



Recommendations for Shaping an Effective Financing Mechanism to Help Medium-Sized Developers Unlock and Scale Renewable Energy Projects in the Philippines

Greening the Banks Knowledge Product

November 2023

Introduction

Since its launch in the Philippines in 2019, Greening the Banks (GTB), an initiative led by Allotrope Partners, has been working to strengthen the capacity of financial institutions (FIs) to actively participate in green finance and scale renewable energy (RE) investments. Over the years, GTB has engaged with 200+ local banks and 800+ local market stakeholders to gain insights into the gaps and challenges that impede the accelerated and scaled implementation of green finance in the Philippines. Facilitating direct locally-driven dialogues among banks, project developers, policymakers, and other market stakeholders has provided an in-depth understanding on specific issues being faced by the market.

A major challenge that has been identified through previous GTB engagements is the inability of project developers, specifically **medium-sized RE developers, to access financing opportunities** to advance RE projects in the Philippines. Medium-sized developers have underscored that further support is needed to help scale RE and diversify the Philippines' green finance landscape, which is currently dominated by larger players. As an example, developers face challenges in securing the needed funds from FIs, particularly from commercial banks, to successfully proceed with the construction of RE merchant plants due to banks' requirements for power purchase agreements (PPAs), which are not present in the merchant plant model.

Drawing upon years of discussions with market stakeholders, including recent GTB focus group discussions with medium-sized developers, financial institutions, policymakers, and civil society organizations, GTB has distilled stakeholder insights into **recommendations to advance three emerging financing mechanisms that have the potential to help medium-sized developers access financing to scale RE in the Philippines**. This knowledge product outlines these three mechanisms and explores how future support from GTB and aligned partners can help unlock this critical market segment.

Financing Mechanisms with the Potential to Address Challenges Encountered by Medium-Sized RE Developers

Based on feedback from local stakeholders, three potential financing mechanisms have emerged as tools that could help medium-sized RE developers access financing in support of the Philippines' clean energy transition. Priority mechanisms for further exploration and action include **green bonds, credit surety funds, and guarantees**. In a recent focus group discussion, GTB explored these three mechanisms with local and multilateral stakeholders in the climate and financing space, seeking their insights and recommendations on how the following tools could best be adapted and applied to meet the needs of medium-sized RE developers in the Philippines.

Green Bonds

Green bonds are not a new concept in the Philippine market. The Philippines is often considered a leader in this space as the third largest issuer of green bonds in the Association of Southeast Asian Nations (ASEAN). A green bond is a fixed-income financial instrument issued by a financial institution or other organization to fund sustainability-focused projects. This financial mechanism can help funnel external funding into local projects and address funding gaps in achieving the country's RE goals.

Green bonds that have been issued to date in the Philippines have traditionally benefited large conglomerates (i.e., AP Renewables and AC Energy),¹ but local stakeholders have echoed the **potential to adapt green bonds in support of a wider range of developers and project sizes**. For example, a recent Asian Development Bank (ADB) survey of institutional investors and underwriters from 2022 revealed that 67% of investors prefer investing in green bonds to finance smaller projects under US\$10 million, 32% of which focus on the RE sector.² Given this growing interest in supporting a diversity of project sizes, green bonds in the Philippines could be adapted to support medium-sized developers, in alignment with investor and developer needs. One approach to making green bonds more accessible to a wider range of stakeholders could be to **segment the green bonds' proceeds allocation** to help ensure that multiple smaller projects are granted funding, while also further diversifying the bonds' risk profile. This could be accomplished by specifying a target number of projects that a given green bond seeks to finance, thereby ensuring a distributed impact across a set of smaller projects, rather than a large few.

Stakeholders engaged by GTB have raised concerns that the local FIs with access to funds raised by green bonds for green projects are still financing fossil fuel projects and that

¹ Davidson, Kristiane, et al. *Green Infrastructure Investment Opportunities: Philippines 2020 Report*. November 2020. Asian Development Bank, Mandaluyong City, Asian Development Bank, <http://dx.doi.org/10.22617/TCS200335-2>. Accessed 2023.

