



UNDERSTANDING NDC FINANCING NEEDS

APRIL 2020





CLIMATE FINANCE: ENABLING AMBITIOUS CLIMATE ACTION

It is estimated that the Paris Agreement will open USD 23 trillion in opportunities for climate-smart investments between 2016 and 2030.¹ While countries have fixed an initial price tag to their NDC targets², global NDC costs vary greatly, and achieving the goals of the Paris Agreement means countries will require some combination of domestic budgetary allocation, private sector finance (both national and international), bi-lateral and multilateral finance mechanisms and development assistance to meet NDC commitments. Understanding how to access funding from a diverse menu of multilateral, bilateral, public and private sources means that navigating the climate finance system presents a complex and dynamic challenge.

Inadequate access to financing remains a chief constraint to achieving Paris Climate Agreement goals. While limited funding contributes to this issue, a key challenge lies in both the limited resources and technical capacity of countries to increase the financial readiness of their institutions and create enabling environments conducive to investment. To unlock the amount of resources needed, it is key for countries to make the economic case for climate-relevant projects; gather the necessary data to clearly articulate the climate rationale; and develop the technical skills to sufficiently demonstrate the technical and financial requirements that underpin a well-prepared project proposal. These actions must be taken in tandem with support from development finance institutions and the private sector to unlock the necessary capital to achieve NDC targets.

COUNTRY FINANCE NEEDS

FIGURE 1. NDC FINANCE CATEGORIES OF NEED

	<p>Developing climate finance strategies and financial roadmaps This includes: The development of climate finance strategies, national, local and sectoral NDC investment plans, and the development of financial roadmaps.</p>
	<p>Integrating NDCs into national planning, budgets, and revenue This includes: Integration of Climate Finance into Public Budgets & Expenditure Frameworks, Climate finance tracking, sustainable public procurement guidelines and regulations, and carbon pricing, taxes and trading.</p>
	<p>Project and program financing and resource mobilization This includes: Blended finance mechanisms, financial mechanisms or vehicles such as national climate funds, green bonds, revolving funds, etc. and access to capital markets.</p>
	<p>Developing bankable projects and pipelines This includes: Project feasibility assessments, project financial structuring, and accessing international sources of finance through the development of project concept notes and proposals.</p>
	<p>Private sector engagement This includes: Private sector engagement, assessment of private sector needs, mapping of private sector partners, and assessments of private capital markets.</p>

1 IFC (2016), *Climate Investment Opportunities in Emerging Markets: An IFC Analysis*

2 NDC targets can either be unconditional (what the country commits to investing) or conditional (targets that may be achieved with additional climate/development assistance support)

