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IFC Engagement in Sustainable Finance in Asia

Introduction

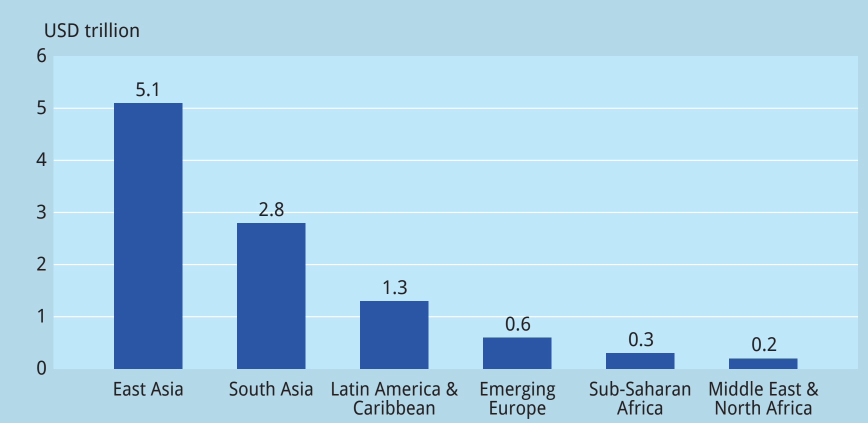
Investments in sustainable finance are a tool to help move the world's economies beyond their dependence on hydrocarbons and prepare for a changing climate and a tool to promote economic development across Asia and beyond. This article will primarily focus on the opportunities for sustainable investment (sustainable, green, and climate-related finance) across Asia. It will begin with an aggregate discussion of the size of the sustainable finance market across key sectors as estimated by the International Finance Corporation (IFC). Then it will discuss the role that IFC has played as a supporter and catalyst for sustainable finance across Asia, including the organization's activities in investment and advisory services. The role of the IFC as an investor and catalyst for investment in the private sector will be essential to help support the transition towards sustainable models of economic growth. The costs of financing this transition exceed what governments can provide and, beyond just financing, the transition will require new and innovative instruments of financing.

Global Opportunities for Sustainable Investment

Supporting investment and channeling recovery funds into climate-smart business in the key sectors across major emerging markets represents a USD10.2 trillion investment opportunity for both the public and private sectors from now until 2030. Across Asia alone, the IFC estimates that the investment opportunities could reach almost USD8 trillion, roughly 80% of the total investment pie in emerging markets.[1] These investments could generate 152 million jobs across Asia and reduce greenhouse gas (GHG) emissions by almost 3 billion tons. The investment, job, and climate impacts of expanding sustainable finance in Asia are the largest of any emerging market region and offer the promise to promote economic development and move the needle on the global effort to mitigate and adapt to a changing climate (Figure 1).

If we look at the market opportuni-

Figure 1: Sustainable Finance Investment Opportunities by Region, 2020-30



Source: IFC, 2021, *Ctrl-Alt-Delete: A Green Reboot for Emerging Markets.* Washington, DC: World Bank Group ties by major sector, the opportunities are broad-based across the economy. In Asia, IFC estimates that there are over USD1.5 trillion of investment opportunities in green transport over the next decade with between USD500 and USD800 billion of opportunities in de-carbonizing utilities such as water and energy and promoting energy efficiency (Figure 2).

Sustainable financial investments are good economics as well as good for the climate. Global estimates show that every USD1 million spent on renewable energy creates between 7.5[2] and 15[3] full-time jobs.[4] Significantly, renewable energy generates more jobs in the short run than do fossil fuels—even in the middle of a recession—boosting consumer spending and accelerating recovery. Renewable energy investments create jobs across industries, including manufacturing, installation, and services. In addition to job creation, the energy-efficiency sector is highly responsive to new incentives and can scale up readily available technologies, achieving substantial savings and earnings for households and businesses.

The private sector will need to play a critical role in mobilizing finance, driving innovation, and changing business operating models to create and enact the necessary economy-wide adjustments to a changing global climate. This is more critical in the COVID era when governments' fiscal headroom is constrained and must compete with other public spending priorities. On average, public debt-to-gross domestic product (GDP) ratios have increased by ten percentage points since the start of the COVID-19 pandemic. Though private sector debt burdens have risen across a number of sectors in Asia, the private sector is typically more efficient and can deliver with greater flexibility in light of evolving technology.

