

# Enabling SME access to finance for sustainable consumption and production in Asia

**An overview of finance trends and barriers  
in Sri Lanka and the Philippines**

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## About the SWITCH-Asia Network Facility

The goal of the European Commissions SWITCH-Asia programme is to promote economic prosperity and help reduce poverty in Asia by encouraging sustainable growth with low environmental impact from industries and consumers, in line with international environmental agreements and processes. More specifically, it aims to promote sustainable products, processes, services and consumption patterns in Asia by improving cooperation with European retailers, producer and consumer organisations and the public sector.

The SWITCH-Asia Network Facility is one of the components of the SWITCH-Asia programme funded by the EU and is implemented by the GFA Consulting Group and the Collaborating Centre on Sustainable Consumption and Production (CSCP). Within the SWITCH-Asia programme, the Network Facility helps effectively share knowledge, disseminate and promote replication of successful project practice, facilitate networking between Asian and European stakeholders, produce publications on sustainable consumption and production (SCP) practice.

[www.switch-asia.eu](http://www.switch-asia.eu)

## About ADFIAP

ADFIAP is the focal point of all development banks and other financial institutions engaged in the financing of development in the Asia-Pacific region. Its mission is to advance sustainable development through its members. Founded in 1976, ADFIAP has currently 131 member-institutions in 45 countries. The Asian Development Bank is a Special Member of the Association. ADFIAP is also a founding member of the World Federation of Develop-

ment Financing Institutions composed of regional associations in Africa, Asia-Pacific, Latin America and the Middle East. ADFIAP is an NGO in consultative status with the United Nations' Economic and Social Council. The permanent Secretariat of ADFIAP is based in Makati City, Metro Manila, Philippines.

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**Disclaimer:** This report was undertaken based on the engagement of Switch-Asia to determine the processes, products, and best practice of financing institutions in the Philippines on green initiatives that support climate change mitigation, as well as identifying barriers and risks. Based on insights from the case studies, research, survey and interviews conducted, recommendations are also included.

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## Research Summary Report, Part 1: Situation of Green SME Finance in Sri Lanka



### Executive Summary

The following research study seeks to spur financing institutions and government authorities in Sri Lanka to catalyse the supply of and stimulate the demand for green financing for investment projects that promote sustainable consumption and production (SCP) patterns. This research paper focuses on processes, products and best practice of selected financial institutions engaged in green initiatives that support SCP with a particular focus on climate change mitigation. It also examines the main barriers and risks in financing renewable energy and energy efficiency projects, particularly in the small and medium enterprise (SME) sector, and identifies potential measures and solutions in response to these development finance obstacles.

In 2009, the government of Sri Lanka finally succeeded in containing the more than 26 years of intermittent local insurgency setting the stage for the country's long lasting peace to usher a new era of economic opportunities and rebounding economic growth and sustainable economic development. Sri Lanka's twin engines of its current development thrusts are building basic infrastructure and developing small and medium scale enterprises. In general, financing comes from internally generated funds and from official development assistance and a lack of funds hampers major undertakings in the country.

The bulk of financing activities are in housing development projects for the people. In reality, green finance is still far off the grid as far as development financing institutions in Sri Lanka are concerned. It is even the impression of one of the respondents to the survey of this research study that his company's water and energy conservation measures may be construed as part of their green finance initiatives.

Strictly speaking, such efforts do not fit the real world definition of green finance. Still, "small" environment-friendly actions like purchasing office furniture made from non-timber materials and using 25% thinner paper in photocopying documents should count as part of a corporate mindset that is preparing to face bigger challenges ahead in climate change mitigation and adaptation. Among the more promising green financing schemes in the country is the Energy Loans of the DFCC funded by

the European Investment Bank (EIB) through the Government of Sri Lanka, for investments in renewable energy (RE) generation and energy efficiency projects. Targeted energy savings are at least 20%. Eligible RE projects identified are in hydro, wind, solar, bio-mass and geo-thermal energy.<sup>1</sup> Between 2002 and 2007, DFCC also implemented the World Bank assisted Renewable Energy for Rural Economic Development (RERED) Project for the financing of hydro, solar PV, wind and biomass renewable energy technologies in rural areas.<sup>2</sup>

There is also the financing by private individuals of community-based green projects in remote villages to encourage farmer communities to turn away from conventional types of agriculture and environmentally unfriendly livelihood (e.g. cutting down trees for fuel and timber, setting fire to forests, especially in watershed areas for Chena cultivation, and commercial exploitation of land for mass cultivation of food crops leading to soil erosion).<sup>3</sup>

1 <http://www.dfcc.lk/eib-green-energy-loan>

2 Financing Small Scale Renewable Energy Development in Sri Lanka by Jayantha Nagendran, Senior Vice President, Project Management) DFCC Bank

3 <http://tunnelcultivation.blogspot.com/>

## Introduction

For many years, the banking and financial sector in developing economies like Sri Lanka remained unaffected by talks of green development, SCP or climate change mitigation, specifically in relation to the “greening of industry”. Being in the “non-polluting” service sector in contrast to the traditional “smokestack” industries, banks and financial institutions appeared unconcerned with the challenge of environmental responsibility, caring only for the cleanliness and hygiene of their immediate surroundings.

However, this situation has changed dramatically over the last two decades. With legal and stakeholder concerns like lender liability on environmental “miscues” as well as increasing awareness over climate change, environmental degradation, and sustainable development, the banking and finance sector responded positively towards the principles and practices of environmental risk management and due diligence.

The banking sector holds a unique position in that it can affect businesses and industry through financing programmes that require environmental risk abatement in its lending and appraisal procedure. Waste prevention and proper resource utilisation arising from adherence to climate change principles can cut both ways to improve the operational efficiency of the lending institution and also that of the borrower enterprise.

The banking sector in Sri Lanka has also started to ride on the wave of national and sectoral policies on environmental protection such as the *National Cleaner Production (CP) Policy and Strategy of 2005*, *Sectoral CP Policies in accordance for Health, Tourism, Fisheries and Agriculture and the Haritha (Green) Lanka Programme and the National Action Plan of 2009* to encourage industry and service sectors to go green. They provide support and incentive packages to environment-friendly businesses. The Haritha Lanka Programme is chaired by H.E The President to stress that climate change adaptation and risk reduction is a top priority at the highest levels of government.

This Report focuses on the concerns of the business sector, particularly the banking and finance sector, in the development and promotion of green finance to contribute to climate change mitigation and risk reduction.

Green finance covers a wide spectrum of projects from large-scale firms to SMEs and micro enterprises. Engaging in green finance also offers opportunities for business development, strengthening relationships with existing SME clients and attracting new clients in the value chain.

Mainstreaming green finance can deepen the scope and size of the financial sector by allowing better coverage and offering new products with longer maturity to more clients. Green finance can extend SME promotion, offering funds to strengthen the capacities of SMEs in environment and energy conservation, advancing them a step further from mere survival to assured sustainability.

## Outline of the Methodology Employed

The research study was conducted through three (3) types of methodology:

- Literature research on the relevant information and key statistics of SME financing, with a focus on green finance in Sri Lanka, using electronically available materials and materials provided by ADFIAP member banks such as Annual Reports, Sustainability Reports and other completed studies on the situation of green finance in Sri Lanka.
- A self-administered online survey (attached as Annex 1) developed by ADFIAP sent to ADFIAP member banks in Sri Lanka,
- Personal interviews with senior officials of those ADFIAP member banks with green financing initiatives.

Guide questions were used in the gathering of primary information during the personal interviews, as shown in Annex 2. The data generated from the literature research, online survey and personal interviews were tabulated, analysed and interpreted as they relate to the objectives of the research project and summarised in this Research Report.

## Regional Focus

# Country study: Sri Lanka current state of access to green finance for SMEs

SMEs play a crucial role in the economic development of newly emerging markets such as Sri Lanka and the Philippines. SMEs help generate employment, provide additional income to employed labour and act as a seedbed of entrepreneurship.

Despite SME's critical importance to the national economy, their ability to be a key driver of local economic growth is more often stymied by policy and bureaucratic obstacles, poor physical infrastructure, limited market, inadequate management knowledge and the lack of access to capital or finance, in particular.

Such situations persist even when governments and international development agencies have poured massive financial resources into the SME sector. Studies and anecdotal records show that there are sufficient resources within the formal financial systems of newly emerging markets. Other related studies argue otherwise, that formal providers of capital shy away from SMEs due to inherent risks in lending to small enterprises. It is even worse for SME proponents who would wish to exploit the opportunities in the emerging, yet highly unpredictable, green businesses.

A recent study by the International Institute of Sustainable Development, entitled *Climate Resilient Value Chains And Food Systems*<sup>4</sup>, noted that the financial services industry has not taken a pro-active role in taking into account the "new risks and potential opportunities from climate change, which has resulted in limited economic returns and re-investment for all value chain actors, limited capacity for value addition and decreased ability to repay loans." Still, the same study stressed that "awareness about climate risks is growing among financial institutions specifically, particularly in the insurance sector, and in the private sector more generally."

4 [http://www.iisd.org/sites/default/files/publications/agro\\_value\\_chain\\_bank\\_sector.pdf](http://www.iisd.org/sites/default/files/publications/agro_value_chain_bank_sector.pdf)

## Environmental Laws, Policies and Regulations

In Sri Lanka, numerous national and sectoral policies address specific concerns and programmes related to green growth. Some of the more significant policies conducive to the development of a green economy<sup>5</sup> are presented below:

- Recognition of the application of Cleaner Production (CP) and lifecycle thinking in the National Environmental Policy, developed in 2000;
- National Cleaner Production Policy and Strategy, developed in 2005;
- Sectoral CP Policies in accordance with the National CP policy for Health, Tourism, Fisheries and Agriculture;
- Haritha (Green) Lanka Programme and the National Action Plan for the implementation of the Haritha (Green) Lanka Programme (2009), administered by the National Council for Sustainable Development chaired by H.E. the President;
- National Green Reporting System introduced in June 2011 (under the HL Programme) to encourage industry and service sectors to 'go green';
- The Green Rating System developed by the Green Building Council of Sri Lanka in January 2012 for the built environment to create sustainable buildings for the future;
- National Energy Policy to supply a minimum level of 10% of electrical energy from natural renewable energy by 2015<sup>6</sup>, National Solid Waste Management Policy (2008);
- National Climate Change Policy (2011).

