



**OXFAM**

# BRIEFING FOR THE UNFCCC WORK PROGRAMME ON LONG-TERM FINANCE

Bonn, July 2012

## SUMMARY: KEY MESSAGES

- *2012 is the last year of Fast Start Finance (FSF) beyond which there is no certainty on the trajectory of climate finance. The Work Programme must advance new sources of public finance to keep the \$100bn/year commitment and 2°C goal within reach, and protect the development gains of recent decades from an alarming shift in ODA to climate finance.*
- *A substantial evidence base indicates that financing needs for adaptation and mitigation in developing countries are much higher than \$100bn/year in public finance alone.*
- *FSF shows us that mitigation continues to be privileged over adaptation; that a fair, common accounting system is needed, especially for determining whether finance is “new and additional” and how loans should be counted; and that predictability of funding requires the establishment of new innovative sources of additional public finance.*
- *The most promising innovative sources of public finance include earmarking of revenues from a Financial Transactions Tax due to be implemented in 9+ EU countries this year; and establishing fair carbon charges for international shipping and aviation.*
- *There are significant risks and uncertainties associated with the role of private finance in contributing to the \$100bn/year that must be addressed by developed countries.*
- *The Green Climate Fund should become the primary channel of climate finance, reducing transaction costs for recipient countries through an accessible, country-driven approach. It should be capitalised with initial pledges from developed countries at COP18 amounting to at least \$10-15bn by 2015.*

## INTRODUCTION

Since the commitment to mobilise \$100 billion per year in climate finance by 2020 was made in Copenhagen and then confirmed by COP decisions, very little progress has been made towards ensuring this objective is realised. **2012 is the last year of Fast Start Finance, beyond which there is no certainty on the trajectory of climate finance.** The outcomes of the Work Programme on Long-term Finance will determine whether the goals of reaching \$100 billion per year by 2020 and keeping global warming below 2°C, let alone the 1.5°C needed, stay within reach.

Furthermore, **new sources of finance must be found to curb the alarming shift in Official Development Assistance (ODA) to climate finance, and protect the development gains of recent decades.** In 2010 OECD figures indicate 15% of ODA was counted as climate finance. Yet climate change is an additional burden for poor countries, requiring additional resources to tackle. A failure to deliver new and additional resources – over and above existing commitments on ODA – risks diverting essential aid for health, education and other development priorities.

Oxfam believes that the Work Programme must lead to a breakthrough in delivery of scaled-up, new and additional, predictable finance for adaptation and mitigation in developing countries. It is an opportunity to establish a legitimate consensus on the way forward.<sup>i</sup> This briefing note covers:

1. **Financing needs in developing countries**
2. **Lessons learned from Fast Start Finance**
3. **Promising sources of public finance**
4. **Risks and uncertainties associated with private finance**
5. **Delivery mechanisms for climate finance**
6. **Outcomes of the Work Programme and action needed at COP18**

# 1. FINANCING NEEDS IN DEVELOPING COUNTRIES

\$100bn per year is not an insignificant figure, but financing needs for adaptation and mitigation in developing countries are likely to be at least twice as high in public finance alone. On top of this, huge further investments of private finance for mitigation – perhaps running into the trillions of dollars – are needed<sup>ii</sup>.

**Public, grant-based finance is essential for adaptation.** Poor people on the front lines of climate change with the least resources to cope do not tend to live in places that attract private investment. Projects such as developing community disaster preparedness plans, planting mangroves for protection from storms and rising seas, or developing small-scale irrigation systems, do not generate internal returns and will not attract private sector investment. Only grant-based, public sector funding directed through governance arrangements with the meaningful participation of affected communities can ensure these adaptation needs are met.

The private sector will learn to invest in adaptation measures to protect its investments, and public regulation can help channel that private investment to support not hinder local communities' adaptation efforts. But such efforts must be complementary to, not a substitute for, meeting adaptation needs defined by people and communities facing climate change impacts according to their own priorities, not those determined by the private sector.

**Significant public resources are also needed for mitigation.** Under the UNFCCC, developed countries are responsible for meeting 'the agreed full incremental costs' of essential mitigation action in developing countries. These are the costs of investing in a more expensive wind farm instead of a cheaper coal-fired power plant – the extra costs of development in a carbon-constrained world. By their very nature, such costs will not be met by the private sector alone, rather public money will be needed to incentivise their action and to ensure pro-poor outcomes, such as the expansion of renewable energy to rural areas. Further public resources will be needed, for example, for capacity building related to mitigation in developing countries, or through Reduced Emissions from Deforestation and Degradation (REDD).

**Numerous estimates of the public financing costs of mitigation and adaptation in poor countries range between \$110–275bn per year** (see table below). On the basis of this range of studies, Oxfam estimates that at least \$150bn per year is needed in public finance alone from 2013, rising to at least \$200bn per year by 2020 (of which at least \$100bn should be for adaptation and \$100bn for mitigation).<sup>iii</sup>

These costs could be even higher. The inadequate emissions cuts proposed since Copenhagen put the world on course for 2.5-5°C of warming<sup>iv</sup>, very likely entailing much higher costs for adaptation and loss and damage from more severe climate impacts, and increased mitigation costs for each year that adequate action is delayed.

