SBFN- SUSTAINABLE FINANCE INSTRUMENTS WORKING GROUP

IFC | International Finance Corporation
WORLD BANK GROUP

Creating Markets, Creating Opportunities

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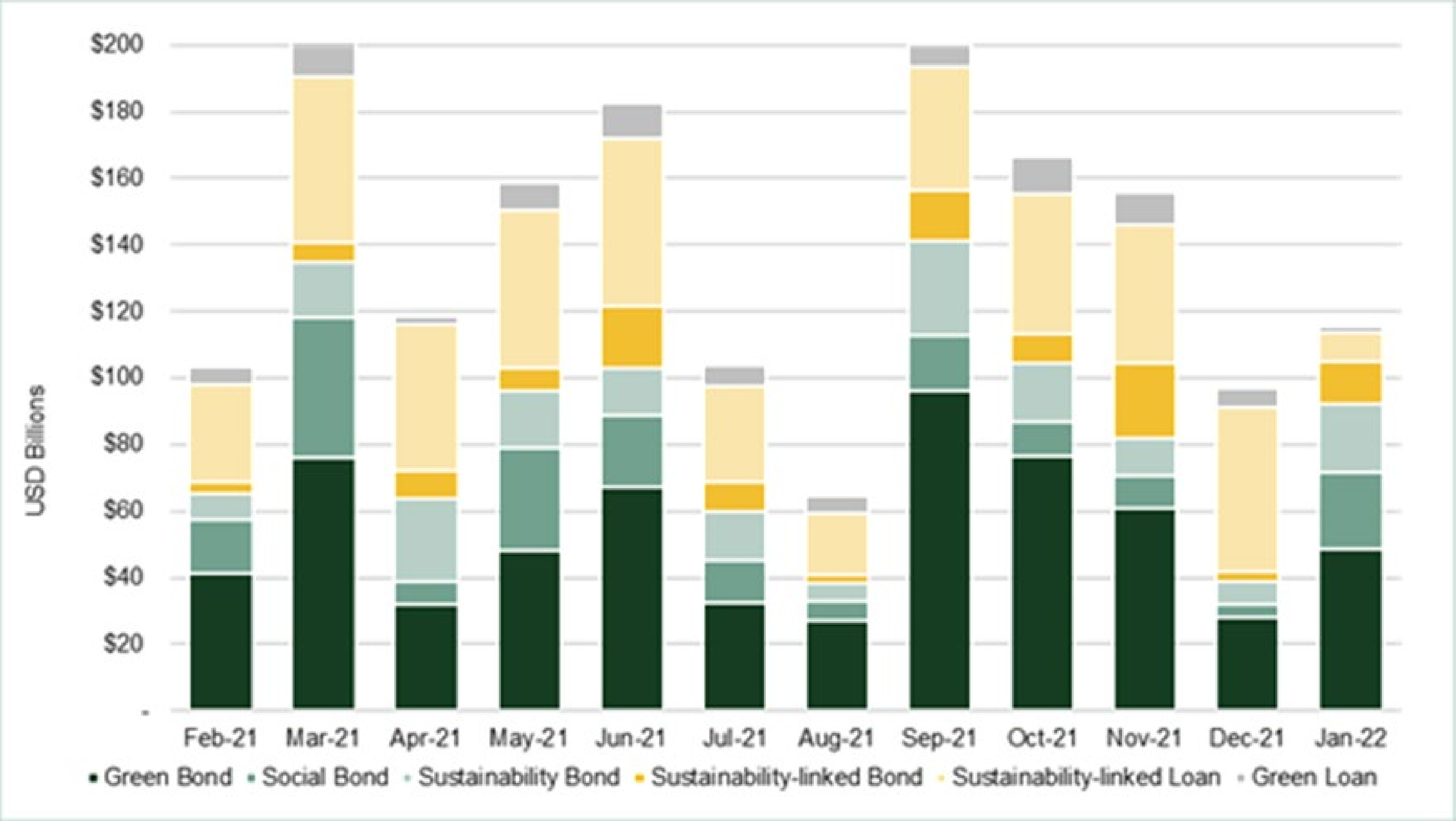
MARKET UPDATE: 2021 and 2022 YTD ISSUANCE

2021 and January 2022 Sustainable Debt Market Growth by Product Type ***(USD bn)***



Source: Bloomberg and TD Securities

Total 2021 Issuance: $1.6tn
Green bonds: $617bn
Social bonds: $206bn
Sustainability bonds: $178bn
Sustainability-linked bonds: $109bn
Sustainability-linked loans: $423bn
Green Loan: $89bn

2022 Issuance: $116bn
Green bonds: $44bn
Sustainability-linked loans $31.3bn
Social bonds: $13.9bn
Sustainability bonds: $12.7bn
Sustainability-linked bonds: $8.12bn
Green Loan: $5.8bn

IMF REPORT: SUSTAINABLE FINANCE MARKETS IN EMs

There is a sharp rise in the EM ESG bond issuance especially in 2021

Chart 1. EM ESG Bond Issuance (USD bn.)

