NAMA Facility Webinar: Financial Mechanisms and the NAMA Support Project

21 November 2018

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The NAMA Facility Webinar Team

From left to right: Natascha, Zac, Janka and Jose
Technical Overview

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- NAMA Facility Introduction
- Financial Mechanisms Overview
- NAMA Support Projects’ Financial Mechanisms
- Q&A I
- Credit Enhancements: Guarantee Fund
- Financial Mechanism Design: NAMA Facility Expectations
- Q&A II
- COP24 and the 6th Call
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NAMA Facility Introduction (I)

Aim:
To support developing countries and emerging economies in implementing ambitious NAMAs. NAMAs can function as an important vehicle to implement nationally determined contributions (NDCs) under the Paris Agreement.

Who we are:
• A multi-donor fund
• Jointly established by Germany (BMU) and UK (BEIS) in 2013
• Denmark (EFKM, MFA) and the European Commission joined in 2015 as additional donors
• Total funding made available through the NAMA Facility since its inception: approx. EUR 340 m.
• Secretariat (Technical Support Unit) based in Berlin
NAMA Facility Introduction (II)

What we support

- NAMA Support Projects (NSP) as the most ambitious part of the NAMA. NSPs are selected in annual Calls for NSPs
- Provide funding for a combination of financial and technical measures

NSP features:

- In five Calls, 29 NSPs have been pre-selected
- 3-5 years for implementation
- EUR 5-20 million in NAMA Facility funding
- No regional or sectoral focus

Key requirements for project selection

- Implementation readiness
- Mitigation potential
- Transformational change
NAMA Facility Introduction (III): Portfolio Map
## NAMA Facility Introduction (IV)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Country</th>
<th>NAMA Support Project</th>
<th>Funding (Mio €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Efficiency</td>
<td>Brazil</td>
<td>Transformative Investment for Energy Efficiency in Industries (TI4E)</td>
<td>In preparation</td>
</tr>
<tr>
<td></td>
<td>Chile</td>
<td>Self-Supply Renewable Energy</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Colombia</td>
<td>NAMA for the Domestic Refrigeration Sector</td>
<td>In preparation</td>
</tr>
<tr>
<td></td>
<td>Guatemala</td>
<td>Efficient Use of Fuel and Alternative Fuels in Indigenous and Rural Communities</td>
<td>In preparation</td>
</tr>
<tr>
<td>Agricultural</td>
<td>Mexico</td>
<td>Energy Efficiency in SMEs as a Contribution to a Low-Carbon Economy</td>
<td>In preparation</td>
</tr>
<tr>
<td></td>
<td>Mexico</td>
<td>Implementation of the New Housing NAMA</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>South Africa</td>
<td>Energy Efficiency in Public Buildings and Infrastructure Program</td>
<td>18.5</td>
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<tr>
<td></td>
<td>Thailand</td>
<td>Refrigeration and Air Conditioning NAMA</td>
<td>14.7</td>
</tr>
<tr>
<td></td>
<td>Uganda</td>
<td>Revolving Loan Fund for the Uptake of Improved Institutional Cookstoves in Schools</td>
<td>In preparation</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Brazil</td>
<td>Resource Efficiency Programme for Brazil’s Beef Supply Chain</td>
<td>In preparation</td>
</tr>
<tr>
<td></td>
<td>Costa Rica</td>
<td>Low-Carbon Coffee NAMA</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Palestine</td>
<td>Low-Carbon Olive Value Chain Development</td>
<td>In preparation</td>
</tr>
<tr>
<td></td>
<td>Peru</td>
<td>NAMA Coffee</td>
<td>In preparation</td>
</tr>
<tr>
<td></td>
<td>Thailand</td>
<td>Thai Rice NAMA</td>
<td>14.9</td>
</tr>
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### NAMA Facility Introduction (V)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Country</th>
<th>NAMA Support Project</th>
<th>Funding (Mio €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>Cabo Verde</td>
<td>Promotion of Electric Vehicles</td>
<td>In preparation</td>
</tr>
<tr>
<td></td>
<td>Colombia</td>
<td>Building a Regulatory and Market-Enabling Environment to Develop Electricity-Based Mobility</td>
<td>In preparation</td>
</tr>
<tr>
<td></td>
<td>Colombia</td>
<td>Transit-Oriented Development NAMA</td>
<td>In preparation</td>
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<tr>
<td></td>
<td>Kenya</td>
<td>Mass Rapid Transport System for Nairobi</td>
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<tr>
<td>Renewable Energy</td>
<td>Indonesia</td>
<td>Sustainable Urban Transport Program</td>
<td>In preparation</td>
</tr>
<tr>
<td></td>
<td>Peru</td>
<td>TRANSPeru – Sustainable Urban Transport NAMA</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>The Gambia</td>
<td>Investing in Grid-Connected Solar PV</td>
<td>In preparation</td>
</tr>
<tr>
<td>Waste</td>
<td>Mexico</td>
<td>NAMA for Sugar Mills</td>
<td>In preparation</td>
</tr>
<tr>
<td></td>
<td>Philippines</td>
<td>Enabling Distributed Solar Power</td>
<td>In preparation</td>
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<tr>
<td></td>
<td>Tunisia</td>
<td>Scaling-Up Renewable Energy and Energy Efficiency in the Building Sector</td>
<td>In preparation</td>
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<tr>
<td></td>
<td>China</td>
<td>Integrated Waste Management NAMA</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>Waste Solutions for a Circular Economy</td>
<td>In preparation</td>
</tr>
<tr>
<td></td>
<td>Mozambique</td>
<td>Sustainable Waste Management</td>
<td>In preparation</td>
</tr>
</tbody>
</table>
NAMA Facility Introduction (VI)

