

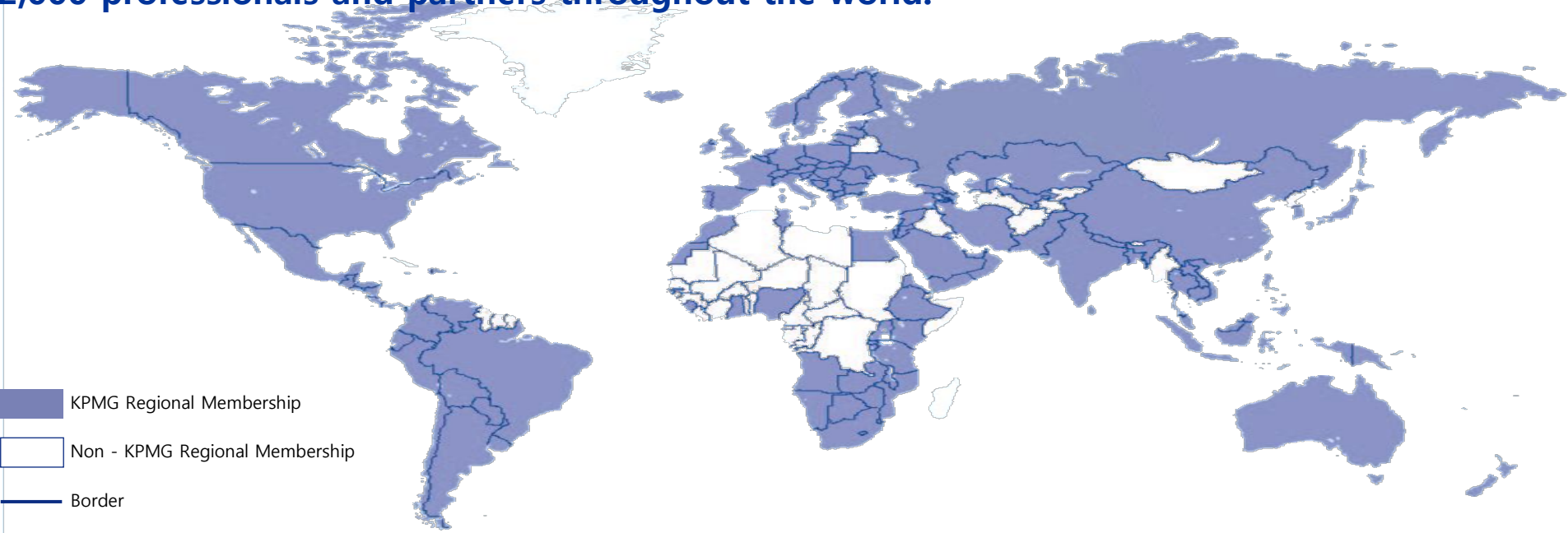
Thickness of the Value Stick

**K.E.Y.
PLATFORM
2014** April 23 – 24, 2014
Conrad Seoul, Korea

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KPMG, audit, tax and advisory services firm, operates from 156 countries with more than 152,000 professionals and partners throughout the world.



