



Policy Luncheon on Finance and NAMAs August 4, 2010 – Bonn, Germany

- Meeting Summary -

Hosts/Moderators: Herman Sips (the Netherlands) and Ned Helme (CCAP)

➤ Introduction/Overview

This third policy dialogue of 2010 hosted by the Dutch government and the Center for Clean Air Policy (CCAP) was attended by almost 40 participants from over 25 developed and developing countries and international organizations. Discussions focused on how to foster ambitious NAMAs during the fast-start phase (2010-2012) and in the long term. Participants also discussed options for the long-term financial architecture and agreed on the need to create a competitive element in any new international funding mechanism to encourage transformational policy actions by developing countries. The last part of the policy luncheon focused on elements of a readiness phase to prepare developing countries for implementing ambitious mitigation actions.

The moderators provided an overview of the last meeting, including transparency, matching of programs with funding, and harvesting of lessons and best practices. The Netherlands also highlighted its progress toward launching a fast-start finance (FSF) website ([www.faststartfinance\[.org/.com\]](http://www.faststartfinance[.org/.com])) in September that compiles information on donors' funding programs and developing-country projects seeking funding – a concept that arose from previous CCAP/Netherlands policy luncheons.

➤ Ambitious NAMAs

The moderators opened this discussion by asking what is meant by “ambitious” NAMAs and highlighting Germany’s feed-in tariff, China’s car/truck standards, and Costa Rica’s zero-emissions goal as good examples (as well as a possible steel-industry NAMA CCAP is working on with Mexico). The **Marshall Islands** highlighted a solar project they are implementing and praised round-table discussions and the upcoming FSF website as ways to build trust. The country is working to spur fast activities, is undertaking early harvesting to see what projects are “shovel-ready,” and is looking at filling funding gaps and increasing their absorption capacity for funding.

Norway presented on its REDD+ cooperation with Indonesia, where ministries are pooling authority under a new REDD+ agency in order to reduce transaction costs and increase coordination. The initiative will design a national REDD+ strategy (as part of

Indonesia's development policy) to address the drivers of deforestation in a phased approach (preparation, transformation, verified emissions reduction) with the creation of a new independent MRV agency. Norway will contribute up to US\$1bn in funding on an innovative, results-based payment system as enabling policies are implemented, but said that pooling of funding is necessary given the size of the challenge. Although they are still discussing involvement of international organizations and deciding on funding mechanisms, Norway said that it prefers a multilateral trust fund and that the initiative is linked to the UNFCCC. Participants raised the issue of sovereignty and asked about political engagement and host-country funding. Norway indicated that there will not be significant up-front financing, as Indonesia has made a substantial commitment to unilateral action. They also suggested that funding should be tied to adopting enabling laws and policies, not simply to achieving emission reductions.

Criteria for an Ambitious Action: Norway suggested several key elements of this initiative as potential criteria to define ambition including:

- Existing bilateral cooperation;
- High political engagement;
- A host-country-led process;
- Payment for deliverables;
- Creation of new institutions; and
- Establishment of solid funding mechanisms.

Participants agreed with these suggestions and added that the initiative should be one that would not have happened otherwise. It was also suggested that having the initiative embedded in national development policy (as it is in this example) would be an important criterion. Participants seemed to reach agreement that "ambitious" does not necessarily mean large and complicated. Although small, the Marshall Islands project is very visible, valuable, replicable, and quickly implemented. Transformational impact could therefore be considered at the country level instead of internationally. Potential for replication was also seen as an important criterion as was the need for the effort to address existing market barriers.

➤ **Financial Architecture**

The moderators asked participants whether a competition or incentive element could be built into the financial architecture in order to encourage ambitious NAMAs ("let the best NAMA win"). This component could be balanced with a traditional equity or geographic distribution component that helps close the deal on more traditional projects/programs. There was broad agreement among participants on the need for this type of element in the future funding mechanism. One participant said this question relates to the scale of available finance given the opportunity costs involved in climate finance. However, he declared that the donor/recipient paradigm has an implicit upper limit on scale that will soon wear out and that climate change cannot be solved with just donations. Another participant grounded the discussion by reminding participants that we need to scale up to US\$100bn/year in a period that spans several election cycles and called for explicit

separation of mitigation and adaptation in any new international fund and a competent governance structure to ensure this.