In 2009, a national programme entitled *Haritha (Green) Lanka (HLP)* was developed and launched by the National Council for Sustainable Development (NCSA). NCSA, as well as the *Haritha (Green) Lanka (HLP)*, is chaired by the President of Sri Lanka to secure the leadership of the highest political authority in the country.

This programme has ten missions/thrust areas under which strategies and short, medium and long-term action plans have been developed with key performance indicators under each activity, as follows:<sup>7</sup>

1. Clean Air – Everywhere;
2. Saving the Fauna, Flora and Ecosystems;

5 Adopting Green Growth Strategies in Sri Lanka, by L.Padmini Batuwitige Ph.D, Hon Advisor, Ministry of Environment, Sri Lanka, Former Additional Secretary (Environment and Policy), Sri Lanka.

6 To increase by 20% by 2020.

7 Julie Denkins & Susan Bingi. "Agro-Value Chain Finance and Climate Change Adaptation: The Role of the Banking Sector." June 17, 2014.

3. Meeting the Challenges of Climate Change;
4. Wise Use of the Coastal Belt and the Sea Around;
5. Responsible Use of the Land Resources;
6. Doing Away with the Dumps;
7. Water for All and Always;
8. Green Cities for Health and Prosperity;
9. Greening the Industries;
10. Knowledge for Right Choices.

There is a general perception that Sri Lanka has the relevant environmental protection policies dating back to the 1980s. Unfortunately, the implementation of these policies has been hampered by factors such as official corruption, limited financial resources, economic or political upheavals, and peace and order problems intertwined to hold back the attainment of avowed mission, goal and objectives.

## Performance of the Economy

Sri Lanka is a lower income economy in the South Asia region. The focus of the Government is to build infrastructure, which directly supports the thrust to promote the country as a major tourism destination.

In 2013, Sri Lanka's GDP growth rebounded to 7.3% and its current account deficit narrowed substantially. As inflation eased, the central bank relaxed monetary policy. The outlook is for sustained rapid growth leveraging the government's continued drive to expand infrastructure and to extend easy credit terms to private borrowers.

The recovery was reflected in the strengthening of domestic demand and an appreciable increase in exports and tourism. Faster growth in wholesale and retail trade, hotels and restaurants, transport, banking, insurance, and real estate lifted performance in the large service sector to 6.4% from 4.6% a year earlier, providing the impetus for the rebound. Industry grew by 9.9%, slightly less than a year earlier, as slower growth in mining and quarrying and in construction offset the build-up in manufacturing and utilities.<sup>8</sup>

Banks are the main sources of funds for most government priorities. Funding, however, is a major constraint as the banks invariably have limited loan funds at their disposal. At present, there are insufficient loan funds to finance infrastructure and business enterprises. To address the funding limitation, banks float bonds and negotiate for Official Development Assistance (ODA) from foreign donors.

## Going Green

The government is at the forefront of initiating most activities in greening the environment. Banks in Sri Lanka have adopted a 'wait-and-see' attitude in financing green projects at the enterprise level. Given the limited funding resources and generally weak governance of the concerned institutions and agencies of the government, it is not surprising that green financing has yet to make a significant impact in Sri Lanka.

At the bank level, there is no dedicated financing programme for green projects. A survey respondent to this Report said that green banking is deemed integrated in their home financing activities. To clarify, the green element in the aforesaid home financing refers more to the proper disposal of waste and use of water resources and not to technology-driven green goods and services.

Sri Lanka has one of the highest literacy rates in the region at 91%, but this has not translated to greater awareness by a large segment of the population on the merits of undertaking green projects, much less green banking. The concerned sectors thereby lose the golden opportunity in green finance that can be offered to home financing customers as well as to SMEs.

## Lending Trends

### HDFC Bank of Sri Lanka (Housing Development Finance Corporation Bank of Sri Lanka)

The Government of Sri Lanka holds approximately 51% of DFC shares through the National Housing Development Authority, the Urban Development Authority and the Condominium Management Authority. HDFC Bank's primary business is the provision of housing finance to the people in line with the overall national housing vision of 'a house for each Sri Lankan family'.<sup>9</sup>

Financing services are available for the physical development of a housing unit covering construction, renovation, extension, and purchase of built houses and purchase of land for housing construction. All socio-economic groups in the country can avail themselves of the housing finance facilities.

Through the years, HDFC has strategically managed its loan portfolio proportionately among the different income segments of the population. Over 70% of the loan portfolio has been distributed to low and middle income families who represent 60% to 70% of the population. As a result, HDFC's main market is the low and mid-income

<sup>8</sup> Asian Development Outlook 2014 - Fiscal Policy for Inclusive Growth

<sup>9</sup> HDFC Bank Annual Report 2013

segment, which includes rural and urban poor residents.

While it has yet to actively pursue financing of environment friendly homes or buildings as a green banking strategy, HDFC strictly observes environmentally responsible lending by requiring all home and building plans to be designed by qualified planners and approved by relevant local authorities to ensure that community needs are addressed, such as roads, smooth flow of water, assurance of uninterrupted power supply, solid waste disposal and rain water drainage systems. The bank also requires that housing construction is compliant with relevant environmental regulations. Employees are encouraged to support staff-driven voluntary programmes for promoting in-house greening and educating local communities. The bank likewise supports conservation of biodiversity by encouraging customers, community, and schools to plant trees and support bio-conservation projects. In-house indices have been developed to monitor and control the bank's carbon footprint (e.g. fossil fuel consumption, caused by business and staff travel, consumption of electricity and water).<sup>10</sup>

Following amendments to the Housing Development Finance Corporation Act in 2011, HDFC is now authorised to enter new business domains and offer a greater variety of products to the market. Among these are SME loans.<sup>11</sup>

In 2013, HDFC developed a range of new products as it entered into leasing, micro-finance, SME and education markets. The micro-finance credit line proved to be a success and facilitated funding for individuals who form small groups of mutual guarantors. Seventeen branches commenced active disbursements and total releases as of December 31, 2013 stood at LKR 105.64 million to 1,468 individual loans. Female borrowers dominate the loan recipients.

Due to this unique design, the bank's SME loans have enjoyed very high repayment rates.<sup>12</sup> It was observed though that loans to SMEs and other economic sectors have yet to include green financing aspects such as those for energy efficiency and environment-related projects.<sup>13</sup>

### DFCC Bank/DFCC Banking Business (DBB)

The bank was incorporated by an Act of Parliament in 1955, as part of the government's initiative to support the private sector with medium and long-term finance. In 2003, DFCC Bank expanded into commercial banking by acquiring a 94% stake in National Mercantile Bank (Merc Bank). The resulting corporate entity was subsequently rebranded as DFCC Vardhana Bank Limited (DVB).

Today, DFCC Bank and DVB form the DFCC Banking Business (DBB). Combining the expertise of a pioneer development bank and the dynamism of a commercial bank, the new bank offers a breadth of banking solutions.

DBB serves all provinces of Sri Lanka through a unified distribution channel. DBB's revenues are derived from five lines of business. These are Corporate Banking, Small and Medium Enterprise Finance, Personal Banking, Investment Banking and International Banking. DBB operates 19 DFCC and DVB combined branches, 55 DVB branches and 62 DVB service points at Sri Lankan outlets.<sup>14</sup>

The SME sector is one of the core clients of the bank. As the pioneer development bank, DFCC Bank has for nearly six decades nurtured and developed the SME of the country. Year 2013/14 marks the silver jubilee of its launch into branch banking operations outside Western Province. This has facilitated the extension of project financing and long to medium term lending to the SMEs established in the outstations. Though the economic environment was challenging, the asset portfolio of the branch network maintained its growth momentum during the year.<sup>15</sup>

Resource mobilisation is a crucial factor in development banking. In view of this, DFCC issued a USD denominated fixed rate bond in the international capital market and listed in the stock exchange of Singapore on a clean basis. In addition, DFCC Bank successfully negotiated a credit line for Euro 90 million from the European Investment Bank. These funds, along with those from loan repayments, are expected to be deployed in medium to large-scale enterprises in the provinces and on energy efficiency and renewable energy projects. Both undertakings have enabled the bank to access long-term funds for relending to its borrowers.<sup>16</sup>

<sup>10</sup> HDFC Bank Annual Report 2013

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.

<sup>14</sup> DFCC Bank Annual Report 2013/2014

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

## National and Regional Initiatives

A recent ADB report, “Assessing the Costs of Climate Change in South Asia” puts the economies of Bangladesh, Bhutan, India, the Maldives, Nepal, and Sri Lanka under serious threat. A predicted increase in global temperatures by 4.6°C would wipe out as much as 8.8% of their collective Gross National Products by 2100. The resulting series of disasters brought about primarily by rising sea levels could lead to untold devastation of water, food and energy supplies to adversely affect millions of lives and livelihoods in the region.

Global cooperation has become the first response to avert the impending catastrophes arising from climate change. International and regional development agencies, such as the World Bank, International Finance Corporation, the Asian Development Bank and the European Union, have stepped forward to establish funds for sustainable development through climate risk adaptation and mitigation measures.

China is a major financier of infrastructure projects in Sri Lanka. In fact, China is becoming a key financier of Sri Lanka displacing the traditional donors of Japan and the Asian Development Bank. China was Sri Lanka’s largest lender in 2009 and 2010, giving \$1.2 billion and \$821 million respectively and accounting for 54% and 25% respectively of total foreign loans. Assisted Infrastructure projects include port development, electricity development, road development, airport and railway improvement. In 2011, it was reported that the China Development Bank Corporation agreed to finance over a 3-year period infrastructure projects (e.g. bridges, roads, water supply, irrigation and power) in Sri Lanka to the amount of US\$1.5 billion.<sup>17</sup>

China is also Sri Lanka’s largest bi-lateral trade partner, a relationship that started in 1952 when the two countries entered into the Rubber-Rice pact wherein Sri Lanka (then Ceylon) supplied China with rubber and in return China exported rice to Sri Lanka.

In the post-insurgency tourism boom, Chinese investors are into big hotel and mall projects in the Sri Lankan capital, Colombo estimated at US\$1.0 billion. Another project with considerable Chinese investment is the upgrading of Colombo port’s cargo-handling capacity.<sup>18</sup>

Bilateral initiatives with donor countries from Australia, the United Kingdom, Germany and Norway, among others, have set up separate climate adaptation investment funds for specific sectors like mining, forestry and SMEs. Similar efforts are being pursued under multi-lateral programmes created by the World Bank, ADB, and the European Union. At the country level, national funds such as the Climate Change Fund of Bangladesh and Indonesia’s Climate Change Trust Fund are designed to cope with the uncertainties of climate change. According to ADB, the world financial system has pooled around \$1.2 billion for climate change adaptation programmes and projects.

