

Financing NAMA Activities

– how to prepare a “bankable” NAMA Proposal

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Overview

I Introduction to the NAMA Facility

II NAMA Facility portfolio

III Key success factors for “bankable” NAMA proposals

IV Importance of financial instruments and business models

Part I: Introduction to the NAMA Facility

Introduction - the NAMA Facility (1)

Aim

Support developing countries and emerging economies in implementing ambitious actions to mitigate greenhouse gas emissions (Nationally Appropriate Mitigation Actions, NAMAs). NAMAs can function as an important building block to implement nationally determined contributions (NDCs) under the Paris Agreement.

Facts about the NAMA Facility

- Multi-donor funds established by Germany (BMUB) 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: ~ EUR 262 m.
- In 4 Calls, 21 projects have been selected so far for funding

Introduction - the NAMA Facility (2)

What the NAMA Facility does

- Implement NAMA Support Projects (NSP) as the most ambitious part of the NAMA
- Provide funding for a combination of financial and technical measures
- selects NSPs in annual bidding round (Calls)

Key requirements for project selection

- Implementation readiness
- Mitigation potential
- Transformational change

Overarching sector-wide NAMA

**NAMA
Support
Project
(NSP)**

Introduction (3) – NAMA Facility means of support

Outcome of NAMA Support Project

GHG mitigation investments

Outputs

Financial Component, implementation of financial instruments to promote investment e.g.:

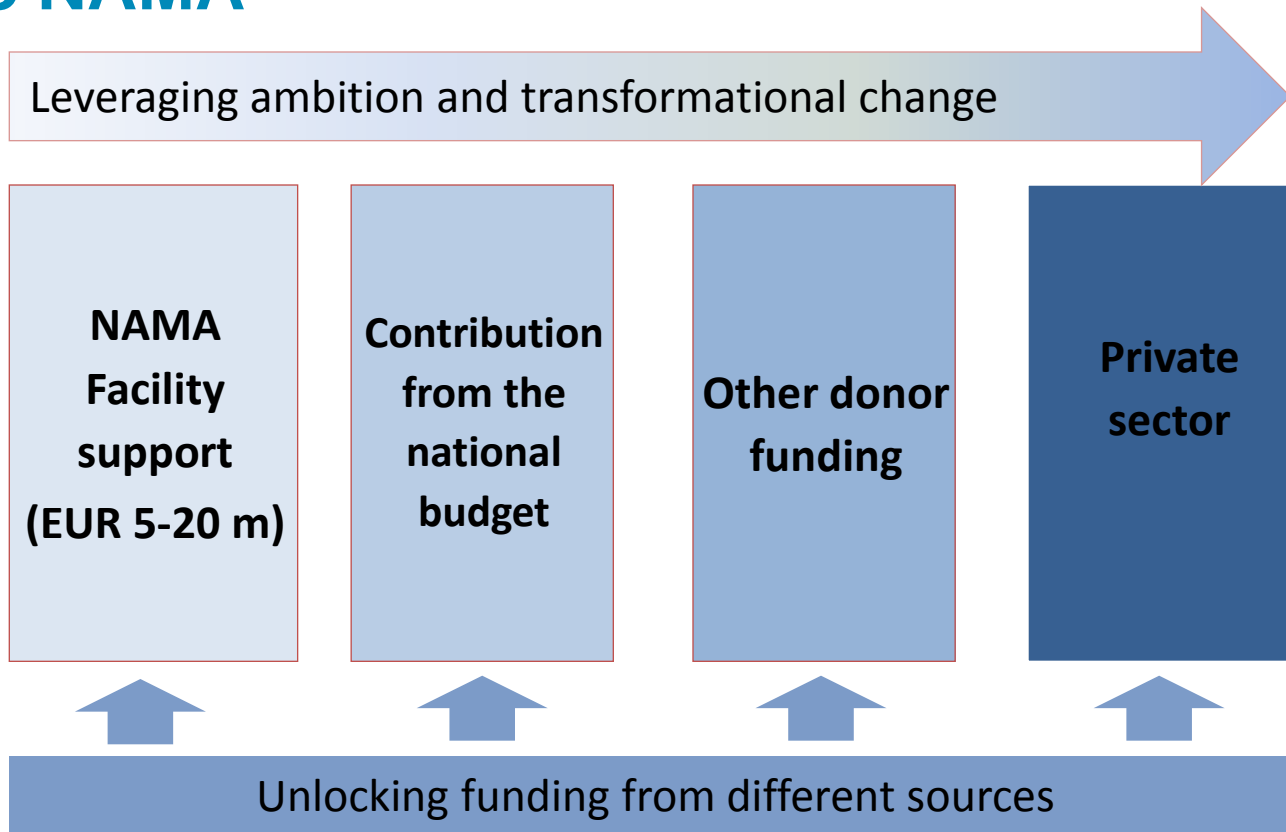
- Investment grants
- Concessional loans
- Guarantee funds

