New Zealand

Enhanced Action on Finance

A submission to the Ad hoc Working Group on Long term Cooperative Action under the Convention

30 September 2008

Introduction

1. This submission outlines New Zealand's preliminary views to enhance finance and investment flows to support actions under decision 1/CP.13 (the Bali Action Plan).

2. We propose some general principles to guide discussions on finance and propose ways to measure, report and verify (MRV) the actions of all Parties to ensure mutual accountability.

3. New Zealand agrees that more finance is needed for mitigation, adaptation and technology. Greatly increased funding implies higher mutual accountability between Parties.

4. Noting that the various reports on financing requirements for mitigation, adaptation and technology conclude (albeit with large variances) that the level of finance required is an order of magnitude greater than current levels, leveraging the private sector through carbon markets and/or regulation is essential to achieve the outcomes sought under the Bali Action Plan.

5. New Zealand notes that effective financing requires action at multiple levels, including through redirecting private and public investment, the financial mechanism of the Convention, Official Development Assistance, national polices and proposed new financing options and mechanisms.

General Guidance

6. **Finance is a cross-cutting issue that needs to be discussed consistently and coherently**. Under the AWG-LCA various proposals have been made; to auction emissions allowances, levy, establish funds, and tax. Under the AWG-KP proposals have been made to extend the share of proceeds to Joint Implementation and Emissions Trading, plus new sectoral market mechanisms to further engage the private sector/carbon market in delivering technology/finance for mitigation. Extending the share of proceeds is also being discussed under the second review of

the Kyoto Protocol[1]. The current negotiating processes will not deliver effective decision making nor efficient and effective outcomes if financial issues are not treated consistently and coherently across the negotiating agendas. In this regard we look forward to the Secretariat's further work on finance and investment flows prior to COP14.

7. Two documents on aid effectiveness and financing for development hold useful principles that can also be applied to climate change finance discussions. Helpfully, many parties to the UNFCCC are also parties to both the Paris Declaration on Aid Effectiveness[2], expanded by the Accra Agenda for Action, and the Monterrey Consensus on Financing for Development[3].

8. A useful principle contained in the Paris Declaration is '**mutual accountability**.' This means donors and partner countries must account transparently to each other for the use of finance, and to their citizens and parliaments on the results. This is most relevant under paragraph 1(b)(ii) of Decision 1/CP.13 where the results of actions enabled by finance and technology must be measured, reported and verified and the finance and technology provided must also be measured, reported and verified. Greatly increased funding implies higher mutual accountability between Parties.

9. The September 2008 endorsement by 100 countries of the Accra Agenda for Action reinforces the Paris Declaration principles and particularly highlights results, accountability and ownership founded on mutually agreed conditions based on national development strategies. Countries agreed that "… *challenges such as climate change and rising food and fuel prices underline the importance of applying aid effectiveness principles."*

10. The Monterrey Consensus on Financing for Development, agreed by UN members in 2002, embraces six areas encompassing both private and public sector financial flows. It acknowledges action at multiple levels and certain pre-conditions that enable sustainable development, and makes specific reference to protecting the environment. It appropriately recognises that domestic policy and regulatory frameworks also assist sustainable development. In developing solutions to address climate change through the Bail Action Plan, **Parties must remain cognisant of what is achievable within the United Nations process**.

11. A number of finance submissions have called for funding to be prioritised for certain groups of countries and/or for donor contributions to be based on specific criteria e.g. common but differentiated responsibilities and respective capabilities or GDP per capita. **New Zealand supports the use of objective criteria to guide eligibility for finance and for its provision.** Currently, the Convention is not responsive to the changing circumstances of countries, including their level of development and capability. Further and more systematic reflection of the wide diversity of national circumstances among countries, and the significant changes in many countries since the Convention was agreed in 1992, is required. This necessitates amendment of

[1] New Zealand has submitted separately on its views regarding extending the share of proceeds under the second review of the Kyoto Protocol.
[2] See www.oecd.org.
[3] See www.un.org/esa/ffd/monterrey/MonterreyConsensus

Annex II of the Convention and creation of a dynamic mechanism to enable adjustment as economies and national circumstances evolve.

Assessment of Financial Needs (Assessing)

12. Before deciding on how funds should be raised, Parties should first focus discussions on what needs to be accomplished through mitigation, adaptation and technology funding. The debate must move on from general statements calling for increased funding to specific and identifiable needs at the country level.

13. All National Communications should explicitly state adaptation, mitigation and technology needs[4]. It must be made clear what Parties can do within their existing resources and what level of ambition is achievable with assistance.

14. We propose that developing country Parties better utilise their National Communications to describe climate change plans and to specify adaptation, mitigation and technology needs[5]. National Communications could also identify areas where potential future technology would enable additional mitigation. This is consistent with Articles 12(1)(b) and 12(1)(c) of the Convention.

Means for Finance (Collecting)

15. Many Parties have identified new mechanisms to source finance for mitigation, adaptation, and technology. Others have called for the extension, scaling up or review of existing mechanisms.

