



THE WORLD BANK

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Market-based Sustainable Financial Instruments

March 11, 2021



- 1. Investment Landscape for Sustainable Finance**
- 2. Market-based Sustainable Financial instruments**
- 3. Alternative Sustainable Financial Instruments**

Assets Dedicated to Environmental, Social, and Governance (ESG) Integration

**\$100
trillion**

of assets under management signatories of the United Nations Principles for Responsible Investment

**\$715
billion**

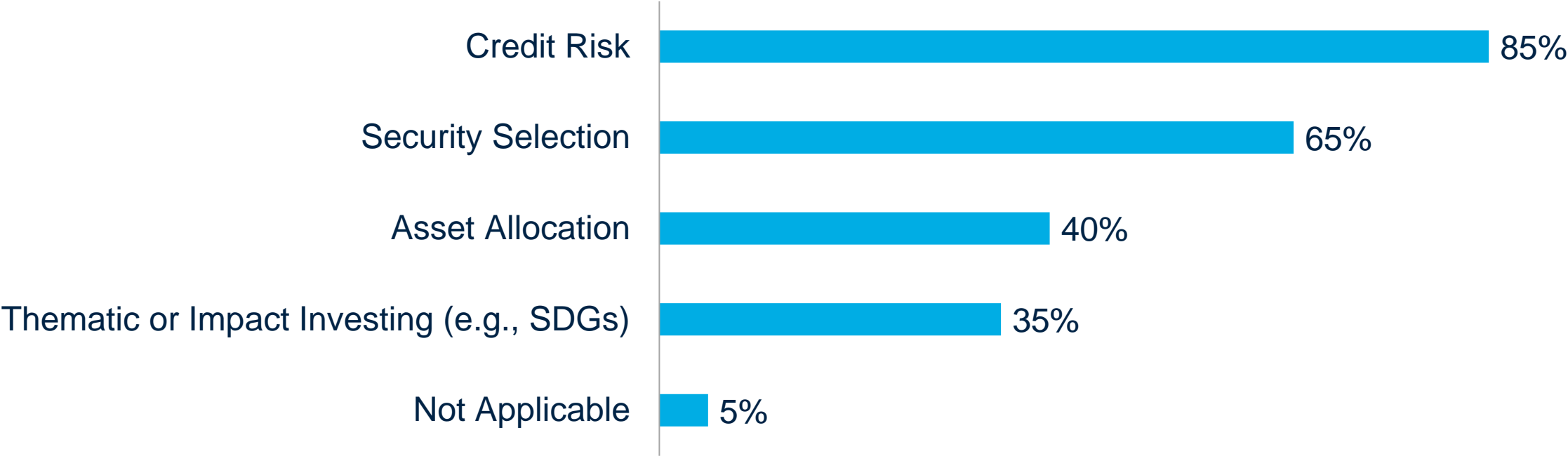
total size of the impact investing market, according to GIIN

2020

\$24 trillion is expected to be under the control of values-driven millennials prompting the largest inter-generational wealth transfer ever seen

