

On developing a NAMA proposal

Discussion paper¹

September 2011

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1 Introduction

In 2007, the Bali Action Plan introduced Nationally Appropriate Mitigation Actions (NAMAs) as a central concept for a new international climate regime (UNFCCC, 2008). Countries are currently trying to agree on how support for NAMAs can be realised and 47 countries have submitted proposed NAMAs (in more or less detail) to the UNFCCC in the first half of 2011 (UNFCCC, 2011a). Negotiations, so far, have not reached agreement beyond a general framework. In particular, details regarding eligibility, financing, interactions with other instruments and measurement, reporting and verification (MRV) are yet to be agreed. In the absence of international agreement, and because it takes time to move from a concept to initial pilot programmes, there are currently no actions being implemented and supported as a 'NAMA'.

To move forward on NAMAs, towards implementation and mobilising support, there is a need for clarity on how to develop a NAMA proposal and how to attract financing. The questions addressed in this discussion paper are: what steps should a Party take to develop a NAMA proposal, and what is the role of different stakeholders in each of these steps? This paper begins with a brief overview of the current status of the NAMA concept and the main open questions, followed by a discussion on developing a NAMA proposal in four initial steps.

2 Nationally Appropriate Mitigation Actions

There is currently no internationally agreed definition of a NAMA outside of text that is still under negotiation in the UNFCCC. A number of subtly different descriptions exist, mostly based on this text (CCAP, 2009; Jung *et al.*, 2010a; Sterk, 2010; Bakker and Würtenberger, 2010). The Cancun Agreements (UNFCCC, 2011b) refer to NAMAs in, inter alia, the following:

1/CP.16-48. *Agrees* that developing country Parties will take nationally appropriate mitigation actions in the context of sustainable development, supported and enabled by technology, financing and capacity-building, aimed at achieving a deviation in emissions relative to 'business as usual' emissions in 2020;

¹ The Energy research Centre of the Netherlands is a not-for-profit institute for energy innovation that provides knowledge and strategies for a sustainable energy future.

1/CP.16-61. Also *decides* that internationally supported mitigation actions will be measured, reported and verified domestically and will be subject to international measurement, reporting and verification in accordance with guidelines to be developed under the Convention;

A wide variety of proposed NAMAs have been submitted by non-Annex I Parties as part of their association with the Copenhagen Accord² (UNFCCC 2011a). These submissions range from existing policies and proposed concrete actions, to general focus areas for mitigation and needs assessments for capacity building efforts. In addition to concrete mitigation actions, several submissions contain national or sectoral emission neutrality/intensity targets (Sterk, 2010). Some of the proposed NAMAs are expected to have a direct mitigation effect, such as energy efficiency measures, whereas other proposed NAMAs, such as capacity building activities, could be expected to have an indirect mitigation effect over a longer time-frame (Jung *et al.*, 2010a).

At present, neither the negotiating text nor the individual country submissions help narrow down what will be eligible as a NAMA (under the UNFCCC). Wang-Helmreich *et al.* (2011) note that “it seems that NAMAs are likely to be defined as any kind of activity that reduces greenhouse gas (GHG) emissions.”. For the purpose of this paper, we assume that a *NAMA is a voluntary action perceived as appropriate in the national context by a developing country government that leads to a reduction of greenhouse gas emissions and contributes to sustainable development in that country*”.

2.1 Current status and open questions

The broad definition of NAMAs and the wide variation of Party submissions (and negotiating positions) could mean that NAMAs have potential to develop into a widely applicable instrument. However, much remains to be agreed before NAMAs are sufficiently underpinned by financial or institutional efforts, can be checked for environmental effectiveness and will be implemented. Current efforts and negotiations focus on four main aspects: establishing a registry, exploring possible financing structures, interaction of NAMAs with other instruments and modalities and guidelines for MRV.

During 2011, the UNFCCC has been working towards setting up a *registry* for NAMAs, intended to function as a clearing house between countries seeking support for their NAMAs, and countries that can deliver support (UNFCCC, 2011b). In addition to serving as an interface between developed and developing countries, this registry will also contribute to recording data with a view to improving emissions statistics and projections (Ecofys, 2011). The registry is expected to be presented in COP17 in Durban. Open questions around the development of the registry include the level of detail required from a NAMA in order to be registered, how active a role the registry will play in the matching of developed country support and actions, and how effective it will be.