16. New Zealand has a strong preference to avoid unnecessarily creating new funds and/or mechanisms. Problems with existing mechanisms should be addressed prior to consideration of additional avenues.

17. As noted previously, leveraging the private sector through carbon markets and/or regulation is essential to achieve the outcomes sought under the Bali Action Plan. Parties should consider the need, identified in the Bali Action Plan, for financing to be adequate, predictable and sustainable, and for it not to have perverse outcomes for markets.

18. It will be important to analyse all options together in order to decide which option or mix of options will be most effective and efficient in meeting identified needs.

Country Responsibilities (Delivery)

19. To enhance mutual accountability we propose the following responsibilities for countries:

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[4] The Center for Clean Air Policy has advocated national plans to determine those actions that can be achieved unilaterally and those that would require assistance.

[5] The Center for Clean Air Policy has advocated that the UNFCCC could develop a common reporting format for National Plans and/or sectoral/SD PAMS strategies as distinct from the National Communications. Each national plan would lay out the specific mitigation actions in detail (unilateral plus additional). See www.ccap.org

- Countries should cooperate to enable the scaling-up of finance for mitigation, adaptation and technology, harnessing and expanding the important role of the private sector.

- Developed countries should report more frequently on the provision of financial resources and the transfer of technology (Articles 4.3, 4.4 and 4.5 of the Convention). The relevant National Communication tables could be submitted at the same time as the national inventory report[6].

- All countries should measure and report mitigation and adaptation actions in a prompt and verifiable manner[7]. More frequent reporting and projections of greenhouse gas emissions are needed to ensure continued effort sharing, satisfy donor country citizens and parliaments and assess progress against a long-term global goal.

- New reporting requirements need not be the same for all countries[8]. At a minimum, economies accounting for the bulk of global greenhouse gas emissions must regularly report national greenhouse gas inventories[9]. Where assistance is required for compiling inventories, sufficient funding should continue to be available.

20. A combination of the above tools will provide a more accurate global picture of adaptation, mitigation and technology efforts, needs and costs over time.

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[6] Decision 1/CP.13 paragraph 1(b)(ii) requires finance and technology transfer from developed to developing countries to be measurable, reportable and verifiable. New Zealand now views a wider group of countries being able to contribute finance.

[7] Decision 1/CP.13 paragraph 1(b)(ii) requires mitigation in developing countries to be measurable, reportable and verifiable.

[8] Developed Parties have a comprehensive and well-tested reporting and review process, based on the requirements under Article 12 of the Convention (and associated COP decisions) and supplemented with the requirements under articles 5, 7 and 8 of the Kyoto Protocol (and associated CMP decisions). Annual greenhouse gas inventories for developed Parties have been a requirement since the COP adopted decision 11/CP.4 in 1998.

[9] In 17 years under the Convention only four Non-Annex I Parties have submitted two or more National Communications.

ANNEX A - The Paris Declaration, Accra Agenda for Action & Monterrey Consensus

The Paris Declaration

The Paris Declaration is grounded on five mutually reinforcing principles:

- **Ownership:** Partner countries exercise effective leadership over their development policies and strategies, and coordinate development actions.
- **Alignment:** Donors base their overall support on partner countries' national development strategies, institutions, and procedures.
- **Harmonization:** Donors' actions are more harmonized, transparent, and collectively effective.
- **Managing for results:** Managing resources and improving decision making for development results.
- **Mutual accountability:** Donors and developing countries must account more transparently to each other for their use of aid funds, and to their citizens and parliaments for the impact of their aid. The Paris Declaration says all countries must have procedures in place by 2010 to report back openly on their development results.

The Accra Agenda for Action

In the Accra Agenda for Action (AAA) 100 countries, including all major economies, committed to addressing three major challenges to accelerating progress on aid effectiveness:

- Country ownership is key.
- Building more effective and inclusive partnerships.
- Achieving development results – and openly accounting for them – must be at the heart of all we do.

The AAA acknowledges the contributions of all development actors, and in particular, the role of middle-income countries as both providers and recipients of aid. It also agrees that as new global challenges emerge, donors will ensure that existing channels for aid delivery are used and, if necessary, strengthened before creating separate new channels that risk further fragmentation and complicate coordination at country level.

The Monterrey Consensus on Financing for Development

The Monterrey Consensus establishes a "*new partnership between developed and developing countries*" (to mobilise and increase) "*the effective use of financial resources and (achieve) the national and international economic conditions needed to fulfil internationally agreed development goals to eliminate poverty, improve social conditions and raise living standards, and protect our environment*…".

Key principles include:

- Each country has primary responsibility for its own economic and social development, and the role of national policies and development strategies cannot be overemphasised.
- National development efforts need to be supported by an enabling international economic environment.
- A commitment to sound policies, good governance at all levels and the rule of law.
- Resources should be created and used effectively and strong, accountable institutions established at all levels.
- Globalisation should be fully inclusive and equitable.