Annex I, non Annex I, and Annex II countries. However, developing countries see this differentiation in terms of responsibility for historical emissions, and the need for developing countries to pursue their sustainable development goals.

- **Predictable:** Ensuring flows can be sustainable in the long-term.

- **Accountable to the COP:** Ensuring representation is balanced, equitable and transparent.

- **'MRV'able:** South Africa, reflecting the broader G77 position, has expressed the need for financial support by Annex I countries to be monitored, reported, and verified (MRV) in order to assess progress in meeting obligations under the Convention.

- **Coherence:** In view of the fragmentation of funding currently flowing to Africa, there is need for coherence in the international climate change financial architecture.

- **Direct access:** African countries need direct access to any new international funds with minimal management by intermediaries (such as the multilateral institutions). This would

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[26] Accessible at: http://unfccc.int/files/meetings/ad_hoc_working_groups/lca/application/pdf/african_group_submission_lca_april_2009.pdf

shift the responsibility of decision making to national governments (through accredited national institutions), which aligns with the Paris declaration on aid effectiveness.

- **Address adaptation:** Responding to adaptation is a major preoccupation of African governments. Activities that reduce poverty and hence make people less vulnerable to harm, particularly disadvantaged groups within society (such as women) need to be given high priority and continued international support.

- **Appropriate: grants vs. loans debate:** According to the principles established in the Convention, there should be no cost incurred to the finance offered for adaptation. Therefore, African countries support financial mechanisms that offer grants or grant-equivalent soft loans. This declaration was made during a recent UNFCCC negotiation plenary session by the G77, with support of the African Group.

5. PRIORITIES FOR THE SHORT TERM

Given the immediacy and urgency of climate change in Africa, African governments would be remiss to focus on increasing access to the limited funding sources currently available. While negotiators should remain focused on accessing new and additional funds, finance ministers and government authorities can take specific actions to improve access to existing finance:

- ***Integrate climate issues into development:*** Climate change issues need to be integrated into national decision making, so as to reduce the negative effects of climate change on resources and livelihoods. Such integration is severely constrained by the present institutional architecture in many African countries, where government coordination mechanisms are not well developed. Efforts should be made to increase coordination across ministries and sectors, and to raise the issue of climate change to a higher political priority. In this way, integration can help elevate the issue of climate change from an environmental challenge to a developmental challenge.

- ***Be proactive in meeting requirements established under existing public funds:*** For example, climate change finance is part of the Resource Allocation Framework under the GEF. This is a new system for allocating GEF resources to recipient countries based on each country's potential to generate global environmental benefits and its capacity, policies and practices to successfully implement GEF projects. African countries are encouraged to use a programmatic approach when seeking these funds. For the Adaptation Fund, countries are encouraged to develop adaptation projects and programmes, in order to be ready to use the funds as soon as they are made available.

- ***Build response capacity:*** A critical issue is the ability of African countries to use these new funds effectively. In this context, countries should build institutional, technical, and managerial capacities in order to effectively access such funds.

- ***Create carbon market opportunities:*** Much of the carbon market is developing outside the sub-Saharan region because of the private sector's perceived level of heightened risk, associated with limited infrastructure, poor governance, uncertain land tenure, and limited capacity and awareness in Africa. Domestic and international support is required to help reduce the level of risk and therefore unlock the potential of private sector action. This can be done by working to improve the domestic investment

framework; raising awareness in Africa of the benefits of the CDM in helping develop new sectors such as renewable energy; bundling small CDM projects into a larger program to reduce transaction costs; and increasing support by external partners for capacity development to elaborate and certify CDM projects. This can also be done by raising awareness and building the capacities of regional banking institutions.

- ***Establishment of an African climate change investment facility***: Similar to the AfDB's Clean Energy Investment Framework, African countries could put in place a climate change investment facility that would directly capture the necessary funds for both adaptation and mitigation based on the priorities set by the African Group. This mechanism may include a CDM investment fund that will encourage and boost African CDM projects. The facility could serve as an overarching fund that brings together multiple funding streams to combat climate change.

OPTIONS FOR THE FUTURE

The main concerns of importance to Africa highlighted in Section 4 can serve as a starting point for how the African Group positions itself during the international negotiations. However, many other factors need to be considered. Negotiators need to be acutely aware of the positions of other Parties, as well as how the current financial crisis will affect the fiscal and political feasibility of a future financial mechanism.

Before discussing the positions of Parties and other political realities to be considered, Section 6 establishes a framework, which can be used to structure the discussion on a future financial mechanism.

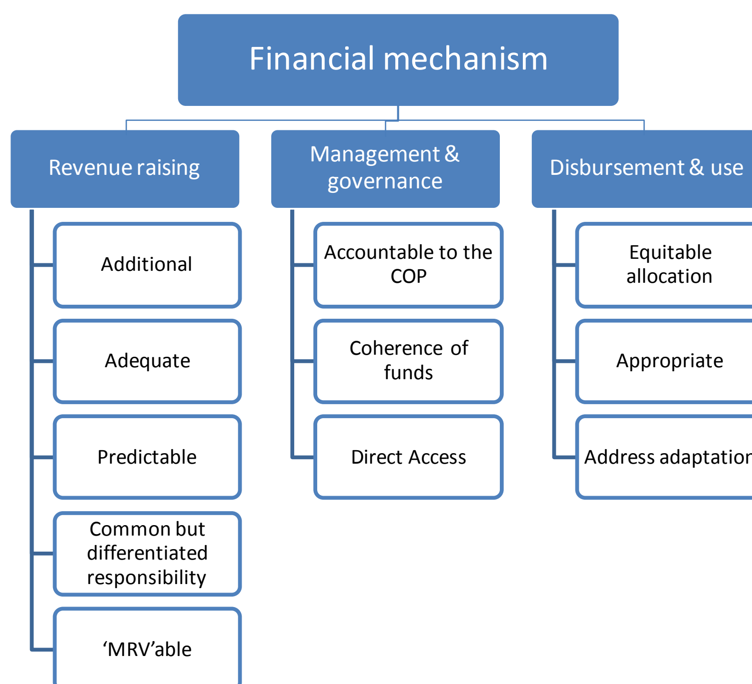
6. A FRAMEWORK FOR ASSESSING CRITERIA OF A FINANCIAL MECHANISM

Under the 'Ad-hoc Working Group on Long–term Cooperative Action' (AWG-LCA) work programme related to finance, the conceptual thinking focuses on a well organised finance system to combat climate change and which is based on the UNFCCC principles described in Section 4 above and those identified by the African Group. A number of funding options are thus being discussed, which have the potential to fill the financing gap. Any options for a new mechanism to fund climate change mitigation and adaptation in developing countries should include the following key functions:

- **Revenue raising:** specific finance raising mechanism, who pays, and how they pay
- **Governance:** how the funds are managed, oversight, accountability
- **Revenue disbursement:** how funds are distributed and used

Within each of the three functions identified (revenue raising, management and disbursement), the normative principles most critical for Africa can be organized and applied as criteria.

