Growing Wave of Green, Blue, Transition, Social and Sustainability Linked Bonds

Western Balkans Green Center webinar series

GBAC Green Banking Academy

AN INNOVATION OF IFC International Finance Corporation WORLD BANK GROUP

Leah Soroka
Program Manager, IFC Climate and Agricultural Financial Services in Europe

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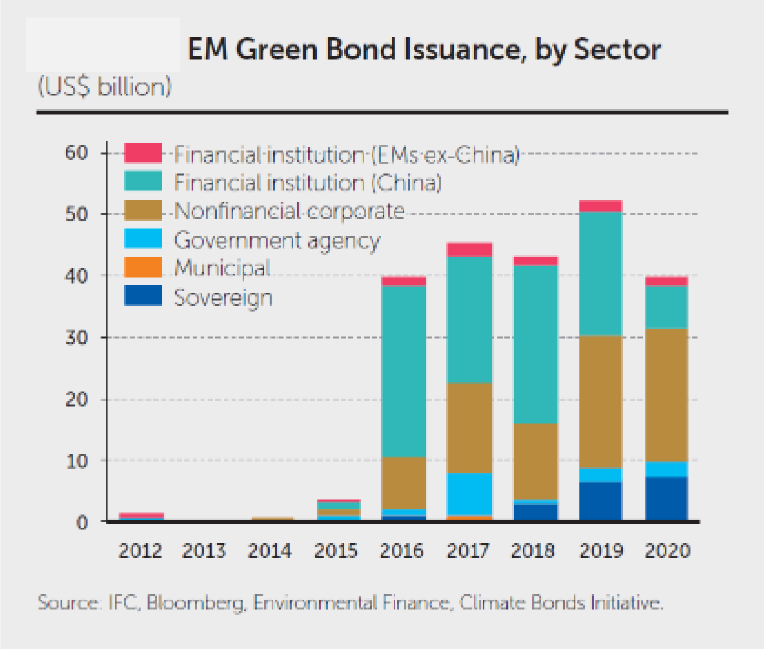
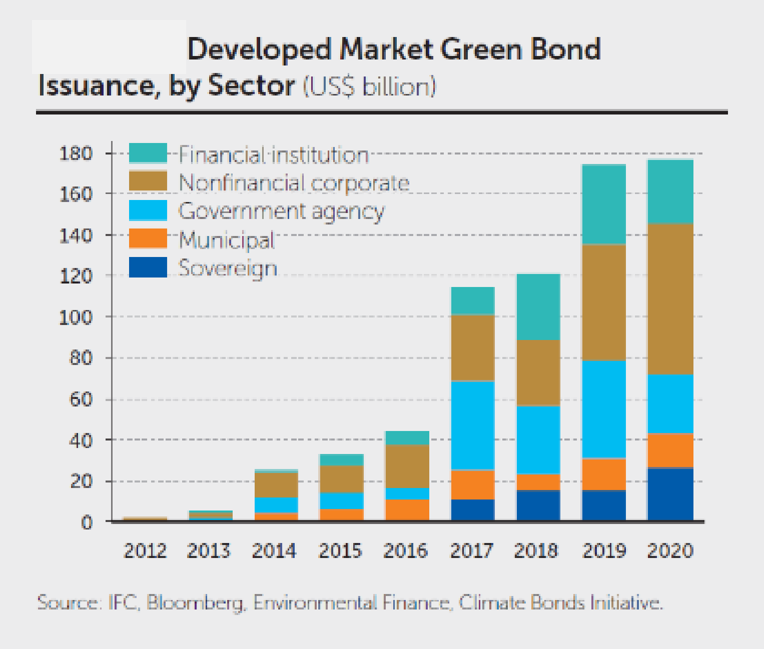
GREEN BOND MARKET HAS GROWN RAPIDLY SINCE 2012

Green Bonds Market 2021

Cumulative GB Issuance to date	**US$1.541tn**
2021 Issuance *(aligned with CBI definitions)*	**$452.2bn**





https://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/emerging-market-green-bonds-report-2020

“$5 trillion in annual green investment by 2025 is a real economy investment benchmark to judge progress in greening the financial system.”
(*Sean Kidney, CEO, Climate Bonds Initiative*)

In the last 10 years, the global green bond market has grown dramatically, reaching $1.5 trillion in cumulative issuance since 2007.

