ALSF SOVEREIGN DEBT KNOWLEDGE PRODUCT AND CAPACITY BUILDING PROJECT: SUSTAINABILITY FINANCING DEBT GUIDE

AFRICAN LEGAL SUPPORT FACILITY | FACILITÉ AFRICAINE DE SOUTIEN JURIDIQUE

CLIFFORD CHANCE

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Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
BRD	Development Bank of Rwanda PLC
CBI	Climate Bonds Initiative
CBS	Climate Bonds Standard and Certification Scheme
CEPR	Centre for Economic Policy Research
CSR	Corporate Social Responsibility
DFC	US International Development Finance Corporation
DFIs	Development Finance Institutions
DTC	Depository Trust Company
EAPF	Environment Agency Pension Fund
EBRD	European Bank for Reconstruction and Development
EGO	Amundi Planet Emerging Green One
ESF	European Social Fund
ESG	Environmental, Social and Governance
GBP	Green Bond Principles
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEB	Guaranteed Equity Bond
GSS	Green, Social and Sustainable
GSSS	Green, Social, Sustainability and Sustainability-Linked
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
ICMA	International Capital Market Association
IDA	International Development Association
IFC	International Finance Corporation
IFIs	International Finance Institutions
IMF	International Monetary Fund
IPT	Insurance Premium Tax
KPI	Key Performance Indicators
MDBs	Multilateral Development Banks
MIGA	Multilateral Investment Guarantee Agency
PRI	UN Principles for Responsible Investment
REGIO	Real Economy Green Investment Opportunity GEB Bond Fund
RWF	Rwandan Francs
SBG	Sustainability Bond Guidelines
SBP	Social Bond Principles
SDG	United Nations Sustainable Development Goals
SDSN	Sustainable Development Solutions Network

SLB	Sustainability-Linked Bond
SME	Small and Medium-Sized Enterprises
SPT	Sustainability Performance Targets
SPV	Special Purpose Vehicle
TNC	The Nature Conservancy
UNDP	UN Development Programme
UNECA	UN Economic Commission for Africa
UNEP FI	United Nations Environment Programme Finance Initiative

Executive Summary

ALSF Sovereign Debt Knowledge Product and Capacity Building Program: Sustainability Finance Debt Guide

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For the African Legal Support Facility (ALSF)

The financing needs of African countries especially post the Covid-19 pandemic, the war in Ukraine and in the face of quantitative tightening and higher inflation are greater than ever. Countries in Africa face significant financing needs related to climate change and energy transition as well as development aspirations.

There is an increasing global demand for financial instruments which can contribute to the funding needs of projects or activities aimed at positive environmental and/or social changes. A growing number of investors have incorporated Environmental, Social and Governance («ESG») linked targets in their investment objectives. This is partly in recognition of the negative effects of climate change and in response to international treaties (such as the 2015 Paris Agreement regarding climate change) and the United Nations Sustainable Development Goals («SDGs»).

African sovereigns could reach a wider and more diverse investor pool by issuing thematic instruments (e.g. from green / blue / social bonds). The continent hosts a wide variety of natural resources which could be utilised in energy projects funded by sustainable finance instruments. Moreover, Africa also has a plethora of social projects which could benefit from funding from social linked thematic instruments. The guide examines various types of thematic instruments which African sovereigns could utilise, with a particular focus on sovereign bonds. Africa's blue economy also has significant potential.

Africa has an active bond market and some African sovereigns (such as Egypt and Benin) have already made issuances of green / SDG linked bonds. The guide describes how thematic bonds can broadly be divided into «use of proceeds» bonds (where the proceeds are used to fund eligible projects) or sustainability linked bonds («SLBs») (which are linked to key performance indicators («KPIs») and sustainable targets).

Examples of use of proceeds bonds include green bonds (which fund environmental projects) and social bonds (which fund projects advancing social objectives). For these bonds, suitable projects are identified which are expected to have positive ESG impacts.

By contrast, SLBs involve identifying suitable KPIs which the proceeds of the bonds will be used to achieve. Progress against the KPIs is measured by Sustainable Performance Targets («SPTs»). KPIs, SPTs and the timeline within which the SPTs are to be achieved are defined at the outset of the issuance. The guide discusses the various aspects an African sovereign should consider when deciding to issue ESG linked bonds and includes case studies African sovereigns may refer to as well as information on ESG Frameworks. African sovereigns looking to issue SLBs can ensure that the KPIs are both measurable and achievable as there can be negative commercial consequences should the issuer fail to achieve the SPTs within the set timeframe.

The guide also discusses blended finance (i.e., strategically using international financial institutions («IFIs») and multilateral development banks («MDBs») to attract commercial investment in sustainable development in developing countries) and related credit enhancement (which involves raising the credit rating of the bonds) which can make the bonds more attractive to a broader investor base and can reduce the cost of borrowing for the sovereign.

Finally, the guide also considers alternative financing options, such as ESG linked loans, impact bonds and debt swaps, which could also be utilised by African sovereigns to raise finance linked to ESG or SDG objectives.

FOREWORD

This guide is the result of a collaboration between the African Legal Support Facility (ALSF) and Clifford Chance initiated by the ALSF to promote and develop knowledge of sustainable finance in Africa. The guide hopes to promote interest in thematic bonds and to engage relevant stakeholders in the region on the theme of finance relating to green, blue, social and sustainability-linked objectives.

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- Martin Kessler – Finance for Development Lab

We look forward to continued dialogue with all contributors in the future and to transitioning this guide into reality.

SECTION 1 INTRODUCTION TO THE GUIDE

1.1 Part A

1.1 Pathways Towards African ESG/SDG Financing

a. “Africa can no longer wait on the margins, and the time is now for the continent to rechart its development path and own its development agenda”.1

b. At the global level, between 1998 and 2017, more than half a million people lost their lives because of extreme weather events. In the same period, the global economy lost USD 3.47 trillion.2 The frequency of extreme weather events is increasing as a consequence of climate change. However, climate events are just one element of the global climate emergency, with other impacts including rising sea levels, temperature increases, and changes in rainfall patterns. As well as having significant environmental consequences, such changes can also have a devastating impact on the lives of inhabitants and the governance of the affected areas. Initiatives such as the Paris Agreement, the Glasgow Climate Pact and the Sustainable Development Goals (the “SDGs”) provide guidance and objectives for how to better safeguard the planet’s future.3 However, implementing these initiatives and, more generally, mitigating the approaching climate emergency requires financial resources.

c. An IMF paper puts the cost of disasters for small states at nearly 2% of GDP - more than four times that for larger countries - due to the higher frequency of disasters and greater vulnerability to severe disasters.4

d. The COVID-19 pandemic represented an unprecedented international challenge which impacted all areas of life - devastating public health services, collapsing food systems, increasing poverty, and unemployment. It also served as a reminder that global, collective action is required in the face of such crises and that life on earth is fragile.[5] In Africa, particularly in landlocked developing countries such as Botswana, Eswatini, Ethiopia, Lesotho, Malawi and Mali, the pandemic abruptly halted sustainable development progress because of mobility restrictions (such as border closures, mandatory testing and quarantine), the amplification of existing geographical and structural vulnerabilities, and a decrease of the flow of goods and services in transit.[6] For instance, trade restrictions at borders and mobility restrictions (such as border closures, limited access to ports) hindered shipments and reception of crucial medical supplies, vaccines and pharmaceuticals.

e. The African Union Commission, the UN Economic Commission for Africa (UNECA), the African Development Bank (AfDB), and the UN Development Programme (UNDP) issued a report assessing Africa’s progress towards the SDGs and related goals of Agenda 2063 in light of the COVID-19 pandemic and the war in Ukraine. The report found that without “an SDG push” by 2030, at least 492 million people will be left in extreme poverty and at least 350 million by 2050.7 There is a need to find innovative financial solutions to foster sustainable development and to reduce debt burdens. This guide focuses on the use of Environmental, Social and Governance (**ESG**) bonds (**ESG Bonds**) and bonds linked to the sustainable development goals (**SDG bonds**) to help achieve these goals, while also providing information on other innovative methods of furthering (and funding) sustainable, environmental, and social ambitions within Africa.

f. This guide uses the terms ESG and SDG financing interchangeably. Technically speaking, in the sovereign context, ESG debt financing refers to the issuance of sovereign debt to meet ESG objectives.

1 African Development Bank. “New report shows need for greater action if Africa is to hit SDG, Agenda 2063 targets”. 14 December 2022. https://www.afdb.org/en/news-and-events/press-releases/new-report-shows-need-greater-action-if-africa-hit-sdg-agenda-2063-targets-57403.
2 World Economic Forum. “This chart shows where extreme weather is causing the most fatalities”. 17 December 2019. https://www.weforum.org/agenda/2019/12/extreme-weather-environment-climate-change.
3 The Paris Agreement sets out Nationally Determined Contributions (NDCs) which are the targets that countries are working to achieve to stop temperatures rising.
4 IMF Policy Paper. “Small States’ Resilience To Natural Disasters And Climate Change—Role For The IMF”. December 2016. https://www.imf.org/external/np/pp/eng/2016/110416.pdf.
5 World Health Organisation, “Impact of COVID-19 on people’s livelihoods, their health and our food systems”. 13 October 2020. https://www.who.int/news/item/13-10-2020-impact-of-covid-19-on-people’s-livelihoods-their-health-and-our-food-systems#:~: text=The%20COVID%2D19%20pandemic%20has ,and%20the%20world%20of%20work.&text=Nearly%20half%20of%20the%20world’s ,risk%20of%20losing%20their%20livelihoods.
6 United Nations. “2021d. Implementation of the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014 – 2024: Report of the Secretary-General (A/76/267)”. 3 August 2021. https://digitallibrary.un.org/record/3938215?ln=en.
7 SDG Knowledge Hub. “UN Report Calls for “SDG Push” to Lift Millions of Africans out of Poverty”. 25 January 2023. https://sdg.iisd.org/news/un-report-calls-for-sdg-push-to-lift-millions-of-africans-out-of-poverty/.

Meanwhile, SDG financing is a subset of ESG financing but one linked more explicitly to the 17 Sustainable Development Goals (SDGs) established by the United Nations in 2015, which aim to address urgent global challenges in both environmental8 and social fields by 2030. This guide also uses the term "thematic" bonds to refer to financing targeted towards specific investment themes such as climate change, health, food or education.

g. It is worth noting that some investors may use ESG financing as a risk management tool to consider a range of non-financial factors which may not be included in financial reports. For example, placing certain operations, policies or procedures under scrutiny by measuring them against ESG/SGD objectives may reduce the likelihood of costly eventualities which could reduce the value of the investment. The ESD/SGD benefits of a financing are therefore not the primary consideration for all investors.

1.2 Why ESG/SDG Bonds for African Sovereigns?

a. There are undoubtedly opportunities to issue ESG bonds, SDG bonds or other suitable debt instruments in Africa. If longer term pandemic recovery is linked in part to ESG initiatives, then there is the prospect of realising material, long-term benefits for developing countries. There is also the opportunity to raise funds to bolster the region's climate resilience, improve the lives of African people and support governance structures. Other benefits include the diversification of the region's investor base, improved terms for existing debt, and fresh funds that can be used to develop Africa's progress towards the SDGs. This is particularly important given that the COVID-19 pandemic reversed some of the gains African countries had made in previous years.[9]

b. To demonstrate the value of ESG and SDG bonds in Africa and local specificities affecting the potential for green, blue, social and sustainability-focused financings, as well as considerations for the region to convert this potential into successful investments and realisation of benefits, this guide includes case studies for Mexico's SDG 2020 bond, Chile's SLB framework, Uruguay's sustainability linked bond and Benin's sustainability linked bond (*see Section* 5 - *Case Studies*).