	Stabilisation of CO <sub>2</sub> e	Year for estimate	Area of use of funding	Low-end estimate in \$billion	High-end estimate in \$billion
World Bank (2010), World Development Report <sup>v</sup>	450ppm	2030	Mitigation	140	175
World Bank (2010), Economics of Adaptation to Climate Change <sup>vi</sup>		Average annual costs 2010-2050	Adaptation	70	100
Parry <i>et al.</i> (2009), Assessing the costs of adaptation <sup>vii</sup>		2030	Adaptation	2-3 times UNFCCC estimate	2-3 times UNFCCC estimate

McKinseys (2009), Project Catalyst <sup>viii</sup>	450ppm	2010–2020	Mitigation and adaptation	85	131
EC (2009), Economic Assessment of Post-2012 Global Climate Policies <sup>ix</sup>	450ppm	2020	Mitigation	68	
UNFCCC (2009), Investment and Financial Flows to Address Climate Change <sup>x</sup>	450–550pm	2030	Mitigation	92	97
UNFCCC (2009), Investment and Financial Flows to Address Climate Change <sup>xi</sup>	550pm	2030	Adaptation	28	67
Stern (2009), The Global Deal <sup>xii</sup>	500ppm	Next decade	Mitigation	65	
Stern (2009), The Global Deal <sup>xiii</sup>	500ppm	Next decade	Adaptation	50	100
Africa Group Submission to the UNFCCC (2008) <sup>xiv</sup>		2020	Mitigation		200
Africa Group Submission to the UNFCCC (2008) <sup>xv</sup>		2020	Adaptation		67
UNDP (2007), Human Development Report <sup>xvi</sup>	450ppm	2015	Adaptation	86	
Oxfam (2007), Adapting to climate change <sup>xvii</sup>		Immediately	Adaptation	50	

Although the agreement struck at COP16 in Cancun was to “mobilise \$100bn per year by 2020 from a wide range of sources – public, private and alternative”, it is critical that the Work Programme takes account of this scale of public financing needs. Notably, it should:

- **Ensure that at least \$100bn per year by 2020 is mobilised from public finance alone;**
- **Establish sources of finance capable of scaling-up to meet the needs of poor countries. Aiming for \$100bn per year must be the floor not the ceiling if a global climate catastrophe is to be avoided.**

## 2. LESSONS LEARNED FROM FAST START FINANCE

At COP15 in Copenhagen, developed country governments made a collective pledge to provide “new and additional resources” for climate action in developing countries, “approaching \$30 billion for the period 2010-2012”, with a balanced allocation between adaptation and mitigation<sup>xviii</sup>. This “Fast Start Finance” (FSF) is often considered as a testing ground for longer term arrangements for climate finance. A number of lessons stand out for long-term climate finance.

### 1. Fast Start Finance has privileged mitigation over adaptation.

The Copenhagen Accord’s call for “balanced allocation” between mitigation and adaptation is a partial recognition of the ‘Adaptation Gap’ which currently sees only approximately 10-20%

of total funding flow to adaptation, in spite of a significant increase in adaptation funding in 2011<sup>xi</sup>. The first lesson of Fast Start Finance is therefore that the reference to “balanced allocation” is insufficient to guarantee a fair proportion of resources flow to meet the adaptation needs in the poorest and most vulnerable countries.<sup>xx</sup>

→ **A quantified requirement that 50% of funding should be made available for adaptation is needed.**

## 2. There have been no common standards for counting Fast Start Finance.

Industrialised countries have so far reported on Fast start Finance through different reporting formats, and have used different definitions and baselines to assess whether pledges have been met. For example, Japan has counted “leveraged” private finance, the US has counted contributions via its export credit agency, while France has counted non-concessional loans. This has made the information produced by industrialised countries difficult to compare<sup>xxi</sup>, and obscures whether industrialised countries are doing their fair share to mobilise the resources needed for climate action in developing countries.

→ **A fair, transparent common accounting system is needed.** In particular:

(a) **There is no common baseline against which funds are considered “new and additional”.** Oxfam considers that “new” should mean funds not previously announced or pledged when the commitment is made, and that “additional” should be compared to the existing promise to provide 0.7% of GNI as Official Development Assistance (ODA), since climate change is an additional burden to developing countries requiring additional resources to tackle. On the basis of this criteria, we estimate little more than half at best of the FSF committed is new, and barely any is additional to finance provided by countries to reach their 0.7% ODA target.<sup>xxii</sup>

→ **A common baseline for additionality is needed – which should be the target to provide 0.7% GNI of rich countries as ODA – and new sources of public finance additional to ODA budgets must be found.**

(b) **There is no common standard for accounting for loans.** Oxfam believes that adaptation finance should only be provided in the form of grants, based on the scale of needs of the most vulnerable people and communities for whom private or loan-based financing, even if concessional in nature, is inappropriate. Yet FSF shows that some countries have used concessional loans for adaptation. While there may be a role for use of concessional loans as mitigation finance, Oxfam believes that only the grant equivalent of the loan should be counted towards developed country commitments. FSF shows that some countries, like France, have counted the full gross value of loans given, while others, like Germany, have only counted the grant equivalent.

→ **No loans for adaptation should be eligible, and only the grant equivalent of loans for mitigation should be counted.**

## 3. Fast Start Finance has not been predictable, but dependant on the annual political will of developed countries.

Each year of the FSF period has seen a significant struggle within developed countries to maintain even the relatively small sums committed only a year or two earlier by Heads of State and Government at an historic and high profile international meeting. Oxfam warns that the limits of this approach may be apparent in 2012, when some developed countries are expected to struggle to maintain their FSF commitments, and/or in 2013 when climate finance may drop below the FSF level. This shows the importance of establishing innovative sources of public finance which can generate predictable funding from developed countries but outside of and additional to national budgetary processes.

→ **Budget contributions should be provided according to a binding and “assessed” approach, based on responsibility for emissions and capacity to pay.**

→ **Innovative sources of supplementary public finance – such as Financial Transaction Taxes and fair carbon charges on international transport – are needed to guarantee scalable predictable finance outside of and additional to national budgetary processes.**

### 3. PROMISING SOURCES OF PUBLIC FINANCE

Given the scale of public financing needs, and the risk of a further alarming shift of ODA resources to climate finance, it is vital that the Work Programme reach consensus on mobilising a number of sources of new and additional, and predictable, public finance.

The following table categorises and compares a number of sources of public climate finance identified and analyzed in various forums such as the UN High-Level Advisory Group on Climate Change Financing (AGF) and the World Bank/IMF analysis for G20 Finance Ministers.

