# Discussion Paper

## Financing Nationally Appropriate Mitigation Actions – providing for support to receiving Governments

**A concept for Governments and donors on the conceptualization, design, implementation and operationalization of NAMAs with a focus on rural electrification.**

**Disclaimer: The Discussion Paper is not the official opinion of the UNDP.**

United Nations Development Programme

ENVIRONMENT AND ENERGY

# Introduction

The purpose of this paper is to elaborate further on the concept presented at the UNDP-WBI webinar 'Engaging the Private Sector in Fast Start NAMAs' (http://einstitute.worldbank.org/ei/webinar/engaging-private-sector-fast-start-namas) on 9th April 2014, with a particular focus on the design and implementation of a potential funding mechanism between a donor or supporting Government and the implementing or receiving Government and the partners responsible for operationalizing[1] the NAMA intervention. In order to benefit the development of existing NAMA initiatives, the paper focuses on the application of NAMAs to finance rural electrification.

Under the concept of a NAMA, donor governments and public or private sector entities are invited to provide financial support to actions which are considered to contribute to host country mitigation as well as deliver a range of other social and environmental benefits.

In order to ensure that the mitigation action is prolonged and that the receiving country continues to benefit from and report the benefits of the mitigation actions in the national inventory, it may be necessary, amongst other things, to build a certain level of capacity in the relevant Government Departments. This paper describes how the NAMA financing mechanism can be used to provide support for crucial Government services which are considered essential to enable the NAMA to continue and possibly grow and or facilitate further investments in the sector.

# Underlying Principles

This section provides comments on underlying principles which help to explain some of the design options in the later sections of the paper.

**Good quality monitoring and reporting enables donors to pay for results on delivery.** NAMAs are increasingly being understood as a basis for delivering "output-based aid" or "payment-by results". Although this is not a new concept in general, its application in development assistance is quite recent and it represents a new model by which donor Governments in particular may be able to disperse development aid. Under the approach, the donor Government will agree to pay for the delivery of certain GHG mitigation benefits alongside other sustainable development benefits agreed with the receiving Government and NAMA partners. The measurement, reporting and verification (MRV) of the mitigation benefits can be undertaken using of the building blocks of the CDM, in particular, elements of approved methodologies such as baselines and technical procedures for accurately or conservatively assessing GHG emission reductions.

**Transparency -** The high standards of transparency built into the CDM also help to set an example of what can be achieved. Under the CDM, for example, documents were made available for both local/national and international stakeholder consultation and verification reports were published and subjected to third party verification, providing a new level of international transparency (before the CDM, it is unlikely that a stakeholder in any country around the world could review technical proposals and financial details of such a wide range of development related interventions). Although the existing CDM infrastructure cannot be used for the purposes of a NAMA, if stakeholders considered that such levels

[1] The design of the NAMA is essentially a desk based exercise between potential partners to describe the NAMA; implementation of the NAMA covers the creation of the institutional infrastructure required to enable the NAMA interventions to be operationalized; and operationalizing the NAMA refers to activities undertaken by NAMA partners to actually build and operate the hardware.

of transparency were appropriate and desirable, similar mechanisms could be developed by a NAMA Coordinating Authority.

The use of selected elements of the CDM project infrastructure enables mitigation results to be reported in an accurate (conservative) consistent, complete, comparable and transparent manner, which in turn enables donor Governments to pay for the resulting mitigation benefits.

**Mitigation vs transfer of units -** It is proposed that the emphasis of NAMAs is on mitigation in the support receiving country. There are theoretical models where one or more components of a NAMA are operationalized using an offset standard such as the CDM and the resulting credits are transferred out of the country to assist with mitigation or meeting targets in a third country. It must be understood that such units, if transferred out of the country, must be reflected as emissions in the support receiving or (in CDM terms) the Host Country's national inventory. Failure to do so amounts to double counting and undermines the mitigation benefits. Supported NAMAs should result in mitigation which is reported, in more or less detail, in the operationalizing country's national inventory. Ideally, they should not result in the creation of units for transfer.

**Hard-to-measure activities -** Since units do not need to be accurately or conservatively quantified for international transfer, NAMAs have a great potential to reach out to so-called "hard-to-measure" activities. Donor Governments may be prepared to simply accept that an activity contributes to mitigation in the receiving country without the need to accurately quantify it and hence a significant part of the MRV element can be addressed through *ex ante* assessment against pre-defined eligibility criteria. Hard-to-measure activities include rural electrification, energy efficiency and transport where it is either or both technically difficult to accurately quantify emission reductions and/or expensive to measure. For this reason, NAMAs may be a good model for financing eligible activities which deliver a wide range of additional benefits and where the CDM has been less influential.