Global Markets, International Proposals
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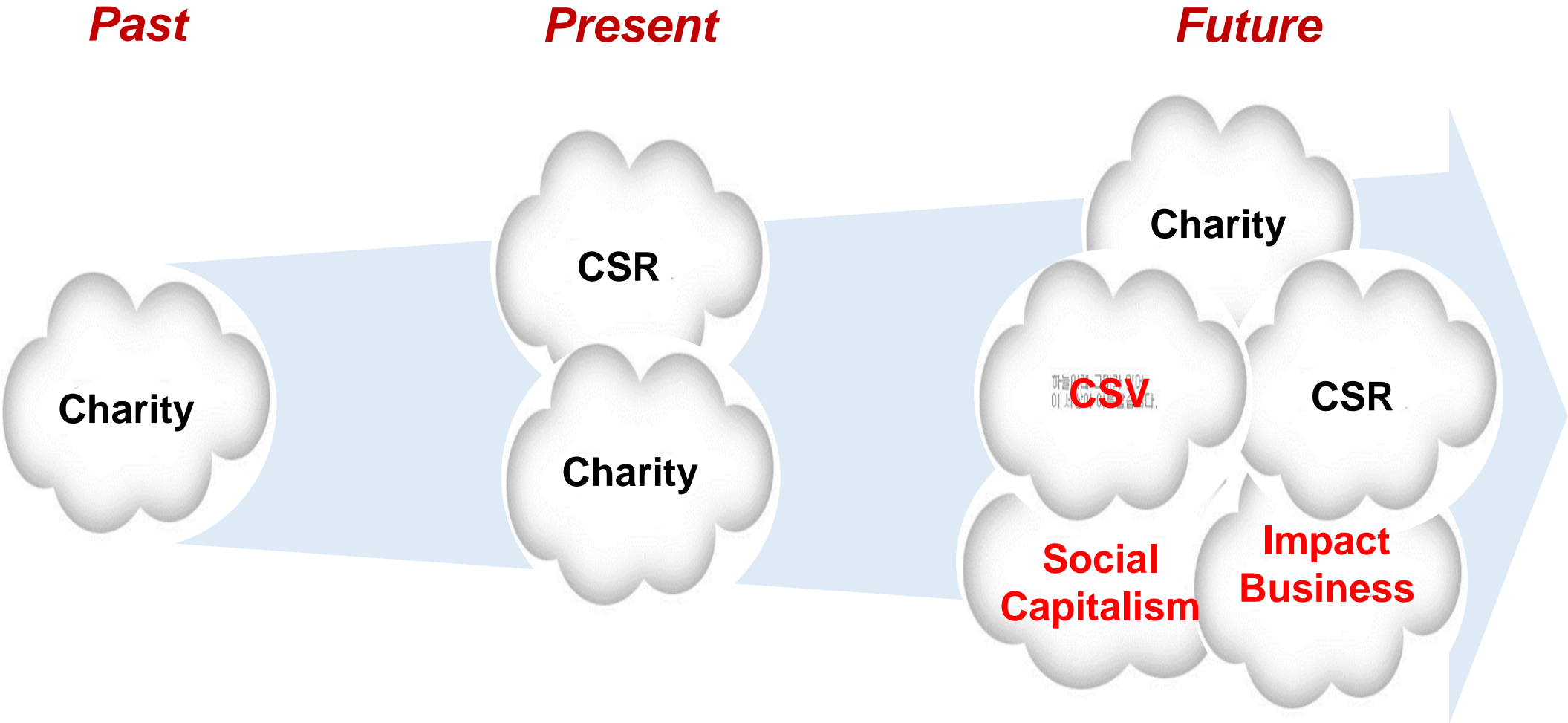
KPMG Global Climate Change & Sustainability Practice

