

Online learning series: Green bonds – an innovative and efficient way of financing green investments Module II: Setting up a green bond framework

GIZ & SEB Strategic Alliance on Green Bond Market Development



## Webinar II: Setting up a green bond framework

Content & learning objectives			
The Green Bond Principles	The steps of a green structuring process		
The five pillars of a green bond framework	Market aspects & transaction		
Use of proceeds	considerations		
Process for project evaluation and selection	Market access		
Management of proceeds	Liquidity		
Reporting	Pricing		
	Allocation		
External review	Marketing		



# Part 1: **The five pillars of a green bond framework**

Webinar II: Setting up a green bond framework



## Recap: What is a green bond?

Green Bond Definition			
ICMA International Capital Market Association			
Green bonds are any type of <b>bond instrument</b>	Same underlying mechanisms as regular bonds		
where the <b>proceeds</b> will be <b>exclusively</b> applied to finance or re-finance, in part or in full, new and/or existing <b>eligible Green Projects</b>	Main difference is that only pre- defined projects can be financed		
and which are aligned with the <b>four core</b> <b>components</b> of the <b>Green Bond Principles</b>	Green Bond Frameworks ensure that green projects are defined and that the issuers deliver on their promise		



### The Green Bond Principles

Use of proceeds	Process for project evaluation and selection	Management of proceeds	Reporting	External review
<ul> <li>Definitions of eligible projects</li> <li>Mitigation</li> <li>Adaption</li> <li>Environmental</li> </ul>	<ul> <li>Key to obtain sufficient knowledge</li> </ul>	<ul> <li>Traceability and monitoring</li> </ul>	<ul> <li>Transparency</li> <li>Impact reporting</li> <li>At least annualy</li> </ul>	<ul> <li>Evaluation through an independent external assessment</li> </ul>
Green B	 			



## Example of a green bond - Volvofinans Bank

#### SELECTION OF ELIGIBLE PROJECTS

#### TRANSPARENCY

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To enable investors to follow the development and provide insight to prioritised areas, Volvofinans Bank will provide an annual Green Bonds investor letter which will include the following items.

- 1. A description of the Green Loan Portfolio including:
  - (a) impact reporting at portfolio level;
  - (b) information about the maturity profile of the Green Loan Portfolio;
  - (c) information about the average share of the total value of the vehicles in the Green Loan Portfolio that has been financed by Volvofinans Bank; and
  - (d) information about the share of Green Bond financing of the Green Loan Portfolio.
- 2. A selection of Eligible Project examples. A summary of Volvofinans Bank's Green Bond development.
- Volvofinans Bank recognises the importance of impact reporting. Volvofinans Bank undertakes to include information in the Green Bonds investor letter about the reduced carbon footprint of the funded Eligible Projects at portfolio level in relation to relevant reference values.

biogas/natural gas vehicles
 biogas/natural gas/petrol vehicles

<sup>1</sup>If criteria develop over time or if the referenced legislation is amended or superseded with respect to Environmental Friendly Cars, the definition of Environmental Friendly Cars for the purpose of Eligible Projects shall be amended accordingly. selected in consensus by the Head of Treasury and the Head of ts (i.e. both departments have a veto). Approved loans and leases will is Bank's green loan portfolio ("**Green Loan Portfolio**"). The ambition ortfolio at all times will be larger than the amount of outstanding Green Bank. The share of Green Bond financing of the Green Loan Portfolio nual Green Bonds investor letter, see section 4 ( **Tergenergy** 

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	arbon and climate	stor letter, see section 4 ( Tengeneogy	
e Green	Volvofinans Bank will provide an annual Greer following items. 1. A description of the Green Loan Portfoli		
ortfolio.	ntirely or partially by r	non-fossil fuels, i.e.:	
Bond	hicles		
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ertakes	trol hybrid vehicles		۲.
orint of	sel hybrid vehicles		
0	trol hybrid vehicles		
biogas/nat	ural gas vehicles		
biogas/nat	ural gas/petrol vehicl	es	



## The five pillars of a green bond: Definition

A concept of simplicity built on five pillars				
	Self-defined		Pre	-defined
	+	-	+	-
	Good flexibility	<ul> <li>Large range of definitions</li> </ul>	Universal	<ul> <li>May be rigid</li> </ul>
	<ul> <li>Encourages communication</li> </ul>	<ul> <li>May require in- depth knowledge</li> </ul>	<ul> <li>Efficient and comparable</li> </ul>	<ul> <li>May discourage communication</li> </ul>
Definition Use of Proceeds		PEFC	f <b>icates</b> C/ FSC M/LEED	
	BREEAM/LEED			



