



Durban must clear the path for more low carbon investment

November 29, 2011

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- The private sector is a critical partner for success. The Green Climate Fund must focus on leveraging private sector investment and should begin operating as soon as possible. Funds could be dispersed partly in support of implementation of developing countries' low-carbon action plans (known as Nationally Appropriate Mitigation Actions or NAMAs).
- A price on carbon is essential and negotiations must not close off this road. The eventual Kyoto successor needs to recognize the success of the CDM. It needs to be preserved, with improvements in methodology and process as necessary.
- Durban outcomes must pave the way for greater progress in Rio. Case studies and best practises in mitigation and adaption are emerging, so is experience from public-private partnerships. NAMA development should link to these lessons learned. Rio+20 could and should become a market place for the best ideas and approaches to date.

Time is running out for reaching agreement on the post-Kyoto international climate regime. Expectations for a breakthrough in Durban are low. Yet, finding common ground is essential in order to secure more ambitious emission reduction commitments. Else, the remaining hope to limit warming to 2°C will quickly fade as the tipping point nears. National targets, where they exist, are simply not enough and several key countries have yet to develop coherent policies.

Among the myriad of issues, the one area where progress should and could be made, is the Green Climate Fund (GCF). The GCF offers an important opportunity to leverage private finance with public resources. The G20 recently confirmed the commitment to achieve the funding goal of USD 100 bn for developing countries by 2020. In light of fiscal realities in many industrial countries, without significant contribution from the private sector, the goal cannot be reached. The GCF could act like a multiplier for funding. This will require proper design and operation. A well-functioning GCF could usher in an era of scaling up renewable energy and other climate friendly investment in developing countries. Such investments would not only benefit these countries through greater energy access and higher growth but also benefit the world through low carbon development. Importantly, the GCF could become a venue for true public-private partnership.

Negotiators in Durban must acknowledge the following priorities in order to accelerate low-carbon investment:

1. The private sector is a critical partner for success. The Green Climate Fund must focus on leveraging private sector investment and should begin operating as soon as possible. Funds could be dispersed partly in support of implementation of developing countries' low-carbon action plans (known as Nationally Appropriate Mitigation Actions or NAMAs).
2. A price on carbon is essential and negotiations must not close off this road. The eventual Kyoto successor needs to recognize the success of the CDM. It needs to be preserved, with improvements in methodology and process as necessary.
3. Durban outcomes must pave the way for greater progress in Rio. Case studies and best practises in mitigation and adaption are emerging, so is experience from public-private partnerships. NAMA development should link to these lessons learned. Rio+20 could and should become a market place for the best ideas and approaches to date.

Green Climate Fund – leveraging the private sector through NAMAs

The GCF was created in Cancun as one mechanism for channelling funding from the developed world in support of mitigation and adaption in developing countries. Over the last year, 40 country representatives (the Transitional Committee) have worked to agree the objectives, governance, and operational practices of the GCF. Negotiators from all countries will debate this proposal at the Durban conference¹. Agreement is paramount.

Green Climate Fund should include a private sector facility to act as a “one-stop shop” ...

Moreover, from the perspective of private investors and project developers, Durban must send a clear signal that the GCF is “open for business.” The GCF thus needs to include a private sector facility that would act as a “one-stop shop.” It would have five functions:

First, establishing procedures for private sector engagement. These include fast-track process, legal and contractual arrangements, standard agreements for non-disclosure and environmental and social standards. A toolbox of instruments could be identified (see below). Second, agreeing public-private partnership resource allocation for deployment in PPPs at country, regional or global levels. Third, providing operational support including matching countries and private investors willing to work with each other. Monitoring of best practices is essential. Fourth, focusing at the level of individual countries. This must ensure that any proposal for funding from the private sector fits with respective NAMAs. Finally yet importantly, providing private sector advice to the GCF Board.

