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**MEKONG
INSTITUTE**



THE PROJECT ON “GREEN FREIGHT TRANSPORT AND LOGISTICS IN THE MEKONG REGION”

DISSEMINATION WORKSHOP ON “ACCESS TO FINANCE”

OVERVIEW OF GREEN FINANCE IN THE MEKONG COUNTRIES

DATE: XXX, 2018

MEETING VENUE XXXX

OUTLINE

1. Green Finance – Definition and Typology
2. Demand for Green Finance
3. SME's Access to Finance and Key Findings

1. GREEN FINANCE – DEFINITIONS

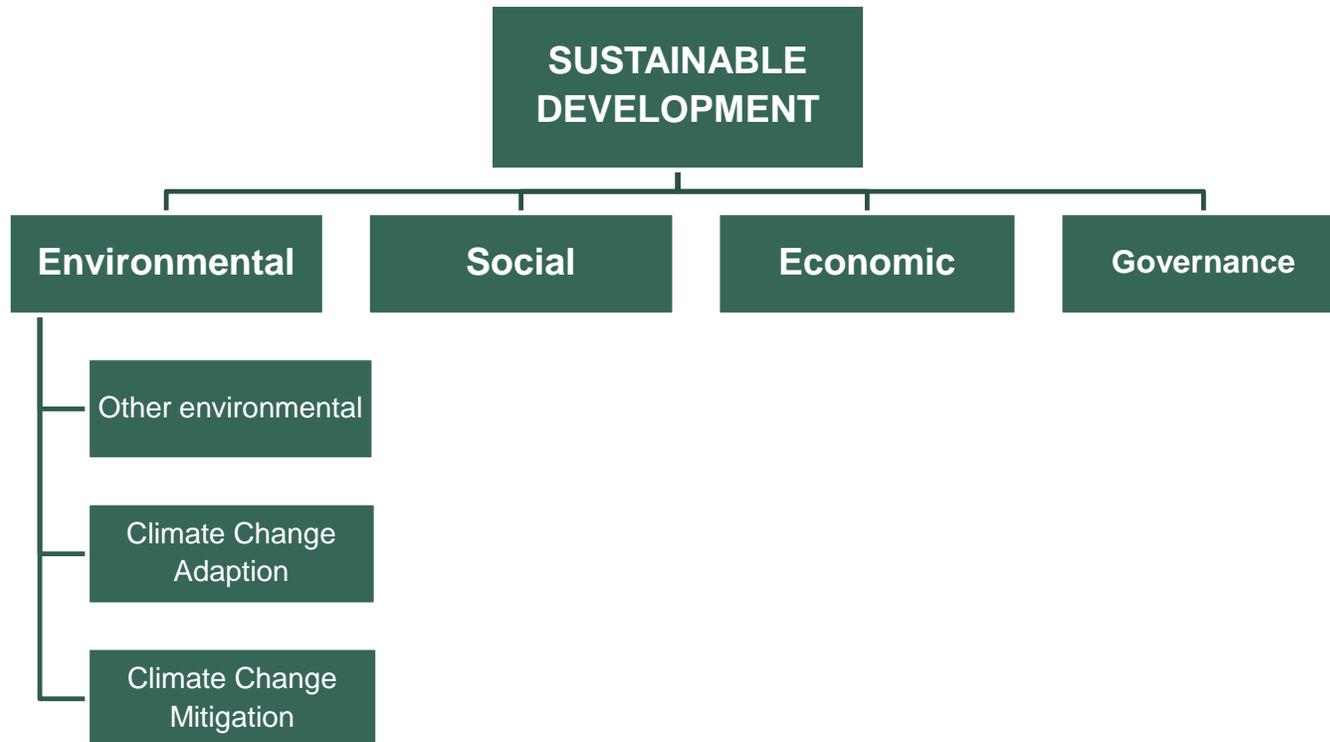
COMPONENTS OF GREEN FINANCE

- **Clean energy**
- **Efficiency**
- **Transport**
- **Pollution, water, and waste**
- **Land**
- **Low carbon infrastructure**