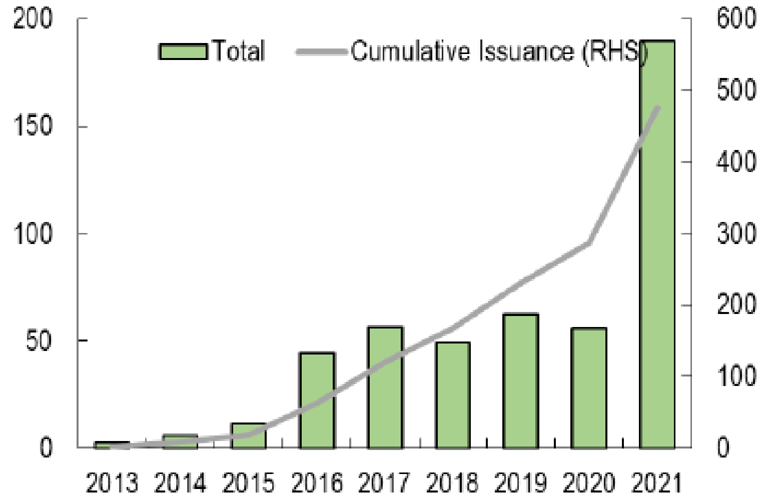
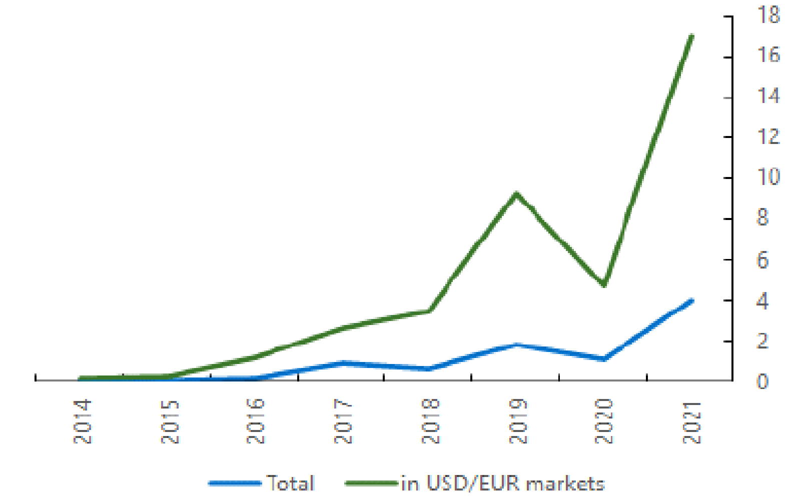


Chart 5. ESG Issuance as a prorportion of the total issuance (Percent; for EMs ex China)



EM financing composition has been shifting in the favor of ESG instruments, especially in the offshore markets

Green bond remains the core ESG bond segment for EMs, though other categories have picked up recently

Chart 6. Yearly ESG debt issuance in EMs, by type (USD Billion, percent)

