ALIDE GREEN BONDS WORKSHOP IN PARIS ON JULY 6th 2018

Restitution of the discussions held on the three roundtables

Roundtable A: What are the key factors of success of a green bond issuance?

Guest expert: Tanguy Claquin, Crédit Agricole CIB.

Context : A fast-growing market with growing liquidity. Success largely due to the relative simplicity & materiality of Green Bonds ("GB") as there is a link to specific projects. Easier to trace, monitor and assess than "ESG" (environmental, social & governance).

Three key questions to ask before going on with a GB issuance:

1. **Why issue a Green bond?** There are 2 main types of reasons for issuing GB

   a) Non-financial
   - **Communication & brand name**. Target = staff, customers, shareholders.
   - **Create/exploit internal momentum, staff incentivizing & motivation.** Communication & internal mobilization are often the reason why companies come back for a second issuance (exploit the momentum created by the 1st!). Ex: operations are generally proud to know that their investment is used, labelled, promoted and sold as "green" by treasury & top management.
   - **More fundamentally : desire to address climate change = best driver in the LT**

   b) Financial
   - One must make it clear that the benefits will be less in terms of price than **diversification & consolidation of the investor base** (more investors, more committed = more stable debt & enhanced funding conditions).
   - NB : Bancoldex nonetheless observed a small reduction in rate (there is some logic in this as more investors mean more demand).
   - As GB issuance requires a detailed knowledge of your activity, portfolio, strategy, procedures & governance, it will create more buy in from investors who will invest in a more specific relationship to your company. Next step: investors may have come 1st to buy your GB, but as trust develops – you are identified as trustworthy and innovative on climate issues – then they might start buying all your bonds.

2. **Local or foreign currency?** The choice of issuing on the local or the international market depends on the objective:

   a) Main advantage of **local issuance in local currency** = price (no swap, no hedging). Firmly establishing reputation & brand name on local market. Easy to obtain good rating (Bancoldex, Nafin). Coherence between portfolio exposure, currency needs & volatility.

b) Main advantage of **issuing in USD** = huge diversification of investor base. Experience NAFIN: 1st issuance was in USD after 15 years of absence on intl markets. But the 2nd one was in MXN to serve these 2 different sets of objectives.

3. **Public (open) or private placement?** Can prefer private if very specific need to be financed. If public: needs to be scrutinized and expected to come back on market after a few years.

Key take-aways

⇨ The real danger with a GB is not in its structuring (relatively simple), it is to play with the identity and **reputation of the company**. Greenwashing is not an option as some analysts, investors or the media will at some point dig below the surface. Issuers have to make sure the organization takes its commitments seriously.

⇨ If it is preferable not to expect a large direct financial win with a GB, the key for the long term is to **focus on corporate climate strategy, staff training, accountability and communication**. As GB issuance is to put it bluntly mostly about flagging as "green" (painting in green) projects already in portfolio, it must be supported by a true commitment to addressing climate change in the long run, throughout the organization (strategy and operations). **Key factor of credibility** (and ability to come back on the markets for new GB issuances) = progress on **environmental (& social) organization & procedures, accountability and transparency**. Such progress was decisive in Bancoldex experience with both GB and social issuances. The bank had to set up a credible environmental & social risk evaluation system first to identify eligible projects in portfolio ex ante.

⇨ There is much more value in the long term in a GB issuance as you **make your progress visible and transparent to investors → creates much more trust** between you and them, than in a classic roadshow for a standard issuance.

⇨ **To go further, issuing a green bond** can drive the internal transformation of financial institutions as investors are looking more and more at green issues globally and not only at green products.

Roundtable B: How can Socially Responsible Investors ("SRI") be further mobilized to finance green investments in the LAC region?

Guest experts: Jean-Marie Dumas and Alban de Faÿ, AMUNDI

Amundi's SRI fixed income policy

- Amundi is managing two Socially Responsible Investment fixed income funds, one that was launched in 2015 and the second in 2018. Besides, Amundi, jointly with the IFC, has launched a fund dedicated to investing in GBs issued by financial institutions located in emerging markets; it is called ***Amundi Planet*** or *Green Cornerstone Fund*. The fund mostly focuses on commercial banks' debt but also have a small pocket for public banks' bond issues.

- Overall, Amundi has a Green Bonds portfolio of EUR 4Bn, and an additional EUR 1Bn is already committed towards this asset class. Amundi has dedicated ESG analysts who participate in meetings with GB issuers

- Amundi has developed two different strategies on Green Bonds:

(i) **ESG issuers' strategy:** This strategy only targets issuers with high-level ESG standards as long as the GB complies with the Green Bonds Principles. Evaluation and impacts of the GB underlying assets are not key in the decision making process for this specific strategy.