How Investors View ESG for Sovereign Issuances

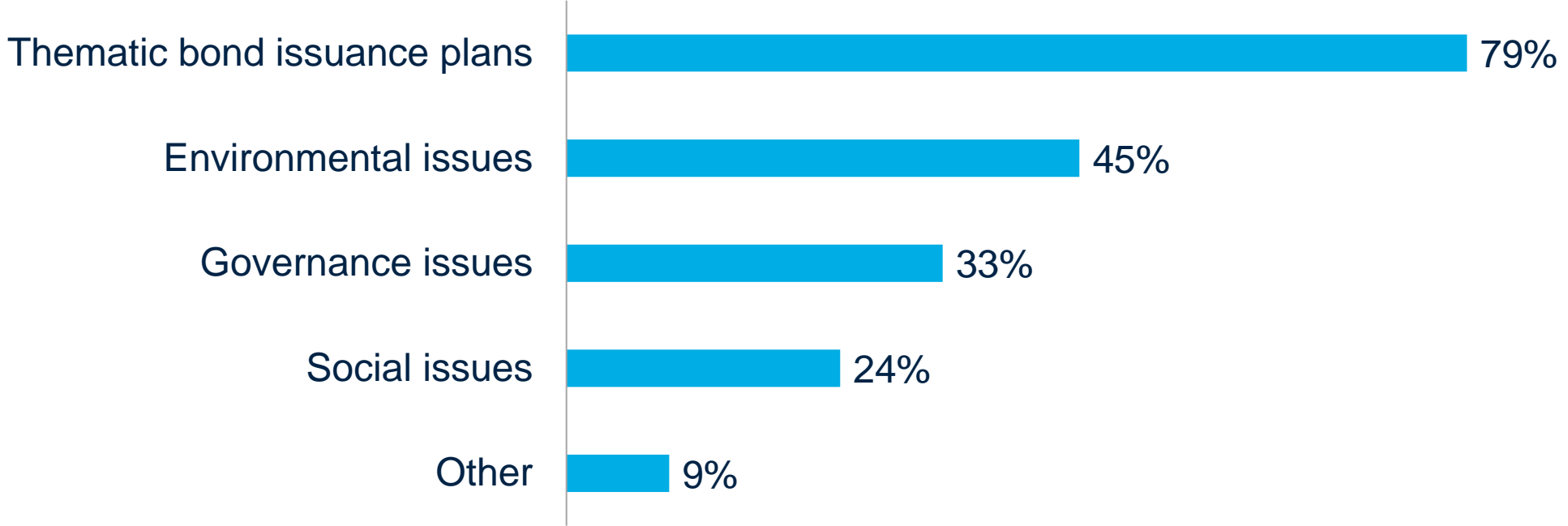
Percent of investors using ESG information during these investments processes:



Source: World Bank, *Engaging with Investors on Environmental, Social, and Governance (ESG) Issues: A World Bank Guide for Sovereign Debt Managers*. November 2020. <http://pubdocs.worldbank.org/en/375981604591250621/World-Bank-ESG-Guide-2020-FINAL-11-5-2020.pdf>.

Debt Managers Asked about Thematic Bond Issuance

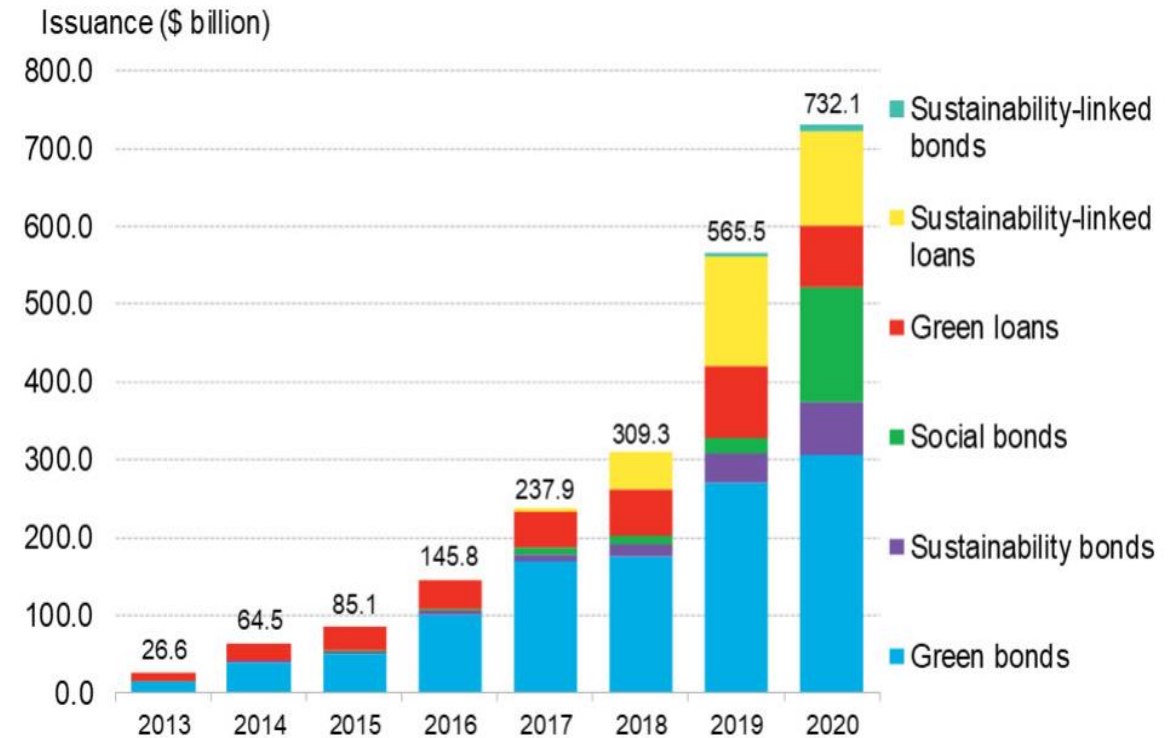
Top ESG topics investors asked debt managers:



