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11. Summary:

At the Conference of Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC) in Copenhagen in 2009, the developed countries committed to mobilise USD 100 billion a year by 2020 to address the needs of the developing countries in the context of meaningful mitigation actions and transparency on implementation. As a part the Danish endeavours to mobilize the needed climate finance and investments, a contribution to the NAMA Facility of DKK 73.8 million is proposed within the framework of the Danish Climate Envelope 2014. The NAMA Facility is a combined German and British initiative that aims to facilitate transformation towards a low carbon society in developing countries and emerging economies. The Facility is mobilising funds for the most innovative and ambitious NAMA Support Projects, which are considered an integral part of meaningful mitigation actions and hence the international efforts to keep the average rise in global temperature below 2 degrees compared to pre-industrial levels.

TABLE OF CONTENTS

LIST OF ABBREVIATIONS.....	3
1. THEMATIC CONTEXT.....	4
2. PRESENTATION OF PROJECT.....	5
2.1. OBJECTIVES.....	5
2.2. JUSTIFICATION OF SUPPORT AND UNDERLYING REFLECTIONS.....	5
2.3. RESULTS FRAMEWORK AND INDICATORS	7
2.4. PARTNERS.....	8
2.5. KEY INSTRUMENTS.....	9
2.6 SUMMARY OF DEVELOPMENT ENGAGEMENT AND INDICATORS.....	12
2.7 MONITORING MECHANISM.....	12
2.8 RISK ANALYSIS AND RESPONSE.....	13
2.9 DESCRIPTION OF DANISH SUPPORT'	14
2. MANAGEMENT.....	15
3. PROJECT BUDGET	16
5. EXIT STRATEGY	17
ANNEX 1: SUMMARY OF THE APPRAISAL.....	18
ANNEX 2: FUNDING MECHANISMS.....	24
ANNEX 3: DONOR FUNDING PROCEDURES.....	26
ANNEX 4: PROCUREMENT.....	27
ANNEX 5: RISK ASSESSMENT AND MITIGATION MEASURES.....	Fejl! Bogmærke er ikke defineret.

LIST OF ABBREVIATIONS

BMU	Ministry of Environment, Nature Conservation and Nuclear Safety (Germany)
BMZ	Ministry for Economic Co-operation and Development (Germany)
CCAP	Center for Clean Air Policy
DECC	Department of Energy and Climate Change (UK)
DTU	Danmarks Tekniske Universitet
DoI	Declaration of Intent
EE	Energy Efficiency
EU	European Union
EUR	Euro
FI	Financial Institution
GHG	Greenhouse Gas
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GCF	Green Climate Fund
KfW	Kreditanstalt für Wiederaufbau
LCTU	Low Carbon Transition Unit
MCEB	Ministry of Climate, Energy and Building
MFA	Ministry of Foreign Affairs
NAMA	National Appropriate Mitigation Actions
NEC	Natural Resources, Environment and Climate Change
ODA	Official Development Assistance
RE	Renewable Energy
SMEs	Small and Medium sized Enterprises
TSU	Technical Support Unit
UN	United Nations
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change

1. THEMATIC CONTEXT

The concept of National Appropriate Mitigation Actions (NAMA) was developed in the UNFCCC negotiation processes, and NAMAs now constitute national contributions by developing countries to global efforts needed to attain the two degrees goal. NAMAs are mitigation actions, which are nationally determined and voluntary taken by a developing country to deviate from its business as usual emissions and shift to low carbon development path. In principle, any mitigation action tailored to the national context, characteristics and capabilities and included in national sustainable development priorities could be considered a NAMA. Hence, NAMAs vary in scope, nature and in supportive or underlying interventions. Furthermore, they can range from a national economy-wide, sector or sub-sector goals and policies to a selection of specific activities, which may again range from regulatory interventions over financing mechanisms to intervention programmes or single interventions.

A common understanding has emerged that NAMAs need to be implemented in a monitorable, reportable and verifiable manner. Low and middle-income countries are increasingly announcing and preparing NAMAs as part of their national development strategies, and they are submitting and registering NAMAs under the UNFCCC for recognition as domestically supported actions or as NAMAs dependent upon international support for their realisation. NAMAs submitted for registration can all be considered as endorsed by the national government.

In order to make a significant contribution to global mitigation efforts, NAMAs will be dependent on the availability of financing, technology and capacity development. While NAMA preparation is widely supported by donor funding, including from Denmark, underlying shifts in technologies required for delivering real emission reductions have difficulties in accessing finance – whether on commercial terms or through public finance. This seems in particular to be true for NAMAs having high ambitions with regard to transformation potential.

This, combined with the perceived low speed of disbursement, the conservative nature of existing climate finance and the emphasis put on NAMA implementation in climate negotiations, led the German Federal Ministry of Environment, Nature Conservation and Nuclear Safety (BMU) and the UK Department of Energy and Climate Change (DECC) to establish a NAMA Facility in 2013 with the aim of being able to fund the most transformational parts of NAMAs through unlocking public and private sector finance in countries that show leadership in tackling climate change. The established NAMA Facility is open for other multi- and bilateral donors. During 2014, Denmark as well the European Union investigates the possibility to co-finance the NAMA Facility.

The Danish Climate Envelope assists developing countries to adapt to climate changes, transfer to low carbon economies and prepare to enter into a new global climate agreement. It is administered as an integral part of the Danish official development assistance (ODA) at the Ministry of Foreign Affairs (MFA). All development engagements supported from the Climate Envelope are in line with the Strategy for Danish Development Cooperation – the Right to a Better Life (2012) – and the Strategic Framework for Natural Resources, Environment and Climate Change (NEC) 2013, which defines priorities and instruments for development assistance within green growth. The Right to a Better Life and the NEC Strategy constitute the strategic framework, which the Climate Envelope and its development engagements - including support to the NAMA Facility - are contributing to.

2. PRESENTATION OF PROJECT

2.1. OBJECTIVES

The objective of the NAMA Facility is to facilitate transformation towards a low carbon society in countries with NAMA Support Projects. This is achieved by supporting the realisation of ambitious NAMAs in climate-relevant sectors in developing countries and emerging economies. This contributes to direct reductions of Greenhouse Gas (GHG) emissions and shows how nationally adapted, but also ambitious, NAMAs can be financed and implemented, thus encouraging and enabling more countries to develop NAMAs and mobilise additional public and private financing.

Until the establishment of the NAMA Facility, no international financing mechanism has been in place to directly address the need for raising funds for their implementation. The Facility is a relevant instrument to address this lack of funding.

2.2. JUSTIFICATION OF SUPPORT AND UNDERLYING REFLECTIONS

Relevance

The objectives of the Climate Envelope are to assist developing countries with transition to low carbon economies and preparing them to enter into a new global climate agreement. Support to the NAMA Facility is relevant in relation to these objectives.