(ii) **Impact strategy:** On this one, Amundi concentrates on GBs which impacts in terms of CO2 emissions avoided is highest. Amundi also requires the issuer to comply with the Green Bonds Principles and be assessed by a Second Party Opinion.

- **SRI investors are looking for geographical diversification,** LAC region is a promising market for SRI funds. Besides, even though Amundi is biased towards hard-currency bond issues, **it has liquidity pockets in Latin America currencies that they can use to purchase local public and, to a certain extent, private bond issues.**
- IDB, who is currently working with European SRI investors, concurred with Amundi that there was a strong appetite for ESG bonds. IDB is in discussion with Nordic investors on a potential Gender focused investment fund.
- Amundi emphasized that the credit quality review is the same for SRI and standard fixed income investments. ESG objectives are not to be met at the expense of usual risk and credit requirements.

Obstacles to fixed income investments in the LAC region

- For Amundi, the **lack of disclosure and transparency on extra-financial data is often a barrier to investments in Latin America**. Amundi and SRI investors are wary of fiduciary duties and reputational risk. In this respect, Amundi strongly **recommends potential GB issuer to engage directly with investors** through roadshow prior to the issuance, then through meetings/call when reporting reports are published.
- From the issuer side, a few ALIDE banks have already engaged with European investors, but most of the members present had not. Reason is that few are issuing in hard currencies and local bond markets are perceived as sufficiently deep at the moment. However, European investors can be an additional source of investor diversification that could be worthwhile considering.
- Volatility in the fixed income emerging markets, triggered by interest rates increases in the US, is definitely hindering investments at the moment.

Roundtable C: Why should development banks care about Climate Financial Risks?

Guest expert: Philippe Zaouati, Mirova and Finance for Tomorrow

Overview of French and European new regulations related to climate financial risks

- **French law on energy transition (article 173) makes it mandatory for all financial investor to disclose their carbon footprint**, from 2017. Different methodologies exist, the objective is to measure direct, indirect and avoided emissions within portfolios. This new obligation allows in-depth discussion between assets owners and assets managers.
- At a European level, the High Level Expert Group (HLEG) worked on sustainable finance and published a report on March 2018. Their recommendation concern, inter alia, the need for a taxonomy on green assets, and the importance for European investors to disclose their climate risks.

The measure of climate financial risks

- The measure of climate risks, be they physical or transition risks, is complex, but necessary in a continent where climate impacts are already visible and transition dynamics are increasingly present
- The banks do not know well how to apprehend this new risk. **A first step would be the measure of E&S risks and/or measure of climate impacts of projects**.
- **Methodology is key, and should be adapted to each geographical area**.
- It is difficult to raise awareness for these issues in banks as the time-horizon of the financial analysis in often short term (2-3 years), while climate issues are long term.
- Banks recognizes the risks associated with sudden policy changes, and climate change legislation / electricity reform is a part of that.
- **Need for long-term public regulations in LAC** (too many times short-term political vision).
- Climate change can also represent a business opportunity for banks as the need to finance resilient infrastructure grows.

AFD's experience in taking into account this climate risk

Physical risks

- AFD uses a screening tool to identify projects exposed to climate risks and incentivize loan officers to engage with the client/beneficiary to improve resilience of the project. However this only covers the project (and not the borrower) and is a coarse evaluation.
- AFD has supported the development of a physical risk analysis tools for asset managers by Carbone 4, a French consultancy and think tank : http://crisforfinance.com/en/cris-finance-climate-risk-impact-screening/
- and is in the process of analyzing its own risks embedded in its portfolio and developing tools to analyze new loans with the help of the consultancy 427. Results of this study should be out by November and **AFD would be willing to share its experience with ALIDE member.**

Transition risk

- AFD assess the carbon footprint of its projects, but this measure does not satisfactorily answer the question of transition risks which (i) should be addressed **at the borrower level** (and not project level) and (ii) is more complex than a carbon footprint (dynamic, related to changes in policy, technology, consumer behavior..)
- AFD is currently doing an in-depth country case study of transition risks in South Africa with the think tank Climate Policy Initiative, with Development Bank of South Africa as one of AFD's partners particularly interested in engaging and applying the analysis to its own risk management tools. Results also out in October.

From investors' point of view, the perception of the risk is usually overestimated when it comes to: innovative project, small project, and/or from an emerging country. Whereas, the need for investment is growing as climate change impacts are higher.

The need for investment in the field of prevention of extreme events is considered relevant compared to investment to rebuild after the vent.

The participants expressed the interest to continue collaboration on this topic between members of ALIDE and AFD/European institutions.