**Sector transformative programs -** NAMAs have the potential to be truly transformative but shall always consist of concrete interventions to achieve the targets set in the national strategies. Such concrete interventions can be programs acting as an umbrella for multiple interventions. Nevertheless, all interventions under a NAMA will still require a degree of measurement and reporting however there may interventions which, whilst difficult, expensive or technically impossible to monitor under the CDM, could possess measurable parameters which provide sufficient evidence of GHG mitigation and sustainable development benefits to enable donors to finance them via a NAMA structure. For example, rural electrification has a wide range of impacts upon rural communities which have undeniable sustainable development benefits however quantifying these, and associated GHG emission reductions compared to baseline is extremely complex and after applying conservative factors to account for uncertainty or simplified monitoring procedures in a CDM methodology, the resulting emission reductions could be relatively small. Under a NAMA, however, a donor might be willing to accept a deemed savings quantification approach which, for example, estimates emission reductions per household connection. A donor might also be willing to accept bespoke studies and surveys to quantify sustainable development benefits in terms of, for example, gender time use and household expenditure on fossil fuels. Whilst these approaches might not meet the standards set by regulators and stakeholders under the CDM for the creation of Certified Emission Reductions for transfer and use for offsetting greenhouse gas emissions in other jurisdictions, they may satisfy donors' expectations for nationally appropriate mitigation actions.

### *NAMA Partners*

The Participants in a NAMA are not specifically defined but will rather be determined by the nature of the NAMA however four key Partners can be identified:

**Supporting or donor entity:** This entity could be a government, a multilateral development agency such as UNDP or a development bank, a Foundation etc. Under a results-based funding concept, their role is to define the nature of the support they wish to provide and agree on the deliverables against which the funding will be disbursed.

**Receiving Government:** The Receiving Government has responsibility for creating the policy environment in which the NAMA will operate. This activity may involve, amongst other things, creating and operationalizing legislation and regulations, coordinating activities amongst different Ministries, Government Departments and Agencies etc., and monitoring and reporting activities. It is also noted that some of these activities could be outsourced by the Receiving Government. As some of these activities may be critical to the success of the NAMA, it is not unreasonable that the Receiving Government should receive financial support from the Supporting Government. This paper explains how that financial support may be delivered.

**NAMA Coordinating Authority:** The NAMA Coordinating Authority would be a newly formed body which takes responsibility for overseeing the implementation and operationalization of the NAMA on the ground. Once the receiving Government has started to implement the NAMA, the NAMA Coordination Authority will start to work with all NAMA Partners, including the intervention developers, communities, public and private entities that wish to invest in the construction and operation of equipment on the ground. This organization is effectively the NAMA Coordinating Authority who works to ensure that all Partners deliver on their commitments and that no bottle necks or barriers build up and are left unresolved. Within the concept of aligned interests, they are key to ensuring that all NAMA Partners work towards the achievement of the same goals.

**NAMA operationalizing entities:** There will hopefully be dozens of NAMA operationalizing entities who are contracted to operationalize activities of the NAMA on the ground. These could be public private partnerships, private sector investors, communities, NGOs or Government departments or other entities, depending on the nature of the NAMA. They also need receive appropriate financial support from the donor. Ideally this should be disbursed on the basis of verified results but in some circumstances, donors may have to accept at least some of the risks associated with financing activities in advance.

## Supporting implementation and operationalization of the intervention by the receiving Government

It is proposed that the financial support to receiving Governments consists of two kinds of payments: *ex ante* payments for agreed budget line items such as additional staff, convening meetings etc. and *ex post* payments to the overall budget of the relevant ministries based on a percentage of the total disbursements under the NAMA. These are detailed below:

### *Budgeting for the costs of implementing the NAMA*

Support to create the institutional infrastructure to implement the NAMA should be based on budgeted costs related to the receiving Government's essential activities. These items (which are further detailed in section 6 below) should be based a detailed understanding of the roles and responsibilities of the receiving Government's departments. These items are likely to include a proportion of existing staff time / new recruits; office space; computers and phones; travel and transport and overheads etc. and these should be consistent with existing budget norms. Additional one off costs might include training and awareness raising for different stakeholders, convening stakeholder meetings and attending international events to share experiences with other NAMA implementing Governments and specialist consultancy inputs.

It is recommended that there is sufficient flexibility to review the level of support periodically to ensure that the success of the NAMA is not jeopardized due to lack of Government resources, or indeed resources in any NAMA partner.

