Green Bond Framework

Contents

PFSL GREEN BOND FRAMEWORK

1. ABOUT PARWAAZ FINANCIAL SERVICES LIMITED

Parwaaz Financial Services Limited (PFSL) is a Non-Banking Finance Company (NBFC) licensed as "Investment Financial Service" (IFS) by the SECP. Being a subsidiary of Karandaaz (KRN) Pakistan, PFSL is committed to empowering Small and Medium Enterprises (SMEs) in Pakistan through innovative financial solutions.

With a strong focus on sustainability and inclusive growth, PFSL leverages digital platforms and strategic partnerships to provide swift and accessible financing to SMEs, fostering economic growth and supporting development of SMEs across Pakistan.

In first three years of operations, it has developed a healthy and high-quality portfolio of PKR 2.847 billion, outstanding at PKR 1.847 billion as of 31-08-2024, thus serving 45 borrowers, through both conventional and innovative financing tools, such as digital lending solutions, Electronic Warehouse Receipt (EWR) financing, Invoice Discounting by engaging large corporate anchors, serving missing segments such as women-led SMEs, Green Financing etc.

During next 3 years, PFSL aims to double its portfolio base with sector specific approach, and priorities in value-chain financing, across Agriculture, Industrial, Renewable Energy, Healthcare & Education sectors.

2. PFSL STRATEGIC OBJECTIVES FOR GREEN FINANCING

PFSL offers financing on flexible terms, providing entrepreneurs with growth centric opportunities. Although our loans are typically collateralized according to industry best practices, we do not reject collateral-deficient SME borrowers who meet other lending criteria. This inclusive approach has enabled PFSL to expand its outreach to disadvantaged SME borrowers with limited access to capital.

PFSL is positioned strategically between Commercial Banks, Development Finance Institutions (DFIs) and Microfinance Institutions (MFIs), which allows it to:

- Leverage the strengths of each type of Financial Institution to provide more flexible and innovative financial products than traditional commercial banks
- Provide tailored made solutions that meet the unique needs of its target market.
- Focus on the social and environmental impact of its investments

PFSL continues to serve the underserved SMEs segment, empower women led businesses and promote sustainability initiatives with the aim to increase access to finance, support business growth and generate employment.

As a progressive and responsible organization, PFSL is committed to addressing pressing social and environmental challenges, such as:

- Climate change and environmental degradation
- Sustainable development and inclusive growth
- Gender inequality and women empowerment

3. GREEN BOND OPPORTUNITY[1]

Pakistan is ranked as the 5th most vulnerable country to climate change according to the Global Climate Risk Index. This underscores the urgent need for prioritizing adaptation and resilience. The negative effects of climate change are already being felt, largely through the increased incidents of extreme events, changes in water resource availability, accelerated melting of glaciers and rising sea levels.

Besides this, Pakistan has the world's fourth-worst air pollution, which has reduced average life expectancy in the country by 4.3 years. Currently, Pakistan contributes to less than 1 percent global GHG emissions. In 2018, the country's total annual greenhouse gas (GHG) emissions were estimated at 499 Mln metric tons of carbon dioxide equivalent (MtCO2e), including land use and forestry.

To sustain economic progress and the transition to a green and resilient economy, Pakistan needs to capitalize upon opportunities for deploying climate-friendly technologies across various sectors. However, the country requires an estimated USD$19 billion annually to adapt to extreme weather events. With government resources stretched thin, private sector investment is essential to bridge this financing gap.

4. GREEN BONDS – PFSL ROLE

PFSL will be launching its first local currency Green Bond in October 2024, with a privately placed transaction of PKR 1,000 million (approx. 3.6 M USD[2]). Post issuance, PFSL may apply for listing of this Green Bond for trading amongst eligible investors. The aim is to help catalyse the market and unlock investment for private sector climate-related projects.

The Green bond shall be guided by its term sheet appended to this framework.

PFSL is committed to developing a robust Green Bond market and is proud to achieve a landmark milestone by introducing Pakistan’s first Green Bond in the private sector. By mobilizing private capital through issuance of Green Bonds, PFSL aims to bridge the financing gap and accelerate Pakistan's Green Transformation. Investments in renewable energy, sustainable agriculture, and clean transportation will not only combat climate change but also foster sustainable economic growth.