GREEN BONDS: BENEFITS TO ISSUERS

- **Enhancement of Franchise value** by helping issuers effectively communicate their sustainability strategy
- Encouraging greater institutional **focus on climate and environmental finance** and creating internal synergies between financial and sustainability departments
- Experience issuing green bonds will **enhance the issuers credibility** in competing for opportunities with a sustainability dimension
- Tapping **a wider investor base** and creating a value added **offering for the existing investor base**
- Establishment of **improved monitoring and reporting requirements** to better capture positive impacts of the bank's environmental finance activities
- Over time, increased demand is likely to drive favorable terms and a **better price for the issuers**, compared to a regular bond from the same issuer
- **Risk mitigation**: regulations in certain markets allow an issuer to raise longer term funding, a critical source for banks to expand their infrastructure funding, and alleviate its asset liability mismatches

GREEN BONDS: BENEFITS TO ISSUERS

MAINSTREET PARTNERS

Investor’s view on green bonds:
"As strong believers in the change green bonds can achieve, we think corporations across all industries should consider issuing [them]"
Enrico lo Guiudice – MainStreet Partners

Stockland

Issuer’s view on green bonds:
"Being the first Australian corporate to issue a green bond has confirmed that investors recognize our leading sustainability credentials and are confident in our commitment and ability to consistently deliver sustainable outcomes on our projects."
Tiernan O’Rourke, Chief Financial Officer, Stockland

The Economist

Market’s view on green bonds:
"Green bonds also attract new investors. When Unilever, a consumer-goods company, issued a £250m (US$416 million) green bond in March, 40% of the issue was snapped up by people outside Britain—an uncommon response to a sterling bond" *Economist*

IFC IS A LEADING PLAYER IN THE GLOBAL GREEN BOND MARKET

Issuer and Investor

- 2010: IFC was a **first institution to issue a green bond**.
- 2013: IFC issued the **largest green bond** at the time (two $1 billion green bonds).
- 2017: IFC and Amundi created the world's **largest Green Bond Fund** with an investment strategy of $2 billion to support green bonds issued in emerging economies.
- 2019: IFC and HSBC created the **Real Economy Green Investment Opportunity (REGIO) Fund** to catalyze $500-700 million to support climate-smart investments in emerging markets.

IFC's Green Bonds (as of FY21-end)

$10.5 billion issued

178 green bonds

20 currencies

Standard setter

- IFC is a **founding member** and **Chair** of the Executive Committees of the **Green, Social, and Sustainability-Linked Bond Principles**, establishing guidelines and procedures that aid the development of the green and other sustainability-linked bond market .

The Green Bond Principles

The Sustainability-Linked Bond Principles

The Social Bond Principles

IFC is one of the largest issuers of green bonds and plays a leadership role in the formation of the regulatory framework for the global green, social, and sustainability-linked bond market.

THE DIVERSE MARKET OF LABELED BONDS: TYPES AND GUILDELINES

Green bonds
Proceeds earmarked exclusively for new and existing projects that have environmental benefits.
Guiding document: Green Bond Principles (ICMA)

Sustainability-linked bonds
Performance-based non-earmarked bonds. Objectives are measured through KPIs and assessed against sustainability performance targets.
Guiding document: Sustainability-Linked Bond Principles (ICMA)

Social bonds
The use of proceeds is directed toward projects that aim to achieve positive social outcomes especially, but not exclusively, for a target population.
Guiding document: Social Bond Principles (ICMA)

Climate transition bonds
Aim to finance the transition to a low-carbon economy.
Guiding document: Climate Transition Finance Handbook (ICMA)

Sustainability bonds
Proceeds finance a combination of green and social projects.
Guiding document: Sustainability Bond Guidelines (ICMA)

Other labels (blue, adaptation, sustainable development goal bonds)
Aligned with ICMA principles, but their branding is adapted to a specific feature of their program.

To date, different types of labeled bonds are classified with clearly defined requirements for project eligibility, allocation, and impact reporting.

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WHAT ARE GREEN, SOCIAL, SUSTAINABILITY-LINKED BONDS?

