

Oxford Energy and Environment Comment

September 2010

To V or Not To V?

That is a question

by Murray Ward¹

Let us put diplomatic niceties aside and be honest. When the term “verifiable” was used in the Bali Action Plan (reflecting, in 1(b)(ii), the notion of “trust but verify”) this had little to do with trust and everything to do with lack thereof. Catering, in particular, to the lowest denominator in the United States’ congress, public, and media, developing countries were not to be trusted to deliver adequate levels of nationally appropriate mitigation actions without verification. And based on a long history of under-delivery, developed countries were not to be trusted to provide adequate levels of support for such actions.

It is no wonder then that verification featured prominently in the list of contentious issues that led to the outcomes of Copenhagen being so underwhelming. (Yet some seemed surprised.) This crisis of mistrust seems more likely than not to continue long into the future. Why “crisis”? Because it is inconceivable that the emission reductions needed to peak global emissions before 2020 and get us onto an affordable 2°C emission pathway can happen without a massive, collaborative and rapidly implemented effort by developed and developing countries. And “crisis” because we seem destined to be creating career paths for new entrants in the climate change field that are more suited to bureaucrats, accountants and auditors than technology developers, business entrepreneurs and people skilled in helping to get things done on the ground. We need large numbers of ‘shoulders behind the wheel’, not large numbers standing to the side counting the shoulders and other large numbers deciding how the counters should do their sums.

This essay posits that we need to arrest this headlong plunge into further dysfunction, and redefine the objectives of verification in a new and positive light. It argues that the working principle should be “let’s not expend energy verifying, except where absolutely necessary – in most cases, measuring and (transparent) reporting will be good enough”.

What, then, are examples of “where absolutely necessary”. Two obvious examples come to mind. The first is where a party has taken on a legal commitment to do something and verification is needed to determine that this party has complied with this commitment. The second is where verification is needed as part of a mechanism through which legal property rights are established and the value of these needs to be established and maintained. Emission units that are part of international emissions

¹ Murray Ward is the Principal of Global Climate Change Consultancy (GtripleC) and formerly a senior UNFCCC negotiator for New Zealand. (See www.GtripleC.co.nz). murray.ward@gtriplec.co.nz

trading of allowances and credits (both in so-called compliance and voluntary carbon markets) is the obvious case in point here.

Taking the second of these first, this already seems to be a well understood and accepted point. It goes without saying that any new market-based mechanisms being considered should have verification and compliance processes similar in nature to mechanisms that already exist. Indeed, in the absence of these, the value of carbon is undermined and everyone else in the market is the loser because of this. So it is in the collective interest of all players to ensure a robust verification and compliance process. Little more needs to be said.

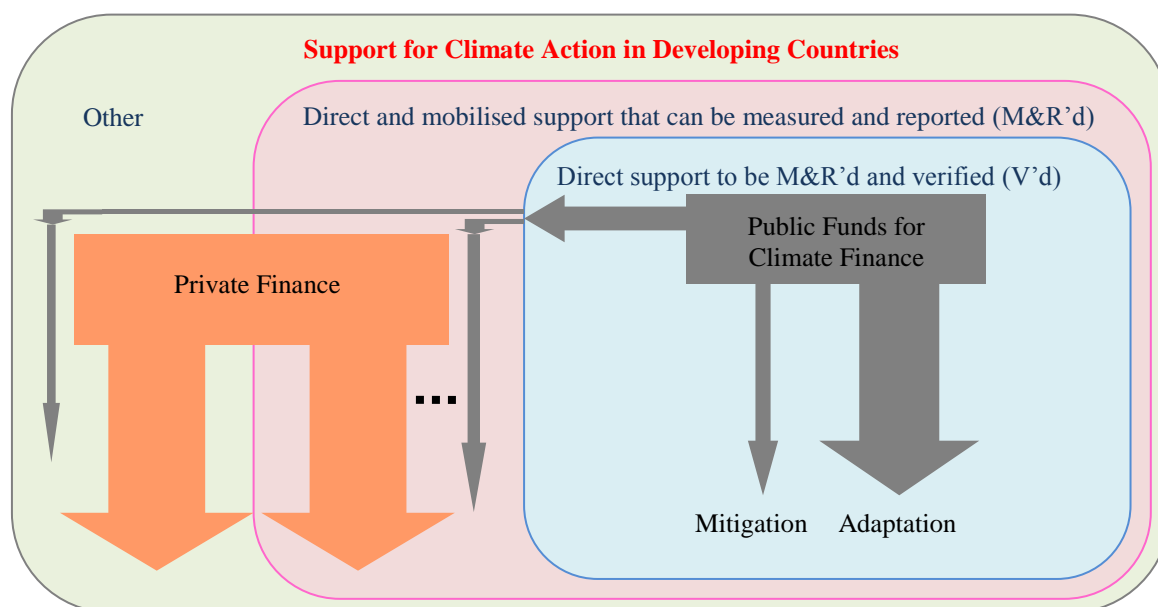
The first, and more general point, of meeting legal commitments is less clear. To begin with, implicit in this is that some legal commitments have been made. This is different than aspirational goals or objectives..... or even fuzzy (constructively ambiguous?) commitments. To illustrate this point, take the case of verification of the levels of financial support by developed countries to developing countries and the example of the Copenhagen Accord's 100 billion per annum by 2020.