There are several opportunities for synergies between the NAMA Facility's work and other development engagements funded from the Climate Envelope. With regard to creation of enabling environments and catalytic financing instruments for climate relevant sectors, the NAMA Facility complements current development engagements funded by the Global Frame of the Climate Envelope. For instance, the Global Climate Partnership Fund targets to mobilize public and private capital into climate financing in developing countries and emerging economies, and the bilateral energy program in Vietnam comprises the establishment of a financing instrument targeting investments in energy efficiency (EE) improvements and RE in SMEs.

Further, support to the NAMA Facility complements the LCTU NAMA readiness activities including participation in the Pilot NAMAs in Peru and Vietnam and the work on emissions baselines and abatement potentials in specific countries, which serves as input to NAMA development. Denmark has also supported NAMA readiness activities carried out by UNEP-DTU, including the NAMA Support programme "Facilitating Implementation and Readiness for Mitigation", and the on-going "Readiness – Mitigation and Adaptation" project, which promotes private sector involvement in design, implementation and financing of NAMAs. Support to NAMA readiness activities has also been provided to the Center for Clean Air Policy (CCAP) – "Mitigation Action Implementation Network", which assist 15 countries in Asia and Latin America in developing NAMAs. The NAMA Facility provides an opportunity to expand the readiness activities into NAMA implementation.

National ownership of the NAMA Support Projects is enhanced by the fact that all funding delivered through NAMAs will be part of country approved sector wide strategies. The tailor made interventions that are part of the specific national contexts of sector wide strategies endorsed by the national government, are safeguard mechanisms for national ownership.

Furthermore, national ownership is one of the Facility's eligibility criteria. While it is a requirement that national counterparts sign off on the application to the NAMA Facility, real national ownership is demonstrated when the NAMA Support Project is part of broader national policies and strategies and when national co-financing is provided by the Ministry of Finance.

There are a number of reasons why a specific NAMA Facility is relevant, as compared to the alternative of utilising one of the existing climate finance mechanisms: Due to the risks involved in financing largely unknown and more transformative parts of NAMAs, it will be difficult to attract sufficient financial resources on normal terms to finance such investments. The NAMA Facility with its innovative financing mechanism is working to break this resistance and un-lock new finance. Furthermore, there is a mismatch between the pressure to act on climate change and the speed of disbursement of currently available finance, which can be alleviated by a faster financing mechanism. The success of the NAMA Facility depends amongst other things on its ability to leverage both public and private sector financing in beneficiary countries, both for the NAMA Support Project and for implementation of the full NAMA. Where Facility funding will be able to catalyse funding of the full NAMA, the perspectives for scaling up Support Projects will be highest.

While existing flows of climate finance in principle could be able to fund implementation of full NAMAs in future, funding of transformational parts of NAMAs will be difficult in the short term a.o. because of the risk profiles of donors. This makes the objective of the NAMA Facility highly relevant.

Effectiveness

The support is considered to be effective as the two outputs are directly addressing the NAMA Facility outcome. The TSU has been established, staffed and its operational procedures put in place. This will enable it to continue making calls for NAMA Support Project outlines – with a third call expected during 2015. Further, it will continue appraisal and selection processes as well as monitoring and evaluation (M&E) activities of NAMA Support Projects until their completion. With two delivery organisations contracted, addressing financial and technical cooperation respectively, mobilisation of additional capital will be pursued.

With an increasing number of transformative NAMA Support Projects being funded, the demonstration effect has the opportunity to increase the likelihood of high quality NAMA Support Projects in more countries to be supported. This effect requires that the NAMA Facility continuously pursue an effective information strategy to provide good practises and examples of successful transformative NAMA Support Projects. Public relations and communication is one of the NAMA Facility activities.

The UK appraisal considered ten options for support to NAMA implementation and found non-earmarked support to the NAMA Facility together with the German BMU the most feasible on the basis of effectiveness considerations amongst other issues.

Efficiency

Day by day management of the NAMA Facility is provided by a small TSU, and a number of the Facility Board meetings are virtual, both of which contribute to efficiency of the NAMA Facility. Economies of scale are exploited through several donors providing non-earmarked

funding to one Facility, which is contracted out by the lead donor to two existing organisations. The two step application procedure, where only NAMA Support Project outlines are required to be prepared during the first step, reduce the waste of resources in applicant countries for preparation of full-fledged NAMA Support Project proposals. While the necessary resources are used for appraisal and preparation of full project proposals, competitive selection of consultants is applied, which is expected to increase cost efficiency.

KfW and GIZ are assigned as delivery organisations – but in a number of cases this responsibility will be delegated to third party organisations, if these are found more appropriate. Third party delivery organisations will be contracted through KfW/GIZ, which implies an additional cost in terms of overhead.

The UK appraisal carried out a cost-benefit assessment of the NAMA Facility to be set up, and found an acceptable value for money level, in particular where large mobilisation of private capital in delivering GHG emission reductions will be secured.

Sustainability

The NAMA Facility is established as an interim set-up. At present, the contract between BMU and KfW/GIZ runs until 2019, but is likely to be extended in time depending on completion of NAMA Support Projects to which KfW has provided finance and GIZ technical support. After completion of all Facility supported projects, the Facility will be closed. Sustainability thus lies with the NAMA Support Projects being implemented in individual countries. The sustainability will vary from project to project, but the level of ambition is assessed at appraisal stage, and the full Support Project proposals includes details on project sustainability.

Impact

By supporting countries in implementation of the most transformative elements of their NAMAs, the NAMA Facility contributes to ensuring long term impact by facilitating the transformation of beneficiary countries towards low carbon societies. The focus on funding of the more risky and transformational part of NAMAs provides an opportunity for demonstrating that such projects are viable and could be considered for replication in other countries, also with more conservative funding.

At the individual project level, transformational change is both an ambition criterion and a mandatory core indicator of all NAMA Support Projects. At the wider Facility level, it is a challenge to secure learning on the transformational impact, when it is an open ended facility with no country or sector focus, but consists of a broad menu of sectors and projects. While the NAMA Facility may not be capable of generating generally applicable lessons, it may have a relevant role in generating examples for inspiration and exchange of experiences. A focus area by the Facility Board will be measurement of the transformative impact and implementation of corrective actions, if required. Decisions by the Facility Board in this respect will a.o. be based on recommendations provided by the mid-term evaluation.

2.3. RESULTS FRAMEWORK AND INDICATORS

While the NAMA Facility has already been established and is in operation, it is to a certain degree still work in progress. The initial focus has been on the establishment and initiation of first and second calls for projects, in order to demonstrate that funding will flow to

transformative mitigation projects. Important areas that still have to be finalised include the Results Framework, the associated theory of change, and the formalisation of operations, decision making and communication of the NAMA Facility Board. The description of objectives, outputs and indicators are therefore still in draft form.

The NAMA Facility operates with seven mandatory core outcome indicators: 1) The NAMA Facility is established as a mechanism for supporting the implementation of ambitious and transformational NAMAs; 2) Reduction of (direct and indirect) GHG emissions; 3) Volume of private finance mobilized; 4) Volume of public finance mobilised; 5) Number of users in target group; 6) Transformational impacts achieved through the NAMA facility and; 7) Impacts of the NAMA facility on the engagement of countries in the development of climate change mitigation measures. There are no targets set for the NAMA Facility outcome indicators.