The NSP Selection Cycle
The NAMA Facility’s 5th Call

- UK, Germany and European Commission have earmarked up to 85 million Euros for the 5th Call
- Launched in November 2017 at the COP23 in Bonn – Outlines were submitted until 15 March 2018
- High number of submissions in the 5th Call: A total of 76 NAMA Support Projects (NSPs) were proposed to the NAMA Facility
- Donors have selected seven NSPs to enter the DPP
- Across the 76 submitted Outlines, many interesting financial mechanism were presented

Brazil - Transformative Investment for Energy Efficiency in Industries (TI4E)
Cabo Verde - Promotion of Electric Vehicles
Colombia - Building a Regulatory and Market-Enabling Environment to Develop Electricity-Based Mobility
India - Waste Solutions for a Circular Economy
Mozambique - Sustainable Waste Management
Palestine - Low-Carbon Olive Value Chain Development
Peru – NAMA Coffee
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Financial Mechanisms Overview (I): An Introduction

- How do regulatory frameworks influence the financial profile of mitigation projects and which mechanisms can be used to enable investments, particularly from the private sector?

- Public support mechanisms exist to influence the financial profile of mitigation projects, leverage additional public and private investment, spark transformational change across a sector and overcome the dominating barriers that prevent or slow desired projects from realization.

- The end-goal of any mechanism is to maximize the impact and effect of climate finance.

- This section of the Webinar will:
  - Establish the relationship between barrier identification and mechanism design.
  - Introduce how the most established financial mechanisms work and how they impact the financial profile of mitigation projects.
  - Introduce criteria to evaluate the efficiency and effectiveness of a chosen instrument.
Financial Mechanisms Overview (II): Barriers to Investment in Mitigation Projects

- The starting point for any discussion on financial mechanisms are the barriers that prevent project materialization and investment in mitigation activities.

- Key financial barriers for mitigation projects are:
  - High (perceived) risk
  - Limited access to capital
  - Limited financial viability

- If these barriers are the major factor preventing the project from happening – and cannot be removed through policy measures – then support through financial mechanisms is appropriate.

