# *Update on Bhutan Sustainable Finance Framework*






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# Introduction

The Royal Government of Bhutan (RGoB) established Sustainable Financing Framework to:

- Accelerate the flow of capital towards the government's sustainable development objectives.
- Mainstream climate and environmental factors as financial imperatives and mobilize finance for sustainable growth
- To meet the Paris Agreement goal at international level and NDC goal at national level
- Provide transparency to investors on the issuance of green, social and sustainability government bonds, and use of proceeds in alignment with the government's development strategy and climate goals.

# Rationale of the framework

## A. Sustainable Development Policies

Bhutan's 13th Fiver-Year Plans address current socio-economic challenges and set a roadmap for Bhutan by 2034.

## B. Climate Change Mitigation and Adaptation

Bhutan remains vulnerable to climate change impacts and natural disasters which pose threats to its nature-dependent livelihoods, hydropower, and agriculture-based economy.

## C. Environmental Policies

- The National Environment Protection Act 2007;
- Environment Assessment Act 2000.
- Climate Change Policy  2020

# Rationale of the framework

## D. Nationally Determined Commitments (NDC)

Carbon-negative and remain carbon-neutral into perpetuity, at risk by 2049 under the business-as-usual scenario.

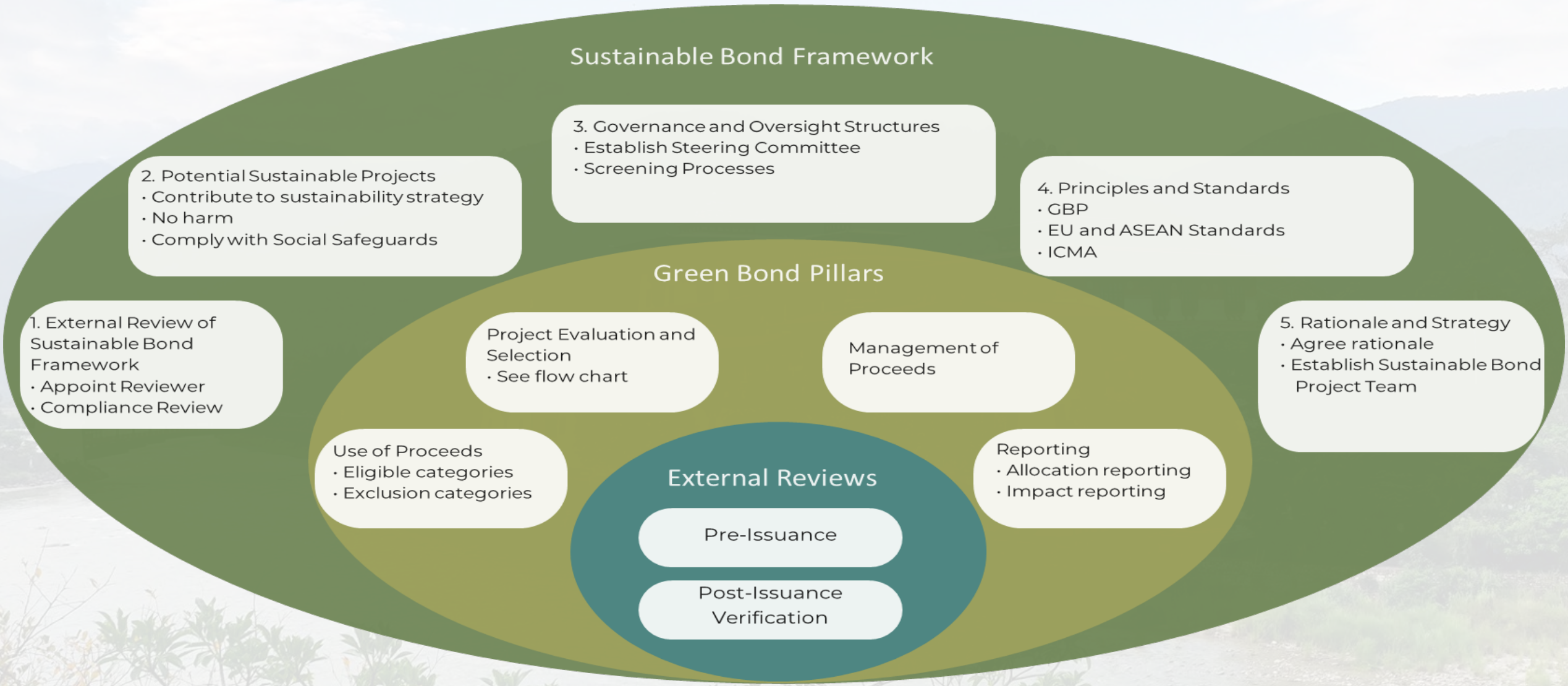
## E. Long-term Low GHG emission and Climate Resilient Development Strategy, 2023

