

# POLICY BRIEF

## The NAMA Opportunity

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A successful international climate regime will require concerted action by both developed and developing countries to keep the goal of limiting global warming to 2 degrees Celsius within reach. For developing countries, nationally appropriate mitigation actions (NAMAs) can significantly contribute to this effort by offering a framework to achieve broad-based climate actions that reduce greenhouse gas emissions while also achieving sustainable development and poverty reduction objectives.

Over the last two years, developing countries have made significant progress in developing NAMAs. The Center for Clean Air Policy (CCAP) has worked with developed and developing countries to create a shared vision for NAMAs and the role they can play in achieving climate mitigation and sustainable development. We have worked closely with a number of developing countries to structure specific NAMAs in the energy, waste and transport sectors. And in May 2013, in conjunction with the Danish Ministry of Climate, Environment and Buildings, CCAP convened a Global NAMA Financing Summit where senior government officials from 10 developing countries, including Pakistan's Federal Secretary for Climate Change, and Vice Ministers from Colombia, Costa Rica, and Uruguay, showcased 14 NAMA proposals. These NAMAs couple ambitious policy actions in key sectors with financial mechanisms that can mobilize private sector investment. The proposals highlight the transformational role NAMAs can play in moving a country and sector toward a low-carbon development path.

A number of leading developed countries also see the potential for NAMAs to make a significant contribution to closing the mitigation gap, and are providing funding to support NAMAs. Germany, Denmark, Canada and Norway, to name a



few, have given grants and technical assistance to developing countries to design NAMAs. Germany and the United Kingdom are now going one step further and are providing financing to implement NAMAs. They recently established an International NAMA Facility to fund the implementation of NAMAs and have committed €70 million. International development banks and institutions such as the Inter-American Development Bank and the Global Environment Facility are also looking to support NAMAs through capacity support, technical assistance and project financing.

While there currently is not a set definition for what constitutes a NAMA, and in fact, the term has been used to refer to everything from an individual mitigation project to a comprehensive sector-wide mitigation program in a country, a number of developed and developing countries alike are converging on a common understanding of the NAMA mechanism. Based on CCAP's close collaboration with developing and developed countries on NAMA design, there is now general agreement that the following four elements are fundamental to the NAMA concept and are needed to realize the potential for NAMAs to drive transformational change:

1. NAMAs must be host country-driven and incorporate the dual goals of greenhouse gas mitigation and sustainable development.
2. NAMAs should strive to be sector-wide programs that are national in scope, with the potential for regional or municipal elements.
3. NAMAs should include both policies and financial mechanisms targeted to address the main barriers to mitigation activities.
4. NAMAs that seek international support should use NAMA funding (in the form of grants or highly concessional finance) to mobilize additional climate finance from bilateral institutions, international and domestic development banks and financial institutions, and the private sector.

NAMAs can lead to transformational change by combining government policies with fiscal measures to catalyze a pipeline of mitigation projects and mobilize private sector investment. Policies and regulations can drive private sector investment in low-carbon technology through mandates and by influencing the relative risks and returns of investment choices. Financial mechanisms can be coupled with these government policies to overcome investment barriers. By leveraging the international support available from donor governments and institutions, NAMAs can achieve the desired scale of activity. Rather than using the limited funds to pay the full incremental cost for one low-carbon project, a well-designed NAMA will couple government policies with financial support that together target the barriers to low-carbon investment and create a pipeline of commercial investment opportunities for development banks and the private sector. This represents a new paradigm for development assistance in that government policy changes are directly linked to financing mechanisms aimed at increasing the economic attractiveness of the investments to the private sector. Moreover, aligning the NAMA with core sustainable development, poverty reduction and health protection objectives will build host country political support and ensure that such policies are sustained after the international assistance has ended. The NAMA reflects a commitment from the government and a tangible plan that can attract private investors.

In Colombia, for example, the government is developing a solid waste NAMA to improve waste management practices and reduce greenhouse gas emissions by diverting waste from landfill disposal for more productive uses. The NAMA addresses the barriers to integrated waste management through regulatory changes and a financial mechanism. Specifically, Colombia is looking at reforming the waste tariff regulations so that diverting waste for alternative uses such as recycling, composting or waste-to-energy plants can compete economically with landfill disposal. In addition, because the integrated waste management technology is relatively new in Colombia, the NAMA would create a NAMA equity fund to overcome investors' hesitation to invest due to the lack of familiarity with the waste technology and processes. The NAMA equity fund would be established on a national basis but would contribute equity capital for building waste treatment facilities on a municipal level, contributing to projects in multiple cities. This NAMA equity capital will be leveraged by other sources of capital including private investment and debt to finance the facilities. Over time, the contribution from the NAMA equity fund will be reduced as investors become more knowledgeable with the waste treatment technology and the associated operational and financial risks. By creating a NAMA that combines policy measures with a financial mechanism, donor funds will be able to support a stream of waste management projects that fundamentally transforms waste management practices from end-of-life disposal towards beneficial reuse of waste products.

For almost ten years, the Clean Development Mechanism (CDM) has been an important source of climate finance. With the current slump in offset prices, however, the CDM's role in funding climate mitigation has declined. NAMAs can fill the void created by the CDM's decline and can maintain the policy momentum in developing countries while spurring greater private sector investment to dramatically scale up climate actions. NAMAs can do this not by re-labeling CDM-like projects as NAMAs, but rather by coupling the NAMA funding from contributing countries with host-country policies to create a pipeline of sector-specific investment opportunities for the private sector. These NAMAs will achieve emissions reductions that are recorded in the host country to help them meet their domestic and international climate mitigation pledges and goals. These reductions are not offsets to be sold to developed countries to meet their climate commitments.

There is increasing buy-in to this vision for NAMA design by developing countries, donor governments and the private sector. In particular, given the limited concessional funding available for NAMAs and the desire to significantly scale up mitigation action in developing countries, donor governments like Germany and the United Kingdom are starting to create a "race to the top" by offering funding support for NAMAs that promise transformational outcomes and are backed by a pipeline of bankable mitigation projects. To realize the full potential of the NAMA framework outlined here (and incorporated in the new International NAMA Facility recently launched by Germany and the United Kingdom), donor countries and institutions should seek to support NAMAs that achieve multiple benefits including climate mitigation, sustainable development and poverty reduction, mobilize private sector investment, and lead to transformational outcomes.