### 1. Definition: Case study - Kommuninvest





## The five pillars of a green bond: Selection





### 2. Selection: Case study - Kommuninvest

#### 3. SELECTION OF ELIGIBLE LOANS

Eligible Projects will, on an ongoing basis, be:

- identified and verified by the environmental functions in Kommuninvest's member municipalities/county councils;
- selected by the Treasury Departments in Kommuninvest's member municipalities/county councils, and submitted to Kommuninvest for approval as a Green Loan together with appropriate documentation according to Kommuninvest's instructions.

Eligible Projects will, on an ongoing basis, be:

3. pre-approved by Kommuninvest's Lending department

and, on a quarterly basis, be:

4. reviewed and finally approved by consensus vote in the Green Bonds Environmental Committee in terms of coherence with the criteria for Eligible Loans as defined in section 2 above. The Green Bonds Environmental Committee consists of representatives from the environmental function of two or more member municipalities/county councils, environmental experts from other relevant public sector organisations/academia/NGOs, as well as Kommuninvest's Management.



## The five pillars of a green bond: Monitoring





### 3. Monitoring: Case study - Kommuninvest

The proceeds from Green Bonds issuance will be tracked by Kommuninvest in accordance with its internal instructions, and will be verified by an external audit firm.

For conservative purposes, and in accordance with Kommuninvest internal instructions, Kommuninvest will manage proceeds with an ambition for aggregate Green Bond Proceeds not to exceed total disbursements to Eligible Loans. Any excess amounts will be held in cash, Green Bonds, municipality and/or government risk with a minimum, average credit rating of A by Standard & Poor's or corresponding credit rating by another rating agency approved by Kommuninvest. If a financed Eligible Project no longer meets the eligibility criteria upon approval, Kommuninvest will remove it from the pool of Eligible Loans.

Kommuninvest will communicate on the nature of allocations to Eligible Projects in its Green Bonds Impact Report, see section 4 below. The allocations will be verified by an external audit firm.



## The five pillars of a green bond: Reporting





## 4. Reporting: Case study - Kommuninvest



Kommuninvest Green Bonds Impact Report, December 2017

Report on 146 Swedish local government investment projects financed by Kommuninvest Green Bonds as of year-end 2017.



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Foreword By the Kommuninvest Green Bonds Environmenal Committee

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#### Kommuninvest Green Bonds

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Baselines for CO2 emissions	
Collected data and climate impact calculation	

Comparison figures relate to the preceding year (1 January-31 December 2016) unless otherwise stated.





## The five pillars of a green bond: External review

A concept of simplicity built on five pillars			
Assessment of sustainability aspects	Verification of procedures	Certification	
	Second opinion		
	Audits		
	Ratings	Assesment through	



### 4. External review: Case study - Kommuninvest





# Part 2: **The steps of a green structuring process**

Webinar II: Setting up a green bond framework



## The steps of a green structuring process

Step	Action	Responsibility
1	Kick-off meeting with relevant representatives from finance, environment/sustainability, legal and communications departments	Issuer & structural advisor
2	First draft green bond framework for the issuer	Structural advisor
3	Tailor the framework to match the ambitions and preferences of the issuer	Issuer & structural advisor
4	<ul> <li>Prepare information package to the independent external reviewer, potentially including:</li> <li>Environmental vision, goals, strategies and policies (external and internal)</li> <li>Internal working guidelines</li> <li>Information on technologies</li> <li>Routines for impact measurements</li> </ul>	Issuer (with guidance from the structural advisor)



### The steps of a green structuring process cont.

Step	Action	Responsibility
5	The framework and information package are sent to the independent external reviewer	Structural advisor
6	A draft external review and a set of questions is delivered by the external reviewer	Independent external reviewer
7	<ul> <li>Response to the independent external reviewer</li> <li>Answers to the questions (+extra material and/clarifications if needed)</li> <li>Adjustments to framework (if desired)</li> </ul>	Issuer (with guidance from the structural advisor)
8	A call is arranged with the independent external reviewer and the issuer	Structural advisor
9	Final external review is delivered	Independent external reviewer
10	Prepare communication strategy, investor presentation, transaction strategy and open a separate account	Issuer (with guidance from the structural advisor)
11	Investor road show followed by the inaugural green bond transaction	issuer (with guidance from the structural advisor / underwriter)