Figure 2: Framework for an international climate change financial mechanism



Although these principles and obligations are contained either in the Convention, Bali Action Plan, or are general principles of the Paris Declaration on Aid Effectiveness, and are key to the acceptability of an international climate change funding mechanism by developing countries, the political reality of these principles being met is unlikely at best. The underlying question is how the political realities of the Parties involved will affect these principles, and in turn influence or determine the funding options on the table of the negotiations. African negotiators will need to focus their efforts on what is politically feasible in order to get the most out of the negotiation process.

The following section (7) of the report outlines the current positions of Parties as they relate to the 'revenue raising', 'governance' and 'distribution' functions of a future financial mechanism. Section 8 then provides more detailed information on the various proposed options for 'revenue raising', and Section 9 offers an assessment of the 'revenue raising' proposals. The information in these three sections is summarized in the concluding sections of the report and may be used by African negotiators to best advance Africa's interests.

7. ANALYSIS OF CURRENT NEGOTIATING POSITIONS FOR A FUTURE MECHANISM

7.1 'Revenue raising'

Because there are several detailed proposals on 'revenue raising' and each individual proposal must be assessed, the 'revenue raising' branch of a future financial mechanism is addressed in detail in Section 8. More generally speaking, the views of Parties are as follows.

Most Parties involved in the UNFCCC process advocate that funds should be new, additional, adequate and predictable. However, additionality is likely to be a contentious issue given that developed countries have failed at meeting their 1970 promise of funding ODA at a level of 0.7% of national GNP. In light of this, it is likely that Annex I countries will try to conflate

funding for climate change with traditional ODA. Indeed, several of the existing climate finance initiatives are counted as ODA.

One way to circumvent this issue is to advocate for a revenue raising mechanism that does not rely on national funding sources but instead relies on funds that are 'non-national' in scope, and therefore cannot be traced back to any one national budget or ODA commitment. National budgetary contributions can be politicized very quickly and their availability is subject to national approval and national circumstances. Examples of funding sources that are international in scope include auctioning of 'assigned amount units' (AAUs), levies on international aviation and shipping, or a tax on currency transactions. Again, these revenue raising mechanisms are discussed in Section 8 which follows.

However, a future mechanism that raises 'international' as opposed to national funds is at odds with the African Group's support for funds that are 'MRV'able. The African Group (and G77 as a whole) is calling for transparency in the provision of climate change funds to assess progress in Annex I parties meeting their financial obligations. While the criterion of transparency is important, and should be a central feature of the governance and disbursement of funds, it is unlikely that one can expect the ability to trace funds back to national governments, while simultaneously expecting that funds are additional, adequate and predictable. UNFCCC Executive Secretary De Boer said, "The challenge we face is to try and generate resources without going to the finance minister. If you can auction emission rights and use part of the proceeds for international cooperation, if you can build on the experience that we have with the clean development mechanism to generate resources, then you move to a regime that is generating its own resources for international cooperation."[27]

One potential solution to achieve adequacy, additionality *and* a level of MRV in the provision of funds is to ensure multiple sources of funds are secured. For example, an international funding mechanism could include resources raised through domestic budgetary contributions, committed through a post-2012 agreement, as well as 'international' funds such as revenues from international auctions of AAUs. But the fact remains that the 'non-national' side of those combined funds, which would likely be the far greater amount, would not be easily attributable back to any one country.

The costs of reducing global emissions and supporting adaptation measures are likely to be met from a variety of different sources and via different mechanisms[28]. This is likely to be especially true during a deep global recession. Annex I negotiators will do better in light of their own national constituencies to consider a blend of financing options both related to existing mechanisms and those that are new and innovative. Therefore, African negotiators should not view the proposed 'revenue raising' options as necessarily mutually exclusive and should have a prioritized list of the top three revenue raising mechanisms.

7.2 'Governance'

Enmeshed in the decision on *how* to generate finance for climate change measures in Africa is the equally tough decision concerning the structure, governance, and allocation of the funds. This discussion also centres on a decision between two different models: a unified international fund approach versus a more diverse system of multiple financing streams.

[27] Wambi, 2009.
[28] Pendleton & Retallack, 2009.

With the exception of the Clean Development Mechanism, at present there are more public climate resources available outside the UNFCCC process than within it[29]. The proliferation of multiple projects and donors has led to an atomized approach of funding, and tends to result in additional burdens on already over-stretched ministries, and run counter to the Paris Declaration principles that the same donor countries have already signed[30]. The multiplication of funding sources with different governance structures and approaches makes the management of funds rather complicated for recipient countries. Additionally, fragmentation of aid can lead to competing centres of authority and a duplication of funding efforts. A proper unified management authority is therefore vital to ensure funding is properly collected, governed, and disbursed. Parties have proposed the following options for the future financial framework:

A. Creating new institutional arrangements, including funds;
B. Making efficient and effective use of current institutional arrangements, including funds;
C. Reforming the existing institutional arrangements, including funds, such as the Global Environment Facility, an operating entity of the financial mechanism of the Convention, and creating new institutional arrangements including funds, if needed.

Non-Annex I Parties, including the African Group and G77, have proposed the creation of a single umbrella body, as an institutional arrangement under the authority and guidance of the COP, to coordinate the activities of different specialized bodies in providing financial resources for enhanced action[31].

