

Mobilizing climate investment: project preparation and financing

UNEP Risø Center
Low-Carbon Development Group

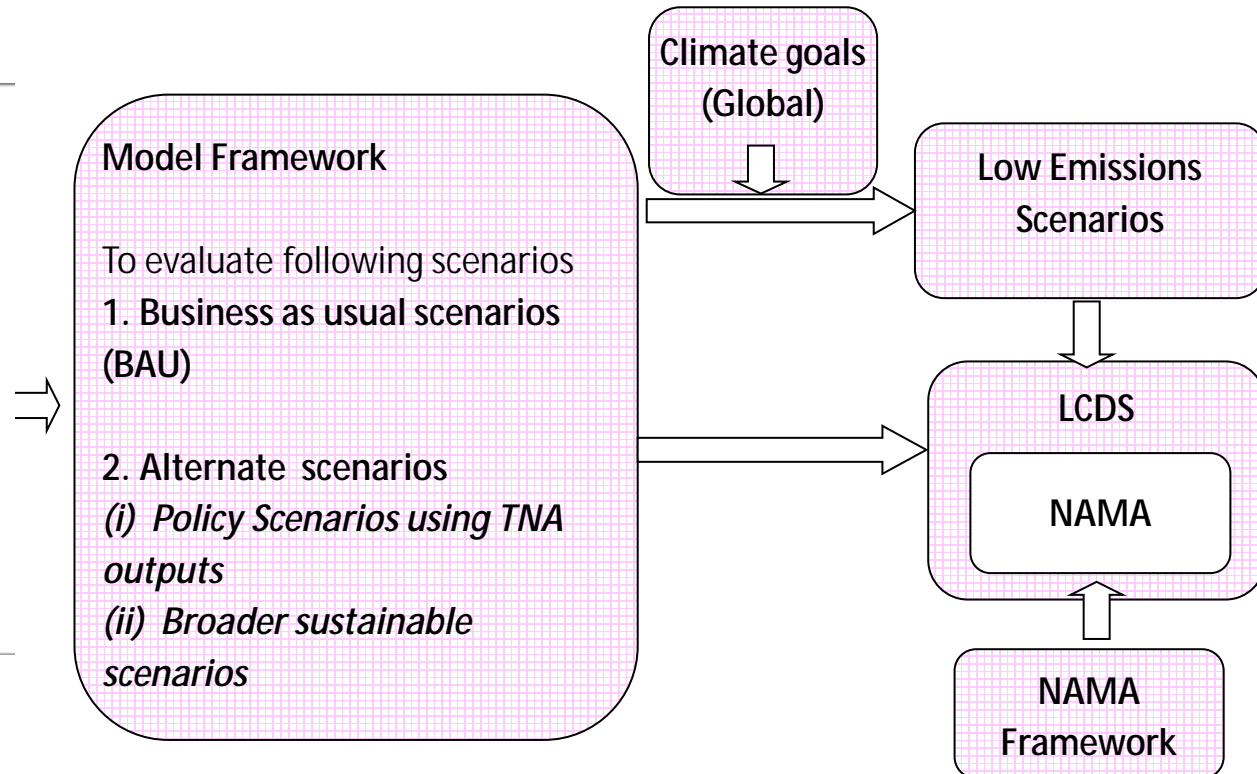
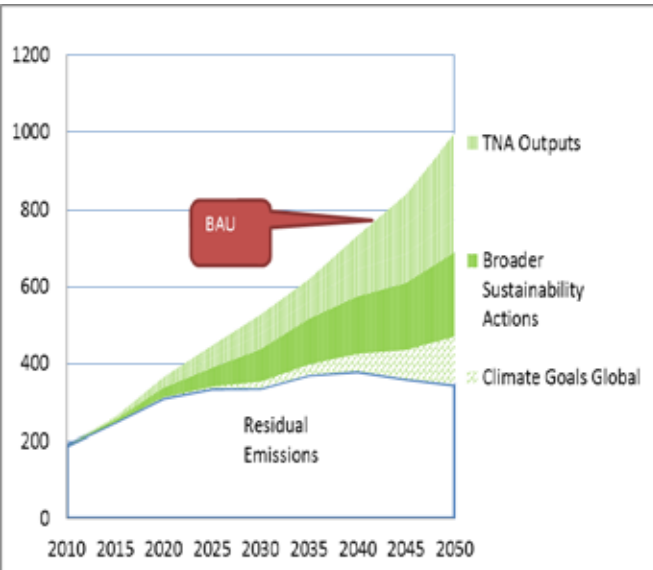
Gaborone,
23 September 2013

