

Vancouver, Canada
March 2013

GMI2/Doc.3

Financing Methane Projects and Funding Methane Activities Discussion Paper

I. Purpose

The purpose of this paper is to discuss activities on two types of finance issues that present challenges for GMI: 1) funding [“financing”] for methane project implementation, and 2) funding for activities that promote methane emissions reductions (e.g., activities that support GMI’s mission).

II. Background

GMI Partner Countries have worked together to reduce methane emissions through activities focused on capacity building and providing technical support and assistance. Financial support for these activities has been provided through bilateral and multilateral direct funding or in-kind technical assistance to support technical activities as well as conferences, workshops, trainings and other events to bring project financiers and project developers together. GMI does not have a central mechanism such as a “fund” or pool of funds that would enable financial donations from Partner Countries or Project Network members to contribute to funding these activities.

Nor is there a centralized GMI mechanism to directly fund the underlying methane mitigation projects themselves. GMI’s ability to fully implement methane mitigation projects relies on external or private financing mechanisms, such as the United Nations Framework Convention on Climate Change Clean Development Mechanism (CDM), the Joint Implementation (JI), private carbon financiers, multilateral banks, and private project developers.

In 2010, the GMI Steering Committee tasked the ASG with exploring potential mechanisms to fund capacity building activities and/or project financing, including potential linkages to emerging funds or investment facilities. The ASG conducted initial research into existing funding mechanisms that might be feasible for the Initiative including multilateral banking options and multi-donor investment funds, public-private partnerships such as the Renewable Energy and Energy Efficiency Partnership, and bilateral funds. Unfortunately, this initial research did not uncover any funding mechanisms that effectively addressed the needs of GMI, though it would appear that the Initiative could potentially make greater efforts to leverage existing bilateral assistance mechanisms that might be directed at climate mitigation or methane project development activities. One potential mechanism for sharing information on these bilateral efforts would be country Methane Action Plans [see paper GMI2/Doc.1].

Two interesting new developments that have recently arisen include:

- (1) related to “financing” – a new World Bank-led effort to evaluate and make recommendations for promoting market-based financing for methane projects, including consideration of a possible pay-for-performance methane financing vehicle, and
- (2) related to “funding” activities to reduce methane in support of GMI’s goals – the potential applicability of funding streams through the Climate and Clean Air Coalition (CCAC) to Reduce Short-Lived Climate Pollutants (SLCPs) to support activities to promote methane reductions consistent with GMI’s mission.

These developments are described in more detail below.

III. Developments regarding Methane Project Financing

In May 2012, the *World Bank* was tasked by the G-8 to develop a study that explores various “Pay-for-Performance” funding mechanisms that might be utilized to encourage methane project development in the future. In recent years, the global carbon market has slowed significantly and the CDM no longer provides sufficiently strong financial incentives for project development. In fall 2012 the World Bank convened the Methane Finance Study Group (MFSG) conduct a series a consultations that would inform and direct the study.

Recognizing the importance of this effort, and noting the Steering Committee’s desire to address the finance barrier, the U.S. government (U.S. EPA and State Department) intend to provide funding to support this work. In addition, several methane sector experts who have been deeply involved in GMI technical efforts have provided background information to the MFSG.

The types of Pay-for-Performance mechanisms that have been discussed by the World Bank MFSG include:

- Carbon market top-up facility using public resources
- Put option mechanism (auctioned for private investment)
- Revolving fund (advance payment, replenished by sale of emission reductions [ERs])
- Public, free-standing fund (e.g., Global Methane Fund)
- A component of existing climate finance vehicles such as the Clean Technology Fund or the Green Climate Fund

This effort holds great promise for GMI because it can help to illuminate the finance barriers that GMI Partners face in implementing methane projects on the ground, and more importantly, it might identify and help to develop potential solutions. The World Bank MFSG is currently in the process of reviewing and evaluating Pay-for-Performance approaches and plans to issue its final report by March 2013 (with plans to provide a preview at the Methane Expo 2013).

In a distinct but related effort, in April 2012 the *Climate and Clean Air Coalition to Reduce Short-Lived Climate Pollutants (CCAC)* launched an initiative, “Financing Mitigation of SLCPs,” devoted to strategically engaging stakeholders in the methane finance arena, including government, financiers, and project developers, to catalyze financing of SLCP emissions reduction. This initiative, led by the World Bank and the United Nations Environment Program Finance Initiative (UNEP-FI), is still defining its structure and workplan, but is likely to support other initiatives of the CCAC to catalyze financing for emissions reductions of SLCPs (see below), which themselves are intended to be strategic and globally significant. The Global Methane Initiative is an important stakeholder with a potentially significant role to play in designing and collaborating on the CCAC’s Financing Mitigation of SLCPs initiative, and could consider an active role in both the design and implementation.

IV. Potential for Additional Sources for Funding GMI Activities to Promote Methane Reductions

In addition to these World Bank and CCAC efforts to enhance financing globally for methane abatement, the CCAC is creating and supporting a series of programmatic initiatives to act as a catalyst for scaled-up SLCP mitigation. In pursuing its mission to incentivize and accelerate action to reduce emissions of short-lived climate pollutants including methane, CCAC works with governments, the private sector, donors, financial institutions, expert groups and investors’ networks to bolster these financial flows in the future.

