SIEWCast Episode 6 – Clifford Capital - Transcript

Rachel Kelly (Money FM 89.3) 00:02
This SIEWCast is brought to you by Singapore International Energy Week and Money FM 89.3, in partnership with ExxonMobil. SIEW is an annual platform for energy professionals, policymakers, and commentators to share best practices and solutions within the global energy space.

Now, the transition from fossil fuels to alternative energy solutions will not happen overnight and to reach mid-century goals of achieving a climate-safe 1.5 °C, it's estimated that a significant scale-up in financing is required. In fact, according to the International Renewable Energy Agency, or IRENA, over US$24 trillion of global investment must be redirected from fossil fuels to energy transition technologies. Here in Southeast Asia, renewable power, grids, and transition-related power technologies and infrastructure alone require over US$5 trillion of investment by 2050.

To take a deeper dive into the funding of the energy transition, we're joined now by Audra Low, CEO from Clifford Capital. Audra, thank you so much for taking the time to speak with us today.

Audra Low (Clifford Capital) 01:12
Thank you, Rachel. It's a pleasure to be here.

Rachel Kelly (Money FM 89.3) 01:15
And Audra we've got to start off with those figures, because they're quite staggering, aren't they?

Audra Low (Clifford Capital) 01:19
Yes, they are.

Rachel Kelly (Money FM 89.3) 01:20
US$5 trillion worth of financing needed by 2050, in this region alone. Share with us the role that private financing plays when it comes to developing and addressing this particular issue.

Audra Low (Clifford Capital) 01:35
So, you hear all these big numbers bandied about and suddenly governments alone cannot mobilise the scale of this investment that's required for the region to reach net zero by 2050. So, the key here is to mobilise private sector financing. And to do that, governments actually do have a key role in creating that pathway for private financing to come to the market.

For a start, we would need at a minimum for governments to ensure that they put in place enabling legislation, stable regulatory frameworks – these are the basic fundamentals that our investors will expect to see in order to have the confidence to invest, especially in emerging markets.

Rachel Kelly (Money FM 89.3) 02:16
And given the urgency that we see when it comes to the energy transition, the goals that we have set looking forward to 2050, what are some of the potential risks in the region that could perhaps affect the bankability of projects?

Audra Low (Clifford Capital) 02:31
Oh, gosh. Bankability is a word that's used a lot and it can actually involve a whole range of issues. But I think if you start at the, again, the very beginning, you just need good concession contract structures. By that we, for example, should include the fact that you should have sufficiently long concession terms. Infrastructure is something that involves a huge amount of capital outlay upfront and so any investor or lender coming in should expect to have a good payback period and also have the assurance that this payback period is not going to be disrupted midway through.

Then there are other issues, right, such as currency. In many emerging markets, they might not have sufficient depth in the local currency capital markets in order to support the scale of investment that's required. So, in many of these cases, they will be looking for foreign investors to invest in the sector to bring in foreign capital. And for this cross-border financing to happen, one of the key issues that haveto be addressed is currency risks – whether these are fluctuations in the local currency or the convertibility of the currency back into hard currency like US dollars, in order to return the capital to either investors or lenders. So, you would have to ensure that there is sufficient mechanics in these contracts, such as US dollar indexation, for people to know that they have the ability to return, to get the right capital return over time.

Then there are other things, such as inflationary factors. Very often you see that these concessions should probably have some level of inflation indexation, just to give people the assurance that the rising costs are not going to erode their return over a long period of time.

So, these are some of the basic, I would say, elements of a good concession that the private sector would generally expect to see before they would consider a project to be investable.

Rachel Kelly (Money FM 89.3) 04:25
And that said, looking at projects that are investable, given the trends that we've seen when it comes to ESG, sustainability, driving the energy transition, I'm sure there's no shortage of funds. But what about projects? Are there enough projects to meet the money?

Audra Low (Clifford Capital) 04:41
Well, there are plenty of needs, right, as far as infrastructure is concerned, when people say that there are no projects, I think they generally mean there are no bankable or attractive projects that have been structured in a way that takes care of this risk in a sensible manner.

So, for example, in certain infrastructure projects, you see that there's no dollar indexation. Then that limits the ability for international financiers to provide capital to make these projects happen. So it's often these types of issues that trip up the availability of what they call bankable projects, not so much the lack of a need for these infrastructure projects itself.

Another example in the renewables sector is curtailment. So, when you have a very rapid increase in the generation capacity, because the governments are tendering out a huge amount of solar projects, or rooftop solar, wind, hydro projects, and they haven’t actually sufficiently invested in grids. And what happens then is that you may have the capacity to generate all this clean energy, but no ability to evacuate the power out of these power plants. And so, why would an investor be interested to invest a lot of money in generation capacity when they can actually evacuate the power and sell the electricity? Because that's what it takes to make the revenues and to generate the payback for investors and for lenders. So, I think it does need to be a very coordinated sort of effort across whether it's the procuring governments, the state utilities and the private sector players in order for these projects to happen, and to happen in a sensible way.

Rachel Kelly (Money FM 89.3) 06:16
A lot of complexities.

Audra Low (Clifford Capital) 06:18
Yes, yes.

Rachel Kelly (Money FM 89.3) 06:19
We're speaking with Audra Low, you're listening to Money FM 89.3. Audra Low, CEO from Clifford Capital, as part of a special series of SIEWCasts, brought to you by Singapore International Energy Week and Money FM 89.3, in partnership with ExxonMobil.

