

Session II :

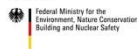
Financing NAMAs and Mitigation Actions under the NDCs

NAMA Facility Climate Finance in Action Workshop
Bonn, 12 May 2017



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Session Overview

- Financing NAMAs and Mitigation Actions under NDCs
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- Asgar Garnak, Head of International Department, Ministry of Energy, Utilities and Climate, Denmark
- Dr. Lasse Ringius, Head of Green Investment Services, Global Green Growth Institute, Korea
- Jan-Willem van der Ven, European Bank for Reconstruction & Development, United Kingdom



What are the key success factors for “bankable” NAMA proposals?



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Focus on transformation

- Objective of the NAMA is to shift a sector in a country toward a sustainable, irreversible, low carbon pathway
 - That happens quicker than the business as usual (BAU) scenario of technological development
 - Moves beyond a project specific intervention
- Achieving transformational change with grants up to €20m is ambitious, and requires significant leveraging
- Regulation influences markets – NAMAs should re-orient national policies to promote the low carbon path



General lessons learnt on ambition



- Successful projects clearly demonstrate strong government commitment and “embeddedness”:
 - Describe relationship to relevant NDC(s) - highly evident in the shortlisted projects
 - High significance of the sector in terms of GHG emissions e.g. sector contributes to > 5% of national emissions
- Transformational change : demonstration of government’s willingness to effect an irreversible change towards a low carbon pathway, faster than a BAU technological development, as evidenced by
 - Policy reforms and fiscal regulatory instruments (including relevant enforcement measures) such as limitations/bans/phase-outs, fees & other economic instruments, including fossil fuel subsidy reform or re-direction of other harmful subsidies
 - Describe any “windows of opportunity” which make structural change timely
 - Must be beyond a conventional project scenario e.g. on-grid PV power plant, or a typical replacement scenario e.g. simply replacing outmoded technology (BAU)



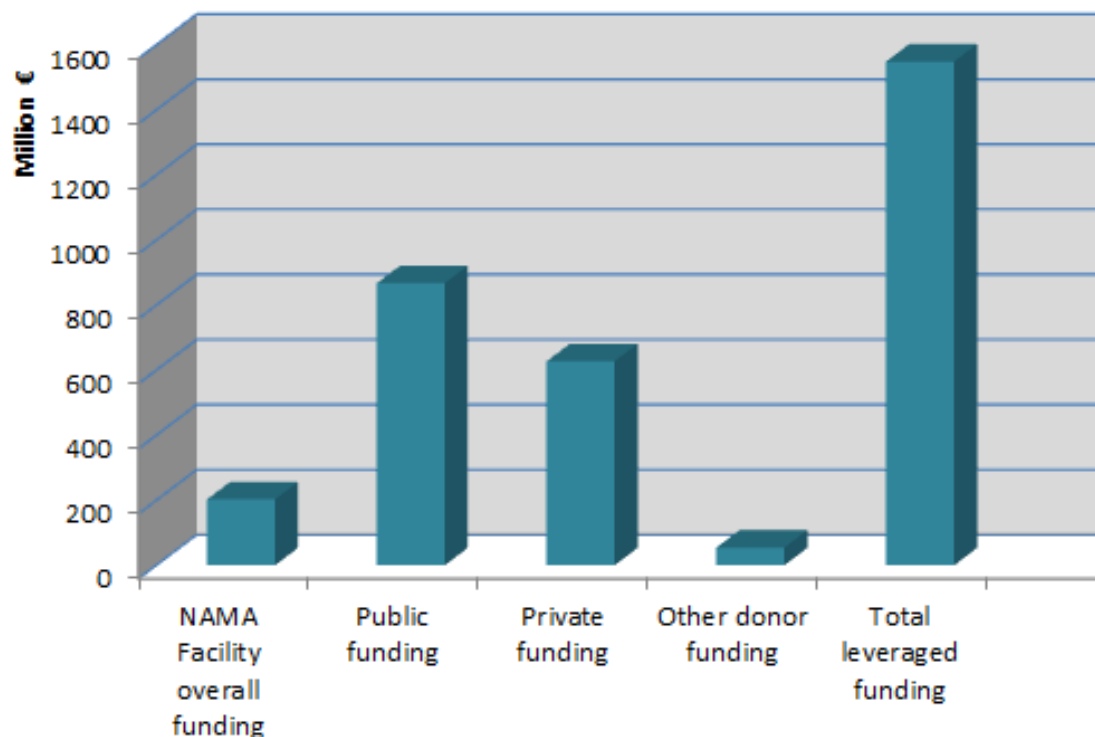
Lessons learnt on ambition (2)



- Financial ambition is best evidenced in NAMA proposals by
 - Leveraging of private sector capital, through e.g. investors equity, bank loans, user fees/tariffs; and/or
 - Significant mobilisation of domestic, public sector funding e.g. budgetary allocation
- Mitigation potential is a key aspect of ambition
 - Calculation often overestimated or poorly substantiated
 - Direct GHG mitigation should be transparent, based on well defined BAU scenario and using relevant methodologies
 - Indirect mitigation potential is often missing in proposals
 - GHG reductions in € per tCO₂e should be cost effective