Private sector participation in green financing evolved from the corporate social responsibility of well-meaning firms. The advent of climate change has shifted the corporate mindset away from the traditional business-as-usual attitude to a more innovative outlook towards adapting to climate change. The transformation of a vision into breakthroughs, such as bio-based products, supply chains that track optimum energy consumption, and renewable energy drawn from renewable sources has yet to reach Sri Lanka, which is still struggling to get on its feet after the devastation of the last war.

### Key challenges encountered by SMEs in Sri Lanka

SMEs account for 80% of all businesses and make up a large part of Sri Lanka’s economy. There are SMEs in the agri-business sector and in the manufacturing sector, which account for about 20% of industrial establishments. In the service sector, SMEs account for more than 90% of businesses. SMEs provide employment for persons with different skills, skilled, semi-skilled and unskilled and are estimated to contribute to about 35% of employment. SMEs play an important role in promoting inclusive growth. The focus on SMEs in policymaking also emanates from their role in developing entrepreneurial skills, innovation and promoting economic growth. These are also seen as useful in promoting social cohesion. It is therefore essential that the operational environment be improved.<sup>19</sup>

Growth and expansion of SMEs are constrained by problems emanating from product and factor markets and the regulatory system in which they operate. These business hurdles fall into broad areas of access to finance, physical infrastructure, level of technology, regulatory framework, access to information and advice, access to

<sup>17</sup> <http://www.lankabusinessonline.com/news/sri-lanka-to-get-us1.5bn-from-china-bank/1312035744>

<sup>18</sup> <http://pacifictycoon.wordpress.com/2011/08/18/china-invests-big-stake-in-sri-lanka/>

<sup>19</sup> Website of the National Human Resources and Employment Policy, Secretariat for Senior Ministers, Sri Lanka

markets, business development services, industrial relations and labour legislation, intellectual property rights, technical and managerial skills, linkage formation and environmental issues.

High interest rates and the emphasis on collateral by lending institutions are the most frequently cited constraints affecting SME development. The inadequacy of skills in product development, packaging, distribution and sales promotion are also areas of weakness.

The country needs a skilled human resource base, which can adequately provide environmentally friendly knowledge and technical facilities/services to build a green infrastructure, which is currently not available in the country at the required levels and quality.<sup>20</sup>

## Review of successful case studies

### DFCC Bank/DBB

DFCC Bank has been appointed as the administrative unit for the SME and Green Energy Credit line of the European Investment Bank (EIB). The bank manages multi-bank credit lines such as those from the World Bank (International Development Association – IDA)/ Global Environmental Fund (GEF) with projects as follows:<sup>21</sup>

1. Energy Services Delivery Project
  - IDA – USD 19.7 Million (Credit)
  - GEF – USD 3.8 Million (Grant)
    - Target: Capacity addition of 21 MW of grid-connected mini-hydro projects.  
Green Finance Impact: 31 MW commissioned through 15 sub-projects.
    - Target: Installation of 15 000 Solar Home Systems (SHS).  
Green Finance Impact: 20 953 SHS installed.
    - Target: 250 kW of capacity through 20 community-based village hydro systems to serve 2 000 households.  
Green Finance Impact: 350 kW of capacity through 34 village hydro systems serving 1 732 beneficiary households.
2. Renewable Energy for Rural Economic Development (RERED) Project
  - IDA – USD 19.7 Million (Credit)
  - GEF – USD 3.8 Million (Grant)
    - Target: Capacity addition of 135 MW through small-scale grid-connected renewable energy based power generation.

<sup>20</sup>Adopting Green Growth Strategies in Sri Lanka, by L.Padmini Batuwitige Ph.D, Hon Advisor, Ministry of Environment, Sri Lanka, Former Additional Secretary (Environment and Policy), Sri Lanka.

<sup>21</sup> DFCC Annual Report 2013

- Green Finance Impact: 184 MW commissioned.
- Target: 1 500 income-generating activities in communities that gain access to electricity (households, SMEs and public institutions).
- Green Finance Impact: 742 income-generating activities implemented.
- Target: 1.25 million tonne reduction in Green House Gas (GHG) emissions.
- Green Finance Impact: 2.15 million tonnes reduction in GHG.
- Target: 113 500 household, rural SMEs and public institutions given access to electricity through off-grid systems.
- Green Finance Impact: 116 795 households gained access

LKR 12 858 million in credit (100%) and LKR 831 million in grant (99.3%) disbursed and LKR 810 million of government subsidy and counterpart funds disbursed.

3. SME and Green Energy Global Loan  
EUR 90 million  
Target: To support investments that contribute to private sector development in Sri Lanka through the financing of SMEs (70% of loan) and to renewable energy and energy efficient development (30%).
4. Exclusive Credit Lines  
EIB Global Loan 1  
EUR 40 million  
Target: To assist SMEs in the industrial, productive infrastructure, tourism and mining sectors of the economy and related services, as well as eligible health and climate change mitigation projects. Green Finance Impact: Disbursements – LKR 3 152 million, USD 18 468 million.

## Key Trends and Best Practice

### HDFC Bank of Sri Lanka

Many prestigious institutions have recognised HDFC for its services to the public over the years as it continued to set industry standards. The bank was recognised at the ACCA Sustainability Award as the runner up for the Banking, Finance and Insurance category. The bank also received the Sting Corporate Accountability Index of the LMD Magazine, which rated HDFC under the silver category.

A major HDFC policy is to approve credit proposals only if the project has complied with environmental laws and development regulations. The bank's records show that it does not approve building plans that have not been approved by the authorities, including environmental authorities.<sup>22</sup>

HDFC Bank's business model incorporates the elements of social, environment and economic responsibility to create value for all its stakeholders in a sustainable manner. Since 2010, HDFC has been following an Environment Safeguard Policy that looks into standards for lending operations, managing carbon footprint, resource utilisation efficiency, and supply chain management. Accordingly, the Bank regularly conducts programmes to enhance knowledge and awareness of the staff, on environmental aspects of their business operations.

## DFCC Bank of Sri Lanka/DBB

Minimising adverse impacts on the environment remains a key area of focus in DFCC Bank's sustainable development strategy. Though the direct impact to the environment through its operations is currently minimal, the bank is committed in managing its resources efficiently.

Its commitment to environmental stability is three-fold, namely, managing resource consumption, supporting environmental initiatives and encouraging responsible investment. In 2013, 41 employees of the bank were trained on the environmental aspects of project lending. In addition, an e-learning module on energy conservation was made available on the e-learning platform. To date, 126 employees have completed this module.<sup>23</sup>

The resource utilisation at DBB is periodically reviewed to establish new methods of conserving and managing resources, which are practised as follows:<sup>24</sup>

- a. Internal correspondence is essentially restricted to email communications and internal management meetings are conducted through technological solutions which utilise hand-held devices.
- b. A 25% thinner paper that requires less wood pulp in production, thus conserving trees, is being used for photocopying documents.
- c. The elevator and central air conditioning units at the head office building have been replaced with energy-efficient units resulting in 50% and 7% energy savings respectively.

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

- d. A document retention policy facilitates electronic storing of non-legal documents to save space.
- e. Waste segregation is being implemented.
- f. Noise from the generators has been reduced to a level below the Urban Development Authority's recommended level.
- g. All vehicles utilise 95 octane or super diesel fuel to maximise fuel efficiency.
- h. The furniture in the office premises are manufactured using environment-friendly materials in place of traditional timber, thus helping conserve trees.

There are ongoing environmental conservation measures that will contribute towards energy conservation in the future, such as replacing the current lighting system with energy efficient lighting systems and installing a rainwater recycling system.

For the second successive year, DBB has reported its GHG emissions on a voluntary basis. This marks an important step towards greater environmental accountability, which will also lead to benchmarking and target setting in subsequent years as the bank refines its measurement indices. Likewise, DBB gives due emphasis to environmental and social appraisal in making investment decisions and managing internal operations, as follows:<sup>25</sup>

- a. An Environmental and Social Management System (EMS) monitors and reviews environmental and social aspects of current and proposed projects and their adherence to stipulated environmental standards.
- b. In the implementation of EMS, policies pertaining to health and safety, environment and society take into consideration the business objectives, national laws and regulations and guidelines issued by multi-lateral agencies.
- c. During project appraisal, environmental and social impact assessment impacts are identified. The effectiveness of the proposed preventive/mitigation measures is assessed.
- d. For projects with potential environmental impacts, the bank reviews submitted project feasibility reports and environmental studies against applicable national laws, regulations and clearances, as well as the DFCC Bank lending policy and operating guidelines.
- e. Thorough inspection of project sites is mandatory. Site visits are conducted prior to project appraisal to assess surrounding environment and identify associated risks. Projects are then monitored regularly during implementation.

<sup>25</sup> Ibid.

## Conclusions

Financing institutions in Sri Lanka are engaged in comparatively “small” environment-friendly actions like purchasing office furniture made from non-timber materials and using 25% thinner paper in photocopying documents that should count as part of a corporate mindset that is preparing to face bigger challenges ahead in climate change mitigation and adaptation.

Notwithstanding, based on secondary research data and primary information from the survey, the main perceptions with respect barriers that prevent Sri Lanka from implementing green finance are:

- Preparedness of select financing institutions towards green finance;
- Bank aversion to risks in new projects;
- Low level of people’s awareness on green finance;
- Low access to expertise in environmental management and green finance.

## Recommendations for Next Steps

- **Preparedness of selected financing institutions towards green finance:** Sri Lanka, with a population of 20M people, is still picking up the pieces from the last war and the main focus is reconstruction. The bulk of financial funds is earmarked for housing construction and improvement and green finance, strictly speaking, is a couple of blocks away down the next development turn.

It is welcome to note though that the main players in development financing are moving on the right track towards green finance on their home turf. As illustrated in the success case studies, leading bank DFCC is doing its share in reducing carbon footprint in so many little ways such as reducing noise level of its generators and using alternative materials to timber in the production of office furniture. It is the mindset towards ‘green’ that counts in preparation for the advent of green finance.

- **Bank aversion to risks in new projects:** In general, private banks have been traditionally wary of exposing themselves to risks in new products and markets. Green finance is a special niche where project monitoring requires more than the usual documentation routine on top of expertise in handling environmental issues. A possible solution is for a programme like Switch Asia to spearhead and fund, in collaboration with non-profit organisation/s in Sri Lanka, for the creation of an appropriate loan processing system; train all development financing institutions including MFIs with limited resources but whose coverage reaches even the off grid communities.

