



Elisabeth Tamara near Nevado Huascarán, the highest mountain in Peru. This area of Peru is affected by glacial retreat, affecting communities who depend on melt water. Photo: Gilvan Barreto/Oxfam GB (2008)

# BREAKING THE STANDOFF

## Post-2020 climate finance in the Paris agreement

**Climate finance is fundamental to a fair and effective global climate agreement. Too few countries have delivered on their obligations. As a result the world's poorest people have not benefitted from the necessary investment, and climate finance has been a major obstacle to achieving a global climate change agreement.**

**A new approach that recognizes the failings of the current regime and is better informed by needs and opportunities at the national level can break the current standoff and trigger a collaborative effort that delivers effective investment at scale in both mitigation and adaptation. This, along with ambitious emissions reduction pledges by developed countries, is key to success in the 2015 Paris climate negotiations.**

# EXECUTIVE SUMMARY

## BREAKING THE STAND-OFF

Negotiations are currently under way to develop a new international climate change agreement that will cover all countries and curb global warming to below the internationally agreed limit of 2 degrees. The new agreement will be adopted at the United Nations Climate Change Conference – Conference of the Parties 21, or COP21 – to be held in Paris in November/December 2015, and will be implemented from 2020.

International climate finance – the international support to help developing countries adapt to climate change and enable low-carbon development – must be at the heart of the Paris agreement. It offers the key to unlocking mitigation potential in developing countries and enabling communities to adapt to current and future impacts. It is also a basic building block of a fair agreement: one that accords with countries' relative responsibilities for the problem, and their capabilities to address it.

Yet for too long finance has been branded as a stumbling block, hindering progress at the negotiating table. To be able to commit to low-carbon development pathways, developing countries need the confidence that they will receive adequate and on-going support from developed countries, who need to accept that it is in their own national interests to deliver. But with a new and revitalized approach to the climate finance discussions, negotiators in Lima and Paris can break through this standoff and unlock a brighter future for developing and developed countries alike.

Oxfam proposes a new approach that is guided by the lessons learnt from the failings of the current climate finance regime, as well as by a better understanding of climate finance need and potential at national level. This finance blueprint for Paris for the first time gets down to business in terms of who pays and who receives, and how much.

### **Lessons learnt from the \$100bn regime**

The current commitment among developed countries made in Cancun and Copenhagen<sup>1</sup> – to jointly mobilize \$100bn by 2020 from a variety of sources to address the needs of developing countries – has exacerbated the climate finance standoff.

The \$100bn commitment has become an iconic reference point in global negotiations, haggled over by negotiators and the source of much of the discontent and many of the problems that have dogged climate finance negotiations over the past five years.

Progress in meeting this goal has been too slow. Current climate finance levels have flat-lined since the Fast Start Finance period, and despite recent progress with filling the Green Climate Fund to the bare minimum mark needed to get the new fund up and running, developed countries remain off-track for bringing up climate finance levels to meet their overall promise. One of the reasons for this is

the vague nature of the target itself. Too few details have been agreed by negotiators about how financial flows will be mobilized, which countries will mobilize them and which countries will receive them. This has undermined developing countries' ability to create effective plans for their adaptation and mitigation needs.

There are four key shortcomings of the \$100bn approach, where the post-Paris agreement must do better.

1. \$100bn is not enough to address the problem. It is too low a target if it is to come from both public and private sources, and too little if it is to be spread between both adaptation and mitigation.
2. Everyone and no-one is accountable. It is a target for all developed countries, meaning that no specific country has committed to a quantified pathway for scaling up towards it. Meanwhile all developing countries are entitled in theory to receive it, but none knows how much it might receive from one year to the next, making planning impossible.
3. There is too little clarity on rules for what counts, especially in terms of private finance: whether money is new and additional; whether loans can be used etc. – making it even harder to hold countries to account for real and comparable increases in finance.
4. Ultimately, it has become an abstract number that Parties fight over in the world of the UNFCCC, which is too far removed from the real business of cutting emissions and supporting vulnerable communities. It is time this changed.

## **From abstract global numbers to a focus on concrete national needs and potential**

Success in Paris will mean negotiating a finance package that recognizes the true scale of the overall challenge – both in mitigation and adaptation – yet is responsive to the needs and specificities in given countries.

This paper puts forward some numbers which indicate the scale of the financing challenge, drawing both on a synthesis of available global estimates, and a close look at existing national-level plans.

For mitigation, Parties should collectively recognize and commit to bridge a mitigation investment gap in the order of several \$100bn per year, perhaps in excess of \$500bn per year (in both public and private finance). This is the difference between current investment levels and what the latest models estimate is needed to shift the world onto a 2 degrees pathway.

