World Business Council for Sustainable Development

Options for private sector engagement: illustrative examples

This document outlines examples of how business could formally engage within a specific area of the international climate change policy process. By addressing the questions of <u>why</u> business should engage, on <u>what</u> specific areas, <u>how</u> engagement would take place, and <u>who</u> would be represented, we will test initial thinking with expert stakeholders to elaborate detailed recommendations.

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1. High Level Panel and the Copenhagen Green Climate Fund

1.1 Context

Under the Copenhagen Accord developed countries committed to jointly mobilize USD 100 Billion a year by 2020 to help address climate change mitigation and adaptation needs of developing countries. This finance is expected to come from "a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance."

To meet this goal, a High Level Panel shall be "established under the guidance of and accountable to the Conference of the Parties to study the contribution of the potential sources of revenue, including alternative sources of finance."

A significant portion of these funds may be channelled through a Copenhagen Green Climate Fund. If supported by a future COP decision, this Fund would be an 'operating entity' of the financial mechanism of the Convention to support projects, programme, policies and other activities in developing countries related to mitigation including REDD-plus, adaptation, capacity building, technology development and transfer. At present the financial mechanism is, on provisional terms, operated by the Global Environment Facility.

In addition, on February 12th 2010, Ban Ki-moon announced the creation of a high level Advisory Group on Climate Change Finance, to be co-chaired by Prime Ministers Gordon Brown of the UK and Meles Zenawi of Ethiopia. Its mission is to "mobilize the financial resources for climate change pledged at the UNFCCC in Copenhagen." The group will include Heads of State and Government, high-level officials from Ministries and Central Banks, as well as public finance and development experts. Member representation is expected to be balanced between developing and developed countries. Members will be appointed for ten months, and produce a final report with recommendations by COP 16 in Mexico.

While it is left open whether Ban Ki-moon's Advisory Group is "the" High Level Panel referred to in the Copenhagen Accord, its mandate appears very similar. The Group will work according to the Copenhagen Accord mandate for the Panel, but not pre-empt the work of the panel. We can therefore assume that the logic and structure for private sector engagement in either the High Level Panel or the high level Advisory Group would be similar. We will refer below to the private sector engagement in the "High Level Panel". Given the lack of clarity related to the composition, function and operation of these bodies, we will take a number of assumptions to support our initial analysis and proposals for potential private sector engagement.

1.2 Who represents the "private sector":

Various players are involved in financing and developing actions (projects, programmes, other) related to climate change adaptation and mitigation in both developed and developing countries. These include:

Financers- *those who make decisions about investments and financial flows, and determine the necessary conditions required to make an investment.*

Debt Finance

- Banks

Equity Finance

- Banks
- Venture capital firms
- Private equity firms
- Infrastructure funds
- Institutional investors

Insurers

- Insurers
- Reinsurers

Project developers and technology owners*- *those seeking finance to develop technology or build projects.

- Corporate finance divisions, seeking to invest in projects;
- Companies developing innovative technology solutions, demonstrating promising technologies and deploying existing ones;
- Companies implementing and operating mitigation and adaptation actions (project, programmes, other).

1.3 Why should business engage in the High Level Panel and the Copenhagen Green Climate Fund:

Business contributions and incentives for engagement:

High Level Panel

The challenge of the High Level Panel is to study the contribution of the potential sources of revenue, including alternative sources of finance to meet the goal of mobilising100 Billion USD by 2020 to address investments needs for climate mitigation and adaptation in developing countries. The Panel should therefore look at the *policy and investment conditions needed* to direct finance towards these countries. The private sector can play a role by sharing its business expertise, both financial and operational, and proposing new mechanisms that most effectively leverage private capital with public funds e.g. in cases were risks are high and/or payback periods long. In addition, as governments may seek to "measure, report and verify" (MRV) these sources of finance, the private sector can add financial knowledge and experience in this area, as well as an interest in understanding how "MRV" of financial contributions (from public and private sources) may have a potential impact on the accounting of their investments.

Following the categories of private sector introduced above, the following motivations can be distinguished:

1) Financers:

The traditional finance community has been relatively unengaged in the climate change policy debate so far. From their perspective, capital is channelled on a competitive basis with associated risks priced appropriately. However, groups of investors interested in driving climate change investment have begun to emerge. The Institutional Investors Group on Climate Change, for example, brings together 50 European members, representing assets of 4 trillion Euros. Their objectives are:

- To encourage a pro-active approach amongst asset owners and asset managers on climate change (through adapting their own investment activities and processes) in order to enhance and preserve long-term investment values.

- To improve company disclosure/performance on climate change (in their role as shareholders and bondholders).
- To encourage public policy solutions that facilitate the move to a low carbon economy and are at the same time consistent with long-term investment objectives.

Such groups may have an interest in sharing knowledge and expertise at a high level, to support government in designing effective policies that drive climate change mitigation and adaptation investments.

2) <u>Project developers and technology owners:</u>

This group of private sector actors may have a more direct incentive to engage in climate change policy dialogue. Given that the energy sector is heavily regulated in many countries, and in particular given the policy driven nature of the renewable energy sector, effective policies are essential to expanding low carbon market opportunities.

Specific interests might include:

- Supporting the design of policy and enabling frameworks that drive private capital flows into clean energy technology project deployment in developing countries;
- Access to new markets as a result of effective and efficient policy design;
- Addressing investment risks, which drive up the cost of capital, and might prevent the economic viability of clean energy investments.

Copenhagen Green Climate Fund

As noted above, the Copenhagen Green Climate Fund is likely to support projects, policies and programmes that enable developing countries to transition to a low-carbon economy. Provided that the Fund will be backed by a UNFCCC mandate, it is likely that the governance structure will be similar to those of the existing finance mechanism under the COP, the Climate Investment Funds of the World Bank, or some hybrid model. The private sector's interest in engaging are similar to those noted above, but the role could be more operational and focused on implementation. Specifically, it may have an interest in ensuring that the fund focuses on areas that cannot be adequately financed by the private sector, to avoid crowding out of private sector initiatives.