### *Incentivizing the operationalization of the NAMA*

On the basis that the NAMA is a results based instrument, it is proposed that financial support to receiving Governments is also partially results based, in a manner which aligns the interests of both the operationalizing agencies and the receiving Government to achieve the results. It is proposed that participating Ministries would receive a percentage of total disbursements under the NAMA. This payment is designed to incentivize participation and the achievement of goals under the assumption that the rate of expenditure is an indicator of success. Building on current fashions in the financial world, donors might like to consider some form of a claw-back of such payments in the event that certain longer term goals are not achieved.

### *Maintaining the long term mitigation and sustainable development benefits of the NAMA*

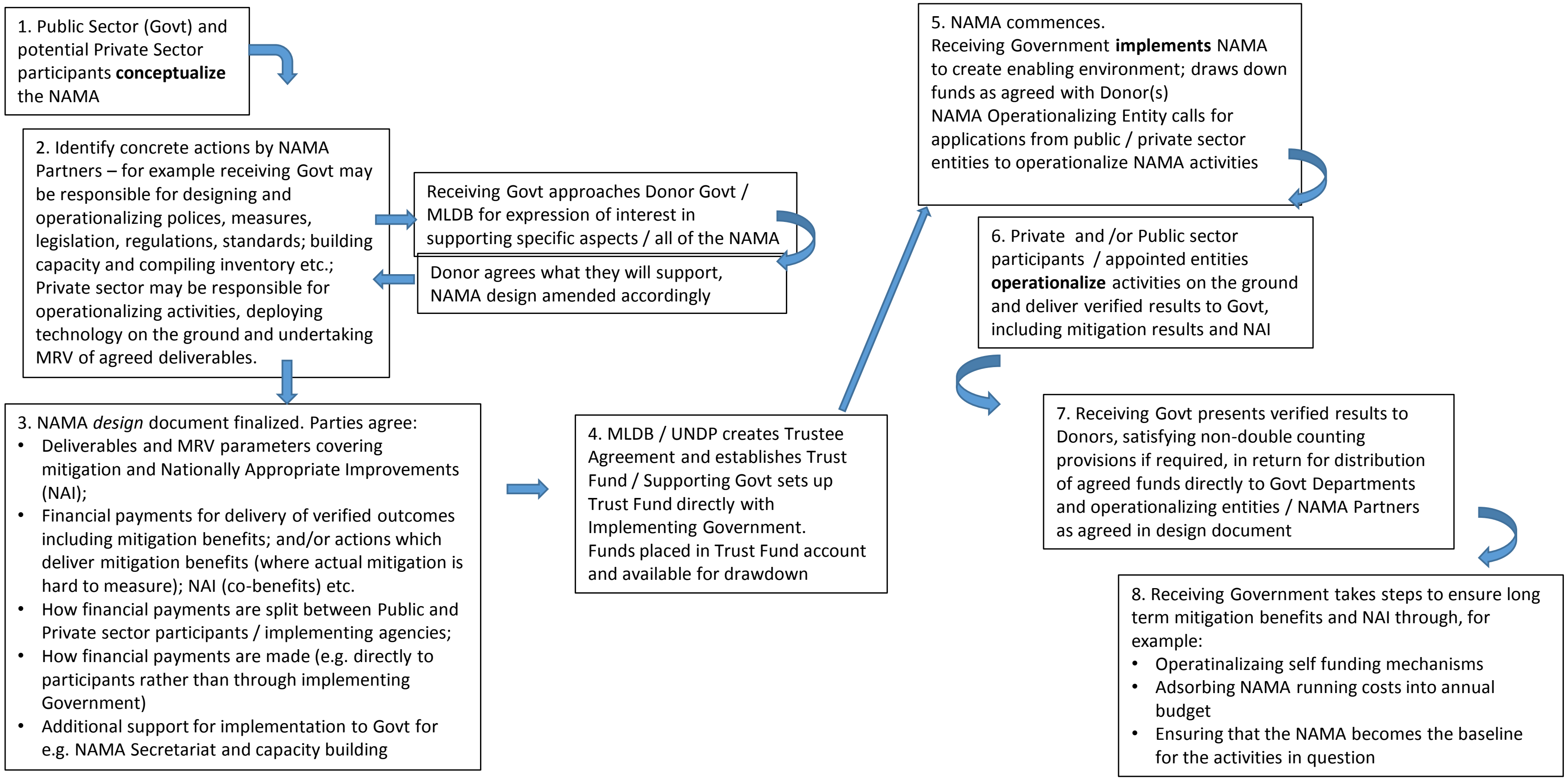
In order to ensure that the NAMA activities continue after donor support concludes, the receiving Government may be expected to start to adsorb the on-going costs or put in place cost recovery mechanisms, legislation or regulations that ensure that the NAMA activities become the baseline. The NAMA Design Document should outline how this transition could be achieved.