It is commonly stated that the *financing structure* of a NAMA may consist of domestic funding by the developing country (so-called ‘unilateral NAMAs’), international support (‘supported NAMAs’), and/or income from a market based mechanism (‘credited NAMAs’)

² The original list of submissions can be found at http://unfccc.int/meetings/cop_15/copenhagen_accord/items/5265.php

(see, for example, UNFCCC, 2009). Unilateral NAMAs could include actions that do not pose an undue burden on the government budget or actions undertaken primarily for development reasons. Funds for internationally supported NAMAs could be allocated directly, on a bilateral basis, or through an international fund such as the Green Climate Fund (GCF) that is currently being established following the Cancun Agreements (UNFCCC, 2011b). For no-regret NAMAs, an internationally established (potentially revolving) fund could be part of the GCF. Income from market-based mechanisms could take the form of a carbon market, similar to the CDM, but going beyond the project or even Programme of Activities scale. The latter form of financing is the most challenging, as it would require a demand for some form of carbon-credit from developed countries by means of a 'cap' or 'target' with an obligation – which is exactly what was not agreed in Copenhagen or Cancun.

In addition to these three sources of financing, it is recognised that public funding for NAMAs will need to leverage significant private investment (GIZ, 2011). The role of UNFCCC mechanisms such as the Green Climate Fund in funding of NAMAs is not yet decided. Practical questions include who will decide on funding internationally supported and credited NAMAs according to which criteria. Any discussions on eligibility and additionality (in defining unilateral versus supported actions) are likely to be politically sensitive (Jung *et al.*, 2010a).

One of the challenges for the COP is to determine how NAMAs would fit within the wider post-2012 climate architecture, i.e. interact with other instruments. There are obvious overlaps with the existing CDM (it is possible that one action could be both a CDM activity and a NAMA, although CDM rules protect against this), and there is a risk of competition for least cost options and for double counting (Sterk, 2010). The issue of competition for cheap mitigation options will need to be considered: under previous mechanisms, such as the CDM or Joint Implementation, emission reductions count towards the supporting countries' targets, yet emission reductions from supported NAMAs are expected to count towards the developing countries' pledges. There could be demand for 'cheaper NAMAs' for use towards developed country targets should obligations on developed countries, with some form of market-based mechanism, be agreed in the future.

There is also potential overlap with mechanisms aimed at reducing emissions from deforestation and forest degradation (REDD and REDD+); various countries' NAMA submissions contain REDD+ related actions (UNFCCC, 2011a). Low carbon development strategies (LCDS), on the other hand, are compatible with and complementary to NAMAs, and can be helpful as a strategic framework from which to identify and prioritize actions. However, having an LCDS as a prerequisite for NAMA-support may pose a significant barrier for countries to implement NAMAs, as making an LCDS can be an ongoing and time consuming process (Tilburg *et al.*, 2011).

The implementation of NAMAs and the associated support will need to be subject to clear MRV arrangements. There is a call for simple guidelines that are flexible enough to accommodate different types of NAMAs (UNFCCC, 2011c), and although there has been considerable progress in Cancun, agreement on the details of these requirements are likely to take a few years (Ecofys, 2011). Getting to an international agreement on an MRV-framework for NAMAs has many challenges, including questions concerning the definition of

emission baselines, attribution and overlap, domestic and international mandates, the requirement to measure corresponding development impact and support for capacity building.

3 NAMA development

3.1 Who are the stakeholders?

“When starting a NAMA development process, stakeholders tend to focus on solving technical issues within the implementation. The first challenge however, is really to secure commitment from domestic stakeholders.” (Jung *et al.*, 2010b). This observation underlines the need for a stepwise approach to developing a NAMA proposal, in which each group of stakeholders is involved at the right level of decision making.

Several groups of stakeholders and responsibilities can be identified:

- **Government technical team:** Identification of opportunities, fact finding and checking, policy design, impact assessment, design of MRV system, implementation.
- **Government decision makers:** Prioritizing and selecting NAMAs to develop, liaising with potential support providers, agreeing on finance and MRV conditions, buy-in and commitment for implementation.
- **Private sector:** Information, potential identification of opportunities for the attention of government, identification of barriers to implementation and financing structure, buy-in for implementation, implementation.
- **Support providers:** Selecting NAMAs to support, negotiating finance and MRV conditions, funding.
- **Civil society:** Information, identification of barriers to implementation and sustainable development impact, buy-in and advocacy.

