NAMA financing

How to Structure Climate Financing Vehicles

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I. STATE OF THE ART

Expectations and reality of NAMAs

100 bn USD p.a. from 2020 pledged in Cancun, but

- The Green Climate Fund is no ATM
- Not only grants
- Not only public money
- Leverage and mobilization of private investments needed
    - Particularly in regard of the huge sustainable development co-benefits of NAMAs

The climate finance story so far

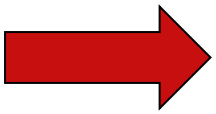
- There is no NAMA financing mechanism for implementation in place (yet).
- No mitigation action has been financed as a NAMA yet.
- There is no agreed definition what constitutes a NAMA.

The bad news

- Clear policy signal is still missing, such as international commitments with legal force
  - No long-term certainty for investors
- Only institutional investors are able to provide needed financial volumes
- But institutional investors are risk-averse and conservative
  - do not invest in new, unknown issues.
  - need AAA rating for investments
  - perceived risks are high, sometimes exaggerated.

The good news

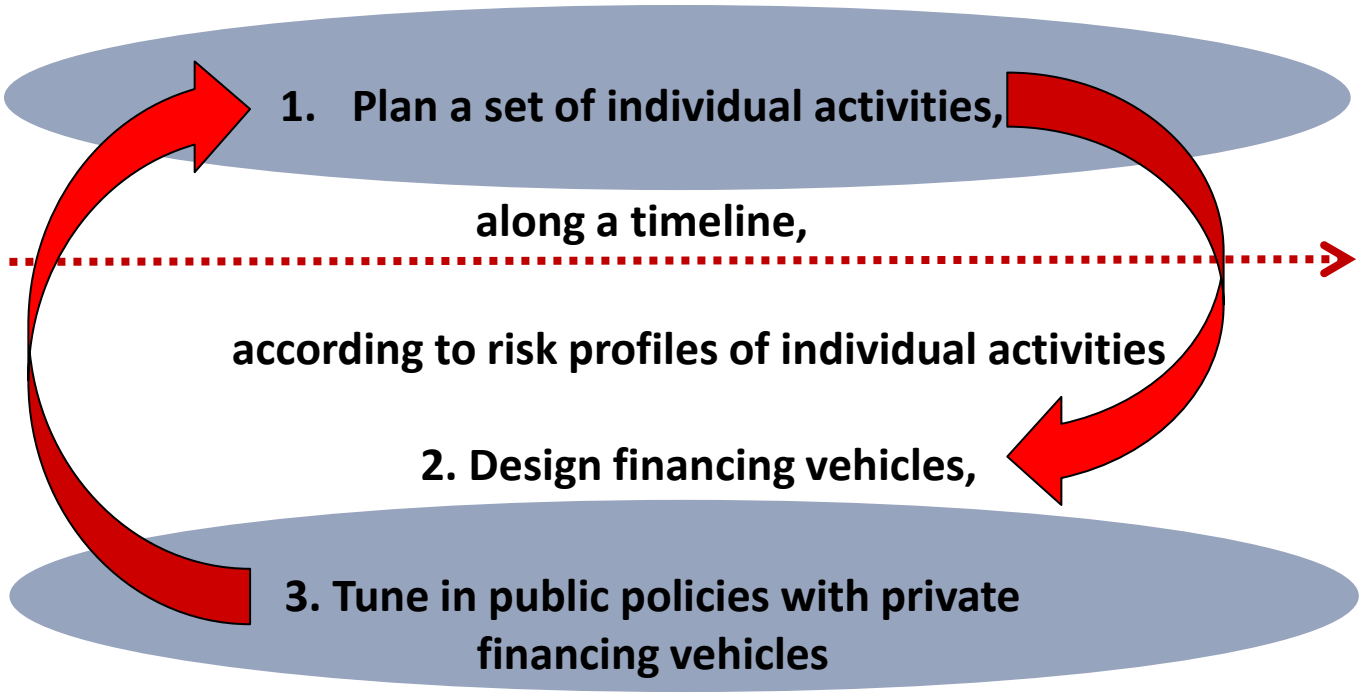
- Financial resources required for NAMA implementation are available.
- Instruments for allocation of necessary finance exist.
- Large investment programmes – likely to constitute a NAMA – are already implemented.



