Webinar series: Green bonds – an innovative and efficient way of financing green investments

Module III: Safeguarding – Definitions, external review & impact reporting

GIZ & SEB Strategic Alliance on Green Bond Market Development
Module III: Safeguarding – Definitions, external review & impact reporting

Content & learning objectives

External reviews
- Who defines green?
- Investor dialogue
- External reviews in the Green Bond Principles
- Range of external reviews
- Ethical and professional standards
- Second opinions in focus

Impact reporting
- Relevance, content and granularity
- Impact metrics
- Guidelines
- Digital innovations
Part 1: External review of green bonds
**Who defines green?**

<table>
<thead>
<tr>
<th>The Green Bond Principles</th>
<th>Voluntary principles for issuing a green bond that the vast majority of issuers align with <em>across all markets</em></th>
</tr>
</thead>
<tbody>
<tr>
<td>Country level guidelines in <em>some markets</em></td>
<td></td>
</tr>
<tr>
<td>Stock exchanges with green bond lists set <em>criteria for listing</em></td>
<td></td>
</tr>
<tr>
<td>Green bond indices and funds <em>have criteria for inclusion</em></td>
<td></td>
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</tbody>
</table>
Green bonds open a communication channel to investors

- The green bond market builds capacity among market actors on what is green.
- Creating a common language for investors, scientist and companies is key
- GBP recommend that issuers appoint an external review
Green Bond Principles (GBP) group external reviews into four categories

1. Second Party Opinion (e.g. CICERO, Sustainalytics, Vigeo/Eiris)

2. Verification (e.g. Accountancy Firms)

3. Certification (e.g. against CBI-standard)

4. Green Bond scoring/rating (e.g. Moody’s, S&P, CICERO)
### Range of external review approaches – pre-issuance

<table>
<thead>
<tr>
<th>Pre-Framework</th>
<th>Second Opinions</th>
<th>Green Scoring/ Ratings</th>
<th>Certification against standard</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Framework consulting</td>
<td>Help issuer develop green bond framework</td>
<td>Most follow the GBP. Some follow accounting for proceeds only, some look into environmental criteria and governance</td>
<td>Some ratings allow only a portion of proceeds used for green projects, some take a broader climate risk approach</td>
</tr>
<tr>
<td><strong>Approaches</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Conflict of interest with fully independent second opinions</td>
<td>Wide range of approaches and quality</td>
<td>Wide range of approaches and quality</td>
</tr>
</tbody>
</table>

# Range of external review approaches – pre-issuance

<table>
<thead>
<tr>
<th>Type</th>
<th>Approaches</th>
<th>Potential challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verification of use of proceeds</td>
<td>Follow accounting of financial flows for green projects</td>
<td>Does not consider how green projects are</td>
</tr>
<tr>
<td>Verification of environmental impacts</td>
<td>Measure realized carbon emissions or other environmental metrics of projects</td>
<td>Can be overly focused on emission reduction accounting</td>
</tr>
<tr>
<td>Updates of ratings and second opinions</td>
<td>Annual renewals can result in upgrades or downgrades of ratings or opinions</td>
<td>Unclear if scope of updates includes realized impacts</td>
</tr>
</tbody>
</table>

Notes: Table reflects author’s opinion based on CICERO Second Opinion Framework, GBP 2017, and available methodology descriptions for CBI, Moody’s, Oekom, Sustainalytics, S&P, and Vigeo.
Marketshare of external reviewers

- CICERO: 29%
- Sustainalytics: 15%
- Vigeo Eiris: 15%
- EY: 11%
- ISS-oekom: 13%
- DNV GL: 6%
- Others: 4%
- None: 7%

Guidelines for external reviews of green bonds

1. Integrity

2. Objectivity

3. Professional Competence and Due Care

4. Confidentiality

5. Professional Behaviour
Part 2: External review – second opinions in focus
The Second Opinion Process

- **Assessment begins**
  - Green Bond Framework
  - Sustainability Strategy and Reports
  - Other relevant documentation

- **Draft Second Opinion**
  - Green Bond Principles
  - Climate Science
  - Use of Proceeds
  - Management of proceeds
  - Governance and Transparency
  - Impact Reporting
  - Relevant standards

- **Final Second Opinion**
  - Clarifications with Issuer as needed

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Webinar III: Safeguarding – Definitions, external review & impact reporting
# Green Rating on Climate Risk

<table>
<thead>
<tr>
<th>SHADES OF GREEN</th>
<th>EXAMPLES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dark green</strong></td>
<td>Wind energy projects with a governance structure that integrates environmental concerns</td>
</tr>
<tr>
<td><strong>Medium green</strong></td>
<td>Plug-in hybrid busses</td>
</tr>
<tr>
<td><strong>Light green</strong></td>
<td>Efficiency in fossil fuel infrastructure that decreases cumulative emissions</td>
</tr>
<tr>
<td><strong>Brown</strong></td>
<td>New infrastructure for coal</td>
</tr>
</tbody>
</table>

*Dark green* is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future.

*Medium green* is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet.

