Green Finance: The Korean Case
I. Strategy & 5 Year Plan
Underlying Concept of “Green Growth”
<National Strategy for green growth & Five Year Implementation Plan: the Korean Case>

**Key Framework**

**Vision**

**A Model Green Nation** - through creating virtuous harmony of environment & economy

**Objectives**

**Increasing Energy Security & Climate Adaptation**

- Build Low Carbon Society
- Enhance Energy independence
- Strengthening Climate Actions

**New Engine for Growth**

- Develop Green Tech.
- Foster Green Industry
- Greenovate Industrial structure
- Lay Foundation for Green Economy

**Enhanced Quality of Life & Int’l Leadership**

- Green Transportation & Land Management
- Green Life Revolution
- Global Green Leader

**10 Key Agenda**
How can we move towards clean innovation?

Without appropriate policy interventions, ‘environmentally unsound technologies’ will interrupt transition to a low carbon economy.

Moving towards ‘Clean innovation’ we need an optimal combination of government-led R&D initiatives and private-led ones.

- Promoting green technologies that simultaneously pursue ‘growth’ and ‘environment’ such as renewable energies, energy efficiency technologies, and pollution reduction technologies.

- Enhancing investment flows from the private sector by using policy tools such as Green certificates, Green funds, tax exemptions.

- Utilizing market based mechanisms such as emissions trading system and green tax.
Strategies for nurturing green technologies

- **Green technology R&D investment**
  - Double investment by 2012 compared with 2008
    - (`08) 1.4 trillion KRW → (`12) 2.8 trillion KRW
    - Cumulative Investment: 10.9 trillion KRW

- **Selection of 27 key technologies**
  - Selected 27 Key Green Technologies considering 3 factors;
    *contribution to economic growth, environmental sustainability and strategic importance.*
  - By ‘Key Green Technology Development and Commercialization Strategies’, the Roadmap how to implement was also announced (`09.5)
Currently market based mechanisms such as ETS and green taxes are being studied for future introduction.

Green certificates to stimulate private investment

- A need to induce private investment
- A need to expedite green industry development

- Delineate target technologies and industries
- Define the nature of support
- Prepare the details of ‘Green Certificates’

Tax incentives for financial instruments that invest in green technologies and industries.

Expanding fiscal support for green R&D of SMEs
Ⅱ GF: How it works
Role of Green Finance under the 5 Year Plan

- Fostering early investment in Green Tech & Ind.
- Building HR pool / Providing incentives in Green Finance
- Enlarging fin. g’tee, policy loans, matching funds
- Activating policy finance for early investment
- Building up Infrastructure of GF
- Infras for policy system, technology, HR pool
- Cap & Trade Activating transactions

**KDB, IBK, KEXIM’s role**
- Adding in ‘green flavor’ in legal system
- Disclosure of green infos in corporate governance
- Fostering platform for GF ind.
- Analytic tool for Green Firms
- Green Stock Index
- Green Financial Products

**Quasi-gov’t org’s g’tee**
- Private/Public m-fund

**Private/Public m-fund**
- Support CDM business both home and abroad
- Carbon Exchange
- Green Bank (optional)
## Active investment in Green Ind.: The Challenges

<table>
<thead>
<tr>
<th>Constraints</th>
<th>Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Financial</td>
<td>Creating demand base for investment</td>
</tr>
<tr>
<td>Financial</td>
<td>Securing long term policy loans at low interest rate</td>
</tr>
<tr>
<td>Policy</td>
<td>Midterm mitigation target</td>
</tr>
<tr>
<td></td>
<td>Commencing ETS</td>
</tr>
</tbody>
</table>

- Insufficient current project for green investment
- Low level of public awareness toward Green Ind.
- Immature green capital market $\rightarrow$ Weak investor base
- Low level of reliability in evaluation tool for green tech

- Non-Financial
- Financial
- Policy
1. Green Certificate

Green Tech / Green Biz

- **Green Tech**: Based on Government’s selection criteria
  - Strategic items/Core element tech: Out of 10 broad categories
  - Criteria element: Tech(40%), Market(30%), Green(30%)

  ※ Green Tech 10 categories: renewable energy, carbon reduction, hydro resource, green IT, green autos, green housing, high tech materials, clan production, eco-friendly agro product, eco-insurance

- **Green Biz**:
  - 9 categories & 87 items are selected
  - Criteria element: Applicability of green tech(30%), Eco-friendliness(50%), Viability of business(20%)

  ※ GB 9 categories: GTech 10 categories except for high tech materials

Certification of Green Co.