Thematic Bond Market Trends – Global

- Global sustainable debt issuance totaled US\$732 billion in 2020
 - Increase of 29% over the same period in 2019
- Sustainable bond issuance is estimated to represent ~4% of total issuance globally 2020
- Green bonds represent the largest portion of sustainable debt issuance at about 40% of the total outstanding sustainable debt
- The fiscal responses to COVID-19 have inspired an increase in social, sustainable and sustainability-linked issuances in 2020
 - Sovereigns and supnationals have taken advantage of investor demand to issue such bonds

Global sustainable debt: annual issuance 2013-20



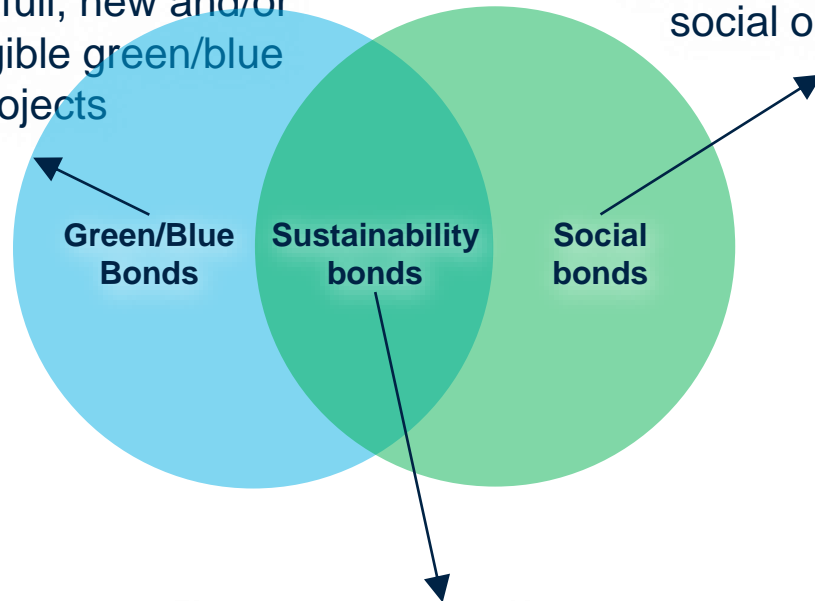
Source: BloombergNEF, Bloomberg L.P.

See: <https://about.bnef.com/blog/sustainable-debt-breaks-annual-record-despite-covid-19-challenges/>.

