Workshop for Second Opinion Providers on Green Bonds

Beijing 28th September 2016
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Part 1 - Safeguarding the Green Bond Framework and Environmental Credentials
CICERO’s involvement and motivations

World-leading provider of second opinions on green bonds

Climate finance flows in last five years have been significant despite economic crisis.

Global climate finance increased by 18% in 2014, more money than ever.

New Climate Economy Report. $6000 billion is needed a year.

Source: CPI
Expert Network on Second Opinions (ENSO)

- One-stop window for second opinions to the financial market
- Based on CICERO’s trusted non-profit research-based approach
- Operates independently from the financial sector and other stakeholders
- Global network of trusted research institutions on climate change and other environmental issues
Green Bond Framework
1. Use of proceeds (definitions)
2. Selection process (governance)
3. Management of proceeds
4. Reporting

CICERO/ENSO Second Opinions
1. Strengths
2. Weaknesses
3. Pitfalls
4. Shading

Investors

Issuers of Green Bonds (First Opinion)

Reviewers of Green Bond Frameworks (2nd Opinion)
2. Process for Project Evaluation and Selection

For a project to be included in the Eligible Projects pool, it shall comply with a) the categories listed in section 1 above and in the "KBN Green Bonds: Supplementary guidelines for project selection, documentation and reporting", b) the Municipality's Environmental Plan and c) Norway's Intended Nationally Determined Contributions (INDCs) according to the Paris Agreement. Applicants are required to declare eligibility by filling in a designated section in the loan document. Additionally, relevant documents indicating the Project's estimated environmental performance shall be provided. A project's eligibility is assessed by the Lending Department and approved by two Climate controllers. Approved Green Projects are entitled to KBN's Green Lending Discount and included in the bank's portfolio of Green Projects.

Green Bond Project Selection Process Flowchart

Applications
- Norwegian Law
- KBN Articles of Association
- KBN Guidelines as laid down by the Board of Directors

Project screening and selection:
- Municipalities' Environmental Plan
- Norway's INDCs
- KBN Green Bond Principles
- KBN Green Bond Framework Eligible Projects criteria
- KBN Green Bonds: Supplementary guidelines for project selection, documentation and reporting
- Lending Department and Climate controller

Specific Green Bond Framework defined projects
- Management of Proceeds
- Reporting

3. Management of Proceeds

An amount equal to the net proceeds of the issue of the Notes will be credited to a special budget account that will support KBN's Eligible Projects, according to section 5 in the GBP. KBN will carefully manage the balance between green funding outstanding and green lending to make sure the green funding is disbursed in a timely manner. KBN aims to direct the predominant part of net proceeds to new projects. However, refinancing of selected projects with particularly high environmental or climate benefits is considered in line with this framework.

4. Reporting

To enable investors to follow the development and provide insight into prioritized areas KBN will provide an annual SRI report linked to the annual financial results report. The SRI report will include a section on the progress of the Green Bond program. KBN will also keep the dedicated Green Bond webpage continuously updated with: 1) a list of projects financed; 2) a selection of project examples "Green Bond Stories"; and; 3) a summary of the KBN Green Bond development including statistics on our Green Project portfolio with impact reporting, aiming to comply with the issuer group "Harmonized Framework for Impact Reporting" (Dec 2016).

KBN has appointed an advisory board, "The Green Committee", whose mandate will be to provide advice and guidance in matters related to the Bank's Green Bond Framework. The committee will primarily draw on external expertise in related fields, but will also include members of the KBN staff. Our Green Bond process will be audited by KBN's internal auditor, currently KPMG.
Dynamic approach vs. Fixed Definitions

1. Dynamic and flexible approach allows for developments as science and the market evolves.
2. A dynamic approach with issuer specific frameworks often refers to standards (GBP, national and sectorial).
3. CICERO operates independently of other stakeholders’ influence. This integrity has been valued by the market.
4. Other second opinion providers focus more on use of proceeds and transparency than on 'greenness', and some include a wider set of social responsibility issues.
Review of Green Bonds

59% - 66% of green bonds have received an external review

$50 bn
- No review
- External review

$40 bn

$30 bn

$20 bn

$10 bn

$0 bn

2013 2014 2015 2016 YTD

www.climatebonds.net
Part 2 - Assessing an Issuer’s Green Bond Framework – 2nd Opinions
Second Opinion Criteria

Bond issuer’s information
Sustainability and climate frameworks, definitions, reporting procedures, etc.

CICERO’s assessment criteria
- Objective/project types
- Use of proceeds
- Project selection (criteria, procedures)
- Consideration of macro-impacts
  - Trans-boundary impacts
  - Rebound effects
- Reporting and transparency

CICERO recommendations and rating (shades of green)
- Unlikely to support climate-friendly investments
- Very likely to support climate-friendly investments
Shades of Green

Do the selected project categories meet expectations for a low-carbon and climate-resilient future?

<table>
<thead>
<tr>
<th>Color</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dark green</td>
<td>Projects and solutions that realise the long-term vision of a low-carbon and climate-resilient future already today. Typically, this will entail zero-emission solutions and governance structures that integrate environmental concerns into all activities. Example projects include renewable energy projects such as solar or wind.</td>
</tr>
<tr>
<td>Medium green</td>
<td>Projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Example projects include sustainable buildings with good (but not excellent) energy efficiency ratings.</td>
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<tr>
<td>Light green</td>
<td>Projects and solutions that are environmentally friendly but are not by themselves a part of the long-term vision. Example projects include energy efficiency improvements in fossil-based industry that result in short-term reductions of greenhouse gas emissions, and diesel-fuelled buses.</td>
</tr>
<tr>
<td>Brown</td>
<td>Projects that are in opposition to the long-term vision of a low carbon and climate-resilient future.</td>
</tr>
</tbody>
</table>
http://www.cicero.uio.no/en/publications/internal/2831
Figure 4: Number of CICERO second opinions by Shade of Green for each project type
Insights from CICERO Second Opinions

- Governance matters
- Stimulates internal dialogue between financial and environmental experts