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Nationally Appropriate Mitigation Actions by Developing Countries: Architecture and Key Issues

EXECUTIVE SUMMARY

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Nationally Appropriate Mitigation Actions, or NAMAs, as called for in the Bali Action Plan (BAP) and further outlined in the Copenhagen Accord and Cancun Agreements, represent a promising mechanism for delivering, financing and recognizing climate actions by developing countries in a post-2012 international framework. Such actions are needed to reach the global objective stated in the Cancun Agreements to "hold the increase in global average temperature below 2°C above pre-industrial levels." NAMAs respect the principle of "common but differentiated responsibility," allowing developing countries to adopt climate mitigation actions appropriate to their own circumstances and to acquire from developed countries the financing, technology, market participation and other support needed to enable implementation. At the same time, the NAMA framework holds potential to make a substantial contribution to global efforts to reduce greenhouse gas (GHG) emissions. In the Cancun Agreements, developing countries are asked to propose NAMAs that will substantially reduce their emissions from business-as-usual (BAU) levels by 2020. The NAMA architecture also includes a financing provision that can encourage more aggressive developing-country actions. Further, the NAMA framework will ensure robust monitoring, reporting and verification (MRV) so that all Parties are assured that developing countries will be accountable for delivering on their promised actions and that developed countries will deliver their pledged financing.

This policy brief seeks to expand upon the NAMA concept, providing an assessment of the current understanding of the idea in the international negotiations, as well as the key issues likely to arise in implementation.

NAMAs: A Definition

Per the Cancun Agreements, NAMAs are actions proposed by developing countries that are aimed at substantially reducing emissions below BAU levels in 2020. Encompassing efforts on building capacity to reduce emissions as well as the emissions-reduction measures themselves, NAMAs may take the form of regulations, standards, programs, policies or financial incentives. NAMAs could cover one or more sectors or portions of sectors, and more than one NAMA could be proposed in a sector.

Originally, there were three proposed categories of NAMAs:

1. *Unilateral NAMAs* – autonomous actions taken by developing countries to achieve emissions reductions without outside support or financing;
2. *Supported NAMAs* – developing-country actions undertaken with support from developed-country Parties, which result in more aggressive emissions reductions; this support can take the form of financing (concessional loans, grants, etc.), technology transfer or capacity building; and
3. *Credit-Generating NAMAs* – actions that build on supported NAMAs, and by reducing emissions below an agreed-upon crediting baseline, produce offsets for sale in the global carbon market.

However, credit-generating NAMAs are not specifically mentioned in the Cancun Agreements. Instead, market-based mechanisms "complementing other means of support" for NAMAs are considered. Since these mechanisms are still to be defined, we will continue to refer to them as credit-generating NAMAs for the time being.

One of the keys to the NAMA concept is the provision of financing for *Supported* NAMAs. While the text of the Cancun Agreements does not provide much specificity on this issue, many commentators have suggested that some portion of the financing for such NAMAs should be provided up-front to help overcome financing barriers. The remainder of the financial support would be delivered once the NAMA is fully implemented and identified milestones have been reached. In addition, since no carbon credits are to be provided to developed country participants for supported NAMAs, the financing is envisioned to not exceed the incremental costs of the action undertaken by the developing country. NAMA financing could also take a variety of forms, depending on the needs identified by a developing country and the economics of the measures or actions proposed, including but not limited to concessional loans, grants, loan guarantees, and risk guarantees, as well as contributions to write down the costs of feed-in tariffs, advanced technology demonstrations, and tax incentives.

The first two types of NAMAs above – unilateral and supported NAMAs – represent a developing country's own contribution to meeting international climate-mitigation goals, while credit-generating NAMAs also produce offsets that help lower the cost of compliance for developed countries. And unlike the current framework, in which the Clean Development Mechanism (CDM) offset program delivers the lowest-cost developing-country mitigation actions to developed countries, the NAMA framework allows developing countries to apply these low-cost reductions (the "low-hanging fruit") towards their own contributions to the global goal. Credit-generating NAMAs, in contrast, offer market access in return for taking higher-cost emissions-reduction actions. Credit-generating NAMAs would hopefully be designed to include the complete set (or at least a much more extensive number) of facilities in a given sector and to seek sector-wide or policy-wide emissions reductions, rather than simply rewarding individual "good actors," as occurs now in traditional project-specific CDM.

