E-Discussion on NDC Implementation

National Experiences in Preparing for NDC Implementation

Summary Phase 4:

Funding Strategies and Resource Mobilization

30 January – 19 February 2017

Objectives of Phase 4 Discussion:

This phase of UNDP's e-discussion attracted a particular large wealth of contributions, reflecting the high level of stakeholder interest in this topic. Participants were invited over the course of two weeks to share their experiences and thoughts on financial aspects of NDC implementation.

In particular, participants were invited to reflect on:

- Country progress in thinking through NDC implementation funding.
- Estimation of costs for NDC implementation and identification of funding sources.
- Status of analysis of public and private resources spent on climate change, or future financial needs related to NDCs.
- Ways to re-orient finance toward greener activities in the context of achieving NDCs.
- Roles of ministries other than Environment in this process.
- Expected challenges and recommendations in mobilizing resources for NDC implementation.

Participants

A broad range of practitioners around the world participated, including a Senior Ministry Advisor, an International Climate Change Policy Manager, Carbon Partners Asiatica, GIZ/World Bank, and UNDP, from countries such as Germany, Japan, Jordan, Nigeria, Thailand and the UK.

Resources:

- CDKN & Ricardo Energy & Environment: 'Quick-Start Guide to NDC implementation'
- GIZ: NAMA Financing balance sheet for climate actions
- International Finance Corporation: Analysis of Climate Investment Opportunities,
- UNDP climate financing and budget management tools and strategic frameworks can be found here, and include the following:
    - Climate Change Financing Framework;
    - Climate Budget Tagging;
    - Climate Public Expenditure and Institutional Reviews (CPEIR);
    - Private Climate Expenditures & Institutional Review (PCEIR);
    - Investment & Financial Flows Assessment;
    - Catalysing Climate Finance(overview of public incentive instruments);
    - Climate Change Benefits Approach;
    - Guideline for Screening and Appraisal of Public Investments; and
    - Climate Change Budget Integration Index.

Assessing the Domestic Public and Private Finance Landscape

Countries should take a good look at their current climate finance landscape to realize efficiencies, notes the International Climate Change Policy. Experience with climate finance reviews and financial gap analysis in various countries, shows that countries often assume that current financial means are already allocated and spent in the most efficient way. Countries can benefit from taking a critical look at their status quo – in terms of subsidies, taxes, grants etc. -, and assess current climate finance allocations with regards to increasing efficiency and reducing additional financial support required.

The 'Quick-Start Guide to NDC implementation' developed by Ricardo and CDKN features a module on financing NDCs, which proposes to:

1) Review current climate finance landscape
2) Establish institutional arrangements for the coordination of climate finance activities
3) Compile an overall costing for the NDC
4) Identify funding gaps and needs
5) Assess public and private financing options
6) Develop a country climate investment plan
7) Secure direct access to international climate funds for national and subnational institutions
8) Develop a project pipeline and financing propositions for different financing sources
9) Increase private sector engagement and overcome investment barriers
10) Implement a climate finance MRV system.

A number of countries started to develop **Climate Change Financing Frameworks**, which aim to serve as a pillar of UNDP's support for taking forward sustainable, country-led and owned NDCs in at least three key ways:

- by developing strategic financing frameworks and building the confidence of external actors to better manage and track climate finance, so as to mobilize more resources from all sources;
- by enhancing planning and budget decision-making to ensure existing resources are spent more rationally based on climate risk and cost-effectiveness factors as well as the evidence of impact and effectiveness;
- by targeting the benefits from climate finance to reach the poorest and most vulnerable in a more integrated way to reach national SDG targets.

Some of the **climate financing and budget management tools and strategic frameworks** developed by UNDP include the following:

- A **Climate Change Fiscal Framework** outlines a reform road map to enhance macro-fiscal planning and budget management by systematically integrating climate change into PFM systems and improving inter-ministerial coordination mechanisms.
- A **Climate Public Expenditure and Institutional Review** gathers evidence on the scope and allocation of climate change related expenditures in domestic public budgets.
- **Climate budget coding or tagging** and systematic expenditure tracking systems have also been put in place across public and private flows of finance for climate change.
- The **Climate Change Budget Integration Index** is a diagnostic tool countries can use to support climate budgeting and related governance.

