Financing NAMA Activities
– How to Prepare a “Bankable” NAMA Proposal

Converting Rwandan NDCs into Action:
The Role of NAMAs in NDC Implementation
Kigali, 5th April 2017
Good morning ladies and gentlemen, greetings from Berlin!
Introduction - the NAMA Facility

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 vehicle to implement nationally determined contributions (NDCs) under the Paris Agreement.

Facts about the NAMA Facility (NF)
• Multi-donor funds established by Germany and UK in 2013
• Denmark and European Commission joined in 2015
• 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
- Select NSPs in annual bidding round (Calls)

Key requirements for project selection

- Implementation readiness
- Mitigation potential
- Transformational change

This presentation is based on the experiences of the 4th and previous calls.
NAMA Facility portfolio (1)

African projects located in Burkina Faso, Kenya, South Africa, Tunisia, Uganda
For further information visit http://www.nama-facility.org/projects/
## NAMA Facility portfolio (2)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Country</th>
<th>NAMA Support Project</th>
<th>Funding volume (Mio €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy efficiency</td>
<td>Mexico</td>
<td>sustainable housing</td>
<td>14</td>
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<tr>
<td></td>
<td>Thailand</td>
<td>refrigeration and air conditioning</td>
<td>15</td>
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<td></td>
<td>Colombia</td>
<td>domestic refrigeration</td>
<td>9</td>
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<tr>
<td></td>
<td>Guatemala</td>
<td>efficient use of fuel in households in rural communities</td>
<td>11</td>
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<tr>
<td></td>
<td>South Africa</td>
<td>energy efficiency in public buildings</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>Mexico</td>
<td>energy efficiency in SMEs as a contribution to a low carbon economy in Mexico</td>
<td>DPP</td>
</tr>
<tr>
<td></td>
<td>Uganda</td>
<td>revolving loan fund for the uptake of improved institutional cook stoves (IICS) in Ugandan schools</td>
<td>DPP</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Costa Rica</td>
<td>low-carbon coffee NAMA</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Brazil</td>
<td>resource efficiency program for Brazil's beef supply chain</td>
<td>DPP</td>
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<tr>
<td></td>
<td>Thailand</td>
<td>Thai rice NAMA</td>
<td>DPP</td>
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<tr>
<td>Transport</td>
<td>Indonesia</td>
<td>sustainable urban transport</td>
<td>14</td>
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<tr>
<td></td>
<td>Colombia</td>
<td>transit oriented development NAMA</td>
<td>15</td>
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<tr>
<td></td>
<td>Peru</td>
<td>sustainable urban transport</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Kenya</td>
<td>mass rapid transport system for Nairobi</td>
<td>20</td>
</tr>
<tr>
<td>Renewable energy</td>
<td>Chile</td>
<td>self-supply with renewable energy</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>Burkina Faso</td>
<td>biomass energy</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Mexico</td>
<td>NAMA for sugar mills</td>
<td>DPP</td>
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<tr>
<td></td>
<td>Tunisia</td>
<td>scaling-up renewable energy and energy efficiency in the Tunisian building sector</td>
<td>DPP</td>
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<td></td>
<td>Philippines</td>
<td>enabling distributed solar power in the Philippines</td>
<td>DPP</td>
</tr>
<tr>
<td>Forestry</td>
<td>Tajikistan</td>
<td>sustainable forestry</td>
<td>13</td>
</tr>
<tr>
<td>Waste</td>
<td>China</td>
<td>integrated waste management</td>
<td>8</td>
</tr>
</tbody>
</table>
What are the key success factors for “bankable” NAMA proposals?
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
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; 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 an adequately defined BAU scenario and using relevant methodologies
  - Indirect mitigation potential is often missing in proposals
  - GHG reductions in € per tCO$_2$e 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 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. The latter’s economic and technical viability in the country context should be addressed.
Importance of Financing Mechanisms and Business Models
Financial Mechanisms

• A clear rationale for the selection of the financial instrument(s) should be presented with the outline
• 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
Range of financial instruments in NAMA Finance

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

Source: Søren E. Lütken
Financial mechanisms used in NAMA Facility

- Loan guarantee facility
- Concessional/subsidised loans
- Loans innovative
- Use of remittances
- Grants (project preparation facility)
- Grants (results based payments)
- Grants (subsidies)
- Grants (direct investment)

Countries and sectors:
- MEX Housing
- IDN Transport
- THA Refrigeration
- COL I Transport
- TJK Forestry
- KEN Transport
- ZA Energy Efficiency
- CR Agriculture
- CL Renewables
- PER Transport
- BFA Biomass
- COL II Refrigeration
- GTM Biofuels
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 and 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 or a few private actors/investors, with fair and 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 bankable 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
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
But available thereafter at www.nama-facility.org
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