CONCEPT NOTE

High-level Policy Dialogue on Sovereign Financing for Sustainable Development
and
Training on Sustainability Bond Issuance in the Bhutan Context

13 – 15 May 2024
Thimphu, Bhutan
Thimphu Deluxe Hotel

Background

Bhutan remains highly exposed to climate change impacts and natural disasters, which pose a significant threat to Bhutan's economic stability with potential impacts seen to citizen's livelihoods, particularly those working in the agricultural sector. As Bhutan maintains its carbon-negative status in the face of mounting pressure to accelerate economic growth, the additional burden of climate adaptation and mitigation entails enormous costs. Bhutan graduated from its LDC status in December 2023, which curtails its access to concessional financing and furthers the need to leverage alternative and innovative sources of finance.

Globally, the United Nations Secretary-General launched the "SDG Stimulus to deliver the 2030 Agenda for Sustainable Development" in February 2023. Together with reforms of the international financial architecture, it calls for immediate actions to cut government borrowing cost and make financing for governments longer-term.

At the request of the Government of Bhutan, ESCAP is organizing a half day policy dialogue on sovereign financing and two-day sustainability bond issuance training.

Overall Objectives

The workshop will:

- Explore policy options to lower government financing costs from national and international community's perspectives.
- Introduce the ESCAP macroeconomic model to assess the long-term impacts of selected national policies on economic, social, and environmental outcomes.
- Provide a refresher from last year's training and updates on the current status of the government's Sustainability Bond Issuance.
- Review the final Sustainable Finance Framework and its key features.
- Develop a common understanding of the principles of sustainability bond issuance and taxonomies for the issuance of sustainable debt instruments.
- Ensure a comprehensive understanding of sustainability bond issuance through best practice case studies.
- Identify the pipeline of projects which should be prioritized under the bond framework, ensuring alignment with national priorities and nationally determined contributions (NDCs).
- Build an understanding of the listing process for a sustainability bond on international exchanges.

- Improve understanding of post-issuance reporting and monitoring.

Who Will the Workshop Support

The workshop is designed to engage development partners and support government stakeholders in understanding the broader macroeconomic context of sustainable development financing and operationalizing the necessary elements for Bhutan's future Sustainability Bond issuance. The workshop is also open to private sector entities who intend to issue private green, social or sustainability bonds.

The workshop will be practical in nature, walking stakeholders through the next steps of sustainability bond issuance and developing a strong project pipeline. The sessions will be highly interactive, including group work, presentations, and focused discussions toward bond issuance.

Agenda: High-level Policy Dialogue on Sovereign Financing for Sustainable Development (half-day)

While developing Asia-Pacific economies have displayed resilient output growth in 2023, the lingering effects of the COVID-19 pandemic together with the war in Ukraine have had significant socioeconomic impacts. Job creation is subdued, cost of living is high, and there are concerns regarding rise in poverty and inequalities. At the same time, climate change and related natural disasters are increasingly disrupting economic activities and adversely impacting people's wellbeing.

As of 2023, the Asia-Pacific region reached only 17 per cent the progress required to achieve the Sustainable Development Goals (SDGs) by 2030.[1] At the current pace, the region will only achieve all the 17 Goals by 2062 – marking a significant 32-year delay.

More public investments are urgently needed to promote inclusive, resilient and sustainable development in Asia and the Pacific. The latest UN analysis estimates that the annual SDG financing gaps range between $2.5 trillion and $4 trillion in developing countries worldwide.[2] Yet, the ability of governments to increase, or even maintain, developmental spending is constrained. Many governments are now paying more on interest payments than what they spend on education, healthcare and social protection combined.[3] In Asia and the Pacific, the risk of sovereign debt distress is also high in many countries, especially in the least developed countries and small island developing States, which already face sizeable development financing needs. Many governments in the region are also paying higher borrowing costs with shorter loan maturity period.

Developing Asia-Pacific countries need to strengthen their domestic resource mobilization strategies and macroeconomic fundamentals to reduce fiscal risks and borrowing costs. Yet, the tangible benefits of such policy efforts on fiscal and public debt positions may take years to materialize. Support from the international community is urgently needed in the meantime.

To confront these development financing challenges, the United Nations Secretary-General launched the "*SDG Stimulus to deliver the 2030 Agenda for Sustainable Development*" in February 2023.[4] Together with reforms of the international financial architecture, it calls for immediate actions to cut government borrowing cost and make financing for governments longer term.

In this context, the 2024 edition of ESCAP's flagship publication *"Economic and Social Survey of Asia and the Pacific"* examines how countries in the region, donors, multilateral development banks and credit rating agencies can boost the availability of affordable and long-term financing for Governments.[5] The report also provides an analysis on the fiscal implications of global megatrends, especially demographic shifts, climate change and environmental degradation, and rapid technological advancements.