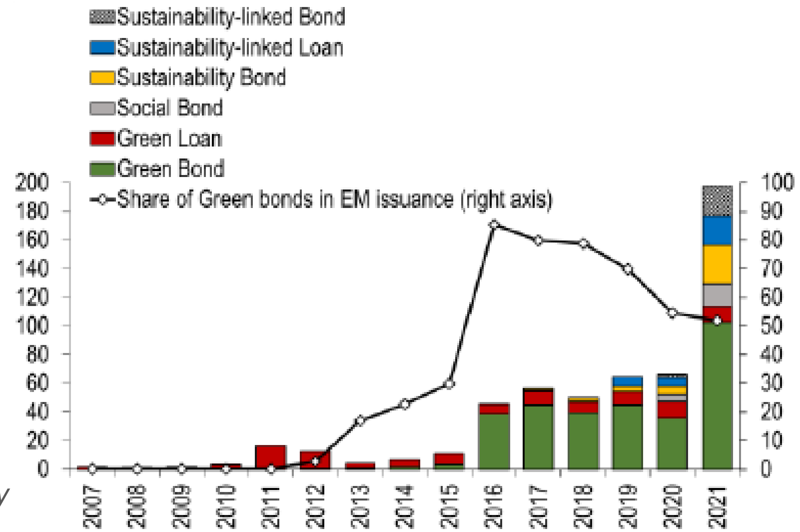
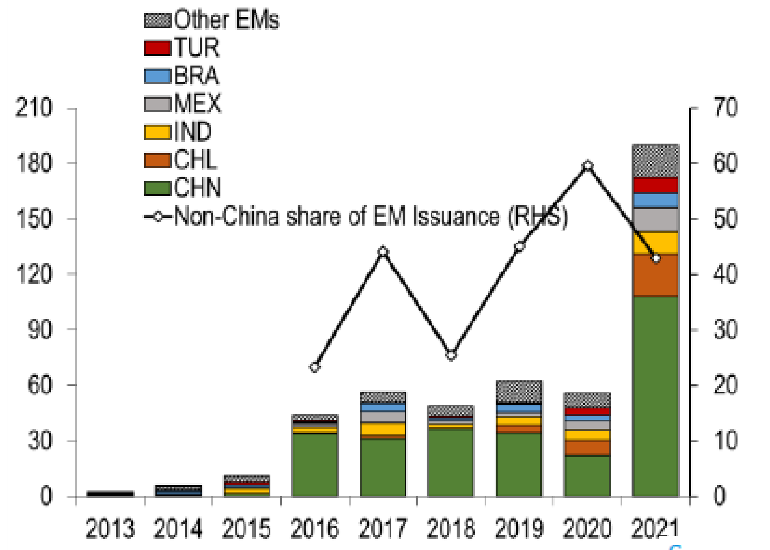


Chart 7. Yearly ESG debt issuance in EMs, by region (USD Billion, percent)



China used to be a dominant issuer in the EM space, but issuance by other EMs have risen as well recently

__Note__: ESG Debt includes green bonds, green loans, social bonds, sustainability bonds, SLBs and SLLs

Sources: Bloomberg, EPFR, IMF Staff Calculations

IFC's ROLE IN SUPPORTING SUSTAINABLE FINANCE

IFC's roles in Sustainable Finance

Lender

- Green loans

Issuer

IFC offers two sustainable bond programs:

- Green Bond Program
- Social Bond Program

Provider of Technical Assistance and Advisory Services

- Sustainable Banking Finance Network (SBFN)
- Green Bond Technical Assistance Facility (GB-TAP)

Contributor to Market Development

- Chairs the Executive Committee of the Green, Social and Sustainability-Linked Bond Principles

Investor

- IFC channels investments through financial intermediaries to support climate-related credit lines.
- IFC typically acts as an anchor investor for first-time issuers

Work with Regulators

- IFC supports capital market regulators in the development of national sustainable finance frameworks

Mobilizer

- Emerging Green One (EGO) Bond Fund
- Real Economy Green Investment Opportunity (REGIO) Bond Fund
- Sustainable Emerging Economy Debt (SEED) Bond Fund (formerly BEST Bond Fund)
- MCPP One Planet

OVERVIEW OF THE GUIDANCE PROVIDED BY THE PRINCIPLES

The Principles

The Green Bond Principles

The Social Bond Principles

The Sustainability Bond Guidelines

The Sustainability-Linked Bond Principles

Financial Instrument Guidance

Use of Proceeds

Green, Social, Sustainability Bonds ("GSS" or "UoP")

Core Components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

Key Recommendations:

1. Green Bond Frameworks
2. External Reviews

General Purposes

Sustainability-Linked Bonds ("SLBs")

Core Components:

1. Selection of Key Performance Indicators (KPIs)
2. Calibration of Sustainability Performance Targets (SPTs)
3. Bond characteristics
4. Reporting
5. Verification

Thematic Guidance

Climate Transition Finance

Climate Transition Finance Handbook (CTFH)

(Guidance may be applied to GSS/UoP Bonds or SLBs)

TAXONOMY COMPARISON

The sustainable finance market is underpinned by a growing number of regulatory efforts and taxonomies.

