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Submission to the Conference of the Parties

Updated strategies and approaches for scaling up climate finance from 2014 to 2020

October 2014

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1 This submission responds to the request from the Conference of the Parties in decision 3.CP/19 for developed country Parties to prepare biennial submissions on their updated strategies and approaches for scaling up climate finance from 2014 to 2020.

Context

2 This is the first in a series of biennial submissions which will, together with biennial in-session workshops and high-level Ministerial discussions, inform COP discussions on so-called "long-term" climate finance over the period 2014–2020. That in turn will be part of broader collaborative efforts to achieve the ultimate aim of the Convention: to prevent dangerous anthropogenic interference in the climate system. With that in mind, this is the first step in a process that will evolve over the coming years as we transition from the current focus on pre-2020 "long-term finance" to the post-2020 world, where success in provision of financial support should be measured by the extent to which we are, collectively, meeting the ultimate objective of the Convention.

3 This submission builds on previous submissions from New Zealand including: our National Communications over the period 1994 to 2014; our first Biennial Report; annual reports on New Zealand's Fast-Start Finance; our submission on Strategies and Approaches from October 2013; and our submission on methods for tracking and reporting climate finance from May this year. It draws on lessons learned from the fast-start period, and recognises that climate finance needs to be an effective partnership among providers of climate finance and investment, development partners, and the private sector in order to achieve a transition to a low-carbon and climate resilient future.

Information to increase clarity on the expected levels of climate finance mobilized from different sources, and information on policies, programmes and priorities

4 As reported previously, a significant proportion of New Zealand's climate-related assistance is delivered bilaterally through the New Zealand Aid Programme, in activities designed to complement and further strengthen the aid programme's core focus on sustainable economic development.

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5 New Zealand will continue to prioritise climate-related assistance to projects where climate outcomes a co-benefit to achieving sustainable development objectives. Support will continue to focus on assisting our developing country partners to become more resilient to the adverse impacts of climate change, climate variability, and climate-related natural disasters, and to support clean, efficient and affordable energy and low-carbon development.

6 Consistent with the New Zealand Aid Programme's regional focus, our climate-related assistance will continue to have a strong emphasis on supporting activities in the small island developing states in the Pacific. This is a region where the needs for climate-related assistance are great, and where New Zealand has the relationships and experience to make a practical difference.

7 Strategies and approaches for New Zealand's public climate finance are thus closely related to the overall strategies and approaches for delivering development assistance. Investing in economic development is one of the New Zealand Aid Programme's thematic focus areas. Economic development is fundamental to achieving long term sustainable development. The aid programme recognises that climate change threatens to reduce the resilience and local capacity of developing countries, exacerbate existing development and environment challenges, and undermine efforts towards economic growth and sustainable development. Our approach of addressing climate change in developing countries to ensure good outcomes and manage risks and of 'mainstreaming' climate outcomes across the activities of the aid programme as part of our broader development assistance will continue. Climate-related support delivered by the aid programme is tracked, measured and reported against the OECD's DAC Rio markers. That approach has also been the basis for reporting climate related support to the UNFCCC.

Ensuring resources effectively address the needs of non-Annex 1 Parties

8 Delivering climate-related support through the New Zealand Aid Programme is an effective way to meet the needs of our development partners, particularly the small island developing states in the Pacific, some of whom are among the most vulnerable to the effects of climate change. Our work aligns with the priorities and policies of partner governments in order to strengthen ownership of development priorities by developing countries. Additionally, the Joint Commitments for Development and Strategic Frameworks for Development we agree with our development partners are based on partner-countries' national plans and needs. Additional information is available on the New Zealand Aid Programme website.

9 New Zealand is a signatory to the Forum Compact, adopted by Pacific Islands Forum leaders in 2009. The Compact acknowledges that successful outcomes are in part reliant on Pacific island countries leading the development effort in their own country, that those giving and those receiving aid are accountable to each other for getting results, and that the effective coordination of available resources is essential to achieve real progress against development goals. Another important area of coordination, with which the Aid Programme

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is involved, is the development of the “Strategy for Resilient Development in the Pacific” (SRDP) which is bringing together the climate change and disaster risk management communities and plans in the region.

The importance of enabling environments to mobilise finance from different sources

10 Our experience in working with our development partners has demonstrated the importance of enabling environments for mobilising climate-related support. Improving enabling environments within recipient countries – including enhancing capacity, regulatory frameworks, and national priority setting and alignment to build absorptive capacity – will help scale-up finance to build on in-country efforts to achieve meaningful mitigation action and adaptation.

11 The Pacific Energy Summit is a tangible demonstration of how enabling environments can effectively mobilise finance from different sources. The Summit, held in March 2013, has been key to ensuring a coordinated, regional approach to renewable energy and energy efficiency. The Summit was co-hosted by New Zealand and the European Union and brought together the major aid and development partners in the region - including the Asian Development Bank, (then) Australian Aid, and the World Bank, together with Japan, the European Investment Bank, the International Renewable Energy Agency (IRENA), and the United Arab Emirates. The Summit connected Pacific Island leaders with finance and private-sector expertise to accelerate their countries' energy plans. Pacific countries presented 79 investment-ready projects at the Summit. Around 850 business-to-business meetings took place, providing donors and the private sector with opportunities to identify projects for partnership and collaboration. Donor coordination and private sector engagement secured NZ$635 million over a three-year period, and 18 months after the Summit more than 50 projects are under development. Delivery of these projects will accelerate progress towards achieving countries’ own clean energy targets.

