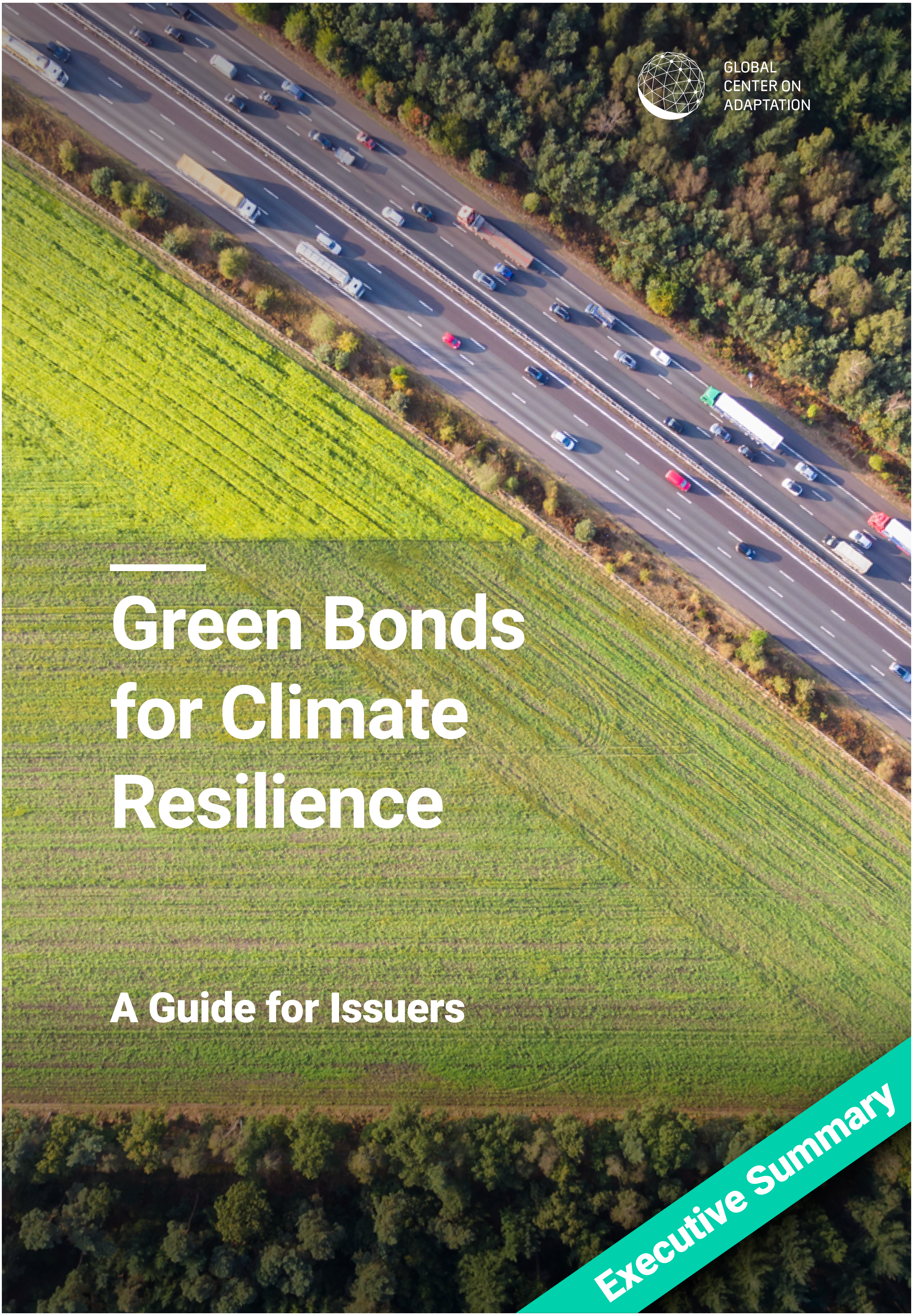

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Green Bonds for Climate Resilience

A Guide for Issuers

Executive Summary

This report was produced under the guidance of Professor Patrick Verkooijen, CEO of the Global Center on Adaptation

This report was prepared by the Climate Bonds Initiative for the Global Center on Adaptation, in cooperation with the European Bank for Reconstruction and Development (EBRD).

Climate Bonds Initiative

The Climate Bonds Initiative is an investor-focused, not-for-profit organisation working to mobilise debt capital markets for climate change solutions, to accelerate a global transition to a low-carbon and climate-resilient economy.

GLOBAL CENTER ON ADAPTATION

The Global Center on Adaptation (GCA) is an international organization, hosted by the Netherlands. It works as a solutions broker to accelerate action and support for adaptation solutions from the international to the local, in partnership with the public and private sector, to ensure we learn from each other and work together for a climate resilient future.

European Bank for Reconstruction and Development

The EBRD is investing in changing people's lives from central Europe to Central Asia, the Western Balkans and the southern and eastern Mediterranean region. Established in 1991, it invests in projects, engages in policy dialogue and provides technical advice which fosters innovation and builds modern economies that are competitive, well-governed, green, inclusive, resilient and integrated. The Bank is owned by 69 countries as well as the EU and the EIB.

