

SUSTAINABLE FINANCE OPPORTUNITIES AND CLIENT ENGAGEMENT: FINANCE FOR SUSTAINABILITY

JC3 – Financing the Transition– June 2021

Pierre Rousseau

Senior Strategic Adviser For Sustainable Business



BNP PARIBAS

The bank for a changing world



Financing the transition

1. THERE IS A NEW NORMAL

2. FINANCING THE TRANSITION TO NET-ZERO

3. THE CASE FOR BLENDED FINANCE

4. THE WRAP UP



1. THERE IS A NEW NORMAL

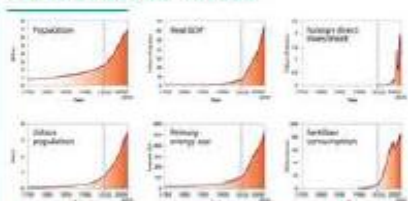


We can no longer consider nature as a free & inexhaustible resource

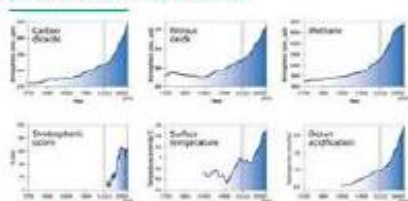
AWARENESS

POPULATION + RESOURCE INTENSIVE GROWTH = ENVIRONMENTAL UNSUSTAINABILITY

SOCIO-ECONOMIC TRENDS



EARTH SYSTEMS TRENDS

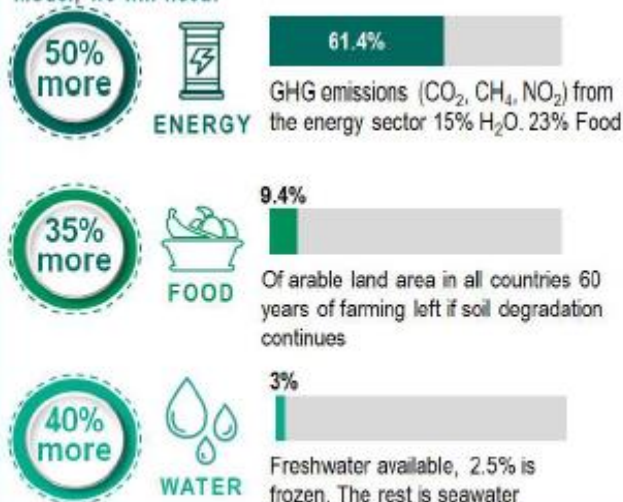


EARTH OVERSHOOT DAY

29th July 2019



With a population of 8.3Bn people by 2030, the greater consumption per capita, and only limited circular use of materials, under the current 'produce, consume, discard' model, we will need:



Energy and Food (Agriculture and Land use) Account for 90% of World GHG emissions:

Increasing of emissions causes (since 1950)...

15x
MORE FLOODS

7x
MORE WILDFIRES

20x
MORE EXTREME TEMPERATURE EVENTS

will worsen and become irreversible within 6-10 years



State of the planet



Negative correlation of growth and sustainability



Resources (energy, food, water) we would need given current population growth



Impact of increasing emissions on the environment (floods, wildfires, extreme temperatures)



Natural risks are now recognised as real financial risks

- We have clear and definitive messages from the science community such as the IPCC report on the need to limit warming to below 1.5C
- Signals from nature are loud and clear, evidenced in last 18 months by the Covid 19 pandemic

There is a Sense of Emergency across all levels of society

Existing business models have disturbed the balance of Nature creating new risks and new opportunities:

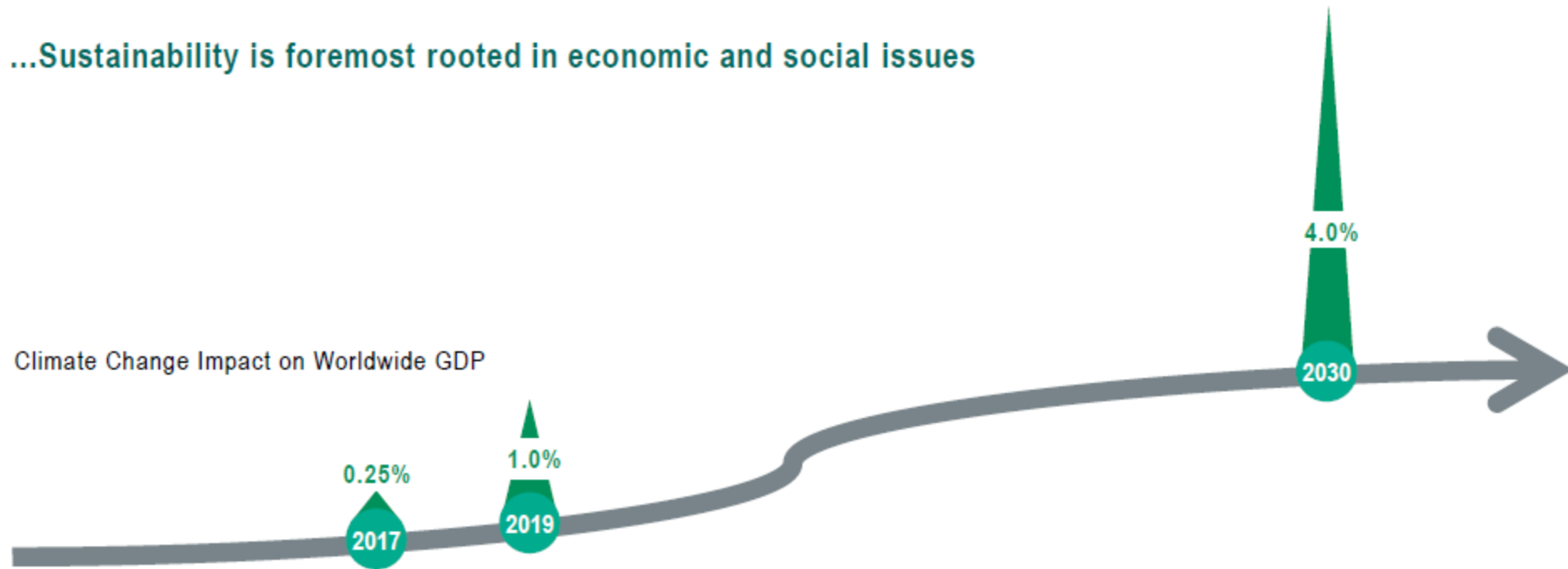
- Climate Change has been designated by the WEF the largest risk of destabilisation of the world.
 - Ex: Climate Migrants
- Opportunities are not always aligned with the RIGHT PURPOSE
 - Ex: Pole Melting Sea Ice
- A critical fact: Existing Balance Sheet are already full in Fossil Fuel to reach the additional 1.5 degree

We are Carbon Addicted!



