

NAMA Facility: Climate Finance in Action – Reflections from the NAMA Facility

Financing NAMAs and Mitigation Actions under NDCs

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Green financing gaps in green investments architecture

There appears to be no dearth of capital; the bottleneck is the lack of bankable projects that can meet risk-reward expectations of investors and unlock capital.

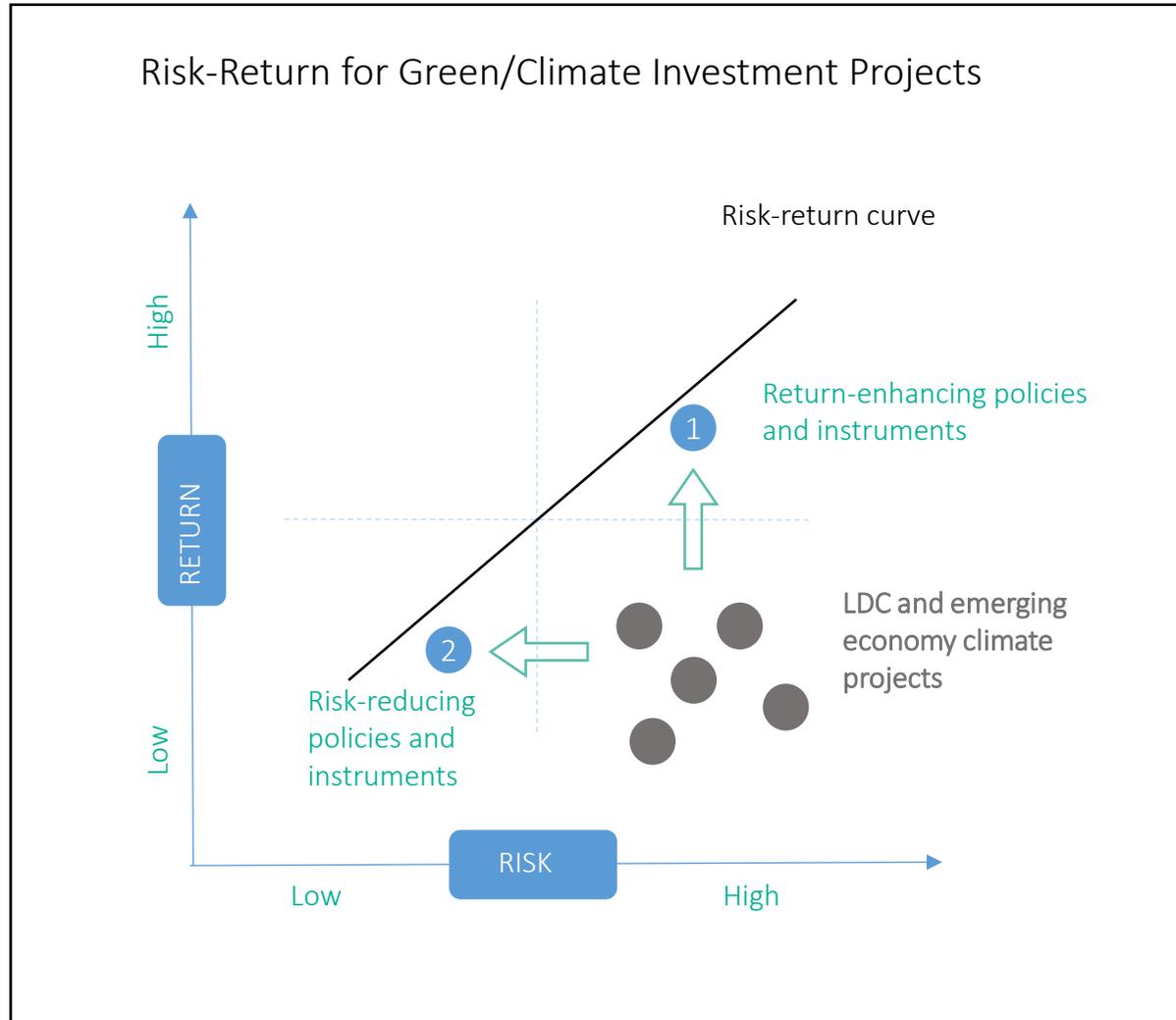


¹ OECD, 2013 - Assets under management for institutional investors – Investment funds, insurance companies, pension funds, sovereign wealth funds

