

# **Green Bonds: Opportunities for Belarus?**

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## 1. Introduction

- Belarus is active in the global sovereign Eurobond market for a number of years already, with different issues
- A relatively new market segment of the global bond market are “green bonds”
- Green bonds are typically issued by corporates or banks where proceeds will be exclusively applied to finance or refinance green projects. Sovereign and sub-sovereign issuance is more recent and less common.
- The objective of this presentation is to review the evolution of the green bond market, its rationale, standards and principles and possible implications for Belarus

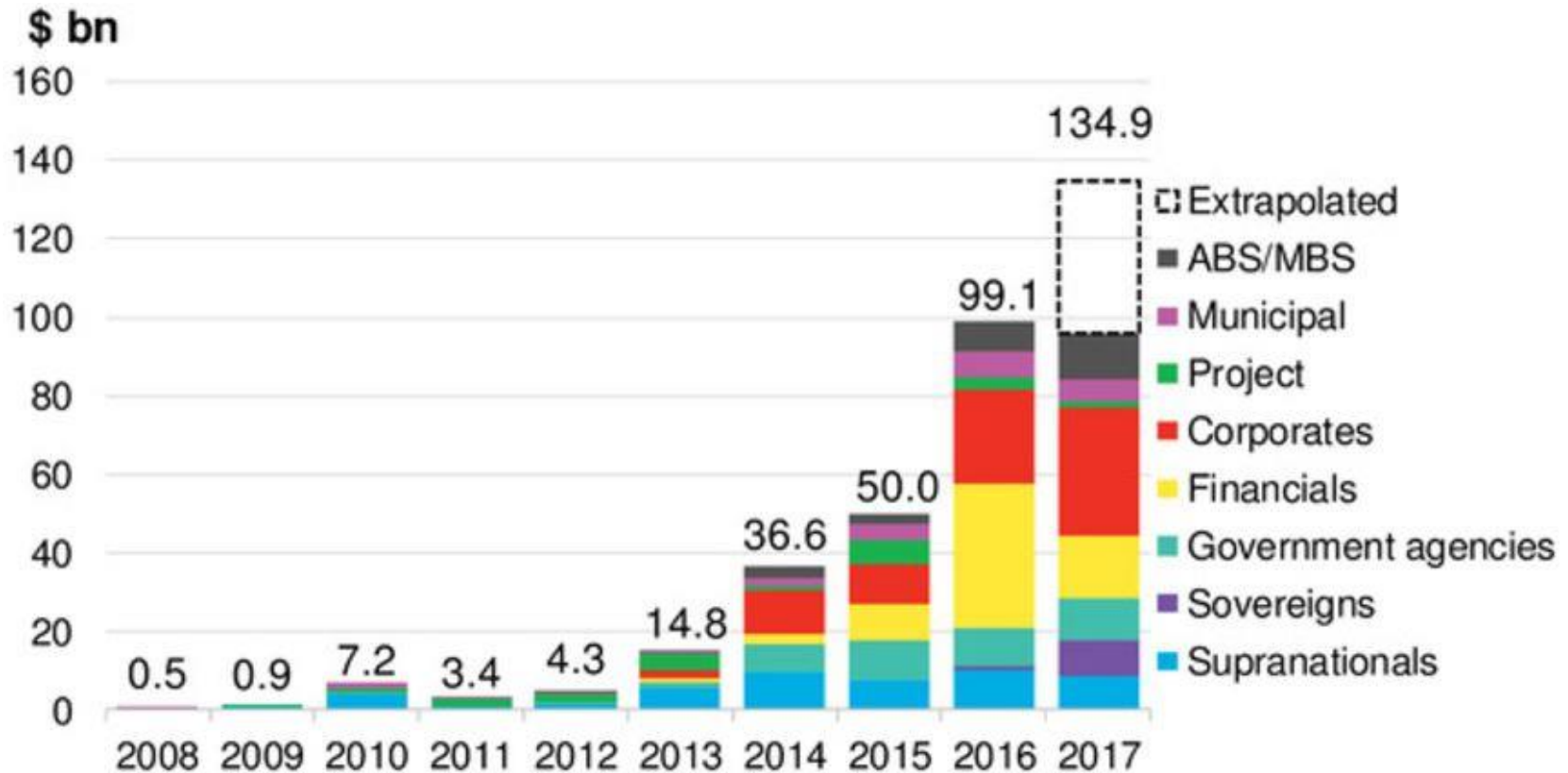
## 2. Rationale for issuers and investors