The PFSL Green Bond is expected to be transformative in setting precedents in benchmark issuance in local currency and impact reporting. PFSL follows robust impact reporting methodologies, which are aligned with international best practices.

Going forward, PFSL envisages to have multiple roles in the green bond market ranging from issuer to investor lead advisor and market builder. PFSL will focus on building the supply side of the green bond market by issuances of TFCs, attracting and providing like-minded investors a platform to divert their investments in the clean energy space, listing/ trading those in primary/ secondary markets, provide advisory support to new issuers. On demand side, PFSL will create a healthy portfolio pipeline in targeted segments to ensure that proceeds of the bonds are used as per intended purposes.

[1] World Bank Group – Country Climate and Development Report (South Asia – Pakistan) – November 2022
[2] 1USD=278.5PKR (SBP Exchange Rates)

5. PFSL GREEN BOND PRINCIPLES:

PFSL's Green Bond Framework is intended to provide transparency in its Green Bond issuances and reporting processes. The framework is aligned with the International Capital Markets Association (ICMA)'s Green Bond Principles (GBP), a voluntary set of guidelines for transparency and disclosure.

The Framework sets guidelines to ensure:

- PFSL Green Bond's alignment and compliance with Securities and Exchange Commission of Pakistan (SECP's) Green Bond Guidelines.
- Green Bond proceeds are utilized in ways consistent with delivering low carbon outcomes.
- Provide investors a clear and concise information about the use of proceeds from this issuance, project evaluation, management and reporting processes.

The PFSL Green Bond Framework will be reviewed by external reviewer. The review will provide limited assurance that PFSL's Green Bond Framework is in accordance with the SECP Green Bond Guidelines and/ or International Capital Markets Association (ICMA) Green Bond Principles (GBP).

The document also mentions in detail how the PFSL Green Bonds align to the following core components of the Green Bond Principles:

a) Use of Proceeds
b) Process for Project Evaluation and Selection
c) Management of Proceeds
d) Reporting

A. USE OF PROCEEDS

The proceeds from green bonds issued by PFSL will be exclusively used to finance or refinance, in part or in full, new and/or existing environmentally sound and sustainable activities or eligible green assets, in the following segments.

- **Renewable Energy (RE)** such as solar power, bioenergy and other similar sources for commercial and business use. Primary sectors for RE usage will be Education, Healthcare, Textile, Services, Hospitality, and Agriculture sectors but does not restrict its use in other sectors also. Other similar projects that reduce dependence on fossil fuels and decrease carbon emissions such as bio-fuel projects may also be financed.

- **Energy Efficiency** in industrial, commercial and domestic sources – examples of such projects will include manufacturing of energy efficient power distribution transformers, energy efficient appliances and energy efficient processes in industries such as initiatives that adopt Minimum Energy Performance Standards (MEPS). It will also include financing to businesses that converse energy and invest in energy efficient LEED-USA, BREAM-UK, Pakistan Green Building Council, certified green buildings.

PFSL has identified emerging segments in green financing ecosystem. These are new business areas in local economy and PFSL may use proceeds of PFSL Green Bond in following segments:

- **Clean Transportation:** Financing Electric and Hybrid Vehicles (2 Wheelers, 3 Wheelers and 4 Wheelers) and associated infrastructure to increase transition to sustainable transport systems, help reduce fossil fuel reliance and clean mobility and thus reduce GHG emissions.

- **Sustainable Water and Wastewater Management:** Financing to promote sustainable and low-cost point of use water purifiers, especially for use in rural and flood prone areas which can significantly improve access to safe-drinking water and prevent waterborne disease.

- **Pollution Prevention and Control:** Financing businesses and solutions aimed to promote plastic circularity, improved practices of plastic waste management, conversion to lifestyle products and building materials developed through recycling of waste and other similar solutions that prevent environment degrading through waste landfills and reduce the single use plastic/ PET bottles and related emissions

During last one year, PFSL has developed a healthy pipeline of RE financing in healthcare, education, textile sectors and with solar solution providers (EPCs) through four different transactions with a total commitment of PKR 388 million. These transactions are partially disbursed with current outstanding portfolio of PKR 213.33 million. It is anticipated that remaining tranches of approx. PKR 173.38 million (USD 0.62 million) will be disbursed through PFSL Green Bond Proceeds, implying that up to 40% of the PFSL Green Bond proceeds may be used to refinance existing portfolio, already committed by PFSL (Detailed list is attached as per **Annexure - A**).