For adaptation, Parties should collectively recognize and commit to bridge the scale of the *public* adaptation finance gap. Adaptation needs will increase the more temperatures are allowed to rise, so the target must be determined based on the mitigation ambition of agreement – for example in a 2°C agreement, global estimates indicate an additional \$60bn per year will be needed by 2050s for sub-Saharan Africa. Developed countries should commit to channel a significant proportion of these funds through the Green Climate Fund.

While a collective commitment to closing this gap is crucial to the Paris agreement, achieving real progress lies in ensuring support at the country level. Countries should decide in Paris to launch a process to agree country-specific national financing schedules. For developing countries, this means national plans outlining actions and the support required for their implementation. For developed countries, it means detailing what support they will be providing to realize these plans. This paper looks at how these national schedules for both developed and developing countries relate to the collective commitment, how they can fit into the Paris agreement, and how they will be revised over time.

Matching pledges to tangible action in this way can transform climate finance into a tool to trigger a collaborative effort towards unlocking concrete opportunities. A closer reading of country plans shows that if progress is made on climate finance, the clean development that poor countries can achieve could be spectacular. For instance, the Ethiopian government has already spelled out how proper support could lift millions of people out of poverty while avoiding annual emissions equivalent to 65 coal-fired power plants. Indonesia could fulfill its plan to cut emissions by 41 percent in 15 years. And Peru could increase its GDP by nearly 1 percent more than business-as-usual, while halving its emissions at the same time.<sup>2</sup>

This paper shows how the combination of a collective commitment to closing the global financing gap with country-specific national financing schedules for both developed and developing countries may hold the key to breaking the stand-off.

## **Finance and equity**

Much negotiating between now and the Paris COP will focus on the issue of effort sharing. For most industrialized countries, a fair share of the global mitigation effort amounts to far greater emissions reductions than can be achieved solely within their own borders. Furthermore, poorer countries cannot be expected to meet the additional cost of implementing low-carbon development strategies and are entitled to receive support for their mitigation efforts.

Put simply, climate finance is an intrinsic part of the effort-sharing equation. For wealthier countries, contributions under the Paris agreement must include both the Party's commitment to reducing domestic emissions and the support it will provide to low-carbon development in other countries. Similarly, poorer countries must be enabled to indicate progressively the amount of finance they will need to implement their plans.

Oxfam offers one possible framework for calculating fair shares – to benchmark who contributes what and to bring new contributors into the picture. On this basis, a number of countries that have not been expected to contribute resources until now should prepare to step up.

Oxfam's calculation of country 'fair shares' estimates that the US would be responsible for mobilizing 56 percent of the international climate finance needed to shift the world onto a low-carbon path during the first commitment period of the new agreement, followed by 22 percent from the EU and 10 percent from Japan. This would be in addition to the emissions reductions they are responsible for delivering within their own borders. New contributors include Brazil, Singapore, United Arab Emirates, and Kuwait.

When it comes to contributing to international climate finance for adaptation, new countries which should become climate finance contributors including Russia, Brazil, the Republic of Korea and Mexico. This list of contributors and their shares differ slightly when it comes to contributing towards international adaptation finance, as different considerations are at play. Unlike with mitigation, international responsibilities are not affected by the size of borders and the potential contained within them to reduce emissions.

## KEY RECOMMENDATIONS

Oxfam proposes that a successful Paris climate agreement should include a financial package with the following elements:

### **1. Recognition of the scale of the investment gap and a shared commitment to closing it**

No strategy for change is credible unless it is costed. Furthermore, asking developing countries to commit to strong action without a quantitative commitment of support is unrealistic.

### **2. A system of individual contributions and entitlements captured alongside the agreement**

Contributors may face constitutional barriers to making multi-year commitments, and few developing countries have yet identified their individual financing needs. However, a system of dynamic country-by-country financing schedules annexed to the agreement can circumvent these constraints, provide the necessary predictability, identify opportunities and continually build cooperation and collaboration between contributors and recipients.

### **3. A separate collective target for public finance for adaptation**

Experience to date has clearly demonstrated that only a separate public finance target for adaptation is likely to close the adaptation finance gap.

### **4. Both top-down and bottom-up methods**

The collective commitment must be firmly grounded in the science. And if ambition on mitigation is too low, this must trigger greater support for adaptation. Bottom-up national-level plans, put forward between 2015 and 2020, are needed to identify opportunities, inform negotiations on financing schedules and drive an upward spiral of greater ambition.

### **5. A fair shares system**

Without guidance on how much countries should contribute or what they are entitled to receive, there is little prospect of real progress. Separate frameworks should be established for mitigation and adaptation, both based on the principles of the UNFCCC.

### **6. Robust accounting**

At a minimum, this means limiting the proportion of finance provided as loans, counting only the grant equivalent of loans and finding a definition of 'new and additional' that will stick.

