



Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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EIB's Experience Shows That Green Bonds Can Be a Market-based Process to Promote Accountability and Engagement in Climate Finance

Principle

Related Work Stream(s)

<p>PRINCIPLE 3: PROMOTE Climate Smart Objectives</p>	 <p>CLIMATE RISKS: APPROACHES, TOOLS, METHODOLOGIES</p>	 <p>MAPPING REPORTING INITIATIVES AND UNDERSTANDING IMPLEMENTATION CHALLENGES</p>	 <p>CITY-LEVEL CLIMATE SMART APPROACHES AND FINANCIAL INSTRUMENTS</p>	 <p>SPREADING A CLIMATE STRATEGY INTO A WHOLE ORGANISATION</p>
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Publication date: December 2015 – [Emerging Practice Document 2015](#)

Date Policy/ Tool Established	How Established?	How Implemented	Additional Capacity Required (e.g., staff, resources, other)
<p>07/2007: EIB's Climate Awareness Bond (CAB) is the first Green Bond,* establishing a transparent and accountable link between bond proceeds and disbursements to projects with environmental benefits.</p>	<p>Initiative of EIB's Capital Markets Department in concomitance with the adoption of the European Union's Energy Action Plan.</p>	<ol style="list-style-type: none"> 1. Allocation of CAB-proceeds to a dedicated Treasury portfolio. 2. Transparent reduction of the dedicated Treasury portfolio by amounts matching eligible disbursements following CABissuance date (current CAB-focus on Renewable Energy and Energy Efficiency—RE & EE, in line with art. 194 c) of the Lisbon Treaty and the EU's Energy Action Plan). 3. Issuer's accountability vs. external stakeholders on eligible disbursements and expected impact of recipient projects via systematic reporting in financial report, sustainability report and dedicated newsletters. <p>The dedicated Treasury portfolio is a relevant performance indicator, whose credibility is linked to the establishment of a reliable Green Bond administration:</p> <ol style="list-style-type: none"> a) Definition of project eligibility criteria (use of proceeds), b) Process for project evaluation and selection (environmental due diligence), c) Management of proceeds (separate record of eligible funding/disbursement flows, allocation of proceeds and monitoring of unallocated proceeds), d) Reporting. An extensive due diligence in 2013/2014 has led to a CABadministration upgrade in 2015, as described in EIB's 2014 CAB Newsletter: http://www.eib.org/investor_relations/documents/eib-cabnewsletter-2014.htm <p>Key deliverables of the CAB program:</p> <ol style="list-style-type: none"> i) First report on the expected impact of recipient projects in March 2015, as described in EIB's 2014 CAB-Newsletter; ii) First report on individual CAB allocations to individual CAB projects in October 2015, as described in EIB's H1 2015 CABNewsletter: http://www.eib.org/attachments/fi/eib-cab-newsletter-h1-2015.pdf 	<p>The CAB-program has placed additional demands on staff resources.</p> <p><i>Ongoing basis</i></p> <p>Projects Directorate separately in charge of:</p> <ul style="list-style-type: none"> • Definition of project eligibility criteria, • Ex-ante identification of eligible projects, • Ex-post verification of disbursement eligibility. <p>Finance Directorate separately in charge of:</p> <ul style="list-style-type: none"> • Management of proceeds (back-office), • Reporting (back-office), • Discussions on the definition of GB minimum requirements within the Executive Committee of the GBPs (capital markets department) <p>Projects and Finance Directorates jointly in charge of:</p> <ul style="list-style-type: none"> • Discussions on GB Impact Reporting Harmonisation within an ad hoc working group of International Financial Institutions (IFIs) created in response to an explicit request in the 2015 GBPs. (AfDB/EIB/IBRD/IFC initially advanced a joint proposal in the areas of RE & EE for broader market discussion, see: http://www.eib.org/investor_relations/documents/

*"GB", definition according to the 2015 Green Bond Principles ("GBPs"), voluntary guidelines that are direct expression of a broad market debate and consensus among issuers, investors and intermediaries on the minimum requirements of a green bond: http://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GBP_2015_27-March.pdf.

