ADB

Financing Sustainable Mobility

Manila, November 2023

Sector Focus

Infrastructure
Catalyzing economic growth and social equity via energy, waste, water, transport, and telecommunications facilities

Environmental protection
Developing sources of renewable energy and encouraging energy efficiency

Finance and capital markets
Providing better access to higher-quality financial services across Asia's developing markets

Sustainable agribusiness
Promoting environmentally friendly food production, processing, and distribution

Education
Building human capital through the expansion of basic and higher education services

Health
Supporting private providers of high quality and affordable healthcare

Products

Instrument	Typical Size	Typical terms	When is it relevant?
Debt	$5M - $500M	• 5-7 years (corporate) to 15+ years (project) • SOFR or ADB cost of funds in LCY + credit spread • Secured or unsecured • Bonds (esp. ESG-thematic instruments)	• Established company with large balance sheet, strong cash flow • Possibility to mobilize co-financing under B-loan or risk participation
Equity	$2M - $100M	• 25% ownership maximum • Board seat, Advisory Committee seat • Minority protection rights • Put on the parent company	• Direct: growth companies at any stage through IPO (cornerstone or anchor investment) • PEF: single, multi-sector, country and regional funds • ADB Ventures: early-stage companies focused on new technologies
Guarantees	$20M - $500M	• Partial credit guarantees (PCG): market-based, fees based off lenders' margin • Political risk guarantees (PRG): market-based, fees based off reinsurance market	• Where other lenders are more efficient than ADB in mobilizing local currency, or reaching target customers (PCG) • In frontier markets (PRG)
Blended Finance (BF)	$5M - $20M	• Lower pricing, longer grace periods and/or tenors, subordination, sculpted repayment profiles, reduced security and/or collateral, and/or capped or collared returns	• When transactions demonstrate strong rationale for BF and adherence to DFI-agreed principles – additionality, crowding-in, commercial sustainability, reinforcing markets, promoting high standards
Technical Assistance	$0.2M - $1M	• For project preparation TA, reimbursable at closing • For capacity development TA, non-reimbursable grant	• Enhance corporate governance, environmental and social standards, risk management, gender mainstreaming, etc. • Develop new products for underserved segments

Sustainable Transport: Need, Barriers, and Solutions

- **The Imperative of Sustainable Urban Mobility:**
  - Our world is urbanizing at a remarkable rate. Over half of the global population now resides in cities, and this trend is set to continue. The resulting traffic congestion, air pollution, and greenhouse gas emissions demand our immediate attention. Sustainable urban mobility is the key to mitigating these challenges.
- **Clean Urban Transport - A Sustainable Path:**
  - Clean urban transport is at the heart of our quest for sustainable mobility. It encompasses a wide array of strategies, from electric vehicles to enhanced public transportation, cycling, and walking. This shift toward clean transport is essential for improving air quality, reducing carbon emissions, and ensuring a higher quality of life for city dwellers.
- **Barriers to Clean Urban Transport Adoption:**
  - The transition to clean urban transport faces several significant hurdles, including the high upfront costs of green technologies, inadequate infrastructure, and resistance to change.
  - Innovative approaches, and particularly innovative financial instruments are needed to overcome the barriers.
- **Innovative Financial Instruments:**
  - Sustainable financing encompasses instruments where the proceeds are used for eligible projects with positive environmental and/or social outcomes.
  - The International Capital Market Association (ICMA) has developed Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines to improve consistency and integrity for issuers and investors in relation to these fixed income debt instruments.

Green Bonds | Gender Bonds | Health Bonds | Blue Bonds | Education Bonds | Transition Bonds | Transition Bonds

