Climate Bonds INITIATIVE

Green Bonds Policy: Highlights from Q1-Q2 2017

Public sector green bond developments from around the world

1. The year of sovereign green bonds

In our 2016 policy roundup, we highlighted 2017 as the year of sovereign green bonds.

France has set an excellent precedent for 2017, issuing an impressive USD7.5bn bond in January, following Poland's first-ever sovereign green bond at the very end of 2016.

Nigeria's anticipated green bond issuance has been delayed, but is expected to come to market soon. There are a dozen other countries who are considering green sovereign issuances.

"The green OAT was a great success in financial terms […] We hope that other sovereign countries will come to this market in order to issue their green bond, and also, what's more important, to show that this is coherent with their national environmental policies."

Dorothée Stik, Green OAT Project Leader, Agence France Tresor, Climate Bonds Annual Conference 2017

2. New guidelines from governments and regulators

So far this year green bond guidelines have been released by regulators in India and China.

India: In May 2017, the Securities and Exchange Board (SEBI) released a final version of their guidelines following consultations with the Ministries of Finance and New and Renewable Energy.

China: The China Securities Regulatory Commission, which regulates listed companies, has issued green bond guidelines following the lead of other regulators. The green definitions are those adopted by the PBoC with a provision excluding high-polluting companies in conflict with the national planning policy.

Other developments include:

Japan: Japan's Ministry of Environment released green bond guidelines in March 2017, which form a foundation for future guidelines from Japan's financial regulators.

Luxembourg: Luxembourg's Ministry of Finance has endorsed a new green bond label scheme launched by the independent non-profit Luxembourg Finance Labelling Agency (LuxFlag).

Taiwan: Taipei Exchange, with oversight from the Financial Supervisory Commission, has issued guidelines endorsing the Climate Bonds Standard and Green Bond Principles (GBP) to identify green bonds.

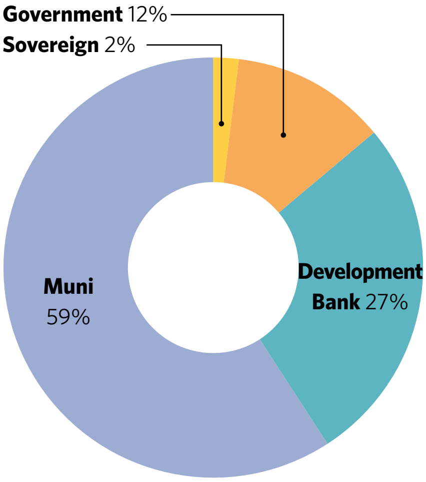
The ASEAN Capital Markets Forum, the Financial Services Authority in Indonesia, the Johannesburg Stock Exchange in South Africa and the Nigerian Securities Exchange Commission are also progressing with the development of guidelines.

3. Beyond sovereigns: issuances from sub-sovereigns and DFIs

The first half of this year has seen a flurry of issuance from different types of public sector actors (see map p2).

Public Sector Green Bond Issuance Q1-Q2 2017

As of June 30 2017



"Green bond guidelines are being developed across a range of jurisdictions, in various forms and driven by diverse institutions. Along with other policy efforts, in Asia in particular, these are addressing specific barriers identified by the G20 Green Finance Study Group last year."

Christopher Kaminker, Head of Sustainable Finance Research, SEB and author of a recent OECD report on green bonds

Canada, Australia and Argentina set leading examples of how provinces and states can lead on green bond issuance. Several municipal aggregators came to market with green bonds, including new entrant KommuneKredit in Denmark.

We also saw the first green bond from the Middle East, issued by state-owned National Bank of Abu Dhabi. Other notable firsts are a green bond from a Chinese local government financing vehicle and one from Brazil's giant development bank BNDES.

4. Central banks green bonds incentives

Central banks can play a leading role in green bond market development thanks to the huge amount of assets they can leverage.

Singapore: Green Bond Grant Scheme
In March, the Monetary Authority of Singapore, announced a green bond grant scheme that will absorb the full cost of getting an external green bond review in order to support new issuers to enter the market.

China: Green Monetary Policies
Since early April, the People's Bank of China (PBoC) has begun exploring the possibility of allowing green bonds as collateral for borrowing from the Central Bank, and the inclusion of exposure to green lending in banks' macro-prudential assessment frameworks.

Public sector issuance highlights Q1-Q2 2017

> $10bn Total Outstanding | **$2bn - $10bn Total Outstanding** | **< $2bn Total Outstanding** | **Foreshadowed issuances**

Canada: Province of Quebec issued its inaugural bond for CAD500m (USD372.9m), making it the second Canadian province to issue green bonds.

This follows the Province of Ontario, which issued its first green bond way back in 2015, second in 2016 & third earlier this year for CAD800m (USD614m).

Norway: Norwegian power company Lyse AS, owned by 16 municipalities, issued its inaugural 5-year green bond for NOK500m (USD58.2m).