Types of Thematic Bonds: Use of Proceeds & KPI-Linked

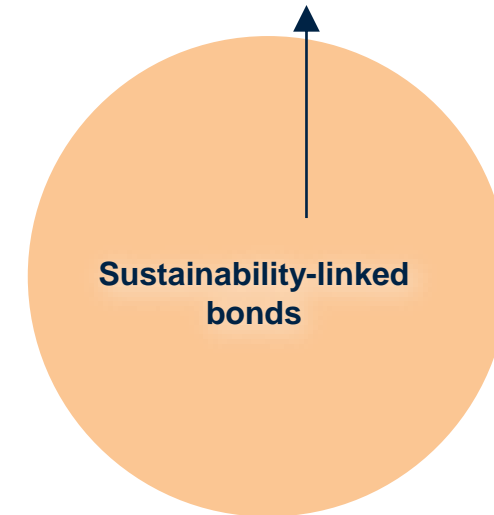
Green/blue bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible green/blue projects

Social bonds are use of proceeds bonds that raise funds for new and existing projects with positive social outcomes



Sustainable-labelled bonds encompass elements from both green and social bonds

Sustainability-Linked bonds have a general purpose, but link a specific bond characteristic (i.e., coupon payment) to a sustainability KPI (i.e., GHG emissions)



Financing Green Recovery Post-COVID-19: Green Bonds

Mitigation	Adaptation
<ul style="list-style-type: none">• Solar and wind installations• Funding for technologies that result in significant reductions in GHG emissions• Rehabilitation of power plants and transmission facilities to reduce GHG emissions• Greater efficiency in transportation, including fuel switching and mass transport• Waste management (methane emission capture)• Energy efficient building construction• Reforestation and avoided deforestation	<ul style="list-style-type: none">• Protection against extreme events, such as floods and droughts (including reforestation and watershed management)• Food security improvement and stress-resilient crops (to slow down deforestation)• Sustainable forest management and avoided deforestation



Financing COVID-19 Response: Social Bonds



Healthcare services

- Development and expansion of hospitals and clinics
- Hiring & training of medical personnel
- Procurement of medical equipment

Healthcare supplies & equipment

- Production of tests, diagnostic equipment, masks gloves, respirators

Pharmaceuticals

- Research & Development of COVID-19 tests; vaccines & other medications
- Relevant subsidies

Health insurance

- Waiving patient cost-sharing or treatment

Impact

Impact of SMEs & employment

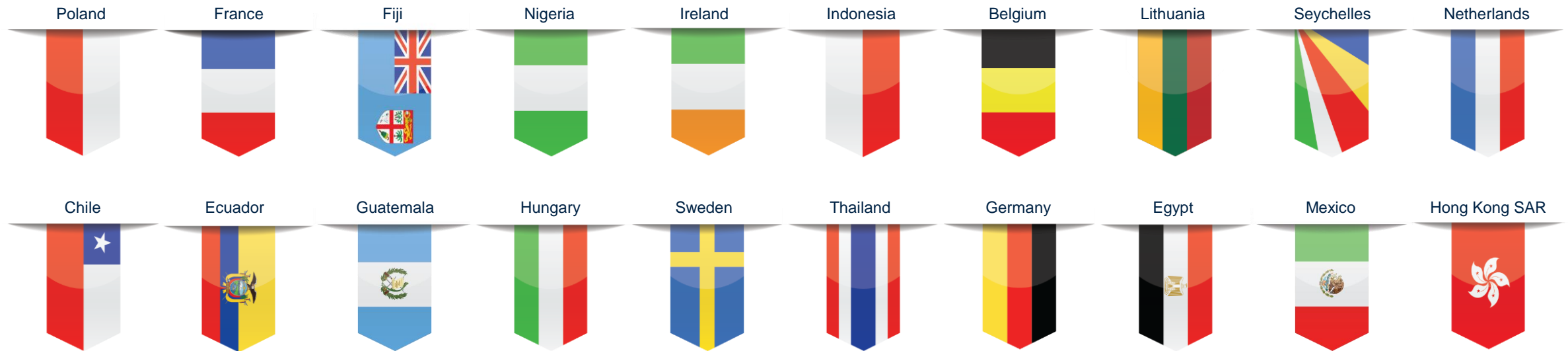
- Loans or other financial support to SMEs
- Projects designed to prevent/alleviate unemployment

