

Greening finance in the Asia-Pacific region: an overview

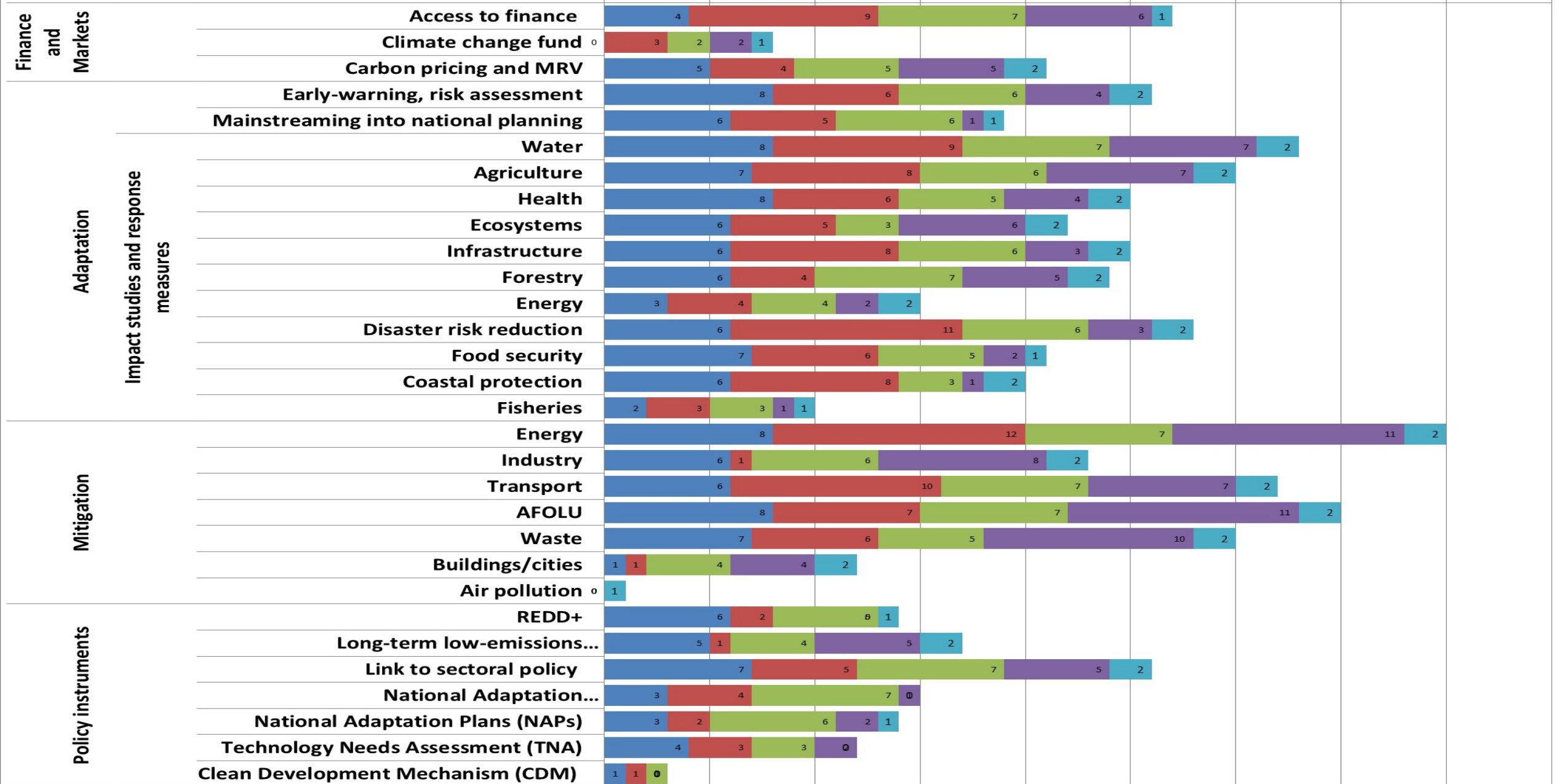
- ADFIAP Annual Meeting, 20 February 2019, Muscat, Oman
- Session of DFIs and Climate Action
- Presentation by Laura Altinger



Number of Parties that referred to an area as a priority, as communicated in the INDC's

■ South East Asia, South Asia & Pakistan
 ■ Pacific SIDS
 ■ LDC's
 ■ North & Central Asia, Iran, Mongolia & Turkey
 ■ India & China