Oxfam has consolidated these sources into groupings and provided analysis based on a series of criteria: scale, suitability for adaptation or mitigation, predictability, equity/consistency with the CBDR&RC principle, and political acceptability and technical feasibility. Three of the most promising options are explored in greater depth following the table.

SOURCES OF PUBLIC CLIMATE FINANCE					
	Scale (per year)	Suitability for adaptation or mitigation	Predictability of funding	Equity / Consistency with CBDR&RC	Political acceptability/ Technical feasibility
<b>1. Funds provided as national contributions from general government budgets</b>					
<b>Assessed contributions</b>	Could be needs-based (e.g. 1.5% GDP)	A requirement for at least 50% for adaptation could be set	Strong	Strong (those with highest responsibility & capability pay more)	Technically feasible, but low political acceptability (some rich countries, notably the USA, have strongly opposed)
<b>Voluntary pledges</b>	Likely to be low (<0.7% GDP)	Likely to tend towards mitigation (cf lesson of the adaptation gap from FSF)	Weak	Weak (dependant only on political will, not justice)	High (the default position, cf FSF)
<b>2. Innovative sources of public finance dependant on national decisions and collected nationally (NB some may establish dedicated new revenue streams, outside of regular national budgets, others will be a new source of revenue for general national budgets)</b>					
<b>Domestic carbon taxes</b> (will be a new source of revenue for national budgets, unless otherwise decided by governments)	AGF: \$10bn WB/IMF: \$25-50bn	Likely to tend towards mitigation (if left to developed countries to decide how to spend)	Strong (if revenues are earmarked)	Strong (especially if established in rich countries)	Moderate (cf Australia agreed new carbon price, but failed to agree to use any portion of revenues for climate finance)
<b>EU ETS Auction Revenues</b> (can create a dedicated new revenue stream outside of national budgets, cf Germany)	Oxfam (based on EC analysis): \$7-9bn/year				Already agreed in EU, where high political acceptability to use revenues as climate finance in Germany, low in UK. Moderate elsewhere.
<b>Re-direction of fossil fuel subsidies</b> (will be a new source of revenue for national budgets)	AGF: \$3-8bn WB/IMF: \$4-12bn		Moderate (unclear whether can generate a new revenue stream)		Moderate (the G20 has made several calls to review inefficient fossil fuel subsidies, but there have so far been few results)

### 3. Innovative sources of public finance dependant on international agreement and collected nationally

<b>Internationally-co-ordinated Financial Transactions Taxes</b> <i>(may also be established unilaterally)</i>	AGF: \$7-16bn Oxfam estimate for likely EU FTT: \$5-10bn	Likely to tend towards mitigation <i>(if left to developed countries to decide how to spend)</i>	Strong <i>(if revenues are earmarked)</i>	Strong <i>(especially if implemented in rich countries)</i>	Technically feasible; and high political acceptability in the EU <i>(An EU FTT is set to be introduced by Dec 2012 in at least 9 EU Member States, but currently no guarantee that revenues will be earmarked for climate finance)</i>
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### 4. Innovative sources of public finance dependant on international agreement and generated internationally

<b>Extension of the "share of proceeds"</b>	AGF: \$1-5bn	Mitigation or Adaptation <i>(dependant on international agreement over use of revenues)</i>	Very strong <i>(could be a direct source of funding for GCF)</i>	Weak <i>(this is a form of tax on proceeds that would otherwise remain in developing countries)</i>	Technically feasible (cf Adaptation Fund); but low political acceptability <i>(both developed and developing countries have opposed for different reasons)</i>
<b>Auctioning a portion of Assigned Amount Units (AAUs)</b>	AGF: \$8-38bn	Mitigation or Adaptation <i>(dependant on international agreement over use of revenues)</i>	Very strong <i>(could be a direct source of funding for GCF)</i>	Strong <i>(those with greatest responsibility for emissions pay most)</i>	Technically feasible, but low political acceptability <i>(Norway proposal of 2009 did not receive critical mass of support)</i>
<b>Use of IMF Special Drawing Rights (SDRs)</b> <i>(can be used as capital to issue 'green bonds' to raise capital for concessional loans)</i>	Oxfam: Using \$120bn SDRs as capital, \$40bn/year could be directed as concessional loans for clean energy, with a grant element of c. \$16bn.	Mitigation <i>(there should be no loans for adaptation)</i>	Strong <i>(could be a direct source of funding for the GCF, but dependant on raising private capital)</i>	Strong <i>(rich country assets are used)</i>	Technically feasible, but low political acceptability <i>(an IMF Staff Working Paper outlined such a scheme, but has had little support since)</i>
<b>Carbon pricing for international aviation</b> <i>(applied either via a fuel levy or auctioning in an ETS)</i>	AGF: \$2-3bn WB/IMF: \$7-11bn <i>(with aviation)</i>	Mitigation or Adaptation <i>(dependant on international agreement over use of revenues)</i>	Very strong <i>(could be a direct source of funding for GCF)</i>	Strong <i>(if includes a compensation mechanism)</i>	Technically feasible <i>(as outlined in AGF and G20 reports);</i> Moderate-High political acceptability <i>(ICAO currently discussing options)</i>
<b>IAPAL</b> <i>(International Air Passenger Ticket Adaptation Levy, as proposed by the LDC Group)</i>	LDC Group: \$8-10bn	Adaptation	Very strong <i>(could be a direct source of funding for Adaptation Fund, or GCF)</i>	Strong <i>(based on individual responsibility and capability to pay of relatively rich passengers)</i>	Technically feasible, moderate political acceptability <i>(cf existing air ticket levies for health)</i>
<b>Carbon pricing for international shipping</b> <i>(applied either via a fuel levy or auctioning in an ETS)</i>	AGF: \$2-19bn WB/IMF: \$7-11bn <i>(with aviation)</i> Oxfam: \$10-15bn	Mitigation or Adaptation <i>(dependant on international agreement over use of revenues)</i>	Very strong <i>(could be a direct source of funding for GCF)</i>	Strong <i>(if includes a compensation mechanism)</i>	Technically feasible <i>(as outlined in AGF and G20 reports);</i> Moderate-High political acceptability <i>(IMO currently discussing options)</i>

### ***Budget contributions: from voluntary pledges to a binding assessed approach (Row 1)***

Oxfam believes that a roadmap for scaled-up climate finance 2013-20 should be based on a foundation of budget contributions from rich countries (*row 1 in the table above*). As the FSF experience has shown, to ensure greater predictability of funding, equity and balance between adaptation and mitigation, it is vital that these contributions take the form as soon as possible of binding assessed contributions, calculated according to a country's responsibility for emissions and capability to pay.