1.3 Fiscal Considerations and the Pandemic

a. "*There is a faster recovery elsewhere because money is being poured into the system. The continent is at a big disadvantage. Many African countries are still lifting the key basic things, people out of poverty, providing basic education and health services. Now spending and investment are drying up and that translates into distress and destitution.*" – Ahunna Eziaonwa, director of the UNDP's regional bureau for Africa.[10]

b. The impact of COVID-19 has disrupted all aspects of life in Africa. In particular, economic activity halted, consequently drying up revenue for public expenditure so debt levels rose and countries were plunged into high risk of debt distress[11] alongside double-digit inflation in 17 countries and tumultuous commodity prices.[12]

c. Despite some African countries' experience of dealing with previous epidemics (such as HIV/AIDS and Ebola),[13] considerable resources were deployed in response to the resulting social, health and financial emergencies.

d. There was a stark need for development and aid which prompted unusual partnerships between civil and private sectors. For example, through the African Influencers for Development initiative which launched with the UNDP's support, a group of prominent figures joined to push a sustainable development agenda and influence policy[14] and the African sovereign wealth and pension fund leaders collaborated on supply chain and trade support through digitisation.[15]

e. The combination of increased expenditure and decreased revenue has seen many African countries relying on short-term emergency financing. For example, the European Investment Bank and the African Export-Import Bank provided USD 300 million for a recovery fund supporting sub-Saharan African sovereigns, with a significant focus on a green recovery.[16]

f. The administrative cost of establishing an ESG/SLB bond framework is not insignificant. However short-term and emergency financing is not a sustainable long-term solution and African sovereigns require more sustainable methods of funding their post-COVID recovery. Before the region's economy had a chance to recover from the pandemic, price levels of food, essentials and energy rose, driven by supply chain disruptions and the fallout from the war in Ukraine alongside weaker national currencies against the dollar-amplified inflationary pressures.[17]

8 For example, of the 17 SDGs, SDG 13 "Climate action" is most directly related to climate change. SDG 6 "Clean water and sanitation", 7 "Affordable and clean energy", 11 "Sustainable cities and communities", 12 "Responsible consumption and production", 14 "Life below water", and 15 "Life on land" are climate-relevant and impacted by a country's climate action (or non-action).

9 UNDP. "2022 AFRICA Sustainable Development Report". 10 January 2023. https://www.undp.org/africa/publications/africa-sustainable-development-report-asdr-2022

10 The Guardian. "'An economic calamity': Africa faces years of post-Covid instability". 13 August 2021. https://www.theguardian.com/world/2021/aug/13/an-economic-calamity-africa-faces-years-of-post-covid-instability.

11 Brookings. "Debt sustainability and financing for development: A key post-COVID challenge", 9 February 2021. https://www.brookings.edu/blog/africa-in-focus/2021/02/09/debt-sustainability-and-financing-for-development-a-key-post-covid-challenge/.

12 Brookings. "Debt sustainability and financing for development: A key post-COVID challenge". 9 February 2021. https://www.brookings.edu/blog/africa-in-focus/2021/02/09/debt-sustainability-and-financing-for-development-a-key-post-covid-challenge/.

13 United Nations. "Policy Brief: Impact of COVID-19 in Africa". May 2020. https://unsdg.un.org/resources/policy-brief-impact-covid-19-africa.

14 United Nations. "Powerful coalition of African influencers to drive the continent's development agenda, launched at UN General Assembly". 22 September 2019. https://www.undp.org/africa/press-releases/powerful-coalition-african-influencers-drive-continent%E2%80%99s-development-agenda-launched-un-general-assembly.

15 United Nations. "Policy Brief: Impact of COVID-19 in Africa". May 2020. https://unsdg.un.org/resources/policy-brief-impact-covid-19-africa.

16 European Investment Bank. "Green, smart and inclusive finance". 11 November 2021. https://www.eib.org/en/essays/africa-green-lending.

17 Africa Renewal. "Africa: Economic growth decelerates before full recovery from pandemic-led contraction". 25 January 2023. https://www.un.org/africarenewal/magazine/january-2023/africa-economic-growth-decelerates-full-recovery-pandemic-led-contraction.

Sovereigns therefore need to consider their other financing needs, being mindful of the high levels of debt that have previously been incurred and maintaining (and in some cases restoring) debt sustainability.

1.4 Opportunities for ESG/SDG-Financing in Africa

a. Africa has a plethora of ongoing social projects which would benefit from social bond finance. Moreover, the continent is home to some of the world's most attractive solar resources, untapped geothermal capacity and many unexploited wind sites, so there are plenty of natural resources to justify renewable energy projects utilising green bond finance. At the same time, roughly half of the continent's population still lacks any access to electricity at home and many of those who do experience intermittent supplies.[18]

b. Africa clearly has the potential to develop its already established ESG/SDG financing history. For example, Africa's green bond market has grown almost every year since its inaugural issuance from South Africa in 2012.[19] The Nairobi Securities Exchange also established its Green Bond Programme in 2017 with a debut issuance for the construction of environmentally-friendly accommodation in 2019. The Nairobi Securities Exchange published an "*Issuer's Guide to the Green Bond Market*" shortly thereafter and has more recently been involved in establishing the Africa Green Finance Coalition to pioneer green investment and steer policy and resources towards fighting the climate.[20] As of July 2022, African sovereigns accounted for no more than 1% of the global green bond issuance.[21]

c. ESG/SDG financing could be implemented to help African nations achieve their targets towards SDG 4 in particular, which promotes inclusive and quality education opportunities. The pandemic put 288 million school-age children out of education so this is a clear area where the continent could greatly benefit from investment to reverse this regression.[22] Education is also well-suited for ESG/SDG financing because literacy and the number of school-age children attending schools are tangible metrics for achievement, and so lend themselves to performance targets and monitoring.

d. This is just one example of the potential for sovereigns to address the SDGs directly as part of their debt financing efforts. Notably, in the case of Benin's SDG Bonds (see further details in Section 5 part 4), the country divided the 17 SDGs into four pillars of eligible expenditures relating to its national development plan and other countries might look to take inspiration from Benin's example.

e. The case for advancing ESG and SDG investment in the African sovereigns is strong and is capable of having a significantly positive impact on future economic growth of the region.

1.5 Climate Vulnerability

a. "*Africa has been losing from 5 to 15% of its GDP per capita growth because of climate change and its related impacts.*" – African Development Bank Acting Chief Economist Kevin Urama.[23]

b. Africa is familiar with the destruction that climate change brings. African countries face seeing their GDP growth rate fall by up to 64% by the end of the century, disproportionately suffering the consequences of the climate crisis given that the continent is only responsible for 3% of global emissions.[24] Under current climate policies, the GDP growth of eight countries – Burkina Faso, Chad, Djibouti, Mali, Mauritania, Niger, Nigeria and Sudan – could be reduced by as much as 75%. The worst hit nations generate less than 0.43 tonnes of carbon dioxide (CO_2) per person, in contrast to the US and Canada generating 14 and Saudi Arabia 18 tonnes per person.[25]

c. The COVID-19 pandemic has also inevitably brought new challenges to the region's economies. Climate events, and the pandemic, have resulted at times in the erosion of fiscal buffers, reduced GDP per capita, increased poverty, reduced investment, and led to more volatility in sovereign revenue. Therefore, any approach to obtaining financial investment should also be tailored to this context, as well as taking into account debt sustainability considerations and the specific nuances related to the given country. In the absence of significant steps to action and the achieving of results to combat the climate emergency, these figures are expected to continue to rise in future periods. The severe impact of these events on African sovereigns is indicative of the region's particular vulnerability to climate change and its impact.

d. Financial investment in Africa is crucial to support efforts to safeguard the region against the impact of climate change. ESG/SDG financing offers an opportunity to fund additional investment in projects to protect further these at-risk nations. Such funding can be used to help bolster climate resilience; limit the human and economic costs resulting from climate change; develop further and grow other industries which drive tourism and the region's income streams; foster biodiversity and green habitats; and boost social cohesion and recovery post-pandemic.

18 African Business. "Africa poised for green bond growth". 16 May 2022. https://african.business/2022/05/finance-services/africa-poised-for-green-bond-growth/.
19 European Investment Bank. "Finance in Africa". 11 November 2021. https://www.eib.org/en/essays/africa-green-lending.
20 United Nations Framework Convention on Climate Change. "Africa Green Finance Coalition: Seizing the opportunity that green investment provides". 2 November 2021. https://climatechampions.unfccc.int/africa-green-finance-coalition-seizing-the-opportunity-that-green-investment-provides/.
21 Official Monetary and Financial Institutions Forum. "African sovereigns should prepare for green bond opportunities". 8 July 2022. https://www.omfif.org/2022/07/african-sovereigns-should-prepare-for-green-bond-opportunities/.
22 The Sustainable Development Goals Center for Africa and Sustainable Development Solutions Network. "2020 Africa SDG Index and Dashboard Report". 30 September 2020. https://www.sdgindex.org/reports/2020-africa-sdg-index-and-dashboards-report/.
23 African Development Bank. "Africa loses 15% of its GDP per capital annually because of climate change". 12 September 2022. https://www.afdb.org/en/news-and-events/press-releases/africa-loses-15-its-gdp-capita-annually-because-climate-change-african-development-bank-acting-chief-economist-kevin-urama-54660.
24 The Guardian. "Climate crisis will have huge impact on Africa's economies, study says". 9 November 2022. https://amp.theguardian.com/world/2022/nov/09/climate-crisis-huge-impact-africa-economies-study-says.
25 The Guardian. "Climate crisis will have huge impact on Africa's economies, study says". 9 November 2022. https://amp.theguardian.com/world/2022/nov/09/climate-crisis-huge-impact-africa-economies-study-says.

1.6 The Catalyst Role of the African Sovereign Issuer

a. ESG/SDG financing is a rapidly developing field, but remains fairly novel in some countries. Therefore ESG/SDG issuance by a sovereign can have an important catalysing effect on local markets, encouraging ESG/SDG-focussed debt issuance by entities such as state-owned enterprises and corporates. This effect has recently been observed in India – directly following the country's inaugural green issuance, the Indian state of Maharashtra announced its entry into the green bond market.[26] By leading the way in fostering market development and raising the profile of debt from that country the sovereign can be an important catalyst in furthering sustainable issuance. Analysis by the IMF noted that "*The effect of sovereign issuance [on corporate bond issuance] remains strongly positive, even when accounting for possible momentum in the growth of private debt more generally*".[27] Indeed, factors such as the degree of technical capacity, relevant government and regulatory policies, functioning markets and previously issued bonds are important criteria for investors in assessing the credibility of an ESG/SDG issuance, and a well-structured sovereign ESG/SDG debt issuance by a sovereign addresses many of these areas.[28]

b. Multilaterals such as the AfDB can also perform a catalyst role in local markets. This is exemplified by the Sustainable Bond Programme by the AfDB, which forms part of AfDB's strategic priority of supporting the transition by African countries to green growth through the financing of eligible climate change and social projects.29 AfDB's Programme is in line with the ICMA Green Bond Principles 2021, Social Bond Principles 2023 and the Sustainability Bond Guidelines 2021. The scope of its Framework enables AfDB to increase its ESG issuance and contribute to the development of the African sustainable bond market.30

1.7 What are the Next Steps for African Sovereign ESG/SDG Issuances?

a. This guide aims to provide useful guidance and create a toolkit for potential issuers of ESG/SDG bonds within Africa. It focusses on the key steps required for issuing ESG/SDG bonds by African sovereigns and includes high-level information on each of the key steps which have been identified as relevant to bringing an ESG/SDG bond to market, including project identification (where applicable), issuer identification, investor identification, framework development, regulation development, and transaction structuring and issuance. These key steps are then discussed in context within the focus country case studies.

b. A World Bank study found a high correlation between sovereign ESG scores and a country's national income. The analysis revealed an 81% correlation for aggregate ESG, an 85% correlation for the 'Social' pillar, a 70% correlation for the 'Green' pillar and a 51% correlation for the 'Environmental' pillar.[31] This correlation has been described by the World Bank study as an example of 'ingrained income bias' to which sovereign ESG scores are subject, due to being excessively represented by national income, when investors actually expect ESG scores to capture sustainability separate from national income. As African countries generally rank lower in development and income levels,[32] their ESG scores would therefore arguably be subject to income bias, leading to a lower ESG rating. ESG ratings can be improved through stronger sustainable investment policy frameworks and through investing in resources to build enabling ESG standards and regulations.[33]

c. In addition to providing practical guidance, this guide sets out other options that may benefit African sovereigns. This includes how issuances by way of exchange or rollover of existing debt for new debt with ESG characteristics could be beneficial in the current high debt-to-GDP environment. The guide also aims to demystify other instruments that could be used within the region to obtain funding for ESG-related projects and provides examples of how these have worked in other countries. We also highlight (where possible) the various institutions that can provide technical and other support for such financing projects.

d. We note that a realistic time frame to successfully build the infrastructure for ESG/SDG financings within African sovereigns would be 12 to 18 months. This is because there are several pre-conditions which are required for the successful issuance of these instruments. Whilst countries may feel that current macroeconomic circumstances may not be favourable for "*new money*" ESG/SDG issuances, there are considerable advantages associated with starting to prepare now for a future where ESG financial solutions play a substantial role. Addressing these preconditions now will therefore provide both flexibility in addressing existing debt considerations in an ESG-related manner and place relevant issuers in a position where they can access these now significant an£d growing ESG markets and investors in the medium term.