The cost of inaction is not a question anymore

...Sustainability is foremost rooted in economic and social issues



...to address new risks with new opportunities



We need to look beyond traditional economic growth

... WE ALSO NEED TO ACCELERATE
INTEGRATION OF



Climate Crisis



Biodiversity Loss



Inequalities

...INTO OUR BUSINESSES

4 Accelerating & Integrating Factors:



Research/Science



Technology/Digital/Data



Regulation



Finance



The ultimate solution:

Integrate **these externalities** into your business model and move from:

Carbon avoidance → **Carbon capture**

Nature preservation → **Nature regeneration**



Time of action for the sustainable transition



Set a vision with a strong Corporate Value

- To operate it at the best costs
- To identify new opportunities
- To manage new risks
- To avoid stressed assets



Systemic challenge

- Complex
- Collaborative
- Importance of Data



Uneven transition

- More or less exposed
- Short and Long term vision and action
- Strategic level



Reallocation of capital

- With profit
- With purpose

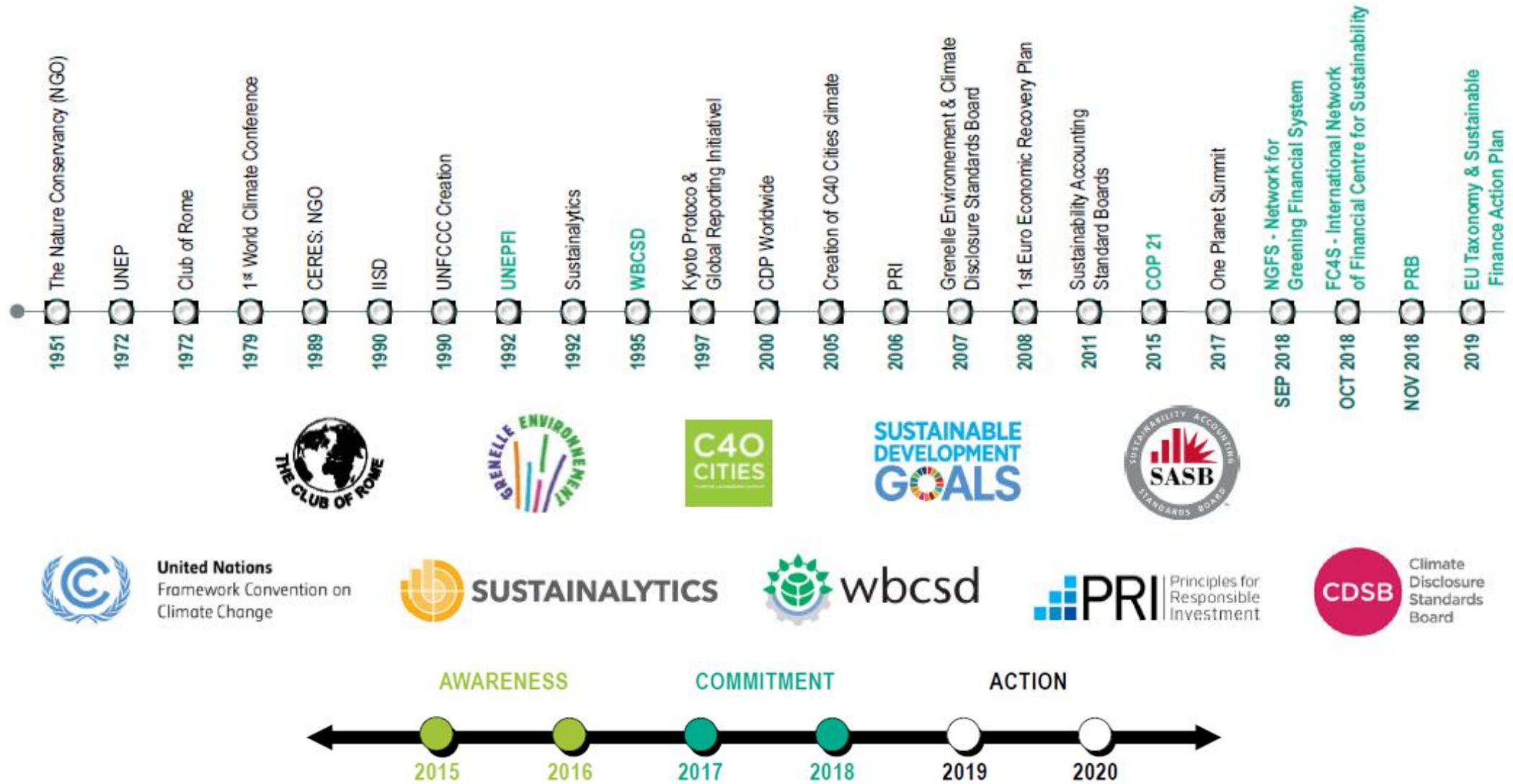


2. FINANCING THE TRANSITION TO NET-ZERO

Moving from a focus on labeled products to assessing the 'net-zero' impact of every strategic decision



Finance has been playing catch up for years



In 2021, the year of net-zero the entire game has changed

- **Countries - COP26:**

The global UN summit on climate change and how countries will tackle it – focus in Glasgow on “*the race to zero*”

- **Investors:**

“*The transition to net-zero is fundamentally reshaping the global economy*” Larry Fink, BlackRock, January 2021

- **Corporates:**

“*A fifth of the world’s largest companies have committed to net-zero*” Forbes March 2021

- **Banking industry - NZBA:**

In April 2021 the vast majority of our peers joined the UN’s Net-Zero Banking Alliance (NZBA) effectively creating a future state with limited financing options for companies who are not on a path to net-zero

- **BNP Paribas:**

A founding signatory to the NZBA and a confirmation of our commitment to being net-zero by 2050 following a decade of progressive climate action

THE GAME CHANGER FOR:

Countries
Corporates
Investors
Banks
Everyone



The significance of the Net-Zero Banking Alliance

Net-Zero Banking Alliance

Industry-led, UN-convened



 **43** Founding Banks

 **28.5** US\$ trillion in assets

SHOULD INCREASE



MAGNITUDE



ACCELERATION

OF BOTH RISKS AND OPPORTUNITIES



Net-zero presents enormous business opportunities

Transition required within Energy, Transportation, Real Estate/Construction and Heavy industries, where most players both corporates and financial institutions will have to evolve their business models:

Reducing carbon emitting within their activities

- Massive financing needs to implement the first wave of reduction (with existing levers)
- R&D financing required now as 2030-2050 CO2 reduction will require disruptive technologies

Gradually scaling-up planet-positive activities, including carbon capture

- Key focus by 2030, especially for energy companies (RE ramp up required before scale down on fossil)
- Different pace across regions
- Laggards expected to try to catch up through acquisitions

