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# **Sustainable Bonds**

## **Financing Sustainable Development**

April 29, 2021



# Investor focus on Environmental, Social and Governance (ESG) in investment decisions

## ESG investment approaches



# Assets dedicated to ESG

**\$103.4  
trillion**

of assets under management by 3,038 signatories of the United Nations Principles for Responsible Investment

**18%**

annual rate of growth of assets invested under an ESG mandate from 2010 to 2020 versus an industry average of about 5%

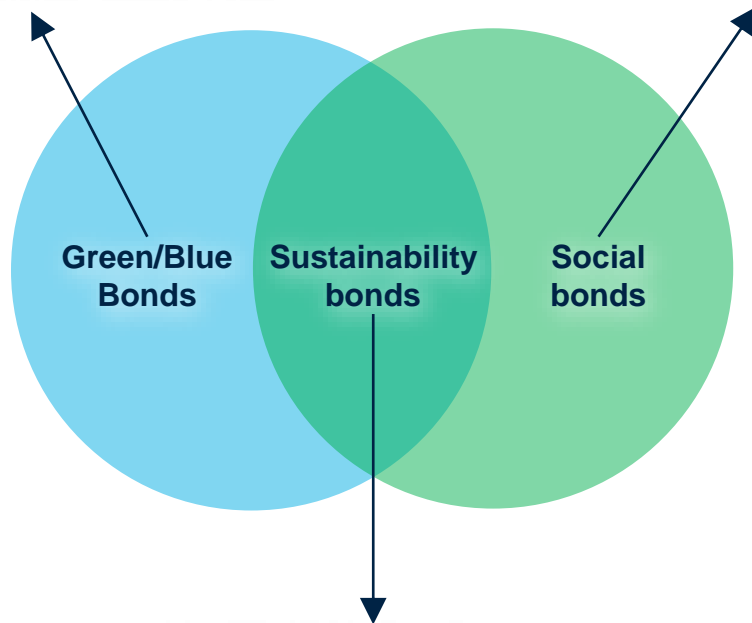
**2020**

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

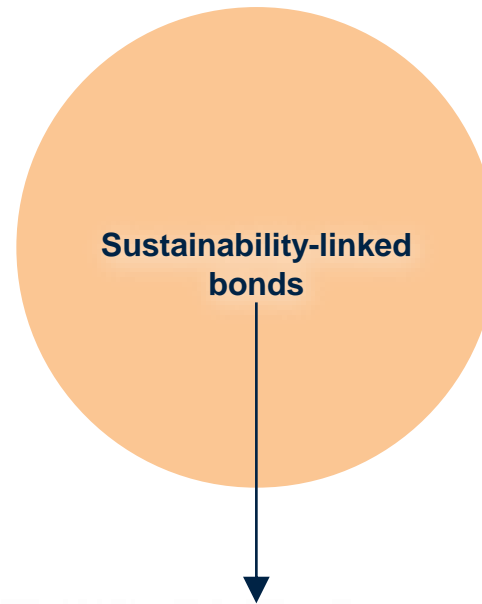
# Types of sustainable bonds

**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



**Sustainability bonds** finance both green and social bonds



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

## International Standards

- Green Bond Principles
- Social Bond Principles
- Sustainability Bond Guidelines
- Sustainability-Linked Bond Principles

*International Capital Market Association (ICMA)*

<https://www.icmagroup.org/green-social-and-sustainability-bonds/>

# Green bond eligible project categories

- Renewable energy
- Energy efficiency
- Pollution prevention and control, **including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/ emission-efficient waste to energy**
- Environmentally sustainable management of living natural resources and land use
- Terrestrial and aquatic biodiversity conservation
- Sustainable water and wastewater management Climate change adaptation
- Clean transportation
- **Eco-efficient and/or circular economy**
- Green Building



# Why issue a sustainable bond

1. Signals commitment to sustainability objectives and transparency to investors
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

