



Mitigation Action Implementation Network (MAIN)

Third Latin American Regional Dialogue on the Development of Nationally Appropriate Mitigation Actions (NAMAs)

MEETING SUMMARY

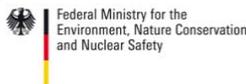
Hotel Estelar La Fontana
Av. Calle 127 No. 15A – 10
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Overview

The third regional dialogue of the Mitigation Action Implementation Network (MAIN) in Latin America took place from April 25 to 27, 2012 in Bogotá, Colombia. The event was organized by the Center for Clean Air Policy (CCAP), hosted by the Colombian Ministry of Environment and Sustainable Development (MADS), and generously supported by Germany, Canada, and other funders.

More than 70 participants, including inter-ministerial teams from the eight Latin American participant countries (Argentina, Chile, Colombia, Costa Rica, the Dominican Republic, Panama, Peru, and Uruguay), came together to advance ambitious and financeable Nationally Appropriate Mitigation Actions (NAMAs) in accordance with national sustainable-development plans. Experts in waste, renewable energy, energy efficiency, and transportation presented best-practice options for mitigation policies in these sectors. The event also convened representatives of financial institutions (Chilean bank BICE, KFW, KPMG), development banks (CAF, IDB), finance consultants (Brad Johnson, RMA) and potential developed-country funders of NAMAs (Germany, Canada, France) to discuss available funding for NAMAs and how to incorporate financial engineering in the design of NAMAs.

Building on the momentum of MAIN-Latin America dialogues, CCAP launched a new MAIN Portal, an interactive online network for country teams to engage in peer-to-peer discussions on NAMAs beyond the regional dialogues, exchange experiences and feedback from peers, and accelerate NAMA development.

Main Takeaways

- Developing countries in Latin America have made considerable progress over the past year in developing NAMAs that address climate, sustainable development, and other benefits. While few NAMAs were under development at the first MAIN dialogue in March 2011, over 40 NAMAs are currently being developed in Latin American participant countries, several of which have advanced to the stage of developing financing plans.
- The UNFCCC process is leaving much of NAMA design to be determined by early on-the-ground actions, which may also likely shape eventual Green Climate Fund (GCF) principles on MRV (monitoring, reporting, verification), funding criteria, etc. (good opportunity for developing countries to shape process from the early stages to reflect domestic priorities).
- NAMAs are currently the most promising climate finance option, given new funding programs and the uncertain near-term demand for Clean Development Mechanism (CDM) projects. NAMAs have a bigger potential impact in leveraging private-sector investment than the CDM.
- Double counting of emissions reductions must be avoided (between NAMAs and offset mechanisms like the CDM).
- NAMAs must be designed in a way that incorporates appropriate financial engineering or mechanisms, as the bulk of NAMA support will likely not be from grants. NAMA designers/implementers need to be educated in financing alternatives.
- NAMAs should employ financial mechanisms that are tailored to specific local conditions and barriers. Key financial options were discussed, including partial credit risk guarantees, special

purpose entities, performance guarantees, soft loans (or long-maturity loans), and special funds. Several mechanisms can be combined in a single NAMA.

- The private sector and banks should be involved from the early stages of NAMA design to help design financeable NAMAs and better understand financial opportunities (investment in specific projects and infrastructure under NAMAs, as opposed to CDM offsets). NAMAs will be designed to improve financial attractiveness for this private-sector investment, which stands to be much larger than investment under the CDM.
- Bundling of projects and direct loans to cities can sometimes help overcome barriers.
- Participants saw value in developing toolboxes of policy options by sector (similar to one presented for building efficiency).

Introduction, Updates on NAMAs, Role of Private Sector

Andrea Garcia, of Colombia's Ministry of Environment and Sustainable Development (MADS), opened the meeting by indicating they have numerous NAMAs identified, stressing the need to work with sectors upfront, and calling for financing for NAMA implementation. CCAP's Ned Helme gave an overview of NAMAs and NAMA finance, stressing recent developments from the Durban climate negotiations and the GCF. He emphasized the need to avoid double counting of emissions reductions that result from CDM projects that also receive NAMA support, and underscored the near-term promise of NAMAs as a source of climate finance over the CDM, given declining demand for certified emissions reductions (3 bn tons demanded under current targets, compared to supply of approximately 7 bn tons).

