

Capital Markets Catalyst Role for Climate Action

Green Investment Catalyst (GIC)



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Overview

- Global investors sentiment is in the right place
echoed by increasing regulatory pressures
- Local financial markets strength is key
- Renewables and Energy Efficiency financing is in
reach but challenges are there
- Intro to Green Investment Catalyst (GIC)



Global Investor sentiment

Recent Announcements by Institutional Investors:

- Japan's GPIF (\$1.3tn AUM), selected ESG indices to track for \$9bn
- Swiss Re, (\$130bn AUM) benchmark entire portfolio against ESG
- Aviva (\$456bn AUM) will vote against the reports of companies that fail to publicly disclose the risks by climate change
- Vanguard (\$4.5tn AUM) follows similar steps

“It is time for ESG to become mainstream” (Blackrock)

“It is more than doing good — it makes economic sense” (Swiss Re)

Investment Rationale:

- Capturing opportunities represented by RE and Electric Vehicles
 - Designed to protect portfolios against the decline of polluters
 - Manage risks from catastrophe weather events such as hurricanes
 - Better governance filters the less efficient entities
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Global Investors Sentiment

Mounting evidence in emerging markets in particular that funds which observe ESG standards outperform those that don't by a significant margin

ESG* stocks outperform the emerging markets benchmark

Rebased (Sep 2007=100)

