

Putting markets to work: How Ghana will fund development projects through carbon finance

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It is estimated that the private sector will have to shoulder some 85 to 90 percent of the investments needed to transform our economies to zero carbon by 2050, one of targets outlined in the Paris Agreement. But currently these investments are not flowing at the pace nor scale needed to bend the emissions curve¹.

Inadequate finance flows could be attributed to the fact climate negotiators have so far [not been able to agree on the operationalization of market-based mechanisms \(Article 6\)](#) – the section of the Paris Agreement which is widely seen as a key entry point for private sector actors to drive real and measurable emission reductions.

Article 6, which is focused on putting markets to work, details a host of mechanisms by which countries and sub-national actors can cooperate on implementing their climate commitments (Nationally Determined Contributions – NDCs). The market mechanisms are designed to stimulate the trade of certified units of emissions that have been reduced through certain projects or initiatives. The trading of these Internationally Transferred Mitigation Outcomes (ITMOs) are believed to foster cooperation and drive higher ambition for climate actions.

While we wait for COP25 to shape the roll out of mechanisms detailed in Article 6, some countries have been quietly forging ahead. Ghana is one such example, advancing to enact key climate policies. Through cooperative market approaches that target private businesses and investors, Ghana aims to implement a [country-wide clean energy programme](#) for households and businesses, based on a mitigation action plan developed with the support of UNDP's Low Emission Capacity Building Programme.

In Ghana, there are still 1.2 million households without power, particularly in remote areas with scattered populations. Increased droughts and floods in the last two decades have had severe economic and social implications² and increasing incidences of severe weather events will affect food security, water resources management, health, and economic growth. The clean energy programme will aim to address these vulnerabilities, and act as a catalyst for development and resilience.

A key aspect of the clean energy programme is a financing mechanism which will incentivize investment in clean energy installations by enabling local banks to offer affordable loans to consumers, including businesses. As private investment flows into clean energy projects, emissions will be reduced, generating ITMOs. Once the ITMOs are sold on international markets, a share of the proceeds will be allocated to Ghana's flagship green growth fund to

¹ More in: Carbon Markets as the next frontier of global climate actions:

<http://www.ndcs.undp.org/content/ndc-support-programme/en/home/impact-and-learning/ideas-and-insights/2018/carbon-markets-as-the-next-frontier-of-global-climate-action.html>

² USAID: Ghana Climate Change Vulnerability and Adaptation Assessment:

https://www.climatelinks.org/sites/default/files/asset/document/Climate%20Change%20Assessment_Ghana%20FINAL.pdf

finance other projects for sustainable development and climate resilience. These projects will focus on mitigating the impacts of climate change on sectors such as, land management, water harvesting strategies, forest ecosystems, and health.

In the meantime, Ghana has sought to systematically and strategically strengthen the private sector's engagement in implementing the country's climate action plans, its NDC. For instance, Ghana's Ministry of Environment has been overseeing a [training programme](#) to set up an in-country climate finance incubation hub which will offer learning-by-doing opportunities on how to [transform projects into a "market-ready product" through project aggregation and standardization](#).³

The upcoming [Africa Climate Week in March](#), hosted by Ghana, will showcase proven climate solutions to attract private investment, present investment-ready climate projects and introduce entry points for private sector engagement. The [Ghana NDC Investment Forum](#) - taking place during the Africa Climate Week and organized by UNDP Ghana and the Ministry of Environment - will bring together international high-level participants from public and private sectors to discuss ways to attract private sector investment at scale.

With Ghana's country-wide clean energy programme close to implementation, the timing of the Africa Climate Week and the NDC Investment Forum couldn't be better, as the innovative finance mechanism underpinning the programme provides a number of incentives for both investors and the public sector actors.

Using carbon finance generated from investors' sales of ITMOs to boost the share of the national green fund, will allow for high social impact, or climate change adaptation focused projects to go ahead. Furthermore, this model is a concrete way for developing countries to reduce their dependence on bilateral climate finance, which is currently not available at the extent needed to achieve the goals of the Paris Agreement or Agenda 2030.

The clean energy programme is based on a mitigation action plan which was developed under the UNDP Low Emission Capacity (LECB) Programme with the generous support from Germany and the European Union.

³ More in: Piloting now in Ghana: Standardizing green projects to accelerate climate finance: <http://www.ndcs.undp.org/content/ndc-support-programme/en/home/impact-and-learning/ideas-and-insights/20190/how-ghana-is-standardizing-green-projects-.html>