- Satisfies investor demand for practices by issuers that conform to environmental standards, and mitigate carbon emissions. Institutional investors increasingly demand tools to assess environmental impact and thereby avoid negative externalities.
- Fixed-income investors are using green bonds to communicate to their stakeholders commitment to environmentally friendly investments. Many disclose their green bond purchases through press releases and other communication.
- Global climate commitment to limit carbon emissions (the 2015 Paris Agreement) point to greater demand for environmentally sustainable financing by banks and bond markets
- Strong investor demand may allow pricing at a premium

### 3. The evolution of the green bond market

- Market emerged only 10 years ago, and in 2017 issuance exceeded USD 120 billion
- Initially primarily supra-national issuers (EIB/World Bank/IFC) which created the market, then also municipalities, national development banks and agencies
- Launch of Green Bond Principles in 2014 attracted wider number of corporates and banks
- National green bond standards in China produced a substantial pipeline, and now accounts for about 15-20 per cent of global issuance. Only 10 per cent of Chinese issuance is independently verified.
- Emergence of Asset-Backed Securities (ABS) and high-yield issues
- Use of proceed initially mainly renewable energy and low carbon buildings. Now increasingly sustainable water, transport and waste.

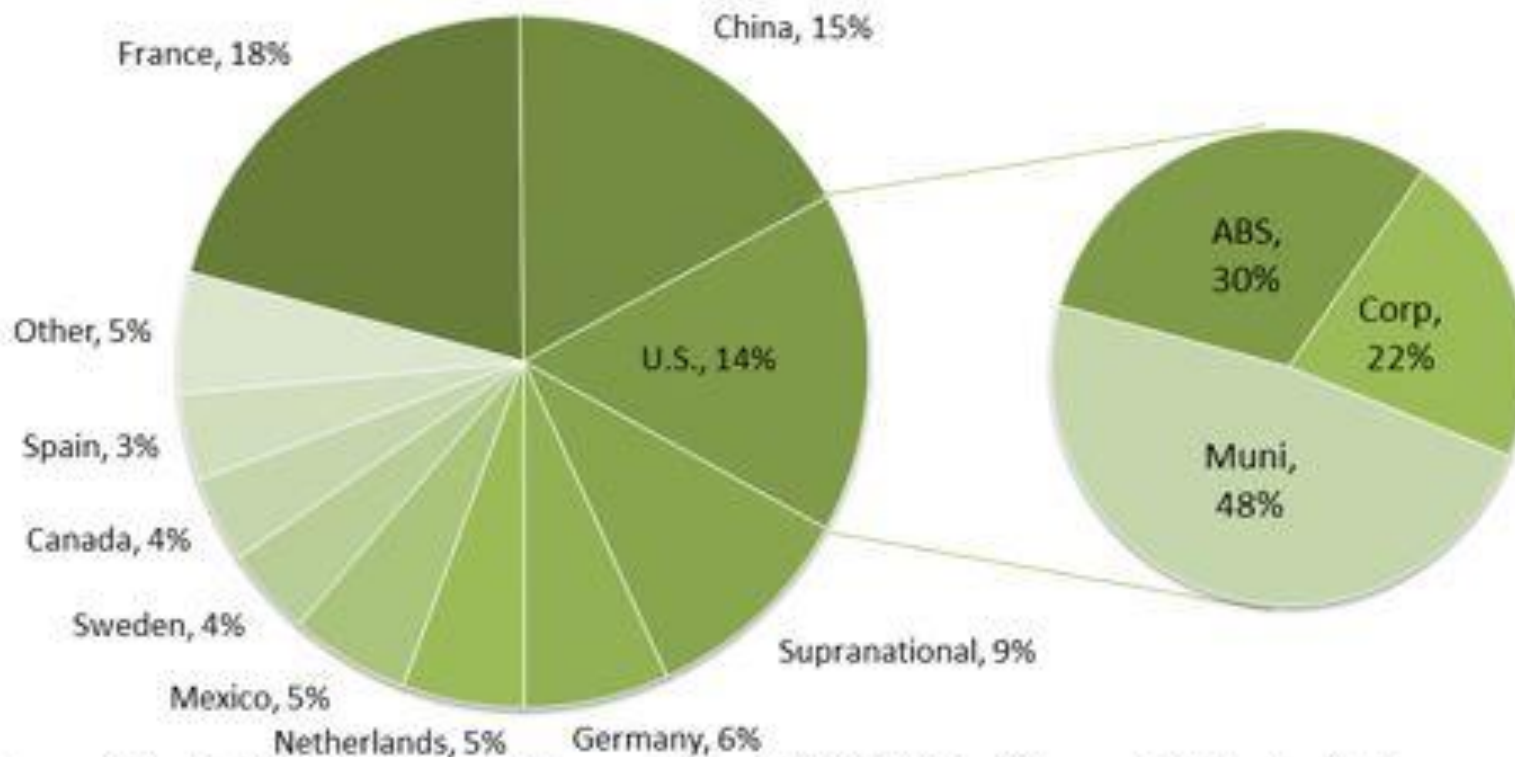
## Annual green bond issuance by issuer/bond type



