



# Financial Alternatives for Mitigation Activities

# Fixing the Problem . . . .

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# Questions we've heard about NAMAs

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- Experiences from CDM?
- How are we going to deal with different regimes/markets?
- Are there good experiences “outside” the CDM/ETS regimes, we can take lessons from?
- How can we design a robust, reliable, efficient NAMA regime?
- MRV. Can we improve the work done under the CDM? How?
- How we will incorporate the private sector?

# Current situation

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- from a single internationally accepted mechanism based on projects to a diversity of initiatives characterized for being
  - more diverse in nature - projects/policies
  - Have different timeframes- short vs very long
  - one sector or multi sectorial
  - Under different regimes or based self imposed targets
- mitigation programs / NAMAS
  - diverse- from clusters of projects to long term policy + projects interventions
  - no global governance

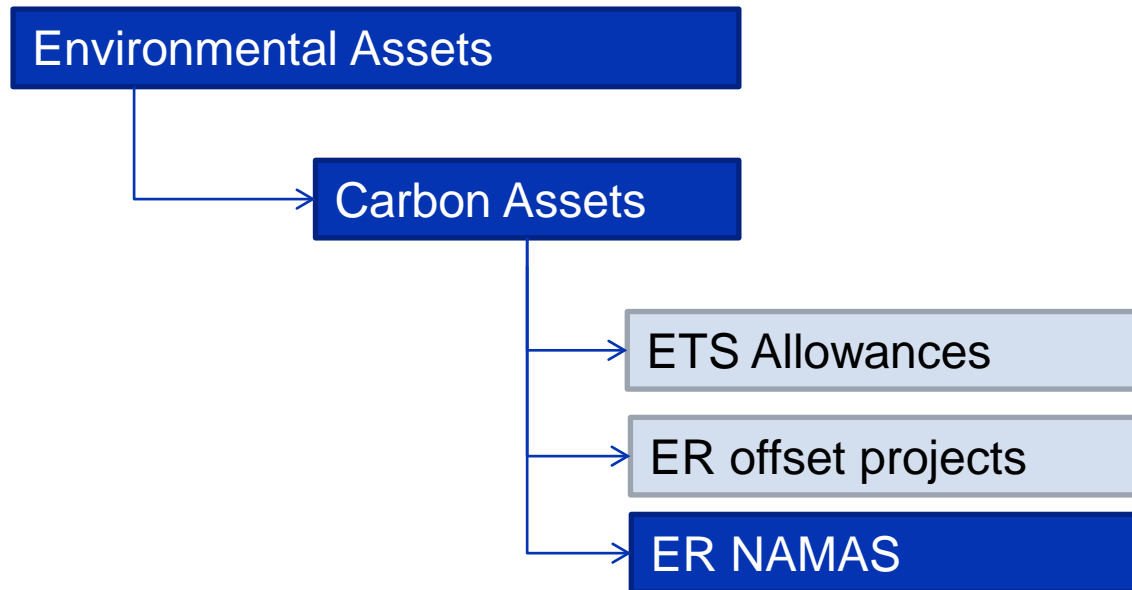
# Past experience

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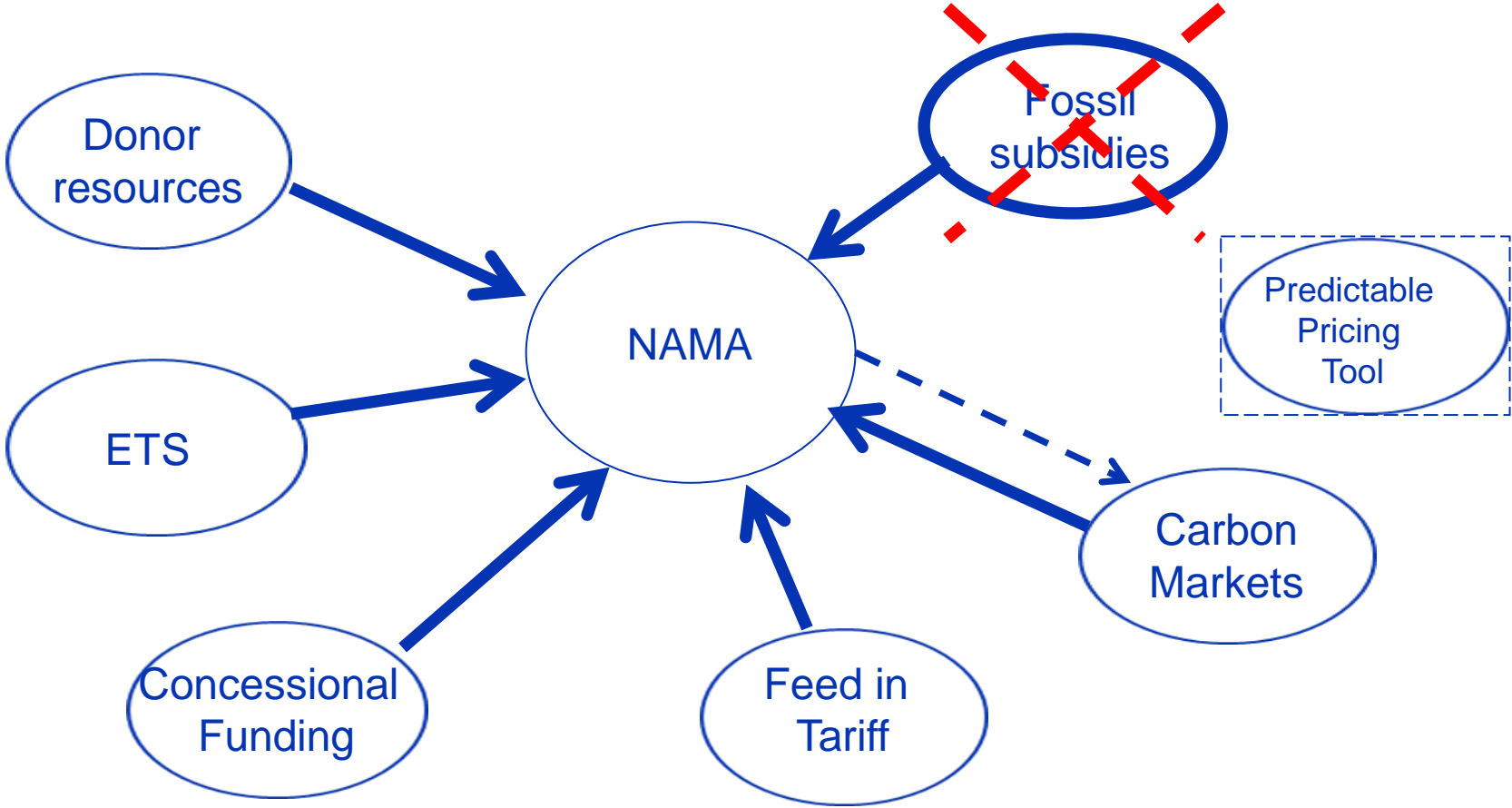
- Existing ratings initiatives of offset projects evaluate the project before project happening to measure investment risk.
- Those initiatives do not consider exchangeability among asset classes
- Validation/verification is a yes/no process. rating leads to a range of outputs.

# Environmental Assets

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# Potential Financial Resources to finance Mitigation Projects





# **Rating Environmental Integrity and Mitigation Value of Carbon Assets**



# Goals

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- To understand the opportunities and challenges from using a rating system for carbon assets valuation
- To obtain input on the main components of the NAMAs rating protocol



# Identified Needs

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- For investors
  - assurance of integrity of the carbon assets
  - investment security
  - equivalence among the different programs they support
  - more direct integration of co benefits
  - link finance to performance
  - level of risk based on a set of criteria they can select
  
- For Host Countries
  - Rating of its own mitigation programs using an international recognized system.
  - Link finance to performance
  - Opportunity to evaluate allocation of ERs in markets with different standards.
  - Potential integration of Co Benefits
  
- For carbon market
  - preserve integrity
  - attract investment
  - A system for different regimes to cohabitate

# Goals

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- To provide confidence to investors on the viability and level of risk of different carbon assets and existing co benefits.
- To develop a widely accepted mechanism to compare environmental integrity of different assets. These assets will be different in nature, target different sectors and geographically distributed
- To develop a widely accepted mechanism to compare exchangeability of different carbon assets.

