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Catalyzing 'Green Finance'

Blending &
Leveraging
Sovereign Finance
For
Financially & Environmentally
Sustainable
Infrastructure Projects

October 2017



Green Finance Initiatives Underway



GFCF: A Knowledge Product

GFCF: Pilot Project in PRC

Leveraged Green Finance Facility: Pilot Project being proposed in ASEAN

Capacity Building Partnership on Green Finance: Preliminary



CATALYZING GREEN FINANCE
A CONCEPT FOR LEVERAGING BLENDED FINANCE FOR GREEN DEVELOPMENT

ASIAN DEVELOPMENT BANK





Environment Degradation at Tipping Point

- 57.8% urban pollution
- 28,300 premature deaths p.a.
- 75% rivers & wells polluted PRC
- 26.4 m people displaced WW
- 1/3 arable land degraded
- \$6.3-10.6 trillion p.a. econ. losses
- 21 of 37 aquifers past tipping point WW

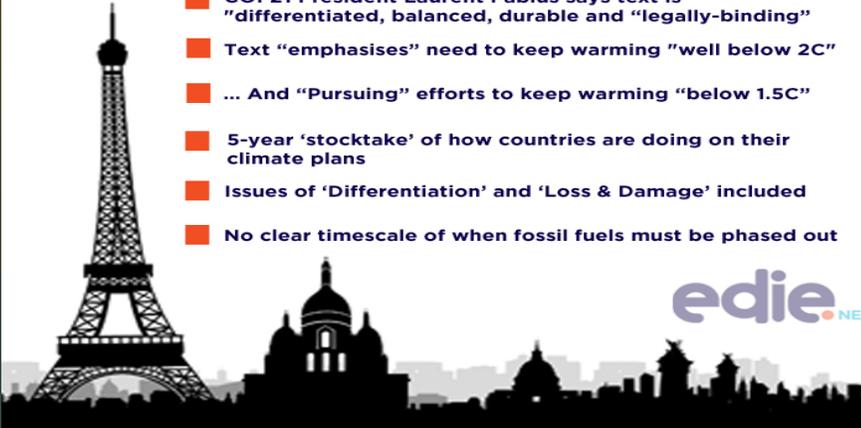
Triggers for Greening Investments



Governments are committing to 'Greening the Economy'

Infrastructure A Major Contributor needing solutions

COP21 final deal: Key points...



- COP21 President Laurent Fabius says text is "differentiated, balanced, durable and "legally-binding"
- Text "emphasises" need to keep warming "well below 2C"
- ... And "Pursuing" efforts to keep warming "below 1.5C"
- 5-year 'stocktake' of how countries are doing on their climate plans
- Issues of 'Differentiation' and 'Loss & Damage' included
- No clear timescale of when fossil fuels must be phased out

edie.NET

- \$ 26 trillion infrastructure spend in Asia Pacific ...2016 - 2030

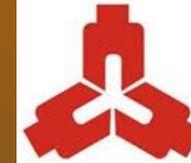


The Green Finance Impetus



GREEN FINANCE
TASK FORCE,
Established 2014

G20 Green Finance
Study Group
established 2016



中国人民银行
THE PEOPLE'S BANK OF CHINA



**Inquiry: Design of a
Sustainable Financial System**



**Inquiry: Design of a
Sustainable Financial System**

ESTABLISHING CHINA'S GREEN FINANCIAL SYSTEM

Detailed Recommendations 5: Promote the Issuance of Green Bonds



Towards a Sustainable Financial System in Indonesia

The UNEP Inquiry Into the Design of a Sustainable
Financial System

In partnership with

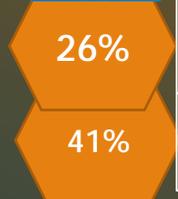
The Association for Sustainable and Responsible
Investment in Asia (ASRIA)

and the

International Finance Corporation



National Policies on Climate Change



- Reduce the country's GHG emission in 2020 with national resources (INDO)
- Reduce the country's GHG emission by 2020 with international support



- Increase non-fossil fuel portion of energy mix from 11.2% to 20% (2030)

- Peak CO2 emissions around 2030, and before if possible

- Reduce carbon intensity (per unit of GDP) to 60-65% below 2005 levels (2030)

GREEN FINANCE
FOR DEVELOPING
COUNTRIES

**The need is to
Green ALL Finance**



JULY 2016

Not just Green Bonds

The Financing of investments that provide environmental benefits in the broader context of environmentally sustainable development

