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Climate Change Policy in Colombia



BANCOLDEX



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**Enhancing the Role of BancolDEX
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Green Capital Advisors Ltd.

- ❑ GCA specializes in advisory services relating to the financing for sustainable investment and development.
- ❑ We have three product lines: Policy, Programme and Project.
- ❑ Extensive work globally with stakeholders in the areas of environment and carbon finance:
 - Integrated CDM (and EU-ETS) Strategy for Malta
 - World Bank Carbon Finance Business on a carbon delivery guarantee
 - World Energy Council on financing renewables in developing countries
 - Policy work for Environment Canada, Natural Resources Canada, Industry Canada, Canada's CDM-JI office
 - Review of Green Municipal Fund's innovative financing instruments
 - Member of task force on Financing the Development Dividend
 - Project advisory – bioproducts, bioenergy, water purification, wind energy
- ❑ GCA is an affiliate of International Financial Consulting Ltd., a leading provider of advisory services to multilateral, public, and private sector clients.

Outline of Talk

1. Role of Development Banks in the Implementation of Climate Change Policy Framework
2. How NDBs are Supporting Climate Change Mitigation: Some Examples from Around the World
3. Innovative Solutions for Financing Climate Change Projects

Role of Development Banks in the Implementation of Climate Change Policy Framework

Governments set climate policy and promote climate friendly investments

Broadly speaking, governments are responsible for:

- ❑ Establishing the policy framework within the international context
- ❑ Creating an effective and efficient process for identifying, promoting, supporting and measuring GHG reduction projects that contribute towards long term sustainable development objectives.
- ❑ Creating an investment friendly environment for the development or deployment of climate change technologies.

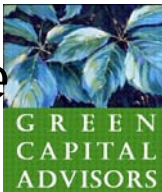
National Development Banks have a special position within the financial system

- ❑ Development banks were set up by their Governments as specialized financial institutions to provide long-term financing as well as technical assistance to sectors that promote the country's economic development and growth.
- ❑ As such, NDBs have an important role to play in a country's sustainable development and are an integral part of its financial system.

NDBs play a unique role in helping to implement the climate change agenda

- ❑ As government-owned/sponsored financial institutions, NDBs can connect credibly to various stakeholders within government and the private sector players, e.g. banks, project proponents
- ❑ NDBs can develop and incubate innovative and catalytic financial instruments for climate-friendly projects
- ❑ NDBs are in a position to assume risks that the private financial intermediaries are unable to.

Their special challenge is to balance financial sustainability with the public policy imperative



NDBs can develop “green financial products” and operate a “green business”

NDBs can be supporting climate change initiatives from two perspectives:

□ Their operations

- Financing new sources of energy
- Looking for energy efficiencies from project proponents

□ Their activities

- Apart from lending, NDBs have also started looking within their organizations to manage the environmental impact of their operations, by tracking their resource use efficiency, such as water, paper, and energy consumption as well as carbon dioxide emissions.

Financing and investing in climate change mitigation projects face additional barriers

- ❑ In most countries, conventional fuel sources enjoy distorted prices; lack of price clarity
 - Subsidies and externalities
 - Absence of long-term price signal (esp. for carbon)
- ❑ Shortage of *long-term* capital
- ❑ Risk (real and perceived):
 - Country and political risk
 - Regulatory risk
 - Technology risk
 - Resource risk
 - Familiarity with technology
- ❑ Knowledge and institutional capacity
- ❑ Intrinsic barriers such as resource risks and ability to exit projects

Major investments in renewable energy technologies need NDBs' expertise

- ❑ Existing technologies can enable substantial reductions at reasonable cost, but need to mobilize funding by:
 - Removing barriers & improving policy environment
 - Internalizing external costs & reducing fossil fuel subsidies
 - Buying down incremental cost
- ❑ Funding for mitigation, adaptation, resilience only covers a fraction of the need, so:
 - Need to leverage existing financial and policy instruments
 - Need to assign a clear and adequate price to carbon

Carbon credits can enhance a project's commercial viability and investor returns

- ❑ Enhancing Revenues or Yields
 - incorporating value of CER in cash flows to investor
- ❑ Securing interest or principal payments
 - creation of a sinking fund to capture CER Revenues
 - securitization of CO₂ credits
 - ❑ assignment of ERPA to funder
 - ❑ assignment of CERs to funder
- ❑ Shortening the Loan Term
 - Direct application of CER revenues on principal prepayment
- ❑ Diversifying Portfolio
 - New revenue generating scheme
 - creates a new asset class under CDM
- ❑ CER revenues as additional equity contribution to loan

However, it can be more costly to monetize the associated carbon credit

- ❑ Approving CDM projects requires institutional and administrative capacity in the host country.
- ❑ Long project lead times. Continued uncertainty regarding CDM market potential post-Kyoto (i.e., post-2012).
- ❑ Bottlenecks in CDM approval process, but these are being addressed.