# Part 3: Market aspects and transaction considerations

Webinar II: Setting up a green bond framework



### Market aspects and transaction considerations

#### Five market aspects to consider:

- Market access
- Liquidity
- Pricing
- Allocation
- Marketing



### Market access

#### **Investor diversification**

- Number of investors
- Geographical reach



#### **Issuance flexibility**

- Maturity
- Currency

- Volume
- Format



Source: Green bond pricing in the primary market: October - December 2017 Prepared jointly by the Climate Bonds Initiative and the International Finance Corporation.



# Liquidity

#### • Poor

- Asymmetric
- Frustration and loyalty



## Pricing

#### **Primary market**

# New issue premiums for green bonds in our sample, 2016 & 2017



Source: Green bond pricing in the primary market: October - December 2017. Prepared jointly by the Climate Bonds Initiative and the International Finance Corporation.

#### **Secondary market**

Percentage of bonds tightening by a greater percentage than their corresponding index after 7 and 28 days

		2016 & Q1 20	17	Q2 2017		Q3 2017		Q4 2017	
		7 days	28 days	7 days	28 days	7 days	28 days	7 days	28 days
EUF	2	79%	76%	85%	75%	100%	91%	53%	66%
USI	<b>)</b>	59%	65%	50%	33%	43%	43%	33%	25%

#### EUR Green bonds - Spread changes compared with baskets of vanilla bonds

Davaka Hype, 2021         131         0.00         X         -0.56         0.69         X           Seadway 2021         4.01         2.70         X         -3.8         5.34         X           Swape 2024         4.57         2.70         X         -7.72         5.34         X           Swape 2024         4.57         2.70         X         -7.72         5.34         X           Swape 2024         4.57         -0.26         X         -3.11         -3.73         X           Swape 2024         2.49         -5.28         X         -0.60         -6.97         X           Swape 2024         2.29         -5.28         X         -4.34         -6.97         X           Swape 2024         2.29         -5.28         X         -4.34         -6.97         X           Swape 2024         16.0         -5.28         X         -5.8         -6.93         X           Swape 2024         17.2         -4.73         X         -8.66         -9.93         X           Gwape 2027         0.29         -0.92         X         -0.15         -7.73         X           Swape 2027         2.21         -0.93         X         <		oprova changes compared into suscess of family solution						
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	Iren 2027	4.32	-4.73	×	-2.76	-9.93	×	

#### USD Green bonds - Spread changes compared with baskets of vanilla bonds

Bond	Spread change 1 week	Spread change 1 week, basket	Greater than basket	Spread change 1 month	Spread change 1 month, basket	Greater than basket
NEDWBK 2021	-22.60	-0.54	~	-22.60	-0.76	<ul> <li>Image: A set of the set of the</li></ul>
IFC 2022	n/a	-1.35		2.60	1.40	×
EBRD 2021	1.80	-1.35	×	1.80	1.40	×
	-0.86	-0.72	~	-1.87	-1.10	~
Dev. Bank of Japan 2022	-19.80	-0.72	~	-6.20	-1.10	~
Avangrid 2024	n/a	-3.38		0.51	-6.84	×
Power Finance Corp 2027	4.02	-0.02	×	4.08	-1.68	×
Indian Railway 2027	0.01	-13.15	×	0.27	-13.42	×

Source: Green bond pricing in the primary market: October -December 2017 Prepared jointly by the Climate Bonds Initiative and the International Finance Corporation.