² *Green Bond Market Survey for the Philippines*. Insights on the Perspectives of Institutional Investors and Underwriters. July 2022. Asian Development Bank, Mandaluyong, Asian Development Bank, <https://www.adb.org/sites/default/files/publication/813001/green-bond-market-survey-philippines.pdf>. Accessed 2023.

monitoring of green bonds is limited. GTB stakeholders have suggested that in order to adapt the green bond mechanism for use by smaller developers, more robust monitoring should be put in place. A **tracking tool for green bonds in the Philippines** could help **transparently document the path from green bonds to medium-sized RE projects and trace allocations that are made for specific project sizes or developer portfolios** to ensure that smaller developers gain access to this influx of external funding. GTB envisions that close engagement with the Bangko Sentral ng Pilipinas (BSP) and relevant multilateral organizations like the ADB and the International Finance Corporation (IFC) will be necessary to design and implement increased green bond monitoring and transparency in the Philippines.

Investors and underwriters also expressed that tax incentives or subsidies could greatly increase momentum for the Philippine green bond market. This method has been particularly effective in France's Fonds Commun de Placement en Innovation (FCPI), a similar mechanism, where investments and capital gains derived from "innovative companies" are tax-deductible or tax-free, allowing the FCPI to comprise over 50% of the country's venture capital in 2011.³ Tax incentives can increase interest in green bonds,⁴ offsetting the perceived risks of funding smaller and newer developers. Potential for advancing tax incentives or subsidies specifically tailored to enable medium-sized developers to participate in green bonds would need to be further explored in collaboration with government and regulatory partners in the Philippines to advance this stakeholder suggestion and make it a reality.

To **carry forward these stakeholder recommendations related to green bonds** in the Philippines, GTB and aligned partners should work together to explore a tracking tool that could help monitor the current status of green bonds and track opportunities and progress in support of medium-sized RE developers. ADB, IFC, and the BSP can all serve as key partners to assess and expand medium-sized RE developers' access to this capital. There are also opportunities to deepen relationships with major banks, such as the Bank of the Philippine Islands (BPI), that have issued green bonds previously, but could lead the way in piloting new bond issuance design approaches like a segmented and intentionally specified green bond that targets a larger number of projects in support of a broader range of market stakeholders and RE project sizes.

Guarantees

In their simplest form, guarantees are an arrangement where a guarantor agrees to pay a borrower's debt in the event of the borrower's default. Guarantees for RE projects have a history in the Philippines dating back to large-scale RE projects in the 1990s, like the Leyte Luzon

³ Organisation for Economic Co-operation and Development (OECD). "New Approaches to SME and Entrepreneurship Financing." *OECD iLibrary*, OECD iLibrary, October 2015, https://read.oecd-ilibrary.org/finance-and-investment/new-approaches-to-sme-and-entrepreneurship-financing/hybrid-finance-instruments-for-smes_9789264240957-9-en#page11. Accessed November 2023.

⁴ Green Bond Market Survey for the Philippines, ADB, 2022.

Geothermal project that benefited from a World Bank partial credit guarantee in 1994.⁵ The ADB and World Bank have been instrumental in catalyzing initial guarantee products in the Philippines, such as partial credit guarantees and partial risk guarantees, but their adoption has been slow and uptake has largely been limited to large conglomerates with large-scale RE projects (as seen in the case of the Tiwi and MakBan Geothermal Project by Aboitiz Power's AP Renewables Inc.). **Guarantees can derisk projects** in a number of ways and enable better credit ratings, which in turn has the potential to **enhance access to financing** if guarantees could be **adapted and applied in support of medium-sized RE developers** in the Philippines.