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EXECUTIVE SUMMARY

This Guide is intended to encourage and support a greater number of actors, and the banks that are financing them, to issue green bonds to tap the capital markets to raise the finance needed for climate adaptation and resilience. Encouraging and supporting these early movers would in turn help to create a virtuous circle of greater issuer and investor experience and confidence to catalyse the mobilisation of finance for climate resilience action at scale.

The Guide provides practical guidance to issuers of all types - sovereigns, sub-sovereigns, financial institutions, and corporates - on how to raise capital in the green bond market for investment in climate adaptation and resilience (hereafter referred to more simply as climate resilience). It can also act as a useful guide for investors to refer to when evaluating the credibility of climate resilience claims by issuers. It is designed as a practical tool, addressing and providing solutions to some of the most common challenges and frequently asked questions faced by those issuing bonds for climate resilience investments, drawing on an emerging but growing body of regulatory and market guidance and the experience of others who have gone before. The table below provides a summary of the FAQs and associated guidance.

STEPS FOR ISSUING A GREEN BOND

Frequently asked questions (FAQs)	Headline guidance
Step 1: Adopt guidance	
FAQ 1: Should I use externally defined project selection criteria?	Issuers have full discretion to set their own project selection criteria and processes. However, it is now rare to see green bonds that do not align with externally recognised guidelines. Many investors do not have the technical exper-tise or time to carry out extensive due diligence, so they rely on the use of externally guidance and standards to as-sess credibility.
FAQ 2: What project selection criteria are available for screening climate resilience investments specifically?	The Climate Bonds Standard and Certification Scheme, the Climate Bonds Climate Resilience Principles, the Green Bond Principles (GBPs), EU Sustainable Finance Taxonomy, Multi-lateral Development Bank (MDB) Joint Methodology for Tracking Climate Change Adaptation Finance, and the People's Bank of China's (PBOC) Green Bond Catalogue all include some level of guidance on project selection criteria for climate resilience.
FAQ 3: Which project selection criteria should I use?	There is a high degree of consistency between the approach to project selection criteria across much existing guidance. Often it is process based in recognition of the highly context specific nature of climate resilience needs and measures. Which guidance the issuer selects will be influenced by the jurisdiction in which they operate and/or are issuing and/ or wish to target investors. Some guidance provides a greater degree of granularity for further direction and support, for example the EU Taxonomy or the Climate Bonds Standard and its associated Climate Resilience Principles.

FAQ 4: Should I address other environmental and social objectives as well as climate resilience?	Investors are increasingly looking for products that contribute to not just one environmental or social goal, but a number of these goals simultaneously. The most developed guidance today on how to deal with multiple objectives is the EU Sustainable Finance Taxonomy, which ensures that investments make a substantial contribution on one goal without doing significant harm to other goals. Beyond this, issuers would benefit from, and may need to, undertake their own assessments of how best to achieve multiple objectives.

Step 2: Identify qualifying green

FAQ 5: What counts as a climate resilience investment?	Two types of climate resilience related investment are consistently recognised: 1) Investments in assets or activities whose primary purpose is to deliver climate resilience benefits to the broader system ("system-level adaptation"); and 2) Investments aimed at adapting to climate change an asset or activity whose primary purpose is not addressing climate change ("asset-level adaptation" resulting in "adapted activities or assets"). For either of these types, Green Bonds for Climate Resilience can be used.
FAQ 6: How do I demonstrate the investment targets a critical climate resilience need?	A robust climate risk assessment forms the basis of the development of risk mitigation measures and associated investments. While there are numerous available tools for conducting climate risk assessments, specific guidance on how green bond market participants can use these are still being developed. For investments that lead to the adaptation of other activities, communities or systems, the adaptation benefits of the measures being financed must also be demonstrated. Most issuers will likely need external support to carry out the assessment given the technical expertise required. Alternatively, issuers can reference regional, national, and local climate projections and risk assessments.
FAQ 7: How do I identify climate resilience investments in my portfolio, balance sheet or investment plan?	Relevant projects and investments can be identified through screening of existing portfolios, loan books, balance sheets, etc. This tagging exercise can be steered by more detailed market guidance which identifies likely appropriate climate resilience investments and contexts, and by any assessments of climate resilience needs, such as National Adaptation Plans (NAPs) or corporate level climate risk assessments. For sovereign and municipal issuers, it is a best practice to set up an inter-governmental and multi-ministerial steering committee lead by the ministry of finance and comprising senior government decision makers, for the selection of eligible expenditure and ongoing monitoring and reporting. This ensures accountability, consistency and transparency across government sector ministries and departments.