Budget contributions from 2013 should be greater than the level of the FSF period, and agreement on an assessed contributions approach that sees a further scaling-up of contributions should be reached by 2015 at the latest.

### ***Supplementary innovative sources of public finance (Rows 2-4)***

On top of these contributions, countries should establish fair innovative means of raising public finance. These should be supplementary to, not a substitute for, budget contributions, whether they are collected *nationally* or generated *internationally*.

This means that where such sources generate revenues which flow into regular national budgets (such as from the re-direction of fossil fuel subsidies), they should be used to increase budget contributions, not to displace funds raised elsewhere in national budgets.

Where such sources generate dedicated new revenue streams – either at national level (such as from EU ETS auctioning revenues in some EU countries) or at international level (such as from carbon pricing of international transport) they should wherever possible be collected and/or accounted separately, and must result in the generation of new and additional revenues. Developed countries implementing such innovative sources should nonetheless be credited for their portion of the revenues generated, in addition to their contributions made from their regular national budgets. Three of the most promising such options are assessed below.

***Auction revenues from domestic emissions trading schemes.*** In the EU, **\$25bn** (€21bn) per year could be available from auction revenues in the EU ETS, **\$34bn** (€28bn) per year if the EU commits to reduce emissions by 30% not 20% below 1990 levels by 2020. Despite a political commitment by EU leaders in 2008 to use at least 50% of these revenues for climate action at home and abroad, only a few countries, like Germany, have already committed to use a portion for international climate finance. Others, like the UK, claim such earmarking runs counter to rules of national fiscal sovereignty. Transparent use of revenues from auctioning allowances for aviation would also help to reassure third countries about the motives for the inclusion of aviation in the EU ETS.

***Internationally-co-ordinated Financial Transaction Taxes ('Robin Hood Tax').*** At least nine EU Member States are on the cusp of agreeing to establish an internationally co-ordinated Financial Transactions Tax (FTT) or 'Robin Hood Tax', which is due to be finalised by December 2012. A live debate amongst those countries and within the EU is now taking place over the design of the tax and use of the revenues anticipated, likely to be in the range of at least \$21bn (€17bn) per year if just these nine countries implemented a version of limited scope, similar to that earlier proposed by the European Commission for the whole EU.

Oxfam believes that at least 50% should be earmarked for international public goods, split evenly between additional spending on international development and international climate finance. This would mean at least an additional **\$5-10bn** available for international climate finance, depending on the final scope of the tax. French President Hollande indicated in Rio that a portion of revenues must be used for international development and fighting climate change. He and countries like Germany, Italy and the Netherlands must now be persuaded to do so. This would establish a major precedent that ensures the financial industry contributes its fair share to international public goods, like tackling climate change.

**Fair carbon charges for international aviation and shipping ('bunkers').** International transport is one of the fastest growing sources of greenhouse gas emissions, but a fairly applied carbon price can both control emissions and generate billions in new climate finance.

Given the international nature of these sectors, and the principle of universal application of measures in both the International Maritime Organisation (IMO) and International Civil Aviation Organisation (ICAO), any carbon charge should be applied universally to all ships and planes – either through a fuel levy or via auctioning allowances in an Emissions Trading Scheme.

But to ensure consistency of the charge with the UNFCCC principle of 'common but differentiated responsibilities and respective capabilities', part of the revenues generated should be used to take account of the incidence of the measure on developing countries, prioritising the poorest and most vulnerable. Substantial remaining revenues should be directed to international climate finance, and a smaller portion could remain for climate action within the sectors.

Oxfam estimates that for shipping alone, a **\$25/tonne carbon charge** will generate **\$25bn per year by 2020**. Of this, approximately 30-40%, or up to \$10bn per year, is needed to take account of the incidence of the measure in developing countries, prioritising the poorest and most vulnerable. **At least \$10bn** of the remaining revenues should be directed to the Green Climate Fund. These findings have been closely supported in the findings of the World Bank/IMF *et al.* report for the G20, and the AGF report.

The unique international character of the shipping sector, means that an effective regulatory approach requires international collection of revenues, rather than national collection<sup>xxiii</sup>. This may be achieved in one of three ways:

7. **Direct collection of revenues from ships into an international fund.** A precedent is the International Oil Pollution Control (IOPC) Fund under the IMO, which collects revenues from ships according to fuel use into a central fund, and pays out in the event of oil spills. A similar approach could see revenues from a carbon charge collected in a fund under the IMO, and then directed to the Green Climate Fund.
8. **Set-aside of allowances in an Emissions Trading Scheme (ETS).** If an ETS is chosen, a portion of allowances may be set-aside to be auctioned by an international body with revenues directed to the Green Climate Fund. A precedent is the role the World Bank plays in auctioning CERs for the Kyoto Protocol Adaptation Fund. In 2008, the EU also agreed a set-aside of allowances from the EU ETS to fund Carbon Capture and Storage.
9. **Collection of revenues by an industry-led fund.** A precedent is the Norwegian NOx Fund, which requires industry to pay a charge into an industry-run fund in order to avoid a higher government tax. An Environmental Agreement with industry requires a portion of revenues to be spent on certain purposes.