Technical Component

e.g.:

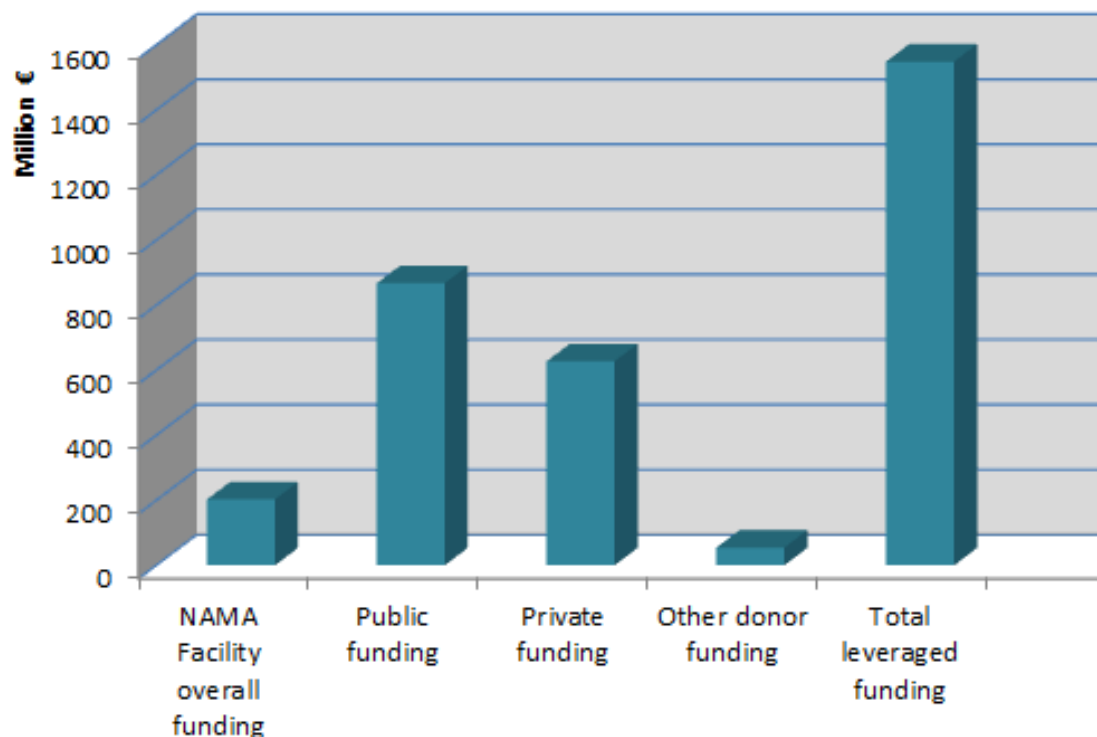
- Political framework conditions
- Knowledge development
- Capacity development

Introduction (4) - Financing concept for a sector-wide NAMA



Introduction (5) – leverage as a key factor

Targeted leverage ratio by the NAMA Facility portfolio (Call 1-3) by 2022 is 7.6



NAMA Facility funding: € 1
Public funding: € 4.3
Private funding: € 3.1
Other donor funding: € 0.2

Average leverage ratio: 7.6:1

Introduction (6) – Does the NAMA Facility assist to prepare a bankable NAMA Proposal?

No

We fund the **implementation** of NAMAs which are ambitious and feasible

Yes

Our first 3 Calls have illustrated that NAMA Proposals lack maturity.

We have thus amended our Call system and now provide more funding for in-depth project development to fill this gap.