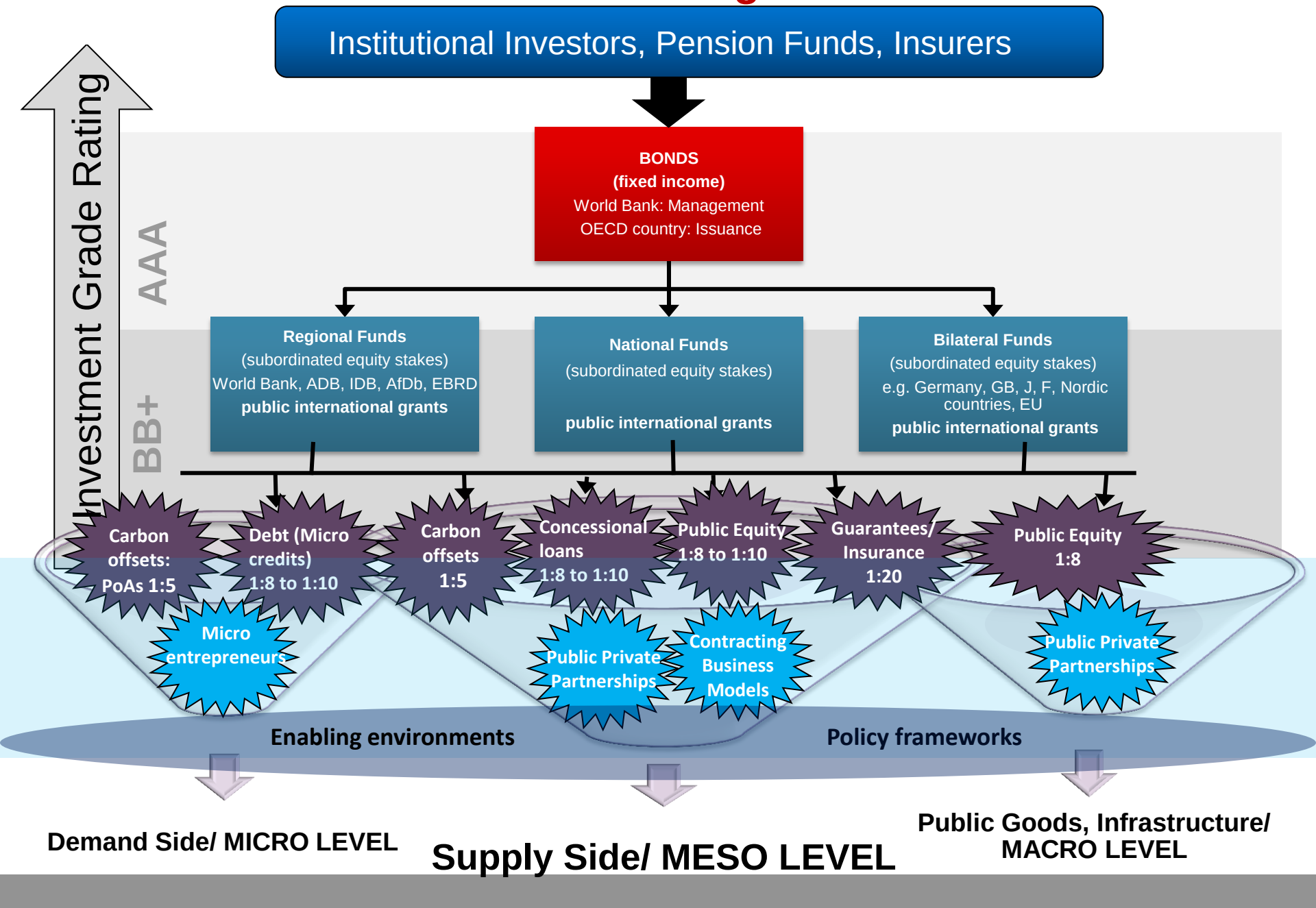
No need to reinvent the wheel

II. THE FINANCING ARCHITECTURE

Designing the financing architecture of a NAMA



Climate Financing Cascade



Financial vehicle	Level of investment	Example	Financial volume	Potential leverage
Equity	a) public infrastructure b) private companies	a) Bus Rapid Transit system b) Privately owned public transport companies	high	1:8 to 1:10
Guarantees	private activities	Private construction and maintenance of public transport facilities	high/ medium	up to 1:20
Debt a) loans b) micro credits	a) private companies b) micro entrepreneurs	a) credit lines for enhanced fuels and technology b) IT services to reduce transport of goods and passengers	a) medium b) low	1:8 to 1:10
Carbon market a) projects b) PoAs	a) privately owned projects b) small-scale activities	a) installing a renewable energy facilities b) energy efficiency measures in buildings	low	up to 1:5

Different Actors Have Different Appetites

- Risk-return ratios must match different investors

Risk	Return	Volume	Instrument	Investor
low	low	large	Bond	institutional
low/ medium	low/medium	medium	Loan	banks, Governments
medium	medium	large/medium	Fund	banks, financial intermediaries
high	medium/high	medium	Equity	project developers
medium	medium	large/medium	Guarantee	Governments
low	low	small	PPP	companies
low/ medium	low/ medium	small	Contracting	companies

