Wuppertal Institute
for Climate, Environment
and Energy

Overview of the Financial Flows – Assumptions

For the project „Financial Mechanism for the Post 2012 Regime : Another Side of the Same Coin of Burden Sharing“

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The figures were created on the basis of the following assumptions.

Overview of Financial Flows 1:

- Estimates about the CDM potential (AF potential) post 2012 are very uncertain. The USD 100 billion USD per year in emission reduction purchases given in the chart is derived by assuming 60-80% emission reductions by industrialized countries by mid-century, half of which would be met through investment in developing countries (UNFCCC 2007: 156).
- Coastal zones adaptation needs assume anticipation to 2080, i.e. estimated investment required in dykes, for instance, assumes that coastal infrastructure built in that year is sufficient to adapt to the maximum amount of sea level rise anticipated in 2080. Note that this estimate is extremely sensitive to the assumed planning horizon (UNFCCC 2007).
- Infrastructure adaptation here involves making modifications to or changes in operation of infrastructure that would be directly affected by climate change. This applies to infrastructure used to manage natural resources such as water or coastal resources infrasturcture, e.g. coastal defences, flood protection, water supply, water quality treatment, hydropower, heating and cooling systems. Estimates are based on weather damage data by MunichRe and Association of British Insurance (UNFCCC 2007).

Overview of Financial Flows 2:

- The Number (22,74 billion USD) in the Actual Finance for Mitigation is averaged out over the period 2008-2012. Where no specific information on when money in the funds will be spent is available, all money (provided or pledged) is assumed to be spent between 2008 and 2012. This may lead to an optimistic calculation of available funding for that period.
- CDM revenue is calculated assuming 300 million CERs/year (Fenhann 2008) and a CER price between €15 and €25 between 2008 and 2012 (using a US$ exchange rate of 1.58)
- GEF Trust Fund: The annual average amount for the GEF Trust Fund here goes back to the 990 million in GEF 4 (2006-2010) (GEF 2008), numbers for GEF 5 were not yet available at the time of compilation, so that the GEF 4 average was extrapolated for the years 2010-2012 and given as low-end value. The ratio of leveraged funding by the GEF trust fund was assumed to be 5.0 based on past trends as described in UNFCCC 2007 (UNFCCC 2007: 164).
- The category Mixed Climate Funds includes all those funds, for which a clear differentiation between adaptation and mitigation finance was not possible.
- Under adaptation finance, ideally, also finance leveraged by the different funds would be listed. This was not done, because there is no reliable information (yet) on the leverage factor, e.g. for projects already financed by the SCCF the leverage factor is roughly 3, while for those in the pipeline it is estimated to be roughly 6 (UNFCCC 2007). This additional amount of finance should, however, be kept in mind irrespective of its exact amount.

Overview of Financial Flows 3

- The percentage of financial resources that each developing country would receive from the CDM is calculated on the basis of share of CERs of the projects undertaken in the country accroding to Fenhann 2008. This does not mean, however, that each host country will receive the financial resources corresponding to the percentage. Because CERs will be divided between investors and host countries.

References

Fenhann. 2008. CDM pipeline. June, 11, 2008. Copenhagen: UNEP Riso Centre.
GEF. 2008. Status report of climate change funds as of March, 4 2008
United Nations Framework Convention on Climate Change (UNFCCC). 2007. Investment and financial flows to address climate change