The national policy actions focus on how improving the macroeconomic fundamentals, especially by boosting and channeling domestic savings into capital markets, can help reduce fiscal risks and borrowing

[1] ESCAP (2024). Asia-Pacific SDG Progress Report.
[2] United Nations (2024). Financing for Sustainable Development Report 2024. DESA.
[3] UNCTAD (2023). A world of debt.
[4] www.un.org/sustainabledevelopment/wp-content/uploads/2023/02/SDG-Stimulus-to-Deliver-Agenda-2030.pdf
[5] The full report and other outreach materials are available from: https://www.unescap.org/kp/2024/survey2024

costs. For the international community, the report looks at how changing mindsets and operations of donors, multilateral development banks and credit rating agencies can support developing countries. The proposed new mindsets are particularly important for countries like Bhutan, who just graduated from its LDC status, as it would likely receive less concessional financing from development partners and face higher borrowing costs charged by private investors if no change is made.

The policy dialogue aims to discuss ideas on policy issues and actions to reduce the cost of government borrowing and to increase the supply of long-term capital for development purposes. The discussion could include interconnected issues of macroeconomic prospects, challenges and policy options in the context of Asia and the Pacific.

13 May 2024		***Tentative Agenda***
08:30 am – 09:00 am		**Participant Registration**
09:00-09:05	Session 1 5 mins	**Introduction** A brief introduction of the programme in the three days - *Ms. Deanna Morris, Economic Affairs Officer, Financing for Development, ESCAP*
09:05 – 09:30	Session 2 25 mins	**Opening Remarks** • *Mr. Tshering Dorji, Director, Department of Macro-Fiscal and Development Finance, Ministry of Finance, Bhutan* • *Mr. Hamza Ali Malik, Director, Macroeconomic Policy and Financing for Development Division, ESCAP (online)* • *Ms. Karla Hershey, Resident Coordinator, United Nations*
09:30-10:05	Session 3 35 mins	**Presentation** on **Boosting affordable and longer-term financing for Governments in Asia and the Pacific** - *Ms. Lin Zhuo, Economic Affairs Officer, Macroeconomic Policy and Financing for Development Division, ESCAP*
10:05 – 10:30	25 mins	**Coffee Break**
10: 30 – 11 :30	Session 4 60 mins	**Panel discussion/ presentations** **Moderator:** *Ms. Lin Zhuo, Economic Affairs Officer, ESCAP* • *Mr. Pema Dorji, Chief, Macro Fiscal Division, Ministry of Finance* • *Mr. Sonam Tashi, Chief, Planning and Policy Division, Ministry of Energy and Natural Resources* • *Ms. Ugyen Choden, Deputy Governor, Royal Monetary Authority of Bhutan*

11:30 – 12:00	Session 5 30 mins	**Floor discussion** **Moderator:** *Mr. Yeshi Lhendup, Senior Debt Analyst, Debt Management Division, Department of Macro-Fiscal and Development Finance, Ministry of Finance, Bhutan*
12:00 – 14:00	120 mins	**LUNCH BREAK**

Agenda: Training on Sustainability Bond Issuance (two-days)

At the request of the Debt Management Division of the Ministry of Finance of Bhutan, ESCAP has supported the government in drafting and finalizing Bhutan's Sustainable Financing Framework. The Framework is the base document that the government will adhere to in its issuance of a green and/or social bonds. The issuance of such bonds can support Bhutan in achieving its climate adaptation and mitigation priorities while providing new investment options for local institutional investors, attracting international investment, and supporting green job creation.

In the process of developing the Framework, ESCAP and the Ministry of Finance co-hosted a workshop in October 2023 to build consensus on how to use the proceeds of the bond and to sensitize stakeholders on the process of issuing bonds and developing the framework.

Building on this momentum, ESCAP and the Ministry of Finance, in partnership with the Luxembourg Green Exchange (LGX) and LGX Academy, the world's first and leading exchange dedicated to sustainable finance, will co-host this follow-up workshop focused on Sustainability Bond pre-issuance, issuance and post-issuance best practices and requirements.

The training invites a range of government stakeholders who will be involved in government financing and the Sustainability Bond Issuance process and relevant private sector stakeholders who similarly are interested in issuing their own private green, social or sustainability bonds to the market.

Day 1: 13 May 2024		***Tentative Agenda***
14:00 – 14:10	Opening Remarks	*Mr. Tshering Dorji, Director, Department of Macro-Fiscal and Development Finance, Ministry of Finance, Bhutan*
14:10 – 14:40	Session 1 30 mins	**Introduction and Recap** A brief recap from the October 2023 training will be provided, followed by an introduction to the key concepts for the next few days of training. - *Ms. Deanna Morris, Economic Affairs Officer, Financing for Development, ESCAP* - *Paul Chahine, Sustainable Finance Manager, Luxembourg Green Exchange (LGX)*
14:40 – 15:10	Session 2 30 mins	**Updated Bhutan Sustainability Bond Framework and Public Debt Management Policy** The revised Sustainability Bond Framework will be presented. Key features will include an overview of the use of proceed categories, Sustainable Finance Framework Steering Committee roles and functions, and management of proceeds approach. The session will also provide information on Bhutan's amended Public Debt

