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Background Paper

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What is the role of finance in the transition to a low carbon and climate resilient world? How can it best be mobilised? In other words: “who pays, how much, and public or private?” These questions are at the centre of the Paris negotiations.

WHO PAYS?

In the 1992 Climate Convention, a group of 23 developed countries (plus the EU), listed in Annex II, assumed the responsibility to support efforts of developing countries with mitigation and adaptation efforts by providing finance and access to technologies. One central question in the Paris agreement is what happens to this commitment in 2020. Will this group of countries continue to have sole or primary legal obligations to provide finance and technology to developing countries?

Currently, many countries outside Annex II are contributing finance, either through the Green Climate Fund, South-South cooperation or other channels outside the UNFCCC. How can this be recognised and encouraged? How will it be ensured that countries whose incomes and development levels have risen above some or most countries in Annex 2 are given comparable treatment under the UNFCCC? The options being discussed include continuing to refer to only Annex II or developed country responsibilities, complementing these responsibilities with recognition of or encouragement for contributions from other countries “willing to do so” or “in a position to do so”, or converging around calling for voluntary, nationally-determined contributions from all or unspecified countries.

It is important for WWF that: finance flows to support developing country actions increase in line with adaptation and mitigation needs, there is no backsliding from existing commitments of Annex II countries, and other countries contribute their fair share based on their capacity to pay and responsibility for causing climate change.

HOW MUCH?

The additional costs of adaptation and shifting to climate-resilient and low carbon development worldwide will far exceed one trillion US dollars in the post-2020 period. The majority of that will be in developing countries. Some developed countries and multilateral institutions have recently announced increases over their current level of financing. They are making efforts to demonstrate progress toward their commitment of mobilising $100 billion to developing countries by 2020. A recent report by the OECD and CPI found that, last year, developed countries were mobilising around $62 billion toward their 2020 target. This report has been criticised by developing countries and NGOs as exaggerating the level of financing mobilised.

The Paris package should include some additional parameters and commitments toward meeting the $100 billion commitment, as well as rules to govern finance contributions in the post-2020 period. There is currently little agreement on the post-2020 period, but the negotiating text contains options for the $100 billion in 2020 to be a floor for scaling up, for regular cycles of collective and individual funding commitments, and for commitments by governments to shift all investments worldwide to technologies and sectors that are part of a climate resilient and low or zero emissions future. In addition, the arrangements for measuring, reporting and verifying financial and other support for developing countries are expected to be revised.

It is important for WWF to have collective commitments by contributing countries to specific levels as part of a five-year cycle of mitigation commitments, and concrete individual country commitments (perhaps on a shorter, two to four year cycle), to provide predictability and confidence for finance. Mechanisms will be needed to scale up financing to cover the portion of ambitious mitigation pledges by developing countries that are conditional on financing and other support.

PUBLIC OR PRIVATE?

Countries, particularly developed countries, increasingly focus on the role of private finance in paying for the transition to low or zero carbon societies and economies, and the role of "enabling environments" in developing countries that can attract the necessary investments. This is sometimes linked to an argument that public finance flows are less important or relevant, particularly for mitigation, and therefore targets for public finance are not required.

For WWF, "shifting the trillions" of private finance is indeed crucially important. But, this in no way detracts from the need for predictable and scaled up public finance flows from developed to developing countries, potentially supplemented by non-government sources. Shifting and scaling up private investments to low carbon infrastructure and technologies at the scale and pace necessary will require all the tools at our disposal. These include regulations and policy frameworks; ambitious voluntary commitments from corporations and other private sector actors; and public finance transfers to finance capacity-building and policy shifts, support technologies in the initial phases of penetration when financial returns are risky or non-existent, and leverage, where necessary, the much larger private sector investments needed.

There is no either or between public and private finance–we need scaled up flows of both at the international and national levels to accelerate the shift to a climate-safe world.

ABOUT WWF

WWF's mission is to stop the degradation of the earth's natural environment and to build a future in which humans live in harmony with nature. The Global Climate and Energy Initiative is WWF's global programme addressing climate change through promoting renewable and sustainable energy, scaling up green finance, engaging the private sector and working nationally and internationally on implementing low carbon, climate resilient development.

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