For green bonds' use of proceeds, IFC applies its **definitions and metrics for climate related activities**

BOND + **SPECIFIED USE OF PROCEEDS** = **GREEN BOND**

EX-ANTE

EX-POST

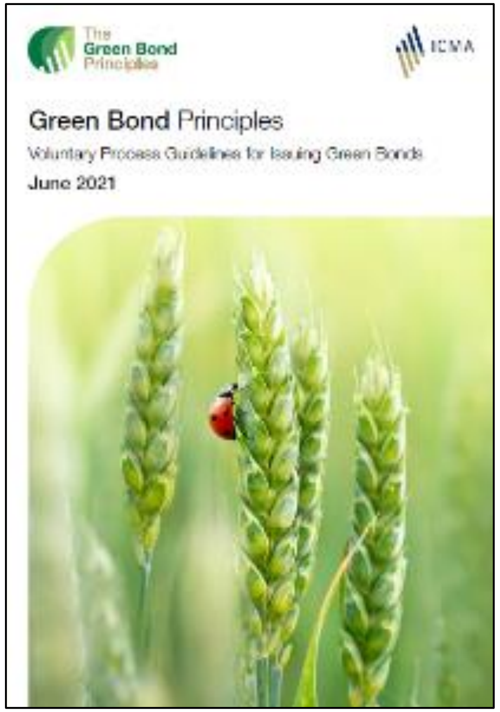
Ex-ante *screening of eligible assets is conducted through the process of External Review provided by a third-party*

Ex post *reporting is on the use of proceeds and the impact of the projects financed. The Issuer must prepare an annual impact report on financed projects*

Such bonds have a specified use of proceeds (specific targets that should be reached with a focus on specific environmental priorities).

THE GREEN BOND PRINCIPLES

The Green Bond Principles (GBP) form the **basis for the governance of the labeled bonds**. Other labeled bonds guidelines (the Social Bond Principles, the Sustainability Bond Guidelines and the Sustainability-Linked Bond Principles) are aligned with GBP.



The four core components for alignment with the principles are:

1) **Use of proceeds.** Proceeds of bonds have to be used only for eligible projects, which should be appropriately described in the legal documentation of the security.
2) **Process for project evaluation and selection.** Informing investors about the environmental objectives of the projects and what is the process by which were determined how the projects fit within the eligible categories.
3) **Management of proceeds.** The proceeds of the bonds should be clearly tracked.
4) **Reporting.** Issuers should report on the use of proceeds (list of the projects, a brief description of the projects, the amounts allocated, and their expected impact).

The key recommendations for heightened transparency are:

i. **Labeled bond frameworks.** Issuers should explain the alignment of their green (labeled) bond program with the four core components in the bond framework (by-law), in their legal documentation.

ii. **External Reviews.** It is recommended that issuers appoint an external review provider(s)/verifiers to assess the alignment of their bond program and/or Framework with the four core components.

https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf

TAXONOMIES FOR LABELED BONDS

There are official and market-based taxonomies

And others …

There are many recommendations and regulations on selection of eligible projects for labeled bonds. All of them are closely connected with the ICMA's Green Bonds Principles.

OFFICIAL TAXONOMIES

- **The EU Taxonomy –** the most sophisticated initiative to define and scope environmentally sustainable economic activities. It constitutes the main enabler of the European Green Deal.

- **Other official taxonomies:**
  - **The China Project Catalogue (2021)**
  - **Malaysia's Climate Change and Principle-based Taxonomy (2021)**
  - **Bangladesh, Mongolia, Singapore and South Africa** have their own taxonomies.
  - **Australia, Canada and Colombia** are currently developing their own taxonomies**.**

https://www.icmagroup.org/News/news-in-brief/icma-publishes-overview-of-taxonomies-for-sustainable-finance-and-recommends-success-criteria/

EU TAXONOMY : PRIORITY SECTORS FOR CLIMATE CHANGE MITIGATION AND ADAPTATION

The EU taxonomy applies to:

- Reporting to regulators and stakeholders by all investors with staffs > 500, all listed corporations, and all banks.
- EU member states as they set up labels or standards regarding financial products or corporate bonds presented as "environmentally sustainable."

The EU taxonomy uses NACE, the statistical classification of economic activities in the EU.