<u>**Government incentives to support business engagement:**</u>

For both the High Level Panel and the Copenhagen Green Climate Fund, governments might benefit from a broadened understanding of private sector finance and project development, to ensure that the objectives of the UNFCCC and the Copenhagen Accord are met. Specifically, they may seek advice from the private sector to:

- Understand what mechanisms would enable public finance to "leverage" private finance;
- Assess what regulatory frameworks are needed to minimize the risk level of some low carbon investments and, where appropriate, how public and private actions can be combined to leverage additional funding;
- Develop an understanding of what "alternative" sources of finance may be available to support financial mechanisms;
- Gain expertise on how to spend public investments to ensure they are most effectively allocated;

- Gain expertise, from a financial accounting perspective, on how to develop “measurement, reporting and verification” frameworks and standards to quantify “support” from public and private sources.

<u>What are the issues and barriers to formalized business engagement:</u>

- ***Building trust*** - between governments and business. *How do we ensure that business engagement will be in the best interest of designing effective mechanisms?*
- ***Possible conflict of interest*** – where business may be inclined to shift more responsibilities and risks to governments and international public bodies than needed.
- ***Lack of interest*** - on the part of finance experts given the “high cost” of engagement in the UNFCCC process and the potentially “low” return.

1.4 What consultation mechanisms exist for financial mechanisms under the UNFCCC:

The financial mechanism of the Convention is operated by the Global Environment Facility (GEF), with accountability to the COP. As part of this mechanism, the Parties have developed three special funds: the Special Climate Change Fund (SCCF) and Least Developed Countries Fund (LDCF), under the Convention; and the Adaptation Fund (AF), under the Kyoto Protocol. The SCCF and the LDCF are managed by the GEF. The Adaptation Fund is governed by the Adaptation Fund Board, with the GEF providing secretariat services, and the World Bank serving as trustee.

The World Bank Climate Investment Funds: An illustration of private sector engagement

Through business organizations, the private sector participates as an observer to the Climate Investment Funds to:

a) Provide strategic guidance on the sectoral response to climate change challenges, both in mitigation and adaptation;
b) Advise on the most cost-effective financial instruments to leverage private financing for the development of SREP programs; and
c) Provide a liaison and channel for business to engage strategically with decision-makers and other stakeholders.

Observers are able to:

a) Request the floor during discussions of the Trust Fund Committee to make verbal interventions1;
b) Request that co-chairs add agenda items to the provisional agenda; and
c) Recommend external experts to speak on a specific agenda item to the Trust Fund Committee or the co-chairs.

The table below outlines the existing stakeholder engagement process within the Global Environment Facility and the Adaptation Fund Board. The lessons learned from these, and other funding mechanisms that engage the private sector may support the design of future business engagement mechanisms.

	Global Environment Facility	Adaptation Fund Board
Role	Stakeholders play an advisory role	Stakeholders play an observer and commentator role
Process	Stakeholders interact through meetings, which include GEF-NGO consultations and the GEF Council meeting	Stakeholders have the opportunity to comment on documents, but are not actively engaged
Stakeholders	GEF accredited NGOs, research institutions, community groups	UNFCCC accredited NGOs, parties
Level of engagement	The level of business engagement in these consultation processes is very limited. NGOs have actively contributed to meetings and dialogues	The extent to which voluntary contributions will be made and what role the observer status will play in practice

		remains to be seen.

The different models for stakeholder engagement in existing financial mechanisms vary considerably but in general they are limited in their ability to seek strategic and substantive input from non-government experts. While stakeholders can "observe" and "comment" on documents developed by these bodies, a proper dialogue is rarely achieved. The recently developed Climate Investment Fund stakeholder engagement process moves towards more active private sector engagement (see text box above), by allowing the private sector observers to contribute to discussions and suggest agenda items in meetings. However, observers are not permitted to participate in meetings when country investment decisions being are taken. It will be important for the private sector to ensure that the governance structure of new mechanisms would allow for an active contribution.

1.5 What are the areas where business could contribute through engagement in the High Level Panel and the Copenhagen Green Climate Fund:

As part of the ***High Level Panel***, private sector representatives could share expert knowledge on financial mechanisms and required conditions to drive private finance to developing country mitigation and adaptation actions. Contributions might include advice on existing barriers to investment, ideas on public-private investment structures to leverage private finance, and on recommendations on enabling policy environments, among others.

In the ***Copenhagen Green Climate Fund***, financial sector experts might advise on the structure of project development that enables the most effective use of capital. They may also provide expert input on the most effective policy tools to enable clean technology deployment in developing countries. Their role at this level would differ from their role within the High Level Panel, as it would be more operational, by for example, evaluating project proposals and recommending detailed investment and policy models.

Project developers and technology owners could provide advice, at the technical level, on appropriate technology choices, infrastructure needs and evaluation of project proposals from a technical perspective.

1.6 How can engagement be designed:

The extent to which stakeholders are involved in the establishment and implementation of the High Level Panel and the Copenhagen Green Climate Fund is an open question. The options of business engagement are outlined below. These options are not limited to business, but apply to the non-for-profit and other observer organizations in equal measure.

Under the High Level Panel:

1) Consider having a seat for a specified number of expert business and other stakeholder representatives, selected by a balanced, impartial and knowledgeable board of experts, in line with a strict set of criteria and a transparent process;
2) Create a formal consultation mechanism between the High Level Panel and a group of expert stakeholders on finance. This group could be one standing body, or a body / bodies of experts appointed for a defined period of time for specific topics which are under discussion and require expert advice. They would be called upon for strategic input upon request of the High Level Panel.

A bolder option might be that this High Level Panel is *required* to consult with this expert group prior to final decision making.

Within the Copenhagen Green Climate Fund:

"Participation" could take the following forms:

1) At the basic level, the fund should ensure access to information and open opportunity to comment on policy and technical decisions related to the fund. This should be done through an open and accessible communication channel, such as a dedicated website, possibly supported by mailing lists on specific topics;

2) More direct engagement (as in the case of the Climate Investment Funds) could be achieved with private sector representation in the fund meetings and management bodies, or through interaction of the fund management bodies with a group of private sector experts. This engagement could include participation in meetings to provide expert input and guidance on detailed issues related to the fund management- from design of fund processes, review of project proposals, recommendations on project implementation etc. The diverse phases of fund management and project implementation will require different skills from different private sector. Private sector representatives should therefore be selected accordingly.