Technology can also play the role of an enabler, by which IT upgrades and innovation increase the banks’ capability to broaden their coverage and reach to remote areas.

- **Low awareness of green finance:** There is a need for information dissemination and education campaigns in the regions and provinces, as well as in urban areas on the benefits, for example, of using solar and other green-friendly equipment and processes. This should help significantly reduce the common perception that green projects are expensive and that over the long term, the advantages of green far outweigh its initial cost.
- **Low access to expertise in environmental management and green finance:** Environmental experts in developing counties like Sri Lanka are not numerous and not all financing institutions will be able afford to pay for their services. The government could consider creating an agency that acts as an advisor to green programmes and projects. The payment of advisory services could be co-shared by the banks, with partial fee sharing in return for government support.

Given that green finance will be a new product in the country, the creation of another unit to endorse appropriate technologies should also be considered.

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**Annex 1:**

# Database of Green Financing Programmes in Sri Lanka

No.	Source of Finance	Name	Type of Finance	Vehicle	Amount of Finance	Specific Technology Focus / Priorities
1)	World Bank (IDA)	Energy Services Development Project (ESD)	Credit	Credit	USD 19.7 million	Renewable Energy
	World Bank's Global Environmental Facility (GEF) (DFCC Bank as executing agency)	Energy Services Development Project (ESD)	Grant	Grant	USD 3.8 million	Renewable Energy
2)	World Bank (IDA)	Renewable Energy for Rural Economic Development (RERED) Project	Credit	Credit	USD 19.7 million	Renewable Energy
	World Bank's Global Environmental Facility (GEF) (DFCC Bank as executing agency)	Renewable Energy for Rural Economic Development (RERED) Project	Grant	Grant	USD 3.8 million	Renewable Energy
3)	European Investment Bank (EIB)'s SME and Green Energy Global Loan	Sri Lanka SME and Green Energy GL	Credit Lines and Loan for Energy Projects	Credit Lines and Loan for Energy Projects	EUR 90 million	Investment projects that contribute to climate change mitigation and support private sector development
4)	GEF (FAO)	Promoting Sustainable Biomass Energy Production and Modern Bio-Energy Technologies	Loan and Grant	Loan and Grant	USD 950 000	1) Policy-institutional support for effective fuel-switching using fuel wood. 2) Barrier removal for sustainable fuel wood production 3) Enabling environment for fuel wood suppliers 4) Wood-based energy technology development
	GEF (UNDP)				USD 1 046 250	
5)	Japan Bank for International Cooperation (JICA) through Ministry of Finance and Planning	Emergency Natural Disaster Rehabilitation Project	General Untied Loan	Loan and Grant	JPY 7 000 000 000	Environmental
		Eastern Province Water Supply Development Project	General Untied Loan	Loan and Grant	JPY 4 904 000 000	Social Services
		Kandy City Wastewater Management Project	General Untied Loan	Loan and Grant	JPY 14 087 000 000	Social Services
		Upper Kotmale Hydro Power Project 2	General Untied Loan	Loan and Grant	JPY 4 552 000 000	Environmental
		Water Sector Development Project 2	General Untied Loan	Loan and Grant	JPY 8 388 000 000	Social Services
		Water Sector Development Project	General Untied Loan	Loan and Grant	JPY 13 231 000 000	Social Services
		Environmental Friendly Solution Fund Project II	General Untied Loan	Loan and Grant	JPY 5 236 000 000	Mining and Manufacturing
		Small Scale Infrastructure Rehabilitation & Upgrading project	General Untied Loan	Loan and Grant	JPY 9 595 000 000	Social Services
6)	Asian Development Bank (ADB)	Upper Kotmale Hydro Power Project 2	General Untied Loan	Loan and Grant	JPY 33 265 000 000	Environmental
		Green Power Development and Energy Efficiency Improvement Investment Program - Tranche 1	Public Sector (Sovereign)	Loan	USD 150 000 000	Energy, Environmentally sustainable growth (ESG) and inclusive economic growth (IEG)
		Green Power Development and Energy Efficiency Improvement Investment Program	Public Sector (Sovereign)	Loan	USD 300 000 000	Energy, Environmentally sustainable growth (ESG) and inclusive economic growth (IEG)
		Greater Colombo Water and Wastewater Management Improvement Investment Program	Public Sector (Sovereign)	Loan	USD 88 000 000	Water supply and other municipal infrastructure and services

## Research Summary Report, Part 2: Situation of Green SME Finance in the Philippines

# 2

### Executive Summary

The following research study seeks to serve as an impetus for financing institutions and government authorities in the Philippines to catalyse the supply of and stimulate the demand for Green Financing for investment projects in the Small and Medium Enterprise (SME) sector. This research paper focuses on processes, products and best practice of selected financial institutions currently engaged in facilitating the access of small enterprises to Green Finance. It also examines the main barriers and risks in financing renewable energy and energy efficiency projects, particularly in the SME sector and identifies potential measures and solutions in response to these development finance obstacles.

In the Philippines, the focus on SMEs as a development driver of the economy vacillates depending on the political dispensation and the priorities enunciated in 5-year development plans. The SMEs' difficulty in accessing funds from financing institutions has remained the same. Green finance, on the other hand, is a relatively new product line to most banks even though the idea of funding environment-friendly projects started in the early 1990s with overseas development assistance (ODA) channelled through government-owned development banks.

As such, there are success case stories and best practice that can be drawn from the experience of respondents to the survey and interviews undertaken in the course of this research study. Some of the more significant insights from the survey are:

- Building strong linkages are important factors in leveraging institutional strengths of the various partners;
- Reaching out to the target market helps institutions know better the needs and demands of their customers; and
- Appropriate new technologies are proving to be vital instruments in facilitating an understanding of and access to green finance.

There is still much to be done to make green finance a financial tool to enable investment in sustainable consumption and production practice. The next steps proposed in this research study include intensifying information dissemination to negate inaccurate perceptions about green finance, reviewing outdated provisions of existing environmental laws and policies to make them more relevant to present demands, and strengthening local expertise specifically in the appraisal of proposals for green financing.

## Introduction

For many years, the banking and financial sector in the Philippines remained unaffected by talks of climate change mitigation, especially in relation to the “greening of industry”. Being in the “non-polluting” service sector, in contrast to the traditional “smokestack” industries, banks and financial institutions appeared indifferent to the challenge of environmental responsibility other than the usual cleanliness and hygiene of their own premises.

However, this situation has changed dramatically over the last two decades. With legal and stakeholder concerns like lender liability on environmental “miscues” plus the increasing awareness over climate change, environmental degradation, and sustainable development, the banking and finance sector responded positively, albeit rather slowly, towards the principles and practices of environmental risk management and due diligence in their operations.

The banking sector in the Philippines has also started to respond to green industry laws such as the Philippine Clean Air Act, the Philippines Water Act, the Biofuels Act and the Renewable Energy Act, which provide support and incentive packages to environment-friendly businesses. A significant impact on business enterprises is that compliance to applicable laws requires green investments, which translate in operational terms to green finance.

Green finance covers a wide spectrum of projects from large-scale firms to SMEs and micro enterprises. The banking sector holds a unique position in that it can affect businesses and industry through financing programmes that require environmental risk reduction in the lending appraisal system. Mainstreaming green finance can also extend the scope and size of the financial sector and deepen it by increasing the number of clients, allowing better coverage and offering new products with longer maturities.

Global funds are available to start and sustain green finance at every level of enterprise. At the 15th and 16th Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) in Copenhagen and Cancun respectively, developed countries committed to provide US\$30 billion in “new and additional” resources between 2010 and 2012. The goal is to mobilise US\$100 billion a year from public and private financing sources by 2020 (“long-term finance”).

Furthermore, a significant portion of the funds would flow through a global Green Climate Fund that is presently being designed. It is likely that national financial in-

stitutions in developing countries will have an active role in fund access and disbursement.

Funds generated from the domestic financial market will not be sufficient to address the financing needs of developing countries to mitigate climate change. National financial institutions are expected to develop and strengthen their capacities to become catalysts in financing climate change mitigation in their home countries in support of sustainable development and enhanced economic competitiveness.

## Outline of the Methodology Employed

The research study was conducted through three (3) types of methodology:

- Literature research on the relevant information and key statistics of SME financing, with a focus on green finance in the Philippines, using electronically available materials and materials provided by ADFIAP member-banks such as Annual Reports, Sustainability Reports and other completed studies on the situation of green financing in the Philippines.
- A self-administered online survey (attached as Annex 1) developed by ADFIAP sent to twelve (12) ADFIAP member banks in the Philippines, eight (8) of which responded to the survey questionnaire. Of the eight (8) respondent banks, four (4) indicated they have green financing programmes and/or projects.
- Personal interviews with senior officials of the four (4) ADFIAP member banks with green financing, namely: Development Bank of the Philippines (DBP), Land Bank of the Philippines (Landbank), Alalay sa Kaunlaran Incorporated (ASKI) and People’s Credit and Finance Corporation (PCFC).

Guiding questions were used in the gathering of primary information during the personal interviews. This is attached as Annex 2.

The data generated from the online survey were tabulated and summarised in Annex 3 and the information gathered from the literature research and personal interviews were analysed and interpreted as they relate to the objectives of this Research Report.

## Regional Focus

# Country study: The Philippines current state of access to green finance for SMEs

### Financing Situation

Loans to SMEs made up 25% of total bank lending in Asia and the Pacific in 2012, down from 27% in 2011. SME loans grew at 10% year-on-year in 2012 down from 19% in 2011.

In the Philippines, SME loans constitute 12% of the total banking sector lending portfolio. The total bank lending in the country has grown tremendously in the past years, suggesting solid growth prospects for the economy.

The gradual improvement of SME access to banks in the Philippines is driven by various support measures such as mandatory lending under Republic Act 9501, which requires banks to allocate 10% of their loan portfolio to SMEs. Additionally, credit guarantees, such as the Central Bank initiated Credit Surety Fund (CSF) Programme, improve the creditworthiness of SMEs that are experiencing difficulties in obtaining loans from banks.

Unfortunately, bank lending to SMEs has not kept pace. In a 2012 review, the 10-year loan portfolio growth of the Philippine banking sector registered at 121.7%. In the same period, small enterprise lending growth was a measly 10.6%, even as lending to medium enterprises increased by a more respectable 77.5%.