Source: Bloomberg New Energy Finance

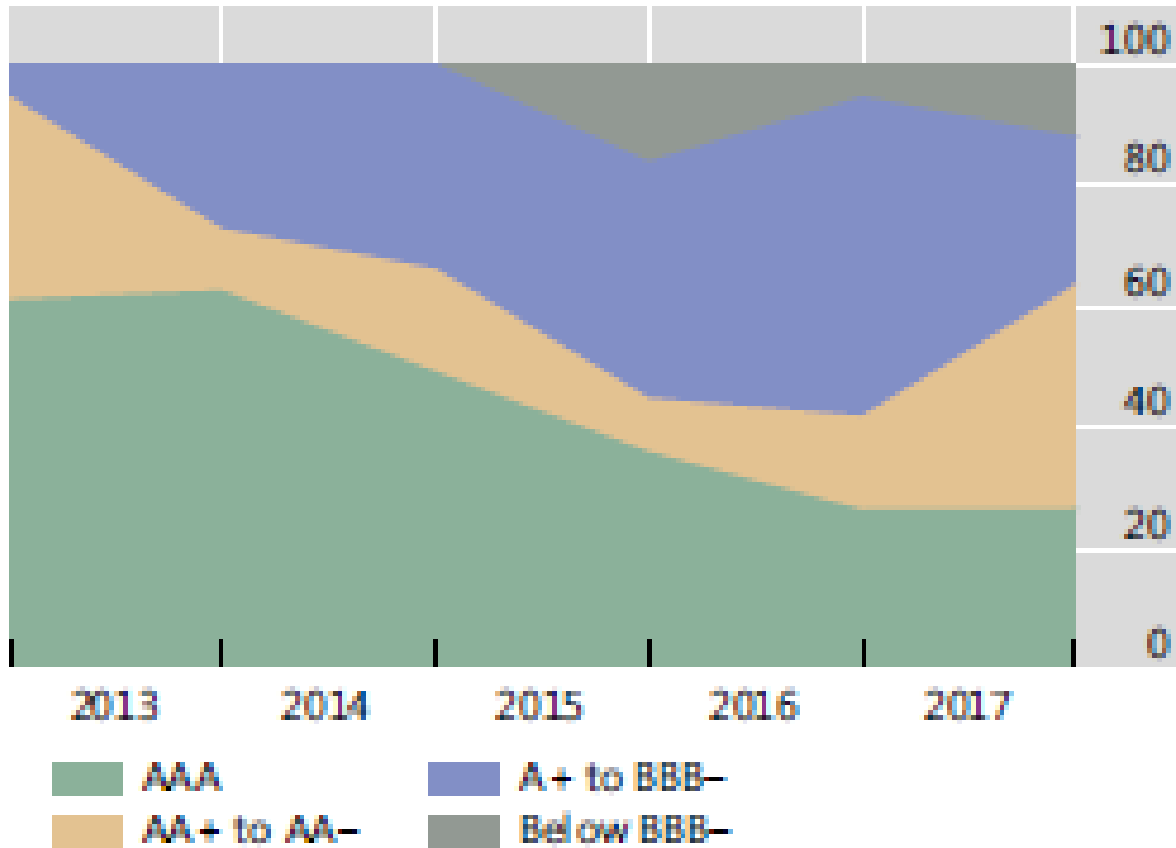
## Green bond issuance by country

Exhibit 2: Green Bond 2017 Issuance by Country



Source: Climate Bond Initiative. Data as of Sep. 29, 2017. Chart is provided for illustrative purposes.