Many non-Annex I countries want a new Financial Mechanism because:
- The Convention calls for a Financial Mechanism that is under the COP – currently this does not exist. It is not possible for the COP to ensure coordination and coherence amongst mechanisms that are 'outside' the Convention.
- The existing mechanisms do not allow developing countries a 'voice or a face' in the governance of existing institutions; also existing institutions have been designed for 'aid' – climate change commitments are not based on an 'aid-recipient' relationship.
- Existing institutions have not performed (the current financial crisis shows that they have failed the developed world as well)
- The current institutions cannot raise the scale of financing required.[32]

South Africa, speaking on behalf of the African Group, emphasized that a central element of stronger climate architecture is full accountability to the COP, as well as direct access and a country driven approach. This implicitly means that the African Group is advocating for a new financial institution. The African Group is pushing for a funding system which includes 'tailor made packages' that respond to regional priorities[33].

The EU differs, suggesting a 'toolbox' to deliver finances that contains already existing channels of financing also outside the treaty[34]. Many Annex I countries are opposed to the

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[29] Pols, 2008.
[30] Bird and Peskett, 2008.
[31] UNFCCC 2009.
[32] ENB, 2009.
[33] TWN, 2009
[34] Center for Science and Environment, 2008.

creation of a new financial institution. Their view is that it could be insufficient and risks incurring transaction costs, potentially diminishing the value of the finance raised[35].

It is likely that, even if a new mechanism is to be created, current institutional arrangements such as the GEF will continue, to ensure that current funding streams are coherent and not disrupted. There are currently substantial resources outside the UNFCCC and thus not under the control of the COP. Even though such resources do not meet many of the principles and concerns prioritized by Africa, there is still a strong argument to support a reformation of the existing structure rather than an entirely new institution. Therefore, African negotiators would be well advised to support Option C – this seems like a more realistic approach for negotiations given the political leanings of Annex I countries and the state of current financial resources that may continue post-2012.

Positively, the discussions over a financial mechanism are taking place in the context of the 5th replenishment process of the GEF. Being fully aware of the strategic role that it can play, the GEF is offering to undertake fundamental reforms with a view to live up to these expectations[36].

Five areas have been identified to respond to the rapidly changing international context of global environmental management[37]:

- Enhance accountability to conventions through new mechanisms to be put in place and that would include the conventions and other stakeholders;
- Improve responsiveness to recipient countries and provide direct access to qualified agencies;
- Better track and deliver results;
- Strengthen the funding base using innovative approaches or instruments including new burden-sharing arrangements based on objective environmental criteria and new types of national contributions such as proceeds of auctions of carbon allowances, proceeds of taxes, etc.; and
- Reform the institutional and governance framework.

If the proposed reforms are accepted, the GEF may have the potential of gaining the support of many countries to play a pivotal role as the enhanced financial mechanism to be put in place. Most of the key principles highlighted by the G77 are noted. However, in order to be consistent, the reformed GEF must be able to give more space to adaptation, a concern which has not gained proper attention in GEF projects thus far.

7.3 'Disbursement'

The main priority for Africa in terms of disbursement and use of the funds is to ensure that funds are adequately provided for adaptation. In the context of NAMAs (nationally appropriate mitigation actions) and on measurable, reportable and verifiable (MRV) emission reductions by developing countries, there appears to be a shift of focus from financing adaptation efforts in developing countries by developed countries to financing mitigation efforts in developing countries by developed countries. While in simple terms, one can think of adaptation as a need of developing countries and mitigation as an obligation of developed countries, a number of developing countries (including South Africa) are advocating financial support for mitigation in developing countries through voluntary NAMAs. The African

[35] Pendleton & Retallack, 2009.
[36] GEF, 2009.
[37] GEF, 2009.

Group is also supporting country-driven, voluntarily registered NAMAs efforts. Many Parties are viewing NAMAs as a 'refined' version of the CDM for a post-2012 framework. As such, it is unlikely that a policy focus on NAMAs would necessarily draw attention away from adaptation finance as they relate to two entirely different focal points under the UNFCCC process.

Regarding mitigation, some non-Annex I Parties (e.g., China) may be asked to take bold action. However, if such countries act bilaterally to create a side agreement to address mitigation efforts, this may not necessarily threaten the alliance of non-Annex I Parties as it relates to calls for adaptation finance. This depends entirely on how such countries decide to position themselves. It is unclear at this point if sticking to the Annex I/non-Annex I division will mean that Africa's interests (particularly for more support for adaptation financing, technology transfer and capacity building) are relegated to second-order priorities. However, given common but differentiated responsibilities and the polluter-pays principle, it is imperative that Africa maintain its strong push for adaptation funding. Any new financial mechanism supported by developed countries needs to prioritize its focus on adaptation.

The focus on adaptation also relates to the issue of whether the funds disbursed are 'appropriate' – while a concessional loan may be appropriate for mitigation activities, a grant based approach is the only appropriate funding tool for adaptation. The African Group should continue to push for grant-based finance for adaptation. African countries have also expressed the need to enhance their absorptive and response capacity to funds. Higher levels of funding will create an important window of opportunity for resource capacity building efforts. This should be a main function of a financial mechanism.

There are currently limited discussions on the issue of direct access to funds, most likely because this was a design agreed to in Poznan for the Adaptation Fund. African negotiators should continue to support efforts to increase access to funds and ensure that funds are distributed in an equitable manner and based on greatest need.

8. PROPOSALS FOR INNOVATIVE 'REVENUE RAISING'

While section 7 provided an overview of some of the political realities negotiators need to consider when attempting to establish an international financial mechanism, the following section provides a detailed analysis of the various proposed options for future 'revenue raising'.

Both public bi- and multilateral funds and private funds (the CDM in particular) have proven to have a limited impact in Africa in terms of procuring financial support for mitigation and adaptation activities. Moreover, except for the resources from the 2 per cent levy on the CDM channelled to the Adaptation Fund, the current structure of the carbon market does not provide finance for adaptation activities, a major priority for African countries. While the 2 per cent levy on the CDM does provide an innovative financing tool for adaptation, the graph in Section 3 demonstrates that funds generated from such a mechanism are severely inadequate to meet the financial needs of the developing world, let alone Africa. The funds generated from public sources have also proved to fall far short of what is needed.

Against this background, discussions on the future funding mechanisms are taking place within the AWG-LCA and the "Ad-hoc Working Group on the Kyoto Protocol" (AWG-KP,

also known as the 2nd review of the Kyoto Protocol). An agreed outcome in the form of a binding treaty is expected at the 15th COP in Copenhagen later this year.