Government-led initiatives in the Philippines, such as the Electric Cooperative Partial Credit Guarantee (ECPCG)⁶ and the emerging Sustainable Energy Credit Guarantee Facility (SEGF),⁷ have not yet been tailored or right-sized for medium-sized RE developers. A recommended potential solution could be to **design guarantee products that complement and work in alignment with procurement initiatives** like the Philippine Renewable Portfolio Standard (RPS) or the Green Energy Auction Program (GEAP). For example, in Argentina, iTrust guarantees were designed in alignment with the country's procurement initiatives and helped address developer challenges like unreliable tariff payments, which ensured success in reducing the cost of RE.⁸ Such alignment in the Philippines could help create a measurable impact in the sector.

Stakeholders have raised **challenges such as the high costs and intricate application processes** associated with guarantee applications as key factors that are limiting the adoption of guarantees by a range of stakeholders in the Philippines. For example, medium-sized developers participating in GTB engagements have shared that the SEGF's fees and collateral requirements⁹ discourage them from participating as smaller RE developers often lack significant collateral. They also point that the cost of locally available guarantees skew their internal rates of return beyond levels that local financiers are comfortable with. Moreover, stakeholders have noted that the application process for some guarantees like the Credit Guarantee & Investment Facility's consists of multiple, time-intensive stages¹⁰ that limits accessibility.

To better adapt guarantees in support of medium-sized RE developers, the **cost of guarantees and their associated application processes should be revisited to ensure they are not**

⁵ Rakhmadi, Randy, and Melisa Sudirman. *Developing a Guarantee Instrument to Catalyze Renewable Energy Investments in Indonesia*. Climate Policy Initiative (CPI), 2019, <https://climatepolicyinitiative.org/wp-content/uploads/2019/05/Developing-a-Guarantee-Instrument-to-Catalyze-Renewable-Energy-Investments-in-Indonesia.pdf>. Accessed November 2023.

⁶ The World Bank. "Philippines." *World Bank*, 12 May 2016, <https://www.worldbank.org/en/news/press-release/2016/05/12/philippines-world-bank-approves-two-projects-to-expand-electricity-access-for-poor-remote-households>. Accessed November 2023.

⁷ Philippine Guarantee Corporation (PhilGuarantee). "Sustainable Energy Credit Guarantee Facility (SEGF)." 16 June 2023, <https://www.philguarantee.gov.ph/programs/guarantee-programs/corporate-msme/sustainable-energy-credit-guarantee-facility-segf/>. Accessed November 2023.

⁸ RELP. *International Guarantee Trust Fund for Renewable Energy (iTrust)*. Concept Note. June 2023. *Greenmap*, RELP, <https://www.energygreenmap.org/itrust-concept-note.pdf>. Accessed November 2023.

⁹ Sustainable Energy Credit Guarantee Facility (SEGF), PhilGuarantee, 2023

¹⁰ Credit Guarantee & Investment Facility (CGIF). "Credit Guarantee & Investment Facility." *CGIF - Credit Guarantee & Investment Facility*, <https://www.cgif-abmi.org/our-business/approval-process/>. Accessed November 2023.

prohibitive for smaller developers. The guarantee process should also be streamlined and clear guidance should be provided to ensure developers are able to access guarantees swiftly and without a burdensome application process. Finally, stakeholders emphasized that guarantees have to be tailor-made for medium-sized RE developers and the projects they are interested in. Projects addressing government mandates like the RPS and GEAP could access automatic eligibility or credit enhancement via a guarantee, thereby easing the application process and enhancing financing options due to government commitment to the project.

The **way forward for expanding access to guarantees in the Philippines**, as highlighted by GTB stakeholders, will require government and regulatory partners like RELP, the Philippine Department of Energy, BSP, and the Philippine Guarantee Corporation (PHILGUARANTEE) to reassess current guarantee models, alleviate pain points in the guarantee process, and revisit the cost impact for medium-sized RE developers. GTB and aligned stakeholders can engage closely with government and regulatory partners to underscore current barriers to the adoption of guarantees in the Philippines, amplify effective examples of international guarantee models, and inform the development of accessible, low cost, streamlined guarantee mechanisms that enable the scaling of a range of RE projects implemented by a robust ecosystem of RE project developers across the Philippines.