- The **Climate Change Benefits Approach** is a tool that Ministries of Finance, line ministries and budget officials can use to guide the screening and investment appraisal of public investments and routine programme delivery.
- Catalysing Climate Finance provides an overview of public incentive instruments to create an enabling investment environment.

UNDP is supporting countries through a variety of initiatives to help them increase engagement with the private sector and to mobilize additional climate finance. Among these activities are a systematic tracking of private sector climate finance, which allows governments to get a better view on the leverage effects of different policies. To help countries mobilize climate finance, countries are carrying out assessments of finance required to address climate change/implement NDCs, which can serve also as pre-investment studies. Good practice case studies can help countries replicate successful public interventions of peer countries to mobilize the private sector.

Also, UNDP has looked at barriers and associated risk which can hold back private sector investment in grid-connected renewable energy and developed a methodology to de-risk private sector investments and assist policymakers to cost-effectively promote investment in the renewable energy sector

Alternative financing platforms, such as crowdfunding platforms, which aggregate funding can offer additional funding. UNDP is exploring options to set-up a partnership with a crowdfunding platform to increase access to finance especially for Small and Medium Enterprises. Co-benefits of projects will be assessed, quantified and monitored by UNDP to increase interest of socially responsible investor that look for impacts and social returns beyond financial returns.

GIZ/World Bank noted **three factors for sustainable transformation: 'stimulating finance', 'incentive legislation' and a 'willing investor'**. To raise finance from different sources and channel them toward NDC implementation, pipelines of investable proposals are needed for investors. He highlighted a NAMA Financing Training developed by GIZ, which helps guide governments through the process of developing an investment plan. Part of this **NAMA Financing training is a balance sheet for climate actions** to guide the compilation of a bankable proposal.

Another useful resource is the **International Finance Corporation's** analysis Climate Investment Opportunities, which looks at the costing-out of technology investments, regulations on and market prices of technology-specific products and services, current use of technologies in local markets, commercial potentials in local markets, consumption data, consumers' data on production patterns, fuel prices, and emission reduction potentials, among others. One key takeaway is that a bottom-up costing-out of NDC policies and actions is essential for the development of an investment plan.

Shifting Investments to Green Activities

Private investment in NDCs requires a lead role by the government in setting up incentive mechanisms for private investment, according to **Carbon Partners Asiatica**. Regarding how to foster this lead role, three different cases of NDC action are distinguished, each requiring a different type of government support:

- *Case 1: No costing or revenue projection information is available:* Funding will be needed for a feasibility study to generate substantial financial information.
- *Case 2: The costing and revenue projection reveal that the NDC action is economically unattractive to the private sector:* Public sector support is needed to enhance the economic

appeal of the NDC action - e.g. an adequate feed-in-tariff system for renewable energy projects, interest payment subsidies, results-based grants on GHG reduction achieved, etc.

- *Case 3: While the costing and revenue projection show the NDC action is not unappealing in terms of profitability, no private sector funding is available for other reasons (e.g. risk associated):* The creation of the enabling environment needs to entail measures specifically aimed at the identified barrier.

The prime reason for the **lack of interest by the private sector in green investment was either due to the absence of "low interest concessional funding"** provided by private banks or funding institutions and the **weak supporting legislation**, according to **Jordan**. But challenges like the global economic crisis of 2008, geopolitical unrest in the region and the current refugee challenge opened a policy window and helped catalyse greener planning, new laws, taxation incentives and technologies, and eventually the introduction of the national Green Economy concept, including economic diversification.

