International Best Practices in Green Financing

Panel Discussion

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Green Bonds Best Practices

• Trail blazed by SEB and Multilateral Development Banks (World Bank, EIB)
• Issued in response to specific investor demand for triple-A fixed income product supporting projects addressing climate change
• Since 2007, more than USD 100 billion of Green Bonds have been issued
• Issuers range from MDBs over corporates, banks, municipalities, cities, etc.
• Green Bond Principles established in 2014, updated in June 2016
  • Voluntary governance framework and process guidelines – highlights:
    • Use of Proceeds (recognizes broad eligibility categories, but does not define what is “Green”)
    • Process for Project Evaluation and Selection (recommends “External Review”, i.e. verification, 2nd opinion, certification, rating)
    • Management of Proceeds (sub-account transparency)
    • Reporting (transparency & accountability; a “harmonized framework” is under way)
What Can Other Stakeholders Do? (1/2)

• Role of Governments / Parliaments
  • Create & maintain environment to foster long-term investment (policies, regulations, tax incentives, provide low interest loans, limited bureaucracy and language barriers)
  • Linking size of subsidy and loan interest level to specific improvement preferred (e.g. CO² emissions reduction, replacing electricity production by fossil fuels with renewable sources)
  • Use available instruments (budget / investments) to catalyze green growth (e.g. prioritize green projects for approvals, co-investments (equity)
  • Use its platform to reduce risk for other participants (e.g. first-loss guarantees, concessional pricing, grants)
  • Establish dedicated investment funds / Green Bank / SWF with ESG investment principles
  • Exit strategy must be phrased from the outset (which areas can be exited from, which can be transitioned – on the base of which quantified impacts achieved?)

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What Can Other Stakeholders Do? (2/2)

• Corporates / “Private Sector”
  • Diversification of funding sources & investors
  • Transformational potential (e.g. UN Global Compact’s principles on Environment)
  • PPP (on back of strong public governance, signals, pricing, other incentives, etc.)

• Project Financing
  • UNEP FI principles of sustainable finance (driving institutional investors to apply ESG criteria for funds allocations, in turn driving best practices at stakeholder levels)
  • EU’s Solvency II with reduction of capital requirements for holding infrastructure funds

• Impact Investment
  • Actively involve already large and growing group of donors, e.g. foundations with a purpose
  • Along the lines of social impact bonds, i.e. exchange financial return for measurable impact