Raising finance

There is a lot of talk about Nationally Appropriate Mitigation Actions in developing countries, but how will they be financed?

Words: Ash Sharma

There has been much discussion about the potential role of Nationally Appropriate Mitigation Actions (Namas) – mitigation policies and/or actions that a developing country voluntarily undertakes in order to reduce greenhouse gas (GHG) emissions. Such Namas can take the form of policies, programmes and projects that are undertaken by developing countries to contribute to the global effort to reduce GHG emissions – a wide definition by any measure.

At successive climate conferences since Copenhagen in December 2009, developed countries have committed to supporting meaningful mitigation actions in developing countries through financing, technology transfer and capacity building. While the policy framework for Namas is still being developed, these programmes are likely to form part of the solution for a future climate agreement.

Many Namas are simply sustainable sector policies with monitoring, reporting and verification (MRV) components bolted on. To be most effective, commentators believe that Namas should fill in gaps in existing programmes that cannot be fully funded by national governments, in order to increase the reach of these activities.

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>
> **Ash Sharma, Nefco**

Globally, there are 54 different Namas in 25 countries recorded by the Nama Database (see *Carbon Trading*, July/August 2012, pages 28–30). These encompass a diverse typology of projects, including demand side energy efficiency programmes in industry, solid waste management, modal shifts in public transport to installation of concentrated solar power plants.

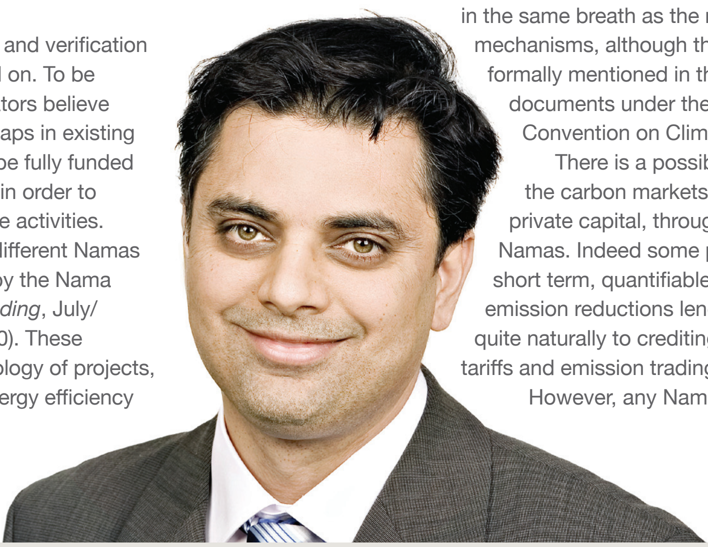
Encouragingly, there is a much better geographic distribution than under the Clean Development Mechanism (CDM), with Africa and the Middle East well represented. However, only a handful of the Namas are under implementation, with a few more at the stage of detailed proposals – strictly speaking much of this is preparatory activity.

Given the ill-defined nature of the Namas, the international climate community is acutely aware of the need to arrive quickly at practical experience, to road-test and disseminate findings. Only then, it seems, will the larger sums of financing required to achieve transformative change be forthcoming.

Harnessing private capital through market mechanisms

Depending on the source of financing, there are two types of Namas – unilateral (domestically funded by the host country) and supported (internationally funded through climate finance or Official Development Assistance [ODA]).

A third category of credited Namas include programmes financed through the generation of carbon credits. Crediting Namas are often talked about in the same breath as the new market mechanisms, although they are not formally mentioned in the official documents under the UN Framework Convention on Climate Change.



There is a possibility to harness the carbon markets and hence, private capital, through crediting Namas. Indeed some programmes with short term, quantifiable and measureable emission reductions lend themselves quite naturally to crediting, such as feed in tariffs and emission trading schemes (ETSs).

However, any Namas involving

crediting schemes will be necessarily subject to the highest levels of stringency of MRV in order to provide confidence to the potential buyers to ensure environmental integrity and, in effect, value for money. Some lessons could be learnt from the experiences of the Green Investment Schemes, which sold Assigned Amount Units for climate intervention in eastern European countries, such as Ukraine and Estonia.

