LIMA FAST FACTS: CLIMATE FINANCE

Developed countries promised in Copenhagen in 2009 to mobilize $100 billion a year in climate finance by 2020. This money is desperately needed to help poor countries adapt to a changing climate and reduce their emissions. It is estimated that climate change will cost Latin America and the Caribbean $100 billion a year by 2050. These costs will rise significantly if global warming is not limited to 2 degrees.

The French Presidency of COP21 and Peruvian Presidency of COP20 are hosting an informal meeting of finance ministers on 9th October in Lima to build consensus on the progress that has been made towards the $100bn goal and to will seek agreement on new commitments aimed at closing the remaining finance gap. Finance ministers are also likely to call on the World Bank to dedicate a larger number of its projects to climate change adaptation and mitigation. At the moment 23 percent of World Bank finance is spent on climate-related projects aimed largely at mitigation.

After Copenhagen, governments made an initial wave of financial commitments under the so-called “Fast Start Finance” period from 2010 -12. Oxfam estimates that only around a third of what was counted as climate finance during this period was new money – the rest had already been pledged for climate or development assistance. Since then, finance levels have largely flat-lined and developing countries had become frustrated by the failure of developed countries to make any new commitments towards realizing the $100bn goal by 2020.

With the Paris climate summit coming into view, a number of new commitments have been made in 2015, offering some hope of progress before Paris. Recent commitments from Germany, the UK and France to approximately double their annual flows of climate finance by 2020 are welcome. In addition, for the first time, China has also made a financial pledge to support poor countries to the tune of $3.1 billion. This is sending a strong message to other developed countries that have yet to commit new funds, including the US, Australia, Japan, Canada, New Zealand, Switzerland, Norway and other EU countries.

However Oxfam is concerned that developed country governments are exaggerating how much new money is really on the table by counting money that developing countries do not view as climate finance. For example developed countries have included the following in their climate finance estimates: development programs which are not primarily aimed at reducing emissions or helping communities to adapt; export credits which tend to benefit companies based in developed countries rather than people in developing countries; and loans which ultimately mean poor countries foot the bill for climate mitigation and adaptation. They are also overestimating how much private finance could be mobilized through public funds.

- Oxfam estimates that public climate finance flows to developing countries are $17-20bn per year – an additional $80 billion per year is needed by 2020 to close the finance gap.

What is more, the amount of money being pledged to help poor communities to adapt and cope in a warming world (as opposed to money for reducing emissions) is still shockingly low and well below the amount which is needed to help poor countries adapt. Adaptation must be funded through public grants as there is little incentive for private investors to put money into a project that will not generate a profit and it is unfair and unworkable to expect the world’s poorest countries to take on loans to adapt to a problem which is not of their making.

- It is estimated that developing countries as a whole will need to spend $150 billion a year adapting to climate change by 2025/2030. If global warming is not limited to 2 degrees these costs could double.
- By 2013 just 25 percent of climate-specific finance was for adaptation – this amounts to just $4.2 billion at best.
Climate finance could be the dealmaker or deal breaker in negotiations on a new climate agreement in Paris. Donor countries must convince developing countries they will deliver on their existing commitment to $100 billion per year by 2020, and signal a willingness to agree new financial commitments for the post-2020 period, if there is to be any hope of securing a strong agreement in Paris at the end of the year.

Oxfam is calling for action in the following areas:

**Developed countries must follow the lead given by Germany, France and the UK and make new commitments to increase climate funding before 2020:**

- Germany showed the way by announcing a doubling of their annual public climate finance by 2020 after the G7, while the UK and France made similar announcements at the UNGA in September.
- Even emerging economies are starting to pledge money for the most vulnerable countries – for example countries like Mexico, Korea, Colombia or Peru have made some pledges to the Green Climate Fund and China has committed $3.1 billion.
- Other rich countries need to step up and commit new public funds. Norway, Sweden, Luxembourg and the Netherlands may all make new pledges in Lima.

**Developed countries must commit to a substantial increase in the amount of public finance being made available for adaptation before 2020.**

- Oxfam estimates that at least 50 percent of public climate funds should be invested in adaptation by 2020. To ensure the adaptation finance gap is closed, the Paris Agreement should also include provisions for a stand-alone commitment to public finance for adaptation for the post-2020 period.
- These additional public funds could be raised through a variety of means including through innovative sources such as carbon pricing schemes and the Financial Transaction Tax.

**Developed countries must not over estimate how much private finance can contribute towards the $100 billion goal**

- If all developed countries followed the lead of Germany and the UK and doubled their current climate finance commitments they would collectively raise around $40-50bn per year in 2020 in public funds. This leaves a gap of around $50bn to meet the $100bn goal. Developed country governments claim this gap will be closed through funds mobilized from the private sector, but any agreement reached in Lima should be conservative about how this is counted.
- Donors have high expectations of how much private finance can be leveraged through public funds based on very scant evidence. While there may be a case for believing that private finance can be mobilized for mitigation actions in middle-income countries, the type of investment that is needed to fund adaptation in the most vulnerable countries (least developed countries and the small island states) is unlikely to appeal to private investors seeking financial returns.
- If developed countries over estimate their capacity to mobilize private investments this will compromise the credibility of their plans to deliver on the $100bn.

**Developed countries must signal they are willing to provide additional climate finance after 2020.**

- To ensure that the adaptation-funding gap is properly addressed, this must include a separate target for the provision of public finance for adaptation.
- These additional funds could be raised through a variety of means including through innovative sources such as carbon pricing schemes, the Financial Transaction Tax and a tax on fuel used in shipping and aviation.