

# NAMA Facility

## Transformational change and financing mechanisms - what's the link?

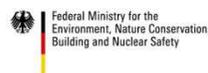
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*Presentation at the occasion of the NAMA Facility workshop  
Bonn, 23 May 2016*



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On behalf of



Federal Ministry for the  
Environment, Nature Conservation,  
Building and Nuclear Safety



Department  
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# Defining Transformational Change?

Some central characteristics of 'transformational change' that also guide the assessment of NAMAs can be extracted:

- Transformational change is 'permanent'. That means that it establishes a new situation, which does not fall back into its point of departure once the dedicated NAMA implementation phase ends. In the NAMA Facility it is called 'a sustainable phase-out concept'.
- Transformational change is 'radical'. That means that it deviates significantly from an already expected path of change and development.
- Transformational change is 'abrupt'. That means that it happens in the shorter term and earlier than otherwise possibly expected.



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# The NAMA Facility's interpretation

- Finance and permanence = phase out concept

The NAMA Facility's financial participation is temporary, whereas a permanent change normally requires a permanent financial structure to keep things from falling back to where they came from. How will the finance from NAMA Facility phase out and **what phases in in its place?**

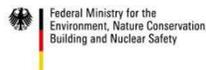
**Example of insufficient phase in:**

The firewood sub-sector is a priority for mitigation of climate change. It also complements the National REDD+ Strategy **which has financing for a Forest Investment Program line of work focused on sustainable management of firewood.** The participation of the private sector, consolidation within the framework of policies and the institutionalization of the proposed instruments, **will allow the flow of resources and political support to secure the long-term sustainability.**



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# The NAMA Facility's interpretation

- Finance and 'radical' = scale

The NAMA Facility's financial strength is limited and rarely enough to institute a transformation on its own. We use 'scale up' and 'replicability' to signal this, but even in the time window where the Facility is active significant co-financing is commonly necessary. In most cases the national budget needs to be activated.

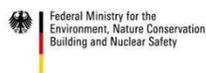
**Example of insufficient scale:**

Today, **there are almost 12 million units** and the expected outcome is **financing contracts for at least 60,000 units** signed between partnering banks and consumers and fleet operators by 2022 (approximately 60% purchased by fleet operators and 40% by consumers).



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# The NAMA Facility's interpretation

- Finance and 'abruptness' = implementation

Since its inception the NAMA Facility has insisted on supporting implementation. Implementation means actual mitigation action (which is permanent and at scale). It means that initial finance (the NAMA Facility and beyond) has to be deployed through a financing mechanism from the beginning, not at the end of NAMA Facility involvement.

### Example of insufficient abruptness:

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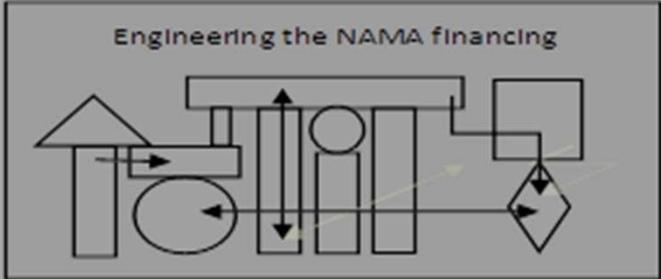
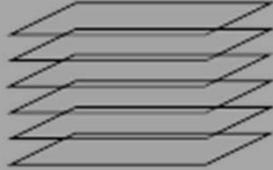
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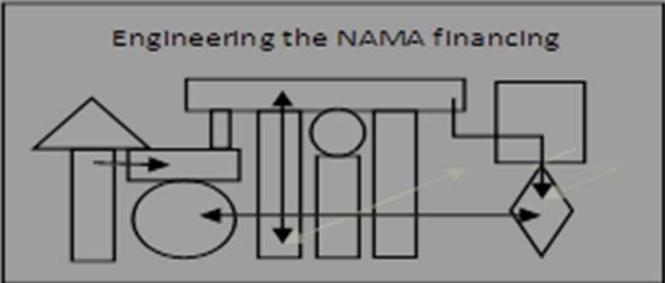
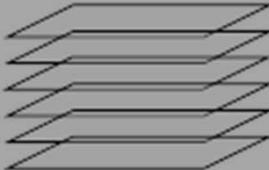
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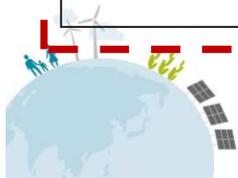
# Financing mechanisms

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



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# First loss guarantee

## Case:

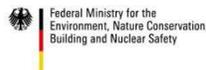
A Guarantee Fund, hosted by a local development bank, has enabled private sector Energy Service Companies (ESCOs) to access concessional loans to finance and implement energy efficiency and other GHG mitigating activities. The Guarantee Fund is designed to persist over a longer period than the NAMA Support Project duration. The guarantee covers the bank's potential loss on loans to ESCOs.