— MSCI EM benchmark index

— MSCI EM ESG index



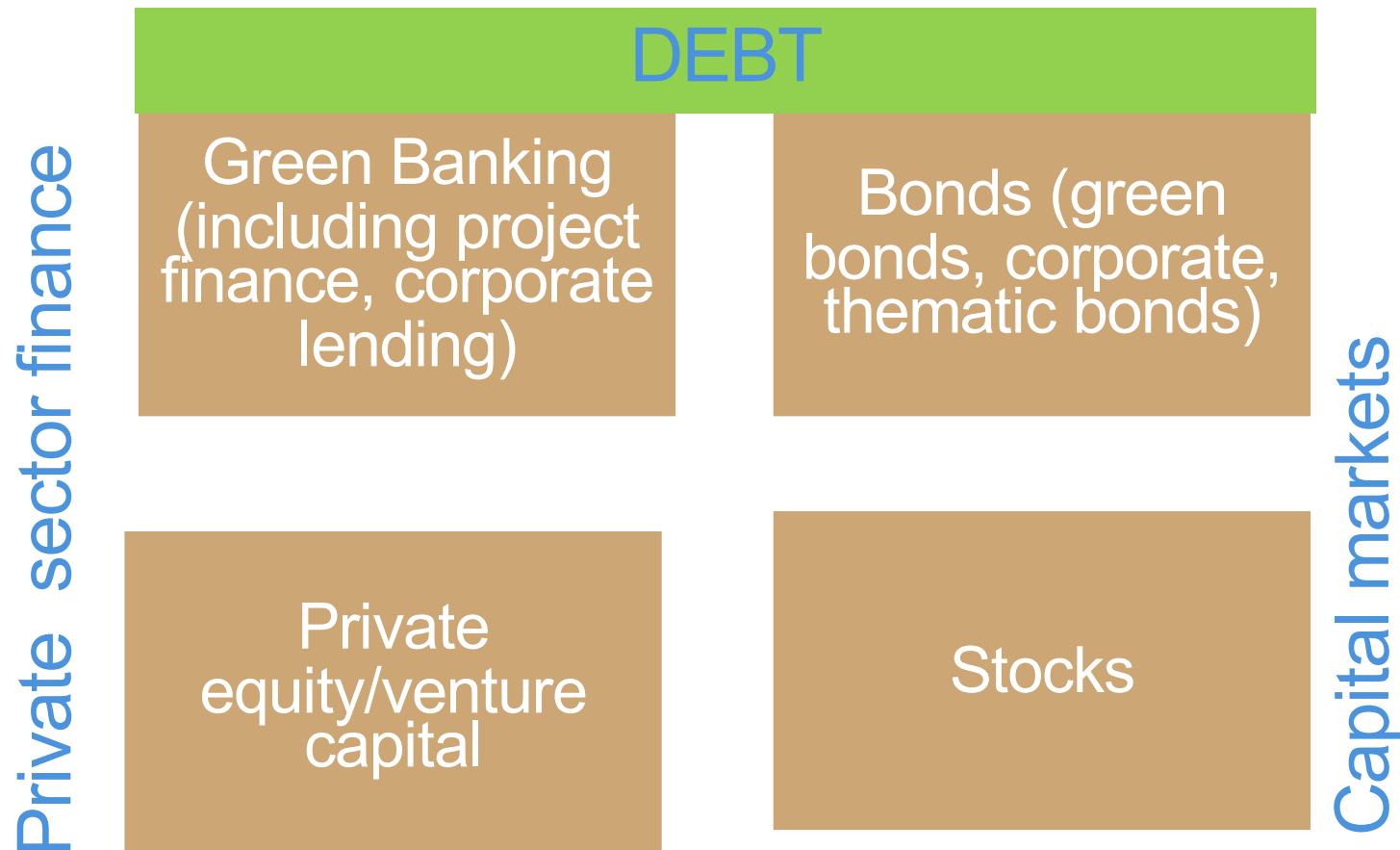
* Environmental, social and governance

Source: MSCI

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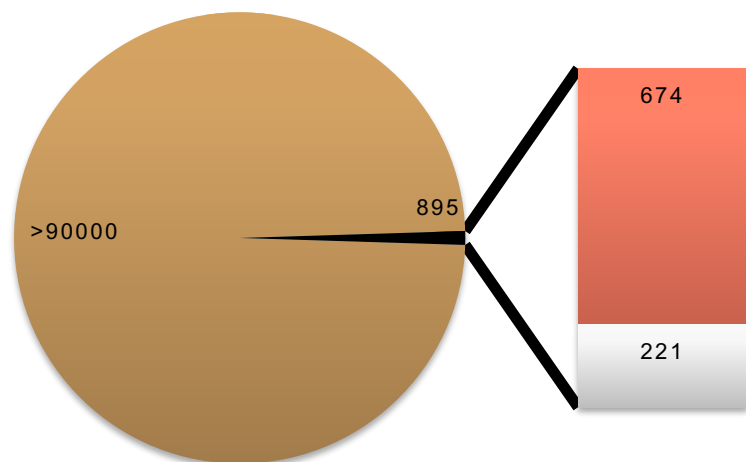
Private Sector Financing Instruments



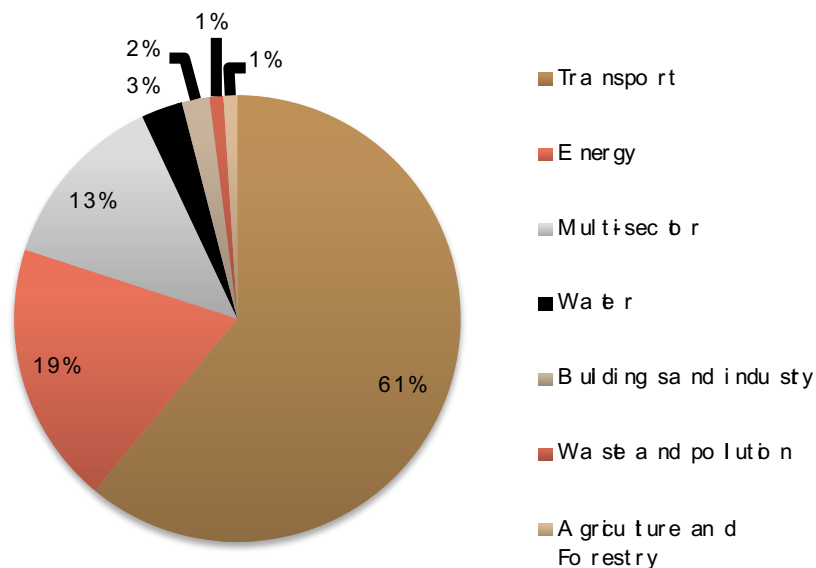
Bond Markets Focus

Current bond market (billion USD)