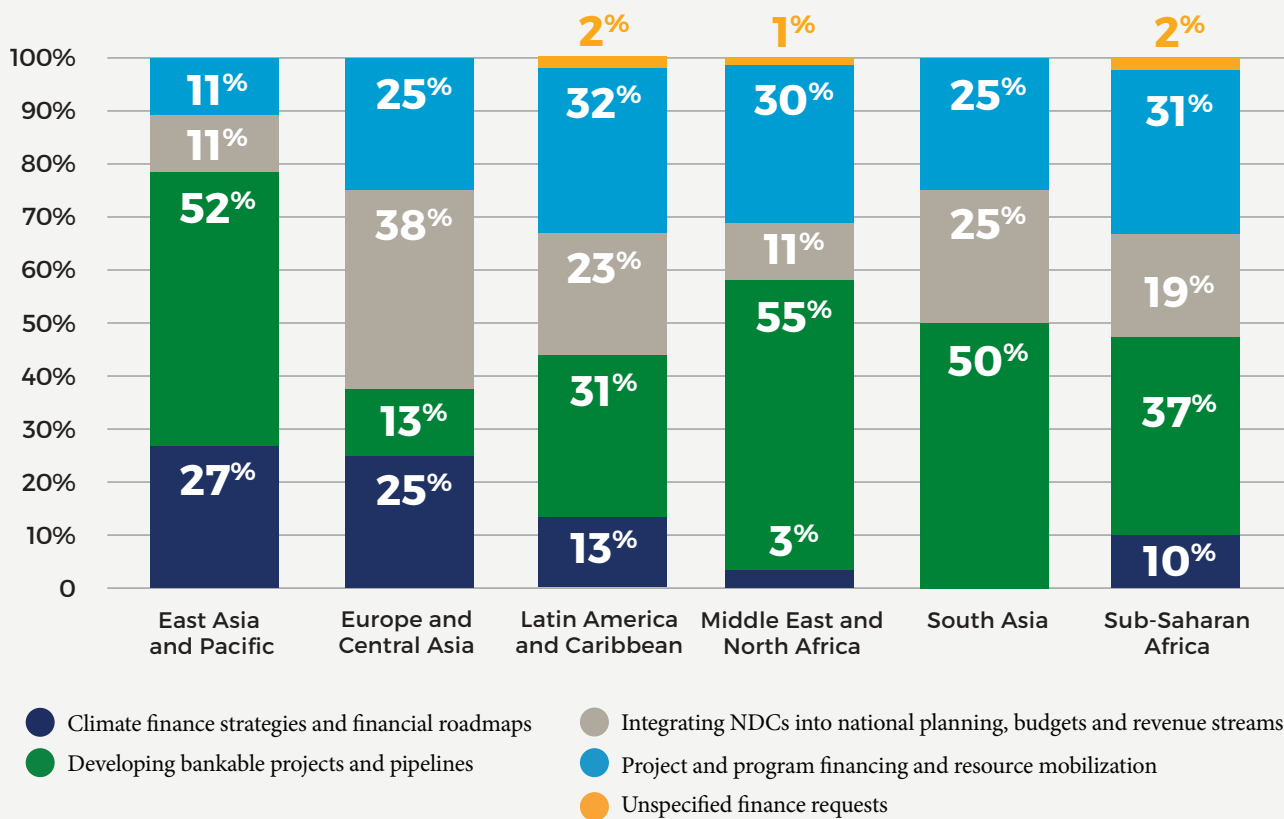


Climate finance is the most frequently requested area of support among NDC Partnership countries. Ninety percent of countries submit at least one request for support aimed at mainstreaming NDCs into budgeting, public investment portfolios, and planning processes, in addition to the prioritization of unlocking new climate financing opportunities. These requests generally fall into five categories of need: i) Integrating NDCs into planning, national budgets and revenue; ii) Climate finance strategies and financial roadmaps; iii) Developing bankable projects and pipelines; iv) Project and program financing and resource mobilization; and v) Private sector engagement in NDC implementation³. See Figure 1, above, for a more detailed breakdown of what's included in each category.

By harnessing its unique database, the NDC Partnership can assess country requests within these five categories, drawing out trends in regional and sectoral finance needs, partner responses, and gaps in support. Collectively, this information enables the NDC Partnership to respond with coordinated action towards NDC implementation. The following paper will provide a narrative of how the NDC Partnership approaches increasing access to climate finance as well as a strategy for aligning the Partnership's existing framework with future finance objectives.

The Partnership works in three ways to increase access to climate finance, including by translating NDCs into strong national investment strategies and proposals, engaging with relevant stakeholders to mobilize support, and by identifying and sharing potential investment opportunities in member countries.

FIGURE 2. FIVE CATEGORIES OF FINANCE REQUESTS MADE BY MEMBER COUNTRIES, BY WORLD BANK REGIONAL CLASSIFICATION.⁴



³ Statistics on NDC Partnership member country requests and partner responses of support are derived from an internal aggregate data set as of April 1st, 2020. They are and are not weighted to scale or budget.

⁴ Private sector engagement is considered an overarching category which may fall within any of the other four financing areas. Therefore the category is omitted from Figure 1 and analysis is presented separately in 'Unlocking finance' below.



TRANSLATING NDCS INTO NATIONAL INVESTMENT STRATEGIES AND PROPOSALS

CLIMATE FINANCE STRATEGIES AND FINANCIAL ROADMAPS

NDC implementation requires coordinated action across all economic sectors and levels of government. Climate finance strategies and roadmaps provide a common framework for directing financial flows towards NDC implementation through national budgeting, support mapping, and providing a pathway for private sector engagement. Climate finance strategies can help ministries align NDC priorities with national development plans and Sustainable Development Goals (SDGs), and complement the achievement of the SDGs by helping spur economic growth in priority sectors, creating avenues for additional development assistance and concessional financing.