- It must be agreed with the bank that it intends to utilize the facility
- It must be ensured that there is a demand from ESCOs based on solid business cases
- The guaranteed loans must be attractive and fit in the business case - and a fee model could/should be built in
- If the guarantee capital is grossly intact after NAMA Facility involvement the funds must be safeguarded in a permanent legal structure - e.g. with an insurance company that shares potential losses and keeps charging the fee
- So, shouldn't we engage the insurance company from the start?

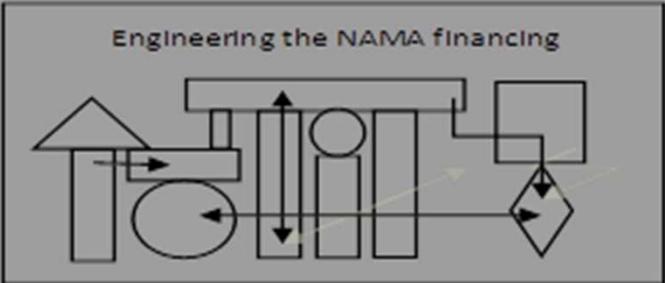
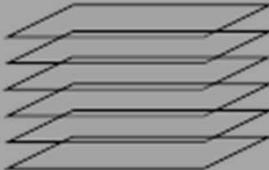


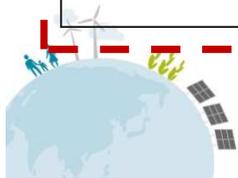
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# Small-scale investment grants

Case: Development of three instruments to strengthen supply and create solutions according to the demand: (i) A subsidy programs for segments with less ability to pay to finance 75% of value of improved cookstoves; (ii) A program of micro-financing for access to clean solutions for credits to finance 100% of value of improved cookstoves for the intermedium purchase capacity segment

- Is 25% own-financing enough to ensure genuine interest?
- Compared to full default on a 100% loan the poor are worse off than the middle segment
- Who covers losses on 100% loans?
- Who takes over the programme when the NAMA Facility financing expires?



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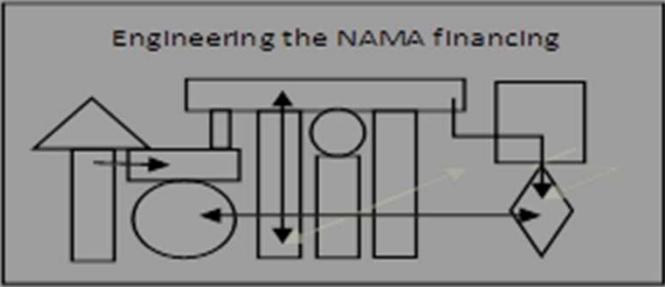
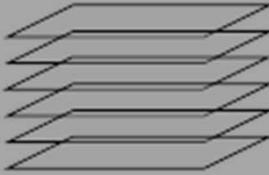
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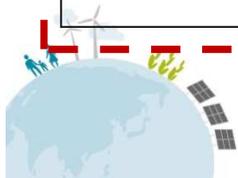
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# Loan schemes

Case: Upfront investment costs prevent refrigerator manufacturers from converting their production lines or designing more energy efficient appliances; low-income households need credits to buy new and energy efficient refrigerators.

- Setting a standard to secure the market for energy efficient appliances (or eliminate the market for inefficient ones)
- A 'new for old replacement program' is co-financed through commercial banks. End-user repayment through the electricity bills
- Phase out: A national 'Replacement Fund' will provide a guarantee in cases where end-users cannot repay the credit. NSP will be used for initial buffering the Replacement Fund risk and kick-start the process. Once established, an end user fee (part of repayments) will be used to feed the risk fund.