# Key features

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- Applicable to a range of environmental assets. Initial focus on carbon assets and mitigation programs/NAMAs.
- A rating protocol as the basis for the evaluation by measuring different risk categories. The first protocol tests the case for NAMA
- The rating protocol is the basis for the evaluation of the asset before, during and after implementation.
- The user has the possibility of selecting how the different risk categories weight in the rating decision.

# Objectives of the Rating System

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- To provide confidence to investors on the **viability and level of risk** of different carbon assets ensuring environmental integrity.
- Mechanism to **compare** different assets and their **mitigation value**
- Framework to evaluate **exchangeability** of different carbon assets.
- Facilitate **benchmark** and **improvement**

# Rating Systems

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## 1. Provides investors with information regarding

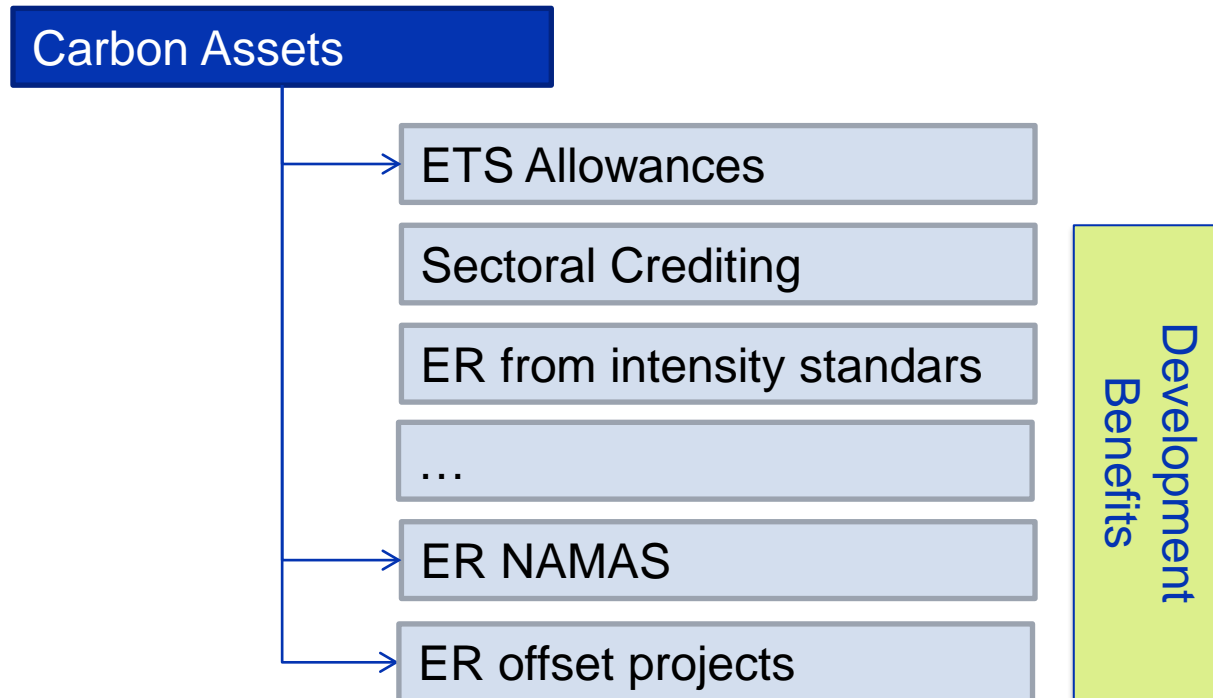
- Performance
- Level of commitment of the country
- Where an assets sits on the “quality” continuum