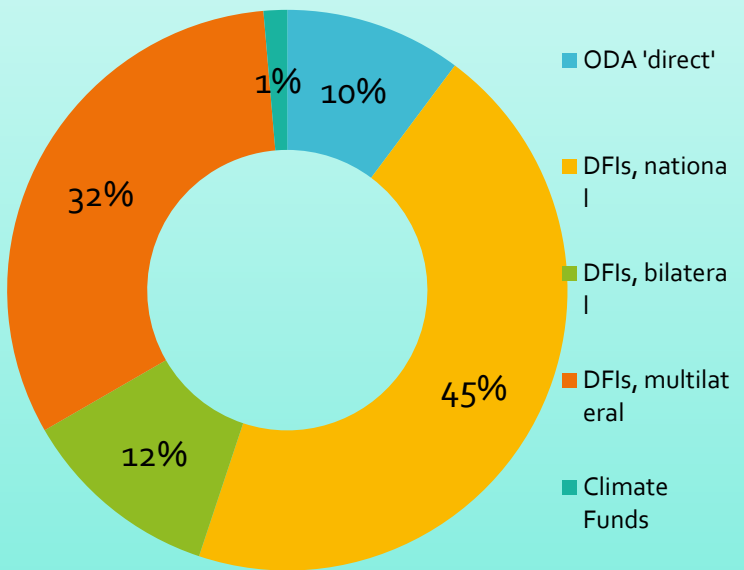
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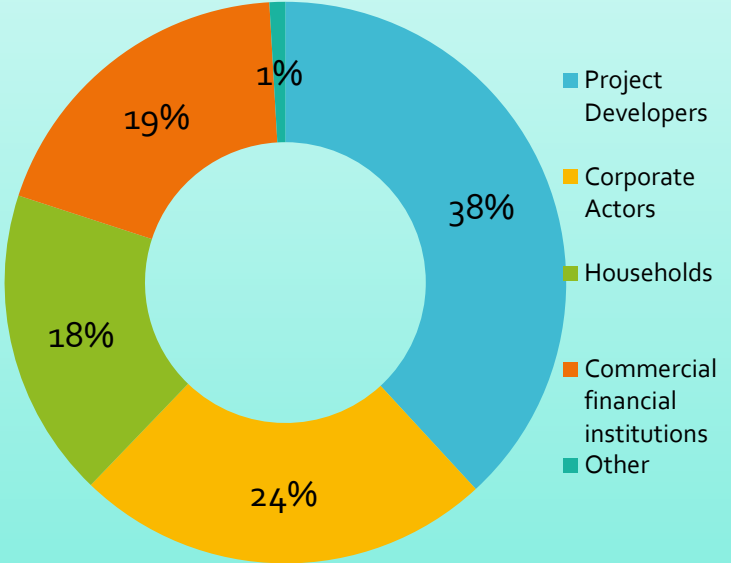


Magnitude of climate finance by source

Public climate finance (US\$14.8bn)



Private climate finance, (US\$243bn)