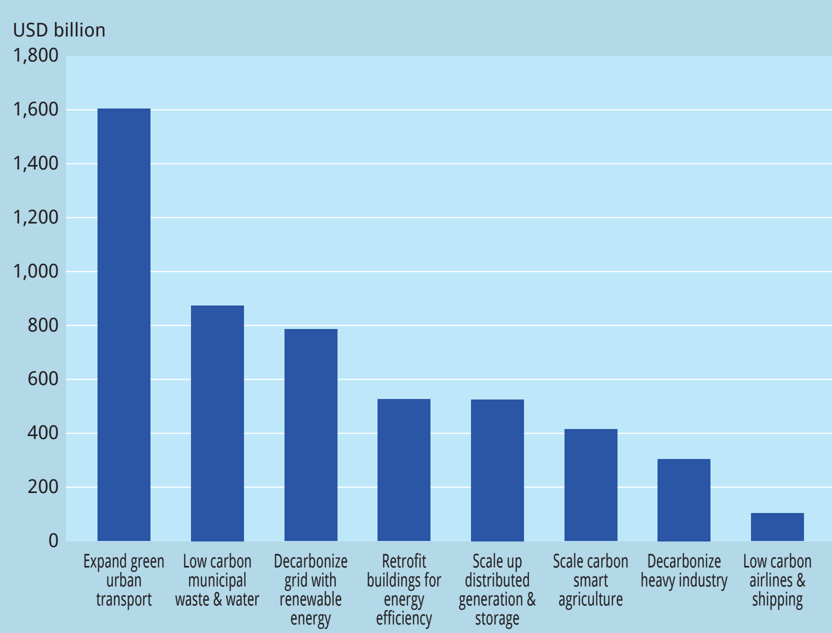
Green finance, or financing by banks and capital markets to climate projects, will be critical to fuel a post-COVID green recovery. Green financial products and instruments will play an essential role across all identified key sectors. These include green bonds and green loans that allocate the use of proceeds to eligible climate investments. New products have been developed, including municipal resilience bonds, sustainability-linked bonds, and loans that offer variable interest rates based on achieving quantified climate results. Transition bonds are emerging as a new product class to help heavy-emitting sectors make a transition to cleaner production practices.

IFC is one of the world's largest private sector financiers of climate-smart projects for emerging markets and is a leader in mobilizing private sector finance. IFC mobilizes private finance for climate projects directly through syndication platforms, green bond funds, and advisory services and indirectly through non-syndicated co-finance. IFC also uses blended concessional finance as a de-risking tool to bridge gaps in commercial markets. These concessional funds can help catalyze private financing that would not otherwise be available to projects with high climate impact.

To scale up green equity and debt financing in Asia, governments across the region should explore the use of blended vehicles in which concessional finance from public and/or development agencies is used to share some of the risks with private sector investors who may otherwise be unwilling or unable to invest. Blended finance is essentially a combination of concessional finance from donors or third parties alongside a project's own account finance and commercial finance from investors to develop private sector markets, address the Sustainable Development Goals (SDGs), and mobilize private resources. Several countries within the region could consider introducing a green investment fund, which would blend concessional finance with private capital to invest in strategic green priorities set by their governments. A structure similar to venture capital or a private equity fund could tap into the growing interest from private sector investors (including foreign investors) in green development projects, including investments targeted towards renewable energy, green infrastructure, and the broader climate actions agenda. This could also unlock investment opportunities that are usually more constrained, such as investments required at the regional and subnational levels. A fund should be set up to help build a pipeline of investable projects, offering technical assistance on the ground to originate and label green projects. And these funds need to be independently managed to benefit from market efficiencies and avoid conflicts of interest.

Globally, IFC has built a robust climate business portfolio over the last decade. In FY21 (ended on June 30, 2021), IFC committed a record USD4 billion for climate projects, representing 32% of its own account commitments, up from 30% in FY20. And between FY21 and FY25, IFC's climate business target is to invest an average of 35% of its own investment in climate. As part of the World Bank Group's Climate Change Action Plan (CCAP) for 2021-2025, which was published in June 2021, IFC is also committed to aligning

Figure 2: Investment Opportunities in Asia by Sector, 2020-2030



Note: The Asian economies covered by this analysis include East Asia & Pacific (China, Indonesia, Philippines, and Vietnam) and South Asia (Bangladesh and India).
Source: IFC, 2021, *Ctrl-Alt-Delete: A Green Reboot for Emerging Markets*. Washington, DC: World Bank Group

85% of new direct investments with the objectives of the Paris Agreement by FY24 (starting July 1, 2023) and 100% of these investments starting in FY26.