The outcome indicator selected for reporting to the monitoring system of the Danish MFA in the short term is reduction of (direct and indirect) GHG emissions. The baseline is zero, in the year 2012.

The proposed indicator for the transformational impact achieved is relevant as support to transformation is core to justifying the NAMA Facility. However, the methodology for this indicator needs to be defined and operationalised before it can be used as a basis for reporting to the Facility Board and supporting donors. When developed, it can also be reported to the monitoring system of the Danish MFA.

Sustainable development of co-benefits is not included at the outcome level. Co-benefits include welfare and poverty reduction and wider economic benefits like productivity improvements, improved employment, and economic growth. Instead it is included at the operational level of the NAMA Facility by being one of the ambition criterias for NAMA Support Project selection, and one of the seven mandatory outcome indicators is number of users in the target group as an indication of co-benefits.

The Human Rights Based Approach is incorporated in the NAMA Facility in various ways. The two primary delivery organisations (KfW and GIZ) each have to follow the human rights guidelines set by the German Ministry for Economic Co-operation and Development (BMZ). As part of its corporate responsibilities, GIZ has signed up to the UN Global Compact and follows the UN Guiding Principles on Business and Human Rights. KfW is obliged to analyse the human rights situation in all its projects to assure that human rights standards are met. This includes assessing the impact on human rights of each project during the appraisal phase and, if necessary and possible, change the project design. In case an adapted project design is not possible, the project will not be approved. The Human Rights Based Approach is yet to be reflected at the NAMA Support Project level.

2.4. PARTNERS

The two core organisations responsible for implementation are Kreditanstalt für Wiederaufbau (KfW) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). The KfW Group is owned by the German Federal Government and is a corporation established under public law. It has offices in more than 70 countries and has above 5,300 employees. Its balance sheet value was EUR 465 billion in 2013. The KfW Development Bank (member of the KfW

Group) is responsible for carrying out development cooperation activities. Its main client is the BMZ, which has mandated KfW to carry out German Financial Cooperation with developing countries. The mission of the KfW Development Bank is 1) to contribute to reduce poverty, ensuring that globalisation affords opportunities for everyone, 2) to protect the climate and conserving natural resources and 3) to safeguard peace. KfW receives most of its funds from the capital market and is able to raise funds at lower interest rates than commercial banks because it is exempt from corporate taxes and the federal government guarantees its bonds.

GIZ was established in 2011 and is a German Federal Government 100% owned enterprise established under private law. GIZ operates in more than 130 countries and has above 16,000 employees. More than 80% of its turnover (EUR 2.1 billion during 2012) is with BMZ. GIZ delivers advisory services and implements projects, for example within the area of climate change and environment. Furthermore, it assists the German Government within the field of international climate policy and in relation to all climate policy issues. GIZ is bound to its gender strategy, the BMZ strategy paper on the rights of children and youth, and the policy on disability and development.

DECC prepared the UK Business Case, including a Delivery Partner Review, which constitutes the basis for approving the allocation of funds for the Facility. The UK Business Case addressed several issues that are equally relevant when considering the provision of Danish funding. A range of options for partners were considered, and the GIZ/KfW system was found to be the preferred implementing mechanism for fast-tracking support. One of the alternatives was UK establishing its own implementation mechanism. However, this solution was not considered suitable, as it would create a parallel structure. In the Delivery Partner Review of GIZ and KfW, the strategic performance management, financial resource management, cost and value consciousness, partnership behaviour, transparency and accountability and skills and resources were all considered acceptable. This made KfW and GIZ appropriate recipients of UK climate funding. Furthermore, the organisations have comprehensive experience and reputation of implementation of large projects.

2.5. KEY INSTRUMENTS

NAMA Support Projects

Through NAMA Support Projects, the NAMA Facility funds the most innovative and transformational parts of NAMAs by complimenting existing or new funding.

After the first call for NAMA Support Project outlines, four proposals are under in-depth appraisal (mid 2014):

- Self supply renewable energy in Chile
- Transit oriented development in Colombia
- Low-carbon coffee in Costa Rica
- Sustainable urban transport programme in Indonesia.

In addition, a pilot project, Sustainable housing in Mexico, started implementation in 2013. The projects have been selected for appraisal on the basis of the established criteria, including transformational change, co-benefits, leverage of funding, mitigation potential and feasibility criteria.

It is widely recognised that enabling environment is required to achieve real transformation towards a green development path. To improve the enabling environment, technical support is often required. However, the process can be further accelerated by the incentives provided through availability of financial assistance. For this reason, the Nama Facility provides technical support and institutional and regulatory capacity development combined with or closely linked to financial instruments. A structured approach to achieve synergies between the elements of technical and financial support will increase the effectiveness of the NAMA Facility.

The transformational elements vary from project to project. For example, in Chile the NAMA Support Project proposes to reduce GHG emissions by fostering Renewable Energy (RE) systems in Small and Medium sized Enterprises (SMEs). This will be achieved by removing barriers and incentivise incorporation of decentralised RE systems in private and public infrastructure in the short term. To counter the lack of incentives and experience in financing RE among project investors and financial institutions (FI), co-financing will be provided for feasibility studies, investment grants, training and advisory services. Furthermore, a guarantee fund to support provision of loans to FIs will be established.

The Indonesia NAMA Support Project proposes to establish a Sustainable Urban Transport Fund in selected cities to co-fund transport demand management measures. This could include initiatives such as “park and ride” facilities, the building of sidewalks and bicycle networks, as well as providing technical assistance to local governments for reviewing Transport Master Plans and approaching investment programmes, national grant schemes and the private sector for co-financing. Both technical and financial support will be provided to the urban transport fund.

Funding mechanisms

Based on experience obtained from the first call, it is envisaged that a typical NAMA Support Project with large transformative impacts will receive EUR 6-12 million of grant funding. As such, the Danish contribution will in principle enable one maybe two additional support projects to be financed. With the available funding of about 118 million EUR from BMU and DECC, this will enable 10-20 interventions to be supported. The distribution of funding between KfW and GIZ is budgeted as 60-40%, i.e. KfW will receive about EUR 70 million.

One of the advantages of the chosen model is that a relatively small donor grant of 6-12 million EUR is able to finance larger interventions with large transformative impacts through leverage of both public and private funds.

The donor grant funds are expected to be leveraged through two channels: (a) “Public finance” by KfW, mobilising additional funds from the capital market and recipient government providing funding, and (b) “Private finance”, typically mobilised from the financial sector in the recipient country in question. Further details regarding the Facility’s funding mechanism can be found in Annex 2.

Project selection and implementation

An open and competitive project selection process is used to achieve a higher degree of value for money and to ensure that only the best quality projects will be selected for funding. The NAMA Facility has an open-ended demand driven set-up with no regional or sectoral focus.