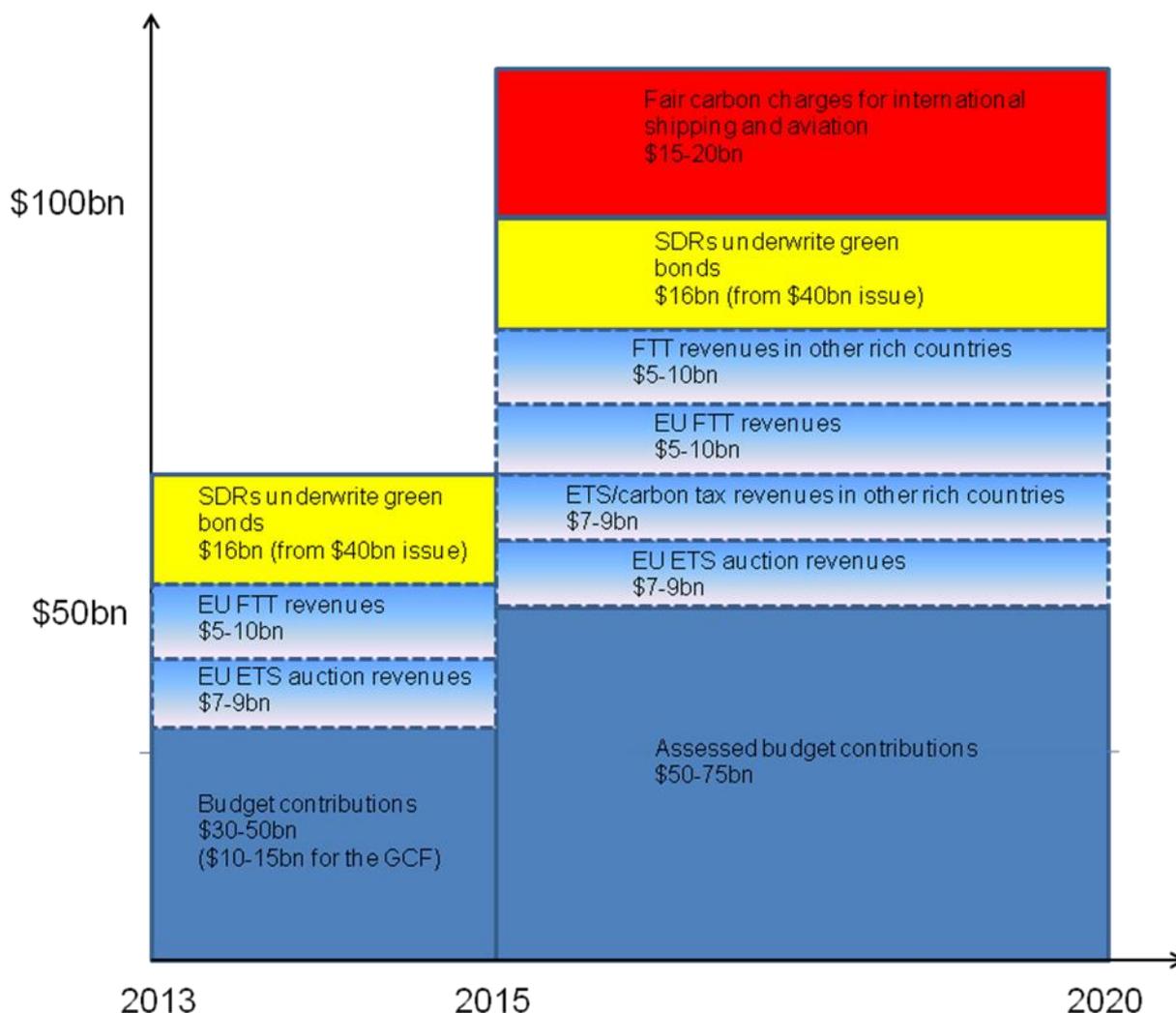
A similar approach could equally be developed for the international aviation sector, although revenues are projected to be slightly lower, the World Bank and IMF report suggesting \$12bn could be raised in total, before revenues used to take account of incidence in poor countries.

**Both the IMO and ICAO are moving ahead with discussions on means to address GHG emissions from their sectors this year. It is critical that the UNFCCC process send a clear signal to those bodies that they should ensure options are taken forward which can generate revenues for the Green Climate Fund. The Work Programme must help to provide this signal. A failure to do so could result in a major lost opportunity for genuinely new and additional finance, consistent with CBDR&RC, but collected without impinging on the national fiscal sovereignty of developed countries.**

For more information on fair carbon pricing of international transport, see the Oxfam/WWF paper: 'Out of the Bunker: Time for a fair deal on shipping emissions' at <http://www.oxfam.org/en/policy/out-bunker-shipping-emissions><sup>xxiv</sup>

The below diagram is *indicative* of the orders of magnitude of public finance that could be mobilised – based on *conservative* estimates of what could be raised only from the most promising innovative sources of public finance – showing that it is certainly feasible, with requisite political will, to reach more than \$100bn per year well before 2020 from public sources alone.

Figures for revenues from FTTs, domestic carbon taxes or emissions trading schemes are based on conservative expectations of the potential of such measures in the EU, and could be higher if adopted in all developed countries, and/or with broader scope and/or at higher rates.<sup>xxv</sup>



It is critical that the Work Programme builds a consensus on the scale of budget contributions post-2013 and on the most promising sources of new and additional, predictable public climate finance that must be advanced. In particular:

- **All developed countries must commit budget contributions from 2013 greater than the levels of the Fast Start Finance period, and to a significant scaling-up thereafter.**
- **The EU should strengthen its commitment to use at least 25% of revenues from auctioning allowances under the EU ETS for international climate finance – and 100% of revenues from the inclusion of aviation in the EU ETS.**
- **The EU Member States preparing to establish a Financial Transactions Tax ('Robin Hood Tax') this year must commit publicly to earmark at least 25% for international climate finance.**
- **A signal must be sent to the IMO and ICAO to establish fair carbon charges for emissions from international shipping and aviation, with a portion of revenues directed to the Green Climate Fund.**

## 4. ROLE OF PRIVATE FINANCE

Private finance undoubtedly must play a huge role in tackling climate change, perhaps in the order of several trillions of dollars of new investment in clean energy technology alone<sup>xxvi</sup>. But Oxfam and our partners are gravely concerned that developed countries are seeking to shift their responsibilities to provide public finance to meet mitigation – and perhaps even adaptation – needs in developing countries on to the private sector, entailing significant risks for the fight against climate change.<sup>1</sup>

### ***No private finance for adaptation under the UNFCCC***

Only grant-based, public sector funding directed through governance arrangements with the meaningful participation of affected communities can ensure the adaptation needs of the most vulnerable people and communities are met (see '2. Financing Needs in Developing Countries').