## Putting a NAMA into practice

The purpose of this section of the guidance manual is to describe a narrative for the development of a fictional NAMA in an undefined country. As noted in the introduction, UNDP's focus for this guidance manual is on rural electrification and hence the narrative will develop a rural electrification scenario. This narrative is conceptual and is not implemented to reflect or describe the circumstances in any particular country and therefore may be generalized in some areas and specific in others. The narrative is developed in order to provide guidance as to how a NAMA could be operationalized and is not meant to be definitive.

Figure 1 below describes a flow chart for the key stages of conceptualisation, design, implementation and operationalization of the NAMA. The Narrative follows the stages in this flow chart.

## Figure 1: Indicative flow chart for the conceptualization, design, implementation and operationalization of a supported NAMA



## *Step 1: Conceptualizing the NAMA.*

A development organisation with international credibility and strong convening power, such as the UNDP, convenes a meeting with the Government of the Receiving Country (Country X) and specifically with the Office of the President and representatives of the Ministries responsible for Energy, Environment, International Finance and Climate Change. The purpose of the meeting is to propose that Country X implements a NAMA to help achieve a range of Nationally Appropriate sustainable development goals whilst at the same time mitigating GHG emissions from Country X.

The Government of the Receiving Country (Country X) agrees to support the implementation and operationalization of one or more NAMAs subject to there being sufficient funding from donor agencies or development banks and further support from UNDP or others to ensure that the NAMA is successful. UNDP agrees to work with the Government to support and convene a further series of meetings to consult with stakeholders to define the NAMA.

The Ministry of Finance and Ministry of Foreign Affairs, which maintain formal contacts with potential donor organisations and multilateral development banks (MLDB) and UN Organisations, open initial discussions with potential funding organisations to gauge their appetite to support such actions. In view of the forthcoming capitalisation of the Green Climate Fund and Parties' desires to progress towards a 2020 agreement, there is significant interest amongst the donor community in participating in a "Supported NAMA" concerning rural electrification in Country X.

As step 1 draws to a close, the key stakeholders – some of whom will become NAMA Partners - are now defined (although the door is always open for more to join) and there is agreement on the overall objectives of the NAMA. At this point it is important to understand why each stakeholder is interested in the NAMA and what they may hope to gain from their participation. This is important because the involvement of multiple parties raises the risks of delays or even failure due to one or more parties not fulfilling their responsibilities. Results in cooperative initiatives are best achieved when interests are aligned i.e. all stakeholders are motivated to achieve the same goals. Motivation often takes the form of payment and to ensure that the ultimate goals are achieved, a significant proportion of the payment should be made on the basis of delivery of results but there are other motivating factors as well and these will need to be recognized.

Table 1 below lists generic stakeholders, their proposed roles and responsibilities and examples of some of the factors which may explain their motivation to see the NAMA succeed. This table is illustrative and does not seek to characterise stakeholder groups:

***Table 1: Stakeholders, Roles, Responsibilities and potential motivation to participate in a rural electrification NAMA***

| *Who* | *Roles* | *Responsibilities* | *Why?* |
|---|---|---|---|
| **Top level political supporter e.g. Office of the President** | • Lead the NAMA initiative and ensure that line Ministries participate accordingly | • Ensure Line Ministries participate to achieve the goals<br>• Steer the development, approval and operationalization of necessary policies, legislation and regulations<br>• Liaise with donor organisations to secure funding | • This office is responsible for the overall development of the country, its economy and its people, success will therefore strengthen political support for the President<br>• Success will provide a national and international platform to further political and personal aspirations<br>• NAMA funding will support annual budget for the Office of the President |
| **Ministry of Energy** | • Implement the NAMA by creating the necessary institutional infrastructure<br>• Ensure that the NAMA's objectives are consistent with broader national energy plans and priorities<br>• Support the implementation and operationalization of the NAMA | • Lead the preparation of relevant policies, legislation, regulation and guidelines<br>• Create the necessary institutional infrastructure<br>• Integrate NAMA with existing policies and programmes<br>• Contribute technical expertise to "NAMA Secretariat"<br>• Process necessary approvals efficiently and effectively | • Successful implementation and operationalization of the NAMA will help the Ministry achieve its long term Energy Plan<br>• Strengthen political support for the Minister<br>• Provide budgetary support for the Ministry<br>• Create career development opportunities for staff |
| **Ministry of** | • Ensure that the | • Lead the preparation of relevant policies | • Successful implementation and operationalization of the NAMA will<br>ergy Plan<br>er<br>MA Secretariat<br>for staff |

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