26 London School of Economics and Political Science. "India's sovereign green bonds: steps for building on a successful debut". 15 March 2023. https://www.lse.ac.uk/granthaminstitute/news/indias-sovereign-green-bonds-steps-for-building-on-a-successful-debut/.

27 International Monetary Fund. "Global Financial Stability Report, Online Annex 2.8". 11 October 2022. https://www.imf.org/-/media/Files/Publications/GFSR/2022/October/English/ch2onlineannex.ashx

28 Global Center on Adaptation. "Green Bonds for Climate Resilience State of Play and Roadmap to Scale", 28 October 2021. https://gca.org/wp-content/uploads/2021/10/Green-Bonds-for-Climate-Resilience_State-of-Play-and-Roadmap-to-Scale.pdf

29 African Development Bank. "Sustainable Bond Program". https://www.afdb.org/en/financial-information/investor-resources/capital-markets/sustainable-bond-program#:~:text=The%20AfDB%20Sustainable%20Bond%20program ,financing%20of%20eligible%20social%20projects.

30 African Development Bank. "Sustainable Bond Framework". September 2023. https://www.afdb.org/sites/default/files/2023/09/12/230912_afdb_sustainable_bond_framework_final.pdf.

31 World Bank. "Demystifying Sovereign ESG". 2020. https://documents1.worldbank.org/curated/en/842671621238316887/pdf/Demystifying-Sovereign-ESG.pdf.

32 ISS African Futures. 'Low income Africa'. Last updated 7 June 2023. https://futures.issafrica.org/geographic/income-groups/low-income-africa/#:~: text=Low%2Dincome%20Africa%20has%2023 ,Sudan%2C%20South%20Sudan%2C%20Togo%20

33 The Commonwealth. 'Environmental, Social and Governance Practices for Value Creation in the Commonwealth.' 30 March 2023. https://thecommonwealth.org/publications/environmental-social-and-governance-practices-value-creation-commonwealth#:~: text=Often%20the%20areas%20that%20would ,enabling%20regulatory%20environments%20for%20ESG

2. Part B

1.1 Box of African Sovereigns Already Active in the ESG/SDG Space

a. African bond market generally

Africa has an active bond market. In 2021 alone, USD11.8 billion worth of Eurobonds were issued by African sovereigns. While some of this USD11.8 billion was issued by emerging market Egypt (USD3.75 billion issuance), the majority of it was issued by frontier SSA economies like Kenya (USD1 billion), Ghana (USD3 billion), Benin (EUR1 billion), Senegal (EUR0.8 billion), Ivory Coast (EUR0.85 billion), and Cameroon (EUR0.7 billion). Their experience in the international capital markets could prove useful if they were to issue ESG or SDG bond in the international capital markets.[34] In 2022, there was a 14% increase in the issuance of green, social, sustainability and sustainability-linked (GSS+) bonds, outstripping the 6% growth in the global market.[35]

b. Examples of African issues of ESG/SDG bonds

(i) Global sustainable bond issuances reached more than USD1.1 trillion in 2021 and, following a slight dip in 2022, is expected to come close to this once more in 2023.[36] However, sovereign sustainable bond issuances are still quite limited, representing only 11 percent of the total issuance in 2021. As of May 2023, there have only been four sovereign issuers of Green, Social and Sustainable bonds (**GSS bonds**) in Africa.[37]

(ii) Over 70% of Africa's green bonds have been issued in South Africa, with Morocco and Nigeria responsible for a further 23%, but other nations are starting to enter the market. A total of USD3.96 billion of green debt had been issued in Africa by August 2021 but the market remains fairly narrow. According to figures from the Brookings Institution, in 2022 Africa as a whole accounts for just 0.4% of global green bond issuance, a figure far below its 17% share of global population and even its 3% share of global GDP.[38] As Jean-Paul Adam, Director of the Technology, Climate Change, and Natural Resources Management at the UNECA commented, "*While Africa has 23% of official climate finance; it has less than 1% of global green bond issuance*".[39] Vice President and Treasurer of the World Bank, Jorge Familiar Calderon also noted that "*sustainable finance presents a critical opportunity for Africa to recover from the COVID-19 crisis and protect itself from further global conditions that could impede development*".[40] This enthusiasm is widely shared – the GSS bonds market "*remains a new frontier for Africa that will help the continent build a deeper, resilient, and sustainable financing*", according to policymakers, regulators, and peer sovereign issuers from across West Africa.[41]

(i) Set out below is a summary of some of the key ESG/SDG bonds issued in Africa.

34 Global Development Policy Center, "Bond, Eurobond: Tracking African Eurobonds Issued Between 2006-2021", October 2021, https://www.bu.edu/gdp/2021/10/22/bond-eurobond-tracking-african-eurobonds-issued-between-2006-2021/#:~: text=While%20some%20of%20this%20%2411.8 ,Cameroon%20(%E2%82%AC0.7%20billion).
35 ESG Investor. "Africa's GSS+ Bond Market Ripe for Growth". 13 March 2023. https://www.esginvestor.net/africas-gss-bond-market-ripe-for-growth/.
36 Standard & Poor's. "Sustainable Bond Issuance Will Return To Growth In 2023". 7 February 2023. https://www.spglobal.com/_assets/documents/ratings/research/101572346.pdf.
37 The World Bank. "Green, Social, and Sustainable Bonds to Serve Africa's Sustainable Investment Needs". 26 May 2022. https://www.worldbank.org/en/news/press-release/2022/05/27/afw-green-social-and-sustainable-bonds-to-serve-africa-s-sustainable-investment-needs.
38 African Business. "Africa poised for green bond growth". 16 May 2022. https://african.business/2022/05/finance-services/africa-poised-for-green-bond-growth/.
39 UNECA. "Green, Social, and Sustainable bonds to serve Africa's sustainable investment needs". 26 May 2022. https://www.uneca.org/stories/green%2C-social%2C-and-sustainable-bonds-to-serve-africa%E2%80%99s-sustainable-investment-needs.
40 UNECA. "The Opportunity of Green, Social, and Sustainable (GSS) Bonds to Finance Development in Africa". 22 June 2022. https://www.uneca.org/stories/the-opportunity-of-green%2C-social%2C-and-sustainable-%28gss%29-bonds-to-finance-development-in.
41 The World Bank. "Green, Social, and Sustainable Bonds to Serve Africa's Sustainable Investment Needs". 26 May 2022. https://www.worldbank.org/en/news/press-release/2022/05/27/afw-green-social-and-sustainable-bonds-to-serve-africa-s-sustainable-investment-needs.

Issuer Name	Type of Bond	Description
Benin	SDG bond EUR 500 million 12.5 year[42]	First African nation to issue an SDG Eurobond. The use of proceeds were centred around four pillars of the national development plan, all oriented towards the achievement of SDGs. The four pillars are: • "Population" or Social (includes developing agriculture, access to drinking water, housing for the poor); • "Prosperity" or Economy (includes access to low-carbon, reliable and affordable energy); • "Planet" or Environment (sustainable infrastructure, conservation of biodiversity, restoration of forest); and • "Peace/Partnership" or Governance (promoting heritage sites, educational sites).[43]
Moroccan Agency for Sustainable Energy	Climate bond USD 104 million	-
Nedbank South Africa	SDG bond R2 billion[44]	Was expected to benefit the South African economy through the creation of over 6,000 new jobs and nearly 20,000 SME loans, in addition to catalysing around R4 billion (USD 232 million) in additional investment in clean energy.
Nigeria	Green bond USD 3.69 billion [45]	-
Egypt	Green bond USD 750 million	Egypt became the first Middle Eastern and North African country to issue a sovereign green bond. The issuance was intended to demonstrate Egypt's commitment to the United Nations' Sustainable Development Goals and was in line with the economic, social and environmental aspects of the "Sustainable Development Strategy Egypt Vision 2030".[46]

42 Natixis. "Republic of Benin's trailblazing €500m 12,5-Y inaugural issuance under its new SDG Bond Framework". 28 July 2021. https://gsh.cib.natixis.com/our-center-of-expertise/articles/republic-of-benin-s-trailblazing-500m-12-5-y-inaugural-issuance-under-its-new-sdg-bond-framework.
43 UBP. "UBP Participates in Africa's First SDG Bond". 5 August 2021. https://www.ubp.com/en/newsroom/ubp-participates-in-africas-first-sdg-bond.
44 African Development Bank. "African Development Bank concludes R2 billion investment in Nedbank SDG-linked bond". 2020. https://www.afdb.org/ar/news-and-events/press-releases/african-development-bank-concludes-r2-billion-investment-nedbank-sdg-linked-bonds-36712.
45 African Business. "Africa poised for green bond growth". 16 May 2022. https://african.business/2022/05/finance-services/africa-poised-for-green-bond-growth/.
46 Crédit Agricole. "Egypt Issues the First Ever Sovereign Green Bond in the Middle-East & North Africa Region". https://www.ca-cib.com/pressroom/news/egypt-issues-first-ever-sovereign-green-bond-middle-east-north-africa-region

3. Part C

1.1 Objectives

a. The overall purpose of this guide is to identify potential means through which to increase the prospects of the successful financing of ESG and SDG projects by African sovereigns, while also providing an overview of other ways of promoting and financing ESG ambitions in the region.

b. The main components of the guide are:

(A) **ESG Demand and Growth**: This section provides an overview of the market for ESG, including: the background to ESG finance development and growth; an introduction to how ESG has become institutionalised across many (if not all) industries and what this means for African sovereigns; an introduction to the types of investors in ESG; and notable trends in the market and investor preferences which have emerged generally, or in relation to specific instruments (including an overview of the term "*greenium*").

(B) **Blended Finance and Credit Enhancement**: This section provides an overview of blended finance, the benefits of blended finance and the options for obtaining blended finance and credit enhancement in Africa.

(C) **Issue of ESG/SDG Bonds by African Sovereigns**: This section provides an overview of the key steps involved in the process of issuing an ESG/SDG bond as a sovereign.

(D) **Case Studies**: By way of illustration, this section will provide a review of certain landmark ESG/SDG sovereign from around the world, with the objective of giving a roadmap for African countries should they pursue thematic bonds in the future.