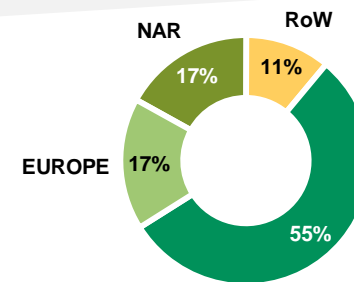
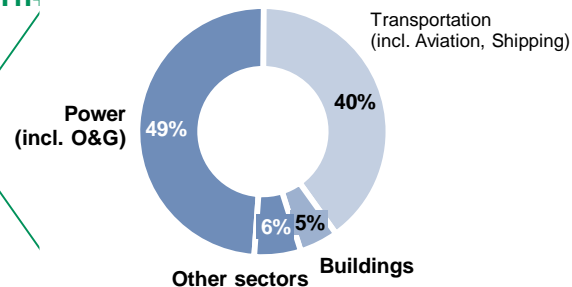
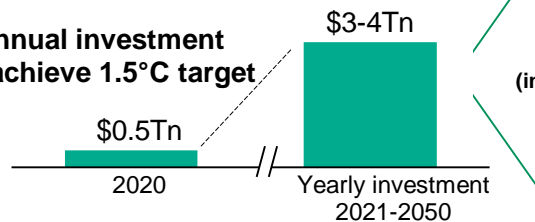
Gradually scaling-down carbon emitting activities

- Timing of disinvestment: a complex dilemma
- Asset sales / disposals vs. decommissioning

Gradually revising investment portfolios' strategy towards positive emitting activities and reinforcing the need of the bridge on ESG activities between Corporates and Financial institutions

Net-Zero Carbon economy requires \$100-125Tn+ cumulative investments globally through 2050

x6-8 of annual investment needed to achieve 1.5°C target

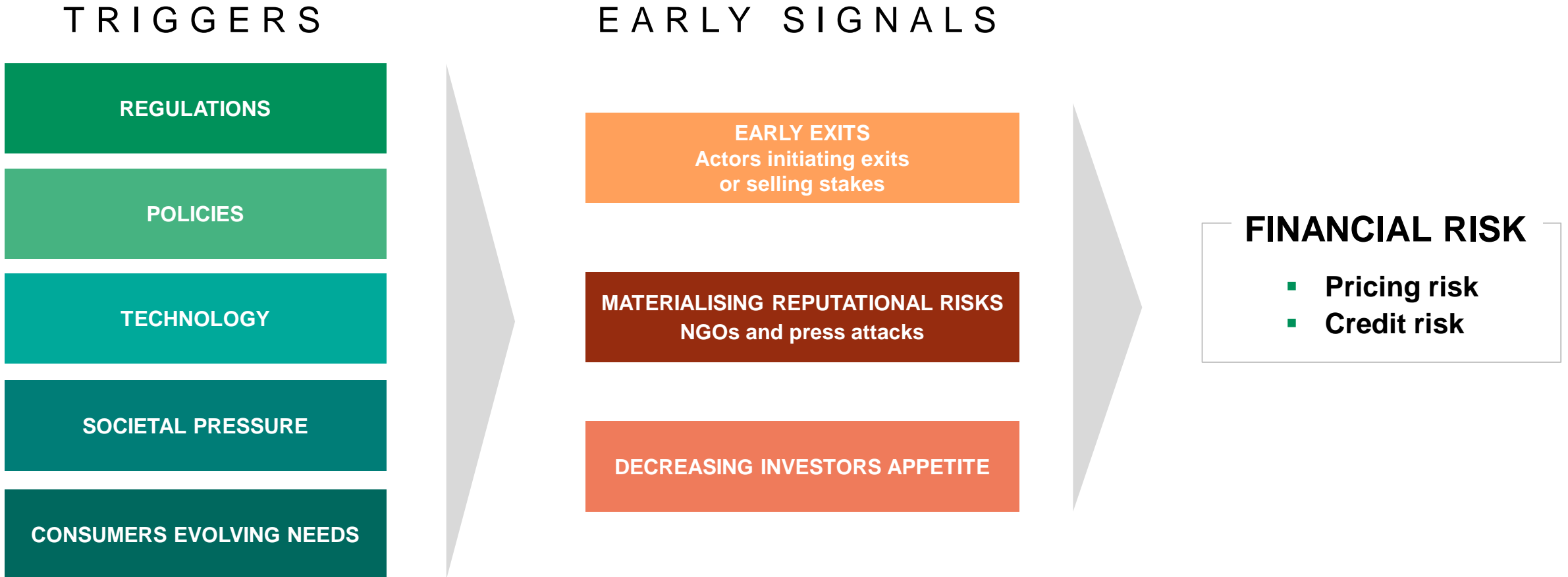


Governments committed across Regions

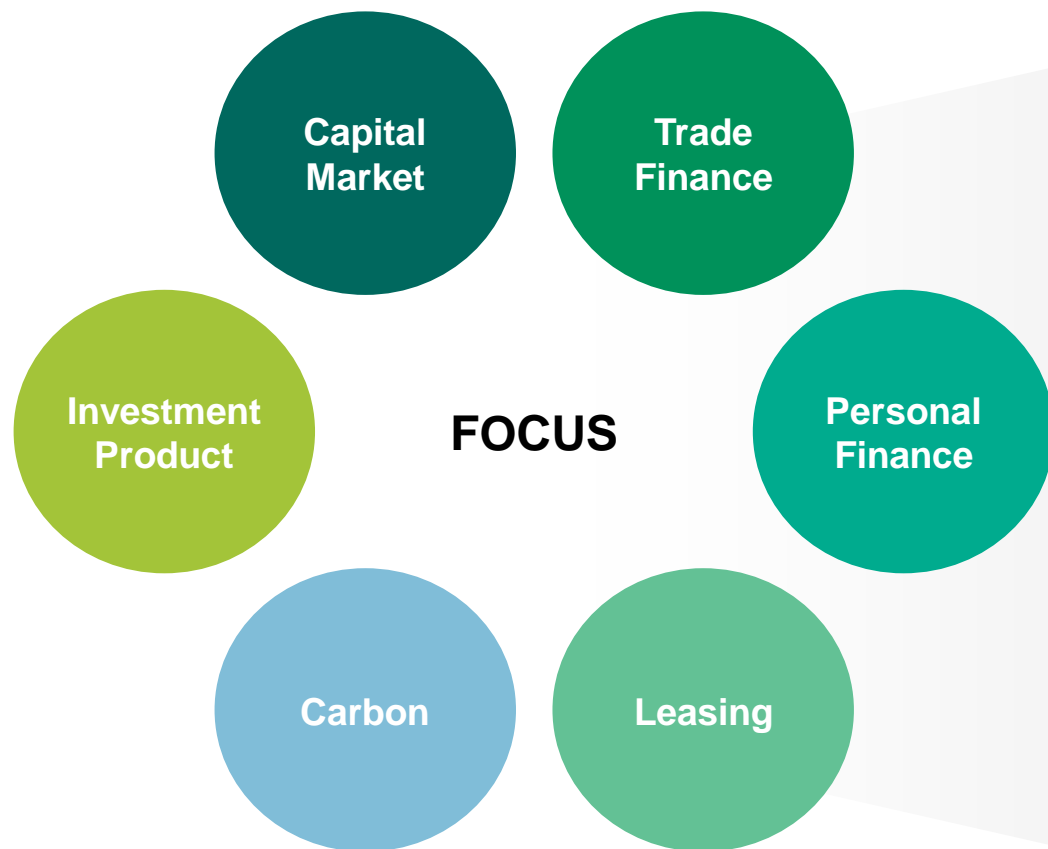
- **EU historical leadership in ESG:** Next Generation EU: €750bn by 2025, 30% via green bonds
- **Fast acceleration in the US** (\$2Tn infra plan)
- **APAC to concentrate 50%+ of investments** e.g. China new 5Y plan, carbon neutral by 2060