Key Lessons

- **CABs have increased interdepartmental cooperation in the area of climate finance, boosting organizational knowledge and improving communication on EIB's climate action.** Synergies have developed between Projects and Finance Directorates, favouring knowledge sharing and building new expertise. Product success in the capital markets has created an additional and very important channel of communication/interaction with external stakeholders.
- **Product innovation has enhanced market interest and enabled investors to engage more effectively in the area of climate finance.** The direct link between CAB-proceeds and CAB-projects coupled with EIB-exposure rather than project-exposure has proven palatable to all kinds of investors, boosting demand and new issuance. The growth of the GB market has required investors' involvement in the definition of minimum requirements, enhancing the credibility of the segment.
- **Larger volumes of Green Bond issuance have kick-started a spiral process gradually improving issuers' accountability.** Closer and deeper market scrutiny has triggered administration improvements by market leaders. Peer pressure has promoted a more open and cooperative debate on impact assessment methodologies (e.g., for the estimate of GHG-emissions) and reporting (common indicators to permit data comparison), revealing that no uniform standards yet exist. Investors' request of external assurance has extended the debate to ESG-rating agencies, auditors and academic research institutes, stimulating a collective clarification exercise that is still ongoing.
- **Higher transparency and accountability have increased capital market awareness and started to mobilize new dedicated financial resources.** SRI-investors, in particular, have been enabled to develop ad hoc investment guidelines, leading to more direct and effective involvement in the discussion of standards. This has proven a powerful source of progress in these areas.
- **Lack of commonly accepted project assessment standards still limits comparability of data from different issuers.** While standards are being developed, transparency and accountability of tracking, allocation and reporting for the delivery of relevant and reliable information on the status quo are the key priority. At the same time, policy makers ought to clarify the link between official policy goals and different areas of climate finance ("what is green" in policy perspective) based on a shared standard set of climate tracking definitions.

Further development of the Green Bond market relies on four pillars: extension to new issuers via sufficient flexibility of minimum requirements; best practice development by market leaders; development of shared impact assessment, green bond administration and reporting standards via inclusive and open debate among all market participants; and, on this basis, forms of public support.

Use of Proceeds	Process for Project Evaluation and Selection	Management of Proceeds	Reporting
<p>Loan Eligibility</p> <ul style="list-style-type: none"> • Renewable Energy and Energy Efficiency (RE & EE) • Within RE & EE—conservative approach to eligibility <p>Disbursement Eligibility</p> <ul style="list-style-type: none"> • Allocations are only once and to disbursements that take place after bond issuance date <p>See p. 3 of 2014 CAB Newsletter: http://www.eib.org/investor_relations/documents/eib-cabnewsletter-2014.htm</p>	<p>Competence of Projects Directorate</p> <ul style="list-style-type: none"> • Institutional and legal framework of the EU reflected in EIB Environmental and Social Principles and Standards (ESPS) • Operationalisation of ESPS via Environmental and Social Practices Handbook, ruling EIB's due diligence • Selection of eligible financings, assignment of eligibility percentages and their input into IT systems upon Board approval <p>See p. 4 of 2014 CAB Newsletter: http://www.eib.org/investor_relations/documents/eib-cabnewsletter-2014.htm</p>	<p>Competence of Finance Directorate</p> <ul style="list-style-type: none"> • Daily retrieval of CAB eligible disbursements (automated) • Daily allocation of CAB proceeds on a first-in first-out basis (automated) • Daily booking of unallocated balance of CAB proceeds in dedicated Treasury portfolios (under automation) <p>See p. 5 of 2014 CAB Newsletter: http://www.eib.org/investor_relations/documents/eib-cabnewsletter-2014.htm</p>	<p>In Aggregate</p> <ul style="list-style-type: none"> • Annual report of issuance and allocation volumes in the Financial Report <p>Project by Project</p> <ul style="list-style-type: none"> • Annual report of projects and allocations in the Sustainability Report • Annual report on expected impact of projects in yearly CAB Newsletter <p>Bond by Bond</p> <ul style="list-style-type: none"> • Semi-annual reports on individual bond allocations in yearly and half-yearly CAB Newsletters <p>See pp. 8–9 of 2014 CAB Newsletter: http://www.eib.org/investor_relations/documents/eib-cabnewsletter-2014</p>