

Regional Policy Dialogue: Mobilizing Finance for SCP and SDG 12



PRESENTED BY

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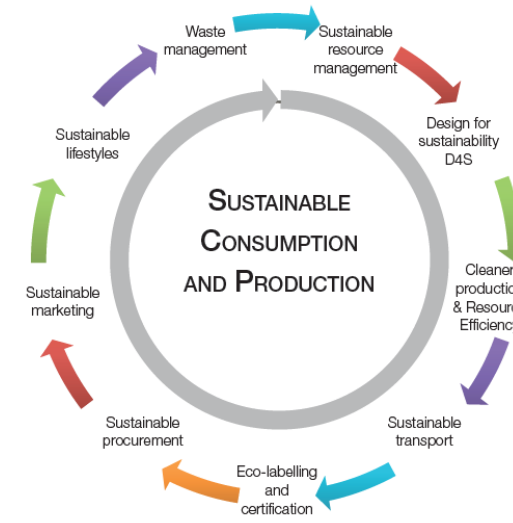
17TH MAR, 2022

Context of the Study

- Countries in Asia have been experiencing rapid growth in economic activities resulting in higher demand for energy
- This has led to growing concerns regarding the over-extraction of natural resources and unsustainable production and consumption patterns
- SCP practices refers to an ambit of initiatives, policy-based or market-based that address the entire life-cycle of resource use in a systemic manner- right from their extraction to their disposal or re-integration into the economic cycle
- Requirement of public, private, innovative sources of finance to fund sustainable interventions
- It is particularly important that initiatives and measures undertaken in pursuit of SDG 12 and SCP activities in general are able to mobilise the required funding from both public and private sources
- Need to relook at the definitions of Sustainable Finance/Green Finance/Climate Finance/Finance for SCP

Methodology

- Case Studies on Financing SCP Interventions
- Country Baseline Surveys
- Countries covered:
 - ✓ South Asia - Bhutan, India, Bangladesh, Nepal
 - ✓ South East Asia - Cambodia, Philippines, Thailand, Indonesia,
 - ✓ East Asia- China, Mongolia
- Sectors covered: Agriculture, Manufacturing, Tourism, Transport, Infrastructure (Construction), Solid Waste, Energy
- Interviews conducted with Experts- Technical and Financing related

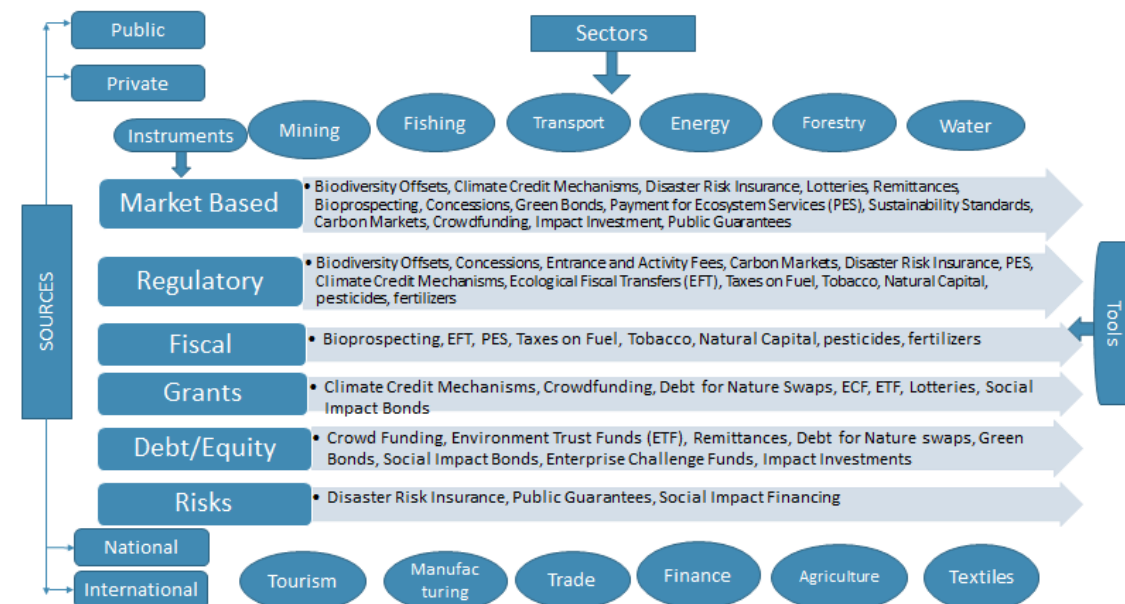


Source: UNEP, 2010

What Defines Sustainable Finance/Sustainable Finance/Financing Tools for SCP

- Sustainable finance, green finance, climate finance, low carbon finance, SCP finance terms relate to an overlapping territory of issues, applied to financial decision-making and flows relating to environmental issues, social issues, economic issues, and governance issues
- The core philosophy is that ESG considerations are relevant factors in financing, investing, and insuring decision-making and should therefore be considered by responsible stakeholders

