EBRD support on enhancing accessibility and affordability of sustainable finance instruments in capital markets

May 2022

European Bank
for Reconstruction and Development

EBRD's unique offerings for sustainable finance

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Issuing green bonds

The EBRD has **issued the first Green Bond in 2010** and cumulatively issued 123 green bonds totalling EUR 7.8 billion equivalent to date.

Investing directly and through funds

The EBRD is increasingly playing a role as a **Green Bond investor** (direct and through fund structures), such as its participation in Green (Covered) Bonds issued by PKO BH and ING in Poland (2019) and by NBG in Greece (2020).

Setting best practice standards

The Bank has been a **member of the Executive Committee of the Green Bond Principles (GBP)**, currently co-chairing the **GBP Impact Reporting Working Group.** The Bank also participates in the formulation of other GB standards.

Supporting regulatory developments

The EBRD is participating in the **Technical Expert Group on Sustainable Finance established by the European Commission.** The Group is tasked (among others) with assisting in development of the EU green taxonomy, Green Bond Standard, and climate risk disclosure.

Technical assistance for issuers

The EBRD has established a **dedicated technical assistance programme** to accelerate green bond issuances in the EBRD region.

The EBRD is the first MDB with an explicit requirement in its mandate to promote environmentally sound and sustainable development.

EBRD Investments in Green Bonds

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Green Covered Bond

EBRD subscribed PLN 80m (EUR18.5m) in ING Bank Hipoteczny's first green covered bond issuance.

The issuance was certified by the Climate Bonds Initiative to be aligned with its criteria for low-carbon buildings.

The EBRD is supporting investments in energy-efficient buildings through its FI Green & Sustainability Bond Framework.

ING

Green Bond

EBRD invested in Latvenergo's latest EUR 50m green bond – placed under the firm's EUR 200m programme.

The Latvian state-owned energy provider was the first issuer of green bond from a CEB state-owned company.

The green bond is listed on the Nasdaq Riga, an EU-regulated platform that is part of the Sustainable Stock Exchanges Initiative.

Latvenergo

Green Project Bond

The EBRD invested USD 100m in a USD 335m green bond issued by Scatec in Egypt – with a 19y tenor.

The Bank also provided USD 30m credit enhancement facility (CEF) for participating institutional investors.

Certified under the Climate Bonds Standard, this bond is the first private green project bond issuance in Egypt and the southern and eastern Mediterranean region.

Project bond issued against six operational solar projects in Benban, Egypt with a total capacity of 300 MW.

Scatec

SP Green Bond

The EBRD invested RON 53m in the first Green Bond listed on BVB and issued by Raiffeisen Bank as part of their RON 400m offering.

The bond features a 5y tenor, senior preferred structure, dual-listed on BVB and Luxembourg.

Second party opinion provided by Sustainalytics.

Raiffeisen Bank

EBRD TC Projects for Sustainable Finance

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- Hungary: Designing Recommendations for a Sustainable Capital Markets Strategy and Action Plan
- Lithuania: Strategy and Action Plan on Green Capital Markets
- Kazakhstan and Mongolia: Policy Design and Recommendations for Green Capital Market Incentives for Sustainable Development
- Estonia and Latvia: EU Taxonomy Implementation and Sustainable Finance Roadmap
- Czech Republic: Promoting Better Corporate Practices and Investor Awareness by Enhancing Environmental, Social and Governance (ESG) Reporting and Developing Investment Opportunities

EBRD's green policy dialogue in Kazakhstan

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- Development of a roadmap for greening the financial system (2016-2017).
- Development of policy recommendations for green capital market incentives (2021-2022). The key recommendations are

✓ Develop transition pathways for the economy (e.g. national sustainable finance strategy)

✓ Align fiscal spending (taxes and subsidies, Emission Trading Scheme, green procurement)

✓ Increase market transparency (ESG reporting requirements, green labelling)

✓ Support green finance transition (strengthening green taxonomy, identifying assets for demonstration green bond issuance, green bond issuance, green bond guarantees)

✓ Support systemic risk management (climate-risk scenarios and stress tests, disclosure rules)

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Green Bond case studies:

Developing local capital markets and supporting green, sustainable, and energy efficient economies

Supporting Green Bond pioneers in Poland

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SUPPORTING THE CREATION OF A GREEN COVERED BOND MARKET

In June 2019, EBRD invested PLN 50 million (€11.7 million) in the first Green Bond from a Polish financial institution on the open market.