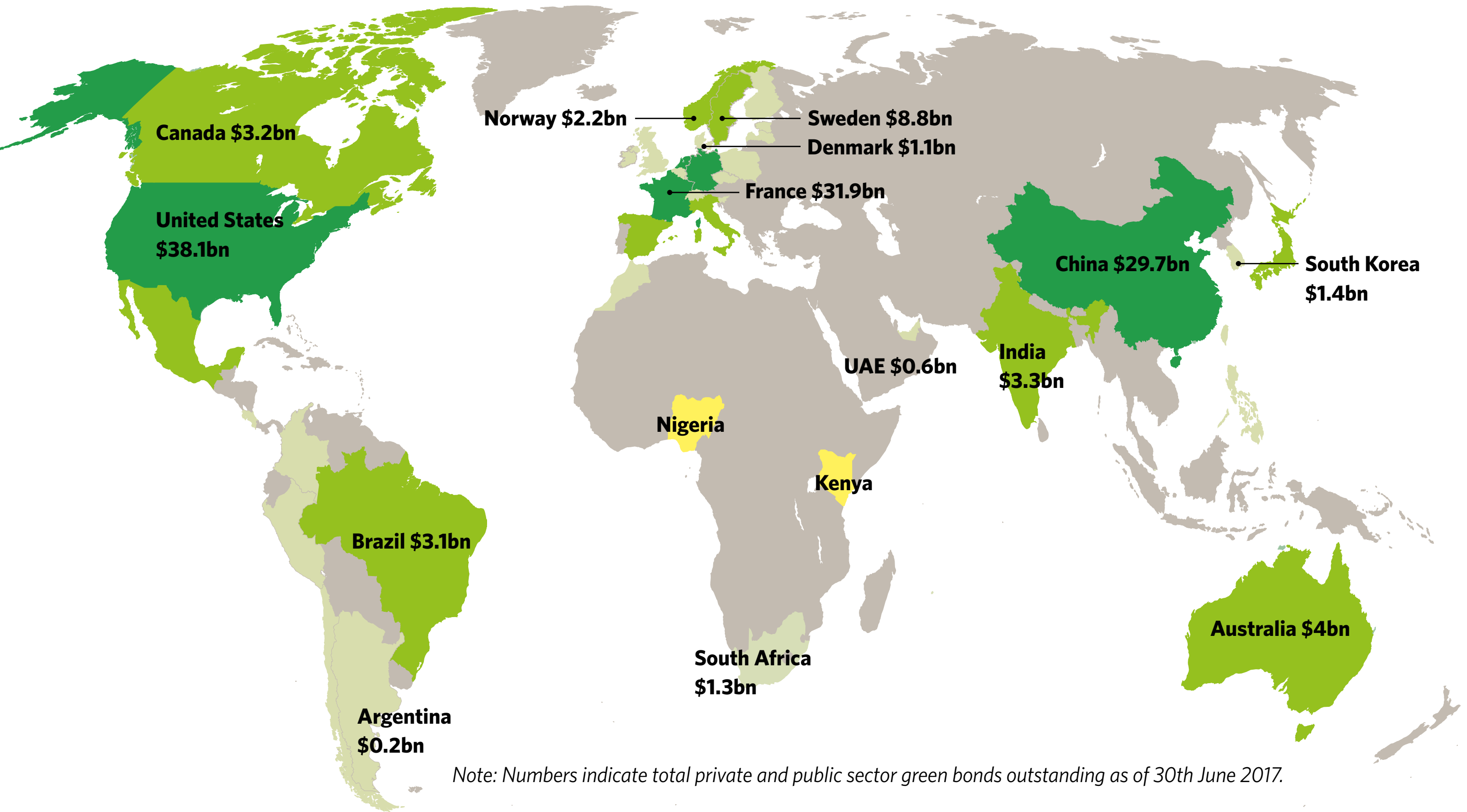
France: Inaugural issuance from public sector financial institution, Caisse des Dépôts et Consignations, for EUR500m (USD527.4m).

Sweden: Repeat issuer Kommuninvest, representing 50% of all financing for municipalities, issued its third green bond for USD500m.

Denmark: Debut issuance from KommuneKredit, Denmark's local government funding agency for EUR500m (USD559.1m).

China: First approved issuance by a Chinese Local Government Financing Vehicle (LGFV) for RMB1.67bn (USD246m).

Issuance from policy banks has grown in 2017 with the Agricultural Development Bank RMB4bn (USD582m) issuance and the RMB10bn (USD1.5bn) bond from the China Development Bank.



Note: Numbers indicate total private and public sector green bonds outstanding as of 30th June 2017.

USA: Vermont Municipal Bank (VMB) issued its first green bond for USD6.1m with proceeds to back energy efficient equipment in a local school district and a new energy efficient building for the policy and fire department.

New York State Housing Finance Agency (HFA) issued its third Certified Climate Bond for USD56.3m.

Brazil: Major issuance from Brazilian Development Bank (BNDES) for USD1bn for renewable energy projects.

Argentina: First green bond issuance in the country by La Rioja Province for USD200m.