RGoB submitted the 1st strategy in 2023 to UNFCCC excluding hydropower projects

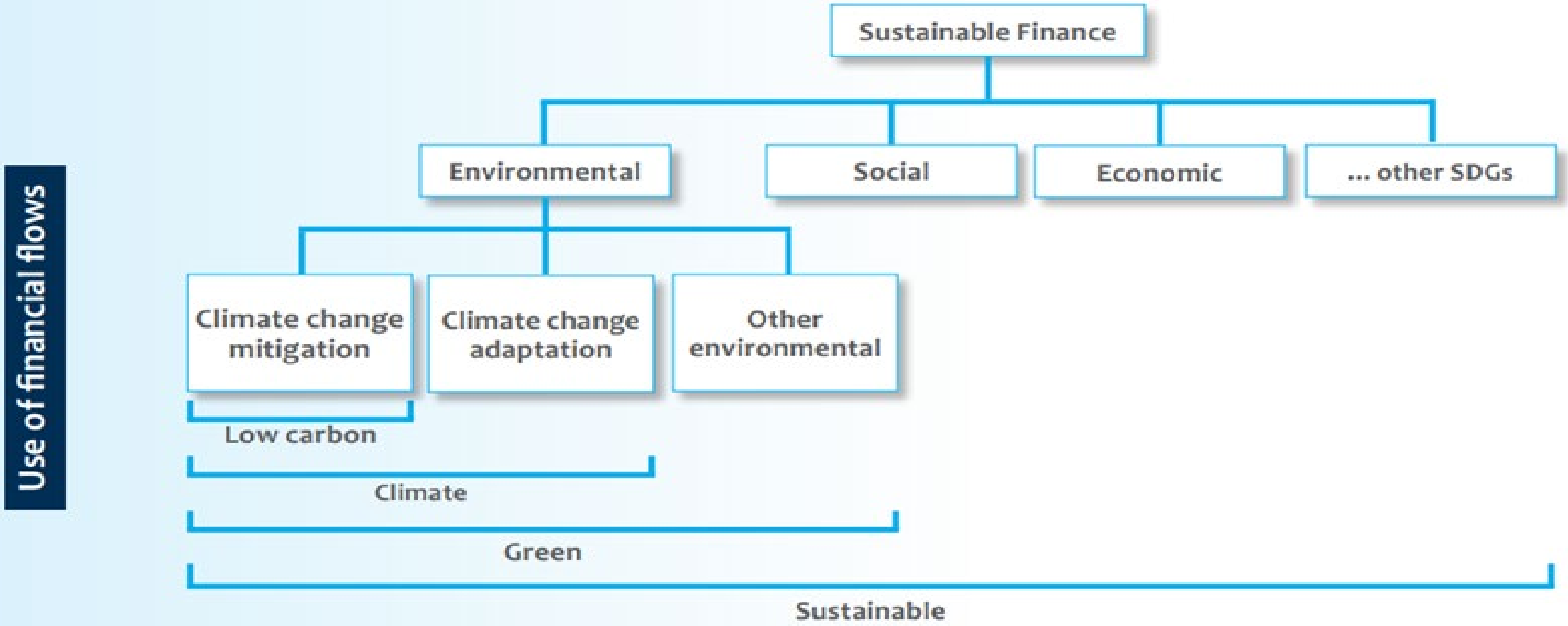
## F. Bhutan as a Borrower

- In 2020, Bhutan developed bond issuance rules and issues first-ever sovereign bond.
- Amended Public Debt Management Policy 2023 encompassing climate finance objective and area of scope .

# Sustainable Bond Framework & Principles



# Overview Structure of Sustainable Finance & its Elements




*Source: UN Environment Inquiry/World Bank Group (2017)*

# Use of proceeds

**General Condition and Principles**

- Green Project classification based on the Green Finance Taxonomy
- Following Principles are considered for eligibility of use of proceeds:
  - Encourage energy efficiency in resource utilization;
  - Reduces carbon emission and greenhouse gases;
  - Promotes Climate resilience and/or adaptation;
  - Values and improves natural ecosystems and biodiversity, especially in accordance with SDG principles.

