LUXEMBOURG
GREEN EXCHANGE
by Luxembourg Stock Exchange

Creating a Strong Pipeline of Projects and the Role of Stakeholders

14 May 2024

Bhutan

LUXEMBOURG
GREEN EXCHANGE
by Luxembourg Stock Exchange

Recap - Issuing a Sustainable Bond

Why issue a sustainable bond?

LUXEMBOURG GREEN EXCHANGE by Luxembourg Stock Exchange

WHY WOULD AN ISSUER DECIDE TO ISSUE UNDER THE GREEN, SOCIAL, SUSTAINABILITY, SUSTAINABILITY-LINKED (GSSS) FORMAT?

- Nurture current investor base & access new investors (better IR)
- Reputation/reward sustainability investments
- Visibility
- Pricing advantages (side benefit)

A LOT OF ADVANTAGES, BUT ALSO SOME “COSTS”

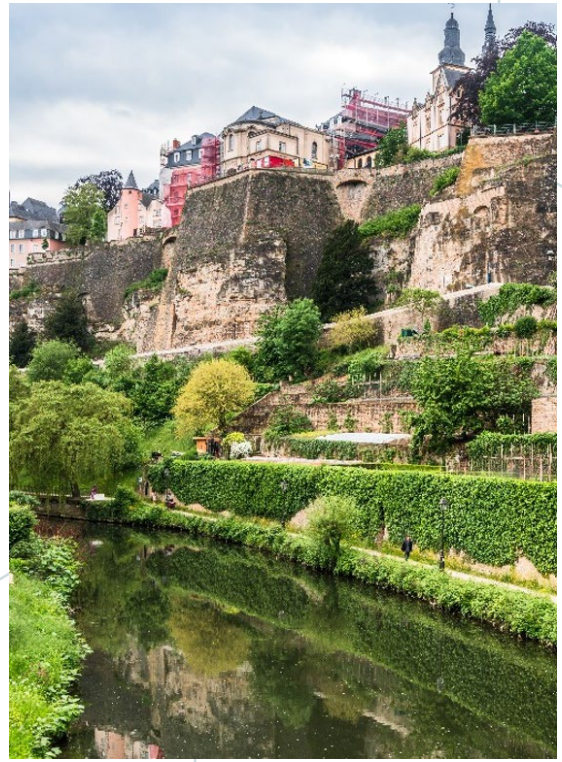
- Additional costs such as setting up new internal processes, reporting, training/recruiting, external advisors, external reviewer
- Higher exposure to market scrutiny (reputational risk)

