



World Business Council for  
Sustainable Development

**World Business Council for Sustainable Development:  
Scaling up low-carbon investment through the UNFCCC  
Submission – 21 February, 2011**

**Executive summary**

Major private sector financing flows will be needed to limit global warming to below 2°C. To scale-up low-carbon private sector investment in developing countries a combination of policy instruments will be required to reduce risks through improving the enabling environment, increasing the return on investment and putting a cost on carbon.

WBCSD welcomes the focus on national action and the central role of nationally appropriate mitigation actions (NAMAs) within the climate architecture. We have advocated for many years that a bottom up approach will be most effective, where local, national, regional and sector programs deliver a quantifiable and long-term pathway for economic growth and emissions reductions. We believe that business engagement and cooperation with national governments in the development of NAMAs is essential to ensure that private sector expertise and know-how is incorporated in their design.

Successful implementation of NAMAs will depend on national enabling factors and clear guidelines and systems for MRV that should be supported by non-market mechanisms. Among the enabling frameworks we include policy frameworks that lead to: strong demand for low carbon technologies; clear, effective, domestic institutional frameworks; and appropriate absorptive capacity in institutions, business and society. The development of these elements should be supported by an international framework, including advice, training and grants through the technology mechanism and the financial mechanism.

Sometimes enabling frameworks are not enough and new mechanisms will be required to deploy public funds in an efficient manner and to mobilize private low-carbon capital at scale. In this submission we are proposing mechanisms to improve the risk-return profile of green investment in developing countries and a new market mechanism based on creditable NAMAs to scale-up mitigation actions.

*Our first proposal* includes the creation within the NAMA framework of national finance vehicles based on public private partnership (PPP) to bridge some of the finance gap. The model consists of a national PPP vehicle in which public capital (from the Green Climate Fund and national Governments) is deployed alongside private sector capital, but with different expectations of return to mitigate the risks for private sector investors or to lower the costs of debt being provided. We present here the different steps a developing country, intending to implement a NAMA and wishing to receive finance or carbon credits, would need to follow. The distinct feature of this proposal is that eligible developing countries can gain international eligibility accreditation to allocate international finance and hence domestic empowerment over low-carbon strategies, funding instruments and options.

*Our second proposal* is to create a new crediting mechanism under the NAMA framework to provide additional incentives for low-carbon investment by increasing the return on investment through generation of carbon credits for emission reductions achieved in a project or program.

In this new mechanism, developing countries which choose to take on voluntary targets (for a sector or the whole economy) would allocate emissions allowances in the context of their NAMAs. The voluntary target, developed in consultation with the national industry, would function as a baseline for that country or sector that will be subject to MRV. A developing country which wishes to increase its level of ambition below this established target could make use of the new market mechanism to get tradable credits. The NAMA eligibility certification would allow countries to approve the issuance of carbon credits to domestic projects that outperform the national goal and comply with the MRV requirements.

We believe that the international funding and financing options presented in this submission could help meet the different cost challenges of mitigation actions in developing countries by strengthening the frameworks that enable private sector investment and providing national financing vehicles that reduce the cost of finance for low mitigation actions, and creating a new international market mechanism that could enable transformational actions.

---

### **About the WBCSD**

The World Business Council for Sustainable Development (WBCSD) is a unique, CEO-led, global association of some 200 companies dealing exclusively with business and sustainable development. The Council provides a platform for companies to explore sustainable development, share knowledge, experiences and best practices, and to advocate business positions on these issues in a variety of forums, working with governments and non-governmental and intergovernmental organizations.

### **Disclaimer**

*This submission is released in the name of the WBCSD. Like other WBCSD publications, it is the result of a collaborative effort by members of the secretariat and executives from several member companies. A wide range of members reviewed drafts, thereby ensuring that the submission broadly represents the majority view of the WBCSD membership. It does not mean, however, that every member company agrees with every word.*

## Introduction

In this submission we focus on three issues focused on incentivising climate change mitigation action:

- Business views and understanding of NAMAs, and their relation to the new technology and finance mechanisms;
- Non-market mechanisms that foster the environment to encourage business investment and mobilize private capital flows;
- New market mechanisms that put a price on carbon or increase the value of emission reductions.

The private sector is and will continue to be the largest source of investment flows into low-carbon technologies. The scale of investment and their geographic distribution depends upon national enabling frameworks creating the necessary conditions, to allow investors a return on their investment appropriate to the level of risk. To scale-up low-carbon private sector investment in developing countries a combination of policy instruments will be required: those that reduce risks for investors through improving the enabling environment; and/or those that increase the return on low-carbon investment, through putting extra value on emission reductions or a cost on carbon.

