FMO
Entrepreneurial
Development
Bank

50 SHADES OF GREEN

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Cookhouse wind farm, South Africa

OVERVIEW

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I. Market

II. Regulation

III. Opportunities

IV. Challenges

IV. Conclusion

I. THE MARKET

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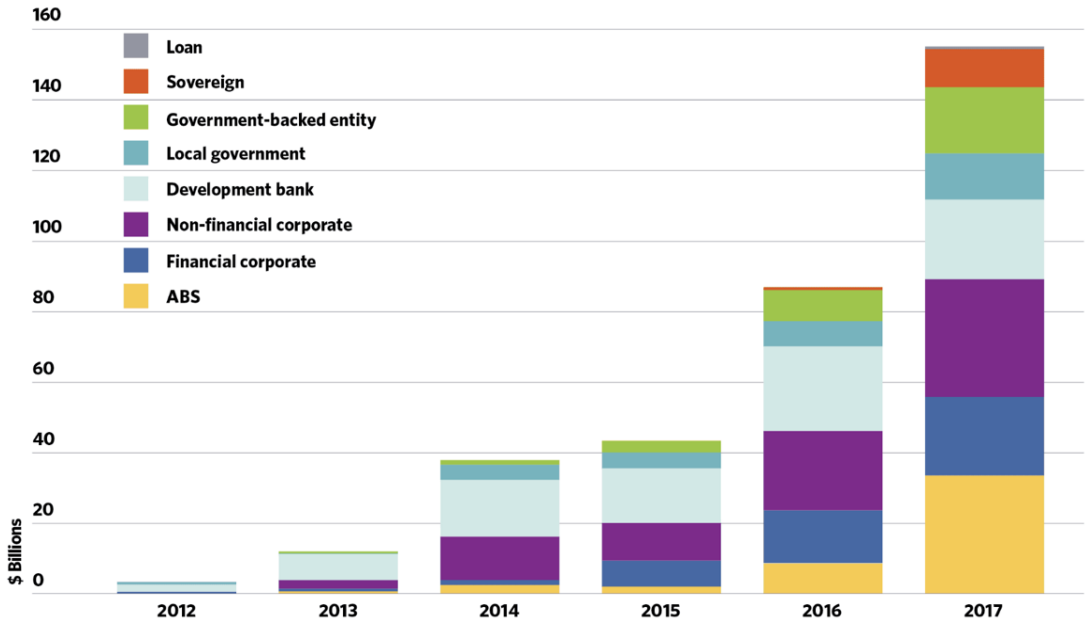
The Green Bond Principles

GREEN BOND VOLUME GROWTH IN 2017

- **USD155.5bn** total issuance
- **Over 1500** green bond issues
- **78%** growth on 2016
- **37** countries from all continents
- **239** issuers
- **146** new issuers
- **USD10.7bn** – largest bond
- **3** sovereign Green Bonds from France, Fiji, Nigeria