How to Change Directions of Private Investments Towards Low Emission Development?

- All different actors relevant for global transformation
- Different finance instruments can fuel each other

packages of different assets needed to mobilize all relevant actors, blending their investments and cascading them down from global investors into local projects, mobilizing additional investments all along the way

Sources of climate finance

- Large parts of investments must come from domestic sources
  - Nationally appropriate economic instruments must be determined individually
- All financing vehicles along the cascade must mobilise supplementary private money
  - Different financing vehicles can attract different investors
- The financing vehicles at the three levels must fit together in order to initiate self-sustained low-carbon growth

Accessibility of climate finance

- International climate financing instruments along the whole cascade exist…
- but not equally accessible in all regions, countries,
- and not all instruments are equally accessible:
  - NAMA bonds are only starting to be developed,
  - Few infrastructure funds offer support,
  - Public equity, publicly-backed guarantees are hardly provided by any international source,
  - Many carbon market-based financing instruments exist

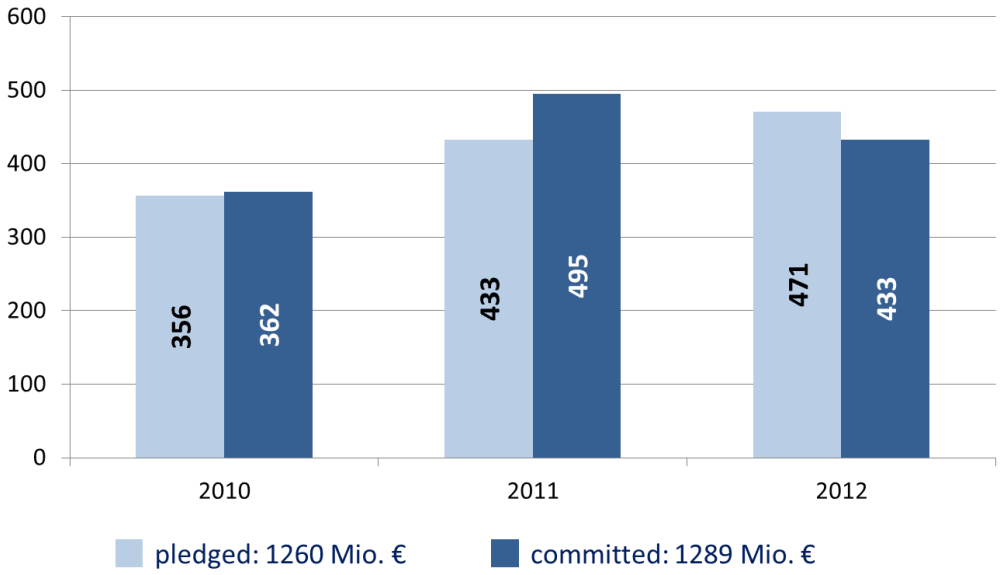
Example Germany: International Climate Initiative