We believe that a single mechanism, regulation, fund or agreement cannot address all the barriers to low-carbon private sector investment and that a combination of approaches will be most effective. It is widely recognised that international public funds for mitigation will be far short of the total investment required to limit global warming to below 2°C.<sup>1</sup>

*We believe that these limited public funds will be used most effectively, when they are allocated to the creation of domestic capacity in developing countries and to incentivise low-carbon investment by mobilizing more significant amounts of private finance than today.*

## The role of the private sector in NAMAs

In 2007 the World Business Council for Sustainable Development produced a publication<sup>2</sup> that explored the policy concepts that would enable the transition to a low-carbon economy. The document advocated a bottom up approach through local, national, regional and sector programs to deliver a quantifiable, long-term pathway for economic growth and emissions reduction. This approach was identified because it aligned a climate change framework with existing approaches to energy access and security issues, was consistent with how business operates and offered the greatest scope for encompassing the large-scale changes needed in the energy system.

As a result, we note and welcome the focus on national action and the central role of nationally appropriate mitigation actions (NAMAs)<sup>3</sup> within the climate architecture outlined in the Cancun Agreements. As the largest source of investment flows into low-carbon technologies, the private sector

---

<sup>1</sup> Comparing public funds of \$100 billion available annually in 2020, with the IEA average investment estimates of \$936 billion annually over the period 2021-2030 for CO<sub>2</sub> mitigation measures in the energy sector, or McKinsey estimates covering all GHG emissions, of \$1.215 billion annually needed between 2026-2030. Estimates of investment needs for mitigation vary substantially depending on assumptions (costs, mitigation measures, exchange rates, interest rates, etc.).

<sup>2</sup> [Policy Directions to 2050 – A business contribution to the dialogues on cooperative action](#), WBCSD, 2007

<sup>3</sup> NAMAs refer to voluntary actions by developing countries to cut greenhouse gas (GHG) emissions that would be supported and enabled by technology, financing and capacity building.

will play a major role in the implementation of bottom-up actions.

Business engagement and cooperation with national governments in the development of NAMAs is essential to ensure private sector expertise and know-how is incorporated in their design. WBCSD calls for the private sector to be closely involved in the institutional design framework, which should support the establishment of an environment conducive to low-carbon investment.

It is important for business that the technology and finance mechanisms and the new Green Climate Fund work in an efficient and consistent way. To be effective, the new climate architecture needs to operate in a way that is compatible with how business operates today.

*The WBCSD will continue its work with Parties to provide a private sector perspective on how this can be achieved.*

There are several international funding and financing options that can be tailored to meet the different cost challenges of mitigation actions:

- In the case of less developed economies, there is a need to provide financial support to strengthen the frameworks which enable private sector investment including legal and financial frameworks. Support for capacity-building, institutions and governance could benefit from the new funds and institutions (e.g., Climate Technology Centre and Networks). *WBCSD believes that such approach would incentivise the lowest cost mitigation actions in developing countries and could form a significant element of NAMAs in some developing countries.*
- Domestic action, that could be part of a NAMA, could seek to establish standards and regulations which in turn will incentivise a much broader range of low cost mitigation actions. Such action can also be supported by direct international funds, but more importantly by financing instruments already in use today and public private partnerships (PPP).
- Finally, a direct or implied price on carbon emissions will enable more ambitious domestic action. When supplemented by a new international market mechanism, this combined framework could enable transformational mitigation action with the potential to bring very significant flows of private capital into broad-based emissions reductions.

Such a portfolio of options aims to deploy limited international funds and apply relevant funding mechanisms to create sustainable and significant emissions reduction in developing countries. At the same time, it ensures that developing country resources are targeted towards the cheapest mitigation options (e.g. energy efficiency), while higher cost options could be partially financed by developed countries (e.g. the power sector) through buying emission reductions in the carbon market.

## Non-market mechanisms

Successful implementation of NAMAS, and their effectiveness to reduce emissions, will depend on national factors and may be supported by non-market mechanisms. These factors include:

- A.** Appropriate **enabling policy frameworks** can help to create the incentives or requirements for the private sector to deploy low carbon technologies. These enabling frameworks include the following elements<sup>4</sup>:

---

<sup>4</sup> [Enabling frameworks for technology diffusion from a business perspective](#) (WBCSD, 2010) provides further detail on these elements.