### **7. New commitments to establishing innovative sources of public finance**

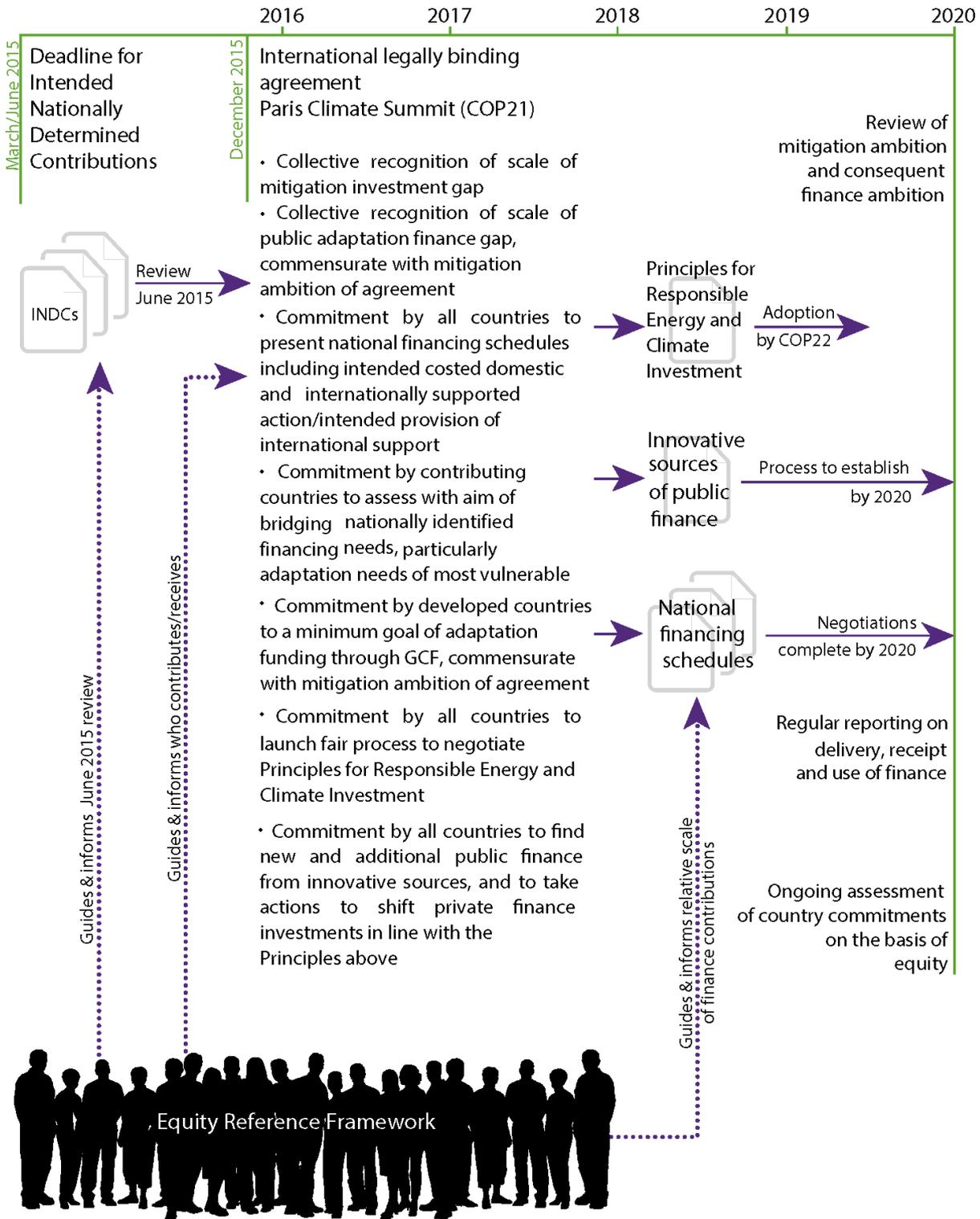
There can be no more shift in current ODA flows to climate finance, and greater reliability and predictability are needed. Put simply, new sources of public finance

are needed and Parties must make an action plan aimed at getting the most promising national and international schemes off the ground.

### 8. New commitments to shifting private finance

Far more can and must be done to help channel private investment. Parties should capture in the Paris agreement the principles, commitments and safeguards necessary to unleash investment in equitable low-carbon solutions.

**Figure 1: Finance in the Paris agreement: visualizing our key recommendations**



## NOTES

- 1 The phrase 'Copenhagen/Cancun \$100bn commitment' is used as shorthand for the existing goal among developed countries of 'mobilizing jointly USD 100 billion per year by 2020 to address the needs of developing countries', formally adopted under the Cancun Agreements, and with its roots in the Copenhagen Accord.
- 2 Analysis by Stockholm Environment Institute (2014) for Oxfam, forthcoming.

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