2. Clean Development Mechanism

2.1 Why should business engage in the CDM:

The CDM presents an interesting case study for business engagement as it explicitly relies on private sector engagement to support its implementation. Article 12(9) KP states that "*Participation under the clean development mechanism, including in activities mentioned in paragraph 3(a) above and in the acquisition of certified emission reductions, may involve private and/or public entities*". The CDM thus truly represents a public-private partnership. With its challenges and successes, many lessons can be drawn from the CDM process in designing future instruments that will engage the private sector, such as a possible sectoral/NAMA crediting mechanism.

Business contributions and incentives for engagement:

- Business has an interest in seeing an effective and efficient mechanism, to support the CDM as project financing mechanism, carbon credit generation opportunity, as well as facilitating low emission technology development and deployment.
- The validation of projects and verification of emission reductions is entrusted to accredited private entities, the Designated Operational Entities (DOEs).[1] Business does also constitute the absolute majority of entities that invest in CDM projects, operate these projects, and engage in the trading of resulting emission reduction credits (Certified Emission Reductions or CERs). Both DOEs as well as project and market participants have gained valuable experience as to what incentives and disincentives can be created through policy and technical decisions under the CDM.
- CDM policy and regulatory decisions have direct impacts on private sector assets. The CDM Executive Board approves or rejects projects, methodologies or the issuance of carbon credits with private entities holding personal title over the projects and the credits issued and transferred. Multiple governance decisions at Executive Board level, from project registration to credit issuance but also methodology approval, have a direct bearing on the so called project participants or would-be participants. As a consequence, rule of law considerations and due process principles argue for the granting of procedural rights to private sector that is affected by CDM decision making.
- The CDM requires a high level of technical expertise. A more active role of private experts as advisors to the process could pave the way for decisions that are better informed, more transparent, and more predictable. The various panels and working groups established by the CDM Executive Board provide for interesting case studies in this respect.

Government incentives to support business engagement:

[1] Article 5 Kyoto Protocol; Decision 3 CMP 1, (« Marrakesh Accords ») paras 26 et seqq.

- Business is essential to scaling up the financing of projects and programs in GHG reducing activities in developing countries.
- Business offers resources not necessarily available at government and/or international organization (such as the UNFCCC Secretariat) level: technical, logistic, etc. and business has experience, know-how and lessons learnt to share.
- Business can contribute to informed decision making.
- The decision-making process, when addressing private entities and individuals directly, runs the risk of being challenged in the courts (international and/or national). In order to avoid that the international validity of the CDM ends up being fragmented by different national legal regimes, all affected non-state actors should be given rights in the process so as to guarantee that their essential rights and fundamental freedoms are protected.

<u>What are the risks and threats of formalized business engagement:</u>

- ***Need to improve mutual trust.*** Lack of trust inhibits a more formalized engagement of private sector in internationally defined mechanisms. *Example: Lack of trust between Executive Board members and Designated Operating Entities could be improved by increased clarity of EB decisions and guidelines and a more strategic division of tasks.*
- ***Conflict of interest*** - may arise and need to be managed should business play a more formalized role.

2.2 Who represents the private sector:

In the context of the CDM, “the private sector” constitutes a diverse range of business stakeholders. Some private sector actors in the CDM process “exist” by virtue of the CDM itself. Other private sector actors have a broader interest in implementing projects with support from the CDM. Considering the various private, and public sector actors in the process may support an understanding of “who” should play an active role in different areas of the CDM project development and implementation cycle.

Project participants

- Design projects and seek approval from the host government
- Buy or broker carbon credits
- Provide consultancy services
- Invest into projects

Designated Operating Entities:

In most cases, these are private entities.

- Validate and request registration of a proposes CDM project
- Verify and certify emission reductions and request issuance of CERs

Panel and working group members:

Panel and working groups are established by the Executive Board to access expert advice. To assist it in the performance of its functions, the EB is entitled to establish panels, working groups or teams. In this regard, it "…*shall draw on the expertise necessary to perform its functions, including from the UNFCCC roster of experts…[and] take fully into account the consideration of regional balance*."[2] The expert panels do not take decisions. But they undertake the technical assessments upon which decisions of the EB will necessarily be based. Thus far, two panels (Accreditation and Methodologies), two working groups (Afforestation and reforestation, and small scale) and one team (CDM Registration and Issuance) have been set up.

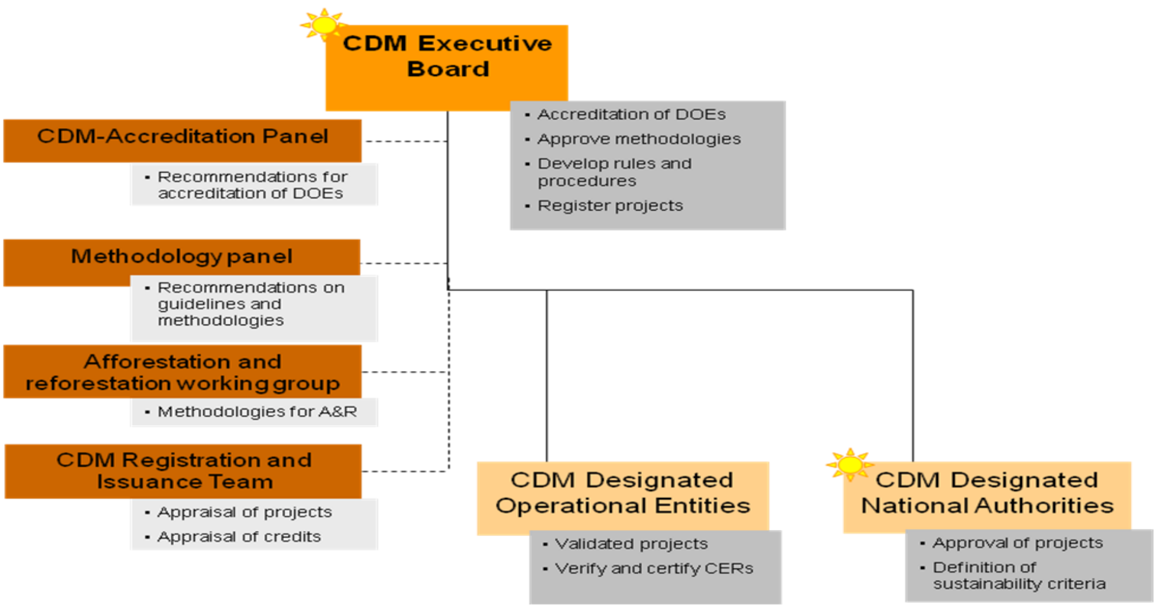
Technical experts:

A specific call for input on the UNFCCC provides an opportunity to input on detailed technical issues under consideration by the Executive Board or other parts of the CDM mechanisms. These issues range from mechanisms design and efficiency of process, through to detailed methodological questions. Experts might be drawn from the groups of "private sector" representatives listed above, but may of course also include other experts from outside the private sector.