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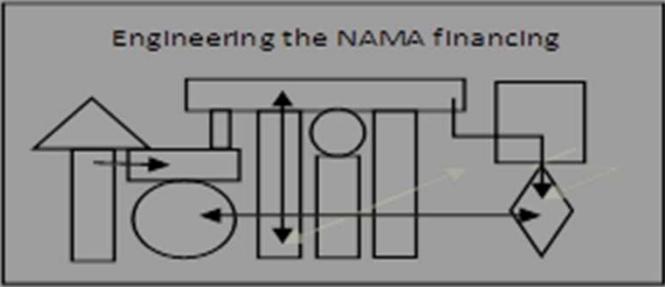
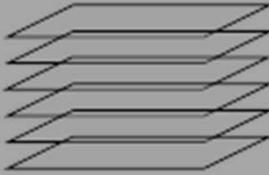
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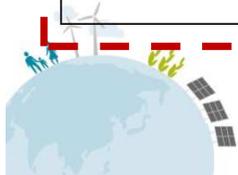
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# Interest subsidy (concessional loan)

Case: NAMA Facility funds will be provided as interest subsidies for the development loan. The interest subsidies of EUR 15.5 million will facilitate a development loan of approx. EUR 100 million.

- Part of an overall financing structure for a project-like intervention
- No phase out needed: The financing package is arranged up front
- Question: actual leverage, role in the overall financing structure - e.g. 4 million leverages 40 that leverages 400 that leverages 4 billion ... plausible?



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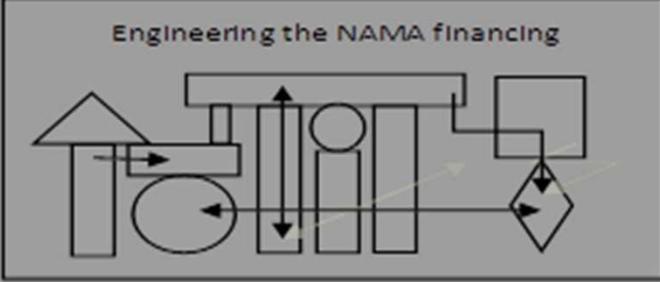
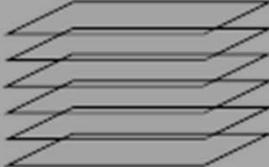
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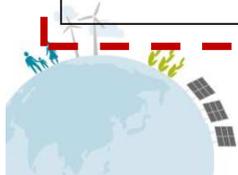
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# Environmental Fiscal Reform

Case: We do not have any ...

- Efficient (and necessary) to ensure long term operational financing
- May be combined with guarantees against policy change
- Should be designed to be revenue neutral, i.e. it is both a sourcing instrument and a promotional instrument
- Pure incentive is expensive; parallel regulation reduces cost

Example: international pressure for exempting renewable energy products from import tax. That is a cost to the exchequer. On which related non-renewable product should we then leverage an extra fee? Diesel generators? Two-stroke engines? Cars above 2000 ccm?



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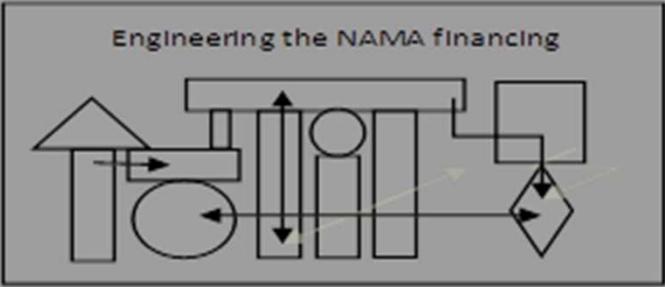
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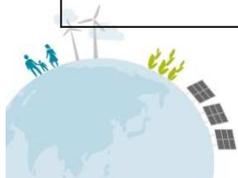
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# Private Sector financing mechanisms

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# The business case

- The private investor generates profits through the *operation* of assets, not from buying it.
- Emissions reduction results from *operation of assets*, not from owning it
- Therefore, our first interest should be to secure predictable, long term cash flow
- There is only one source: Environmental Fiscal Reform
- Our task: to reduce the cash flow demand as much as possible - in practice optimizing the risk/return ratio in our favour.



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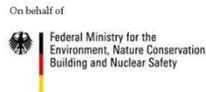


# Public-private partnerships - or public-private division of work?

- Ideally, we create the conditions that make the private sector invest in the low emission alternative, because it is the best business case
- Ideally, we do that in the cheapest possible manner, selecting the most cost efficient combination of financial and non-financial instruments
- Ideally, we base our frameworks on a dialogue with the private sector, including the private banking sector
- - and then we raise the financing for the framework through public-public partnerships
- The NAMA Facility is ready to be your partner



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# Thank you for your attention!

- Further information on [www.nama-facility.org](http://www.nama-facility.org)
- or contact the Technical Support Unit at [contact@nama-facility.org](mailto:contact@nama-facility.org)



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