Credit Surety Funds

Credit surety funds (CSF) are created through contributions from a membership of stakeholders. CSFs perform similarly to guarantees, in that the fund is used to guarantee the debt of its member cooperatives or associated micro, small, and medium-sized enterprises (MSMEs) via surety cover.¹¹ The CSF hence acts as collateral to enable a member's access to credit. In the Philippines, the BSP established the CSF to assist MSMEs in the country. Since institutionalized into law, the CSF has been managed by the Development Bank of the Philippines (DBP). Current members, such as food cooperatives, government banks like DBP and Landbank, local government units (LGUs), and non-government organizations, pool their money together and the collective fund is used to supplement member cooperatives or associated MSMEs' loan applications in place of collateral. To date, the CSF model has not been targeted in support of energy developers. Instead, **common beneficiaries include food producers,¹² common-purpose cooperatives,¹³ and other MSMEs** that operate at provincial level. By 2020,

¹¹ Maningo, G. V. 2016. Credit Surety Fund: A Credit Innovation for Micro, Small, and Medium-Sized Enterprises in the Philippines. ADBI Working Paper 589. Tokyo: Asian Development Bank Institute. Available: <http://www.adb.org/publications/credit-surety-fundcredit-innovation-micro-small-and-medium-sized-enterprises-philippines/>

¹² Development Bank of the Philippines (DBP). "DBP supports P50-M CSF poultry project in Pangasinan." *Development Bank of the Philippines*, 12 September 2019, <https://www.dbp.ph/newsroom/dbp-supports-p50-m-csf-poultry-project-in-pangasinan/>. Accessed November 2023.

¹³ Development Bank of the Philippines (DBP). "DBP strengthens lending reach to MSMEs through cooperatives." *Development Bank of the Philippines*, 9 September 2019, <https://www.dbp.ph/newsroom/dbp-strengthens-lending-reach-to-msmes-through-cooperatives/>. Accessed November 2023.

the CSF model had enabled over USD \$162 million (PHP 9 billion) in loans to MSMEs in the Philippines.¹⁴

The CSF mechanism has the potential to address a common challenge that medium-sized RE developers also encounter by providing collateral they often do not have, allowing medium-sized RE developers access to better loan terms and rates. **The CSF has clear benefits if adopted and scaled for the clean energy sector**, since smaller RE projects are often viewed as riskier investments, a view hindering medium-sized RE developers' access to favorable credit. Through the pooling of resources into a central fund, smaller developers could gain access to better debt instruments than those they are able to access independently. Translating the CSF mechanism to the RE industry would help derisk medium-sized RE developers and ultimately improve their access to green financing.

Current beneficiaries of the CSF model are typically very small scale, and the BSP's capacity building programs on this mechanism are directed through LGUs (cities, provinces).¹⁵ **To replicate and scale this model in support of medium-sized RE developers, right-sizing studies would need to be undertaken** to identify how big an RE-focused CSF would need to be to enable the desired surety cover. Stakeholders have also emphasized the need to explore how public finance could help seed this fund, in light of the capital constraints that many medium-sized developers face. They also underscored the critical role of fund management and financial literacy to the effectiveness of the mechanism's surety cover.

In light of these considerations, **government and regulatory partners are best-positioned to adapt and scale the CSF mechanism**, given their ability to leverage public finance to seed the fund and enhance credibility. Capacity building in partnership with potential medium-sized developer members will also be required to ensure participating developers understand the mechanism's benefits and how to take advantage of the associated surety cover. Careful selection of members will also be a critical aspect in ensuring the benefits of this mechanism are realized by medium-sized RE developers in support of the Philippine energy transition.

