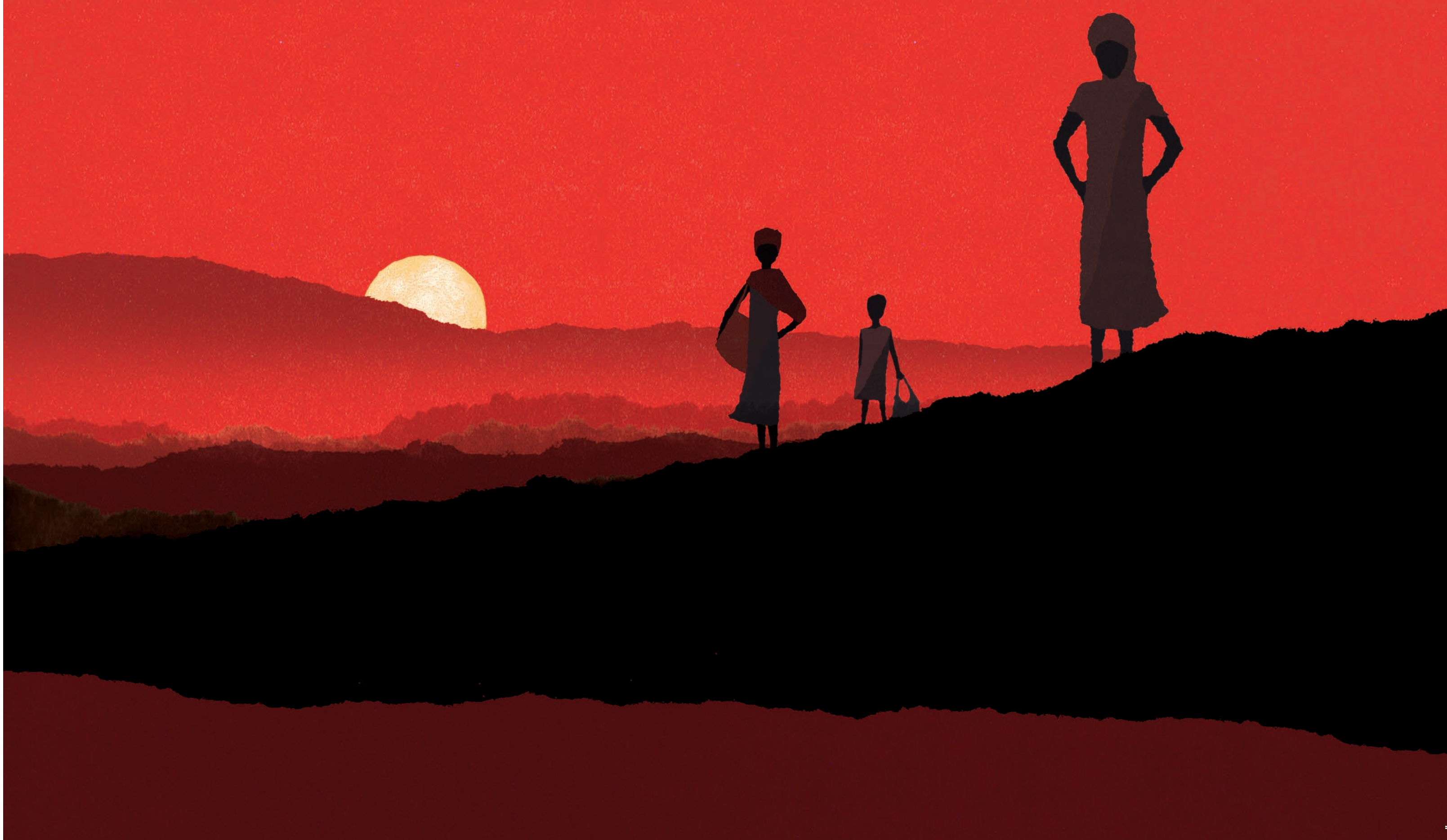
Don't COP Out!

Compensate for Climate Chaos



Summary of Recommendations to the UNFCCC

Success at the upcoming 17th Conference of Parties (COP 17) to the United Nations Framework Convention on Climate Change (UNFCCC) in Durban, South Africa, in large part depends on the willingness of developed countries to provide new and additional public finance to help countries confront the climate crisis. Success also depends on the introduction and implementation of an equitable and environmentally sound Green Climate Fund. In Durban, developed countries should agree to:

1. Support innovative mechanisms to generate public climate finance. In addition to budgetary contribution from developed countries, countries should show support for mechanism in the shipping and aviation sectors that could reduce emissions, generate climate finance, and ensure no burden or costs on developing countries via a rebate/compensation mechanism. Countries should also agree to a 1-year work program on mobilizing other sources of public finance, including a financial transaction tax (FTT) and Special Drawing Rights (SDRs).

