

# Green Bond Webinar

## Questions and Answers

What are the differences in terms of advantages and disadvantages of an international instrument such as the Paris Climate Bond (PCB) and a sovereign green bond?
A sovereign green bond is, in effect, direct borrowing by a government. This kind of borrowing comes under close scrutiny from important multilateral agencies with an interest in public debt management. Therefore, it would be unwise to prescribe sovereign green bonds as a solution for any given country before the full impact on its general fiscal policy objectives is clearly understood. Paris Climate Bond is largely an off-balance sheet structure for host governments.
Can you elaborate how PCB can be used for pure Adaptation or Adaptation + Mitigation projects?
The main limitation for adaptation is that we do not yet have a mechanism under the UNFCCC that defines adaptation or measures and verifies adaptation benefits of a project. Adaptation is therefore a co-benefit of the mitigation projects at this stage, but we can and will expand into pure adaptation projects in future.
Is there a Monitoring, Reporting and Verification (MRV) system related to the green bonds?
This is a weakness for green bonds at the moment. Changes that are occurring need to be accelerated.
How can green bonds meet the criteria of the new mitigation requirements?
There are no new mitigation criteria for green bonds per se. Green bonds help project developers and their host countries meet the new mitigation requirements by providing private sector debt financing which is difficult to secure in many developing countries.
When there is no definition of "green", how is the assessment of "green" criteria for the projects to be financed done?
<p>The comment made during the webinar was about the current absence of "official" definition of green. Private sector efforts have been made, with the information about the representative example, Green bond Principles" (GBP), available <a href="#">here</a> or <a href="https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/">https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/</a></p> <p>In addition, most green bonds have an endorsement letter from an independent industry expert. As mentioned during the webinar, it is our view that the process needs to be further strengthened by increased clarity about the intended use of the bond proceeds as well as enhanced MRV activities and disclosure.</p>

Which countries are eligible to participate in Paris Climate Bond?
We do not place a geographical or technological limit on PCB, except to say that projects to be eligible must be registered with current or future mechanisms of the UNFCCC and then pass the regular due diligence process we employ.
Which are the target countries for Paris Climate Bond? And could PCB be used in combination with other sources of financing such as the Green Climate Fund (GCF) and domestic capital/government co-financing?
In short, the answer to all of these questions is yes. We do not place a geographical or technological limit on PCB, except to say that projects to be eligible must be registered with current or future mechanisms of the UNFCCC and then pass the regular due diligence process we employ.
Can you touch upon the synergies between the existing instruments such as the GCF and Gold standards etc. Can and how can these be synergies strengthened?
The GCF and green bonds are complementary in that green bonds mobilize previously-untouched private sector funding to climate change projects, enabling the GCF to focus on the roles that only the public sector can play. Gold Standard certification will help reinforce green bonds' greenness credibility. The problem is procedural. The GCF's procedural complexity has been widely reported. Gold Standard, primarily used for the creation of verified emission reductions (VERs) to be sold at a price, naturally involves an exacting process. Pursuit of synergy will be more productive after more project-based green bonds have been successfully issued.
What is needed to request for a green bond? Which is the main requirement? A good concept note?
There is no set format common to all green bond investors. A good concept note will be most helpful.
Are there any special mechanisms to help countries that face debt-to-GDP ceiling limitations? maybe some tools for sub-lending or any other way not to count the green bonds as part of the public debt ceiling?
Green bonds issued by private sector companies or on a project basis should not affect the public sector debt ceiling. To elaborate on the latter, project-based green bonds are typically issued by a special purpose vehicle (SPV) and backed by the projects' assets and future cash flow as collateral.
How exactly does Paris Climate Bond aim to attract private investors? Especially for those investors who expect returns on bonds?
All projects participating in Paris Climate Bond can and do generate positive cash flows. Private investors are attracted to these cash flows, though the structuring allows investors to take exposures to different tranches of risk that correspond to their risk/return appetite and the commercial imperatives for the participating projects.

At the heart of the Clean Development Mechanism (CDM) was additionality. This is what ensures that we are not 'green-washing'. How is the concept of additionality addressed in green bonds? How are the known international green bond standards addressing this issue?

The CDM is designed as a mechanism for international transfer of emission reductions. Its additionality tests are conducted from this perspective. Under the Paris Agreement, when green bond-financed projects plan to internationally transfer their emission reductions, their additionality will naturally be evaluated according to the process stipulated for the CDM's successors, which will be developed based on Article 6 of the Paris Agreement. But such projects are expected to be in the minority.

With the Paris Agreement requiring all countries to commit to reduction targets, emission reductions from most of the projects financed by green bonds will stay within the host country. Applying the rigorous rules and procedures intended for safeguarding the integrity of international transfers of emission reductions will be not only unnecessary, but also counterproductive due to the risk of the onerous requirements discouraging project developers from proceeding with good projects.

"Genuine" green bond issuances, crucial as they are, could merely result in a reallocation of traditional aid money. However, serious climate change-tackling efforts need to look at pulling in the enormous amounts of private sector money from the capital markets. How can we make genuine green bond issuances attractive and palatable to the international capital markets, that go beyond, say, development banks?

