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Investing in low carbon development

A new bond fund aims to support financing of 'green' projects in developing countries, says Lora-Ann Chiginsky

According to World Bank estimates approximately US\$200 billion to \$1,000 billion per annum of financing is needed to mitigate the effects of climate change. This task is overwhelming for governments' resources to tackle alone, particularly in developing countries. Innovation and initiative from private investment is thus urgently needed to supplement scarce government funds and credit. In response to this, Nikko Asset Management has collaborated with the World Bank, the international development organisation and earlier this year the Nikko AM World Bank Green Fund was launched.

A key objective is to provide bond investors with a product that meets their risk-adjusted investment return objectives, as well as supporting the financing of projects that reduce greenhouse gas emissions and help countries adapt to the effects of climate change.

The fund is actively managed and invests in a diversified range of developed and emerging market currency bonds issued by the World Bank. The bonds support projects that address the climate challenge and fall into two broad categories – mitigation and adaptation.

Using these criteria, one of the many World Bank projects currently underway that would be eligible is an energy efficiency financing project in China. China's energy-intensive manufacturing industries account for a significant portion of worldwide final energy consumption and operate at higher levels of energy intensity than international best practices. The potential for conserving

energy and reducing GHG emissions is largely untapped in these industries. This World Bank project will improve the energy efficiency of medium and large-sized industrial enterprises and reduce their impact on climate change. The project includes:

- developing sustainable energy conservation lending lines of businesses within selected banks through line of credit operations that support energy conservation investments in industries; and
- strengthening government ability to enforce related laws, regulations and standards, and to supervise and monitor energy efficiency-related activities.

Definitions

But how is 'green' defined within these projects? A key facet of this Fund is the vetting process undertaken to determine eligible projects financed by the World Bank by the climate change and sustainable development specialists from World Bank's Environment Department and World Bank Treasury. All World Bank projects are based on country assistance strategies which detail a country's development plan for a three to five year period. Once a project has been identified and undergone an environmental and social assessment, it is then monitored for effectiveness and efficiency throughout its implementation phase. Eligible green projects are selected by World Bank environment specialists from a universe of over 200 projects that are annually approved and meet specific mitigation and adaptation

criteria for low-carbon development. Financings are reviewed for eligibility for green bond support in several steps:

1. Environment and climate change specialists develop a preliminary list of eligible projects based on the green bond criteria disclosed to investors in the two areas of focus: mitigation and adaptation to climate change.
2. This preliminary list of eligible projects is then cross-checked with the projects tracked by the relevant technical unit. Energy projects, for example, are tracked separately by the energy anchor unit to fulfil the World Bank's quantitative targets for renewable energy and energy efficiency.
3. The detailed description of each project is reviewed to confirm eligibility and to ascertain that the activities supported by the project directly (through investments and technical assistance) or indirectly (through an enabling policy framework and technical assistance) will lead to reductions in greenhouse gas emissions and help developing countries adapt to climate change.
4. The shortlist is vetted by other World Bank environmental and sector specialists, and the final list of eligible projects is confirmed.
5. Funds raised through purchases of World Bank green bonds are assigned to a 'green account' to track disbursements of the approved eligible projects.

This vetting process is key to ensuring that the 'green' activities supported help tackle climate change. It is these types of initiatives which will continue to raise awareness for climate change efforts, and help raise much needed funds from private sector investors to make a difference. ■

*Lora-Ann Chiginsky, Director of Business Development, Nikko Asset Management Europe Ltd
www.nikkoam.com/english*

Examples of eligible mitigation projects	Examples of eligible adaptation projects
<ul style="list-style-type: none"> • Solar and wind installations • Projects that reduce GHG emissions through new technologies, rehabilitation of power plants and transmission facilities • Carbon reduction through reforestation and avoided deforestation 	<ul style="list-style-type: none"> • Improvement of food security and stress-resilient agriculture • Protection against flooding • Sustainable forest management and avoided deforestation