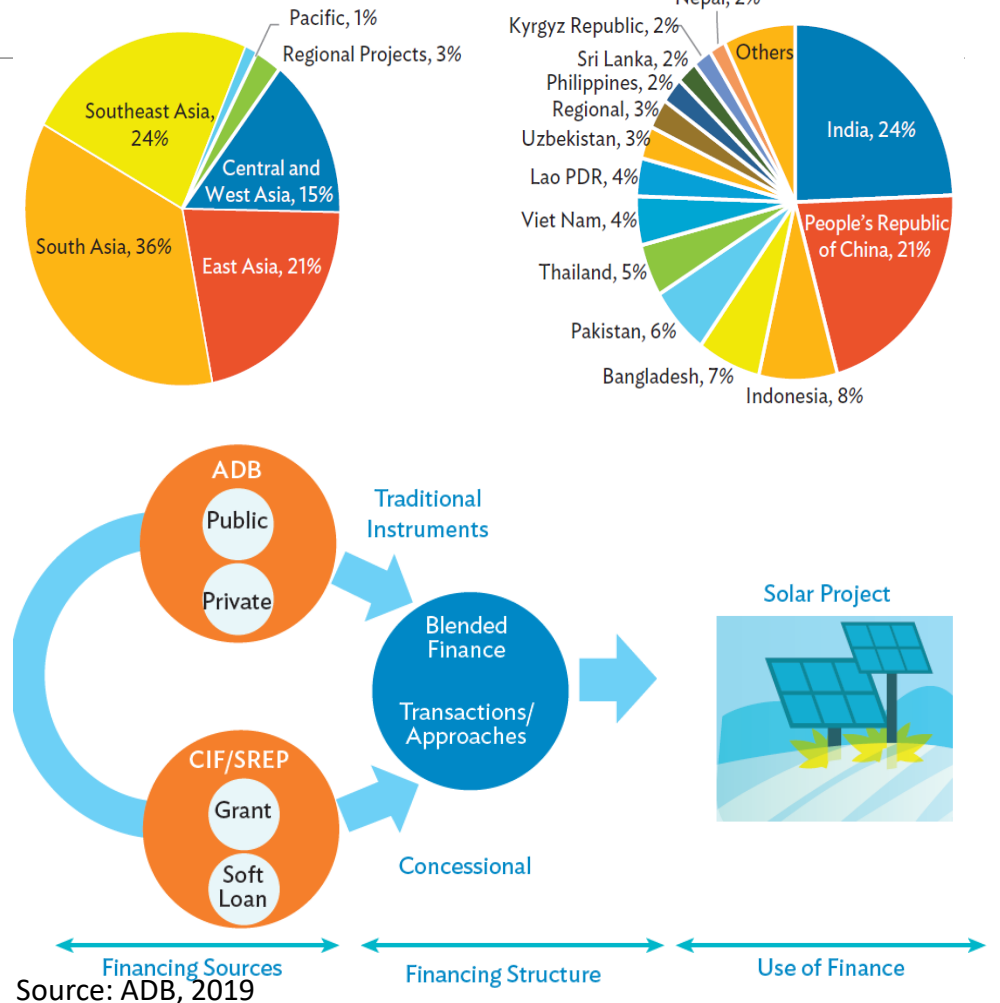
“An approach that explicitly acknowledges the relevance of environmental, social, economic, and governance factors, and requires stakeholders, including regulators and market participants to incorporate such sustainability factors into their financing, investing and insuring analysis, risk management, and decision-making process, as well as within their fiduciary responsibilities, resulting in greater long-term investments in sustainable economic activities.”



Source: Adapted from UNEP

Energy Efficiency and Clean Energy

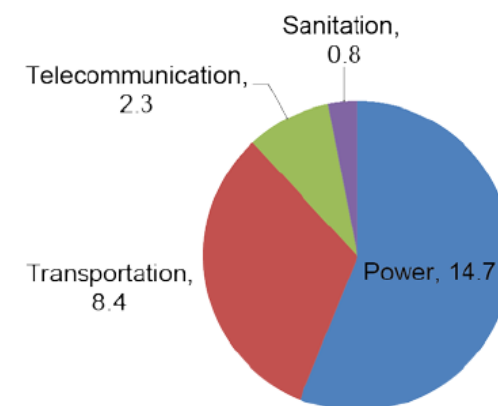
- Energy intensity reduction targets for ASEAN countries (20% by 2020, 30% by 2025)
- Energy demand is subjected to rise in Asia and the Pacific by 200% between 2010 and 2035, reaching more than 16,169 TWh by 2035
- This will drive for investment of \$11.7 trillion in the power and energy sector
- Financing instruments used grants, equity, lease and loans (soft, concessional) from MDBs, results based lending, fiscal instruments (tax holidays in Indonesia), Revolving Funds
- Other innovative instruments- Guarantees, Microfinance, Bonds, Blended Finance
- Indonesia, Thailand, and Viet Nam are preparing themselves for the implementation of carbon market initiatives
- Feed-in-Tariffs in Malaysia, Philippines, Thailand, Vietnam



Infrastructure

- ✓ The infrastructure financing gap in developing Asia amount to \$26.2 trillion between 2016 and 2030 or \$ 1.7 trillion annually (ADB, 2017)
- ✓ 56% of the investment is needed for power, 32% for transportation, 9% for telecommunications and 3% for sanitation (ADB, 2017)
- ✓ For Southeast Asia alone, USD 110 billion a year will be needed for infrastructure investment in power, transport, information and communication technology, and water and sanitation in ASEAN through 2025 (ASEAN Secretariat and UNCTAD 2015)
- ✓ Financing of sustainable infrastructure requires new approaches for mobilising and intermediating long-term finance
- ✓ Increase in the number of climate labelled green bonds for low carbon and climate resilient infrastructure- China, India, Korea
- ✓ To facilitate institutional investments such as pension funds and insurance, rating and labelling green bonds as benchmark eligible securities is necessary
- ✓ Few Asian countries have introduced green lending frameworks for infrastructure development; however for most part banks have limited understanding of what constitutes green or sustainable lending
- ✓ Lending for SCP constitutes only a small share of total commercial lending and is sold at a premium compared to conventional finance (e.g., SWITCH-Asia and ASrIA 2015a; SWITCH-Asia and ASrIA 2015b).