(E) **Oceans and the Blue Economy**: This section gives an overview of the concept of the blue economy and the potential links with Africa.

(F) **Utilising Natural Capital**: This section gives an overview of the concept of natural capital as sources of finance.

(G) **Annexes A, B and C**: The Annexes to this guide set out further detail and example documents.

(1) Annex A, Part 1 sets out details of example frameworks of issuers currently in the market, including Green, Social and Sustainable Bond Frameworks. In this section, the objective is to provide an overview of the relevant features of a thematic issuance, including frameworks and taxonomies for the different types of thematic bonds in the market; and to provide examples of each type of bond through case studies covering recent thematic bond issuances from around the world to highlight relevant parallels for African sovereigns and ideas for how Africa can also access similar financing for projects and programmes with positive environmental and social benefits. Annex A, Part 2 sets out a first draft of a template framework outline which can be used or developed further for use for a thematic bond.

(2) Annex B provides further details on the Blue Bond Principles and ICMA Principles, which generally form the basis of a Framework.

(3) Annex C sets out other possible financing options, including loans, impact bonds and debt swaps. further resources that may be of interest are also set out in this section.

SECTION 2 ESG DEMAND AND GROWTH

1. An Overview of Types of ESG/SDG Financing (E.G., Green, Blue, Social, SDG Bonds) and the Key Differences

1.1 The main difference between ESG/SDG bonds and standard bond financing is the focus on ESG/SDG-related objectives. Accordingly, there are additional factors to consider when issuing an ESG/SDG bond (as further explored further in Section 4 below).

1.2 ESG/SDG bonds fall into five types, which vary according to the type of issue addressed and how the funds may be used. These include:

a. green bonds (where the funds raised are exclusively applied to environmental projects or objectives);

b. blue bonds (where the funds raised are applied exclusively to the protection and conservation of marine ecosystems or similar);

c. social bonds (where the funds raised are exclusively spent on projects or objectives advancing social objectives);

d. sustainability bonds (which fund both environmental and social projects or objectives);

e. SDG bonds (which, as explained above, are very similar to sustainability bonds in that they can reference both environmental and social objectives, but are linked more closely to the achievement of the UN's SDGs); and

f. sustainability-linked bonds (**SLBs**) (where the funds raised can be spent on a combination of ESG objectives attached to Key Performance Indicators (**KPIs**) and can include general debt servicing terms changes if the issuer does not achieve specific ESG-linked KPIs within a set timeframe).[47]

The bonds in (a)-(e) would typically be known as "*use of proceeds*" bonds, while SLBs are a "*sustainability-linked*" instrument. As explored in Section 4 below, for a "*use of proceeds*" bond, one or more eligible projects or financing objectives will need to be identified and investment therein executed. Issuing countries must also be able to demonstrate the ESG-related benefits of the financing. While the commitments made as part of the issuance are not typically legally binding, non-fulfilment of the commitments risks serious reputational damage both among investors and more widely, risks the appearance of "*greenwashing*".

1.3 The thematic bond market is fast moving and adapts quickly to the changing needs of issuers (and investors). Historically, the market consisted of only green bonds. However, the thematic bond landscape has become more colourful over recent years, and, while green is still the most prevalent type of bond, its market share is reducing.

1.4 2022 was a challenging year for the global bond market, including ESG bonds. According to figures from Environmental Finance Data, green, social, sustainability, and sustainability-linked bond issuance in 2022 shrank 15% to USD899 billion from the record USD1.05 trillion set in 2021.[48] Green bonds, as the oldest sustainable bond label, demonstrated endurance however, managing to contain issuance shrinkage to just 10%, whereas younger labels reported issuance declines in excess of 20%.[49] Despite geopolitical conflict and inflation, the sustainable bond market was able to bolster its share of global bond markets to more than 13.5% – including more than a 15% share in the last six months of the year.[50]

1.5 Reactive to a variety of needs and global circumstances, each sub-theme of thematic bonds is developing differently within the market. The chart below presents the global breakdown for different types of thematic bond issuances in 2022.

47 International Monetary Fund. "Sovereign ESG Bond Issuance A Guidance Note for Sovereign Debt Managers". March 2023. https://www.imf.org/en/Publications/WP/Issues/2023/03/11/Sovereign-ESG-Bond-Issuance-A-Guidance-Note-for-Sovereign-Debt-Managers-530638
48 Environmental Finance. "Sustainable Bonds Insight 2023". 2023. https://www.environmental-finance.com/content/downloads/sustainable-bonds-insight-2023.html.
49 Environmental Finance. "Sustainable Bonds Insight 2023". 2023. https://www.environmental-finance.com/content/downloads/sustainable-bonds-insight-2023.html.
50 Environmental Finance. "Sustainable Bonds Insight 2023". 2023. https://www.environmental-finance.com/content/downloads/sustainable-bonds-insight-2023.html.

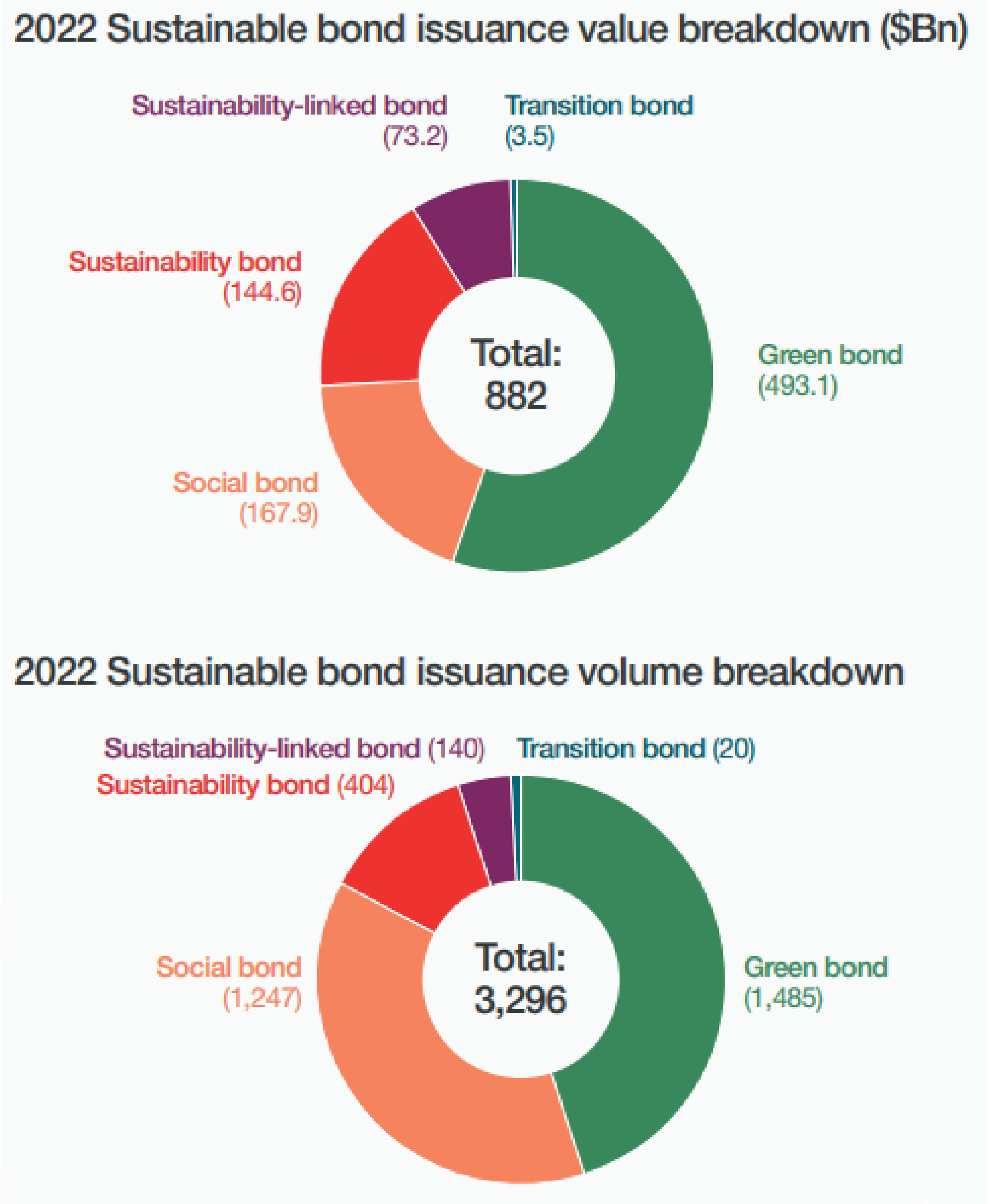

Figure 1 - Sustainable Bond Issuance Value Issuance Breakdowns

Practically speaking, this information shows that that there is a strong market for green, social and sustainability bonds, but SLBs are not yet as prevalent in the market. SLBs however provide issuing countries with greater flexibility, especially where large scale use of proceeds projects may be less prevalent as SLBs allow a mix of ESG related KPIs to be used in one transaction.

2. The Potential Benefits of ESG/SDG Financing

1. Popular with investors, particularly helping sovereigns to reach a wider and more diverse investor pool.

2. Helps to demonstrate ESG commitment publicly (including to the implementation of the Paris Agreement and the SDGs) and boosts international reputation.

3. Potential for debt pricing benefits, such as through linking the cost of borrowing compliance with predetermined ESG-linked metrics, the possible effect of the "greenium" (see Paragraph 7 of this Section) and potential use of blended finance and/or credit enhancement (see Section 3).

4. Less quantifiable positives, as highlighted by individuals such as Davide Iacovoni (Director General of Public Debt Management at the Italian Treasury) include that ESG/SDG financing incentivises transparency of reporting and stronger, clearer internal conversations on government expenditure.[51]

3. The International Capital Market Association's (ICMA) Principles for Issuing Green, Social and Sustainability Bonds

1. ICMA's voluntary guidelines are practitioner developed, non-prescriptive principles which were established to encourage the growth of the thematic, use of proceeds bond market. They also seek to foster standardisation. For each label of bond, they cover the use of proceeds, project selection, management of proceeds and requirements relating to reporting (or the equivalent for SLBs).52 It is worth noting that these elements form the core of any framework created by an issuer to the extent it aligns with the relevant industry standard for the relevant label. Where participants use the ICMA Principles, a second-party opinion is often provided which is a pre-issuance report to investors on the alignment of the bond with the relevant Principles. Such opinion will cover these core principles where the product is use of proceeds focused. More information on the ICMA Principles can be found at Annex B to this guide.

4. Blue Bond Principles

1. The International Finance Corporation (IFC), a member of the World Bank Group, together with ICMA, the United Nations Global Compact (UN Global Compact), the United Nations Environment Programme Finance Initiative (UNEP FI), and the Asian Development Bank (ADB) have developed a global practitioner's guide for bonds to finance the sustainable blue economy (the Blue Bond Principles).53

2. The voluntary guidance provides market participants with clear criteria, practices, and examples for "blue bond" lending and issuances. Gathering input from the financial markets, ocean industry and global institutions, it provides information on the key components involved in launching a credible "blue bond", how to evaluate the environmental impact of "blue bond" investments; and the steps needed to facilitate transactions that preserve the integrity of the market.54

3. The Blue Bond Principles build on and are intended to be used in conjunction with the existing global standards that underpin the global sustainable bond markets. The guidance also draws on pre-existing specific guidance from the Blue Finance Guidelines of the IFC[55], the Sustainable Blue Economy Finance Principles[56] and practical guidance[57] documents of UNEP FI, the UN Global Compact Practical Guidance to Issue a Blue Bond[58] and Sustainable Ocean Principles[59] and guidance documents, and the Ocean Finance Framework[60] and Green and Blue Bond Framework[61] of the ADB. While some "blue bond" issuances have and will include freshwater-related projects (e.g., aligned with IFC's Blue Finance Guidelines), the Blue Bond principles are focused on ocean-related projects that support SDG 14 – Life Below Water.

