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Greening the Banks

Mobilizing Green Finance Action & Scaling Support for Southeast Asia's Energy Transition

The Challenge and Opportunity

Unprecedented scale of investment is needed to avoid catastrophic climate change
Morgan Stanley projects the world needs to spend $50 trillion on key technologies by 2050 to meet the goals of the Paris Agreement

Private investment is essential
Governments alone lack the resources to meet these investment thresholds

Sustainability is good business
Economist Intelligence Unit survey found 68% of investors and 63% of issuers in Asia Pacific say their sustainable investments perform better than traditional equivalents

Urgent need to overcome barriers and accelerate progress
Despite the growing business case for sustainable finance, banks and financial institutions across Southeast Asia face a range of barriers to scaling sustainable projects

About Greening the Banks (GTB)

Our Key Stakeholders

BANKS: Supporting local financial institutions to increase internal capacity and build a project pipeline

REGULATORS: Helping government integrate sustainable finance frameworks, adopt enabling policies, and connect with private sector inputs

DEVELOPERS: Engaging smaller developers to address gaps, sharpen project readiness, and gain access to financing

CIVIL SOCIETY: Mobilizing CSOs to address barriers banks are facing and amplify best practices

Our Unique Approach

The Greening the Banks initiative, led by Allotrope Partners, brings together a *local platform* of key stakeholders in the Philippines, offers *in-country support*, and *regional lesson-sharing* and collaboration

Ensures high-level global and regional principles are taken up and implemented

Turns commitments into local, in-country action

On-the-ground action contributes to transformative change

GTB brings together initiatives that would otherwise work in silos, coordinates action among partners, and amplifies best practices

GTB Results to Date:
Facilitating Action and Amplifying Solutions

~ **Established a coalition of hundreds of bankers** (including the Philippines' largest banks, like BDO & BPI), key government officials, regulators, developers, and CSOs.

~ **Supported regulatory breakthrough** with the Philippines' Central Bank (BSP) launching the Sustainable Finance Framework.

~ **Elevated local champions** like BDO's experience issuing a green bond and investing in 2,000+ MW of renewables in the Philippines.

~ **Facilitated regional exchange** by hosting a Vietnam-Philippines virtual dialogue that identified key ways for CSOs to support green finance.

~ **Developed and amplified web-based resources** for banks and local stakeholders on Risk Awareness, Risk Analysis, Market Insights, Tools, Guides, and Best Practices.

~ **Maintain a sustained network** through a newsletter and media engagement to share the latest Southeast Asia green finance milestones.

GTB Results to Date:
2021 GTB-BSP Virtual Dialogue Series

***Organized a Greening the Banks dialogue series with the Philippine Central Bank (BSP)* to support implementation of the Philippines Sustainable Finance Framework and respond to local banks' needs**

- **Actively engaged more than *550 participants*** representing over ***160 local banks***, regulators, government partners, project developers, and other local market stakeholders.

- **High-level speakers** from BSP, BDO Unibank, HSBC, United Coconut Planters Bank, the National Renewable Energy Board, and other key partners shared critical insights, learnings, and guidance to help financial institutions accelerate green finance.

- **Positive feedback from participants and requests for future Greening the Banks follow-on support to move identified solutions forward**

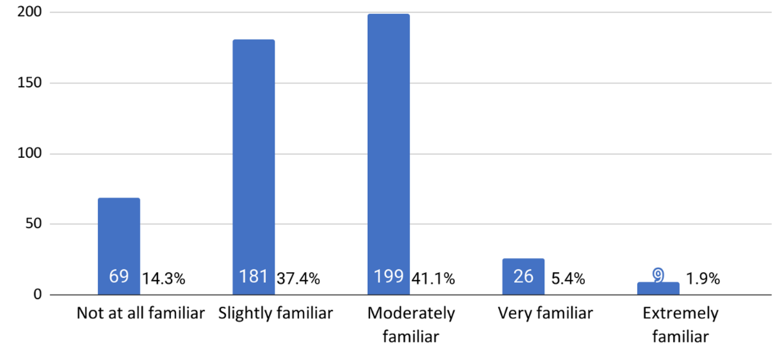
Transition Risk Assessment for Commercial Banks
February 2021