Fig: Asia Infrastructure Investment Needs by Sector, 2016–2030 (in trillion USD)



Source: ADB (2017)

Agriculture and Food Systems

- Agriculture is exposed to risks from a changing climate and from farm practices that are not environmentally sustainable
- Agriculture in South Asia and Southeast Asia is dominated by small farms, many of which operate at subsistence levels and are exposed to inefficient, government-run marketing schemes and local markets dominated by intermediaries
- Southeast Asian economies like Bangladesh, India, Philippines the local manufacturers have adopted small scale agricultural machinery to expand their market
- Clean Energy Revolving Fund (CERF) program in Cambodia provides uncollateralized loans to small agricultural farm for switching to cleaner forms of energy technologies; Fund is used to promote solar water pumps and on-grid solar systems to be used in spice, fruit, and livestock farms in the country
- Climate Smart Agriculture is another intervention defined as an integrated approach to managing food-producing landscapes – cropland, livestock, forests, and fisheries – that addresses the interconnected challenges of food security and climate change
- The private sector is increasingly investing in climate-smart practices and new business models

Tourism

- Southeast Asia received 137 million international visitors generating exports worth \$164 billion or about 9% of Southeast Asia's total exports (ADB, 2011)
- Travel and tourism contributed 12.1% to Southeast Asia's gross domestic product (GDP) and employed 42 million workers, most of whom are women engaged in small and medium-sized enterprises linked to expansive tourism supply chains
- International funds such as the trust funds created by the **GEF** support sustainable tourism practices in countries like Thailand and Bhutan by financing biodiversity conservation practices into tourism development activities
- In a country like Bhutan, where natural resources and attractions are abundant but vulnerable, **policy-driven action such as the High Value, Low Volume tourism policy** defines the development and financing strategies of the tourism sector
- In most of the study countries, initiatives directed at improving access to finance for MSMEs have benefitted tourism sector businesses in accessing credit and other banking services
- Multilateral banks such as **ADB and Asian Infrastructure Investment Bank (AIIB)** have also played a role in providing sustainable financing to the tourism sector via loans and grants
- In Indonesia, for instance, AIIB provided a USD284 million loan to the Indonesia Tourism Development Corporation to facilitate the Mandalika Urban and Tourism Infrastructure Project (AIIB website)
- With growing awareness of sustainable consumption practices, **private investors** have also been offering funding opportunities to tourism projects and businesses inculcating sustainability values- For instance, Booking.com introduced a Zero-equity Accelerator Programme to provide grants to entrepreneurs working in the sustainable tourism sector.

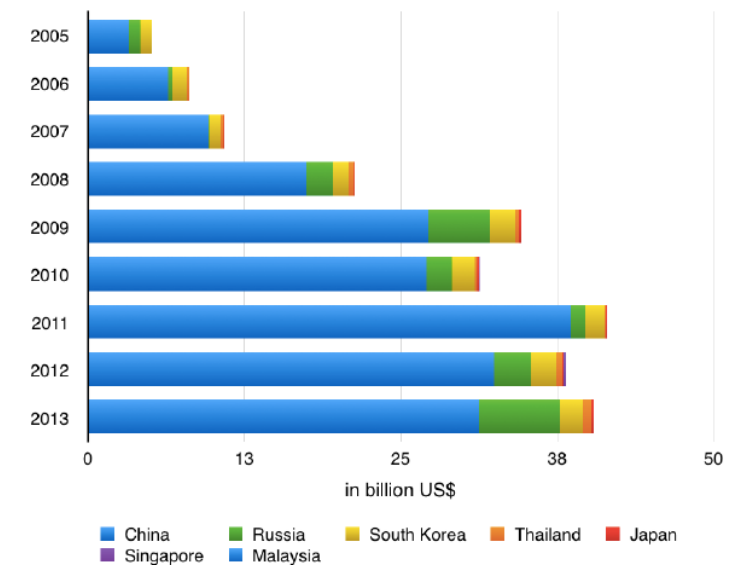
Transport

- Sector heavily dependent on fossil fuels which result in increased emissions
- This includes road transport, rail transport: private vehicles- (2 wheelers, 4 wheelers), freight
- Several emerging bond financing strategies show promise for funding sustainable low carbon transport- green bonds, municipal and provincial bonds, and project bonds (Green Bonds dominate the market in Asia)
- Different types of Bonds- Railway bonds, Transport Bonds
- New emerging field- various models of PPP, MDB's private sector operations
- Trends in PPP financing are mixed- PPP investments in South Asia decreased by 20% in 2012, though 60 PPP transport projects reached financial closure, with a total investment of \$18.9bn; all of these were road projects in India

Green Automobile Bonds

Issuance of an 'unlabelled' \$600 m bond by Tesla in 2013 (Climate Bonds Initiative)

- Toyota first issuer of labelled green bond of \$1.75 bn in 2014
- Potential exists for Nissan, Chevrolet
- IEA projects EV to reach \$250 bn



Baseline Surveys of Specific Countries

Cambodia- Key Policies (1/3)

- The Association of Banks in Cambodia has committed to developing a set of **sustainable finance principles** in partnership with the National Bank of Cambodia and the Ministry of Environment.

- These principles will ultimately lead to the design of **voluntary industry environmental and social lending standards**, which will be embedded in local bank policies.
- The Royal Government of Cambodia has initiated the **National Strategic Plan 2013-2030** that promotes green economy and circular economy framework in Cambodia
- The NSP 2013-2030 focus essentially on Green Investment and Green Jobs Creation, Green Economy Management in balance with Environment, Blue Economy Development with Sustainability, Green Environment and Natural Resources Management, Human Resources Development and Green Education, Effective Green Technology Management, Promotion of a Green Social Safety System, Uphold and Protection of Green Cultural Heritage and National Identity, Good Governance on Green Growth
- The **National Adaptation Plan** also focuses on the financing and implementation guidelines for undertaking green economy development activities in the country. The SCP roadmap also ensures green and circular economic development in Cambodia
- The Royal Government of Cambodia is supported by various international institutions and multilateral banks which have tied up with the Ministry of Finance, Ministry of Agriculture
- The Royal Government of Cambodia has also initiated **National Energy efficiency Policy** which promotes energy efficiency and reduction in excessive use of energy in the country

