Meeting of Experts on Long-term Finance:
enabling environments and policy frameworks for effective deployment of climate finance

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E3G – Third Generation Environmentalism

Recap of 2012 LTF Work Programme

- Need to intensify efforts for *enhancing enabling environments* in many developing countries:

  1. **National policy, regulatory and governance frameworks** have crucial role in reducing investment barriers and effective use of climate finance

  2. Need to continue to **build and strengthen national systems and institutions**, and to sustain investments in human, institutional and technical capacities to use finance more effectively

  3. **International policies can reinforce and support efforts** to enhance enabling environments by setting ambitious targets and norms, increasing transparency and information, and foster learning

Case study: Implementation of Mexico's National Climate Change Strategy

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- Low carbon objectives identified within National Development Plan

- GHG emissions mainly produced by power sector (24% of the total) and fastest growth between 1990-2002 (46%)

- *Estrategia Nacional de Cambio Climatico* identifies scaled-up investments in renewable energy as key to transforming the energy matrix

- Relative untapped potential world class renewable energy resource estimated at 77-120 GW (cf. to 58GW total installed capacity 2008)

- By 2030 renewable energy could result in 72 million tons CO_2 per year of abatement – high emissions factor and cost-effective abatement

- Support implementation of new RE Law (self-supply) plus in 2008 new opportunity for CRE which received potential for new regulatory powers

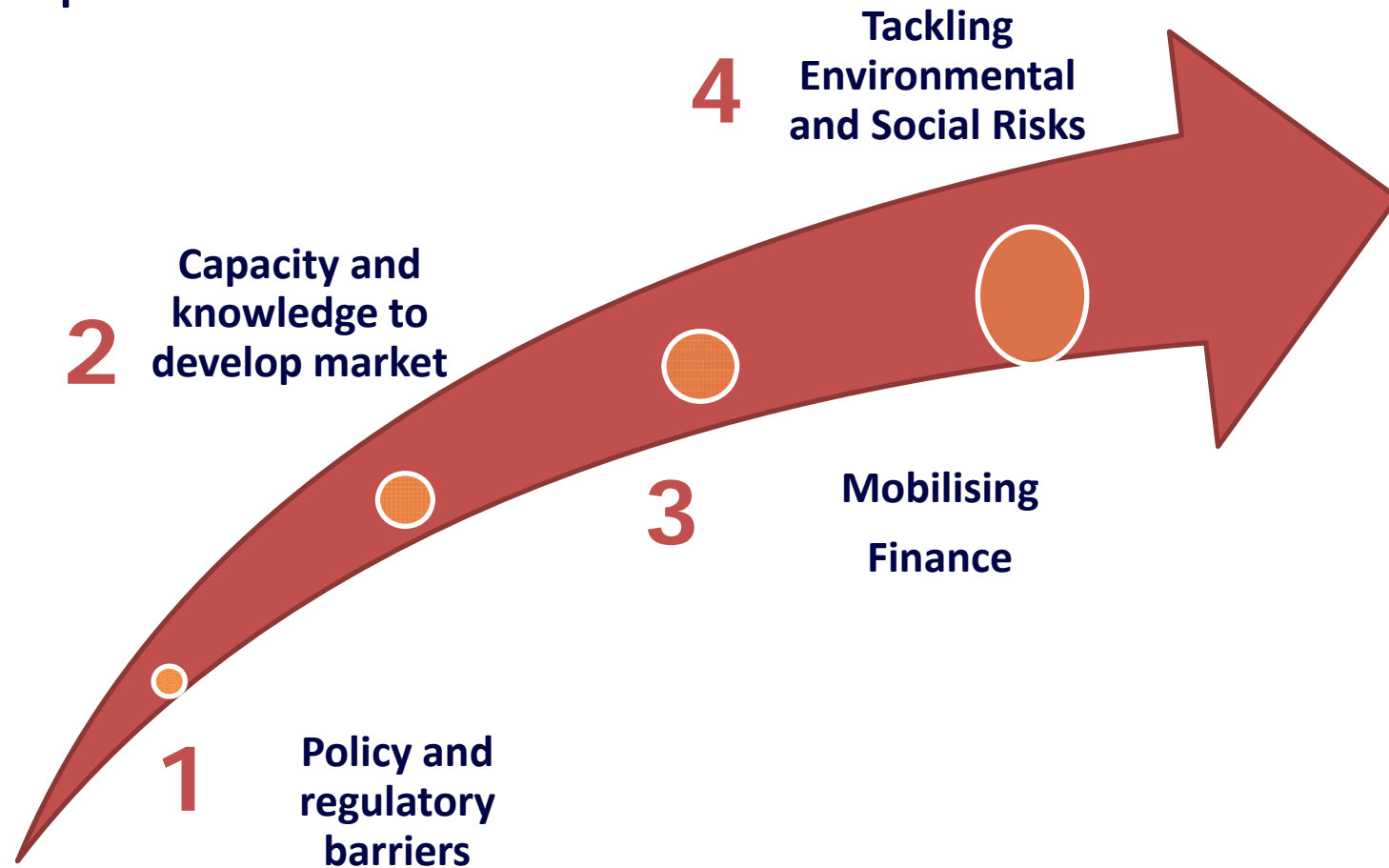# Priority Objectives Mexico-IDB-IFC Renewable Energy Program

