

Spurring sustainable growth in Asia through ESG investing



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The Asian Development Bank (ADB) is working closely with its developing member countries to help their economies to recover quickly from the effects of the pandemic. It is crucial that this recovery is green, resilient, inclusive, and sustainable, with lasting economic progress that is shared across the population and restores progress on development goals. One way to promote resilient and enduring recovery is to follow Environmental, Social and

governance aspects of their businesses, including gender inclusion and reducing the carbon and environmental footprint. For example, ADB has helped to strengthen companies' governance in preparation for IPOs, and assisted companies in developing the capacity they need to attain market leadership in sustainability.

On the investment side, ADB has partnered with corporates and donors on several ESG initiatives. ESG has become a priority for many international lenders, and close collaboration with international financial institutions increases co-financing opportunities to leverage private capital for ESG investments.

ADB investments in ESG projects for sustainable infrastructure have included:

- 1) Support through innovative financing platforms such as the ASEAN Catalytic Green Finance Facility (ACGF), which will leverage funds from capital markets and private sector investors for low-carbon infrastructure. Since its launch in 2019, the ACGF has provided advisory support to help countries tap capital markets through issuance of more than US\$5.6 billion in green bonds.
- 2) The Climate Innovation Fund, launched in partnership with Bloomberg and Goldman Sachs, to support low-carbon economic development focused on South and Southeast Asia, to increase the pace, scale and ambition of climate solutions and contribute to the clean energy transition.
- 3) The development of a debt financing platform to invest in sustainable infrastructure in Asia, in partnership with HSBC, Temasek, and Clifford Capital Holdings.

ADB also helps its clients to raise debt from capital markets through green and blue bonds. Our green bond program provides support to developing member countries seeking to mitigate greenhouse gas emissions and adapt to the consequences of climate change, while delivering environmentally sustainable growth that helps reduce poverty and improves quality of life.

The green bond portfolio specifically targets projects that promote the transition to low carbon and climate resilient growth, as set out in the ADB Green Bond Framework. Similarly, blue bonds help to address the growing funding gap required to protect and restore ocean health. Blue bonds increase the amount of capital that can be invested in oceans to finance solutions at scale. ADB is also helping some of our financial institutional clients to develop their own blue bond frameworks.

The amount of sustainable bonds outstanding from core markets in ASEAN and East Asia reached \$478.7 billion at the end of March 2022, posting a year-on-year expansion of 51.3%, according to a recent report by ADB. ASEAN and East Asia accounted for 18.1% of outstanding sustainable bonds globally, trailing only Europe as the second-largest market.

Following the COVID-19 pandemic, it is essential for governments to tap into domestic and global capital

Governance (ESG) principles.

At ADB, we have dedicated sector groups with thematic specialists focused on environmental, social and governance issues. We also have several policies and initiatives related to investing in and improving ESG practices in our developing member countries.

ESG principles are central to our work. Four of the seven operational principles under the ADB Strategy 2030 focus on ESG: (1) addressing remaining poverty and reducing inequalities, (2) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability, (3) accelerating progress in gender equality, and (4) strengthening governance and institutional capacity.

Additionally, we have a robust safeguards policy which aims to help countries address environmental and social risks in development projects and to minimize and mitigate, if not avoid, adverse project impacts on people and the environment. ADB's environmental safeguards aim to ensure the environmental soundness and sustainability of projects, and to support the integration of environmental considerations into the project cycle.

The safeguards policy requires borrowers to identify project impacts and assess their significance, to examine alternatives, and to prepare, implement, and monitor environmental management plans. It also requires borrowers to consult people likely to be affected by the project and disclose relevant information in a timely manner.

Similarly, ADB's social safeguards requires borrowers to carry out meaningful consultations with affected parties and to ensure that adverse social impacts are prevented or mitigated.

ADB helps to mainstream ESG principles in developing Asia in two ways—through helping corporates develop their ESG frameworks, and through ESG investments.

On the corporate side, every project that ADB evaluates for investment undergoes assessment in accordance with our operational and ESG principles. We help our private sector clients develop the environmental, social and

markets with green and sustainability bonds. One recent example of this is ADB's assistance in Thailand. ADB is supporting the Government of Thailand in designing, issuing, and monitoring innovative capital market initiatives as part of the country's post-pandemic recovery.

ADB's technical assistance includes bond framework development and external reviews to help Thailand's Ministry of Finance (MOF) and National Housing Authority (NHA) to design green, social, and sustainability bonds based on global and ASEAN standards and best practices. ADB is also helping the government to develop internal systems to monitor the use of bond proceeds and prepare post-issuance reports. These measures will help lay the groundwork for more green, social, and sustainability bond issuances.

Other ADB-supported initiatives include Thailand's first sustainability bond, a first-of-a-kind issuance by a sovereign in Southeast Asia. Issued by MOF's Public Debt Management Office in two tranches totaling THB30 billion (about \$964 million) in August 2020, the bond was oversubscribed three times, and its proceeds will be used to finance green infrastructure through the Mass Rapid Transit Orange Line (East) Project. It will also fund social impact projects supporting the country's recovery, such as public health measures, job creation through small and medium-sized enterprises, and local public infrastructure development with social and environmental benefits.

ADB also supported the NHA's maiden social bond, which was issued in September 2020 in three tranches totaling THB6.8 billion. It is among the first social bonds issued by a state-owned enterprise in Southeast Asia. The bond will finance affordable housing in Thailand and promote sustainable communities. These social and sustainability bonds will help the country recover from the impacts of COVID-19 by focusing on long-term, green, and inclusive infrastructure. ADB has also supported

green bonds in other Asian countries, including India, Philippines, People's Republic of China, Bangladesh, Pakistan, Indonesia, and Viet Nam.

ADB has issued more than \$3.2 billion in thematic bonds to support education, gender, health, and water projects as investors allocate more funds to environmental, social, and governance goals. ADB is a regular borrower in mainstream international bond markets but has also led issuances in developing Asian countries as part of efforts to promote local currency bond markets as an alternative to bank lending.

For example, in February 2022, ADB has raised 14 billion tenge (\$32 million) from its second gender bond issue in Kazakhstan. A gender bond is a fixed income security that finances projects supporting women's empowerment, equality, and access to finance. The funds will help finance a project designed to expand the lending operations of Kazakhstan's Otbasay Bank and promote affordable mortgage loans to women, particularly in rural areas.

ESG factors have become an important part of global investment decisions, so much so that ESG investment is desirable even for investors who only consider financial returns. Long-term investment decisions are better informed if investors have more information about companies, and ESG factors comprise a large part of this information.

Helping investors become more educated and aware of companies' operating practices, reputation, and commitments can play a vital role assessing companies, wherever they are. We see a strong trend among our clients towards operating on ESG principles, and ADB will continue to provide capacity building, knowledge, and financing to help our developing member countries embed ESG principles into their sustainable development policies.
