Asia LEDS Partnership (ALP)

NDC Finance (CoP)

Summary report of a webinar held on August 21, 2018

The session focused on providing an introductory background to ‘Green Bonds’ and ‘Blended Finance’, both of which are emerging financial mechanisms for accelerating private investment in green projects. More than 35 participants attended. The question and answer session was productive with experts from different countries sharing their insights and comments.

Introduction to Asia LEDS Partnership and NDC Finance CoP — Anandhan, ALP Secretariat

The Asia LEDS Partnership (ALP) is a voluntary regional platform under the LEDS Global Partnership (LEDS GP), with over 885 members from public, private, and non-governmental sectors, who are designing, promoting and implementing LEDS in Asia. Currently, the Secretariat is hosted by ICLEI offices in Asia (ICLEI South Asia, Southeast Asia, and East Asia).

The prime objective of ALP is to promote Low Emission Development across Asia by:

• identifying and disseminating tools and best practices,
• facilitating coordination among stakeholders for peer learning,
• encouraging capacity building among practitioners, and
• catalyzing leaders of change and raising their awareness about the benefits of low emission development strategies or LEDS.

Based on an extensive consultative process, the ALP identified priority thematic areas around which Communities of Practices were convened for the year 2018. The four CoPs are - (1) grid-scale renewable energy, (2) clean mobility, (3) multi-level governance, and (4) NDC finance.

The purpose of establishing CoPs is to facilitate collective learning on a topic and or shared areas of interest through regular interaction via online sessions, in-person workshops and sharing of knowledge products.

In 2018, ALP members chose to focus on project financing opportunities through blended capital finance structuring and green bonds issuance— both options promoting low emission climate resilient initiatives.

ALP invited in experts from the Climate Bonds Initiative (CBI) and Finance Working Group (FWG) of LEDS GP, to share their knowledge on green bonds and blended finance respectively. CBI is popular for its certification services for green bonds at the international market and was represented by Ms. Bridget Boulle, Head of Market Analysis. FWG of LEDS GP was represented by Alexia Kelly from Electric Capital, who is also co-chair of FWG of LEDS GP.
Introduction to ‘Green Bonds’—Bridget Boulle, Head of Market Analysis, Climate Bonds Initiative

Green bonds are debt securities issued by financial, non-financial or public entities in which the proceeds are completely used for financing green projects and assets. Green bonds are similar to regular vanilla bonds but with specific ‘green feature’. Green bonds promote projects that have positive environmental and climate benefits. Green bonds are also considered as a critical tool by investors to ensure that their money is being spent in environment-friendly, and climate compatible projects. Thus, green bonds play a pivotal role in shifting debt capital markets to climate solutions.

The green bonds market has been growing rapidly since 2007 when the World Bank and European Investment Bank issued the first green bond. The size of issuance, as well as number of issuers, have changed dramatically since then. In the year 2017, over 1500 green bonds were issued in 38 countries by 253 different issuers. During the period 2007-2013, issuers were mainly development banks, whereas since 2014 issuers such as financial and non-financial corporates, local governments, and federal governments have also floated many bonds.

Currently, renewable energy and green building sectors dominate the allocation of proceeds, while bond issuance for transport and water projects are also on the rise. Industrial energy efficiency and information and communications technology sectors Green Bonds have been under discussion, however not much momentum is observed as yet.

In Asia, several countries have introduced guidelines for the issuers of green bonds, such as ASEAN Green Bond Standards, Japan Green Bond Guidelines, and India’s SEBI Guidelines. Guidelines support the growth of green bonds while providing information to investors and project managers on key elements of environmental and social sustainability.

What is Green in Green Bonds – There are several guiding principles for characterizing and certifying ‘green projects’, as expostulated in the Green Bond Principles by International Capital Market Association (ICMA), Green Loan Principles by Loan Market Association (LMA) and or ASEAN Green Bond Standards by ASEAN Capital Markets. Climate Bonds Initiative has also developed easy-to-use criteria to assist investors and project managers in selecting and certifying projects which can be considered for financing under Green Bond issuance. For instance, a solar thermal project having a gas-fired generator as a backup and which accounts for 30 percent of the total power generated, cannot be considered as a green project.

Discussion on ‘Green bonds’

• What role do federal governments play in the green bond market?
  Governments do not ‘have to be’ involved, but they can be a good catalyst for some markets. In large and active bond markets, the need for government intervention is much lower. Governments would play the role of providing useful information—such as
standards, regulations, and guidance—to enhance the transparency of the market. In developing green bond markets, governments could provide liquidity to the market. There are some examples from Australia and the United States. Presence of participating government gives the private sector the comfort and no-loss guarantee. Thus, governments should support high-risk projects to attract the private sector.