The first call was made 10 July 2013 and was open until 2 September 2013. During this period, 47 support project outlines were received, and 19 were found eligible. This led to four projects being selected for in-depth feasibility and appraisal assessments. Of the 47 project outlines received, 15 covered energy efficiency, 12 renewable energy, 7 waste and waste water treatment and 5 transport. Forestry, agriculture and land use projects accounted for 6 project outlines. Project outlines were roughly equally distributed between Africa (30%), Asia (36%) and Latin America (28%). None of the selected projects from the first call was from Africa.

The second call was announced in April 2014 and was open until 15 July 2014. By making the second call open for a longer period, it is expected that the number of high quality Support Projects will be larger. By the end of the period, 49 proposals were received. The project outlines are currently being evaluated by the Technical Support Unit (TSU) of the NAMA-Facility.

The project selection process is divided into different stages: The first step is a check against the pre-set criteria, including

- General eligibility: Endorsement by national government, concept for phase-out, ODA eligibility and readiness for implementation
- Ambition: Transformational potential, mitigation potential, sustainable development co-benefits and financial ambition)
- Feasibility: The degree to which NAMAs are nationally and internationally embedded, project structure and finance, result framework and Monitoring and Evaluation (M&E)

The second step is an in-depth appraisal, including a thorough feasibility analysis, preparation of an implementation plan and a detailed Support Project proposal. The appraisal is carried out according to terms of reference following a TSU designed template. The responsibility for undertaking the appraisal lies with the delivery organisation (KfW, GIZ or third party deliver organisation).

The TSU evaluates submitted project outlines according to the step 1 criteria and submit step 2 appraisals and recommendations to the Facility Board. To avoid conflict of interests of KfW and GIZ, it is the responsibility of the Facility Board to decide which projects should be subjected to in-depth appraisal and afterwards make the approval of projects, provided they have been found feasible. With only a smaller number of projects (compared to applications) being funded, the two-step system is considered suitable as it saves a significant amount of resources in detailed project preparation. In practise it is difficult to reject a proposal that has been selected for in-depth appraisal due to the expectations raised. The decision by the Facility Board of which projects to continue for in-depth appraisal, is therefore crucial.

Implementation of Support Projects is the responsibility of either the KfW/GIZ or third party delivery organisations. Examples of third party delivery organisations (from first call) are Financiera de Desarrollo Territorial S.A. and Center for Clean Air Policy (CCAP) for the transit oriented development in the Columbia, and UNDP together with CCAP for the proposed tourism and solid waste project in the Dominican Republic (not selected). KfW/GIZ will hold the contracts with approved third party delivery organisations. Third party delivery organisations will be subject to a Delivery Partner Review or similar before being approved as recipient of funds. While it is the Facility Board that makes the final decision on implementation by KfW/GIZ or a third party delivery organisation, in practise this is in most

cases decided by the applicant in the bid phase when submitting the Support Project outline, as this has to include information on the proposed delivery organisation. The delivery organisation will typically also have been involved in preparation of the Support Project outline.

Given the need to implement Support Projects globally and effectively, the KfW/GIZ system is found to be a sufficient implementation mechanism for the Danish support. Further to this, Denmark already has a record of transferring money through the German aid system e.g. in the Global Climate Partnership Fund.

2.6 SUMMARY OF DEVELOPMENT ENGAGEMENT AND INDICATORS

There are two outputs of the NAMA Facility.

Output 1: Technical Support Unit – Management of NAMA Facility

A Technical Support Unit is set up and supports the implementation of the NAMA Facility.

There are 10 output indicators for output 1. The one selected for reporting to the monitoring system of the Danish MFA is number of bids/applications to the NAMA Facility. The baseline is zero, in the year 2012. By end 2013 there were 47 applications received. There is no target set by the NAMA Facility for the number of bids.

Output 2: NAMA Support Project portfolio:

Nationally adapted, but ambitious and transformative NAMA Support Projects, are selected and supported with the assistance of financial and technical cooperation.

There are 5 output indicators for output 2. The one selected for reporting to the monitoring system of the Danish MFA is number of projects selected and implemented. The baseline is zero, in the year 2012. There is no target set by the NAMA Facility for the number of selected and implemented projects.

2.7 MONITORING MECHANISM

The accountability of the NAMA Facility is ensured through regular monitoring and reporting. For this purpose, the Board has established a M&E framework for both Facility monitoring and for guiding Support Projects on monitoring and reporting of core mandatory indicators as well as sector specific indicators. Core mandatory indicators include reduction of GHG emissions, volume of private and public finance mobilised, number of users in target groups, transformational impact and impact of the NAMA Facility on engaging countries in the development of climate change mitigation measures. The two levels of the M&E Framework complement each other: (i) NAMA Facility M&E, under the responsibility of the TSU and (ii) specific NAMA Support Projects, under the responsibility of the delivery organisations. This framework is in line with donor requirements of result based monitoring.

The NAMA Facility M&E includes semi-annual and annual Facility reviews, a midterm evaluation as well as an ex-post independent evaluation. The midterm evaluation will provide information to the Board on overall performance and lessons learned, enabling adjustments to be designed and implemented as required and provide input into the future status and structure of the NAMA Facility. The final independent ex-post evaluation will focus on the contribution of the Facility to the outcomes. The Danish MFA will nominate a representative to participate in the midterm evaluation.

In addition to the Facility M&E, each NAMA Support Project has its own M&E responsibilities. Each project is required to provide an M&E plan within the first year of implementation, semi-annual reports, annual reports and a final project report. Apart from reporting on physical and financial progress, the annual reports must focus on indicators and risks as described in the results framework of each Support Project. The final report, to be made within 6 months of project completion, must also discuss achieved results at output and outcome levels as well as make an assessment of the wider impact of the intervention in view of possibilities for replication. For each NAMA Support Project there are three types of indicators: Mandatory, sector specific outcome and project specific output indicators. It is the responsibility of the TSU to monitor implementation of each NAMA Support Project on the basis of its results framework, M&E plan and reports. The Board can commission an independent evaluation of any of the NAMA Support Projects midterm or after project completion. The TSU includes M&E results in its regular reporting to the Board.

2.8 RISK ANALYSIS AND RESPONSE

Four major risk factors have been identified:

1. Lack of potential projects that are sufficiently ambitious and fit the funding criteria for the NAMA Facility
2. KfW/GIZ will not deliver as expected
3. Risk of fraud/corruption in administered funding
4. Little private sector leverage

While the impact of all four risk factors is high, the likelihood of (i), (ii) and (iii) are judged low and (iv) is judged medium. The risk analysis and response are summarised in Annex 5.

Risk 1: Lack of potential projects that are sufficiently ambitious and fit the funding criteria for the NAMA Facility

The experience from the first call was that less than half of the submitted Support Project outlines were found eligible. Among the 19 eligible project outlines, the NAMA Facility was able to select four potential high quality projects. As these four projects have exhausted the available funding for the first call, the risk of lack of high quality projects has not yet materialised. With some countries submitting more than one NAMA Support Project outline and with the expectation of some (revised) projects being re-submitted in the second and third call, the number of Support Project outlines are expected to be high enough for the Facility Board to select a number of high quality Support Projects that will exhaust available funding. However, the experience from the first call was that many Support Project proposals had weaknesses in their feasibility, including lack of a well-developed project structure, results framework, the concept for project finance, in particular an early involvement of financial actors and structuring and preparation of financial support mechanisms. Mitigation is ensured by providing more information to Support Project submitters on the criteria and requirements of NAMA Facility funding.