The prominence and involvement of the different stakeholders varies per step in the development and implementation. In addition, throughout the process decisions are made that involve interaction between these groups of stakeholders such as: Which NAMAs can be identified? How are these NAMAs prioritized? Which NAMAs are most likely to attract support, and under what conditions? What level of detail is required for a NAMA proposal?

3.2 What are the steps?

Step 1: Identification and scoring

A first step requires identifying opportunities for mitigation actions that can be packaged as potential NAMAs, and making a first assessment of costs and benefits, and feasibility of implementation. This step involves technical research and is typically executed by the government body dealing with climate change. Ideally, during this initial fact-finding step, ministries, departments and agencies in any way connected to these potential NAMAs, are involved and kept informed. Such involvement is considered crucial for buy-in later on in the development process. The outcome of the first step is a long-list of potential NAMAs and their attributes.

Under current absence of official (UNFCCC) eligibility criteria, the identification of potential NAMAs may cover many types of actions, as long as government considers them nationally appropriate, they are pursued in the context of sustainable development, and they aim at reducing emissions. Accordingly, the main criteria for scoring NAMAs at a national level could be:

- *Development benefits*: Including health improvements, access to energy services, reduction of time spent on providing basic necessities, reduction of pressure on natural resources and job creation, amongst others. For example, in a country that relies heavily on traditional biomass for cooking, improved cook-stoves can have high development benefits. If the country has a development strategy, this criterion might be fulfilled if the NAMA would contribute to aims in such a strategy.
- *Mitigation potential*: What is the direct emission impact and what is the baseline assumption against which this is calculated? If the action is of a more indirect nature, then what are the transformational impacts? What is the replicability potential of the action?
- *Costs (incl. transaction costs)*: What are the estimated direct and indirect costs associated with the action? Can costs be expressed in dollars per tonne CO₂ avoided? What is the technical and financial risk profile of the action? What is the cost of MRV for the NAMA?
- *Other barriers to implementation*: Are there reasons other than costs that inhibit the implementation? For example: although improved charcoal production is often cost effective versus traditional forms, it requires an initial investment that is a barrier to existing producers.

In addition, the following (sub)criteria can be taken into account when assessing the ease of implementation of the NAMA, and may be just as important in choosing priorities in the following step:

- *Variety of stakeholders involved*: How many different stakeholders need to be consulted, approve or facilitate the action? For example, improving public transport requires cooperation of several government bodies and current (largely informal) transport sector players.
- *Number of stakeholders involved*: How many different stakeholders are involved in the actual action? For example, improved cook stoves may require millions of households, whereas retrofitting a gas powered electricity generation plant requires only one utility.
- *Proximity to current regulation*: Policies and measures are easiest to implement if they don't require a change of laws, or adoption of new regulations. For example, feed-in remuneration for renewable energy requires new laws which could slow down the speed of implementation.
- *Awareness and acceptance*: Does the NAMA require raising of awareness and are there issues with social acceptance and the need for changing behaviour? For example, compact fluorescent lights do require acceptance, but little change in behaviour apart from purchasing preference.
- *Lead time*: It may take a long time before the implementation results in emissions reductions or development benefits.

The outcome of step 1 should be a long-list of potential NAMAs and associated *fact sheets* (or 'score cards') for use in the following *prioritisation and selection* step. In reality however, it may be desirable to make a pre-selection based on priorities of the government and support providers. This can save time and resources and limit the amount of potential NAMAs to analyse and score.

Step 2: Prioritisation and selection

While the identification and scoring of NAMAs, as described above, is largely the result of analysis that is as objective as possible, political or other expedient factors can also influence the priorities of a country in pursuing certain NAMAs.

Building on the factual information acquired, the second step is for the government to prioritise the potential NAMAs and select those to be further elaborated at that time. This is essentially a political choice and thus requires the involvement of high level government/political decision makers. The outcome of the second step is a short-list of potential NAMAs.

Academics may have a tendency to opt for a complete multi-criteria analysis, but in practice the selection process could be based on pragmatic questions like availability, conditionalities of support, and donor preferences. In any case, the decision makers may, if needed, use the outcome of step 1 to get a better insight of the trade-offs. This selection process moves from the long-list of NAMAs to a short-list for which *concept notes* will be prepared.

