Climate Bonds Initiative

Green Bonds Policy: Highlights from Q1-Q2 2018

Public sector green bond action around the world from the first half of 2018.

Top five green bond policy developments

1. Sovereign Green Bond Growth

Sovereign green bonds offer a tool for governments to raise capital to finance assets and expenditure that are aligned with the climate commitments made under the 2015 Paris Agreement and the Sustainable Development Goals.

Poland became the first sovereign green bond issuer in late 2016 with France, Fiji, and Nigeria following suit in 2017. Sovereign issuance continues to gather momentum in the first half of 2018:

POLAND

Size: EUR 1bn (USD 1.2bn)
Date of Issuance: February 2018
Tenor: 8.5 years
External Review: Sustainalytics, Moody's
Proceeds: Energy, transport, sustainable land use

Poland issued its second green bond in February for EUR1bn (USD 1.2b), with use of proceeds going to renewable energy, transport, and land use. The sale attracted order books of over EUR3.4bn.

INDONESIA

Size: USD 1.25bn
Date of Issuance: February 2018
Tenor: 5 years
External Review: CICERO
Proceeds: Renewable energy, energy efficiency, clean transport, green buildings, sustainable agriculture, etc.

Indonesia came to market with the first sovereign green sukuk (USD1.25bn) in February. According to the Sovereign's Green Bond Framework, proceeds from the green sukuk will be allocated to renewable energy projects, sustainable land use, green tourism, and waste management. This was the first green sovereign sukuk to be issued in the market; the first green sukuk deals came to market in 2017, kicked off by Malaysia.

BELGIUM

Size: EUR 4.5bn
Date of Issuance: February 2018
Tenor: 15 years
External Review: Sustainalytics
Proceeds: Clean transport, energy, renewable energy, circular economy, living resources and land use

Belgium issued a EUR4.5bn (USD5.5bn) sovereign green bond, also in February. The vast majority of proceeds are allocated to low-carbon transportation in the form of rail (85%) with the remainder of the proceeds going to living resources and land use (8%), renewable energy (3%), circular economy (2%) and energy efficiency (2%). The Belgian Debt Agency announced it plans to issue a total of EUR10bn of sovereign green bonds within four years.

LITHUANIA

Size: EUR 20m (USD 24m)
Date of Issuance: May 2018
Tenor: 10 years
External Review: N/A
Proceeds: energy efficiency (buildings)

Lithuania followed in April, becoming the first Baltic country to issue a sovereign green bond (EUR20m/USD25m). Proceeds were allocated to energy efficiency in apartment buildings, through a loan the government is extending to its Public Investment Development Agency. Lithuania plans to issue up to EUR68m (USD84m) over three years.

FRANCE

Size: Inaugural issuance EUR 7bn (USD 7.6bn)
Date of Issuance: January 2017
Tenor: 22 years
External Review: Vigeo-Eiris
Proceeds: Energy, energy efficiency, transport, waste, sustainable land use, adaptation

France tapped their green OAT first issued in 2017 for EUR4bn in June 2018, taking the total issued under the green OAT to EUR14.8bn.

In the pipeline:

- The Hong Kong government announced in its 2018-19 budget plans to set up a sovereign green bond programme with a ceiling of HKD100bn (USD12.74bn). The inaugural sovereign bond is expected to be issued in 2018-2019.
- Kenya aims to issue a sovereign green bond in 2019, with the initial amount around USD50m.
- Austria put exploration of a sovereign green bond issuance on the agenda with the launch of their climate agenda, 'Mission2030'.

For more on sovereign green bonds, check out the CBI Sovereign Green Bonds Briefing.

Public sector issuers set examples for private sector

Sovereign bonds are only one type of public sector issuance that helps kickstart green bond markets.

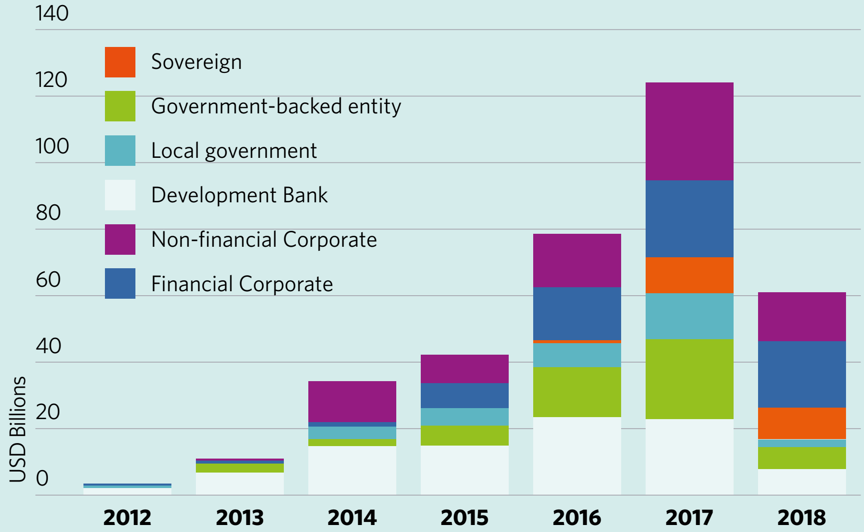
Issuance from multilateral and national development banks, municipalities, states and other public sector entities such as utilities and transport companies continue to provide strategic issuance to support the growth of various segments of the green bond market.