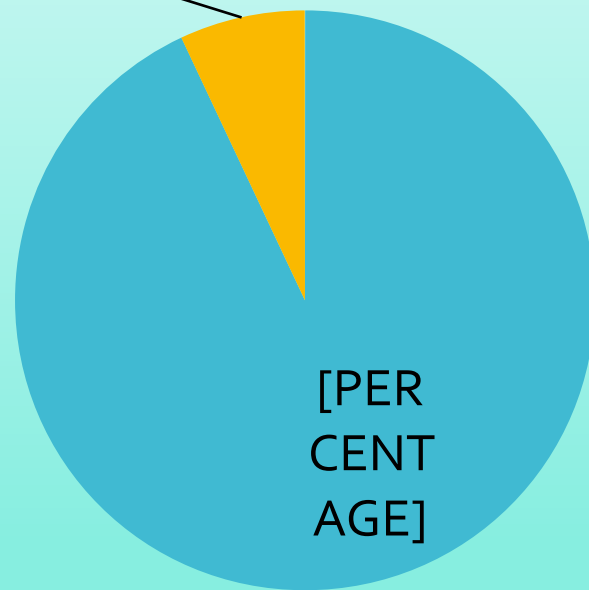




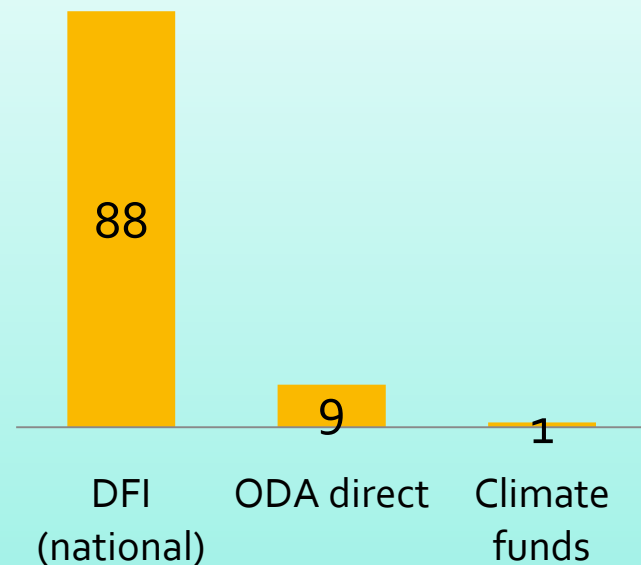
Split adaptation – mitigation

Share of climate finance to mitigation and adaptation

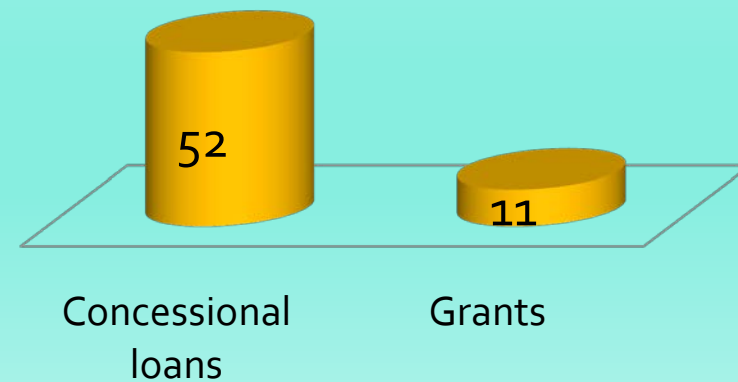
[PER CENT AGE] ■ Mitigation ■ Adaptation



Adaptation finance by source (in %)

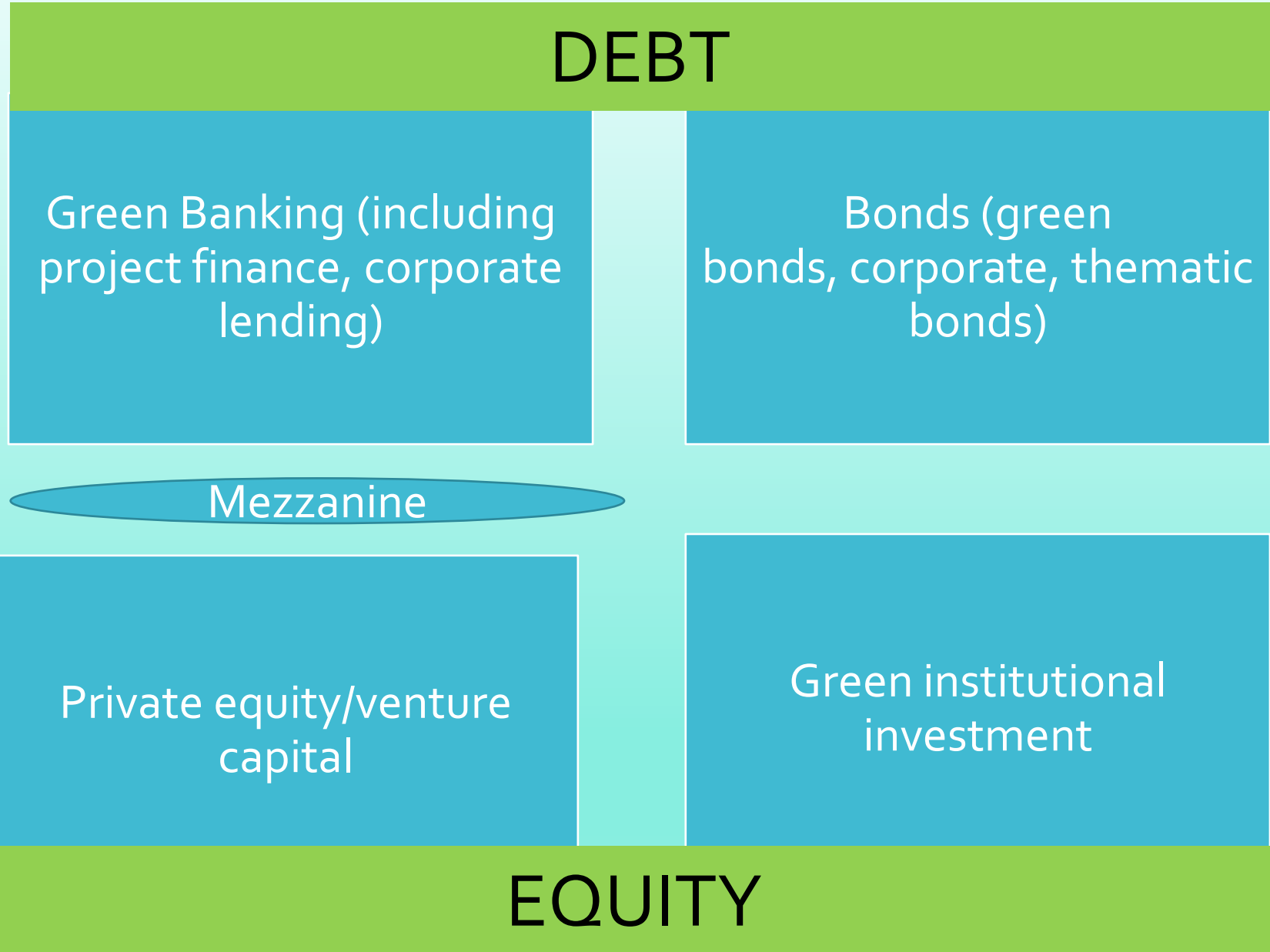


Adaptation by instrument (in %)



