INNOVATIVE INSTRUMENTS OF CLIMATE FINANCE: FEASIBILITY OF SUSTAINABILITY LINKED BONDS

FINANCIAL INSTITUTIONS GROUP
IFC as an investor in a climate bond

A complete package for clients

- **Sharing of best practices** across international, domestic, and impact bond markets
- **Technical support** to structuring a credible impact bond in line with international standards
- **Anchor investor** to signal to and bring along other global investors
- **Stamp of approval** can mobilize additional investors of long-term capital
- **Advisory services** to help build internal capacities

IFC’s track record in the related green bond market

- **As issuer:** IFC remains one of the world’s most prolific issuers of green bonds, having issued around 170 green bonds in 20 currencies amounting to over US$10 billion
- **As investor:** In Nov 2019, IFC surpassed US$10 billion in climate finance investments in financial institutions in emerging markets
- **As mobilizer:** IFC is deploying innovative ways to mobilize private capital, e.g. through launching the EGO green bond fund with Amundi and REGIO green and sustainability bond fund with HSBC
- **As technical assistance provider:** IFC provides advisory services on green bond issuances and impact reporting in line with the Green Bond Principles under dedicated TA programs
- **As member of the Executive Committee of the ICMA Green Bond Principles**
- **Supporting regulators:** IFC also supports capital market regulators in the development of national green bond frameworks and taxonomies

1 The IFC-managed Sustainable Banking Network platform is a member-driven knowledge and capacity building platform created in 2012 by IFC.
IFC’s value proposition as an advisor

IFC’s technical support for potential issuers

Work with the issuer to:
• Identify climate finance market opportunities
• Screen issuer’s pipeline/portfolio to identify eligible climate assets
• Provide issuer with tools to measure and report impact (CAFI), an online impact assessment and reporting tool developed by IFC

Provide training on:
• Green Bond Principles
• Structuring a bond to comply with the Green Bond Principles including:
  o Use of proceeds criteria
  o Impact reporting parameters
  o Reporting mechanism

Build issuer’s capacity:
• To offer / scale up climate finance with their clients
• To manage the climate bond process
• Provide targeted training to improve climate finance capacity and pipeline development
• Support client’s market development

Portfolio Supervision:
• Sub-project monitoring on a periodic basis
• Portfolio feedback in line with the stated criteria and requirements
Sustainable Banking Network

SBN SIDS Members in Asia Pacific:

- Central Bank of Sri Lanka (member since 2016)
- Reserve Bank of Fiji (RBF) (member since 2017)
- Central Bank of Samoa (member since 2019)
- Maldives Monetary Authority (member since 2021)

- In 2012 IFC helped bringing together financial regulators and banking associations from 10 countries to develop green and sustainable finance policies and principles, share knowledge, and build capacity. Today SBN has around 60 members from emerging market countries representing $43 trillion banking assets.

- SBN has twin objectives of improved environmental, social, and governance (ESG) risk management and increased capital flows to activities with positive climate impact.
Emerging Markets Green Bond Issuances: 2020 Highlights

- $40 billion: emerging market green bond issuances in 2020
- 21% increase in emerging market ex-China green bond issuances from 2019
- $226 billion: emerging market green bonds cumulative issuance through 2020
- $260 billion: projected emerging market green bond issuance between 2021-2023
- 43: emerging markets have issued green bonds since 2012
- 7: emerging markets with debut offerings in 2020
## Sustainable funding solutions

<table>
<thead>
<tr>
<th>Description</th>
<th>Green Bond</th>
<th>Blue Bond</th>
<th>Transition Bond</th>
<th>Sustainability-linked Bond</th>
<th>Sustainability Bond</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intent</strong></td>
<td>Underlying projects that are green eligible</td>
<td>Underlying projects that are blue eligible</td>
<td>Implement decarbonization strategy and/or projects that contribute to decarbonization by 2050</td>
<td>Incentivizes the borrower’s / sub-borrower’s achievement of ambitious, predetermined sustainability performance objectives</td>
<td>Finance a combination of both Green and Social Projects</td>
</tr>
<tr>
<td>Finance eligible green projects, e.g. investments in Renewable Energy, Energy Efficiency, Green Buildings, Clean Transportation, Climate-Smart Agriculture &amp; Forestry, Waste &amp; Wastewater, Adaptation to Climate Change</td>
<td>Finance eligible blue projects, e.g. investments in ocean / water friendly product manufacturing, sustainable fisheries / seafood processing and shipping, sustainable tourism, sustainable water supply / treatment, waste(water) treatment in areas connected to rivers or coastal water basins</td>
<td>Finance eligible transition activities/assets in carbon-intensive industries, e.g. greenfield gas power plants displacing coal, investments in cogeneration plants, carbon capture storage, waste-to-energy, gas powered ships, aircraft alternative fuels, energy efficiency investments</td>
<td>Finance eligible green and social projects. Bond coupons may be linked to sustainability performance.</td>
<td>For Social Projects, address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for a target population(s). For Green Projects, refer to Green Bond Intent</td>
<td></td>
</tr>
<tr>
<td><strong>Principles or guidelines</strong></td>
<td>ICMA Green Bond Principles, CBI Taxonomy, IFC Climate Definitions</td>
<td>ICMA Green Bond Principles, CBI Taxonomy, IFC Blue Finance Taxonomy</td>
<td>IFC internal methodology for climate transition assessment</td>
<td>ICMA Sustainability-linked Bond Principles</td>
<td>ICMA Green Bond Principles, ICMA Social Bond Principles, ICMA Sustainability Bond Guidelines, CBI Taxonomy, IFC Climate Definitions</td>
</tr>
<tr>
<td><strong>Cumulative volume</strong></td>
<td>US$1 tn</td>
<td>US$0.2 bn</td>
<td>US$3.0 bn</td>
<td>US$6.2 bn</td>
<td>US$103 bn</td>
</tr>
<tr>
<td><strong>Count</strong></td>
<td>&gt; 10,000</td>
<td>3</td>
<td>3</td>
<td>11</td>
<td>236</td>
</tr>
<tr>
<td><strong>Year of first issuance</strong></td>
<td>2007</td>
<td>2018</td>
<td>2017</td>
<td>2019</td>
<td>2008</td>
</tr>
</tbody>
</table>