The language here is "...In the context of meaningful mitigation actions and transparency on implementation, developed countries commit to a goal of mobilizing jointly USD 100 billion dollars a year by 2020 to address the needs of developing countries. This funding will come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance."

What does this mean exactly, in particular with respect to verification? Setting aside the broader question of the legal status of the Accord itself, does "commit to a goal" constitute an intent of a legal commitment by developed countries. And is it even conceivable that a verification process undertaken, presumably, under the auspices of the UNFCCC, would be possible to track "a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance" with any meaningful accuracy. How many accountants and auditors would this take – especially given climate funding for mitigation will often be called something else, like "clean energy" or "sustainable forestry" for example?

This is not to argue that verification of financial support is not needed or is not possible; rather it is to suggest that the eventual international climate deal requires much more explicit commitments by developed countries of the support they will provide with public finances. They should then be held to these commitments and a verification system put in place to help ensure this.

A barrier to this happening is that developed countries are coming to a common view that the mobilizing of private sector capital for support of mitigation (in particular) in developing countries is critical if the trillions of dollars of needed investment is to occur. Public funds are scarce and arguably should probably be reserved primarily for adaptation and cases where they are needed to supplement levels of private finance that are able to be mobilized for mitigation – which will vary for different developing country circumstances. Public money going to mitigation should be "smart money" that catalyses and mobilises a large multiple in private sector funds. This should be greatly encouraged by the rules of any agreement. In short, there needs to be a way that developed countries' smart efforts are recognised. This is not saying that mobilised private funds should count towards the verifiable commitments of public funds. It is simply that if 1 'dollar' of public money can mobilise 9 more of private, this outcome should be seen as being smart, and more effective than if 2 dollars of public money produce just 2 dollars of outcome. This might be seen as where M&R separates from V, as illustrated in the figure below.



Some points the above illustration is intended to convey are:

- Public Funds should be able to be identified and MR&V'd.² However, this is not without its complexities because support that has climate related outcomes might be difficult to disentangle from finance for other development purposes.
- Given the current economic conditions, public funds are likely to be scarce. Funds going to direct climate actions (i.e. not as part of programmes intended to mobilise large portions of private finance) might be expected to be more weighted towards adaptation. But some will be needed for mitigation to fill in gaps in country circumstances that aren't currently favourable for private investment.
- Whereas it is feasible to verify public funds at source, this is not feasible for private finance, to any accurate degree anyway. But in many situations it is feasible to *measure and report* in a transparent manner the private finance flows, especially where these are part of programmes where public funds have been involved with an explicit intent to mobilise large flows of private capital, e.g. where this capital is channelled through structured funds. This situation is depicted in the pink box and the dotted line linking public and private.
- The "Other" part of the depiction reflects where financial support is occurring but in ways not easy or practical to measure and report in a formal sense.

It will be helpful if the picture set out here is something that can be taken up and reflected explicitly in the language of the eventual climate deal on finance. Importantly this means that verification processes including M&R (or CRR processes – see footnote 2 below) should be linked to explicit commitments of public funds – whereas countries should also be encouraged to additionally M&R where their public funds have mobilised private funds in a way that is also M&Rable. This is the "recognition" point made above. It will give countries an incentive to think about smart ways that their public funds can be used, such that the outcomes on the ground occur at a much larger scale than just the public funds available.

² In *On the Need to Certify - Oversight of compliance with financial commitments under the UN Framework Convention on Climate Change*, (Oxford Energy and Environment Comment, Dec. 2009), Benito Müller sets out arguments why the concepts of MR&V are not appropriate for financial support, and that certification and registration are more applicable concepts. This could then apply to the point made here about what is appropriate for determining compliance of commitments of public funds.