For climate change mitigation, the taxonomy identifies the following priority sectors based on their significant contributions to greenhouse gas emissions:

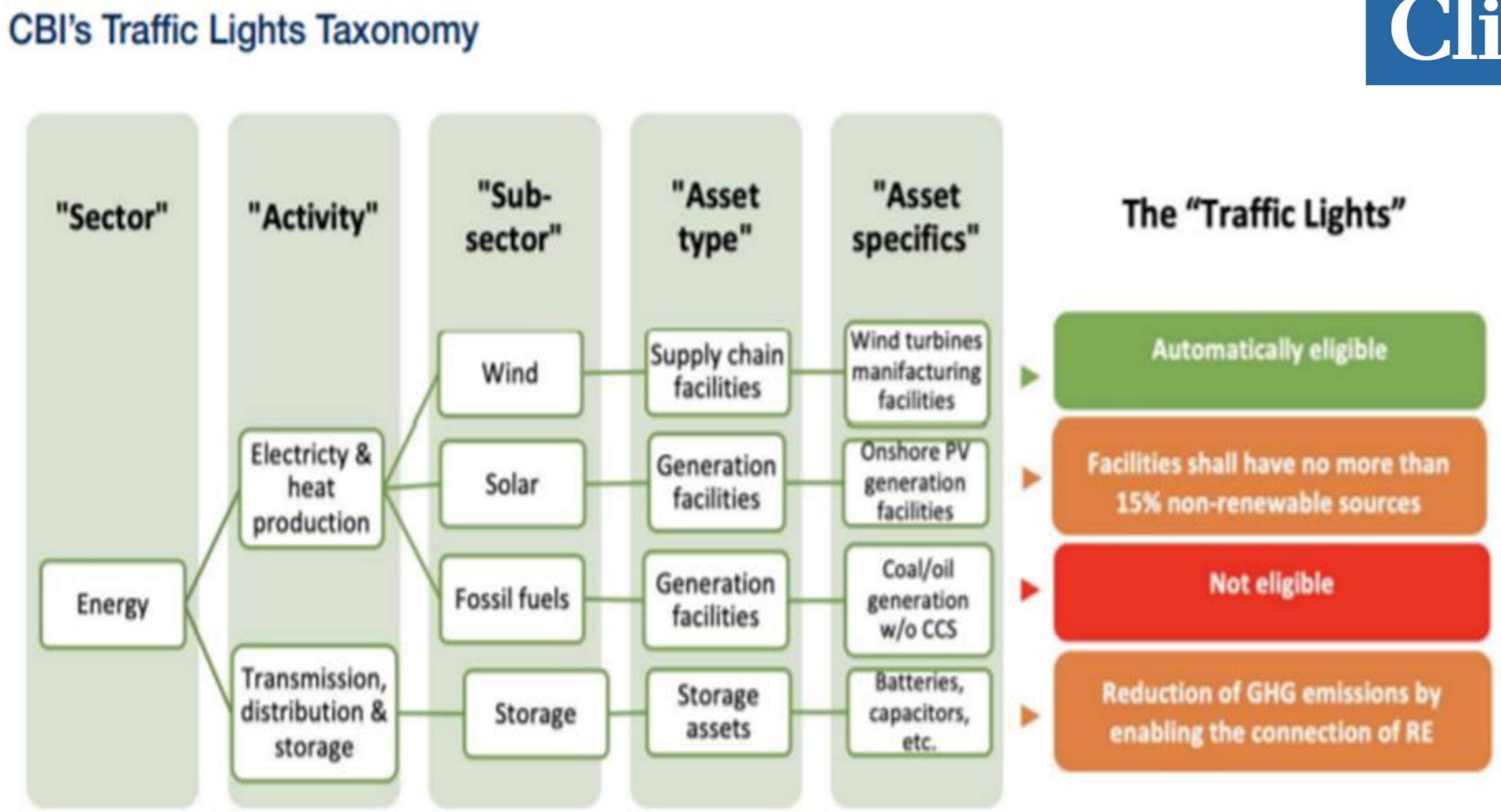
1) Agriculture, forestry, and mining
2) Manufacturing
3) Electricity, gas, steam, and air conditioning supply
4) Water, sewerage, waste, and remediation
5) Transportation and storage
6) Information and communication technologies
7) Buildings

For climate change adaptation, the taxonomy identifies an initial list of economic activities selected from six sectors on the basis that they are, among other things, particularly vulnerable to the impacts of climate change:

1) Agriculture, forestry, and mining
2) Electricity, gas, steam, and air conditioning supply
3) Information and communication technologies
4) Financial services and insurance
5) Professional, scientific, and technical activities
6) Water, sewerage, waste, and remediation

https://documents1.worldbank.org/curated/en/953011593410423487/pdf/Developing-a-National-Green-Taxonomy-A-World-Bank-Guide.pdf