- **Green bonds are not equivalent to climate investment, are they?**
  - Green bonds finance climate-based projects, such as energy efficiency and renewable energy. There are also other kinds of projects, included such as ICT projects, which can be funded through green bond;
  - Climate investment bonds – deal with climate-related investments and involve a different set of sectors as they relate to climate adaptation benefits as the main qualifying criteria and not just low emission development.
  - Climate Bonds Initiative, as a non-profit organization facilitates green bonds market development, focuses more on climate-based projects and provides relevant certification.

- **Would there be some examples of green bond financing for off-grid solutions?**
  If hereby ‘off-grid solutions’ mean small solar projects, then bonds play a less crucial role in these small projects. The characteristics of the bond market are to attract investors for large projects or pool of many small projects bundle together. Though there are retail bonds in the UK and Australia targeting rooftop solar projects, the market is skewed towards large infrastructure projects.

**Introduction to ‘Blended Capital’—Alexia Kelly, Co-Chair, LEDS GP Finance Working Group**

‘Blended Capital’ is the use of public or philanthropic capital to attract private sector investment. When the private sector considers investment, they make decisions based on a balance between risk and reward. In order to mobilize private sectors investment to NDC and climate-related projects, there is a need for adjustment of risk and returns. Blended capital can address the risk-return mismatch. It is not a new concept but has been popular within the last two years. In Asia, there are increasing blended finance initiatives on clean energy projects.

Blended finance is a structuring approach that allows different types of capital invested alongside each other, while each achieving their own objectives. Blended capital structures can be observed across a broad range of transaction types, including funds, facilities, bonds, notes, and so on.

Blended finance is relevant to many sectors and NDC goals, such as adaptation/resilience, subnational authorities and cities, transport, clean energy and energy access, and sustainable land use. However, more investment has been seen in the sectors of Decentralized Renewable Energy (DRE) distribution and Energy Efficiency in both industrial and urban settings.
Case Study 1 – Micro-grid Investment Accelerator (MIA) Blending Capital for a pre-commercial sector. MIA supports DRE developers in Africa and India by providing them with mezzanine finance (debt/equity hybrid) instruments, such as preferred equity/preference shares, venture debt with warrants, and convertible notes or compulsory convertible shares. Key partners contributing to the pool finance are Fortune 100 Corporations (Facebook provided seed funding), non-profit sponsor, philanthropies, bilateral institutions, and impact investors.

Case Study 2 - cKers Finance’s Blended Finance for Clean Energy Debt in India – herein cKers a Non - Banking Financial Company (NBFC) in India regulated by the Reserve Bank of India (banking regulator), provides project finance, venture debt and working capital for several emerging segments in the sustainable energy space at weighted average cost of 9% per annum. cKers also brings in their understanding of the investor’s perceived risk and creditworthiness of projects, thus bridging the two together and acting as a conduit facilitator.

There are six tips to be noticed before designing a blended capital facility, which includes:

1. **Understand the problem**: As the blended capital structure is not a one-solution-fits-all concept, it is necessary to talk to the market and to better understand the problem which is to be resolved.

2. **Innovate incrementally**: The concept of blended capital is still in the growing phase. Thus it may not be appropriate to ask investors to invest in a whole new product but innovate incrementally.

3. **Plan to fund the design process**: It takes about 1-3 years to design and establish a fund facility and costs between $300K-$1million USD. This an initiator should plan to fund this initial setting of the fund facility as well.

4. **Building flexibility to everything**: The blended capital needs to adapt to the market.

5. **Find an anchor/lead investor**: Ideally, one private sector and one philanthropic/public sector.

6. **Start small**: Usually it starts quite small, around 5 million dollars.

Discussion on ‘Blended Capital’

- **In the blended capital scheme, is it more like PPP investment?**
  Yes. The purpose of the blended financing scheme is to identify where and which private sector we could bring in. The objective of blending capital scheme is to bring private sector to the commercial phase.

- **In Vietnam, the blended capital scheme is through PPP. Most of the PPP projects focus on transportation, roads, and construction, but not many on green and climate projects. How do we promote and persuade private sectors to invest more in green projects?**
  PPP has been applied in transportation and construction projects for decades. It is worthy to take a close look and to think about how to apply some effective elements to green and climate projects. We do need to find a way that the traditional capital market is comfortable with so that we could just push a bit to direct the investment to green projects.