PFSL will ensure that the utilization of the proceeds of the bond for Green Projects are appropriately described in the legal documentation. All eligible green projects will outline clear environmental benefits, which will be assessed by the Issuer or a designated third party, as per SECP guidelines.

B. PROCESS FOR PROJECT EVALUATION AND SELECTION

i) GREEN BOND COMMITTEE

The PFSL Green Bond portfolio projects' eligibility, evaluation and selection will be supervised by the Green Bond Committee which will ensure that eligible projects conform with:

- PFSL's Environmental and Social Governance policy guidelines and Framework
- PFSL's Sustainability and business strategy

The committee will also be responsible to oversee tasks associated with the selection of eligible projects, issuance of bonds, allocation of funds, divestment of funds from a project (if it no longer fits into eligibility criteria) and review the impact(s) reports.

The committee will meet at least once every six months to review the progress; all relevant decisions will be taken according to the majority voting on all relevant matters. The Green Bond Committee will comprise of the following personnel:

- Chief Financial Officer (Member)
- Chief Risk Officer (Member)
- Head of Business (Member)
- Climate Finance Expert (Member)

ii) PROJECTS SCREENING

PFSL Business Department is developing climate business expertise from its sponsors and sector experts. Business team needs to ensure compliance with applicable laws related to PFSL's ESG Policy and all applicable regulatory requirements. The Impact assessment and regulatory compliance process continue to be mainstreamed through experiential learning and training of the staff.

PFSL's Green Bond eligible projects are subject to a thorough evaluation and selection process before being included in the PFSL's Green Bond portfolio.

In addition to the priority segments mentioned above for the use of bond proceeds, each project qualifying for PFSL Green Bond Portfolio will be screened on the following elements of PFSL's ESG Policy[3].

1. Assessment and management of environmental and social risks and impact
2. Labor and working conditions
3. Resource efficiency and pollution prevention
4. Community health, safety, and security
5. Land acquisition and involuntary resettlement
6. Biodiversity conservation and sustainable management of living natural resources
7. Indigenous peoples
8. Cultural heritage

PFSL's screening processes will ensure that that eligible projects have passed a rigorous due diligence process outlined in the PFSL policies. The following projects will ***not be*** eligible for the PFSL Green Bond financing:

i) Projects involving new or existing extraction, production, and distribution of fossil fuels, including improvements and upgrades.
ii) Projects where the core source of energy is based on fossil fuels and other projects that support carbon intensive activities

iii) PROJECTS SUPERVISION

PFSL will monitor its credit portfolio, including green bond portfolio on a regular/ongoing basis. The supervision process comprises of regular reports by the business unit on the performance of the borrower's business and project activities. This performance is monitored by PFSL throughout the lifetime of the financing.

In addition, the portfolio is subject to independent assessment by the PFSL's sponsor or its designated third party(ies) or sector experts.

C. MANAGEMENT OF PROCEEDS

All proceeds from PFSL Green Bond will be set aside in a separate account and invested in accordance with PFSL's Treasury policy until disbursement to eligible projects.

Unallocated proceeds will either be invested in a profit bearing account (including Fixed Term Deposits) with any AA rated financial institution or in government securities and bonds, as deemed appropriate by the Green Bond Committee.

[3] Derived from IFC 8 Performance Standards on Environment and Social Sustainability

PFSL will periodically disclose to its investors on demand, the intended types of temporary placement for the balance of unallocated net proceeds.

Disbursements are often made over a period of time, depending on disbursement schedules of projects being financed. As and when green bond proceeds are disbursed, corresponding amounts will be adjusted accordingly from the dedicated account or sub-portfolio account within PFSL's Treasury investments, as the case may be.

PFSL will be responsible to track the use of proceeds from the issuance of these Green Bonds. It will ensure that Green Projects financed through proceeds of bonds are appropriately identified and a reconciliation mechanism is in place.

PFSL will ensure that as long as the Green Bonds are outstanding, the balance of the tracked net proceeds are periodically adjusted to match the allocations to eligible Green Projects during the life of the Bond(s).

PFSL will also seek post-issuance assurance through an auditor or any other third party to verify internal tracking and the allocation of funds from the Green Bond proceeds to eligible projects, as per SECP Green Bond Guidelines.