- Build confidence amongst investors and Government decision-makers of the technical feasibility and value of a Mexican RE industry

- Catalyse investments for delivering projected national emissions reduction targets and avoid 18 million tons CO_2 per year (= 6% total projected emissions from power by 2030)

- Build capacity and strengthen role of domestic public financial institutions

- Institutional and organizational learning to facilitate and accelerate implementation of the new renewable Energy Law (LAERFTE) and strategy for development of the RE market

- Support implementation of new regulatory powers (externalities to be taken into account)

- Provide new sources of finance for mobilising private sector investment

Case study: Mexico-IDB-IFC Renewable Energy CTF Program

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The Renewable Energy Program – to address key barriers for renewable energy development in the Mexican market

4 Tackling Environmental and Social Risks

2 Capacity and knowledge to develop market

3 Mobilising Finance

1 Policy and regulatory barriers

Developing a Robust Policy and Regulatory Framework

- Support for the Government of Mexico's national climate change strategy – (IDB policy based loan) for **institutional framework and legislation**

- **Support to strengthen policy and regulatory agencies, including:**
  - CRE pricing mechanisms and regulatory options for fixing incentives and tariffs, including for surplus self-supply (virtual banking)
  - pricing methodologies for biomass cogeneration from sugar
  - assessment geothermal potential and appropriate policy and regulatory framework

➡ <u>Evolving</u> **supportive policy, regulatory and legislative framework**

2008 • **Law for the Use of Renewable Energy and the Financing of the Energy Transition LAERFTE**

2009 • **LAERFTE Regulation – banking for surplus of self-supply**

2013 • **Resolution to allow small producers to get a fixed payment via a reverse auction system.**

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Strengthening Capacity and Knowledge

- **Developing the market using grant resource for various studies:**
  - Market knowledge (cost-benefit analysis) for potential wind energy investors wishing to enter the market
  - Comprehensive assessment of carbon finance, NAMAs and preparation for bilateral emissions reduction agreements and development of registry
  - Technical aspects of specific renewable technologies, such as wind turbines – combined $5m GEF grant for technology development
  - Study on property rights, leasing and land access for local communities
  - Studies on macroeconomic and social benefits of a local wind industry

➡ Development of local wind market , skills and knowledge

- Nov 2012, SENER published **"Strategy for the Development of the Wind Energy Sector in Mexico"** identifying potential 12,000 MW by 2020

- **Renewable Energy Knowledge Management** to capture i) regulatory knowledge; ii) finance literacy and iii) environmental factors

Mobilising Private Finance for Renewable Energy

- **Mobilising direct private sector finance:**
    - CTF funds used to address risks and cost barriers for early market entrants
    - Goal of demonstrating a track record of successful project(s)
    - US$45 million of CTF mobilised US$160 million of IDB and IFC finance and US$850 million other finance (sponsors, private investors and bilaterals)

