

# Green Finance: Mainstreaming of Environmental and Social Safeguards in Business

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# Green Finance

- No agreement on definition or standard globally
- Broadly, it refers to financial investments flowing into sustainable development projects and initiatives.
- It is not climate finance (mitigation or adaption)but it includes climate finance

# Key Considerations

- Integral part of good governance and integrity
- Tensions between economic, environmental and social outcomes are not uncommon
- Unlocking opportunities for green investment

# Good Governance and Integrity



# Decision Making

Environmental and social considerations are integrated in decision making

- Avoid or minimize adverse impacts on environment and people
- Mitigate and/or compensate for adverse project/business impacts

# Environment

- Biodiversity protection & sustainable natural resources management
- Pollution prevention and abatement
- Occupational & community health & safety



# Involuntary Resettlement

- Compensation of legally owned and legal assets at replacement value
- Restoration of livelihoods of all displaced persons, including those without legal title to land
- Improve standards of living of displaced poor and other vulnerable groups



# Indigenous Peoples

Foster respect for IP identity, dignity, human rights, livelihood systems, cultural uniqueness as defined by IP themselves





# Process

- Assess project/business impacts including associated facilities
- Engage affected persons/communities, interested CSO/NGOs through information disclosure, consultation and informed participation
- Prepare and implement safeguard plans including a grievance redress mechanism
- Monitor project impact and report
- Comply with host country laws and ADB requirements (if ADB supported project)

# Economics vs Sustainability



# Key Issues

- Cost – Benefit Considerations
  - investor perception of additional cost with limited/no benefits
  - potential need for new/expensive technology for mitigation
  - Investor not incentivize to undertake green investments due to a weak enforcement regime
- Capacity Constraints
  - assessment of environment and social impacts
  - evaluation of environmental and social risks
  - development of an effective management/mitigation plans
- Stakeholder Engagement and Disclosure
- Availability of Financing

# Unlocking Green Investments



# Drivers

- Conducive regulatory environment
  - clear policies and standards
  - incentives and penalties
  - stronger enforcement of regulations
- Use of technological solutions
  - innovation
- Availability of development finance
  - address perceived risks
  - buy down costs of new technology or mitigation measures
  - ease of access and utilization
- Training
  - programs to develop capacity to undertake E&S matters
  - availability of financing for such activities

# **ADB: Green Activities Private Sector Operations**



# ADB's Private Sector Operations

## Deep Regional Experience in Asia

ADB has successfully operated and invested in Asia's emerging markets since 1966

## Unparalleled Regional Network

ADB has over **3,100 employees** in **31 field offices** in Asia and the Pacific; its' private sector operations has a **staffing complement of 160** based in Manila and in **10 key regional hubs**

## "One-stop Shop"

ADB can provide comprehensive financial solutions to its clients: **loans, equity, guarantees, technical assistance, and third party financing**

## Recognized Standard of Excellence

ADB's 'AAA' rating, high underwriting standards, and sophisticated **environmental and social safeguard** policies enhance the credibility and market receptivity of our clients



# ADB Financial Products and Services

## Debt

- **Direct loans:** market-based pricing in major international and/or local currencies
- **B-loans:** ADB acts as Lender of Record and administers the loan, but it is funded by third party financing
- **Unfunded risk participations:** fronting arrangement with IFIs, commercial banks, insurers

## Equity

- **Direct investments** in enterprises and financial institutions through common shares, preferred stock, convertibles
- Investments in **private equity funds** as a general partner (GP) or limited partner (LP)

## Guarantees

- **Political Risk Guarantee (PRG):** protection against political risks, including foreign exchange restrictions, expropriation, political violence and contract dispute
- **Partial Credit Guarantee (PCG):** protection against credit risks, including non-payment by the borrower of the principal and interest due

## Technical Assistance

- Funding for **project preparation**, capacity development, R&D, etc.
- Attractively priced and structured capital via third party concessional sources for targeted industries / geographies