The private sector will learn to invest in adaptation measures to protect its investments, and public regulation can help channel that private investment to support rather than hinder local communities' adaptation efforts. But such efforts must be complementary to, not a substitute for, meeting adaptation needs defined by people and communities facing climate change impacts according to their own priorities, not those determined by the private sector.

In light of the strong evidence base indicating the scale of public finance needs for both adaptation and mitigation (see '2. Financing Needs in Developing Countries'), the following questions and concerns *inter alia* must be addressed by developed countries wishing to count the mobilisation of private finance towards their fair share of the \$100bn per year commitment.

### ***Is it possible to only count private finance directly linked to climate change mitigation?***

- Oxfam is concerned that some developed countries seem to want to count almost any private finance investments in developing countries, even those that have little or no clear and direct connection to financing climate change mitigation.  
→ **Developed countries must address whether and how they can guarantee that only private finance flows which are demonstrably directed to fund climate change mitigation would be counted.**

### ***Is it possible to only count funds which have demonstrably been “mobilised” by developed countries?***

- Oxfam is concerned that some developed countries want to have high flexibility in defining how they have “mobilised” private finance investments in developing countries. Such loose criteria and standards for determining how funds have been mobilised would mean no guarantees that such private finance flows are in any way new and additional. It would amount to counting business as usual investments.
- Such options may include using public money to leverage private finance (eg to fund R&D in new technologies, feed-in tariffs for renewable energy or Advanced Market Commitments, as equity investments in companies or to provide commercial or concessional loans), and/or public regulatory reforms to create loosely defined “enabling environments” to encourage private sector investment in developing countries.  
→ **Developed countries must address whether and how they can guarantee that only private investments which have been demonstrably mobilised by virtue of the effort of developed countries would be counted, instead of counting business as usual investments.**

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<sup>1</sup> It should be noted that Oxfam considers “private finance” in this sense to mean finance directed by the private sector, whereas public finance is directed by the public sector, either via national governments or multilateral funds, such as the GCF (even if those resources may have been raised from the private sector through taxes, levies, auctioning emissions allowances etc.)

**Should the gross or net value of private finance investments “mobilised” by developed countries be counted?**

- Oxfam is concerned that even if developed countries seek to provide assurances that only private sector finance directly linked to climate change mitigation, which has been demonstrably mobilised in addition to business as usual, they will nonetheless count the full gross value of such private finance investments.
  - By definition, mobilising private finance in a best case scenario would cover the additional costs of a low-emission option over a high-emission option. The result of the “mobilising”, therefore, is the incremental cost of the investment – the net value to a developing country, not the gross face value of the entire investment.
  - In addition, it would be unreasonable to assume that a developed country should be credited for the full face value of the investment as though their effort was solely responsible for its mobilisation. Much more likely, a combination of factors, including many related to developing countries’ own actions (eg setting up regulatory frameworks) would have also contributed.
- **Developed countries must address whether and how they can guarantee that only the net value of “mobilised” private finance would be counted.**<sup>xxvii</sup>

**Should finance flows through the carbon market count?**

- Oxfam is concerned that developed countries wish to count finance flows through the Clean Development Mechanism (CDM) as private finance which has been “mobilised” for mitigation in developing countries.
  - As civil society has shown over many years, this would amount to the double-counting of the mitigation efforts represented by finance flows through the CDM – both towards the mitigation targets of developed countries and the additional mitigation effort requiring financing in developing countries, in order to meet the 2°C goal (let alone 1.5°C).
- **Developed countries must not count finance flows through the CDM towards the \$100bn per year commitment.**

**Can private finance be channelled in line with a country-driven approach, and in respect of essential social and environmental safeguards?**

- Oxfam is concerned that private finance “mobilised” by developed countries risks circumventing the country-driven approach which is critical to ensuring funds are spent fairly and effectively within countries.
  - This is particularly concerning to the extent that developed countries may consider channelling private finance through Financial Intermediaries (FIs), which often entails little transparency and weak requirements for due diligence with respect of social and environmental safeguards.
- **Developed countries must address whether and how private finance can be channelled in line with a country-driven approach, and whether and how the investments of Financial Intermediaries can be transparently tracked and accounted for and held to respect social and environmental safeguards.**

**How is it possible to guarantee that Least Developed Countries and other poor countries are not excluded from mitigation finance?**

- Oxfam is concerned that a consequence of developed countries relying on the mobilisation of private finance to meet mitigation commitments in developing countries is that mitigation finance will continue overwhelmingly to flow to emerging or middle income countries, rather than the poorest and least developed, whose markets are less attractive to private investment. There is no justice in assuming that poor countries with low emissions must remain forever thus in order to meet the 2°C objective Parties have agreed.
- **Developed countries must be able to address whether and how they can guarantee that counting private finance towards mitigation commitments will not result in the exclusion of Least Developed Countries and other poor countries in receiving mitigation finance.**

## 5. DELIVERY MECHANISMS FOR CHANNELLING CLIMATE FINANCE

**The Green Climate Fund (GCF) should become the primary channel of climate finance** once it is fully operationalised and capable of receiving and disbursing finance effectively. It is critical that the spaghetti bowl of existing channels – from multilateral development banks to UN and bilateral funds – are streamlined into a more integrated financing system, both to reduce transaction costs and ensure that funds are allocated more fairly, efficiently and effectively.<sup>xxviii</sup>

**The governing instrument of the GCF adopted at COP17 in Durban holds the promise of a fair fund** capable of channelling resources to those who need them most and can spend them best. Notably, the operating instrument has good provisions on **gender equity** – ensuring that the voices and concerns of women are at the heart of the new fund – **national ownership** of funds by recipient countries, and **participation by civil society** at both global and national levels.