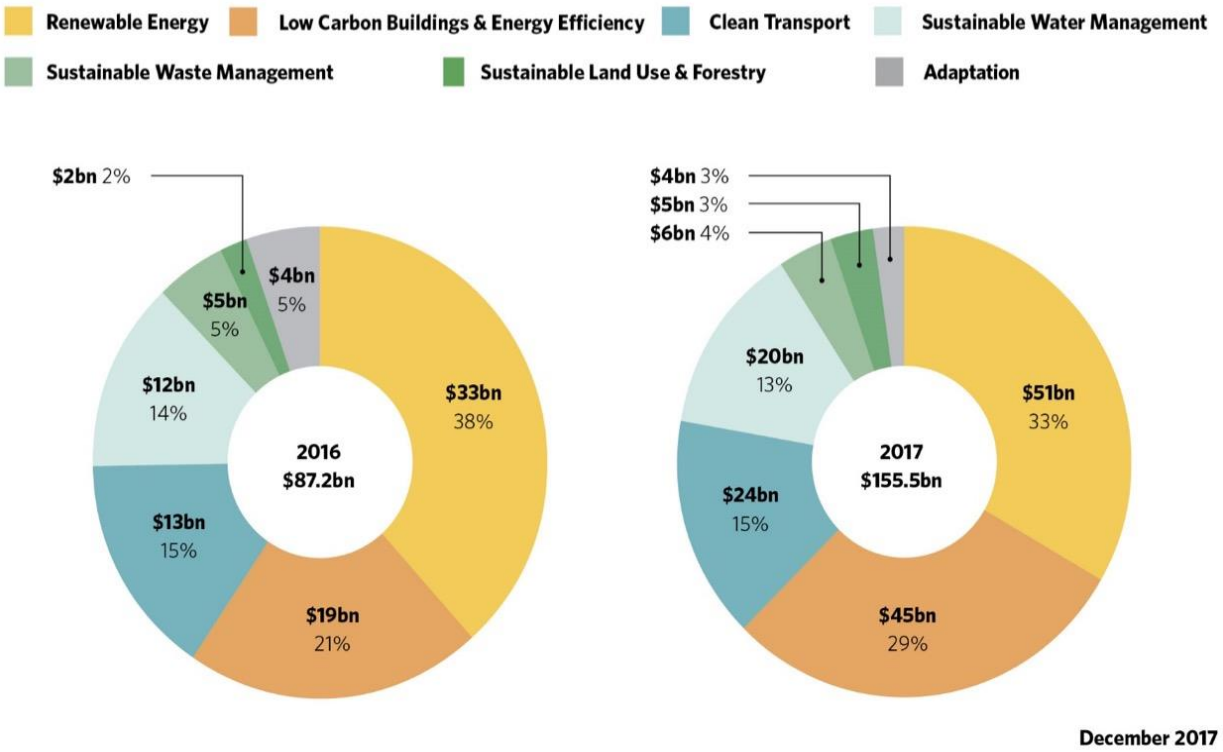


Source: CBI

The Green Bond Principles

GREEN USE OF PROCEEDS 2017

- Investments in **renewable energy** continue to be the most common use of proceeds.
- However their share has dropped considerably, while allocations to **low carbon buildings and energy efficiency** rose 2.4 times year-on-year.
- **Waste, Land Use & Adaptation** themes continue to be smallest, partly because of a lack of clear definitions on what qualifies.



Source: CBI

MARKET DEVELOPMENT AT A GLANCE

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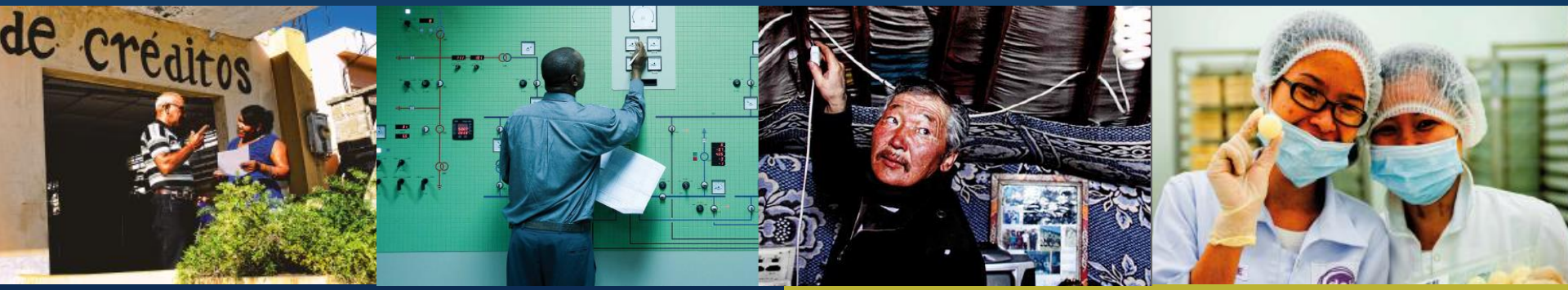
- ‘demonstration’ bonds, increasing liquidity
- ‘frontrunner’ DFI role in this market: EIB (CAB 2007), IFC, FMO
- Next phase: sovereign green bonds: France, Fiji, Poland, Indonesia, list growing
- Also increasingly banks and corporates: Apple landmark deal, banks all over
- Market development: from full to limited recourse

WE EMPOWER ENTREPRENEURS TO BUILD A BETTER WORLD



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FIJI

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POLAND

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REPSOL

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GREEN RMBS

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HOMELESSNESS

II. REGULATION

MARKET-LED OR HARDWIRED?

GREEN BONDS REGULATION

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- Supranational:
  - G20 2016: Green Finance Study Group
  - Paris Accord
- National level

- Market self-regulation: GBP and CBI
- HLEG Jan 2018, introduce official European standard for green bonds
  - Building on GBP, ‘hardwire’ regulation
- (Sus) Rating agencies, market indices

