Key Takeaways

Session Title: Structuring Investment Products for Climate Action

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Session Rapporteur
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Walter Ge (Founder and Managing Director, Green Startups Accelerator)

- Why are there so few investors ready to back an entity tackling climate change? Investors may not be comfortable investing in entities tackling climate change due to the high risk and long payback period.

- Importance of local teams - Although money may come from anywhere, the objective of impact investment is to tackle local problems and hence, there needs to be a good local team to execute the project.

- Why does the Green Startups Accelerator invest almost exclusively in Agriculture? – The agriculture industry is often overlooked when it comes to tackling climate change. This is despite the fact that the agriculture industry is responsible for 25% of all green house gas emissions.

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Sandeep Roy Choudhury (Director, VNV Advisory Services)

- Funds have been scarce in rural areas for developing tools to tackle climate change. Even micro-financing has not been utilized to tackle this challenge.

- What does VNV look for in the companies that they invest in? – (1) the solution provided by the entity should be affordable, (2) the entity must have access to the marginalized community it intends to serve, and (3) the entity must have a business model and should not rely completely on funding to sustain itself.

- Vulnerability across South Asia has increased recently, not only due to COVID-19 but also devasting cyclones that have struck the Indian subcontinent in the last few weeks.

- What are some of the key aspects of the investment product offered by VNV ?– (1) term of the investment product is 10 years, and (2) investments will occur through either Equity Shares or Fully Convertible Preference Shares.

Question and answer session between panelists

Questions raised by Mette Ekeroth (General Manager, North East Family Office) and Wonyoung Kim (Executive Director, Crevisee Partners)

- How do Green Startups Accelerator (GSA) and VNV Advisory Services (VNV) measure the impact of entities in which they invest ?
- What is the Internal Rate of Return (IRR) offered to the LPs?
- A proposed term of 10 years for an investment product is a long term for many investors. So why does VNV have such a long lifecycle for its product ?
- What is the exit strategy envisaged by GSA and VNV?

Answers to queries raised by the panelists

How do GSA and VNV measure the impact of entities in which they invest?

- Walter Ge, GSA – GSA has co-developed a tool with large international organizations which assists in measuring the impact of entities in which it has invested.

- Sandeep Roy Choudhury, VNV – There is no set method VNV follows to measure the impact of entities in which they have invested. VNV usually hires a third party to measure impact on VNV's behalf.

Answers to queries raised by the panelists

What is the IRR offered to the LPs?

- Walter Ge, GSA – IRR is offered on a case to case basis to LPs. However, it is important to be honest with LPs as they have an expectation of receiving a high IRR.

  LPs must be educated and told that this is not quick money and does not offer a high IRR. Rather, this is patient money where it will take time and LPs will get some return at the end of the investment product lifecycle.

- Sandeep Roy Choudhury, VNV – IRR will be determined on a case to case basis.

Answers to queries raised by the panelists

A proposed term of 10 years for an investment product is a long term for many investors. So why does VNV have such a long lifecycle for its product?

- Sandeep Roy Choudhury, VNV – Climate change solutions is a long game and cannot be done in 3-4 years, which is the traditional term for other investment products.

- It will take anywhere between 6-8 years on average for a climate change solution to show results. Hence, the investment product needs such a long lifecycle.

Answers to queries raised by the panelists

What is the exit strategy envisaged by GSA and VNV?

- Walter Ge, GSA – Exit will not be through an IPO but rather through a strategic sale when the entity raises its next 2-3 rounds of investment.

- Sandeep Roy Choudhury, VNV – VNV does not have a fixed exit strategy. As the life cycle of the product is 10 years, VNV has the flexibility to choose the exit strategy it wants to follow on a case to case basis.

Disclosures that need to be made to LPs before they invest their money

Mette Ekeroth (General Manager, North East Family Office)

- Educate LPs as to how impact measurement will be carried out.

- Give LPs examples of entities in which you have not invested after showing interest and explain the reason why the investment did not go through.

Wonyoung Kim (Executive Director, Crevisee Partners)

- Stress on the fact that the LPs need to be patient and rationalize their IRR expectations.

Disclaimer: The intent of the slides above is to merely share some of our learnings/notes from the session. We may not have covered all points touched upon by the panelists. We may have also provided our own comments on certain topics discussed by the panelists. Reader discretion is advised.