Private sector financing instruments

Private sector finance



Capital markets

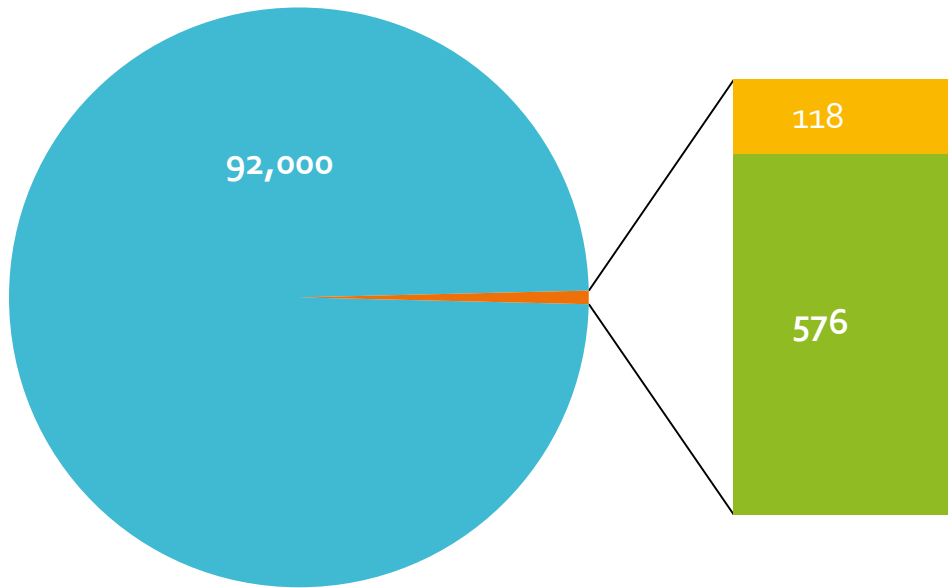
Green bonds

- ▶ Major instrument to finance transition to low carbon, climate-resilient infrastructure
- ▶ CBI tracked a global total of US\$ 895bn from 3493 green bonds by 1128 issuers
- ▶ To date, still mainly mitigation-related (transport, energy)
- ▶ Huge growth potential, for adaptation, and region

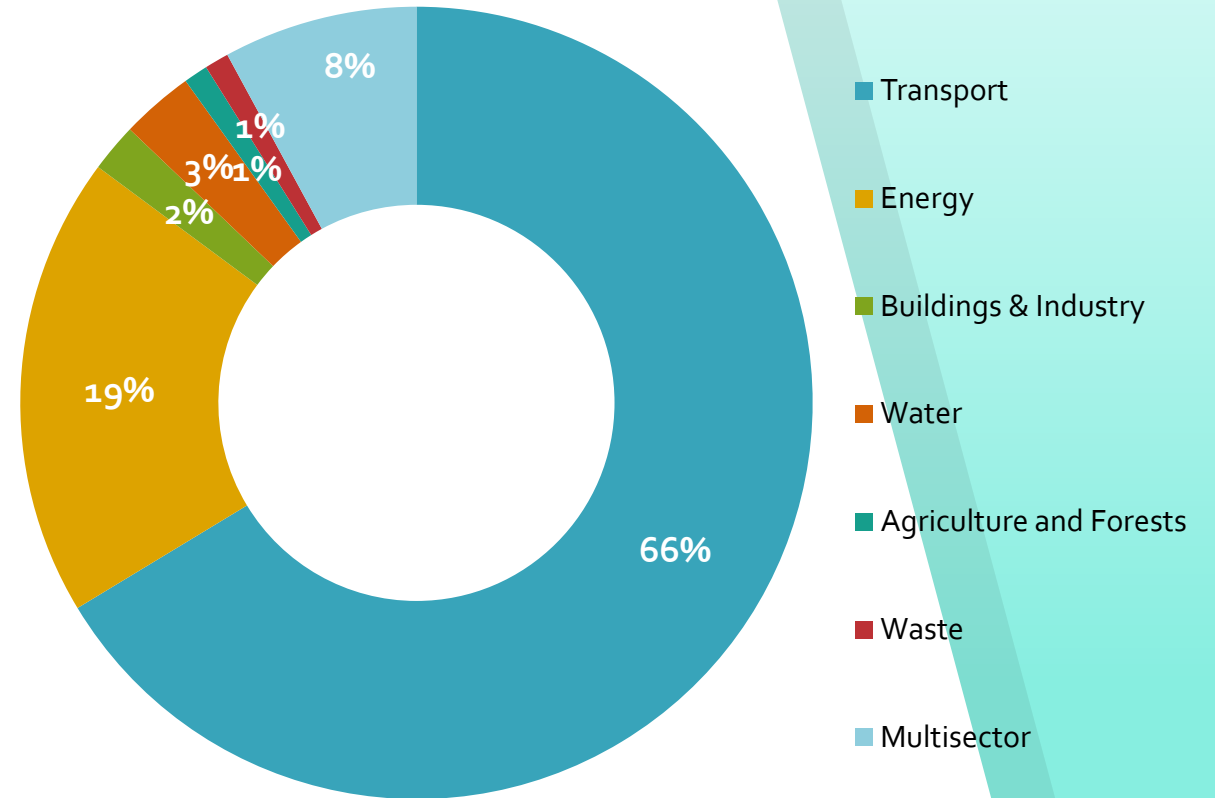


Global climate-aligned bonds (cumulative since 2005, US\$ bn)