### Green Finance

Financial institutions worldwide are witnessing an increasing awareness among businesses and consumers on sustainable consumption and production (SCP) geared towards stimulating environmentally sustainable behaviour and practice. As such, green financial offerings have become a “blue ocean” challenge for financial sector stakeholders, specifically the development financial institutions (DFIs) and more pro-active commercial banks that have likewise joined the “green bandwagon”.

Donor funding has been a catalyst for some institutions to think, appreciate and implement green financing. As these early birds expand their exposure to green finance, further technical knowledge is becoming critical for them to expand into bigger and more complex projects that would have greater green impacts on the value chain.

### Lending Trends

Green finance programmes/credit policies are in place in 67% of the banks in the survey for this report. Overall though, there appears to be no conscious effort to make an aggressive push for green projects and loan bookings are mainly brought about by client’s needs. Neither is there sufficient pull marketing initiative for the environment.

Renewable energy tops the list of green projects financed by Philippine financial institutions. Other projects include biomass, biogas, energy efficiency, CDM, pollution prevention and waste management. Purchase of equipment is part of the project cost financed by the banks as well as building construction and working capital.

Small financial institutions have funded such projects as solar lanterns and panels to off-grid communities. They help improve the living standards of beneficiaries and generate indirect benefits such as helping students do their homework at home in the evening.

As to the loan tenor, all banks in the survey offer a mix of long-term loans for building and equipment purchase and short-term loans for working capital. Leasing is generally not considered, except when the proposal is coursed through a leasing subsidiary of the financial institution.

While there are ODA funds for green projects, most banks financed their projects from internally-generated funds due to the higher cost of said ODA funds. Interest rates for bank funds are based on cost of funds plus a margin. Cost of funds, particularly for state-owned banks, normally translate to only 2-3% higher than donor rates. In the case of donor funding, the interest rate is either based on LIBOR or donor rate plus guarantee fee and foreign exchange risk cover fee paid to the national government plus administrative fee. In the case of the Philippines, the foreign exchange risk cover fee alone reaches as high as 4% making the pass on rate to borrowers higher than using the local bank’s internally generated funds.

## Green Finance Institutions

### Development Bank of the Philippines

State-owned Development Bank of the Philippines (DBP) is one of the more aggressive players pushing for green financing programmes in the country. DBP has set forth formal green financing guidelines and procedures way back in the 1990s and can be considered the first institution to establish a green financing programme in the Philippines.

DBP created an Environmental Management Unit (EMU) employing technical personnel and financial experts and backed by accredited environmental consultants. EMU not only evaluates projects for financing but also capacitates the Bank's lending units in the booking of green projects.

DBP initially allocated 20.6 billion (or US\$473.6 million) at a conversion rate of \$1: 43.50) for the programme designed primarily to assist industries and local government units (LGUs) in the integration of environment-friendly processes and technologies in cleaner production, water conservation, proper waste management, energy efficiency, air quality improvement, and pollution prevention and control, among others. The programme promotes green projects in both the private and government sectors.

To date, DBP has financed 136 green projects. Its total exposure is estimated at US\$771million. With significant run-offs, the remaining principal balance is down to US\$278 million.

The DBP began its involvement in green finance following a mandate from top management to support the national environmental programmes. Aside from internally generated funds, DBP sourced funding from various multilateral and bilateral agencies such as the Japan Bank for International Cooperation (JBIC), Kreditanstalt für Wiederaufbau (KfW), Japan International Cooperation Agency (JICA), the World Bank (WB) and the Asian Development Bank (ADB).

### Land Bank of the Philippines

The Land Bank of the Philippines (Landbank) is a universal bank owned by the Philippine government with special focus on serving the needs of farmers and fishermen. As a dominant financial institution in countryside development, Landbank adheres to and actively promotes environmental protection and sustainability development in its largely agri-banking operation, products and services.

Landbank organised a unit dedicated to green projects, employing former officers of the Department of Natural Resources instead of tapping outside consultant / experts.

The Bank initially took on green financing as part of the requirement of World Bank's Countryside Loan Facility. A directive from its top management eventually triggered the bank's involvement in green projects and processes.

Landbank has some 32 environment-related projects worth about Php4.4 billion or \$100.83 million in loan exposure. Internal and ODA funds finance these various green financing programmes.

### Bank of Philippine Islands (BPI)

BPI has been funding projects principally from IFC's Sustainable Energy Finance Program, which is coursed through financial institutions to help businesses adopt environment-friendly technologies. Since 2008, the programme has provided some \$119 million in loans for projects that are expected to help avoid around 100 000 tonnes of carbon dioxide emissions each year.

### People's Credit and Finance Corporation (PCFC)

PCFC implements a Micro-Energy Credit Program that aims to support reforms and priority investments to improve the quality of life in rural areas. The programme provides adequate, affordable and reliable energy services, specifically small-scale renewable energy solar lanterns.

This credit programme is implemented in partnership with viable microfinance institutions accredited by PCFC. It is funded by the World Bank, under the Investment Support Component of the Department of Energy's Rural Power Project.

### Alalay sa Kaunlaran, Inc. (ASKI)

ASKI, a non-governmental organisation based in Cabanatuan City, Nueva Ecija, Philippines, was recognised in the Karlsruhe Sustainable Finance Awards 2013, one of the highlights of the Global Sustainable Finance Conference held in Karlsruhe, Germany. ASKI received the Certificate of Merit for the Best Innovation in Financial Services for its success in embedding sustainability and environmental initiatives in its agricultural loan programme.

The theme of the Award focuses on 3Ps (People, Planet, Profit) and recognises outstanding success in financial products and services that balance the 3Ps. According to the organisers, "the winners in the Best Innovation in Financial Product have applied innovative approaches in embedding sustainability in lending and/ or deposit products and other financial services that advance the transformation to low carbon and sustainable economy."

### Other Banking Sub-Sectors

Green Programmes have been in place in big banks for over decade now. Smaller financial institutions started

financing green projects less than three years ago. Micro-finance companies have evolved their respective lending approaches from the traditional Grameen formula to one with a no co-maker arrangement and aligning their operations on cash flow basis like the bigger banks.

The particulars of the green finance programmes of financing institutions which participated in the survey are presented in Annex 4.

Debt financing is the more popular mode of funding for green projects. The breakdown of alternative financial instruments in green finance, such as equity financing, leasing and factor financing, are presented in Annex 5.

## National and Regional Initiatives

SMEs in Asia have a wide range of financing needs as they adopt environment-friendly practices and technologies. Green finance can leverage the scaling-up of sustainable production practice in small enterprises.

A recent study funded by the United States Agency for International Development (USAID) projected that USD 90 billion would be needed annually to finance green growth in 11 developing Asian countries. The amount will be required over the coming decades as these countries transition to sustainable, low-carbon economies.

However, there are only USD1.6 billion in approved investments in low-carbon projects and programmes in 11 countries that include the Philippines, Thailand, and Vietnam, among others. Greening the economy ultimately requires funds from other sources.

Most of the needed investments to shift to environmentally sustainable and low-carbon growth are expected come from the private sector. Asian governments are now actively seeking innovative ways of mobilising private sector finance to meet the coming funding shortfall. Green finance can directly improve the competitiveness of SMEs. In the short-term, SMEs require working capital to cover the daily production and administration costs associated with running a business. Adequate financing is required over the medium-term as SMEs invest in eco-efficient equipment and clean technologies to enhance business performance.

Over the long-term, green finance is needed to scale-up the green business model to other economic sectors and regions. Long-term financing is primarily needed to expand markets and introduce new products and technologies. Typically, the magnitude of green investments is

high and the returns, in most cases, come over the longer term.

To leverage private fund financing, government funds can also be tapped. Public fund mechanisms tilt the balance in favour of profitability, for example, by offering soft loans or guaranteeing the loans from private sector banks. Governments can also redirect part of public R&D spending to support the development of green technologies as well as creating frameworks of subsidies, taxes and rebates to channel private sector funding of R&D.

### National Green Initiatives

In the Philippines, green-related programmes are geared towards sustainable development. At the grassroots and community levels, public awareness policies and projects contribute to a clean environment. At the national scale are funded programmes with the larger mission of reducing the effects of climate change, aside from the typical government-led abatement and mitigation undertakings. These initiatives provide the legal framework and implementing guidelines on which Green Finance is being implemented by financing institutions in the country.

The database, attached as Annex 6, is a list and description of the more comprehensive financing initiatives and case studies in the Philippines to reduce the impact of climate change under the larger umbrella of sustainable growth.

### Regional Green Initiatives

An International Conference on Green Industry in Asia, entitled Managing the transition to resource efficient and low carbon industries, took place in Manila, Philippines. The conference was co-organised by the Government of the Philippines, with the United Nations Industrial Development Organization (UNIDO), the UN Environment Programme (UNEP) and the UN Economic and Social Commission for Asia and Pacific (ESCAP).

The conference provided an arena for high-level policy makers and other key stakeholders to discuss measures to achieve a smooth transition to resource-efficient and low-carbon industries in Asia. Conference participants discussed policies and strategies that would enable countries in the region to successfully manage this transition; regulatory and institutional frameworks as well as the support services that would be required by industry to shift to more sustainable patterns of production; and new business opportunities from the shift to a resource-

efficient and low-carbon economy. The conference adopted the non-binding Manila Declaration on Green Industry in Asia, which contains a Framework of Action.

The various initiatives presented by conference participants from Asian countries are shown in Annex 7a and 7b.

## Key Challenges Encountered by SMEs

Small enterprises account for more than 90% of the Philippine economy. However, a study by the Asian Development Bank (ADB) on the SME sector and the state of finance in the Philippines indicated that SME loans make up only 12% of total banking sector lending portfolio.

SMEs generally rely on informal sources rather than bank financing. This can have an impact on access of SMEs to green finance and it may be instructive to understand the entrepreneurial mind-set towards formal financing sources.

Some of reasons why SMEs shy away from financing institutions are:

- Loan applications entail documentary requirements, such as proof of capacity to pay, and other legal documents including income tax returns, audited financial statements, and business permits, which may be cumbersome for SMEs used to the ways of the informal sector.
- SMEs can be intimidated by banks and traditional bankers who think small enterprises have no acceptable collateral, lack financial literacy, no reasonable accounting or business systems or are unfamiliar with bank requirements.
- Most SMEs are located in areas far from banks and the limited accessibility of banks compounds their unease dealing with formal institutions. People find themselves excluded; some may simply be unaware of what is available for them and financial institutions make little effort to market their services to them.
- Services of financial Institutions are perceived to be too costly. Others find these services inappropriate so SMEs are often either unable or willing to pay for the high fees of a bank transaction.
- SMEs hesitate to deal with banks because of their low level of awareness of the different financing options available in banks.

