



Shaping policy for development

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**At cross purposes: subsidies and
climate compatible investment -**
*reform opportunities in climate finance
and climate processes*

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January 29th, 2015



Overview



CLIMATE FINANCE MYTHS

1. We can leverage significant private investment with small amounts of public support.
2. Financial instruments are the solution.

- Unstable political climate, political risks.
- Weak enforceability of contracts and agreements.
- Absence of intellectual property rights.
- Lack of well-established / resourced regulators in key sectors for climate-compatible development.
- Poorly-developed physical and information infrastructure.
- Technology development risks.
- High start-up costs (agency problems).
- Distortionary subsidies.
- Lack of liquid debt and equity markets.
- Lack of consumer finance.
- Information gaps and asymmetries.
- Skills gaps / limited technical expertise.
- Volatile commodity prices, interest and exchange rates.

Sources: Brown et al., 2011; de Nevers, 2011; Deutsche Bank Climate Change Advisors, 2011; Lyon et al., 2011; Liebreich, 2011; Patel, 2011; Sierra, 2011; World Economic Forum, 2013.

- 'tools to mobilise the private sector'
- 'innovative instruments to leverage private capital'
- 'de-risking tools to catalyse private capital'



internet

cellular
communication

gps

microchips

siri

touchscreen



all
government
funded

Figure 11: Fossil fuel subsidies, climate finance and greenhouse gas emissions in developing countries

SOURCE: WHITLEY (2013)



5 multilateral climate funds

93 PFIs

(private finance interventions)

\$30 billion

(public and private)