To advance opportunities in diversifying and scaling the CSF mechanism for RE projects of all sizes, GTB and aligned partners should socialize this model, amplify the above-mentioned stakeholder recommendations, and conduct the necessary right-sizing studies to explore and confirm how this model could be effectively adapted and applied in support of the clean energy space. Government-affiliated partners, including the BSP and DBP, play a key role in managing the current mechanism and will be critical stakeholders to engage moving forward. GTB and aligned partners should also engage medium-sized RE developers directly to explore potential needs and opportunities in greater detail to build and implement a CSF model that is

¹⁴ Banzuelo, Neil. "Loans disbursed by credit surety funds hit P6.9B at end-2020." *BusinessWorld Online*, 13 May 2021, <https://www.bworldonline.com/banking-finance/2021/05/13/367889/loans-disbursed-by-credit-surety-funds-hit-p6-9b-at-end-2020/>. Accessed November 2023.

¹⁵ Cooperative Development Authority (CDA). "Cooperative Banks Urged to Join Credit Surety Fund Program | CDA." *Cooperative Development Authority*, 17 April 2023, <https://cda.gov.ph/updates/cooperative-banks-urged-to-join-credit-surety-fund-program/>. Accessed November 2023.



well-matched with the profiles of smaller developers in the Philippines.

Conclusion and Next Steps

The above insights and recommendations to advance three innovative financing mechanisms in the Philippines reflect the voices of GTB stakeholders, especially medium-sized RE developers, regarding solutions that could help developers access additional and accelerated green financing to support RE projects of all sizes. The three suggested mechanisms are not new to the Philippines market context, but in their current forms, they have not been right-sized or implemented in support of medium-sized RE developers and have not yet been leveraged to enable smaller-scale project opportunities. Funds raised from green bonds are not reaching medium-sized RE developers and their RE projects, and more robust monitoring and tracking is needed in coordination with segmentation to allocate green bonds to a larger number of projects and market stakeholders. Guarantees should be aligned with the Philippines' RE procurement initiatives, like the RPS and GEAP, and adapted to reduce costs and streamline application procedures with a focus on engaging medium-sized RE developers. Government-affiliated partners should explore how the CSF mechanism could be adapted and scaled in support of clean energy projects and smaller scale developers.

The GTB team looks forward to working in collaboration with local market stakeholders to shape and advance effective financing mechanisms to help medium-sized developers unlock RE projects of all sizes at speed and at scale.

Specifically, GTB is eager to support the widespread adoption of green bonds toward clean energy projects led by medium-sized developers by advancing the development of a robust monitoring system to ensure that smaller projects by medium-sized developers are being financed at a greater speed and scale. As noted above, local stakeholders have emphasized that effectively tracking the issuance of green bonds through a transparent monitoring system would help ensure that external funding is being directed towards projects with smaller ticket sizes. As a result, more investments could be mobilized through this green bond mechanism thereby increasing opportunities for medium-sized developers to access financing in an accelerated manner. By leveraging GTB's existing and emerging relationships with aligned partners, such as the ADB, IFC, BSP and BPI, GTB aims to enable the successful and swift implementation of green bond transparency and help medium-sized developers access the positive impacts of the green bonds mechanism. GTB also seeks to explore in-depth collaboration with leading banks, such as BPI, to pilot new design approaches to issuing green bonds that are segmented and tailored towards medium-sized developers.

Additionally, the GTB team looks forward to engaging aligned partners and market stakeholders to adapt and scale guarantees and the CSF mechanism in targeted ways that address the challenges of medium-sized developers and expand their access to project financing. Coordinated action is needed to carry forward the recommendations echoed throughout this knowledge product, and GTB is highly motivated to work in partnership with medium-sized



developers and other market stakeholders to scale RE projects of all sizes in support of the Philippine clean energy transition.