As the discussion turned to how to create a performance-based fund, one participant underlined how different this would be from any other fund that has been designed (in part due to the size) and said two ways to create competition for ambitious NAMAs are to involve the private sector and to not use a priori allocations. Although he highlighted the political appeal of systems where everyone gets funding, he was interested in designing a structure that incentivized performance and called for clarity and simplicity to help sell the idea politically at home. Another participant said the focus should be on mitigation and said it is less likely the financing approach would be transformational if it does not include private money, consider learning opportunities (for countries and financing entities), and address market barriers, risks, and imperfections. Funds must be catalytic to get private money flowing, and a crucial piece of the puzzle is effective national-level mechanisms like trust funds.

One delegate commented that we do not have to reinvent the wheel, as there is lots of discussion around ambition happening in the development arena, including a financial management infrastructure. He felt the bulk of mainstream finance would still happen bilaterally at the national level but that ambition funding could support front runners that would not come about otherwise. There was agreement among participants that the pre-investment phase is often an afterthought and that transformation should be a part of the readiness component. This should address norms and barriers to investment as well as help buy down risk for early movers.

The moderators asked whether participants saw a place for an ambition component in the NAMA registry or climate fund, and participants continued to agree that a competition package would be useful. Many liked the idea of a percentage of funds being dedicated to transformational actions on a competitive basis. However, one participant felt that all actions should be transformational to solve the climate problem and called for ambition to be more central in financing decisions. Participants asserted that the ambition idea will depend on the readiness component, low-carbon development strategies (LCDS - key to transformation in countries), timing (due to differing progress among countries), and consistent early-phase incentives.

➤ **Readiness Phase**

The final session of the dialogue explored what specifically needs to be done during a readiness phase to prepare developing countries to implement ambitious and transformational actions. The **European Commission** opened the session with a presentation on an EC/UNDP capacity-building initiative that supports developing countries with inventories and LCDS. An initial scoping study in five countries will identify low- or negative-cost mitigation options with a private-sector component, provide capacity-building support to the five countries, and produce lessons to be transferred to other countries. A report on this initiative will be ready in

November/December 2010, with the hope of fostering LCDS and transformative work at the country level.

One participant framed the readiness issue as a need to operationalize a preparation phase for NAMAs and said the key will be a common methodology for the design of mitigation options to encourage competition between countries. Another developing-country participant said his country is close to designing mitigation options, but questioned whether donors are ready to fund them. A delegate from Latin America announced her country's absorptive capacity, pointed to its trajectory on a transformational pathway (including design of an LCDS), and called for endogenous incentives for ambitious actions. Several participants agreed that we need to look for flexibility in NAMAs and niches for projects/programs. Some also communicated the difficulty non-LDCs have in getting in touch with donors about financing.

Toward the end of the session, one participant declared that non-transformational initiatives perhaps should not be financed, but admitted that what is negligible in scale for a country like China may be transformational in a small country like Costa Rica. Although NAMAs are unlikely to be defined in the negotiating text as "transformational" actions, many participants seemed to be in agreement that perhaps ambitious NAMAs could be compared using qualitative terms.

➤ **Next Steps**

The moderators concluded the dialogue by encouraging countries to move beyond defining and framing ambition and toward designing an operational toolbox to achieve it. This topic will be addressed at future policy luncheons. It was announced that future policy discussions on the issues of ambition, finance, and NAMAs, among others, would take place during the upcoming Future Actions Dialogue meeting (**September 8-10, 2010** in Brussels, Belgium) and at the next policy luncheon of this series, to take place during the negotiating session in Tianjin, China (on **October 6, 2010**, tentatively). CCAP also committed itself to putting together a short framing paper on these issues in the coming weeks.