The PLN 250 million (€58.5 million) 5-year green covered bond from mortgage bank PKO Bank Hipoteczny will finance more energy efficient buildings.

In October 2019, EBRD invested a further PLN 80 million (€18.5 million) in ING Bank Hipoteczny's green covered bond debut, a PLN 400 million (€92.5 million) issuance.

In December 2019, PKO Bank Hipoteczny issued a second Green Bond of the same size and tenor as its first.

Climate Bonds Initiative certified both banks' Green Bonds. Their alignment with the Green Bond Principles was confirmed by second party opinions.

The EBRD supported development of the legal framework for covered bonds in Poland. At the request of the Polish Ministry of Finance, EBRD joined a working group made up of representatives from mortgage banks and the ministry to draft legal provisions for a revised covered bond law which entered into force in January 2016.

Supporting Green Bond pioneers in Poland…

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INVESTING IN POLAND'S FIRST CORPORATE Green Bond

In February 2020, EBRD supported Poland's first non-financial corporate Green Bond by investing PLN 200 million (€47 million) in the PLN 1 billion (€ 235 million) issuance from telecom and media group Cyfrowy Polsat.

It will refinance investments in energy efficiency, including in state-of-the-art technology and upgrades to existing networks.

The bond placed with a large number of local and international investors and will be listed on the Alternative Trading System of the Warsaw Stock Exchange.

The alignment of the Green Bond framework prepared by the company with the Green Bond Principles was supported by a second party opinion from Sustainalytics.

… and in Greece

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INVESTING IN GREECE'S FIRST CORPORATE GREEN BOND

EBRD participated with €60m to Mytilineos debut green Eurobond in the amount of (€500m, 5.5-year tenor).

The Bank's proceeds finance purchase of aluminium scrap to help the increase of Mytilineos recycled aluminium production in Greece. Aluminium production from scrap is an activity compliant with the EU Circular Economy Action Plan and the EU Taxonomy.

Mytilineos developed a Green Bond Framework in line with International Capital Market Association Green Bond Principles, which (i) describes the allocation of the use of proceeds under the eligible green project categories, and (ii) the process of evaluation and selection and annual reporting of the eligible green projects. The GBF compliance with ICMA GBP was reviewed by ISS Corporate Solutions that provided a Second Party Opinion.

The transaction demonstrates the Bank's role in supporting companies in becoming pioneers in ESG both in terms of practises as well as the use of novel financial instruments.

With EBRD support, in early 2021, Mytilineos became the first Greek industrial company to announce ambitious targets of 30% group-level CO_2 emissions reduction by 2030 and net-zero emissions by 2050.

Mytilineos issuance had a significant demonstration effect in the market with two companies issuing a green bond in the local market therafter.

Promoting green capital markets: PPC's Sustainability-Linked Bond (2021)

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- EBRD invests **€50mm** in **a €650mm sustainability-linked bond (SLB)** issue of Public Power Corporation S.A. (PPC)
- **Public Power Corporation S.A. (PPC)** is a state-owned energy utility and Greece's largest power producer and electricity supplier. It is thus central to Greece's efforts to achieve its 55% GHG reduction target by 2030; PPC's environmental strategy is in line with the EU and Greece's medium- and long-term objectives for climate neutrality by 2050
- The issuance will help improve PPC's access to finance by **diversifying its financing sources** to a new **ESG-focused investor base**
- The proceeds of the bond will be used primarily to refinancing of existing indebtedness of the Company. Through the issuance the Company makes a **strong public commitment to decarbonisation via a sustainability performance target**, with PPC committing to **reduce CO_2 emissions by 40 per cent** by the end of 2022. Bond features a **coupon step-up** in the event the target is not met
- SLB target translates into **annual CO_2 emission cuts of 9.2 million tonnes** in 2022 compared to 2019 and is **the most ambitious corporate decarbonisation target** the EBRD has ever supported in the regions where it invests
- This target is expected to be met primarily by **decommissioning all lignite plants** by 2023 and replacing them with renewable energy capacity in a significantly accelerated programme that will **add 1.3GW of mainly solar and wind power** to PPC's portfolio

Promoting green capital markets: PPC's Sustainability-Linked Bond (2021) - continued

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- The bond is aligned with the **International Capital Market Association's (ICMA) Sustainability-Linked Bond Principles (SLBP)**, published in June 2020, this compliance is confirmed by an independent second-party opinion by Sustainalytics