In addition to direct climate investments, IFC leverages its more than 750 financial intermediary clients, holding USD5 trillion in banking assets in emerging markets, to expand financing available for climate projects. IFC provides dedicated credit lines for on-lending to climate projects and helps build internal systems, tools, and capacity to grow client banks' green portfolios significantly. In addition, IFC has developed a new approach to greening equity investments in financial institutions (FIs). This approach is designed to increase climate lending and reduce exposure to coal in financial clients where IFC has equity, or an equity-like, exposure.

IFC further supports the establishment of local green finance markets by issuing local currency bonds. It helps banks issue their own green bonds by providing guarantees, acting as an anchor investor, and providing advisory services and tools to help clients develop, issue, and track green bonds. More specifically, this enables emerging market clients to gain access to a wider investor base and paves the way for future issuances without enhancement. IFC will leverage its experience with the financial sector to support the green bond issuances of manufacturing, agribusiness, and commercial services clients. In addition, IFC is developing criteria for its investments in transition bonds and blue bonds.

IFC's Sustainable Activities in Asia

As capital markets are core to achieving climate targets, IFC has been playing a pivotal role, particularly in Asia, in growing these markets not only for green and climate-related financing but also for the broader sustainable finance market. If we just look at the last five years, IFC's commitments in climate finance lending (including own-account lending and mobilization) have grown dramatically from USD396 million in 2015 to USD2.9 billion in 2020, targeting further growth in commitments in climate-related financing to USD3.5 billion during 2020–2025[5] globally.

Sustainable financial policies and appropriate regulatory frameworks are critical to encouraging capital flows to sustainable projects and sectors. Therefore, IFC has been focusing on developing the entire ecosystem to foster sustainable finance in Asia via i) taxonomy development; ii) technical assistance for issuers; iii) green buildings certification; iv) knowledge and capacity building; and v) climate finance regulation. At the same time, many middle-income and emerging economies across Asia have made notable progress on launching and implementing sustainable finance frameworks and practices, enabling them to increase their market resilience and unlock new green and inclusive investment opportunities.

In the sections that follow, we describe three case studies of IFC's commitment to green and sustainable investment that provide concrete examples of the institution's involvement in this critical area.

Indonesia's regulatory framework, green bonds, and green loans

Since 2013, IFC's Environmental and Social Risk Management Program in Indonesia has provided technical assistance and capacity building to the Financial Services Authority (OJK) to develop the country's first-ever sustainable finance framework and corresponding regulations. In 2017, IFC's ESG (Environmental, Social, Governance) partnership with the OJK successfully spearheaded the issuance of Regulation No. 51/2017 on sustainable finance in Indonesia that mandates all FIs to integrate sustainable principles in their business process, including the risk and opportunities associated with climate change by 2024. This was a significant first step towards a multi-year reform that has enabled a positive shift in the behavior of Indonesian FIs to incorporate sustainable practices, strengthen the country's corporate governance framework, and boost the overall green investment climate. As such, seventeen banks reported USD81 billion in sustainable portfolio financing in their 2019 sustainability/annual reports, which represents a 139% increase from 2017.[6]

Moreover, IFC has played a significant role in deepening Indonesia's financial markets, particularly within the sustainable finance space, including green and climate-related instruments. In 2018, IFC supported Bank OCBC NISP (OCBC NISP), a subsidiary of OCBC Singapore, to issue the country's first Green Bond. IFC fully subscribed to the Green Bond and issued a corresponding IFC Komodo Green Bond to fund the OCBC NISP Green Bond investment listed on the London Stock Exchange and Singapore Stock Exchange, attracting a robust investor demand for approximately USD134 million.[7] In 2019, IFC also extended a local currency senior debt facility of USD150 million to Bank BTPN (including a USD50 million green loan) to expand its green financing capacity and increase lending to micro, small and medium enterprises (MSMEs). As Indonesia's capital market continues to evolve, OCBC NISP recently launched a USD200 million sustainability bond program comprising of green and the first-ever gender bonds for USD100 million each. IFC subscribed the entire USD200 million to help expand OCBC NISP's green financing and increase lending to women entrepreneurs.[8] Overall, building sustainability into financial systems not only helps manage environmental, social, and climate risks but also enables greater investment flows, which has undoubtedly deepened the financial market development within Indonesia.