Step 3: Preparation of concept note

This step involves outlining the complete (conceptual) picture of what the NAMA could look like, but not in comprehensive detail. This should be done by policy makers, possibly with input from technical assistance. This *NAMA concept note* facilitates discussions with potential donors and provides a basis for further examination. The main stakeholders in this step are mid- to high-level government decision makers and potential donors (bilateral and multilateral). Depending on the preferences of government and sources of support, a NAMA can be detailed further to include all the information needed to come to a financing agreement (Step 4). The outcome of the third step is a concept note for the potential NAMA(s).

To secure commitment from high and mid-level government officials, and from potential sources of support, a NAMA concept note could have the following outline³:

- Sectoral background and existing policies/measures. [optional]
- NAMA description and rationale
- Implementation barriers
- Needs assessment and proposed interventions
- Benefits: emission reduction and co-benefits (including baselines)
- Costs and financing options
- MRV plan including performance indicators
- Actors, actions and timing

³ based on the Ecofys template for a NAMA (Ecofys, 2010)

Step 4: Detailing a NAMA proposal

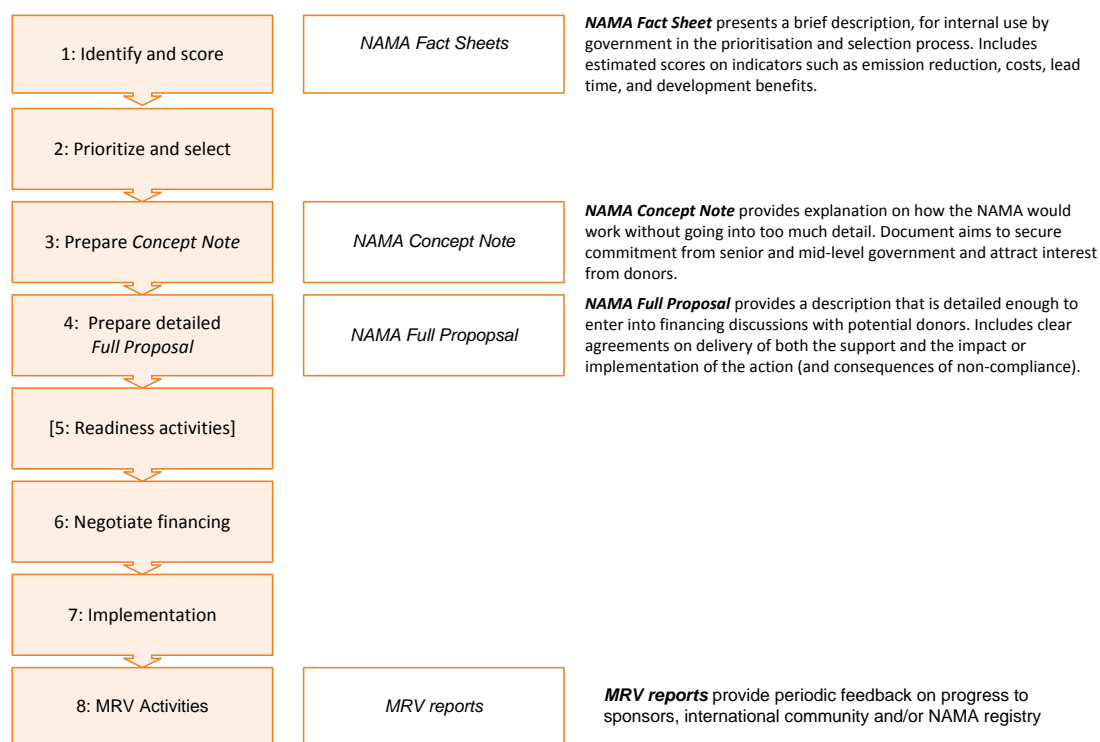
The fourth step is the development of a full NAMA proposal, detailed enough to be a basis for negotiation of support and implementation conditions between government and sources of support. Key challenges in the development of a full NAMA proposal will be to develop a robust financing and MRV arrangement. The outcome of this step is one or more detailed NAMA proposals.

The target audiences for the detailed NAMA proposal are the policy makers that will need to decide on the NAMA, and the potential financiers. It needs significantly more detail than the concept note and, in addition to the elements in there, includes the following:

- Financing details: How are costs and revenues structured
- Detailed baseline and interaction with other instruments
- Stakeholder analysis, and final short-list of potential donors and partners including key support criteria
- MRV: A clear approach to MRV, both to the UNFCCC and to the supporters/financiers of the NAMA. Includes possible MRV of co-benefits and agreement on consequences of underperformance by both sources of support and implementers, as well as an assessment of current data availability and gaps.
- A clear plan of action, containing a list of all sub-actions with associated actors including their roles, responsibilities and timelines for action with dependencies.