4. More information on the Blue Bond Principles can be found at Annex B to this guide.

5. Why are Investors so Focused on ESG/SDG Issuances?

1. Aside from the advantages of thematic investments to investors and notwithstanding that some investors focus solely on thematic products, ESG is also becoming increasingly institutionalised across many industries. This growing trend mandates an increased recognition of ESG risks and objectives across the majority of institutions and provides that ESG factors are incorporated within many (if not all) areas of organisations.

2. Below, we set out some observations on how this has developed and continues to develop in order

51 Official Monetary and Financial Institutions Forum. "Greenium set to stay, say sovereign debt issuers". 7 February 2022. https://www.omfif.org/2022/02/greenium-set-to-stay-say-sovereign-debt-issuers/.
52 Additional guidance on their practical application is also provided in the ICMA Guidance Handbook https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/The-GBP-Guidance-Handbook-June-2021-140621.pdf.
53 • The International Capital Market Association. "Bonds to Finance the Sustainable Blue Economy". https://www.icmagroup.org/assets/documents/Sustainable-finance/Bonds-to-Finance-the-Sustainable-Blue-Economy-a-Practitioners-Guide-September-2023.pd
54 • UN Environment Programme. "New guidance on blue bonds to help unlock finance for a sustainable ocean economy". https://www.unepfi.org/themes/ecosystems/new-guidance-on-blue-bonds-to-help-unlock-finance-for-a-sustainable-ocean-economy/
55 • International Finance Corporation. "Guidelines for Blue Finance". https://www.ifc.org/en/insights-reports/2022/guidelines-for-blue-finance
56 • UN Environment Programme. «Sustainable Blue Economy Finance Principles». https://www.unepfi.org/blue-finance/the-principles/
57 • UN Environment Programme. "Resources – Sustainable Blue Finance". https://www.unepfi.org/blue-finance/resources/
58 • United Nations Global Compact. "Practical Guidance to Issue a Blue Bond". https://unglobalcompact.org/library/5798
59 • United Nations Global Compact. "Sustainable Ocean Principles". https://d306pr3pise04h.cloudfront.net/docs/publications%2FSustainable+Ocean+Principles.pdf
60 • Asian Development Bank. "Asian Development Bank Ocean Finance Framework". https://www.adb.org/publications/adb-ocean-finance-framework
61 • Asian Development Bank. "Green and Blue Bond Framework". https://www.adb.org/sites/default/files/publication/731026/adb-green-blue-bond-framework.pdf

to assist potential issuers with their understanding of what is driving investors and their ESG-oriented investment decisions. These and other factors have contributed to the increasing relevance of ESG financial solutions.

(a) **Governance:** Institutions have been changing their governance methodology to incorporate ESG. They may consider it their fiduciary duty, or equally as a means of reducing the risk of stakeholder opposition due to ESG management concerns. This may also stem from the financial benefits that studies have identified in institutions that implement appropriate ESG policies, highlighting that it is "no longer a nice-to-have; it's a must-have". The method of changing institutional governance varies, but it is becoming more engrained within institutional culture and policies, for instance: 62

Many companies are hiring **chief sustainability officers** – an example of cultural change. This includes companies such as P&G and Nike.

Others are changing **investment policies**, such as Goldman Sachs Group Inc. which will no longer underwrite company initial public offerings where there is not at least one diverse board member.

Grace Kennedy *Group, "one of the Caribbean's largest and most dynamic Food and Financial corporate entities*", notes in its Corporate Social Responsibility Policy that its "*success is also measured by how we help to improve the health of our planet and people through sustainable business practices*" and it has a number of **CSR initiatives** in operation.

(b) **ESG-focused thematic Investment**:[63] Many institutions already aim to invest a specific percentage of their funds into ESG assets, or are implementing their own internal ESG targets (such as reducing their own carbon emissions). Investment practices and trends have changed and will continue to change to incorporate ESG. This is sometimes due to changes to investment policy, but also because of the recognition of the benefits of ESG-focused investing. A variety of methods are being used to achieve investment targets, including the creation of specific business groups targeting ESG, or changing regular investments into sustainable ones. For example, Barclays PLC created a new branch of its investment bank, the Sustainable and Impact Banking Group, to focus solely on ESG. JP Morgan launched in January 2020 J.P. Morgan Development Finance Institution to finance opportunities with anticipated development impact in emerging economies.

A poll by Morgan Stanley of 1,000 investors revealed that **85 per cent. of investors** are interested in sustainable investing and implementing this into their strategy.

Natixis found that **70 per cent of institutional investors** expect ESG-aligned investing to become standard practice within the industry within the next five years.

Natixis also found that **almost all** believe that institutional investors "*have an important role to play in addressing the world's most pressing challenges*".

(c) **Risk Mitigation Strategies**: Organisations are increasingly preparing for opportunities and risks that stem from climate change with a focus on building resilience. Concerns stem from the sweeping nature of climate change and the realisation that no area is immune from its effects. The impacts of environmental damage are far reaching, negatively impacting numerous organisations and economies around the world. The impacts of climate change are also not isolated to one particular area or industry. The drivers behind this factor include among other things the desire to seize opportunities, mitigate risks, and prepare for the future.

(d) **Regulatory Activity and Support**: Each of the factors above is occurring alongside a heightened regulatory environment which supports and encourages an ESG focus. This has also seen the establishment of increased ESG-related requirements. Financial statements, for instance, are more frequently required to build in ESG disclosure, and ESG factors are being seen as an element of fiduciary duty. Other examples include: [64]

The U.S. Department of Labor has issued guidance confirming that fiduciaries with obligations under the Employee Retirement and Income Security Act of 1974 can consider ESG factors.

The EU Sustainable Finance Taxonomy Regulation, which came into force on 12 July 2021 and which sets out an EU framework to assess whether certain activities are sustainable or not (more information on this later in the Study).

Consar, Mexico's national retirement savings commission, which oversees the country's pension fund, encourages ESG factors to be included in risk and investment strategies.

62 • S&P Global Market Intelligence. "Investment Banks push into new frontier of sustainability". 12 February 2020. https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/investment-banks-push-into-new-frontier-of-sustainability-56725983; and GraceKennedy. "Corporate Social Responsibility Policy". October 2019. https://www.gracekennedy.com/wp-content/uploads/GraceKennedy-Corporate-Social-Responsibility-Policy-Oct-2019.pdf.

63 • Institutional Asset Manager Article. "ESG will be industry standard within five years, say institutional investors". June 2020. https://www.institutionalassetmanager.co.uk/2020/05/19/285756/esg-will-be-industry-standard-within-five-years-say-institutional-investors.

64 • IDB Policy Brief. "The Business Case for ESG Investing for Pension and Sovereign Wealth Funds". June 2020 https://publications.iadb.org/publications/english/document/The-Business-Case-for-ESG-Investing-for-Pension-and-Sovereign-Wealth-Funds.pdf

6. Who Invests in ESG/SDG Linked Bonds and What is the Broader Investor Base?

1. "*The debt capital markets have generally been at the heart of many investment banks' sustainability efforts*." Dan Saccardi, CERES.[65]

2. It is clear is that there are a vast number of investors in ESG instruments. One indication of this is the number of signatories to the UN Principles for Responsible Investment (**PRI**) which currently numbers around 7,000 corporate signatories. However, it is also worth noting that some investors may use ESG as a risk management tool and would therefore be less likely to engage with projects they deem to be riskier. Such projects could include risk mitigation strategies in vulnerable locations or investments where there are doubts as to the issuer's governance.

3. The next part of this guide is intended to provide a general overview of the types of investors in ESG-focused products and how they invest. The objective is to indicate those investing in this area and in what types of products. The types of investors have been categorised into private investors and public investors.

4. **Private Investors**:

(i) Climate change is increasingly acknowledged by private investors as a core risk to their business and investment portfolios. As mentioned, many institutions, including the majority of banks, asset managers, pension funds, insurers, and foundations have an ESG policy for themselves and their investments. This increasing awareness of the risks that climate change poses across asset classes and business types, and specific institutional targets and policies, has resulted in increased appetite for ESG products from a range of investors.

(ii) While many private investors may be international, there is also huge potential within Africa. Domestic or diaspora investors also form part of the solution for smaller deal sizes for thematic bond issuances.

(iii) Within Africa there are a host of potential investors in thematic bonds. Most African institutional investors are commercial banks. While the thematic bond investment market is currently not as established as elsewhere, there is potential for the development of a local investment base, or building on an already established investor base.

(iv) The relevant domestic investor base would have to be identified within each country, but there is no shortage of domestic investors in the region. There may also be an existing infrastructure that pools together potential investors, which will ease the identification process.

5. **Public Investors**

(i) "*We hope that the green impact investment framework behind REGIO and its commitment to sustainable development is something that will be taken up by the wider industry*." Nicolas Moreau, global CEO, HSBC Global Asset Management.

(ii) There is also increasing public investment in thematic bonds. This can raise awareness of a particular issuance and also ameliorate private investors' apprehension over first-mover risks. This role is generally performed by public pension funds, international development banks and sovereign wealth funds.

(iii) Official institutions are gravitating to a position where they centralise ESG factors in their strategy and investments with 43% of official institutions' assets covered by a publicly disclosed ESG or responsible investment policy. For example, the Government Pension Fund of Norway states that "*sustainable development is a precondition for return on the Petroleum Fund's financial investments in the long term*".

Asset Managers: Similarly, most established assets managers have ESG funds. There are also some specialist ESG asset managers such as Affirmative Investment Management and Trillium. Further, the growing recognition that the risk profile of many ESG products is similar to that of non-ESG products has resulted in investors purchasing thematic bonds for both traditional and sustainable portfolios.

Insurance Industry: This industry is directly exposed to the impacts of climate change and its investment in climate change mitigation is important for its own resilience. Insurance companies such as Zurich, for instance, are involved in mitigating these risks through returns-driven, impact investing. Zurich (and other insurers) have been particularly interested in supporting green bond growth.

Impact Investors: There has been a rise in impact investment managers, including Encourage Capital, the Meloy Fund and Althelia, which are more established. These also include blue-specific funds, such as the Sustainable Ocean Fund.

Foundations: Endowments and foundations have $2 trillion in global assets under management and they are incorporating ESG factors into their investment practices and policies. For instance, the University of California (a signatory to the PRI) set a goal to invest $1 billion in clean energy solutions by 2020, with returns from such investments outperforming its benchmarks. Other endowments come with specific stipulations that investments must be sustainable or socially responsible. At the end of 2019, the Divest Invest pledge (a pledge to divest from fossil fuels and invest in climate solutions) had been signed by nearly 200 foundations managing $24 billion.

Pension Funds: Many pension funds also regard the ESG market as important. For example, PGGM, which is based in Europe, invests part of its assets in ESG-focused investments, which also yield a financial return. It has incorporated within its 2020 Strategic Policy three sustainability goals: (1) reducing its carbon footprint by half; (2) quadrupling its volume of positive impact investments; and (3) further integrating ESG into its whole investment process. Another example is the UK pension scheme EAPF, which is implementing ESG issues throughout its strategy.

