Greening Capital Markets in Brazil
Paving the Way for Green Bonds

28 june 2016
São Paulo

International Best Practices in Green Financing

Panel Discussion

Søren Elbech, Independent Consultant

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:
        - <u>Use of Proceeds</u> (recognizes broad eligibility categories, but does not define what is ”Green”)
        - <u>Process for Project Evaluation and Selection</u> (recommends “External Review”, i.e. verification, 2nd opinion, certification, rating)
        - <u>Management of Proceeds</u> (sub-account transparency)
        - <u>Reporting</u> (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. CO^2 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?)

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