In discussion, some participants expressed difficulties in involving the private sector in NAMA development, as players tend to be more focused on the CDM. However, it was felt that public-private partnerships and other arrangements that show clear, direct benefits (usually not greenhouse gas, or GHG, reductions) could help attract the private sector in some sectors. A different and broader set of private-sector players (pension funds, banks, developers, etc.) will be involved in NAMAs than has been involved in the CDM. Participants called for effective early NAMAs so that the private sector sees clear results. A Latin American bank said few banks are investing in renewable energy, but effective NAMAs could attract banks better than the CDM.

Since the first MAIN-Latin America dialogue 14 months ago, countries have made significant progress toward NAMA development. On the first day of the dialogue in Bogotá, countries were invited to report on this progress and their most promising NAMAs to date. Of the over 40 NAMAs in Latin America currently being developed, some of the most promising include:

- A revolving fund to stabilize the prices of renewable energy;
- Organic waste and integrated solid waste management programs;
- Energy efficiency standards in the public, tourism, housing, and mining sectors;
- "Smart growth" and transit-oriented development (TOD) efforts that decrease vehicle use;
- "Green zones" and policies to encourage electric vehicle use;
- Vehicle scrappage/retrofit efforts and policies mandating more efficient fuels; and
- Forestry and agriculture (coffee, "panela," etc.) efforts.

Climate Finance Programs

Contributing countries and other organizations were invited to provide updates on funding available for NAMAs. Germany presented that they have committed a total of 2.2 bn Euros to fast-start financing through their International Climate Initiative and announced new opportunities for climate and energy financing for the direct implementation of NAMAs by developing countries in the next year. They also presented a tool to guide practitioners in NAMA development and spoke about their International Partnership on Mitigation and MRV, which emphasizes inclusion of the private sector in NAMAs, low-emissions development strategies, and MRV.

Environment Canada reported that their climate funding has been increased to \$1.2 bn to support mitigation through the Inter-American Development Bank, the International Finance Corporation, MAIN, and other avenues. Half of the funding will go to Latin American countries to advance low-carbon housing, oil & gas, and waste efforts (financing has already begun to flow). The Agence Française de Développement has earmarked approximately half of its 15 bn Euros in foreign assistance to climate initiatives, including credit lines for banks (in Latin America, funding focused on Colombia, Mexico, Brazil, and the Dominican Republic). Participants also heard presentations by development and private-sector banks, which emphasized funding for climate mitigation and the importance of involving the private sector early in NAMA development in order to create “bankable” projects.

Financing in NAMA Design

CCAP focused much of the dialogue on financial engineering for NAMAs. Presentations by finance experts addressed the role of international financing; how to encourage private-sector involvement; and a toolbox of financial mechanisms to overcome specific NAMA barriers and mitigate risk. These include partial credit risk guarantees (when entering new sector or to address credit quality of borrower); special purpose entities (high transaction costs of small projects); performance guarantees (lack of familiarity with technology); soft loans or longer maturities (high interest rate environments or low project revenues); and special funds (lack of local bank capacity). Experts called for NAMA design that incorporates appropriate financial components that are tailored to local conditions and specific projects. Participants discussed NAMAs in energy efficiency, renewable energy, and transport, and had an opportunity to assess the usefulness of different financial tools by sector and to review potential NAMAs from a financial standpoint.

In many cases, different tools (credit/performance guarantees, special-purpose revolving funds, extended-maturity loans, co-financing) can be combined in the same project. Financial experts seemed to agree that various mechanisms should be incorporated at early stages in order to reduce risk throughout the duration of the project, and that bundling of projects can be useful. It was also emphasized that international funds should ensure that the underlying project or program can produce competitive returns for investors and that there is an exit strategy for contributing-country funding. Country participants generally felt they needed to dedicate more time to tailoring financial mechanisms to their respective policies and conditions.

NAMAs in Renewable Energy

The session on finance led into a NAMA finance case study of Chile's renewable energy price-stabilization fund, which was seen as an innovative way to address the risk of volatility in electricity's marginal price by giving developers the certainty of a fixed price. Discussion made it clear that the fund should stay focused only on volatility risk and that a power purchase agreement would be key collateral for commercial bank lenders. Participants also received valuable advice from the NGO Vote Solar, including making bidders face a penalty for not delivering (to discourage speculators) and tying bids to transmission connections.