*Green Benefits:
“Liveability + Climate Change”*

- *Reduction in Air – Water – Land Pollution*
- *Reduction in Greenhouse Gas Emissions*
 - *Maximise conservation of Natural Resources*
- *Mitigation of & adaptation to climate change*

Entire range of financial services, institutions, policies, products (debt, equity, insurance, guarantees)

- \$1.7 trillion p.a. annual infra needs - developing Asia
- \$5-7 trillion annually globally for SDGs



The Challenge is the Huge Financing Needs from Non-Public Sources



Indonesia : \$24.8 bn p.a. (needed for 26% GHG level (US\$123.9 billion, 2015 - 2019))

- 45% Government
- 55% Private

China: \$ 6.7 trillion or \$320 bn p.a.

- 15% Government
- 85% Private

Actually...

- Govt PRC99%
- Govt India....57%
- Govt Indo,....90%

Asia Pacific: an invest. Gap of \$459 billion p.a.

*Overcome the Demand Side barriers –
Bankability of project pipelines*



A need for effective mechanisms to catalyse green private finance

Risk of Project Financials	Capacities of Govt. agencies	Unquantified Green Benefits	Costs of new green technologies
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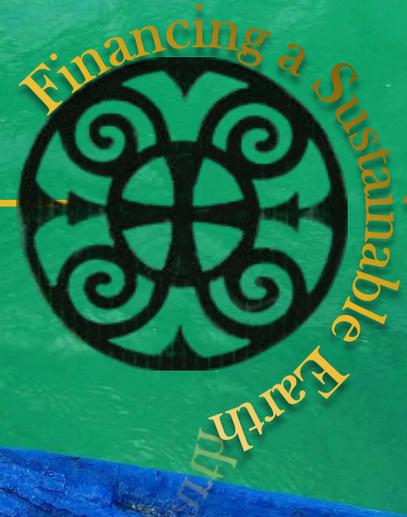


Need to leverage concessional / sovereign finance MUCH BETTER
As a Risk Mitigant not asset financier

“The Green Finance Catalysing Facility”

A Framework for a
Leveraging
Blended
Finance Mechanism
For Green Development

GFCF



中国人民银行
THE PEOPLE'S BANK OF CHINA

G20 Green
Finance Task
Force

Rationale

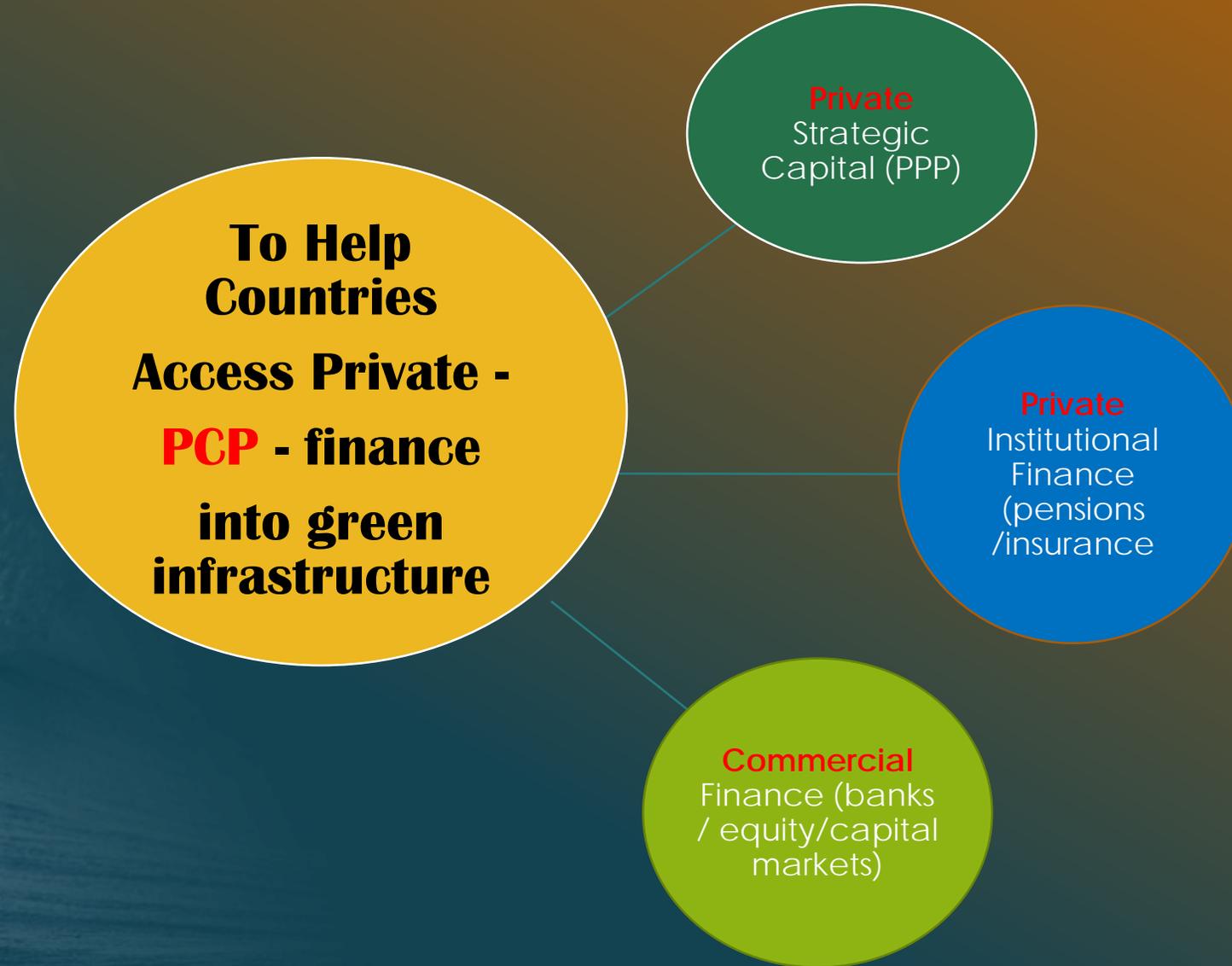
- Creating a Pooled Vehicle for Institutional Finance Access
- Creating Green Capacities, Monitoring and Reporting Systems