12 Many of the projects resulting from the Summit are helping to fast-track the introduction of low-carbon and affordable energy solutions in the Pacific. Across the region, around 80% of electricity generation comes from imported diesel, with about 10% of the region’s GDP spent on importing fossil fuel.

13 But those successes would not have been delivered without the right enabling environment, both in terms of Summit organisation, and by recipient-country preparation of national Energy Roadmaps to identify investment-ready clean energy projects. The following key aspects were integral to delivering a successful Energy Summit:

- Identifying lead partner/s willing to organise and champion an event, and to provide Secretariat support to the process. The earlier the engagement in this process, the better.
- Commitment and willingness to coordinate and showcase projects, as well as the ability to facilitate formal and informal avenues for discussion.
- Support from a broad range of donors and investors - in particular, the private sector.

- In terms of delivering on commitments from the Summit, it is important to ensure timely and transparent reporting of results to the region.

14 New Zealand's contribution to Summit outcomes will assist Pacific Island countries to realise their renewable energy and energy efficiency plans. Projects through partnerships with other donors are supporting the Cook Islands, Kiribati, Papua New Guinea, Samoa, Tonga, Tuvalu and Vanuatu. European Union funding of EUR25 million is supporting projects in Cook Islands, Tuvalu, Samoa and Kiritbati. The US$50 million UAE Pacific Energy Partnership Fund is supporting projects in five countries with four more projects under consideration. The ADB currently has projects in 11 Pacific countries for an investment of US$270 million. Over 2014-2016 a further 12 projects worth $260 million are expected to be approved.

New Zealand's NZ$100 million commitment to clean energy

15 At the Summit, New Zealand committed to investing NZ$65 million to Summit outcomes. Shortly thereafter, we were able to announce that New Zealand's total climate-related support for the Pacific would be more than NZ$80 million over the next three years. Including that, we can now say that New Zealand will now invest more than NZ$100 million on clean energy projects in seven countries in the Pacific and further afield in the Caribbean and Indian Ocean over the next three years

Engagement with the private sector

16 In the short term, climate-related finance and investment from New Zealand to developing countries will continue to have a focus on public finance. Outwards foreign direct investment from New Zealand flows mainly to our traditional trade and economic partners. For the 2013 calendar year, 77% of direct investment abroad (i.e. excluding portfolio investment) was accounted for by seven developed countries.

17 Initial conversations with New Zealand institutional investors indicates strong interest in pursuing commercially viable climate related investment opportunities in developing countries, including in the Pacific. It is clear from those conversations that the barriers to greater private climate-related finance and investment relate to political and regulatory environments in-country; political and regulatory risk are significant barriers to investment, and we have begun a process to consider what – if anything – the New Zealand government can do to help mitigate that investment risk.

Strategies and approaches: effective climate finance

18 As we have outlined previously, some elements or 'principles' of effective climate finance can mobilise climate finance and investment, particularly from the private sector, by increasing policy certainty and enhancing enabling environments. These elements are not about creating additional hurdles for finance and investment. Nor are they about creating

additional conditions on finance provided for climate outcomes. Rather, some non-binding principles of effective climate finance would help streamline finance flows by better coordinating inputs from a range of sources, and would help to ensure finance is aligned behind country-driven priorities to achieve effective climate change outcomes. That will also help to 'mainstream' climate outcomes into planning processes and finance flows, including finance delivered through official development assistance. Providing clear and consistent priorities will encourage private sector investment by increasing policy certainty and enhancing enabling environments. Those ideas are outlined here:

Ownership	• Encourage and support Parties to set their own strategies and priorities for responding to the challenge of climate change. • This helps create policy certainty, reducing risk and enabling private sector investment
Alignment	• If countries have set their own strategies and priorities for sustainable, low-carbon and climate resilient development, it makes sense that finance providers align behind those. • This achieves an effective balance between finance for mitigation and adaptation: alignment behind national strategies that prioritise adaptation will help build sustainable, climate resilient communities
Coherence, Coordination, and Communication	• Donors coordinate and cooperate to simplify climate finance flows. This can avoid duplication of effort, and improve effective delivery and implementation in-country • Communication is important for tracking finance flows from source to destination • Helps make sure finance is getting to the right place and achieving the outcomes intended for it
Focus on outcomes	• Finance should deliver mitigation and adaptation results that are able to be tracked and reported • This should be a natural consequence of ownership and alignment, and will reassure the private sector that their investments are part of a results-focused environment
Enabling private sector engagement	• Private sector finance and investment is not a replacement for public finance commitments, but directing even a small proportion of private sector resources to low-carbon and climate resilient will be critical for keeping the world on a 2 °C pathway. • There is a clear need for grant-based and concessional public finance (e.g. to reduce risk, or where revenue streams to repay loans are uncertain or inappropriate), but there are circumstances where investments for climate-change outcomes can take place without subsidy: public finance should not displace private-sector investment taking place on commercial terms • Private sector finance and investment should be guided by effectiveness

19 New Zealand looks forward to discussion on climate finance at the 20th Conference of the Parties, and how further thinking on effective climate finance can inform all Parties' strategies and approaches to mobilise and scale-up climate finance.

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