2. Support the operationalization of an equitable and effective Green Climate Fund at Durban that ensures that:

- All funding is based on transparent country- and community-driven national adaptation and mitigation strategies.
- Resources to the private sector must be decided, managed, regulated and incentivized at the national and sub-national level; there should not be any direct funding of the private sector by the Green Climate Fund, including through the establishment of a private sector facility.
- Civil society and affected community members are not only included as active observers on the Green Climate Fund board but are involved in all decision-making processes, including governance, programme design, implementation, monitoring and evaluation.

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Introduction

Climate change is one of the greatest obstacles to ending poverty and one of the gravest equity challenges of our time. Impoverished countries have done the least to create the climate crisis, yet are being hit first and worst by its impacts, including extreme weather events, sea-level rise, drought, and disruption of water and food supplies. Poor countries have little capacity to deal with such impacts. A report by the United Nations Intergovernmental Panel on Climate Change (IPCC) concluded that "poor communities can be especially vulnerable, in particular those concentrated in high-risk areas. They tend to have more limited adaptive capacities and are more dependent on climate-sensitive practices." [1]

Climate change is already erasing gains from many development efforts, plunging nations into repeated food crises and other natural disasters and threatening their people with chronic hunger and disease. Because of climate change:

- In some countries in Africa, yields from rain-fed agriculture could be reduced by up to 50% by 2020 as a result of climate change.[2] This will mean increased hunger and famines across an already food-insecure continent.

- By 2050, the number of people at risk of hunger as a result of climate change is expected to increase by 10 to 20%; the number of malnourished children is expected to increase by 24 million—21% more than without climate change. Sub-Saharan Africa is likely to be the worst affected region.[3]

- Scientists estimate that already global production of key staples has fallen significantly over the last three decades as a result of climate change. Wheat production has fallen by about 3.8%, for example, and corn by about 5.5%. The rise in food prices is exacerbating disasters such as the drought in the Horn of Africa, making it even more difficult for local populations to buy food during the devastating drought.

- 75-250 million people across Africa could face more severe water shortages by 2020.[4]

- In Latin America, shifting rainfall patterns and the loss of glaciers will significantly reduce water availability for human consumption, agriculture, and generating energy.[5]

- A World Health Organization assessment concluded that climate change may have caused over 150,000 deaths in the year 2000 alone. This number is likely to increase as impacts worsen.[6]

A challenge of this magnitude calls for urgent action.

Public finance is a powerful tool for confronting climate change

Immediate funding for adaptation and mitigation will protect investments in international development and promote sustainable low-carbon development. Investing resources now to help countries confront climate change also makes sound economic sense. For example, the World Bank and the US Geological Survey estimated that economic losses worldwide from natural disasters in the 1990s could have been reduced by $280 billion if $40 billion had been invested in disaster prevention measures,[7] based on World Bank calculations that for every dollar invested in pre-disaster risk management activities in developing countries, seven dollars in post-disaster costs can be prevented.[8] Because costs are increasing as disasters become more severe and frequent, investment now may mean significant future savings.

Estimates by the European Commission and the World Bank show that *at least* $200 billion per year in public finance is needed for adaptation and mitigation in developing countries.[9] Yet, only a fraction of these funds has been pledged.

At the Copenhagen climate conference in 2009, countries agreed to jointly mobilise $100 billion per year for climate adaptation and mitigation. This commitment was formally adopted at the Cancun climate conference in December 2010. Countries pledged that the $100 billion per year commitment would be fulfilled using both public and private finance.

Two years after the initial commitment, however, developed countries have yet to indicate where any of the $100 billion will come from. They have failed to agree on any of the proposals for innovative public financing that have been made by the United Nations,[10] the World Bank,[11] and by individuals such as Bill Gates.[12] These include levies in the shipping and aviation sectors, a modest tax on financial transactions, or use of IMF Special Drawing Rights (all described in further detail below).

Instead of looking at how to generate public resources, discussions on climate finance over the past year have focused on ways to mobilise the private sector. The private sector certainly has a role to play in helping to tackle the climate crisis. But adaptation activities will mostly take place in sectors such as agriculture and disaster risk reduction. These will affect poor countries and communities most severely and provide little profit incentive for private sector investment. Clean energy projects in poor countries may also be seen as too financially risky for the private sector.

Focusing discussions narrowly on private sector investment therefore creates the risk that the majority of the world's poor people, those most in need of adaptation support, will simply be left out or, worse, may be nudged further into poverty. For these and other reasons, it is essential that public finance makes up the entirety, or at least the vast majority, of the $100 billion commitment.