Some public sector issuance highlights from so far in 2018:

Development banks: Korea Development Bank (KDB) came to market with their inaugural issuance, the first green bond to be issued in Korean Won (KRW300bn (USD279m). Proceeds are allocated to green energy. Expanding the green bond market to new currencies is part of diversifying and growing the market.

Municipalities: Auckland Council in New Zealand issued NZD200m (USD136m) green bond to finance electric rail, the first council in New Zealand to do so.

Public entities: Ontario Power Generation, Ontario province's largest electricity provider, issued a CAD450m (USD339m) green bond in late June. The deal will finance the construction of new run-of-river hydro projects or the upgrading of existing hydropower infrastructure.



2. National guidelines for green bonds

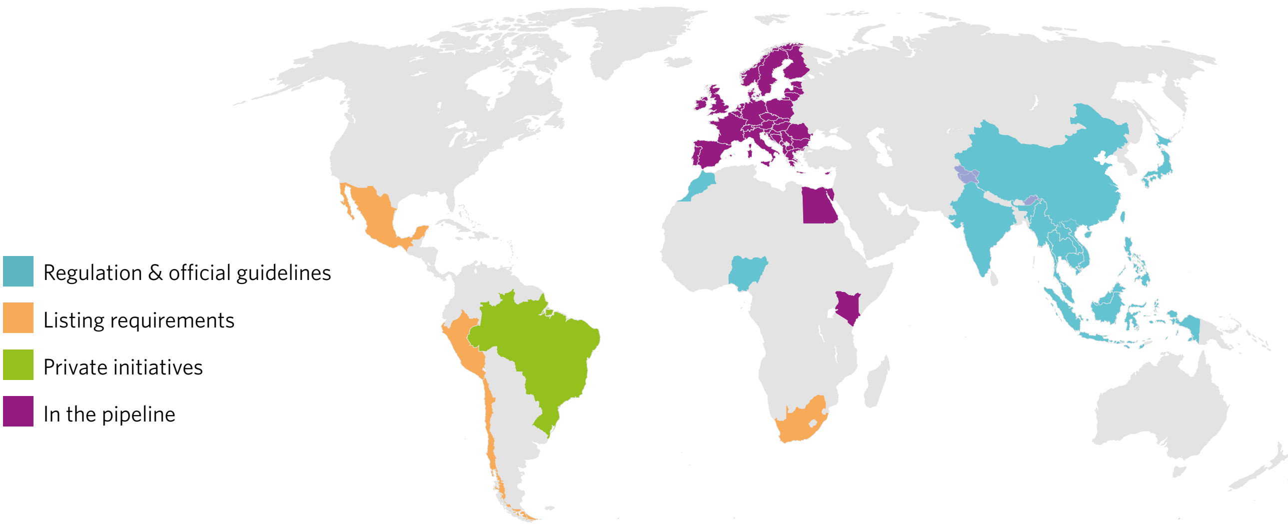
Official green bond guidelines play an important catalytic role for nascent green bond markets. They can help countries track green investments to meet their climate and infrastructure goals, maintain market integrity to build investor confidence, support the implementation of targeted incentives and contribute to scaling up and building liquidity in green financial markets.

So far in 2018, guidelines for green bonds market development have been launched in Latin America:

Peru: Peru's Lima Stock Exchange (BVL) announced the publication of their Green Bonds Guide in March. The guide was developed by MEXICO2, of the Bolsa Mexicana de Valores Group, with support from the UK government. The document outlines international best practices and basic principles that must be met for the issuance of green bonds—covering the use of proceeds, eligible projects, administration of proceeds, external review, and reporting guidelines. The guide emphasizes the need to employ a third-party verifier to guarantee the credibility of the green label, although compliance remains voluntary.