2.3 What consultation mechanisms exist for the CDM:

Below, we outline the existing structure of the CDM, and highlight current private sector engagement mechanisms. Currently, the private sector acts as project participants, carbon market players (sellers, traders and buyers), as experts in the various panels and working groups established by the Executive Board, as observers to the Executive Board and, assuming a funtional role in the decision-making process, as Designated Operational Entities (DOEs).

Structure of the CDM



Current private sector engagement and role

TODAY	Right to Be	Voluntary	Mandatory	Participation in

[2] Decision 3/CMP.1, Annex, para. 18.

	Heard	Consultation	Consultation	Decision-Making
DOEs	Yes (but could be improved)	Yes	No	Yes
Expert Panels and Working Groups	No (except for request for clarification)	Yes	Yes	Yes (recommendations to the EB)
Project Participants	No (except for request for clarification)	Very limited	No	No
Technical Experts	No	Yes	No	No
Observers	No	No	No	No

In addition to this engagement, specific "calls for public input" are posted on the UNFCCC website. These calls request input of a range of topics, from mechanism process, through to detailed input on methodologies.

2.4 What are the specific issues that business should contribute to through engagement:

Protection of rights

Formal participation of stakeholders and project participants or would-be participants in particular to guarantee that rights of individuals and entities concerned are respected and protected (protection through process). This applies to the right to be heard, to the right to be informed about the reasons of a particular decision, the right to appeal a decision, etc.

Technical input

- Supporting the development of project methodologies through technical expertise (eg Meth Panel, A/R Working Group);
- Conducting validation, verification and certification (DOE);
- Supporting the development of baselines based on primary information and data (consultants supporting project development).

Policy input

To support the design of a cost effective, efficient process that support broad project implementation and environmental integrity, based on implementation experience and market knowledge.

2.5 How can engagement be designed:

The CDM does engage the private sector directly in the mechanism and its implementation. Lessons can however be drawn from this experience, and more effective forms of private sector engagement can be considered.

Below, we outline four specific examples of potential enhanced or new engagement mechanisms for the private sector:

1) **Transparency and Predictability**.

Lack of transparency of the activities performed by the Executive Board and the deficiency of communication channels between the main CDM regulatory bodies and project participants have been the subject of criticism by the private sector and NGOs. Although the CDM approval process provides for public participation at the project level, involving both local and international stakeholders until project validation is complete, there is no direct communication between the EB or its panels and project participants. There is not even a guarantee that private entities will be informed about deliberations regarding their projects. Addressing issues of transparency, predictability, and procedural inefficiency in the CDM regulatory process through the establishment of administrative due process does not require, however, major substantive changes of the institutional model currently in place. Rather, some technical adjustments would be enough to set the CDM governance in the right track for the post-2012 period, further enhancing the predictability of the system and the overall confidence of the private sector in the mechanism. According to recent Copenhagen decisions (further guidance relating to the CDM Decision -/CMP5), the CDM Executive Board has been mandated to create more effective, and direct communication chanels with project developers. This chanel of communication might take the form of direct notifications and direct hearings (in writing or other) before (final) review decision are taken. The decision also mandates the Executive Board to substantiate decisions by giving its reasons and mandates the Board to develop procedures that establish the right of the affected entities to be heard.

2) **Participation in decision-making**

Currently, the private sector act as observer to the CDM Executive Board meetings, and does not play any role in the decision making process.

Below, the oulined CMP changes provide that business may be granted a more active ***observer role****. This may include the right to request certain agenda points, a mechanism of active consultation in specific areas (i.e. where the Executive Board (or CMP) would identify certain areas where business representation has to be formally consulted before a decision can be taken), or other.*

3) Access to **judicial redress** (appeals process)

Project participants and stakeholders concerned may be given the opportunity to challenge decisions of the Executive Board that have a bearing on their rights. An independent body would be in charge, following a request from the individual/private entity concerned, of examining an Executive Board decision against its legal consistency; and it would have the power to annul a decision, if not to replace and grant a particular decision. It may even be feasible to give such appeals body the power to grant remedies and compensation.

The CDM CMP5 decision has taken up this issue and requests the "*Executive Board to establish, following consultation with stakeholders, procedures for considering appeals that are brought by stakeholders directly involved, defined in a conservative manner, in the design, approval or implementation of clean development mechanism project activities or proposed clean development mechanism project activities, in relation to:*

(a) Situations where a designated operational entity may not have performed its duties in accordance with the rules or requirements of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol and/or the Executive Board;

(b) Rulings taken by or under the authority of the Executive Board in accordance with the procedures referred to in paragraph 39 above.

Reformed private sector engagement and role:

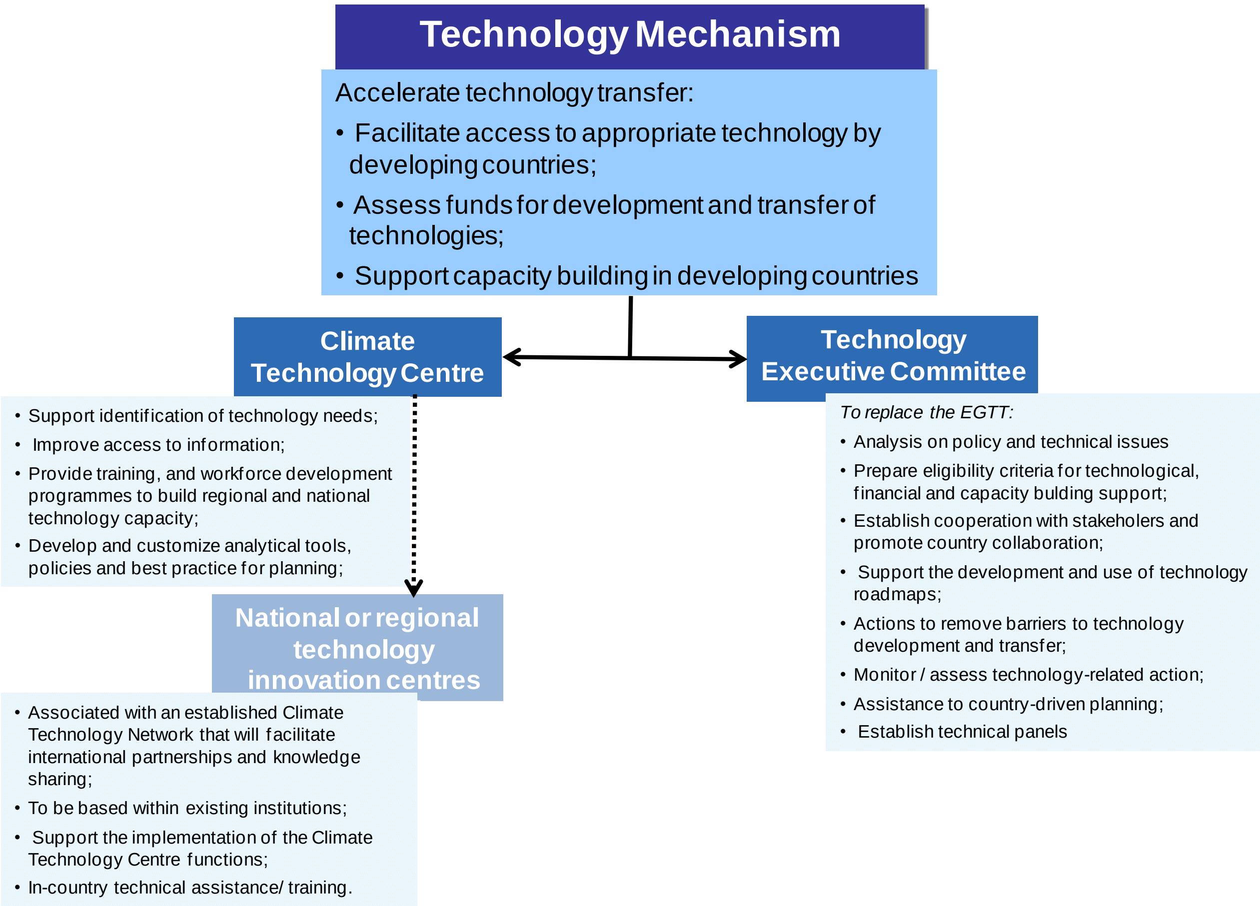
REFORMED CDM	Right to Be Heard	Voluntary Consultation	Mandatory Consultation	Participation in Decision-Making
DOEs	Yes	Yes	Yes	Yes
Expert Panels and Working Groups	No	Yes	Yes	Yes
Project Participants	Yes	Yes	Yes	No
Technical Experts	No	Yes	No	No
Observers	Yes	Yes	No	No

Indicates change from current status

3. Technology Mechanism

3.1 Context

Accelerated clean technology development and deployment is central to addressing climate change. This has clearly been recognised by governments at the international level. Supporting this objective, the "Ad-hoc working group on long-term cooperative action" (AWG-LCA) of the UNFCCC has elaborated the functions and structure of this potential mechanism, which has been further endorsed by the Copenhagen Accord. While many details require clarification and definition, the diagram below presents a summarised interpretation of the AWG-LCA *Technology Mechanism* text.



3.2 Who represents the private sector?

Developing low emission technologies and projects requires various skills, and involves different actors from within the private sector. From project conception and design, to project financing through to implementation and operation, private actors are involved. All skills are essential to ensuring effective project implementation.

Simplistically, experts involved within the technology deployment project cycle include, among others:

Project development experts: *structure project, seek financing, partnership and necessary permitting*

Technical assessment experts*: assess and design projects from a technical perspective (i.e. identify appropriate siting of projects and decide on appropriate technologies)*

Project implementation experts: *in charge of physically developing the project (e.g. engineers)*

Operational and maintenance experts: *operators of technology on the ground.*

3.3 Why should business engage in the Technology Mechanism

Business continuously innovates, develops and deploys low emission/energy efficient technologies. These activities are at the core of business operation. The challenge of climate change requires the scale and pace of technology development and deployment to increase significantly. In particular developing countries, where the private sector does not actively invest, need support through the design of effective technology deployment mechanisms and enabling project development environments. Through direct experience, the private sector has an understanding of the barriers and enablers to a low-carbon transition from the development of new technologies, through to the deployment of existing ones.

From a technical perspective, the private sector has the know-how and "best-practice" expertise required to effectively build and run clean technology infrastructure. These skills are essential to ensure long-term, effective and efficient technology operation.

Governments have clearly recognised the important role of the private sector in this area. The key question is how to most effectively leverage the skills and know-how of the private sector. Governments could:

- Use private sector expertise to inform the design of cost-effective policies to overcome technology development or deployment barriers;
- Partner with the private sector to achieve technology development and deployment goals where costs and/or risks are too high for the private sector alone;
- Consult with private sector experts to understand appropriate technology options;
- Engage the private sector to support capacity building and share technical "know-how."

What are the risks and threats of formalized business engagement:

- ***Confidence building*** – fear that the private sector can provide objective advice in areas where they may have a commercial interest;
- ***Objectivity*** –the private sector may push particular technologies with a specific commercial interest in mind.

3.4 What consultation mechanisms exist for technology development and deployment under the UNFCCC

Through 2009, informal dialogues between the Expert Group on Technology Transfer (an expert advisory group under the UNFCCC) and the WBCSD/ ICC have enabled exchange on technology related issues. In addition, the International Energy Agency is working with the private sector to develop technology roadmaps (e.g. a joint WBCSD/ IEA cement roadmap) and a technology platform.

Through informal meetings between the EGTT and private sector representatives from the WBCSD and the ICC, business was able to provide input to the ongoing work of the EGTT.

Topics of discussion have included:

- Funding mechanisms to support technology transfer;
- Institutional structures for a future technology mechanism;
- Enabling frameworks to support deployment of existing technologies in developing countries.

