Introduction to Green Finance & Credit Cycle

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Session Content

1. ADFIAP briefly
2. Green Finance Defined
3. Green Finance Framework
4. The Green Credit Cycle: Mitigating Environmental Risk
5. The Green Banker
6. Case Studies on Green Finance
1. ADFIAP briefly…
ADFIAP...briefly

102 Members
40 Countries
Founded 1976
During the 6th ADB conference for DFIs

Founding Members

Secretariat in Manila, Philippines

Asociations Make a Better World Award 2008
Asia’s Best Sustainability Report 2015
ADFIAP’s Purpose

TO ADVANCE SUSTAINABLE DEVELOPMENT

ECONOMIC
SOCIAL
ENVIRONMENT
GOOD GOVERNANCE
“Greening of DFIs” Initiative


Green Banking Books

Green Banking Book Launch

Environmental Governance Standards for Development Financing Institutions in Asia

European Union Asia Pro Eco Programme

UNEP/Wuppertal Institute Collaborating Centre on Sustainable Consumption and Production

Technical Experts Conference

Green Energy Finance Workshop ACEF 2016 June 6, 2016 ADB
EU Grant Projects on Environment

SMART Cebu
SMEs for environmental Accountability, Responsibility, and Transparency

SMART Myanmar

HEMs
Switch to High Efficiency Motors

ACMFN
Asian Cleantech MSME Financing Network

Green Energy Finance Workshop
ACEF 2016   June 6, 2016   ADB
Financing Focus of Members

Green Energy Finance Workshop
ACEF 2016   June 6, 2016   ADB
2. Green Finance Defined
"Financial products & services that consider environmental factors throughout the lending decision-making, ex-post monitoring, and risk management processes, to promote environmentally-responsible investments and encourage low-carbon technologies, industries and businesses."

Source: Pricewaterhouse Coopers Consultant, 2013
Green Finance comprises of...

- Financing of green investments (including preparatory & capital costs)
- Financing of public green policies
- Green financial system

Source: Definition of Green Finance, Nanette Lindenberg, April 2014
Financing Green Investments

Source: Definition of Green Finance, Nanette Lindenberg, April 2014
Green Financial System

- Green Finance Instruments
- Structured Green Funds
- Green Bonds
- Green Climate Fund
- Legal
- Economic
- Institutional Framework Conditions
“Policies that encourage the implementation of environmental and environmental-damage mitigation or adaptation projects and initiatives.”
3. Green Finance Framework
Internal Green Finance Framework*

1. Strategic Assessment
   - Purpose, Mission & Vision

2. Core Business Operation
   - Business Case / Policies, Processes Controls / Organization
   - Loan Supervision & Monitoring
   - Remedial Management
   - Loan Evaluation

3. Sustainable Management Action
   - Regulatory Compliance & Reporting
   - Knowledge & Skills Management
   - Product Research & Development
   - Operational Manual Update

* Developed by ADFIAP Consulting Group
The Business Case

Direct financial gains
- interest income on green loans
- lower future environmental compliance costs

Reputational / Image benefits
- attract & retain clients
- attract & retain good employees
- better recognition in society & public in general

Work place benefits
- proper facility management
- healthier working environment

Environmental / Ecological Gains
- clean environmental services & access to natural resources
The Business Case

Being a value-driven company

Tangible value drivers:
- Profitability
- Asset utilization
- Service quality

Intangible value drivers:
- Customer relationships
- Brand equity & reputation
- Alliances
- Technology

Stakeholder interests on the bank’s products & services

income potential, responsibility beyond compliance, environmental performance, sustainability communication

Source: GEMI
Green Governance

Driving the initiative

Regulatory Bodies:
- Central Bank
- Securities Commission
- Stock Exchange

Business Sector:
- Banks
- Corporations
- Listed Cos.