■ Total bonds ■ Labelled green bonds ■ Unlabelled green bonds



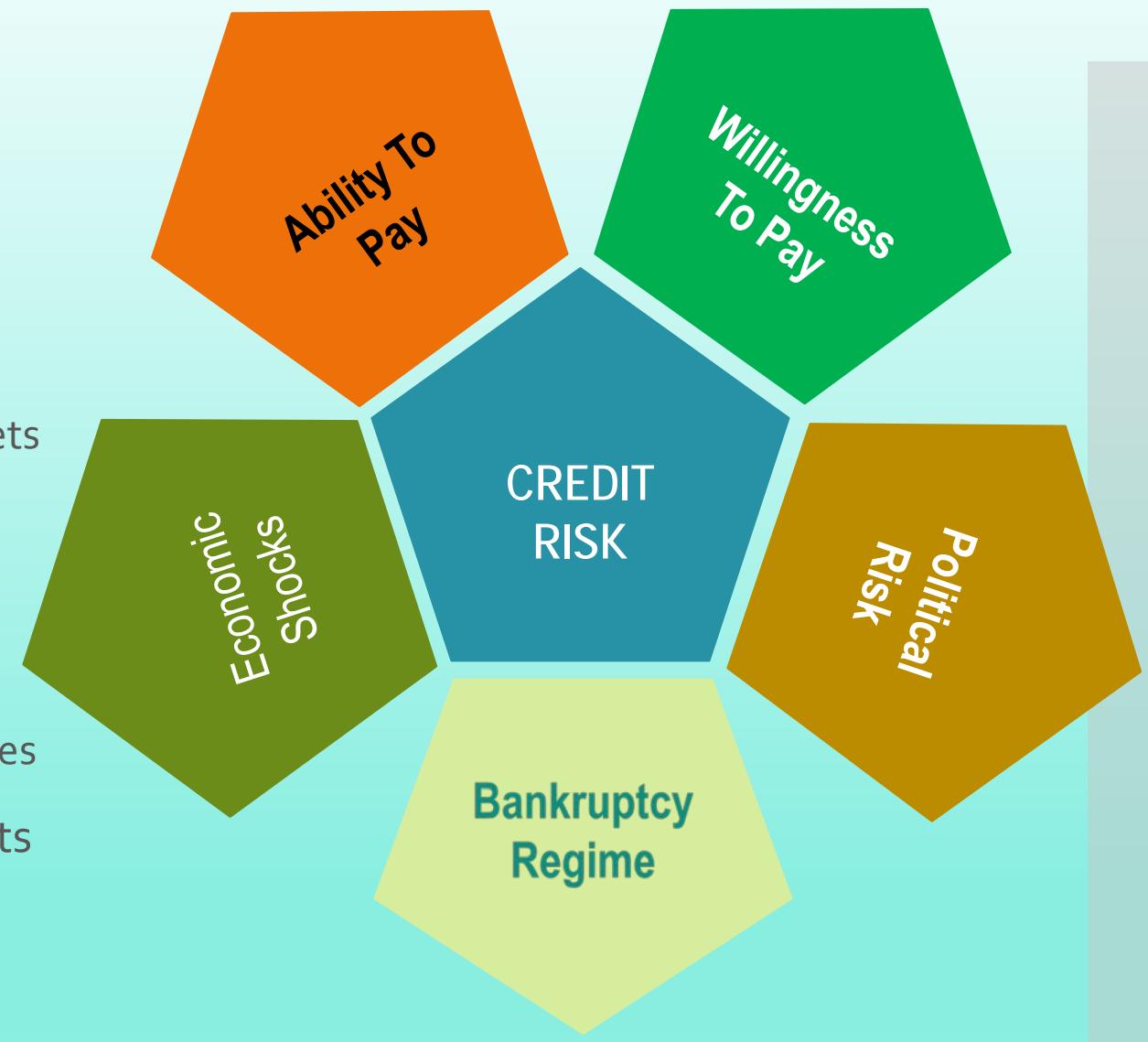
Sectoral split (cumulative since 2005)



