



Submission to AWG-LCA on
**Finance for mitigation and
low carbon and climate-
resilient development**

**From the Climate Action Network
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The Climate Action Network International (CAN) welcomes the opportunity to provide inputs to the discussions moving towards a post 2012 agreement. CAN is a coalition of more than 450 environmental and development non-governmental organizations worldwide, committed to limiting human-induced climate change to ecologically sustainable levels.

With just over 10 months remaining to complete negotiations for the next phase of the global climate regime, the main roadblocks to rapid advances in the negotiations have finally been removed. There is a new administration in the US which recognizes the severity of the climate crisis and the opportunities that come from shifting away from fossil fuels and preventing dangerous climate change. Developing countries, which have been the source of forward movement and most of the creative and constructive ideas in the negotiations over the past year, should not have to wait any longer for a serious engagement with their proposals and demands for real action and leadership from developed countries.

To ensure that the negotiations move forward quickly, parties must make rapid and simultaneous progress on the three interdependent and inseparable pillars of a Copenhagen agreement:

- emission reduction targets for all developed countries that ensure that, in aggregate, reductions must be at least at the top end of the 25-40% range identified by the IPCC by 2020, with the large majority of these reductions made domestically;
- measurable, reportable and verifiable technology, financing and capacity-building support from developed countries for nationally appropriate mitigation actions in developing countries;
- measurable, reportable and verifiable nationally appropriate mitigation actions (NAMAs) in developing countries, in the context of sustainable development, supported by MRV financing and technology pursuant to the Bali Action Plan, that ensure emissions are reduced below BAU trajectories.

In order to build trust and confidence all parties must immediately signal that they are willing to do their part to advance on all three fronts. Most urgently, those Annex 1 parties that have not yet expressed their support for dramatically scaled up financing and technology support under the terms of the UNFCCC, in a transparent and

accountable manner, must do so immediately and unequivocally. Developing country parties have constructively engaged in discussions of the nature of their MRV mitigation actions, but substantial work remains in identifying how MRV finance, technology, and capacity-building will be linked to MRV NAMAs, in an accountable, transparent and cost-effective manner.

A wide range of complex issues must be resolved in a short time, and CAN makes the following recommendations in terms of financing those efforts for moving forward:

Source of public finance: Existing bilateral and multilateral sources of funds are clearly not adequate to support global emissions reductions, adaptation and capacity-building on the scale needed. To ensure the adequate, predictable and sustainable source of financing, the implementation of the Annex I Parties' commitments on financing will be an essential part of the Copenhagen Agreement. There are already some viable and attractive options on the table, including generation of revenue at the international level from issuance of AAUs. It is essential that predictable, reliable sources of funding be provided, preferably independent of the annual budgeting cycle of individual governments. Any funding sources that rely on national budget cycles and decisions must be accompanied by a strong compliance regime and severe penalties for non-compliance. Financing derived from issuance of AAUs, along with being under the authority of the CoP, can also be scaleable, with funding ramping up over time by increasing the price charged or the percentage of AAUs auctioned. It can also be adapted to reflect equity and ability-to-pay issues, by using a set of criteria like those in the Mexican financing proposal to differentiate between developed countries in terms of, for example the percentage of AAUs set aside and auctioned.

The current global financial crisis has affected the carbon market and carbon prices have been destabilised, pointing to one potential drawback of relying exclusively on funding mechanisms linked to the carbon market. Such funding sources should be supplemented by other sources such as, for example, a levy on bunker fuels or air travel. Current instabilities in carbon markets also point to the need for their effective regulation in order to minimise volatility and ensure some degree of predictability. Clearly more stringent emissions caps and ambitious reduction targets in line with the most ambitious IPCC scenarios would help to ensure robust carbon prices.

Governance of Funds: A key component of the future international climate regime will be the creation of an institutional architecture under the CoP, including an entity with appropriate legal authority for receiving, managing and disbursing funding for technology cooperation, mitigation, adaptation and capacity-building. To avoid fragmentation and to ensure that financing for climate change addresses the ultimate objective of the UNFCCC, the Convention must be the principal channel for public financing for climate change at the international level. At a minimum, all funding generated through international mechanisms linked to the climate regime, such as auctioning of AAUs or levies on bunker fuels, must be under the authority and governance of the CoP. MRV financing and technology support must be either delivered under the authority of the CoP of the UNFCCC, or be explicitly recognized as MRV by the CoP, if it meets pre-established criteria. This will help ensure a coordinated, coherent approach to global adaptation and mitigation efforts and a consistent approach to accounting for climate finance, while avoiding diversion and double counting of development aid and other non-additional financial flows.