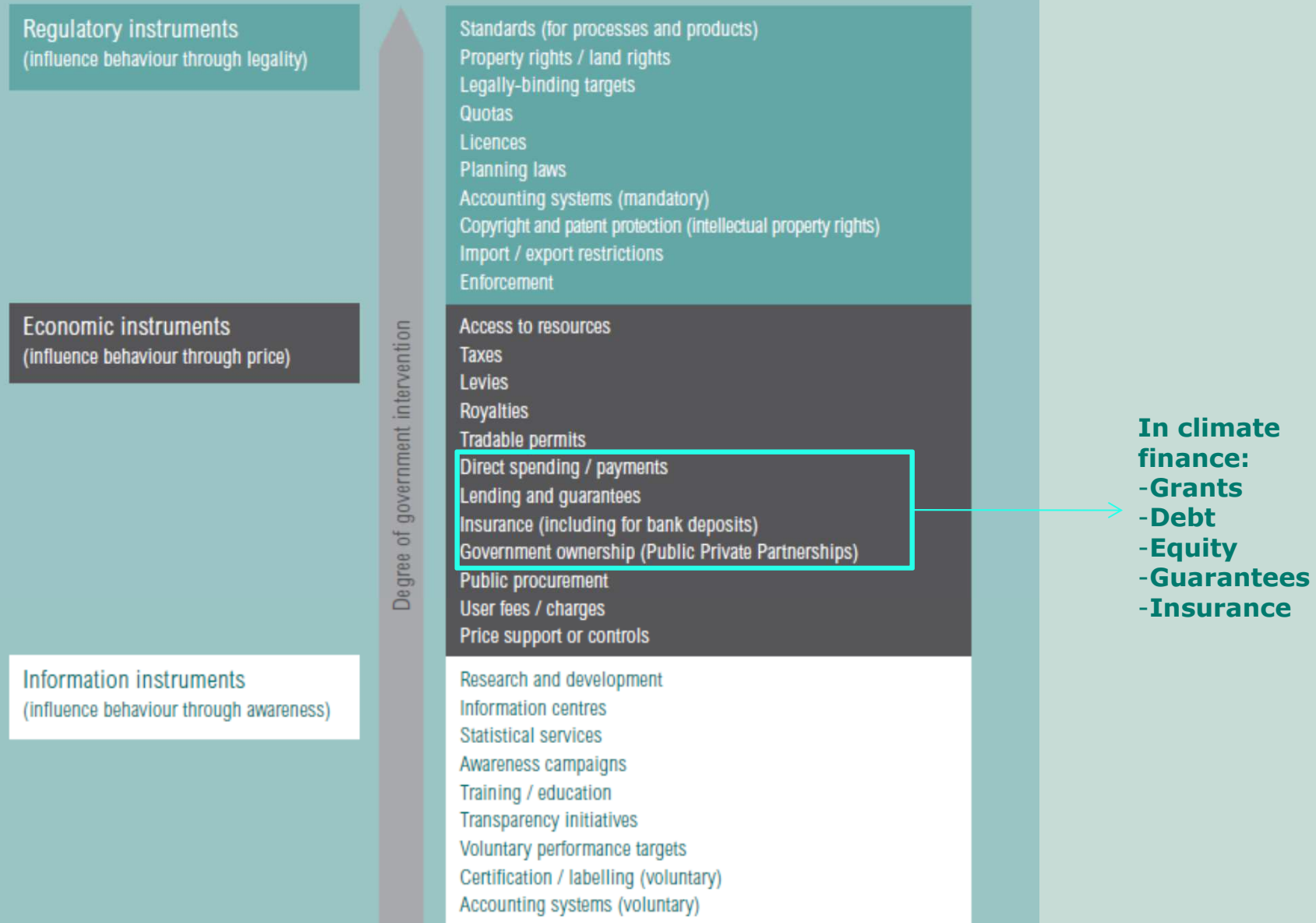
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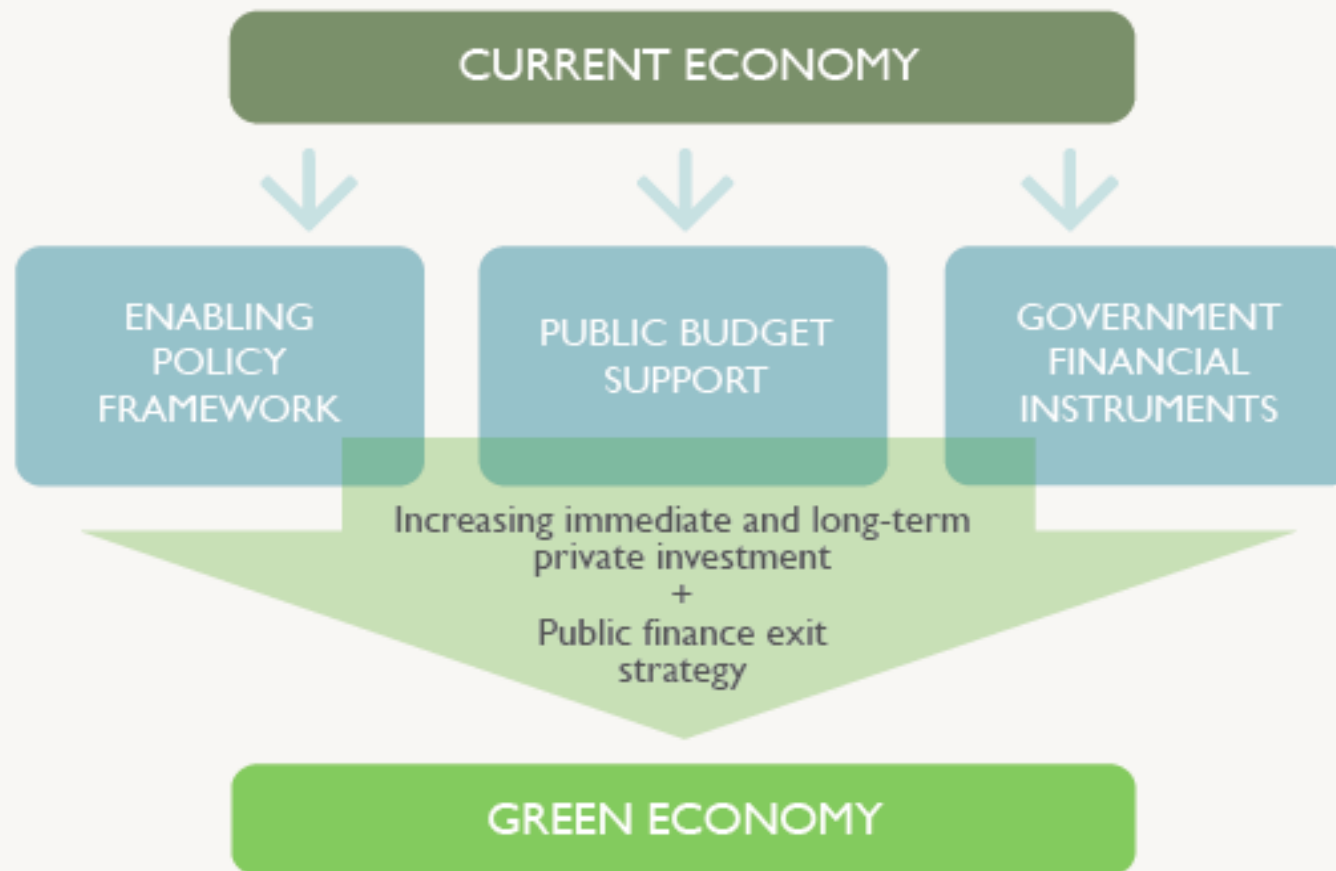
with support from DFID now have 2 datasets
over 150 interventions (bilateral and multilateral)
aiming to mobilise private climate finance