EXAMPLE OF GREEN FINANCE DEFINITIONS

- Organization for Economic Co-operation and Development (OECD): Green finance is finance for “achieving economic growth while reducing pollution and greenhouse gas (GHG) emissions, minimizing waste and improving efficiency in the use of natural resources.”
- People’s Bank of China (PBOC): “Green finance policy refers to a series of policy and institutional arrangements to attract private capital investments into green industries such as environmental protection, energy conservation and clean energy through financial services including lending, private equity funds, bonds, shares and insurance.”
- Indonesian Financial Services Authority (OJK): Sustainable finance in Indonesia is defined as “comprehensive support from the financial service industry to achieve sustainable development resulted from a harmonious relationship between economic, social and environmental interests.”

1. GREEN AND SUSTAINABLE FINANCE



- Climate Change Mitigation --- **LOW CARBON**
- Climate Change Adaption - Mitigation ---- **CLIMATE**
- Other Environmental – Climate Change Mitigation – Adaption --- **GREEN**
- Environmental – Social – Economic – Governance --- **SUSTAINABLE**

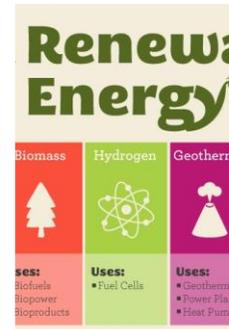
1. GREEN FINANCE –TYPOLOGY

Infrastructure



- Rail
- Energy transmission and distribution
- Water
- Telecommunications
- Climate adaptation and mitigation;
- Waste management and pollution control
- Smart cities

Renewable Energy



- Solar
- Hydropower
- Wind
- Bioenergy and energy

Energy Efficiency



- Building
- Industry and Productions
- Transport

Food, Agriculture, and Land Use



- Agriculture and Food Production
- Food Distribution and Management
- Forestry and Land Management

1. GREEN FINANCE – SUSTAINABLE DEVELOPMENT GOALS

- Green is a subset of sustainable. This allows a broad mapping of the green investment sectors against the Sustainable Development Goals (SDGs).
- The SDGs are increasingly used by the financial markets to view green and sustainable finance.
- Green investment has the potential to help deliver many of the SDGs, including SDGs 6, 7, 9, 11, 12, 13, 14 and 15



2. DEMAND FOR GREEN FINANCING

- **Renewable Energy** – US\$ 400 billion
- **Energy Efficiency** – US\$ 400 billion
- **Infrastructure** – US\$ 1,800 billion
- **Food, Agriculture, and Land Use** – US\$ 400 billion

Energy Efficiency

- Investment opportunities of US\$300 billion were projected to improve end-use energy efficiency in the buildings, industrial and transport sectors by 2030.
- It is forecasted that a further US\$100 billion of investment will be required to scale up electric vehicles across the region.
- Energy efficiency is a rapid and cost-effective way to address energy security as well as environmental and economic challenges. The ASEAN, including Mekong countries, aspires to reduce its energy intensity by 20% in 2020 and 30% by 2025 compared with 2005 levels.

2. DEMAND FOR FINANCING ENERGY EFFICIENCY

Energy Efficiency

- **Buildings** – US\$ 152 Billion
- **Industry and Production** – US\$ 57 Billion
- **Transport** – US\$ 191 billion

- The potential investment for (i) Passenger Transport (US\$131 billion); and (ii) while Freight Transport (US\$60 billion).
- The investment aims to enable changes to the design and engines of current transport types, and the projected production of electric vehicles (US\$90 billion).
- The investments on current transport types will remain important while electric vehicles are introduced as the transition will happen gradually, and not at the same pace for all vehicles.
- Investments are needed first for research and development (R&D) into new technologies and subsequently for changes to production facilities and automobile parts to produce more energy efficient vehicles.
- The asset owner needing finance will frequently be automobile producers or suppliers of components of vehicles. Further investment opportunities can be explored as innovation, such as battery storage and the concept of sharing economy, evolves.