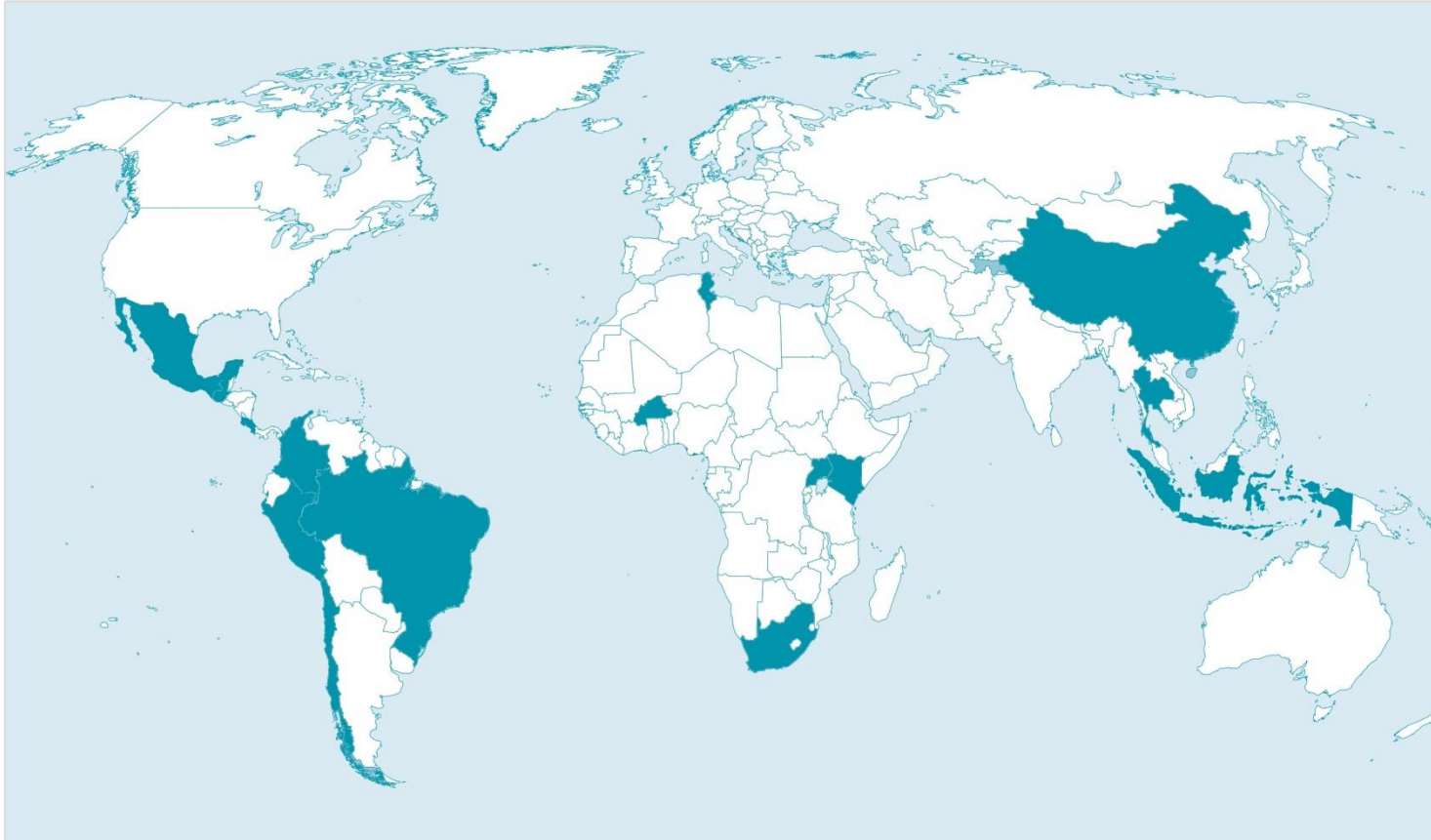
Thus, in the 4th Call, 7 NSP outlines have been selected and will receive funding for project development for a 6 – 18 months period.

Yes

We continuously provide lessons learnt based on our unique portfolio of NAMA implementation and insights to project development, please follow our webinars!