*Bloomberg New Energy Finance as of 07/2020*
Pioneer in the Philippines bond market

- BDO is the first issuer of a green bond in the Philippines
- The bond was fully issued and disbursed on February 20, 2018 under a private placement between IFC and BDO to help the Bank develop their green bond procedures
- BDO has agreed to follow the four pillars of ICMA Green Bond Principles with the green bond issuance program
- The bond will be used to finance renewable energy, industrial energy and green building transactions in the Philippines
- The issuance allows BDO to diversify its sources of funding while showing strong commitment to the development of sustainable finance in the country

IFC as an investor

- IFC subscribed for the entire US$150 million issuance using its own account signaling to the market strong investor appetite for green transactions
- Long-term tenor of 7 years
- IFC provided support to BDO to develop the first green bond issuance by way of sharing our experience and expertise with issuing green bonds in new markets

Issuance summary

<table>
<thead>
<tr>
<th>Issuer</th>
<th>BDO Unibank, Inc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuance Status</td>
<td>Senior, unlisted, unsecured US$-denominated Green Bond</td>
</tr>
<tr>
<td>Issue Date</td>
<td>February 20, 2018</td>
</tr>
<tr>
<td>Size</td>
<td>US$150 million</td>
</tr>
<tr>
<td>Maturity</td>
<td>February 2023</td>
</tr>
<tr>
<td>Tenor</td>
<td>7 years</td>
</tr>
<tr>
<td>Listing</td>
<td>Not-Listed</td>
</tr>
<tr>
<td>Issuer</td>
<td>BDO Unibank, Inc.</td>
</tr>
</tbody>
</table>

IFC investment

- Bond fully subscribed by IFC
- Pre-committed private placement
- US$-denominated, unsecured own account
- First ever green bond in the Philippines

Achievement

- Setting standard for green bonds in the Philippines
- Stimulating the domestic capital markets and opening the door for climate change investments
Case Study: World’s first sovereign Blue Bond in the Seychelles

Transaction Summary

<table>
<thead>
<tr>
<th>Amount</th>
<th>US$15 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Settlement date</td>
<td>10/11/2018</td>
</tr>
<tr>
<td>Maturity date</td>
<td>10/11/2028</td>
</tr>
</tbody>
</table>

US$5 million by the World Bank, US$5 million concessional loan by the Global Environment Facility

<table>
<thead>
<tr>
<th>Placement agent</th>
<th>Standard Chartered Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors</td>
<td>Calvert Impact Capital, Nuveen, Prudential</td>
</tr>
</tbody>
</table>

- The Republic of Seychelles launched the world’s 1st blue bond in 2018 raising a total of $15 million to advance the small island state’s blue economy
- World Bank helped structure and launch the blue bond. Privately placed with three socially responsible impact investors based in the United States
- Blue bond proceeds will fund sustainable marine and ocean activities, from boosting fishery value chains, refurbishment of fishing boats for other purposes such as tourism, to improving aquaculture and marine conservation and spatial planning

“"The blue bond is yet another example of the powerful role of capital markets in connecting investors to projects that support better stewardship of the planet."”

World Bank Vice President and Treasurer

“"The blue bond demonstrates the potential for capital markets to scale sustainable oceans solutions that expertly align marine conservation and economic opportunity […]. The blue bond sets a great example of the type of bold leadership from governments and financing from public and private sectors that we need more of.””

