The Ny-Ålesund Symposium 2014: Breaking the Climate Stalemate – How International and National Action Can Create New Momentum

The role of climate finance in the UNFCCC process

The theme of this year's Symposium is how action can create momentum to break the climate stalemate, and I've been asked to focus on climate finance.

I'll start by taking you briefly into the murky world of the UNFCCC, and the challenges we're dealing with in our discussions on climate finance and investment.

I'll then outline some ideas we've been working on to build an effective partnership among governments, development partners, and the private sector so we can collectively incentivise support for low-carbon and climate-resilient infrastructure.

First, where are we now?

Back in 1992, the United Nations Framework Convention on Climate Change set a number of general obligations. All parties, rich and poor, developed and developing, have an obligation to "formulate, implement, and publish programmes containing measures to mitigate climate change", and "measures to facilitate adequate adaptation to climate change".

Expectations around those obligations are different, though, and Parties have agreed to take into account their common but differentiated responsibilities and their specific national and regional development priorities, objectives and circumstances.

All well and good, and sounding very familiar as we work on the shape of the new post-2020 agreement.

Finance is one of the UNFCCC obligations that applies only to developed countries, with an agreement to provide the financial resources needed by developing country Parties to meet the agreed full incremental costs of the general Convention obligations (applicable to everyone).

As a result, a lot of the discussions on climate finance in the UNFCCC focus on finance flows from developed countries to support climate outcomes and sustainable development in developing countries.

Fast-forward to Copenhagen in 2009.

Climate finance formed a key part of the deal-making that got the Copenhagen Accord over the line, and subsequently set the direction of travel for the new agreement.

It also determined some of the negotiating fault-lines we're dealing with right at the moment.

In Copenhagen, developed country Parties committed to a goal of mobilizing jointly USD 100 billion dollars a year by 2020 to address the needs of developing countries, in the context of meaningful mitigation actions and transparency on implementation. In other words, it's not money for its own sake, but is squarely focused on helping developing countries achieve their Convention obligations. If we think about the engine driving climate change, finance is the lubricant, the oil to get things happening. It's not a cylinder in the global economic engine.

The $100 billion is to come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance.

So while the focus of the 2020 goal remains on developed countries providing finance to developing countries, the big change is its emphasis on the role of the private sector.

That is very important because of course the resources available to private sector investors far outweigh the money available to developed country governments. The IMF's 2014 Global Financial Stability Report estimated that in 2012 the size of the global capital market – including bonds, equities, and bank assets – was about $274 trillion. Even 1% of those assets is nearly thirty times greater than our collective climate finance goal.

Now that's not to say that leaving the climate finance up to the private sector will get us over the line. But it absolutely underscores the need to harness the power of private-sector finance and investment flows. Even small shifts in those flows can make a big difference to climate finance.

It should also not be taken as implying that developed countries should somehow take the foot off the accelerator, and ease up in their efforts in scale up assistance to developing countries that are working to build low-carbon economies and climate resilient communities.

We need to keep working, and keep working together, to help invest in low carbon development and climate resilient communities.

This is something New Zealand is doing in our Pacific neighbourhood. We're providing NZ$80 million in climate-related support to the Pacific over the next three years. Part of that is our commitment to the outcomes of the Pacific Energy Summit where, in partnership with development partners and finance institutions, we were able to leverage more than half a billion dollars for renewable energy and energy efficiency projects in the Pacific.

Like other donors, we have also been working to integrate our support for climate outcomes into support for sustainable and resilient community development. Our record on fast-start finance is testimony to that. Mainstreaming makes sure climate change co-benefits are factored into all our development programmes, and we're seeing a very healthy trend for this now happening around the world.

But regardless of what's happening on the ground, there are inherent tensions in climate finance in the UNFCCC, some of which trace their way back to Copenhagen.

One is the same issue that cuts across the whole negotiation. How do we develop and deliver on commitments – in this case for finance and investment – in ways that reflect the enormous changes in the global economic landscape since the Convention was agreed back in 1992?

Back in 1990, developed countries accounted for more than 80% of global economic output.

But the world is rapidly rebalancing, and by about 2017 developing countries will be contributing more to the global economy than Annex-2 countries.

In purchasing power terms, nearly a third of all developing countries are richer than the poorest country in Annex-2.

The UNFCCC tends to focus on North-South but to end the stalemate, we need to think about North-North and South-South flows as well. We all need to encourage investment in low-carbon infrastructure and technology - or at least have regulatory settings that don't discourage it. Domestic investment has spin-off benefits for climate finance more broadly, as the private sector builds its knowledge base and grows in confidence to invest elsewhere.

The scale of the climate challenge means we would be foolish not to tap into global economic growth, and support and encourage greater south-south climate finance and investment. Annex-based differentiation arguments in the UNFCCC won't make this easy, Bon the issue won't be resolved until the 11 th hour in Paris, but I suspect the same solution we find for mitigation obligations should apply for Annex 2.

Another source of tension is that developing countries are not getting the certainty and predictability of climate finance flow they say they need.

