IISD SEES WAYS TO INCREASE PRIVATE SECTOR INVESTMENT IN CLIMATE CHANGE MITIGATION THROUGH NAMAs

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One of the fundamental challenges facing governments looking to develop effective climate change solutions is effectively leveraging private finance. Negotiating bodies such as the United Nations Framework Convention on Climate Change (UNFCCC) have come to the realization that traditional sources of public financing and development aid will not be able to muster the resources needed to prevent the most catastrophic outcomes predicted as a result of global temperature rise.

Through the Copenhagen Accord, developed countries committed to mobilizing upwards of $100 billion annually (by 2020) to finance climate action in developing countries, which would need to come from a variety of private and public sources. Despite notable progress in terms of fast-start financing, the funding available from public sources to help developing countries meet their adaptation and mitigation needs remains significantly below projected requirements. The *Climate Policy Initiative* estimated in 2012 that total direct public financing for climate change accounted for roughly US$16-23 billion[1].

While direct private sector investment already accounted for a large portion of international climate financing flows in 2012 (US$217-243 billion)[2], relatively little is being invested through the UNFCCC in financeable NAMAs (nationally appropriate mitigation actions[3]) that enable developing countries to pursue self-identified low-carbon development.

NAMAs can serve not only as an important instrument for climate change mitigation but also provide significant potential for economic development for developing countries, including those that are most vulnerable.

As a relatively new concept, there are a number of challenges related to implementation of NAMAs, but the core challenge is in accessing the private funding required to undertake NAMA activities.

The International Institute for Sustainable Development is working to assist countries with developing frameworks to encourage investment in climate change mitigation that will not only allow them to proceed on low-carbon development pathways, but also to make these plans attractive to private investors, lessening reliance on public funding.

Reviewing a number of registered NAMAs (understanding that many NAMAs are still under development), it is possible to identify characteristics for attraction of private investment, yielding lessons for NAMAs developers as well as private sector investors looking to seek out productive avenues for investment.

Fundamentally, incentive structures and de-risking instruments have to be in place to ensure that private sector capital will flow to NAMAs, given how many other opportunities there are that are for private investors.

However, in many cases developing countries haven't got the ability to undertake the complex tasks required to create attractive investment options. With this in mind, there are ways international stakeholders can assist countries in developing financeable NAMAs, foster private sector investment, and more broadly align low-carbon development plans with private sector flows.

One action stakeholders can take is to collect and disseminate information on best practices in climate financing involving the private sector. Sharing success can provide NAMA developers with experience to draw upon in overcoming barriers, preventing duplication of effort, and reducing project risk. NAMA developers and project proponents can also draw from other low-carbon development initiatives and financing mechanisms, which may share a lot of characteristics with NAMAs, and have a longer track record than NAMAs.

International organizations and donors can also help by providing NAMA developers with technical assistance and information for identifying and accessing funding streams. International organizations can bridge capacity gaps, help national representatives develop proposals with characteristics that will attract private investment, and identify key sectors that present mitigation opportunities with the biggest impact in reducing emissions and attracting investment.

Finally, it is integral for private sector funders to be proactively engaged in supporting NAMAs. International agencies and donors can foster relationships and facilitate investment opportunities by engaging the private sector in NAMA-related activities, such as conferences, workshops, and study tours. Potential NAMA funders would benefit from face-to-face meetings with NAMA developers to learn about best practices.

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The establishment of operational NAMAs is increasingly becoming one of the central tools to help support international low-carbon development. By using public funding to leverage private finance, and addressing risks and barriers to private investments, NAMA developers and the organizations supporting them can increase success in accessing private financing. ■

1. http://climatepolicyinitiative.org/wp-content/uploads/2012/12/The-Landscape-of-Climate-Finance-2012-Executive-Summary.pdf
2. Ibid. The remaining portion of climate finance in 2012 (110-120 billion) was raised and channelled through intermediaries, particularly national development banks and commercial banks.
3. Developing country parties agreed at COP 18 to develop NAMAs supported and enabled by technology, financing and capacity building. The goal of NAMAs is achieve a reduction in GHG emissions relative to BAU, assisting in meeting global GHG reduction targets. Fifty-seven countries have so far communicated proposals for NAMAs through the UNFCCC. More information on NAMAs is available from the UNFCCC: http://unfccc.int/focus/mitigation/items/7172.php