- **EURUS 250 MW wind farm in operation** (largest operating wind farm   in LAC) – US$30million CTF funds leveraged US$345 million (involved NAFIN)
- A 90MW Solar PV expected by Nov 2013

- **La Ventosa Project 67.5MW wind farm in operation in Oxaca.** Used USD 15 million of CTF resources and additional USD 173.6 million in co-financing.
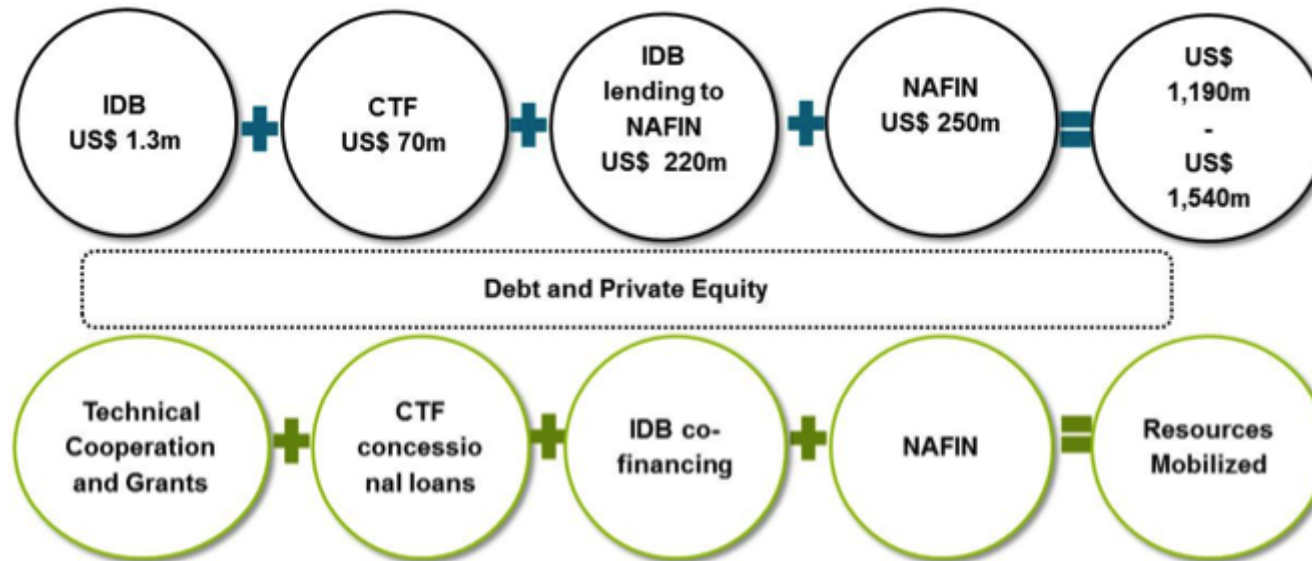
➡ **Catalytic impact > 1,000 MW of installed wind capacity in Oaxaca and 2,000 MW expected:** over 20 projects have closed financing or begun construction under the self-supply framework

Catalysing Public Finance

Catalyzing public financing through national development bank

| IDB US$ 1.3m | + | CTF US$ 70m | + | IDB lending to NAFIN US$ 220m | + | NAFIN US$ 250m | = | US$ 1,190m - US$ 1,540m |

Debt and Private Equity

| Technical Cooperation and Grants | + | CTF concessional loans | + | IDB co-financing | + | NAFIN | = | Resources Mobilized |

(Source Smallridge et al, Visconti and CPI)

➡ **NAFIN has a goal of installing 1000 MW for wind projects in Oxaca and other regions (Baja California and Tamaulipas)**

NAFIN nominated to host Mexican Green Fund – learning-by-doing to strengthen capacity to attract, blend and deploy climate finance