The toolbox to reduce risk

... in order to reduce risk and leverage private finance

Private investment in climate friendly projects will only take place in an environment that displays transparency, longevity, and certainty (“TLC”). Without development of national low carbon growth strategies that underpin NAMAs, TLC cannot be achieved and private investment cannot be attracted. But even where a framework is in place, investors may find the risk-return balance unattractive. Various instruments can be deployed to address the imbalance.

Tailor-made risk reduction mechanisms can provide **political risk insurance**, as well as potentially insurance against currency and legal risks. This would expand on how the Multilateral Investment Guarantee Agency (MIGA) supports conventional investments. This

¹ http://unfccc.int/files/cancun_agreements/green_climate_fund/application/pdf/tc4-3.pdf



will help overcome an early barrier that excludes certain markets from the consideration of private investors.

Other risk reduction mechanisms include cash grants, loan guarantees and concessional financing. International funding could also support the creation of a feed-in tariff regime in a developing country in order to shift from a project-by-project approach to supporting a pipeline of clean energy projects².

Combining public and private capital is another important tool. A tiered risk-sharing structure leverages private investment in less risky senior tranches. Donor countries (or the GCF) would hold more risky junior tranches. This structure is deployed through the EU's Energy Efficiency Fund³ and Global Climate Partnership Fund⁴.

Multi-access

The GCF must generate maximum leverage toward the USD 100 bn target. Thus, cooperation with development banks and the private sector is essential. Many development banks are already co-investing with other public organisations as well as the private sector. The GCF needs to apply best practices and lessons learned. Importantly, the GCF needs a 'private facility' as described above.

Using NAMAs as a keystone for funding

Renewable technologies are rapidly coming down the cost curve. However, in many markets low-carbon alternatives cost more than fossil fuel technologies on a levelised cost basis. Thus, more countries need to adopt policies that work to deploy low carbon technologies, create economic growth, address pressing national energy priorities and reduce carbon emissions. NAMAs should reflect best practice feed-in tariffs, as well as efficiency performance standards for vehicles, buildings, industry or equipment. Such policies form an important bridge to a fully functioning carbon market.

At least 30 NAMAs are under development. They aim at a fundamental transformation of sectors including energy, waste, industry, forestry, transport and buildings. Durban must agree how measurement, reporting and verification of NAMAs will be carried out. This is important for private and public sector investors and financiers alike.

Ensuring the continuation of the CDM's successes

The Clean Development Mechanism has been successful and the UN conference should ensure the mechanism's future. Over USD 140 bn has flowed to 3,500 registered projects, with USD 81 bn invested in 3,400 projects currently in the approval process. The CDM has reduced emissions, created 'climate entrepreneurs', kick-started the renewable industries in Asia, transferred technologies and generated significant benefits in communities⁵. The overarching benefits of the CDM are clear. Nevertheless, the Executive Board's efforts to improve the methodologies and process are welcome. The many emerging national carbon market schemes would benefit from harmonised crediting and accounting frameworks. This would avoid market fragmentation, which could increase costs and lower environmental benefits.

Encourage cooperation with developing countries, international institutions and the private sector

More countries need to adopt policies that work to deploy low carbon technologies

Agree how measurement, reporting and verification of NAMAs will be carried out

² http://www.dbadvisors.com/content/_media/GET_FIT_-_042610_FINAL.pdf

³ <http://www.eeef.lu/>

⁴ <http://gcpf.lu/>

⁵ http://cdm.unfccc.int/about/dev_ben/index.html

Beyond Durban – the road to Rio+20

As we approach the Rio+20 conference, climate needs to stay on the agenda. A formal link seems all but ruled out. However, Rio should be an important stop on the road to a global progress on climate change. The UN Secretary General's Sustainable Energy for All initiative should keep alive the focus on energy access but in a sustainable context of renewable energy and energy efficiency at a global level.

Rio could and should become a market place for the best ideas and approaches to date. NAMAs should reflect these best practices to ensure investment and growth.

Implementation and scale up of low carbon investments is vital. Durban has the opportunity to deliver one unique funding vehicle that could combine private sector entrepreneurship with public sector policy-making capabilities for the benefit of the next generation. Seize this opportunity.

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