Trends in Sustainable Finance

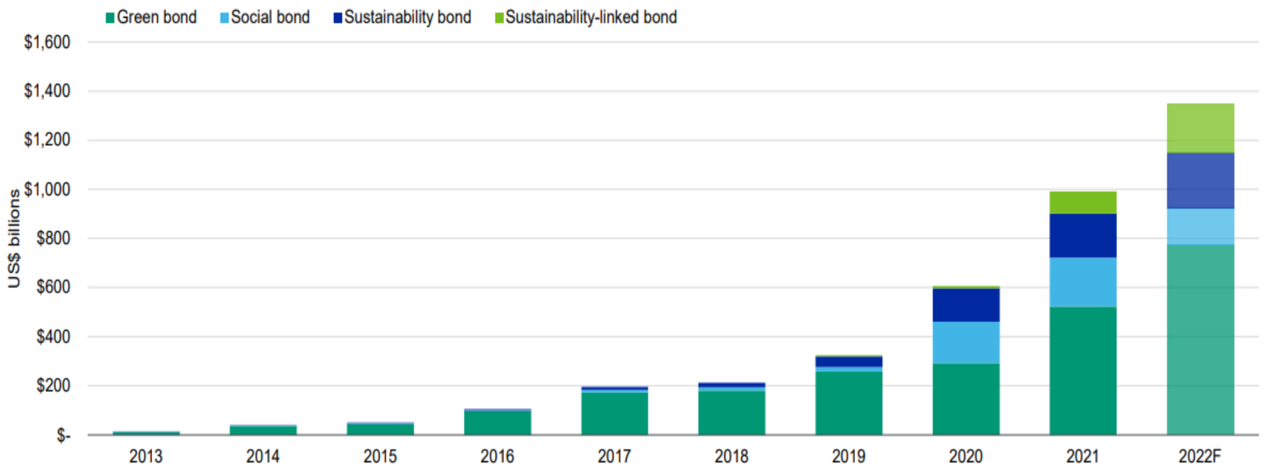
- Sustainability-related debt has been on the rise in recent years globally, with the fastest growth in bond markets, reflecting the growing importance of sustainable finance and environmental, social, and governance (ESG) considerations.

- Sustainable bonds to hit record $1.35 trillion in 2022 **globally**. The total comprising of:
  - Green bonds – c. $775 billion
  - Social bonds – c. $150 billion
  - Sustainability bonds – c. $225 billion
  - Sustainability-linked bonds - $200 billion

- Growing activity in **Georgia** since 2020:
  - $88 million in Green bonds (locally listed)
  - $750 million in Green bonds (listed offshore)*
  - $9.7 million Gender bonds (locally listed)
  - $15 million Sustainability-linked bonds (locally listed)
  - Growing pipeline 2023-2024

** Georgian issuances in International Markets:*
- *$250 million Green Bond by GGU, 2020*
- *$500 million Eurobond by Georgian Railway, 2021*

Global Capital Markets Trends



Source: ICMA.

Benefits of Sustainable Finance

<u>Benefits and advantages:</u>

- **Access to larger capital providers**: Institutional investors, asset managers, and pension funds have been increasingly integrating ESG factors into their investment strategies, seeking investments that align with sustainability goals
- **Enhanced Reputation and Branding**: Sustainability-related bonds demonstrate an issuer's commitment to environmental and social responsibility, supporting sustainable and impactful projects, enhancing their reputation, improve brand image, and showcase their commitment to addressing ESG issues. This can result in increased credibility, trust, and goodwill among investors, customers, and other stakeholders.
- **Improved company's and/or project's profile:** By issuing sustainability-related bonds, issuers can demonstrate their proactive approach to risk management, lower the cost of capital.
- Additionally, sustainable investments may provide long-term cost savings through energy efficiency measures, reduced resource consumption, and improved operational resilience.
- **Financial optimization:** Sustainability-related bonds can allow issuers to diversify their funding sources and reduce dependence on conventional debt instruments. This diversification can enhance financial resilience and mitigate risks associated with fluctuations in interest rates, market conditions, or changes in investor preferences. Additionally, sustainable investments may provide long-term cost savings through energy efficiency measures, reduced resource consumption, and improved operational resilience.

Green Finance Transactions in the Caucasus

Georgian Railways Green Bond Projects

ADB Assistance: $20m investment

Borrower: Georgian Railways JSC

Use of Proceeds: ADB has invested $20 million in green bonds, issued by Georgian Railway JSC, with proceeds to be used primarily to roll over maturing Eurobonds that it had issued to improve existing railway lines as a part of an ongoing modernization project.

Key Features and Additionality: The investment forms part of a $500 million issuance by Georgian Railway of 7-year green bonds—the first green bond issuance by a state-owned entity and a transport company from Georgia and the South Caucasus listed on the London Stock Exchange.

