Climate finance eclipsed by fossil fuel subsidies

Contributions to the Green Climate Fund have so far been very modest. [Images Money/Flickr]

The successful conclusion of a global agreement at the Paris Climate Conference depends heavily on the mobilisation of finance for the fight against climate change. So far, international fundraising efforts have lacked intensity. EurActiv France reports.

Climate change will cost us dearly. Estimates for the cost of reducing global greenhouse gas emissions to sustainable levels vary from 500 billion to 1,500 billion euros per year.

Less than a year ahead of the 2015 Conference of the Parties (COP) in Paris, where 194 countries will negotiate an agreement aimed at limiting global warming to +2° from 2020, the finances set aside to cover the considerable costs are still inadequate. The situation is becoming more urgent by the day.

At the Copenhagen and Cancun conferences, developed countries promised to mobilise an annual sum of $100 billion (around €70 billion) in public and private finance by 2020.

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Many developing depend heavily upon the delivery of this ambitious objective in order to fund their adaptation to climate change and limit their greenhouse gas emissions.

But in spite of initial efforts to capitalise the Green Climate Fund, the tool that will eventually account for a large portion of the $100 billion, the sums needed are not forthcoming.

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The Lima COP in December 2014 was followed by a flurry of contributions to the fund from developed countries including France, Germany, the UK and Japan, which totaled almost $10 billion (€7.4 billion).

Limitations of the CDM

The limitations of existing finance tools, like the Clean Development Mechanism (CDM), are also becoming painfully evident.

The mechanism allows developed countries to fund "green" projects in poorer countries. Credits for each ton of CO2 emissions saved through these projects in the global South are then released onto the carbon markets.

But the collapse of the carbon price has rendered the system impotent and left it redundant.

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Many feel this is simply not good enough. Developing countries in the Global South need to be sure their northern counterparts will keep their promises, and the large industrialising nations, like China and India, are also refusing to loosen their purse strings until they receive certain guarantees.

Romain Benicchio from Oxfam France said "We first have to resolve the question of pre-2020 financing before looking at the post-2020 question."

The conclusions adopted by the 194 participants at the Lima conference called on developed countries to provide increased financial support to the developing world, particularly the most vulnerable countries.

But Bennicchio is doubtful: "The lack of financial commitments from developed countries is slowing down the negotiations. This will not be solved before Paris."

The future of private finance

Private finance could play an important role in tackling climate change. The first initiatives have already been rolled out: in early 2013, a consortium of investment banks drew up a set of common standards for a green bond market and the French Development Agency (AFD) recently launched its first "green" bondholder programme.

But the accounting methods for these bonds remain vague. Private finance tools will be an important point of discussion at the 2015 Paris Climate Conference, and decisions will have to be made on how best to deploy them in wider climate finance efforts.

"Today it is difficult to measure the benefits of private finance tools because they are mainly self-certified. At Ban Ki-moon's summit, there were many green finance announcements from the private sector, but the lack of clear and uniform evaluation standards makes it difficult to know whether or not they will have a real impact on the climate," Romain Benoiccio said.

But despite these doubts, private finances represent an increasingly important share of the funds dedicated to the fight against climate change. They accounted for over 60% of the funding identified by the organisationClimate Policy Initiative in its *Landscape of Climate Finance 2013* report.

And their share is set to increase in the future. In a report on green finance, CDC Climat wrote that "given the amount of investment needed to reach a 2-degree emissions reduction target and the tight budgetary constraints of governments worldwide, public spending alone will not be sufficient".

The flow of investment

A large amount of private finance continues to flow into the fossil fuels sectors. These are profitable investments in the short term but they come at the expense of large-scale greenhouse gas emissions.

Oxfam's 2013 report *Food, Fossil Fuels and Filthy Finance* estimated that "$1.9 trillion of subsidies oil the wheels of the fossil fuel sector globally every year, including the costs of paying for its widespread damage".

The absence of strong political engagement on the subject is allowing investment in fossil fuels continue unchecked. The Oxfam report stresses that "$6 trillion will be spent on fossil fuel development and exploration in the next ten years."