Country requests in this category center around developing climate finance strategies, NDC investment plans, and/or financial roadmaps which align with existing national, local, or sectoral plans. Sixty percent of countries requesting support from the NDC Partnership make at least one request in this category, with the East Asia and Pacific region exhibiting the most need⁵. A quarter (75%) of requests for climate finance strategies and financial roadmaps relate directly to technical assistance and are centered around internal capacity building activities rather than the funding of specific projects. For example, the Dominican Republic has requested technical support to identify and prioritize investment needs within a national climate investment strategy, and Georgia has requested assistance for aligning fiscal and macro-economic policies with climate financial plans. Refer to Map 1 for additional examples and case studies.

INTEGRATING NDCS INTO PLANNING, NATIONAL BUDGETS AND REVENUE

Integrating NDCs into planning, national budgets and revenue can be critical for countries looking to unlock climate finance by mainstreaming climate finance considerations into government operations, allowing governments to assess, mobilize, and track public funds for climate change related purposes. Seventy-seven percent of countries request support in this category, making it the second-most prevalent finance demand. Europe and Central Asia, as well as Latin America and the Caribbean, demonstrate considerable need, with both regions focusing a quarter of their finance requests on alignment efforts.

Nearly all member countries seek technical assistance instead of project support in this category, and requests are largely focused on capacity building activities which mainstream climate finance considerations into government operations, and allow governments to assess, mobilize, and track public funds for climate change related purposes. This also includes support for strengthening national procurement policies, sustainability taxonomies⁶, fiscal policies, and national market mechanisms to create enabling environments for the public sector to take ownership of its own climate financing, while encouraging investment in NDC implementation. For example, Namibia has requested technical assistance to operationalize climate finance monitoring tools to effectively track and report on public, public-private partnerships, and international climate change financing flows and expenditures. Refer to Map 1 for additional examples and case studies.

5 All percentages and statistics are derived from 13 partnership plans and 23 requests for support.

6 Sustainability taxonomies are tools to help investors, companies, and project developers gain a common understanding of what a project/investment aligned with low carbon and resilient development should constitute. They contain screening criteria that allow users to improve environmental performance or account for practices that are already environmentally sound. For an example, please see the EU Taxonomy.



WHAT WE DO

The NDC Partnership responds to these needs by assisting countries in the translation of their NDCs into strong investment proposals aligned with national development plans and by strengthening coordination between ministries of environment and finance. Government ownership is essential for creating environments that enable investment and developing financing strategies. Integrating NDCs into national planning, budgets and revenues is often an important first step. Governments that articulate their vision for turning climate priorities into project pipelines can bring investors to the table and work with them to help mitigate uncertainty and risks, both perceived and real. To respond to the need for enabling environments, the NDC Partnership uses its network to provide the necessary technical assistance to support countries in undertaking comprehensive costing exercises for NDCs, link these to macroeconomic models, and embed them in national development planning and annual budgets via Medium-Term Expenditure Frameworks (MTEFs). The Partnership also supports countries to develop NDC relevant investment plans and services which create the fiscal space and enabling environments that can address market barriers for the development of NDC project pipelines.

RESOURCE MOBILIZATION AND SUPPORT

PROJECT AND PROGRAM FINANCING AND RESOURCE MOBILIZATION

NDCs are highly dependent on the ability of countries to draw on a wide variety of financing from domestic and international sources, and often countries require additional capacity to navigate the field alone. Project and program financing and resource mobilization deals with requests for financial readiness and project preparation, and with requests for enhanced access to climate finance through blended finance mechanisms and financial vehicles. Eighty-six percent of countries make requests in this area, with a fifth of requests directed towards specific project implementation, and the remaining 80% centered around accessing technical assistance to build in-country capacity. This includes support in the form of technical assistance for financial readiness and project preparation and enhancing access climate finance from public and private sources for specific projects & initiatives, including through the development of financial vehicles and mechanisms to aid in resource mobilization. For example, Jordan has requested technical and financial assistance for the creation of a national climate fund that will eventually seek Green Climate Fund (GCF) accreditation, and for the creation of a revolving loan fund to help support smallholder farmers.



WHAT WE DO

The NDC Partnership helps countries identify and access external financial resources for NDC implementation by working with members and external partners, such as the GCF, to provide dedicated technical assistance to support building financial readiness or by identifying potential external funding sources for project implementation. This includes increasing access to knowledge and information on climate finance and existing funding mechanisms⁷, preparation and development support for projects and financial mechanisms, and identification of and access to financial resources for the implementation of projects. All institutional and development partners of the NDC partnership are given the opportunity to respond to the finance-related needs of country members depending on the type of readiness or project related support needed. This process is coordinated under the leadership of the relevant government ministries, to ensure coordinated support between domestic and external financing sources.