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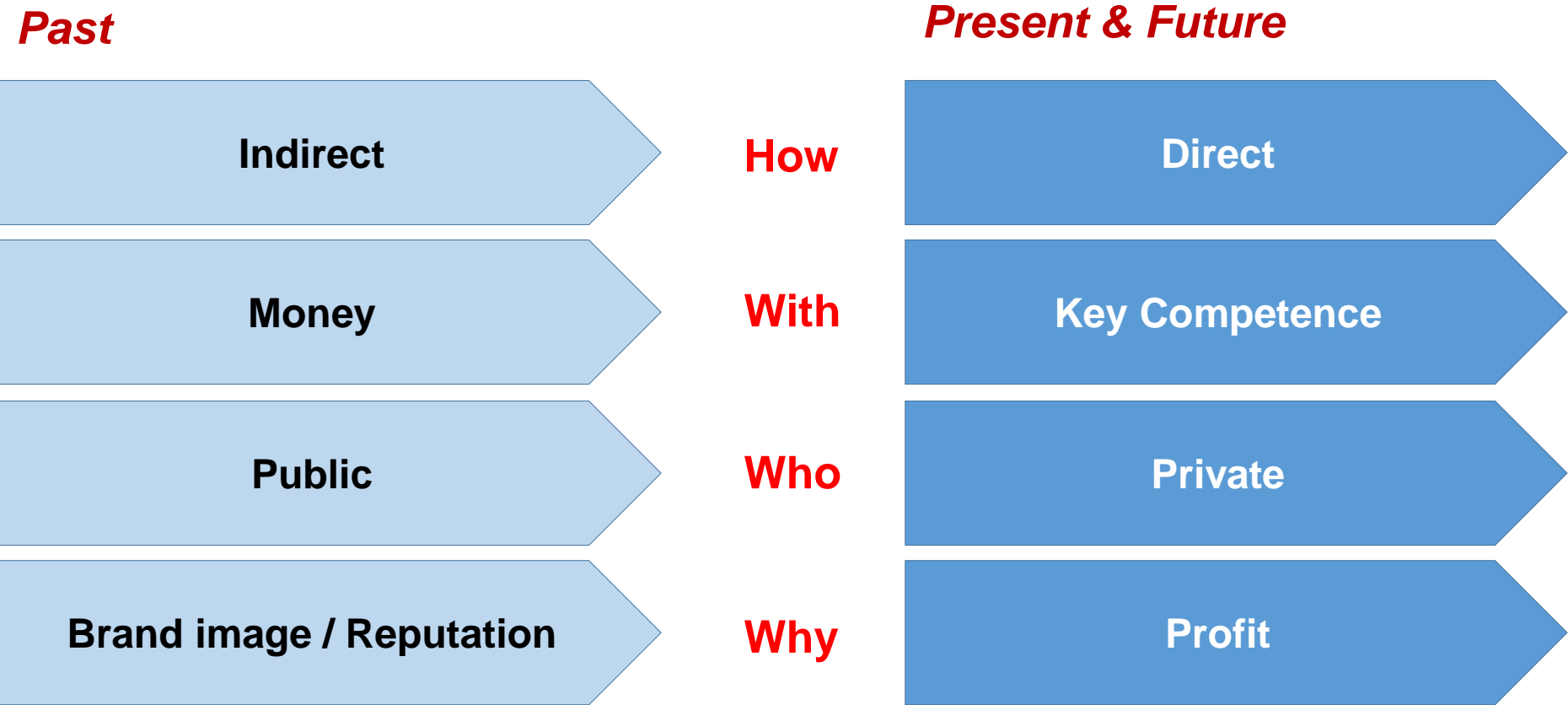
More than 60 nations with 700 people dedicated to CC&S, Fast growing practice



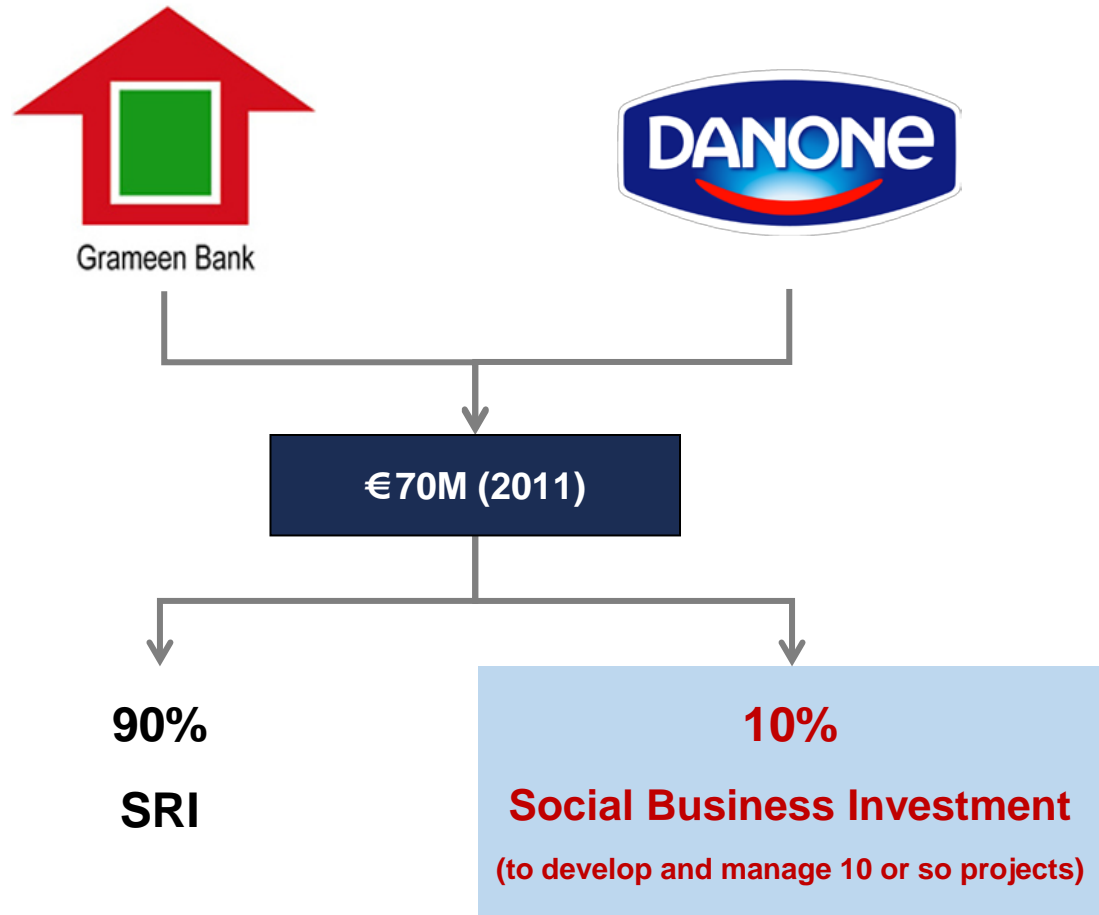
Trend?