Funds must be managed in a transparent and accountable manner. Building trust and confidence of all parties in the financial institutions of the CoP will be crucial to scaling up funding to the level required. A key element of this will be developing adequate methodologies for measuring, reporting and verifying both the provision of financial and technological resources, and their use in achieving MRV mitigation outcomes and effective adaptation measures. The submission on financing from the G-77 and China contains some useful proposals for governance.

Procedures and safeguards must be put in place to ensure that civil society is engaged in governance of climate finance, including the national level planning and monitoring of the funding dispersal within each country. This will help ensure full transparency of funding use within the country, that the public's money is effectively utilized, and the greatest possible contribution is made to sustainable development at the local level.

Use of Funds: Financing must be used to bring about a global technological revolution to support a shift to low-carbon development paths that enable staying below the 2°C ceiling, and to climate resilient countries and communities. Funds need to support capacity-building, technology research, development, deployment, diffusion and transfer of clean energy technologies, practices, and processes to developing countries in a manner that will avoid the lock-in effects of non-environmentally sound technologies and will contribute to sustainable development, clean energy access, and the stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. The Montreal Protocol provides some precedents and experience that can be applied on a larger scale and in multiple sectors and technologies, using technology-specific action plans and road maps, to address climate change. The submission from the G-77 and China provides some useful ideas for a technology cooperation mechanism. Financing for adaptation must support a range of measures that i) reduce the physical risk posed by climate change, ii) address and reduce the underlying factors of vulnerability and iii) strengthen adaptive capacity.

Scale of public financing required: Although public funding is only one component – along with carbon market finance and private sector financial flows – of the overall financing needed to prevent and adapt to climate change, it is an extremely important component. A strong public funding component, in tandem with strong emissions reductions, will send a signal to the private sector that governments are serious about constraining emissions. This will in turn leverage much larger amounts of private and carbon market financing for clean technologies and low-carbon development. In this year's negotiations, an early and concrete signal of the scale of public funding developed countries are prepared to consider, and reasonable conditions for agreeing to that scale, are essential to moving the negotiations forward. The public financing needs for adaptation, mitigation, REDD and capacity-building will be well in excess of \$100 billion per year. Proposals for financing at a scale significantly below this level will have a correspondingly negative impact on the negotiations, and on the climate outcomes.

Role of carbon markets and private sector financial flows: Although public financing will undoubtedly be a principal focus of the negotiations and the emerging global climate regime, other sources of climate financing cannot be neglected.

Improved emissions regulatory frameworks at the international and national levels, and the resulting compliance carbon markets can, if designed carefully, play a significant role in delivering financing and technology transfer for emissions reductions, including in developing countries. This will, however, require that rules for the carbon markets are well designed, so that they can deliver effectively on clean technology deployment, and ensure that the emission reductions achieved are truly additional and windfall profits and other market failures are avoided. Hence, the low hanging fruit in developing countries (i.e. mitigation options with zero or low costs) should be achieved as part of developing countries' nationally appropriate mitigation actions, and not through market mechanisms designed to provide a low-cost compliance option for developed countries. In conjunction with the carbon markets, private investments and financial flows in clean, low-carbon technologies will also play a crucial role in reducing emissions worldwide. Sector-specific strategies for technology cooperation, using benchmarking and efficiency standards, can play a useful role in ensuring the effective deployment of financing and technology in developing countries.

Analysis should be undertaken to help ensure that the most appropriate instrument – public, private or carbon market finance – is used in each case. It is generally considered that adaptation, for example, is more likely to require predominantly public finance, while mitigation will in many cases involve a larger role for private sector finance. There is little ground for confidence that carbon markets and private sector financing alone can drive the shift to clean, low-carbon, climate resilient development. A key issue for the negotiations is how the scaled-up public financing will be invested in such a way that it leverages and mobilizes much larger amounts of private financing and investments in clean energy and development.

Measurable, Verifiable and Reportable: An understanding of how to measure, report and verify financial and technological support from developed countries, as well as nationally appropriate mitigation actions in developing countries, is urgently needed for negotiations to advance in 2009. The registry for mitigation actions proposed by South Africa and South Korea could play a useful role in this regard. Additional provisions need to be proposed on how to ensure financial flows from industrialized countries is MRV.