ESG Agenda in Central Asia and Kazakhstan

By,
Mr Peter Marro
Advisor, Central and West Asia Department
Asian Development Bank
Environmental, Social & Governance factors that may impact the risk & return of portfolios.

- Environment: Does the company have a positive or negative impact on resources?
- Social: Is the company's leadership structured to facilitate accountability and independence?
- Governance: How does the company treat its employees, customers, and community?

ESG Defined....
Why ESG is relevant?

- (ESG) investing as a guiding tool are gaining a foothold in mainstream financial markets with over US$ 40 billion in Global Assets

- 2000+ signatories for UN’s Principles for Responsible Investment (PRI)

- This mainstreaming of sustainable finance is pushing the financial sector to play a greater role in the transformation of the current economic model into a more sustainable one.

- Covid-19 pandemic, climate change events and war in Ukraine have further highlighted the importance of social and governance factors

- The global sustainable bond issuances have reached more than $1.1 trillion in 2021 and is expected to surpass $1.5 trillion in 2022.
ESG practices have developed at noticeably different speeds across Asian economies.

- Countries like Japan, there is seen a strong increase in ESG coverage and investing
  - **Japan has seen a 5X increase** ESG assets from 2016 to 2020, reaching **$2.87 billion in 2020**
  - Japan’s Government Pension Investment Fund (GPIF), which with $1.6 trillion in ESG assets is a dedicated ESG investor since 2017, making significant allocations to low-carbon indices.
  - Nikkei listed companies have to comply with disclosure requirements aligned with the Task Force on Climate-related Financial Disclosures (TCFD)
- In the Hong Kong and Singapore markets, the reporting obligation is on a comply-or-explain basis.
- In some markets (e.g., China and India), the initial focus has been on getting larger companies to comply
  - In Georgia, ESG development led by its central bank, the National Bank of Georgia (NBG).

Not all major developed markets have addressed ESG disclosures fully.
ESG ambitions and Organizational complexities

ESG development in Central Asian countries is still in its infancy and challenges such as

**External Stakeholders**

- **How to know more?**
  - Weak ESG awareness

- **Where to invest?**
  - Greenwashing is prevalent
  - Lack of Investment Pipeline
  - Access to performance data is difficult
  - Lack of regulatory frameworks

- **What to report/disclose?**
  - Lack of relevant evaluation or verification agencies

**Internal Stakeholders**

- Is there an Greenium/Green Premium?
  - Balancing long-term value creation with short-term financial requirements

- Culture change?
  - Making ESG tangible and meaningful to all employees

- Where to Source resources?
  - Find right suppliers for the assets and resources
  - Additional Cost of compliance
**ADB approach to Sustainable financing**

ADB’s involvement has contributed to the development of Asia’s Thematic bond markets

ADB has been successfully issuing Green Bonds since 2015

In 2021, ADB issued around $1.7 billion in green bonds, mostly in private placement format.

ADB’s Treasury has been doing green bond issuances in diverse currencies such as Australian dollar; Brazilian real; Canadian dollar; Hong Kong dollar; euro; Indian rupee; Kazakhstan tenge; Mexican peso; Norwegian krone; pound sterling; Swedish krona; Turkish lira; Ukrainian hryvnia; and South African rand.

**ADB’s Private Sector Operations Department Support for Green Finance Development:**

- **2016** - The first green bond in Asia is issued in the Philippines-$225 million (ADB $37.7 million)
- **2018** - The first green bond is issued in Thailand- ADB $155 million
- **2019** – The first certified US denominated climate bond in SE Asia publicly listed in Singapore- $325 million (ADB $97.5 million)
- **2020** – The first green bond issued in Georgia-$250 million (ADB $40 million)
ADB Issued Themed Bonds *(as of October 2022)*

- ADB’s theme bonds are for support in areas like water programs, gender, health, and education projects through ADB’s AAA quality notes.

- As of 7 October 2022, the amount of **outstanding theme, green, and blue bonds** is approximately **$17.7 billion equivalent**.

- ADB has issued approximately **$10.0 billion equivalent in green bonds** since 2015.

- In 2021, ADB expanded its Green Bond Framework to become ADB’s Green and Blue Bond Framework. Under the expanded framework, ADB can issue green bonds and blue bonds.

- ADB issued its **first blue bonds in 2021** for a total of $301 million.
ADB Support for Georgia in Central Asia for Green Bonds

A few examples of the support for Green finance development in Georgia-

- Investment of $20 million in green bonds to be issued by Georgia Global Utilities JSC, Georgia’s first-ever green bond issuance.

- Investment of $4 million in Georgia’s first locally listed Green Bond by the Georgian Renewable Power Operations.