Other impacts

- Financial support for social services delivery organizations: food banks, social service charities

Sovereign Sustainable Bond issuers

Poland (2016), **France** (2017), **Fiji** (2017), **Nigeria** (2017), **Ireland** (2018 and 2019), **Indonesia** (2018, 2019 and 2020), **Belgium** (2018), **Lithuania** (2018), **Seychelles** (2018), **Netherlands** (2019), **Chile** (2019), **Ecuador** (2020), **Guatemala**, (2020) **Hungary** (2020), **Sweden** (2020), **Thailand** (2020), **Germany** (2020), **Egypt** (2020), and **Mexico** (2020), as well as **Hong Kong Special Administrative Region of the People's Republic of China** (2019)



Thematic Bonds can be Useful Tools for Many Reasons

For an *international issuance* program:

1. Signals commitment to sustainability objectives and fiscal transparency
2. Diversifies investor base
3. Increases investor demand
4. Potentially achieves better pricing and terms
5. Can crowd-in donor / impact investor support and funding

For a *local issuance* program:

Sovereign bonds can build the benchmark for others



Egypt Green Bond (2020)

- **Date:** September 29, 2020
- **Volume:** USD 750 million (5x oversubscribed)
- **Tenor:** 5 years
- **Yield:** 5.25% (50 bps less than guidance)
- **Investors:** Europe, U.S., East Asia and the Middle East including asset managers, pension, investment and insurance funds
- \$1.9 billion portfolio of potential green projects

Eligible Projects:

Clean transportation, renewable energy and sustainable water management.





Mexico

SDG Bond (2020)

- **Date:** September 2020
- **Volume:** €750 million (\$890 million) and 6.45x oversubscribed
- **Tenor:** 7 Years
- **Yield:** 1.603%
- **Investors:** More than 267 institutional investors from across the world participated. Ultimately 44% of the bond was allocated to 78 new investors committed to sustainable development.

Description:

This transaction represents world's first sovereign bond to fund social expenditures under the government's SDG Framework. It aims at building a "sustainable yield curve" comprising thematic bonds denominated in foreign currency. The framework is unique in its use of the Social Gap Index to define eligibility and target regions that are lagging behind in SDGs, indicators, and exclusions for screening expenditures.





Guatemala

Social Bond (2020)

- On April 21st, 2020, the Republic of Guatemala issued a sovereign Social Bond
- First Sovereign and first Latin American issuer to price a Social Bond for COVID-19 response efforts
- **48% participation from accounts with dedicated ESG and/or Social Bond portfolios**
- First Social Bond in Central America and the Caribbean
- Peak oversubscription levels of 8.1x and final oversubscription of 7.7x on the Social Tranche



- **Ratings: Ba1/BB-/BB-**
- **Maturity: April 24, 2032**
- **New Issue: US\$500,000,000**
- **Yield: 5.375%**
- **Coupon: 5.375%**
- **Price: 100.000%**



Use of Proceeds Bonds: Key Components

- **Need to align with international best practices**
 - Green/Social/Sustainability Bond Principles
 - External review of the framework
 - Annual allocation and impact reporting
- **Costs associated with compliance**
 - If it is a use of proceeds bond, need to have or build a pipeline of verifiable eligible projects
 - Costs associated with third party reviews and impact reporting (relatively minimal)