Overall financing trends (2/3)

- Cambodian economy has initiated sustainable financing principles which address improvement of financial literacy and the improvement of utilization of funds for sustainable initiatives that are implied in each sector
- **PRASAC** is one of the microfinance institutions which focus on lending for EE and climate financing initiatives and have granted USD 20 million till date
- PRASAC offers loans to low-income households and farmers in order to improve energy efficiency, and follows this type of funding mechanism
- The SCP initiatives are financed in Cambodia to ensure development in the country which promotes green financing in the country
- The development is supported by appropriate financing which is expected to double to US\$ 23.4 billion which accounts for 69.8 percent of GDP by 2025
- Domestic revenue, domestic private investment is vital source of financing for various SCP initiatives leading to development in Cambodia.

Case - Grant Based Agribusiness Value Chain in Cambodia (3/3)

- The need of strengthening the agribusiness value chain in Cambodia is due to the inadequate capacities in the agriculture sector
- This project will enhance the capacity generation of both public and private sector institutions through climate resilient agriculture
- Need for better infrastructural arrangements in making various crops to commercialize via increasing its production post the implementation of this project
- This project aims to strengthen the agribusiness value chain in the three regions of Cambodia which are Kampong Cham Province, Kampot Province, Takeo, Tboung Khmum
- The total financing required for the project is 141,390,000 USD and has been financed through GCF fund and concessional loans from a multilateral bank
- The project will lead to fulfilment of the government's **Agriculture Sector Strategic Development Plan** and the Industrial Development Policy, thereby improving the competitiveness of agribusiness value chains in Cambodia
- **Various crops like rice, maize, mango etc. have been benefited by the start of this project through crop diversification** which have been linked with the goal of commercialization of crops and strengthening the agribusiness value chains in Cambodia
- The case provides various insights and draws our attention towards various institutional arrangements that leads to capacity generation in a traditional agricultural sector by enabling climate smart agricultural techniques which promotes better infrastructure for carrying out agricultural activities like irrigation, prevents climate shocks which are caused due to old and outdated agricultural techniques, bad financial system and many more.

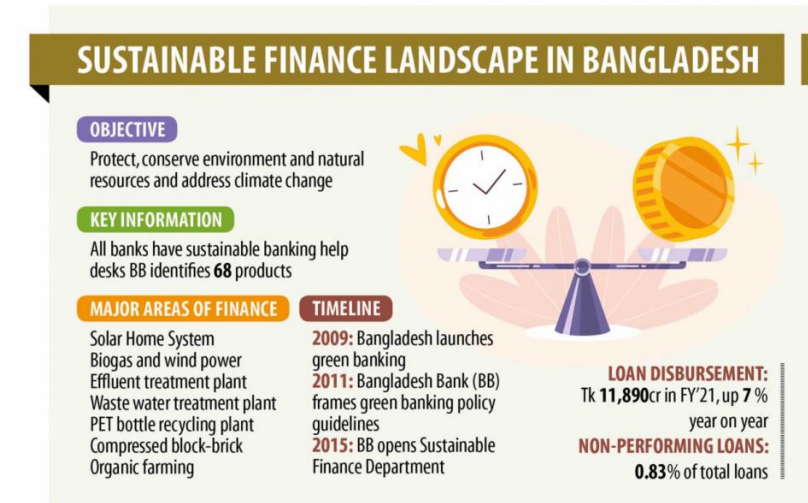


Bangladesh- Policy Highlights (1/3)

- The **Bangladesh Bank** has launched green financing schemes for ‘Renewable Energy and Environment Friendly Financeable Sectors’ in 2009
- Various private commercial banks, financial institutions and non-banking financing institutions of Bangladesh have tied with the Bangladesh Bank to grant them funds in lieu of green financing for various sectors like solar, biogas, water treatment and many more
- The policy framework supports SCP interventions in Bangladesh because the focus towards green products is essential and vital for development of Bangladesh
- The green financing policy is implemented in Bangladesh across three phases:
 - ✓ First phase ensures setting up of environmental policies and strategies and allocate the budget lines for climate risk and green financing.
 - ✓ Second phase ensures the monitoring mechanisms which will report the activities undertaken
 - ✓ Third phase is to develop green annual reports
- The National Adaptation Plan of Bangladesh specifies the need to have SCP interventions to limit GHG emissions and other climate shocks

Overall financing trends (2/3)

- There has been prevalence of green financing in Bangladesh from past 20 years and the continues support from the government
- The source of financing these SCP generally comes from public sources and private sources or a blended source
- Loans and grants are the two key financial instruments that are used to finance the SCP interventions in Bangladesh.
- The leading enabler of green financing in Bangladesh is the **Bangladesh Bank** which initiates various financing mechanisms to enable SCP in Bangladesh
- Various international institutions provides concessional loans and grants to the Bangladesh Bank which uses this fund to enable SCP interventions in the country
- The major implementing and accrediting entity, IDCOL also formulates various policies that ensures the SCP initiatives in the country.

