# NAMA Financing Options

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# Expectations and reality of NAMAs

## International finance

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

- 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

# Domestic finance

- Developing country governments will take the lead on NAMA development and implementation;
- Financing for NAMAs can come from domestic sources; international support will be provided according to needs and to ambition;
- Provision of support for developing countries will decrease over time according to decreasing needs and parallely domestic finance will increase.

# Main Findings

- needed financial resources are available
- NAMAs are perceived as nothing substantially new
- appropriate financing instruments for allocation to (sectoral/national) investment programmes exist

# Overview of domestic policy instruments and economic incentives

| Domestic policy instruments and economic incentives | Energy | Transport | Buildings | Waste | Industry | Forestry | Agriculture |
|---|---|---|---|---|---|---|---|
| • Carbon tax | P | P | P | P | P | (P) | (P) |
| • Energy emissions tax | P | (P) | (P) | (P) | (P) | | |
| • Tax-free low-carbon development zones | P | P | P | P | P | | |
| • Investment tax credits | P | P | P | P | P | P | P |
| • Production tax credits | P | | | | P | (P) | P |
| • Environmental levies | | P | P | P | P | P | |
| • Phase-out of fossil fuel subsidies | P | P | P | | P | | |
| • Production subsidies | P | | | | P | (P) | P |
| • Feed-in tariffs | P | | | (P) | | (P) | (P) |
| • Renewable energy access law | P | | | | | | |
| • Project development grants | P | P | P | P | P | P | P |
| • Micro finance facility for climate-resilient practices | P | P | P | P | | P | P |
| • Restructuring aid for industries | | | | | P | | |
| • Smart metres/demand-side management | P | | | | | | |
| • Public procurement | P | P | P | P | P | P | P |
| • Green power purchasing | P | | | | | | |
| • Publicly funded venture capital | P | P | P | P | P | P | P |
| • Venture loan guarantees | P | P | P | P | P | P | P |
| • Mezzanine/subordinated debt funds | P | P | P | P | P | P | P |
| • 'First loss' public equity position in funds | P | P | P | P | P | P | P |
| • Public-private technology funds | P | P | P | P | P | | |
| • Green bonds | P | P | P | P | P | P | P |
| • Loan softening | P | P | P | P | P | P | P |
| • Senior debt funds | P | P | P | P | P | P | P |
| • Public infrastructure funds | P | P | (P) | (P) | (P) | | |
| • Technology insurance packages | P | P | P | P | P | | |
| • Green accounting | P | P | P | P | P | P | P |
| • (Mandatory) labelling and standards | P | P | P | P | P | P | P |
| • Renewable fuel standards | P | P | P | | | | |
| • Ecological footprint assessment | P | P | P | P | P | P | P |
| • Insurance programmes | P | P | P | P | P | P | P |
| • Interconnection policy | P | | | | | | |
| • Line extension policy | P | | | | | | |
| • Protection of innovation (patents) | P | P | P | P | P | | |
| • Best available technology requirements | P | P | P | P | P | | |
| • Building codes | | | P | | | | |
| • Tolls for transport infrastructure | | P | | | | | |
| • Parking fees | | P | | | | | |
| • Public transport fares | | P | | | | | |
| • Waste disposal fees | | | | P | | | |
| • Renewable transport fuel obligations | | P | | | | | |
| • Public benefit charges | P | P | | | | P | P |
| • Land zoning to protect sinks and public goods | | | | | | P | P |

See:

http://www.mitigationpartnership.net/giz-2013-climate-finance-cascade-nama-financing-mechanism-nutshell

# 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 |

- Created assets must match liabilities of individual investors

| Scope | Assets | Refinancing | Investors | Beneficiaries |
|---|---|---|---|---|
| **Scope 0** | Bonds | of development banks and governments | Grant donors<br>Guarantee providers<br>Institutional investors | Governments |
| **Scope 1** | Funds | of local banks | Grant donors (governments)<br>Development banks | Developing country governements<br>Local banks |
| **Scope 2** | Concessional loans | of loans | Grant donor<br>Local banks | Local companies |
| **Scope 3** | Consumer loans<br>Contracting<br>Equity<br>Export/ FDI/ Financial instrument guarantees<br>PPPs<br>Carbon offsets | of equity investments | Subsidy providers<br>Guarantee providers<br>Local companies<br>(Project developers) | Joint ventures<br>Technology providers<br>End customers |
| **Scope 4** | Mobilised market instruments (PoAs, Micro Credits) | of consumption | Mobilized investors | Low carbon development projects |

# 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
- 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

# Leveraging Private-Sector Finance for NAMAs

- 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

# Thank you very much for your time and attention!

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

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

# 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

# Which risks?

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