The Big Picture

- Climate change is a "real" phenomenon, which cannot be tackled with public finance alone.
- Therefore:
 - *how should Parties negotiate rules for NAMAs?*
 - *how to successfully "crowd in" private capital?*
 - *what can be learned from the CDM experience?*

LCDS Framework

Technology Action Plans



Source: Dhar, S, Painuly, J, & Zhu, X (2011) From TNAs to Low Carbon Development Strategies (LCDS) and Nationally Appropriate Mitigation Actions (NAMAs) http://tech-action.org/TNA_NewsNov2011.htm

NAMAs: Political Framework

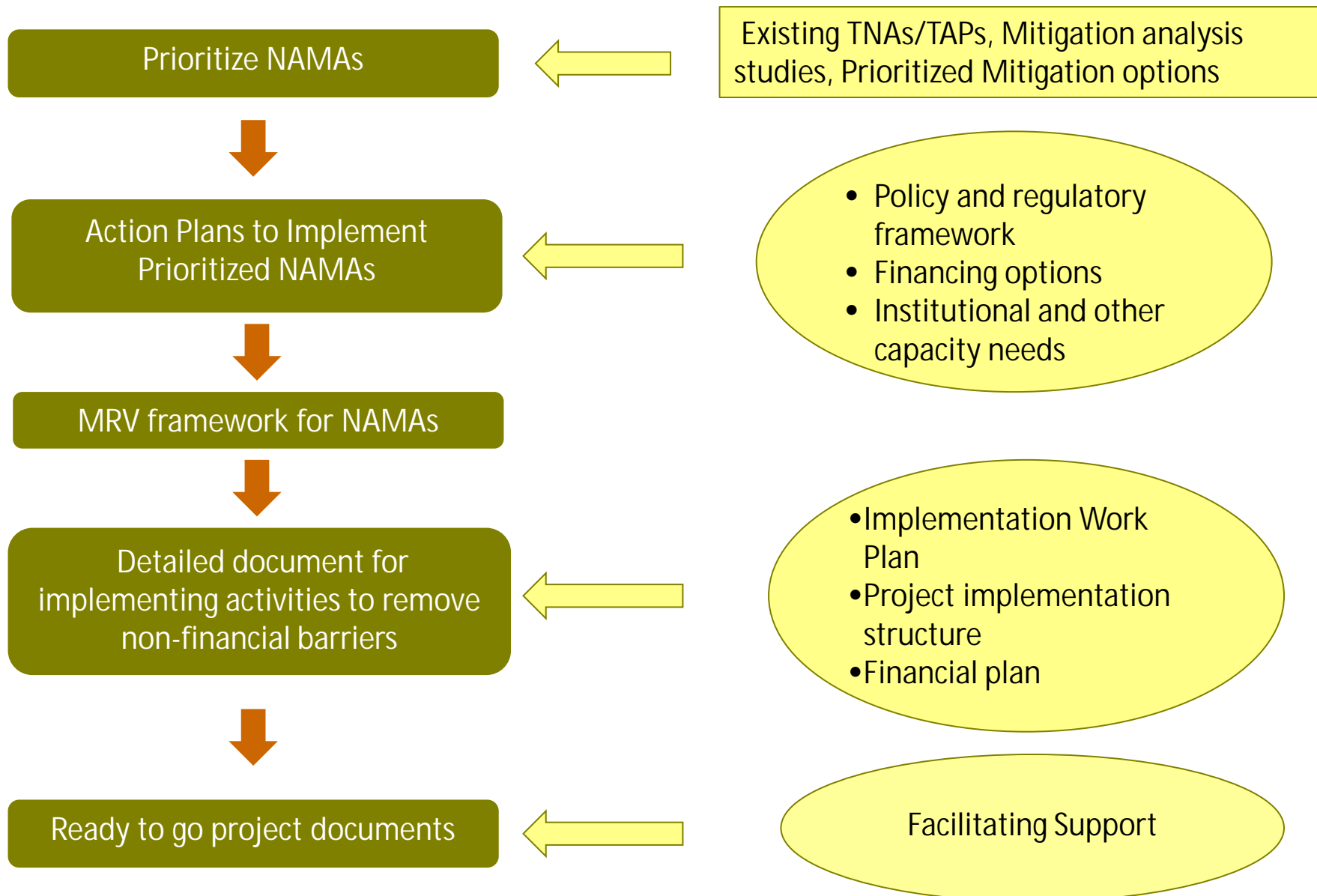
"developing country parties will take nationally appropriate mitigation actions (NAMAs) in the context of sustainable development, supported and enabled by technology, financing and capacity building, aimed at achieving a deviation in emissions relative to business as usual emissions in 2020"