Extra steps for sustainable bond issuance: The case of UoP (GSS) Bonds

LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange

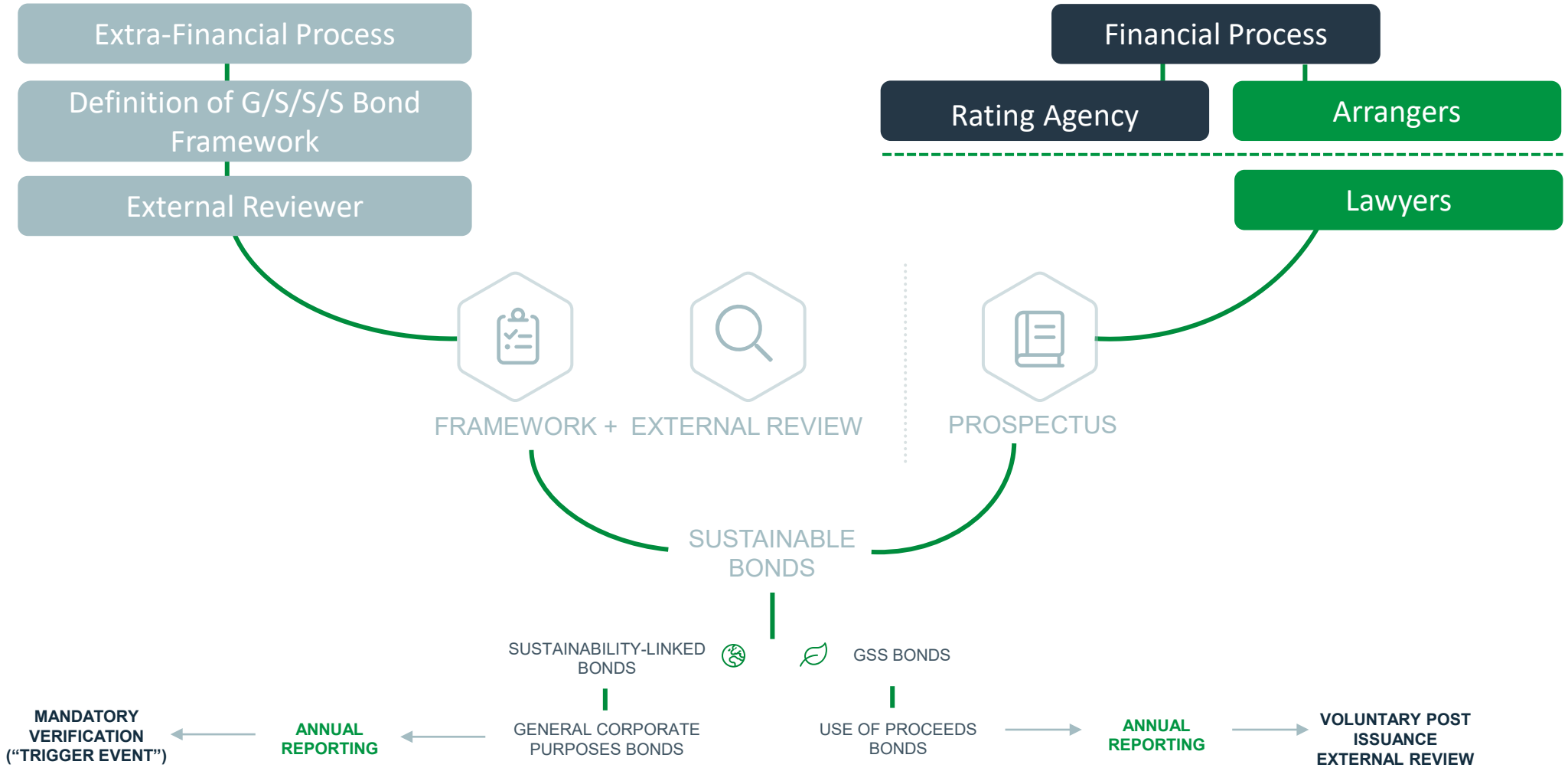
STEPS THAT REQUIRE EXTRA ATTENTION FROM ISSUERS OF A GSS BOND COMPARED TO A REGULAR BOND

1. Identify green/social/sustainable eligible projects, assets or activities
2. Review and compare funding options
3. Define project selection processes
4. Set up processes and controls for use and management of proceeds such as tagging of green/social/sustainable finance
5. Document processes such as creation of a green/social/sustainability bond framework
6. Seek external verification through, for example, second opinion
7. Disclose information and issue bond
8. Allocate the proceeds in line with documented processes
9. Report on the use of proceeds and, if feasible, the impact of the activities as well as get external verification (best practice)



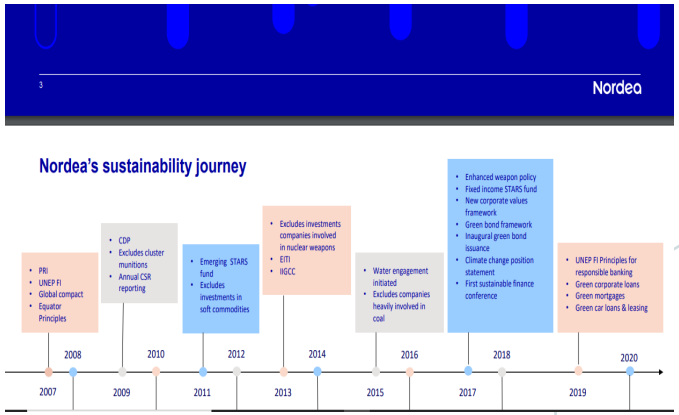
The sustainable bond issuance process

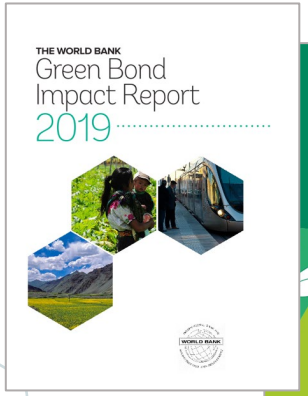
LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange



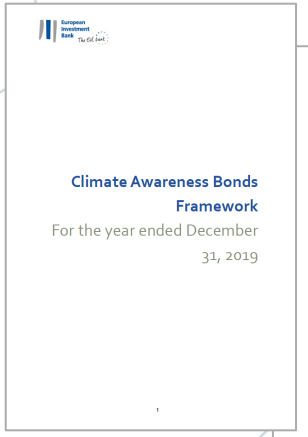
What documents support a sustainable bond issuance?

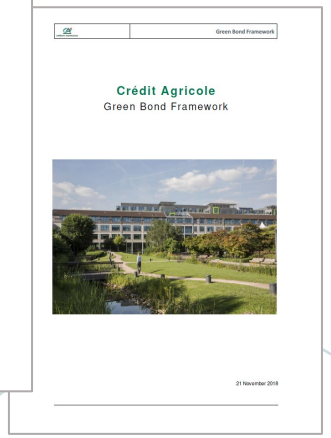
LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange

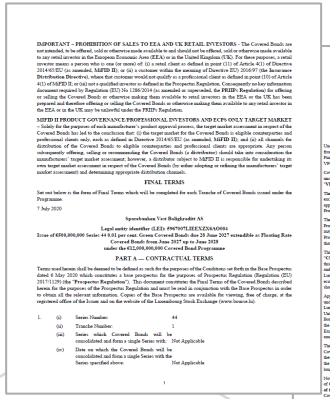


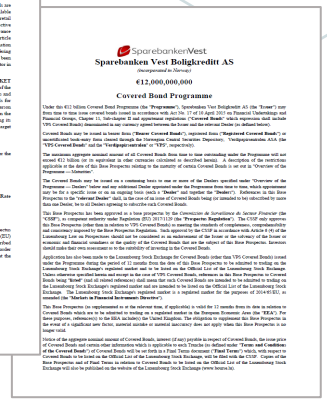


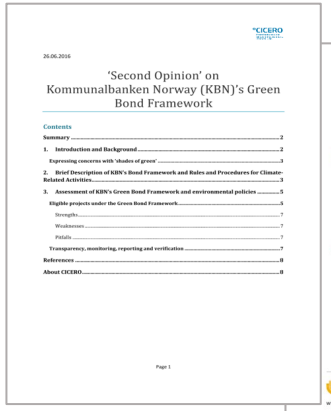


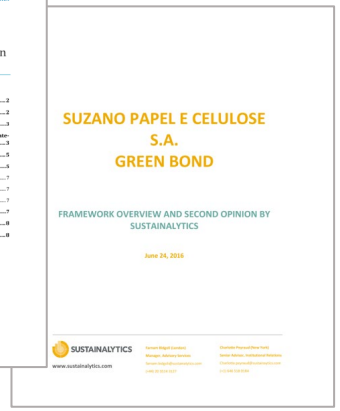












LUXEMBOURG
GREEN EXCHANGE
by Luxembourg Stock Exchange

Pipeline of projects/ eligible expenditures

How a sovereign prepares a strong pipeline of projects?

LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange

CONSIDERATION TO BE MADE

the established pipeline of projects/eligible expenditures should clearly outline **how it will allocate the bonds proceeds**

the established pipeline of projects / eligible expenditures can be based on the **eligible categories outlined in the issuance principles** (icma, cbi, etc)

expected expenditures **need to be budgeted for in accordance with the local public financial management procedures** for the proceeds to be "legally" allocated

a non exhaustive list of projects should be established (**beyond the expected amount of issuance**)

this list should be subject to a preliminary high-level assessment to predetermine which projects/expenditures are likely to qualify as 'green', 'social', and 'sustainable'

the assessment can be done in house or with the help of external consultants

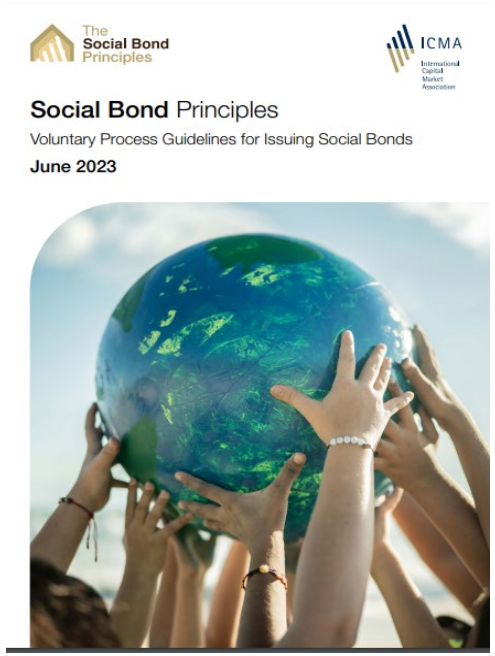
this exercise can guide the sovereign to adjust the appropriate size of the issuance

Source: [WB guidance for sovereign green bond issuance]

Considerations to be made

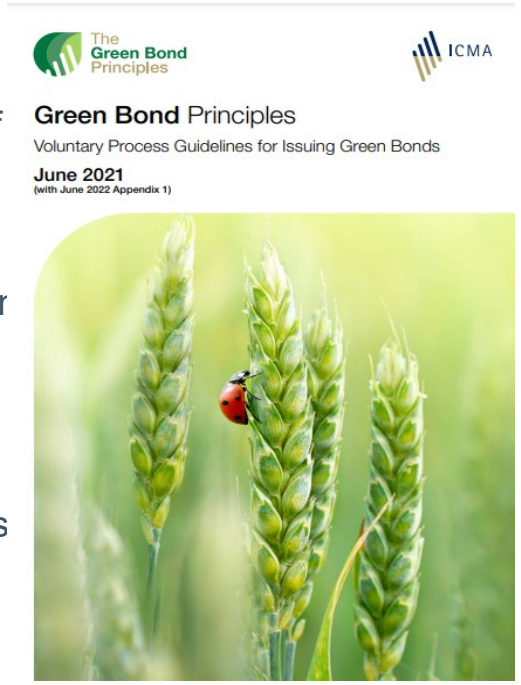
LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange

SBPS ELIGIBLE CATEGORIES



- Affordable housing
- Employment generation
- Including through the potential effect of SME financing and microfinance
- Affordable basic infrastructure
- Clean drinking water, sewers, sanitation, transport, energy
- Access to essential services
- Health, education, vocational training, healthcare, financing, financial services
- Food security
- Socioeconomic advancement and empowerment

GBPS ELIGIBLE CATEGORIES



- Renewable energy
- Energy efficiency
- Pollution prevention and control
- Environmentally sustainable management of living natural resources and land use
- Clean transportation
- Sustainable water and wastewater management
- Climate change adaptation
- Eco-efficient and/or circular economy adapted products, production technologies and processes
- Green buildings

Source: ICMA

How a sovereign prepares a strong pipeline of projects?

LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange

CONSIDERATION TO BE MADE



Projects come from different sectors , therefore, several ministries / other government bodies are concerned



In practice, governments decide on expenditures in advance of any funding decision



The bond proceeds can be spent on projects that have not yet started



Governments should identify eligible sectors and activities to ensure budget prioritization and Delivery



Establishing a local taxonomy or adopting an international one can help in this exercise



Governments can initiate tagging climate/green expenditure in their national budget



Projects can be defined quite broadly

Source: [Guidance Note on Sovereign Sustainable Instruments. AMF]

Innovation in the eligible projects/expenditures

LUXEMBOURG GREEN EXCHANGE by Luxembourg Stock Exchange

- Direct tangible green assets: infrastructure projects, wind farms, transport through direct expenses.
- Sovereign green bonds have introduced indirect expenditures, such as subsidies and operational expenditures, into the mix:
- Poland's green bond framework includes expenditures in the form of "budget allocation" (for example for excise tax exemption for renewable energy) and subsidies for all eligible sectors.
- The French bond has for the large part gone to financing operational and subsidy and tax-related expenditures connected to the six eligible categories identified
- Intangible assets, such as research and innovation, also appear more clearly in the sovereign bonds issued so far. These may be areas of investment that the private sector is less willing to undertake or they may include public goods, such as research and data collection.



Source: Sovereign Green Bonds Briefing - CBI

The case of FIJI



LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange

WHAT PROJECTS WILL IT FUND? PIPELINE OF ELIGIBLE EXPENDITURES

- Most sovereigns adapt /apply the ICMA GBPs and SBPs
- Therefore, GBPs and SBPs voluntary suggested categories can be used as guide
- Non exhaustive list of eligible expenditures needs to be prepared
- In-house or external experts should screen the list and evaluate which expenditures could be considered sustainable according to the GBPs and SBPs categories

Fiji's Head of Climate Change worked with their Head of Treasury to develop a 'long list' of projects that may qualify as 'green.' They then gained support from the World Bank's Climate and Environment team to undertake a high-level screening of the project descriptions to sort which projects are eligible, partly eligible (requiring some changes to their focus), or likely to be ineligible. This allowed Fiji to establish its pipeline of eligible expenditures that met the GDP Framework

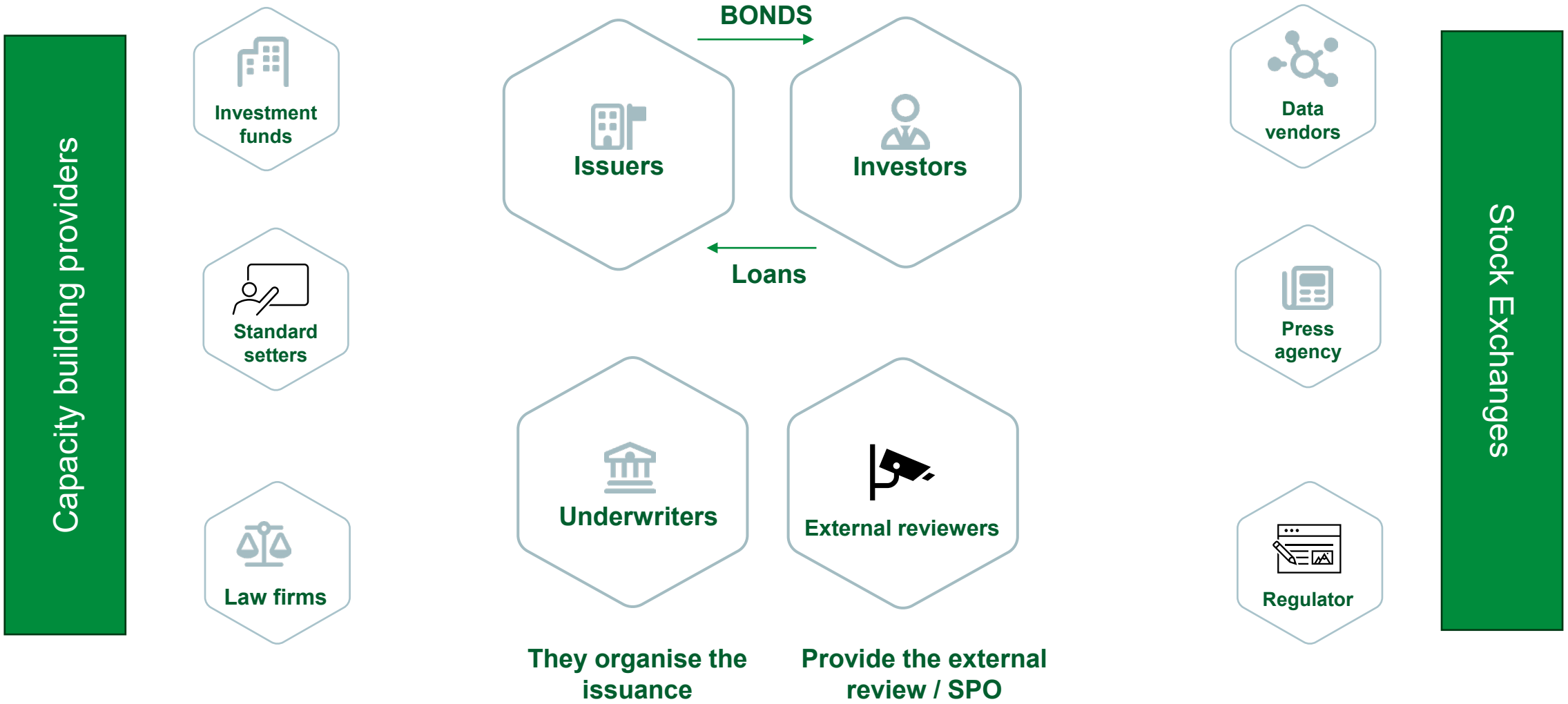
Source: WB guidance for sovereign green bond issuance