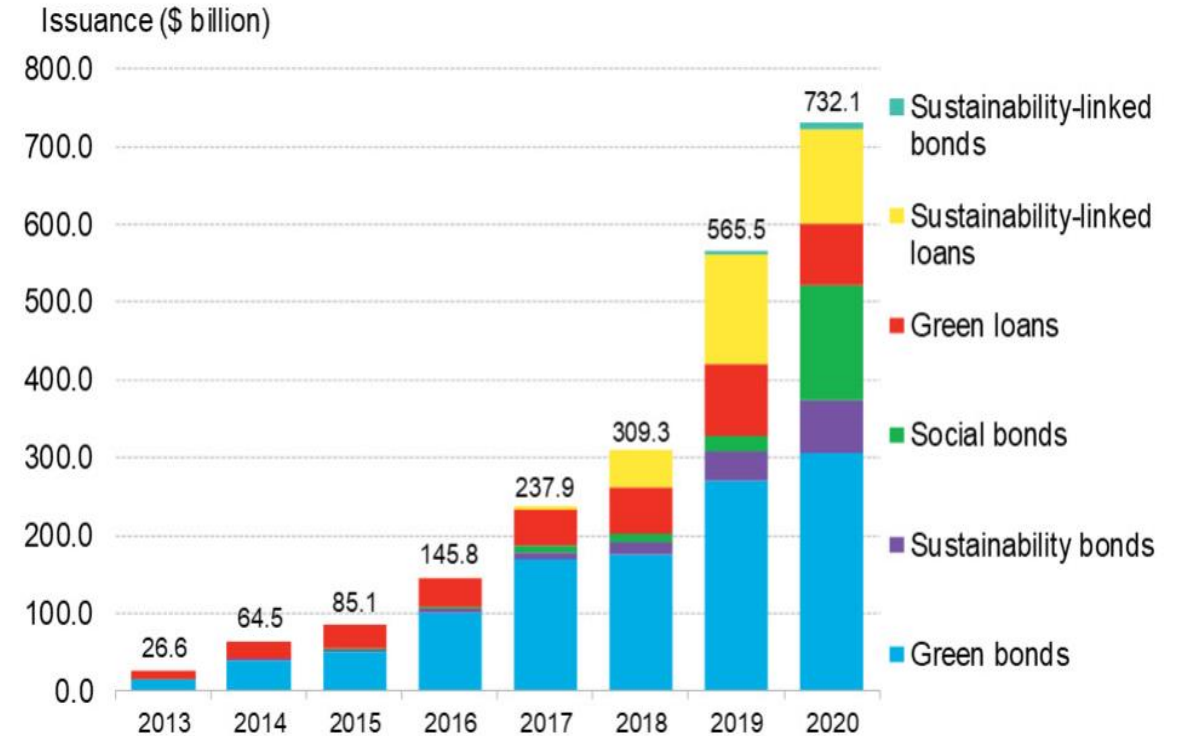
# Issuance process aligned with international standards



# Market Update

- 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.