As noted above, GMI does not have a centralized fund that would allow Partners to donate to and allocate for GMI-designated activities. The logistical considerations to establishing such a Fund have been a primary impediment to date. There is also the consideration of GMI partner countries' interest to provide resources to such a Fund. GMI activities have helped achieve more than 150 million metric tons of carbon dioxide equivalent (MMT CO₂eq) in methane emissions reductions over the past decade. And yet, there is a vast reserve of potential methane mitigation projects that the GMI has not yet been able to reach. One of the barriers to expansion of GMI's work and impact is limited financial resources. Currently, there are relatively few sources of institutional support for GMI's core activities. The Steering Group might consider how it could increase the amount of funding available for GMI activities, and propose ways to leverage other resources and amplify the GMI's impact.

The CCAC presents a potential opportunity to broaden GMI's base of institutional partners, which might include new collaborations that enhance resources devoted to GMI's projects and programs, perhaps encompassing additional funding of GMI activities that support methane reductions [see GMI2/Doc2]. The Coalition provides a high-profile political platform that can potentially help the GMI build new partnerships with governments and financial institutions and raise the political profile of its work. Targeted new workstreams that align with the objectives both of the GMI and the CCAC could attract new expertise, human resources, strategic partnerships – all of which could raise the profile and impact of GMI activities, indirectly leading to new funding. Two CCAC initiatives involving methane – one on municipal solid waste, and one on oil & gas production – already have engaged a number of GMI partner countries that actively contribute to implementation of the GMI MSW and oil & gas sector action plans, respectively. A third CCAC initiative focused on SLCP emissions from the agriculture sector is under development that might engage with the GMI to generate new resources for the latter's agriculture sector action plan.

The CCAC has established a trust fund administered by the UNEP (with pledges totaling \$14.6 million and \$6.2 million banked and supporting existing initiatives as of December 2012). UNEP administers this trust fund and the CCAC has established a formal process for submitting and reviewing funding requests, which are reviewed by the CCAC working group. There are detailed reporting requirements for CCAC-funded initiatives. Many of the Coalition's initiatives are funded with resources contributed to the UNEP-administered CCAC trust fund. GMI could explore a number of mechanisms to leverage activities undertaken by CCAC partners with these resources to enhance the impact of GMI's core activities [see paper GMI2/Doc.2].

The CCAC presents a potential pathway for funding methane-related activities that would be mutually beneficial and supportive of GMI and CCAC goals. There are at least two potential pathways that could facilitate or leverage funding of activities focused on promoting methane emissions reductions through the CCAC.

First, GMI Partner Countries who are also CCAC country partners can explore opportunities to leverage ongoing or new methane-related CCAC initiatives and activities to ensure that they augment and complement ongoing GMI activities and plans. For example, GMI Partner Countries can capitalize on planned workshops, conferences, or meetings of related CCAC initiatives. Similarly, technical work being conducted under the aegis of one of the methane-focused CCAC initiatives (e.g., the Municipal Solid Waste initiative, the “Accelerating Methane and Black Carbon Reductions from Oil & Natural Gas Production” initiative, and the nascent agriculture initiative) can be leveraged so GMI Partners interested in supporting similar work will not duplicate those efforts but can build upon or replicate them in new venues.

Secondly, the GMI and its partners could also work directly with the CCAC to plan joint activities and workstreams to maximize the volume and impact of resource streams, both financial, in kind, and

otherwise. A number of GMI Partner Countries are also country partners in the CCAC. Much discussion has been devoted to the potential for mutually beneficial, globally significant and cost-effective methane mitigation activities, drawing on the strengths of both the CCAC and GMI, that neither initiative could achieve on its own. If such activities are identified, these countries (and potentially the GMI or other GMI-affiliated partners of the CCAC) could propose to the CCAC Working Group a new methane-focused initiative or component of an existing initiative under the aegis of the CCAC (e.g., following all appropriate procedures to prepare a proposal), and apply for funding from the CCAC Trust Fund to support these methane related activities. These activities could be coordinated with the GMI Partner Countries and Subcommittees so that the initiative will be complementary to GMI sector action plans and could be co-labeled as an activity in support of both CCAC and GMI.

The GMI could also consider other ways to leverage resources of institutions involved in methane abatement or related activities, such as those of bilateral development agencies, multilateral development banks, national government authorities, industry associations, and leading global foundations. The GMI could pursue partnerships with entities such as these that generate or leverage additional resources for core GMI activities, or design new activities that are tailored for such partnerships. These partnerships could be organized in a free-standing manner, or in collaboration with the CCAC.

V. Items for Steering Committee Consideration

The ASG plans to review and provide and update to the Steering Committee regarding the World Bank MFSG final report.

In addition, the ASG proposes the following for Steering Committee consideration:

- 1) Does the Steering Committee wish to encourage Partners to include information on potential bilateral funding assistance for methane projects in their GMI Methane Action Plans?
- 2) Would the Steering Committee like the ASG to monitor the work of the Methane Finance Study Group to identify strategic opportunities to scale up methane project investment?
- 3) Would the Steering Committee like the GMI to pursue active, formal engagement in CCAC efforts (through the CCAC Finance initiative) to develop dedicated workstreams to facilitate and explore expanded methane finance?
- 4) Would the Steering Committee like the GMI ASG, working with the Steering Committee and other GMI Partners, to identify strategic opportunities for leveraging opportunities to engage with other related efforts (e.g., CCAC methane-related initiatives) to augment ongoing GMI activities?
- 5) To the extent that GMI Partners who are also CCAC partners support/actively engage in methane related initiatives in CCAC (e.g., MSW, Oil & Gas) should the Steering Committee encourage them to seek to leverage funding opportunities for these activities?