**Use of Sovereign Green Bonds Proceeds – To finance and/or re-finance (partially/whole)**

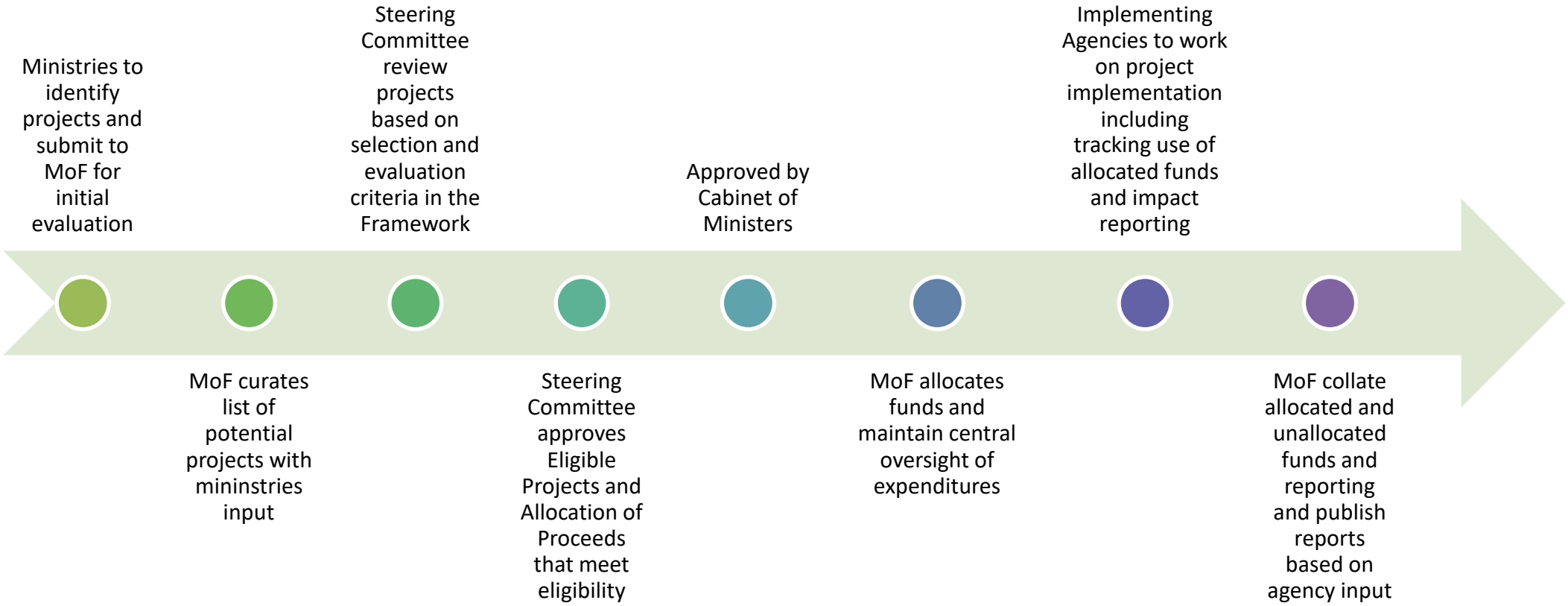
- Renewable Energy
- Energy Efficiency
- Green Buildings
- Clean Transportation
- Sustainable Water and Wastewater Management
- Pollution Prevention, Control and Circular Economy
- Climate Change Adaptation
- Biodiversity Conservation
- Sustainable Management of Natural Resources and Land Use.

# Use of proceeds……Cont./-

**Use of Social Bonds Proceeds**

- Employment Generation
- Healthcare
- Education and Vocational Training
- Affordable Housing
- Food Security
- Financial Inclusion

# Process of evaluation and selection



# Selection of projects

## Criteria of eligible green or social expenditure

- Expenditure significantly contributes to at least one environmental and social quality objective.
- Expenditure doesn't significantly counteract another environmental and social quality objective

## Other Bhutan legislations

- Potential projects must fulfil all additional legislative requirements under Bhutan legislation
- Ex. environmental and social risk mitigation safeguards and ensuring the maintenance of a sustainable fiscal path and a stock of debt.

# Management of proceeds

## A separate account to ensure transparency

part of the broader initiative to **implement robust mechanisms for tracking and reporting the use of proceeds**, utilizing digital solutions for real-time monitoring and management

## SFF WGC and MOF are responsible

**for allocating and monitoring the utilization of GSS bond proceeds,** Royal Government of Bhutan aims to allocate 100% of the net proceeds to finance eligible green and social projects, adhering to leading financial markets best practices and international guidelines

**MoF will maintain and publish allocation register** which contains information including date of issuance, principal amount, international securities identification number, date of maturity.

## Refinance maturing green and social bonds

Issue bonds to refinance previously issued bonds to **finance past eligible green and social expenditures**. Necessary when tenors of the **maturing bonds are shorter than the useful lives of the assets**.