Certain Parties (identified below) have proposed options for raising new and additional financial resources for adaptation and mitigation in developing countries. These proposals aim to generate revenue through action in the carbon market, carbon or international travel-related taxes or levies, or from conventional ODA funding sources derived from contributions of Annex I governments. As discussed above, most existing climate change funding instruments rely on the latter – conventional ODA.

The financing proposals on the table for the UNFCCC negotiations included in this section focus on 'revenue raising' and briefly on 'disbursement and use' (addressing whether funds are used for mitigation and/or adaptation). The proposals can be organized as follows:

1. Auctioning of assigned amounts or emission allowances;
2. A uniform global levy on CO_2 emissions, with exemption for LDCs;
3. Levies/taxes on emissions from international maritime transport and aviation, or on air travel;
4. A levy on market-based mechanisms under the Kyoto Protocol;
5. Defined budgetary contributions;
6. Hybrids; and
7. Other innovative mechanisms.

8.1 Auctions of assigned amounts or emission allowances

Each Annex I country receives a number of greenhouse gas units to release and/or trade (*Assigned Amount Units,* AAUs) in accordance with the Kyoto Protocol. The underlying funding principle of this scheme is to auction a certain share of these AAUs at the international level to generate revenue, rather than giving them out for free to Annex I countries' domestic firms that have to comply with emission reductions. This is the basis for the *Norwegian proposal*. The Norwegian Ministry of Foreign Affairs (MFA) projects that revenue to be raised is of the order of USD 20-30 billion per annum. This figure is based on assumptions that two percent of AAUs are auctioned and all developed countries take on quantified economy-wide commitments corresponding to the lowest emission scenarios of the IPCC, including a 2°C scenario.[38]

8.2 A uniform global levy on CO_2 emissions, with exemption for LDCs

Under the *Swiss Global Carbon Adaptation Tax*, funds are raised by placing a global tax on all carbon emissions in all countries, but with a per capita exemption for least developed countries. The revenue for this proposal would be raised according to the 'polluter pays' principle through a *uniform* global levy on carbon of $ 2 per tonne of CO_2 on all fossil fuel emissions. This corresponds to a burden of about 0.5 US cents per litre of liquid fuel. A free emission level of 1.5 tons of CO_2 per capita would be applied to all countries, creating an exemption for those with extremely low emissions levels (primarily the least developed countries, LDCs). The revenue generated from this tax, which is expected to be around $48.5 billion per annum, would flow into: (1) National Climate Change Funds (NCCF) established in all countries that contribute payment (all but LDCs), to be used according to domestic priorities; and (2) a Multilateral Adaptation Fund (MAF) where funds would be spent exclusively on adaptation in low-income and middle-income countries (LIC/MICs). The

[38] It is unclear what the Norwegian proposal assumes as the price of carbon.

MAF funds are further divided into two 'pillars'; an insurance pillar and a prevention pillar. The share of MAF revenues generated depends on the economic situation of the countries, with high-income countries (HICs) paying the most.

8.3 Levies/taxes on emissions from international maritime transport and aviation, or on air travel

Funds are raised by charging individuals and companies, based on their responsibility for emissions and/or their capability to pay. The charges or levies could be applied to air travel, aviation emissions, and/or maritime emissions. Proposals for a levy or tax on international transport include:

- The *International Air Passenger Adaptation Levy* on fuels (IAPAL): IAPAL was proposed by the Maldives on behalf of the Group of Least Developed Countries (LDCs) within the Framework of the UNFCCC Bali Action Plan on 12 December 2008. The IAPAL recommends that a levy should be a set fee per ticket, presently set at $6 per economy class ticket, and $62 per business/first class ticket. The set fee addresses both 'personal responsibility', with all international air travellers paying regardless of their origin, and 'personal capability', which is demonstrated by the ability to bear the costs of flying internationally, and differentiated by class of travel. The main objective of the IAPAL is to raise revenue to compensate for the impacts of air travel emissions, with revenue collected by airlines and then paid to the Kyoto Protocol Adaptation Fund. IAPAL would have minimum impact on demand for air travel, and this would enhance its political acceptability[39].

- The *International Maritime Emissions Reduction Scheme* (IMERS): Under the proposed scheme, a carbon levy on fuel used for carrying cargo to destinations with emission reduction commitments – currently Annex I countries to the UNFCCC is established. IMERS proposes to establish the levy using the global average price of carbon.[40] IMERS could raise USD 9 billion annually for climate action if applied worldwide and collected centrally (bypassing national coffers). IMERS has been reviewed and endorsed in numerous reports by organizations, including the UNFCCC, WWF, OXFAM, UNDP, Climate Strategies and CE Delft[41].

- *Tuvalu's Burden Sharing Mechanism*: Tuvalu proposes a mechanism where funding would be raised through levies on emissions trading and international aviation and maritime transport. Specifically, Tuvalu's BSM proposes:
    1. A 0.01 per cent levy on international airfares and maritime transport freight charges operated by Annex II countries (a subset of Annex I countries that are mandated to provide financial resources to developing countries);
    2. A 0.001 per cent levy on international airfares and maritime transport freight charges operated by non-Annex I countries; and

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[39] According to the fund originator, Benito Muller.

[40] The scheme is to dovetail to the anticipated economy-wide regulations in the USA, Australia, and elsewhere in order to avoid competitive distortions between domestic and international shipping. Therefore, the levy is proposed to be set at a level of the average worldwide carbon market price (for a rolling quarter or similar). Alternatively, the levy can be derived from the prevailing market price for carbon and a predetermined emission cap for international shipping, if such a cap is agreed. This was the approach suggested by IMERS in 2008 prior to the recent proposals anticipating 100% auctioning of emission allowances (favoured by the current USA administration).

[41] According to the fund proposal originator, Andre Stochniol.

3. Exemptions to (a) and (b) would apply to all flights and maritime freight to and from LDCs and Small Island Development States (SIDS).