And significant transition risk



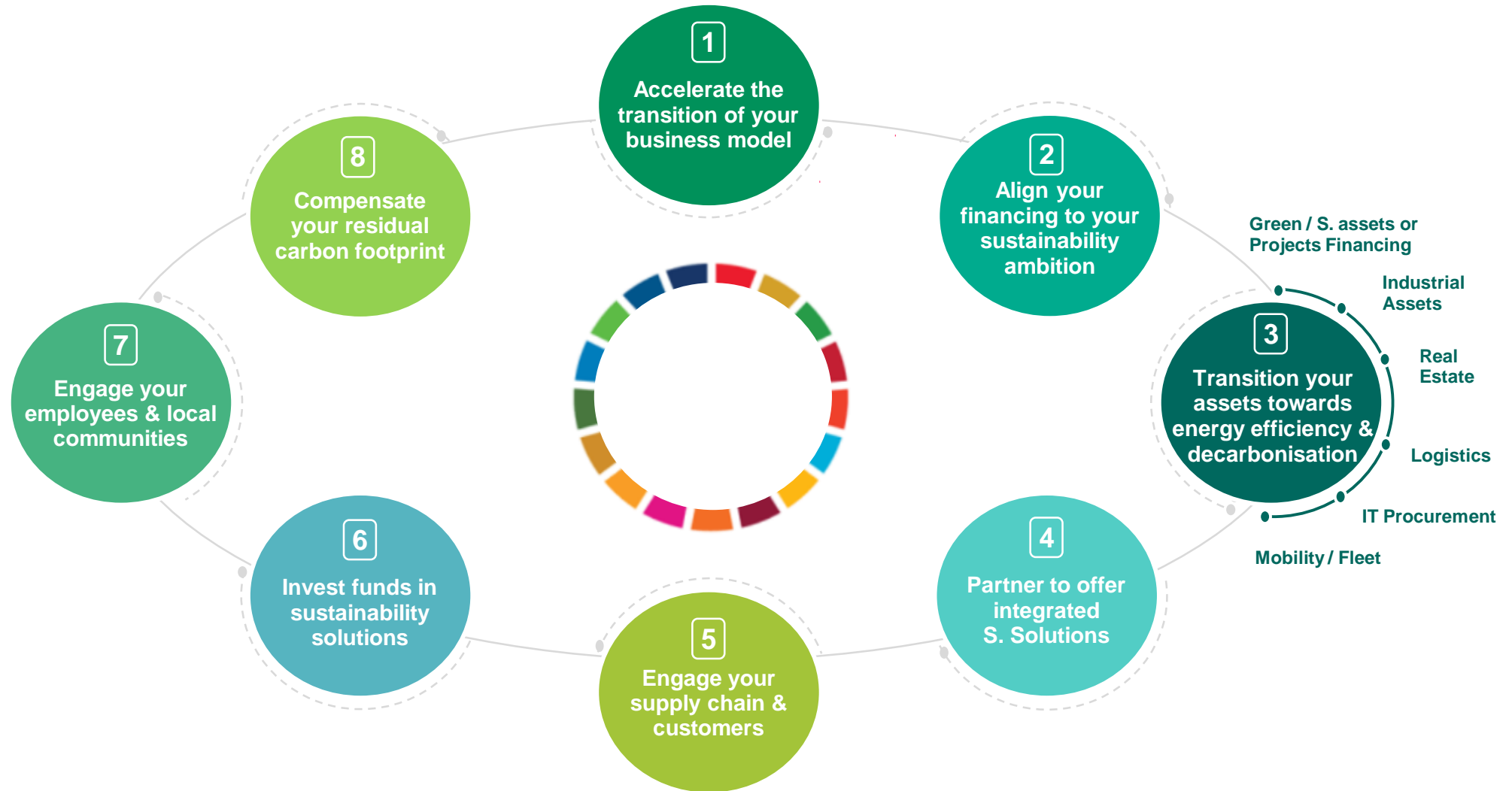
Solutions for commercial banks: adapted offers and products



- **Green and sustainable products for financing and investment**
- **Development of green and sustainable solutions**
 - **Blended Finance**
 - **Capital flows for scaling**
 - **De-risking and funding optimization**
- **Though OTC structure and funds (aggregator <> syndication)**