Risk 2: KfW/GIZ will not deliver as expected

KfW and GIZ have been selected as the primary delivery organisations on the basis of their experience, reputation and relevance for the NAMA Facility, and a comprehensive Delivery Partner Review has been carried out for both organisations. Further, the two organisations

second staff to the TSU, and they are in most cases responsible for carrying out appraisal of Support Project outlines. However, this is not a guarantee for successful implementation. The substantial involvement of the two organisations at most stages of the project cycle is like laying many eggs in one basket, increasing the reliance on the capabilities of the two organisations at every step. Should either the Facility or projects perform poorly, specific mitigation measures will be decided by the Facility Board, depending on the issues to be addressed. The M&E system is expected to be able to detect poor performance, both at the Facility and project level, and the Board is expected to be able to identify the need for corrective actions at both levels. This institutional set up put pressure on the Facility Board to act independently of KfW and GIZ.

Risk 3: Risk of fraud/corruption in administered funding

The risk of fraud/corruption in the two pre-selected delivery organisations GIZ and KfW is highly unlikely. However, in third party delivery organisations, especially the less known ones, this risk is higher. The involvement of many actors at country level, being funded through the delivery organisations, pose a risk of mismanagement of resources, which varies from country to country. The risk is mitigated by carrying out Delivery Partner Reviews of third party delivery organisations, insistence of transparency of all institutions receiving funding and compulsory value for money and financial audits.

Risk 4: Little private sector leverage

The success of the NAMA Facility is dependent on the leverage of in particular private sector funding as a supplement to NAMA Facility grant and KfW raised loan funding. Projects selected from the first call have shown little leveraged private sector funding in the beneficiary countries. One challenge seems to be the early involvement of private financial actors, as well as the structuring and in-depth preparation of financial support mechanisms. The mitigation measure is that the TSU must assist in the design stage of the NAMA Support Project Proposal.

2.9 DESCRIPTION OF DANISH SUPPORT

Specific Danish objectives for supporting the NAMA Facility are the contribution by the NAMA Facility to GHG emissions reduction and demonstrating to developing countries and emerging economies that funding is flowing to mitigation activities as pledged. In addition, important objectives of the Danish support are to contribute to transformational impact of NAMA Support Projects and to secure the highest possible degree of leverage in terms of sourcing private sector funding to NAMA Support Projects. This will prepare the ground for the Green Climate Fund (GCF) through learning and wider knowledge-development on innovative mitigation financing mechanisms. Africa, being a high priority region for Danish ODA, is also expected to receive support from the NAMA Facility. In case there is a need for special assistance to develop high quality project proposals and full NAMA Support projects, support should be provided for this purpose. In terms of learning, it is also expected that countries are spurred to develop ambitious and strong pipelines of NAMAs, increasing their national contributions to global efforts for abating climate change. These areas will be given specific attention by the Danish Board member, being nominated by the Ministry of Climate, Energy and Building (MCEB). The Board member will either be from the MCEB or the Danish Energy Agency and be supported by the Ministry of Foreign Affairs in matters related to fund administrative and technical issues.

The assigned Danish Board member will in particular prioritise and influence the Facility Board in relation to selection of NAMA Support Project outlines, which will undergo appraisal, as this in practise is where decisions are made on country, sector and implementing partner, and where the transformational and GHG emission reduction impact of the NAMA Facility overall can be influenced. Other strategic priorities will be decided upon by the MCEB as needs arise.

Danish support will be provided to the NAMA Facility established by the BMU and DECC. It will be non-earmarked, support implementation of NAMAs and the secondment of a long-term international adviser to the TSU.

The Danish Board member will receive all information and reports provided by the TSU to the Facility Board and participate in Board meeting discussions. In view of the specific Danish objectives of supporting the NAMA Facility, the MCEB/Danish Energy Agency will on this basis report annually on overall progress on the specific objectives as well as on important strategic issues to the Danish MFA. The Danish Board member will also ensure reporting on selected indicators to the monitoring system of the MFA. Reports on the full set of indicators will also be provided to the MFA.

2. MANAGEMENT

NAMA Facility Board

The highest decision making body is the NAMA Facility Board. Each of the donors to the NAMA Facility can nominate a member to the Board. The Board can decide to include additional observers to the Board, e.g. from think tanks or other international bodies. At present this option is not pursued, as speedy and lean decision making processes are prioritised.

The responsibility of the NAMA Facility Board include strategic control, overseeing the NAMA Facility and approving NAMA Support Projects, annual work plans and budgets, financial audits as well as annual and mid-term evaluation reports. The Board also conduct a review of the Facility every six months. Except for the annual review of the Facility where the Board meet in person, the other meetings are conducted virtually by means of videoconference, phone or e-mail correspondence. Minutes are made and kept for all decisions made irrespective of the meeting modality. All decisions in the Board are taken unanimously, which enables each of the donors to veto support to any NAMA Support Project. The operation, decision making and communication of the Facility Board will formalised in view of more donors participating in the Facility.

Technical Support Unit

The TSU is responsible for the day-to-day management of the Facility under the overall guidance of the Board. The TSU consists of three full-time staff, a financial controller (part time) and a trainee. The head of TSU has been delegated by KfW, and the deputy head, adviser and financial controller by GIZ. In addition, it is expected that the TSU will be supplemented by a part-time office manager and an additional technical expert (seconded by KfW) on financial modalities.

The capacity of the TSU is critical to enable the NAMA Facility to effectively achieve its goals and deliver under the increasing pressure, especially on learning, and that country level/project experience is normally needed to ensure fully adequate desk-assessments of proposals. Further the broad scope of projects in terms of countries and sectors make up a professional challenge for the limited number of staff. Secondment of a long term Adviser for a two years period starting in 2015 will be provided as part of the Danish funding to the NAMA Facility. The secondment is expected to contribute with project level experience, and by sharing Danish energy and mitigation expertise, as well as contribute to a closer contact between Danish institutions and the NAMA Facility.

The Facility Board will, as one of its responsibilities, continuously assess the independence of the TSU from the KfW and GIZ to ensure that conflicts of interest will not materialise.

Financial management

Financial management, including budgeting, accounting, auditing and reporting follows internationally recognised procedures. Apart from the annual work plans and budgets, the NAMA Facility Board approves yearly financial expenditure reports of the Facility. In addition to this reporting, quarterly financial expenditure reports are forwarded directly to each of the donors.

