“Green Banks: The Role of Public Sector Banks for Catalysing Private Sector Investments”

Over 50 people took part in the webinar to learn from real-time experiences of establishing and financing projects through “Green Bank”. Clean Energy Finance Corporation, Australia and Development Bank of Southern Africa, shared their experience of establishing and financing projects through a separately established entity under the category of Green Banks. The session was co-organised with Coalition for Green Capital, who introduced the concept of “Green Bank” to the audience and facilitated expert discussions moderated by ALP.

The session was rated extremely insightful and interactive. Policy makers, project developers and, banking officials, both from developed and developing world participated shared their insights.

Introduction to Asia LEDS Partnership and Contextualizing the concept of Green Bank in Asia — Aditi Paul, ALP Secretariat, ICLEI South Asia

Aditi Paul started the online-session by welcoming the audience, speakers and the facilitators to the session on behalf of ALP Secretariat. Aditi then talked the audience through an introduction to The Asia LEDS Partnership (ALP) and contextualizing the need for Green Banks in Asian countries.

ALP is a voluntary regional platform under the LEDS Global Partnership (LEDS GP), bringing together more than 885 members (as on August 2018) from the public, private, and non-governmental sectors, for designing, promoting and implementing Low Emission Development Strategies (LEDS) in Asia. ICLEI offices in Asia (i.e. ICLEI South Asia, Southeast Asia, and East Asia) currently host the ALP.

ALP aims to promote LEDS 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 (CoPs) 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.
Through CoPs ALP facilitates collective learning on a topic and or shared areas of interest through regular interaction via online sessions, in-person workshops, study tours and sharing of knowledge products.

ALP also provides no-cost technical assistance to early mover countries, through deep-dive support or REAL assistance. Under the REAL assistance, 40 hours of dedicated expert advice is provided wherein the expert could be from any part of the world having the requisite experience. Whereas under deep-dive support, the association is longer and technical assistance is generally offered for policy preparation and or action planning support.

**Contextualizing the concept of Green Bank in Asia**

Aditi also mentioned the importance of having Green Banks in Asian countries as there is a significant gap between financing needs and readily available finances to meet the Nationally Determined Commitments (NDCs) submitted by the countries.

According to the Asia Development Bank’s report in 2017, the demand for climate finance is likely to reach the mark of USD 3.6 trillion by 2030. Governments alone cannot meet this. Thus there is a need for collaborative efforts between public and private sectors to mobilize the given quantum of finance progressively. However, in absence of government support and risk coverage, the private sector is often reluctant to commit large investment. Similarly, under most of the countries federal structure, governments are less flexible and have low capacity to bring in quick and accommodative changes to address private sector needs. Hence, to bridge the said gap, public sector banks or quasi-public financial institutions those who not only have the flexibility to accommodate private sector needs but also the capacity to understand the need for climate change and sustainable development are nothing but Green Banks.

Aditi then invited sector expert from Coalition for Green Capital, Rob Youngs to talk through the various operating models of the existing Green Banks and their performance in detail.

**Green Banks in Emerging Markets: Effective Tools to Scale up Private Investment in Green Infrastructure**—Rob Youngs, Coalition for Green Capital

Explaining, in brief, the need for Green Banks, Rob first introduced Coalition on Green Capital (CGC) and its role in promoting Green Bank models.

CGC advances the Green Bank model, partnering with governments, national development banks, and local NGOs to form and support Green Banks. CGC has helped design and create six Green Banks that have catalyzed more than $1.5 billion USD of climate investment.

Rob then mentioned that the amount of investment on clean energy to keep the global temperature within 2-degree threshold is estimated at approximately USD 2 trillion, of which, till date, only USD 500 billion has been invested. This translates to at least USD 1 trillion investment each year in addition to what is being done currently. This cannot be done by
governments of countries alone. It is thus critical to get the private sector more involved to work with the public capital.

In Asia, particularly in China and Indonesia, the current climate projects are largely financed by public capital. However, a submission from Colombia Department of National Planning (DNP), suggests that that to meet Colombia’s NDCs under the Paris Agreement, private sector is the primary source of finance and this needs to increase seven times.

This gap can be met in many ways. However, the best way to have a win-win situation is to unlock the development finance which can act as the catalyst with risk-free capitals and develop a market for the private sector to dive in. To initiate this, there is a need for local public sector banks with a mandate to finance climate based projects and help unlock development finance.

Development finance is provided by institutions such as The World Bank, International Finance Corporation, development banks at Asia, Africa, and Europe, etc.

