

GREEN BOND FRAMEWORK



Susceptibility to natural disasters with hundreds of millions living in coastal areas, the continuing predominance of natural resource-based livelihoods with many depending on agriculture, and rapid economic expansion, all make climate change a critical issue for Asia and the Pacific region. The Asia-Pacific region is facing the triple challenge of increasing access to energy and enhancing energy security whilst reducing greenhouse gas (GHG) emissions. ADB is committed to helping its developing member countries (DMCs) to mitigate GHG emissions and adapt to the consequences of climate change, whilst seeking inclusive economic and environmentally sustainable growth. ADB's aim is to offer "finance ++" – a superior combination of ADB's own finance, plus leveraging resources through partnership, plus providing knowledge – to its DMCs to maximize and accelerate development effectiveness.

Since the early 1990s, ADB has initiated efforts to enhance understanding of the region's greenhouse gas emissions and the capacity of the DMCs to cost-effectively meet their mitigation objectives under the United Nations Framework Convention on Climate Change. At the heart of ADB's long-term strategic framework, Strategy 2020, are three strategic agendas: inclusive economic growth, environmentally sustainable growth, and regional integration. Addressing climate change is a core operational area within the strategic agenda of environmentally sustainable growth. ADB has worked towards the better alignment of its investments, and associated policy and institutional support, with the priorities of its DMCs relating to green growth and climate change, as set out in ADB's Environment Operational Directions 2013-2020. Achieving environmentally sustainable growth involves shifting to sustainable infrastructure that is low carbon, abates air and water pollution and is climate-resilient; conserving natural capital and protecting biodiversity; and strengthening environmental governance.

ADB's climate change program adopts an integrated approach to addressing climate change mitigation and adaptation across five priority areas, namely, (i) scaling up clean energy; (ii) promoting sustainable transport and urban development; (iii) managing land use and forests for carbon sequestration; (iv) building climate resilience; and (v) strengthening related policies, governance, and institutions.

The ADB Green Bond program enables ADB to support its DMCs seeking to mitigate GHG emissions and adapt to the consequences of climate change, whilst delivering environmentally sustainable growth to help reduce poverty and improve the quality of life of their people.

ELIGIBILITY FOR GREEN BOND FINANCING

Climate change mitigation projects are those that target a reduction of GHG emissions into the atmosphere, or the sequestration (removal) of GHGs from the atmosphere. GHG reductions are measured against the GHG emissions that would have occurred in absence of the project ("business as usual"). Mitigation projects would typically include those that fall under the following sectors:

- **Renewable Energy:** this is defined as an energy resource that can be naturally replenished. Qualifying renewable energy projects would include those that support solar, wind, geothermal or small hydro energy generation.
- **Energy Efficiency:** an energy efficient system is one that, with the same energy input, delivers more energy services. Qualifying projects would include demand side energy efficiency measures, such as street lighting improvements, or supply side energy efficiency measures, such as smart metering installation, but will exclude fossil fuel projects.
- **Sustainable Transport:** a sustainable transport system is one that is accessible, safe, environmentally friendly, and affordable. A sustainable transport system minimizes the use of land, emissions, waste, and noise. Qualifying projects would include those that support (a) urban public transport projects (Bus Rapid Transit and Metro Rail Transit); (b) non-urban railway projects; and (c) non-motorized transport.

Climate change adaptation projects are those which target the reduction of vulnerability of human or natural systems to the consequences of climate change and enhance resilience and adaptive capacity.

Adaptation projects typically include those that fall under the following vulnerable sectors :

- **Energy:** climate change will impact on energy security due to floods and tropical storms causing damage to generation plants or transmission and distribution systems, or changing precipitation patterns affecting the generation capacity of hydropower plants. Qualifying adaptation projects would include those that help DMCs improve their energy security, (for example, designing wind

turbines to cope with typhoons) but will exclude fossil fuel projects.

- **Water and Other Urban Infrastructure and Services:** climate change will impact on water security and urban populations due to increased exposure to droughts, floods, tropical storms, pests, and disease. Qualifying adaptation projects would include those that improve water security or the livelihoods of vulnerable urban populations, for example, climate proofing water supply infrastructure and providing urban flood protection.
- **Transport:** climate change will impact on connectivity and access provision, particularly for rural populations, due to floods and tropical storms severing key transport links. Qualifying adaptation projects would include those that reduce the vulnerability of transport infrastructure, for example, by rerouting vulnerable stretches, increasing the embankment heights and bridge clearances, and improving storm water drainage.

In addition to addressing global and regional transboundary concerns, this also includes delivering natural resources conservation, urban environment improvement, eco-efficiency, environmental policy and legislation, or disaster risk management. For example, solar and wind energy generation projects would be eligible for Green Bond financing as they support climate change mitigation whilst avoiding air pollution to deliver cleaner energy production in support of environmentally sustainable growth.

PROJECT IDENTIFICATION

In 2011, the Multilateral Development Banks (MDBs), including ADB, developed a joint approach for tracking and reporting of climate change mitigation and adaptation finance. This joint approach is a harmonized methodology for reporting on climate change finance. Based on the principles of the general typology of mitigation and adaptation activities included in the joint MDB approach, ADB has been reporting its annual climate change mitigation and adaptation finance since 2011.

The potential environmental, involuntary resettlement and Indigenous Peoples impacts of every project are screened in accordance with the Safeguard Policy Statement 2009. Due diligence and review ensure that ADB's safeguard requirements are complied with during project preparation. Climate change risks and other social and governance aspects (e.g. poverty reduction, gender, labor, and anticorruption) are also addressed during project preparation in accordance with ADB's operational policies and strategies.

Eligible projects are identified by ADB energy, climate change, transport, and environmental specialists on a

continuous basis firstly using the joint MDB approach for tracking and reporting of climate change mitigation and adaptation finance and then taking into account the additional selection criteria, including the project's classification as a means of identifying "green" projects that deliver environmentally sustainable growth, and compliance with environmental and social safeguards, as detailed above.

ALLOCATION OF PROCEEDS

The Green Bond net proceeds will be allocated within ADB's treasury to a special sub-portfolio that will be linked to ADB's lending operations to "Eligible Projects" as described below. So long as the Green Bonds are outstanding, the balance of the sub-portfolio will be reduced at the end of each quarter by amounts matching disbursements made during the quarter in respect of Eligible Projects. Pending such disbursement, the sub-portfolio will be invested in liquid instruments, consistent with ADB's liquidity policy.

MONITORING AND REPORTING

Detailed information about ADB projects and green bond issuance is available on the ADB website. Green Bond newsletters will provide highlights of Eligible projects.

Development effectiveness and compliance with environmental, social and governance aspects (as covenanted in the legal agreement) is monitored on an ongoing basis by ADB during project implementation in accordance with ADB's operational policies and strategies. Each eligible green project loan will also have applicable environmental and social safeguard documents which will be available on ADB's website.

ENSURING COMPLIANCE

Through supervision and monitoring at project level it is ensured that safeguard and other requirements are complied with during project preparation and implementation. If issues with safeguards compliance are identified, borrowers must take corrective action to rectify the situation, as covenanted in their legal agreement. Project-affected people can also directly submit complaints to the Accountability Mechanism which provides a forum where they can voice and seek solutions to their problems and report alleged noncompliance of ADB's operational policies and procedures.

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