## Asset Management

- Deployment and management of **third party commercial capital** or third party **concessional capital** in ADB-led transactions for targeted industries and geographies



ADB



# Third Party Investment Funds

## **Climate Investment Funds**

Four windows/modalities: (i) Clean Technology Funds (CIF); (ii) Pilot Program for Climate Resilience (PPCR); (iii) Scaling Up RE Program (SREP); and (iv) Forest Investment Program (FIP)

## **Canadian Fund for the Private Sector In Asia**

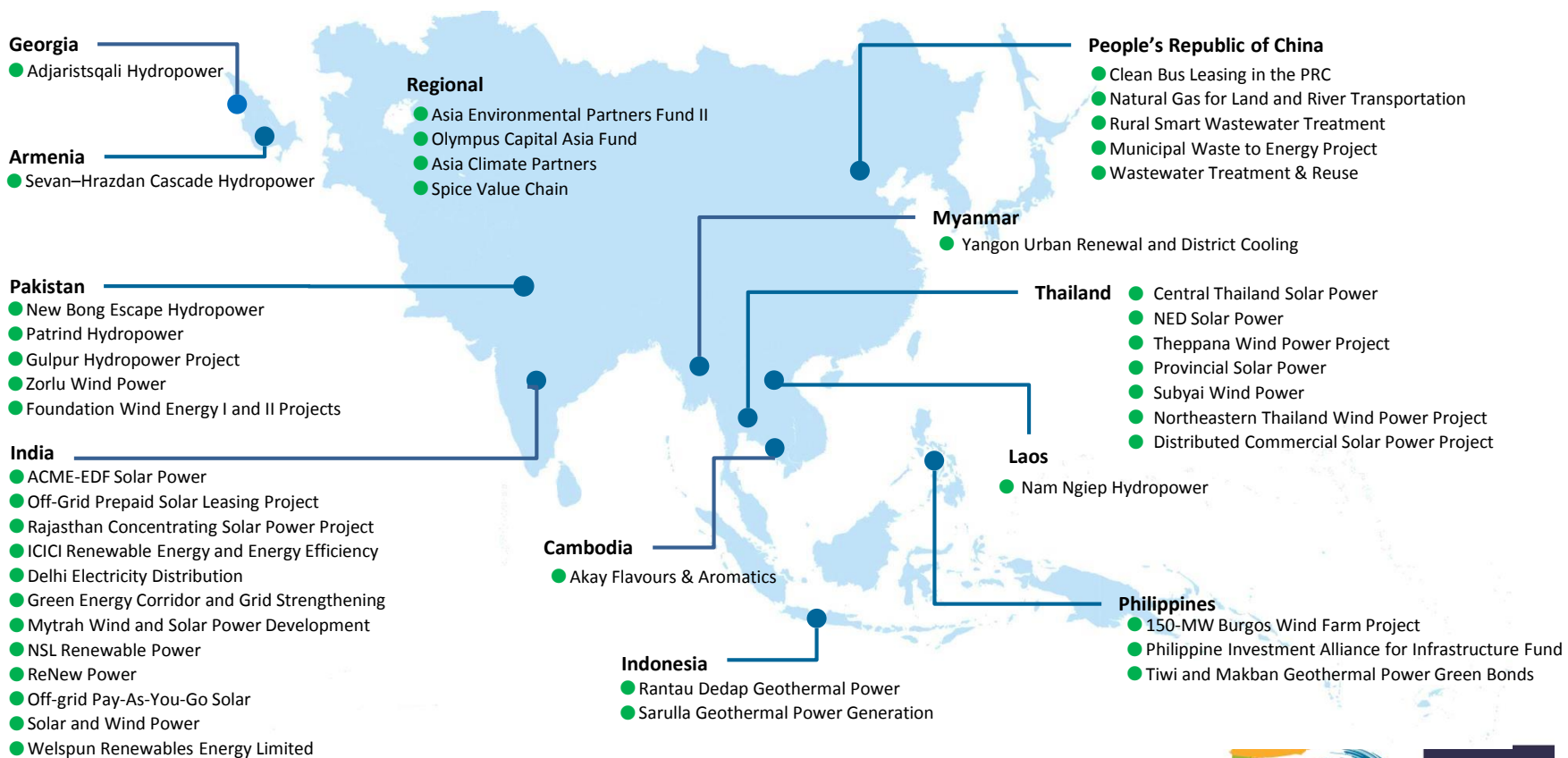
Financed by the Canadian Government; funding structured to help viability of climate related projects