## 2. Encourages the market to strive for higher quality

- All things being equal, investors will seek out the highest-scoring asset

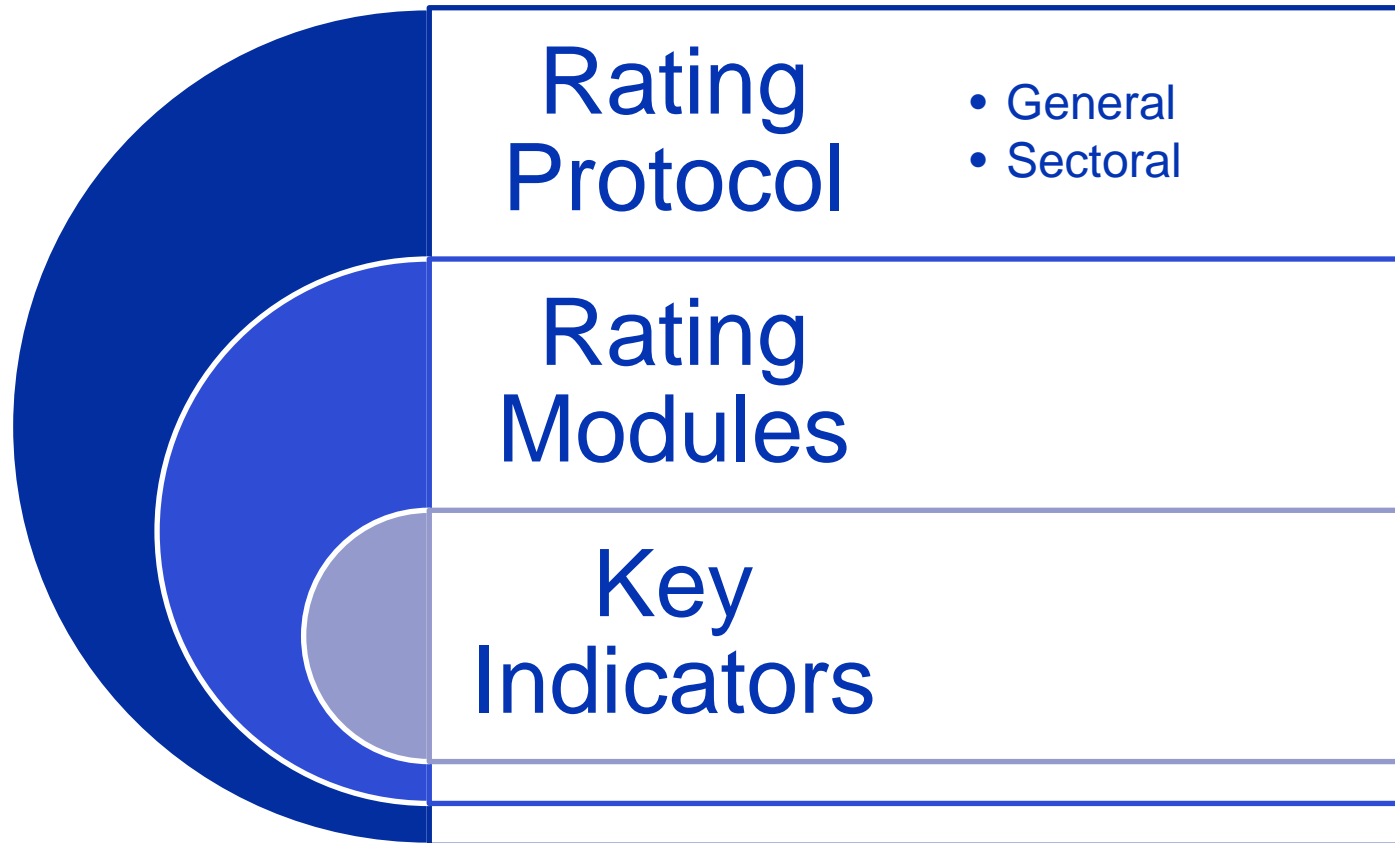
## 3. Allows for comparability of assets quality and ultimately exchangeability