1. Use of proceeds

2. Process for project evaluation and selection

3. Management of proceeds

4. Reporting

Thematic Bond Issuance Process

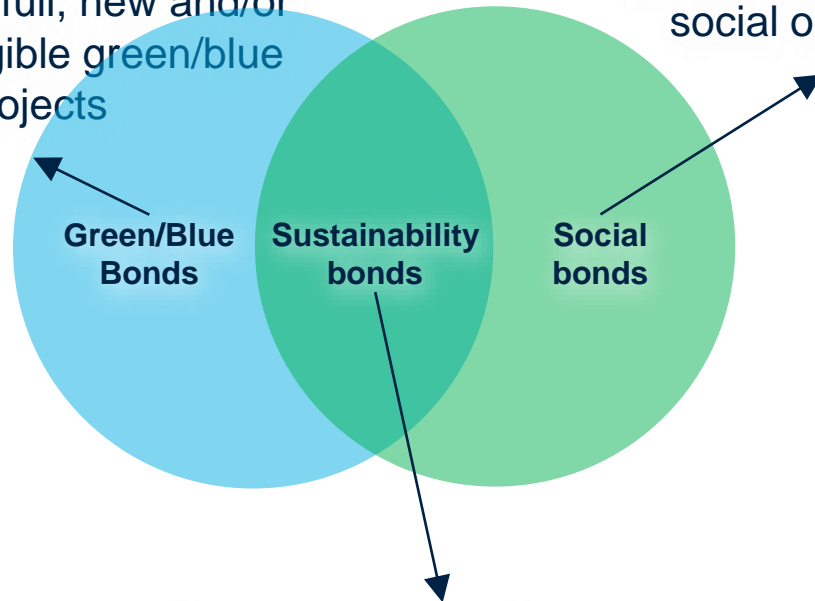


Alternative Sustainable Financial Instruments

Types of Thematic Bonds: Use of Proceeds & KPI-Linked

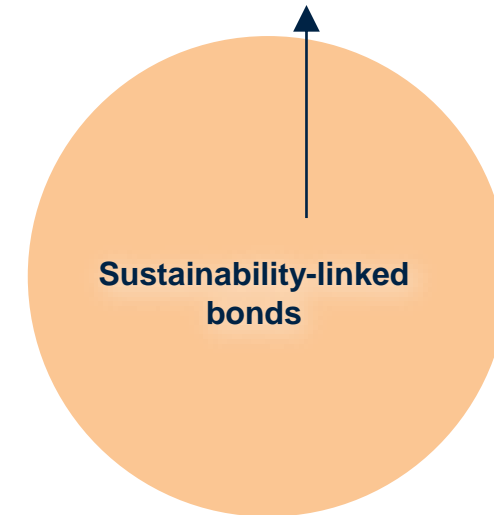
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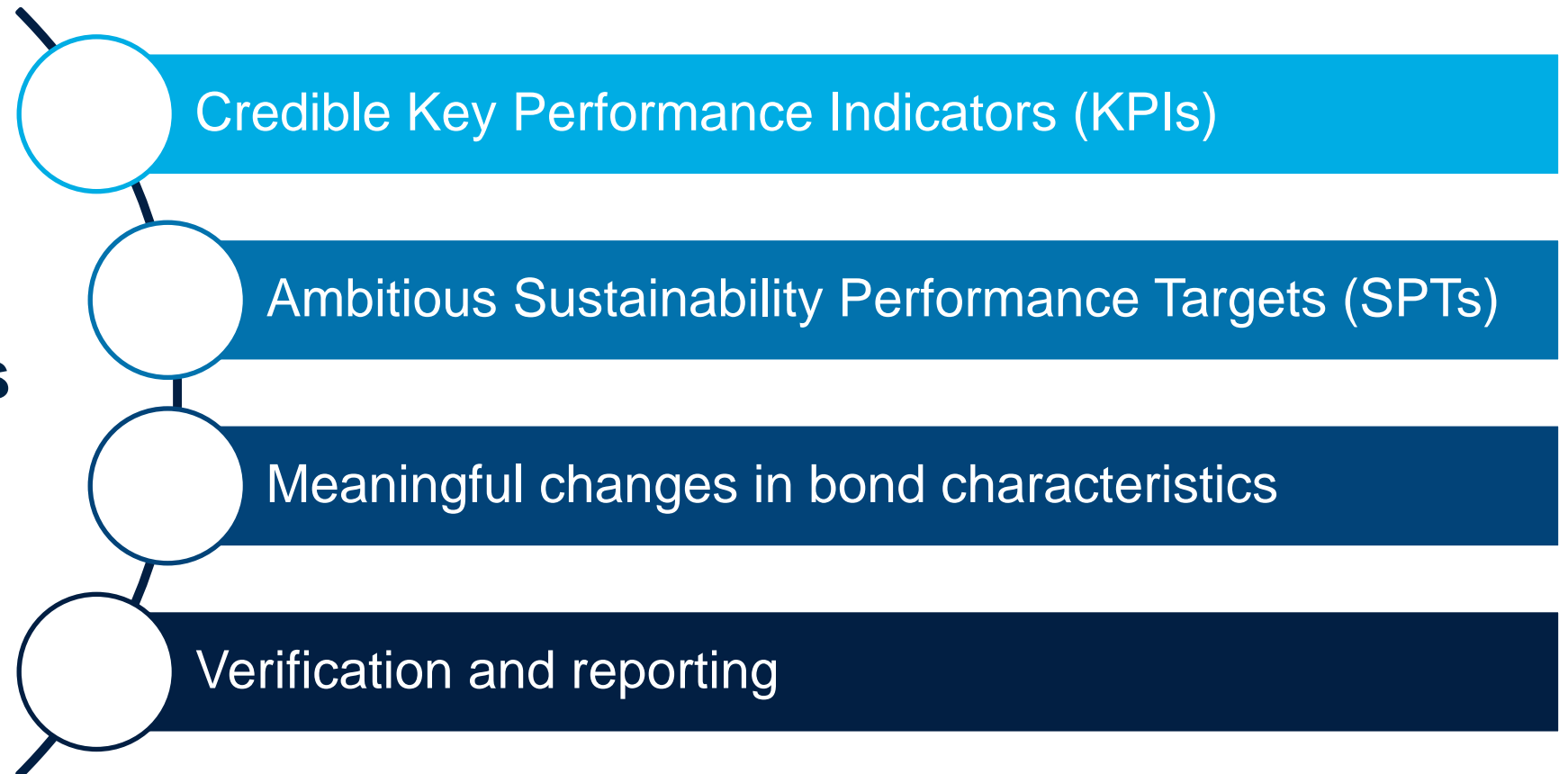
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Sustainability-Linked Bond (SLB)

