THE ROADMAP TO $100BN / YEAR BY 2020: A FOUNDATION FOR SUCCESS IN PARIS[1]

"We don't have a lot of time left, so where do we honestly think that $100 billion is going to come from?"
Rachel Kyte, World Bank

The Paris agreement is at risk if developed countries cannot first show that they are keeping to their existing climate finance commitments to mobilise $100bn/year by 2020.

The French Presidency of COP21 as well as some other developed country governments have identified the need to make progress on a "Roadmap" to the $100bn target, and present this ahead of the Paris COP. Recent meetings by Multilateral Development Banks and the World Bank highlight that these institutions too see the political significance of a finance roadmap for a deal in Paris.

The new energy around meeting the $100bn commitment is welcome. However, with as many approaches to counting climate finance as there are developed country government donors, there is a real risk that the "Roadmap" will be little more than an accounting exercise that "demonstrates" that the commitment has already been (or is close to being) met.

This would not result in any actual increases in finance received by developing countries and therefore would not build trust. Furthermore, it is unlikely new contributors to climate finance will officially come on board to help poorer and more vulnerable countries unless developed countries can demonstrate they have kept to their commitments.

A credible roadmap on pre-2020 finance is needed

The $100bn Roadmap cannot be a simple accounting exercise to show that the target has already been met. To be credible, it must:

- start with the recognition that there is a major gap in public finance to be closed between 2015 and 2020;
- identify means to substantially increase new and additional public finance flows;
- address the imbalance between resources for adaptation and mitigation; and
- ensure a conservative approach is taken to any consideration of private finance leverage ratios.

The following elements should be explicitly addressed in any roadmap on pre-2020 finance.

1 Although this note focuses on the $100bn Roadmap, it is essential that longer-term post-2020 finance targets for adaptation and mitigation also form a central part of the Paris agreement.

1. Identify the baseline of current climate finance flows (and the resulting gap to $100bn/year by 2020) using a conservative approach

The Roadmap must start with a credible estimate of the current level of annual climate finance flows to developing countries. This should be based on a number of recent estimates.

- The **OECD-DAC** estimates, using the Rio Markers system, that public finance flows were $37bn in 2013[2]. However, this figure counts bilateral ODA in which climate change is considered both as the "principal" objective and as a "significant" objective. Oxfam has found many incidences of donors reporting projects as having a "significant" climate change objective, that in reality have very little connection to the ambitions of tackling climate change[3].

  Mainstreaming climate change into aid spending is critical to ensure development projects are resilient to a changing climate, and should be the new standard for good development practice. However, this does not equal meeting climate finance commitments. Oxfam believes that ***only climate finance labelled as "principal" under OECD-DAC rules should be counted against UNFCCC climate finance commitments.*** Counting just ODA for which climate change was the "principal" objective reduces the bilateral flows in 2013 to $12.4bn.

  The OECD-DAC estimates also include multilateral flows of $14.2bn (including $13.5bn from Multilateral Development Banks, MDBs), some of which are concessional and some non-concessional in nature. Assuming that the proportion of MDB climate finance that is concessional reflects the average of all IFI financing of approximately 30%[4], and only the concessional financing is counted, the multilateral flows estimate would be reduced to approximately $4.9bn. The resulting total number based on flows reported to OECD-DAC would be nearer **$17.3bn.**

- The **first UNFCCC biennial reports** which detail developed country reporting of their climate finance provision to developing countries in 2011 and 2012, indicate that approximately $17bn/year of climate-specific finance for both mitigation and adaptation in both 2011 and 2012[5]. Oxfam's assumption is that aggregate climate finance has flat-lined

2 It is important to note that public climate finance qualifies as ODA and hence is also reported by countries towards meeting their aid commitments. This means it is not additional to their pledge to provide 0.7% of aid as GNI. See http://www.oecd.org/dac/environment-development/Climate-related%20development%20finance%20FINAL.pdf

3 A 2008 study assessing a sample of 115 000 bilateral ODA projects coded as "climate-relevant" found only around 25% were genuinely related to climate action: http://www.oxfordenergy.org/wpcms/wp-content/uploads/2011/01/November2008-ClimateAid-BenitoMuller-.pdf More recently, a 2014 study by the Adaptation Finance Accountability Initiative (AFAI) found evidence in four countries of local projects labelled as adaptation and funded by donors and national governments that do not always directly address climate change risk: http://policy-practice.oxfamamerica.org/publications/going-in-the-right-direction-tracking-adaptation-finance-at-the-subnational-level/

4 See Table 1.1: http://www.ifad.org/events/ifi_trends/giz_mcf.pdf

5 See paras 97 & 98: http://unfccc.int/files/cooperation_and_support/financial_mechanism/standing_committee/application/pdf/2014_biennial_assessment_and_overview_of_climate_finance_flows_report_web.pdf

since 2012[6], but even if we assume a moderate increase in the three years since, **$20 billion** might be the upper bound of any 2015 estimate derived from these numbers.

