



AUSTRALIA

Enhanced Action on Financial Resources and Investment

Submission to the AWG-LCA

This submission outlines Australia's views on the provision of financial resources and investment to support action on mitigation and adaptation under the Bali Road Map.

Australia considers it vital to maximise the amount of international financing available to those most in need. Australia will join with others in taking the lead in this regard. A comprehensive post-2012 outcome should include (1) the provision of additional international financial resources and investment to assist enhanced international action on mitigation and adaptation, and (2) clear guidance on the prioritisation of the distribution and use of international funds.

Given the challenge of climate change, all Parties will need to increase the national resources they dedicate to climate change response measures. In addition to those actions financed through incentives, all developing countries should commit to making distinct national efforts as part of a comprehensive post-2012 outcome.

The private and public sectors have different roles and capabilities in financing the different needs of mitigation and adaptation. The private sector currently accounts for 86 per cent of global investment flows¹ and can be the major driver in lowering emissions and advancing clean development for all Parties. The policies and measures of Parties play a critical role in shaping private investment flows towards achieving low emission and clean development goals. A country's enabling environment, particularly with relation to robust and transparent governance arrangements, will be a critical determinant of attracting investment flows.

¹ UNFCCC (2007). *Investment and Financial Flows to Address Climate Change* paper for the Long-term Dialogue for Cooperative Action on Climate Change.

The AWG-LCA should be cognisant that Parties do, and will continue to, provide financing for mitigation and adaptation through a variety of means, particularly given the benefits that accrue from mainstreaming climate change actions. Post-2012 support for mitigation and adaptation will continue to utilise the full range of public financial instruments and purpose-built funds like the World Bank Climate Investment Funds. In keeping with the Bali Action Plan, both the provision and use of enhanced financial support will need to be carried out in a measurable, reportable and verifiable manner. Similarly, rules and approaches regarding additionality will need to be clear.

Key Elements for Increasing Financial Flows

Parties should consider the following elements with regard to enhanced action on the provision of financial resources and investment:

1. The architecture of any future financial mechanism/s should contain objective criteria that guide contributions from Parties and non-State actors. Criteria should reflect the capacity of individual countries to contribute to future financial resources in line with their relative capabilities and national circumstances.
2. Further consideration should be given to criteria for prioritising the allocation of financial support for clean development, including through maximising the effectiveness of existing funding, including domestic and private sector funding.
3. The coverage of carbon markets should be expanded given the ability of markets to encourage behavioural change and deliver least cost abatement.

Prioritising Financial Support

Most countries have experienced strong economic growth over the almost two decades since the UNFCCC was drafted. This affords the AWG-LCA an opportunity to identify new sources of financial support, including from Parties that have rapidly advanced their economies over the past two decades. It also allows the AWG-LCA a good opportunity to better prioritise support for those Parties most in need.

Under Articles 4.3 and 4.4 of the UNFCCC, Parties listed in Annex II to the Convention agreed to provide financial resources to assist others to better implement climate change policies and measures. The AWG-LCA should recommend expanding the number of countries subscribed in Annex II based on current capacity to provide support.

When Annex II was originally drafted the Party that set the benchmark (in terms of GDP per capita) for inclusion in Annex II was Portugal. Fifteen Parties in 2006 had a higher GDP per capita than Portugal. These Parties were Bahrain, Brunei Darussalam, Czech Republic, Cyprus, Israel, Korea, Kuwait, Malta, Oman, Qatar, Saudi Arabia, Slovenia, Singapore, Bahamas, and United Arab Emirates. Australia would welcome the contribution that these Parties could make towards contributing financial resources for climate change actions in other countries.

Further, many non-Annex I countries have significantly higher rates of economic growth than Annex I countries. Thirty-four of the 35 countries with the highest economic growth rates between 1992 and 2004 are non-Annex I countries (Ireland is the exception).² Continued rapid economic development will allow many more Parties than those currently in Annex II to contribute financial resources to support the international climate change response.

Determining who Receives Financial Support

Recognising that individual countries will determine where to direct their support, in particular with respect to bilateral funding, the AWG-LCA should develop objective criteria for determining who receives broader multilateral funding by matching financial resources to needs and priorities. In this regard, the traditional groupings of Parties are not necessarily an appropriate basis for identifying the most vulnerable countries. For example, many of the Parties listed as small island developing States by the UN warrant particular priority by the international community in supporting adaptation to climate change. However, not all small island developing States require this assistance. For example, Singapore, currently listed as a small island developing state, in 2006 had a per capita GDP higher than 35 Annex I countries³. The AWG-LCA should to consider a range of appropriate criteria that should determine allocations in support of adaptation.

The criteria for supporting mitigation activity should evaluate the relative cost-effectiveness of financial assistance, both in terms of the potential amount of emissions reduced per unit of money spent, and the degree of long-term impact in catalysing the transition to a low-carbon economy. Public financial support for mitigation should be prioritised towards investment in gaps in the carbon market and private sector investment.

² Figures derived from the World Resources Institute's Climate Analysis Indicators Tool (2008).

³ Figures derived from IMF World Economic Outlook (2008). GDP is based on purchasing power parity (PPP). IMF does not include data for Lichtenstein and Monaco.

To help prioritise support, the AWG-LCA could work to identify a small number of internationally recognised indicators representing economic status, mitigation potential, and vulnerability to climate impacts. One approach that might be useful is to establish a new Annex identifying the most vulnerable Parties, with a graduation mechanism to allow such an Annex the flexibility to continue to prioritise support over time.