The toolbox to accelerate the transition to net-zero



S. : Sustainable/Sustainability



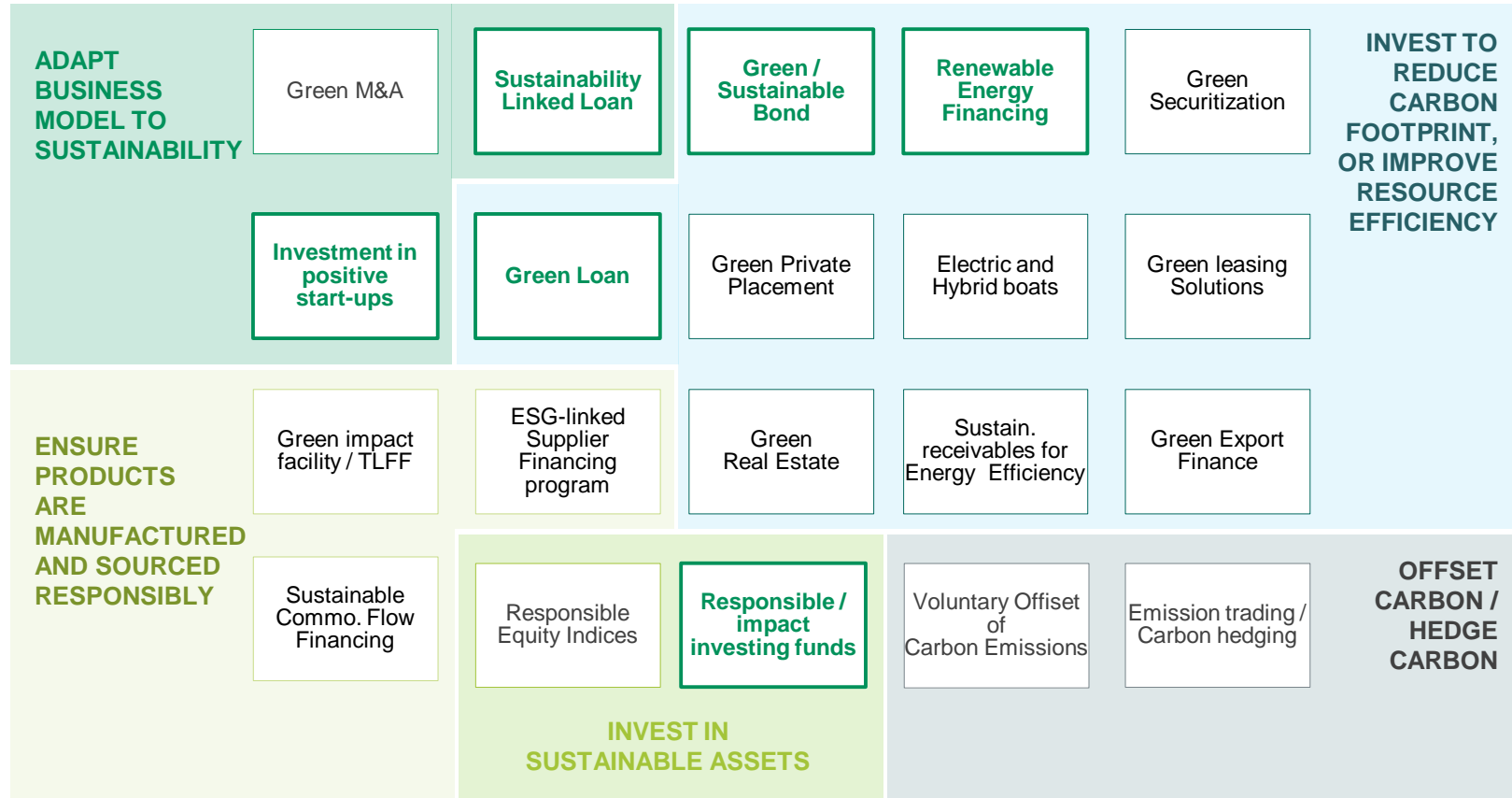
A Corporate Sustainability Journey

Implementing a SF solution requires all previous steps to have been completed – except S-rating potentially
 We are keen to support our clients also at some of the early stages



BNP Paribas sustainable solutions to help clients in sustainability journey

Setting up the adequate financial toolbox to answer the clients' sustainability needs



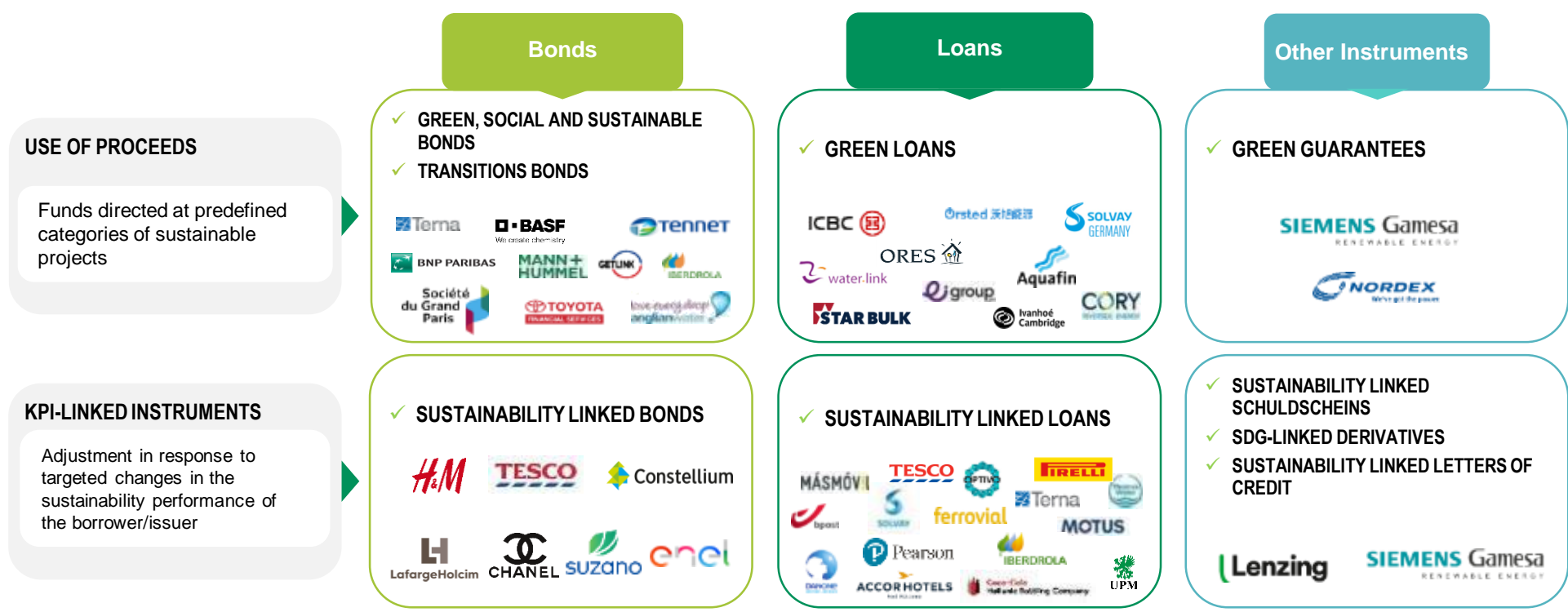
Collaborative financing solutions for sustainable transformative projects

- ✓ **Grant Trust / Facility: Impact or Blended Finance Facility or Funds**
- ✓ **Leveraging Philanthropies**
- ✓ **Public and Private Funding: for scaling, accelerating, derisking and optimizing sustainable projects**



BNP Paribas provides a comprehensive range of sustainable finance solutions

An integral range of Sustainable Finance solutions, co-created with our clients at the forefront of Sustainability