While these dialogues are informal in nature, the conclusions by the Chair of the Subsidiary body for implementation in Copenhagen suggested that "*consideration should be given to establishing an effective means of engaging the private sector more fully in the process. One such means may be to provide an ongoing forum for members of the business and finance communities to regularly communicate their assessment of which actions by Parties could be most effective in enhancing the development and transfer of environmentally sound technologies and practices*[3]."

These informal exchanges have proven valuable and effective, and an opportunity has been presented to formalise the process. It is expected that the EGTT may be integrated into a potential future *Technology Mechanism* (outlined above). Given the complexity of this proposed mechanism, the layers of private sector engagement and the different skills required will have to be carefully considered.

3.5 What are the specific issues that business should contribute to through engagement?

Global business has extensive knowledge across the entire cycle of technology innovation and deployment. Appropriate private sector technical and economic feasibility knowledge can therefore be tapped by governments. A few specific areas may include:

- Knowledge on the necessary investment frameworks to drive commercial low emission technology transactions in developing countries;
- The identification of investment barriers, and potential solutions;
- "On the ground" technical knowledge to identify, operate and implement technology solutions as appropriate in developing countries;
- Capacity building support to effectively operate advanced technologies to maximize their long-term efficiencies;
- Information sharing on existing technologies and best practice.

[3] FCCC/SBI/2009/L.18

3.6 How can engagement be designed?

Based on this proposed structure of the potential *technology mechanism*, we can identify a number of potential areas of engagement for the private sector:

*Within the **Technology Executive Committee:***

If the Technology Executive Committee were to set strategic objectives of the Technology Mechanisms and advise on technical issues, then the private sector could play an important role at this level. They could work with governments to ensure that the designed mechanisms have the desired impact of enhancing technology transfer, through their technology knowledge and understanding of markets.

- The private sector could be *represented as part of the Executive Committee itself*, to directly work with other members to fulfil the Committees' stated objectives. An identified number of seats might be open for the private sector, or other stakeholder representation. The Committee would however be predominantly composed of government representatives;

  The private sector could be represented through an "organization" to ensure effective input from, and feedback on discussions to a broad range of business stakeholders. Business organizations would nominate a private sector expert following a set of pre-defined criteria.

  Selected members would participate in their capacity as individual experts, but would ensure that information from the meetings was disseminated to a broader range of business stakeholders for feedback and input.
- Alternatively, *a group of experts might be nominated to formally consult with the Technology Executive Committee* as appropriate, and upon request. The private sector representatives would be selected following a similar process to that outlined above, ensuring a diversity in sector, geographic, and skill representation.
- Building on this suggestion, it may be the case that the Technology Executive Committee is *obliged* to consult with such a group of private sector experts.

Within the ***Climate Technology Centre:***

If the Climate Technology Centre were to implement the technology mechanism, the private sector might provide technical input to this process:

- Private sector representatives could be directly engaged in the Climate Technology Centre, as part of its working structure. Should the Centre be divided to focus on specific technology, sectoral, or policy issues, appropriate experts would be selected for direct participation.
- A "call for experts" might request for applications from private sector representatives following a set of defined criteria. The selection of experts would depend on the structure that the Climate Technology Centre takes.

Within **Regional and National technology innovation centres and networks**:

- Local and regional experts to provide "on the ground" knowledge in specific technology areas.
- Similarly, a call for regional and national experts may support the identification of individual private sector experts on specific issues of interest. Experts may engage in, for example, capacity building, or the evaluation of appropriate technology installation on the ground.

The terms of private sector participation in each of these areas require future definition. Long term involvement would have to be defined in such a way that participation is economically feasible for expert representatives. This question of "long term incentive for engagement" will be part of ongoing discussions on this issue as potential structures for private sector engagement is more specifically outlined.

4. Nationally Appropriate Mitigation Actions

4.1 Context

Paragraph 1 (b) (ii) of the Bali Action Plan calls for "*Nationally appropriate mitigation actions' by developing country Parties in the context of sustainable development, supported and enabled by technology, financing and capacity building, in a measurable, reportable and verifiable manner*. "

In the negotiations up to Copenhagen nationally appropriate mitigation actions (NAMAs) has come to be an acronym used frequently as the solution of many open issues, and with very different interpretations on what the term actually stands for. The negotiations have so far left open what NAMAs actually are. Views differ also on the institutional structure needed for providing support to NAMAs as well as ways to measure, report and verify actions. NAMAs can range from single actions (e.g. the construction of a hydropower plant) up to a comprehensive package of policies (e.g. establish an enabling environment for renewable energies) or an emission (intensity) goal for the complete country. It is a matter of debate, how developing country actions can be financially supported. Options include provision of direct funds for the actions or by generating carbon credits that can then be sold on the international market. Depending on the specific action, stakeholder or business engagement may be more or less favourable.

The Copenhagen Accord mentions both the creation of a NAMA registry and ideas on the MRV of NAMAs. The Copenhagen Accord states that supported actions are to be subject to international MRV, while unilateral actions that do not receive international support are subject to a national MRV process. The concrete design of the NAMA framework will largely determine the possibilities of private sector involvement. We therefore make a number of assumptions to support our initial analysis and proposals for potential private sector engagement.

Areas where business could be involved:

- *At national level*: The implementation of NAMAs will affect national businesses in various ways, potentially changing the political framework for business, for example through the introduction of performance standards or other relevant legislation. Consultation with and feedback from stakeholders is therefore essential and must be guaranteed on the national level. This could be as part of an advisory body to assess baselines, new methodologies and mechanisms or through another nationally organised process allow businesses to bring their perspective in. This should to some extent safeguard predictability and investment security of the NAMA process for the private sector. The more comprehensive and ambitious the action, is the more important stakeholder involvement becomes. For defining sectoral crediting baselines, for example, the involvement of the affected private sector is essential. However, shaping national processes exceeds the scope of this project and, more importantly, cannot be covered by a single one-fit-all approach as cultural differences and customs play an important part.

- *At international level*
  - Helping to define criteria and guidelines for the design of the NAMA framework. This could include input into the definition of methodologies for NAMA proposals, guidelines for estimating greenhouse gas impacts, cost, necessary financial support etc.
  - Review of proposals. This includes the more technical evaluation on the appropriateness and quality of used data, robustness of assumptions and the evaluation whether guidelines and criteria were followed.
  - Supporting the process of approving funding. However, this aspect is covered by the example on the Green Climate Fund.
  - The private sector could support the MRV process for actions by providing information on availability of data to design the MRV framework.