D. REPORTING

PFSL will publish the list of projects that have received or are eligible to receive funding from Green Bond proceeds, as per SECP Green Bond guidelines. Subject to confidentiality approvals, the list of projects will also mention a brief description of the project, the amount disbursed, the expected environmental impact(s), and links to relevant public documents about the project as/if applicable.

This public reporting, made available to the investors and on PFSL website, will include:

- Amount of Green assets created in comparison to Green Bonds issued;
- Sector exposure or geographic mix of portfolio
- Divestments, liquidations or substitutions
- Details of unutilized proceeds
- Environmental impact of funded projects such as reduction in GHG emissions and/or improvements in energy efficiency etc.

Impact indicators will be tracked on a project-level basis and will be pro-rated for the portion of PFSL's contribution. The impact of direct financing is based on ex-ante estimates, developed before project implementation, of expected annual results for a representative year once a project is complete and operating at normal capacity.

However, once projects are complete and have achieved commissioning, the ex-post impact will have to be reported by the Business Unit after getting the relevant details from the customer as applicable.

Where applicable, the GHG emissions will be estimated based on UK ICF KPI methodologies and Steward Redqueen (SRQ) I/O model. In case, the methodology's development impact of innovative projects is not sufficient, PFSL will develop customized methodology(s) to measure development impact in consultation with external advisor/ sponsor.

6. CONTRIBUTION TO SDGs:

PFSL's Green Bond investments are not only aimed at generating financial returns but also focus on delivering measurable social and environmental benefits. Through our Green Bond initiative, we are dedicated towards making a meaningful difference, supporting projects that address pressing environmental challenges and pave the way for sustainable and prosperous future.

PFSL, through the proceeds of this Green Bond(s), will be contributing to the following Sustainable Development Goals (SDGs) of United Nations and also contribute towards delivering the objectives of the Paris Climate Agreement.

SDG 7: Affordable and Clean Energy: Energy Efficiency (Targets 7.3, 7a), Renewable Energy (Targets 7.2, 7a);

SDG 11: Sustainable Cities and Communities: Clean Transportation (Target 11.2) • Sustainable Water and Waste Water Management (Target 11.5)

SDG 13: Climate Action: Climate Change Mitigation (Target 13.3)

SDG 8: Decent Work and Economic Growth Energy Efficiency (Target 8.4) • Renewable Energy (Target 8.4)

SDG 12: Responsible Consumption and Production: Renewable Energy (Target 12.4)

SDG 3: Good Health and Well Being: Renewable Energy (Target 3.9)

SDG 6: Clean Water and Sanitation: Sustainable Water Management (Targets 6.3, 6.4)

7. ANNEXURE A – LIST OF ELIGIBLE PROJECTS FOR REFINANCING UNDER PFSL GREEN BOND

Name of the Borrower	Project Details	Borrower Overview	Sector	MWs		PKR in millions			
				Total Project Size	Installed Capacity (31-08-2024)	Total Project Costs	PFSL Approved Limits	Disbursed Amount	Outstanding as of 31-08-2024
Fatima Memorial Hospital for Women & Children (FHM)	Installation of PV Solar Power at FMH, Shadman Lahore	500 bed tertiary care, not-for-profit teaching hospital, located in Lahore	Health care	0.4	0.4	49	43	34.3	34.3
Maspro Energy (Pvt) Ltd	Installation of 02 PV Solar Power projects at Carrefour sites in Lahore	Solar Based Power Solutions Provider	Power	1.7	0.95	220	150	79.32	78.03
Beacon Impex (Pvt.) Ltd	Installation of 2 Solar Power projects at a Textile manufacturing units located in Faisalabad and Toba Tek Singh	A leading textile exporter specializing in manufacturing of inner wear/ body wear and exporting primarily to USA and Europe	Textile	1.587	1.587	218.359	150	101	101
				1.225	-				
AIMS Hosiery Ltd	Installation of PV Solar Power project at a Textile manufacturing unit located in Lahore	A leading textile exporter specializing in the manufacturing of socks, primarily exported to USA, Canada, UK and EU markets.	Textile	0.55	-	65.464	45	-	-
Total				**5.462**	**2.937**	**552.823**	**388**	**214.62**	**213.33**