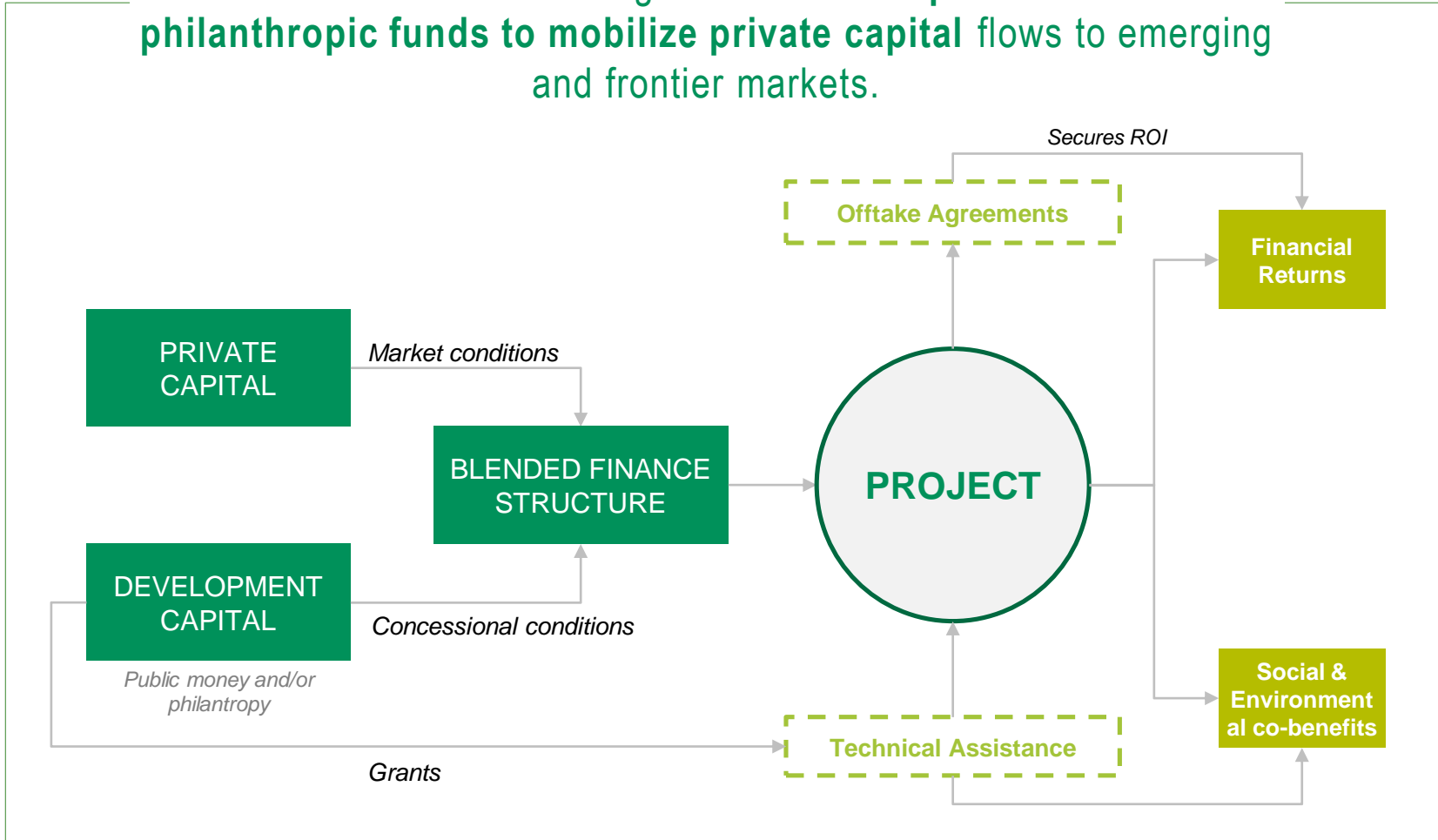


3. THE CASE FOR BLENDED AND IMPACT FINANCING



BNP Paribas: co-creating blended finance solutions

Blended Finance: the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets.



In 2019, BNPP built a dedicated and expert Blended Finance Task Force

With this set-up, we seek to:

- Strategically allocate public money (DFI's and MDB's) and philanthropy funds
- De-risk the project thanks to catalytic capital, thereby attract private investors
- Scale projects that have a positive social and environmental co-benefits
- Optimization of the overall cost of funding of positive impact projects
- Identify partner organizations to form strong and diverse blended finance consortiums



WHERE WE BEGAN

TROPICAL LANDSCAPE FINANCE FACILITY
(TLFF) – PROJECT BOND



Pioneering blended finance: the Tropical Landscape Finance Facility

Leveraging private finance for public good in Indonesia

TLFF in a nutshell

- TLFF is a partnership between UN Environment, World Agroforestry Centre (ICRAF), ADM Capital and BNP Paribas
- TLFF aims to bring long-term finance to projects and companies that stimulate green growth and improve rural livelihoods in Indonesia
- Developing sustainable natural rubber plantations on heavily degraded land with environmental and social objectives & safeguards
- The supplier is PT Royal Lestari Utama (“RLU”), a JV between Michelin (49%) and an affiliate of PT Barito Pacific (51%)

Inaugural transaction in 2018

- TLFF I Pte Ltd issued a US\$ 95,000,000 Sustainability Bond to finance a sustainable natural rubber plantation on heavily degraded land in Jambi (Sumatra) and East Kalimantan, Indonesia

Roles and key partners



Monitoring and governance on the programme



- Independent Chairman, SteerCo, Advisory board
- TLFF Secretariat established in Jakarta
- Lending Committee and Grant Committee established

ADM CAPITAL

Facility Manager selecting and monitoring projects



International Centre for Research in Agroforestry (ICRAF)



Capital markets advisor and structurer



BNP PARIBAS

The bank for a changing world

Three years on, lessons learned from TLFF



Challenges

- **Limitations of the project bond model**
- Size should be USD 100 million and below
- Origination still coming from the public sectors
- Alignment challenges
- Difficult to address the smallholders (which represents more or less 40% of the production)
- Technical Assistance cost is higher than expected (awareness, education, culture, lack of infrastructure,



Opportunities

- **The need for Blended Finance Platform for FUND FACILITY to involve private sector investors as well corporates**
- The growing number of Net Zero commitments at country and company level
- Strong balance between Public and Private – build a franchise with the same players
- Capacity to aggregate small – mid projects on a global basis, replicate projects to create size and reduce the transaction costs
- Promote the concept of the Nature Based Solutions: Landscape / Eco-system





THE FUND FACILITY

EXAMPLE 1: THE SUB-NATIONAL CLIMATE FUND (SCF)



What is the Sub-National Climate Fund (SCF)?

SCF is expected to be the first private equity fund for infrastructure to feature a Technical Assistance Facility (TAF) that provide local governments with capacity building and certified all projects for SDG impact prior to investment