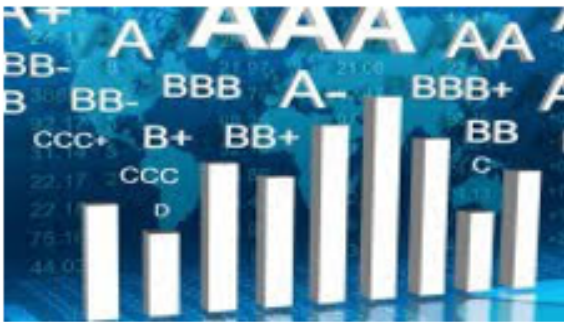
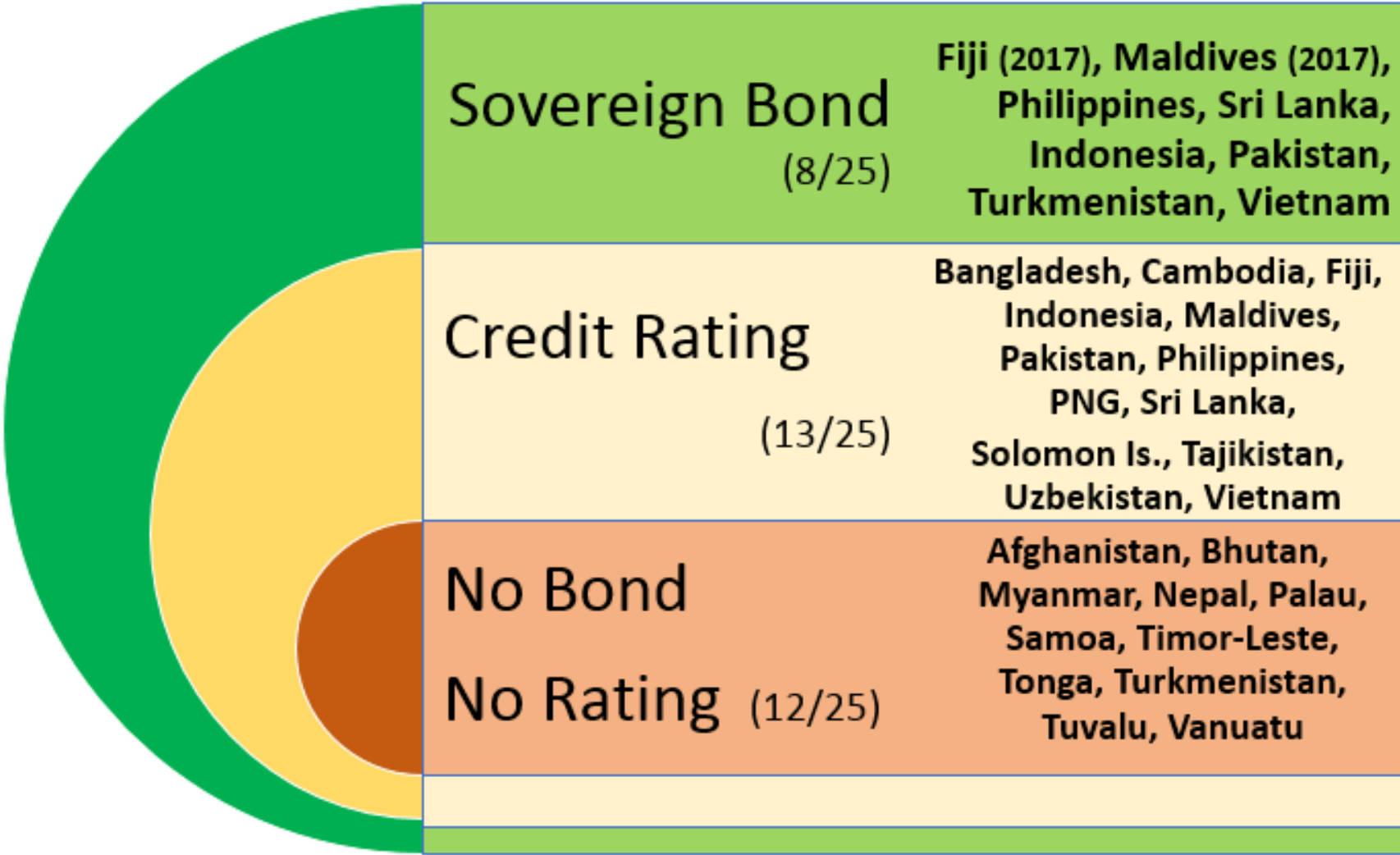


Very few bonds have been issued by low income countries

- Economic Constraints
 - Undiversified economies
 - Reliance on few industries
 - Limited public budgets
 - Dependence on foreign revenues
- Political Barriers
 - Maturing regimes
 - Geopolitical influences
- Geographical constraints
 - Remoteness



Starting Point: several countries are already “issuance”-ready





How to support the emergence of Green Bonds?

