INDC CONVERSION: THE ROLE OF NATIONAL STRATEGIES IN DRIVING DOMESTIC AND INTERNATIONAL FINANCE

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AGENDA

• Why convert INDCs
• Back to Paris – INDC conversion as part of the UNFCCC and GCF cycles
• What is a “converted” INDC – a concept for discussion
• Review what INDC conversion entails
• An INDC investment strategy –
  – looking at the financial system as a whole
  – Specific measures res to finance achievement of the INDC
• Discussion
For INDCs to achieve real impacts, they must be **converted** into policies, measures, and financeable investment strategies.
WHY CONVERT AN INDC?

Promote ambition

Achieve synergy – mitigation, resiliency and development

Optimize use of domestic resources

Attract private sector investment

Make proposals more attractive to funders
INDC CONVERSION AND INCREASED UNFCCC AMBITION

- Ongoing domestic policy planning process that is critical to achieving global goals

- Each step of the cycle is repeated every 5 years as defined in Paris Agreement

NDCs & global finance goal confirmed

New NDCs & global finance goal considered

Global stock take

Implementation, with support

Reporting
THE GCF FUNDING CYCLE AND INDC CONVERSION

- The successful conversion of NDCs will deliver strong proposals to funders, including the GCF.

- Strong, programmatic proposals can accelerate financing and make the case for additional replenishments.
HOW IS AN INDC CONVERTED?: OVERVIEW

National circumstances and political priorities → Analysis of options and trade-offs → Converted INDC

Context & priorities
- Intended target
- SD Goals
- Financing situation

Sectoral objectives
- Qualitative goals
- Infrastructure needs

Identify options
Costs + benefits (GHG+SD)

Policy tools? Mandates?

Public finance outlays?

Public finance interventions
- Fiscal outlays
- Public finance institutions

Policies and measures
- Sector-specific
- Cross-cutting

Target
- Formally confirmed

Investment strategy
- Basis for seeking support and targeting private finance
A converted INDC is a comprehensive national plan to achieve the INDC target, achieved through a national policy-making process.

**WHAT IS IN CONVERTED INDC?**

- **Target**
  - Formally confirmed

- **Policies and measures**
  - Sector-specific
  - Cross-cutting

- **Public fin. interventions**
  - Fiscal outlays
  - Public finance institutions

- **Investment strategy**
  - Basis for seeking support and targeting private finance
MANY DEVELOPING COUNTRIES AT EARLY STAGES OF CONVERSION

Results of UNDP survey of 58 developing countries, February 2016

- Initial discussions carried out: 35%
- Developing NDC implementation plans: 17%
- NDC Implementation plan already developed: 9%
- Planning not yet started: 39%
Some countries are further along in process

Mexico:
- Has identified measures that add up to overall INDC target
- Now working to:
  - Refine sectoral policies and measures
  - Determine actions to be financed domestically vs with international support

Philippines
- Preparing “INDC roadmap” to refine INDC goals:
  - Refining costs and benefits of sectoral measures
  - Working with private sector to identify high-impact investments

Argentina
- Defining priority measures for each sector
- For each measure, determining total cost, and domestic vs international contribution
- Assessing options to increase overall INDC ambition
CAN INDCS ATTRACT FINANCE?

• Roughly half of the 39 INDCs CCAP studied estimate total investment costs
  – One fifth provide full costs by sector & specific measure
  – 14% present an overall financial request
• Don’t fully reflect factors that will inform funding
  – Cost, availability of domestic finance
  – Info on costs and gaps relevant to programs
  – How a country will use its domestic resources
  – Basis for requesting support
• Publishing an “INDC investment” or “National Climate Finance” strategy can provide this info
“Greening” the financial system: Long-term, systemic measures to level the playing field for climate-compatible investment

Direct interventions: Developing a strategy to finance programs in support of INDC

To identify opportunities to:

- Establish regulatory policy frameworks that promote climate-compatible investment
- Develop markets for “green” instruments (e.g. Green Bonds)
- Use market mechanisms to promote climate goals (e.g., emissions trading)
- “Green” budgets (e.g. eliminate fuel subsidies) and public financial institutions
- New public investments and tenders (e.g., reverse auctions for RE)
- Identify catalytic and strategic uses of international public climate finance
GREENING THE FINANCIAL SYSTEM

- Addressing the broader financial system creates the conditions needed to develop high-impact programs
- Can help “shift the trillions” in global financial assets
- UNEP Inquiry Report provides a framework for a “green” financial system

Policy approaches:
- Enhancing market practice: disclosure, analysis, risk management
- Harnessing the public balance sheet: fiscal incentives, public financial institutions and central banks
- Directing finance through policy: requirements and prohibitions, enhanced liability
- Cultural transformation: capacity building, behaviour, market structure

Key financial sectors:
- Banking
- Institutional Investment
- Insurance
- Equities
- Bonds
WHAT SHOULD SUCH A STRATEGY ADDRESS? (1)

Understanding national financial environment

What is the overall picture for climate investment in the country?

- Current private investment to high-carbon and low-carbon sectors
- Cost and availability of finance for adaptation and mitigation
- Key economy-wide barriers
- Current public climate spending
Prioritizing financial interventions

What investment is needed to meet INDC goals?

- Priorities for altering current investment patterns
- Infrastructure needs
- Total and incremental costs of investments

China will need 2 trillion yuan/year (US $320) billion in clean investments

WHAT SHOULD SUCH A STRATEGY ADDRESS? (3)

Unilateral policies and measures

What unilateral means will the country use to mobilize financing?

- Policies and regulations to influence investment
- Public expenditures and actions by public financial institutions
- Strategies to mobilize domestic private sector & attract international financing

**South Africa** has cut solar and wind costs through competitive tenders

**India** shifting investments through
- Priority lending for renewables
- Green Bonds guidelines

Source: Yuen K. S. E
WHAT SHOULD SUCH A STRATEGY ADDRESS? (4)

- New public investment
- "Greening" budgets
- Public mandates/incentives
- Carbon taxes
- Legal and regulatory changes
WHAT SHOULD SUCH A STRATEGY ADDRESS? (5)

Strategic basis for international support

How will support drive increased ambition?

- Priority measures for international support
- Rationale for types of support and financing required
- Sources targeted
- Specific program proposals to be pursued

Mexico is developing criteria to prioritize proposals to the Green Climate Fund
Governance and oversight

How will institutional and accountability arrangements promote effective implementation?

- Development of guidelines and principles for investment
- Information sharing on opportunities and risks
- Decision-making processes (e.g., tenders, requests for support)
- Measuring impact (e.g., metrics, timelines and roles)

**Brazilian** banks incorporate climate in risk assessments
- Developing method to monitor clean investments

**Zambia** inter-ministerial Climate Change Secretariat attached to the Ministry of Finance.
To implement INDC's fully, and to take advantage of opportunities to accelerate action and enhance ambitions, countries should consider creating **financeable investment strategies** for their INDC’s.

Countries may wish to publish a full **National Climate Finance/INDC Investment Strategy** on how they intend to attract finance and make the case for support.

Part of this work will be to **“green” the financial system** by addressing systematic barriers to low-carbon investment.

Helping countries do this work is a good use of international support – GCF, GEF, others should do much more in this respect to drive ambition.
DISCUSSION QUESTIONS

• What is your view of what a “converted” INDC and investment strategy includes?

• What areas will present the greatest difficulty as countries attempt to develop INDC investment strategies? What are the key areas in which countries will need support?

• What factors will be important in looking at the use of domestic resources, and how international support can align with/complement this use?

• How can an investment strategy drive private financing?

• How can a converted INDC and its investment strategy be used to guide international finance from all sources?
THANK YOU

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