LUXEMBOURG
GREEN EXCHANGE
by Luxembourg Stock Exchange

Stakeholders Engagement

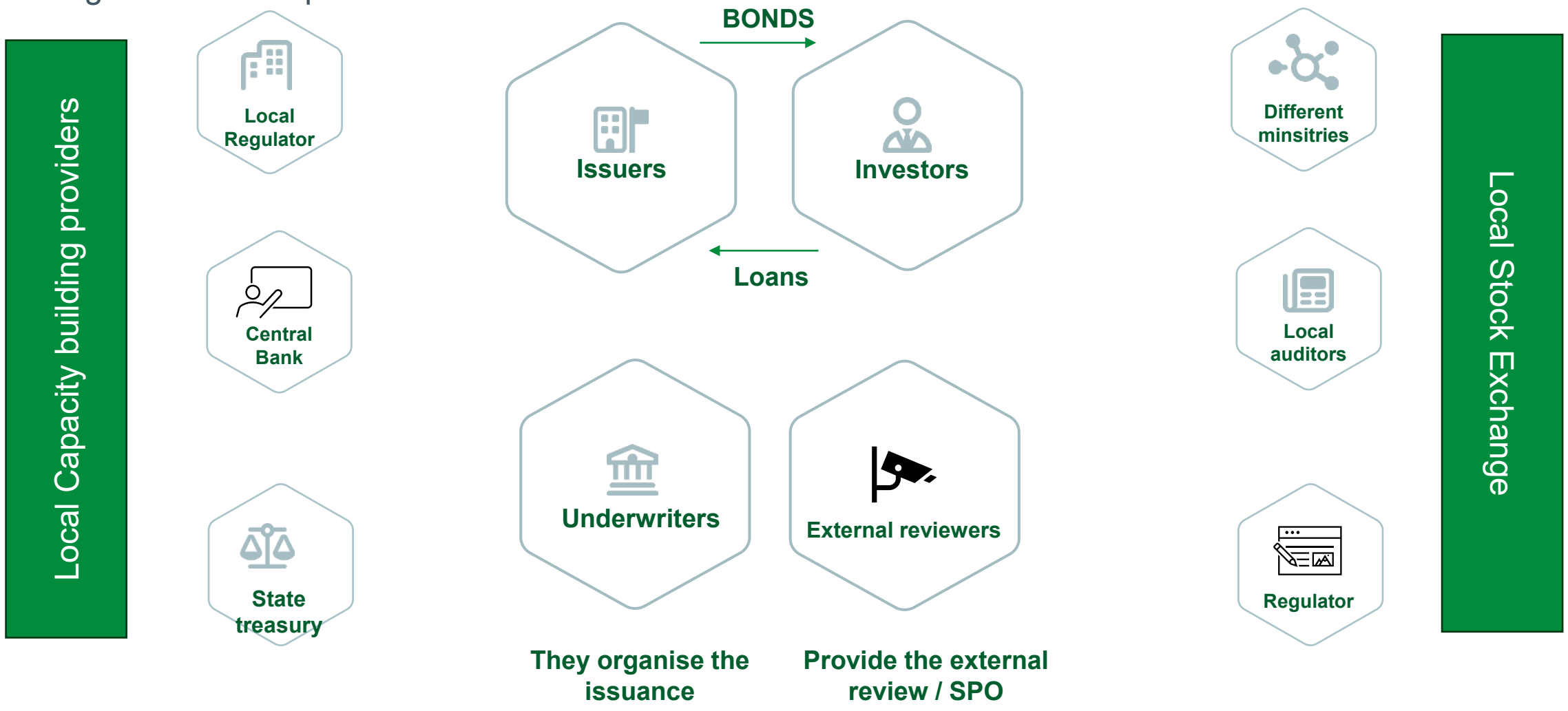
External players involved in the GSSS bonds issuance

LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange



Internal players involved in the GSSS bonds issuance

» Highly important to ensure accountability, consistency and transparency across government departments and sectors



Engage governmental stakeholders

LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange

» Cross-collaboration between ministries is a central part of the sovereign sustainable bond issuance process



Setting goals for the sustainable bond issue is the first step; this may come from the Ministry of Finance or other relevant ministries, such as the Ministry for Environment or Development



Early engagement with the Ministry of Finance is essential given their budgetary and debt management responsibilities



It may be useful to expand the engagement to external stakeholders to include other capital market players (including stock exchanges, banks, investors, pension fund regulators). Establishing a Public-Private Green Bond Advisory Council is one way of organising the stakeholder engagement. Engagement can also include roundtables and bilateral dialogues

Source: [Sovereign Green Bonds Briefing - CBI]

Identify “innovative” eligible budget items

LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange

- Key ministries (including energy, transport, water, agriculture, environment, development, etc.) identify eligible assets from their budgets,
- Not all eligible expenditures may be included in a first sustainable bond. Once a sustainable bond framework is set up, most issuers return to market, revealing the benefits of labelling the issuance as ‘sustainable’



The assets identified must be equal to or greater than the size of the bond. Identifying more eligible assets than the planned bond size enables to upsize the issuance as well as prepare for future issuances



Sustainable assets and projects financed by sustainable bonds can occur also outside the country of issuance, to include ooperation and development projects overseas



Some issuers opt for a programmatic approach, i.e. issue sustainable bonds on an ongoing basis.

Source: [Sovereign Green Bonds Briefing - CBI]

Case of Philippines sustainability bond

LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange

STATE TREASURY SUPPORTED BY RELEVENT MINISTRIES

» Dedicated Interagency Technical Working Group on Sustainable Finance Development Budget Coordination Committee.

» Senior representatives from the Department of Finance (DOF), Bureau of the Treasury (BTr), National Economic Development Authority (NEDA) and Department of Budget and Management (DBM) aided by sectoral experts from industries and academia.

» Projects can come from other national government agencies (NGAs) whose budgets include programs, activities, and projects (PAPs) which may be considered as Eligible Expenditures:

- Department of Health
- Department of Education
- Department of Energy
- Department of Labor and Employment
- Department of Transportation
- Department of Agriculture / Department of Agrarian Reform
- Department of Social Welfare and Development
- Department of Public Works and Highways
- Department of Environment and Natural Resources



Source: Philippines Sustainability Bond Framework

Case of Poland (first sovereign green bond – 2016)

LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange

Engagement with Government stakeholders

The green bond issuance was led by the Public Debt Department, with the collaboration of multiple departments in the Ministry of Finance, responsible for processing data from other Ministries and other Government Agencies