How NDBs are Supporting Climate Change Mitigation: Some Examples from Around the World

The Development Bank of the Philippines is an early leader in green banking

- ❑ Started implementing an environmental management system in 1997. In 2004, attained ISO 14001 certification.
- ❑ Implemented a green lending program to support companies developing and implementing cleaner technologies.
- ❑ Conducts environmental due diligence to evaluate the environmental impacts and benefits of all loan applicants.
- ❑ Requires its clients to conduct EIAs, and considers risks such as community concerns over the impacts of a project.
- ❑ Entered into a partnership with ECO-Asia Clean Development and Climate Program to extend free technical assistance to clean energy projects

DBP's role in CDM Projects in the Philippines

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- ❑ DBP has adopted the Climate Change Mitigation and Adaptation Program which is a response to the opportunities and risks of Global Warming, Climate Change, Kyoto Protocol, the emerging carbon markets such as the CDM.
- ❑ Its mission and vision is simply to support the climate friendly projects and make such bankable, bankable through the capital markets.
- ❑ Implemented in 3 stages:



DBPs involvement in the CDM business has been extensive

- ❑ provides local funding via wholesale or retail to potential CDM projects
- ❑ structures carbon finance deals and risks
- ❑ Identifies and/or arranges for equity financing for CDM projects and CDM transactions costs from investors
- ❑ Identifies as secures CER buyers
- ❑ Teams up with CDM experts
- ❑ carbon investment banking

DBP signed an agreement for the sale of certified emission reduction credits generated by 3 mini hydropower plants to reduce emissions of about 111,000 tons during the first seven years crediting period.

The Clean Energy Development Bank Ltd. (CEDBL) of Nepal was set up in 2006

- ❑ CEDBL is a national level development bank established under Bank and Financial Institution Act, 2063, through a joint venture with FMO, the Dutch DFI.
- ❑ The main objectives of CEDBL is to serve the people and the nation providing world class banking products and services, providing technical expertise and investing in clean energy sector to strengthen the economic standard of the nation.
- ❑ The Indian Government is planning to set up a green development bank, based on the CEDBL model
- ❑ The proposed bank will fund projects to generate electricity from wind, solar, tidal and other renewable sources.

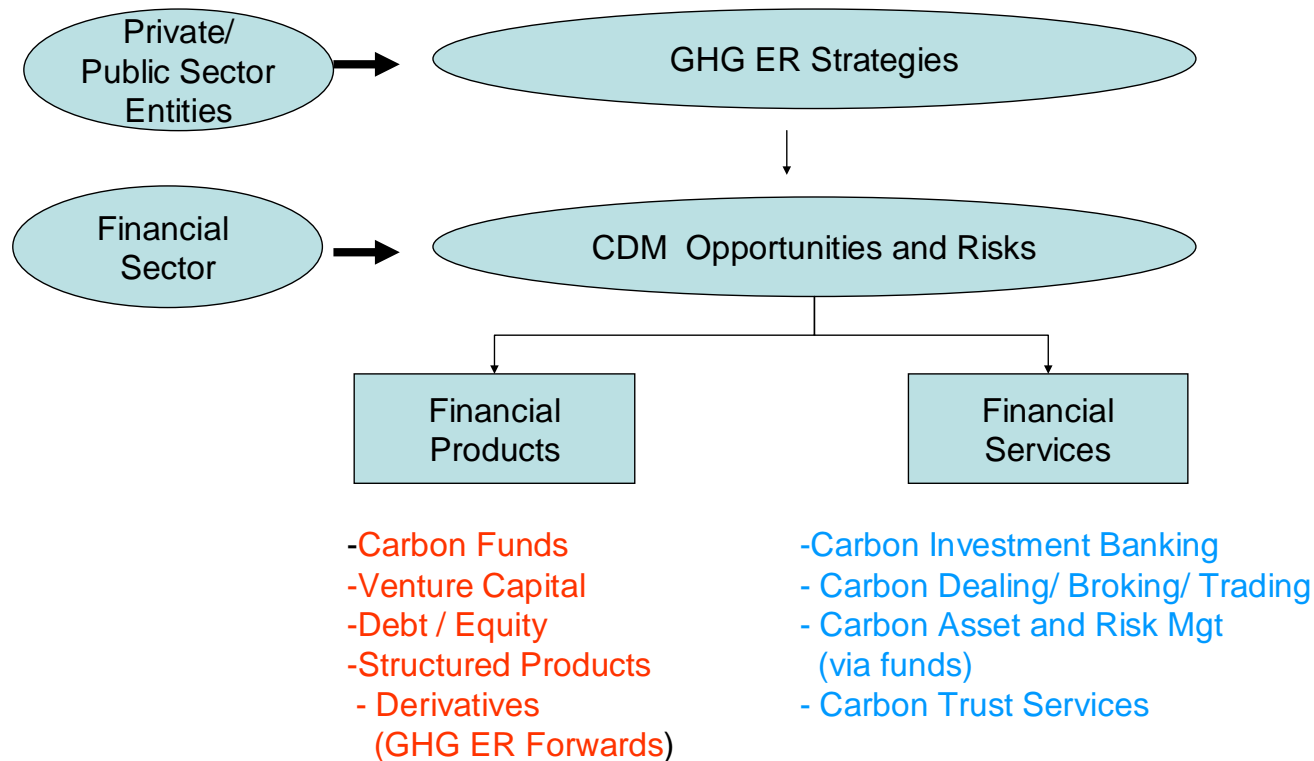
In Eastern Europe, KfW is assisting the Croatian Development Bank (HBOR)

- ❑ KfW is supporting HBOR and the state-run energy supplier in the implementation of programmes to promote renewable energies and energy efficiency, by awarding low-interest loans.

Innovative Solutions for Financing Climate Change Projects

There are opportunities for the financial sector to benefit in the CDM market

CDM: Roots for Green Capital Markets



Source: DBP

Some best practice solutions being implemented globally by NDBs

- ❑ **Bundling of Projects:** bundle small scale CDM projects to make them cost-effective.
- ❑ **Sellers' Pool:** develop a sellers' pool for CDM projects.
- ❑ **Use of Guarantees:** to take political, regulatory and/or legal risks.
- ❑ **Carbon Forfeiting:** develop a mechanism which provides up-front financing for "discounted" future carbon credits.

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