² Source – Climate Policy Initiative

³ World Bank estimates

Meeting investors' expectations



- Commercial (banks, PE firms) and institutional (investment funds, insurance companies, pension funds, sovereign wealth funds) investors perceive green climate investment projects in emerging economies as high risk and low return
- **High Risk** due to large upfront capital is required to fund large infrastructure and development projects; more suitable for commercial investors looking for short-term high returns
- **Low return** once the projects are operational since the projects generate stable cash flows for long time horizons; more suitable for institutional investors who look for long-term stable cash flows

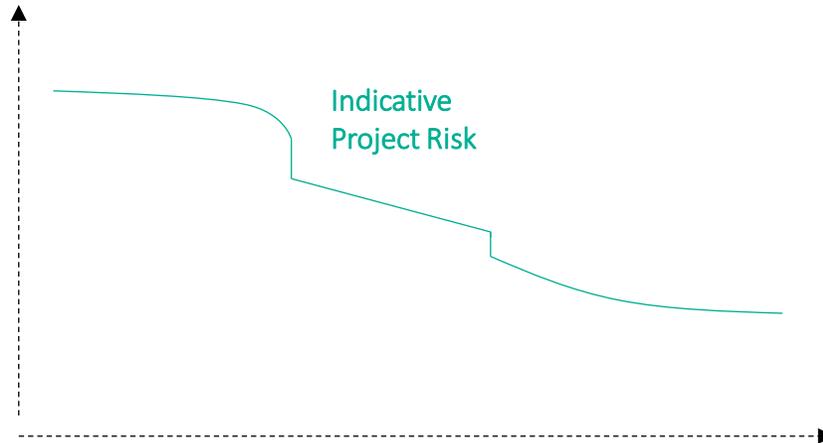
The most common risks in green investments

Building on researches*, GGGI has identified the most common risks faced by green investment projects in least developed countries and emerging economies.

Category of Risk	Common Examples
Political Risk	<ul style="list-style-type: none"> • Unstable political environment • National and local security concerns • Changes in national or local government support for climate projects
Regulatory Risk	<ul style="list-style-type: none"> • Policies that promote business-as-usual “brown” growth (e.g., fossil fuel subsidies, restrictive permitting and licensing) • Insufficient or contradictory enabling policies (e.g., feed-in-tariff, tax incentives) • Weak legal frameworks and limited enforcement of regulations • Regulatory changes that adversely impact projects • Frequent changes to regulation that create instability
Technology Risk	<ul style="list-style-type: none"> • Technology underperformance • Limited in-country expertise in construction of green growth projects • Limited in-country expertise in operations and maintenance of technologies • Inadequate supporting infrastructure (e.g., information and communications technology, transmission and distribution)
Credit Risk	<ul style="list-style-type: none"> • Counterparty creditworthiness, risk of default or non-payment • Counterparty expertise • Limited national and local experience with project management • End-user payment for public services
Capital Markets Risk	<ul style="list-style-type: none"> • Immature national and local financial markets • Limited market liquidity • Currency fluctuations and depreciation • High transaction costs

*UNEP 2016., Buchner et al. 2015., Frisari, Gianleo, Morgan Hervé-Mignucci, Valerio Micale, and Federico Mazza. “Risk Gaps: A Map of Risk Mitigation Instruments for Clean Investments.” Climate Policy Initiative (CPI), 2013., “Risk Mitigation Instruments in Infrastructure Gap Assessment.” World Economic Forum (WEF), 2016., Wuester, Henning, Joanne Jungmin Lee, and Aleksii Lumijarvi. “Unlocking Renewable Energy Investment: The Role of Risk Mitigation and Structured Finance.” International Renewable Energy Agency (IRENA), Abu Dhabi, United Arab Emirates, 2016.