8.4 A levy on market-based mechanisms under the Kyoto Protocol

Adaptation funding can be generated by applying a levy to the Kyoto Protocol's tradable units generated from the CDM, JI, or emissions trading. The 2 per cent CDM levy mechanism used to raise funds for the Adaptation Fund is an example of a carbon market-based levy. There is interest in extending or increasing the levy to other aspects of the carbon market. One proposal, supported by South Africa and Costa Rica, is to extend the levy to both JI and international emissions trading. This was a hot topic at the December 2008 COP 14 in Poznan. Parties were unable, however, to reach consensus on a levy on either the JI or EIT. According to UNFCCC Executive Secretary, failure to reach consensus was because countries that host JI projects thought a levy might make the projects more expensive and therefore create a market disincentive. The CDM is disadvantaged, therefore, as the only flexible mechanism that currently charges a levy. Another proposal was submitted by Pakistan in March 2008 to increase the current levy on the issuance of CDM credits from 2 to 3-5 per cent. The proceeds would go to the Kyoto Adaptation Fund to finance developing country adaptation.

8.5 Defined budgetary contributions

G77 plus China's Enhanced Financial Mechanism proposal is based on defined budgetary contributions. The G77 plus China is an important proposal as it has gained some attention politically as the main proposal put forward by the constituent governments from developing countries, including the African Group. The proposal's main strength is that it is based on the core principles of the Convention, as identified above. The main source of funding would come from Annex I governments' public spending, proposed at 0.5 to 1 per cent of gross national product. The funds would reflect Annex I commitments under Article 4.3 of the UNFCCC (funding will be 'new and additional' and over and above ODA) and would go towards mitigation, deployment and diffusion of low-carbon technologies, research and development, capacity building, preparations of national action plans, patents, and adaptation for developing countries. The proposal also sets out that the future financing mechanism must be:

- Underpinned by equity and common but differentiated responsibilities;
- Operate under the authority and guidance of the Conference of the Parties;
- Have an equitable and geographically-balanced representation of all Parties within a transparent and efficient system of governance;
- Enable direct access to funding by recipients countries; and
- Ensure recipient country involvement, rendering it truly demand-driven.

8.6 Hybrids

Some proposals recommend a hybrid of funding mechanisms. For example, *Mexico's World Climate Change Fund (WCCF or, 'The Green Fund')* proposes that countries contribute on the basis of their historical emissions, population, and income. Some of the money could be raised by budgetary contributions from each country determined by the above criteria, but could also come from new financial resources such as auctioning permits in domestic cap and trade systems, taxing air travel, etc, to avoid putting excessive pressure on public financing[42].

Put forward within the framework of the Bali Action Plan, Mexico suggests the creation of a new fund (at least $10 billion per annum for mitigation in the initial start up phase, increasing

[42] UNFCCC, Mexico's submission to the AWG-LCA, 2008.

over time to $95 billion by 2030). Although it would focus primarily on mitigation, it recognises adaptation as a key objective and recommends a 2 per cent adaptation levy to be placed on contributions to the Fund (to flow to the Kyoto Adaptation Fund).

8.7 Other innovative mechanisms

There is a wide array of other innovative financing mechanisms that can support mitigation and adaptation in Africa. The EU's Global Capital Fund Mechanism is an example of a unique type of innovative mechanism to raise funds; bonds are issues on the international capital markets and the proceeds are invested in mitigation and adaptation activities in developing countries. This would enable 'frontloading' of funding for immediate use. Future repayment over a long period (e.g., 20 years) would be financed through revenue of EU Member States derived from the future auctioning of emission rights.

It is important to note that not all proposals are mutually exclusive, and more than one mechanism can be established to secure larger amounts of funding.

A summary of key details on all innovative financing proposals are provided in Annex C.

9. ASSESSING THE PROPOSALS FOR 'REVENUE RAISING'

This section assesses the options for raising revenue based on Africa's main priorities and what is politically feasible given the views of different Parties and the global financial crisis. Many of the proposed future financial mechanisms will be affected by the global economic downturn. These potential impacts need to be taken into consideration when assessing which potential future mechanisms are likely to provide a funding source that is predictable and adequate. This discussion will help determine which options should be supported by Africa in light of current political realities.

9.1 Auction of emission allowances (Norwegian proposal)

This proposal is innovative and noteworthy because it involves a degree of autonomy. The money raised is 'international' and cannot be traced back to any single Annex I country. The Norwegian proposal would be compatible to be combined with all of the other proposals analysed in this document.

The volume of finance this would yield is uncertain (but projections range in the area of $20-30 billion per annum), because the price paid for the AAUs held back for auctioning would be determined by the international carbon market. This issue can be overcome if a reserve price is set (similar to a reserve price used by some national governments in auctions of ETS permits) in order to guarantee a minimum level of finance. The principle of holding back AAUs has been included in the January 2009 EC Communication, and stands a strong chance of becoming part of the EU's negotiating offer for Copenhagen[43].

But it is important to note that reserve prices established to deliver greater and/or more predictable levels of finance will be resisted by developed country governments, as costs would be passed on to their consumers, while rents would be captured elsewhere[44]. Therefore, while political support for auctioning of AAUs is strong, one should not overestimate the significance and predictability of financial flows from this mechanism.

[43] EC, 2009.
[44] Pendleton & Retallack, 2009.

9.2 International carbon tax (the Swiss proposal)

The appeal of a global carbon tax is that it provides a predictable level of finance, which could be placed in an international fund. However, since revenues from taxes will first be collected through national treasury before the funds are transferred into an international fund, there is a risk that the funds will be less predictable and reliable than funds generated under truly international processes. Such regulations can be changed overnight depending on domestic needs and the political will. Equity is also a concern given that part of the generated funds will be derived from developing countries. This proposal has been criticized for using a uniform tax, as this does not take into account historical emissions[45]. This issue could be addressed by implementing a higher tax rate in countries with greater historical emissions.

9.3 Levies on emissions from maritime, aviation transport (IMERS, IAPAL, Tuvalu)

Similar to the Norwegian proposal based on the auctioning of emission allowances, these proposals are also innovative and noteworthy as the funds raised are 'international' and cannot easily be traced back to any single Annex I country. Funds estimated for the IAPAL and IMERS proposals are likely to be significant (ranging between $8-10 Bn per annum), but are not likely to be wholly adequate. The proposals could potentially be combined with other financing mechanisms. Funding would be new and additional, appropriate and largely predictable. Currently, aviation and shipping are not considered part of a country's CO_2 output, and are completely outside the remit of the Kyoto Protocol. These proposals are based on the 'polluter pays' principle, with the IMERS introducing a low differentiated charge (levy) depending on the GHG emissions of a predetermined emission goal.