Improve Market Structure for Green Bonds

1. Adopt Green Bond Principles at the regional level
2. Adopt Green Bond Principles at the domestic level
3. Establish local Green Bond Market Committees
4. Reduce the barriers of local capital markets
5. Reduce disclosure costs and offer tax breaks
6. Encourage adequate disclosure on green impact
7. Build analytical capabilities for bond tracking
8. Standardize bond/loan documentation

Grant Facility for Green Bonds

1. Issuer-level guarantee
2. Project-level guarantee
3. Credit Rating subsidy
4. Subsidize issuance costs
5. First-loss guarantee for securitized transactions (e.g. SMEs)

Pipeline of Green projects

1. Priority list of green projects
2. Set parameters for financial viability
3. Ensure transparency of pipeline
4. Establish a collaborative platform
5. Strategic issuance by public entities
6. Review mechanism in the region
7. Credit Enhancement techniques
8. Create a data warehouse

Develop Demand for Green Bonds

1. Reduce investment costs
2. Public issuance: Signaling effect
3. Global investor targeting
4. Market-led initiatives
5. Workshops
6. Educational material
7. Capacity building
8. Bond Documentation fast tracking

Collaboration

1. Regional Green Bonds standards
2. Regional Issuance
3. Domestic network
4. International networking

Green equity

- Sustainable Stock Exchanges (SSE) initiative: peer-to-peer learning platform for exploring how exchanges, in collaboration with investors, regulators, and companies, can enhance corporate transparency on ESG (environmental, social and corporate governance) issues and encourage sustainable investment
- Key driver relates to demands of international institutional investors, and desire to demonstrate international best practice in corporate governance
- Guidance identifies ESG metrics for exchanges to incorporate into disclosure guidance to listed companies, laying out 34 key performance indicators

- [Australia – Australian Securities Exchange](#)
- [Australia – Sydney Stock Exchange](#)
- [Bangladesh – Chittagong Stock Exchange](#)
- [China – Shanghai Stock Exchange](#)
- [China – Shenzhen Stock Exchange](#)
- [India – BSE India Ltd.](#)
- [India – National Stock Exchange of India \(NSE\)](#)
- [Japan – Japan Exchange Group, Inc. \(JPX\)](#)
- [Kazakhstan – Kazakhstan Stock Exchange \(KASE\)](#)
- [Korea \(Republic of\) – Korea Exchange](#)
- [Malaysia – Bursa Malaysia](#)
- [Mongolia – Mongolian Stock Exchange](#)
- [New Zealand – NZX Limited](#)
- [Singapore – Singapore Exchange](#)
- [Sri Lanka – Colombo Stock Exchange](#)
- [Thailand – Stock Exchange of Thailand](#)
- [Vietnam – Hanoi Stock Exchange](#)
- [Vietnam – HoChiMinh Stock Exchange](#)

Green banking

- Many countries in region are mainstreaming sustainability through their banking systems
- Sustainable Banking Network established in 2012: 31 countries, most of which have launched national policies, guidelines, principles, or road maps for sustainable banking
- Mix of voluntary and mandatory guidelines

Country	Guidelines and instruments
Cambodia	Sustainable finance principles (under development; will lead to voluntary industry environmental and social lending standards)
Philippines	MEMBER of SBN
Bangladesh	Guidelines on Environmental and Social Risk Management for Banks and Financial Institutions in Bangladesh (2017)
Lao PDR	MEMBER of SBN
Mongolia	MEMBER of SBN
Sri Lanka	MEMBER of SBN
China	Green Credit Guidelines (2012) and Green Credit Key Performance Indicators (2015)
Philippines	MEMBER of SBN
India	MEMBER of SBN
Mongolia	Mongolia Sustainable Finance Principles and Sector Guidelines (2014)
Georgia	MEMBER of SBN
Nepal	MEMBER of SBN
Indonesia	Sustainable Finance Umbrella Policy (2017)
Fiji	MEMBER of SBN
Pakistan	Green Banking Guidelines (2017)
Vietnam	Directive on Promoting Green Credit Growth and Environmental and Social Risks Management in Credit Granting Activities (2015)

Blended finance

Blended Finance Taskforce: “the use of public/philanthropic funds to mobilize multiples of additional private capital”

- Focused on concessional capital
- Blended finance tools allow to transfer different risks that prevent private investments, including political risks, technical and physical risks, commercial risks (currency and off-taker), and other investor-related barriers
- Macroeconomic risks such as currency risks or off-taker credit-worthiness can be transferred to another party at project level through the use of the blended finance tools

