NAMA financing

How to Structure Climate Financing Vehicles

Dr. Sebastian Wienges, Adviser, GIZ

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.

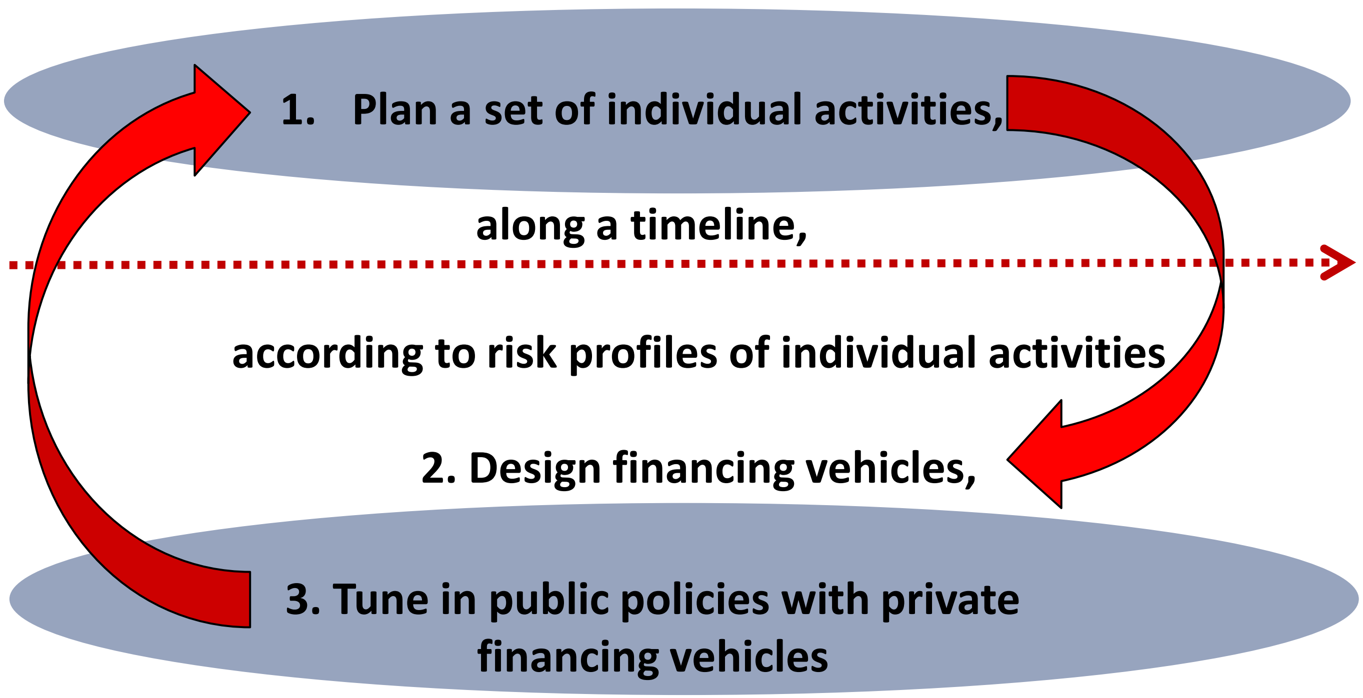
The good news

- 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

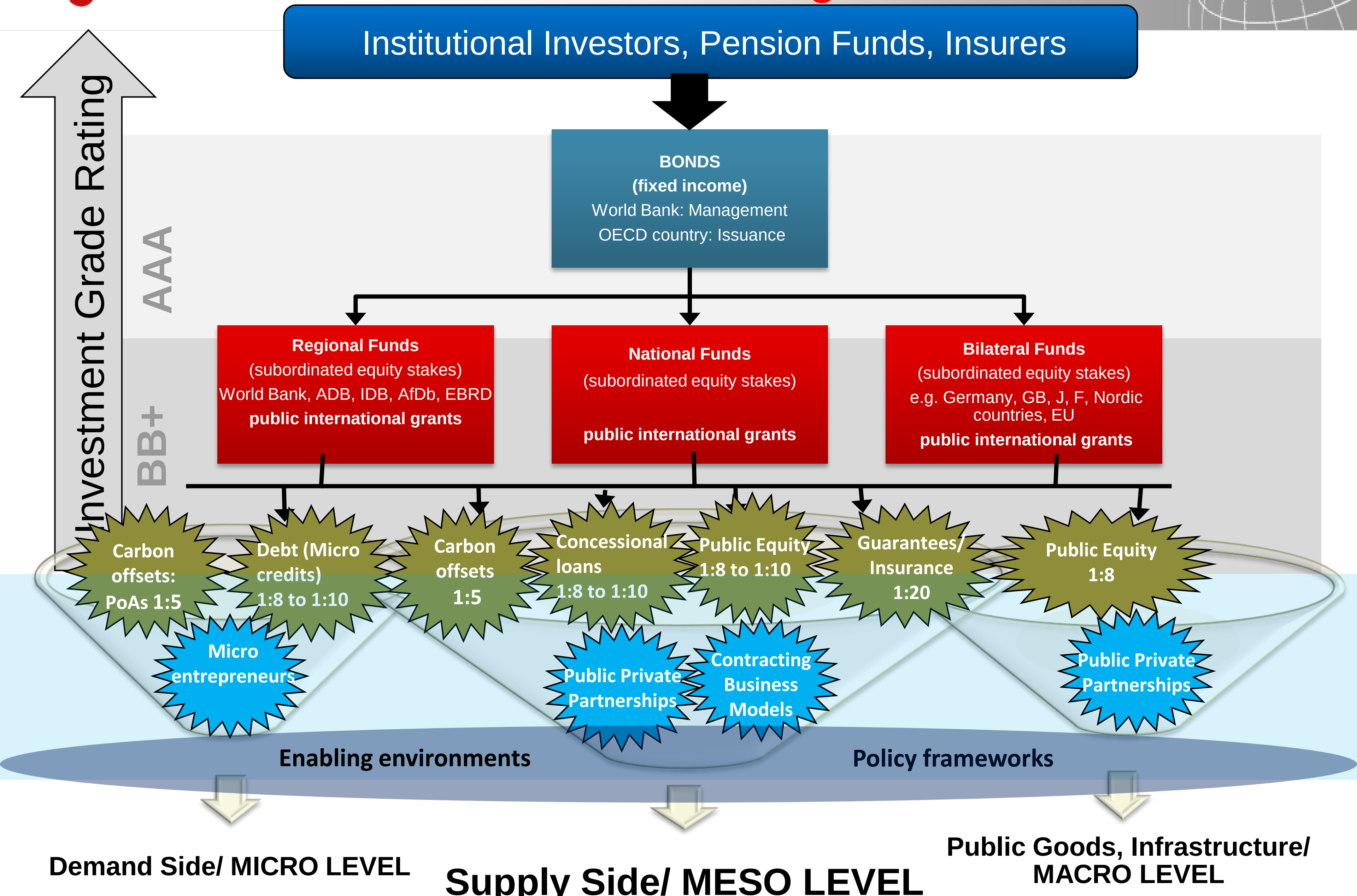


Designing the financing architecture

- Report of the Secretary General’s High-Level Advisory Group on Climate Change Financing concludes:

  „Menu of interventions needs better packaging, strategic focus, and greater scale.“

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

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 autonomous low-carbon growth

Accessibility of climate finance

- International climate financing instruments along the whole cascade exist…
- but not 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

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

To do, part III

- Design a needs-support matching platform
  - To connect donors with implementers/ practitioners
  - For activities to overcome barriers

Conclusion

- Financing of NAMAs must be adjusted individually (i.e. sectorally, nationally, regionally)
- The role of Technical Assistance: consider (national&international, public&private) options for financing early in the planning
  - Consulting on national economic instruments
  - Consulting on actions to overcome barriers
  - Consulting on potential international sources
  - Fostering partnerships with potential financiers
  - Develop replicable business models
  - Contribute to ambition and sustainable development
  - Develop methodologies and capacities for MRV

Thank you very much for your time and attention!

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

Dr. Sebastian Wienges, Adviser, CC Climate
sebastian.wienges@giz.de