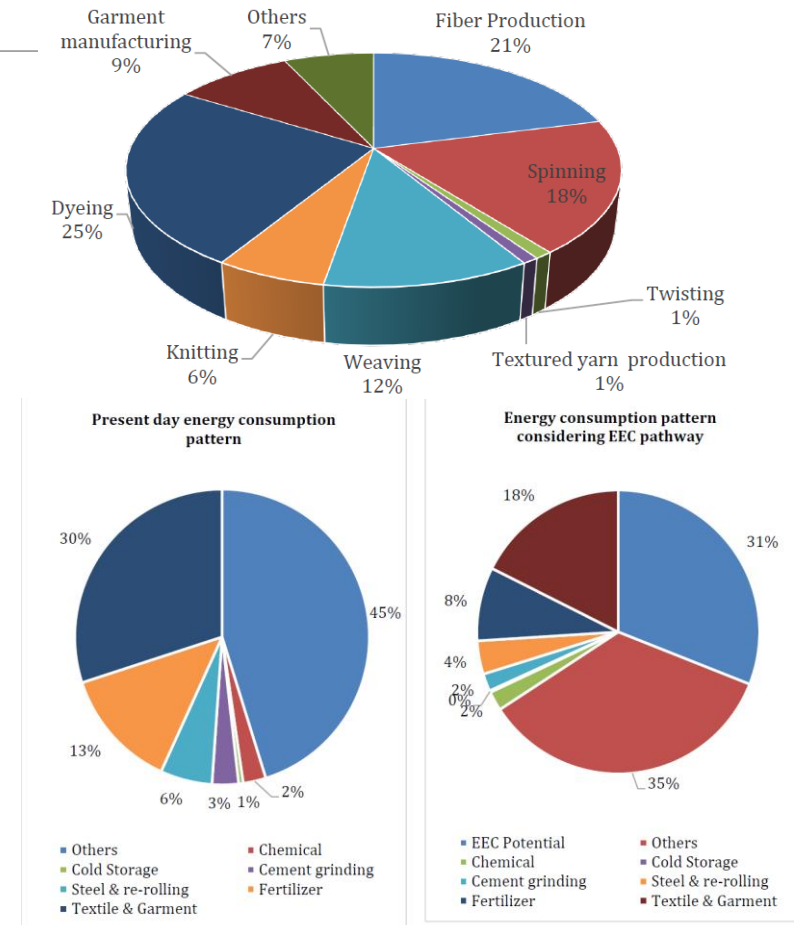


Sustainable Finance Wing of Bangladesh Bank

- Policy formulation and monitoring of different aspects of **Green Banking** (green finance, environmental risk management, in house environmental management, climate risk fund, green marketing, online banking, green branch, green product innovation, green strategic planning etc) activities of banks and Financial Institutions (FIs);
- Policy formulation and management of BDT 2.00 billion **Bangladesh Bank Refinance Scheme** for renewable energy and green products;
- Policy formulation and management of USD 50 million ADB supported **Refinance Scheme** for Brick Kiln Efficiency Improvement.

Case- EE in Textile Sector and RMG (3/3)

- The case highlights market transformation of the Textile and RMG sectors in Bangladesh to increase the penetration of energy efficiency measures, leading to a shift in sustainable development practices
- Finance includes GCF and co-financing i.e., 340.50 million USD including 6.48 million Grant and 250 million loan amount provided across 5 tranches: energy saving equipments, technical assistance for strengthening institutional and regulatory frameworks
- The project addresses challenges such as declining profit margins of manufacturers, complex loan application processes, limited understanding of EE processes and limited access to standard tools, strategies and framework for evaluating energy saving projects
- The program will also contribute to the Govt of Bangladesh's target to achieve 10% of energy consumption reduction in the industry sector by 2030 and 20% improved energy intensity by 2030
- This project tries to achieve energy efficiency in the RMG and textile sector of Bangladesh which shows scope of such developmental projects that can be replicated for other sectoral projects as well such as for agricultural sector etc.



Source: Technical Report, GCF

Philippine- Policy Highlights (1/3)

- Philippines has emerged as one of the leading ASEAN nations to initiate green financing for SCP in the economy
- The Government of Philippines has enabled a regulatory framework to support green financing for various SCP interventions across different sectors
- The National Economic and Development Authority (NEDA) has developed **Philippine Action Plan for Sustainable Consumption and Production (PAP4SCP)** which will provide a framework for promotion of climate resilient and sustainable development of different sectors of the economy
- The Government of Philippines is committed to Paris Climate Agreement which aims to mitigate the adversities and climate change vulnerabilities-This has led to creation of **Interagency Green Taskforce** which is led by the department of Finance of Philippines
- Central Bank of Philippines has drafted the **Sustainable Finance Framework** which requires banks to integrate ESRM
- Philippines has also developed a **Strategic Roadmap for manufacturing and industrial development**
- This has been financed through various instruments/tools that promote inclusive green growth of manufacturing and industrial sector and by enabling an environment for green job creation, green service sector creation

Financing trends (2/3)

- The Philippines has launched its inaugural Sustainable Finance Framework in order to support its sustainability commitments; Launched by the Central Bank of Philippines, it requires banks to lay down ESRM
- The framework sets out how it intends to raise green, social or sustainability bonds, loans and other debt instruments in the international capital markets
- The framework lays out the process that will be used to ensure transparency and disclosure of the use of proceeds, as well as the anticipated environmental and social impact of eligible green and social projects
- This is also expected to strengthen climate resilient infrastructure, industrial sector, energy and resource efficient manufacturing unit and ensure SCP development in the country
- The green bond market is quite developed in the country with 8th largest issuance in terms of volume in 2020
- Philippines has both green debt and equity instruments to diversify the availability of finance for SCP
- Under the framework, Philippines is also promoting 'greening the stock exchange' in the country and also promoting sustainable banking.



Case: EE through HEMs in Industrial Sector (3/3)



- The industrial sector accounts for second highest energy-consuming (28%) sector in Philippines
- This pilot programme in increasing energy efficiency aims to showcase and promote high-efficiency motors and drive systems in the sugar industry
- It also demonstrates that investment in EE motors can make a good business case, as the expected payback period for such investments is less than two years
- It is a grant-based project initiated for a period of 3 years; 2014-2017 and received grant from the European Union (EU) amounting to 1.9 million euro
- The pilot project in the sugar mill industry of Philippines lead to upgradation of 223 out of 763 motors with HEMS in mill 1 (Lopez Sugar Corporation) and upgradation of 179 motors with HEMS in mill 2 (Central Azucarera de Tarlac)
- The barriers encountered during the implementation of the pilot project include lack of engineering design and support for replacement of old motors with HEMs in the all the 4 sugar mills. Moreover, there was procurement delays encountered during the implementation periods of the project. There was a lack of pre and post installation audits which are essential for measuring the success of the project.

