The Green Bond Principles

Green Bond Principles, 2016
Voluntary Process Guidelines for Issuing Green Bonds

16 June 2016

INTRODUCTION

Green Bonds raise funds for new and existing projects with environmentally sustainable benefits. The Green Bond Principles (GBP) are voluntary process guidelines that recommend transparency and disclosure, and promote integrity in the development of the Green Bond market. They are intended for broad use by the variety of actors participating in the market and are designed to provide the information needed to increase capital allocation to environmentally sustainable purposes without any single arbiter.

The GBP have four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
3. Management of proceeds:

- The net proceeds of Green Bonds should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process linked to the issuer’s lending and investment operations for Green Projects.

- So long as the Green Bonds are outstanding, the balance of the tracked proceeds should be periodically adjusted to match allocations to eligible Green Projects made during that period.

- The issuer should make known to investors the intended types of temporary placement for the balance of unallocated proceeds.

- The GBP encourage a high level of transparency and recommend that an issuer’s management of proceeds be supplemented by the use of an auditor, or other third party, to verify the internal tracking method and the allocation of funds from the Green Bond proceeds (see External Review section).
4. Reporting

- Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and as necessary thereafter in the event of new developments.
  - This should include a list of the projects to which Green Bond proceeds have been allocated,
  - as well as a brief description of the projects and the amounts allocated,
  - and their expected impact.
- Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the GBP recommend that information is presented in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories).
4. Reporting (continued)

- **Transparency** is of particular value in communicating the expected impact of projects. The **GBP recommend** the use of
  - **qualitative** performance indicators
  - and, **where feasible, quantitative** performance measures (e.g. energy capacity, electricity generation, greenhouse gas emissions reduced / avoided, number of people provided with access to clean power, reduction in the number of cars required, etc.)
  - with the key underlying **methodology and / or assumptions** used in the quantitative determination.
  - Issuers with the ability to monitor **achieved impacts** are encouraged to include those in their regular reporting.

- Leading International Financial Institutions have developed a **reference framework for impact reporting** (“**Working towards a harmonized framework for Green Bond impact reporting**” available at www.icmagroup.org/greenbonds) that outlines
  - core principles and recommendations and puts forward core indicators for two sectors: energy efficiency and renewable energy.
  - The framework includes templates for impact reporting at a project and portfolio level that other issuers can adapt to their own circumstances.
  - The GBP welcome this initiative, and encourage further initiatives, to help establish additional references for impact reporting that others can adopt and/or adapt to their needs.
Green Bond Workshop II: Monitoring and Reporting from International Issuers’ perspective
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Monitoring

Sound and simple thinking:

- Starting point:
  - If you promise that use of proceeds exclusively shall be allocated to certain green project...
  - ...obviously, you must keep track of these specific funds.

- How to do it - two general guidelines:
  - Keep it simple
  - Be prudent

- A couple of alternatives:
  - Separate account at the house bank
  - Separate account in the internal accounting structure

- Make allocations to Eligible Green Projects periodically - according to your Selection criteria

- Inform on how unallocated proceeds will be used

- Recommendation – independent, transparent assurance of tracking method and the allocation of funds
“Climate change is a development, economic, and investment challenge. It offers an opportunity for economic and social transformation that can lead to an inclusive and sustainable globalization. That is why addressing climate change is a critical pillar of the development agenda.”


Climate change affects all of us, but will hit developing countries the hardest. Its effects — higher temperatures, changes in precipitation patterns, rising sea levels, and more frequent weather-related disasters — pose serious risks for agriculture, food, and water supplies. However, climate change is clearly not just an environmental issue. At stake are recent gains in the fight against poverty, hunger and disease, and the lives and livelihoods of billions of people in developing countries. Climate change directly impacts the World Bank's mission of poverty reduction, and makes it difficult to achieve many of the United Nations Millennium Development Goals, such as poverty eradication, child mortality, combating malaria and other diseases, and environmental sustainability.

The World Bank is committed to supporting a global solution to climate change while balancing our approach to the differing needs of our developing country partners. Our approach to action includes both mitigation — actions now to lower carbon emissions and avoid the unmanageable — and adaptation — actions over time to manage societies' ability to cope with the unavoidable.

“We are working hard to ensure that developing countries continue to receive maximum levels of resources to reduce poverty and increase their economic growth to achieve the Millennium Development Goals, as well as to generate the additional financial resources they will need to adapt to climate change. We can’t let climate change turn back the clock of progress for these countries.”

— Warren Evans, Director of Environment at the World Bank
Reporting

- Requirement and recommendation
- Diversity of issuers
  - Sector
  - Size
  - Capacity
  - History
  - Competitive landscape
  - Regulatory framework
- Trade-off: strength of commitment – capacity to deliver
Impact reporting – the devil is in the details
  Numerous new trade-offs lined up
Harmonization is encouraged
Reporting synergies and multiple benefits from knowing what you’re doing
General guidelines:
  Honour transparency
  Better to under promise and over deliver
  Clear direction – one step at a time
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