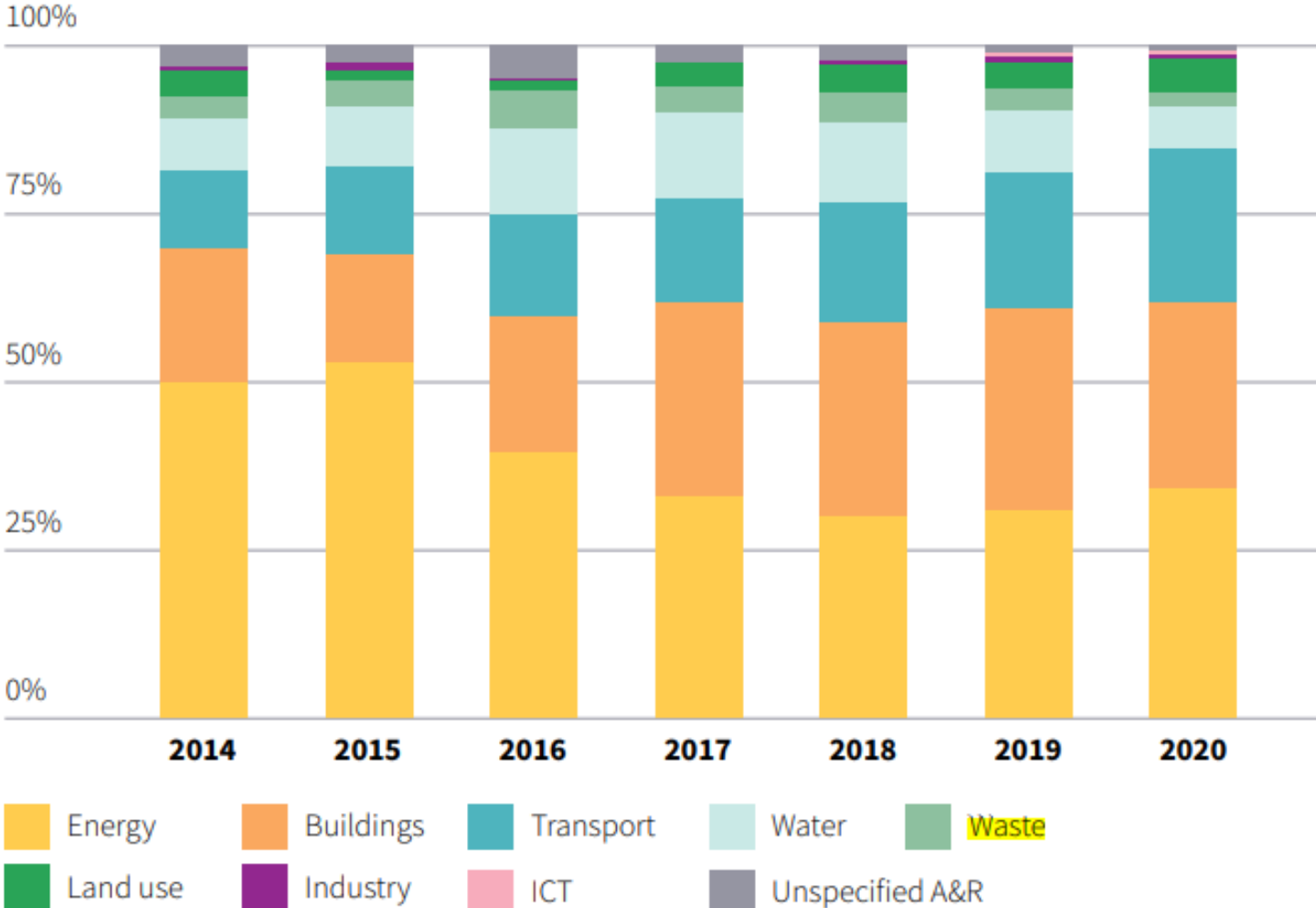
See: <https://about.bnef.com/blog/sustainable-debt-breaks-annual-record-despite-covid-19-challenges/>.



# Waste management constitutes a small share

Source: Climate Bonds Initiative, 2021

Energy, Buildings and Transport dominate UoP



Source: Climate Bonds Initiative, 2021

# Financing waste management, resource efficiency and circular economy in the green bond market

- The City and County of Honolulu issued a green bond to refinance debt that was originally sold to pay for the Honolulu Program of Waste Energy Recovery (<https://www.bizjournals.com/pacific/news/2016/10/07/city-says-strong-demand-for-first-ever-green-bonds.html>)
- Hitachi Zosen Corporation issued five billion Japanese yen green bonds to finance two Waste to Energy plants in Kyoto City and Koshi City ([https://www.hitachizosen.co.jp/csr/pdf/Hitz%20Green%20Bond%20-%20DNV%20GL%20Periodic%20Review%202019\\_E.pdf](https://www.hitachizosen.co.jp/csr/pdf/Hitz%20Green%20Bond%20-%20DNV%20GL%20Periodic%20Review%202019_E.pdf))
- New Jersey state's Union County Improvement Authority issued a \$50m green bond to finance a sludge and solid waste processing plant