South Africa: The City of Cape Town has announced the issuance of its inaugural certified climate bond, planned for July.

India: The Asian Development Bank (ADB) issued a INR3bn (USD47m) green bond to develop 709 MW of solar and wind projects across the country.

UAE: The National Bank of Abu Dhabi issued its debut green bond and the first ever issued in the Gulf region for USD587m.

Australia: Debut certified issuance from sub-sovereign Queensland Treasury Corp, the largest issuance in the country to date, for AUD750m (USD579.5m).

Korea: The Korean Development Bank issued its inaugural green bond for USD300m for renewable energy projects.

5. International and domestic collaboration on green bonds

China at the centre of international partnerships

China's green bond leadership position has attracted others for collaboration:

- A joint initiative has been launched by the People's Bank of China (PBoC) and the European Investment Bank (EIB) to develop a clear framework for analysis and decision-making in green finance.
- The EIB and China Green Finance Committee have committed to look at harmonisation of green bond guidelines between EU and China.
- A LATAM delegation led by the InterAmerican Development Bank visited China's various finance bodies, such as PBoC and CBRC, to gain insight into China's green finance sector.

China's five pilot zones for green finance reform and innovation

The State Council has set up pilot zones in 5 provinces to develop green financial markets, including growing green bond issuance.

Kenya and Nigeria are examples for other emerging economies

Nigeria is moving closer to its sovereign green bond, the first in the continent and third globally, with issuance expected in Q3 2017.

The Kenya Green Bond Programme was launched in March by the Kenya Bankers Association, Nairobi Securities Exchange, Climate Bonds Initiative and Financial Sector Deepening Africa in conjunction with the Dutch development bank FMO and the International Finance Corporation (IFC), to kick-start a domestic green bond market.

"The various governors and the central banks have seen the need to use their convening power [on green finance] because one thing that is clear is that green finance is here to stay. [...] This is something that will fundamentally change the way we do finance."

Patrick Njoroge, Governor, Central Bank of Kenya, Climate Bonds Annual Conference 2017

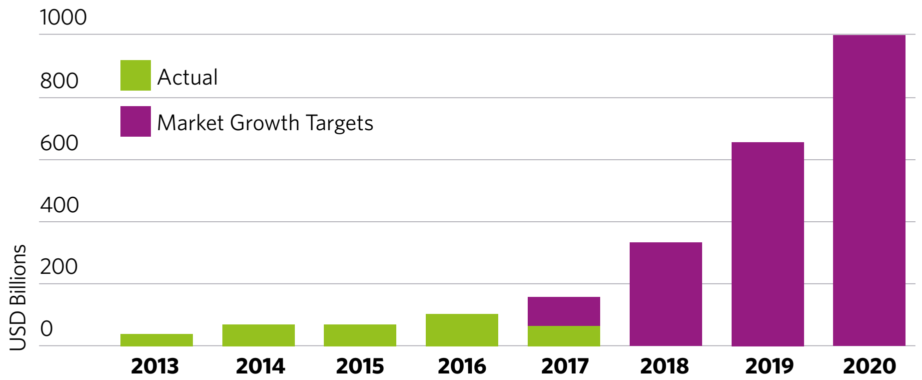
IFC & Amundi launch multi-billion green fund

In April, the IFC and private sector asset manager Amundi launched a USD2bn green bond fund, the world's largest green bond fund to date. The Climate Bonds Initiative is involved as an implementation partner.

Big Picture – The 2020 milestone

A large and liquid green bonds market can support countries in achieving the targets (NDCs) set out in the Paris Climate Agreement.

Global climate leaders have recently set a milestone of USD1 trillion in green bonds by 2020 as one of the six urgent steps needed for a low carbon transition and in consequence, a climate-resilient world, avoiding the most immediate threats and severe consequences of climate change.



5 reasons to remain optimistic about the US green bond market

To the international community's dismay, President Trump announced at the beginning of June that the U.S. would withdraw from the Paris Climate Accord and stop all implementation measures of the agreement immediately.

Despite this, the country's green bond market is expected to see significant growth over the next few years and here's why:

1. State level climate plans remain ambitious: Multiple State governments have joined the U.S. Climate Alliance pledging to work towards Paris Agreement objectives within their borders.

2. California has announced a green bond action plan: The world's sixth largest economy has issued green bonds, is promoting green finance and will hold a Climate Summit in early 2018.

3. Renewable energy growth and policy support remain in place: This is true for both Red and Blue states; Texas, the largest consumer of coal in the country, saw over half of its power demand supplied by wind energy for the first time ever at the beginning of this year.

4. Green municipal bond issuance has been ramping up: Green muni bonds account for the largest part of U.S. green bond issuance to date, 41% of all issuance, and over 50% of 2017 issuance.

5. Companies and investors are still in: Over 1,200 signatories, including representatives from major tech industries, investors, cities, states, and universities, have publicly pledged their commitment to the Paris Climate Accord.

Tech giant Apple has issued its second ever green bond for USD1bn – a symbol of corporate support for the Paris Agreement.

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