There are two parts to that. One is their need for predictability to help plan and implement their policies for a low-carbon and climate resilient economy.

The other is the need for reassurance of developed countries' political commitment to the $100 billion goal. And that's important given the link between climate finance and meaningful mitigation action.

The flipside is that the kind of absolute year-by-year certainty that developing countries are seeking is simply not possible to give. No developed country can commit its national budgets more than a year or two in advance. And neither can we direct the private sector to invest in particular amounts at particular times. That's just not how the world works.

But we do need to give clarity and reassurance, and the decisions taken in Warsaw - biennial developed-country reporting on strategies and approaches for scaling up climate finance, and regular ministerial dialogue through to 2020 - have helped by elevating political attention and building the evidence base, demonstrating that finance is flowing and growing.

We can also see greater clarity and reassurance coming from work outside of the UNFCCC. It's been sparked as a consequence of Copenhagen, and it's been a catalyst for a conversation (begun in Washington DC last year) to mobilise private investment. There's already a promising collaboration on the part of international finance institutions, multilateral development banks and export credit agencies.

That work is starting to bear fruit, and is looking at ways that we can more effectively use public resources and policies to mobilize private investment in low-emission, climate-resilient activities in developing countries.

I should also say something briefly about the Green Climate Fund. The GCF will grow to be an essential part of the UNFCCC's climate finance architecture.

The fact the Board was last week able to agree on the eight essential elements needed for its initial resource mobilisation will give reassurance that the GCF is on track to being a significant part of the climate finance architecture.

It still has work to do. We need to see clear progress in accrediting the implementing agencies through which funds will flow. And we have a particularly interest in making sure it is delivering funding for activities in countries that are most vulnerable to climate change.

Not all finance will flow through the GCF. And nor should it. Small–scale projects and near-term needs will require a different approach.

Countries will want to ensure they have flexibility in determining how they deliver on their finance commitments, particularly in ways that leverage and mobilise finance from the private sector.

It is tempting to frame climate finance and investment in the UN as something of a Catch 22. Greater mitigation ambition in a genuinely "applicable to all" post-2020 agreement is partly contingent on greater certainty on climate finance. But that certainty is not possible in a negotiating dynamic that focusses solely on public finance from developed country governments. And we can only get increased climate finance and investment – including increased certainty – as part of a process leading to an agreement that's applicable to all parties and genuinely reflects the state of the global economic landscape.

It is hard to make meaningful progress with that kind of framing in mind - though the NDC process next year could help, by indicating what countries can do without support, and what incremental mitigation could be achieved with support.

I mentioned earlier the PES, which mobilised half a billion dollars of clean energy investment in the Pacific. The success of that initiative prompted us to analyse the factors that made it such a powerful partnership.

We think the lessons we learned can help us through the climate finance catch 22. We believe the UNFCCC can help align investment and climate policies to support an effective partnership among governments, development partners, and the private sector and incentivise support for low-carbon and climate-resilient infrastructure.

if we agreed a few high-level guiding principles for effective climate finance, it could help create the right enabling environment to scale up finance flows.

A first principle would support Parties to set their own strategies and priorities. That is absolutely fundamental to getting enabling environments right, and for putting developing countries in the driver's seat of their own response to climate change. It would give the private sector policy certainty to invest in climate change projects. It would also help achieve an effective balance between mitigation and adaptation; some developing countries might choose to give adaptation greater emphasis, whereas for others mitigation action that supports economic development could be a priority.

A second principle would help ensure that finance and investment is aligned behind those priorities. If partner countries have set their own strategies and priorities for sustainable, low-carbon and climate resilient development, it makes sense that finance providers align behind them.

Following from that, a third principle would help ensure that finance is delivered in a coordinated way, under the recipient countries' own leadership, and using country systems where that is appropriate. That should help make processes simpler, avoid duplication, and ensure efficiency and transparency.

That coordination and cooperation will also be fundamentally important in-country too, and will be a key part of creating the right enabling environment to encourage greater finance and investment. We know from talking with our private sector finance providers that those enabling environments – including things like energy sector standards and regulation, or the nuts and bolts of government accountability and fiduciary requirements – are critical for getting finance flowing.

A clear focus on outcomes might comprise a further element. It would help ensure finance and investment is focused on delivering mitigation and adaptation results that are able to be tracked and reported.

This brings the emphasis back to the specific purpose for which finance is being mobilised; to achieve climate mitigation and adaptation outcomes. It would also give certainty and reassurance to donors and investors that projects they are supporting are delivering tangible climate outcomes.

And a final, fifth principle is that public finance shouldn't crowd out private investment. We all want finance to represent good value for money, by delivering the best mitigation and adaptation bang for our collective buck.

In the real world, climate finance is flowing. But we need to mobilise more. In the UNFCCC, one side is saying “show me the money”, while the other is saying “show me the action”. Finance doesn’t flow in a vacuum. We need to build the right environment to un-block progress.

We think that some principles of effective climate finance would help, and would deliver the kind of projects needed to keep the world on a 2 °C pathway.