Financial institutions have their own constraints in dealing with SMEs. Some general perceptions of banks regarding SMEs are:

- SMEs do not keep proper records and lack sound management systems. When such SMEs apply for a loan, their actual business results as reflected on the loan application do not match their financial records. Such poor management practice and absence of transparency have led to SMEs being seen by banks as risky borrowers and making them less appealing to lenders.
- Presently, only the state-owned and big universal banks have the technical capability to evaluate green loans as well as the financial resources to tap environmental consultants to assist them in the evaluation. As it is, if given a choice, the big bank would want to upgrade their technical capabilities to evaluate more complex projects on their own and not rely on consultants whose time availability is sometimes limiting. In contrast, the smaller banks and financial institutions, with a wider provincial/rural reach, lack the capacity to evaluate green loans and have no green credit scoring system. Said small bankers are likely to be unfamiliar with the green technology market, particularly the technical aspects compared with mature market products such as mortgage loans. Financial institutions, like PCFC and ASKI above, as well as other smaller banks merely limit their financing to simple green projects, such as micro energy programmes like solar lanterns. Their technical knowledge is limited to what the suppliers provide, making them uncomfortable. Their geographical reach, if capacitated properly, will fast track the financing of a wider range of green projects. Where credit evaluators do not understand or lack appreciation for the green business, they are likely to consider lending to such new business as a high risk. In view of the fact that small banks are the first resort of SMEs for borrowing in their locality, there is a need to extend the level of expertise to handle green finance to the small banking industry sector, in the course of channelling green funds through them to the SMEs.

Among the banks included in the survey, only 22% are limited to the regional/local market while the balance (78%) are nationwide in scope, of which 43% also cover the international market. However, only 22% of the respondents have an SME unit for green projects. This could be one reason for the seemingly limited performance of green finance of banks in the Philippines.

## Review of Successful Case Studies

All institutions with the capability to evaluate green projects have their share of success stories, from the small to the very big in scale. For a case story to be a success, it must not only reflect profitability, but also how it affected the lives of the borrowers and the beneficiaries.

### Development Bank of the Philippines (DBP)

- **Cantingas Mini-hydro Power Plant**

On March 4, 2010, DBP and local officials inaugurated a 900 kW mini-hydro power plant during simple ceremonies in the seaside town of Catingas in Sibuyan Island, Romblon.

Using the vast potential of the Cantingas River as the source of hydropower, the mini-hydro power plant is expected to address the increasing demand for electricity in the island of more than 50 000 residents.

The Cantingas mini-hydro power plant now enables the Romblon Electric Cooperative (ROMELCO) to supply round-the-clock electricity to residents and business establishments throughout the island of Sibuyan. In the past, the island's three municipalities of San Fernando, Magdiwang and Cadjiocan relied on two 600 kW diesel generators that could only provide electricity for 18 hours.

- **Rocky Farm Methane Recovery Project**

Rocky Farm operations is a swine farm located in Antipolo City, with a 100% tunnel ventilated system with normal scraping and hose down cleaning of waste. The farm manages waste through a series of concrete lagoons where the waste material degrades anaerobically producing significant amounts of methane. The development of the Rocky Farm Project will reduce greenhouse gas emissions produced by the release of the methane from the concrete lagoons. With the projected annual biogas off take, the project will reduce emission by 3 397 tonnes of CO<sub>2</sub> equivalent per year.

- **Mekeni Foods Corporation**

Mekeni Foods is a processing company in San Fernando, Pampanga that sought a loan from the DBP to implement the optimisation of the defrosting cycle of evaporators at the cold storage area. They also returned the condensate to the feed water of the boiler and optimised the storage material, which resulted in the reduction of electricity consumption by 11%, with annual savings of about USD 82 000 and a reduction

in fuel consumption by 24 440 litres. These resulted in an annual savings of about USD 22 000 for the installation of wastewater treatment facilities and pollution control equipment, which in turn helped the reductions in water and air pollutants.

### Land Bank of the Philippines

- **Biotech Farms, Inc.**

Biotech Farms was funded under its Carbon Finance Support Facility project with the United Nations Framework on Climate Change Convention in 2012. As a registered Clean Development Mechanism (CDM) project, the farm earns Carbon Credits for its Carbon Emission Reduction, which can be sold to the carbon market.

- **Catmon Multi-purpose Cooperative**

This is a biogas recovery and development project in Sta. Maria, Bulacan. Waste from more than 10 000 head of fattened hogs from its piggery are collected and processed to produce methane, a highly combustible greenhouse gas that is a by-product of fermenting animal manure. The methane is then pumped back to the farm as fuel instead of having it released into the atmosphere, where it contributes to global warming.

### Bank of the Philippines Islands (BPI)

- **Corfarm**

BPI, a private commercial bank, granted a USD 1 million loan to Corfarm for the construction of a methane capture and electricity production facility in its 15 000-head pig farm north of Manila. Funding came from IFC's Sustainable Energy Finance Program, which works with financial institutions to help businesses adopt environment-friendly technologies. Since 2008, the programme has provided some \$119 million in loans for projects that are expected to help avoid around 100 000 tonnes of carbon dioxide emissions each year.

Other case studies are included in the Database attached as Annex 6.

# Key Trends and Best Practice

## Building Partnerships

### DBP

To push green financing, the state-run Development Bank of the Philippines (DBP) has forged partnerships with the European Chamber of Commerce in the Philippines (ECCP), the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), the Asia Society for Social Improvement and Sustainable Transformation (ASSIST) and the Environmental Management Bureau of the Department of Environment and Natural Resources (EMB-DENR).

The partnerships led to a P 20.6 billion loan facility for investments in processes and systems friendly to the environment. DBP formalised the partnerships to promote industrial productivity and green growth while protecting the environment.

DBP is partnering with the ECCP for two projects. Firstly, they were undertaking the SMEs for Environmental Accountability, Responsibility and Transparency (SMART) Cebu Project to increase the competitiveness of SMEs via cleaner production. Eco-friendly products are developed for export to green markets in Asia and Europe. DBP is likewise working together with ECCP on the Green Philippines Islands of Sustainability, promoting sustainable production for industries within Metro Manila and CALABARZON.

### BPI

The Bank of the Philippine Islands (BPI) partnered with the International Finance Corporation (IFC), a member of the World Bank Group, to build a sustainable energy financing loan portfolio. IFC will help BPI expand its financial products, focusing on micro, small, and medium enterprises in the manufacturing sector. The bank will also focus on energy efficiency in hospitals, schools, hotels and shopping malls, and the business process outsourcing industry.

A leading universal bank in the Philippines, BPI is the first in the country to leverage IFC's Sustainable Energy Finance Program to focus on small and medium enterprises and other key sectors.

BPI is also working on climate change mitigation. It also partnered with Kabang Kalikasan ng Pilipinas (World Wildlife Fund Philippines) to establish the Climate Savers' Program, which aims to reduce the bank's carbon foot-

print over the next five years. The BPI Foundation is also engaged in a series of advocacy programmes on environmental promotion.

### ASKI

The Alay sa Kaunlaran Incorporated (ASKI) partnered with the Microfinance Council of the Philippines with the support of ADA Microfinance in piloting the "Energy Inclusion Initiative" aimed at developing clients' productive use of renewable energy, increasing awareness and knowledge for the benefit of education, community development and livelihood. ASKI strengthened its campaign on renewable energy through a green energy loan (GEL) in support of the country's rising energy concerns,

The loan programme promotes the use of solar-operated products for the business or farming activities of its clients. As of June 2013, 128 units of solar lamps were released in pioneer branches outside Metro Manila.

## "Out of the Box" Solutions

Banks have taken fresh initiatives to meet the financing needs of SMEs better. These include creating innovative products to fit SME requirements, easier loan application processes through non-traditional channels (e.g., online applications), expanding the branch network and conducting SME forums to reach more SMEs, and active participation in wholesale funding facilities provided by governmental financial institutions and donor funds, and mobile banking to address the proximity barrier.

Banks have also learned to develop proxies for audited financial statements to be able to validate the SME's capability to repay its loans. To address the issue of risks posed by SMEs, some banks have developed SME credit scoring models for enhanced credit risk management. Using a credit evaluation process that recognises secondary information sources, such as channel checks and deposit transactions as proxies for revenues, and cash flow to determine capacity to pay are also being employed.

Another best practice being adopted by banks is reaching out and going to the SME market as a business partner/adviser rather through the conduct of forums to understand SME clients and their business better. These forums create a venue for SMEs to know more about the bank and its products. Customised solutions best suited to clients' needs are presented. Clients are also updated on current economic developments that may influence their business, and relevant management, business and financial insights are shared.

Energy Service Company (ESCO), a pact forged between the Department of Energy (DOE), the Development Bank of the Philippines (DBP), and the Soluziona Philippines and International Finance Corporation managed Efficient Lighting Initiative (ELI), hopes to open the doors of opportunity for the growing energy efficiency practitioners, such as the budding Energy Service Company (ESCO) industry. The goal of this project is to set the terms, conditions and guidelines for the development and promotion of Model ESCO transaction in the country to tap the banking, finance and ESCO sectors as pro-active agents of sustainable market transformation towards energy efficiency.

An ESCO is a business enterprise that develops, installs, and finances projects designed to improve energy efficiency and reduce operations and maintenance costs for its customers' facilities. ESCOs generally act as project developers for a wide range of tasks and assume the technical and performance risk associated with the project.

The opportunity exists for a viable model ESCO project involving DOE, the DBP and ELI. DOE will lay the groundwork for an ESCO, providing an energy audit of DBP's facilities, which will serve as an industry benchmark. DBP has a secondary responsibility in educating retail banks in financing for energy efficiency projects. Together with ELI, the consultants are tasked to work with the different parties and to deliver a business plan laying the groundwork for future ESCO transactions in the Philippines.

The ESCO partnership calls for an unprecedented cooperation between government and finance sector.

## Rebuilding Tacloban with Green Transport

Tacloban City was one of the hardest-hit areas by Typhoon Haiyan, the strongest typhoon to make landfall in recorded history. To promote adaption and resilience to environmental challenges, the Institute for Climate and Sustainable Cities (ICSC) built RE-Charge Tacloban, a community-based social enterprise for sustainable livelihoods and renewable energy.