CEO of Calvert Impact Capital

Case Study: Castle Peak Power Company Limited (based on market issuance)

Overview

- Castle Peak Power Company Limited ("CAPCO") was incorporated in Hong Kong in July 1981. CAPCO is 70% owned by CLP Power, a wholly-owned subsidiary of CLP Holdings Limited and 30% owned indirectly by China Southern Power Grid Co., Ltd.
- CAPCO has been engaged in electricity generation since its incorporation and sells electricity exclusively to CLP Power, one of only two electricity providers in Hong Kong.

Deal highlights

- Transaction represents Asia’s second ever transition bond after CAPCO's maiden transition bond in 2017
- 26 ESG investors put in sizeable orders totalling US$690mm, in support of CAPCO's commitment to being a responsible sustainable energy provider
- Nearly 1/3 of the orderbook composed of orders of at least US$50mm, demonstrating investors’ buy-in to CAPCO management and the transition

Issuance summary

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Castle Peak Power Finance Company Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structure</td>
<td>Senior, unsecured Energy Transition Bonds under CLP's Climate Action Finance Framework (&quot;CAFF&quot;)</td>
</tr>
<tr>
<td>Issue Date</td>
<td>15 June 2020</td>
</tr>
<tr>
<td>Size</td>
<td>US$350 million</td>
</tr>
<tr>
<td>Maturity</td>
<td>June 22 2030</td>
</tr>
<tr>
<td>Tenor</td>
<td>10 years</td>
</tr>
<tr>
<td>Coupon</td>
<td>2.2%</td>
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<tr>
<td>Book Size</td>
<td>US$1.7bn</td>
</tr>
<tr>
<td>Oversubscription</td>
<td>&gt; 4.9x</td>
</tr>
<tr>
<td>Arranger</td>
<td>BNP Paribas</td>
</tr>
</tbody>
</table>

Use of Proceeds

- Together with its parent CLP, CAPCO has been at the forefront of Hong Kong’s energy transition to be aligned to Paris Climate Agreement
- This issuance commits to a number of environmental and decarbonization targets for 2030 and 2050 as manifested in its updated CLP Climate Vision 2050
Case Study: Enel Sustainability-Linked Bond

- General purpose bond, not based on use of Proceeds
- One time coupon marginal step up (+25bps) if renewable Energy target not achieved.
- Energy target not necessarily ambitious.
Case Study: OCBC NISP Sustainability Bond

**Issuer**
OCBC NISP

**Issuance type**
Senior, unlisted, unsecured IDR-denominated Green and Gender Bond

**Size**
US$200 million (IDR equivalent)

**Tenor**
5 years

**Blended Finance**
PBIs, MAGC and We-Fi

**Issuance Summary**
Following OCBC NISP’s successful 1st Green Bond issuance with IFC in 2018, this is the bank’s 2nd Green Bond with a strategic focus on Green Buildings.

Supported by the UK government’s Market Accelerator Green Construction Program (MAGC), the objective of this transaction is to promote market shifts towards green construction and support the development of green mortgages. This is the 1st MAGC deal in Asia.

The transaction highlights OCBC NISP’s strategic intention to prioritize Green Buildings as an asset class. The use of proceeds are expected to be deployed for green construction finance.

**MAGC Support**
The Blended Concessional Finance component was a key trigger to complete this transaction. OCBC NISP will be able to tap into Performance Based Incentives (PBIs) provided that it meets the pre-agreed eligibility criteria and stretch targets.

A Technical Assistance Program for OCBC NISP is also under discussion, in which IFC is seeking to assist OCBC-NISP in catalyzing the idea of Green Buildings and associated standards in the market, which in turn would help the bank to build a robust pipeline of Green Building projects.

<table>
<thead>
<tr>
<th>Issuance Type</th>
<th>Post design certification</th>
<th>Quantification of savings</th>
<th>Post construction certification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edge</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>BREEAM</td>
<td>✗</td>
<td>✗</td>
<td></td>
</tr>
<tr>
<td>GreenShip</td>
<td>✗</td>
<td>✗</td>
<td>✓</td>
</tr>
</tbody>
</table>

For OCBC NISP to access concessional blended funds under the MAGC program, projects have to be certified by one of the above certification systems and be 20% more energy efficient than the local benchmark.
Using Basic Inputs, CAFI Provides Eligibility, Impact, and Reporting

Financial Institutions

✓ Basic information on transaction
✓ Technical specifications of financed project

Directly assess eligibility to climate finance
Calculates expected impacts of a project:
✓ GHG reduction
✓ Energy savings
✓ Water savings
Provides portfolio reports to facilitate internal and external reporting

KEY FEATURES
- Reduces transaction costs
- Creates consistency in operation
- Improves transparency and disclosure from operations
- Applicable to both debt or equity financing instruments
- Available in multiple languages (Chinese, English, French, Russian, and Spanish)

✓ Transparent algorithm harmonized with other MDBs
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