Other categorisations are equally possible and further barriers are also relevant: experience gap, limited institutional experience, limited technical knowledge, missing awareness, market immaturity and regulatory constraints.
Financial Mechanisms Overview (III): Barriers to Investment in Mitigation Projects

- Risk (real or perceived) is the **most critical element** that prevents mitigation projects from realization: it reduces the investors base and/or increases the financing costs.

- Risk is a **partial driver for the other barriers:**

  - Risk is priced on perceived risk, not necessarily on actual risk. The investor determines this cost by adding a risk margin to his refinancing costs according to his return expectations.
  
  - For technologies and markets with a limited track record, the perceived risk might actually exceed the actual risk.

  ![Diagram showing the interrelation between High (perceived) risk, Limited access to capital, Limited financial viability, Reduction of investor base, and Higher financing costs.](source: adapted from Frankfurt School – UNEP Collaborating Centre)
Financial Mechanisms Overview (IV): Barriers to Investment in Mitigation Projects

- Perceived risks can impact overall financing costs: **higher risks equal higher financing costs**.
- Higher financing costs **reduces the financial viability** of mitigation projects or **cancels out any supply** of financing.

Source: adapted from Frankfurt School – UNEP Collaborating Centre
Understanding and identifying the barriers that prevent mitigation projects from realization is the starting point for financial mechanism design.
Public finance mechanisms aim to address and overcome the financial barriers:

- **Risk mitigation instruments** can address high (perceived) risk.
- **Financing & refinancing instruments** can supply additional long-term capital.
- **Grant instruments** can address gaps in the financial viability.

Financial Mechanisms Overview (V): A Tool to Overcome Barriers
The key is to choose the appropriate financial mechanism that efficiently and effectively tackles, removes and overcomes the identified barrier.
Financial Mechanisms Overview (VI): Risk Mitigation Instruments

- Risk mitigation instruments address the barrier of high (perceived) risk.

- **Main instruments:**
  - **Political & regulatory risk guarantees:** cover losses caused by specific political events and regulatory changes.
  - **Loan (credit) guarantees:** cover losses in the event of a debt service default regardless of the cause of default; Full Credit Guarantees and Partial Credit Guarantees.
Financial Mechanisms Overview (VII): Risk Mitigation Instruments

Instrument impacts:
1. Increased debt
2. Extended loan maturity
3. Reduced interest rate
4. Reduced return expectation

Risk mitigation instruments positively influence i) financing costs (for both debt and equity), ii) loan maturities and iii) the size of the debt component.

Source: adapted from Frankfurt School – UNEP Collaborating Centre
Financial Mechanisms Overview (VIII): Financing and Refinancing Instruments

- Financing and refinancing instruments address the barrier of limited access to capital.

- **Main instruments:**
  - **Direct financing and co-investments:** direct loans, concessional loans; equity, mezzanine capital, junior or senior debt.
  - **Refinancing** (case by case & on-lending): lend through established financial intermediaries.

- Further outcomes: indirect risk mitigation effect and improved financial viability (due to more attractive interest rates).

- This type of instruments are often accompanied with technical assistance to provide support with project origination.
Financial Mechanisms Overview (IX): Grant Instruments

- Grants **address the limited** financial viability of projects by fulfilling missing investments and/or cash flows.

- **Main instruments:**
  - **Upfront grants**
  - **Results-based grants**

- Upfront grants reduce the required investment capital and capital exposure of project developers. Also relevant during the early stage of R&D.

- Results-based grants provide payments only if previously agreed conditions and milestones have been met.
Financial Mechanisms Overview (X): Instrument Combination

- Support instruments can and should be combined if they address various barriers.

- The combination of support instruments can make almost every project financially ready.

- There are two key criteria to consider when determining the appropriate application of public finance instruments: the purpose of the instrument and its efficiency:
  - Purpose of the instrument: the design of each financial instrument needs to be tailored to the projects it serves.
  - Efficiency: compare alternatives; benefits should exceed costs; desired impact at the achieved lowest cost.