## Allocation

#### Extract from Deal Review

#### 44% of green bonds were allocated to green investors



Half of the green bonds in our sample over the last three quarters have been allocated to green investors

Observation period	% of green bonds allocated to green bond funds	Developed Markets	Emerging Markets	No. of bonds in sample
Q2 2017	54%	62%	25%	13
Q3 2017	47%	54%	33%	16
Q4 2017	44%	46%	24%	13
Averages	48%	54%	27%	

Source: Green bond pricing in the primary market: October - December 2017 Prepared jointly by the Climate Bonds Initiative and the International Finance Coreporation

#### **Investor Allocations – Green**





## Marketing

# Investors want to be seen in public advertisments



# Press releases

	NWB) BANK
	MEDERLANDOE WATERSCHAFSBANN H.V.
NWB)BANK	18 March, 2016
MEDERLANDSE WATERSCHAFSEANN N.V.	NWB Bank launches 10-year inaugural
18 March, 2018	USD 1 billion RegS/144a Benchmark Green Bond
NWB Bank launches 10-year inaugu USD 1 billion ReoS/144a Benchmark Gree	launched a 10-year USD 1 billion Green Bond Itersection to support NWB Bank's lending to the D
Dn Finday, 18th March 2016, the Noderlandse Waterschapsbare N.V. (NWE Ba	benchmark is also NAVE Bark's 1901 (USD benchmark offening of the year. This mere green tool barborhows have of NAVE Bark oblepsing for year. (b), mildl / families pathwell the Dotth water authorities. Bark of the NAVE Bark's Clean Rook will be credited as in internal extension and count of the Bark of edicates in the NAVE Bark's Clean Rook will be credited as an internal extension and bark of edicates in the Internal Bark's Clean Rook will be credited as an internal extension and bark of edicates in the interling in the Dotth Water Authorities. The Dotth Water Authorities are governer and counter and the internal pathwell by Rook of the Clean Water Authorities and the bark of edicates in the interling in the Dotth Water Authorities. The Dotth Water Authorities are governer and the internal pathwell by Rook of edicates with the interling in the Dotth Water Authorities. The Dotth Water Authorities are governer and the internal pathwell by Rook of edicates and the entry of the Dotth Water Authorities. The Dotth Water Authorities are pathwell and the Internal Pathwell by Rook of edicates and the entry of the Dotth Water Authorities. The Dotth Water Authorities are governers and the internal pathwell by Rook of edicates and the entry of the Dotth Water Authorities. The Dotth Water Authorities are governers and the Internal pathwell by Rook of edicates and the entry of the Dotth Water Authorities. The Dotth Water Authorities are pathwell by Rook of edicates and the entry of the Dotth Water Authorities. The Dotth Water Authorities and the Internal Pathwell Bark of the Dotth Water Authorities and the Internal Pathwell Bark of the Dotth Water Authorities and the Internal Pathwell Bark of the Dotth Water Authorities and the Dotth Pathwell Bark of the Dotth Water Authorities and the Dotth Water Authorities and the Dotth Water Authorities and the Dotth Water Aut
In flood control and in water management will be executed under the undersite of the plan set up by the Dubth government to make the Dubh flood protection and water for the executed climate change in the coming decemis. Both fleavier rainfail public periods of drought are taken into consideration.	Not accurate the production of the sector of
Proceeds will be used to fund Green Broot Eligible Properts by the Water Aufter religibion of circate change, being webnewy management, this adaptation to circate investment in citrate-makine growth flood protection, other flood determines and pur biodiventy projecti wilch are malited to swater tratate bodieweity projects mithy related to a samtation and drogging of webshoots, water tratament, transport and to and dispond of transget shalps).	the change. The 15-year coop barcomain transaction was announced in the monang of mursday, March 17th in the mong states to give Asken investors advance notice of the dear coming the next day, with initial price talks at mides
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This is our third green bond and the first one in US distars. Again it is a very succ real first USD 10 year benchmark this year. The strong green case of the water auth-rel timele adaction, dimension end bootwards under its leve to the success.	an when I Bank of Amarica Se Daiwa



# Part 4: Wrap-up

Webinar II: Setting up a green bond framework



### Module II: Setting up a green bond framework

#### Learnings

- The Green Bond Principles
- The five pillars of a green bond framework
- The steps of a green structuring process
- Market aspects & transaction considerations

#### What's next

• Webinar 3: Safeguarding: Definitions, impact reporting & external review



## Module 2: Setting up a green bond framework

#### **More information**

- ICMA: The Green Bond Principles 2018
- Impact Reporting:
  - Green Bonds Working towards a Harmonized Framework for Impact Reporting (Dec 2015)
  - Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting (Oct 2017)
  - Case study: Kommuninvest
    - Green bond framework
    - Second opinion
    - Impact report
- Climate Bonds Initiative: Green Bond Pricing in the Primary Market (Q4 2017)



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