The centre is home to a small fleet of electric jeepneys (or eJeepneys). Jeepneys are a popular mode of transport in most areas of the Philippines especially in the countryside where they help move not just people but goods as well. Combining solar and geothermal power allows the electric vehicles to be 100% fossil-fuel free, which helps reduce greenhouse gas emissions.

RE-Charge eJeepneys in Tacloban also provide a practical example of an investment that integrates energy efficient, low-carbon transport initiatives with renewable

energy generation. They act as models of the business viability of the vehicles. Local enterprises, cooperatives, individuals and members of the transport sector can evaluate their feasibility, based on the actual performance of these energy-efficient passenger vehicles.

If sunlight is not available, the facility will automatically source its energy requirements from the city's electricity grid, ensuring that several battery banks, including those for eJeepneys, will continue to be charged and that the facility's electricity needs will be constantly covered.

Initially, the eJeepneys will be owned by e-Jeepney Transport Corporation (EJTC) but after a period of six months to a year, which is enough time to show the technical viability of the vehicles, financing programmes will be introduced, which may take the form of a lease-to-own scheme.

## Conclusions

Based on secondary research data and primary information from the survey, the main perceptions with respect to the state-of-the-art of green finance in the Philippines are very encouraging and inspiring. While some areas may be wanting, they can nonetheless be easily resolved particularly easily with proper international intervention as follows:

- Leading financial institutions are starting to implement internationally-accepted internal green initiatives;
- Existing institutions, such as the Climate Change Commission under the Office of the President, may be tapped to seriously push green initiatives in the national political agenda;
- Improving bank capacity to handle green accounts to overcome institutional aversion to risks in new projects;
- Matching growing awareness on green finance in the SME sector with support for institutions in terms of expertise in environmental management and green finance;
- Rationalise environmental laws and their implementation procedures to make them relevant to changing times;
- Address the high cost of Overseas Development Assistance funds, which provide long-term tenors needed for green investments mainly brought about by the imposition of high foreign exchange risk cover fee by local regulators.

## Recommendations for Next Steps

- **Leading financial institutions are starting to implement internationally-accepted internal green initiatives.**

In the spirit that cleanliness begins at home, most financial institutions with green financing programmes in the Philippines have started and continue to sustain green activities in their own “backyard.” This is a pre-requisite before the FIs can be ISO-certified. At the same time, quality certifications, such as ISO, increase the potential of access to ODA funds and low-interest bearing loans from foreign sources directly provided to the financial institutions and without the intervention of local

regulators, which impose foreign exchange cover fees.

A possible next step for green finance proponents in the Philippines is to strengthen their gains from past accomplishments by building new partnerships with local and international green advocates. There have been mistakes along the way starting with tree planting campaigns decades ago but today, there is progress to speak of in national efforts at greening the environment and in success stories presented in this report. They should provide lessons for the future.

Existing institutions, such as the Climate Change Commission under the Office of the President, may be tapped to push green initiatives in the national political agenda. The common sentiment of those surveyed for this report is that there is lack of political will to push green initiatives. While laws have been promulgated such as the Philippine Clean Air Act, the Philippine Clean Water Act, the Philippine Biofuels Act and the Renewable Energy Act, their implementation lacks a monitoring or compliance system and the implementers, such as local government units, operate with very limited budgets to come up with significant projects with a high impact.

To illustrate, disaster control initiatives are sometimes left to the local government and as such, there is no one coherent programme. A simple project like prohibiting the use of plastic bags in the supermarket and restaurants is not being supported by all city governments, even in Metro Manila.

- **Improving bank capacity to handle green accounts to overcome institutional aversion to risk in new projects.**

Most private banks have been traditionally wary of “risks” in providing funds to new products and markets. Green finance is a special niche where project appraisal and monitoring, for example, requires more than the usual routine, on top of expertise in handling environmental issues.

Of those financial institutions with no policy on green projects, the survey responses indicate that 67% of the banks do not consider green projects as

a priority or is simply not in the business plan of the bank. The remaining 33% state that even if green finance were part of a priority, their staff would not have the technical expertise nor the experience to process such proposals.

A possible solution is for a programme like Switch Asia to spearhead and fund, in collaboration with non-profit organisation/s in the Philippines for the creation of an appropriate loan processing system; train all development financing institutions including MFIs with limited resources but whose coverage reaches even the off-grid communities.

The present low penetration of banks in green finance should also be viewed in terms of the potential it holds for the banking industry and for the growth of the economy. For the banking industry, this means greater scope to widen its reach to cover the unbanked and underserved markets, and tap the opportunities with these markets. This may be done not only through traditional bricks-and-mortar, but also through alternative and non-traditional channels (e.g., electronic and mobile banking). Technology should play the role of an enabler, by which IT upgrades and innovation increase banks' capability to broaden their coverage and reach remote areas.

- **Matching the growing awareness on green finance in the SME sector with support for institutions in terms of expertise in environmental management and green finance.**

There is a need for information dissemination and education/ awareness campaigns in the regions and provinces, as well as in urban areas on the benefits, for example, of using solar and other green friendly equipment and processes. This should help reduce the common perception significantly that green projects are expensive and stress instead that the benefits of green investments far outweigh the initial cost, especially over the longer term.

Education programmes can be initiated by government agencies, non-government institutions and even financial institutions, like microfinance companies that work at the grassroots level.

Additional capacity building of financial institutions/MFIs would allow an expanded coverage of communities' awareness on the importance of green initiatives.

There are few environmental experts in the Philippines and not all financing institutions can afford to pay for their services. The government should consider creating an agency that could act as an advisor to green projects. Its operations can be co-shared with banks and a partial fee sharing of revenues with the government. The green unit can also endorse appropriate technologies similar to Bureau of Food & Drugs (BFAD) for the food industry, as well as supporting the Department of Environment and Natural Resources in monitoring compliance by the different projects on the aspect of green finance.

- **Rationalising environmental laws and their implementation procedures to make them relevant to changing times.**

Since several environmental policies and laws have already been in place as early as the 1990s, there may be a need to review certain provisions to ensure their continuing relevance and practicality. One aspect to look into is the streamlining of processes and cooperation among different agencies with respect to green projects and their technology requirements. Another concern is fast tracking the inclusion of remote areas into the mainstream using modern green infrastructure.

Establishment of a one-stop agency to act as a clearinghouse to facilitate, coordinate and assist entrepreneurs/institutions who would like to explore opportunities in the green sector is recommended.

- **Addressing high cost of Overseas Development Assistance (ODA) funds which provide long-term tenors needed for green investment.**

The source of funding for green projects comes mainly from ODAs due to their long tenors matching the requirements of the projects. While ODA funds carry reasonable rates to the conduit financial institutions, pass on rates to the final end users become expensive due to the imposition of additional foreign exchange risk cover and guarantee fees by fiscal agencies, e.g., Department of Finance.

To enhance the attractiveness of the interest rates of these green funds, a task force composed of officials from ODA-beneficiary financial institutions and the Department of Finance could be formed to make a study on the feasibility of reduc-

ing the foreign exchange risk cover and guarantee fees imposed on banks, so that the pass-on interest rates to the final beneficiaries could be consequently reduced, encouraging loan availability for green investments. A position that the financial institutions can take is that they have been continuously remitting said fees on ODA funds since the late 1980s when multilateral and bilateral funding agencies started channelling policy-based ODA funds to the development finance institutions, such as the DBP and Landbank. Hence, the national

government should have already established a substantial sinking fund to cover risk on the depreciation of the Philippine peso over time. Another option would be for the development finance institutions to manage their own foreign exchange risk exposures, dispensing with the payment of foreign exchange risk cover fee to the national government, which stands at about 3%-4%. These banks have the expertise to manage the said risk as their Treasury Departments have the required cutting-edge knowledge and capability.

## Reference Materials for Philippines Research

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**Greening the Financial Sector – How to Mainstream Environmental Finance in Developing Countries**, Doris Kohn, Editor  
Development Bank of the Philippines Annual Report, 2012

**Landbank of the Philippines Annual Report**, 2012

**DBP Bulletin**, Volume 44, No. 7, April 23, 2012

**Greening an Inclusive and Green Growth**, United Nations Economic and Social Commission for Asia (ESCAP)

**Financing an Inclusive and Green Future: A Supportive Financial System and Green Growth for Achieving Millennium Development Goals in Asia and the Pacific**, ESCAP

**Financing Programmes for Micro, Small and Medium Enterprises**, Bureau of Micro, Small and Medium Enterprise Development (BMSMED)

**“RE-Charging Tacloban with green transport”**, Philippine Daily Inquirer, November 2, 2014

**Portrait of Progress**, Development Bank of the Philippines

**Websites of participating Development Financing Institutions**, including IFC and ADB.

## Annex 1: Green Financing Programmes of Respondent Financial Institutions

Name of Institution	Lending Programme	Objective / Loan Purpose	Eligible Borrowers
Development Bank of the Philippines	Clean Alternative Transport Fuel Financing Program	<ul style="list-style-type: none"> <li>• Aims to support the Clean Air.</li> <li>• To support the Government's Natural Gas Vehicle Program For Public Transport (NGVPPT) by providing financing to eligible Investment Enterprises (IEs) in the transport sector, fuel supply infrastructure, equipment / technology supply and support industries.</li> <li>• Acquisition / manufacture of Original Equipment Manufactured CNG/LPG dedicated, dual or bi-fuelled vehicles.</li> <li>• Retrofitting of existing vehicles into bi or dual-fuelled vehicles</li> <li>• Conversion of existing vehicles from diesel/gasoline fuelled engine into a dedicated CNG/LPG engine.</li> <li>• Procurement /Construction/ installation of Supply Infrastructure Facilities including transmission and distribution facilities.</li> </ul>	<p>Duly registered entities in the transport sector, supply infrastructure, equipment / technology supply and support industries with at least 70% Filipino ownership such as:</p> <ul style="list-style-type: none"> <li>• Single Proprietorship, partnership, corporations</li> <li>• NGOs</li> <li>• Cooperatives</li> <li>• Transport Federations and Associations</li> </ul>
Development Bank of the Philippines	Green Financing Programme	<p>To assist industries and LGUs in the development and implementation of their green programmes or eco-friendly projects</p> <ul style="list-style-type: none"> <li>• focuses on greening the industries and LGUs to foster resource efficiency and low-carbon operations.</li> </ul>	<ul style="list-style-type: none"> <li>• Manufacturing Sector /industries</li> <li>• Hotels</li> <li>• Resorts</li> <li>• Restaurants</li> <li>• Transportation sector</li> <li>• LGUs</li> <li>• GOCCs</li> <li>• Gov't. Agencies</li> <li>• Private Financial Institutions</li> <li>• Joint Ventures (Between LGU/GA/ GOCC and private company)</li> </ul>
Development Bank of the Philippines	Sustainable Solid Waste Mgt. Program	<p>To assist LGUs and private enterprises in the development of their solid waste mgt. programmes by providing financing and technical assistance</p> <p>Features: Waste Collection and Transport; Facilities for waste treatment and processing; waste to energy projects; Closure and Rehabilitation of Existing Dump Sites and Consulting Services for Project Preparation and Implementation</p>	<ul style="list-style-type: none"> <li>• LGUs</li> <li>• Private enterprises with at least 70% Filipino ownership</li> <li>• Government-Owned and Controlled Corporations</li> </ul>
Development Bank of the Philippines	Climate change and Carbon Financing Facility	Registration of eligible projects with the Clean Development Mechanism (CDM) through DBP's Carbon Finance Program	
Development Bank of the Philippines	Financing Programme for the Water Supply Sector	<ul style="list-style-type: none"> <li>• For the construction /expansion/ rehabilitation /improvement of Level 3 or Level 2 Water Supply Systems</li> <li>• Investment in Climate Change Adaptation Technologies (Ex. Rain collection system)</li> </ul>	<ul style="list-style-type: none"> <li>• Water Service Providers Such as Non-operational Water Districts; Water Districts with less than 50% Water Service coverage;</li> <li>• LGUs</li> <li>• PFIs</li> <li>• MFIs</li> </ul>
Development Bank of the Philippines	Financing Programme for the Sanitation Sector	For the development of sanitation services/facilities and collection, transport, treatment and disposal of waste water	<ul style="list-style-type: none"> <li>• Water Service Providers</li> <li>• LGUs</li> <li>• PFIs</li> <li>• MFIs</li> <li>• other private companies</li> </ul>

