A new generation of finance mechanisms will support climate change mitigation appropriate to each country. ASH SHARMA charts the road ahead

To each his own

The term NAMAs, for Nationally Appropriate Mitigation Actions, has become commonplace in the lexicon of the UN climate negotiations and is regarded by many as the next step for climate finance beyond systems such as the Clean Development Mechanism (CDM).

However, those who expect to see compliance-grade carbon credits from this new market mechanism in the short term are likely to be disappointed. While work to develop NAMAs is under way, experience suggests there will be long lead times before new instruments are agreed, modalities formalised and programmes operationalised. The generation of credits eligible in the EU Emissions Trading System is yet further away and may only happen towards the end of Phase III of that scheme (2020) – if, indeed, the demand is created for such credits.

NAMAs were introduced in 2007's Bali Action Plan, which stated that developing countries should consider their implementation "in the context of sustainable development, supported and enabled by technology, financing and capacity building, in a measurable, reportable and verifiable [MRV] manner". The Cancún Agreements in 2010 stated that NAMAs seeking international support shall be recorded in a registry and subject to international MRV.

NAMAs can be categorised as unilateral NAMAs (funded by the host country), supported NAMAs (funded by direct international support) or credited NAMAs (funded by market-based mechanisms), that are supported by one or more types of policy instruments.

There is some lack of clarity as to what constitutes a NAMA, with a plethora of earmarked investments, national policies and measures, regulations or financial incentives, such as feed-in tariffs for renewable energy all potentially included. The so-called 'credited NAMAs' are effectively based on earlier concepts of sectoral crediting and trading, whereby baselines or targets for emissions reductions are set at the aggregate level, for example in an industry or transport sector.

A few are being proposed, most notably in advanced developing countries such as South Korea and Mexico. NAMAs are typically targeted at middle-income countries with significant emissions and adequate institutional capacity (compared, for example, to emissions-light and resource-constrained least-developed countries, where the CDM is likely to continue).

The key difference compared with the CDM is the move beyond project-level interventions, to scaled-up mitigation actions. In this respect, sectoral trading has some important advantages, including the potential use of upfront financing to mobilise investment as credits could be received before the reductions take place, similar to what happens currently with Green Investment Schemes, which invest with revenues from selling Kyoto Protocol national-level carbon allowances.

The NOAK-NEFCO Pilot Programmes aim to:

- **improve readiness for NAMAs through technical and financial assistance;**
- **pilot design elements of new market-based mechanisms;**
- **provide critical and concrete insights for the negotiation process; and**
- **encourage other countries to take similar actions**

However, there are some credibility issues with GIS programmes, such as cases of funds being misspent, so strict safeguards will need to be in place for contributors to make these advance payments. Another possible advantage of an installation-level sectoral mechanism is the reduced regulatory uncertainty, at least compared to the CDM, from a scheme where eligibility or additionality concerns are effectively removed. However, there is the possible perverse situation where individual plants reduce emissions below an agreed baseline, but the sector as a whole does not, and therefore good plants are not rewarded for their investments. Many issues remain to be ironed out.

Given the relatively early stage of these developments, implementation of NAMAs will not be feasible until the middle of this decade, at least not to the level that such schemes could link to emission trading systems such as that which the EU operates. A lot of work on market readiness through capacity building, implementation support and pilot programmes will be required, for example in data management and MRV. Developing countries need to understand better the opportunities available to them, to undergo a prioritisation process and to select developed country partners. Many of the countries that made submissions to the Cancún Agreements have already started down this road.

In autumn 2010, the Nordic Working Group for Global Climate Negotiations (NOAK) and the Nordic Environment Finance Corporation (NEFCO) launched the NOAK-NEFCO Partnership Initiative to explore and demonstrate how cost-efficient and effective implementation of scaled-up NAMAs in developing countries could be developed within the UN's framework.

Taking a bottom-up approach, the initiative seeks to establish concrete cases for NAMAs, supported and enabled by technology, financing and capacity-building. The aim of the initiative is to test and learn how a future market-based mechanism could be designed to provide support for scaled-up mitigation action. This programme should be seen as an input into the UN framework of exploring 'new market mechanisms', alongside initiatives from the World Bank and bilateral actors such as Germany and the UK.

The initiative started with a feasibility study in January 2011. After conclusion of the feasibility study this summer, the plan is to proceed to a Nordic Pilot Programme for NAMA readiness, in which technical assistance is provided for the possible future implementation of a real, full-scale crediting scheme.

The NOAK-NEFCO Project Group selected scaled-up mitigation action in Vietnam's cement sector and actions in Peru's solid waste sector as potential options for the pilot programme, based on criteria such as host country priorities, greenhouse gas mitigation potential, replication and demonstration potential, potential to utilise new market mechanisms and potential to bring added value beyond existing mechanisms.

In light of the difficulties in reaching a binding climate deal at this year's UN climate conference, the role of NAMAs and other scaled-up market mechanisms takes on a heightened importance. Now is the time is develop market readiness and test these new approaches at a country level. ***EF***

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