Future?



Impact Business - Grameen Danone Food in Bangladesh



1st Project

Grameen Danone Food Ltd(2007)

Construction and management of manufacturing factories



Supply of raw material

Support to small dairy farmhouses



Creation of Employment

Employment of Sales Ladies



Solar lease model – SolarCity (US)

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Education Industry



Commercial Industry



Solar lease model – SolarCity (US)

In 2008, SolarCity introduced a new solar lease option for homeowners that significantly reduces or eliminates the upfront cost of installing solar power.

Lease pricing options

Pay As You Go	Customized	Prepaid
<ul style="list-style-type: none">• Initial payment<ul style="list-style-type: none">- None• Power price<ul style="list-style-type: none">- 14.8 cents/kwh• Annual price increase<ul style="list-style-type: none">- 2.9%• Monthly payment<ul style="list-style-type: none">- \$77• Total savings over 20 years<ul style="list-style-type: none">- \$20,602(620kWh monthly consumption)	<ul style="list-style-type: none">• Initial payment<ul style="list-style-type: none">- \$500• Power price<ul style="list-style-type: none">- 17.7 cents/kwh• Annual price increase<ul style="list-style-type: none">- None• Monthly payment<ul style="list-style-type: none">- \$85• Total savings over 20 years<ul style="list-style-type: none">- \$24,108(620kWh monthly consumption)	<ul style="list-style-type: none">• Initial payment<ul style="list-style-type: none">- \$9,200• Power price<ul style="list-style-type: none">- 7.8 cents/kwh• Annual price increase<ul style="list-style-type: none">- None• Monthly payment<ul style="list-style-type: none">- None• Total savings over 20 years<ul style="list-style-type: none">- \$35,889(620kWh monthly consumption)

Capital raise through bond – Green Bond (WB)

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Shandong Energy Efficiency




Water Resources and Irrigation Management Program



Capital raise through bond – Green Bond (WB)

Bonds are one of the most efficient instruments for mobilizing large capital from the market and the preference for bonds is growing by new international financial regulations such as Basel III. Small-to-medium business, however, needs to be integrated into this scheme.