Chile: The "Green and Social Bond Segment" was launched on the Santiago Exchange along with related Guidelines in April, in alignment with the Exchange's broader strategy for increasing sustainability. The Chilean Guidelines recognise international guidelines as set by Green Bond Principles, Social Bond Principles, as well as the Climate Bond Standard. A separate set of guidelines was published outlining the minimum content to be included in third-party verifier reports, both pre-issuance and post-issuance. The first green bonds listed on the segment the same month as it launched, with Chilean water utility Aguas Andinas listing its first green bond of CLF 1.5m (USD68m).

Availability of national and regional green bond guidance



In the pipeline:

The EU Taxonomy on Sustainable Finance and Green Bond Label

In March 2018, the European Commission announced a comprehensive Action Plan on sustainable finance. Following the Action Plan, the EC presented three legislative proposals aimed at establishing an EU taxonomy for sustainable finance, improving ESG disclosure, and creating low-carbon benchmarks.

In June, the EC launched a Technical Expert Group (TEG) to progress on the details of the legislative proposals and action plan. The TEG is divided into four subgroups tasked with developing an EU taxonomy on sustainable finance, an EU green bond label, low carbon indices and metrics for climate-related disclosure. Sean Kidney, CEO of Climate Bonds, is a member of the TEG's taxonomy subgroup, which will deliver the climate mitigation component of the taxonomy in Q1 2019, and climate adaptation and broader environmental assets in Q2 2019. On the back of the taxonomy, the EU green bonds label is planned to be developed by Q3 2019.

Kenya: The Nairobi Securities Exchange (NSE) and other partners of the Kenya Green Bond Programme, including Climate Bonds, have been working on amending listing rules for green bonds, introducing a sub-segment for green bonds within its Fixed Income Security Market. These are expected to be finalised in 2018. The work is supported by the Capital Markets Authority (CMA), which plans to make amendments to the law clarifying the definition of green bonds to aid the Nairobi Securities Exchange (NSE) in the review and approval of its green guidelines.

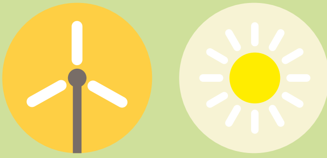
Egypt: The Financial Regulatory Authority launched a consultation on draft green bond guidelines, which have been developed in coordination with the IFC. The guidelines will now be reviewed by market players, including investment funds, the Egyptian Exchange, banks, credit agencies and Egyptian insurance companies.

Availability of regulatory supervisory schemes for green bond verifiers

Requirements for verifiers are increasingly being introduced into green bond guidelines with proper supervisory schemes now set up in China and under discussion in Mexico.

Requirements vary from basic proof of independence from the issuer (Malaysia, Morocco, Peru), to disclosure of relevant credentials and expertise (ASEAN, South Africa), to accepting affiliation with an industry body such as the Climate Bonds Standard that has a verifier supervisory scheme (Chile, South Africa).

In late 2017, China became the first country to establish its own regulatory supervision of verifiers and verification activities, with the People's Bank of China (PBoC) and China Securities Regulatory Commission (CSRC) jointly releasing new guidelines for green bond verifiers and verification activities. The 'Green Bond Assessment and Verification Guidelines (Provisional)' introduce regulatory requirements for verifiers, and essentially act as a verifier-licensing scheme, stipulating required qualifications and credentials, verification methods, and reporting requirements.



Luxembourg's Renewable Energy Covered Bonds Law

Covered bonds are highly-regulated securities with superior credit ratings and lower funding costs than unsecured debt, thanks to a dual recourse structure where bond investors have claim over a dedicated 'cover' pool of assets, as well as a general claim over the issuer. Covered bond issuance is limited to asset classes where regulatory eligibility criteria are in place to determine which assets can be included in a cover pool. Housing accounts for the majority of covered bond issuance, followed by public sector infrastructure and shipping. Covered bonds have proven to be a reliable source of long-term financing for banks to on-lend to these specific priority sectors.

In the green bond space, to date there have been eight total green covered bonds issued, with five issuances in 2018: three green covered bonds for housing (with low-carbon buildings in the cover pool), one green covered bond issuance for forestry (with sustainable forestry assets in the cover pool) and one issuance for both renewable energy and buildings.

Now the covered bond market is expanding to include renewable energy assets. In January 2018, Luxembourg published a draft bill providing a legal framework for banks to issue Renewable Energy Covered Bonds (RECB). The bill entered into force on July 1st. This is the first law in the world allowing renewable energy assets into cover pools. It has the potential to facilitate more capital into clean energy projects. Renewable energy assets under the law include wind, solar, aerothermal, geothermal, hydrothermal, ocean energy, biomass, landfill gas, sewage treatment plant gas, and biogases, using the renewable energy definition set out by EU Directive 2009/28.

3. Targeted green bond incentives

Green bond incentives are useful temporary mechanisms to kick-start and scale green bond issuance.