Levies on emissions and taxes on emissions from international maritime and aviation transport may be affected by the global financial slowdown if the downturn leads to a reduction in overall economic activity and thus an overall reduction of CO_2 generation. There has already been a global economic decrease in shipping and air travel, thus reducing the potential magnitude of revenue coming from such a levy. However, these proposals may be more reliable than proposals which tie the revenue to the price of carbon, which is likely to fluctuate more than passenger travel[46].

9.4 A levy on market-based mechanisms under the Kyoto Protocol

Based on dead-end discussions in Poznan, it appears that this proposal lacks sufficient political support to proceed. However, there is potential that a 2 per cent levy on JI will resurface. In the sixth Conference of the Parties, the US, Canada, Japan and Australia opposed the establishment of an adaptation fund based on a levy applied to any of the Kyoto Protocol flexibility mechanisms. As the 2 per cent levy on CDM now exists, one shouldn't rule out the possibility that this debate will resurface.

The level of revenue generated from mechanisms linked to the carbon market depends on several factors. First, the level of funds generated will depend entirely on (a) the evolution of the flexibility mechanisms (CDM, JI and emissions trading) and the carbon market more generally in terms both of quantity and price, and (b) on the level of binding commitments made by Annex I countries. The higher the commitments, the more revenue that can potentially be raised from the carbon market for developing countries.

Second, carbon market-linked mechanisms are likely to experience major fluctuations in revenue generation corresponding with the major fluctuations in the price of carbon. There

[45] ENB, 7 April, 2009
[46] Muller, 2009.

have recently been very sharp drops in the price of carbon due to the economic downturn, seen in the price of EU allowance units and CDM and JI credits being sold. The fall in prices comes from a confluence of factors. For one, the drop in price stems from liquidity concerns - distressed companies are selling their emissions permits in order to generate much needed cash, given that the allowances are now one of their few liquid assets. Also, reduced economic activity causes a decline in carbon prices given the overall reduction in CO_2 emissions. Reduced activity in heavy industry (steel production, for example, which has halved in the EU compared to a year ago) means that carbon traders have slashed their forecast for emissions under the EU ETS scheme by 500 million tonnes for the 2008-2012 period[47]. A potential levy on international emission trading would clearly be affected by this precipitous drop. CDM projects are also experiencing reduced project performance due to the steep decline of industrial production in CDM host countries and the slowdown in submission of new projects[48].

Recent information on the level of revenue generated for the Adaptation Fund, financed by a 2 per cent levy on CDM proceeds, demonstrates this effect. As of March 2009, the Adaptation Fund has 5.3 million Certified Emission Reductions (CERs)[49] in its accounts. However, as the CERs have not yet been monetized, it is unclear to what extent the actual sales of CERs will reflect the above projected amounts. It is likely that the total revenue generated will be below the projected ranges, given (a) the recent drop in the price of CERs, and (b) overly optimistic assumptions about the sale of CERs (so far 265 million CERs have been sold, as against the UNFCCC's estimate of 300-450 million, annually).

Such fluctuations are therefore also likely to occur if funds are raised through another levy on carbon market-based mechanisms. However this depends entirely on how the flexibility mechanisms are established in a post-2012 framework.

9.5 Budgetary contributions (G77 plus China proposal)

Budgetary contributions would provide new and additional funding for Africa. The G77 plus China proposal is likely to raise the most funds as it envisages upwards of $200 billion per year. It is also meant to cover both mitigation and adaptation activities.

This proposal's revenue model is based on defined national budgetary contributions, with the funds passing through a national treasury. Such a proposal will be politically risky to support, given they are based on pledges and can easily be disrupted by domestic budgetary processes. The United Nations has warned that funds *already* pledged by developed countries to help developing nations adapt to the impacts of climate change are at risk from the global credit crunch and economic downturn[50].

This proposal also faces an important political obstacle. As mentioned in the Section 7 discussion on governance, Annex I Parties are hesitant to establish a new international funding institution. However, it is possible that Annex I Parties could support the proposals if they advocate that existing institutions are reformed in order to operationalise such a fund.

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[47] GTZ, 2009.
[48] GTZ, 2009.
[49] Up to date information on number of CERs accrued: http://cdm.unfccc.int/Issuance/SOPByProjectsTable.html
[50] Vidal, 2009.

The G77 proposal has received little support outside the G77, given that many Parties view this proposal as politically unrealistic, given the scale of the request and based on the fact that even old promises of ODA have not been met.

9.6 Hybrids (Mexican proposal)

Similar to the G77 plus China proposal, the Mexican proposal also faces the obstacle that Annex I Parties are hesitant to establish a new international funding institution. Again, however, it is still possible to support the proposed revenue generating mechanism without creating an entirely new institution. Indeed, the proposal has received some positive attention. The EC's January 2009 Communication, apart from mentioning support for the AAU proposal, also refers to a proposal for revenue generation based on Mexico's[51]. One reason why the EC may favour a 'Mexican style' fund is because European member states currently pay into the European Structural and Cohesion Funds, a model that is conceptually similar[52].

While the Mexican proposal is based on the idea that multiple funding mechanisms could feed into it (budgetary contributions, domestic auction of emissions permits, tax on air travel, etc) it will be difficult to rely on 'non-national' revenue raising mechanisms, given the proposal's focus on attributing financial contributions back to individual countries on the basis of emissions, population and income. Therefore, to ensure these criteria are met, it looks like the default funding mechanism for this proposal would be largely based on budgetary contributions. If budgetary contributions are heavily relied upon, the reliability and adequacy of the funds will be threatened.

Another political obstacle for the Mexican proposal is that it requires contributions from developing countries, in addition to developed countries. The G77 (and African Group included) is resolutely resistant this, based on the principle of common but differentiated responsibilities[53]. If the requirement of developing country contributions is relaxed, the proposal would gain much political support. Moreover, while the scale of funds proposed is significant, the majority of funds would be used for mitigation activities, as opposed to adaptation activities.

9.7 Other innovative mechanisms, such as bonds

The strength of the EU's GCFM proposal is that it avoids imposing costs on consumers and taxpayers, and instead front loads finance through the use of bonds and other debt instruments raised against the guarantee of tax revenue in developed countries to depreciate costs over time[54]. This could be used to leverage private sector finance. However, given that the GCFM is not a new fund, but a fundraising mechanism which EU Member States would join on a voluntary basis, funds would be unreliable, unpredictable, and insignificant. Voluntary commitments from EU Member States are also likely to fluctuate substantially with the health of the global economy.