- **Strong demand** for low carbon technologies triggered by signals from governments for low-carbon growth nationally and internationally, either through targets or regulatory measures. A global agreement under the UNFCCC would be a powerful incentive to mobilise private sector investment towards a global low-carbon economy. Detailed country goals and identification of the key sectors for action would make this political and economic signal even stronger.
- **Clear, effective domestic institutional frameworks**, providing stable political, economic and legal systems, protection of intellectual property rights, predictable, objective, transparent, consistent and stable energy and environmental policies, trade policies and harmonized regulations and standards in consumer markets. This could include facilitating the development of general supporting infrastructure (i.e. grid investments) that paves the way to low carbon investments.
- **Absorptive capacity** in institutions, business and society, including a functioning educational system, tailored programs for industrial skilled workers and targeted capacity building programs. In particular, institutional capacity building is needed to deploy significant capital (funding institutions), understand which technologies are most appropriate (e.g. under a Technology Needs Assessment), organise major infrastructure delivery, and develop and run a functioning MRV registry and compliance system.

**B. Clear guidelines and systems for MRV** of emissions and emission reduction. Because of different national MRV capacities, the rules and systems need to be simple, with a gradual development (from sectors to the whole economy) and when needed capacity building should be provided to implement them. This will lead to the creation of a national registry for recording national (and sectoral) mitigation actions, and actual emission reductions achieved. This might require strengthening of national legal and financial governance arrangements and institutions.

In the development of these enabling frameworks and MRV guidelines, it is important to work with business to design policies which can lead to implementation. The private sector can support and provide feedback on policy design for this to happen. Areas of competence include: assessment of technology needs; the creation of harmonized carbon markets; aligning regulatory systems to attract investment; effective funding use and financial tools; and an efficient, effective MRV system.

The development of these frameworks should be supported by the international framework including through advice, training and grants through the technology mechanism and the financial mechanism.

*WBCSD calls for the private sector to be closely involved in the institutional design framework, which should support the establishment of an environment conducive to low-carbon investment.*

### **New market mechanism**

The Ad Hoc Working Group on Long-term Cooperative Action (AWG LCA) recommended at its meeting in Cancun that the COP consider the establishment of one or more market-based mechanism to enhance and promote, cost effective mitigation actions. At COP 17 in Durban, it is anticipated that a decision will be taken on whether to establish any such mechanism.

The financial commitments confirmed in the Cancun Agreements, to be managed under the Green Climate Fund, are not near the scale needed to address the mitigation and growth demands in developing countries. New mechanisms will be required to deploy public funds in an efficient manner

and to mobilize private low-carbon capital at scale. Private sector participation will be essential to meeting the demands of providing low-carbon finance to developing countries.

*In this submission we are proposing mechanisms to improve the risk-return profile of green investment in developing countries and a new market mechanism based on creditable NAMAs to scale-up mitigation actions. We believe both will trigger more private sector action.*

### **A. Improving risk-return profile**

Currently many low-carbon investments have significant risks associated with them, with anticipated returns being insufficient to meet investor's rates of return. To encourage investment, the risk-return profile of green investment in developing countries has to be rebalanced. In simple terms this requires either a lowering of the underlying risks or increasing returns by creating access to cheaper (de-risked) sources of finance. Examples include:

- Establishing a price for carbon emissions, through cap-and-trade, taxes, or other policy instruments that create an implied value for carbon, which stimulates investment. Today, carbon finance does not fully substitute conventional sources of finance.
- Instruments that enhance returns on investment<sup>5</sup> by reducing the cost of finance, such as lower debt cost backed by public guarantees.

*Our first proposal includes the creation within the NAMA framework of national finance vehicles based on public private partnership (PPP) to bridge some of the finance gap.*

The model consists of a national PPP vehicle, in which public capital is deployed alongside private sector capital, but with different expectations of return to mitigate the risks for private sector investors or to lower the costs of debt being provided. There could be three financing providers:

1. **The Green Climate Fund** (representing international public finance, though could be open to Multilateral Development Banks) could provide a combination of:
  - grant finance for technical assistance for developing national policy frameworks or building capacity to prepare business plans (particularly in less developed countries);
  - equity investment in the national PPP (expecting to receive return on its share of investment, but subordinating this equity behind other investors); and
  - concessional long-term debt (with lower than commercial interest rates or provisions for deferred interest payments).
2. **National governments** - through a contribution from the national budget, as equity directly in the PPP vehicle, or providing a concessional loan to the vehicle. The government could also issue green bonds, linked to the policy goals under the PPP vehicle and offering a guaranteed return to investors.
3. **Private investors** - e.g. local and international equity and debt providers. Public capital in the vehicle would be subordinate to private capital, thereby improving attractiveness of this investment for private sector.