Figure 2: Instruments of industrial policy

SOURCE: WHITLEY (2012), INFORMED BY GIZ (2012) AND BAST ET AL. (2012).



Role of public policy and finance in unlocking private investment in green growth



Effectiveness framework for shifting private investment:

- 1) **Policy framework** (highest impact OECD)
- 2) **Budget support**
- 3) **Financial instruments**

and...

- 4) **Transparency**
- 5) **Complementing and coordinating**



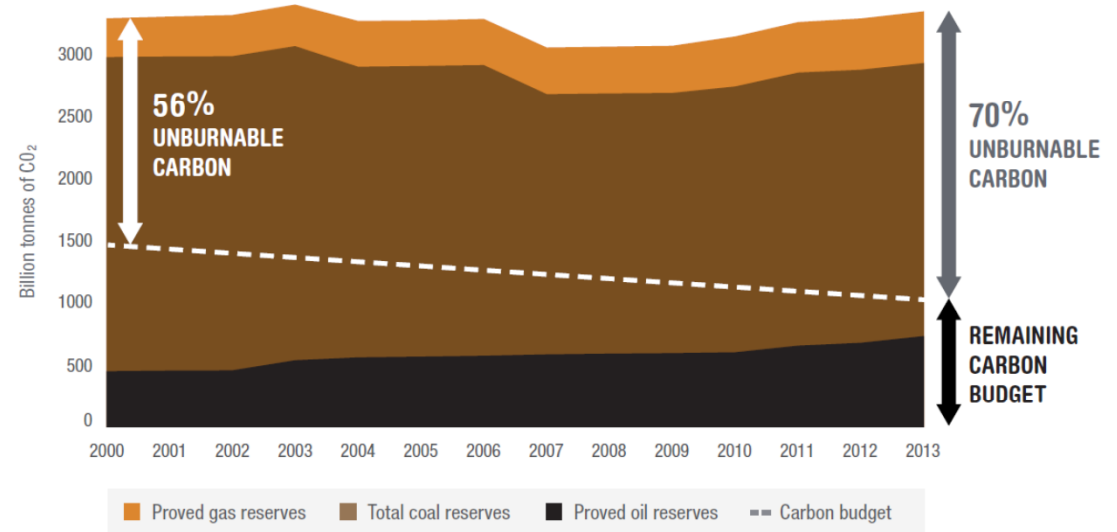
- Incentives and investment
 - Uganda's energy sector
 - Zambia's agriculture sector
 - Vietnam, transport and water and sanitation sectors
- Subsidies to key commodities driving deforestation (Brazil and Indonesia)
- *Fossil fuel subsidies in developing countries: a review of support to reform processes* (DFID ICF emerging programme)