10. RECOMMENDATIONS ON THE WAY FORWARD

Finance is playing a critical role in the international climate change debate. There has been a general convergence in cost estimations, roughly around $150 billion per annum for mitigation and adaptation in the developing world. It is clear that existing funding initiatives, both public and private, are painfully inadequate to meet the needs for the future.

[51] EC, 2009.
[52] Pendleton & Retallack, 2009.
[53] Pendleton & Retallack, 2009.
[54] Pendleton & Retallack, 2009.

Options for a future financial mechanism have been outlined and assessed based on key priorities for Africa and the political realities facing the negotiation process. This paper is based on the idea that it is essential for African negotiators to balance the desire for strong normative principles with what is likely to be practical and realistic. As such, in the lead up to Copenhagen to establish a post-2012 framework, African delegates and ministers should concentrate on the following positions:

10. 1 'Revenue raising'

There appears to be strong political support in favour of auctioning AAUs and the African Group would be well advised to back this proposal as a means for generating adaptation finance. Funds would be raised with a strong degree of autonomy, without the risk of interruption by domestic political agendas. While funds generated are projected to be in the range of $20-30 billion per annum, greater levels of finance could be developed with the establishment of reserve prices, but this is likely to be resisted by developed country governments. As such, the AAU mechanism is a sound proposal based on key feasibility criteria. This 'revenue raising' mechanism could be combined with others to leverage higher levels of finance.

Proposals based on levies/taxes on emissions from international maritime and aviation transport are strongly routed in the principle of 'polluter pays' given that both aviation and shipping are currently not under the remit of the Kyoto Protocol. As with the AAU proposal, funds would be raised with a degree of autonomy, functioning as an international regulation on those particular industries. Proposals based on levies on emissions from international maritime and aviation transport appear sound against key feasibility criteria. This 'revenue raising' mechanism could be combined with the auction of AAUs to leverage higher levels of finance.

Given the political backing of the Mexican proposal by the EU, support for this proposal could be considered provided that the financial commitments by developing countries are relaxed, the proposal is linked to other 'revenue raising' mechanisms (such as the two mentioned above) to increase reliability and adequacy, and more attention is paid to adaptation funding.

While other innovative mechanisms (such as the bonds proposed under the EC's GCFM) are politically supported and economically feasible given that finance is front loaded through bonds rather than through the imposition of costs on consumers or taxpayers, the voluntary fundraising element of the proposal is insufficient.

Based on this analysis, African negotiators may consider:

- *Advocating for 'revenue raising' mechanisms based on auction of AAUs and levies on emissions from international maritime and aviation transport*
- *Supporting the Mexican proposal provided that developing country financial commitments are relaxed, and that such a fund is linked to innovative mechanisms to avoid putting excessive pressure on public financing, and more of the funds are earmarked for adaptation.*

10.2 'Governance'

African negotiators have already agreed on key governance attributes of a proposed financial mechanism governance structure. Based on the political realities of other Parties involved, African negotiators should:

- *Support a new institutional structure, managed by the COP, but also bear in mind that other funds are likely to continue. Therefore, also advance discussions on reform of current mechanisms (Option C from Section 7)*

10.3 'Disbursement and use'

Based on the analysis in Section 7, African negotiators should:

- *Decide how best to position the African Group vis a vis other groups of Annex I and non-Annex I countries in order to continue a strong push for adaptation funding*
- *Strengthen alliance with other regions supporting adaptation measures, such as AOSIS*
- *Continue to push for appropriate finance (grant-based) for adaptation*
- *Continue to push for direct access to funds, equitable allocation of funds*
- *Continue to push for support on response capacity*

10.4 General recommendations

- *Put pressure on developed countries to honour their commitments within the Convention to meet the costs.* Pressure on developed countries needs to be consistent in order to ensure financial pledges are delivered. African countries would gain tremendously from allying strongly with one another and with other developing countries.

The political challenge of securing a future financial mechanism is most profound, especially in light of the current financial crisis. However, an agreement in Copenhagen is largely riding on the resolution of this issue. As such, the African Group, and G77 as a whole, has a strong position from which to claim its fair share of financial resources to combat this impending crisis.

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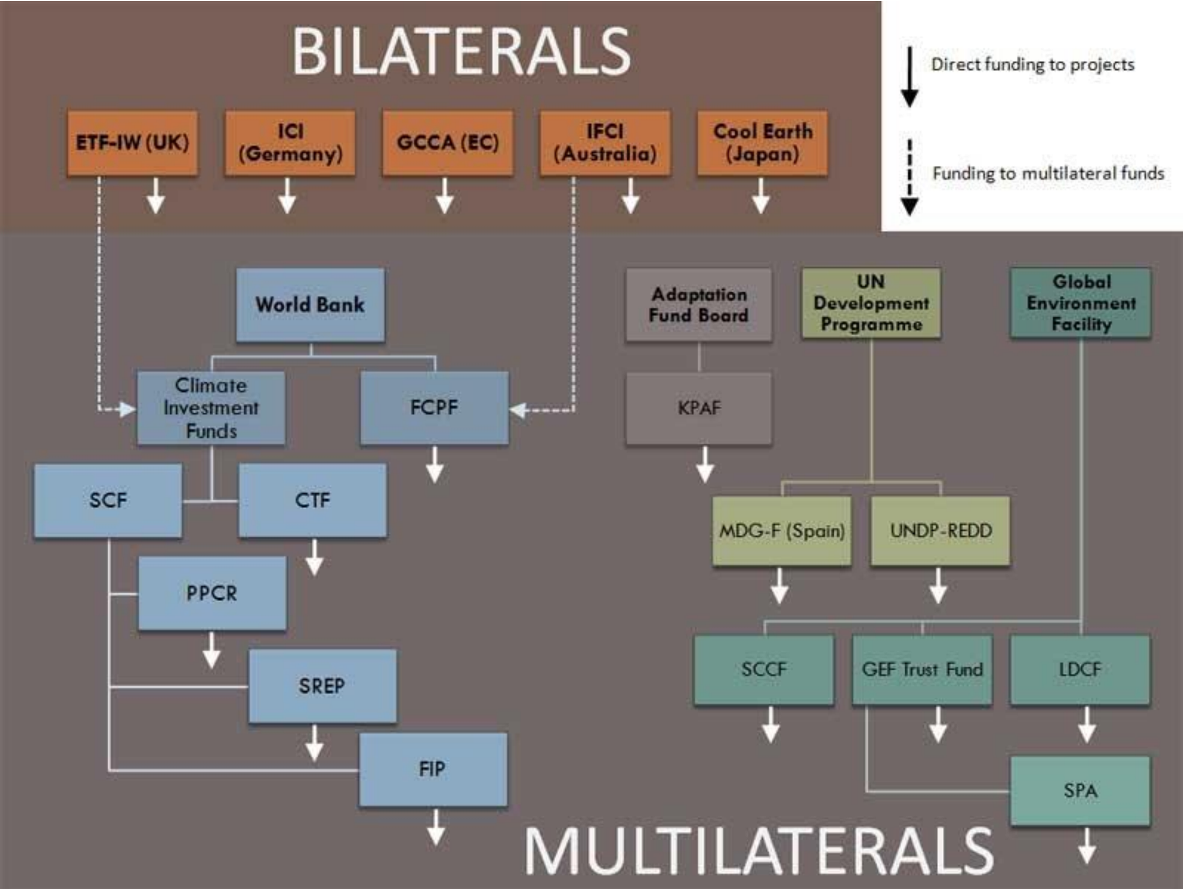
Annex A: ARCHITECTURE OF EXISTING CLIMATE FUNDS