- Global bond market
- Climate aligned bonds
- Labelled green bond market

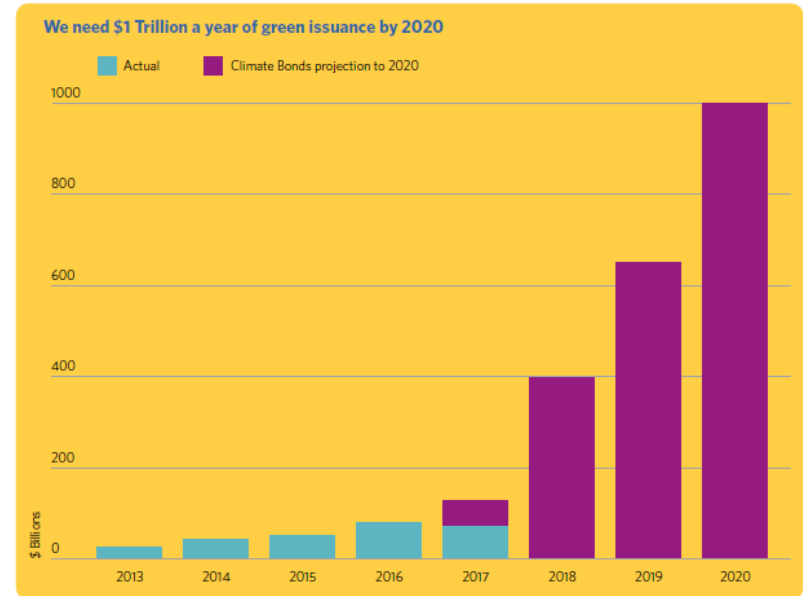


Distribution across sectors of current climate-aligned bond market



Global Green Bond Issuance Set to Rise

- Asia Pacific can take advantage of the global surge in Green Bond issuance
- Broad appeal: Green Bonds are not so different from regular bonds
- Maturation process: global investors are just waking up to this new asset class
- In Asia, China and India are issuing record amounts, but dedicated ESG/Climate funds will be looking for diversification
- It is a good time to get on the bandwagon



20 **Bonds and Climate Change** www.climatebonds.net September 2017



Local Capital Markets Issuance

Key elements required for institutional investors participation in Asia and the Pacific Climate Finance

- Liquid bond markets
- Investment grade rating, BBB- (S&P)
- Currency stability

Climate finance could in-turn be a catalyst for development of a healthier local financial markets by:

- Set the benchmark for other issuance
- Diversify the investor base by introducing international investors
- Development of risk mitigating tools: Guarantees, Currency hedging, blended finance
- Increased investment governance, reporting and transparency



Local Financial Markets Challenges

- No sovereign bond issuance or Credit Rating
- Lack of liquidity: deterrence for investors / pricing penalty
- Limited availability of diversified bond structures
- Lower rating than investment grade
- Financial markets infrastructure is lacking (e.g. Custodian Bank, trading systems)
- Local FI's need to comply with regulations (min rate caps, local currency lending, reclassification of lending categories)
- Local investors led by insurance companies have yet to reach scale
- Global investors sustainability trend has yet to make its mark in developing Asia
- Absence of large regular stream of bankable projects



Challenges Policy Makers Might Face

- Sheer size of finance challenge especially for adaptation projects
- Projects bankability for private sector, allowing proper risk return proposition
- Lack of awareness about types of instruments that exist, about new instruments continuously being piloted and rolled out, and how to access them
- Lack of capacity to match priority projects with appropriate instruments and instrument mix
- Limited capacity for pipeline projects development
- Lack of coherent policies, legal and regulatory frameworks



Yet Simpler Than It Seems

- Global Institutional Investors thinking has shifted and supply of funds exceeds demand by green bond issuance
- For many existing bankable projects, funding through capital markets could be obtained
- Banks could serve as intermediaries between global investors and projects
- Currency solution providers, guarantees, Development Banks support or other public support instruments are available
- Green verification incremental costs are minimal and can usually be subsidized
- No requirement for business fundamental shift but rather adherence for project green credentials



Green Investment Catalyst (GIC)

- During 2017 the Climate Secretariat initiated the Green Investment Catalyst (GIC) process.
- Aim of the GIC is to catalyze private sector finance for the NDC implementation through three phases:
 - (i) the preparation of funding/investment vehicles finance and or programs that are NDC aligned;
 - (ii) Catalyze and launch these programs through a roundtable in Singapore, June 5-6
 - (iii) post-event activity with tangible results - finance for projects on the ground
- The first GIC took place in June 2017 at the African Development Bank in Abidjan resulting in an ECOWAS Finance for Climate Platform, a green bond program for the West African Development Bank, (BOAD), including a fund and guarantee facility
- GIC Bangkok at Phase I focuses on green financing of financial institutions through local and offshore capital markets



Where Does GIC Fit In?

Positioned in the junction between Financial Institutions, Projects Developers, Capital market participants and Blended Finance, GIC works on:

- Evaluating FI's and Project developers ability to access capital markets
- Identifying hurdles and providing accordingly incentives for issuance
- Providing issuers with Information and connection with financial service providers, financial tools, support activities
- Educating local Investors on Green instruments and attracting global investors to local projects

