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If you want a Nama tomorrow, you need a PoA today

THE CLEAN DEVELOPMENT MECHANISM'S PROGRAMME OF ACTIVITIES CAN BE THE STEPPING STONES TO NAMAS AND SECTORAL APPROACHES, BUT NOT WITHOUT REFORM OF THE CURRENT RULES, SAY **CHRISTOPH SUTTER** AND **ROMAN SCHIBLI**

In light of the urgent need to scale up our carbon emissions mitigation actions, most people agree that we should move away from purely project-based approaches to broader – ideally sectoral or even national – ones.

Nationally appropriate mitigation actions (Namas) have been widely touted as the solution to this problem. But we think that some of the hopes attached to Namas are overblown and that fully operational Namas are a long way off. As a first step, we believe that efforts should concentrate on fixing existing scalable approaches, especially the clean development mechanism's (CDM's) programme of activities (PoAs), which act as stepping stones in the journey towards sectoral approaches.

The concept of Namas was first introduced in the Bali action plan, adopted at the end of the high-level UN climate change meeting in December 2007. Paragraph 1(b) (ii) of the plan mentions “nationally appropriate mitigation actions by developing country parties in the context of sustainable development, supported and enabled by technology, financing and capacity-building.”

The Nama definition survived unchanged in the Cancun agreements adopted three years later with the addition that

these Namas are “aimed at achieving a deviation in emissions relative to business-as-usual emissions in 2020.” This rather broad description remains the only internationally accepted definition for Namas.

Some of the issues surrounding Namas were clarified in the non-binding Copenhagen accord in 2009. Supported Namas – those funded by Annex I (developed) countries – will be listed in a registry and “subject to international measurement, reporting and verification (MRV).” Non-Annex I (developing) countries were invited to submit Namas to the UN Framework Convention on Climate Change (UNFCCC) secretariat.

In Cancun in December, these principles were re-affirmed, while little of substance was added. Most importantly, Cancun agreed on a work programme to clarify and operationalise some issues surrounding Namas, such as the design of the registry, international rules on MRV and improved greenhouse gas emissions reports from non-Annex I parties.

It is desirable that this work programme will eventually lead to clear and applicable rules for Namas, but it is obvious that we remain a long way from a fully operational framework for their use.

In the meantime, 43 countries have submitted Namas to the UNFCCC*. These submissions show how countries interpret Namas. We have classified their submissions into four categories:

- Empty Namas contain no concrete emission reduction proposals whatsoever, but typically reiterate the country's position in climate change negotiations. Georgia's submission is a prime example.
- Target Namas stipulate national targets, such as emission intensity cuts (for example, China), emission reductions (Indonesia) or renewable energy and/or forestation (Colombia). Some countries, such as Brazil, include a breakdown of the target in individual sectors.
- Short-list Namas contain a summary of possible mitigation options, usually mentioning whole sectors and/or technologies, while providing little detail on their emission reduction potential. A good example of this approach is Benin's submission, which mentions public transport, improved forest management and methane recovery from landfills as its Namas.
- Detailed Namas contain more elaborate lists of mitigation opportunities, usually with a quantification of their emission reduction potential. Morocco's submission, for example, contains a list of 33 concrete emission reduction opportunities in the energy, transport, industrial, waste, agriculture and forestry sectors.

Forty per cent of all Namas stipulate national targets (target Namas), another 9 per cent define no emission reduction possibilities (empty Namas). This means close to half of all the Namas submitted contain little detail on how, or if indeed any, emission reductions should be achieved.

Another 30 per cent provide only a cursory outline of possible sectors and/or actions (short-list Namas). This leaves us with only 21 per cent of submissions that spell out in some detail how the given countries intend to reduce their emissions (detailed Namas). The current reality of Namas is, thus, far away from the multitude of ingenious mechanisms being discussed by think tanks and consultants.

In contrast to Namas, PoAs are already widening the reach of carbon markets. Since their inception in 2005, the mechanism has become fully operational. There are 76 PoAs currently being developed, of which five are already registered, according to Unep Risoe Centre data. About half of all PoAs involve emission reductions at the household and community level – a shift compared with standard CDM projects, where only a fraction of all projects involve household-level activities.

PoAs have several advantages over single project CDM activities. A PoA needs to be registered only once by the executive board – which oversees the CDM. Thereafter, a PoA can include an unlimited and unspecified number of individual CDM programme activities (CPAs) which fulfill the eligibility criteria without recourse to the board.

This lowers transaction costs, shortens the time to market for carbon credits, allows for full scalability and – most importantly – reduces risks of non-registration. In turn, this facilitates carbon finance and increases bankability. Unfortunately, the PoA rules are plagued by an unresolved liability issue that prevents a broader use of the mechanism.

In a nutshell, PoAs can deliver today most of what Namas

are designed to achieve in the future. More importantly, PoAs can teach us a lot about issues that are critical to make Namas fly, such as financing, managing, monitoring and verifying dispersed emission reductions.

Morocco's Nama submission, mentioned above, demonstrates how most emission reduction proposals could be developed today in the form of PoAs, leading to tangible inputs for designing countrywide Namas tomorrow. In other words, a surge in PoAs today will result in Namas tomorrow.

But what hinders PoAs from getting off the ground? One of the main impediments to further growth in PoA activity lies in an essentially unlimited liability for issued CERs that may, with hindsight, be judged to have been issued in error. This liability for the “erroneous inclusion of (CPAs)” is inoperable because of two interrelated reasons:

1. *Unquantifiable liabilities*: The liability can be triggered at any point during the lifetime of a PoA. If the programme is large, the liability can become vast and impossible to determine ex-ante since volumes may be high and CER prices might increase substantially in the near future; and
2. *Unclear trigger for liability*: The trigger for invoking the liability partially depends on subjective assessments and elements beyond the control of the promoters of a PoA,

PoAs are concrete stepping stones on the journey to Namas and sectoral approaches

and not limited to fraud and gross willful misconduct. For example, the additionality assessment – whether or not the project would have gone ahead anyway – can be challenged by the executive board at some point in the future and thereby trigger the liability. Since interpretations of the additionality principle by the board have undergone changes in recent years, a further change seems likely, and, therefore, cannot be borne by any market participant.

This barrier to the broad application of PoAs could be overcome by modifying the liability clause for the “erroneous inclusion” of CPAs. The right to question the inclusion of CPAs could, for example, be limited to 12 months.

In sum, the carbon market is moving in the direction of Namas and sectoral approaches. But it will no doubt be a long time before we reach fully operational schemes. PoAs are the concrete stepping stones on this journey. By fixing the liability clause, the CDM executive board could boost the development of PoAs and pave the way towards a world with operational Namas. ●

* A complete list of submissions is available at: <http://unfccc.int/home/items/5265.php>

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