There are two key points to make climate change related projects more palatable to green bond investors: (1) Working with development banks and other public sector institutions is a must, particularly in these early days. (2) Agreeing on a practical MRV system is crucial for ensuring that GHG mitigations (and other green/sustainability criteria) are not just stated but realized. This can be done with reference to CDM methodologies, with simplification as appropriate.

What type of investors do you expect in the PCB vehicles (before listing)? What uplift to return to investors (or cost saving to issuers) do you expect from the CDM element? Presumably aggregated vehicles will be themed (e.g. off-grid solar projects grouped together). How will you categorise projects and will you be able to include projects from different jurisdictions in the same vehicle?

The general idea of PCB is to create diversification, so we don't propose any specific theming by country or technology, except that the projects be eligible for registration with a current or future mechanism of the UNFCCC. The financial benefit to participating sponsors and the type of investors can be discussed bilaterally.

Example: there's a CDM project which was approved in Fiji at the Kinoya Wastewater Treatment Plant. It flares methane, generating no electricity and releasing CO2 emissions pointlessly, with no financial return. How would a project like that get assessed for cost-effectiveness and get approved under the PCB issuance methodology? How would that be refinanced?

If there were a deep, liquid and fungible global carbon market, similar to that which was experienced during the Kyoto Protocol's first commitment period and the lead up years, the project could get revenue from flaring under the CDM and then add an energy plant later with a post registration change. Without carbon revenues, flaring simply has no cash flow and is therefore not really suitable

for PCB. Without a global carbon market, some kind of development grant would probably be needed.
How does PCB support projects that look to earning/raising revenue from the sale of CERs? How will this be taken into account, assuming there is a drop in the value for CERs?
PCB offers financial compensation to project sponsors through a reduction in the cost of capital. The precise funding cost advantage varies according to the country and technology of the project and the structuring details.
How would you approach getting sustainable carbon neutral green building projects financed?
In the context of the webinar, three options are recommended for consideration: (1) Aggregate the projects and seek green bond financing, with public sector support if necessary and appropriate. (2) Tie up with a bank interested in financing green buildings and issuing green bonds specifying green buildings as the target area (or as one of the target areas). The issue will provide as much detail as available regarding the specific measures to be taken. (3) Pursue the idea outlined in (2) on a larger scale with sovereign (government) green bonds. More details will be provided upon request.
Would it be sensible to work with the Infrastructure Concession Regulatory Commission in Nigeria on this?
Certainly. The Commission is in charge of PPP and so projects could be harvested from her to support the Green Bond movement in Nigeria.
What would you consider as the success factors for the Nigerian Green Bonds?
The demonstrated commitment of the Government to the NDC and the need for alternative source of sustainable financing for infrastructural development.
What are the challenges that have been encountered by Nigeria in developing and conducting the Nigeria Green Bond?
The process (maiden) itself which appeared cumbersome, the ability of the stakeholders to understand what is green, and the verification process
Isn't quantifying additionality for developing nations problematic from an emissions standpoint, because creating additional mitigation for countries already generating lower per capita GHG emission rates means there is a smaller window for reductions to take place (i.e. - the potential for qualifying is limited compared to nations with higher initial emissions?)
The UNFCCC has very clear procedures for determining the additionality of projects. In particular, the "Methodological tool Combined tool to identify the baseline scenario and demonstrate additionality" is a useful reference point (TOOL02). It should be noted that the quantity of emission reductions, or the value assigned to those reductions, is no longer part of the assessment of additionality and has not been for some years. Financial additionality is now assessed by proving that the CDM project was not the most cost-effective alternative before any benefits from monetisation of emission reductions are taken into account. It should be noted that many projects in Fiji might also be

able to qualify as additional through other means such as 'first-of-its-kind' or 'positive list' additionality.
How long has the Nigerian Green bond been operational? How are the projects identified- Is the Paris Climate Bond suitable only for government-led projects?
Nigeria's Government issued the N10.69 Billion Green bond on December 22, 2017. It is sovereign as it is a government issued bond. Projects are determined based on the Green bond Principle Development through the Federal Ministry of Environment with inputs from relevant stakeholders.
If an investor puts in USD 1 M into the rice project that was mentioned how do they make a return, what is producing the money that the investor can bank?
This question goes to the core of the structuring and funding detail. My suggestion would be to contact us directly for a more detailed and in-depth discussion.
How can the private sector from developing countries be part of PCB? For example, a domestic aviation company has assessed their carbon footprint from business operations. It amounts to about 18 K tonnes of CO2 equiv. per year. The company want to invest in a green project in the country as a part of offsetting the emission. Also, they are finding it difficult to pay for the current market price offered by various certified agency who have credits. Considering the interest of the aviation company to reduce emission, how can a company be part of the green project from PCB? What are the steps? How much does the company need to contribute to unit tonnes of CO2 eqvt? We are looking for practical advice.
Developing country private sector actors can participate in PCB either as project sponsors (i.e. they want to receive PCB finance) or as investors, though the former would be more common. In theory, the domestic aviation company could gain access to some CERs through PCB by investing in the structure which would be, in and of itself, economically viable. Perhaps we could organise a discussion with the aviation company should there be interest.
In the example of AWD in the Philippines, who is the issuer of the bond and what is the source of finance to pay the interest and principal when the end beneficiaries are thousands of farmers? Are the sales of CERs used?
This question goes to the core of the structuring and funding detail. We suggest contacting us directly for a more detailed and in-depth discussion.