Outline

• Introduction

• Going into Detail: Green Bonds

• Determining Eligibility and Verifying the Results

• Conclusions and Recommendations
Typical project finance structure

- **Host Country Counterparty**
  - Delivers electricity

- **Project SPV**
  - Builds and commissions project

- **Sponsors**
  - Invest equity into project SPV
  - Equity

- **Lenders**
  - Provide debt to project SPV
  - Debt

- Payments

Financial Instruments

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Influencing Investment Decisions

Key Question: To what extent should we still be concerned with additionality and how should it be proved?
Financing Instruments

Instruments increasing project revenues

Base Revenues + Additional Revenues
- Carbon Finance
- Tariff Support = Total Project Revenues (needed to justify investment)
Financing Instruments

Instruments reducing cost of capital

**Debt**
- Concessional interest rates, extended tenors and grace periods, bonds

**Equity**
- Subordinated equity
- Grants

**Insurances or Guarantees**
- Credit enhancement
- Price guarantees
Private Sources

Commodity Markets
Primary emissions unit purchases

Debt Capital Markets
Green and climate themed bonds

Equity Capital Markets
Impact and ESG investments

Image sources: The Telegraph, CNBC and IFR Magazine
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Green Bonds: The State of Play

Market Growth

• In 2014 there was $35 billion of green bond issuance with estimates that the market could top $100 billion in 2015. Growing market with substantial potential for international climate mitigation efforts.

Benefits

• Benefits for issuers and investors. Investors get more information about issuer’s activities. Issuers see more demand from investors for their bond.

Risks

• Significant risks arise in relation to green bonds. What environmental benefits are being delivered, how will they be measured and verified and how will their achievement be enforced?
Green Bonds: The Future

Climate Finance
• Potential for green bonds issued by private sector participants to be accredited for contribution to developed country climate finance commitments

MRV
• In order for this to happen, greater attention would need to be paid to standards for eligibility determination, as well as measurement, reporting and verification standards

Paris Agreement
• To what extend can the Paris climate agreement provide for this kind of cooperation between the private sector and governments for the purposes of raising climate finance?
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Green Bond Principles recognize several broad categories of potential eligible projects for Use of Proceeds including but not limited to:

- Renewable energy
- Energy efficiency (including efficient buildings)
- Sustainable waste management
- Sustainable land use (including sustainable forestry & agriculture)
- Biodiversity conservation
- Clean transportation
- Clean water and/or drinking water

Sources: International Capital Market Association (ICMA)
Key Requirements for Green Bonds – M&V

Second party consultation
• Issuer can hire an expert consultant with climate expertise to help in the establishment of a Green Bond’s eligible project categories. The issuer may choose to keep the recommendations of the consultant private.

Public reviews and audits
• If an expert consultant or auditor and an issuer so choose, a consultant’s recommendations or an auditor’s evaluation may be put in the public domain by the issuer.

Third party verification
• At least one or more standards intended for use by accredited third parties to certify Green Bonds are in development. The GBP are supportive of certification of Green Bonds against fully developed and vetted standards. It is also the intention of the GBP to allow for third party evaluation/audit of conformance with the guidelines.
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**Key Question:** What can Latin American and Caribbean Governments do to make a difference?

- **Statements of Opportunity**
  - Clear priorities, publish resource assessments
  - Processes for assessing unsolicited proposals

- **State Guarantees**
  - State guarantees for contracts
  - Clear pathway for repatriation of capital

- **Tenor of Commitment**
  - Longer tenors on contractual commitments allow for most efficient financing
Conclusion & Recommendations

Key Question: To what extent will the sources of climate finance shape the kinds of investment to be made?

Accounting
- Define interaction of public & private sources
- Clarify how climate finance is to be accounted

Eligibility, measurement & verification
- Clarify the role for the CDM going forward
- Avoid double counting (mitigation v finance)

Driving action
- Alignment of investment imperatives with international climate negotiations