- SLBs are a new and emerging financial product. This will be the **first sustainability-linked bond in the regions where the EBRD invests**

- **Follow-on EUR 25.5 million investment** in PPC's **second 7-year EUR 500** million SLB

- **Increased ambition under SLB SPT** to **cut CO2 emissions by 57% by 2023**, leading to **13.2 million CO2 tonne reduction p.a.** starting from 2023. This reflects the company's, and Greece's, commitment to exit all coal (but one plant under construction that will close or convert by 2025) by end-2023. **That is the fastest coal exit in any of our CoOs and one of the fastest in the EU**.

- **Second SLB to be issued in our CoOs**, with both issuances coming from PPC.

- For the market more broadly it shows the **power of this new asset class to entrench sustainability in financial flows**. After years of being unable to access capital markets PPC's both SLB issuances were **significantly oversubscribed**, so that the company was able to upsize the 7-year issue from the planned EUR 350 million to EUR 500 million.

- **Strong potential for replication** in other sectors and other countries

The EBRD is a leading investor in inaugural debut issuances in the economies where it works

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EBRD investment reassures other institutional investors, widening market participation.

EUR 300 million| 2017 | Lithuania | Energy **Lietuvos Energija** The debut green bond from the Lithuanian energy utility	PLN 1 billion| 2020 | Poland | Telecoms CYFROWY POLSAT First green bond from a non-financial corporate in Poland	PLN 50 million| 2019 | Poland | Finance **PKO Bank Hipoteczny** Debut issue of Polish green covered bonds	BOND INVESTMENTS **€1.3 billion** in green and SLBs worth over €XX billion since 2017
EUR 300 million| 2021 | Slovak Republic| Finance **Tatra banka** The issuer's first green bond and first such bond in the Slovak Republic	EUR 600 million| 2021 | Regional| Logistics and Real Estate **VGP NV** Inaugural green bond from the issuer	USD 413 million| 2021 | Georgia| Transport **Georgian railways** The first green bond issuance by a state-owned enterprise in Georgia	RON 400 million| 2021 | Romania| Finance **Raiffeisen Bank Romania** First green bond issued by a bank in Romania
EUR 650 million| 2021 | Greece| Energy **PPC Greece** First sustainability-linked bond in the EBRD regions has ambitious decarbonisation targets	USD 825 million| 2021 | Ukraine| Energy **Ukrenergo** The first sustainability-linked bond issued by a Ukrainian company	EUR 48 million| 2021 | Romania| Transport **Autonom** Romania's first sustainability-linked bond sets emissions reduction targets	EUR 120 million| 2021 | Greece| Real estate **Noval Property** Debut green bond issuance from the issuer
EUR 300 million| 2021 | Greece| Conglomerate **GEK Terna** First sustainability-linked bond to be listed on Athens Stock Exchange	USD 500 million| 2022 | Turkey| Industrial **Coca Cola Icecek** First sustainability-linked bond from a Turkish issuer and first from a beverages company in EMEA	EUR 43.7 million| 2022 | Regional | Energy **Qair International** Renewable project developer's inaugural green bond	USD 340 million| 2022 | Egypt| Energy **Scatec** Egypt's first private green project bond – EBRD also offered USD 30 million in credit enhancement to participating institutional investors.

Why issue a Green Bond?