- Tax, regulatory capital, disclosure

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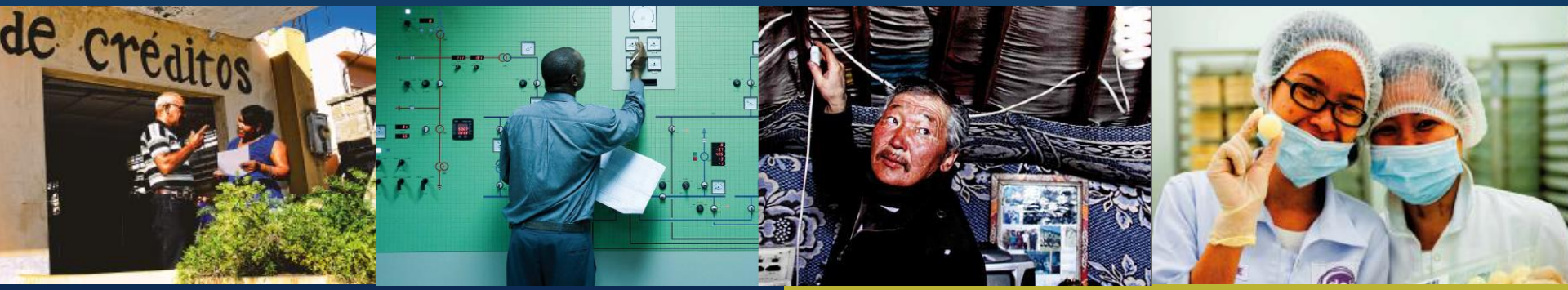

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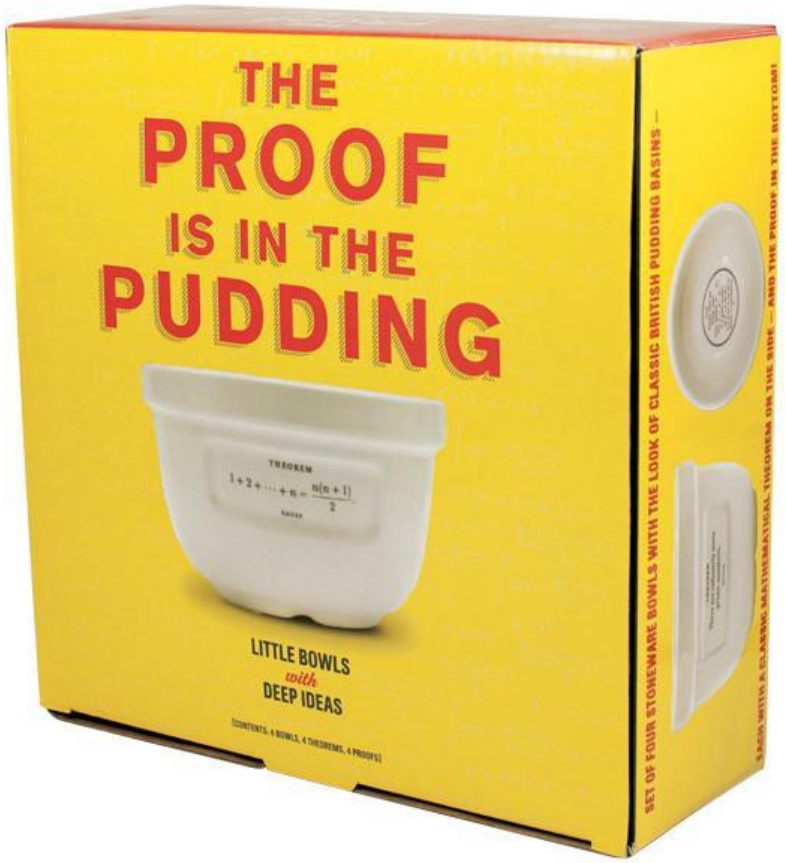
GBP

Defining green bonds – approach of the Green Bond Principles

Use of proceeds	**GBP § 1:** • Description of use of proceeds in legal documentation of Green Bond • Several categories of eligible Green Projects, including renewables and energy efficiency
Project evaluation and selection	**GBP § 2:** • Issuer to outline decision-making process used in determining project eligibility, including: process, criteria, environmental sustainability objectives • Emphasis on Transparency
Management of proceeds	**GBP § 3:** • Method for tracking proceeds; formal internal process linked to investments in Green Projects • Disclosure of intended types of temporary investment instruments for unallocated proceeds • Assurance / third party verification – e.g. audit
Impact measurement and reporting	**GBP § 4:** • Investments associated with Green Bond allocations to be published at least annually • Description of projects, amounts disbursed, expected environmentally sustainable impact • Qualitative and quantitative performance indicators

GREEN PUDDING?



- External reviews (from pre-issue consultant opinions to post-issue audit to certification and verification)

- Use of Proceeds clause
- Green covenants?