Green Governance
- Board structure
- Board policy
- “Scorecard”

Low Carbon Economy
- Renewable Energy
- Clean Technology

Sustainable Growth & Development
<table>
<thead>
<tr>
<th>Corporate Governance</th>
<th>Green Governance</th>
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</thead>
<tbody>
<tr>
<td>1. Independent directors / fit &amp; proper rule</td>
<td>1. At least one director knowledgeable on climate change/environmental issues</td>
</tr>
<tr>
<td>2. Board committees</td>
<td>2. A separate environment committee or as part of the risk management committee; an environmental management unit under the Board</td>
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<tr>
<td>3. Corporate governance code</td>
<td>3. Environmental governance code or policy approved by the Board; environmental risk management integrated in operational decisions</td>
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<tr>
<td>4. Reporting and disclosure</td>
<td>4. Issuance of an integrated annual and sustainability report or a standalone sustainability report</td>
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Green Bank – ECOFIN Model

Environmental Advisory & Consulting Unit

Green Financing Unit
4. Green Credit Cycle
The Green Credit Cycle

- **First Assessment**
- **Second Assessment**
- **Evaluation & Loan Approval**
- **Implementation & Monitoring**
- **Environmental MGMT.**
- **Environmental Performance**
The Green Credit Cycle

FIRST ASSESSMENT
First Assessment

BORROWER  GREEN BANKER  BANK

Loan Application  →  Requirement Check  →  Site Visit

→ Initial Credit & Technical Check  → Environmental Screening  → Consultation with Environmental Management Unit (EMU)

Environmental Questionnaire  → Environmental Review  → Initial Environmental Report

Initial Examination?  → Initial Environmental Report  → Environmental Audit/Assessment needed?

NO  → YES

* Environmental Audit – for existing project; Environmental Assessment – for new project

- Regular credit cycle
- Green credit cycle

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Second Assessment

BORROWER

1ST ASSESSMENT

Loan Application

Initial Examination?

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GREEN BANKER

Environmental Audit / Assessment needed?

Credit & Technical Due Diligence

Due Diligence Report

Environmental Risks & Control Strategies Covenants / Warranties

BANK

YES

Consultation with EMU

Audit / Assessment Report

Consultation with EMU

Consultation with EMU

Endorsement

NO

2ND ASSESSMENT

YES

- 1ST ASSESSMENT

- 2ND ASSESSMENT

- YES

- NO

- Credit & Technical Due Diligence

- Environmental Risks & Control Strategies Covenants / Warranties

- Due Diligence Report

- Consultation with EMU

- Audit / Assessment Report

- Consultation with EMU

- Consultation with EMU

- Endorsement
The Green Credit Cycle

1. FIRST ASSESSMENT
2. SECOND ASSESSMENT
3. EVALUATION & LOAN APPROVAL

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** In cases where construction and operation phases have been started without loan approval yet, the expenses will be reimbursed depending on loan’s pre-release conditions.

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The Green Credit Cycle

1. FIRST STEP ASSESSMENT
2. SECOND STEP ASSESSMENT
3. EVALUATION & LOAN APPROVAL
4. IMPLEMENTATION & MONITORING
Environmental Management

BORROWER

IMPLEMENTATION

Environmental Statement Monitoring Forms → Monitoring of Project → Green Banker / EMU

ENVIRONMENTAL MANAGEMENT

Remediation

YES

Satisfy Environmental Requirements?

YES

Continuous Violation

NO

Technical Default

YES

Document

Process

Decision

Input

Predefined Process
5. The Green Banker
The Green Banker...

✓ includes environmental aspects in credit appraisal, risk management & financing
✓ identifies opportunities for green investment & finance with clients
✓ understands & designs green financial products & services
✓ stimulates demand for green products & services through creative advocacy & educational marketing campaigns
✓ provides a holistic approach to sustainable economic growth through the promotion & active mainstreaming of environmental finance in the banking sector
The Green Banker’s Goals

Maximize profit

Minimize costs

Maintain a quality loan portfolio

Minimize carbon footprints

Gain competitive advantage thru environmental due diligence
6. Green Finance Case Studies
- **DBP Forest**: Greening the countryside by planting high-yielding fruit trees, thereby reducing GHG emissions.