UNLOCKING FINANCING FOR INVESTMENT OPPORTUNITIES

DEVELOPING BANKABLE PROJECTS AND PIPELINES

Requests within this category include the identification, assessment, and development of specific projects or pipelines of projects. Sixty-six percent of countries make requests in this area, with the majority directed towards technical assistance for project preparation activities. They indicate either a need to strengthen government capacity to conduct the necessary prioritization exercises, and feasibility assessments to develop a portfolio of bankable projects for potential investment or the need for financial structuring to address gaps in funding that need to be filled before implementation of identified projects can begin. The Republic of the Marshall Islands has indicated financing needs to construct seawalls in vulnerable residential areas, and Ethiopia has requested technical assistance for proposal development of fundable projects on land rehabilitation projects. Refer to Map 1 for additional examples and case studies.

PRIVATE SECTOR ENGAGEMENT IN NDC FINANCE AND IMPLEMENTATION

This area includes strategies & approaches to engage the private sector in financing NDC implementation through project financing or alignment with the public sector through the development of government incentives. Sixty-nine percent of countries have expressed needs here. These requests are predominantly aimed at attracting private investors to mobilize financing and resources for NDC implementation, through the development of government incentives for blended financing or public-private partnerships. Less frequently, countries ask for direct private sector investment in the form of direct project support. Support from partners comes in the form of technical assistance to perform assessments of private sector needs, mapping of private sector partners, or to develop private insurance mechanisms.

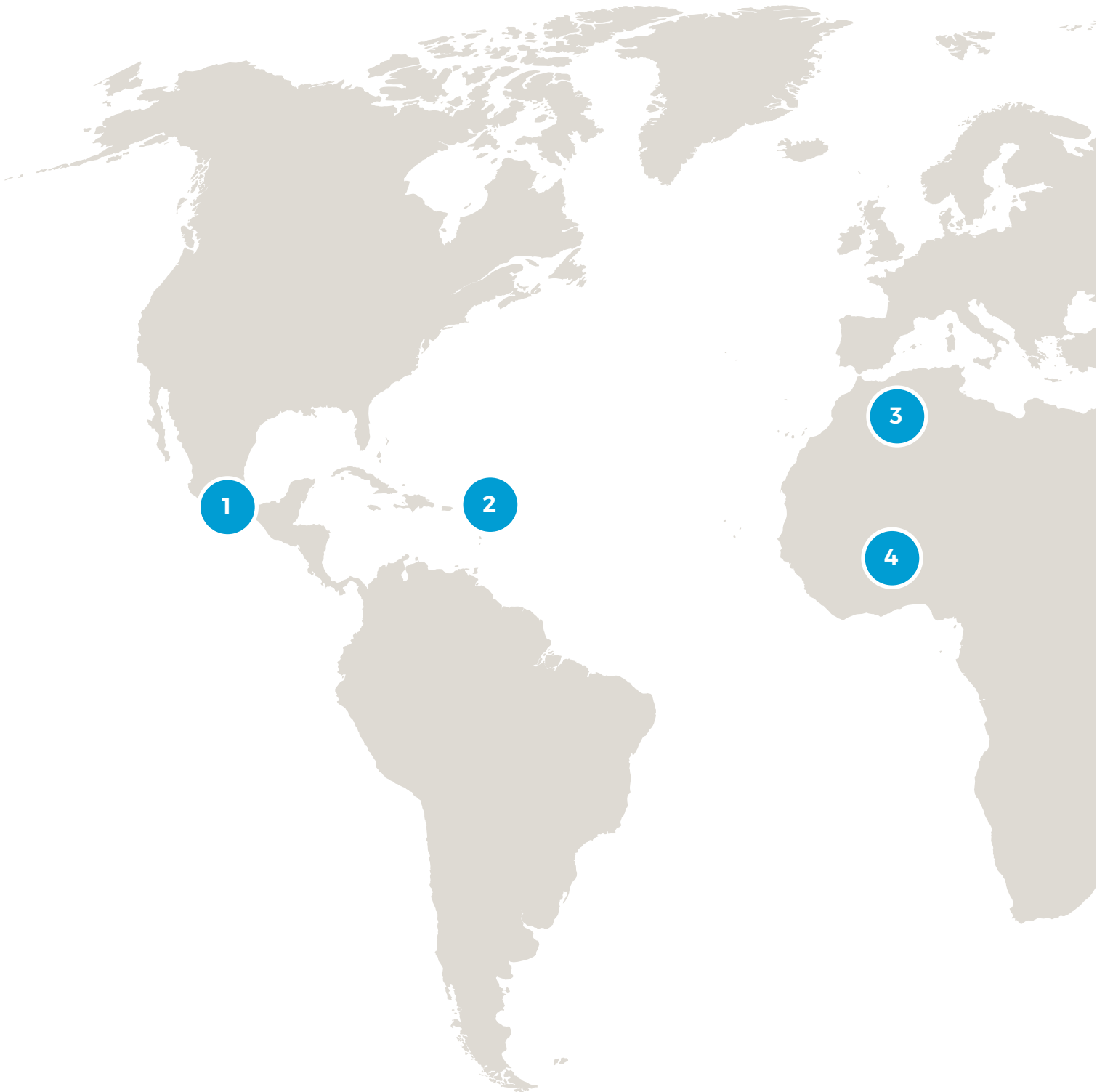
Latin America and the Caribbean have indicated the most interest in improving private investment opportunities, making up 11% of the region's total finance requests. The private sector investment in energy sector remains a top priority across all countries. For example, Zimbabwe requests support to set up a technical advisory service for licensed companies to bring NDC projects to financial close and begin the development phase, and Pakistan to establish a public-private partnership which delivers co-benefit in circular economy activities and carbon offsetting.