# Carbon Assets



- NAMAs involve mitigation activities within an enabling policy framework at the sectoral or national level.
- Attempting to develop rating protocols for NAMAs will provide insights to the challenges of rating of both, projects and policy frameworks

# Building Blocks for Ratings



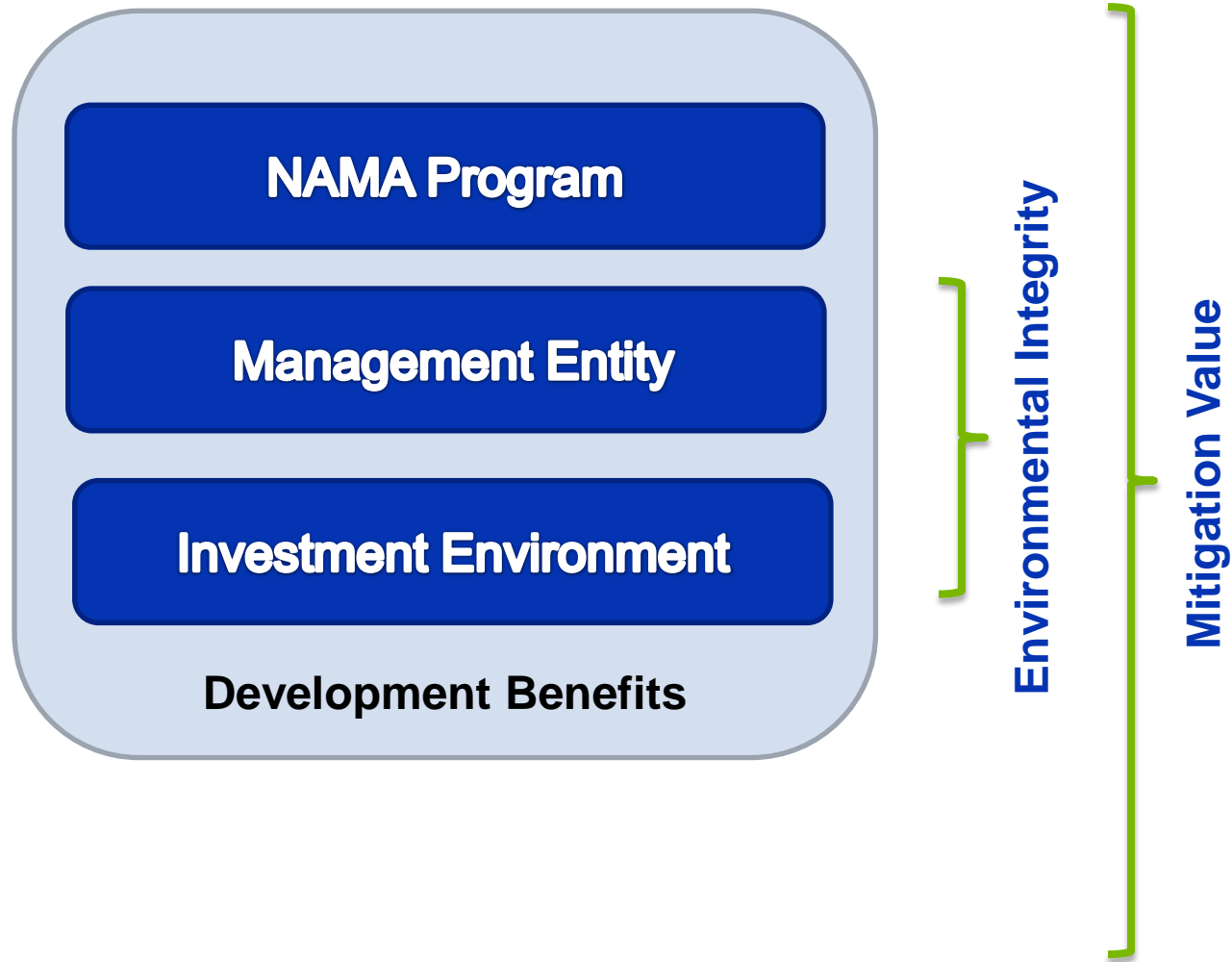


# Key Considerations

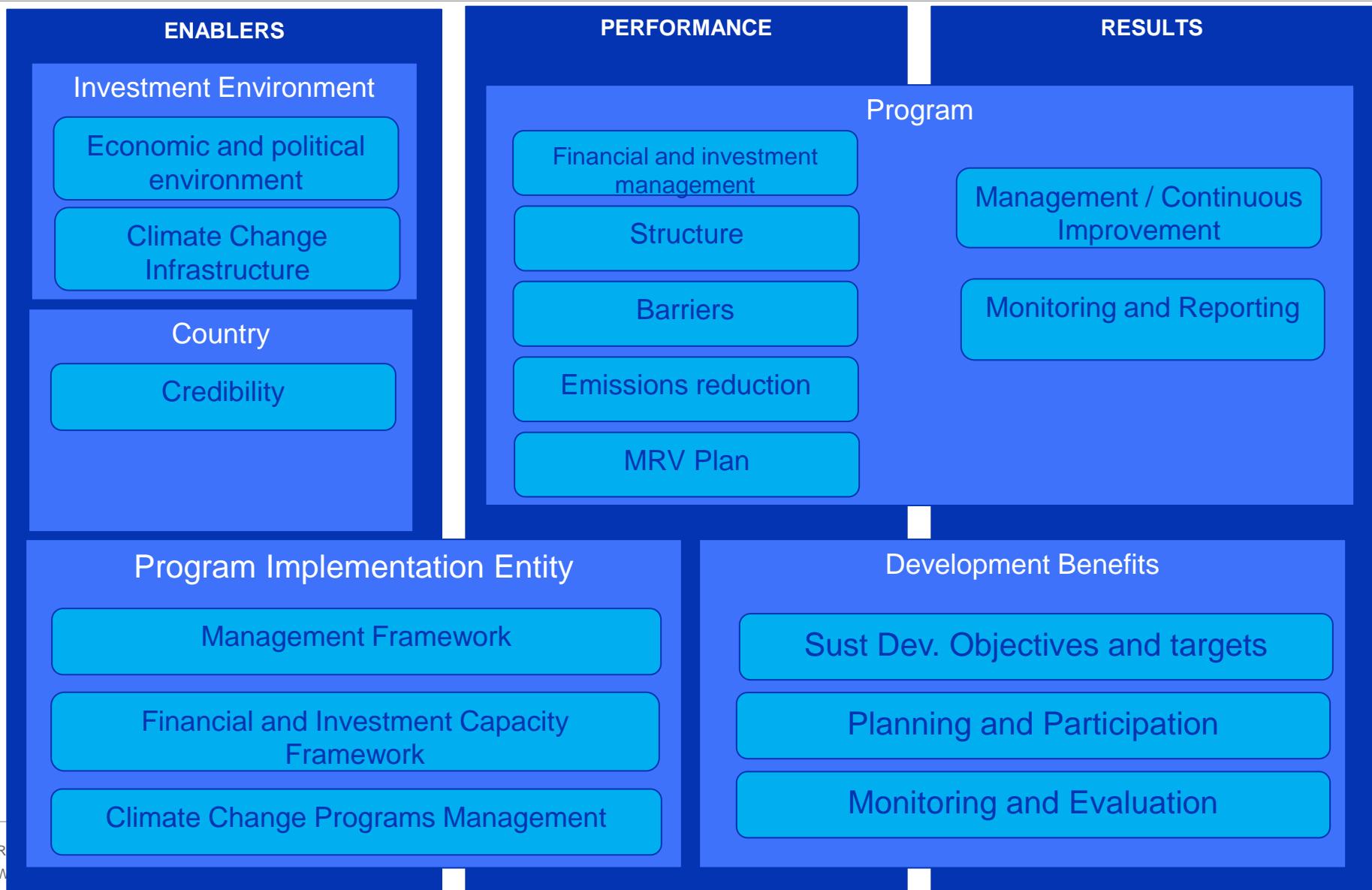
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- Risk categories.
- Probabilistic approach.
- Rating at different stages of development.
- Rating leads to a range of outputs reflecting a level of risk for a group of rating attributes.
- Market participants to assign a value to each carbon asset, based on performance against key indicators.