Nepal: Policy Highlights (1/2)

- Starting from the 1990s, the Government of Nepal has identified and incentivised priority sectors such as renewable energy, including sources like solar, wind and biogas.
- In 2006, the definition of ‘Deprived’ sector was expanded to include clean energy and small business projects; This has allowed for greater flow of credit into this sector; These targets have been further raised in 2012
- Since 2015, the Government of Nepal has been engaging with sustainable development strategies by initiating discussions on low carbon and climate change resilient policies and investments for agriculture, infrastructure and other sectors with scope for implementing sustainable consumption and production practices
- The **Public Private Partnership (PPP) policy 2015** which calls for targeted investment and services, recognises the role of the private sector in facilitating the achievement of sustainable development goals.
- In 2018, the Nepal Rashtra Bank adopted the ‘**Guidelines on Environmental and Social Risk Management for Banks and Financial Institutions**’; This has enabled progress in the development of its green finance system from ‘Preparation’ to ‘Implementation’ stage as defined by the Sustainable Banking Network; Issued Unified Directive requiring financial institutions to integrate environmental risk and social management (ESRM)

GUIDELINE
ON
ENVIRONMENTAL & SOCIAL RISK MANAGEMENT (ESRM)
FOR BANKS AND FINANCIAL INSTITUTIONS



NEPAL RASTRA BANK
CENTRAL OFFICE
BANKS AND FINANCIAL INSTITUTIONS REGULATION
DEPARTMENT

Financing Trends (2/2)

- ✓ Nepal relies heavily on international support from aid organisations and development-focused financial institutions
- ✓ Data from the Ministry of Finance indicates that nearly 26% of the nation's budget is funded from foreign aid
- ✓ Nepal's climate smart investment potential over a period of 2018-2030 as estimated by the International Finance Corporation (IFC) is \$46 billion.

Domestically-funded schemes/programmes

- Energy Sector Assistance Programmes, 1999 (ESAP) was able to improve access to finance and lower investment costs by introducing subsidy schemes. Among other actions, provides training to local institutions
- The Agriculture Development Bank Ltd (ADBL) is the largest financier for agriculture in Nepal
- ADBL and other domestic banks partnered with IFAD and the Govt of Nepal in order to remove critical blocks to accessing finance throughout the value chain, and enhance climate resilience in public as well private investment strategies.

Programmes funded by International Funds

- In 2009, the SREP was approved by the Climate Investments Fund; The programme to scale RE generation in 2012;
- The International Fund for Agricultural Development (IFAD) has approved an USD 39 million loan cum grant to fund a programme for providing improved seeds to promote sustainable, inclusive growth and competition in the sector;
- In 2019, the ADB approved a \$50 million policy-based loan to the government in order to promote commercialisation of agriculture, improve trade standards and enhance food safety on a national scale.

Indonesia: Policy Highlights (1/3)

- The Government of Indonesia has displayed clear intent and commitment towards its climate change mitigation efforts and was among the pioneers in formulating and implementing climate finance policies.
- The regulatory environment that the Financial Services Authority (OJK) is working towards involves coordinated and scaled up actions between the different actors- government agencies, national and international organisations along with the private sector.
- Indonesia's journey towards building a regulatory environment conducive of mobilizing sustainable finance began with the OJK joining the **Sustainable Banking Network** as a founding member in 2012. It has since
 - issued two phases of the Sustainable Finance Roadmap (2015-2019 and 2020-2024) as an umbrella policy,
 - developed green lending models and banking guidelines,
 - defined sustainability reporting requirements,
 - issued Green Bonds (Sukuks),
 - established the Indonesia Sustainable Finance Initiative (ISFI).
- As a result of such efforts on a national-scale, **80% of commercial banks have incorporated Sustainable Finance Action Plans** and increased investments in sustainable projects such as renewable energy, ecotourism and organic farming across their portfolios.
- Non-banking financial institutes (NBFCs) too have been encouraged to extend financing (micro-finance) and insurance facilities to organic producers and MSMEs with environmentally conscious businesses

Financing Trends (2/3)

- In Indonesia, green bonds have been gaining attention as an additional source of financing for sustainable development projects
- Green Bonds have been particularly effective in financing energy efficiency projects due to lower cost of capital and fewer legal restrictions
- Unlike other South Asian countries, Indonesia has managed to find a work around and become the biggest issuer of green bonds among South-Asian nations
- Issued a \$1.25 billion green sukuk or an Islamic bond; As of 2019, was the leading issuer of green bonds in ASEAN countries
- The framework governing the green bonds has been defined by the Government of Indonesia and requires that the proceeds from their issuance be used exclusively to finance 'Eligible Green Projects' which include renewable energy or energy efficiency projects, building resilience against climate and disaster risks, and projects related to sustainable waste management, transport, tourism, buildings or agriculture
- The green bond market in Indonesia is almost entirely driven by the government with 99% of these bonds being issued by the national government.