		Management Policy 2023. - *Mr. Yeshi Lhendup, Ministry of Finance*
15:10 – 15:20	10 mins	**Coffee Break**
15:20 – 16:20	Session 3 1 hour	**Principles for capital market sustainable debt instruments** Introduce the different market principles and standards for issuing thematic bonds. The session will include an overview of the Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines. • *Paul Chahine, Sustainable Finance Manager, Luxembourg Green Exchange (LGX)*
16:20 – 17:00	Session 4 40 min	**Taxonomies for sustainable debt instruments issuance** An overview of taxonomies and classifications that can provide companies, investors, and policymakers with the definitions required to guide economic choices, prevent greenwashing, and assist companies in becoming more climate-friendly. The session will highlight Bhutan's recently developed Green Taxonomy. • *Paul Chahine, Sustainable Finance Manager, Luxembourg Green Exchange (LGX)* • *Michel Koehler, Founding Partner, The Green Werk (ADB Consultant)*

Day 2: 14 May 2024		***Tentative Agenda***
09:00 – 09:45	Session 5 45 min	**Creating A Strong Pipeline of Projects and the Role of Stakeholders** This session aims to take a deep dive into the Sustainability Bond use of proceeds, to identify and support the development of a robust pipeline of projects which can be financed under the bond framework. The session also focuses on the identification and engagement of relevant stakeholders in the issuance process. The importance of collaboration between government agencies in issuance and post issuance will be covered and case studies highlighting successful approaches will be presented. • *Ms. Deanna Morris, Economic Affairs Officer, Financing for Development, ESCAP* • *Paul Chahine, Sustainable Finance Manager, Luxembourg Green Exchange (LGX)*
09:45 – 10:30	Breakout Session 1 45 min	**Breakout Session 1 – Defining Use of Proceeds** This session will be an interactive group work session, focused on the application of Bhutan's green taxonomy to Sustainability Bond issuance. Each group will identify at bankable green projects that is in alignment with the Bond Framework and the Bhutan Taxonomy.
10:30 – 10:45	15 mins	**Coffee Break**
10:45 – 11:15	Session 6 30 mins	**Case Studies** This session will provide examples of best practice sovereign green, social, and sustainability issuances. *Paul Chahine, Sustainable Finance Manager, Luxembourg Green Exchange (LGX)*
11:15 – 12:00	Breakout Session 2 45 mins	**Breakout Session 2 – Taxonomy alignment** Group Work – Building on the previous breakout session, this session will ask participants to consider the Taxonomy and take the project through the Taxonomy determination of alignment process to identify which projects are truly green and taxonomy aligned.
12:00 – 13:00	60 mins	**LUNCH BREAK**

13:00 – 14:00	Session 7 60 mins	**Investor Engagement and Roadshows** The session will provide insights on how to target and engage potential investors. The session will consider communications strategies and how to create a compelling impact narrative. *Paul Chahine, Sustainable Finance Manager, Luxembourg Green Exchange (LGX)*
14:00 – 14:45	Breakout Session 3 45 mins	**Breakout Session 3 - Investor Engagement** Group Work - This interactive session will ask participants to reflect on the investor engagement strategies presented, in relation to the project pipelines identified in Day 1. The session aims to allow participants to identify a preliminary list of potential investors and identify key steps/strategies for investor engagement.
14:45 – 15:00	15 min	**Coffee Break**
15:00 – 16:15	Session 8 75 min	**Issuing and Listing on an International Exchange** The session will provide further insights on the issuance of sustainability bond issuance process and requirements for listing on an international exchange. *Paul Chahine, Sustainable Finance Manager, Luxembourg Green Exchange (LGX)*
16:15 – 16:30	15 min	**Day 2 Wrap-up**

Day 3: 15 May 2024		*Tentative Agenda*
09:00 – 09:45 pm	Session 9 45 mins	**Post Issuance Reporting and Monitoring** The session will provide a detailed overview of post-issuance reporting and best practices. - *Paul Chahine, Sustainable Finance Manager, Luxembourg Green Exchange (LGX)*
09:45 – 10:15 pm	Session 10 30 mins	**Impact Reporting and External Review** The session will provide a detailed overview of impact reporting and external review best practices. - *Paul Chahine, Sustainable Finance Manager, Luxembourg Green Exchange (LGX)*
10:15 – 10:30	15 min	**Coffee Break**
10:30 – 12:00	Panel Discussion 90 min	**Moderated Panel Discussion: Envisioning Bhutan's Sustainability Bond Issuance** This session will bring together key Ministries who will have a role in the bond issuance process. The session will reflect on the Sustainability Bond Framework, the training outcomes and chart a course for the next steps in issuance. **Moderator:** *Ms. Deanna Morris, Economic Affairs Officer, Financing for Development, ESCAP* **Panel:** - *Mr. Yeshi Lhendup, Ministry of Finance* - *Mr. Proomot Chhetri, GM, Securities Exchange* - *Mr. Chimi Dorji, Department of Environment and Climate Change* - *Mr. Sonam Gyeltshen, EE, DoE, Ministry of Energy and Natural Resources*
12:00 – 12:15	15 mins	**Closing Remarks and Next Steps** - *Mr. Yeshi Lhendup, Ministry of Finance* - *Ms. Deanna Morris, Economic Affairs Officer, Financing for Development, ESCAP*
12:15 – 13:00	75 mins	**Lunch**