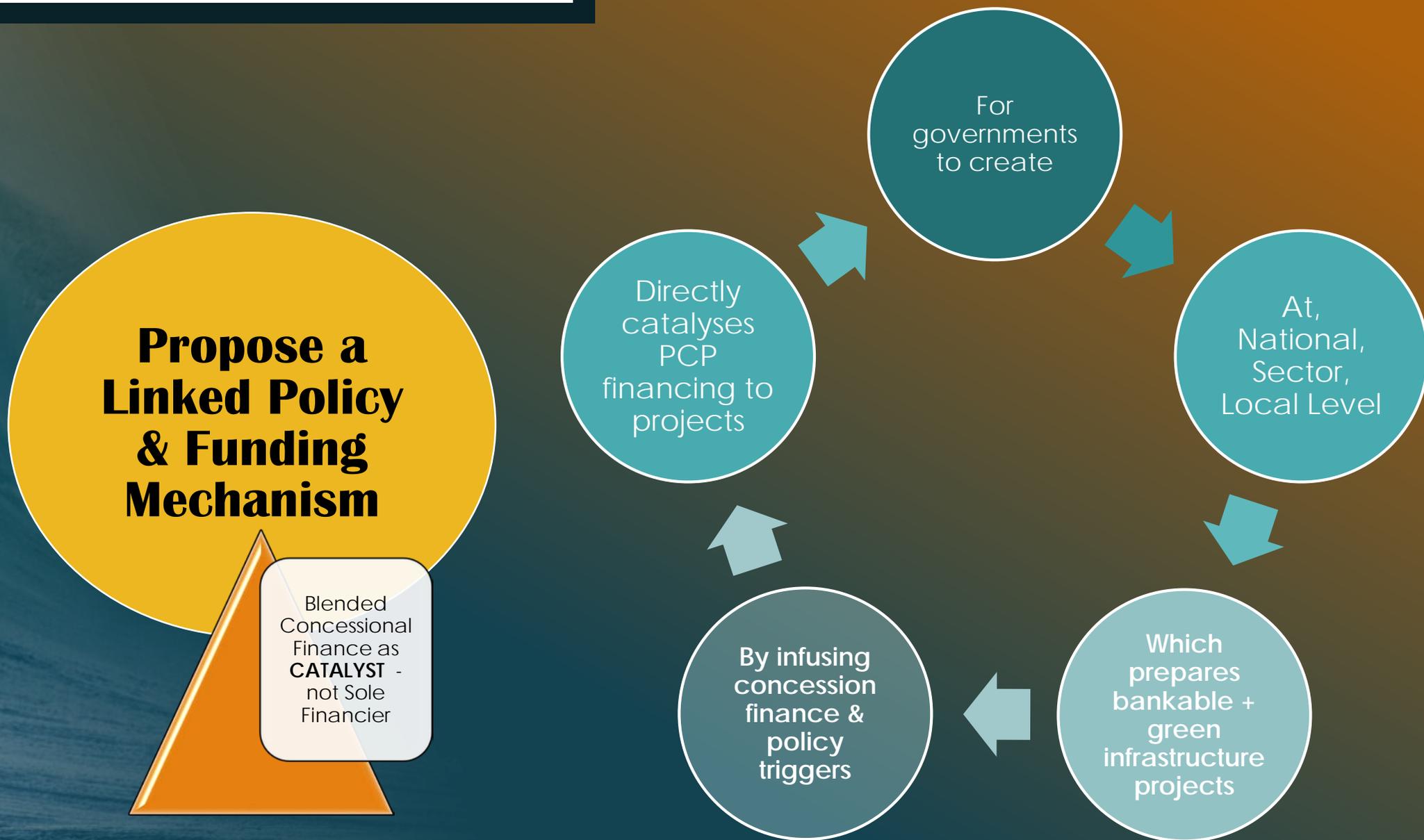
Fostering **Financially Sustainable Projects** by Creating Bankable Project Structures