MARKET BASED TAXONOMIES: CLIMATE BONDS INITIATIVE TAXONOMY



Climate Bonds Initiative (CBI) Taxonomy adopts a "traffic light" system: assets are attributed "green" where they are considered automatically eligible; "orange" if they need to meet certain screening criteria; "red" where they are considered ineligible; and, "grey" if screening criteria have not been determined yet..

https://www.icmagroup.org/News/news-in-brief/icma-publishes-overview-of-taxonomies-for-sustainable-finance-and-recommends-success-criteria/

WHAT IS THE DIFFERENCE BETWEEN GREEN, SOCIAL, SUSTAINABLE BONDS?

GREEN BONDS

Case study: District of Columbia Water and Sewer Authority
Use of proceeds: Construction of water infrastructure projects to reduce the river pollution.

Source: DC Water Green Bonds Use of Proceeds

SOCIAL BONDS

Case study: African Development Bank
Use of proceeds: Rural electrification; construction and rehabilitation of hospitals; financial payment system for population; SME financing.

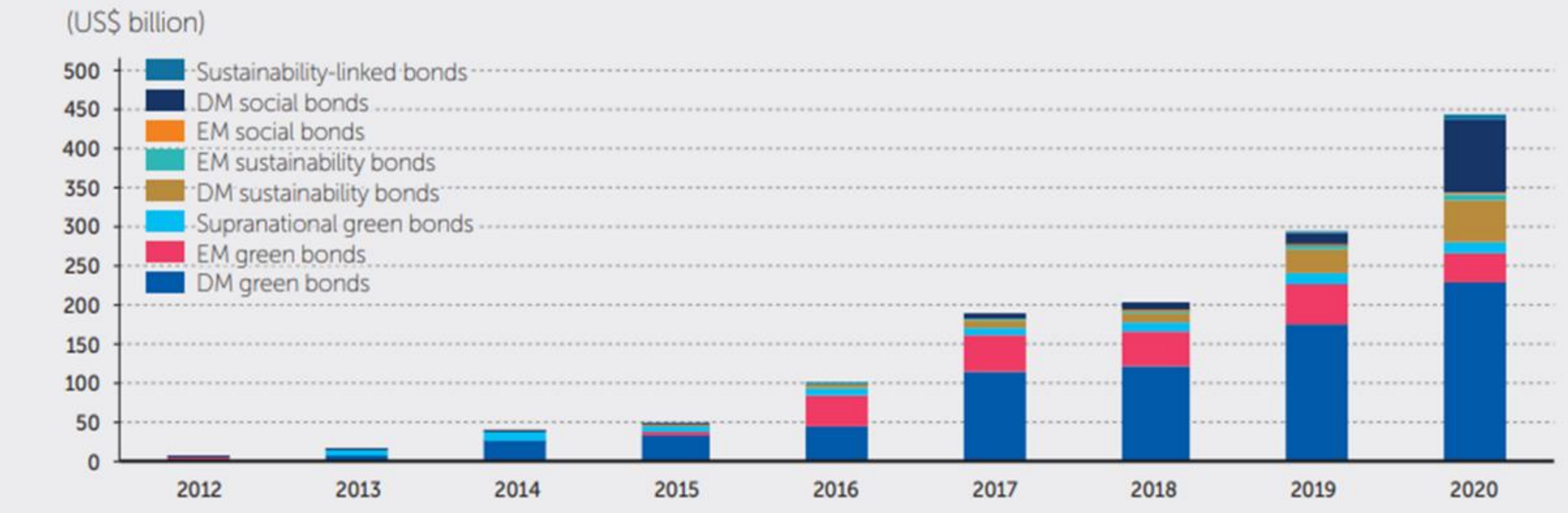
Source: African Development Bank Social Bond Framework

SUSTAINABLE BONDS

Case study: ASICS Corporation
Use of proceeds: Research at ASICS institute of sports study; Installation of rooftop solar panels.

Sustainable bonds are focused on achieving both positive environmental and social impact.

GLOBAL LABELED BOND MARKET DYNAMICS



Source: IFC, Bloomberg, Environmental Finance, Climate Bonds Initiative.

