NAMA FINANCIAL MECHANISMS KEY ISSUES AND EXAMPLES OF INNOVATIVE NAMA APPROACHES

Brad Johnson

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CENTER FOR CLEAN AIR POLICY

NAMA FINANCIAL MECHANISM FUNDAMENTALS

- NAMA financial mechanisms must be tailored to the unique circumstances in each country to overcome specific market/financial barriers
- Leverage - strategic deployment of NAMA funds in capital structure of projects
- Sustainability – financial mechanism with a life beyond first round of supported projects
- Affordability – key to successful implementation of regulatory initiatives
- Market barriers in addition to financial barriers
- Open Architecture – NAMA resources available to class of potential investors, private sector players
- Involves consultation with 4 key players - host country officials, project developers, local banks and donor representatives

COLOMBIA TRANSIT- ORIENTED DEVELOPMENT (TOD) NAMA
BARRIERS/CHALLENGES

- Several related but uncoordinated national government, national development bank and bilateral financial assistance for housing, sustainable cities, transit and urban development are not currently coordinated to achieve maximum benefit and greater interest for private sector participation
- Location of government supported housing projects, for example, not integrated with transit development projects
- Bilateral transit development funding could benefit from greater coordination with climate mitigation programs and projects to expand and accelerate funding
- National development bank seeks greater impact from Sustainable Cities program but does not have access to other national government programs or certain bilateral initiatives

NAMA INTERVENTION

- NAMA funds provide forum and technical assistance to more effectively deploy national and international resources on a coordinated project-by project basis
- The core of the NAMA is an independent Center for the Promotion of TOD, housed within FINDETER, which would provide technical and financial assistance on TOD implementation. It would also serve a policy advisory role to further integrate national policies to promote transportation, housing, environment, economic development and social equality
- TOD Center staff will also use various government/donor resources to catalyze greater private sector participation in pilot projects
- Revisions to PPP law will be initiated to provide special incentives for private sector partnership in TOD projects
- Minimal NAMA funding generates greater impact of existing programs and initiatives when implemented in a coordinated fashion
- Example where the whole is much larger than the sum of the parts

CHILE PRICE STABILIZATION FUND (PSF) NAMA
CHALLENGES/ BARRIERS

- Chile has totally deregulated energy market where independent power producers sell electricity to a spot market and are paid marginal costs per KWh at time of delivery
- High concentration of hydro projects in Chile has a great impact on fluxuation of marginal costs. Electricity costs are much higher during dry seasons or droughts and lower during rainy season
- Independent power producers therefore do not have a fix price for the sale of electricity and the price can vary greatly from season-to-season or year-to-year
- Commercial banks and investors need fixed price contracts for the delivery of electricity to conduct project financial viability assessments
- Banks are not willing to assume market pricing risk
- Substantial number of renewable energy projects that could reduce the need for additional new coal plants to meet expanded energy demand are unable to move forward

NAMA INTERVENTION

- Creation of a Price Stabilization Fund (PSF) that executes fix price contracts for delivery of electricity with independent power producers
- Power producers take PSF contract to banks to obtain financing
- PSF assumes market price risk
- PSF would be capitalized/supported by NAMA funds and private sector investors
- Private sector entity, Antuko, has raised $15 million to start a PSF. NAMA funds would be used to expand PSF operations and extend support further up the supply curve to include renewable projects with greater capacity risk factors.
- Combined resource will greatly expand and accelerate deployment of renewable energy in Chile

COLOMBIA WASTE NAMA
CHALLENGES/ BARRIERS

- Colombia has one of the most extensive regulatory and compliance records for waste management in the Americas with 94% of waste disposed in sanitary landfills

- Colombia is seeking to move to the next step in solid waste management – reduction, reuse, recycle that will substantially cut carbon emissions from existing and new landfills. Current regulations, however, favor landfill over advanced waste management projects including waste-to-energy initiatives

- Regulatory revisions are needed to establish an economic case for improved waste management projects
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- Local banks are very liquid and are looking for viable projects to finance but require 30% equity investment for most loans to public and private sector projects

- Most local governments and private sector developers with alternative waste management projects cannot meet the 30% equity requirement

- Moreover, expected returns on equity – 15-20% - make projects economically and politically unacceptable as waste fees would need to be increased substantially to generate commercial equity returns

NAMA INTERVENTION

- Colombian government issues new regulations that create incentives for advanced waste management projects
- NAMA funds are used to establish a revolving Equity Fund to provide necessary equity to leverage local bank lending
- Return on equity investment would be moderated to make projects financially viable without undue increases in fees
- NAMA funding helps implementation new regulatory requirements
- Project sponsors/borrowers would repay loan and equity with similar maturity schedules. Repayment of equity to the fund would be used to support future projects

DOMINICAN REPUBLIC TOURISM NAMA
BARRIERS/ CHALLENGES

- Tourism is the leading foreign exchange earner in the DR and accounts for more than 15% of the GDP
- Electricity is reliable in tourism regions but prices range from 26- 43 cents per KWh and is powered in most cases by inefficient and small diesel engines
- Solid waste to energy, renewable energy, and energy efficiency have great potential to reduce D.R. dependence on high costs imported fossil fuels and make tourism industry far more competitive
- The government has put in place attractive tax incentives for investments in clean energy projects but uptake by hotels has been minimal at best
- Hotels are reluctant to invest in and manage clean energy projects as it is not a core business practice or competence
- Up-front costs and maintenance concerns are also impediments to hotel action in this area. Hotels do not want to pledge their balance sheet to obtain financing for these projects
- Moreover, the hotel business model is based on annual budgeting cycle which requires substantial first year returns for any investment. Renewable and waste-to-energy projects cannot achieve large first year returns with typical payback periods of 7-15 years

NAMA INTERVENTION

- NAMA funds are used to capitalize lease financing company
- Lease company provides financing for clean energy projects without up-front payment requirements from hotels and eliminates the need for financing on hotel balance sheet
- Lease company also assumes maintenance risk and repair responsibilities
- Lease repayments flow back to leasing company to finance future projects
- First year return requirements are eliminated as hotels do not finance projects but simply enjoy benefits of lower energy bills

PHILIPPINES CONSTRUCTION FINANCE FACILITY NAMA CHALLENGES/ BARRIERS

- To intensify development of indigenous, renewable resources in the Philippines, the government has established a Feed-in-Tariff (FIT) program

- Under the FIT program, a project developer will receive a contract for established FIT payments after a project is completed and commissioned

- This structure reflects a results-based implementation model and avoids speculation by potential developers that has created problems with some FIT and renewable portfolio programs in other countries

- However, without a firm FIT contract, smaller-scale developers with limited balance sheets are unable to get construction financing. This will limit and delay the implementation of the FIT program

NAMA INTERVENTION

- NAMA funds are used to capitalize a construction finance facility
- The facility will provide construction financing for potential FIT projects
- Once a project is completed, commissioned and in receipt of a FIT contract, the developer can obtain "take-out" financing from local banks equal to the construction finance loan
- The construction finance loan is repaid by the developer and those funds are used to provide additional construction lending to future FIT projects
- Constructions periods for many FIT projects is typically 1 year - - allows for rapid revolving of NAMA funds

THANK YOU

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