GFCF
Green Finance Catalyzing Facility

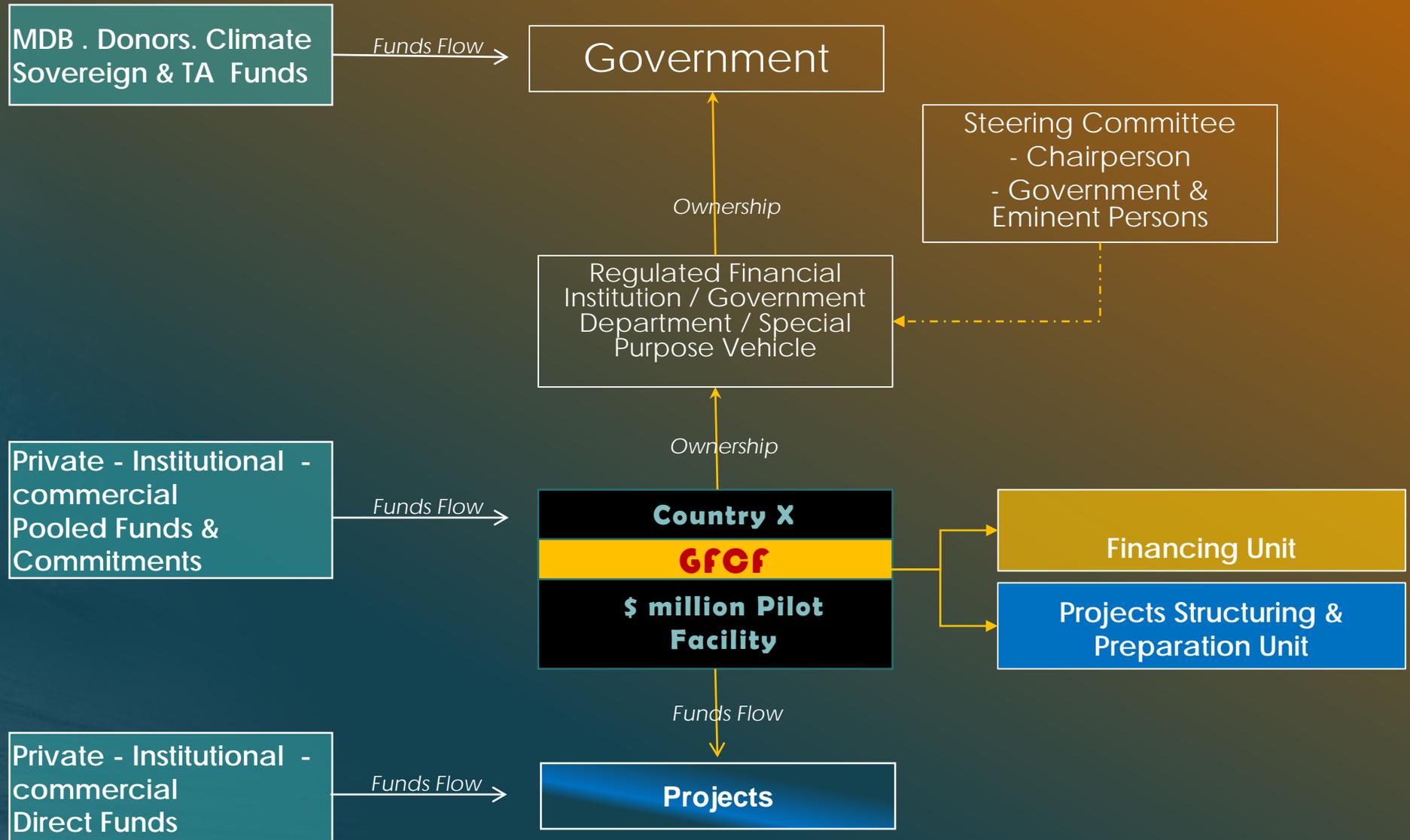
Fostering **Environmentally Sustainable Projects** by Creating Achievable Green Indicators