Physical Risk Assessment for Rural and Community Banks
April 2021

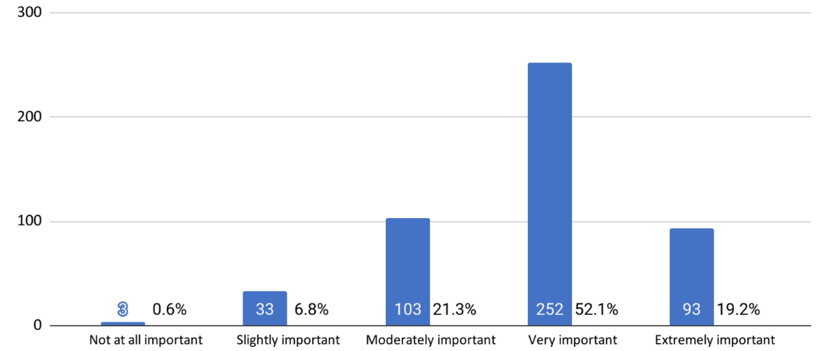
35% RE Blueprint to 2030: Assessing Opportunities for Financing RE Ambition
March 2021

Key Takeaways: Physical Risks

Familiarity with Physical Risks (484 respondents)



Level of Importance to the Organization



- While over two-thirds of rural and community bankers expressed it is *very important* to assess physical risks, more than half of Philippine bankers are *slightly familiar* or *not at all familiar* with how to proceed.

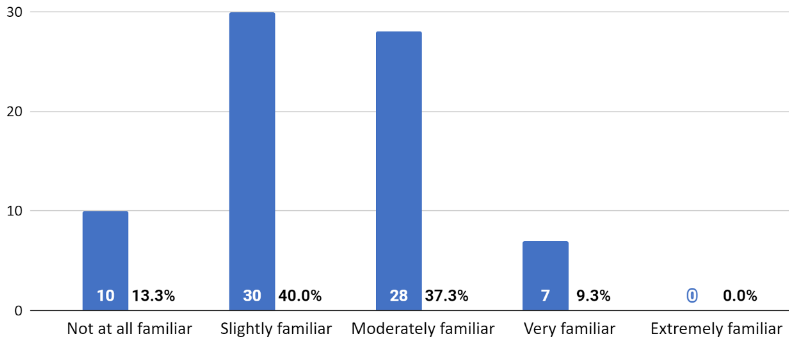
- The Philippines is highly vulnerable to extreme weather events and local banks are not impervious to the effects of these natural disasters. Extreme weather events negatively affect banks' loan growth and deposit growth, especially for rural and cooperative banks. **There is an urgent need to increase banks' familiarity climate-related physical risks, build capacity on how to assess these risks, and integrate physical risks into risk management frameworks.**

- Effectively managing physical risks **can create opportunities for banks** to gain important business and reputational benefits, access better financing and international markets, and improve relationships with regulators, clients, and other stakeholders.

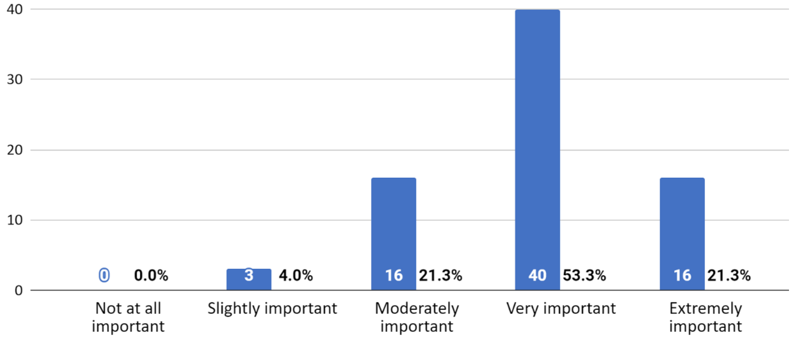
- A suite of **free online tools are available** to assess the vulnerability of a bank and its client's assets to natural disasters and climate change. **Contact the Greening the Banks team** to learn more: info@allotropepartners.com.