While the new NAMA framework offers a significant amount of flexibility, careful design is needed to avoid potential pitfalls from the use of multiple NAMAs in the same sector or NAMAs that cut across multiple sectors. For example, crediting rules need to be designed carefully to avoid double counting of emissions reductions. Further, to prevent developed countries from paying twice for the same developing-country reductions through both the existing CDM and supported NAMAs, it will be important to, at a minimum, "wall off" existing and future CDM projects from the calculation of a country's performance in meeting the goals of its supported NAMAs. Such complexities can be avoided altogether by transitioning explicitly from the existing CDM framework to the NAMA framework. Incentives in the new NAMA architecture need to be designed so that it is clearly advantageous for developing countries to move away from traditional project-specific CDM to the new framework of supported and credit-generating NAMAs. One potential complicating factor is the development of bilateral crediting systems, such as those being considered by Japan and the EU, in which a developed and developing country negotiate the criteria to be adopted for offsets that will be accepted under the developed country's domestic emissions accounting system. Such bilateral crediting programs must also be taken into account when evaluating unilateral and supported NAMAs and would hopefully offer credits only for emission reductions beyond those achieved by unilateral and supported NAMAs.

NAMA Implementation: Making NAMAs Work

NAMA implementation rules will need to work for both developed and developing countries. Accordingly, compromises will be needed to balance the developing-country desire for direct access to financing with the developed-country interest to achieve maximum emissions reductions with available funds. One way to balance these different priorities is to establish a multilateral fund with separate funding "windows," from which funds could be distributed based upon different eligibility rules and evaluation criteria. The Cancun Agreements establish such a fund, the Green Climate Fund (GCF), and provide terms of reference for its design by a

Transitional Committee, and a number of key issues that this committee will address, including *inter alia*:

- Legal and institutional arrangements for establishing and operationalizing the GCF;
- The financial instruments that the GCF can use;
- Methods for ensuring the GCF activities are complementary to those of other mechanisms and institutions (bilateral, regional and multilateral);
- Mechanisms to ensure financial accountability and evaluate performance of the GCF; and
- Methods to manage the large-scale financial resources expected to flow to the GCF and deliver them through a variety of instruments, funding windows and access modalities.

In terms of windows, for example, separate windows could be established for capacity-building activities and NAMAs in large industrial sectors. The capacity-building window might support equal access by all developing-country Parties whereas the industrial-sector window might be used to encourage the most aggressive national mitigation actions within a sector, supporting a "race to the top." Other windows could be created to support transformational NAMAs, transportation-sector NAMAs, REDD (Reducing Emissions from Deforestation and Forest Degradation) NAMAs, agriculture-sector NAMAs, and NAMAs in least-developed countries. Each window would likely need to meet basic standards for monitoring, reporting and verification, as well as consistency with national climate plans and development strategies. Importantly, while the creation of more financing windows helps ensure access by targeted countries and project types, too much sub-categorization can actually reduce program efficiency and effectiveness.

To receive funding, developing countries are supposed to submit their supported NAMAs, including estimated costs, emissions reductions and implementation timeframes, to a registry. Developed countries will submit their available support to this registry as well, and a matching of support and NAMAs will occur. Support available through the Green Climate Fund will presumably be listed in the registry as well, but this isn't specifically stipulated in the Cancun Agreements. The process to be used to match funding sources to supported NAMAs is still to be determined.

Discussions in the United Nations Framework Convention on Climate Change (UNFCCC) negotiations have often suggested that two different decision-making bodies might best govern decisions on matching supported NAMAs with developed-country financing and decisions on credit-generating baselines for offset-producing NAMAs. We would argue, however, that if the new architecture is to produce outcomes where developing countries keep low-cost options as their contribution to protection of the atmosphere and offer higher-cost options for offsets, then the incentives must be clearly aligned. While the carbon market is an important – and likely more significant – source of funding for developing-country action than public finance from developed nations, the architecture has to ensure that pressure from the carbon market will not simply trample the idea that low-hanging fruit is confined to supported NAMAs. Therefore, creating a decision-making process that nests together decisions on public finance for NAMAs with decisions on crediting baselines makes great sense. A nested approach seems to be more manageable under a centralized general governance structure. However, it could also be made to work under a decentralized governance structure.