System	Environmental Objectives	Approach on eligibility	Usability	Other noteworthy aspects
EU Taxonomy	(i) CCM, (ii) CCA, (iii) sustainable use and protection of water and marine resources, (iv) transition to a circular economy, (v) pollution prevention and control, (vi) and protection and restoration of biodiversity and ecosystems	An activity needs to substantially contribute to the environmental objective(s); do no significant harm to others; be conducted in compliance with minimum social safeguards; and comply with the Technical Screening Criteria which are introduced with delegated acts.	Large public companies and asset managers will use the EU Taxonomy to disclose the taxonomy alignment level of their businesses and products. The EU Taxonomy will also be referred in official EU product labels such as the EU Green Bond Standard.	The EU Taxonomy refers extensively to the lifecycle assessment of activities, explicitly excludes solid fossil fuels, and categorises activities as “low carbon” and “transitional” for the CCM objective, and as enabling activities for all environmental objectives.
CBI Taxonomy	(i) CCM and (ii) CCA	“Traffic lights”: green (automatically eligible); orange (subject to eligibility criteria); and red (not eligible).	The CBI Taxonomy is mainly designed for financial products. The compliance with an adapted version of the CBI Taxonomy (based on less stringent and descriptive criteria) is required for inclusion of green debt in the CBI’s Green Bond List (used by index providers and stock exchanges to determine investment eligibility). The compliance with the CBI Taxonomy is also a core pillar the cornerstone of the CBI Certification.	The CBI’s guidance on eligibility goes beyond its taxonomy. Issuers wishing to certify their bonds need to comply with the detailed Sector Criteria, the Climate Resilience Principles, and the Climate Transition Principles, (where relevant).
MDBs-IDFC Common Principles	(i) CCM and (ii) CCA	Descriptive eligibility: The Common Principles introduce definitions for CCM and CCA-related financing. Inclusion in the non-exhaustive list of eligible activities is descriptive and not subject to greenness thresholds.	Mainly used for the monitoring and reporting of climate financing in a consistent manner among development banks.	The Common Principles on CCM includes “transition”-related projects/activities at a high level, with the backstop of principles such as avoiding carbon-lock in, importance of long-term structural shift towards green technologies, and replacing the old technologies before their lifetime (with a distinction of greenfield vs. brownfield investments in energy efficiency).
ISO Taxonomy (under development)	Expected to be same as under the EU Taxonomy	To identify activities with positive environmental benefits, it applies activity descriptions, performance criteria and thresholds, together with the DNSH requirements.	It will be used together with the other standards in the ISO 14030 series for the evaluation of environmental performance of green debt instruments, including green bonds and green loans.	The ISO Taxonomy makes extensive references to the lifecycle considerations as part of its eligibility assessment. “Greening by” (or enabling) activities are eligible by their very nature, while “greening of” activities need to meet the performance thresholds provided in an annex.

TAXONOMY COMPARISON – EMERGING MARKETS

System		Environmental Objectives	Approach on eligibility	Usability	Other noteworthy aspects
Bangladesh’s taxonomy	Screening	(i) CCM, (ii) CCA, (iii) sustainable protection of water and marine resources, (iv) transition to a circular economy, waste prevention and recycling, (v) pollution prevention and control, (vi) protection and restoration of biodiversity and healthy ecosystems	Mirroring the contents of the EU Taxonomy, mentions the use of technical screening criteria, six environmental objectives, and the principles of substantial contribution to one of the six environmental objectives, DNSH and minimum social and governance safeguards.	It is mainly used to encourage and supervise banks and FIs to grant sustainable loans and conduct sustainable investments. The list of green products/projects/initiatives is also used as eligibility criteria for whether bank assets can be refinanced with BB under the Refinance Scheme for Green Finance	It also provides two exclusion lists of economic activities considered ineligible for financing and sustainable finance respectively
	List of Green Products/Projects/Initiatives for Term Finance	N/A	The list simply names the eligible categories and sub-categories.		
South Africa’s taxonomy(under development)		(i) CCM, (ii) CCA, (iii) other environmental impact objectives (The first version will initially focus on CCM and CCA).	Mirroring the approaches of the EU Taxonomy, the South African taxonomy will review the economic activities identified in the EU Taxonomy, apply the criteria of “make significant contribution” and “do no significant harm”, and set technical criteria or thresholds.	Details on the use of the taxonomy are to be confirmed. It will establish a governance mechanism and appoint an institution as the custodian of the taxonomy to monitor user applications and incorporate the taxonomy in any further regulations, standards, etc. to ensure comprehensive integration of its taxonomy into regulatory policies.	The taxonomy for green will draw the lines between “net zero” activities, “pathway to zero” activities, and activities that are needed for the future South African green economy but at present have “no pathway to zero”.
Mongolian Green Taxonomy		(i) CCM and CCA, (ii) pollution prevention, (iii) resource conservation, and (iv) livelihood improvement	It stipulates a list of activities considered as environmentally sustainable for investment purposes and does not provide technical criteria.	It stipulates a list of activities considered as environmentally sustainable for investment purposes and does not provide technical criteria..	It stipulates a list of activities considered as environmentally sustainable for investment purposes and does not provide technical criteria.

