NAMA Finance on the Ground: Lessons from CCAP’s MAIN Program in Latin America and Asia

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CCAP MAIN Program

- CCAP launched its Mitigation Action Implementation Network (MAIN) program to engage developing country policy makers in the understanding and design of NAMAs.

- Financed primarily by Germany, Denmark, and Canada, MAIN brings together multi-disciplinary teams from Latin America and Asia for Regional NAMA Dialogues.

- Includes Argentina, Chile, Colombia, Costa Rica, the Dominican Republic, Panama, Peru, and Uruguay in Latin America, and Vietnam, Thailand, Philippines, Indonesia, Malaysia, Pakistan, and China in the Asian region.

- Working on the design of 7 NAMA proposals in three countries (Chile, Colombia, Mexico and the Dominican Republic) in waste, renewable energy and tourism sectors.
CCAP’s MAIN Objectives

• Improve participant country’s capacity to design, plan and implement NAMAs that are consistent with any LEDS or national sustainable development plans

• Harvest best practices in NAMA development and implementation and provide participants with examples of successful bottom-up strategies

• Promote collaborative financing for such actions by teaching strategies to make NAMAs attractive to private sector investors, donor countries, and host country leaders

• “Learn by doing” thru concrete bottom-up NAMA design experiences

• Shape bilateral NAMA support programs, the GCF and the longer-term international climate policy architecture to mobilize public and private resources adequate to meet long-term climate goals
Initial Lessons Learned

• Host countries that effectively mobilize multiple ministries in the design of NAMAs and inspire line agencies to take leadership roles in NAMAs in their sectors are leading in NAMA development.

• Many national policy officials are not experienced in designing financial tools to maximize the impact of donor funds in NAMAs.

• Need to bring in financial experts and consult domestic lenders and private developers early in the process to help successfully craft NAMA policy/financial integration.

• NAMA financial programs should be designed to overcome local policy and financial barriers.

• NAMA programs should carefully combine policy actions with financing programs to make projects commercially viable and leverage private sector financing.

• NAMAs need a strong local “champion” to be successful.
NAMAs Becoming Increasingly Important in Post 2012 Framework

- CER prices have collapsed by nearly 90% in the last 18 months, falling to an all-time low of 1.43 EUR last week as heavy carbon credit issuances in China, Russia and Ukraine triggered panic selling in the market.

- Decline in demand for CDM will diminish CDM as a source for action in the period at least thru 2015 and likely thru 2017-18 – totally dependent on tougher developed country commitments which are not likely to be forthcoming given EU crisis and US gridlock.

- NAMA finance needs to fill this void – successful financing of NAMA implementation is key to maintaining climate policy momentum in developing countries who have shown great interest in this new mechanism.

- Goal is for NAMA funds to leverage and incentivize private sector activity on a commercial basis in investments that implement the new NAMA policies.

- Through NAMAs we have the potential to tie into much larger streams of domestic private finance.
The Off-set Supply vs. Demand Problem

Demand for offsets in 2013-2020

Supply of CERs in 2013-2020

CDM risks collapsing after 2013
No existing demand for offsets generated by new market mechanisms, unless Annex I ambition level goes up (significantly)

≈3 Gt

≈7 Gt
NAMAs vs. CDM

• Unilateral and supported NAMAs produce reductions that are used by DCs to meet their emission reduction pledges—Not offsets to help developed countries meet their emission reduction commitments.

• CDM has been narrowly focused on least cost CO2 reductions; NAMAs give countries the opportunity to target higher priority sustainable development, mobility and public health goals coupled with GHG reduction goals.

• NAMAs can also target sectors that were ignored in the CDM such as transportation.

• Supported NAMAs can create a “race to the top” if proposals from different developing countries compete for up-front financing.

• While traditional CDM is project-specific, NAMAs are designed to address sector-wide and national policies.

• MRV for NAMAs should include capacity support to host countries to measure performance against sustainable development, health, mobility and other metrics. These metrics can help sell NAMA policies to local political leaders and insure policies will continue when donor support ends.
NAMA Financial Mechanism Design Criteria

• **Acceptable to private lenders** – A financial structure that does not require lenders to compromise on lending criteria or terms.

• **Acceptable to national and local governments** – Provides private sector financing at the lowest possible costs to local NAMA program beneficiaries.

• **Acceptable to borrowers** – Financial program should not put undue burden on project developers/borrowers

• **Tailored to local conditions** - Designed to work effectively within policy and financial framework of the host country.