Financing for climate adaptation and mitigation must come from budgetary contributions from developed countries—countries historically responsible for creating the climate crisis. To supplement budgetary contributions, various innovative mechanisms, including levies in the shipping and aviation sectors, should be used.

Emissions from the shipping and aviation sectors account for nearly 8% of global greenhouse gas emissions. Emissions could double, or even triple, by 2050. Mechanisms in the shipping and aviation sectors can be structured so as to reduce emissions and raise significant funding for climate change. According to a recent report by the World Bank prepared for the G20 finance minsters in November 2011, "a globally implemented carbon charge of $25 per ton of CO2 on fuel used could raise around $12 billion from international aviation and around $25 billion from international maritime transport annually in 2020, while reducing CO2 emissions from each industry by perhaps 5 percent, mainly by reducing fuel demand."[13] In order to respect the UNFCCC principle of common but differentiated responsibility, it is important to compensate developing countries for any costs or impacts to their economies that such mechanisms may impose. Even a 40% rebate back to developing countries would still leave approximately $22 billion for climate finance, according to the World Bank.[14]

In Durban, countries should agree to advance mechanisms in the shipping and aviation sectors that reduce emissions, generate finance, and ensure no burden or costs on developing countries. They must also agree to a one year work programme on mobilising other sources of public finance, including:

Financial Transaction Tax: A financial transaction tax (FTT) is a modest tax that could be levied on all financial market transactions, including stocks, bonds, foreign exchange, and derivatives. According to the Austrian Institute for Economic Research, a global financial transaction tax of 0.1% could generate between $410 billion and $1.06 trillion per year, a portion of which could go to help developing countries confront climate change. The International Monetary Fund (IMF) has found that implementing and administering a financial transaction tax is feasible, and in fact 15 of the G20 countries have some form of an FTT.[15] The administrative costs of collecting an FTT could be relatively low.

Special Drawing Rights: Special Drawing Rights (SDRs) are reserve assets created at no cost by the International Monetory Fund. In April 2009, the G20 called for an allocation of SDRs in response to the global financial and economic crisis.In less than five months, the IMF made a general allocation of SDRs worth about $250 billion. Based on their IMF quotas, wealthy countries received two-thirds of the SDRs, or approximately $165 billion. However, because developed country governments can raise funds on world markets at about the same cost as the SDR interest charge, they generally do not need additional reserves.

Developed countries could convert a portion of their SDRs from the 2009 allocation into hard currency to be transferred to the UNFCCC Green Climate Fund and used for grant financing for adaptation. Additionally, developed countries could transfer a portion of their SDRs from the 2009 allocation to the UNFCCC Green Climate Fund for clean energy programmes. The SDRs, in their reserve form, would form a capital base for the GCF upon which green bonds could be offered for clean energy programs.

Redirection of Fossil Fuel Subsidies: Building on the agreement at the G20 to remove fossil fuel subsidies, countries could further agree to redirect producer subsidies – subsidies in developed countries – towards clean energy, adaptation, and forest protection in developing countries. For years, fossil fuel subsidies have generated significant amounts of waste, drained national treasuries, and impeded the development of new markets in energy efficiency and renewables.

A Global Climate Fund to effectively and equitably channel public funding is needed

While funding for adaptation and mitigation is urgently needed, how that funding is disbursed, managed and governed will determine whether it would truly meet the needs of developing countries and poor and excluded communities.[16] The Cancun Outcome established a new global climate fund, the Green Climate Fund, to support developing countries to adapt to the impacts of climate change, mitigate greenhouse gas emissions, and protect forests. A Transitional Committee was established to design the Green Climate Fund in 2011. The final outcome of the Transitional Committee process resulted in a draft governing instrument for the Green Climate Fund that will go to the UNFCCC Conference of Parties in Durban for its consideration and approval.

The draft governing instrument of the Green Climate Fund includes positive elements, such as a commitment to a gender-sensitive approach, commitment to supporting country-driven adaptation and mitigation plans, the inclusion of "active observers" on the Green Climate Fund Board, a secretariat that will be "fully independent" (which must mean independent of the World Bank or other multilateral financial institutions), and includes social and environmental safeguards.

However, there are still some serious problems with the text, most notably in that it establishes a private sector facility that can directly finance private sector mitigation and adaptation activities in developing countries. This means that scarce public money could be used to subsidise private sector entities (included multinational companies or companies in developed countries) to administer projects in developing countries which may not be a priority for developing country governments.

Countries should support the introduction and implementation of an equitable and effective Green Climate Fund at Durban which ensures that:

- All funding is based on transparent country-and community-driven national adaptation and mitigation strategies.
- Resources to the private sector must be decided, managed, regulated and incentivised at the national and sub-national level; there should not be any direct funding of the private sector by the Green Climate Fund, including through the establishment of a private sector facility.
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Endnotes

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