- **In India, there are a lot of opportunities. Is there any centralized data center or source of information that show which investors are willing to commit to which sectors and which types of projects and in which countries?**
Such a source of information does not exist yet. It is quite demanding to create such a data center though.
Expert Q & A | Bridget Boulle, Market & Data Services, Climate Bonds initiative

1. Smaller private RE players in the Philippines want to raise a revolving debt facility to be able to bridge developmental capital gaps to finance RE projects. Can green bonds be raised for this? How do they start and which parties (bank, etc.) will be involved?
   In principle, yes (although without further detail, I can’t comment on the attractiveness to investors). As a start, an underwriting bank could be engaged to understand investor appetite and deal structure.

2. How do you translate how green bonds are issued in developed countries to developing countries like Bhutan?
   Issuing green bonds in small developing countries can be challenging (especially if there is little bond market activity) but it is certainly possible and there are many precedents. Bond markets tend to start with highly-rated sovereign issuance and then broaden to corporate and lower rated bonds – this has happened in developed markets and developing markets. This has been the case in many developing countries – e.g. Fiji (sovereign bond), Nigeria (sovereign bond), South Africa (city bond), Argentina (local government) and Lithuania (sovereign). There have also been a few cases here green bond issuance has been supported by multilateral development banks – e.g. in the Philippines where AP Renewable issued a green bond to finance geothermal energy and this was bought by the ADB. There have been a few other examples of this.

3. Can the presenter circulate the SGP green bond grant scheme document to the group?
   I don’t have access to an official document but here are some links that should help:

4. Hi, a question from the South Pole is that how can the municipalities use a green bond to support low carbon city action? Any good examples from this region that you can recommend?
   City and local government bonds have been issued by cities all around the world to support climate projects but the legal power for a city to issue bonds is not the same in all countries – in some countries, it is possible but in other countries, it is not.

5. What would be the minimum size for green issuance?
   There is no minimum size – it depends on the currency, the issuer and the appetite for investors. The average size is approximately USD 130million but there have been many deals around USD 10 million. These include Brazil’s PEC Energia for BRL48m (USD14 million), Vietnam’s People’s Committee of Ba Ria Vung Tau Province (VND80billion – USD4 million), Enel (Brazil) BRL22 million (USD7 million ) and Hero Future Energies in India USD44 million. It is very rare to see a deal that is less than USD5m in size but there even very small deals are possible.

Expert Q & A | Alexia Kelly, Co-Chair LEDS GP Finance Working Group
1. Are there any examples of blended financed projects scaling up and seeking other forms of finance as they mature? Or is it something that is becoming big in its own universe implying that the pipeline of projects for blended finance is an ever-increasing one? Some examples?

An excellent resource for examples in the blended finance space is the Convergence Platform. This platform has blended finance case studies/examples from various sectors.

2. Could you give us a sense of the extent of acceleration that blended finance model has been able to achieve? How actively is the blended finance community joining forces with more mainstream financing models?

The concept of blended finance and putting it into practice are becoming more widely known, though putting it into practice has been a bit slower. Our experience in the climate space has been that more and more of the key players are becoming familiar and open to the idea but have some internal hoops to jump through due to funding historically being ring-fenced for specific activities and outcomes.

In terms of joining forces with more mainstream models - mainstream models for the clean energy finance space haven’t been scaled or achieved the levels of success that we desperately need it to, which is the reason behind designing innovative blended finance models - we need new ways/models to bring the various investors in the space together in a way that can leverage and scale funds.

3. I am interested to know how different issuers can pay back returns to investors through 'green projects'. While governments may have tax income, how about other issuers?

Ideally projects are generating returns from whatever service they provide (mobility, electricity, clean water, etc.) sufficient to cover operation of the program and returns to investors. Blended capital becomes useful when the costs of installing and operating the project exceed the revenues generated from whatever service is being provided.

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5. Are there any examples of philanthropic agency or development agency providing loss guarantee?

Many different development organizations provide different types of first loss capital or guarantees. The Packard Foundation and USAID have provided first loss capital for different funds or projects.

Discussion on next steps of the NDC Finance CoP

The NDC Finance CoP encourages all participants to share the topics which they want to explore more. In Q4 2018 there will be an in-person workshop in India.
Access further details and materials from the session:

Presentation

Webinar recording

For any feedback or queries please contact:

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