Green banks also act as a catalyst to unlock and mobilize private sector investment for projects that address climate needs.

A green bank thus is a country-driven catalytic finance facility designed to mobilize private investment into climate projects. It can be nationally or locally-owned to source and deploy a mix of public and private sources. Currently, most of the green banks are capitalized with pure public capital, but it is anticipated that in the future more blended approaches will be introduced.

The general operation scheme of a green bank can be elaborated as follows:

1. Firstly, DFIs, MDBs, national treasury and other sources such as carbon tax capitalizes the Green Bank;
2. Green Bank then establishes products for repeatable financing of a target market
3. The bank then promotes its products and facilities for projects to access fund. At this time, the Bank may even identify promising project(s) to co-invest with a commercial investor.

Green banks are developing widely in Australia (Clean Energy Finance Corporation), the State of Connecticut (Connecticut Green Bank) and New York (New York Green Bank) of the United States, the United Kingdom (Green Investment Group), Japan (Green Finance Organization), and Malaysia (Green Technology Corporation). In average, the above six founding members of the Green Bank Network have leveraged over USD 30 billion private investment with USD 10 billion public and quasi-public funding.

Clarifying on the investment tools used by the existing green banks, Rob mentioned that there is no standard model. Instead, the banks utilize a wide range of financing tools to leverage investment. Such tools include debts, bridge loans, equity, partial guarantees, green bonds, etc. The selection and combination of tools depend on the mandate and capitalization source of the bank.
Green banks play a critical role in the entire life cycle of a climate project, particularly in an emerging market. In the early stage, the bank act as a catalytic agent, filling in the early stage risk. For projects at the middle stage, they can address the risk associated with “first application” of technologies, and difficulties in underwriting multiple revenue streams. In the later stages of any project, green banks can support and add more certainty to the cash flows through innovative schemes and institutional arrangement.

Rob ended his presentation suggesting a visit to the website of Green Bank Network, which is a growing hub for best practices for its member organizations. The Network also hosts events and workshops to share best practices.

**Example from Australia: Andrew Jauncey and Bianca Sylvester, Clean Energy Finance Corporation (CEFC), Australia**

Andrew Jauncey and Bianca Sylvester, co-presented their experience of setting up and running the Clean Energy Finance Corporation (CEFC), Australia. Andrew Jauncey is head of corporate planning and risk, whereas Bianca Sylvester is associate director governments and stakeholder relation at CEFC.

CEFC was established in 2010 and aims to accelerate Australia’s transformation towards a competitive economy in a carbon-constrained while catalyzing private investment for emission reduction projects. The Corporation is an independently run government-owned organization, with an AUD 10 billion capital to disburse and manage. It comprises of finance and clean energy experts from the private sector mandated for a public policy purpose.

The investment of CEFC is guided by four decarbonization pathways: (1) low carbon electricity, (2) energy efficiency, (3) cleaner fuels, and (4) non-energy emissions reduction. CEFC utilizes four financing products to invest in climate projects:

1. Direct investment: including debt products and equity investments
2. Indirect debts: through supporting green bonds and co-financing small-scale investment opportunities
3. Investment funds: working with other investment funds to support major clean energy projects
4. Innovation funds: dedicated to venture capital-style investment in innovative technologies and startups

CEFC applies three principles of returns to decide the investment target:

1. Financial returns: above 6%
2. Environmental returns: emission reduction
3. Market returns: the impact of the investment on the market and the extent of leveraging additional capital to clean energy and emission reduction projects

Whenever there is a trade-off among these three principles, CEFC would consider the environmental and market returns first for public policy purpose.
In 2018, CEFC committed to investing USD 2.3 billion to 39 direct projects, that has a potential of abating 10.8 million ton of CO₂ equivalent annually. The major investments are bracketed within renewable energy (USD 1.1 billion) and energy efficiency (USD 939 million across building, business and agriculture sectors.)

As Australia heavily relies on fossil fuels for electricity generation and energy supply, CEFC focuses on helping the country smoothen the low-carbon transition with a higher penetration of renewable energy, such as large-scale solar PV and wind, smarter transmission infrastructure, electric vehicles business, biofuels, energy efficiency, etc.

Before ending the presentation, Andrew and Bianca stressed the four key factors that have brought in early success to CEFC, and they are:

a) Having a breadth of expertise across target sectors;
b) Closely working with project partners to enhance emission reduction outcomes;
c) Applying commercial approaches to deliver positive financial returns although being government owned;
d) Innovating financing solutions tailoring to need of individual projects.