- Linking Concessional Financing with Achievement of Green Indicators and Targets
- Linking Concessional Financing with Private Finance Crowding-In
- Linking Concessional Financing with Capital Markets Access
- Incentivizing Technology Innovation, Implementation Process and Management Efficiencies

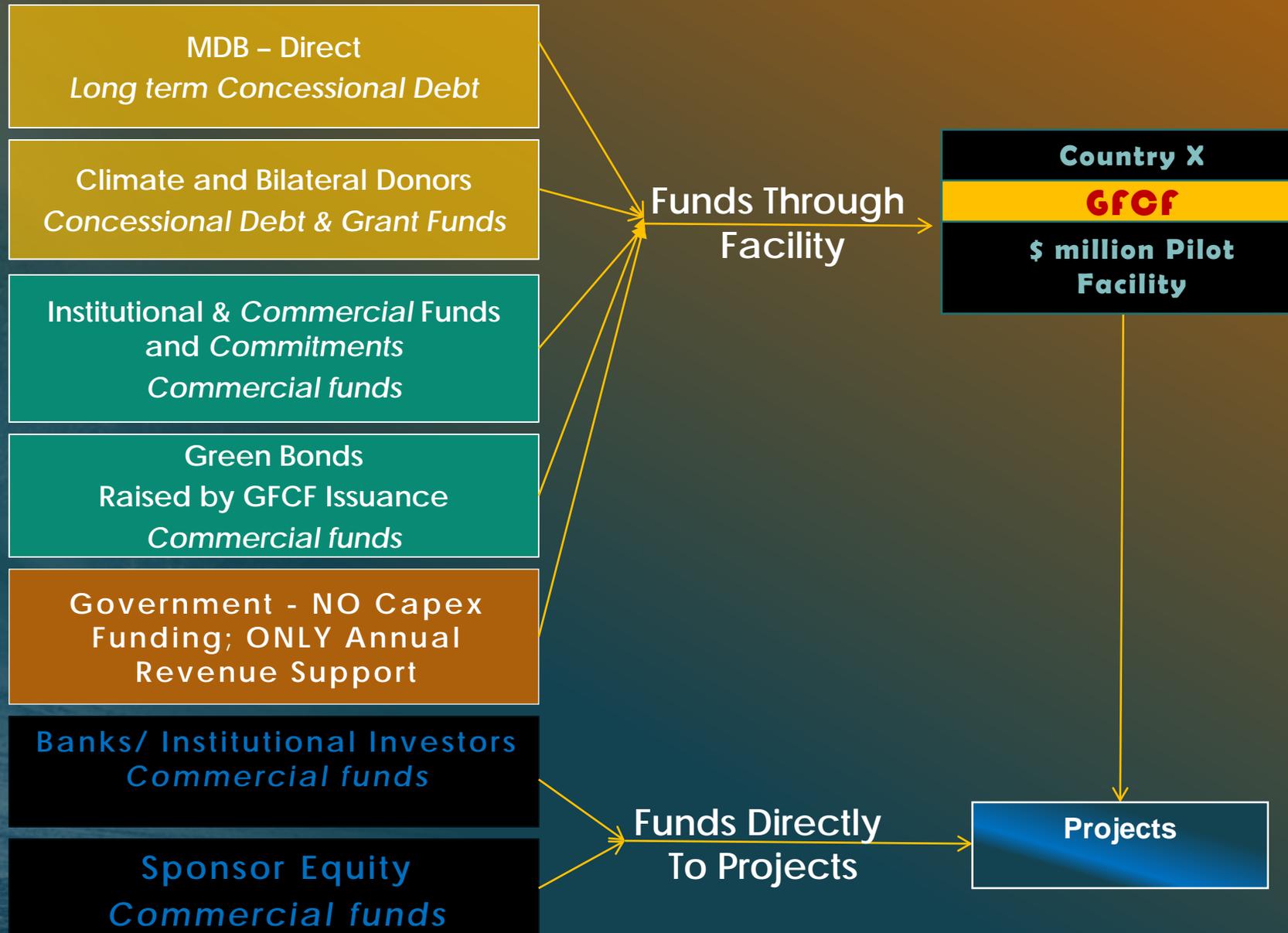




Proposed Institutional Structure



Multi-Source Funding



GFCF Usage Mechanics

Support: GFCF WILL Provide

Concessional Fund
For Capex
Debt + grant
50% Average

for Capex; upfront; 7 year term; *From sovereign guaranteed donor funds through GFCF*

Green Equity & Debt
Upfront-Commercial
For Capex