Figure 1 shows how these four initial steps of a NAMA proposal fit within the context of developing NAMAs. Although mentioned here, the subsequent steps related to readiness, finance negotiation, implementation and MRV are not described in further detail. International efforts to date have largely been focussed on the initial stages of NAMA development.

Steps in NAMA Development



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Figure 1: Suggested steps in the development of a NAMA and supporting documents

3.3 What documents support NAMA development?

The different stages in the development of a NAMA, from identification to implementation, will require different levels of detail about the action. A document that can be used by national stakeholders at the very early stages of the process, when selecting individual NAMAs to pursue, will be significantly less detailed than the documentation that sources of support are likely to seek prior to implementation. We propose that at three stages in the NAMA development process it is useful to have distinctly different levels of description; a *fact sheet* before prioritizing (step 2), a *concept note* before detailing and securing interest from sources of support (step 3), and a *full proposal* before securing adequate (financing, technical and capacity building) support for implementation (step 4).

NAMA Fact Sheet: This is a very brief description of a NAMA. It contains estimated scores on indicators such as emission reduction, costs, lead time, and development benefits. It should cover enough information to facilitate the prioritisation process, and shows some indication of the impact. The fact sheets are for internal use by the government to facilitate the selection process.

NAMA Concept Note: The aim of the concept note is to provide more background and explanation on how the NAMA would work without going into too much detail⁴. This document is aimed at securing commitment from mid- and high-level government and to

⁴ The information in the Concept Note should ideally be compatible with the requirements of the UNFCCC Registry.

secure interest from supporting countries (both of which are necessary for the detailing phase).

NAMA Full Proposal: This document should be detailed enough to enter into financing discussions with potential sources of support. It needs to contain clear agreements on delivery of the support, the expected impacts and implementation of the action, as well as consequences of non-compliance. The full proposal will be crucial in securing support and commencing implementation. It will also layout MRV requirements and reporting periods so that the outcomes of the NAMA can be assessed over time.

There is still uncertainty as to the level of detail and technical background information required for a full NAMA proposal. On the one hand, there is a clear desire to move pilot NAMAs to implementation as soon as possible without having to comply to complex rules that are found for some existing climate finance mechanisms such as the CDM. On the other hand, the considerable sums of money that are expected to be channelled through the NAMA mechanism along with the competition for support that will inevitably eventuate – given the finite limits to these sums – means that some reasonable level of detail in proposals may be demanded by supporting countries, or that those NAMA proposals that appear more robust may be favoured. Realistically, it is expected that the level of detail of a full NAMA proposal would also depend on the type and size of the NAMA, e.g. more complex actions, requiring large amounts of investments, would require more background information than smaller and/or simpler ones. Whether common guidelines or standards for NAMA proposals will be agreed – as with the CDM – remains to be seen. In the short-term, it is almost certain that the content of NAMA proposals will be decided between supporting and host countries on a case-by-case basis.

MRV reports (associated with step 8 in the process): Throughout the ‘lifetime’ of the action, there is a need for measuring, reporting and verification of different aspects of NAMAs. These reports will provide feedback to sources of support, to the international community and/or to the registry on the progress of the NAMA. In addition, the reports can provide a basis for assessing payment schedules should these be performance based, and for demonstrating the amount of funding actually received.

4 What is next?

The majority of NAMA ‘proposals’ that have been developed to date are argued to be closer to what is described here as a concept note, as they typically lack the depth of detail that would be required for negotiation of financing and implementation (Wang-Helmreich *et al.*, 2011).

Today, there is still much uncertainty on how and when there will be a multilateral structure for supporting NAMAs under the international climate regime. However, there is a strong interest by developed and developing country Parties to move pilot NAMAs to an implementation stage in order to prove the concept, and disseminate lessons learned for a larger roll-out of the concept. Such early action is expected to be mostly on a bilateral basis, or potentially supported by some of the large development banks. In this respect, there is a

need for NAMA proposals to move from the current 'concept note' stage to full proposals which can be directly used as a basis for financing and implementation of pilot NAMAs.

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Acknowledgements and contact information

The authors would like to thank Heleen de Coninck (ECN), Karina Veum (ECN), Frauke Röser (Ecofys) and Martina Jung (Ecofys) for their valuable input and discussions.

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