In order to realise the promise of the GCF, it is now critical that the **GCF Board nominations are completed expeditiously** and the work plan of the Board organised to ensure the full operationalisation of the GCF is not retarded as a result of the delay to the first Board meeting. The following particular priorities should be addressed.

### ***Capitalisation and replenishment***

- In Qatar, developed countries must pledge public funds for a substantial initial capitalisation of the Green Climate Fund (GCF) to ensure it is not left – for the third COP in a row – as an empty shell. These initial pledges should be the first step toward scaling up the GCF so that its annual turnover in 2020 constitutes the majority of the \$100 billion per year of climate finance committed by developed countries.
- **Oxfam believes that developed countries should pledge at least \$10-15 billion in new and additional public finance to be disbursed to the GCF over the years 2013-2015, with 50% of these initial resources allocated to adaptation.**
- These initial pledges to the GCF should be complemented by revenues from alternative sources of public finance directed to the Green Climate Fund – notably from carbon pricing of international transport – as soon as these are operational.
- The next phase of GCF replenishment should then begin in 2015 and involve a significant further scaling-up of funding based on an assessed contributions approach.
- Funds committed to the GCF should be part of a climate finance package through 2015 totalling a significant increase of public finance beyond FSF levels (see ‘4. Promising Sources of Public Finance’).

### ***Allocation to adaptation and mitigation***

- Addressing the current imbalance in finance flows to adaptation (see ‘2. Lessons of FSF’) is critical to ensure that poor and vulnerable countries and people are not again left behind by international climate finance. We cannot afford another lost decade of adaptation.
- As the experience of FSF has shown, to ensure “balance”, **a minimum floor of at least 50% of public finance** channelled through the GCF should be allocated to adaptation.

### ***National ownership by recipient countries***

- To achieve the ‘paradigm shift’ in adaptation and low carbon development that the Fund’s mandate lays out, countries and their citizens must be in the driver’s seat.<sup>xxixxxx</sup> The following guiding principles will be essential:
  - **Country governments should play the lead role** in a process to put in place and implement national climate change strategies and plans, enabled by **direct access** to the resources of the GCF to do so;
  - **Full stakeholder engagement** must be facilitated to ensure full accountability of funding to citizens, civil society and vulnerable communities;

- **Engagement of women should be prioritized** in developing participatory mechanisms for climate finance at the country level, given their greater vulnerability to climate-related risks and untapped potential in leading climate-related solutions.
- **Adaptation and mitigation planning and implementation should be fully integrated into national development and poverty reduction processes** - delivered wherever possible through existing national and sub-national processes and institutions and mainstreamed through government ministries.
- The **National Designated Authorities (NDAs)** foreseen in the governing instrument can be the central venue for developing such country-led climate change strategies and plans, and should serve the key function of facilitating the meaningful participation in planning and implementation by civil society, notably women and other marginalised affected communities.
- Lack of sufficient human, institutional, or technical capacity should not be used as an excuse to deny countries access to funding through NDAs. The GCF must provide substantial capacity to governments aimed at engaging stakeholders, including through sustained financial and technical support to build the capacity of local and regional government offices to lead on climate planning and priorities.

#### ***Civil society participation at the global level***

- The GCF will benefit from civil society participation/input at the global as well as national level in a number of ways, including increasing transparency, accountability, visibility effectiveness and the credibility of the fund.
- Sufficient funding and secretariat capacity should be made available to support civil society participation, including for the establishment of an equitable self-selection process for the **active observers to the Board**. Active observers should have interventions recognised, be able to participate in working groups, and receive written materials on the same footing as full Board members. They should be supported by an advisory committee, made up of two representatives (one North, one South) from each of the nine civil society constituencies.
- Until active observers are selected, civil society should have unrestricted access to Board meetings. Board chairs should allow interventions by observers on specific agenda items as those items are discussed. If necessary, such interventions could be limited per agenda item.

#### ***The Private Finance Facility***

- A number of questions and concerns must be adequately addressed about the nature and scope of the private finance facility (see '5. Role of Private Finance').

## **6. ACTION NEEDED AT COP18**

The Work Programme must not be just a "talking shop". Its litmus test of success must be whether it contributes to an outcome at COP18 that *inter alia*:

- Ensures **scaled up contributions of new and additional public finance in 2013** beyond FSF levels and a **roadmap for further scaling-up** to meet the \$100 billion per year commitment by 2020.
- Leads to the establishment of **new sources of additional and predictable public finance**, as part of this roadmap to meet the \$100 billion per year commitment by 2020.
- Ensures a **substantial initial capitalisation of the Green Climate Fund**, and the decisions necessary to ensure the urgent, full operationalisation of the GCF, which should over time become the primary channel for international climate finance flows.

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<sup>i</sup> Discussions on long-term finance since Copenhagen have faced severe resistance from some rich countries in UNFCCC, and analytical work on how finance can be mobilised has to date been limited to ad-hoc and one-off initiatives like the High Level Advisory Group on Financing (AGF), and fora with limited and exclusive membership such as the G20. The Work Programme is an opportunity to build on this important analytical work to find a legitimate consensus on the sources of long-term finance that must not be missed.