A developing country intending to implement a NAMA and wishing to receive finance or carbon credits through the Green Climate Fund would need to follow a number of steps including:

- determination of its overall policy goal

---

<sup>5</sup> For further information, see the briefing paper prepared for the government-business [dialogue on finance under the Mexican Dialogues](#) in September 2010.

- putting in place essential elements of NAMA infrastructure, including national GHG inventory;
- institutional arrangements for setting up policy goals, monitoring and enforcing implementation;
- national procedures for gradual MRV of emissions and their reductions and for the approval of projects seeking finance from a PPP vehicle
- further specification of the policy goal in concrete actions and policies to be implemented in the key sectors that should be recorded in the national and international registry (with their emission reduction objectives)<sup>6</sup>.

The country then establishes a national green investment PPP vehicle, which provides equity and debt to individual projects. Individual domestic projects can undergo approval through domestic procedures and obtain financing through the PPP vehicle. The project gets implemented and undergoes MRV according to the internationally established standards and the resulting emission reductions are recorded in the national registry. At the end of the period for which the NAMA was designed, the emission reductions recorded in the national registry for each policy goal are consolidated and reported to the international NAMA registry.

The distinct feature of this proposal is that eligible developing countries can gain international accreditation to allocate international finance (see box 1) and hence domestic empowerment over low-carbon strategies, funding instruments and options.

#### **Box 1. Country eligibility to allocate funds**

An important issue is how to link the Green Climate Fund to the NAMA and how could the disbursement in developing countries take place.

Countries wishing to obtain finance from the Fund and to set up a national PPP financing vehicle would need to qualify under international eligibility rules which would require elements of the national NAMA infrastructure (including policies and measures, national GHG inventory and MRV system) to be set in place. Then domestic low-carbon projects requiring financing can be approved at the domestic level according to the national procedure and get financing directly from the financing vehicle. Developing countries not meeting eligibility requirements would need to go through an international procedure for accessing finance.

An international NAMA registry would record the financing received from contributors and disbursed to a particular NAMA. A portion of the Green Climate Fund could be allocated to national PPP vehicles. The Fund would need to establish guidelines specifying rules for investment and the criteria need for PPP vehicles to obtain financing.

#### **B. Creating a new market mechanism**

*Our second proposal is creating a new crediting mechanism under the NAMA framework to provide additional incentives for low-carbon investment by increasing the return on investment through generation of carbon credits for emission reductions achieved in a project or program.*

---

<sup>6</sup> For more detailed description of each step see [Financing low-carbon investment in developing countries: Public-private partnerships for implementation of Nationally Appropriate Mitigation Action, 2010.](#)

NAMAs could use the PPP financing model described above and the credit mechanism we are proposing. There are some cases when the extra return associated with the sale of carbon credits could be sufficient to mobilize finance for low-carbon projects.

In the proposed new mechanism, developing countries which choose to take on voluntary targets (for a sector or the whole economy) would allocate emissions allowances in the context of their NAMAs. The voluntary target, developed in consultation with the national industry, would function as a baseline for that country or sector that will be subject to MRV. A developing country which wishes to increase its level of ambition below this established target could make use of the new market mechanism to get tradable credits (see Box 2).

### **BOX 2. Example of how this might work**

The proposed new market mechanism requires that countries allocate emissions allowances to the economy. Suppose the business as usual (BAU) trajectory of a country's economy or sector is expected to produce 120 million tonnes (MT) emissions. The country commits to voluntary domestic actions which would result in 100MT emissions, and has an MRV system in place. To achieve this, the country's NAMAs include activities such as energy efficiency measures that might benefit from international public funding through the PPP vehicle.

The country decides to increase the level of ambition to 80MT, in consultation with their industry, through large scale investment in carbon intense sectors of the economy (e.g. power generation and transport), but requires additional funding. The new market mechanism provides a means to raise this additional finance (provided robust international MRV):

- It can allocate 80 MT of domestic allowances to the economy or sector (ultimately to companies), effectively acting as a cap on emissions for the economy or sector;
- The 20 MT (difference) of emissions allowances can be exchanged for internationally tradable credits. These credits can be issued by the government to those companies or domestic entities that implement projects below the national/sector determined baseline and according to MRV rules.
- National entities can submit either domestic allowances or international credits for compliance, while international credits can also be sold outside the country.