Cancun Agreements

MRV International Tier

1. National Communications (NC) every 4 years and Biennial reports (BER) every 2 years
 - Biennial reports Measurement (M) and Reporting (R) part of NAMA

Prioritizing NAMAs & Implementation



The main challenge

- In a world with tightened liquidity, in order to make NAMAs more bankable, related assets or products need to be more clearly ring fenced by law with definitive off-takers identified. Currently there are no buyers!
- As with the CDM, the legal and/or regulatory frameworks for the NAMAs have to be developed, otherwise there will be too much risk for private financiers!

Building on CDM Strengths

The CDM was...

- both a *policy instrument and a marketplace* for mitigation operating under both international law and domestic political-legal frameworks. These are still relevant and shall continue until at least 2020.
- a catalyst for new institutions and governance frameworks to coordinate a large number of diverse stakeholders:
 - early identification of barriers and enablers
 - transparency in decision making
 - stakeholder buy-in
 - empowerment and ownership

NAMAs should build upon these strengths e.g., mobilizing private sector, creating partnerships and bridging stakeholder agendas, inspiring innovative approaches

Methodologies & Standards

- Importance of clear yet flexible approaches to:
 - eligibility criteria that define carbon "asset" quality
 - system boundaries for projects and sectoral activities;
 - baselines and emission factors
 - monitoring, reporting and verification
- *Standardization, benchmarks, and simplification tools are key building blocks for NAMA financing. They will front-load transaction costs, but enhance access and build scale by reducing time to market and investment uncertainties*

Making NAMAs more bankable

- NAMAs can be scoped out and prepared just like any other major infrastructure investment project
- NAMAs should be aligned with primary non-carbon investment (or core business) drivers
 - profitability
 - regulation (actual or anticipated)
 - technology development and innovation linked to industrial policy
 - rising fossil fuel prices
 - security of supply
 - energy access
- Stakeholders, mainly government, can create incentives to promote secondary NAMA investment drivers
 - prestige
 - brand value/reputational impact as well as CSR
 - local environmental considerations

Financial Structuring of NAMAs (1)

- Financial structuring doesn't exist in a vacuum. It is not a separate "activity component" that requires a separate source of financing
- It *is* fundamentally an exercise in splitting the bill
- There is no magic formula that will eliminate any additional cost
- The need for "innovative financial instruments" for NAMAs is questionable. Rather, find innovative ways of splitting the bill using existing structures.
- More a question of context than tools.

	Public	Private
Domestic	1	3
Foreign	2	4

Financial Structuring of NAMAs (3)

- Expectations are diminishing that the Green Climate Fund will become primary vehicle for deploying private capital in climate investment objects
- Leveraging is all about "who goes first"

	Public	Private
Domestic	1	3
Foreign	2	4

- Donors can assist in implementation, but mainly in project preparation, technical assistance, capacity building, sector strategies and other activities that are not related to physical assets instruments like sector-specific reallocation of national budget, cross-subsidization (like health and environment) – and regulation

A step-wise approach to NAMAs

Step 1: define political constraints

Step 2: identify the investment value chain

Step 3: identify financing options at national level

Step 4: consider FDI barriers and options to address them

Step 5: enter dialogue with international donors

Step 6: devise national programmes

Step 7: close the financing

SUPPORT FOR NAMAs - BACKGROUND

- Support for NAMAs through
 - Financial Mechanism (FM) of the Convention
 - *Bilateral (DANIDA, GIZ, DIFD, AFD, etc), and*
 - *Multilateral (WB, ADB, AfDB, etc.)*
 - **Cancun Agreement** installed two key institutions to support NAMAs
 - Green Climate Fund (GCF) operating entity of the FM
 - Registry to facilitate matching of support for NAMAs seeking support.