5% Average

Raised by GFCF through institutional investors or green bonds

Grant Fund
Project
Preparation

From sovereign or donor grant funds through GFCF; to be recovered from bidders

Green Equity & Debt Later -
Commercial
Refinancing in
Year 7

From institutional/commercial investors through the GFCF

Guarantee
Shadow Revenues
3 years of
Operations for
14% IRR

From annual government budget support

Conditionalities: Project MUST have

Green Indicators to achieve (Timebound Milestones)

Financial bankability indicators to achieve (Ratios)

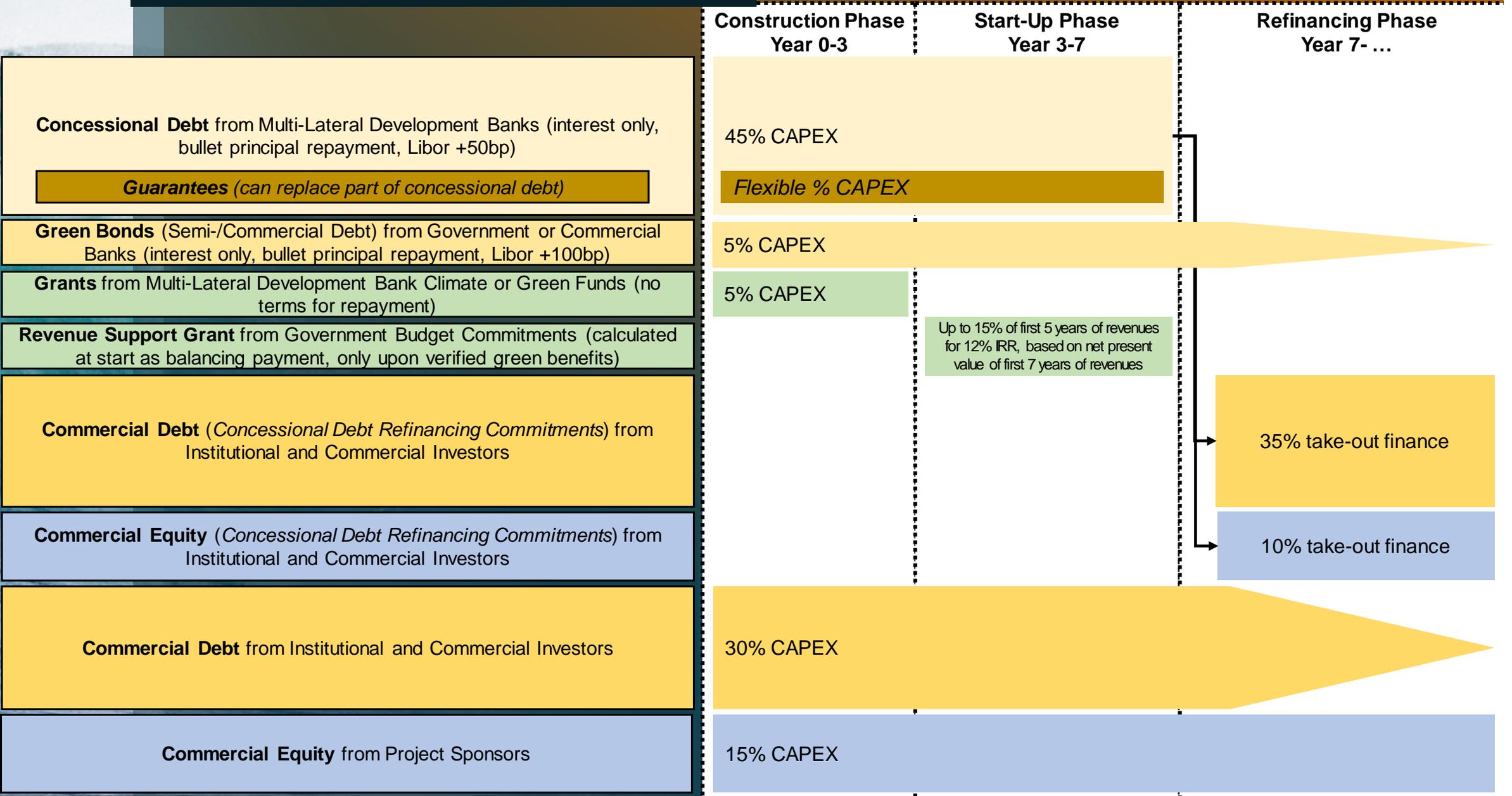
Bankability Model Prepared to achieve at least 14% IRR