Leveraging is key : Targeted funding to be leveraged by NAMA Facility portfolio by 2022



Leverage ratio calls I - III

Public funding: 4.3:1 €

Private funding: 3.1:1 €

Other donor funding: 0.27:1 €

Average leverage ratio: 7.6:1 €



NAMA proposals should be feasible

- Importance of plausible project rationale and scope, evidenced by
 - A comprehensive and substantiated barrier analysis, e.g. how specifically does the NSP overcome economic/financial barriers
 - Clearly defined and described target groups or end users
- Readiness should be demonstrated, taking into account detailed project preparation phase & up to 5 years of implementation
- Most projects build on pilots, predecessor initiatives. Best proposals *analyse* lessons learnt, which strategies/mechanisms worked well and why?
- The current and proposed climate friendly technology to be deployed should be adequately described. The latter's economic and technical viability in the country context should be addressed.



Importance of Financing Mechanisms and Business Models


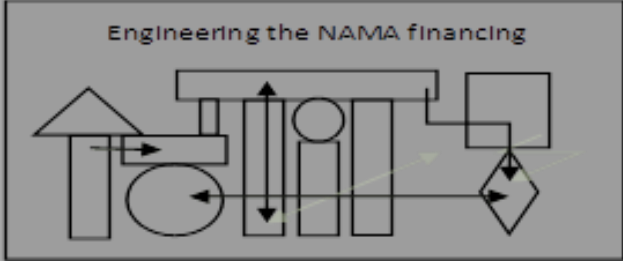



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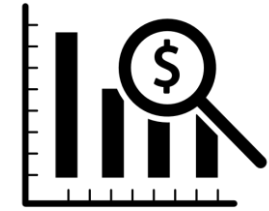


Range of financial instruments in NAMA Finance

 PUBLIC SECTOR SOURCING INSTRUMENTS	 PUBLIC SECTOR OPERATIONAL INSTRUMENTS	 PRIVATE SECTOR FINANCING INSTRUMENTS
Environmental Fiscal Reform	Grants	Equity
Loans	Purchase contracts for goods	First-loss (mezzanine, junior debt)
Soft loans	Purchase contracts for services	
Bonds	Additional payments (e.g. feed-in tariffs)	Loans
Dedicated credit lines	Public procurement guidelines	Bonds
Risk cover, guarantees	Tax credits, reductions/exemptions	Risk cover, guarantees
Grants	Variable or accelerated depreciations	Project Finance
	Removing subsidies	Grants
	Loan schemes	
	Guarantee schemes	



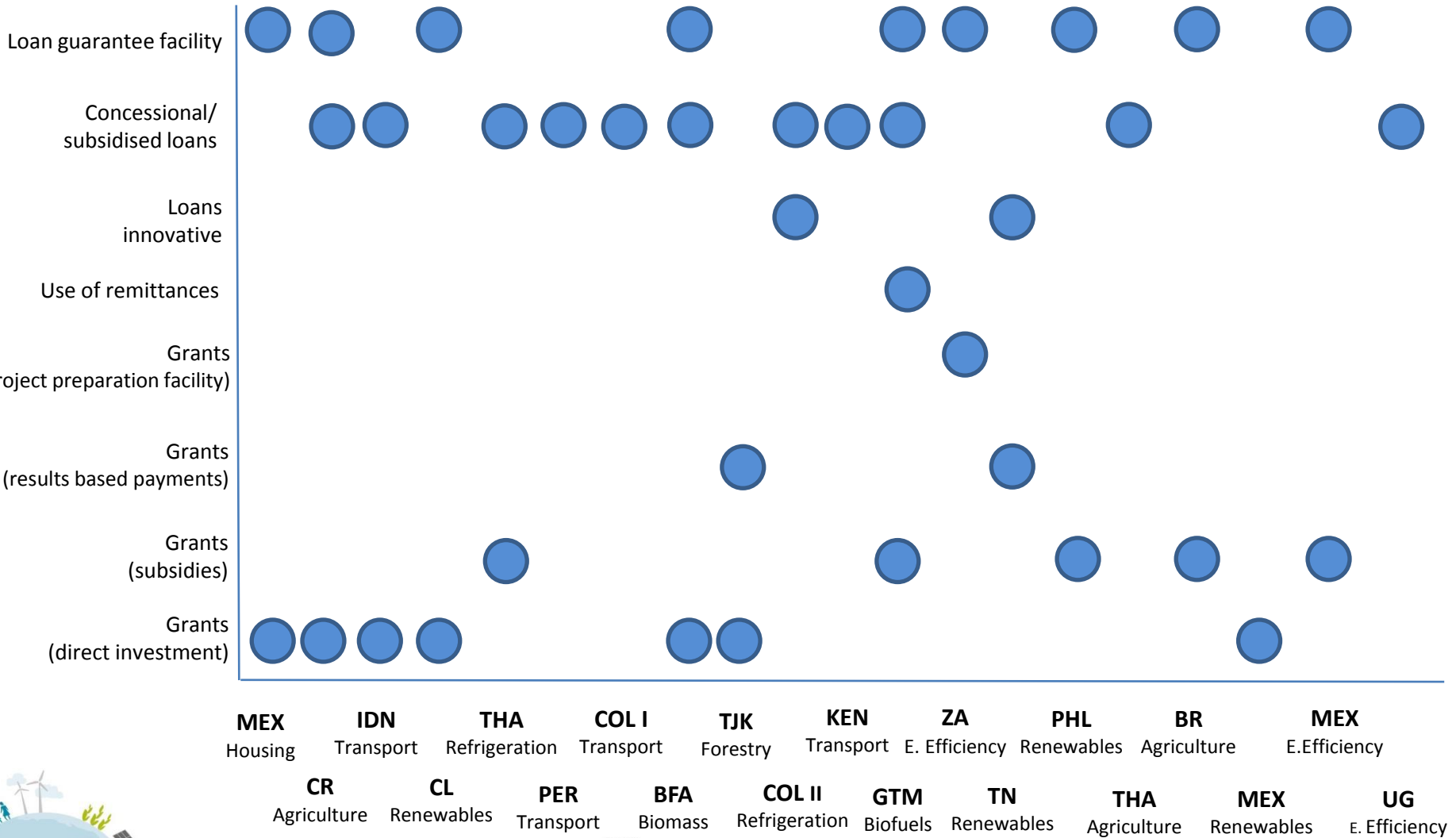
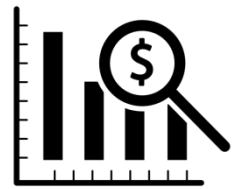
Financial Mechanisms