- 2008 until March 2013: Funding of 330 projects in over 80 partner countries with total amount of € 830 million (approx. US $ 1.1 billion)
- Mobilising of additional capital (implementing agencies + other public and private-sector sources): € 1.6 billion

➢ **€ 2.4 billion** total volume of ICI projects

Germany's fast start commitment

(in million Euros)



Likely Public-Private Ratio in the 100 bn $ Commitment

- 20-30 bn $ public money at least needed to mobilize 100 bn $
- Up to 80 bn $ private money could be mobilized
- Average leveraging ratio of 1:2.6 public:private is in general a realistic leveraging ratio

Matching Finance to Actions

- No NAMA has been financed yet
- There is no mechanism through which supported NAMAs automatically receive funding
- NAMA registry shall allow donors and recipients to find each other
- Green Climate Fund may be a few years away from disbursing funds
- Support for early NAMA implementation likely to come from bilateral funding sources + multilateral dev. banks
- Different donors to apply different criteria when selecting NAMAs for support
  - Involve potential financiers at an early stage in the planning process
  - Talk to private sector early in order to structure policies and measures that are attractive to private investment

Leveraging Private-Sector Finance for NAMAs 1

- Donor-supported climate finance only a portion of the total amount of finance needed for NAMA implementation

→ need to leverage and mobilise additional private investments

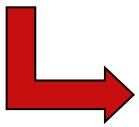
- enabling environments are a key pre-condition for attracting private financing
- NAMAs should thus drive policies and regulations that enhance the **enabling framework** for private investment
- In addition to enabling policies, public finance mechanisms may be needed as part of NAMA to mobilize needed investment
- Financial mechanisms to be tailored to financial market conditions in the host country

Leveraging Private-Sector Finance for NAMAs 2

- Important to understand local barriers to private sector investment
- in order to lower risks to investors and assure appropriate returns to attract private capital, NAMA resources could be used to (via financial intermediaries) e.g.:
  - lower development costs of investment projects under a NAMA through technical assistance;
  - lower the cost of capital through equity and debt co-financing instruments;
  - cover the incremental costs or financing the riskier aspects of investments;
  - lowering risks through credit enhancement;
  - insurance or other forms of guarantee.
- Such mechanisms can further bring down market barriers, bridge financial gaps and share risks with the private sector

MRVable NAMAs attract MRVable support

- A well conceived MRV plan can facilitate access to funds
- By ensuring that NAMAs meet certain standards, MRV makes the NAMA more attractive to investors



Standards can ease the matching of needs with support

III. WHAT TO DO

To do, part I

- Giving a Clear Policy Signal
  - Develop standards for what constitutes a good (i.e. ambitious) NAMA:
    - MRV
    - Contribution to sustainable development
    - Emission reduction
  - Finance and implement pilot NAMAs
  - Overcome barriers and develop models for replication

Which barriers for NAMAs?

- Financial barriers
  - High upfront costs, Small project sizes
  - Split incentives (e.g. of owners and users)
  - Misallocation of resources for investments (e.g. subsidies for conventional technologies)
- Institutional barriers
  - Limited access to capital
  - Monopolies/ Limited access to markets
- Economic barriers
  - External effects
- Technical barriers
  - High transaction costs
- Information barriers
  - Limited awareness of options
  - Lack of knowledge/ access to knowledge
- Capacity barriers
  - Lack of skilled labour
  - High transaction costs

To do, part II

- Hedging perceived risks
  - Package perceived risks in appropriate finance vehicles…
  - to mobilise institutional investors and offer them competitive investment opportunities
  - with fixed income, without forcing investors to analyse investment details of mitigation issues

Which risks?

- Country risk
- Policy risk
- Currency risk
- Deal flow problems
- Difficulty evaluating multiple, overlapping risks

Challenges

- Models how to mobilize the private sector need to be developed and can be pivotal.
- Capacity building for Private Sector Finance Readiness
- Clear supportive policy frameworks (feed-in tariffs, performance-based payments) and level playing fields (phasing-out of fossil fuel subsidies) can limit political risks and help overcome administrative barriers
- Install a learning process how to
  - avoid distortions of local markets,
  - unneeded subsidies and
  - the crowding-out of private investments
    - check if investment is (1) socially or environmentally needed, (2) would not or not at sufficient scale happen without public intervention (3) in the short term.

