Guest Commentary

Financing Nationally Appropriate Mitigation Actions (NAMAs)

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Nationally Appropriate Mitigation Actions (NAMAs) - mitigation policies and/or actions that a developing country voluntarily undertakes in order to reduce its GHG emissions - have for the last few years garnered much attention from policymakers and carbon market participants.

Issuing NAMAs with carbon offsets is often talked about in the same breath as "new market mechanisms" in U.N. climate talks, although they are not formally mentioned in the official documents under the UNFCCC.

However the general concept of NAMAs was referenced in the broad principles agreed at the Rio+20 conference in Brazil in June.

Many NAMAs are simply national sustainable development policies, but with monitoring, reporting and verification (MRV) components bolted on.

To be most effective, commentators believe that credit-based NAMAs should fill in the gaps seen in existing programmes which cannot be fully funded by national governments, in order to increase the reach of these activities.

Globally, there have been over 50 proposals, but only a handful are under implementation or based on detailed proposals.

Given the ill-defined nature of the NAMAs, the international climate community is acutely aware of the need to use practical experience, and road-test and circulate their findings.

Only then, it seems, will the larger sums of financing required to achieve transformative change be forthcoming.

Some programmes with short-term, quantifiable and measurable emission reductions lend themselves quite naturally to crediting, such as feed-in tariffs and emission trading schemes.

However, these will be necessarily subject to the highest levels of scrutiny and auditing to provide confidence to the buyers and to ensure environmental integrity.

And this effort may be beyond the institutional capacity of all but the most advanced developing countries.

Moreover, strong and stable demand for credits is essential, and the development of new markets remains in doubt given that the CDM will be the main source of international offsets until 2020.

In addition, some markets, most notably the EU ETS, are fundamentally oversupplied for quite some time.

Stronger signals will be required from policymakers, along with market interventions such as price floors, if the world has any change of restricting emissions to below a 2C rise in average global temperatures.

It seems that most NAMAs will probably start off as supported (essentially donor funded) activities, and will explore opportunities for crediting once more experience is accrued and investors gain confidence with the MRV.

The Nordic Partnership Initiative conceived by NEFCO and the Nordic Council of Ministers for two programmes in Peru and Vietnam are examples of such an approach.

Others – equally valid - will be unilateral, or domestically funded.

The question of longer term finance need not be intrinsically linked to carbon markets, and indeed some stakeholders (developing countries) are opposed to this.

However, the role of public funding is critical in order to unlock flows of private sector finance and reduce risks.

Opportunities for green (or NAMA) bonds issued by national or international institutions may arise, or other instruments such as credit insurance.

Bilateral Official Development Assistance (ODA) through a mix of sources (grants, technical assistance and concessionary loans) will have an important part to play.

In particular, the Green Climate Fund, which by 2020 is mandated to spend up to $100 billion a year on adaptation and mitigation of climate change, may be critical in financing NAMAs.

Questions will need to be answered on double funding if credits are purchased, but it is expected that this conundrum can be solved through monitoring.

Clearly much work needs to be done on a whole range of finance issues.

NEFCO will be organising an international workshop on NAMA Finance in October 2012 to address some of the issues raised in this article.