- The combination of instruments should be done on a case by case basis: no one-size-fits all.
Almost every project can be made financially ready through instrument combination, however a sound use of resources should be ensured.
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# NAMA Support Projects’ Financial Mechanisms (I): An Overview

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<thead>
<tr>
<th>Sector</th>
<th>Country</th>
<th>NAMA Support Project</th>
<th>Financial Support Mechanism</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Energy efficiency</strong></td>
<td>Mexico</td>
<td>Sustainable housing</td>
<td></td>
<td>(овал) partial credit guarantee for housing developers</td>
</tr>
<tr>
<td></td>
<td>Thailand</td>
<td>Refrigeration and air conditioning</td>
<td></td>
<td>(овал) revolving fund for end-consumer finance</td>
</tr>
<tr>
<td></td>
<td>Colombia</td>
<td>Domestic refrigeration</td>
<td></td>
<td>(oval) scrapping bonus for old fridges</td>
</tr>
<tr>
<td></td>
<td>South Africa</td>
<td>Energy efficiency in public buildings and infrastructure</td>
<td></td>
<td>(овал) partial credit guarantee for ESCOs</td>
</tr>
<tr>
<td><strong>Agriculture</strong></td>
<td>Costa Rica</td>
<td>Low-carbon coffee</td>
<td></td>
<td>(oval) results-based finance for additional trees</td>
</tr>
<tr>
<td></td>
<td>Thailand</td>
<td>Rice</td>
<td></td>
<td>(овал) revolving fund for rice farmers; farmers gain ownership in the fund</td>
</tr>
<tr>
<td><strong>Transport</strong></td>
<td>Indonesia</td>
<td>Sustainable urban transport</td>
<td></td>
<td>(овал) 20% investment grants for local public transport infrastructure projects</td>
</tr>
<tr>
<td></td>
<td>Colombia</td>
<td>Transit oriented development</td>
<td></td>
<td>(овал) concessional loans for TOD infrastructure</td>
</tr>
<tr>
<td></td>
<td>Peru</td>
<td>Sustainable urban transport</td>
<td></td>
<td>(овал) policy-based lending</td>
</tr>
<tr>
<td><strong>Renewable energy</strong></td>
<td>Chile</td>
<td>Self-supply with renewable energy</td>
<td></td>
<td>(oval) partial credit guarantee for SMEs</td>
</tr>
<tr>
<td><strong>Waste</strong></td>
<td>China</td>
<td>Integrated waste management</td>
<td></td>
<td>Investments are completely financed by the Chinese government</td>
</tr>
</tbody>
</table>

- **Loan Guarantee Facility**
- **Concessional Loans**
- **Other**
- **Grants**
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Credit Enhancements: Guarantee Fund (I)

- Dedicated sum of funds used to cover any losses incurred as the result of a default by a borrower

- Aim:
  - Transfer risk away from the lender and onto the fund
  - Leverage a large multiple of funding beyond the amount contained in the guarantee fund

- Result:
  - Catalyzes investments: Perceived risk is reduced, enabling additional lending, especially for investment in uncertain or untested markets – accelerated impact
  - Supports future sustainability: The institutional knowledge and experience gained can make the process become self-perpetuating in the future – eventually eliminating the need for a guarantee fund
  - Provides demonstration effects: Commercial viability can be proven
  - Allows for greater access to capital at more affordable interest rates for borrowers
Credit Enhancements: Guarantee Fund (II)

- Guarantee funds can be especially useful in energy-related projects
  - And especially, as in this case, energy efficiency investments
- NAMA Facility NSP in South Africa – Energy Efficiency in Public Buildings and Infrastructure Programme (EEPBIP)
  - Perceived liquidity and credit risk of public entities in South Africa
  - Limited experience and technical understanding in financing projects that are focused on energy savings-based lending models
Credit Enhancements: Guarantee Fund (III)

