

DEVELOPING A TRANSFORMATIONAL NAMA FOR COLOMBIA'S PANELA SECTOR

Summary Report

This report was prepared as an account of work sponsored by DANIDA, the Danish Ministry of Foreign Affairs, and the Danish Energy Agency, through the ADMIRE program implemented by UNEP DTU Partnership and UNOPS. The ADMIRE Program aims to develop commercially viable operational and financial frameworks engaging the private sector in climate mitigation and/or adaptation actions.

<http://www.admireproject.org>

This report forms part of a series of documents developed as part of a technical assistance ADMIRE project aiming at producing a NAMA in the Colombian panela sector to create a transformational effect on the environment while generating positive economic and social benefits to panela farmers. The series of documents include:

- (i) Summary report
 - (ii) Baseline methodology and NAMA scenario
 - (iii) MRV Report
 - (iv) Implementation plan (In Spanish)
 - (v) Financial analysis of the panela producer (In Spanish)
 - (vi) Financial model (In Spanish)
 - (vii) Financial mechanism (In Spanish)
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This summary report is part of UNEP DTU Partnership's ADMIRE (Adaptation Mitigation Resilience) project on the Colombian Panela Nationally Appropriate Mitigation Action (NAMA). In working with the national government, local stakeholders, and international and local consultants, the project intends to develop baseline and NAMA scenario study¹, NAMA MRV plan², implementation plan³, financial analysis of panela producers⁴, NAMA financial model⁵ and NAMA financial mechanism⁶. The purpose is to move the NAMA closer to implementation and attract needed finance, including increases participation by the private sector.

In addition to the various studies and tools created, UNEP DTU Partnership agreed to provide some final overarching comments as a way forward and for the Colombian government's consideration. The purpose is to build on the main findings of each study and consolidate actions into a few best practices, based on previous NAMA and NAMA finance experience.

The following recommendations are only intended as suggestive and optional, and the views are limited to UNEP DTU Partnership. They are intended as possible steps but final decision on whether or not to enact any of these remains solely with the Colombian government and partners.

Final recommendations are as follows:

- **The first steps towards NAMA implementation need to be taken by the Colombian government.** NAMAs, similar to projects or programs, will require finance and partnership. And like other projects, partners will not want to assume more risk than others, or more than they feel they should be assuming. Any action taken by the Colombian government, including mobilizing partners, supporting with laws or policies, coordinating and convening activities, or other, will not only reduce the workload of potential partners but likely will significantly reduce partner risk perception and encourage other possible partners.
- **Providing Colombian funds will likely raise other finance.** Similar to the previous, possible financial partners will likely not provide all the finance necessary and reduce their exposure to levels they are comfortable with. As they also will be looking toward the government for leadership during the implementation of this NAMA, the Colombian government's contribution of own funds, even if a small percentage of total finance required, will communicate to other financial partners that the government also is exposed in this NAMA and reduce their risk perception. There are many ways to provide funds beyond loans to panela producers, including annual budget contributions to second tier banks such as Finagro, tax incentives for producers that enrol in the program, provide a guarantee for service providers, first tier banks, or other stakeholders, or contribute to Fedepanela's budget for annual activities to ensure better support of the NAMA.
- **Start small and expand, start easy and get more complex.** The complexity, or transformational nature, of this NAMA is not the novelty of the technology as is often the case with some mitigation

¹ Baseline methodology and NAMA Scenario

² MRV Report

³ Implementation plan (in Spanish)

⁴ Financial analysis of the panela producer (in Spanish)

⁵ Financial model (in Spanish)

⁶ Financial mechanism (in Spanish)

projects trying to accelerate the introduction of a new technology. Rather, with a tested technology and experience with finance with the target population, this NAMA difficulty is its size and national ambition. It could focus on largely urban-based producers but its goal of national coverage is truly transformational as it will have to deal with sector informality and remote areas of the country, among all the other barriers. Therefore, it will be key to phase the work as suggested in the implementation plan. Start with populations with higher levels of productivity, close to urban areas, likely selling at higher prices, easier to access finance and closer for the various capacity building and support efforts. These easier populations will not only be the most likely to succeed under the NAMA but will allow for a national proof of concept, identification of gaps that still need to be addressed, and build confidence in partners. Then, after this stage and possibly expanding efforts of current partners or even engaging new partners, seek to expand the NAMA to more difficult areas. This will also allow for new financial products to be devised addressing more difficult or new problems encountered.

- **A key first partner will be a financial partner.** Beyond providing finance, a large and experienced financial partner can help move the project forward. They should have experience in the panela sector as existing financial architecture and current processes and products can quickly be leveraged during the early stages of the NAMA. Given our recent financial meeting in Bogota at the end of April, Finagro expressed a strong interest in taking this project, and their experience with this sector would be highly valuable; however, other agriculture-focused banks can be good candidates if needed. Given the size of the NAMA, Finagro or other bank may require the support of a national or international development bank. Not only could the development bank provide further capital but they often have complementary experience in capacity building for private sector banks, they have available concessional finance, partial risk guarantees, and other non-traditional financial products that can reduce risk perception of the NAMA implementation. They also may simply have better experience with national level projects and their due diligence could not only remove barriers to the project but ensure other partners to join. They also may be able to raise further international finance from international sources, such as the Green Climate Fund. The Inter-American Development Bank has looked into the Colombian panela sector in the past, expressed interest in the NAMA, and is already working with Finagro. Other options may be the International Finance Corporation (IFC) who has been working with the microfinance in Colombia and this could be valuable at later stages of the project.
- **When seeking international finance support, don't focus on grant as much as loans or concessional finance.** This project involves energy efficiency and is based on the assumption that energy savings should pay for the cost of technological improvements, as otherwise it would be unfeasible. Therefore, loans and equity should suffice to finance the technological implementation and a request for a grant may raise questions as to the feasibility of the project. Now, it may be that the more difficult areas of the country may require special terms, such as lower interest rates, longer tenors, or other beneficial financial terms to overcome some structural barriers in the sector and for this reason concessional finance may be available for some phases of the NAMA implementation. This again strengthens the needs for an international development bank partner that has experience accessing and deploying concessional finance. Finally, do consider grants for

financial needs of the NAMA that do not pay for themselves, such as capacity building, outreach, and other support activities - but this would be for a subset of activities.

- **Most of the NAMA implementation will be addressing barriers and risks.** A large portion of all outputs covers the various risks and barriers of the NAMA implementation. The intent was not to focus on the problems of the NAMA but rather a strong barrier and risk analysis usually has the effect of lower risk perception. Knowing the various problems enables solution discussions, allows partners to better understand their ability to address these very problems, and leads directly to a better developed implementation strategy. For this reason, the barriers and risks noted in the implementation plan should be thoroughly discussed with partners and added to as the NAMA moves closer to implementation. Partners proposed are also specifically proposed as best enabled to succeed with the various activities under the NAMA.
- **This NAMA could set a standard for other national mitigation plans, either in Colombia or as an example to other countries.** With the word 'transformational' often used for various types of projects, the Colombian Panela NAMA is truly a national level effort already built upon a strong foundation given early and thorough action by the Colombian government and key stakeholders. As such, it already seems to follow best practices and its success would only further this perception. Experience in implementation of this NAMA could provide the necessary experience for future Colombian activities at the national level and to meet country climate change goals.