FAQ 8: Can I count the whole asset value or just the climate resilience investment cost?	The entire cost of an activity contributing to "system-level adaptation" (per the terms of the project selection criteria) is eligible. In the case of "asset-level adaptation" only the costs of adapting the asset can be counted, not the revenues or expenditure associated with the whole activity. For example, a project involving the retrofitting of a building to withstand more intense hurricanes or flood risk would count, but the cost of the building itself would not. Potential investors may be more confident of the inclusion of the entire cost of adapted assets or activities where issuers can demonstrate that the adapted activity is critical indirectly to broader systemic resilience (i.e. public buildings, critical infrastructure, etc.).
FAQ 9: What if I don't have enough climate resilience-related projects in the pipeline to get to the scale needed for a bond?	The majority of institutional investors look for a minimum bond size of USD200 million in developed countries and USD100 million in developing countries, which can be a hurdle to issuing a green bond. Aggregation mechanisms to bundle individual projects where climate resilience needs are fulfilled through small-scale resilience projects can be an effective solution. More broadly, a climate resilience-related green bond does not need to be matched with 100% climate resilience assets and can include other suitable assets that meet other green goals. (See FAQ 12 on labelling.)

Step 3: Develop Green Bond Framework

FAQ 10: What evidence do investors look for to reassure them of the climate resilience credentials?	Investors will look to an issuer's green bond framework to ascertain the credentials of the bond. The green bond framework should clearly articulate: 1) Adherence to credible project selection criteria (per the FAQs above); 2) Independent review of that (per FAQ 11); and 3) Ongoing monitoring of climate risks and benefits (per FAQ 15). Issuers should also plan for additional roadshow efforts to engage existing and new investors about the specifics of the resilience components in their green bond framework and to highlight the alignment to their sustainability and/or green policies and governance. Investors also look at the issuer's green credentials and targets beyond the green bond. Clear adaptation targets in NDCs, robust National Adaptation Plans (NAPs) and strong climate policies are key to build a good reputation and ensure the quality of the credentials of sovereign and sub-national bond issuers.

Step 4: Arrange Independent Verification

FAQ 11: Where do I find expertise for reviewing climate resilience credentials of my green bond framework?	Certifying against the Climate Bonds Initiative's Standard and Certification Scheme is considered best practice, and 25% of the labelled green bond market is Climate Bonds Certified. Second Party Opinions are also a popular option whereby independent verification is conducted by qualified parties such as auditors to verify the green bond framework, underlying asset sustainability or issuers' claims. Issuers should seek consultants that are well-versed in adaptation and resilience methodologies and tools.

Step 5: Set up tracking and reporting

FAQ 12: What are the tracking and reporting requirements for climate resilience related Bonds?	For any green bond (climate-resilience focussed or otherwise), the issuer will need you set up robust management and controls for the tracking and allocation of proceeds, to ensure both that the proceeds are used in line with the terms of the bond as laid out in the Green Bond Framework, and that investors have transparency on that.

Step 6: Issue Bond

FAQ 13: How should I label my bond?	The label should reflect what the proceeds are going towards. Using a dedicated 'Climate Resilience Bond' label enables clear marketing and high visibility to the focus of the bond. Alternatively, using a green bond label is perfectly legitimate given climate resilience is squarely part of a green agenda, and has the advantages of facilitating access to (and supporting) the large and liquid green bond market, well developed and trusted guidance and reporting mechanisms established for the green bond market, and reaching larger issuance size with a mixed use of proceeds (see FAQ 9). Combining these in a label such as "Climate Resilience Green Bond" may offer the best of both worlds.
FAQ 14: Should I issue my bond domestically or internationally?	Domestic and international green bond issuances have different target investor and resourcing requirements. A domestic green issuance will appeal to the usual class of institutional investors, and may present an opportunity to reach new domestic investor classes attracted by the green label, or retail investors. However, an international issuance provides the opportunity to appeal to a much wider set of established green investors. Currency considerations will be a factor in selecting whether to opt for domestic or international issuance. Whether domestic or international, roadshows will need to take care to explain the nature of the green bond.
FAQ 15: How do I attract investors, particularly those who may not have a good understanding of climate risk and resilience?	Green bonds are regularly oversubscribed, illustrating their attractiveness to investors. Within the green bond market, if the issuer is aligned with international guidelines and an independent review has been conducted, it is very likely to attract mainstream investors who increasingly recognise the importance and validity of investing in climate resilience. Mainstream investors have developed trust in and familiarity with the green bond market, so by adhering to the prevailing green bond guidelines and practices, and where possible, certification – investors are likely to come.

FAQ 16: Can I access concessionary capital for financing climate resilience related bonds?	While issuing green or resilience bonds does not necessarily lead to access to blended finance, it significantly improves the probability of matching with blended finance objectives. By carrying out a robust process for selection of resilience projects for a green bond, issuers are able to demonstrate their impacts on resilience goals, which can also be used for accessing public sector finance and blended finance products and facilities. Issuers interested in accessing blended finance should engage with MDBs, guarantee agencies, bilateral donors, and blended finance initiatives at an early stage of project development.

Step 7: Regularly Report

FAQ 17: What are the requirements in post-issuance reporting?	The Green Bond Principles state that issuers should publicly disclose up to date information on the allocation of use of proceeds annually until full allocation, and on a timely basis in case of material developments. The annual report should include a list of the projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects and the amounts allocated, and their expected impact. For best practice, resilience-related bonds should demonstrate impact and how investments are contributing to resilience outcomes.

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