Cooperation progress	Public's acts required	Example – Green bond
 <div><div>1</div><div>Initiation</div></div>	<ul style="list-style-type: none">• Designing bonds in several tranches with appropriate yield rates, maturity and denominated currencies	<ul style="list-style-type: none">• Green bond was issued by the World Bank in context of "Strategic Framework for Development and Climate Change" aiming to help stimulate and coordinate public and private sector activity to combat climate change
<div><div>2</div><div>Risk sharing</div></div>	<ul style="list-style-type: none">• Utilizing high credit rates of the public• acquiring 1st-loss tranche	<ul style="list-style-type: none">• Since 2008, the World Bank has issued USD 4 bln in Green Bonds through 59 transactions and 17 currencies
<div><div>3</div><div>Profitability enhancement</div></div>	<ul style="list-style-type: none">• Issuing multiple tranches with different yield rate	<ul style="list-style-type: none">• The bonds have been issued with AAA credit rate but a wide range of yield rate from 0.5~8.75%
<div><div>4</div><div>Operation</div></div>	<ul style="list-style-type: none">• Securing project pipeline to be financed	<ul style="list-style-type: none">• Capital raised from the bonds has been utilized in supporting mitigation and adaptation activities in its 19 member states.• Investors: institutional investors including AP2 – Second Swedish National Pension, Blackrock, California State Treasurer's Office and Nikko Asset Management

⇒ *Securing project pipeline to be financed is key for successful operation of the green bonds*

⇒ Bond is an efficient instrument for mobilizing private capital but its applicability is very limited only to high credit rated entities.
A way how to enlarge its applicability to small-to-medium companies needs to be examined.

Bottom of Pyramid – Simpa Networks (India)

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Bottom of Pyramid – Simpa Networks (India)

Simpa sells solar as a service to energy poor households and micro enterprises in rural India.

The company introduced an innovative solar leasing model that makes it easy and risk-free for rural customers to access reliable solar electricity.

The problem

- 400 million Indians and 1.5 billion worldwide lack access to electricity.
- They are already spending +\$50 billion per year on lousy solutions, such as kerosene fuel for small lanterns.
- Technologies such as 'solar home energy systems' are available but a significant up-front cost is the main barrier.

Solution

- **Customers make a small initial payment (\$40) to have a solar PV system installed.**
- **'Pay-as-you-go' is applied as a pricing mechanism**
- **pre-paid mobile phone + Progressive Purchase (system transfer after a commitment period)**
- A prepaid metering and **mobile payments technology is applied** to reduce the transaction costs and mitigate risks.

Milestones

- 2010: Incorporated in Delaware and pilot sales program was initiated in India
- 2011: Raised \$1.3million and completed V2 product
- 2012: Raised grant funds to finance up to 3,000 Solar Home Systems (partnership with IFC)
- 2013: Launched 3 projects in Western Uttar Pradesh, India **(30% growth a month with 1million home target)**