Audra, going back to a topic that you mentioned earlier, when we're talking about financing sustainable projects and the demand, let's take a look now at the products that finance these projects.

Before we started recording, we were talking about the difference between green loans and conventional loans, and at which point the ESG factor will almost become a hygiene factor when it comes to financing. And I know at Clifford Capital, you already look at the E&S when it comes to the projects that you're financing. But taking a look at the wider industry, when do you think that we'll start to see this be incorporated? So, there is no longer a differentiation between green products and conventional projects, but they all kind of come in together?

Audra Low (Clifford Capital) 07:20
Yeah, I think the one thing that we often say is at some point in the future, you don't even need the green label. Everything is just going to be, you know, green in some shape or form and that's just going to be the norm.

For now, I would say that in the infrastructure sector, actually a lot of financiers, like ourselves, already have some degree of these hygiene factors. So, for us at Clifford Capital, as you rightly pointed out, we already look at E&S – environmental and social. And that's actually very important because these infrastructure projects are being developed from scratch and, you know, we're putting a new power plant in a location that would have an impact on local communities, for example. So, we already think about things like, you know, what are the emissions that could come out of this plant? What is the noise pollution? Are there going to be any local communities that need to be moved in order to make way for this new power plant to be in place?

But I think the dimension that people haven't perhaps thought about as much in the past is the carbon intensity of projects. And by that, we measure the amount of CO_2 that will be generated from the construction of the project and also from the operation of the project over its lifetime. This is actually a pretty new area, people are only starting to measure carbon intensity, and measuring it perhaps in a like CO_2 per dollar deployed, for example. Many financial institutions, whether these are investors or lenders, they're only starting to track this carbon intensity, right?

So, I think this sort of closes out the dimension of E, S, and also, you know, measuring carbon intensity so that we all can collectively figure out how we can achieve that glide path from where we are now to net zero by 2050.

Rachel Kelly (Money FM 89.3) 08:57
And speaking of achieving that glide path, how can financial institutions and the public sector complement each other to reach these goals?

Audra Low (Clifford Capital) 09:05
A lot of these infrastructure projects can't happen in a private sector vacuum, right? You do need the public sector to start by having the right policies in place, the right regulatory framework in place, and it opens the doors for private sector investors to come in.

Also, because a lot of this infrastructure has to start with a planning perspective, the governments have to figure out where they're going to put this plant, how much capacity they need, what is the right fuel mix to ensure that there's resilience on the grid, how much foreign capital they need versus what's available locally? And then you've got to sort of put it all together and see what comes out of that.

Rachel Kelly (Money FM 89.3) 09:45
What role does Singapore play then in green financing for the region? I mean, obviously, we've seen government rollout the Singapore Green Plan.

Audra Low (Clifford Capital) 09:54
Yeah. Singapore, actually for a number of years now, has always had a stated goal of being the infrastructure financing hub for the region. And in the context of the green transition that really hasn't changed, right? And over the years, we've actually seen the confluence of a lot of these infrastructure development-related players based here in Singapore. And this includes obviously the developers that would go out there and find these projects and construct them. It includes all the banks, there are a lot of project finance banks that have relocated and based their teams here in Singapore. There're also insurers, consultants, and even several of these multilateral development institutions have offices here, including the World Bank, and more recently, the ADB.

So, I think with everyone being in one place, it's helpful. It facilitates networking, sharing of ideas, it provides a platform for collaborations and partnerships. We ourselves find it very useful just to be able to see other people in the industry and meet up with them on a regular basis.

Rachel Kelly (Money FM 89.3) 10:59
So, what are some of the innovations and projects that Clifford Capital is looking out for in Asia to shape a resilient and sustainable energy future?

Audra Low (Clifford Capital) 11:07
So, Clifford Capital, we are a specialist lender, providing structured project and asset financing, focusing very much on the infrastructure sector. So, because of the green transition, we actually think that there are many exciting new opportunities that lie ahead of us.

One of our priorities is actually to help Singapore companies secure and develop new clean energy projects that could potentially supply clean energy back home into Singapore in the future to displace the use of natural gas, which we are very reliant on at the moment. And one of the important initiatives that we have been spending some time thinking about is the energy importation projects that EMA is currently tendering for.

Energy importation actually involves the development of new solar, wind, hydro projects in neighbouring countries, such as Malaysia, Indonesia, Vietnam, or even further up in Laos, and then transporting these clean energy electrons back into Singapore via subsea cables. We think this is an important initiative, not just to supply clean energy for Singapore, but in doing this, we could potentially develop a very interconnected grid across ASEAN. And we think that this would go a long way in ensuring energy resilience. You see this in Europe where, you know, if one country requires more energy during a down period, it can be supplied from another country.

If we look ahead further into the future, we think that green hydrogen is also a very promising fuel that can eventually displace natural gas. At the moment, the technology is still pretty nascent, but in time, with more investment into R&D, the technology would mature and would be capable of scaling up much more economically.

Rachel Kelly (Money FM 89.3) 12:46
Well, thank you so much for taking the time to speak with us today.

Audra Low (Clifford Capital) 12:49
Thank you.

Rachel Kelly (Money FM 89.3) 12:50
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