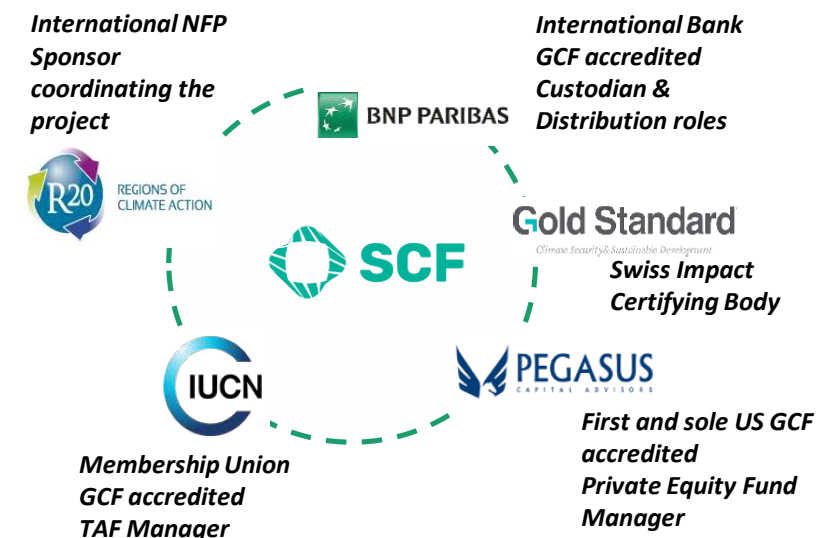
Unique design



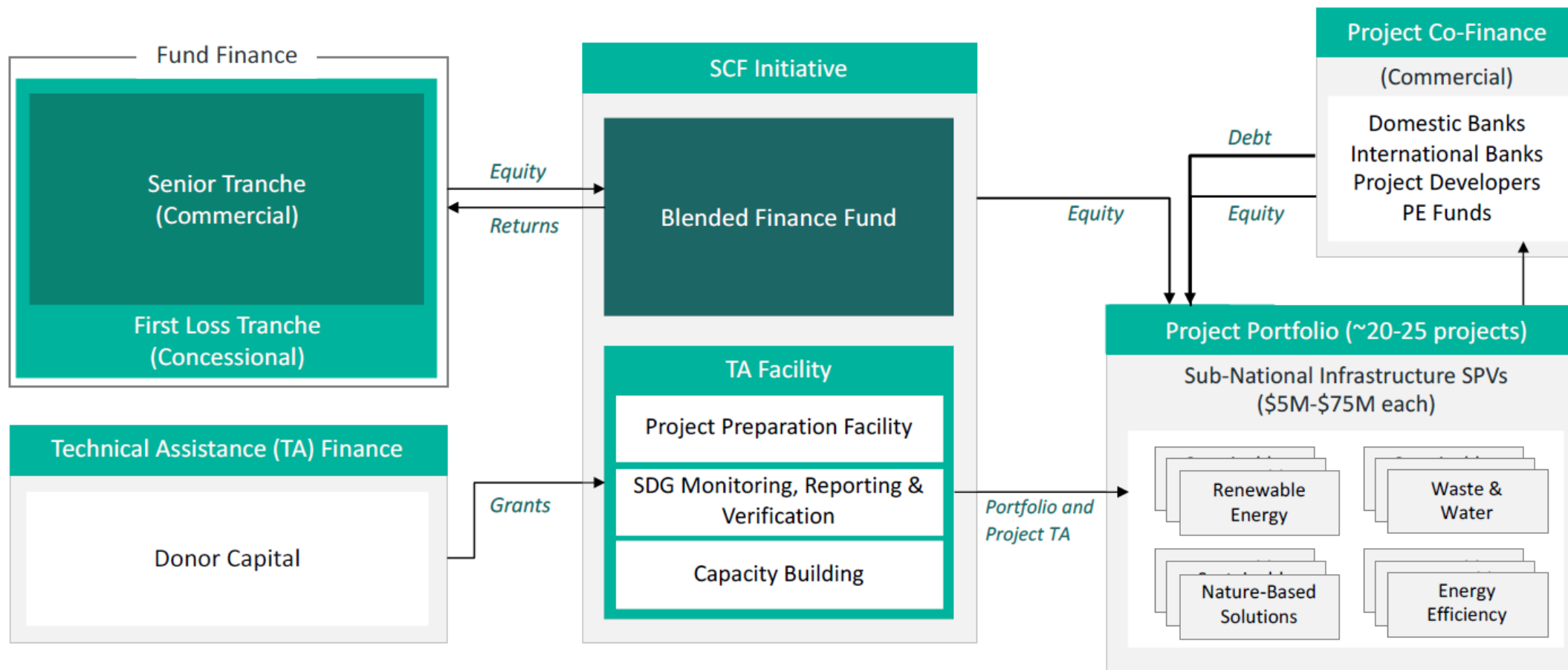
Major innovation

- **\$750M capital** to be invested in a portfolio of around **20-25 sub-national infrastructure projects** in **developing regions**, with a target project size ranging from **\$5M to \$75M**
- To finance portfolio's individual project, **SCF will provide blended equity** while sourcing commercial debt and equity financing from international and domestic investors
- **A \$28M Technical Assistance Facility** to be implemented in tandem, yet financially and operationally separate from the Fund.

Coalition of experienced partners



SCF & the Fund Facility

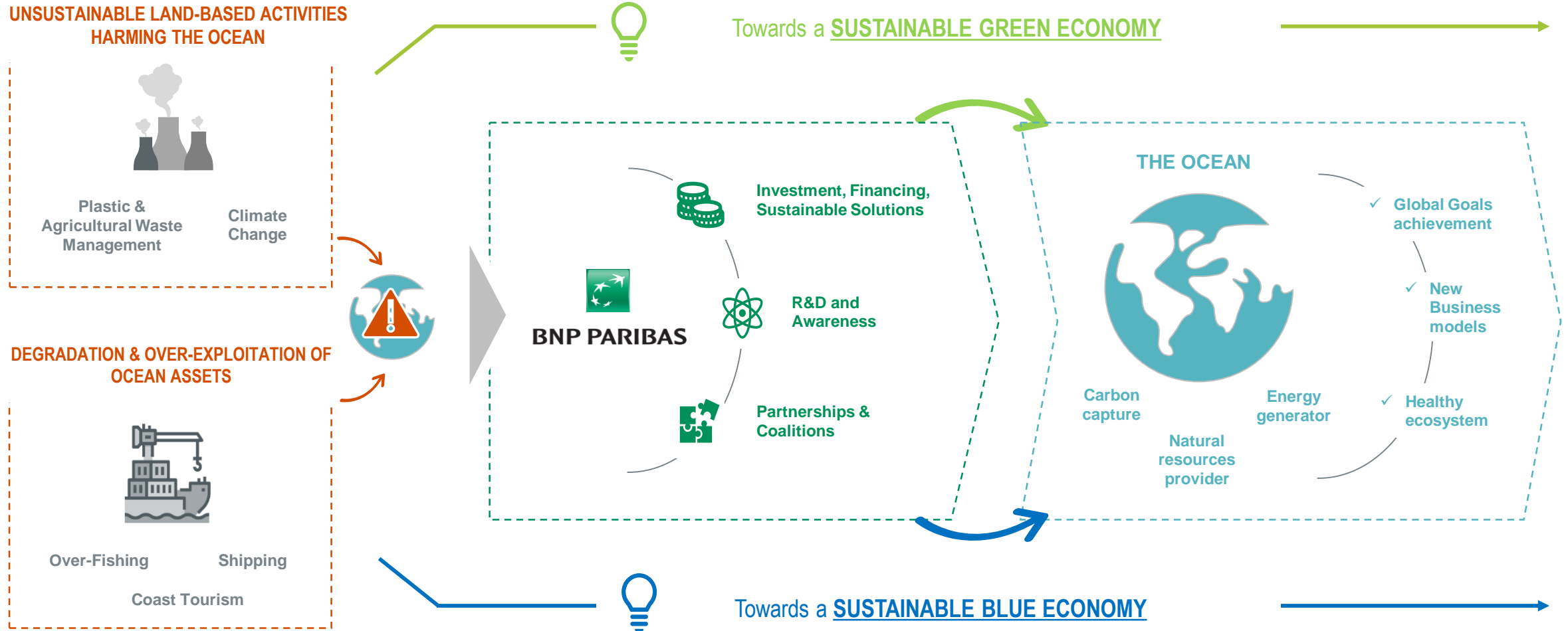


THE FUND FACILITY

EXAMPLE 2:
THE GLOBAL FUND FOR CORAL REEF (GFCR)



Harnessing the blue economy with blended finance



The Global Fund for Coral Reefs is the first UN SDG14 fund delivering on environmental, social and economic resilience

- The GFCR is a **public-private partnership** that includes a coalition of core Philanthropies, **Member States, UN Organizations, Global Funds and Impact Investors** that will be seen as **leaders in this space**
- It seeks to enhance the resilience and adaptive capacity of priority coral **reef ecosystems** and of the **communities that depend on them**, by investing \$500M in businesses & activities (including policy, technical assistance and pipeline development) that **restore, protect and reduce drivers of degradation** across the most resilient reefs.