- The **Standing Committee on Finance** (SCF) estimates public climate finance flows of $35bn/year (counting only bilateral flows for which climate is the "principal" objective, and only the share of MDB flows that reflect developed country ownership of the MDBs). This still includes a higher estimate of MDB flows ($15bn) than that reported by OECD-DAC ($13.5bn) and also includes flows through bilateral development banks of $14bn – not all of which will be concessional in nature. Assuming the same proportion of concessional financing as above, would reduce the estimate to **$14.1bn** (although this is based on OECD-DAC data from 2011/12, with only partial data available for the US.) Assuming, as above, increases in 2013-15, a credible range based on this estimate could be **$15-20bn**.

More recently, the World Bank and Chancellor Merkel of Germany have both referred to the need to close a gap of approximately $70bn to meet the $100bn target[7].

Oxfam suggests that a reasonable estimate of current public climate finance flows to developing countries, counting only flows for which climate change is the "principal" objective, and only counting flows that are concessional in nature, is $17-20bn/year – leaving a gap of approximately $80bn/year to be closed by 2020.

2. Commit to substantially growing public resources pre-2020 to close the gap

Public finance will need to grow substantially over the next five years as part of an exercise to plug the $80bn gap.

While Oxfam maintains that more than $100bn is needed annually in public finance for adaptation alone – and that in theory it remains possible to meet the $100bn target entirely from public finance without breaking developed country treasuries[8] - recognising that the Copenhagen commitment refers to a mix of public, private and alternative sources of finance, it is likely that developed countries will aim to include private finance in a $100bn Roadmap.

At a minimum, however, public finance should constitute the majority of the $100bn – requiring both a significant increase in public finance and agreement on reasonable criteria for counting private finance leveraged by public investment (see 4. below).

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6 See: https://www.oxfam.org/en/pressroom/pressreleases/2012-11-25/climate-fiscal-cliff-looms-developing-countries-if-leaders-come and https://www.oxfam.org/en/pressroom/pressreleases/2013-11-11/poor-countries-left-dark-climate-finance-cop19

7 http://www.worldbank.org/en/news/feature/2015/04/09/closing-the-climate-finance-gap

8 The $100bn target could be reached from the current baseline with the following additional public resources: $25bn in ODA increases (representing 10% of the additional funds that would be generated from a recommitment by OECD-DAC donors to meeting the 0.7% GNI target by 2025); $5-10bn from Financial Transaction Taxes in the EU and other developed countries, based on projected revenues for a European FTT in the EC proposal of c. $5-10bn/year, applied in other countries, with approximately 25% of revenues for climate finance; $10-20bn from a fair bunkers mechanism, based on Oxfam/WWF analysis (see: "Out of the Bunker: Time for a fair deal on shipping emissions"); $16bn from an issue of SDRs to underwrite green bonds, based on Oxfam analysis (see: "Climate Finance post-Copenhagen: The $100bn Questions"); $3-19bn from redirecting 25% of fossil fuel subsidies, based on IMF estimates of subsidies $13.5bn (lower end of range) and OECD estimates of $76.8bn (upper end of range).

This growth in public finance should come from:

- Additional finance from within rises in annual ODA budgets, without substituting ODA in non-climate-related areas. Guarantees should be given, for example at the Financing for Development (FFD) conference in Addis Ababa, that ***as a first step towards stopping the diversion of existing aid to climate finance, climate finance that qualifies as ODA will be part of an overall ODA budget that is rising at least at the same rate.***

- Adding finance from a range of innovative sources, including Financial Transaction Taxes, revenues from carbon markets, redirection of fossil fuel subsidies or fair bunker levies (see footnote 3 for details of potential sources).

- Increased finance flows from Multilateral Development Banks, though if these are in the form of concessional loans, they should be used for climate mitigation, not for adaptation[9].

In addition, as part of the growth in public climate finance, the Roadmap should include a target for replenishment of the Green Climate Fund in 2018.