Risks associated at each stage of project development



	Early stage	Bankable	Financed	Mature
Political Risk	High	Medium	Medium	Low
Regulatory Risk	High	Medium	Medium	Low
Technology risk	Medium	Medium	Medium	Low
Credit Risk	High	High	Medium	Low
Capital market Risk	Medium	High	Medium	Medium

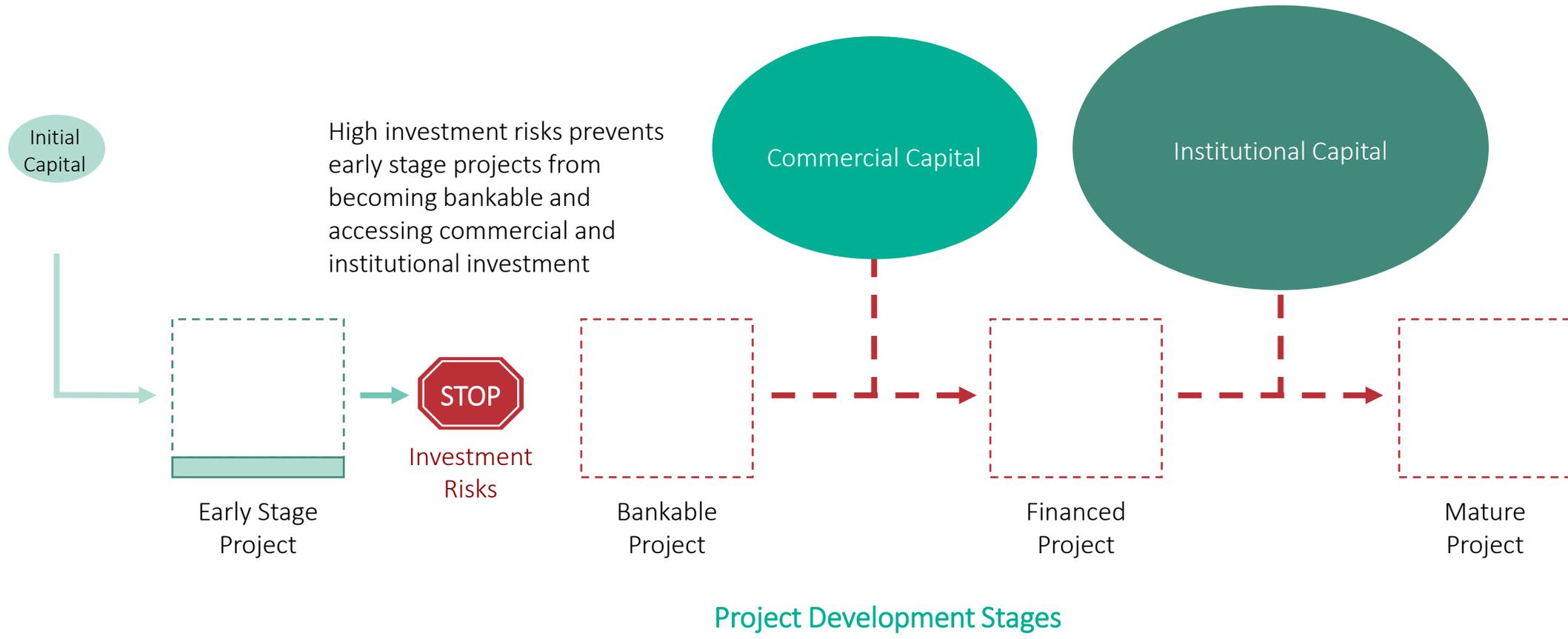
LEGEND

- High
- Medium
- Low

- As a project progresses, the associated risks and overall risk profile of the project changes
- Credit risks with counterparties at the highest level at the early stage of the project and it being reduced as project develops further
- Technology risk for example is medium throughout the first three stages due to uncertainty of the project performance, drops to low once the project matures