Key Takeaways: Transition Risks

Familiarity with Transition Risks (75 respondents)



Level of Importance to the Organization



- The majority of participants indicated that exploring transition risks is *very important* to their bank. However, more than half of participating bankers from commercial banks are *slightly familiar* or *not at all familiar* with transition risks, with another 37% being only *moderately familiar*.
- As countries shift towards greener economic solutions, transitions can result in carbon-intensive sectors having decreased assets and increased costs of doing business. **Exposure to assets with high transition risks can increase a bank's exposure to potential defaults.**
- Sectors with high transition risks include: Fossil-based Energy Utilities, Mining, Oil & Gas, Steel & Metal Manufacturing, Automotive, Agriculture, Chemicals, Logistics, Real Estate, Shipping, and Aviation.
- There are **opportunities for banks** to offer guidance to clients exposed to carbon-intensive sectors, structure innovative financial products, like transition bonds, provide finance restructuring, risk sharing facilities, and guarantee facilities, and support the overall greening of their client's assets.
- **Properly managing transition risks can provide brand and reputational advantages, as well as economic benefits, for banks of all sizes.**

Key Takeaways: Financing Renewable Energy Ambition

"We're talking about RE financing because we know this is one of the key barriers in scaling up RE.
The challenge is figuring out what would make smaller-scale RE deployment financeable and what would make it more attractive. "

- *Atty. Monalisa Dimalanta, Chairperson, National Renewable Energy Board (NREB)*

- **Meeting the Philippines' national 35% RE by 2030 goal is a one trillion peso investment opportunity (~USD $20.5 billion).**

- **46.9 terawatt-hours of <u>new</u> RE generation (equivalent to 20 GW)** is needed by 2030 to meet this 35% RE goal.

- Coal dominates the power mix in the Philippines, making up 55% of electricity generated, while RE only comprised 21% in 2019. **The Philippines could face USD $20 billion in stranded assets if new coal power plants continue to expand in the future.**

- **Government partners should prioritize operationalizing policies** like the RPS, net metering, Green Energy Option Program (GEOP), & Green Energy Auction Program (GEAP). Supportive policies can be powerful drivers for RE growth and respond to growing RE demand from companies and other electricity end-users.

- **Smaller developers often face difficulties securing financing**, but can play an important role in markets as they are close to the ground, can originate projects quickly, and can create positive competition by giving consumers options and ultimately decreasing the costs for end-users.

- There is limited knowledge and experience within local banks in investing in renewable energy merchant plants or projects without long-term, bankable offtake agreements.

- The interplay between insurance and financing can also create a chicken-and-egg situation, where without insurance, projects cannot attract financing, but projects without financing will not be insured.

Key Takeaways: Managing Climate Risks

3 Steps towards Managing climate risks and capturing opportunities in the low-carbon transition:

1. Fact Finding: Identifying the bank's exposure to climate risk
2. Internal Capacity Building on climate awareness
3. Initiate Dialogue with key clients on sustainability as early as possible

International Climate Change Collaboration

- International collaboration by partnerships and structuring financial instruments addressing transition risk
- Bring in ODA capital to support transitional risk assets
- Cooperation between MDBs and climate finance with government and financial market to structure financial products such as guaranty or risk sharing facilities for further financing for transition

Mr. Huifeng Zhang
Mr. Regional Head –
Corporate Sustainability
HSBC Asia-Pacific

Ms. Eunjoo Park-Minc
Head of Sustainable Finance
BDO Unibank

Recommendations

On Fiscal Policy

- **Explicitly Incorporate Green Recovery in COVID Recovery and Economic Growth Plans.**
- **Improve Budgeting and Expenditure Tracking through Climate Expenditure Tagging**
- **Reallocate Fossil-based Energy Sector Subsidies and Level the Playing Field for Clean Energy**

On Monetary Policy

- **Ensure Full and Rapid Implementation of the Philippine Central Bank's Risk Management Framework and Related Guidance**
- **Facilitate New Green Products among Regulators, Government, and Financial Institutions**

On Stakeholder Engagement

- **Deepen Engagement with Banks and Financial Institutions, through Initiatives like Greening the Banks, to Build Internal Capacity, Enable Integrated Risk Management, and Accelerate Low-Carbon Investments at Scale**

THANK YOU!

Learn more and get involved:

www.allotropepartners.com/greenfinance