The GIZ has internal project control processes in place for ensuring the correctness and cost effectiveness of financial and administrative procedures in compliance with GIZ regulations. KfW has appropriate financial accountability mechanisms, risk management procedures, an internal audit function reporting directly to the KfW Executive Board as well as an internal control system in place. In terms of cost effectiveness, KfW is audited by the internal audit department, its external auditors and the National Audit Office for Value for Money audits.

The detailed arrangement between BMU and DECC states that the KfW and GIZ accounts to which disbursement are made will be interest bearing and that the accrued interest will be used for Facility purposes. As Danish funding will not be earmarked and not deposited in a separate bank account, it will not be possible to calculate interest on the Danish contribution separately.

Further details on donor funding procedures and procurement are included in Annexes 3 and 4.

3. PROJECT BUDGET

The NAMA Facility does not operate with output based budgets.

Table 1 Budget according to source (EUR million)

Donor	2013	2014	2015	2016	Total
BMU	40	20	0	0	60
DECC	29	29	0	0	58
Denmark	0	9,7	0,1	0,2	10
EU	0	0	15	0	15
Total	69	58,7	15,1	0,2	143

Notes: EU: Preliminary indication. Rounded figures.

It is expected that BMU and DECC will provide additional funding during 2015 and 2016. Furthermore, it is expected that Denmark will provide additional funding in 2015, subject to parliament approval.

Table 2 Danish Contribution (Million DKK)

Budget line	2014	2015	2016	Total
NAMA Support Projects	71,3	0	0	71,3
Secondment	0	1,0	1,0	2,0
Mid term evaluation and Board meetings	0	0,1	0,4	0,5
Total	71,3	1,1	1,4	73,8

5. EXIT STRATEGY

The longer term status of the Facility is still undecided and there is currently no exit strategy for the Danish engagement. At present, it is regarded as a temporary mechanism. The TSU is funded well into 2016, and provided that Support Projects have duration of 5 years, the NAMA Facility will still be in operation at least until 2021/2022.

The Green Climate Fund (GCF), which is ready for raising finance during 2014, might be able to provide the pre-dominant funding of NAMAs when it is operating modalities and institutions are fully in place. At present, it is however unknown when the GCF will be able to effectively disburse funds, but it is not expected to be within the next couple of years. Should it at a later stage be decided that the GCF should be the main financing vehicle for NAMA financing, the NAMA Facility can test alternative delivery mechanisms focussed on transformative parts of NAMAs in the interim period. The results and experience would be important contributions the future work of the GCF.

Depending on the evolvement of the GCF, a transition strategy for the NAMA Facility vis-a-vis the GCF might need to be discussed and agreed by the Facility Board. In that case, the transition strategy will be made in close cooperation with the GCF Board. Considerations in the exit/transition strategy will a.o. be the need for completing on-going NAMA Support Projects, if additional calls for project outlines should be carried out and methods to effectively transfer the learning and good practises from the NAMA Facility to the GCF. Potential future Danish funding to NAMAs will take into account the recommendations of the transition strategy.

Annex 1: Summary of the appraisal

Template for summary of recommendations of the appraisal

The final appraisal report¹ must include this table summarising the recommendations regarding the further preparation of the Country programme. Only major recommendations of the appraisal report requiring action from the Danish Mission must be specified in the left column below, and the table must be signed by the team leader/TAS representative and received by the Danish Mission no later than 14 days after the end of the appraisal process. “N.a.” is indicated in case there are no recommendations regarding the issue concerned.

The right column is filled in by the Danish Mission, when the final country programme document and development engagement documentation have been prepared, and the table must be forwarded to the Under-Secretary for Global Development and Cooperation and TAS as soon as possible, and no later than five weeks before the planned presentation of the Country programme to the External Grant Committee of Danida, i.e. two weeks before the request for inclusion of the country programme on the External Grant Committee’s agenda is forwarded to KVA.

Title of (Country) Programme	Support to the Nationally Appropriate Mitigation Actions Facility Under the Climate Facility 2014
File number	
Appraisal report date	8. September 2014
Grant Committee meeting date	7. October 2014
Summary of possible recommendations not followed (to be filled in by the Mission)	

¹ This table is only mandatory for programme support appropriations when TAS is involved in the appraisal, but may also be useful in smaller instances of programme support, when the appraisal is undertaken by external consultants.

Overall conclusion of the appraisal

The NAMA Facility's objectives are well in line with the objectives of the Climate Envelope and that Danish participation in the NAMA Facility would provide opportunities to promote other Danish strategic priorities in regard to low carbon development, especially in preparation of the GCF. The Facility's clear requirement for NAMA support projects to support transformational change, scaling up of finance and activities, on securing quality of project during competitive bidding and on national ownership and commitment for projects, makes the Facility a relevant mechanism for generating results and learning, which can be transferred to the GCF. Furthermore the Facility includes an important combination of support to strengthening of the enabling environment through the technical component (GiZ) with support for investments through the financial component (KfW).

Finally, as also confirmed by DECC, in the Delivery Partner Review, the implementation mechanism based on the GIZ/KfW system, with its global network and proven record, appear so far well chosen for the purpose of fast-tracking support for implementation of NAMAs and not least in view of the temporary nature of the facility.

The NAMA Facility has made good progress with the establishments of the Technical Support Unit, development of guidelines and already two calls for implementation of NAMA support projects initiated. Implementation on the ground of first round of support projects soon to be initiated. This progress is impressive considering the short lifespan (initiated in 2013) of the facility and could hardly have taken place without the use of a proven and functional system such as KfW/GiZ. The Facility appears to have established a fully adequate basis to justify the proposed Danish support. The value of implementing through and proven development organisation with a proven global network appear, so far, to be confirmed.

Still, the Facility is in early stages of development and adjustments of procedures and processes still needed, not least if more donors will join. There is a need to shift some focus from project mobilization to implementation of projects and to clarify in the projects, the synergy between the inputs from KfW and GiZ. The draft Result Framework should be finalized to ensure a common reference and monitoring tool and the annual independent evaluations (reviews) should be implemented. Cross-cutting issues (including HRBA) should be addressed explicit in the projects and analysis of political economy strengthened. Further, it would be important to further concretize and operationalize the Facility's understanding of transformational change and develop the theory of change within the NAMA support projects. German and UK partners all agreed that further progress was needed in these areas. Still it must be noted that this is improvement of an already well developed system.

The Danish Project Document provides a good basis for the support, but needs to be further development. In particular, the synergy with other Danish supported programs needs to be explained and management, budgets and reporting procedures need to be elaborated. It would be important to clarify the timeframe of the Danish support and the Danish involvement involved in the Board of the Facility. The possible secondment of a Danish expert to the Technical Support Unit was supported by the German and British partners. A secondment could ensure transfer of Danish experiences to the Facility and provide important learning back to MCEB.

Should the Facility be successful also during implementation of NAMA support projects, it would be relevant, at an appropriate not too distant time, to discuss the relevance of maintaining the Facility, as a lean "frontline" facility with high degree of flexibility, risk willingness and insistence on quality and transformative aspects, as complementary to the GCF.