## Distribution of green bond ratings



Source: BIS Quarterly Review September 2017; average rating of 3 major agencies



## 4. The investor base

- Growing interest among fixed interest investors in ethical and sustainability issues
- This is reinforced by global agreement on limitations on carbon emissions, and supervisory scrutiny by supervisors of carbon related financial sector risks
- Most institutional investors now have explicit targets for investment in sustainable projects
- About 17 dedicated green bond funds in Europe
- The investor base has broadened, and now also includes foundations and the treasuries of individual companies
- Constraints are the lack of a benchmark yield curve, rating system and poor liquidity

## 5. Green Bond Principles

- Issuers typically comply with voluntary standards for issuance; ‘self-labelling’ has decreased.
- Standards are needed to ensure that proceeds are invested in an environmentally sustainable way, establishing a basis for investors’ own reporting.
- **Green Bond Principles** first defined by International Capital Market Association (ICMA) in 2014 and last updated in 2017. Now the industry standard. External review essential ahead of issuance to confirm alignment with green bond principles.
  - **Use of proceeds.** Utilisation for ‘green’ projects which should be described in the legal documentation
  - **Project evaluation and selection.** Documentation needs to spell out sustainability objectives; issuer’s decision making in determining project eligibility
  - **Management of proceeds.** Proceeds to be credited to a sub-account, or a specific portfolio and tracked by the issuer. Possible involvement of auditors.
  - **Reporting.** Information on use of proceeds up until full allocation and prior to the bond’s redemption. List of projects and their impact. Performance measures (eg. CO2 reductions)

## 6. The Climate Bonds Standard

- Standard sets more detailed and demanding criteria and requirements but incorporates the Green Bond Principles. Still only utilized by issuers accounting for only 15 per cent of issuance volume in 2015.
- Approved verifying organisations check prospective green bond compliance against standardized criteria.
- Crucially, also mandates an **annual reporting** by the issuer and verification that proceeds have been allocated as expected, and use of unallocated proceeds.
- **Sector specific criteria**, among others in wind, solar, transport, buildings, water and land-use, e.g. specific emissions standards to define ‘low-carbon’.
- Latest version aligned with Green Bond Principles
- Moody’s Green Bond Assessment and S&P Green Evaluations provides alternative ongoing assessment

ENERGY	TRANSPORT	WATER	LOW CARBON BUILDINGS	INFORMATION TECHNOLOGY & COMMUNICATIONS	WASTE & POLLUTION CONTROL	NATURE BASED ASSETS	INDUSTRY & ENERGY-INTENSIVE COMMERCIAL
Solar	Rail	Built (grey) infrastructure	Residential	Power management	Recycling	Agricultural land	Manufacturing
Wind	Vehicles	Green and hybrid infrastructure	Commercial	Broadband	Other Recovery	Forests (managed and unmanaged)	Energy efficiency processes
Geothermal	Mass transit		Retrofit	Resource efficiency	Disposal	Wetlands	Energy efficiency products
Hydropower	Bus rapid transport		Products for building carbon efficiency	Teleconferencing	Prevention	Degraded Lands	Retail and wholesale
Bioenergy	Water-bourne transport				Reuse	Other land uses (managed and unmanaged)	Data centres
Wave and Tidal	Alternative fuel Infrastructure				Pollution Control	Fisheries and aquaculture	Process & fugitive emissions
Energy distribution & management						Coastal infrastructure	Energy efficient appliances
Dedicated transmission						Land Remediation	Combined heat & power



**Climate Bond Certified**

**Certification Criteria approved**

**Criteria under development**

**Due to commence**

## 7. Sovereign green bonds

- **Poland** issued first ever sovereign green bond in Dec. 2016: EUR 750 m at 5 years maturity. Three times oversubscribed.
- Proceeds to finance projects that contribute to CHG reduction targets and transition to low-carbon economy. Also sustainable agriculture, forestry and national parks. No benefits to coal allowed.
- No change in Poland's broader coal-based energy policy
- **France** in early 2017 announced a pipeline of EUR 10 bn sovereign green bonds with maturities between 15 and 25 years. Disclosure and evaluation more demanding than in Poland.
- **Nigeria** issued the first African sovereign green bond, certified by the Climate Bonds Initiative
- Others sovereigns are interested or in process of issuing: **Philippines, Bangladesh** and **Morocco**

## 8. Issuer preparation and risks

- A sovereign green bond requires a strong underlying portfolio of sustainable projects
- Also credible policies that govern such projects
- Only strong disclosure and transparency in the budget would attract dedicated investors
- A dedicated sub-account in the budget and tracking of proceeds is necessary
- ‘Greenwashing’ and what investors may regard as ‘green default’ may damage the sovereign’s standing in the market

## 9. Implications for Belarus

- Available empirical evidence suggests on average small cost advantage of green bonds over conventional bonds, but with high variation (see Annex)
  - BIS (2017): Mean spread difference of 18 bp at issuance (sample: 21 green bonds)
  - Confirms results of earlier studies (Barclays, 2015 and Zerbib, 2017)
- Diversification of investor base could be an additional benefit, with greater role for buy-and-hold investors
- Green bonds may enhance issuer's reputation for sustainability. Reporting and disclosure of underlying projects establishes transparency. External monitoring builds credibility.
- Issuance may define incentives for domestic sectors to engage in sustainable practices
- Sovereign issuance must to be backed by domestic sustainability policies (carbon pricing or targets; waste, recycling and other emission targets; building standards etc.), and strong standards for fiscal transparency.
- Attract a credible 'anchor' investor, e.g. an IFI (IFC or EBRD)