3. SME'S ACCESS TO FINANCE & KEY FINDINGS

1. Green loan program in support of freight transport and logistics sector is not existing.
2. Banking products and services
 - Real estate sector financing: commercial centers, office buildings, hospitals, schools, new urban areas, and etc.;
 - Manufacturing and industry financing: factories, machinery and equipment for manufacturing cement, steel, hydropower, thermal power, wind power, petrol, textile, agriculture, aquaculture, forestry, and etc.;
 - Transport and logistics financing: transport vehicles for ocean and water transport, air transport, and land transport (passengers and freight); and
 - Others.

3. SME'S ACCESS TO FINANCE & KEY FINDINGS

3. Leasing products and services

■ Finance lease

- A medium and long-term credit granting method for investment projects on procurement of machinery, equipment, production lines and means of transportation of enterprises.
- Finance leased assets: (i) transportation means and equipment; (ii) construction machines; (iii) medical equipment; (iv) machineries and production lines; and (v) others

■ Operating lease

- A form of asset lease whereby a customer uses the lease asset from the lessor for a certain period of time, and will return the property to lessor at the end of the lease term.
- The lessor retains the ownership of the leased assets and receives rental payments under the lease.
- This helps the lessees quickly approach technological advances and innovation

3. SME'S ACCESS TO FINANCE & KEY FINDINGS

3. Leasing products and services (continued)

■ Sale and Lease Back

- Financing business for the purpose of capital re-structuring in the long run. As such, the ownership of enterprise's invested assets will be transferred ownership to the lessor in a certain period, e.g. 1-4 years. In exchange, the lessor will repay 80% of the value of equipment to enterprises. The amount of funding from the lessor is recognized by the business as long-term ordinary loans. With this specific approach, enterprises will be provided with long-term capital to re-balance sources of funds or making new counterpart funds for other projects, and / or other purposes.

■ Hire Purchase

- Hire goods for a period of time by paying instalments, and can own the goods at the end of the agreement once all instalments are paid. Hire purchase services to acquire commercial truck/vehicle and other machinery and equipment used in business. Lessee can purchase vehicles and parts from local and international vendors with financing service of leasing companies.

3. SME'S ACCESS TO FINANCE & KEY FINDINGS

4. Challenges and Barriers

- Lack of legal framework on green freight transport and logistics operations and development;
- Transport and logistics infrastructure congestion and inadequacy;
- Resulting asset preference may deleverage the availability of funding for SMEs.
 - Financial institutions may encourage finance to large firms with good ratings rather than unrated SMEs to reduce total high-risk assets.
 - Financial institutions may be willing to hold “easy-to-sell assets” or high quality liquid assets, resulting in constraining the provision of long-term credit.
 - Collateral-based lending
- Lack of diversified financing tools, such as non-bank financing from microfinance institutions, finance companies, leasing, and venture capital investments.

3. SME'S ACCESS TO FINANCE & KEY FINDINGS

4. Challenges and Barriers (continued)

- Awareness and willingness of SMEs of improving environment performance
- Lack of SME Finance Policies, especially for green freight transport and logistics operations
 - Public credit guarantee scheme
 - Lending to Micro, Small and Medium-Sized Enterprises (MSMEs)
 - Interest rate subsidy
 - Soft loans
 - MFI development programs
 - Equity market development for SMEs

Thank you



Mekong Institute

123 Khon Kaen University
Mittraphap Road, Muang District
Khon Kaen 40002, THAILAND

Tel. 66 43 202 411-2 Fax. 66 43 343 131
Email: information@mekonginstitute.org

<http://www.mekonginstitute.org>