65 • Standard & Poor's. "Investment banks push into new frontier of sustainability". 12 February 2020. https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/investment-banks-push-into-new-frontier-of-sustainability-56725983

7. Does This Interest Create a "Greenium"?

a. "*The greenium in secondary markets has increased significantly," [Gert Jan Koopman, director general, budget, European Commission] said. "My expectation is that the shift in the investment community towards ESG [environmental, social and governance] is now so strong that relative pricing is unlikely to change much compared to where we are today.*"[66]

b. "*Borrowers engaging with investors in the GSS market are able to command a so-called greenium – shorthand for a discount to their curve in conventional markets.*"[67]

c. "*A greenium is fundamentally a part of the overall discount factor (or the required rate of return) in the vantage point of the investor. The sustainability factor associated with a thematic bond is a credit positive – such that the issuance of the bond is perceived to improve sustainability. This in turn results in lower overall risk of the issue (issuer). This would warrant a lower yield (higher price) relative to the normal curve (i.e., greenium)*".[68]

d. The existence or not of a "greenium" is still being debated. On this note it is worth noting:

(i) **Undersupply:** The Climate Bonds Initiative (**CBI**) reviewed 18 EUR denominated bonds issued in 2020. The researchers focused on the extent to which use of proceeds bonds with the theme of social, sustainability and pandemic were oversubscribed. Every single bond was oversubscribed, with book cover of up to 14.5 for European Union 2030 social bonds; 12.6 for European Union 2040 bonds; 7.3 for EIB 2028 bonds; 5.6 for Madrid 2030 bonds; and 2.2 for Unédic Asseo. Demand was unable to meet supply in the bonds reviewed by the CBI.[69] This demand could apply equally to Africa.

(ii) **Reduced Borrowing Costs:** Some bookrunners have commented that because of the large orders from investors they have "*experienced less pricing sensitivity at the final pricing stage of the bond, resulting in around 10-15bp reduction in borrowing costs for the issuer*".[70] Again, this pricing advantage could apply to Africa.

e. These and other sources suggest that demand for thematic products (including ESG and SDG bonds) outstrips supply and that a greenium is emerging. Other terms may also become more preferential. This could benefit Africa through either a new thematic bond issuance, or through a rolling or refinancing of existing debt into a thematic product.

f. A more sceptical perspective by the Centre for Economic Policy Research (the **CEPR**), however, provides that green bonds do not enjoy much of a greenium (save for countries which face substantial climate risk) and that there is insufficient evidence for the existence of a greenium.[71] The CEPR note that increasing the greenium may require either enforceable "genuine green bonds" or "well-designed sustainability-linked bonds whose debt servicing terms are contingent on attaining prespecified environmental impact targets."[72]

g. On the basis of considerable and still growing demand from investors, we now turn in the next section to a discussion of the roadmap for implementing thematic instruments, with a particular focus on thematic bonds.

66 Official Monetary and Financial Institutions Forum. "Greenium set to stay, say sovereign debt issuers". 7 February 2022. https://www.omfif.org/2022/02/greenium-set-to-stay-say-sovereign-debt-issuers/.
67 Official Monetary and Financial Institutions Forum. "African sovereigns should prepare for green bond opportunities". 8 July 2022. https://www.omfif.org/2022/07/african-sovereigns-should-prepare-for-green-bond-opportunities/.
68 United Nations Development Programme. "Identifying the 'greenium'". 25 April 2022. https://www.undp.org/blog/identifying-greenium.
69 Climate Bonds Initiative. "Weekend Read: EU's social bond leaves investors wanting more: Rollout of recovery response stirs market". 30 October 2020. https://www.climatebonds.net/2020/10/weekend-read-eus-social-bond-leaves-investors-wanting-more-rollout-recovery-response-stirs.
70 The Asset.com. "The burning question: Does ESG-focussed financing have any financial benefits?". 1 February 2021 https://www.theasset.com/article-esg/42786/the-burning-question.
71 Centre for Economic Policy Research. 'Climate and Debt: Geneva Reports on the World Economy 25'. 14 October 2022. https://cepr.org/system/files/publication-files/173807-geneva_25_climate_and_debt.pdf.
72 Ibid.

SECTION 3 – BLENDED FINANCE AND CREDIT ENHANCEMENT

1. Definition of Blended Finance

1. Blended finance refers to the strategic use of international financial institutions (IFIs) and multilateral development banks (MDBs) for the mobilisation of commercial finance towards sustainable development in developing countries.

2. The idea is therefore to bring together public and private funding structures to attract commercial capital to projects which contribute to sustainable development, while providing both financial returns and social impact.

3. An important aim of blended finance is to maximise the funds available to developing countries in their attempts to fund green, blue or social projects, meet the UN's SDGs and support the implementation of the Paris Agreement.

4. Blended finance can take various forms. Given the focus of this guide on ESG and SGD bond financing, this section will focus primarily on solutions applicable to that space.

5. In terms of a sovereign bond issuance, the most commonly used structure is a guarantee (or partial credit guarantee) or insurance policy (for example political risk insurance). Under the guarantee, the IFI or MDB agrees to pay part or all of the value of an instrument in the case of loss. For various reasons, explored in Paragraph 3 of this Section, this is an attractive proposition for commercial capital. Other options available include risk insurance and more structured solutions utilising subordinated debt or equity.

6. It is worth noting that blended finance is a broad term and can also refer to support given to private companies, rather than sovereigns.

2. Guarantees vs Insurance

1. Whilst in many instances guarantees and insurance can be made to be functionally equivalent from an economic perspective, they stem from different underlying legal concepts and are typically treated differently in regulatory, tax and accounting terms.

2. In the context under contemplation in this guide, the following broad points of distinction between a guarantee and insurance are relevant:

(a) Under a guarantee, the guarantor agrees to perform certain specified payment obligations of the debtor (which in the bond context would be the issuer), if the debtor fails to perform its obligations to the creditor (which would be the bondholders). The basic arrangement is therefore tripartite, involving the debtor, the guarantor and the creditor (or in the case of multiple bondholders, a trustee or agent acting on behalf of the bondholders for the purposes of payments under the guarantee).

(b) Under insurance contracts, the insurer reimburses or indemnifies the insured for loss shown to be suffered upon the occurrence of one or more of the insured risks. The basic arrangement under insurance contracts is therefore bilateral in nature. Creditors may take out insurance (e.g. limited types of political risk insurance) without the debtor being aware, but this would not be typical in the sovereign space.

(c) Insurance contracts generally impose a duty of utmost good faith and so, in practice, require full disclosure. A failure by the insured to meet this standard may result in the insurer being able to avoid the contract. Institutions providing insurance tend to require specific regulatory authorisation to enter into insurance contracts. The inclusion of an insurance product in a transaction may also lead to insurance licensing or exemption requirements for certain parties in the funding structure and thought will need to be given to this.

(d) Typically, where a guarantor makes a payment under the guarantee to the creditor (or a trustee or agent on its behalf), the debtor is required to reimburse (or counter-guarantee/indemnify) the guarantor. Under many systems of law this reimbursement right is implied and carries rights (through subrogation) under which the guarantor may pursue the debtor for payment. In practice, in the context of instruments under contemplation in this guide, the terms under which this reimbursement occurs are typically specified contractually.

3. There may be other technical differences, including the making of premium payments.

3. Benefits of Blended Finance

1. Mitigating Risk

The major benefit of blended finance and credit enhancement in pursuit of ESG financing is that it addresses two common market barriers which might otherwise deter private investment: high risk, and lower return for the level of risk when compared to comparable investments.

(a) **High Risk:** Initiatives designed to meet ESG objectives (including SDGs and/implementation of the Paris Agreement) may involve risks that would not be acceptable to purely commercial investors. For example:

(i) Green energy projects frequently require large amounts of up-front capital before they become operational, particularly if they involve new technologies. Under ordinary circumstances this high financial risk might deter commercial investors.

(ii) Infrastructure spending tends to have high levels of state involvement, and may involve public services, state-owned entities or natural monopolies (e.g. water supplies). This can carry a high degree of political risk.[73]

(iii) Other risks which might deter international investors include weak local financial markets, currency volatility and poor regulatory and legal frameworks in the target developing country.

(b) **Comparatively Low Returns**: The challenge is that even if such types of risk are acceptable to investors, the level of return may not adequately compensate for the level of risk at a strictly commercial level.

These risk-based limitations which attach to private capital may either limit the scale of financing and/or associated projects (thereby limiting the SDG benefit) or make projects more vulnerable to external shocks. Using blended finance as a structuring tool can help to rebalance risk to create a more attractive risk profile for commercial capital.

(a) Using the example of a partial credit guarantee, commercial investors know that the portion covered by the guarantee will be honoured by the guarantor. They can therefore accept a higher level of risk in the remaining investment than they would otherwise.

(b) The guarantee might also be tied to a specific risk, for example political risk. Therefore commercial investors are protected from that specific risk.

2. Broaden Investor Base

(a) Blended finance increases the pool of potential investors for ESG financing as a result of the change in risk profile, and therefore potentially the credit rating of the debt when compared to the sovereign's issuer credit rating.

(b) It is also possible to use innovative finance structures to further broaden the investor base, for example by using an SPV to split the guaranteed cash flows from the unguaranteed cash flows which allows the different credits to be sold to specific investors.[74]

3. Cheaper Borrowing

By altering the risk profile of the investment as described above, not only can sovereigns benefit from a wider pool of investors but can also obtain cheaper financing by leveraging the benefit of the IFI or MDB support. Clearly this is always a welcome effect for sovereigns, but even more so in the prevailing global inflationary environment.

4. Freeing Public Capital for New Development Projects

By attracting and mobilising commercial capital where it might otherwise have stayed away, developing countries are able to deploy existing public capital and Official Development Assistance for a greater quantity of development projects.

4.Options for Obtaining Blended Finance in Africa

1. Sub-Saharan Africa is already a significant focus for blended finance more broadly. For example, in the period 2019-2021 41% of global climate blended finance deals were targeted at Sub-Saharan Africa (see Figure 2).

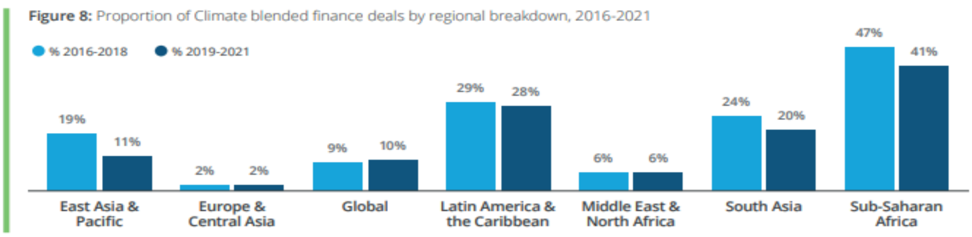

Figure 2: Proportion of Climate blended finance deals by regional breakdown, 2016-2021[75]

73 International Monetary Fund. "GLOBAL FINANCIAL STABILITY REPORT – Scaling Up Private Climate Finance in Emerging Market and Developing Economies: Challenges and Opportunities". October 2022. https://www.imf.org/-/media/Files/Publications/GFSR/2022/October/English/ch2.ashx

74 An example of this is the social bond issued by the Republic of Ecuador in 2020 and partially guaranteed by the Inter-American Development Bank, which was purchased by an SPV and split into two series of bonds, one which reflected Ecuador credit risk and one which reflected IADB credit risk. The offering memorandums for the two series of bonds are available here: https://www.luxse.com/issuer/EcuSocBond/98583

75 Convergence. "State of Blended Finance 2022: Climate Edition". 26 October 2022. https://www.convergence.finance/api/file/e1ed51052109b8fa3b94309f0456461c:599c5f93e-781858c30a8d2d54bbbfdfa7917833331c6d92294ef754782a0fd11af09d01069c072d32939c76147cdf3999881d2717e4047d259f33ec9d192b2ce5aa4459a08c72136bd2620b06c-

2. However, the need is great. For example, in the energy sector, in 2019 around 570 million people in Sub-Saharan Africa lacked access to electricity,[76] but according to the UN Deputy Secretary-General Amina Mohammed just 2% of clean energy investments flow into Africa.[77]

3. The importance of blended finance in realising the SDGs is widely recognised. The Chief Economist of the Economic Commission for Africa has called for the region-wide crowding of the private sector by means of harnessing blended finance.[78]

4. The primary sources of blended finance in Africa are the World Bank (through the IFC and the Multilateral Investment Guarantee Agency ("MIGA")). Two examples of ESG focused funds established by IFC are included below:

   (a) Amundi and IFC launched the "*world's largest green bond fund dedicated to emerging markets*" in 2017 to further private investment in ESG-related projects by buying green bonds issued by financial institutions in developing countries in accordance with Amundi's Responsible Investment Policy.[79] The Amundi Planet Emerging Green One provides a tiered risk structure with first loss protection to encourage investment in emerging markets. The IFC is a cornerstone investor with an initial investment of USD325 million, with other funds raised through pension funds, institutional investors, sovereign wealth funds and insurers. The fund aims to deploy around USD2 billion into emerging market green bonds. The IFC is also providing training within target countries on how to develop and issue green bonds.[80]

   (b) The Real Economy Green Investment Opportunity GEB Bond Fund (**REGIO**) is a joint initiative between HSBC Global Asset Management and the IFC, which closed with USD474 million, including funds from HSBC, the IFC, and pension funds and insurance companies based in Europe. The fund will target green and sustainable bonds from real economy issuers in emerging markets with the aim to support climate risk mitigation-related investments. It is supported by HSBC Global Asset Management's "*Green Impact Investment Guidelines*" providing a framework covering multiple asset classes and includes eligible activities and projects aligned with impact. [81] It aligns with the SDGs. The IFC is providing technical assistance to the Fund through its Technical Assistance Facility.