Part II: The NAMA Facility portfolio

NAMA Facility portfolio (1)



Africa: Burkina Faso, Kenya, South Africa, Tunisia, Uganda

LATAM: Brazil, Chile, Colombia, Costa Rica, Guatemala, Mexico, Peru

Asia: China, Indonesia, Philippines, Tajikistan, Thailand

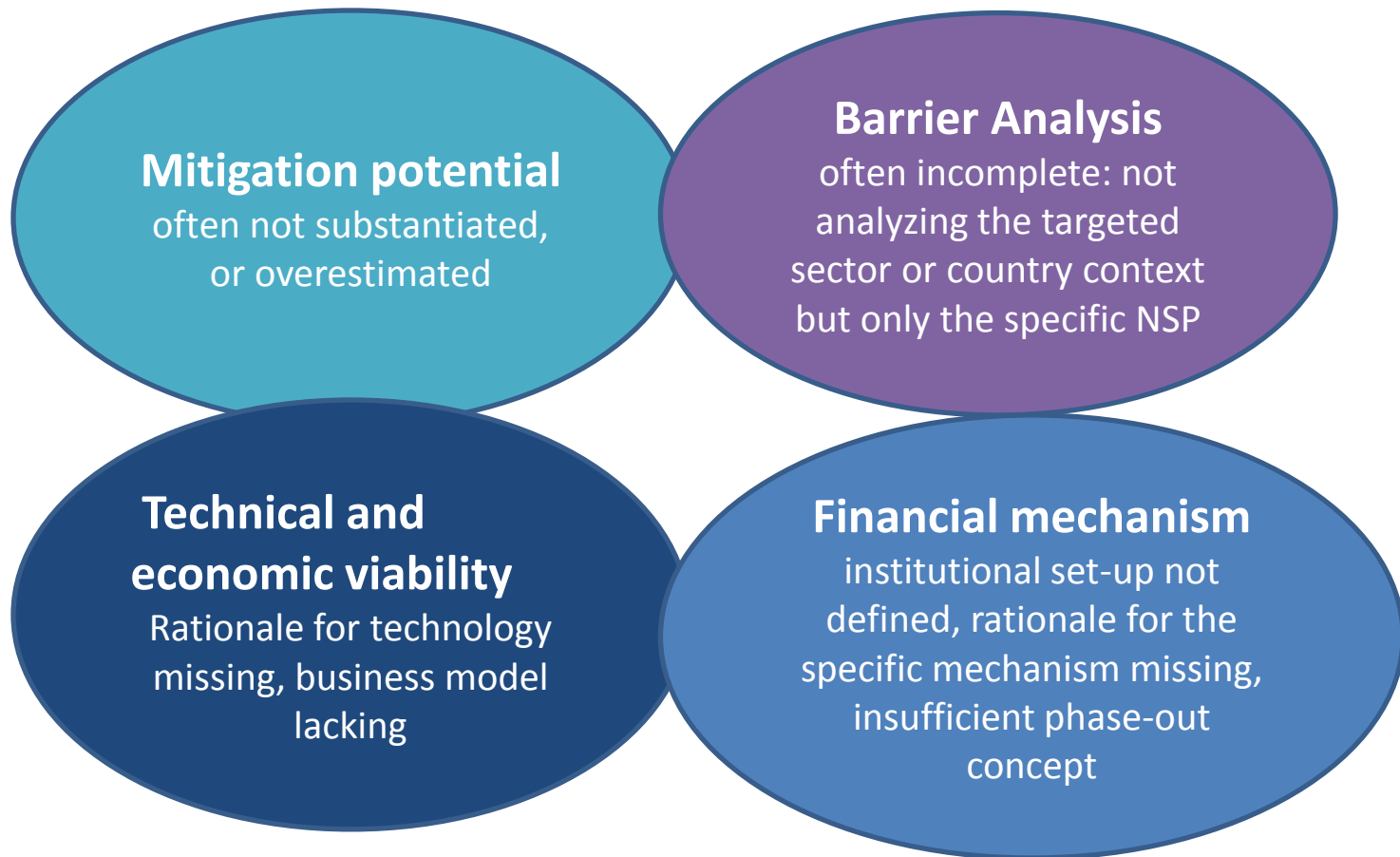
NAMA Facility portfolio (2)