## Reopen an existing bond

Based on MoF recommendation, the Royal Monetary Authority may reopen an existing bond by issuing further amounts of bond with same maturity date and coupon rate.

# Reporting process

The MoF will request the submission of information related to the eligible projects from the ministries and expenditures financed by the bond issuance. This includes the amount allocated and the social and/or environmental impact indicators, among others.

The MoF consolidates the information on the eligible projects and/or expenditures that will be included in the Allocation and Impact Reports. The MoF is charged with assigning an external audit with regard to resource allocation.

The External Auditor reviews the Allocation Report and issues his/her report

The MoF includes the external audit of the Allocation Report jointly with the Impact Report and publishes the final report for investors on its webpage.

# Reporting

MOF will maintain oversight of the expenditures and issue annual reports on the allocation and impact of all GSS bonds

## A. Allocation Reporting

This report will be published annually until the proceeds are fully allocated and no later than 18 months after the issue date, and after the full allocation of proceeds in case of reallocation of funds due loss of eligibility of expenditure.

Contains information about:

- Allocated assets including a breakdown of exposure by type of assets
- Description of the invested projects
- Total outstanding of GSS bond transactions
- Unallocated proceeds

## B. Impact Reporting

On an annual basis, the MoF will provide an impact report. The methodologies and calculation model used to estimate the impact are developed by an independent external consultant.

The results will be published via the government website and/or government sustainability reporting.

# Example Impact Reporting Indicators

Examples of green impact indicators

| Eligible Green Project Category | Example of Impact Indicators |
|---|---|
| Renewable Energy | • Annual renewable energy power generation (MWh)<br>• Annual avoided and/or reduced GHG emissions (CO2t/year) |
| Clean Transport | • Reduced and/or avoided GHG emissions (CO2t /year)<br>• Reduction in energy consumption<br>• Estimated reduction in fuel consumption<br>• Number of Electric Vehicle ("Ev") charging lots installed |
| Green Building | • Number, type and rating of building with approved certifications<br>• Estimated avoided or reduction in CO2 emissions (CO2t) |
| Energy Efficiency | • Minimum energy efficiency improvement achieved (%)<br>• Estimated avoided or reduction in CO2 emissions (CO2t)<br>• Energy intensity reduced (kwh/sqm) |

# Example Impact Reporting Indicators

| | |
|---|---|
| **Biodiversity Conservation** | • **Number and area of significant biodiversity hotspots protected**<br>• **Number of species at risk benefitting from conservation action**<br>• **Net carbon sequestration (tonnes per year)**<br>• **Increase in species diversity** |
| Sustainable water and wastewater management | • Annual reduction in water consumption<br>• Measurable improvement in water quality<br>• Percentage/size of populations provided access to clean water and/or sanitation<br>• Annual volume of water treated<br>• Annual volume of water saved |
| Pollution Prevention and Control | • Annual reduction in plastic waste and related waste<br>• Amount of waste that is disposed or recycled |
| Environmentally sustainable management of living natural resources and land use | • Area under sustainable management (hectares)<br>• Forestry certification scheme (if applicable) |

# Example Impact Reporting Indicators

Examples of social impact indicators

| Eligible Social Project Category | Example of Impact Indicators |
|---|---|
| Employment Generation | • Number of jobs created<br>• Number of people who benefited<br>• Number and Total Amount of Loans to SMEs |
| Healthcare | • Number of people who benefited |
| Education and Vocational Training | • Number of people who benefited from training<br>• Number of students enrolled<br>• % of women/girls enrolled |
| Affordable Housing | • Number of people with access to safe, affordable housing |
| Food Security | • Number of people who benefited<br>• Number of farmers who benefited |
| Financial Inclusion | • % of adults with an account at a financial service institution (disaggregated between men and women)<br>• % of adults with access to credit (disaggregated between men and women) |

# External review

An independent external reviewer (Moody's) will evaluate the Framework and issue a second-party opinion

## A. Pre-issuance External Review

For each green and social bond issuance, a qualified second-party opinion provider will be appointed. The provider will:

- Verify and confirm the **sustainability added value of the bond**
- Verify alignment with the **ICMA principles**
- Increase **transparency and investor confidence**

## B. Post-Issuance External Verification

The government will also appoint an independent provider to conduct annual external verification on:

- **use of proceeds of outstanding green and social bonds**
- whether the **proceeds are allocated to eligible assets or in approved financial instruments**
- **with audit report published within 120days** after the annual results on MOF websites

# Q&A



***Tashi Delek!***