# Largest chemical producer issues first green bond

- On May 2020, SASF SE issued a €1.0 billion 7-year green bond
- Bond proceeds will finance eco-efficient and circular economy products, production technologies and processes, including research and development in new materials and additives that facilitate recycling processes as well as chemical recycling processes that create value out of waste;
- The Framework is aligned with “Green Bond Principles 2018”
- Sustainable Solution Steering methodology
- **Second opinion from ISS ESG**







We create chemistry  
for a sustainable  
future



# First green bond issued by a chemical company in Japan

- On September 12, 2019, Kaneka Corporation issued a JPY 5 bn 5-year green bond
- Bond proceeds will finance manufacture, research and development of biodegradable polymer PHBH
- Kaneka project selection and governance process defined in its Green Bond Framework.
- The Framework is aligned with “Green Bond Principles 2018” as well as the Japanese Ministry of Environment’s “Green Bond Guidelines 2017 Edition”.
- **OK Biodegradable MARINE** certification for biodegradability obtained.
- **Second opinion** from Rating and Investment Information, Inc. secured.

Green bond principles Green project categories	SDGs Development objectives	
<ul style="list-style-type: none"> <li>• Pollution Prevention and Control</li> <li>• Eco-Efficient and/or Circular Economy</li> </ul> Adopted Products, Production Technologies and Process		
		

Source: Kaneka

<https://www.kaneka.co.jp/en/topics/information/in20190912/>

# Sustainability-linked Bonds and loans

- Sustainability-linked bond proceeds are not earmarked for specific projects
- The pricing of the bond or loan facility is linked to pre-defined sustainability targets evidencing the issuer's commitment to a more sustainable future
- In 2019, Norwegian fertilizer maker Yara signed a \$1.1 bn Sustainability linked loan. Its carbon intensity target is to achieve a 10% reduction of greenhouse gas emissions per tonne of fertilizer produced (tCO<sub>2</sub>eq/tN) by 2025.

Source: [Yara signs new USD 1,100 million Revolving Credit Facility with margin linked to Carbon Intensity Target | Yara International](#)

# World Bank technical assistance program for public sector issuers

## The World Bank helps issuers:

- Develop a roadmap for the issuance of the transaction
- Help develop a bond Framework
- Identify eligible green projects
- *Identify and bring in support from donors to cover transaction costs and other potential subsidies*
- Get an external review (second opinion) of the Green Bond Framework by an independent third-party
- Define reporting commitments
- Design communication strategy
- Develop use of proceeds and impact report
- <https://pubdocs.worldbank.org/en/830161591296989906/World-Bank-Sustainable-Finance-Advisory-Brochure-June2020.pdf>

# IFC technical assistance facility for private sector issuers

- **HSBC, IFC “Real Economy” Green Bond Fund** is the first green bond fund focused on well-diversified climate-smart investments in "real economy" issuers in emerging market countries
- The Technical Assistance Facility supports real sector corporates in their transition to more sustainable funding options focusing on : Europe and Central Asia, Middle East and North Africa, and Sub-Saharan Africa.
- **Amundi and IFC** have partnered to create the Amundi Planet Emerging Green One Fund (AP EGO)
- The Technical Assistance Facility delivers training to emerging market bankers on the issuance of green bonds aligned with international standards.

[\(Green Bond Technical Assistance Program - Global Public Goods \(ifc.org\)\)](#)

# Conclusions

- ✓ **Green, Social and Sustainable bonds** can help issuers access investors integrating ESG in investment decisions, particularly those interested in financing sustainable activities (thematic/impact investors).
- ✓ **The World Bank Group** can facilitate these transactions for public sector issuers by providing technical assistance and sharing international experience.
- ✓ **For more information:** : [www.worldbank.org/sustainablefinanceadvisory](http://www.worldbank.org/sustainablefinanceadvisory)





# Contacts

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**Farah Imrana Hussain**

Senior Financial Officer & sustainable  
finance specialist  
Financial Products & Client Solutions  
World Bank Treasury

[fhussain@worldbank.org](mailto:fhussain@worldbank.org)

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[www.worldbank.org/sustainablefinanceadvisory](http://www.worldbank.org/sustainablefinanceadvisory)

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