Sector	Country	NAMA Support Project	Funding volume (Mio €)
Energy efficiency	Mexico	sustainable housing	14
	Thailand	refrigeration and air conditioning	15
	Colombia	domestic refrigeration	9
	Guatemala	efficient use of fuel in households in rural communities	11
	South Africa	energy efficiency in public buildings	19
	Mexico	energy efficiency in SMEs as a contribution to a low carbon economy in Mexico	DPP
	Uganda	revolving loan fund for the uptake of improved institutional cook stoves (IICS) in Ugandan schools	DPP
Agriculture	Costa Rica	low-carbon coffee NAMA	7
	Brazil	resource efficiency program for Brazil's beef supply chain	DPP
	Thailand	Thai rice NAMA	DPP
Transport	Indonesia	sustainable urban transport	14
	Colombia	transit oriented development NAMA	15
	Peru	sustainable urban transport	9
	Kenya	mass rapid transport system for Nairobi	20
Renewable energy	Chile	self-supply with renewable energy	15
	Burkina Faso	biomass energy	14
	Mexico	NAMA for sugar mills	DPP
	Tunisia	scaling-up renewable energy and energy efficiency in the Tunisian building sector	DPP
	Philippines	enabling distributed solar power in the Philippines	DPP
Forestry	Tajikistan	sustainable forestry	13
Waste	China	integrated waste management	8

Part III:

Key success factors for “bankable” NAMA proposals

Key aspects for successful NSP proposals - relevance in terms of “bankability”



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 up to €20m is ambitious, and requires significant leveraging

Regulation influences markets – NAMAs should re-orient national policies to promote the low carbon path

Ambition (1)

Successful projects clearly demonstrate strong government commitment and “embeddedness”:

- Describe contribution to implementation of NDCs
- High significance of the sector in terms of GHG emissions e.g. sector contributes to > 5% of national emissions

Transformational change : demonstration of willingness to effect an irreversible change towards a low carbon pathway

- Policy reforms and fiscal regulatory instruments (including relevant enforcement measures) such as limitations/bans/phase-outs, fees & other economic instruments
- Describe any “windows of opportunity” which make structural change timely
- Must be beyond a conventional project scenario

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
- 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 an adequately defined BAU scenario and using relevant methodologies
- Indirect mitigation potential is often missing in proposals
- GHG reductions in € per tCO₂e should be cost effective

Feasibility

Importance of plausible project rationale and scope

- comprehensive and substantiated barrier analysis, e.g. how specifically does the NSP overcome financial barriers
- Clearly defined and described target groups / end users

Readiness should be demonstrated, taking into account the detailed project preparation phase and up to 5 years of NSP implementation


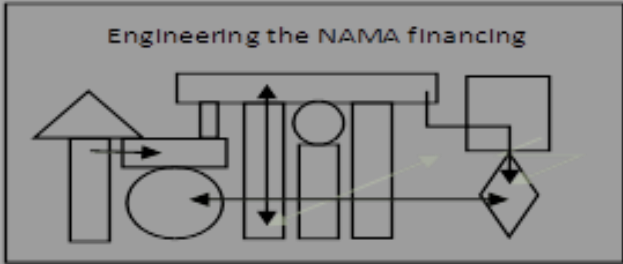

Most projects build on pilots, predecessor initiatives. The best proposals *analyse* lessons learnt, which strategies/mechanisms worked well and why?

The current and proposed climate friendly technology to be deployed should be adequately described