Case -Sustainable Urban Transport Programme in Indonesia (SUTRI NAMA) (3/3)

- ✓ **SUTRI NAMA** was launched in Indonesia to transform its emission-intensive urban transport sector into a sustainable and low-carbon sector
- ✓ The project is supported by the **NAMA Facility** (an initiative jointly initiated by the German and British governments to finance innovative, sustainable solutions in developing economies)
- ✓ The project aims to use suitable funding instruments to leverage public and private capital; The funding mechanism includes:
 - **Concessional Loans**- administered by the state-owned PT Sarana Multi Infrastruktur
 - **Investment Grants**- grants to local governments will be channeled through the Ministry of Finance
- ✓ The funding provided by the NAMA Facility will be supplemented by the Ministry of Transport (Indonesia) and Government of Switzerland



The investments under this project will:

- Enhance public transport systems
 - Mitigate GHG emission in pilot cities
 - Demonstrate good practice cases for other cities to follow
- ✓ Overall, improvements in public transport services and better walkability will positively impact air quality, commute-times and road safety.

Bhutan: Policy Highlights (1/3)

- **Agriculture:**

- The national bank of the country, **Bank of Bhutan**, provides loans at favourable rates to agriculturists via its agriculture-focused loan products and Green Finance window
- **International humanitarian organisations and donor funds**, such as the World Food Programme (WFP), work with the government to improve production capacity, strengthen value chains and enhance livelihoods; Particularly in the case of building resilience to the changing climates, several multilateral organisations such as the IFAD, UNDP (Green Climate Fund) and the World Bank have been supporting Bhutan's efforts by providing loans and/or grants focused at promoting agricultural practices designed to absorb climate-induced shocks and improve food security

- **Tourism:**

- The **High-Value, Low-Volume policy** itself provides for the collection of Minimum Daily Package Rate (MDPR) and Sustainable Development Fee (SDF) to manage the impacts of tourist activity
- Bank of Bhutan also has several schemes for Sustainable Mountain Tourism, including the National Credit Guarantee Scheme to allow access to credit for MSMEs as well as the Green Finance Window; The National CSI Development Bank also offers low interest rate credit to Cottage and Small Industries, including tourism-based ones.

- **Energy:**

- Bhutan has tremendous potential for hydropower generation; Accordingly, the RGoB in a **public-private partnership**, along with development partners like Asian Development Bank and consortium of Indian Commercial Banks have been funding the development of hydro projects using **syndicated loans and grants**.

Financing Trends (2/3)

- The development funding for SCP in Bhutan is primarily public financing supported by international aid and borrowing
- The private sector and market based financing is still relatively underdeveloped
- Bhutan's climate smart investment potential over a period of 2018-2030 as estimated by the IFC is \$42 billion
- **Blended Finance:** Commercial Agriculture and Resilient Livelihoods Enhancement Programme (CARLEP)- An ongoing programme to **improve marketing, storage and processing facilities for smallholder Bhutanese farmers**, the programme is funded by the IFAD using Blended Finance instruments; The Food Corporation of Bhutan and the National Government act as domestic co-financiers
- **Grant:** Global Environment Facility (GEF)- The project to be implemented by the UNDP, Global Wildlife Programme aims at mainstreaming biodiversity into tourism by developing an ecotourism model in certain wildlife sanctuaries across the country
- **Public Private Partnership- Loans, Grants and Technical Assistance:** The **Hydro-power Plant in Dagachhu completed in 2014, was the first infrastructure PPP in Bhutan**, including loan from ADB; first of its kind to receive Clean Development Mechanism (CDM) carbon credits.

Case – Mountain Hazelnuts (3/3)



Social Enterprise using Blended Finance tools to create Sustainable Livelihood Opportunities- Mountain Hazelnuts, Bhutan

This category of capital uses a mix of public, private and philanthropic funds and targets development objectives of emerging and vulnerable economies

Mountain Hazelnuts

- an agribusiness based in Bhutan with a unique public-private-community centric approach, which has benefitted from the blended finance tool offered by multilateral development agencies in partnership with the Royal Government of Bhutan; first 100% foreign direct investment of the country, it has set the standard for sustainable investment in Bhutan and other developing regions.
- Funded as a **part of GAFSP's Private Finance Window** which channels donor funding from regional and multilateral agencies for agribusinesses with development impact potential that may not attract private capital due to commercial risks Its support has meant a reduction in the perceived risks associated with the project and encouraged investments from both the ADB and IFC.
- Although Mountain Hazelnuts was not in a position to service debt for several years, **GAFSP's choice of instrument- equity with the characteristics of a loan-** enabled an investment with the best of both worlds, that is, **fixed coupon and redemption timeline, no shareholder value dilution and no mandate to pay dividend each year.**

Insights

- ✓ Funds such as the GAFSPs and others (for example, Agri3 Fund) are able to effectively bridge the divide between the needs of the agricultural sector and the limitations of financial institutions by **tapping into partnerships with public and private funds and using tailor-made risk-mitigating financial instruments.**
- ✓ This is possible in part due to the development potential compensating for financial returns and due to the operational capacity of international development banks in absorbing risks that other banks or capital markets may not find prudent

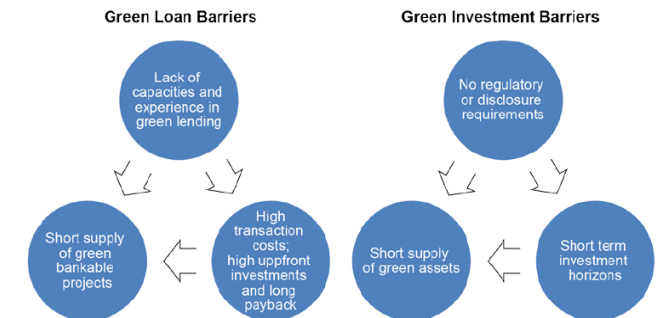
In a nutshell- Sustainable Finance Policies of Study Countries