## **Leading Asia's Private Infrastructure Fund (LEAP)**

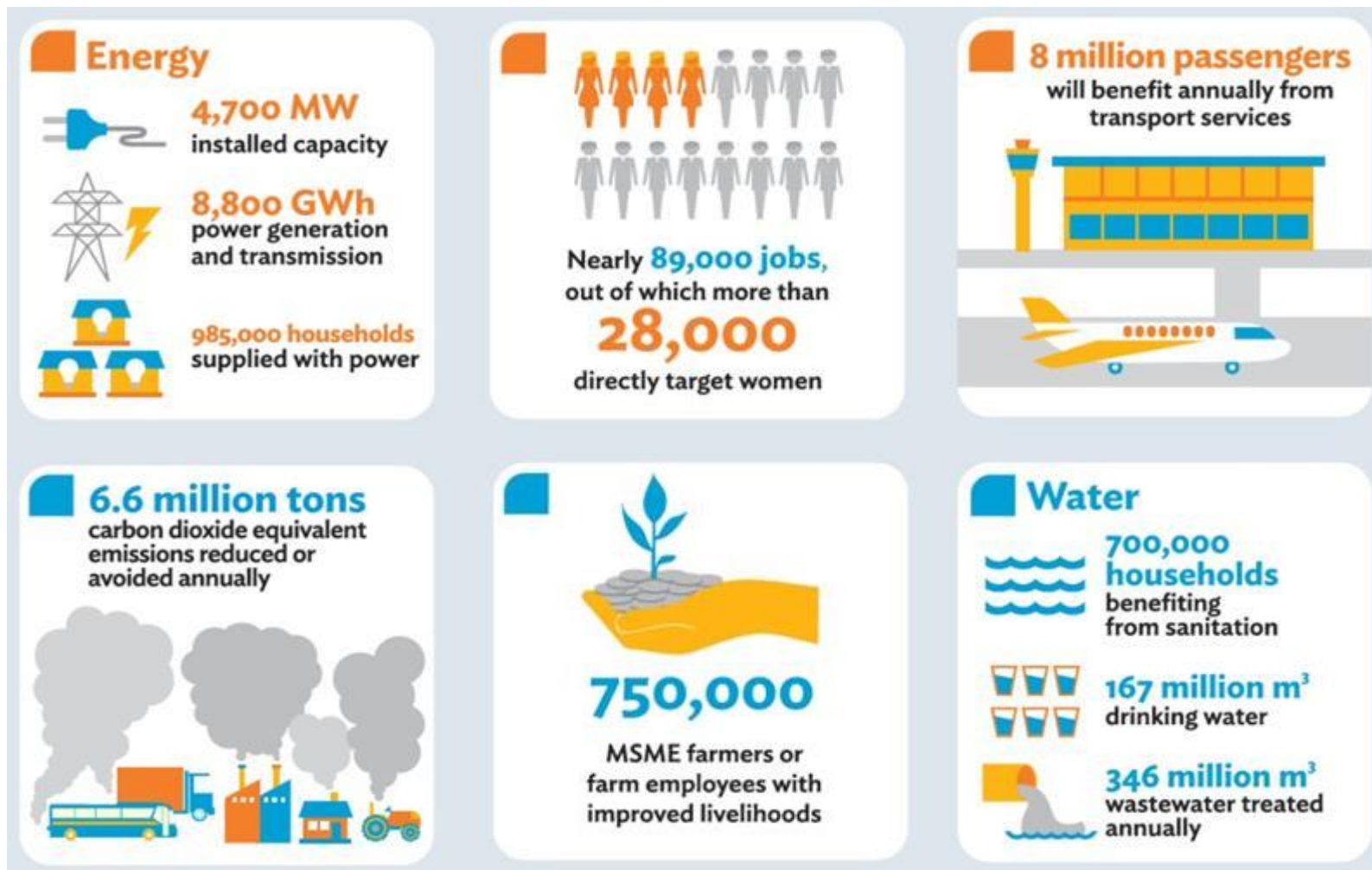
Funding from Japan International Cooperation; co-financing program with ADB; target sectors: energy, water and other urban infrastructure, transportation, information and communication technology