Managing Environmental and
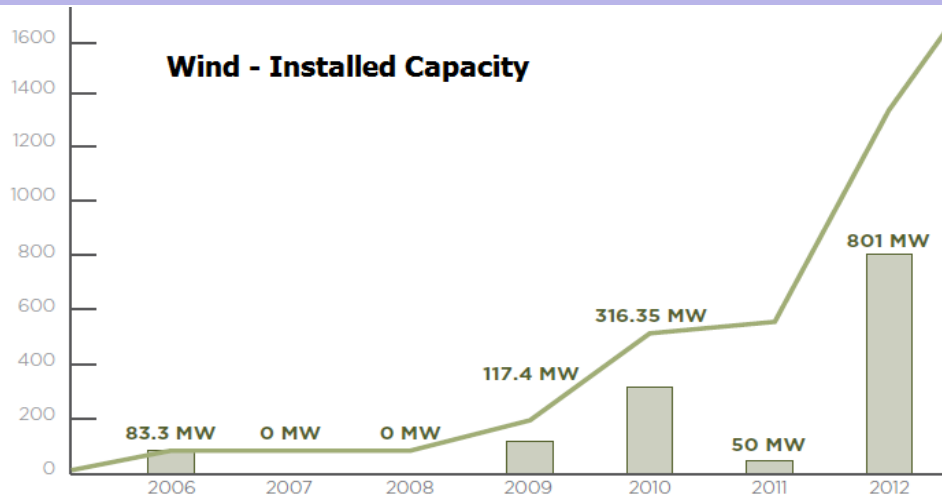# Social Risk

Program Components :

- **Environmental risk assessments** reduce information barriers (e.g. impact on endemic and migratory bird and bat populations)

- **Focus on local communities** affected by wind farms to develop a social policy to ensure benefits are shared

Most complex barrier so far with stakeholders identifying need for:
- Improved involvement of communities, communication of objectives/results and access to information
- Better definition of responsibilities among the three levels of Government and the MDBs

- New focus on designing policies at all levels underway to maximise positive impact for socially inclusive development

Lessons Learnt: national enabling environments and policy frameworks for effective deployment

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1. **National policy, regulatory and governance frameworks**
   - Strong institutional arrangements and cross-Ministerial coordination
   - Programmatic approach – a long-term coherent policy and regulatory framework, underpinned by legislation
   - Aligning price signals to incentivise deployment of low carbon investments
   - Early engagement of stakeholders and dialogue to increase transparency, and buy-in to new policy objectives

2. **Strengthen national systems, institutions and human capacity**
   - Governments <u>leadership</u> for creating enabling environments
   - Active approach towards engaging stakeholders on how different sources of finance can meet national and/or sectoral objectives
   - Capacity for designing, developing and implementing strategies, policies, regulatory frameworks and public financial incentives
   - Importance of creating markets to capture benefits in terms of jobs and new income – empowering new stakeholders i.e. AMDEE

Elements of effective international enabling environment and policy framework

3. International policies to reinforce and support national efforts

- **Incentivise and reward national leadership:** resources to support development of national strategies and policies to align and deploy climate finance for own priorities

- **Grant resources for capacity-building and knowledge development**: important that national policies and measures can access and attract climate finance

- **Accelerated learning of the Multilateral System**: ensure learning by doing, development of good practise and replication and/or scale-up

- **Global Targets:** will increase confidence on the direction of travel , crucial for leveraging institutional investors into low carbon assets

- **MRV Systems:** for tracking of climate finance the transparency and accountability increases confidence of investors