Bangladesh		India	
2008	Bangladesh Bank: Circular on 'Mainstreaming Corporate Social Responsibility in Banks and Financial Institutions in Bangladesh'	2007	Corporate Social Responsibility, Sustainable Development and Non-Financial Reporting – Role of Banks
2011	Bangladesh Bank: 'Policy Guidelines for Green Banking' and 'Guidelines on Environmental Risk Management'	2011	Ministry of Corporate Affairs: National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business
2015	Bangladesh Bank: Mandatory Green Finance Credit Targets I	2012	Securities and Exchange Board of India (SEBI): Annual Business Responsibility Reporting
2016	Bangladesh Bank: 'Integrated Risk Management Guidelines for Financial Institutions'	2014	SEBI: Infrastructure Investment Trusts (InvIT) Regulations
2017	Bangladesh Bank: Guidelines on Environmental & Social Risk Management for Banks and Financial Institutions	2015	Reserve Bank of India: Priority Sector Lending – Targets and Classification Indian Banks Association: National Voluntary Guidelines for Responsible Financing
		2016	SEBI: Guidelines for the Issuance and Listing of Green Bonds
		2017	SEBI: Disclosure Requirements for Issuance and Listing of Green Bonds
Indonesia		Mongolia	
2012	Bank Indonesia: Green Lending Model Guidelines for Mini Hydro Power Plant Projects Government Regulation on Social and Environmental Responsibility of Limited Liability Companies	2014	Bank of Mongolia and Mongolia Banking Association: Mongolia Sustainable Finance Principles and Sector Guidelines
2014	Otoritas Jasa Keuangan (OJK)/ Financial Services Authority: Roadmap for Sustainable Finance in Indonesia 2015-2019		
2015	IFC, USAID, OJK: Clean Energy Handbook for Financial Service Institutions		
2017	OJK: Framework and regulation for green bond issuance in Indonesia OJK: Regulation on the Application of Sustainable Finance for Financial Services Companies, Issuers and Publicly Listed Companies		
Philippines		Thailand	
2008	Government of Philippines: National Disaster Risk Reduction and Management Law	2008	Stock Exchange Thailand and Securities and Exchange Commission of Thailand: Guidelines for Sustainability Reporting
2011	Securities and Exchange Commission: Corporate Governance Guidelines for Companies Corporate Responsibility Act updated	2014	Stock Exchange Thailand: CSR Reporting Requirements Securities and Exchange Commission of Thailand: Sustainability Development Roadmap for Listed Companies
2015	Government of Philippines: Joint Catastrophe Risk Insurance Facility for Governments (Local Government Units Pool)		

Source: Volz.(2018). Fostering Green Finance for Sustainable Development in Asia. ADBI Working Paper 814

Challenges (1/2)

- **Insufficient disclosure requirements** that address environmental or long-term systemic risk factors; A good example for insufficient disclosure practices are palm oil, timber and pulp and paper companies in Indonesia
- South Asian govts and enterprises depend to a large extent on bank finance and forex lending vis-à-vis local currency bond markets for financing SCP which are subject to considerable macroeconomic and stability risk
- Laws on PPR development are skewed- **not all legislation provides sufficient regulations on different stages of PPP development**; for example, Cambodia's Law on Concessions, enacted in 2007, provides little detail on contract standards, risk allocation requirements, and managerial measures in case of early termination (ADB, 2012a)
- Though there has been increased issuance of transport bonds, **not all bonds are suitable generic investments** (bonds issued in restricted currencies such as Chinese renminbi are generally excluded from mainstream portfolios, less public sector investments for kick starting, increase private sector bond ratings)



Source: Volz. (2018)

Challenges (2/2)

- For countries which depend on foreign loans, there is huge loss at the time of repayment of the loans due to the **exchange rate differentials**
- Most **commercial banks tend to restrict their lending activities to short-term loans**; in order to finance sustainable consumption and production projects with long gestation periods, such as energy and infrastructure projects, innovative and blended finance tools with risk-mitigating factors are required
- Domestic financial institutions don't have adequate capacity to evaluate technical projects and require trustworthy ratings providers to reduce information gaps
- Definitional inadequacies as to what comprise SCP Finance- makes it difficult for banks and other financing institutions to fund such efforts

Way Forward (1/2)

- ✓ Developing local currency bond markets as a source for financing long-term infrastructure and enhancing **ESG disclosure requirements through bond exchanges and financial regulation.**
- ✓ Address Definitional Inadequacies involving sustainable finance, sustainable finance for SCP, green finance, climate finance- functional overlaps and practices
- ✓ **Enhancing market practices in form of disclosure, reporting, analysis, risk management**
- Good practice - Bank of Bangladesh requires banks and NBFCs to conduct environmental risk management
- Directive on Promoting Green Credit Growth and Environmental Social Risks Management issued by State Bank of Vietnam in Credit Granting Activities, requiring financial institutions to integrate environmental factors into their lending decisions
- ✓ **Integrating the principles of sustainable development into governance structure of banks and central banks to facilitate financial decision making (as practiced in BB, RBI, Bank Indonesia)**

Way Forward (2/2)

➤ Encourage multi-sector collaborations and Stakeholder Dialogues

Good practice: Indonesian financial services regulator OJK has established a multi-stakeholder task force to promote and further develop its Roadmap for Sustainable Finance through dialogue

➤ **Capacity Building, Awareness Generation and Cultural Transformation** (enhance understanding of SCP and SDG 12 for financial intermediaries)

➤ Directing Policy led Financing

Good Practice: Bank of Bangladesh requires other banks to allocate 5% lending to green projects; RBI has included RE into priority sector lending projects; Quotas for priority areas

➤ Innovative SCP practices in Stock Markets

Good Practice: Setting up social stock exchanges for SME and MSMEs

➤ **Harnessing public balance sheet**- creating fiscal incentives for investors, preferential central bank refinancing, credit and risk guarantees, public pension funds

Good practice- Government Pension Investment Fund and pension fund association have endorsed the Principles for Responsible Institutional Investors