4.2 Why should business engage in NAMAs:

Business contributions and incentives for engagement:

- Business has an interest to be involved in the design phase to create an efficient and effective institutional set-up with transparent decision-making structures. Early involvement and consultation with business in advance is therefore essential.
- NAMAs can potentially create new business opportunities for solution and service providers and the financial sector. The extend of these opportunities will strongly depend on the design of the system.

Government incentives to support business engagement:

- Business has experience and knowledge which is important for the design of the NAMA framework. The input can range from "pure" data provision, information on technologies and markets up to reviewing assumptions and baselines.
- The involvement of a divers group of stakeholders, including business, enhances the support and acceptance, as well the transparency of the NAMA process. This facilitates the implementation of decisions and makes the process more effective.

What are the risks and threats of formalized business engagement:

Conflict of interest - NAMAs may affect business for example through changed money flows or a modified policy environment. *Example: If business reviews or evaluates NAMAs or assesses methodologies how can be assured that certain types of NAMAs are not favored?*

Confidentiality - Business might not want to share information for competitiveness reasons. *Example: Why should business provide confidential data on production processes which however are essential for setting baselines?*

4.3 Who represents the “private sector”:

The variety of possible actions within a ‘NAMA framework’ is large. Potentially a large number of private sector stakeholders from a wide range of sectors and areas of expertise could be involved. They can be grouped into three main categories:

- Solutions providers through technology or finance
    - Solution or technology providers
    - Financial sector
- Service providers (consultants)
- Buyers of low emission technologies and services

4.4 What consultation mechanisms exist in relation to NAMAs:

Within the UNFCCC, there is no formalized consultation mechanism for engaging the private sector in this particular issue.

Program based lending processes such as the funds operated by the GEF have established consultation mechanisms. These processes are very similar to NAMAs. This aspect is covered by the example on the Green Climate Fund (see separate example).

In the field of data provision, business is for example engaged in the Cement Sustainability Initiative “Getting the Numbers Right”. Each company participating in the system collects information related to their CO_2 emissions and reports these data to an independent third party service provider. These data are collected in a database and used as basis to define mitigation strategies and climate actions. Similar efforts were made or are on the way in other sectors, like aluminum and steel. These existing experiences could serve as an example for other sectors

4.5 What are the specific issues that business should contribute to through engagement:

- They can act as independent consultant/verifier in the process
- Business can provide input of technical knowledge on
    - Methodologies for different types of actions and sectors;
    - Data requirements and availability for the setting of baselines and the calculation of GHG impacts;
    - Necessary technical solutions to achieve reductions and on realistic implementation rates / strategies;
    - Information on cost / economical feasibility of different technical solutions.
- Provision of information on appropriate triggers and barriers for the deployment of desired solutions

4.6 <u>How</u> can engagement be designed:

- At *national level* a mandatory stakeholder consultation process for the definition of NAMA proposals should be established. This process should be guided by the established processes adopted for the definition of TNAs and NAPAs.
- At *international level* the form of engagement depends on the area of involvement:
  - For the ***establishment of guidelines*** and methodologies, expertise will be required. These guidelines will define, amongst other issues, the scope of NAMAs, criteria and requirements for supporting NAMAs and how the support will be given, e.g. through direct funds or through carbon credits. Most of the necessary know-how can be provided by independent entities (universities, research institutes, etc.) and experts who provide input the SBSTA under the UNFCCC. The private sector could be consulted either directly by the SBSTA or through a body mandated by SBSTA.
  - For the ***review of NAMA proposals*** we propose to use a roster of experts. Once a country proposes a NAMA it could be reviewed as a mandatory step in the process making use of the already existing UNFCCC roster of experts. This roster could be expanded to specifically include private sector expertise. The task of the roster of experts would be to provide specific expertise to the review process, e.g. to check the consistency and correctness of technical and financial assumptions. Input will be provided to the body within the UNFCCC which will be given the mandate to perform this task. Within the current status of decisions this could be the Green Climate Fund or a new, not yet named institution.
  - As a basis for the definition of methodologies as well as for the formulation of NAMA proposals a process could be established to ***improve the data basis*** in the different sectors through collaboration with stakeholders. This process could be established using the experiences and structures of the Cement Sustainability Initiative "Getting the Numbers Right".

5. Reducing Emissions from deforestation and forest degradation (REDD) in developing countries

5.1 Business engagement in REDD:

Although REDD (or correctly REDD+)[4] was one of the agenda items that advanced most in the run-up and during the Copenhagen climate conference, several design issues of a REDD+ mechanism remain controversial. In particular the role of sub-national activities as compared to national action and the sources of REDD+ financing remain contentious and subject to further negotiations. However, regardless on the sources of REDD+ financing, business will need to be involved in the implementation of REDD policies and programs. Unsustainable agricultural and forestry practices contribute to deforestation and public-private partnerships have to be forged to effectively address deforestation. In addition, some countries may link REDD+ to national carbon markets, in which case business could participate in REDD for reputational issues, for profit, and for compliance with future legislation. In the context of national REDD implementation, REDD action may also be linked to financial awards, for example from the generation of carbon credits[5] or payment for ecosystem services schemes.

It is likely that REDD implementation will be based on a phased approach, starting with upfront investments in capacity building[6] and policy reform in candidate countries leading to eventual performance-based payments for emission reductions against a reference level. The implementation of REDD could be supported by the financial resources, the organizational capacity and the human capabilities of the private sector. Private sector engagement is especially crucial to mobilize the significant amount of capital needed for a REDD mechanism to be successful. Should REDD credits be linked to compliance markets, it is anticipated that business seeking forest carbon credits for emission offsets will be the most significant buyers of REDD credits. Businesses could contribute to the design of the mechanism in order to minimize risks, foster the scale of investment necessary to mitigate the effects of deforestation and forest degradation on climate change and ensure the innovations and experiences of the voluntary carbon market are transferred to a regulated or formal REDD mechanism.

Initial funding to build the institutional structure for REDD – getting ready for REDD – is taking place; the sources of funding in this phase are coming mostly from bilateral and multilateral institutions. Further implementation of a REDD mechanism will require the correct incentives and regulations that will support and maintain the effort of reducing GHG emissions from ongoing deforestation and forest degradation in developing countries.