In recent years, we have seen a steady increase in the annual global issuance of green, social, and sustainability-linked bonds. In the next 5-10 years this market is forecast to grow even faster.

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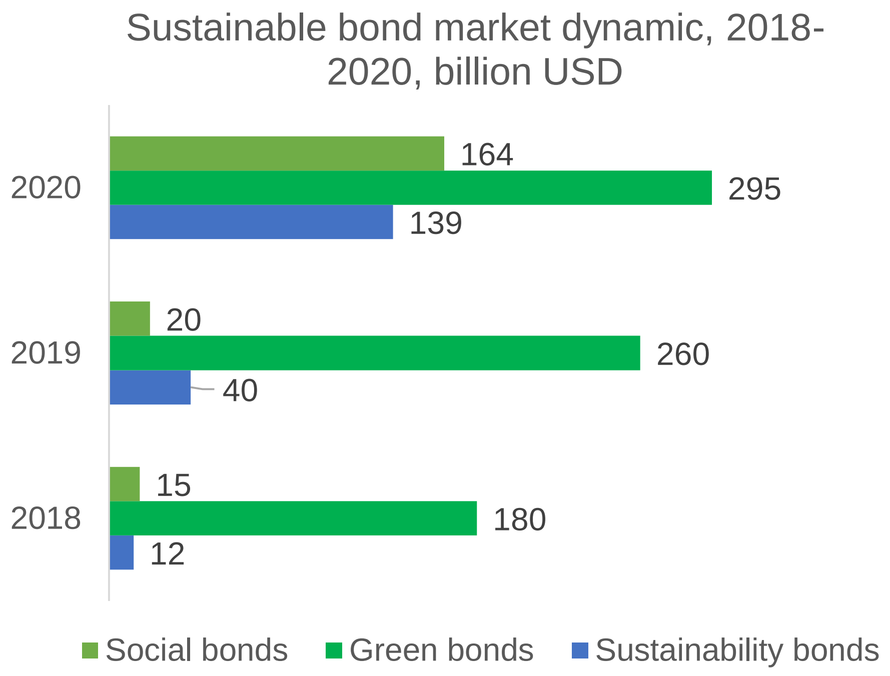
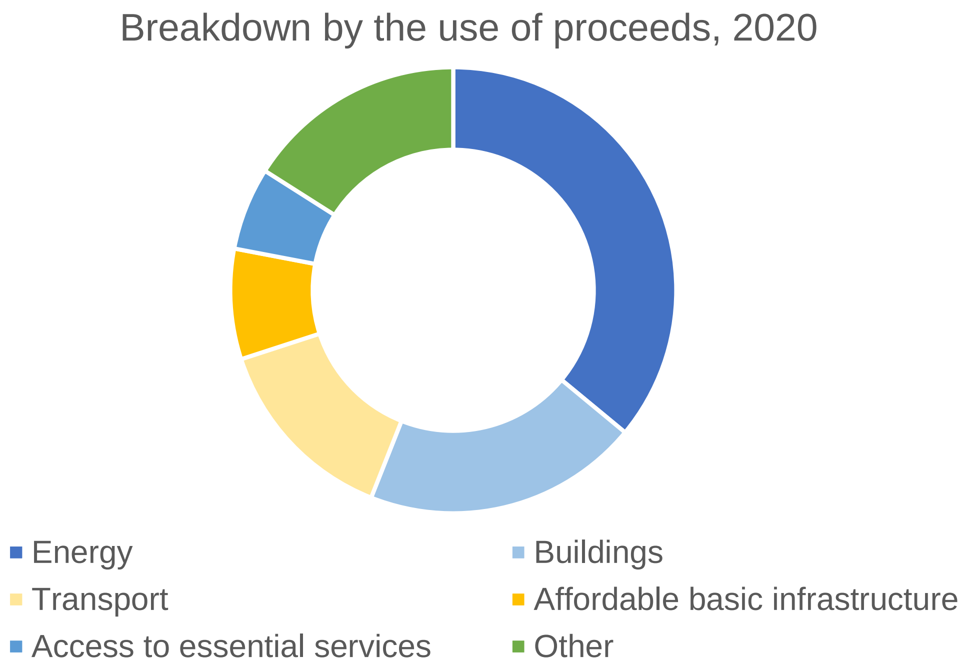
GLOBAL LABELED BOND MARKET TRENDS

The amount of issued sustainable bonds has almost doubled over in 2020. Green reached 295 billion of global issuance in 2020

70% of IFC's top clients provide climate financing. Top products are Renewables, Energy Efficiency, Transport, Waste, and Water



Source: Sustainable bond insights 2019, 2020, 2021



Source: Climate Bonds, market data

Green bonds dominate the market with most projects focused on renewable energy.