It should be recognised that these MRV efforts may be beyond the institutional capacity of all but the most advanced developing countries.

Sustained demand is critical

Moreover, strong and stable demand for credits is a pre-requisite for the pull-through effect on real, on the ground investments. The demand side remains a question mark given that the CDM will be the main source of international offsets until 2020 and some markets, notably the EU ETS, are fundamentally oversupplied for quite some time.

Stronger signals will be required from policy-makers in Brussels and the EU member states, along with market interventions, such as price floors or supply restrictions, if a target to hold the increase in global average temperature to 2°Celsius is to be achieved. At the time of writing, there appear to be several obstacles to increased ambition, not least of all the continuing economic crisis in the Eurozone.

It seems that most Namas will probably start off as supported, essentially donor-funded activities from bilateral or multilateral sources, and will explore opportunities for crediting once more experience is accrued and investors gain confidence with the MRV.

The Nordic Partnership Initiative conceived by the Nordic Environment Finance Corporation (Nefco) and the Nordic Council of Ministers for two programmes in Peru and Vietnam (see box) and the World Bank administered Partnership for Market Readiness are examples of such an approach. Such activities seek to provide valuable lessons learnt for the development of the Nama framework at the international level that can feed into the international decisions and agreements in the run up to 2015.

Leveraging public finance for Nama development

The question of longer term finance need not be intrinsically linked to carbon markets, indeed some developing country stakeholders are opposed to this. However, the role of public funding is critical in order to leverage private sector financing and reduce risks, for example, through provision of publicly-backed guarantees.

There may be opportunities for green (or Nama) bonds issued by national or international institutions, or other instruments, such as credit insurance. One possibility could be for the new Green Climate Fund (GCF) to underwrite such bonds in the same manner as the World Bank and some regional development banks. Nama bonds could prove attractive to institutional investors, such as pension funds and insurers, depending on the strength of the issuer and the underlying pool of assets.

Nordic Partnership Initiative (NPI) in Peru

In Peru, the solid waste management sector has been chosen in consultation with the government. Working together with the Ministry of Environment in Lima, a two-year technical assistance programme will be implemented to improve Peru's readiness to benefit from international climate financing under future Nationally Appropriate Mitigation Action (Nama) regimes in this sector.

The Nama readiness activities contemplated under the NPI in Peru shall address gaps in data availability and quality, and technical and institutional capacity, as well as relevant technical, financial and other barriers to up-scaled mitigation and private sector engagement, including:

- The collection of updated data on emissions and emission reduction potential;
- The capacity to generate and implement waste strategy across different levels of government and to include the private sector in these efforts;
- The identification of barriers to mitigation actions, and the generation of proposals for addressing them;
- The generation of a monitoring, reporting and verification system meeting international standards;
- The identification of appropriate support instruments for mitigation actions, including the identification of potential sources of finance and funding requirements and criteria for support; and
- The establishment of relevant institutional arrangements aimed at capacity building and training.

The funding for the €2.2 million ($2.7 million) technical assistance project will come from the Nordic Environment Finance Corporation and bilateral funds from the Nordic countries.

Bilateral ODA through blending mechanisms (packaging grants, technical assistance and concessionary loans) will have an important part to play. There are large-scale interventions from countries, such as France, Germany and Japan. Indeed, bilateral institutions distribute a greater share of climate finance than multilateral agencies*.

The GCF may be critical in financing Namas, providing complementary resources to those of existing financial actors. There are, however, some short-term institutional questions requiring resolution and finalisation of operational modalities, even before the financing of the facility – no mean feat in itself – starts. In the meantime, there is considerable funding from OECD countries and so-called "fast start finance" to develop early stage Nama outcomes on the ground.

Clearly much work needs to be done on a whole range of finance issues related to Namas. Nefco will be organising an international workshop on Nama finance in October to address some of the issues raised in this article. ●

* Innovative Climate Finance – Examples from the UNEP Bilateral Finance Institutions Climate Change Working Group, United Nations Environment Programme, 2011. The report also describes a number of green credit lines

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