Sponsor Equity 10 - 15% Required

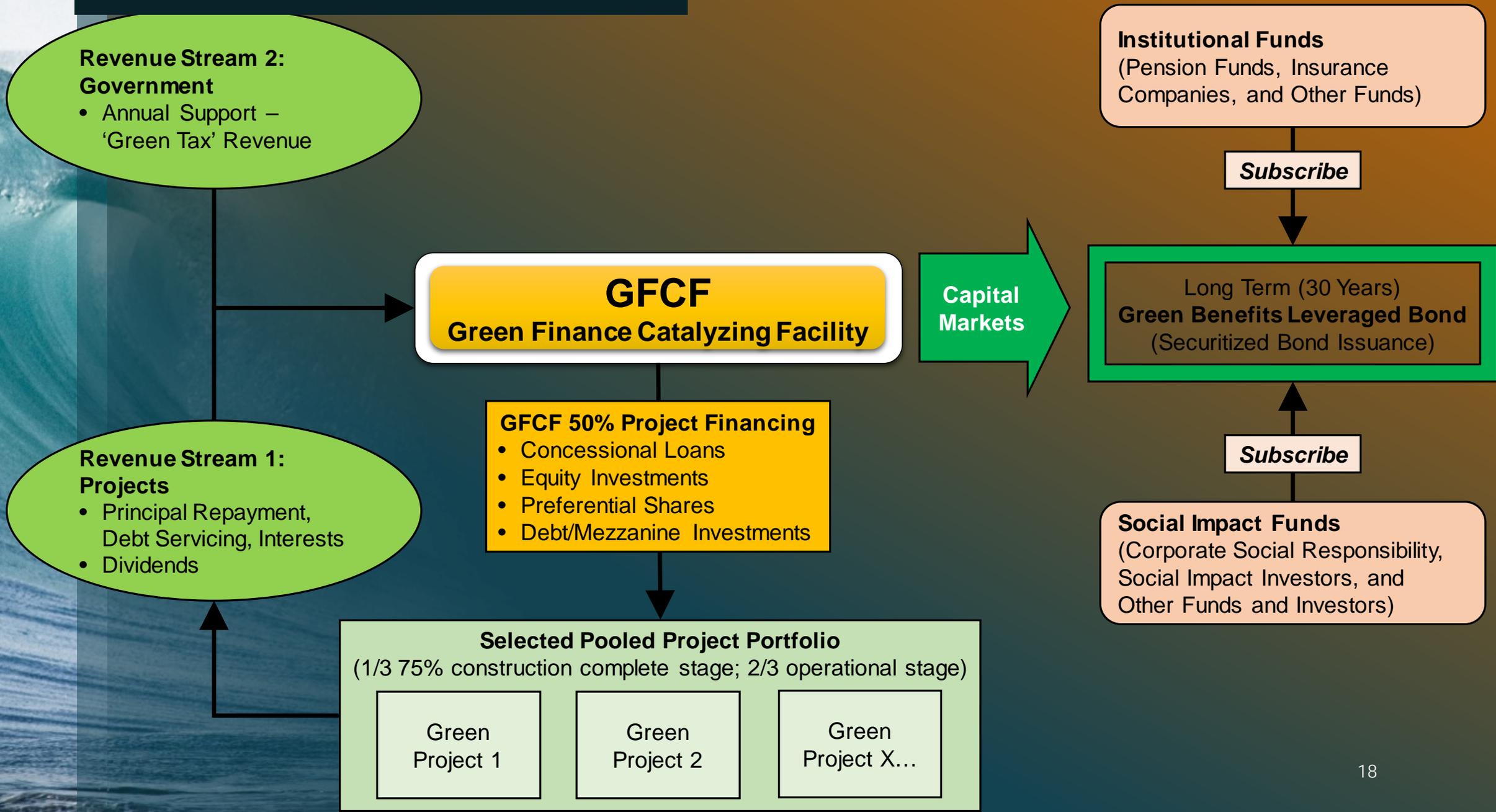
Commercial Debt 30 - 35% Req'd.