Recommendations by the appraisal team	Follow up by the Representation
1. Country programme Level:	
1. Justification and rationale of the country programme, preparation process and strategic linkages between country programme vis-à-vis the country policy document.	
1.1 N.a.	1.1
1.2	1.2
2. Thematic Programme Level:	
2. Consideration of relevant Danida strategies.	
2.1 N.a.	2.1
2.2	2.2
3. Proposed thematic programme support design including rationale, effectiveness, efficiency, impact and sustainability and partner choices.	
3.1. N.a.	3.1.
3.2.	3.2.
4. Adherence to the aid effectiveness agenda	
4.1. N.a.	4.1.
4.2.	4.2.
5. Budget	
5.1 N.a.	5.1
5.2	5.2
6. Identified risks and risk management	
6.1 N.a.	6.1
6.2	6.2
7. Follow-up to the recommendations of the Danida Programme Committee	
7.1 N.a.	7.1
7.2	7.2
8. Other recommendations	
8.1. N.a.	8.1.
8.2	8.2
9. Engagement Level	
9. Capacity of partners	

9.1. As part of the Danish support MCEB could positively consider the secondment of a Danish expert in order to make Danish expertise available for the facility and to increase the capacity of the TSU, to make Danish expertise available for the Facility and to ensure Danish learning from the Facility.	9.1 Secondment of long term expert for a period of minimum 2 years is incorporated in the PD.
9.2.	9.2.
10. Results Framework	
10.1. The Facility should in the further process pay more attention to the following issues, which should also be priority issues for KEBMIN during the further dialog on a formal agreement: <ul style="list-style-type: none"> The result framework should be finalised as matter of urgency. A consultant should be hired to support the final revision as needed. 	10.1. KEBMIN will in the dialogue with NAMA Facility partners on a formal agreement emphasise the need of the Facility for finalisation of the result framework. Also, through its active participation in the Board, KEBMIN will follow how the issues are incorporated and KEBMIN will also support the Facilities work with same issues through the secondment.
10.2.	10.2.
11. Budget allocation	
11.1.	11.1.
11.2	11.2.
12. Identified risks and risk management	
12.1. No major risks have been observed in relation to the Project, but some moderate risk has been observed. A risk is though, that the NAMA support projects, do not add to transformational change, stays as isolated GHG reductions without major impact due to limited ownership and commitments to change in the enabling environment.	12.1. The NAMA Facility monitoring system and evaluations will provide information to the Board on impact of the Support Projects, based on which the Board can take corrective actions.
12.2. That the absence of support project for African countries will put pressure on the Facility to compromise on the competitive bidding process	12.2. One of the priority issues for the Danish Board member will be to monitor the degree to which countries in Africa receive support from the NAMA Facility. The Board can take corrective actions if deemed required.

<p>12.3 That KfW and GiZ will continue to be the absolute dominant Delivery organisation, which lower the interest in the Facility</p>	<p>12.3 Being monitored by the Board, which can take corrective actions if required. It will also be part of the independent mid-term evaluation.</p>
<p>12.4 That the limited funds available for support to projects compared to number of application will lead to lowering interest in the Facility</p>	<p>12.4 Being monitored by the Board. Should the interest in the Facility lower, promotional campaigns can be initiated.</p>
<p>13. Monitoring and reporting arrangements</p>	
<p>13.1. The Facility should in the further process pay more attention to the following issues, which should also be priority issues for KEBMIN during the further dialog on a formal agreement:</p> <ul style="list-style-type: none"> • TSU provides more attention to implementation and monitoring of the NAMA support Projects, and its role in this regard clearer defined • Systematisation of decision and reporting structures of the board, and implementation of the yearly external evaluations (reviews), as described in Detailed agreement between BMU and DECC should be reinforced 	<p>13.1. KEBMIN will in the dialogue with NAMA Facility partners emphasise the need for focussing on implementation and monitoring and systematisation of management systems.</p>
<p>14. Others</p>	
<p>14.1 The Facility should in the further process pay more attention to the following issues, which should also be priority issues for KEBMIN during the further dialog on a formal agreement: That project formats be revised to include description of how HRBA, Gender and Environment are addressed, to include an explicit chapter on the synergy between the FC and TC components, to improve context/political economy analysis and detail the specific transformation expected and the underlying theory of change for interventions.</p>	<p>14.1 KEBMIN will in the dialogue with NAMA Facility partners emphasise the need for inclusion of HRBA and cross cutting issues at NAMA Support Project level and revise project formats to include other aspects as well.</p>

14.2. In preparation of the detailed agreement with BMU and DECC it should be clarified, which documents are confidential, how board meeting and reporting structures will be implemented, how Danish funds will be disbursed and with what status Denmark will participate in the Board.	14.2 Part of the discussions between KEBMIN and BMU/DECC on the detailed agreement will include confidentiality, board and disbursement issues.
14.3. That Demark take an active role in the Board of the Facility to influence the development, to benefit from experiences achieved and transfer learning to the Green Climate Fund.	14.3 MCEB/Danish Energy Agency will be full member of the Board.
14.3. Revise the Danish PD in accordance with the findings of the appraisal report with special emphasis on clarification of difference between the Facility objectives and the objective or DK support to the Facility. Further, the synergy with other Danish projects supporting mitigation should be elaborated, the time perspective and involvement of MCEB should be described and budget, procedures for financial flow, indicators and reporting elaborated.	14.3 The Danish PD is being revised on the basis of the appraisal recommendations.
14.4. In case medium to longer term support for the Facility, as considered by DECC is realized, it should be considered to transform the Facility to a basket fund or similar mechanism in order to simplify and streamline support and governance structures.	14.4. The medium to longer term structure of the Facility will be assessed by the Board and will be part of the independent mid-term evaluation discussions.
14.5. At an appropriate time the relevance of maintaining the Facility as a lean, flexible and more risk willing mechanism to support frontline projects as a complement to the GCF should be evaluated.	14.5 The relationship between the Facility and the GCF will be assessed by the independent mid-term evaluation.

I hereby confirm that the above-mentioned issues have been addressed properly as part of the appraisal and that the appraisal team has provided the recommendations stated above.

Signed in..... on the ...September 8th 2014, Hans Hessel-Andersen
Team leader/TAS representative

I hereby confirm that the Danish Mission has undertaken the follow-up activities stated above. In cases where recommendations have not been accepted, reasons for this are given either in the table or in the notes enclosed.

Signed in.....on the.....
Ambassador/Head of Danish Mission

Annex 2: Funding Mechanisms

With only few NAMA Support Projects having undergone appraisal at this early stage of the NAMA Facility implementation, the expected leverage of funding is uncertain. The UK appraisal expects the leverage to be at the level of 1:4 by KfW, which would result in an additional EUR 280 million being raised. With EUR 118 million in grants and EUR 280 million in loans, total funding of approximately EUR 400 million would be available. This corresponds to EUR 20-40 million for each NAMA support project.