Name of Institution	Lending Programme	Objective / Loan Purpose	Eligible Borrowers
Development Bank of the Philippines	Tree Plantation Financing Programme	For the expansion, harvesting, maintenance and protection of existing tree plantations with at least 4-year old standing trees in at least 1% of the plantation area of qualified private and public land. Plantation should be 5 hectares up to 500 hectares of open, contiguous area suitable for the planting of forest/ fruit tree species and other crops.	Duly registered existing operators with at least 4-year old tree plantations such as: <ul style="list-style-type: none"> <li>• Industrial tree plantation companies</li> <li>• Wood producers</li> <li>• Integrated Forest Mgt. Agreement (IFMA) holders- members or accredited by the Philippine Wood Producers Association</li> <li>• Socialized Integrated Forest Management Agreement(SIFMA) holders</li> <li>• Private land owners</li> <li>• LGUs</li> <li>• Private schools</li> <li>• Peoples' organisations/cooperatives</li> </ul>
Development Bank of the Philippines	New and Renewable Energy Projects	<ul style="list-style-type: none"> <li>• For production of Biofuels (i.e. biodiesel, bioethanol, etc.)</li> <li>• For projects with proven energy savings that must be technically and economically feasible such as: lighting systems, pumps and motors, streetlight and traffic signals, air-conditioning modifications, waste water treatment equipment and automated energy management systems / controls</li> </ul>	<ul style="list-style-type: none"> <li>• LGUs</li> <li>• Private entities</li> <li>• GOCCs</li> <li>• Gas</li> </ul>
Land Bank of the Philippines	Renewable Energy For Wisser and Accelerated Resource Development (REWARD) Programme	Aims to provide financial assistance to entities that are engaged in renewable energy projects in support to the national government's call to develop energy sources such as: Biofuel, Biomass, Hydropower, Wind projects, Geothermal, Solar photovoltaic, solar Water heaters & co-generation	<ul style="list-style-type: none"> <li>• Sole Proprietorship, Partnership, Corporation</li> <li>• Cooperatives</li> <li>• LGUs</li> <li>• NGOs</li> </ul>
Land Bank of the Philippines	Countryside Loan Fund-Credit Support For Environment, Agri-Business and Small and Medium Enterprises (CLF-CREAM)	Aims to support priority sectors through medium to long-term credit assistance to the environment-related projects, agribusiness and small and medium enterprises as supplement to the CLF Programmes	Accessed through accredited Participating Financial Institutions by sub-borrowers such as: Sole proprietorships, partnerships, Corporations, cooperatives and associations
Land Bank of the Philippines	Credit Line For Energy Efficiency and Climate Protection (CLEECP)	Re-lending programme to increase energy efficiency and climate protection and to significantly reduce the direct consumption of primary energy(diesel, coal, gas) and direct greenhouse gas emissions.	<ul style="list-style-type: none"> <li>• Private sector companies and entities</li> <li>• LGUs</li> <li>• National Government Agencies (NGAs)</li> <li>• Government Owned and Controlled Corporations (GOCCs)</li> </ul>
Land Bank of the Philippines	Bringing Inclusive Growth in Every Household Through National Electrification Support Services (BRIGHTNESS) Programme	A credit facility that will accelerate rural electrification through provision of financing support to the power industry.	<ul style="list-style-type: none"> <li>• Electric cooperatives</li> <li>• Joint venture consortium of Electric cooperatives</li> <li>• Wholesale Power Aggregators</li> </ul>
Land Bank of the Philippines	H2OPE (Water Programme for Everyone)/Water District Loan Programme	To finance the ff. projects <ul style="list-style-type: none"> <li>• Start-up/New Water System projects</li> <li>• Systems Expansion/Development</li> <li>• Capacity/Efficiency Building Enhancement projects</li> <li>• Repair /Rehabilitation Projects</li> <li>• Emergency Financing Projects for water systems that are damaged by natural calamities</li> <li>• Water Sanitation Projects</li> <li>• Working Capital requirement</li> <li>• Water Desalination projects</li> <li>• Financing of counterpart/equity requirements of foreign-assisted WD projects</li> </ul>	<ul style="list-style-type: none"> <li>• Creditworthy Water Districts (WDs)</li> <li>• Semi Creditworthy WDs</li> <li>• Pre-Creditworthy WDs, subject to validation based on the LWUA Credit Rating Parameters</li> <li>• Institutions/ Corporations managed water districts</li> <li>• LGU-operated and managed water utilities</li> <li>• Privately-owned water utilities</li> <li>• Cooperatives-operated water utilities</li> <li>• Barangay/Rural Waterworks and Sanitation Associations</li> </ul>



Name of Institution	Lending Programme	Objective / Loan Purpose	Eligible Borrowers
People's Credit and Finance Corporation	Micro-Energy Credit Programme	To support reforms and priority investments to improve the quality of life in rural areas through the provision of adequate, affordable and reliable energy services specifically to small-scale renewable energy solar home system/solar lanterns	<ul style="list-style-type: none"> <li>• PCFC to MFI (accredited Micro Finance Institution partners)</li> <li>• MFI to Borrower (low income families in urban and rural areas)</li> </ul>
Alalay sa Kaunlaran, Inc. (ASKI)	Green Energy Loan (GEL) Programme	To develop clients' productive use of renewable energy, increase awareness and knowledge for the benefits of education, community development and livelihood.	Marginalised farmers are provided with a comprehensive package that includes credit facilities, infrastructure support, such as water pump for irrigation, solar dryers and hanging bridges as well as intensive technical training programme.

Annex 2:

# Alternative Financial Instruments in Green Finance

		Financial Instruments										
		Debt financing			Equity financing			Tailored financial instruments for E&RE			Other financial instruments	
		Commercial loans	Concessional loans	Micro credit	Private equity	Venture capital	Mezzanine finance	ESCOs	Carbon Finance (CDM)	Banking windows	Leasing	Factoring
Specific contributions to increase E&RE	Working capital (short-term)											
	Purchase of sustainable raw materials needed for the production process	■	■	■								■
	Acquisition of low-energy and resource consuming office appliances	■	■	■							■	■
	Allocation of resources for capacity building (e.g. workshops, training, conferences and seminars about design and implementing of E&RE)		■									
	Equipment finance (middle-term)											
	Development or acquisition of more efficient machinery	■	■		■	■	■	■	■	■	■	
	Rent of more efficient machinery										■	
	Maintenance of existing machinery	■	■				■	■	■	■		
	Investment finance (long-term)											
	Construction and expansion of facilities	■	■		■	■	■	■		■		
Maintenance of facilities	■	■		■	■	■	■	■	■			

## Annex 3:

# Green initiative Programmes in the Philippines

Listed below are some of the green initiative programmes in the Philippines with the common objective of working towards a sustainable environment.

<p><b>Green Initiative</b></p>	<p>A national movement that works to nurture and protect the Philippine environment in a way that benefits the communities living around it. This movement is mainly characterised by partnerships between different sectors of society with varying interests, united by a genuine belief in the advocacy.</p>
<p><b>Green Philippines</b></p>	<p>An initiative to bring forward the integration of sustainable development principles to the fast-paced industrialisation being experienced by various countries in Asia. Specific objective is to decrease significantly the waste emissions in Subic and Clark Special Economic Zones.</p>
<p><b>Philippine Poverty Environment Initiative (PPEI)</b> Working Towards Building a Green Economy and Sustainable Local Communities</p>	<p>PPEI is a five-year (2011-2015) collaborative programme of the Government of the Philippines and United Nations Development Programme-United Nations Environment Programme (UNDP-UNEP), through the Department of the Interior and Local Government (DILG). The PPEI supports poverty reduction and inclusive development by integrating pro-poor and environmental concerns into development planning and economic decision-making. It seeks to strengthen local development planning in the use of natural resources and the revenues derived from them, complemented by the growing corporate social responsibility (CSR) and active civil society.</p>
<p><b>Bantay Kalikasan's Green Initiative</b></p>	<p>A joint programme involving ABS-CBN Foundation Incorporated's (AFI) Bantay Kalikasan, the government (Department of Tourism), media and academe, Green Initiative responds to protect and nourish the country's natural biodiversity, while alleviating poverty and enriching the lives of people through various livelihood projects.</p>
<p><b>Go Green</b></p>	<p>A sustainable environmental programme to revitalize the Philippine ecosystem and sustain the Philippine fashion accessories industry. It is an initiative of the Fashion Accessories Manufacturers And Exporters Foundation Philippines, Inc. (FAME Foundation) in partnership with the Department Of Environment And Natural Resources Region VII (DENR-VII). Go Green is FAME Foundation's way of contributing to a sustainable environment and promoting corporate social responsibility in the industry.</p>