Example from South Africa: Development Bank of Southern Africa (DBSA), Formation of A New Climate Finance Facility—Jonathan First, DBSA

Jonathan First is a Lead Specialist at the Development Bank of Southern Africa (DBSA) specializing in structuring and distributing funding to special projects in the sectors of water, energy, ICT and transport/logistics. Jonathan presented how DBSA formulated the Climate Finance Facility (CFF) with fund allocation from Department of Environmental Affairs, South Africa at a tune of 1.1 billion Rand.

The Climate Finance Facility (CFF) was constituted in the year 2012, with a mandate to catalyze private investment in climate and clean-water projects that are commercially viable but not yet bankable by providing credit enhancements, through blended finance route.

The CCF has dedicated staff and an advisory committee who identifies and work towards structuring financial products and services and then sends to investment committee for approval and disbursement.

The primary investment criteria followed by CFF are:

- The project should have a measurable climate or water goal in line with NDC targets and or UN Sustainable Development Goals (SDGs);
- It should be structured to ascertain financial returns and be able to service the debt funding;
- The project must contribute to market transformation in terms of scale and or increase private sector funding. It is the intention that each Rand invested by the CFF must be matched by approximately 3-5 Rand from the private sector; and
- The project should be at development stage.
Though the concept of the green bank is promising, DBSA faced some difficulties to adopt green bank institution in South Africa, as the green bank in the developed world is different from the one in the developing world in terms of capital resources. It was recognized later by DBSA that in the case of South Africa, the green bank should be established within an existing national or regional development finance institution and not necessarily run through the process of creating new acts and regulation for establishing Green Banks. Also, DBSA considered that the CFF should be structured on a blended finance mechanism.

Discussion

- **How do public banks select the model of the green bank?**
  There is no one-size-fits-all or one single model. The key things to keep in mind when establishing the green bank institution is to review the existing institution, to re-examine the current market structure, to identify the actual gap of the market, and to align incentives properly.

- **What is the role of the private sector here? To which extent the project which the private sector would like to invest would be the mandate to the green bank?**
  The private sector is critically important to shaping the green bank, especially engaging early with the private sector to understand the market gap. In the case of South Africa, the DBSA spent a lot of time talking with commercial banks and developers.

  One of the most interesting points in the case of South Africa is that the green bank operators did not do much selling, as South Africa has several relatively successful renewable energy projects. Banks realised the opportunities go beyond the government-led programmes, but banks faced various obstacles such as technologies and diversifying sources of payment. The CFF is exactly these banks looked for in order to roll out private sector projects on a large scale.

- **What are the essential ingredients to become a green bank?**
  A good source of capital and a balance sheet that can be used to show there is some public or blended source for investment flexibility are important ingredients. In addition, the independence from the government in management so that there is not much government bureaucrat’s involvement. A good team is also the key to manage and operate the green bank institution, particularly taking a commercial and innovative approach to pushing the boundaries without compromising the goal to reduce emission and facilitate adaptation.

- **Does CEFC have any mandate or intention to invest in offshore projects in the Pacific?**
  The investment mandate now is restricted to projects or businesses that are mainly or solely based in Australia. In other words, it is not allowed to invest directly a project which is outside Australia.

- **Would CEFC or DBSA like to finance municipalities on additional projects and adaption projects which do not generate cash?**
The CEFC has a local government platform to help municipalities in Australia in better understanding the institution and financing low-carbon activities, including energy efficiency on streetlights, small-scale solar projects, etc. For instance, the city of Melbourne works closely with the CEFC on financing climate activities.

It might be an early stage for the DBSA to discuss this topic. However, as the DBSA is the largest lender to municipalities in South Africa when the DBSA consider financing local government’s projects, mitigation and adaptation are viewed as part of the assessment process.

- **What about the importance of having expertise in clean energy?**

  The CEFC is operated and managed by a mix of energy sector expertise and financial sector expertise. It is beneficial to have staff with energy expertise working side-by-side with people from the finance sector.

- **Are SDGs used as a framework and guidance when providing finance? Or are SDGs used afterward to map the finance activities with the bank’s own strategies?**

  SDGs are embedded in the process. The DBSA identifies seven or eight SDGs that would be supported through the CFF. These seven or eight SDGs are used to frame the investment criteria.

  The key takeaway from here is that even though SDGs are important criteria, the local institutions, local needs, and local priorities are at the core when financing investment.

**Access further details and materials from the session:**

- [Presentation](#)
- [Webinar recording](#)

**For any feedback or queries please contact:**

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