Support Needs for NAMA

- Present focus on development of NAMAs and less on implementation
- Support needs ranges from:
 - Awareness & stakeholder engagement
 - Information, tools and data e.g. on technologies, cost, barriers etc.
 - Policy & strategy development to frame the NAMAs , i.e., Plans/Strategies
 - Institutional strengthening for both strategy development and for implementation of policies
 - MRV at national level
 - Program & project development, including engaging local private sector in finance and implementation
- Need for regional workshops, some form of handbook etc as examples

Challenges & Gaps in NAMAs

- Goals for reduction or measures
- Estimates of CO₂ reduction (some include a wider set of impacts indicators)
- Linkages to national/sectoral plans
- Information on national MRV systems and what MRV of NAMAs may include
- Institutional arrangements for implementation of identified NAMAs

GREEN CLIMATE FUND

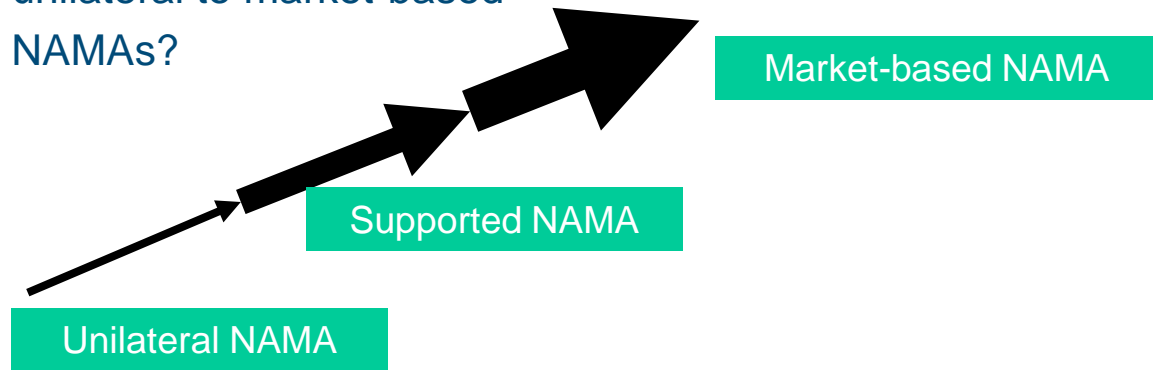
- First Board meeting in August last year – initiated finalization of the work plan
- Recommendation by Board for key decisions at Doha
 - Arrangements between COP and GCF
 - Endorsement of Board's recommendation for host country
 - Guidance on proposed draft policies, programme priorities and eligibility criteria for Fund
- Board working towards beginning operations in early 2014
- **Considering to facilitate early support for readiness and technical assistance immediately**

GREEN CLIMATE FUND

- GCF operating instrument approved at Durban Conference
- Funding through GCF
 - Readiness activities and technical assistance, including in-country institutional strengthening
 - Programmatic scale activities - based on national climate change strategies, such as LCDS, NAMAs, NAPs and national plans
 - Private sector facility – indirect and direct funding of private sector consistent with country-driven approach
 - Grants or concessional lending or other instruments to bridge *additional cost*
 - Funding proposals through National Designated Authority

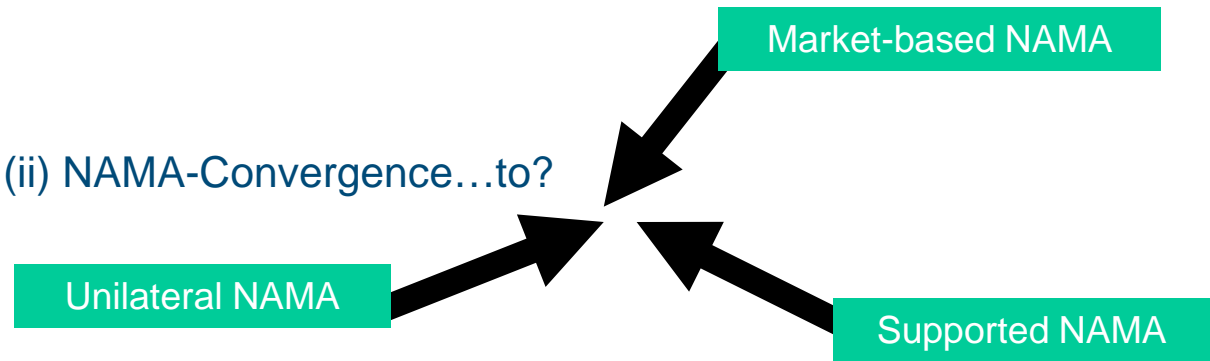
Possible Evolutionary Pathways of NAMAs...