01. Public entity approaches EEPSO with a project idea

02. Experts of EEPSO give advice

03. High-level energy audit is conducted by public entity

04. Prequalification of ESCOs by National Treasury

05. Expression of interest from ESCOs

06. Three ESCOs are shortlisted

07. ESCOs apply for loan from IDC

08. Municipalities apply for extra grant

09. ESCOs prepare detailed project plan

10. Selection of one provider ESCO

11. ESCO signs loan agreement

12. Public entity signs contract with ESCO

13. Funds are disbursed by IDC

14. Start of project implementation

15. Public entity pays ESCO from energy savings

16. ESCO pays back loan and earns profit

17. CO2

Energy and GHG savings measured and verified
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Financial Mechanism Design: NAMA Facility Expectations (I)

The mission of the NAMA Facility is to:

- Financing innovative projects that tackle specific local challenges for cutting emissions in sectors and countries with strong potential for being scaled up, replicated and able to influence wider sectoral changes.

- Unlocking investment opportunities by providing tailor-made climate finance to fund projects with potential to:
  
  i. Strengthen country ownership to deliver low carbon activities and aligning them closely with country’s NDC and other relevant climate and development plans;

  ii. Pilot financing models to overcome market barriers to low-carbon development;

  iii. Use innovative technologies and approaches that need donor financing to deliver on country plans; and

  iv. Boost participation of the private sector to deliver low carbon activities.
Financial Mechanism Design: NAMA Facility Expectations (II) – What Do We Look At?

- **Relevance and suitability**: Are relevant barriers for investments reduced/removed with the NSP support? Are proposed financial mechanism(s) suitable to tackle the barriers?
  - => general country and sector context (e.g. (dis-) incentives from regulation, taxes, etc.)
  - => does the business model become viable for the target group?

- **Scale and permanence**: Can the financial mechanism (together with TA) lead to a scaling up beyond the NSP? Are financial flows/investment decisions permanently redirected/reversed beyond the NSP support?
  - => relevant barriers are completely eliminated
  - => viable concept for phase-out of NAMA Facility support / phase-in of other funding sources
  - => long-term or permanent financing sources / incentives (e.g. fees, taxes)
Financial Mechanism Design: NAMA Facility Expectations (III) – What Do We Look At?

- **Financial Leverage**: Can the financial mechanism mobilise additional private and public finance for investments (during the NSP implementation)? Does the overall budget and financing structure optimise the co-funding potential?
  
  => from local / national and international sources (contributions from target group / beneficiaries)

  => level of securing co-funding/contributions

  => level of concessionality

- **Mitigation impact**: How climate-relevant is the investment? How effective and efficient is the financial mechanism to achieve GHG mitigation?

  => cost effectiveness (tCO$_2$e per EUR of NF funding) and FC - TC ratio

  => support for incremental costs vs. BAU replacement costs

  => consideration of rebound effects
Financial Mechanism Design: NAMA Facility Expectations (IV) – What Do We Look At?

- **Feasibility** and **readiness** of the financial mechanism
  
  => is the financial mechanism fully operational within year 1?

- Integration of **lessons learnt** from other programmes, piloting, etc.
  
  => demonstrating how concept is further evolving based on experience

- **Additionality** of the financial mechanism
  
  => includes delineation to existing initiatives, requires sound market analysis

- Avoidance of unintended **market distortions** and **crowding out** of private capital

- **Public benefit purpose**: Does the NAMA Facility funding serve the public benefit purpose of sustainable development?
  
  => primary objective of support is to create benefits for the general public and not to serve commercial purposes
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COP24 and the 6th Call (I): A Look Ahead

- Join us at the COP 24 in Katowice, Poland
- 10 December from 7-8pm NAMA Facility side event “Inspiring Ambitious Climate Action”
  - Hosted in EU Pavilion
  - In attendance: delegations from NSPs, Donor representatives and some members of the TSU
  - Topics covered: presentations from NSPs, along with some announcements
- The NAMA Facility’s 6th Call
  - More details soon
  - Sign up for our newsletter for the latest updates and notifications, as we post them
- Stay tuned: Next webinars will be held in January and February
Thank you for your attention!

For more informational about the NAMA Facility, visit us at:
www.nama-facility.org
or contact us at:
contact@nama-facility.org