GOVERNMENTS AS ISSUERS OF GREEN AND SOCIAL BONDS

ISSUES TO ADDRESS

- Economy transformation and job losses
- Consumption of fossil fuels
- Mitigating climate change
- Deforestation

PRIORITY PROJECTS

Renewable energy

Reducing the consumption of fossil fuels.

Clean Transport

Providing better services to citizens and reduce C02 emission.

Sustainable agriculture

Savings on fuel and input materials using GPS and digital solutions.

Government can use bonds to make strategic investments into infrastructure development.

MUNICIPALS AS ISSUERS OF GREEN AND SOCIAL BONDS

ISSUES TO ADDRESS

- Economy transformation and job losses
- Consumption of fossil fuels
- Mitigating climate change
- Buildings with low energy efficiency

PRIORITY PROJECTS

Renewable energy

Renewable energy plays a key role in decarbonization as an alternative to fossil-fuel based generation.

Energy Efficient Buildings

Energy efficient buildings ensure the efficient use of energy resource.

Waste Management

Savings on fuel and input materials using GPS and digital solutions.

Municipalities focus on city needs such as waste management, reliable energy supplies and buildings.

CORPORATIONS AS ISSUERS OF GREEN BONDS

ISSUES TO ADDRESS

- Ensuring competitiveness
- Reducing the carbon footprint
- Reputation & CSR management

PRIORITY PROJECTS

Renewable energy

Renewable energy ensure the carbon-neutral electricity used by corporations during the production process..

Reducing carbon footprint

Corporation are trying to reduce the use of fossil fuels and shift to carbon neutral resources.

Waste Management

Corporation try to apply the principals of circular economy and process the wastes.

Corporations are focused on reducing their carbon footprint in order to increase competitiveness.

Why Is It important?

Sustainable Banking and Finance Network

European Commission

Sustainable finance is the provision of finance to investments considering environmental, social and governance considerations

https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance_en

ESG is an indispensable component of Sustainable Finance as it aims to ensure the development of truly sustainable financial products and establish trust of investors.

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LABELED BONDS TODAY: POSITIVES AND CONCERNS

Positives:

The green/social/sustainability-linked bond market displays a higher degree of **integration across the euro area** than the aggregate bond market.

- Financing the climate transition helps financial integration.
- Investors of ESG and “green” investment funds are less likely to withdraw following negative performance than non-ESG investors.

Concerns:

There is a **risk that positive developments are of a temporary nature.** One key risk **is greenwashing.**

- **Lack of (i) standardization**, (ii) **transparent** and (iii) **consistent reporting**, and (iv) **second-party verification** of green/social/sustainability-linked bonds may undermine trust and impede the market growth.

https://www.ecb.europa.eu/pub/financial-stability/macroprudential-bulletin/focus/2021/html/ecb.mpbu_focus202110_3.en.html

IFC: SUPPORT AT VARIOUS STAGES OF GREEN BOND ISSUANCE

Package for clients

- Technical support for reliable issuance of green bonds
- Debt structuring
- The role of an anchor investor that signals and attracts other investors from the global market

IFC's services include

- Exchange of experience in climate business, capital markets and Green bond markets in one package.
- Knowledge sharing and issue management in accordance with Green Bond Principles (GBP).
- As part of training support for IFC clients, the transfer of impact reporting tools (such as Climate Assessment for Financial Institutions, CAFI).
- IFC can commit and invest in Green bonds in local currency, becoming a catalyst for offshore investors.
- Flexible investment vision and approach, work with clients based on their financing needs, the easiest and most convenient methods for clients – from short-term credit lines (bridge financing), to loans, bonds, anchor investments, additional loans and other structured products.
- Market level support for the formation of national Green bond policy/regulations and industry recommendations for green investment. This can be achieved through the Sustainable Banking and Finance Network (SBFN) platform, which is a key partner of the G20 Sustainable Finance Working Group in disseminating knowledge.

THANK YOU!

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