Thank you very much for your time and attention!

If you have questions or look for partners, please contact:

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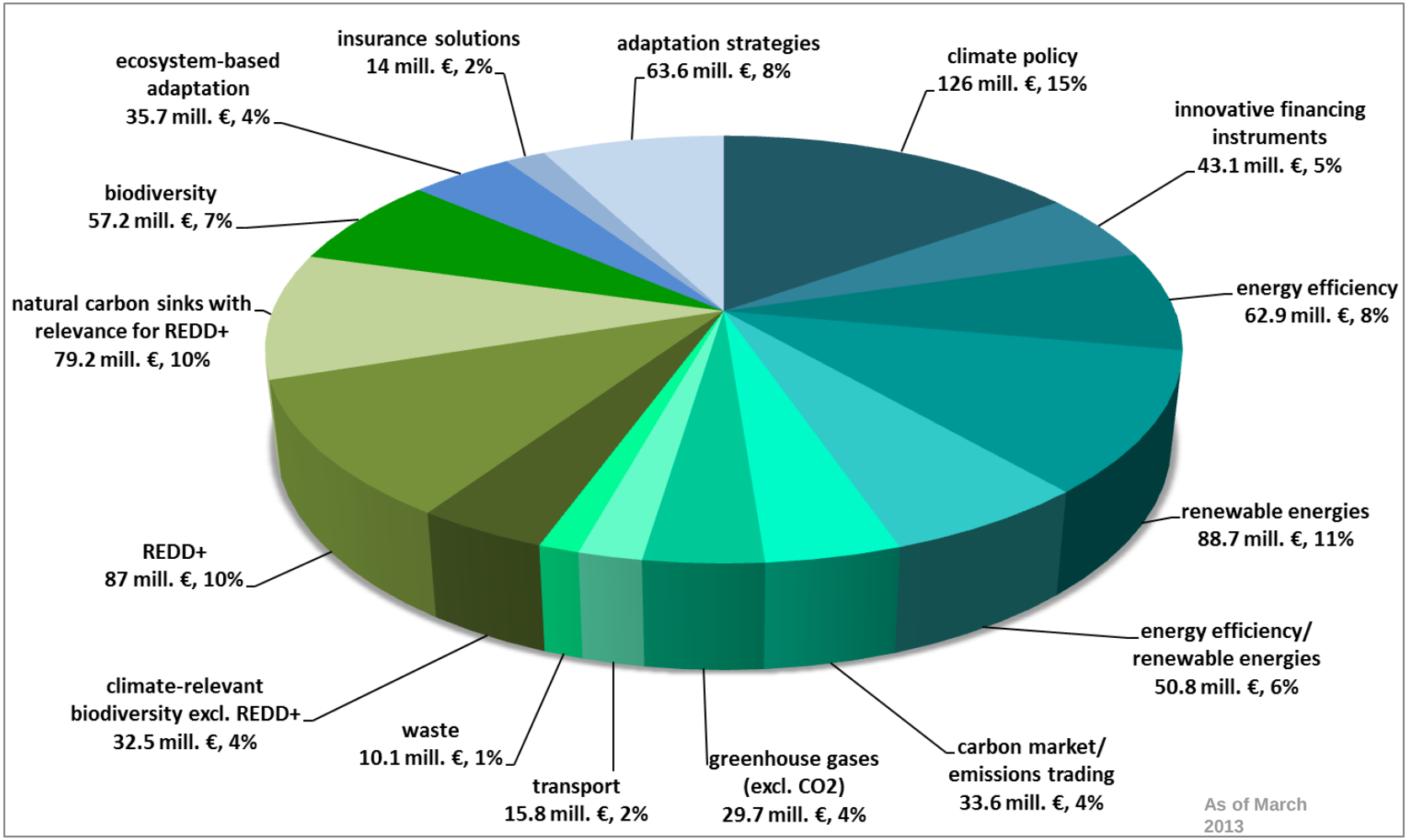
ICI – Achievements: projects by theme



ICI – Achievements: projects by region