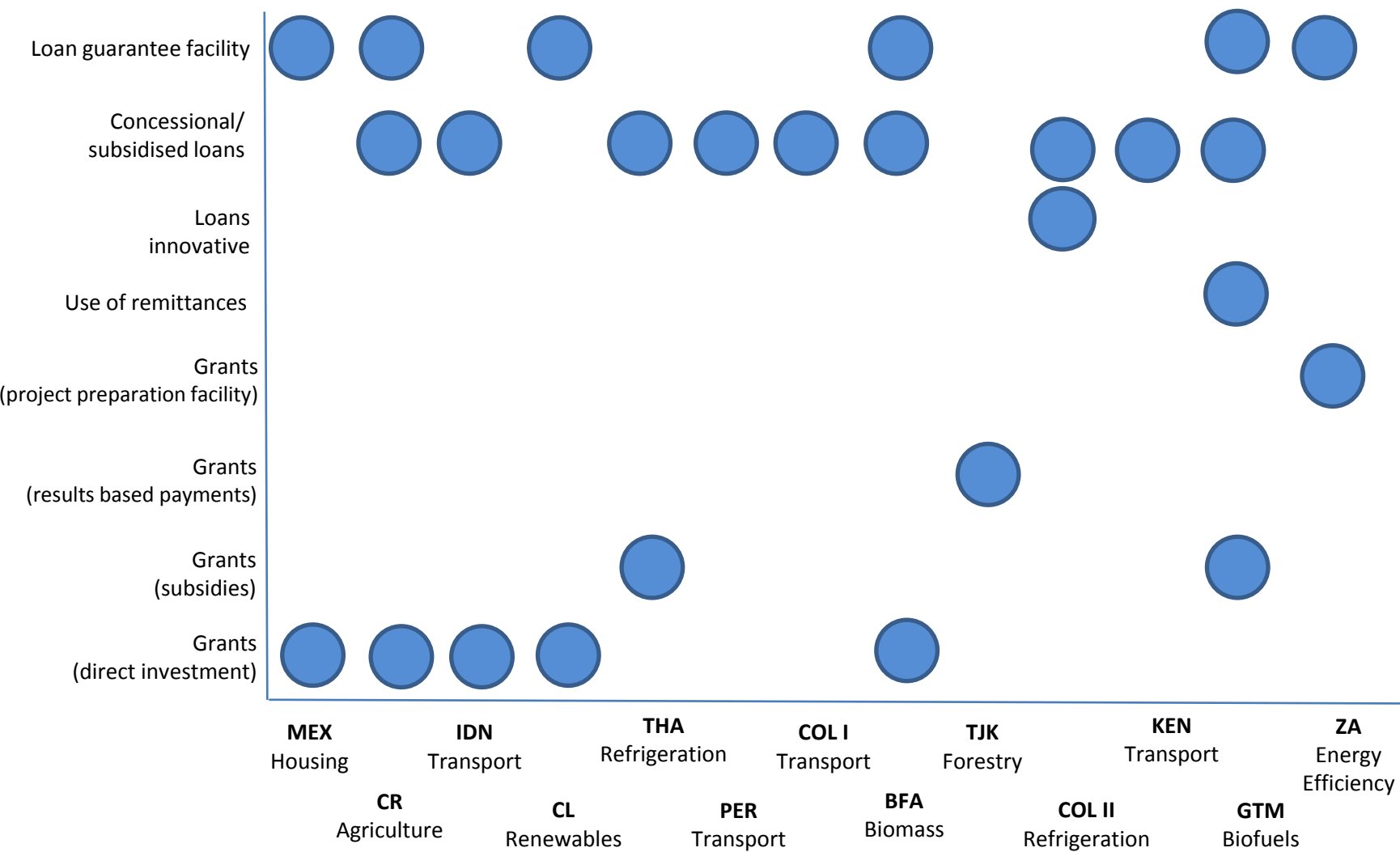
Part IV:

Importance of financial instruments and business models

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 instruments used in NSPs (Call 1-3)



Basic requirements for structuring financial instruments

- NSP outline must offer a **clear rationale** for the selection of the financial instrument(s)
- based on the business model and take into account an analysis of the (financial) **market conditions**
- **market distortions must be avoided** or mitigated
- **institutional arrangements** for financial instruments must be designed (financial entities involved, funding streams defined)
- **phase out concept and sustainability** beyond the life time of the NSP (maximum of 5 years) established and suitable for the financial instrument(s) selected

Business models (1) – criteria for economic viability

- **Define the target group**, e.g. building owners (energy efficiency), energy consumers (renewables), households (improved cook stoves)
- Describe the economic and other **motivations of each group**
- Assess 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 your findings by 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.)
- **Evidence affordability**: 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 (2) – pitfalls of subsidies

Try to avoid capital cost/CAPEX subsidies – they are rarely considered viable, and typically offer a low leverage rate

- NF support should only be a minor share of subsidies
- A capital subsidy model may not be financially sustainable nor scaleable, due to low transformational effect: The higher the (capital) subsidy, the less likely that later market participants can replicate the model through conventional bank loans
- Avoid market distortions such as preferential treatment of one or a few private actors/investors, with fair and transparent selection procedure

Business Models (3) – pitfalls of short term solutions

NSPs outlines often focus on *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
- consider 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

Lessons learnt from the 4th Call of the NAMA Facility

Wednesday, 5th April 2017,
2.00 – 3.00 CET, Berlin

Available at www.nama-facility.org

Thank you for your attention!

Further information at www.nama-facility.org
or contact the Technical Support Unit at
contact@nama-facility.org