- **Climate Change & Carbon Financing Facility**: Registration of eligible projects with the Clean Development Mechanism (CDM) & loans to projects that avoid or reduce emissions of greenhouse gases.

- **Green Financing Program**: Long-term funds to local government units and industries to mobilize, encourage, and support activities and investments in environment-friendly projects.
Renewable Energy for Wiser & Accelerated Resources Development (REWARD): promotes development & financing of renewable energy & biofuel projects in the country in line with the national energy program.

Carbon Finance Support Facility (CFSF): promotion of climate change mitigation projects through the implementation of Clean Development Mechanism (CDM).

The PCFC Micro-Energy Credit Program supports reforms & priority investments to improve the quality of life in rural areas through the provision of adequate, affordable and reliable energy services, specifically small-scale renewable energy solar home system/solar lanterns in partnership with viable microfinance institutions.

Funded by the World Bank & implemented under the Investment Support Component of the Department of Energy’s Rural Power Project.
The Green Technology Financing Scheme (GTFS): promotes investments in green technology, a sector that is envisaged to be one of Malaysia’s emerging drivers of economic growth. For products, equipment, or systems which:

- minimizes degradation of the environment
- has zero or low greenhouse gas (GHG) emission
- safe for use and promotes healthy and improved environment for all forms of life;
- conserves the use of energy and natural resources;
- promotes the use of renewable resources.
Biofuel Financing Scheme
Financing biofuel-related activities including processing of biofuel produced from agricultural products such as palm oil, rapeseeds, soybeans, linseed, jatropha, coconut oil and mustard seeds, or from waste cooking oils and other organic products.

Renewable Energy & Energy Efficiency Scheme
Supports government efforts in developing and enhancing the RE & EE projects that have an environmental benefits from the renewable-related projects.
Urumqi "Blue Sky" Coal Replacement

Total Loans: RMB 1.58 billion coal-to-gas conversion covering 189 coal-fired heating companies or 116 million sq. m. in coal source heating space.

Effect: Increase gas source heating areas to 76%; reduction in coal consumption by 5 million tons which would otherwise have released 35,000 tons of sulfur dioxide & 17,000 tons of dust emission; improve the city's air quality.

Total loans: RMB 2.6 billion photovoltaic power project

Effect: Achieved 200 MW of installed capacity and supported the green development in Tibet.
Financing Scheme for Energy-saving projects in the MSME Sector

Encourages MSMEs to undertake energy-saving investments in production facilities to reduce energy consumption, enhance energy efficiency, reduce CO2 emissions, use alternative and renewable energy sources, etc.
Renewable Energy for Rural Economic Development (RERED) Project – To expand the commercial provision and utilization of renewable energy resources and improve the quality of life in rural areas in Sri Lanka.
Jamaica Energy Security and Efficiency Enhancement Project (JESEEP) – in conjunction with public & private partners & supported by the World Bank, DBJ established an energy line of credit to on-lend through approved financial institutions to support the national energy policy (2009-2030) thus enabling Jamaican businesses and industries to access reliable energy and allow them to become competitive in the international market.
Energy Efficiency Subsidy Program – housing microfinance for energy conservation.

- helps households reduce their electricity bills while improving the quality & value of their homes.
- financial assistance from governments of Italy & Austria.

Energy loan program (ELP) – to provide affordable capital for renewable energy projects.

- in partnership with Palau Public Utilities Corporation
- part of the SEDREA project funded by UNDP/GEF
- involves installation of solar photovoltaic (PV) systems on both residential and commercial facilities
The **Sustainable Energy Financing (SEF)** is part of government’s plan to convert electricity generation from fossil fuel to renewable sources & reduce fuel importation. Features:

SEF supports three key renewable energy systems:
1. Solar photovoltaic System
2. Pico-Hydro System &
3. Fuel switching system where coconut oil will be used as a diesel fuel alternative for generating electricity.
THANK YOU FOR YOUR ATTENTION!