The NAMA framework relies on robust MRV by developing countries to assess whether finance is being properly and efficiently deployed and agreed actions are taking place, and to understand the effect of policies and actions on emissions reductions. The system, as designated in the Cancun Agreements, will involve domestic MRV of unilateral NAMAs and both domestic and international MRV of supported NAMAs. Guidelines for these respective MRV systems are beginning to be developed this year. The Cancun Agreements also call for enhanced NAMA reporting as a part of developing country National Communications, currently scheduled to be submitted every four years, plus a new type of reporting – biennial update reports – that are supposed to include updated national GHG inventories and updated information on NAMAs, NAMA needs and support received. These biennial reports will be subject to international consultation and analysis (ICA). The details of this ICA are still to be agreed, but it is meant to be "non-intrusive" and "non-punitive," to "increase transparency of mitigation actions and their effects," and to evaluate methodologies, assumptions, progress, and MRV but not to discuss the appropriateness of policies and measures. One option would be to have the UNFCCC's Subsidiary Body on Implementation adopt a public review process modeled on the World Trade Organization (WTO) process.

Similarly, developed countries must measure, report and verify the finance, technology and capacity-building assistance that they provide to support NAMA implementation. In particular, this reporting must enable evaluation of whether the assistance provided is consistent with the commitments pledged.

Financing NAMAs

In the Copenhagen Accord, developed countries pledged "new and additional resources" approaching $30 billion for the period 2010-2012 to support mitigation and adaptation in developing countries. These funds are generally referred to as the "Fast Start Financing." This new financing is key for rebuilding trust in the UNFCCC and represents a real opportunity for NAMA development. Concrete financing and implementation of NAMAs, development of MRV approaches, and pilot tests of NAMA crediting can all occur during this current Fast Start phase.

Over the longer term, the Copenhagen Accord specifies that developed countries are "committed to a goal of mobilizing jointly" $100 billion per year by 2020 "to address the needs of developing countries." This commitment is reaffirmed in the Cancun Agreements, and these funds will come from a wide variety of sources: public, private, bilateral, multilateral, and alternative. A "High-Level Advisory Group" on Climate Change Financing studied how to mobilize such funds and concluded that mobilizing this sum is challenging but feasible, and that a carbon price of $20-25 per ton CO_2e in 2020 is key.

As mentioned above, the Cancun Agreements establish a registry for matching supported NAMAs to funding, with the details of the matching process still to be designed. A decision-making process must also be determined for distributing support through the Green Climate Fund. Under ideal circumstances, these support decisions would be coordinated with decisions on crediting baselines.

Readiness Phase: Getting Started ASAP

Given the promise offered by NAMAs, development of the needed architecture need not wait for a binding international agreement. An initial readiness phase can be implemented immediately to build capacity and test out the concept via pilot NAMAs over the next several years. This would achieve a head start on the emissions reductions needed for stabilizing atmospheric concentrations of greenhouse gases. As noted, the Fast Start Financing involves commitments of $30 billion over three years (2010-2012) for capacity building, mitigation and adaption. The majority of these funds will be obligated through bilateral channels, some through traditional development lines and some through new procedures and programs, but all of these avenues can serve to support this initial phase of NAMA development.

To stimulate this readiness phase, the Center for Clean Air Policy (CCAP), the World Bank Institute's (WBI) Carbon Finance Assist, and regional implementation partners (for the Latin America-Caribbean region, the INCAE Business School) have formed the Mitigation Action Implementation Network (MAIN). The goal of MAIN is to facilitate the development of ambitious NAMAs by enabling a robust exchange of knowledge among developing countries on successful climate mitigation actions, providing guidance on the ways in which international support for NAMAs can be obtained, and helping to establish strong practitioner networks. Thus, MAIN provides a great opportunity to shape the NAMA agenda by developing some on-the-ground examples of supported NAMAs and the associated financing. This is similar to the way in which the Joint Implementation and the Clean Development Mechanism were designed – demonstration and pilot projects guided the development of the associated rules for these programs. The MAIN project is designed to use a similar process to take NAMAs from concept to practice.

Such concrete examples can also shape the UNFCCC negotiations, the deliberations of the Transition Committee for the Green Climate Fund, and beyond, by helping to answer such key questions as:

- What types of activities will be funded?
- What criteria should be used to distribute funding?
- How can ambitious NAMAs be promoted?
- How would "ambition" be defined?
- What should be required to measure, report and verify NAMA performance?

The design and implementation of some real-world examples of NAMAs will therefore be able to catalyze both the further development of NAMAs and the provision of support for developing country mitigation actions.