[4] The full reference to REDD under the AWG-LCA includes the enhancement of forest carbon stocks, sustainable forest management and conservation, in total referred to REDDplus or REDD+. It is understood that references to REDD refer to the full set of agreed incentive mechanisms and eligible activities.

[5] Such credits can be defined by international or national legislation; they can be awarded to governments, public or private actors. Regardless of the provenance of the credits, it is likely than REDD incentive schemes will involve private sector actors.

[6] The World Bank's Forest Carbon Partnership Fund (FCPF) and Forest Investment Program (FIP) and the UN REDD program are already operational and starting to make the "up front" capacity building investments in variety of REDD candidate countries.

<u>The Copenhagen Accord</u>:

Paragraph 6 of the Copenhagen Accord addresses REDD(+): *"We recognize the crucial role of reducing emission from deforestation and forest degradation and the need to enhance removals of greenhouse gas emission by forests and agree on the need to provide positive incentives to such actions through the immediate establishment of a mechanism including REDD-plus, to enable the mobilization of financial resources from developed countries*." The Copenhagen Accord also addresses short-term REDD+ financing. In Copenhagen the US, UK, France, Australia, Japan, and Norway pledged USD3.5 billion over three years for REDD+. The US portion of this is USD1 billion.

5.2 Who represents businesses:

Business with interests in a REDD mechanism could include:

- Industries that will directly be involved in addressing deforestation and forest degradation (e.g. agriculture, timber and timber processing industries)
- Existing and new investors in sustainable forestry and forest industry operations, and those incentivized to reduce GHG emissions from the sector:
    - Develop REDD+ projects and programs
    - Acquire or trade REDD+ credits
- Providing services (validation, verification, consultancy, capacity building and training, technology transfer e.g. sustainable forest management)

5.3 What are the areas in which businesses can provide input:

Business will be essential for the implementation of REDD strategies. Such strategies may include the intensification of agriculture and fiber production or the implementation of sustainable forest management practices. Industry may also benefit directly from REDD related payment schemes. If REDD would be linked to international or national carbon markets or other incentive schemes, private sector could also contribute to the financing of REDD– both on the supply side making REDD investments, and on the demand side trading REDD credits. Businesses should provide input during the design phase of a REDD mechanism to make sure that mechanisms and processes are cost effective and efficient. Business will only invest into REDD action if the risks are manageable and there is prospect of reasonable profit. Risk mitigation includes the creation, recognition and protection of forest tenure, property and carbon rights, equitable in-country benefit sharing of REDD revenues and reduction of host country related risk Private sector participants have also advocated for the inclusion of subnational programs and project level activities into a REDD mechanism.

Businesses have also a role to play to ensure that national and international institutions contain the appropriate skills and capabilities to be effective, responsive, accountable, and have the environmental integrity to carry out credible REDD activities that provide confidence to indigenous peoples, forest communities and international investors. Businesses can provide technical input by supporting the development of pilot projects and related methodologies, and working in collaboration with validation and verification entities to streamline procedures. Through the development and implementation of pilot REDD programs and projects, business can test methodologies and generate knowledge including legal expertise, insurance, and MRV services. Businesses that are active in developing projects on the ground are also likely to collect information and data that is useful to define principles, criteria and standards. Business plays a role in disseminating knowledge, expertise and best practice.

Since the REDD mechanism is in its design phase, the most important engagement of the private sector at this point should be influencing the design of a REDD mechanism across all three phases – preparation, policy and performance. Further engagement must deal with i) capacity building and project finance investment capital, ii) the design of social, environmental and financial safeguards and iii) provision of services to help deliver REDD results. Businesses can help ensuring that the right rules and regulations are in place to foster investment while minimizing risks and that strong links are created between the voluntary and formal REDD markets.

There is currently no formal involvement of business or other non-state actors in REDD. Operating at an informal level, however, forest stakeholders, including business, have provided input to governments, among through different initiatives (e.g. the Hardward/WWF Forest Carbon Summit or The Forests Dialogue's). Business input into relevant formal negotiations is limited to entities that have an interest in sustainable forest management; sustainable wood, paper and bio-energy production; and in REDD carbon markets. Comments are channelled through forest industry associations operating at the international, regional and nation levels (e.g. WBCSD, ICFPA, CEPI) and carbon market association (e.g. CMIA and IETA).

Once established, a REDD mechanism needs to be backed up by solid and coordinated institutions that govern the mechanism at the national and international level. These institutional arrangements must enable the measurement, reporting and verification of developing country action and contributions from developed countries. They need to facilitate the mobilization and distribution of financial resources from the private and public sector. Business may play a role in the following aspects of REDD:

- Finance: private participation in resource mobilization (in terms of quantity, sustainability, and predictability), allocation (fair, effective, and efficient), and disbursement (according to agreed principles and criteria);
- Standard setting: assistance in the formulation of technical and fiduciary criteria and indicators to evaluate performance, including social and environmental standards.
- Certification of Results: technical expert assessment of REDD performance.
- Accountability: ensure that institutions and entities are held responsible for their actions and decisions.

5.4 How can business get engaged:

Expertise of the private sector relevant to the design and implementation of a REDD mechanism could be accessed in the following manner:

- ***An international REDD mechanism*** could foresee a high level advisory body for REDD that represents non-Party interests and expertise. Business could be represented on such advisory body jointly with community, indigenous people and NGO representatives. Such advisory panel could advise Parties on technical (MRV, reference levels) as well as on implementation matters (e.g. carbon market regulation, compliance). (Note: There is precedent for this as both The World Bank's FIP and FCPF initiatives have non-state observers including the private sector)

- Business could be engaged in the ***certification of REDD results***. While Parties are unlikely to accept independent (private) certification of compliance, verification on the sub-national and project level could be conducted by environmental auditors. National level review and monitoring could be supported by contracted expertise.
- Business could ***support an international or national REDD carbon market***. Such direct involvement of business in REDD markets could be facilitated by the international review and issuance of carbon credits, in particular where countries do lack the capacity to establish and maintain the institutions needed to support a carbon market. Such arrangements could be modelled after Track 1 and Track 2 Joint Implementation.
- Business can help countries (Annex I and Non-Annex II) to raise funds at the national level through the ***design of new financial instruments***, like for example REDD bonds or through financing schemes backed by insurance removing some or all host country risk.