ADB’s support to institutions in a little more detail to help to make it easier to understand and issue green bonds

- Formal and informal training on thematic debt instruments and frameworks
- Review of portfolio for eligible assets
- Identification of relevant schemes and sector criteria
- Support for framework development and verification
- Liaison with verifiers to assist with information collection
- Integration of verification services with safeguards due diligence audits
- Assistance with annual reporting obligations
Green Bond Case Study: Philippines

The First Green Bond in Asia and the Pacific, backed by ADB

<table>
<thead>
<tr>
<th>Project</th>
<th>380 MW Geothermal Project (operating)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer</td>
<td>Aboitiz Power, Philippines</td>
</tr>
<tr>
<td>Amount</td>
<td>PHP10.7 billion ($225 million)</td>
</tr>
<tr>
<td>Tenor</td>
<td>10 Years</td>
</tr>
<tr>
<td>Issuance Date</td>
<td>March 2016</td>
</tr>
</tbody>
</table>

ADB as Key Participant

- **Credit Enhancement** by guaranteeing 75% of the bond
- **Direct Loan** of PHP 1.8 billion ($37.7 million)

Landmark Transaction

- First Green Bond issued in the Philippines
- First bond in Asia-Pacific to receive Climate Bond certification
- First Climate Bond in an emerging market for a single project

3 International Awards in 2016

- PFI Bond Deal of the Year
- IJGlobal Asia-Pacific Bond Deal of the Year
- Best Renewable Deal of the Year
Green Bond Case Study: Thailand

The First Green Bond in Thailand, wholly owned by ADB

<table>
<thead>
<tr>
<th>Project</th>
<th>98.5 MW Solar Projects (operating and new)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer</td>
<td>B.Grimm Power, Thailand</td>
</tr>
<tr>
<td>Amount</td>
<td>B5 billion ($155 million)</td>
</tr>
<tr>
<td>Tenor</td>
<td>5 and 7 Years</td>
</tr>
<tr>
<td>Issuance Date</td>
<td>December 2018</td>
</tr>
</tbody>
</table>

ADB as Sole Participant

- **Investment** of B5 billion

Landmark Transaction

- Bond proceeds to support B.Grimm’s 9 operational solar power plants (67.7 MW) and 7 solar plants under construction (30.8 MW)
- The first certified climate bond to be issued in Thailand

ADB’s Value Addition

- Foster the development of the green bond market in Thailand by showcasing international best practice for genuine green and climate bonds
- Help Thailand achieve its target of reducing greenhouse gas emissions by an unconditional 20% by 2030
ADB TA Support to Kazakhstan and Central Asia

Key objectives:

To enable the strategic adoption of globally acceptable sustainable financing standards and practices by sovereign institutions in Kazakhstan and Central Asia

**Develop an ESG Strategy**
- Mobilizing of ESG experts
- Assessing the readiness of existing institutional systems
- Benchmarking against global sustainability standards
- Assess material ESG risks
- Developing an ESG Strategy
- Creating investor awareness

**Transform Business Processes**
- Assistance with integrating ESG principles, monitoring and disclosure methodologies.
- Support for evaluating options for issuances of sustainability-themed financial securities and its servicing

**Create Institutional Capacity**
- Curated training to enhance knowledge on global sustainable financing standards
- Workshops on industry-leading practices and case studies on sustainable financing
- Handholding on themed bond issuances and ESG ratings
Thank you
Green Bond Case Study: Thailand (wind energy)

The First Green Bond of wind energy in Thailand, owned by ADB

<table>
<thead>
<tr>
<th>Project</th>
<th>260 MW Hanuman Wind Project (operating)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuer</td>
<td>Energy Absolute</td>
</tr>
<tr>
<td>Amount</td>
<td>B10 billion ($325 million)</td>
</tr>
<tr>
<td>Tenor</td>
<td>7 and 10 Years</td>
</tr>
<tr>
<td>Issuance Date</td>
<td>July – October 2019</td>
</tr>
</tbody>
</table>

ADB as Key Participant

- **Investment** of B3 billion (7-year tranche)

Landmark Transaction

- Bond proceeds to support largest wind farm in Thailand (by capacity as of 2019)
- The first green bond for wind energy in Thailand certified as Certified Climate Bond by the Climate Bonds Initiative and also complied with the International Capital Market Associations’ Green Bond Principles and the ASEAN Green Bond Standards

ADB’s Value Addition

- Add credibility to the green credentials of the bond issuance
- Raise awareness of the benefits associated with green bonds and investments in renewable energy and other climate-friendly businesses
GENDER BOND PROJECT:
MICROENTERPRISE DEVELOPMENT PROJECT,
BANGLADESH

Total Loan
• $100 million OCR

Outputs
• Expand funding to microfinance institutions (MFIs) for microenterprises with at least 70% of total loan portfolio for female borrowers
• Conduct gender gap assessments in policies and operations
• Extend microenterprise development support using e-commerce platform

Expected Results
• 14,000 female borrowers use mobile-based apps
• 1,400 female microenterprises use e-commerce for product marketing
• Additional financing to help revive microenterprises severely affected by COVID-19