SPONSORS & PARTNERS

- **BNP Paribas**
- **United Nations**
UNCDF, UNDP, UNEP
- **Green Climate Fund**
- **Pegasus**
- Paul Allen Foundation
- Albert II of Monaco
- SystemIQ



PORTFOLIO COMPOSITION

- **Target fund size:** **USD \$500M***
- **Target return:** **6-10%**
- **Financial instrument:** Private equity & debt
- **Duration:** 10 years

- ✓ Indonesia
- ✓ Philippines
- ✓ Eritrea
- ✓ India
- ✓ Bahamas
- ✓ Tanzania

- ✓ Malaysia
- ✓ Brazil
- ✓ Maldives
- ✓ Kenya
- ✓ Thailand
- ✓ Fiji



- ✓ Solomon Islands
- ✓ Mozambique
- ✓ Comoros
- ✓ Papua New Guinea
- ✓ Madagascar
- ✓ Vietnam

- ✓ Sri Lanka
- ✓ Haiti
- ✓ Cambodia
- ✓ Djibouti
- ✓ Dominican Republic

BNPP engagement is driven by its leadership and/or strong position on sustainable blue economy, in particular for biodiversity

BNPP role will be

- Investment window Manager and one of the GCRF Sponsor
- Member of the Joint Global team and participation to the GFCR Investment Committee
- Contributor to the fund raising (commercial / impact investors & private foundations) and distribution of the fund

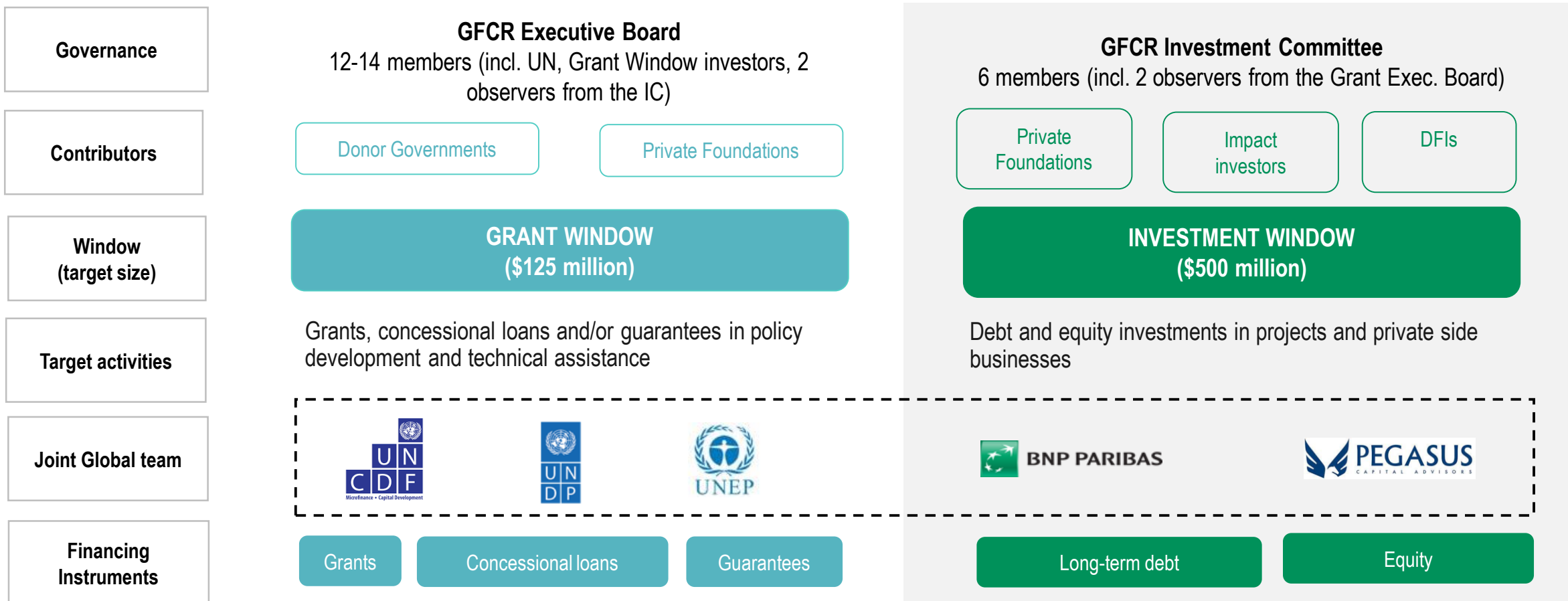
* \$150M in grants and \$350M in private investment



GFCR will include grant & investment 'windows'

Unique structure to unlock pipeline development and mobilize private capital

Advisory Committee (10 – 20 experts)



BLENDED FINANCE

MAKING PROGRESS BUT STILL A LOT OF
CHALLENGES TO BE ADDRESSED



Challenges for the financing community to build blended finance

Key challenges to be addressed to be able to mobilize public and private investments at scale in impact investing and Blended Finance



PUBLIC SECTOR

PRIVATE SECTOR



Key considerations and actions to take to be able to fill in the gaps and make it possible

- Observation of failures between the public and private sectors on:

Ways of working



Regulatory framework

Vertical integration



Transactional costs



BUILDING UP DEDICATED PLATFORMS



THE WRAP UP!



Changing our behaviors

COLLABORATIVE

INNOVATIVE

SCENARIOS

BIG DATA

RIGHT TIMING

TRUST



**MORE
INTERACTIONS**

**NEW FINANCIAL
SCHEMES**

**FUTURE
THINKING**

**MEASUREMENT
OF IMPACT**

**DESINVESTING &
INVESTING RISKS**

TRANSPARENCY

Capital Allocation

Digital and Data

Partnership

Danger: over greenwashing



BNP PARIBAS

The bank for a changing world

THANK YOU merci

mèsitak **GRAZIE** chokrane

dhanyavaddbrigado **ARIGATÔ** dziękuje

GRACIAS danke ευχαριστώ **NANDRI**

спасибо **MAHALO** teşekkür

ederim spas **JËRËJËF**