Date Approved: 10 June 2021

Target outcomes:

1. Refinancing of existing Eurobond
2. Modernization of the network for higher efficiency
   - ✓ Reduce average freight travel time from 11 hours to 8
   - ✓ Increase average passenger travel speed from 50 km/h to 80.
   - ✓ Annual freight capacity and volume increases

	EUROBONDS (Old)	GREEN EUROBONDS (New)
AMOUNT	USD 500,000,000	USD 500,000,000
DATE OF ISSUANCE	05/07/2012	17/06/2021
MATURITY DATE	11/07/2022 (10 years)	17/06/2028 (7 years)
INTEREST RATE	7.75%	4.00%
ANNUAL INTEREST	USD 38,800,000	USD 20,000,000

Saving of approximately $140 million by 2028

tons CO2 eq.	2022	2021	2020	2019	2018
TOTAL AVOIDED EMISSIONS	181,847	139,931	120,344	125,689	113,752

Avoided more than the equivalent of 42,000 tons of CO2 in 2022, compared to 2021.

Green Finance Transactions in the Caucasus

Target outcomes:

- ✓ Annual amount of greenhouse gas emissions savings from use of electric vehicles is at least 1,636 tCO_2/year
- ✓ 70 new charging stations across Georgia
- ✓ More than 800 Electric Vehicles to be added to the Georgia's transport fleet.
- ✓ At least 200 new jobs to be created out of which at 50 will be for women.

Georgia: Tegeta Green Vehicles Bond Project

ADB Assistance: GEL20 million

Borrower: Tegeta Motors Limited Liability Company

Use of Proceeds: The proceeds of the green bond will finance light, road and non-road electric vehicles fleet, and expansion of electric charging stations across Georgia.

Key Features and Additionality: Georgia's first lari-denominated green bond. The financing will facilitate decarbonization of transportation sector, promoting electric vehicles. Financing will also assist Tegeta enhance its ESG program and gender equality efforts, by promoting women in the automotive industry.

Date Approved: 21 April 2023

ADB’s Sustainable Finance + E-Mobility Proposition

- **ADB’s role as Asia and the Pacific’s Climate Bank:** The sustainability related bonds enables ADB to support its developing member countries and clients seeking to mitigate greenhouse gas (GHG) emissions and adapt to the consequences of climate change, whilst delivering environmentally sustainable growth to help reduce poverty and improve the quality of life of people.
- ADB is the first multilateral development bank (MDB) to set clear climate investment targets for 2030
- **Bringing ESG’s international best practices:** The projects funded by theme bonds are aligned with the Sustainable Development Goals (SDGs) adopted by the United Nations for quality education, gender equality, clean water and sanitation, and good health, as well as with the principles/guidelines of the International Capital Market Association.
- **Pioneer in developing ESG capital markets:** ADB has seen rapid growth in its theme bond issuances, issuing its highest-ever volume of over $3 billion in 2021 from $96 million 5 years ago. Investor demand for sustainable investments has been a driving force behind the growth of sustainability-related bond issuances.
- **Providing clients with value-added transactions:** Sustainability-related bonds enable issuers to:
  - finance projects and initiatives that contribute to a more sustainable and resilient future.
  - Tap into a growing base of responsible investors helping expansion of the investor base and attract long-term, socially conscious capital with preferable financial terms
  - Optimize its operations by implementing best international standards for corporate governance and environmental and social policies.

Eligible Transactions

- Located in and/or directly benefits ADB's developing member countries
- ADB's target sectors (infrastructure, financial sector, agribusiness, etc.) and themes (climate change, inclusive business, etc.)
- Developmentally and commercially sound, with a clear business plan
- Financing not directly guaranteed by the government
- Clear financing or other need (safeguard support, risk coverage, etc.) from ADB
- Willing to employ professional advisors (legal, technical, environment and social, etc.)
- For equity investments, a board seat for ADB and clear exit strategy

High demonstrational value and replicability

Innovative (new technologies or ways of doing business)

Highest integrity and ethical standards

Crowding in commercial financing

ADB Additionalities

- Financial, including (i) various products from debt to equity, credit enhancement and risk mitigation, (ii) local currencies, and (iii) longer tenors and patient investor
- Non-financial, including (i) stamp of approval, (ii) country risk mitigation, neutral broker role with governments, (iii) safeguard and corporate governance expertise, and (iv) extensive knowledge of markets, sectors, and clients

THANK YOU

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