Green loan in Nepal

Asia has a diverse mix of low-income and emerging economies, where awareness in the banking sector remains very limited, particularly regarding climate finance. As such, the sustainable debt market is severely underdeveloped in Nepal, where no labeled green loan or bond has been issued in the market as yet. With actively engaging in such frontier markets, IFC recently provided a 5-year USD50 million senior loan to NMB Bank, of which at least USD6.25 million is carved out for climate-related finance, and the remainder is used exclusively to finance small and medium-sized enterprises (SMEs) in Nepal.[9] This Project supports NMB in building the bank's capacity to identify and evaluate green lending opportunities, increasing its non-hydropower green portfolio by threefold in terms of both volume and value to USD42.4 million over the life of the loan. More specifically, the issuance of green loans to NMB Bank is part of IFC's overarching sustainable finance strategy to strengthen Nepal's broader SME banking sector. This involves earmarking up to USD170 million in loans targeted towards SME lending for up to five banks over the next two years.[10] Further, by providing both financing and a toolkit for local banks to grow their expertise and business in the SME segment, IFC also aims to push broader strategic initiatives such as green and gender financing in this sector. Finally, given the current COVID-19 pandemic, the loan proceeds will significantly boost the recovery of the bank's SME and climate clients within the country.

Expanding issuance of sustainability-linked instruments

The popularity of green and climate bonds has led to an expansion into broader sustainable instruments, including sustainability-linked bonds, loans, and other products[11] to mobilize capital for sustainable development objectives. The issuance of sustainability-linked products differs from traditional sustainable finance instruments, such as green and climate-related bonds and loans, which are primarily governed by the facility's use-of-proceed.[12] The sustainability-linked products aim to incentivize pre-agreed environmental and social targets by linking pricing, usually interest rates, to their achievement. While the targets for such instruments are aligned with the firm's corporate sustainability strategy, the incentive structures vary, including an increase ("step-up") in the interest rate paid by the firm if the target is missed, a decrease ("step-down") if the target is met, or both.

Though low-and-middle-income countries have seen just 6% of the total issuance of sustainability-linked bonds to date, market demand for such instruments is rising (particularly in Asia, including China, India, Indonesia, and Thailand).[13] This is essentially driven by the urgency and pressure of tackling climate change. Importantly, sustainability-linked financing also offers emerging market companies the potential to quickly, simply, and cost-effectively tap into much-required international capital resources to fund their sustainability transition. While financing such instruments has been at the core, IFC focuses on a holistic approach for its clients, including providing strategic, transactional, and implementation support.

In September 2021, IFC anchored a sustainability-linked bond issuance of Sembcorp Industries in Singapore. This was IFC's first-ever investment in a sustainability-linked bond globally, which was also the first sustainability-linked bond issuance by an energy company in Southeast Asia and the largest issuance (USD500 million) for such an instrument within the region. Besides providing an anchor subscription of USD110 million, IFC also acted as the sustainability coordinator for this bond, which was listed on the Singapore Stock Exchange. As such, it helped Sembcorp preview the sustainability-linked financing framework, including a materiality assessment for the selection of metrics, target benchmarking, implementation action plans, and reporting methodologies. With a 10.5-year tenor, the facility had a coupon step-up/down of 25 basis points linked to achieving a carbon intensity reduction target of 20% by the end of 2025.[14] Overall, this sustainability-linked bond is expected to contribute to Sembcorp's strategic transformation plan to green its portfolio by demonstrating best practices and stimulating other corporates in the infrastructure sector and beyond to adopt similar climate-focused and sustainability strategies, targets, and financing mechanisms.