# Selected Climate Transactions (2011-2016)



# Expected Sustainability Outcomes (2014-2015 approved projects)



# Case Studies

## Simpa Off-grid Pre-paid Solar Leasing



### Description:

- Provision of solar power to un-electrified rural households (off-grid)
- Sponsor: Simpa Energy India Private Limited.

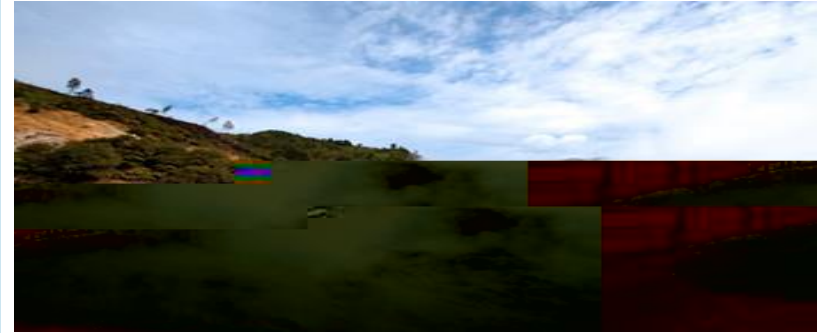
### ADB assistance:

- ADB equity: \$4.5 million

### Key features:

- Increasing financing for innovative off-grid renewable energy
- Use of technology to mitigate payment risks

## Rantau Dedap Geothermal Development Project



### Description:

- Provision of early stage financing
- Project has the potential installed capacity of 240 MW, with a 30 year power offtake with state-owned utility PLN
- Sponsor: Supreme Energy Rantau Dedap.

### ADB assistance:

- ADB managed CTF loan: \$50 million

### Key features:

- Only non-recourse loan where the risks are shared with the private sector during the resource discovery phase.
- Encourages more investment in the geothermal energy.

# Case Studies

## Tiwi and MakBan Geothermal Climate Bond



### Description:

- Local currency project bond with an issue size of PHP10.8 billion. Proceeds used to refinance Sponsor's equity
- Sponsor: Aboitiz Power Corporation.

### ADB assistance:

- ADB guarantee: 75% of principal and interest
- ADB direct loan: PHP1.2 billion.

### Key features:

- Landmark use of project bonds and credit enhancement
- First green bond in the Philippines, first bond in Asia to be certified as a "Climate Bond", and the first Climate Bond in an emerging market for a single project.

## Hazelnut Value Chain Development



### Description:

- Development of an inclusive and climate-resilient hazelnut value chain in Bhutan
- Roughly 15,000 small farmers will plant 10 million trees on 22,000 acres of previously degraded land.
- Sponsor: : Mountain Hazelnuts Group Limited

### ADB Assistance:

- Equity investment of \$3.0 million
- Technical assistance: training on climate-resilient farming practices

### Key features:

- Investment for (i) seedling development; (ii) tree planting; (iii) extension services, and (iv) processing and logistics.
- Small farmers engage in the value chain are expected to double their income once the trees have reached maturity.