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At cross purposes: subsidies and climate compatible investment

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[At cross purposes: subsidies and climate compatible investment](http://www.odi.org/publications/7343-subsidies-climate-compatible-investment-fossil-fuel-private-finance)

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Abstract

This paper highlights the implications of the current separation of the discourses on private climate finance (PCF) and on subsidies, and the opportunities that exist to unlock climate-compatible investment by linking these fields.

Though climate finance aims to enable climate compatible development (CCD), this paper points out that, within developing countries, subsidies to fossil fuels (alone) currently dwarf any efforts toward CCD through climate finance.

- For the 42 developing countries where data are available on either subsidies or climate finance, the scale of fossil-fuel subsidies to consumers, at \$396 billion in 2011, is **75 times** higher than the average annual approved climate finance of \$5 billion from 2010-2012.
- **Five countries** (China, Egypt, India, Indonesia and Mexico) appear in both the list of top 12 recipients of climate finance and the list of top 12 providers of fossil-fuel subsidies to domestic consumers.

There has been limited acknowledgment in the climate finance community that current subsidies for fossil fuels (among others) undermine CCD. It is essential to understand these ‘climate-incompatible’ subsidies before designing interventions to mobilise PCF, and there is significant potential to support reform of fossil-subsidies (and other subsidies) through enhanced transparency.

Many of the instruments used to mobilise PCF at present can be seen as ‘climate compatible’ subsidies. However, the methodologies that are being used to estimate ‘climate-incompatible’ subsidies have not been applied to track efforts to mobilise PCF, and lesson-learning across sectors on the effectiveness of subsidies in mobilising private investment has been limited. This paper also outlines how existing definitions and subsidy estimation practices can support current efforts to track, report on and assess public efforts to mobilise PCF.