Conclusions

The private sector will need to play a substantial role in mobilizing finance for sustainable financing if the world's economies are going to make a serious effort to mitigate and adapt to climate change. The investment needs and risks are too large to be met by the public sector alone. Whether through greater private sector involvement or blended financial instruments, private capital is essential. More specifically, local FIs will need to play a central role in mobilizing the necessary private sector financing associated with the region's rapidly increasing climate business opportunities. The investment opportunities and needs for all forms of sustainable financing are greater in Asia than in any other emerging or developing region. And it is expected that FIs (banks) will have to enhance their climate-related loans from 7% in 2017 to at least 30% by 2030 to meet the expected debt financing associated with climate business opportunities. So far, IFC has engaged heavily with the private sector across Asia through various sustainable financing instruments. The institution must continue to play an important role in helping the private sector co-drive the effort to meet the regional (and the global) climate challenges and meet Paris Agreements commitments in the decades ahead.

Notes

1 IFC, 2021, "Ctrl-Alt-Delete: A Green Reboot for Emerging Markets. Washington, DC: World Bank Group," The Asian economies covered by this analysis include East Asia and Pacific (China, Indonesia, Philippines, and Vietnam) and South Asia (Bangladesh and India).

2 Garrett-Peltier, Heidi, 2017, "Green versus brown: Comparing the employment impacts of energy efficiency, renewable energy, and fossil fuels using an input-output model," Economic Modelling, Elsevier, vol. 61(C), pages 439-447.

3 International Energy Agency (IEA) and International Monetary Fund (IMF), 2020, Sustainable Recovery: World Energy Outlook Special Report.

4 IEA, 2020, Green stimulus after the 2008 crisis.

5 IFC Portfolio, 2021

6 IFC and OJK, 2020, "Raising the Bar on Environmental, Social, and Corporate Governance Standards".

7 IFC, 2018, "IFC's Pioneering Komodo Green Bond Raises USD134 Million for Climate Investments in Indonesia".

8 IFC and OJK, 2020, "Raising the Bar on Environmental, Social, and Corporate Governance Standards".

9 IFC, 2020, "Financial Invest Group Asia Climate Finance Investments in FY 2020".

10 IFC, 2020, "Financial Invest Group Asia Climate Finance Investments in FY 2020".

11 Transition Bonds and Blended Finance.

12 IFC continues to follow use-of-proceed for sustainability linked loans and bonds due to its board decision related to Environment and Social performance standards requirements.

13 IFC, 2021, "Sustainability-linked Financing".

14 IFC, 2021, "Sustainability-linked Financing".

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Dr. Bryce Quillin is the Senior Regional Economist for the East Asia and Pacific (EAP) region at the International Finance Corporation (IFC), based in Washington DC. In this role, he oversees all analytical work for the EAP region including in the areas of climate change and sustainable financing.

Previously, he was the Senior Director and Head of Global Economics at Pfizer, Inc. In this role he led the in-house global macroeconomic forecasting practice and communicated the potential impacts of global economic conditions on commercial units across the organization. He also led a cross-functional team that provided economic analysis and modeling across both Pfizer commercial and clinical practice areas.

Earlier in his career, he was chief economist of the quant fund SandPointe Asset Management, senior economist at the World Bank, and economist at the International Monetary Fund.

Quillin holds a PhD from the London School of Economics and has published in numerous areas of economics, finance, and development.

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Gaurav Trivedi is a Senior Consultant at International Finance Corporation (IFC) and is currently based in Toronto. He has extensive experience intersecting Strategy, Development Finance, Economics Policy, and Corporate Affairs spanning North America, Europe, and Asia. His main research includes analyzing and recommending sustainable investment strategies, sectoral policies, and institutional arrangements to encourage private sector intervention towards climate action within Asia.

Before IFC, Trivedi was part of the Global Economic Group at Pfizer, Inc. in New York City, working on technical projects around affordability, market access, and economic policy. Previously, he was a management consultant in New Delhi, where he advised large and mid-cap companies on complex cross-border market-entry, corporate and regulatory affairs, and policy advocacy mandates. He also worked at Philip Morris International in Hong Kong, overlooking regulatory affairs, fiscal taxation, and social impact projects within the Asia-Pacific Region.

Trivedi obtained his MBA from Cornell University, where he was a Research Fellow at the Emerging Markets Institute. He also holds an MPA from the London School of Economics and completed his BA in Economics from the University of Texas at Austin.