These tradable credits would need to be bought to satisfy developed countries demand (see Box 3).

### **BOX 3. Creating market demand**

An ambitious international agreement could create a demand of credits to support large abatement opportunities.<sup>7</sup> We recognize this comes with many challenges. Successful implementation of a new market mechanism is dependent on allowances being supplied for this purpose. Some options for creating allowances are considered below. These are not set out as recommendations, but as examples of options that could be explored:

1. Reserve option: Countries "set aside" a mandatory reserve of emissions allowances dedicated to the new mechanism. Developing countries emission reductions below their national voluntary target (economy or sectoral) could draw on this "set aside", provided robust MRV.

---

<sup>7</sup> Each country, developed or developing, will need to address investment in their own jurisdictions due to politics, capacities and other internal prerequisites.



2. **Voluntary option:** Any developed country could voluntarily relinquish allowances from their national accounts to the new market mechanism (could be done bilaterally or through an international custodian).

Both options increase the level of ambition of countries and could be equated with a contribution of public funding towards the Green Climate Fund.

The key distinction between this model and the existing CDM would be the ability of a country to approve the issuance of carbon credits to domestic projects that meet or outperform the national goal and comply with the MRV requirements, provided the country has set a clear quantifiable national policy goal for reducing GHG emissions and has acquired international 'NAMA eligibility certification' (see box 1). These carbon credits could then be traded internationally.

A global carbon market would allow the most cost efficient emission reductions. To achieve a global carbon market different emissions management approaches would need to be linked. This will enable a single carbon value and create equitable access to lower cost mitigation activities, requiring a common currency<sup>8</sup>, which leads to unification rather than fragmentation of the carbon market. Therefore the credits granted through the new market mechanism should be an internationally recognised under a new international agreement allowing such linkages. The provision of a robust internationally acknowledged MRV system gives assurance for trading of emissions reductions and consequently linking domestic emissions trading schemes.

## Conclusion

The Cancun Agreements established several criteria that any new market mechanisms should take into account. The proposals for new mechanisms, outlined above, have tried to address these criteria:

- *Ensure voluntary participation of countries supported by fair and equal access by all countries:* The proposed mechanism does not require global participation by all countries. An individual country or group of countries can voluntarily implement it. Each country can access international financing or market mechanisms according to their needs, provided that they meet the internationally agreed criteria for participation. In fact, many emerging economies may only need or wish to participate in the market mechanism, while relying on national instruments to support other activities. Only actions undertaken with the support of international mechanisms will be subject to international MRV.
- *Complement other means of support for nationally appropriate mitigation actions (NAMAs):* The proposed market mechanism would be designed to help achieve the specific goals of nationally appropriate mitigation actions (NAMAs). Non-market mechanisms (i.e., other policies and measures) would be designed to address gaps not covered by the proposed market mechanism, thus supporting the NAMAs from initial development to ambitious actions across the spectrum of mitigation actions.
- *Stimulate mitigation across broad segments of the economy:* A feature of the proposed market mechanism is the option to apply them to broad segments of the economy, such as the transportation or power sector. Where such sectors are rapidly expanding in developing countries, investment needs and mitigation actions often require higher levels of investment.

---

<sup>8</sup> These approaches were elaborated in "[Establishing a global carbon market. A discussion on linking approaches to create a global market](#)", WBCSD December 2007.

- *Ensure a net decrease or avoidance of global greenhouse gas (GHG) emissions:* By supporting the development of national actions under NAMAs based on BAU baselines, net reductions are supported in developing countries.
- *Assist developed countries to meet part of their mitigation targets, but be supplemental to domestic mitigation efforts:* A creditable NAMA would generate credits by demonstrating reductions of emissions below a voluntary baseline, which would be achieved through domestic efforts. Such credits would be traded to a developed country to meet its mitigation target or through a voluntary international market mechanism (such as the one alluded to in the above criteria) to assist more than one developed country to meet their mitigation targets.

*Business engagement and cooperation with national governments and international bodies is essential to ensure private sector expertise and know-how is incorporated in the improvement of existing and the design of new instruments that aim to enhance mitigation efforts. Emissions reductions can only happen through technology diffusion, which is ultimately a private sector domain.*

-----