5. Other sources of blended finance in Africa include certain MDBs, such as:

   (a) the AfDB;

   (b) Islamic Corporation for the Insurance of Investment and Export Credit (**ICIEC**); and

   (c) European Bank for Reconstruction and Development (**EBRD**).

6. Support can also be found from development finance institutions (the DFIs) and bodies comprised of:

   (a) numerous DFIs, such as:

      (i) Africa Agriculture and Trade Investment Fund; and

      (ii) GuarantCo (comprises various international DFIs); and

   (a) philanthropic institutions, such as:

      (i) Catalytic Capital Consortium; and

      (ii) Gates Foundation.

7. On 29 September 2023, the World Bank announced that it had provided credit support to Rwanda Development Bank's (BRD) inaugural Sustainability-Linked Bond. This followed an announcement in June 2023 by the World Bank that it has approved USD 100 million in additional credit support for the SLB program in local currency, a first for a World Bank operation.

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76 IEA, IRENA, UNSD, World Bank, WHO. "Tracking SDG 7: The Energy Progress Report 2021". June 2021. https://trackingsdg7.esmap.org/data/files/download-documents/2021_tracking_sdg7_report.pdf

77 United Nations. "Blended Finance Tools Can Offset Risks, Incentivize Climate Investment in Africa, Deputy-Secretary General Tells Regional Forum". 4 August 2022. https://press.un.org/en/2022/dsgsm1775.doc.htm

78 Economic Commission for Africa. "Fresh commitment, investment needed to achieve SDGs in Africa". 2 March 2023. https://www.uneca.org/stories/fresh-commitment%2C-investment-needed-to-achieve-sdgs-in-africa

79 Amundi. "Responsible Investment Policy". 20 April 2021. https://about.amundi.com/files/nuxeo/dl/2f89a9f0-3100-40f4-ad18-aed7160439cd

80 More information can be found here: https://www.amundi.lu/professional/product/view/LU1688574620.

81 HSBC Global Asset Management. "Green Impact Investment Guidelines". September 2020. https://www.assetmanagement.hsbc.com/-/media/files/attachments/common/green-impact-investment-guidelines-regio-2022-en-b2b.pdf

CASE STUDY: GHANA AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION

By way of example, in 2015, a number of factors were restricting Ghana from accessing the international capital markets to refinance its debt. The International Development Association's (**IDA**) partial credit guarantee, the first policy-based guarantee in the market for fourteen years, helped Ghana bring its bond to market and achieve a number of significant other milestones:

- In 2015, Ghana issued a USD 1 billion Eurobond series due in 2030. At 15 years, it had the longest Eurobond tenor achieved by a Sub-Saharan African country (except South Africa). It also had a 100% twice over-subscribed order book with approximately 15% of the final order book going to new investors and achieved a two-notch ratings uplift from each of Fitch and Moody's.[82]

- The issuance was supported by a policy-based guarantee from IDA which covered up to USD 400 million, which is 40% of the notional amount of the bonds. Subsequently, Ghana bought back and cancelled USD 70 million of the bonds, thus reducing the guarantee to USD 372 million.

- Ghana then used the proceeds of the bond to refinance existing debt by lowering the interest rate and an increasing the maturity of that debt.83

Despite their advantages, there are disclosure, cost and structuring considerations associated with partial credit guarantees:

- Disclosure: All material information about the guarantor, the guarantee and any counter-indemnity is typically included in marketing materials, but also the prospectus for the bond issuance.[84]

- Fees: These vary between institutions, for instance IBRD fees comprise of a stand-by fee, guarantee fee and a front-end fee, whereas IDA fees do not include a front-end fee. There may also be up-front and processing fees.

- Coverage: They can cover principal and/or interest (in part or in full). Terms are flexible - it could cover coupon payments on a rolling basis or all or part of the principal payment of a bullet bond. Most are partial guarantees and the percentage coverage varies.

- Counter-guarantee (or counter-indemnity): The issuer enters into a counter-guarantee with the guarantee provider which ensures that the issuer will indemnify the guarantee provider in the event that it makes a pay-out under the guarantee. Guarantees can be provided to sub-national or state-owned entities, with a sovereign providing the counter-guarantee. Often if the guarantee is called upon, counter-guarantee payments can be converted into loans between the issuer and the guarantor. These are usually governed by international law.[85]

- The case of Ghana has shown, however, in the context of its current debt restructuring under the G20 Common Framework Market, market uncertainty as to expected treatment of such a partially guaranteed bond.

82 World Bank Group. "Ghana – Policy Based Guarantee". http://pubdocs.worldbank.org/en/800221518206127385/Briefs-Guarantees-GhanaPolicy.pdf.
83 World Bank. "Factsheet: Ghana Policy-Based Guarantee". 14 April 2023. https://www.worldbank.org/en/news/factsheet/2023/04/14/ghana-policy-based-guarantee-pbg#:~:text=The%202030%20Eurobond%20was%20backed ,the%20guarantee%20to%20%24372%20million.
84 Example prospectus disclosure in respect of IDA can be found in the Republic of Ghana's prospectus dated 9 October 2015 https://www.ise.ie/debt_documents/Prospectus - Standalone_dfd49e7a-f8b0-4674-9032-ce0a76a0b1c7.pdf?v=1492015.
85 World Bank. "World Bank Credit Guarantee". 2019. http://pubdocs.worldbank.org/en/948571507314980958/product-note-world-bank-credit-guarantee-2019.pdf.

SECTION 4 ISSUE OF ESG/SDG BONDS BY AFRICAN SOVEREIGNS

In this section we review in greater detail some key considerations for moving forward with thematic issuances by African sovereigns. Below is our proposed "roadmap" for issuing thematic bonds in Africa.

1. Step 1 – Resource and Technical Assistance identification and criteria for identifying investment projects

There are numerous bodies (including IFIs) and resources available that can help an issuer to develop its first thematic product. Part of the initial process is to identify available resources, applicable technical assistance programmes and suitable investment projects.

Many IFIs, such as the World Bank,[86] have set up specific programmes to support thematic bond issuances. Early engagement with the available resources and technical assistance programmes[87] can result in efficiencies for the issuer.

World Bank - Sustainable Finance and ESG Advisory Services

- The World Bank Treasury provides technical assistance to emerging markets to support the development of blue, green and social bond markets.
- Technical assistance includes both pre-issuance technical assistance (such as assisting with the development of a green bond framework and helping to identify eligible projects) and post-issuance technical assistance (such as explaining the information required to measure the impact of green projects and sharing templates for monitoring and reporting).
- The World Bank can also assist with capacity building for instututional investors establishing ESG strategies.
- Many sovereigns have utilised the support of the World Bank Treasury when issuing ESG/SDG Bonds. For example, technical assistance from the World Bank Treasury was utilised for the issuance of sovereign green bonds by Nigeria and Fiji.

Other specialist organisations, such as The Nature Conservancy (**TNC**)[88] and the Nigerian Green Bond Market Development Programme[89], can also provide technical assistance and may have relevant expert knowledge.

86 The World Bank. "World Bank Treasury Advisory Services - Developing Green, Blue and Social Bond Markets". https://thedocs.worldbank.org/en/doc/272781557253098332-0340022019/original/WorldBankTreasuryTechnicalAssistanceforGreenBondMarketDevelopment.pdf) and
The World Bank "Sustainable Finance Advisory - Innovative Sustainable Financing Solutions for Emerging Markets", https://thedocs.worldbank.org/en/doc/830161591296989906-0340022020/original/WorldBankSustainableFinanceAdvisoryBrochureJune2020.pdf).
87 Further information on technical assistance offered by the World Bank is available here https://treasury.worldbank.org/en/about/unit/treasury/client-services/sustainable-finance-advisory.
88 The Nature Conservancy. "Blue Bonds: An Audacious Plan to Save the World's Ocean". 4 March 2021. https://www.nature.org/en-us/what-we-do/our-insights/perspectives/an-audacious-plan-to-save-the-worlds-oceans/).
Further information about TNC is available here: https://www.nature.org/en-us/about-us/who-we-are/
89 FMDQ Group. "FMDQ Exchange Reiterates its Support for the Development of the Nigerian Green Bond Market". https://fmdqgroup.com/greenexchange/fmdq-exchange-reiterates-its-support-for-the-development-of-the-nigerian-green-bond-market/.
FSD Africa. "The Nigerian Green Bond Market Development Programme Impact Report -2018-2021". https://fsdafrica.org/publication/the-nigerian-green-bond-market-development-programme-impact-report-2018-2021/

The Nature Conservancy – Blue Bonds for Conservation

- TNC is a global environmental nonprofit which aims to “conserve the lands and waters on which all life depends”.
- TNC works with costal and island countries in, amongst other places, Africa to refinance some of their national debt. The resulting savings are used to fund marine conservation.

The Nigerian Green Bond Market Development Programme

- Developed with the aim of expediting the development of the Nigerian green bond market, including he development of a non-sovereign green bond market.
- The Programme has assisted in the issuance and reporting of green bonds in Nigeria. For example, the Programme has provided tecnhical support by facilitating engagement between transaction parties and selecting technical consultations for green bond verification.
- The Programme has also provided training sessions to and assisted with the development of guidelines and listings requirements for Green Bonds in Nigeria.

The African Development Bank can also provide technical assistance.

Climate Fund Managers

- Climate Fund Managers (CFM) is a for-profit investment manager.
- CFM provide financing solutions for infrastructure developers in the renewable energy, water sanitation and ocean sectors.
- CFM, via its marine ecosystem venture, Oceans Finance Company (OFC), played a key role in Ecuador’s debt-for-nature swap (discussed further below). It played a leading role on the financial structuring and invested USD 2 million in early-stage development capital via its Climate Investor Two (CI2) Fund.

Knowledge sharing is also important. There are platforms which provide for the exchange of information, templates and other resources, for instance:[90]

Africa Green Bond Toolkit

- An African Green Bond Toolkit was developed to, “provide the African capital markets with the guidance on how to issue green bonds that are in line with international best practices and standards”.
- The toolkit contains practical advice for the issuance of green bonds and features examples of previous issuances of green bonds in Africa.