Eligible projects identification

- Six eligible sectors were identified: renewable energy, clean transportation, sustainable agriculture operations, afforestation, national parks, reclamation of heaps. The sectors are aligned with the broad categories included in the Green Bond Principles
- Eligible expenditures include budget allocations (including excise tax exemptions), subsidies and projects,

Eligible projects approval

Eligible expenditures will be approved by the State Treasury, represented by the Minister of Development and Finance and will depend on the alignment with eligible sectors, investment horizon, availability of information for reporting, other ESG

Source: Sovereign Green Bonds Briefing - CBI

Case of Fiji (Green bond – 2017)

LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange

Engagement with Government stakeholders	The issuance is being led by the Ministry of Economy and Reserve Bank of Fiji, with the involvement of other ministries as relevant	strong support from the Prime Minister and President of COP23 Frank Bainimarama
Eligible projects identification	The project identification process is managed by the Director of Climate Change, Ministry of Economy, who is responsible for coordinating with other ministries to verify eligibility of projects	Eligible projects include: renewable energy and energy efficiency, resilience to climate change, clean and resilient transport, pollution reduction, water efficiency and wastewater management, sustainable management of natural resources and eco-efficiency
Eligible expenditures identification	Eligible expenditures include investments, operational expenditures, tax exemptions and tax credits, guarantee schemes and subsidies. To avoid double counting they may not finance a project that already has a dedicated source of funding	Eligible expenditures can relate to tangible assets such as land, power plants and other infrastructure, as well as supporting related expenditures such as research and innovation.

Source: Sovereign Green Bonds Briefing - CBI

Case of Fiji

LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange

ESTABLISHING THE GOVERNANCE STRUCTURE : THE STEERING COMMITTE

1

The committee was tasked with two distinct roles:

- to facilitate the issuance of a sovereign green bond,
- to work towards the establishment of a green bond program in the country.

2

The Governor of the Reserve Bank of Fiji acted as chair, with extensive cross-government representation, and the IFC and World Bank maintained an observer status as technical advisers. The Reserve Bank of Fiji also provided secretariat support.

3

Meetings were originally scheduled on a monthly basis in the lead up to issuance, then quarterly post issuance.

4

The Committee was responsible for finalizing the Green Bond Policy Framework in advance of the sovereign bond issuance, and then were required to develop and publish a strategy for Fiji's ongoing green bond program to guide future public and private issuers.

5

The Committee is also responsible for monitoring other issuers, and is tasked with providing training and awareness raising for prospective issuers

Source: WB guidance for sovereign green bond issuance

Case of Fiji

LUXEMBOURG GREEN EXCHANGE
by Luxembourg Stock Exchange

RESOURCE ALLOCATION

Sovereigns must ensure sufficient resources are allocated including personnel, IT systems and budget to conduct ongoing reporting and monitoring of green bonds issuance and impact.



Fiji considered recruiting additional support to assist in coordinating the various line ministries responsible for extracting project information required for monitoring and reporting purposes



To assist with the development of a framework for monitoring and reporting, Fiji sought the assistance of the World Bank Group well in advance of the first report to be issued to investors

Source: WB guidance for sovereign green bond issuance

LUXEMBOURG
GREEN EXCHANGE
by Luxembourg Stock Exchange

Thank you!

Legal Disclaimer

This document as well as all information contained herein (collectively the "Document") is provided to you for information purposes only. Although the Luxembourg Stock Exchange/Luxembourg Green Exchange (LuxSE/LGX) has made reasonable efforts to ensure that the Document is accurate and not misleading, LuxSE/LGX does not give any representation or warranty and does not accept any responsibility or liability of any kind whether for the accuracy, correctness, reliability, fitness for a particular purpose or completeness of the Document or for any action refrained or taken or results obtained from the use of the Document. The Document does not constitute and is not construed as any advice, recommendation, undertaking or commitment from or on behalf of LuxSE/LGX. The Document shall not be substitute for your own researches, investigations, verifications or consultation for professional or legal advice. The Document is confidential and may not, without LuxSE/LGX prior written consent, (i) be circulated, disclosed, copied or distributed to third parties and/or (ii) be quoted or referred to or used for any other purpose".