*Light green* is allocated to projects and solutions that are environmentally friendly but do not by themselves represent or contribute to the long-term vision.

*Brown* for projects that are in opposition to the long-term vision of a low carbon and climate resilient future.
Example project rating:
Tadau Energy *World’s first Green Sukuk*

Renewable energy

**Eligible project types**
- Solar power
  - The financing, design, engineering, procurement, construction, installation, testing, commissioning, ownership, operation, and maintenance of solar photovoltaic plants
  - Associated interconnection facilities

**Green Shading and some concerns**

**Dark Green**
- Solar power is key to a low-carbon transition. Supportive activities for solar power generation include e.g. financing, design, and interconnection.
- Potential concerns regarding supply-chain emissions partially addressed through the use of life cycle criteria in supplier selection
- Potential concerns regarding site selection partially addressed through selection process and re-zoning reports. An Environmental Impact Assessment (“EIA”) could have provided assurance to investors of the environmental soundness of the site selection and construction phase
- All construction projects can have adverse local environmental impacts
Rating by project categories

- Green projects come in all shades, but clear trends by sector
- Fewer light green projects so far, these projects are essential to a successful transition

CICERO’s Absolute Number of Assigned Shades of Green (2013-2018) per Involved GBP Project Category

Note that the mixed category includes all shades of green.
Rating by issuer type.

Number of Assigned Shades of Green (2015-2018) per Issuer Type (local governments include municipality banks) (July 2018).
Part 3:
Impact reporting
Why report on environmental impacts?

- Transparency is key to the integrity of the green bond market
- Pre-issuance external review provides insights on framework, post-issuance reporting on implementation and actual environmental impact
- Investors increasingly expect impact reporting for green bonds
The impact report - what to include

• List of the projects or areas financed
• Brief description of the projects (or a selection of project examples)
• The amounts allocated and share of green bond funding
• Actual or expected environmental impact based on qualitative and, where feasible, quantitative performance indicators
• Reporting should include relevant and comparable indicators
• Underlying methodologies, assumptions and benchmarks

The emerging best-practice is to have green bond reporting reviewed by a third-party
Impact metrics

Numeric measurements of expected/actual impact.
Issuer is encouraged to include ”green metrics” in addition to emissions.

Examples:

- Mwh of electricity produced
- Reduction of CO₂-equivalents emissions
Guidelines for impact reporting

ICMA working groups have suggested metrics for some sectors

Nordic Public Sector issuers 2017 Position Paper

MDBs Harmonized Framework for Impact Reporting from 2015
Example reporting commitments: ICBC

“Subject to the nature of Eligible Green Assets and availability of information, ICBC aims to include, but not limited to, the following Impact Indicators”

<table>
<thead>
<tr>
<th>Eligible Green Asset Categories</th>
<th>Impact Indicators</th>
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<tr>
<td>Renewable energy</td>
<td>• KWh of power generated from renewable energy</td>
</tr>
<tr>
<td></td>
<td>• Tonnes of CO₂ (or other GHG) avoided</td>
</tr>
<tr>
<td>Low Carbon and Low Emission Transportation</td>
<td>• Tonnes of CO₂ (or other GHG) avoided</td>
</tr>
<tr>
<td></td>
<td>• Km of tracks built</td>
</tr>
<tr>
<td></td>
<td>• No. of passengers</td>
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<tr>
<td>Energy efficiency</td>
<td>• KWh of energy saved per year</td>
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<tr>
<td></td>
<td>• Percentage energy efficiency achieved</td>
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<tr>
<td>Sustainable water and wastewater management</td>
<td>• Amount of water saved</td>
</tr>
<tr>
<td></td>
<td>• Amount of waste water treated</td>
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Source: ICBC Green Bond Framework
Example impact report: World Bank

Sample of project metrics reported

13 COMPLETED PROJECTS IN RENEWABLE ENERGY & ENERGY EFFICIENCY

- **67,460 GWh** in annual energy savings
  - Equivalent to the total electricity consumed in 2015 in New Zealand & Bulgaria combined
  - About 32.4 million tons of CO₂ equivalent avoided

- **5,980 GWh** annual energy produced from renewable resources
  - Equivalent to the total power generated by 1,126 wind turbines running for one year in the US

- **1,470 MW** renewable capacity from solar, wind, and hydro technologies
  - Equivalent to the total installed electricity generation capacity in Nicaragua in 2016

Can technology aid impact reporting?

• Several technology enabled platforms are emerging to enable efficient and transparent reporting in the green bond market.
• These solutions have the potential to reduce costs and improve access to investors.
Part 4: Wrap-up
# Webinar 3: Safeguarding – Definitions, external review & impact reporting

## Learnings

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## Missed a previous webinar?

- Webinar 1: Green bonds – what, why & how
- Webinar 2: Setting up a green bond framework
Webinar 3: 
Safeguarding – Definitions, external review & impact reporting

More information

- ICMA: Guidelines for Green, Social and Sustainability Bonds External Reviews
- Impact Reporting:
  - The Green Bond Principles – Guidelines for impact reporting
- Stockholm Green Digital Finance: The Green Assets Wallet
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