Source: www.climatefundsupdate.org

Annex B: PROPOSALS FOR INNOVATIVE REVENUE RAISING

Proposals for innovative finance mechanisms are organized according to the following groupings:

1. Auctioning of assigned amounts or emission allowances;
2. A uniform global levy on CO_2 emissions, with exemption for LDCs;
3. Levies/taxes on emissions from international maritime transport and aviation, or on air travel;
4. A levy on market-based mechanisms under the Kyoto Protocol;
5. A global levy on international monetary transactions;
6. Defined budgetary contributions; and
7. Other innovative mechanisms.

Below is a table which summarizes key attributes of each of the proposals. It is important to note that each proposal uses its own unique set of assumptions (e.g., carbon price, carbon cap, etc.) when estimating revenue figures. While streamlining the assumptions can create a truer comparison, the current figures provide a general idea of the sheer scale of funds likely to be generated from each proposal.

Table of proposal attributes

Proposal	Sources of funds	Climate funds for developing countries per year in billions (US $)	Source of annual funding estimate	Mitigation vs. adaptation	Revenue flows to newly created vs. existing funds
AUCTION OF ASSIGNED AMOUNTS OR EMISSION ALLOWANCES					
Norway's auctioning of allowances	Annex I allowances withheld, auctioned by international body	$20-30 annually	Proposal originator (Norwegian MFA) (assumes 2% levy, Annex I commitments correspond to IPCC's lowest emission scenarios	Both	Unclear where the money would be transferred/held
UNIFORM GLOBAL LEVY ON CO_2 EMISSIONS, WITH EXEMPTION FOR LDCs					
Swiss Global Carbon Adaptation Tax	Tax ($2/t CO_2) on emissions from fuels ≤1.5 t CO_2/capita exempt	NCCF: $20.7 MAF: $18.4	Proposal originator (Swiss Confederation) based on 2010 data	NCCF: Both MAF: Adaptation	NCCF: national MAF: existing; KP Adaptation Fund, at least in start-up phase
LEVIES/TAXES ON EMISSIONS FROM INTERNATIONAL MARITIME AND/OR AVIATION, OR ON AIR TRAVEL					
IAPAL	$6 per ticket fee (Economy class), $62 per ticket fee (business/first class)	$8-10 annually, for first five years of operation	LDC Group (based on Intl Air Travel Assn figures and French levy estimates on travel class breakdown)	Adaptation	Existing: KP Adaptation Fund.
IMERS	Emission charge, 'cap and charge' for Annex-I	$9+ (assumes USD 15 carbon price using anticipated price in US cap & trade scheme. Emissions for int'l shipping estimated at 1 bn tCO2 in 2013.	Proposal originator (Stochniol)	Adaptation	Existing: KP Adaptation Fund.
Tuvalu's Burden Sharing Mechanism	(1) .01% levy on int'l airfares, maritime transport freight charges operated by Annex II (2) .001% levy on int'l airfares, maritime transport freight charges	$0.04 from Annex II; $0.003 from non-Annex I	Müller (based on total UNCTAD 2007 freight costs for 2005)	Adaptation	Existing: SCCF and LDCF

	operated by non-Annex I (LDCs / SIDS exempt)				
LEVY ON CARBON MARKET-BASED MECHANISMS UNDER THE KYOTO PROTOCOL					
Extending the levy to JI and/or IET	Levy on JI and/or IET	2008–2012: $5.5–8.5 2013–2020: $3.5–7.0 (based on unit issuance, AAUs only)	UNFCCC (2008) ‘Funding Adaptation in Developing Countries’	Adaptation	Existing: KP Adaptation Fund
Pakistan’s CDM levy	3-5% levy on CDM	$0.2–0.5 at levy of 5%	WRI	Adaptation	Existing: KP Adaptation Fund
GLOBAL LEVY ON INTERNATIONAL MONETARY TRANSACTIONS					
Currency Transaction Tax	N/A	Percentage tax (0.005%) on each foreign currency exchange transaction conducted worldwide	$33 (based on Schmidt estimate of $1 trillion per day in transactions) *but not exclusively for adaptation*	Schmidt (North-South Institute)	Both
DEFINED BUDGETARY CONTRIBUTIONS					
G77 plus China	0.5% to 1% of Annex I countries’ GNP	$201-402	UNFCCC	Both, primarily mitigation	New
HYBRIDS					
Mexico’s World Climate Change Fund	Multiple sources	Initially $10 for mitigation, scaling up to $95 in 2030 $0.2 in 2030 (plus a 2% adaptation levy per annum fund)	Proposal originator (Mexico Secretary of the Environment)	$10-95: mitigation $0.2 -1.9: adaptation	Existing: KP Adaptation Fund
OTHER INNOVATIVE MECHANISMS					
EC GCFM	High rated bonds, as stopgap until other finance is operable	$1.3 for next five years	Proposal originator (European Commission)	Adaptation	Existing