Urgency of energy transformation



Figure 1: The carbon content of fossil fuel reserves in comparison to the carbon budget (2007 to 2013)



G20 GOVERNMENT SUPPORT

PRIVATE COMPANY INVESTMENT

By top 20 global oil and gas producers

US\$88 BILLION

Investment by state-owned enterprise
US\$49 BILLION

National subsidies
US\$23 BILLION

Public finance
US\$16 BILLION

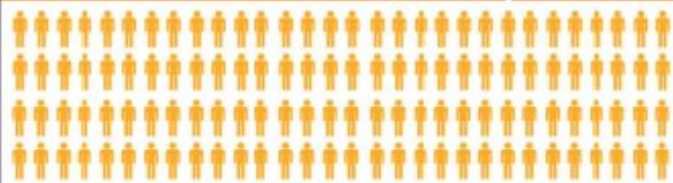
US\$37 BILLION

FOSSIL FUEL EXPLORATION

Source: ODI and Oil Change International, Rystad Energy (2014). Figures in US\$ for 2013.

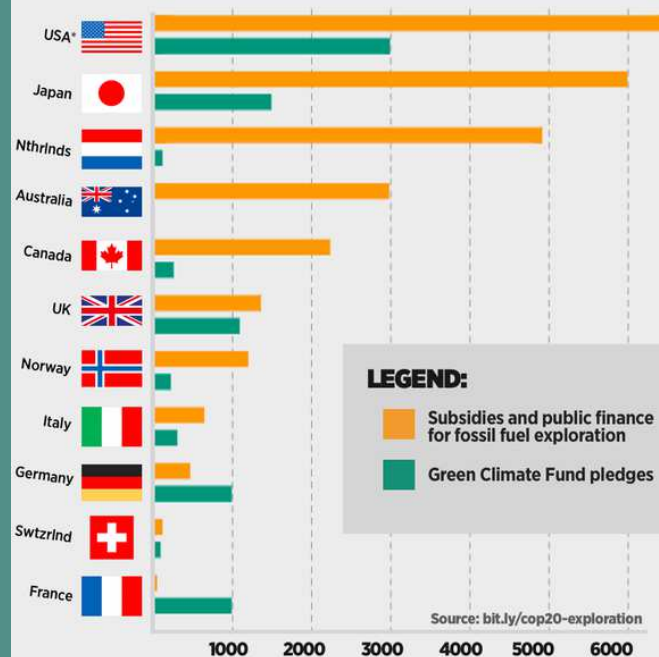
\$49
BILLION A YEAR

would provide heat and electricity to the 1.3 billion people who don't have it by 2030



CLIMATE FINANCE VS. FOSSIL FUEL EXPLORATION

Where are countries spending their money? Is it filling the Green Climate Fund or helping fossil fuel companies find more unburnable oil, gas, and coal?



LEGEND:

- Subsidies and public finance for fossil fuel exploration
- Green Climate Fund pledges

Source: bit.ly/cop20-exploration

*The Obama Administration has proposed the elimination of most of this support but Congress has yet to act.

(In Millions USD)

#STOPFUNDINGFOSSILS

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Fossil fuel subsidies:
\$775 billion in 2013

Fossil fuel investment:
\$1,100 billion in 2013



Incumbent
industry
1:1.3

Renewable energy subsidies:
\$101 billion in 2013

Renewable energy investment:
\$254 billion in 2013



Emerging
industry
1:2.5



Current research

- *Time to change the game: fossil fuel subsidies and climate*
- *The fossil fuel bailout: G20 subsidies for oil, gas and coal exploration* (with Oil Change International)
- Global - Fossil fuel production subsidies (with OCI, GSI, and NRDC)

Questions?



LIMA CALL TO ACTION (Elements for a draft negotiating text)

35. The mobilization and provision of finance shall:
- b. Encourage low-emission growth, reductions in high-carbon investment, and adaptation needs of developing countries, and climate- resilient development;
- 53.1 With regard to private and alternative finance:
- d. The phasing down of high-carbon investments and fossil fuel subsidies.



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