<sup>ii</sup> International Energy Agency (2009) 'World Energy Outlook 2009'

<sup>iii</sup> Oxfam (2010) 'Climate Finance post-Copenhagen: The \$100 billion questions' at <http://www.oxfam.org/en/policy/climate-finance-post-copenhagen>

<sup>iv</sup> UNEP (2010) 'The Emissions Gap Report'

<sup>v</sup> World Bank (2010) 'World Development Report 2010'

<sup>vi</sup> World Bank (2010) 'Economics of Adaptation to Climate Change: Global Cost Estimate'

<sup>vii</sup> Parry *et al.* (2009) 'Assessing the costs of adaptation to climate change: A review of the UNFCCC and other recent estimates', IIED

<sup>viii</sup> According to McKinsey's Project Catalyst (June 2009) reaching 450ppm will require significant financing. In total, developing countries' require financing flows of €65-100bn per year on average between 2010 and 2020 for mitigation and adaptation.

<sup>ix</sup> Annual global abatement costs, mainly in the energy and industrial sectors, are about €150 bn in 2020. Approximately 55 per cent of those costs arise in developed countries. P. Russ, J-C. Ciscar, B. Saveyn, A. Soria, L. Szábo, T. Van Ierland, D. Van Regemorter, R. Virdis (2009) *Economic Assessment of Post-2012 Global Climate Policies*, Luxembourg: European Communities.

<sup>x</sup> 'It is estimated that global additional investment and financial flows of \$200-210bn, of which \$92-97bn in Non-Annex I countries, will be necessary in 2030 to return global greenhouse gas (GHG) emissions to current levels.' UNFCCC (2008) 'Investment and Financial Flows to Address Climate Change' Bonn: UNFCCC

<sup>xi</sup> UNFCCC (2009) 'Investment and Financial Flows to Address Climate Change', Bonn: UNFCCC.

<sup>xii</sup> N. Stern (2009) *The Global Deal: Climate Change and The Creation of a New Era of Progress and Prosperity*, New York: Public Affairs.

<sup>xiii</sup> Sir Nicolas Stern assumes 0.2-0.3 per cent of world GDP in 2030 – which is approximately \$130-260bn annually – is required to meet a mitigation target of 500ppm. Public funding required for deforestation = \$15 billion, technology = \$10-\$50 billion and \$50-100 billion for adaptation in developing countries. N. Stern (2009) *The Global Deal: Climate Change and The Creation of a New Era of Progress and Prosperity*, New York: Public Affairs: 50.

<sup>xiv</sup> Algeria on behalf of the Africa Group (2009) 'Key elements of the LCA negotiation text' (8 April 2008). [http://unfccc.int/files/meetings/ad\\_hoc\\_working\\_groups/lca/application/pdf/african\\_group\\_submission\\_lca\\_april\\_2009.pdf](http://unfccc.int/files/meetings/ad_hoc_working_groups/lca/application/pdf/african_group_submission_lca_april_2009.pdf)

<sup>xv</sup> *Ibid.*

<sup>xvi</sup> \$86bn adaptation financing in developing countries by 2015. See: Human Development Report (2008), *Fighting climate change: Human solidarity in a divided world*, New York: UNDP.

<sup>xvii</sup> Oxfam (2007), 'Adapting to climate change: What's needed in poor countries, and who should pay' at [http://www.oxfam.org/en/policy/briefingpapers/bp104\\_climate\\_change\\_0705](http://www.oxfam.org/en/policy/briefingpapers/bp104_climate_change_0705)

<sup>xviii</sup> UNFCCC (2009) 'Copenhagen Accord. Advance unedited version', Bonn: UNFCCC.

<sup>xix</sup> <http://www.climatefundsupdate.org/themes> and Oxfam analysis (data available on request).

<sup>xx</sup> Oxfam (2010) 'Righting Two Wrongs: Making a new global climate fund work for poor people' at <http://www.oxfam.org/en/policy/righting-two-wrongs>

<sup>xxi</sup> Submissions on information from developed country Parties on the resources provided to fulfil the commitment referred to in decision 1/CP.16, paragraph 95, August 2011, UNFCCC

<sup>xxii</sup> Oxfam analysis available upon request.

<sup>xxiii</sup> Only a handful of countries sell maritime bunker fuel, so a scheme cannot be based on collection of revenues at point of sale. Land-locked countries are also impacted by a bunker fuel measure, so a scheme cannot be based on collection of revenues at port of arrival or departure, and it is unlikely that 190+ countries will be in a position to organise robust national auctions of emissions allowances under an ETS.

<sup>xxiv</sup> Oxfam (2011) 'Out of the Bunker: Time for a fair deal on shipping emissions' at

<http://www.oxfam.org/en/policy/out-bunker-shipping-emissions>

<sup>xxv</sup> **EU ETS revenues** of \$7-9bn/year based on EC projected revenues from auctioning EU ETS allowances, not including aviation, under a 30% emissions reduction target of c. €28bn/year (c. \$34bn) (see [http://ec.europa.eu/clima/policies/package/docs/swd\\_2012\\_5\\_en.pdf](http://ec.europa.eu/clima/policies/package/docs/swd_2012_5_en.pdf) p 24), and assuming just 25% are earmarked for international climate finance; **EU FTT revenues** of \$5-10bn/year based on Oxfam initial estimates of total revenues raised from an FTT implemented based on EC FTT proposal of limited scope, and assuming application in just 9 MSs, of at least €17bn/year (c. \$21bn), and noting that a potential broadening of the scope and application in a greater number of MSs would lead to significantly higher revenues, and assuming just 25% are earmarked for international climate finance.

<sup>xxvi</sup> International Energy Agency (2009) *op. cit.*

<sup>xxvii</sup> For example, in the context of developed countries providing public finance to leverage additional private finance flows, only the public finance should be counted. In the case of risk guarantees, net benefits could be approximated by calculating the net present value of the lower return expectations of private investors.

<sup>xxviii</sup> See Oxfam (2010) 'Righting Two Wrongs' *op cit.*

<sup>xxix</sup> Annex to 3/CP.17, Governing instrument for the Green Climate Fund, Paragraph 2.