Blended finance instruments

INSTRUMENT TYPE	DESCRIPTION	EXAMPLES	ADDRESSES WHICH SPECIFIC RISKS/ BARRIERS
Direct Investment	Debt or equity instruments with direct contribution into a blended finance vehicle (e.g., project or fund)	Junior/ subordinated capital (e.g., concessional equity & debt)	Multiple risks including off-taker risks, construction risks, revenues attractiveness, etc.
		Commercial capital (catalytic when used for demonstration effect, also known as "anchor capital")	Access to capital
Guarantees	Generally, three party agreements, where a third party provides an extra layer of protection for the beneficiary of a service, e.g. debt service, in case the entity who would normally provide a service fails to do so	Loan guarantees	Access to capital, counterparty / off-taker / credit risk
		Performance guarantees	Technical risk
Hedging instruments, swaps, and derivatives	Contractual instruments to help manage different types of risks faced by an investor or borrower	Local currency hedges/swaps	Currency risk
		Securitization	Liquidity/time horizon, scale, counterparty / off-taker / credit risk
Insurance	Two party contracts between the insurer and the policy holder. The insurance provider promises to provide financial compensation in the instance of an event that results in a financial loss	Political risk insurance	Political and social risks
		Performance insurance	Construction risks, operation and output risks Upstream resource-related risks
Commercially oriented preparation support	Grant or concessional funding specifically to address early stage development risks	Project preparation funding or technical assistance	Administrative risks, Access to capital, capacity at local level

Source: Climate Policy Initiative (2018). *Blended Finance in Clean Energy: Experiences and Opportunities*



Example: Improving access to affordable, clean energy and digital communication services in PNG

Context

- Only 10% of the population of Papua New Guinea (PNG) is connected to the electric grid.
- For the vast majority of the population who are off grid, access to low-quality energy sources, such as kerosene, is associated with high recurring costs.
- Limited access to electricity affects their access to digital services

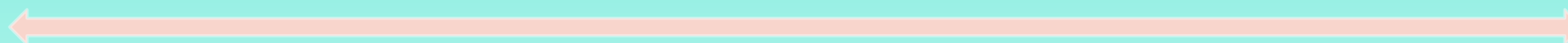
Blended Finance

- Australian Department of Foreign Affairs and Trade (DFAT) is working with Digicel, the largest telecommunication provider in the Pacific, to improve access.
- Established a Business Partnership Platform to create links with business to address challenges.
- DFAT will provide of AUD 500,000 grant funding to Digicel
- Digicel will invest AUD 1.037 million to increase access to sustainable energy sources and to enable better access to digital connectivity.

Results

The partnership is expected to:

- Decrease the recurring energy expenditures of rural households and small businesses in PNG;
- Enhance their access to and connection with the digital economy (e.g. via mobile phones, smartphones and laptops); and
- Improve health and safety by reducing indoor air pollution and the risk of fires from candles and oil lamps.





Example: Convergence platform in Indonesia

Context

- Government targets: restore 2 million ha of peatland by 2020, reduce GHG emissions by between 29% and 41%, increase renewables mix from 6% to 23% over next 5 years
- Tropical Landscapes Finance Facility (TLFF), Tropical Landscapes Bond (TLB) designed to provide long-term financing for projects that improve access to rural electricity, reduce GHGs, enhance

Smallholder livelihoods

Blended finance platform

- GCF readiness funding used for design of TLFF and TLB and to structure initial projects to mitigate credit risks

Benefits

- Will connect private, public, philanthropic investors
- Ensure TLFF and TLB early stage funding
- Will enable bankable project pipeline, supporting selecting projects to achieve intended impact
- Enhanced capacity building, including in monitoring of impact of projects





Example: Facilitated Access to Finance for Domestic Private Water Operators in Cambodia

Context

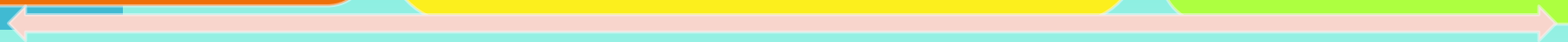
- Only 7% of rural households have access to piped water services
- Limited access to finance is key factor preventing private operators from expanding and improving services

Blended Finance

- Combination of non-sovereign concessional lending, guarantees, grants, and technical assistance has been used to leverage local commercial finance and equity investments so as to accelerate access to piped water supply
- Concessional line of credit was provided Cambodian commercial bank to enable them to extend more attractive loans to small- and medium-sized water service providers
- Output-based investments grants have been used in a complementary way as incentives for private water operators to connect poor households

Results

- Total of 32 projects to receive funding identified representing a total requested loan of US\$8.7m
- Commercial bank incorporated value of water infrastructure assets, and part of the value of future cash flows in assessing collateral requirements



Capacity- building

- UNESCAP is implementing a project on climate finance instruments across Asia-Pacific region that aims to increase private investment for climate change mitigation and adaptation
- ADFIAP, ICC, UNFCCC, UNDP, WWF and others are our partners
- Provide support to financial institutions – especially DFIs – to build their capacity to mainstream climate change into operations through training workshops and e-learning modules that are soon going to be on-line
- ADFIAP questionnaire distributed to its member banks and other commercial banks in Asia-Pacific to assess baseline of how DFIs take into account climate risks and their green product offering
- Sponsoring a voluntary Green Finance roadmap that DFIs can sign up to
- Have worked to catalyse private sector blended-finance structures