3. Recognise the imbalance between adaptation and mitigation finance and take steps to close it

Currently less than 20% of climate finance is allocated to adaptation. ***Oxfam estimates that total public adaptation finance flows to developing countries are approximately $2.5-4.3bn/year[10] – falling far short of needs.***

Adaptation requires mostly public finance, particularly in the world's poorest countries and communities on the front lines of climate change, who have least resources to cope and do not tend to live in places that attract private investment. This means that the majority of new public resources should be directed to adaptation, and that any increase in MDB finance – given its overwhelming focus on mitigation[11] – should constitute only a minor component of increasing climate finance pre-2020.

Ensuring greater balance between adaptation and mitigation flows will also serve as an important precedent for the post-2020 finance regime.

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9 The 2012 Joint MDB Report on Climate Finance finds approximately 78% of climate-related funds were for mitigation and 22% for adaptation http://www.ebrd.com/downloads/sector/sei/climate-finance-2012.pdf

10 According to the first UNFCCC biennial reports, which detail developed country climate finance provision to developing countries in 2011 and 2012, parties provided approximately $17 billion per year of climate-specific finance of which $2.5-3.2 billion (15 to 19%) was directed to adaptation. OECD-DAC analysis of ODA flows suggests $3.4 billion of climate-specific bi-lateral flows were for adaptation. And based on the assumed proportion of concessional lending, one can estimate a further $0.9 billion in climate-specific multilateral flows, totalling $4.3 billion in 2013.

11 The 2012 Joint MDB Report on Climate Finance finds approximately 78% of climate-related funds were for mitigation and 22% for adaptation http://www.ebrd.com/downloads/sector/sei/climate-finance-2012.pdf

4. Be conservative with regard to any use of private finance leverage ratios

To date there is no agreement on how leveraged private finance flows should be counted towards the $100bn, although some developed countries are likely to want to include assumptions about the private finance that their public climate finance contributions may have helped to leverage.

To retain any credibility on this issue, developed countries should not try to use leverage ratios that appear to already meet the climate finance target for 2020 five years early. For example, assuming a baseline of current public climate finance flows of approximately $20bn (as suggested in 1. above), a leverage ratio of anything in excess of 1:4 (ie for every $1 spent in public finance, an additional $4 is leveraged from the private sector) would suggest that the $100bn target has already been met. If the current baseline is taken as the $35bn suggested by the Standing Committee on Finance, a leverage ratio of just 1:2 would suggest that the $100bn target has already been met.

Instead, Oxfam maintains that any consideration of private finance leverage ratios deemed necessary to meet the $100bn target should be conservative. For example, a reasonable approach could apply a ratio on all public finance flows (for mitigation and adaptation) in the order of 1:0.5 (ie for every $1 of public finance to developing countries by 2020, an additional $0.50 is assumed to be leveraged from the private sector).

While some may argue that leverage ratios should only be applied to mitigation finance (and indeed it is unlikely that adaptation funds will have the same leveraging effect in the private sector), to do so would unfairly privilege mitigation finance contributions towards the $100bn target – creating a perverse incentive to address the current imbalance with adaptation (see 3. above). Given the wide range of estimates of leveraging ratios even in mitigation sectors[12], it is more advisable to seek agreement – if one is necessary – on a single and appropriately conservative ratio that might be considered to apply in aggregate to all public climate finance investments.

Such an aggregate leverage ratio should be agreed based on the understanding that contributing countries should not be entitled to count the full leverage ratio as their own effort, since leveraged finance is also partly due to the enabling environment in the recipient country.

Assuming a current public climate finance baseline of $20bn/year (see 1. above), an increase in public climate finance pre-2020 in the order of $35bn/year with an additional $10bn/year from MDBs, and a leverage ratio of 1:0.5, would result in meeting the $100bn target with an overall public-private split of approximately 65 (public) versus 35 (private). Assuming the majority of the $35bn additional public finance is for adaptation, this would result in an adaptation-mitigation split of approximately 40 (adaptation) versus 60 (mitigation) – a significant re-balancing compared to current and historic flows.

12 Estimates of leveraging ratios vary widely, and so a conservative approach is most appropriate. The Climate Investment Funds of the World Bank find a leveraging ratio for public sector projects of 1:1.1, while there is little evidence that adaptation funds achieve significant if any leveraging effects. As such, an average of 1:0.5 across climate finance funds may be a reasonable working assumption for a Roadmap seeking a 50-50 balance between adaptation and mitigation. In addition, since the leveraged finance is at least in part the result of the enabling environment in the recipient country, it is reasonable to argue that only a portion of the observed leverage ratio (perhaps half) should be credited to the contributing country as climate finance.