SLBs are "any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability/ESG objectives"

Key components



KPIs for Sustainability-Linked Bonds/Loans

- Greenhouse gas emissions
- Water and energy consumption
- Proportion of renewable energy production
- Carbon footprint
- Solid waste sent to landfill
- Gender equality measures such as percentage of women in senior management roles



Sustainability-Linked Bonds/Loans: Important Considerations

- SLBs embed sustainability concepts into the contractual terms of bonds.
- Ensure terms are precise, clear and unambiguous to avoid future disagreement.
- Investors expect disclosure on how KPIs have been selected, historic performance of the KPI and what might affect future performance or achievement of the SPT.

Thematic Bonds and Overall Debt Strategies

- **Decisions about issuances should be made in accordance with a broader debt management strategy**
 - Domestic vs. external (or regional) issuance
 - Local vs. foreign currency
 - Use of proceeds vs. outcome-linked bonds
 - Size (amount) and plan for a program of issuance
 - Maturity, target coupon, bullet vs. amortizing structure of repayment
- **Thematic bonds are still sovereign debt**
 - Credit ratings and credit quality considerations will greatly influence investors
 - International investors are looking for large size bonds (\$250 million or more)
 - So far, pricing and term benefits have been limited

Conclusions

- ✓ **Sustainable bonds** can leverage investor interest in supporting the impact of the ongoing pandemic and post-pandemic economic recovery.
- ✓ **The World Bank** can facilitate these transactions for public sector issuers by providing technical assistance and sharing international experience.
- ✓ **For more information:** www.worldbank.org/sustainablefinanceadvisory



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