(i) Evolution from unilateral to market-based NAMAs?

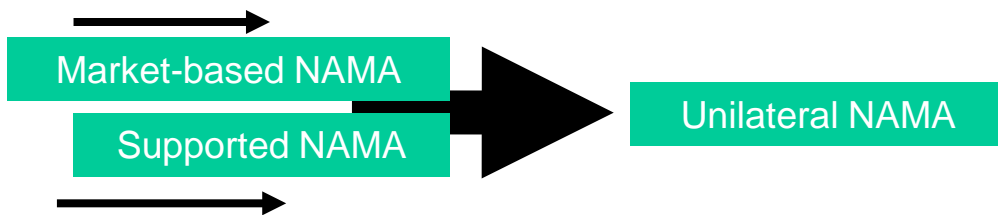


Relation to CDM-PoAs

(ii) NAMA-Convergence...to?



(iii) Evolution from market and supported to unilateral NAMAs?



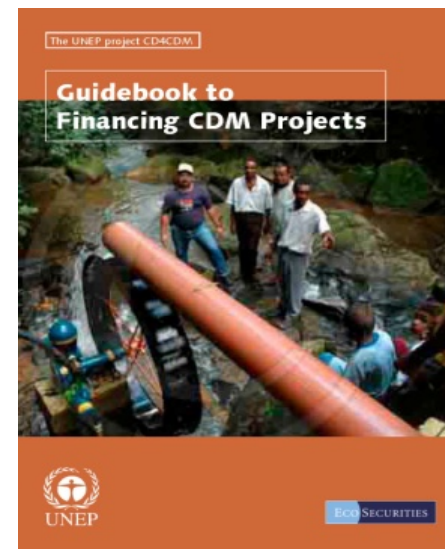
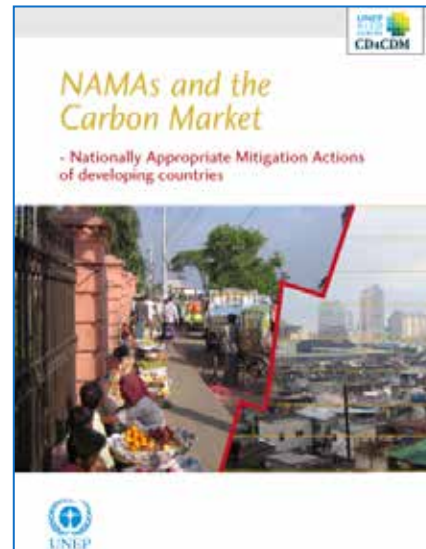
Low carbon society

How can NAMAs contribute to scale up mitigation finance? How can KfW support NAMAs?



Type of NAMA	Unilateral NAMA	Supported NAMA	Market-Based NAMA
Financing of NAMAs	Domestic Finance	Bilateral/Multilateral Financing Institutes Green climate Fund	Private/Public actors
Scaling-up mitigation finance	<ul style="list-style-type: none"> • Improving general framework for long-term investments in host countries. • Creating better framework conditions for investments in RE/EE or transport. • Other incentives to improve private and public financing? 		
KfW role to support NAMA development	Non-concessional <u>Financing</u> RE/EE, Transport systems etc.	<u>Financing</u> NAMA pilots Concessional <u>Financing</u> RE/EE, Transport systems etc.	<u>Purchasing</u> (Pilot) Carbon Credits <u>Financing</u> NAMA development (Non-)concessional <u>Financing</u> RE/EE, Transport systems etc.

Thank you!!



More information:
<http://uneprioe.org>