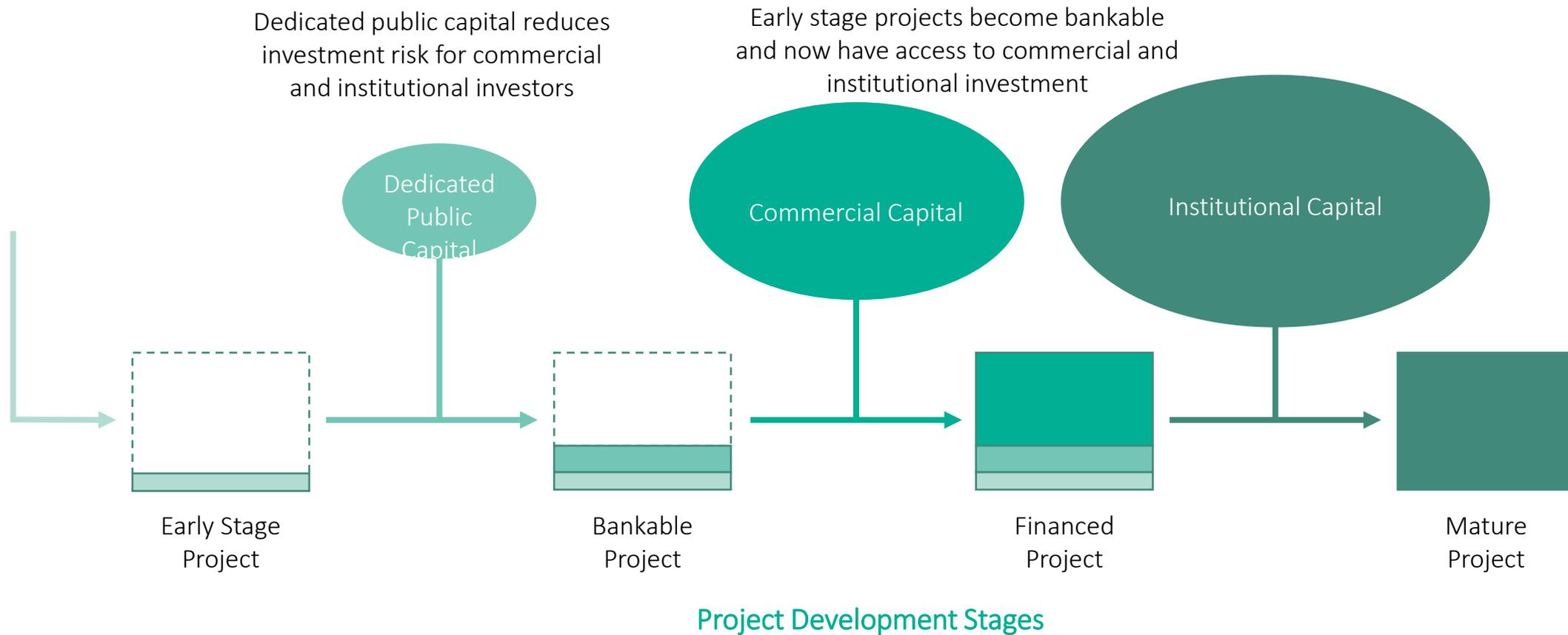
Investment risks in the project development process

At Early Stage, the projects encounter difficulty accessing the large pool of commercial capital because the high investment risks involved prevent projects from being bankable.



Risk Mitigation - Innovative financial mechanisms via instruments

Innovative financial mechanisms using financial instruments (including dedicated public capital) can provide risk mitigation that enables commercial capital to finance a bankable project by identifying and addressing risks at early stage.



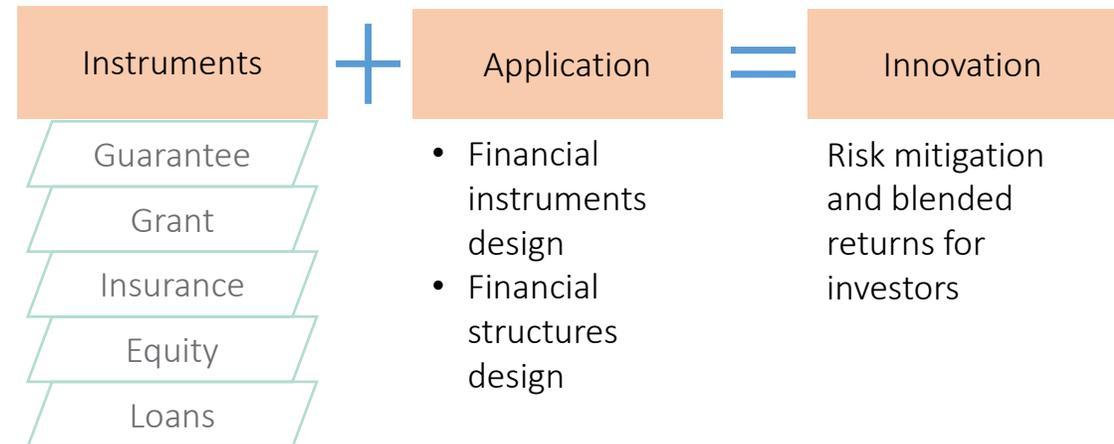
Risk Mitigation – Need for innovation in financial instruments

The more risks mitigated and the more capital that is made available, the more innovative is the structure.

