

GREEN BONDS REDUX

Build the bond,
the buyers will come.

ON JUNE 2 THE GREEN Bonds proposal was unveiled publicly for the first time. After nine months of consultation and policy development, the Green Bonds Team gathered stake-holders to initiate what we hoped would be an on-going public debate. Green Bonds, a Victory Bond for the environment, was an exciting proposal. But would it withstand the scrutiny of Bay Street? Or my fellow cleantech entrepreneurs? Or think-tanks and academics? Would anyone even show up?

We packed the place. Over 120 people attended to hear our presentation, listen to a panel of experts kick the tires, and engage in a lively Q & A session. Not only did the policy withstand scrutiny and debate, the room was charged with excitement. It's time for Green Bonds to enter the national debate on the economy and the environment.

What's all the excitement about?

Here's how it works: Canadians buy a government-backed bond (like a Canada Savings Bond), to raise funds to accelerate renewable energy production by providing low-cost debt to renewable energy producers.

Public engagement is one thing – Green Bonds will spark excitement by providing an answer to those Canadians asking “What can I do for the environment?”—but the financial details are another. Our analysis suggests that Green Bonds are more flexible and efficient than other policy options on the table. The Green Bond proposal is one of the cheapest and most effective ways for the government to reduce carbon emissions.

The government backs the bond, and provides a mandate to the private sector to run the fund. The fund manager lends the money at low rates to renewable energy producers. The mandate is technology-neutral, has a clear measure of success (e.g. cost to government per tonne of carbon reduction), and financial incentives to maximize that success. Since renewables are typically

high capital cost and low operating cost, the low-cost debt reduces the cost of renewable energy production, making it competitive in the short-term.

Some questions come to mind.

Why private sector management? The government shoulders the risk, so why separate risk from management? We want to leverage the creativity of the private sector by offering the right financial incentives to deliver an efficient policy.

If success of the policy is measured in dollars per tonne of carbon emissions reduced, then the private sector responds with sound technology choices with minimal risk, strong due diligence, and aggressive asset recovery in the case of loan defaults. Borrowers would be single-source, large-impact players—so no mom-and-pop operations. Liens would accompany loans—on equipment, on Power Purchase Agreements, on whatever the fund manager and borrowers negotiate.

What's the cost to government? The main cost is loan defaults, with other variables such as asset recovery rates, management fees and whether the borrower has to put up matching funds. In the three scenarios we

ran, costs ranged from \$1 to \$13 per tonne of carbon removed. The lower end of that range corresponds to a realistic scenario, and the upper end to the worst-case, sky-is-falling analysis required by the folks at the Ministry of Finance.

That's as cheap as it gets. Carbon trades at \$40 per tonne in Europe and both current and previous federal governments have proposed buying carbon for \$15 per tonne. Why is our proposal so cheap? It effectively limits the government's exposure to paying only for defaulted loans. The loan agreements and risk-mitigation efforts sit squarely in the hands of the private sector. Each dollar cost to the government is multiplied into actual capital deployed to produce renewable energy.

It's flexible. Technology choices, lending rates—all the details of implementation—can change according to market conditions. It targets a much broader range of companies than either tax credits or fixed subsidies, and costs less per tonne of CO₂ reduction.

It's temporary—this subsidy will naturally drop away as costs of carbon emission compliance increase or as commercial banks indicate their willingness to lend at similar rates for renewables.

Green Bonds are certainly a darn good tool to put into the policy toolkit.

The possibilities don't end here. Andrew Heintzman, co-founder and president of Investeco, reminded the audience on June 2 that the national railroad was built because of innovative public-private financing. The sky's the limit as far as the nation-building projects Green Bonds could enable: high-efficiency DC lines up to Hudson's Bay, opening it up to wind developers, for example.

Build the Bond, the buyers will come. **CK**

Tom Rand, B.A.Sc., M.Sc., M.A, P.Eng., is an Action Canada Fellow and Cleantech venture capitalist.



PHOTO: Alex Lamey

by Tom Rand