Diversify your investor base and attract more patient capital

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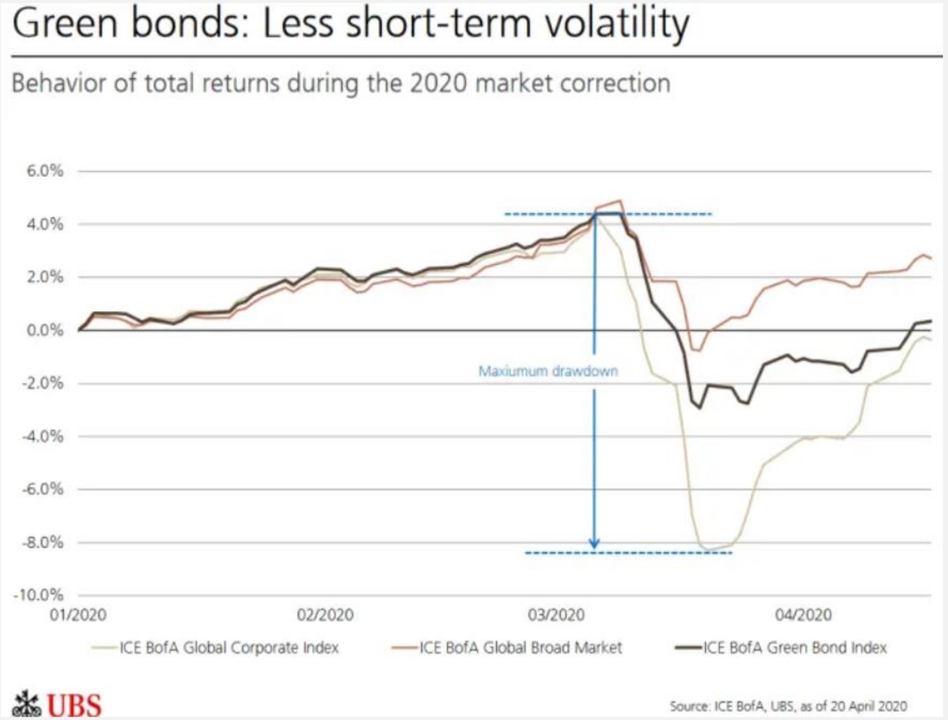
Issuers find that cross border and, to a lesser extent, domestic Green Bond issuance attracts investors who have never invested in them before. This increased familiarity can further improve access to capital by giving issuers opportunities to discuss other green investment opportunities in different asset classes and different financial products.

The emissions and energy performance requirements and reporting of Green Bonds make it easier for responsible investors to connect with issuers.

Green investors tend to include more buy and hold investors, resulting in less secondary market volatility.



Prepare for mandatory climate risk disclosure

The past two decades have seen a ten-fold increase in voluntary environmental, social and governance (ESG) corporate reporting.* Information disclosed is already impacting investment and lending decisions made by leading financial institutions.

Now, the regulatory direction of travel is increasingly clear: mandatory climate risk disclosure will be part of publically listed companies' standard financial reporting.**

Finance ministers and central bank governors' are involved in initiatives such as the Task Force on Climate-Related Financial Disclosure (TCFD) and Network of Central Banks and Supervisors for Greening the Financial System (NGFS), and the European Central Bank will ask lenders to assess and disclose climate-related risks from next year.

Build internal capacity to manage climate risks and opportunities

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To issue a Green Bond, issuers must collaborate closely across internal departments to set up systems to identify, tag, monitor and report on green projects.

This integration of the efforts of different departments was repeatedly cited as a positive outcome in a recent survey of Green Bond issuers, supporting the development of systems to assess climate risk and understand green projects, clients and market developments.

For instance, systematic green tagging of loans by banks can facilitate green financing across sectors with banks aggregating loans from small borrowers into Green Bonds, leaving them better prepared for the impacts of the changing climate and related polices on their business.

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Enhance your reputation for climate action and governance

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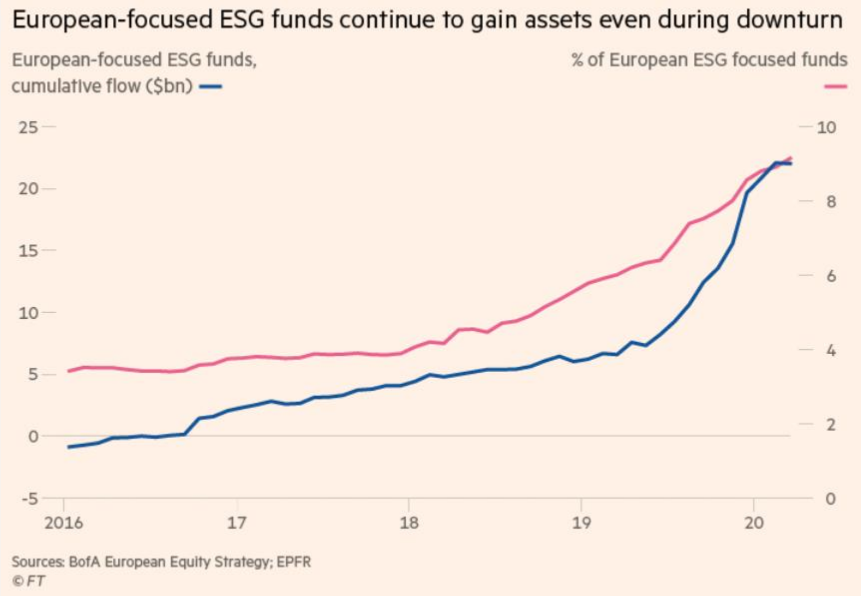
Growing evidence indicates issuers benefit from a halo effect with investors, enjoying lower long-term financing costs and increased share prices as a result.*

This is because investors take Green Bond issuance as a signal that an organisation has good climate corporate governance knowing it requires high-level internal discussions on debt and green asset strategies and the ability to identify, monitor, and report on green projects.