II. OPPORTUNITIES

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FMO AT A GLANCE

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- The **international development bank** of the Netherlands - incorporated in 1970
- Promoting **sustainable private sector** growth in developing markets focusing on green and inclusive development
- Strong **backing by the State of the Netherlands**
- **AAA** *(Fitch)*, **AAA** *(Standard & Poor's)* credit ratings and **industry leading sustainability ratings**
- Licensed bank supervised by the Dutch Central Bank
- FMO is an eligible issuer under the Public-Sector Purchase Program of the ECB

WE EMPOWER ENTREPRENEURS TO BUILD A BETTER WORLD

KEY FEATURES SUSTAINABILITY BONDS

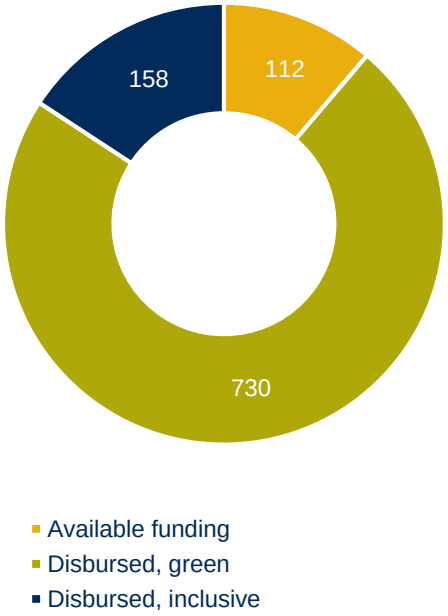
- Industry leading Sustainability Ratings
  - Sustainalytics
  - Oekom Research

- Member of the Green Bond Principles (GBP)
  - Use of proceeds reporting via Sustainability Bond Newsletter https://www.fmo.nl/susbonds
  - IFI working group on Green Bond Impact reporting harmonization
  - Project disclosure on FMO world map: https://www.fmo.nl/map

- External assurance to confirm alignment with GBP
  - Sustainalytics' 2nd opinion on FMO Sustainability Framework
  - Sustainalytics' review of eligible projects
  - Auditor: use of proceeds (financial perspective)

- FMO awarded First Green Bond – Netherlands certificate by Climate Bond Initiatives (partnership per Feb-16)

Sustainability Bond allocations in EUR million (per Jun 30th 2016)



SUSTAINABILITY BOND FRAMEWORK

Senior unsecured bonds issued under FMO's Debt Issuance Programme specifically aimed at financing:

Green projects e.g.:
- Climate change mitigation
- Climate change adaptation

Inclusive finance projects:
- Microfinance

FMO ESG policy and integrated approach

GREEN PROJECTS

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- Eligible green projects:
  - ***Climate change mitigation***
    - ***Renewable energy***: Solar, wind, geothermal power and hydro
    - ***Energy efficiency***: Buildings, transportation and industrial
  - ***Climate change adaptation***
- Criteria aligned with Multilateral Development Banks (MDB) framework on climate change mitigation and adaptation finance*
- Financed directly or through intermediaries
- Exclusion of coal-fired power plants

Rajasthan Sun Technique

FMO has financed the 100 MW Concentrated Solar Power (CSP) project developed by Reliance power in India. The solar plant will power homes and businesses and help to bring the country closer to its ambitious solar power generation goals.

FMO financing: USD 30 million.

Avoided GHG: 10,938 t/CO2eq

**http://www.eib.org/attachments/documents/joint_report_on_mdb_climate_finance_2013.pdf*

INCLUSIVE PROJECTS

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- Eligible inclusive finance projects:
  - ***Microfinance Institutions***
- Criteria:
  - End-client should meet two of the three criteria to qualify:
    - the number of employees <10;
    - turnover < USD 100,000;
    - total assets < USD 100,000

  OR
  - End-client average loan size should be less than USD 10,000
- In addition, over time eligible investments should meet FMO's ESG standards on a risk-based approach
- Client Protection Principles

Lanka Orix Micro Credit

Lanka Orix Micro Credit, (LOMC) is the specialised microfinance company of Sri Lankan LOLC Group. LOMC has selected many of the under developed regions In Sri Lanka in order to promote inclusiveness. The targeted segments have been farmers, women's groups and micro entrepreneurs. FMO financing: USD 15 million.

**Source: IFC*

III. CHALLENGES

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DIFFERENT EXPECTATIONS

Fifty Shades
of Green

IMPACT REPORTING

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- Common language
- Measure
- Methodologies
  - GHG Protocol

- G20: Task Force on Climate Related Disclosures
  - Governance, strategy, risk management and metrics & targets
  - Specific guidance for financials

- (Prospectus Reg?)

GREENWASHING

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- **Reputational issue most of all**
- **Focus on**
  - **Laying out the risk factors of green bonds**
  - **Disclosure of eligible projects**
  - **Third-party verification**
  - **Informing investors along the way**

IV. CONCLUSION

CONCLUSION

FMO
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- **Promise: market-led and hard-wired**
- **Reputation**
- **Developing market**
- **Not just bonds!**
- **Evolving guidelines / framework**
- **Different expectations**

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