Programmatic Approach Key to Creating Effective Enabling Environments for Scaled-up Investment
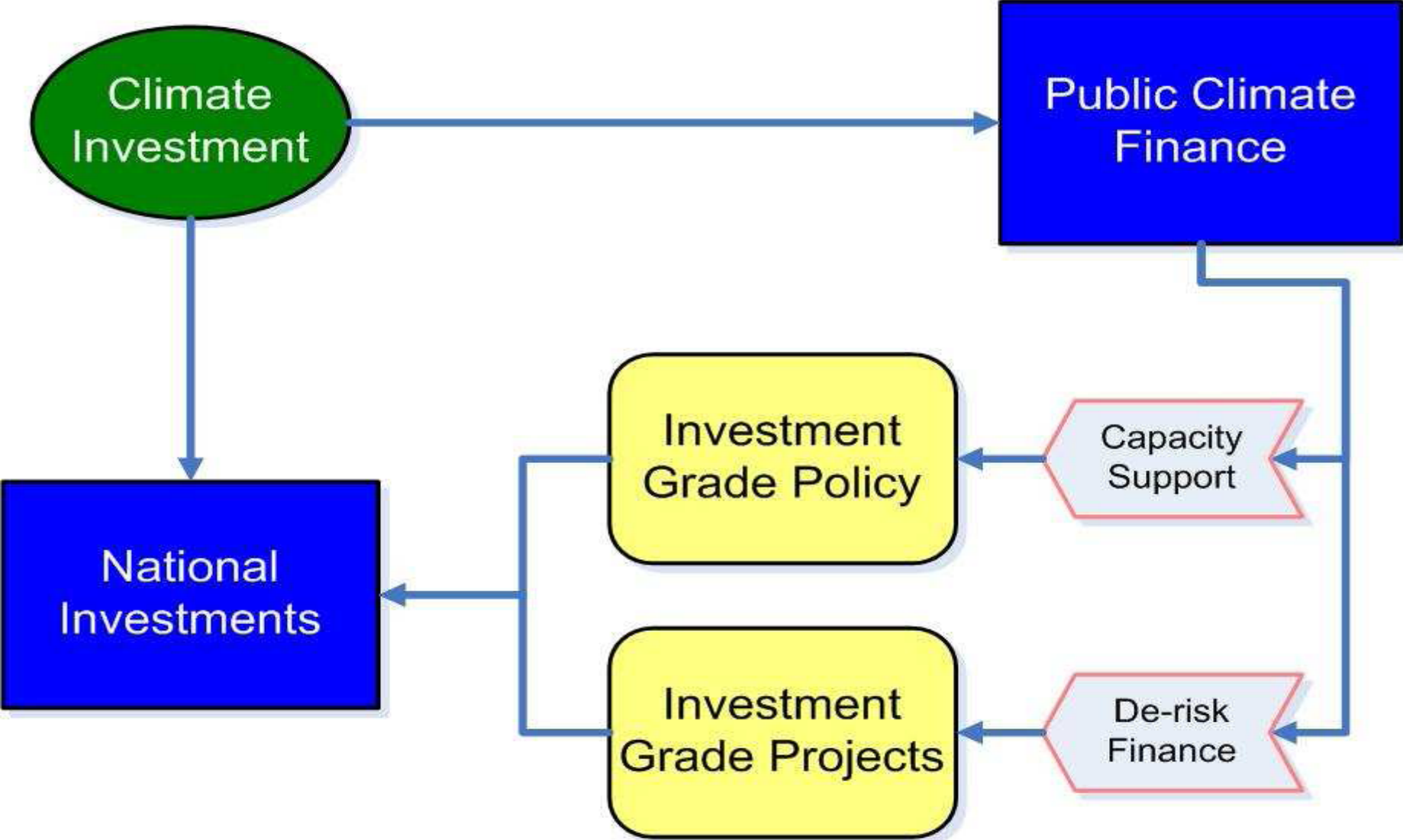
Final Thoughts

- National actions to increase absorption capacity
  - identify sectors where there is scope for scaled-up investment and transformational impact
  - ensure effective participation of domestic public and private financiers
  - design programs that can engage range of finance providers

- Factors that determine effectiveness of climate action
  - importance of setting clear policy goals and identifying desired results
  - underpinning through regulatory and legal frameworks
  - identify and tackle barriers – political economy and for social benefits
  - building capacity and enhancing knowledge for market development

- Transparency of climate finance information
  - tracking increases accountability and effectiveness
  - important to ensure stakeholders actively engaged

Thank You

Detailed materials of E3G finance work can be found at www.e3g.org

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