Development of new financing structures



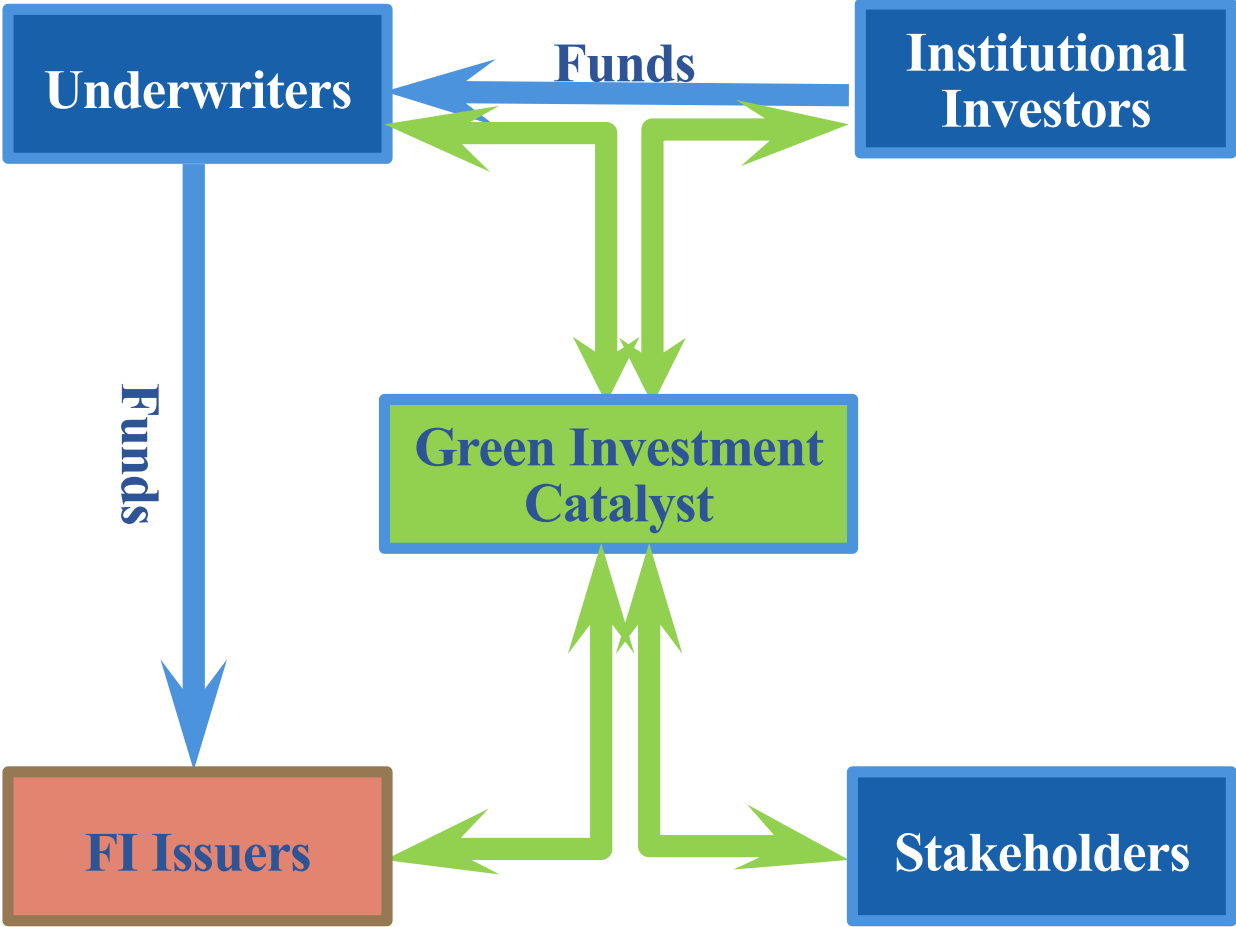
GIC AP Approach

Phase I, GIC AP approach consists of:

- Initial geographical focus: Cambodia, Laos, Myanmar and Thailand - interlinking financial markets as rational
- Approach strategy: Financial Institutions first, leading to underlying projects
- Private Sector discussions are held with leading Banks, Microfinance Institutions, Banks/MFI's Associations, Security Firms, Financial Advisors, Institutional Asset Managers
- Public Sector Engagement: SEC's, MoP's, MoF, Central Banks Supervision, Securities Exchanges, National Assembly
- Taking into consideration countries': Financial Markets state, currency conditions and regulatory environment
- Specific scalable structures are initiated and key partners are identified



GIC AP In the Capital Markets Space



GIC AP initiated financing structures

Through discussions with FI's project Developers and stakeholders regionally GIC has initiated and working on the following structures:

- Green Bond Issuance scheme for local banks
- Country level Green Fund structuring and financing – private sector led initiative with government support
- Regional Green Loan facility aimed at providing long tenor financing for green projects.
- Scaling up microfinance institutions financing through capital markets, supporting initiatives such as small scale solar and lighting systems, households energy efficiency and efficient irrigation systems.



Thank you!