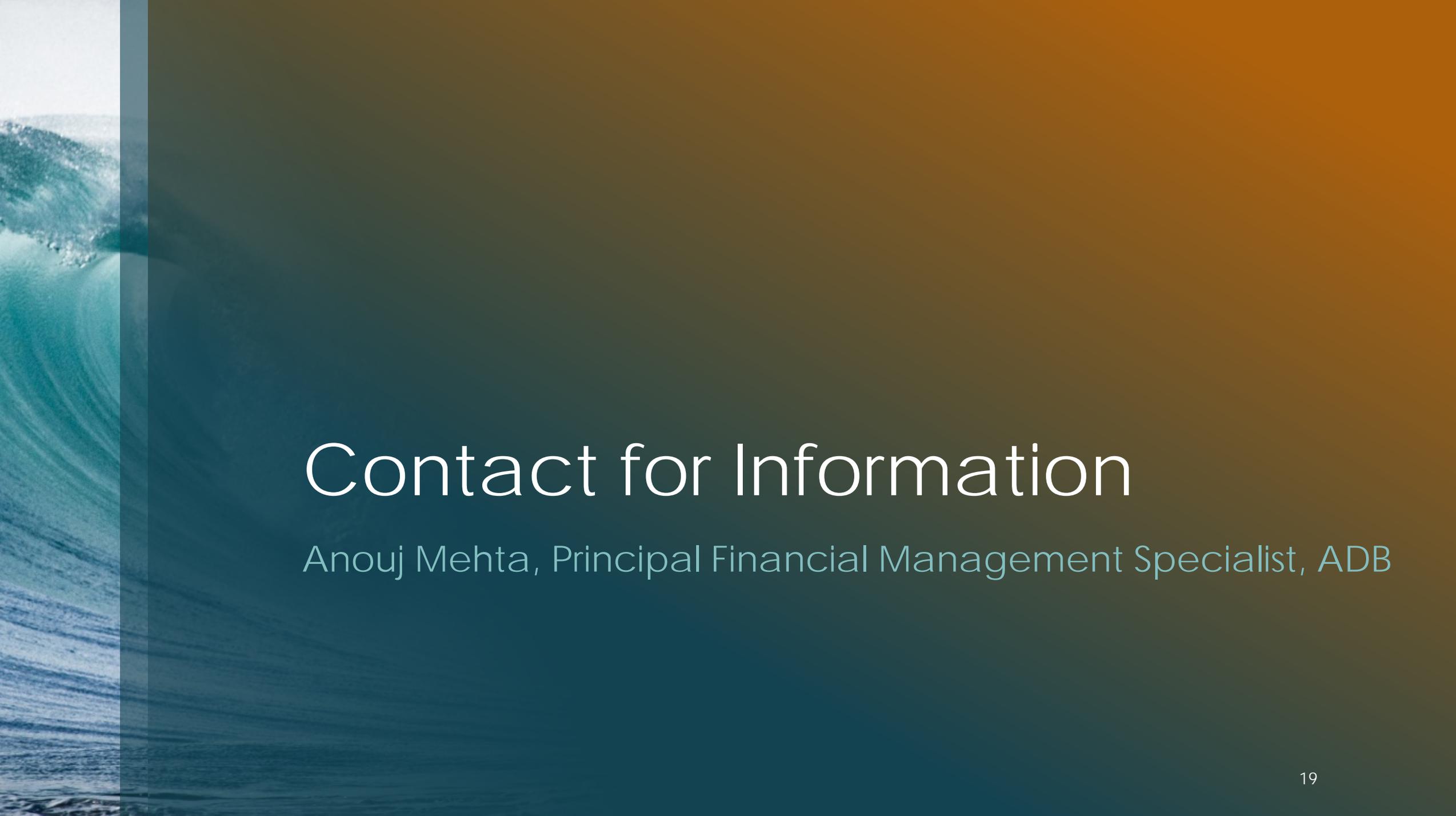
Capital Markets access roadmap

GFCF Mechanics – Project Level



GFCF Capital Markets – Leveraged Bond





Contact for Information

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