- A clear rationale for the selection of the instrument(s) should be presented
- The financial mechanism should be based on the business model and take into account an analysis of the (financial) market conditions
- Market distortions must be avoided or characterised/ mitigated
- Institutional arrangements for financial mechanisms are important
- The phase out concept and sustainability beyond the 5 year frame of the NSP applies also to the financial instruments



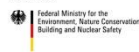
Financial mechanisms used in NAMA Facility



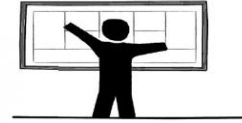
MEX Housing
IDN Transport
THA Refrigeration
COL I Transport
TJK Forestry
KEN Transport
ZA E. Efficiency
PHL Renewables
BR Agriculture
MEX E. Efficiency
CR Agriculture
CL Renewables
PER Transport
BFA Biomass
COL II Refrigeration
GTM Biofuels
TN Renewables
THA Agriculture
MEX Renewables
UG E. Efficiency

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Business models (1)



- Refers to *the economic viability of the project concept for the target group, end users or other market actors such as users/ buyers/ clients and/or producers or suppliers*
 - e.g. building owners (energy efficiency), energy consumers (renewables), households (improved cook stoves)
- A convincing business case addresses the following key issues:
 - Economic/other motivations of each group should be adequately described
 - Is the project rationale cost effective / profitable for users/suppliers?
 - Describe the incentives to change behaviour, investment/capital flows, taking into account market conditions, competitiveness and prices
 - Demonstrate using calculations and evidence on issues such as price differential between current and low carbon technologies, operating costs, investment appraisal (IRR, break even point, pay back times etc)
 - Affordability is key. After the transitional support of the NF, the new technology should be priced within the affordability of the target group, or a concept for sustainable financing of the uptake should be described



Business Models continued (2)



- Business cases built on capital cost/CAPEX subsidies are rarely considered viable, and typically offer a low leverage rate
 - NF support should only be a minor share of CAPEX
 - Avoid market distortions such as preferential treatment of one/few private actors/investors, with fair/transparent selection procedure
 - A capital subsidy model may not be financially sustainable nor scaleable, due to low transformational effect
- Demonstration projects are commonly proposed on basis of proof of concept, implying a self-sustaining business model thereafter
 - A plausible business case should be made regarding how the NSP will be replicable and scaleable given that the supported projects has received a high share of grant/subsidy in the absence of “real life” financing conditions
 - The higher the (capital) subsidy, the less likely that later market participants can emulate the model through conventional bank loans



Financial sustainability



- NAMA proponents have typically looked at *short term* instruments that can be funded by the NF e.g. interest rate subsidies
 - Better to look at more permanent financing sources to redirect financial flows, e.g. public sector budgets, taxes, guarantees
 - Also, contribution from private households and industry aids financial sustainability
 - NF funding needs to be temporary with a clear phase-in and phase-out concept
- *Note* : also strong role for policy reform and regulatory change, which can be funded through technical assistance



WEBINAR

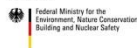


**For further detailed lessons learnt, view NAMA
Facility Webinar at www.nama-facility.org
Lessons learnt from the 4th Call of the NAMA Facility**



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- Q&A and Discussion



Q&A and Discussion



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