WHAT WE DO

The NDCP uses its unique knowledge base to identify and share potential investment opportunities in member countries. While projects are included in the countries' partnership plans, they are often not easily identifiable or require basic information to gauge interest from potential investors. Furthermore, even when information is available, it tends to be in a language and format that is not attractive or readily appealing to investors, with most projects focusing on the avoided climate and environmental costs of a project rather than the technical and financial feasibility. To address this, the NDC Partnership is developing Project Idea Notes (PINs), on a pilot basis, which present a snapshot of investable projects arising from Partnership Plans. Governments can pitch projects in member organized regional and international investment forums (i.e. Regional Climate Weeks, Invest4Climate, Regional NDC Finance Initiative) to attract financing from multiple sources, including the Private Sector.



FIGURE 3. MAP OF NDC PARTNERSHIP FINANCE CASE STUDIES



VISIT [NDCPARTNERSHIP.ORG/FINANCE](https://ndcpartnership.org/finance) FOR MORE INFORMATION.



1. UNLOCKING FINANCING

Developing bankable projects and pipelines

Mexico has ensured each of their Climate Action Enhancement Package (CAEP) activities conduct cost evaluations, quantify greenhouse gas emissions, and set up proper MRV systems. By thoroughly defining measures and incorporating key requests for technical assistance, each CAEP activity received confirmed responses of support from NDC Partnership partners.



2. NATIONAL OWNERSHIP AND PRIORITIZATION

Integrating NDCs into planning, national budgets and revenue

Saint Lucia has become the first country to validate a plan at the executive level with a commitment to mobilize USD 23 million in domestic funding for NDC execution through 2035. Two major energy efficiency projects and a public awareness campaign are approved to be funded in 2019. Read more [here](#).



3. UNLOCKING FINANCING

Private sector engagement in NDC implementation

The Moroccan government has been quick to integrate private sector input into many aspects of its national climate plan. The NDC Partnership has worked to promote the General Confederation of Moroccan Enterprises (CGEM) as a source of inspiration for other African countries to advance public-private collaboration. Read more [here](#).



4. NATIONAL OWNERSHIP AND PRIORITIZATION

Climate finance strategies and financial roadmaps

Mali's development blueprint—the Strategic Framework for Economic Recovery and Sustainable Development 2019-2023— incorporates international and domestic sources for sub-national and sectoral needs. The Ministry of Finance has also established a new budget line and Climate Fund for NDC implementation. Read more [here](#).



5. RESOURCE MOBILIZATION AND SUPPORT

Project and program financing and resource mobilization

The Rwandan Green Fund (FONERWA) provides an innovative support mechanism for Rwanda to mobilize, pool and blend public and private sources of finance for NDC Implementation. FONERWA has raised nearly USD 176 million from both international and domestic sources. Read more [here](#).

CREDITS

This Insight Brief was written by Sam Morton and Skylar Bee of the NDC Partnership Support Unit, with valuable input from members of the Support Unit.

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