In view of challenges to advance the NDC agenda in the Cabinet, it is important that the **government take a lead role to set incentives for private investments**. The private sector needs investment security or guarantees to invest into a green economy, which underscores the need for long-term reliable policies and legal frameworks.

Jordan's national goal to mobilize funds from the Green Climate Fund is expected to help stimulate the development of green projects. In this context, Jordan has been prioritizing finance readiness and increasing ministerial capacity to manage green activities and to develop bankable proposals. **In sum, the need to fully engage the financial, public and private sector should be recognized.**

A participant working on waste and energy projects in **Nigeria** pointed out the difficulties of establishing public-private partnerships and associated financing. A possible escrow function by the Parties to the Paris Agreement before a deal is concluded could offer a solution.

A lead investor is imperative to create investor confidence, **states GIZ/World Bank**. No investor is willing to assume undue risks, yet no investor wants to miss a lucrative trend or new market opportunity. A new climate investment model that is driven by a lead investor to attract additional financing needs to be developed. To do that countries should partner with public and multilateral development banks. The NDC Partnership is the platform where all these agents – climate ministries, finance ministries, multilateral development banks – are coming together to create a narrative how NDCs can successfully be implemented.

Market-based Mechanism

The Clean Development Mechanism (CDM) which compensated investors in high risk countries with Certified Emission Reductions (CERs) did often not have the anticipated multiplier effect of increasing investment of the private sector in low carbon technologies. **Jordan** noted that the CDM, while developed with good intentions, was considered too costly and complex for developing countries. (costly in terms of project registration, complex with regards to the application of its baseline and monitoring methodologies). Nevertheless, CDM has stimulated considerable interest for low carbon technologies among investors and financiers.

New financing mechanisms have to avoid cumbersome, costly methodologies and implementation processes. Jordan noted that the complexity of the methodologies needed to be reduced to ease

access to the funds for the private sector, especially Small and Medium Enterprises. **Any new mechanism would have to be simple enough** for a project developer to complete a transparent but mainly technical eligibility criteria for participation in such a mechanism, stated UNDP based on its own experience with CDM. It is critical to stimulate investment in climate actions and finance on the ground has to be available and accessible.

A new, global Results-Based Financing Fund (RBF) in conjunction with a finance platform, as proposed by **UNDP**, which would compensate for tCO2 reductions and sustainable development impacts, while offering a simplified approval process and financing through a finance platform for underlying projects, could (temporarily) substitute for a market mechanism.

Carbon Partners Asiatica agreed and stated that the value of such a Fund derives not only from the current absence of working market mechanisms or greatly depressed Emission Reduction (ER) prices, but more importantly responds to a critical need of developing countries to attract investments that directly contribute to their NDC targets. Article 6-5 of the Paris Agreement explicitly prohibits host countries from including ITMOS or those emission reductions which have been internationally transferred in their NDC progress. The proposed Fund would address this issue by offering results-based grants, without involving "internationally transferred mitigation outcomes (ITMOs)". Such a fund would transfer only for emission reduction outcomes that go beyond conditional targets expressed in a country's NDC.

About the e-Discussion

UNDP, UNEP, UNEP-DTU, and the WRI, in cooperation with the UNFCCC Secretariat, are currently developing joint guidance to be used by countries as they prepare for NDC implementation. The guidance is being prepared as part of the discussions under the UNDP Low Emission Capacity Building Programme and the NDC Regional Technical Dialogues.

In this context, UNDP has launched an online discussion to exchange and gather national experiences on the implementation of Nationally Determined Contributions (NDCs) across a number of thematic areas, including Institutions, Awareness and Engagement; NDC Implementation Planning; Funding Strategies and Mobilizing Resources; Monitoring and Transparency; to support the development of the practical guidance document on NDC Implementation. The online discussion runs from November 2016 through March 2017.

The purpose of the online discussion is to engage stakeholders, practitioners, experts and policy-makers across the globe in a dialogue to capture real-world national experiences on NDC implementation.

Access the online-discussion here: https://www.unteamworks.org/NDCimplementation