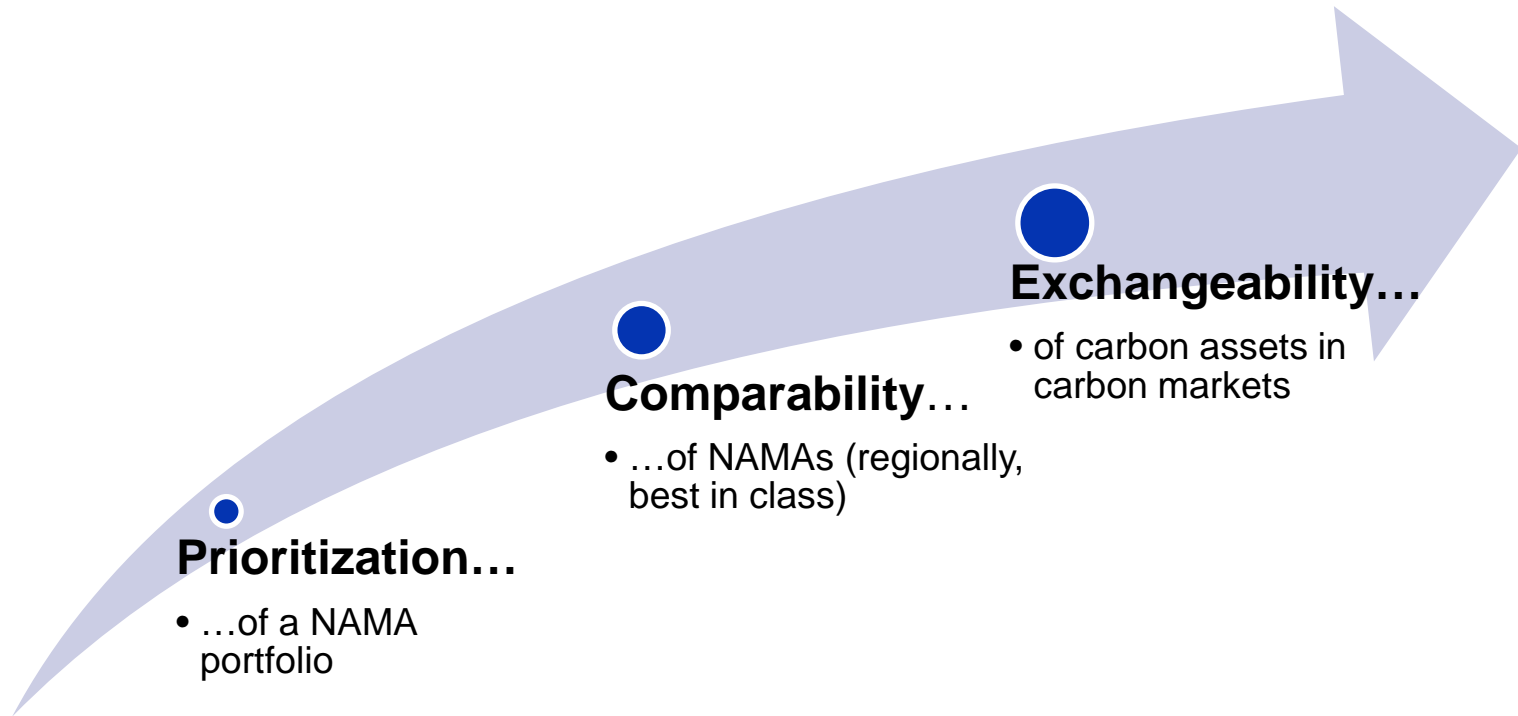
# Structure of the rating system: Modules or risk categories



# Rating Model



# Evolution of rating NAMAs



# Value Creation

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- Confidence
- Definition of criteria
- Comparability and ultimately exchangeability
- Benchmarking
- Identification of improvement & support areas
- International access- internalizes country's level of ambition

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Thank you for your attention.

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