Financing NAMA activities
Main topics

• Sources and types of finance
• Leveraging private finance
• Financing instruments
• Risk
Mindset

Marginal abatement COST

Marginal abatement REVENUE
CDM Mindset

[Graph showing abatement potential and marginal abatement cost for different projects, with a dashed line indicating the carbon price.]
Revenue Mindset

Marginal Abatement Revenue (MAR) Curve for Country X (2020 Scenario)
Profitability is relative, it can be created - or wasted.

The task of a NAMA designer is to create profitability for those you want to make investments.
Where can we create profitability?

*Figure 2: the charcoal supply chain.*

**Charcoal Supply Chain**

- **Producer**
  (production areas/forest, next to the road)

- **Transporter/middlemen/wholesaler**
  (with own vehicle, rents other people vehicles, train, bicycle)

- **Retailer/wholesaler**
  (Market, storage places, road-side)

- **Retailer**
  (Formal and Informal markets, Household level)

- **Consumer**
  (urban and peri-urban areas)

EES, 2013: Sustainable Charcoal Value Chain Mozambique
Investment

Who invests in climate friendly technology?

Public or private?

Domestic or foreign?
A Domestic Measure

Very few CDM projects are developed by foreign developers
  – estimated less than 5%

Very little foreign investment in CDM projects
  – UNFCCC estimate: USD 21.5 to USD 43.0 billion foreign investment in projects over the life of the CDM
  – USD 495 billion recorded investments in the CDM pipeline (8,000 records out of a total of 12,000) – 21.5/495 = <5%

Very limited cash flow from CERs
  – Value of issued CERs: 1,270,000,000 @ 10 USD ≈ USD 12.7 billion (≈ 2 billion /year)

Lesson learnt: Foreign Direct Investment is not the main driver for mitigation
The nature of climate finance

A combination of public and private finance, mainly of domestic origin, invested predominantly on private sector principles, for purposes other than climate change
INVESTMENT VALUE CHAIN

**Guarantees**
- Bond guarantee
- Investment guarantee
- Sovereign guarantees
- Reinsurance

**finance**
- Mixed credit
- Bank loan
- Climate bonds

**Corporate structure (SPV)**
- Equity
- Quasi-equity
- Equity grant
- Tax credit

**asset**
- Supplier finance
- Construction finance
- Supplier guarantee

**Operation**
- Feed-in tariff
- Service fee
- Tax credit
- Depreciation
- Savings
NAMA finance - where to begin...?

Who causes emissions?
As a result of what?
choices – choices resulting from what?
preferences – preferences influenced by what?
cost – cost created by actual costs and what?
taxes and subsidies – taxes and subs stemming from?

The finance bill
What is NAMA Finance

NAMA finance is mainly the financing that has to be structured to allow the private sector and its banking partners to do its business as usual - exploring profit opportunities
Attract international NAMA Finance

To structure NAMA Finance is not about listing a number of cost items in order to arrive at a (large) amount for which a request for grant financing can be submitted.

It is about reducing that cost to a minimum.
The sources of finance

- Public Domestic
- Private Domestic
- Commercial banks
- Public International
- Private International
- Hybrids
The sources of finance

- Public
- Domestic
  - the most obvious
  - and the most controversial
The sources of finance

- Private
- Domestic

- the first target
- and the most forgotten
The sources of finance

- the most wanted
- and the least efficiently applied

Public International
The sources of finance

- the most debated
- and the most difficult to get

Private International
The sources of finance

- the least considered
- and the largest supplier of finance
The sources of finance

- many different vehicles
- probably the most promising
Who goes first? - Leveraging

To maximize leveraging, public-*public* partnerships precede private sector investment
Example: Mexico
Value chain

CONAVI, SEMARNAT, 2011: Supported NAMA for Sustainable Housing in Mexico - Mitigation Actions and Financing Packages
Example
Mexico

CONAVI, SEMARNAT, 2011: Supported NAMA for Sustainable Housing in Mexico - Mitigation Actions and Financing Packages
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Structuring NAMA Finance

- The financing of NAMAs does not exist in a vacuum
- It is not a separate activity that requires a separate source of financing
- It is fundamentally an exercise in splitting the bill
- There is no magic formula that will eliminate additional cost
- There are no 'innovative financial sources' – but there may be innovative ways of splitting the bill
- It is a common perception that the climate challenge cannot be met only by public sector financing initiatives, but must rely on significant contributions from the private sector
Splitting the bill

Mexico Housing NAMA

CONAVI, SEMARNAT, 2011: Supported NAMA for Sustainable Housing in Mexico - Mitigation Actions and Financing Packages
The Climate Policy Initiative (CPI) 2013: "currently, gaps in risk coverage hinder renewable energy investments. Risk — whether real or perceived — is the single most important factor preventing renewable energy projects from finding financial investors, or raising the returns that these investors demand. It is also one thing that policymakers can cause, control, alleviate, or help mitigate."
Risk ...

Some gaps in risk cover:

– Investment guarantees for local investors
– cash flow guarantees (Feed-in tariff)
– Public sector breach of contract
– Green Bond issuance
The cost of capital

Source: DB Climate Change Advisors
Types of finance – risk cover

| Risk cover instruments, Guarantees | Several instruments provided by either the public or the private sector, most often in the form of insurances against certain events. Governments will typically be providing political (policy) guarantees, government agencies may be insuring such guarantees; private-sector entities may be providing technical (technology) risk cover. Guarantees (except government guarantees) are paid for like an insurance policy | Export credit agencies, insurance companies, banks, governments, technology suppliers |

Mainly directed towards investment – only few to cash flows
Restructuring the value chain - Uganda

Figure 12: Restructuring of the charcoal value chain without disturbing the existing relationships

Source: UNDP: *Nationally Appropriate Mitigation Action Study on Sustainable Charcoal in Uganda*
Example: Uganda

What is the Mozambican context?

Is this realistic?

Source: UNDP: Nationally Appropriate Mitigation Action Study on Sustainable Charcoal in Uganda
Exercise

Your own NAMA context:

- which public sector regulation is put in place?
- How is it promoting private investment/operation?
- Which barriers remain to implement the regulation?
- Which barriers remain for the private sector to invest/operate?
- How are these barriers addressed?