Social Impact Bond – New York City



Photo: Beбето Matthews/AP Photo

Payment Terms for Final Evaluation

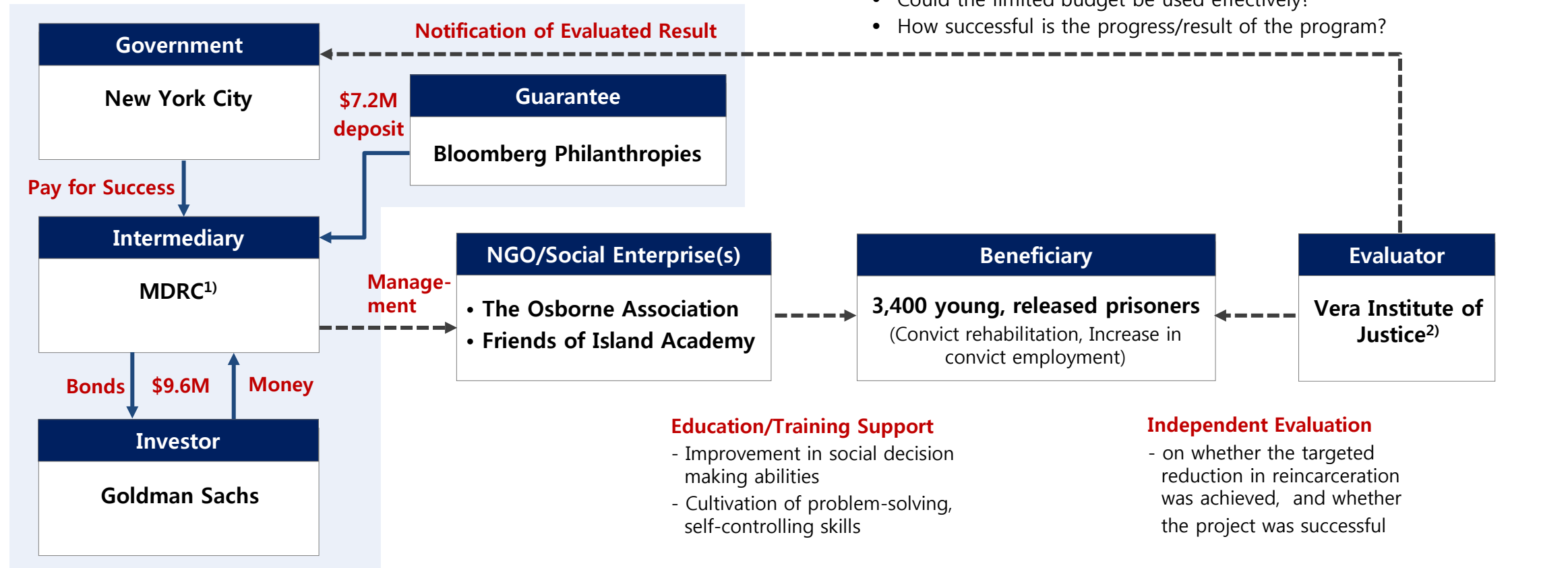
Reduction in Reincarceration	City Payment to MDRC (\$)	Projected Long-Term City Net Savings (\$)*
≥20.0%	\$11,712,000	\$20,500,000
≥16.0%	\$10,944,000	\$11,700,000
≥13.0%	\$10,368,000	\$7,200,000
≥12.5%	\$10,272,000	\$6,400,000
≥12.0%	\$10,176,000	\$5,600,000
≥11.0%	\$10,080,000	\$1,700,000
≥10.0% (<i>breakeven</i>)	\$9,600,000	\$ ≥ 1,000,000
≥8.5%	\$4,800,000	\$ ≥ 1,000,000

Source: Bringing Social Impact Bonds to New York City

Social Impact Bond – New York City

The first case of a Pay For Success contract implemented via Social Impact Bond in the U.S.

How Social Impact Bond works : In the Case of New York City



1) nonprofit, nonpartisan education and social policy research organization, 2) independent nonprofit national research and policy organization in the United States

Social Investment Fund – Seoul City



Photo: 하이서울뉴스 (와우 서울작가 까망천사)



Legal, institutional, administrative support
Budget support when the targeted project implementation goal is achieved



/재/단/법/인/
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SIB of 1,000,000,000KRW issued within three years
Selects and manages project implementation institutions