• **Has scale-up potential** - Developing model pilot NAMAs under an overarching national NAMA policy in a sector can lay the groundwork to attract local and/or international financial institutions to finance a stream of similar projects once the initial pilots are successful.
NAMA Financial Mechanisms Implementation Issues

• Consider local conditions
• Consider donor requirements
• Select the mechanisms which will work most effectively with the NAMA policy and overcome the barriers
• Consider the relative time and expense of setting up different NAMA financial mechanisms
• Who will manage the mechanism/program?
• How will administrative costs be covered?
• What is the exit strategy for the program?
Examples of Potential NAMA Financial Mechanisms

- Partial credit risk guarantee
- Performance risk guarantee
- Creation of special Funds or Special Purpose Entities (SPEs) to finance clean energy projects
- On-lending to national development banks
- Extension of lending maturities
- Co-financial with local banks at below market rates
- Mobilization of pension fund financing
- Price stabilization funds
- Tax Increment Financing
## Financial Mechanisms To Address Impediments

<table>
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<tr>
<th>Risks/Barriers</th>
<th>Instrument</th>
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<tr>
<td>Perceived credit quality of borrowers or entering a new sector</td>
<td>Partial Credit Risk Guarantee – but not helpful in high interest rate environments</td>
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<tr>
<td>High transaction costs of smaller-scale projects</td>
<td>Creation of Special Purpose Entity (SPE) for project implementation</td>
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<td>Lack of familiarity with technology</td>
<td>Performance Guarantee</td>
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<tr>
<td>High interest rate environments and/or lack of project revenues to cover market- terms of financing</td>
<td>Extension of lending maturities, Soft loans, Co-financing with local banks</td>
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<td>Lack of capacity in local banks</td>
<td>Special Funds</td>
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Chile Price Stabilization Fund
Market Conditions

- Chile needs 8 – 10,000 megawatts of new electricity capacity by 2020 and much will come from imported coal unless renewables can be mobilized.

- The energy market in Chile is fully deregulated, and spot market prices vary widely during the year from 3 cents/kwh to nearly 30 cents/kwh. This lack of price certainty makes it very difficult for wind and solar developers (NCRE) to get long term contracts.

- Local banks are unwilling to accept this risk and there are no financial instruments in the market to provide coverage of this risk.

- As a result, substantial NCRE potential is not being realized in Chile under current conditions.

- A Price Stabilization Fund (PSF), capitalized with NAMA resources has been advanced as an effective mechanism to address current market barriers by providing a guaranteed price for the delivery of energy from NCRE projects, based on a reverse auction.

- Project developers can take PSF contracts to banks and seek financing for projects.

- Under this program, the PSF would take spot market risk and make money when the spot market price at the time of delivery of energy to the grid is higher than the contacted price between the PSF and the developer. The PSF would sustain losses if the spot market price is below the contacted price of energy in the PSF contract.

- This proposed NAMA is an excellent example of a mechanism where significant private sector investments can be incentivized and the impact of donor funds can be multiplied many times over, plus it provides significant local development and health benefits and major GHG redux.
Colombian Solid Waste NAMA

- Colombian Interagency NAMA process identified this sector as high priority for development and health benefits as well as GHGs
- Steering group of stakeholders, facilitated by CCAP, defined an overall national waste strategy and 4 potential pilot cities
- CCAP w/ agencies and consultants conducted a scoping analysis of the full set of options for 4 cities and recommended combination mechanical/biological treatment (MBT) facilities w/ composting and recycling, coupled with RDF potential, possible LFGE as well
- Feasibility studies for 2 cities now underway financed by Environment Canada w/ goal of defining two pilot NAMAs as models for national waste strategy
- IFC is ready to come in to finance full set of similar cities if initial pilot proves out
- Exact financial design to be completed as part of feasibility study/analysis
- Excellent example of NAMA which optimizes both local benefits and GHG benefits and uses economic analysis to guide the eventual financing tools
Conclusions

• NAMA financing mechanisms are unrestricted, subject only to bilateral donor limits and bilateral agreement = a “learning by doing” opportunity

• Bilateral NAMA agreements will likely be the first set of NAMA experiences – important these are solid examples and successful

• Limited donor funds requires that first NAMAs leverage private sector financing, demonstrate host country contributions and buy-in, are sustainable and ambitious

• NAMA financing mechanisms need to be designed through extensive consultations among donors, lenders, borrowers, national and local governments

• NAMAs need to optimize GHG benefits AND sustainable development, mobility, and public health benefits – this will insure long term political support for such policies in developing countries – goal is to mainstream climate in national development plans

• MRV needs to measure full set of metrics, not solely GHGs – not as an UNFCCC mandate – but as a key element of capacity building support – a la CIFs

• Developed countries need to step up with financial commitments in 2013 – 2015 so solid NAMA momentum in developing countries is not lost
Flow of Funds and Contractual Arrangements for PSF Program

- Trust Account
  - Trust Indenture
  - Grant Agreement
  - Donor

- Price Stabilization Fund
  - PSF Payment
  - Price Stabilization Contract

- NCRE Project Developer
  - Sale of Electricity (mwh)
  - Loan Agreement
  - Commercial Bank

- Chilean Government
  - Grant Agreement

- Donor
  - Grant Agreement

- Revenue
  - Merchant Spot Market
    - marginal price at time of delivery of electricity
Thank You

Ned Helme, President

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