- **Defined as**: Green tech-derived portion weighs more than 30% in total sales portfolio
2. Selecting and Fostering Core Green Ind.

“Selection and Concentration”

- **Selection and Concentration: Typical Policy Strategy**
  - **Criteria**: Potentials in ① Commercializing ② Future Export ③ Job Creation ④ Drop in Prices by bold and early investment

- **Trouble shooting in investment, strategic consulting by Gov’t**
3. Investment in Green SOC: Private sector-driven

**Investment Universe**

- **Bicycle road, renewable energy for investment from private sector**

  **Current**
  - Road Infra: Road & auxiliary facility, Parking lot, IT-based traffic Control
  - Eco-friendly Infra: Sewage, Waste management
  - Energy Facility: Power supply, Aggregate supply center

  **Upscaled**
  - Bicycle-only road*
  - Pollution measuring network
  - Renewable energy facility*

* Zero value added tax for private sector, priority in land ownership claim
* 12.31.2009 amendment in legislation completed

**Improving conditions in capital raising**

- **Credit Guarantee Fund**: Min.guarantee rate(0.2%) for Green SOC
- **Softer requirement for min.paid-in-capital**, Fund-derived policy

* Dec 31, 2009: Private Investment Act amendment completed
III GF: Stage-wise policy
1. R&D stage

- Fiscal aid-driven: market viability, commercialization potential

**Green tech R&D subsidy**
- Up-scaled: (‘09) KRW 2tr ➔ (‘13) KRW 2.8tr
- Rewarding system for success in trouble shooting

**Linkage: R&D / Biz**
- R&BD Matching Fund with existing ‘Smart Project’
  [Korea Development Bank: KRW .3 tr]

**Investment-driven R&D**
- Fiscal-aid for R&D: Conditional given hosting pr.inv.
  (SME exclusive R&D finding )

**R&D: Conditional given Guaranteed Purchase**
- 「SME R&D Co-op fund」
2. Commercialization stage

- Public seed money-based policy rather than direct fiscal aid while gov’t subsidy for SME continues to some extent

```
Green SME Fund
```

* ('09) KRW 60bn ➔ ('13) KRW 1.1tr
* % of ‘seed money’in paid-in capital : 30% ➔ 50%

```
Credit G’tee: Up-scaled
```

- For Green Company and Green Project
  * ('09) KRW 2.8tr ➔ ('13) KRW 7tr
  - Custom-made credit g’tee for the first 3 years for start-up biz

```
Policy loans For Green SME: Up-scaled
```

- Higher ceiling for credit facility, prime int rates
3. Growth stage

- Securing long-term funding measures through capital market
- Policy incentives to mitigate investment risk on a need basis

‘Green Fund’

- Investing more than 60% in Green firm/project-issued securities
- Exempted from dividend income tax
- Extra credit point granted for fund evaluation, if pension fund is hosted

-> KDB, Industrial Bank of Korea as institutional fund managers
Securing stable funding platform of LT investment
- Tax exemption for interest income in such green feature fin product
- Investing more than 60% of portfolio in green certified project
- 「Green Municipal Bond」: Considering some foreign cases
4. Maturing stage

- Private sector-driven: securing green finance infra

  **Carbon finance**
  - ETS & Carbon Exchange: Mock trading by 2011
    - Carbon fund (KEXIM Bank KRW.1bn: Feb, 2010)

  **Green Insurance**
  - Green Auto Ins: test stage
  - Bicycle Ins: Based on bicycle registration system

  **Green Finance Infra**
  - Social Responsibility Index (SRI) / Regular announcement of green league table (Carbon Disclosure)

  **Globalisation Of Green Co’s**
  - Export finance
  - Co-financing with Int’s Org
  - Strategic alliance with foreign sovereign funds
Thanks!
And…Q & A