Social Investment Fund – Seoul City

Fund management relating to Social Impact Bonds in domestic local governments

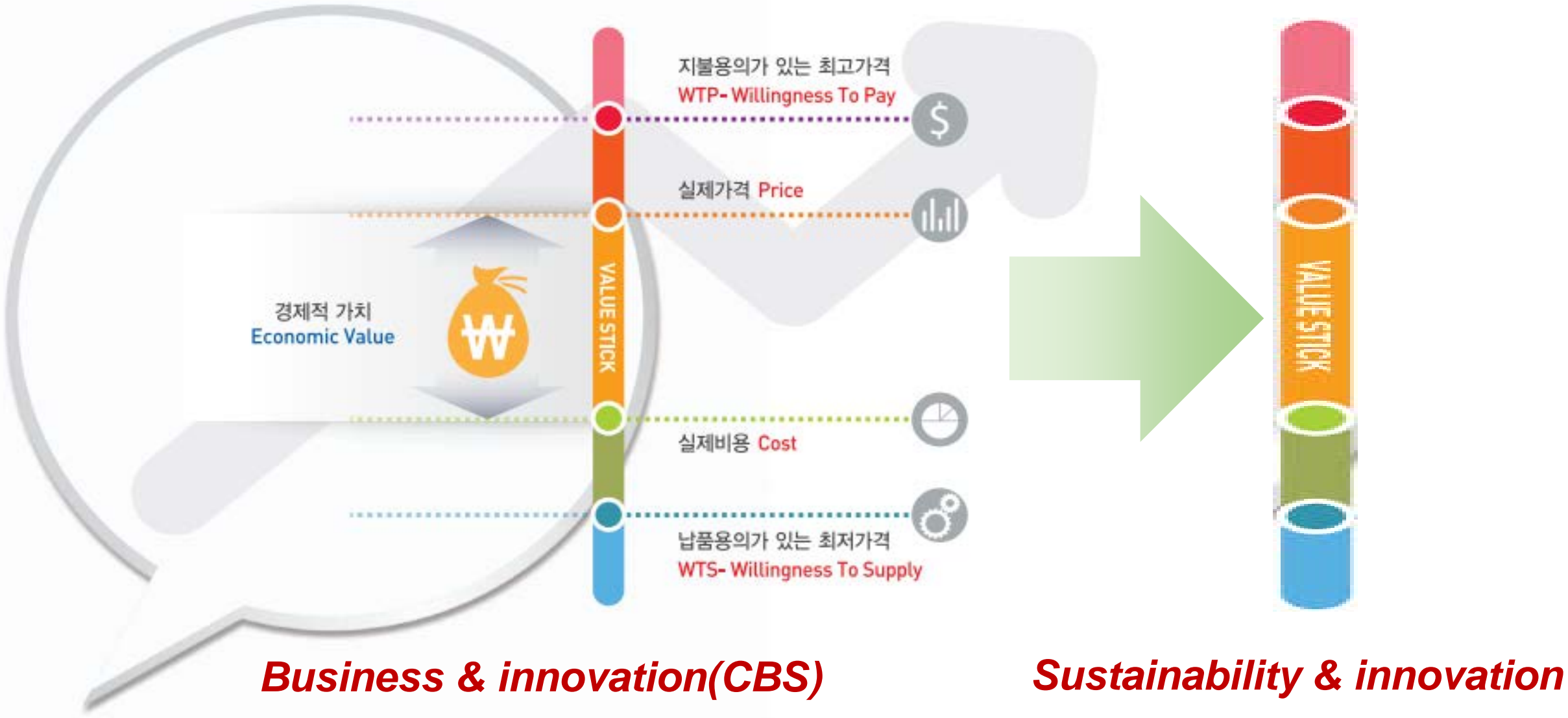
Seoul City, Enactment of an Ordinance on the establishment and management of a Social Investment Fund(2012.07.30)

Purpose	<ul style="list-style-type: none">• To improve the quality of life for all members of the society, promote welfare, provide a source of venue and manage the funds for good job creation
Use of Fund	<ul style="list-style-type: none">• Support for social enterprises and institutions conducting social finance• Support for social investment to improve problems in society, environment, culture etc.• Support for companies and people in need of social consideration etc.
Current State of Affairs	<ul style="list-style-type: none">• Budget (2013.11) : 618 million KRW (Seoul City 500 million KRW, Private 118 million KRW)• Main operations<ul style="list-style-type: none">- Social Impact Bonds (In the process of selecting an institution for senior citizens' suicide prevention)- Financing companies in need of social consideration- Partnership with intermediary provider institutions
Ordinance Enactment for SIB Administration /Adoption	<ul style="list-style-type: none">• Ordinance on the management of Seoul City Pay for Success contracts (2014.03.20) → Pay for Success model in social enterprises as carried forward by Seoul City, Increased private engagement

Meaning of System Adoption

- 
- First adoption of social finance in a domestic local government
 - **Proactive attempt at solving social problems through public-private collaboration**
 - **Virtuous cycle of capital via investment and financing instead of donations**
 - Development of an innovative business and program to improve social tasks
-
- Groundwork for the settlement, proliferation of SIB
 - Institutionalization of Pay for Success via evaluation

Making the Value Stick thicker & the society better



- 1. List the existing activities & expand using core competence***
- 2. Leverage each other(Private & Public)***
- 3. Do it directly with the right partners***
- 4. Persuade CEO with the business case***
- 5. Consult with the right sustainability strategy expert***



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