Hong Kong: Along with preparations for sovereign green bond issuance, Hong Kong launched a three-year "Green Bond Grant Scheme". The scheme will provide up to HKD800,000 (USD102,000) in subsidies for issuers of green bonds at least HKD500m (USD63.7m) in size to offset the cost of obtaining external review from the Hong Kong Quality Assurance Agency (HKQAA) under the Green Finance Certification Scheme.

The scheme replicates the model put in place in Singapore in 2017 and Malaysia's Green SRI Sukuk Grant Scheme. Absorbing the initial transaction costs of a labelled green issuance levels the playing field with non-green bonds and lowers the hurdle for new issuers to enter the market.

In the pipeline:

Kenya: The Capital Markets Authority (CMA) put forward a policy proposal to the national Treasury regarding tax treatment for green bonds, with the goal of extending the current tax exemption for infrastructure bonds to include green bonds.

4. Government consultation on green finance strategies

Governments are initiating consultative processes with the private sector and civil society as a first step to establish official green finance action plans. A key shift in the last years is that treasuries are now the leading players within governments in developing green finance agendas, working alongside environmental departments.

EU: The extensive progress on sustainable finance in the EU so far in 2018 with both an action plan, legislative proposals and the launch of the Technical Expert Group has come on the back of a High-Level Expert Group on Sustainable Finance (HLEG) which delivered its final report in January 2018.

The HLEG's final report outlined priority actions such as establishing an EU sustainability taxonomy and developing official standards for financial assets, starting with green bonds.

Sweden: The final report of the Green Bond Investigation Commission on promoting the green bond market was published in January 2018. The investigation was initiated by the Ministry of Finance late in 2016. The report outlined several recommendations including: sovereign green bond issuance, encouraging green bond issuance from state-owned companies, and incentives to reduce transaction costs for green bond issuers. The report also mentioned the possibility of a reward scheme for green bond issuers for the environmental benefits they achieve.

United Kingdom: The Green Finance Taskforce released its "Accelerating Green Finance" Report with recommendations on how the public and private sectors can collaborate to solidify the UK's leading role in mobilizing green finance.

The Taskforce recommended the issuance of a sovereign green bond, aligned with the UK's Clean Growth Strategy and 25-Year Environment Plan. Other recommendations relevant for the green bond market included creating incentives for green mortgages and consumer loans and building a green and resilient infrastructure pipeline.

The government is now making moves to implement some of the recommendations from the Taskforce. In June 2018, the Chancellor of the Exchequer announced the launch of a Green Finance Institute (GFI) in London, to be jointly funded by the government and the City of London.

Canada: An Expert Panel on Sustainable Finance was established by the Canadian government to support the development of finance and investment structures for building a low carbon economy. The panel will consult the business community about the opportunities and challenges associated with sustainable finance and engage with companies facing voluntary standards for financial disclosures on climate risk.

Green finance initiatives in emerging markets

The Climate Bonds Initiative, together with domestic partners, has launched several local stakeholder committees to help develop a green finance and green bond agenda for the country, to put forward to the government and regulators. Such market development committees have been launched in India together with FICCI, in Brazil in partnership with CEBDS, in Mexico with BMV, in Kenya with the KBA and NSE and will be formed in Nigeria with the support of FMDQ.

5. Central banks action

Central Banks are stepping up their role in the facilitation of green bonds, as a way to address climate-related risks to maintain financial stability and support an orderly low-carbon and climate-resilient transition.

People's Bank of China (PBoC) now accepts green bonds and green loans as collateral for its Medium-Term Lending Facility (MLF). The MLF offers three-month loans to commercial lenders with the aim of also guiding credit to underserved sectors. This is part of a broader strategy aiming to increase support for smaller firms, agriculture, and the green economy. The Bank has also included consideration of green credit in its Macro-Prudential Assessment (MPA), a scoring system that assesses banks' capital levels and monitors risks. The more green assets a bank holds, the higher score it can receive in the MPA. Green credit currently accounts for around 9% of total outstanding loans for the PBoC.

The Network for Greening the Financial System (NGFS), consisting of central banks and supervisors, held its inaugural meeting in January and decided on three workstreams: supervision, macrofinancial, and mainstreaming green finance. The Network was established at the Paris "One Planet Summit" in December 2017, to strengthen efforts towards meeting the Paris agreement goals, enhance the role of the financial system in managing climate risks, and mobilize capital for green and low-carbon investments.

In the pipeline:

The Qatar Central Bank is seeking to facilitate the issuance of green bonds and promote green finance through enhanced cooperation with the Qatar Development Bank. The need to promote green bonds and sukuk by developing a regulatory framework was also noted in the Qatar Islamic Finance Report.