Questions?

ANNEX

USABILITY CHALLENGES FOR TAXONOMY ALIGNMENT

The EU Taxonomy raises several significant usability challenges for both investors and issuers.

Authors	Scope	Result	Other notable points
UN PRI	40 funds with different asset classes (e.g., listed equity, fixed income, real estate).	Absence of DNSH data and its qualitative nature were found particularly challenging and required reliance on proxies such as UN Global Compact, IFC standards and NGO assessments.	Other challenges: resource intensive nature of Taxonomy assessment, interpretable nature of some TSC, the use of NACE, and the application of EU standards outside EU.
UNEP FI & EBF	40 transactions or client relationships by banks of various nature.	Strict alignment approach led to **0 cases** being able to qualify as Taxonomy aligned out of 26 published case studies, mostly a result of data unavailability and quality and lack of evidence related to the DNSH TSC.	Key challenges: unspecified use of proceeds, data-related challenges especially for SMEs and non-EU assets, operational complexities of assessment and classification which require the use of NACE, new IT development and related-costs, and increased documentation, monitoring and time.
DGNB, GBCe, DK-GBC, ÖGNI, CPEA	62 real building case studies located in 11 different EU countries.	**Only 1 case study** rated as fully Taxonomy-compliant. Some DNSH TSC criteria such as the ones for climate change adaptation created more data gaps than others	Findings on DNSH TSC criteria in line with the findings of the PRI and UNEP-FI & EBF studies).
Maples Group, ELS Europe, Frankfurt School UNEP Collaborating Center	A single development construction project in the EU.	The DNSH requirements only for the selected 3 economic activities generated 17 DNSH criteria, out of which **only 3 were in strict compliance** with the DNSH TSC.	The breakdown of the development project revealed 25 economic activities involved, demonstrating challenges with comprehensive sustainable projects. The study acknowledges that the costs related to obtaining DNSH data may disadvantage small asset managers.

SCOPE AND COMPLEXITY OF EU TAXONOMY

SCOPE:
Under the EU taxonomy, an economic activity qualifies as "environmentally sustainable" if it fulfils the following conditions:

- **Substantial Contribution (SC)** to one or more environmental objectives;
- **Do No Significant Harm (DNSH)** to any of the environmental objectives;
- Compliance with **Minimum Safeguards (MS);** and;
- Compliance with the **Technical Screening Criteria (TSC)** which qualify both the **Substantial Contributions (SC)** and the DNSH.

COMPLEXITY:
Distinct TSC for SC and for DNSH are provided for each given economic activity under the relevant delegated act(s) of the Taxonomy Regulation.

1. SC TSC: In Annex 1 of the Climate Delegated Act setting criteria for the mitigation objective**, the SC TSC requirements are varied**.

- For example, some low-carbon activities and enabling activities are "**green" by definition,** i.e., without any environmental performance threshold or lifecycle analysis being required in some cases (e.g., electricity generation from wind power).
- Others, especially transitional activities, are subject to performance thresholds and/or process-based requirements. In general, the bar of ambition for the required environmental performance, where applicable, is set **high**.

2. DNSH criteria, on the other hand, may vary depending on the **potential presence and nature of environmental risks** for each economic activity, but they are mostly qualitative and process based.

- As an example, the circular economy DNSH criteria may include requirements to assess the availability and adopt techniques that support the reuse and use of secondary raw materials and design for high durability, recyclability, easy disassembly, and adaptability of manufactured products.
- The generic DNSH criteria for climate change adaptation, pollution prevention and control regarding the use and presence of chemicals, and in relation to biodiversity and ecosystems are included as specific appendixes under the Climate Delegated Act.

3 MS represent primarily the **social and governance aspect** of the EU Taxonomy and apply rather to the undertaking conducting the economic activity in question.

- MS require compliance with the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, including the relevant International Labor Organization (ILO) texts and the International Bill of Human Rights.