NAMAs in Waste

This session on waste NAMAs combined a presentation on best-practice policy options for mitigation actions in waste and a presentation on Colombia's efforts to develop an integrated solid waste NAMA with funding from Canada. It was clear from subsequent discussion that waste NAMAs should take on a holistic approach combining both GHG and waste management goals. The session also made it clear that there is a hierarchy of options to reduce emissions (prevention, reuse, recycling, recovery, and disposal) and better options typically are more expensive. Pilot projects can provide a sense of costs and benefits; one key is to determine costs and whether attractive options in terms of GHGs (eg, gas capture for energy, food waste for biodigestors) are financially viable with NAMA support.

NAMAs in Building Efficiency

The Institute for Building Efficiency began this session with an overview of policy options for building efficiency (building codes, certification, incentives, etc.) and best practices in developing countries. It was emphasized that good data and baselines are crucial to designing the right policies and that policies must be tailored to local conditions. Econoler also presented a case study on Bulgaria's Energy Efficiency Fund, which sought to transform the market for commercially viable building-efficiency projects. The private sector saw building codes, rating systems, code enforcement, and disclosure of building performance as promising areas for NAMAs. Participants felt that incentives for consumers and builders were also promising, and that energy subsidies undermine market signals.

NAMAs in Transport

A session on vehicle fuel efficiency standards addressed the range of policy tools and their potential as NAMAs. Participants discussed the use of Euro standard versus US-oriented CAFÉ standards and the need to combine regulation with fiscal incentives such as import tariffs. It was generally agreed that changing tariffs to encourage imports of more efficient vehicles was an important area to consider for NAMA funding. Financers stressed the need for an economic model to consider the effects of various changes in tariffs or credit availability based on fuel economy. The role of politics in setting regulations was highlighted by an example from Mexico and there was discussion of the politics of fiscal incentive policies in other countries. There was also discussion of vehicle scrappage programs and used-vehicle import bans, which are already in place in many Latin American countries. Later in the dialogue, participants had the opportunity to provide feedback – again from a finance perspective – on a TOD NAMA being developed by Colombia.

Breakout Sessions

Fuel Efficiency – Hypothetical NAMAs were discussed in two sub-groups representing Panamá and Colombia, respectively. For Panamá, the NAMA that was developed centered on reduced new vehicle import tariffs on, and preferred financing rates for purchase of, energy-efficient vehicles. The need for an economic model was again stressed, especially for determining optimal setting of fee and rebate rates under such a strategy. The group also considered whether to extend the strategy to heavy vehicles and how that would contribute to GHG goals. The Colombia group developed a freight fleet-renovation NAMA and considered retrofitting of old vehicles and the purchase of new ones. They considered various ways to structure the finance of such a program and how to MRV such as NAMA.

Building Efficiency – The Institute for Building Efficiency presented a tool for prioritizing building-efficiency policies. Two sub-groups met to use this tool and CCAP's supported NAMA template to develop hypothetical NAMAs in Costa Rica and Perú. The breakout session afforded teams a chance to work through the tool and template, which were well received by participants as useful both at the technical level in evaluating policy options, as well as at the political level in presenting potential NAMAs to policymakers.

Country Breakouts – On the final day of the dialogue, country teams had an opportunity to meet to assess their most promising NAMAs with an eye to finance, and report back to the full group.

NAMA Registry

This session included a presentation by the UNFCCC on its evolving NAMA registry (which seeks to record and recognize NAMAs, record financing for NAMAs, and facilitate NAMAs with support) and a presentation by Ecofys on their NAMA database and NAMA classification (strategy, policy, and project NAMAs). Ecofys felt GHG metrics for MRV would be less relevant than others in the case of strategy and policy NAMAs. Developing-country participants agreed, and called on CCAP to carry forward work on sector-based MRV indicators that go beyond GHGs, which could facilitate NAMA financing and also influence the UNFCCC process.

Next Steps

The third MAIN Latin America dialogue saw significant progress by countries on evolving NAMAs and focused in particular on financial engineering as a key consideration for successful NAMAs. Going forward, CCAP will carry out more bilateral work with countries on their NAMAs (including country visits in some cases), continue with video conference sessions, and further develop the MAIN Portal. The fourth MAIN dialogue in the region is scheduled to be held in Punta Cana, Dominican Republic in the fall. Based on participant feedback, substantive CCAP work going forward may focus on MRV metrics and policy-prioritization tools for other sectors.