## References

- BIS (2017): Green bond finance and certification: [https://www.bis.org/publ/qtrpdf/r\\_qt1709h.htm](https://www.bis.org/publ/qtrpdf/r_qt1709h.htm)
- Climate Bonds Initiative: <https://www.climatebonds.net/>
- G20 Green Finance Study Group: <http://unepinquiry.org/g20greenfinancerepositoryeng/>
- International Capital Market Association (ICMA) Green Bond Principles: <https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-social-and-sustainability-bonds/green-bond-principles-gbp/>
- Moody's: Green Bonds Assessment methodology, [www.moodys.com](http://www.moodys.com)
- World Bank Green Bonds: <http://treasury.worldbank.org/cmd/htm/WorldBankGreenBonds.html>



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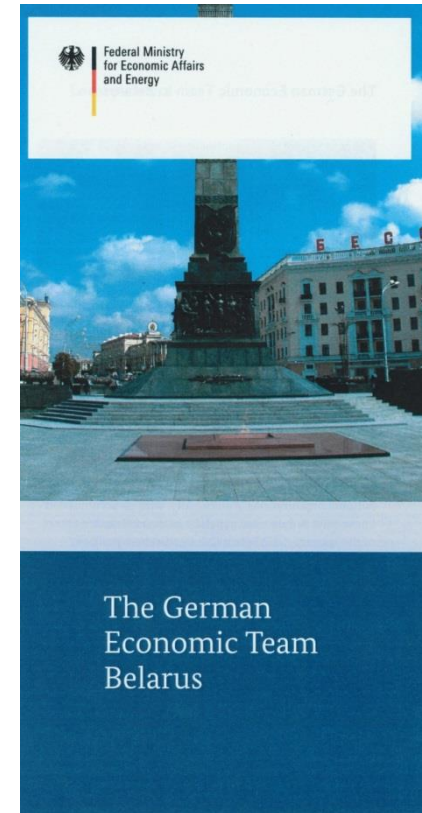
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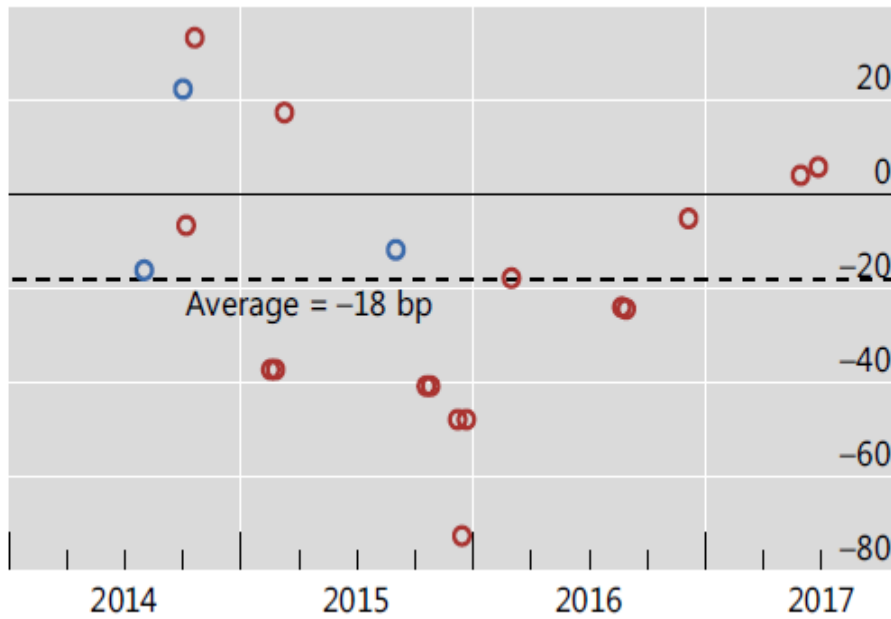
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# Annex

## Credit spreads: Green vs. non-green (conventional) bonds\*

Individual green bond issues by currency denomination



○ US dollar    ○ Euro

Average yield at issuance premia by rating



Source: BIS (2017), p.97

Notes: Sample of 21 green bonds issued between 2014 and 2017

\* Relative differences in credit spreads at issuance compared with a conventional bond of the same issuer at the closest possible date