Issuing Green Bonds also allows issuers to highlight measures taken to cut emissions and improve resilience to policymakers and current and potential employees.



Achieve potential pricing benefits from strong investor demand

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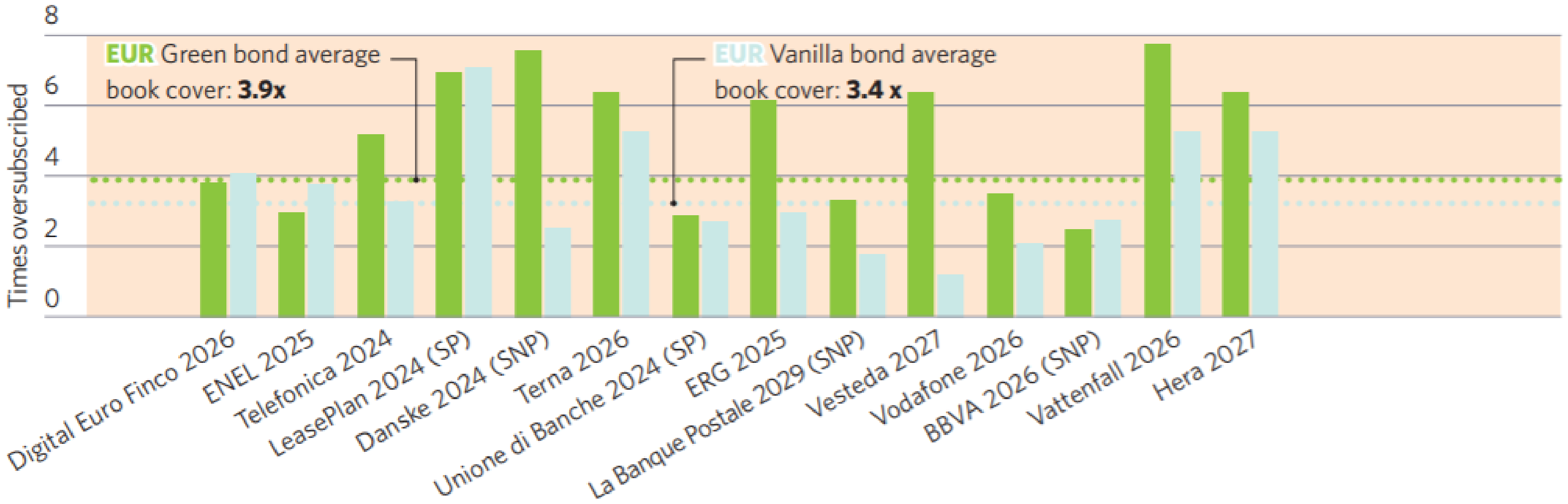
Demand for Green Bonds is strong: average oversubscription rates for Green Bonds consistently outperform compared to conventional bonds in Europe and there is also emerging evidence from US municipal bonds of investors being willing to pay a premium for a green over a conventional bond.

The emerging evidence for a 'greenium' is, however, not consistent and so prospective issuers should not choose to issue a Green Bond only because they expect it to deliver cheaper capital.



Green Bonds provide issuers from particular sectors with different opportunities

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POSITION YOUR BANK TO TAKE A SHARE OF THE GROWING UNDERWRITING MARKET

Early entry establishes a track record and network of investors that banks will need as these markets grow. All of the top 20 Green Bond underwriters in 2019 have also issued Green Bonds.

BENEFIT FROM EUROPEAN INVESTOR DEMAND FOR MORE CORPORATE ISSUANCE

European investors have allocations for emerging market bonds in international currencies and want more corporate issuance. Till now, corporate Green Bond issuance has come mainly from the finance, utility, real estate and transport sectors. Investors want to more from these and other underrepresented sectors like heavy industry.