The use of concessional loans allows the blending of grant funds from all donors involved in the NAMA Facility with additional funds raised by KfW on the capital market. The blending of budget and capital market funds through concessional loans is a standard financing instrument that KfW applies for different donors, e.g. for the EU Blending Facilities. KfW acts as an implementing organisation on behalf of the full NAMA Facility Board and does not provide German loans. Hence, it will not be a risk that Danish (or other donor's) contributions will be used to cross-subsidise German loans.

The grant funding will be used to make the KfW loan concessional by for example subsidising the market interest and providing extended amortisation periods. Other instruments, such as grant-based guarantee mechanisms can also leverage available grant funds with additional private capital. The most appropriate degree of concessionality will be assessed in each NAMA Support Project at the feasibility and appraisal stage and will be approved by the Facility Board. The choice of instrument depends on the specific project and is as such subject to the selection of projects by the NAMA Facility Board.

The recipient government could also provide financing, increasing the “public finance” leverage further. Figures given for recipient government leverage of donor funding varies significantly between the selected projects in the first call. At the top end, the Colombia project public sector leverage is EUR 0.5 billion, compared to EUR 11.7 million in loan finance from the NAMA Facility. The issue seems to be that the precise definition of the NAMA Support Project compared to the overall NAMA is not well defined. Hence, the figures provided in project outlines as public sector financial contribution should partly be attributed to the overall NAMA and not to the specific NAMA Support Project.

The largest perspective for additional leverage is from mobilisation of private sector finance in beneficiary countries. It is generally recognised that large amounts of private capital needs to be mobilised for climate investments should the two degree goal be achieved. The aim of the NAMA Facility is therefore to involve the private sector in the design, financing and implementation of NAMA Support Projects. This will a.o. be done through incentivising private sector involvement in NAMA proposals.

The central assumption in the UK appraisal was a private sector leverage of 1:2.3, with an uncertainty range between 1:0 and 1:10. With this assumption, a NAMA Support Project would be able to raise private sector funds in the range of EUR 45 to 90 million. Total NAMA Support Project size, including grants, and public and private sector leverage will be in the range of EUR 65-130 million. The projects selected from the first call had little private sector involvement in terms of prospects for raising additional finance. Only the Mexico project has an indication of a significant amount of private finance – EUR 80 million compared to EUR 10

million commitment of loan finance from the NAMA Facility, i.e. a private sector leverage of 1:8. The Costa Rica project has an allocation of EUR 4 million and an indication of private sector finance of EUR 8 million, i.e. a leverage of 1:2. The other projects have no indication of private sector leverage.

The appraisal of project outlines will in each case clarify the exact level of public and private sector leverage. At NAMA Facility outcome level, mandatory indicators include volume of both public and private finance mobilised.

Annex 3: Donor Funding Procedures

A high level Declaration of Intent (DoI) between Germany and UK, signed in December 2012, constitutes the NAMA Facility. The DoI describes the committed funding level and that the two governments will set up a facility to select NAMA Support Projects for funding. The DoI is supplemented by a detailed arrangement between BMU and DECC (signed December 2012) describing a.o. the objective, management and implementation structure, decision making mechanisms, disbursements, information exchange, reporting and M&E. With an increase in number of donors to the Facility an amendment to the detailed arrangement will be made as neither the BMU nor the DECC will maintain a 50% share of the Board vote when more donors join the NAMA Facility.

The BMU is funding all costs associated with operation of the TSU. Under cover of the BMU-DECC arrangement and the BMU commissioning of KfW and GIZ, DECC has a disbursement relationship with KfW and GIZ.

BMU and DECC each disburse funds directly into bank accounts of KfW and GIZ on a project by project basis. DECC issue a yearly promissory note committing the yearly or project related budget. On this basis, funds are disbursed on request from KfW and GIZ on a needs basis.

To align to existing Facility procedures, Danish support will be provided through a largely similar mechanism, i.e. an agreement will be made between BMU and MFA for support to the NAMA Facility, with disbursements made from the MFA directly to the KfW and GIZ.

In terms of flow of funds, the Danish support to implementation of NAMA Support Projects will be provided in one tranche to KfW/GIZ in 2014. The Danish contribution will be divided between the two organisations with 60% to KfW and 40% to GIZ, following the same distribution as used by BMU and DECC. It can be used to supplement funding made available by other donors for second call projects, or for third call projects during 2015. The Danish support to implementation of Support Projects can at the discretion of the NAMA Facility be used for one or more projects to partly or fully support these. As the Danish support will be non-earmarked core funding to be fully aligned with already established Facility procedures regarding reporting, M&E and financial management, there is no requirement for being able to distinguish between the sources of funds at individual project level.

Annex 4: Procurement

The KfW and GIZ have been contracted directly by the BMU. This is in accordance with the “in-house-jurisdiction” of the European Court of Justice, under which 100% public owned entities are not covered by procurement laws, if more than 80% of its activities can be considered as tasks for its public owner and if the control over such organisations is comparable to the control of a subordinate public agency. Both KfW and GIZ fulfil these in-house requirements. Hence the BMU could directly commission the two organisations, based on the respective programme offers submitted by KfW and GIZ.

Where third party delivery organisations are contracted, the procedures are based on a financing agreement between KfW/GIZ and the respective third party organisation, which do not require a tender process. However, where necessary, KfW and GIZ will follow German, EU tender rules and internal guidelines as appropriate.

Each NAMA Support Project will have one or more executing agencies (e.g. local commercial banks, consulting companies), which is sub-contracted by the delivery organisation. Procedures for contracting will follow procurement rules within the country in question.

Annex 5: Risk Assessment and Mitigation Measures

Issue	Risk	Potential adverse impact	Probability	Impact	Risk management strategy
Exhaust of available funds	Lack of potential projects that are sufficiently ambitious and fit the funding criteria.	Available funds are not fully exhausted. Another potential impact is that the portfolio develops to include projects that do not sufficiently meet expectations to high quality projects.	Low	High	Mitigation by the facility through activities targeting Support Project submitters in order for them to develop ambitious NAMAs and high quality submissions.
Facility Performance	KfW/GIZ will not deliver as expected.	Under-performance of the Facility and/or projects.	Low	High	The institutional set up put pressure on the Facility Board to act independently of KfW and GIZ. The M&E system is expected to be able to detect poor performance both at the Facility and project level and the Facility Board is expected to implement corrective actions as required.
Fraud and misuse of funds	Loss of funding.	The net impacts on the Facility may be limited financially as long as third party delivery organizations are receiving a limited part of the funding. The impact on the reputation of the NAMA Facility can be substantial.	Low	Low (loss of funding) High (loss of reputation)	The mitigation measure is by carrying out Delivery Partner Reviews of third party delivery organizations, insistence of transparency of all institutions receiving funding and compulsory value for money and financial audits.
Leverage of funding	Little private sector leverage.	The success of the NAMA Facility is dependent on the leverage of funding in particular private sector funding. One challenge seems to be the early involvement of private financial actors, as well as the structuring and in-depth preparation of financial support mechanisms.	Medium	High	The mitigation measure is that the TSU must assist in the design stage of the NAMA Support Project Proposal.