Main risks for green projects

Technology Risk	Performance and replicability of technology, given the context and conditions in any country
Credit Risk	Counterparty risk - performance, financial strength and historical reputation/actions.
Capital Markets Risk	Under-developed markets with an absence of financial institutions and instruments to provide liquidity, support and transactions
Political and Policy Risk	Political decisions, conditions, events and changes in regulation, laws in a country

A combination of instruments and the way in which they are used to mitigate the relevant risks is what constitutes innovation.



Green Investment Services at GGGI: Closing the green financing gap



BANKABLE PROJECTS

Develop projects that are bankable based on Nationally Determined Contributions (NDC) assessments, and connect with suitable sources of finance

FINANCIAL INSTRUMENTS

Design innovative financial instruments to reduce risk and enable capital flows into the sector

NATIONAL FINANCING VEHICLES

Design national financing vehicles to support countries to accept and effectively use climate finance towards projects and programs

Diagnosis

Development, economic growth and sustainability diagnosis

Green impact assessment

Sectoral green impact assessment and prioritization

Macro economic impact assessment

Sector/Sub-sector strategy & planning

Policy and institutions analysis

Analysis of costs and investment requirements

Development of sectoral/sub-sectoral investment plans and selection

Design, financing & implementation

Design: Project and policy preparation

Financing: Identification of possible financial structure

Implementation

GGGI Value Chain

GGGI designs innovative financial instruments to reduce risk and enable capital flows into the sector

<p>INDIA</p> 	<p><i>Financial Instrument for Off-grid Energy (OGE) Sector</i></p>	<p>GGGI is designing an innovative financial instrument – a \$100 Million debt fund with a first loss capital pool reserve - to increase off-grid energy (OGE) access in India. The instrument will use concessional finance to fund the first loss pool reserve and provide risk coverage to financial institutions in India against lending to OGE sector companies</p>
<p>THAILAND</p> 	<p><i>Energy Efficiency Bankable Program</i></p>	<p>GGGI is designing an energy efficiency program that focuses on key barriers to energy efficiency. Removing these barriers is critical to enabling the industry to achieve its development targets and align with national green growth and climate resilient priorities. This can be achieved by developing an energy efficiency realization scheme through the introduction of a risk-sharing facility and guarantee fund/insurance facility with concessional finance. The estimated total investment is USD 50 million</p>
<p>RWANDA</p> 	<p><i>On-Grid Micro Hydro Facility Project</i></p>	<p>GGGI is investigating the potential market for hydro power to be generated around the secondary green cities locations and a possible risk reducing instrument via FONERWA. The work is built on GGGI's recent work around secondary green cities and is expected to encourage the private sector to develop potential hydro power sites</p>

National Financing Vehicles support countries with climate finance (national or international) for projects and programs

- **Capital raised** from multiple sources and direct the funds towards national priority activities (e.g. INDCs)
- **Collection** of funds as per national regulations & legal statutes
- **Structuring and blending** of capital from private, public, multilateral, and bilateral sources to provide maximum leverage
- **Disbursement** to sound projects and program which are aligned with country's climate priorities
- **Managerial Accounting** to ensure effective and efficient use of capital and to ensure that there is transparency and accountability in processes
- **Provides Policy guidance** for national governments to create enabling environment for climate projects and program

Vehicles under development	Investment (USD)		Country
Green Credit Fund	50 million		Mongolia
Operationalization of FONERWA	25 million		Rwanda
REDD+ Financial Mechanism	170 million		Colombia
National Green Energy Fund	10 million		Vanuatu
Jordan Environmental Fund	30 million		Jordan

Thank you