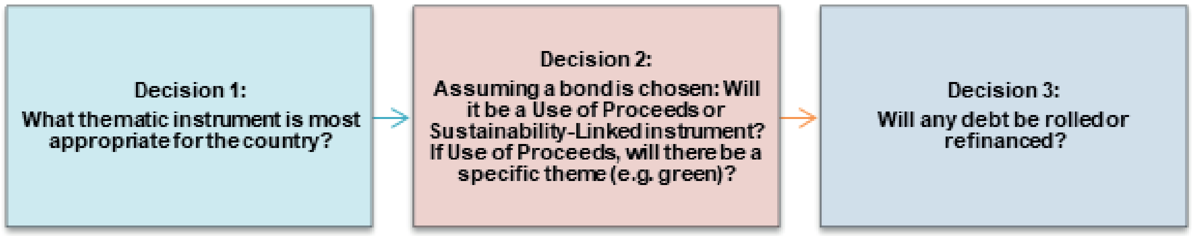
90 FSD Africa. “The Africa Green Bond Toolkit”. 4 August 2020. https://www.fsdafrica.org/wp-content/uploads/2020/08/Africa_GBToolKit_Eng_FINAL.pdf
International Finance Corporation. “The Green Bond Technical Assistance Program”. https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/climate-finance/green-bond-technical-assistance-program

•The Green Bond Technical Assistance Program

- The International Finance Corporation (IFC) launched this technical assistance program in 2018 to, "create a market for green bonds in developing countries".
- The program focusses on financial institutions active in emerging markets. However, some of the resources may be of use to a sovereign issuer.

Step 2 – Concept and Instrument Identification

This step includes determining: (1) the most appropriate type of thematic instrument for the debtor (such as bonds or loans); and (2) the appropriate type of sustainability concept (such as use of proceeds focused or sustainability-linked). It is also useful to consider if the process will include debt rolling or refinancing.



What instruments could be considered?

Thematic bonds are the most widely-used method of financing thematic projects.

However, they may not be suitable for every country and therefore consideration should be given to other types of thematic products that can have similar impacts – for instance, loans, impact bonds and debt swaps. Further information on these products is set out in Annex C.

Given the focus of this guide on issuing sovereign bonds, we will assume that a bond is chosen as the financing method.

Use of Proceeds or Sustainability-Linked?

Where thematic bonds are used, the issuer would need to decide whether to pursue a "*use of proceeds*" focused or a "*sustainability-linked*" instrument.

USE OF PROCEEDS

- A use of proceeds instrument can be used to funds projects with specific environmental / social benefits.
- These instruments are suited to countries which have a portfolio of projects in need of funding that are at a good level of development. This may not be the case for all African countries.

SUSTAINABILITY-LINKED

- Sustainability-linked instruments are not linked to specific projects but are linked to sustainability targets which the issuer must achieve. They can be used to help a sovereign to achieve pre-existing sustainability commitments.
- Where the project pipeline is not strongly developed or the aggregate project value is not sufficiently high, parties should consider using a sustainability-linked instrument to allow flexibility for use of proceeds from the bond.
- To ensure compliance, issuers should ensure that the targets set are ambitious but achievable by the mid-point to maturity of the bond. A financial penalty may be incurred where such targets are not met.

In light of debt constraints within the region, some countries may prefer to amend existing debt to accommodate thematic features through debt rolling or refinancing.

Where African countries have incurred a significant amount of debt, for example, in response to the COVID-19 pandemic, there may be considerable benefits associated with rolling over or refinancing sovereign debt owed to the private sector in a manner which creates new thematic instruments. The amount of debt being rolled over / refinanced would represent the size of the new issuance or loan.

DEBT ROLLING / REFINANCING

THROUGH CREATING NEW SOVEREIGN SLBs OR LOANS

- The focus of the new instrument issued in exchange for the debt which is rolled over / refinanced would be key performance indicators, which if met, could provide more favourable terms to the sovereign issuer/ borrower (e.g. through lower interest rates).
- Multiple key performance indicators could be selected, which, in the aggregate, could result in a significant investment. However, that level of investment would not be required at the outset.

THROUGH CREATING NEW SOVEREIGN USE OF PROCEEDS BONDS (GREEN, BLUE, SOCIAL OR SUSTAINABILITY) OR LOANS

- As use of proceeds is an essential feature of these instruments, any debt being rolled over or refinanced would need to establish an instrument which creates proceeds (or their equivalent) to be invested in relevant projects.
- This could involve identifying savings associated with the debt rollover or refinancing. For example, exchanging a USD10 million instrument which is payable in 2024 with a new thematic instrument payable in ten equal annual instalments commencing in 2027, would generate USD10 million of savings in 2025. Utilising that saving through making local currency equivalent payments towards qualifying projects during the course of 2025 and 2026 could satisfy the use of proceeds requirements.

- Bond issuances or loans of this type can combine the benefits of debt swaps (as described above) with the creation of new markets in sovereign thematic bonds and sovereign SLBs or loans in the African region.
- For use of proceeds bonds, ICMA recommends that issuers (i) provide an estimate of the share of financing against re-financing, (ii) confirm which investments or project portfolios may be refinanced (where appropriate) and (iii) clarify the expected look-back period for refinanced eligible projects (to the extent relevant).
- Any such approach could also be combined with credit enhancement through, for example, the addition of a partial guarantee in respect of principal. The benefits of such a feature, including the impact of the coupon payable on the new instrument, would need to be weighed against the likely additional costs involved.

Step 3 – Eligible Portfolio or KPI/SPT Identification

The next step is to identify:

8. (in the case of use of proceeds bonds) a portfolio of eligible projects; or
9. (in the case of SLBs) relevant KPIs and SPTs.

Decision (use of proceeds):
Which projects are the most suitable?

→

Decision (sustainability-linked):
What KPIs/SPTs are the most suitable?

KEY CONSIDERATIONS

USE OF PROCEEDS BONDS (*or another project-focused instrument*)	SUSTAINABILITY-LINKED BONDS (*or another sustainability-focused instrument*)
1. projects and/or milestones; 2. funding needs of the relevant projects; and 3. if additional aggregation is required to create a larger pool of assets (this may be needed to support market-standard transaction sizes for bonds).	1. the KPI theme (e.g. climate change); and 2. the SPTs, outcomes and targets for the KPIs.

For Use of Proceeds Bonds – Portfolio identification and the identification of eligibility criteria

The issuer should develop eligibility criteria to ensure that the portfolio financed with the proceeds of the bond will have:

- for green bonds - a positive environmental impact (including blue bonds);
- for social bonds - a positive social impact; and
- for sustainability bonds - a positive social and environmental impact.

The ICMA Principles should be consulted when developing eligibility criteria, where appropriate – see Annex B for further details.

The portfolio and criteria must be decided with a view to establishing a system for reporting on projects and/or expenses which satisfy the reporting requirements (as discussed at Step 11 below).

Taxonomies can help investors to recognise a product as “*green*” etc.

TAXONOMIES

- A taxonomy is a classification system which can help investors to identify assets and projects with positive social/environmental impacts and can help issuers to demonstrate the positive impacts of their assets/projects.
- The CBI taxonomy[91] and certification scheme[92] provide voluntary guidelines for the market for green taxonomies.
- Currently, there are no global standard definitions/classifications for taxonomies. Taxonomies can be developed by non-governmental organisations (such as the CBI), academia or the private sector. However, most taxonomies are developed by sovereigns.[93]
- Efforts have been made globally to develop standard definitions and classifications, as well as to create consistent and comparable metrics and methods for determining the impact of blue, green and social projects. One such project is the EU taxonomy for sustainable activities which helps direct investments to economic activities which are understood to be sustainable, which anchors various policy making activities around it but which are beyond the scope of this guide.
- Various jurisdictions, including China, the European Union and South Africa have developed green taxonomies.
- ICMA has issued voluntary process guidelines for issuing social bonds[94] and the European Union has issued a report on social taxonomy[95].

African sovereigns should co-ordinate with all relevant ministries (or third parties) at an early stage to identify and establish the portfolio.

In relation to **use of proceeds bonds**, these are some other key considerations related to the project identification

91 Further information on the Climate Bonds Taxonomy is available here: https://www.climatebonds.net/standard/taxonomy
92 Further information on the certification scheme is available here: https://www.climatebonds.net/certification
93 Green Technical Advisory Group. “GTAG: Advice on the development of a UK Green Taxonomy”. October 2022. https://www.greenfinanceinstitute.co.uk/wp-content/uploads/2022/10/GTAG-Advice-on-the-development-of-a-UK-Green-Taxonomy.pdf
94 ICMA. “Social Bond Principles”. June 2022. https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Social-Bond-Principles_June-2022v3-020822.pdf
95 Platform on Sustainable Finance. “Final Report on Social Taxonomy”. February 2022. https://finance.ec.europa.eu/system/files/2022-08/220228-sustainable-finance-platform-finance-report-social-taxonomy_en.pdf

process that potential African issuers should be aware of:

PROJECT PIPELINE

The establishment of mechanics to identify, develop and govern projects and their pipelines is time and resource intensive. It also takes time to identify and develop the specific projects within that pipeline and make projects viable for investment. A good guideline is that projects have been established at least two years prior to their inclusion within a portfolio, with them also lasting for at least two years or more following the issuance. The timeline will differ depending on the project, but a reasonable estimate would be 12-18 months.

PROJECT SIZE AND AGGREGATION

·The aggregation of individual projects and the creation of an appropriately sized project pool will most likely be required. Where there is a lack of projects large enough to meet bond minimum size thresholds alone, mechanisms for aggregating smaller projects could be explored. Within Africa, individual projects focused on social and environmental impacts may be relatively modest in size.

USING PRINCIPLES FOR INSPIRATION

The example projects in the ICMA Principles, or indeed the projects listed in other frameworks can be used for inspiration. From there the issuer should look to its most pressing initiatives or projects on its agenda that require financing.

What investment theme is the most suitable?

When deciding on the most suitable investment scheme, an African sovereign should carefully consider the particular priorities, needs, challenges and targets of their country.

Where pipeline development remains a challenge, funding social, blue and green projects through a SLB may be the best option as doing so could also help:

- with aggregation (as funds could be used over both social and green projects); and
- to provide access to a wider range of investors (some "green" investors may be unable to invest in social bonds, but would be able to invest in sustainability bonds).
-

For SLBs - KPI identification

For SLBs, instead of identifying and developing existing projects, the process involves identifying certain ESG-related KPIs. The target levels of these KPIs, which are set as the objective, are the SPTs. It is vital to ensure that the KPIs are appropriate and that the SPTs are set at a level which is challenging, measurable and achievable.

KPIs chosen for sovereign SLBs should align with the country context. A World Bank report has suggested including a combination of short-term policy indicators and associated long-term outcome indicators. Doing so would ensure that the outcomes are in alignment with long-term development goals and reflect real sovereign interventions, as opposed to factors beyond the government's control.[96] In a separate report, the World Bank has recommended that KPIs for SLBs are linked to the issuer's level of performance against a target rather than being exclusively tied to the outcome as the issuer may not be able to control all factors which could affect the outcome.[97]

SPTs have to be met by pre-determined dates while the bonds are in issue. SLBs therefore contain contractual incentives for the issuer to meet the SPTs. Most SLBs are structured such that failure to meet an SPT results in a coupon step-up. In other words, the coupon rate will increase by a set amount, outlined at the outset of the issuance, for the remainder of the life of the bond. Occasionally SLBs have a step-down feature which means that the coupon rate can be reduced by a set amount if the SPTs are met or exceeded.

When deciding the step-up, step-down or other contractual incentive to meet the SPTs, sovereign issuers should pay close attention to the balance between providing something that is attractive to investors but also affordable in the event that the SPTs are not met.

KPIs and SPTs must be clear and measurable to avoid any ambiguity when determining if they have been met. For this reason, KPIs and SPTs should allow third parties to verify performance. When determining the methods to monitor progress against SPTs, it is important to ensure that results can be consistently obtained multiple times throughout the life of the bond.

96 World Bank Group. "Striking the Right Note: Key Performance Indicators for Sovereign Sustainability - Linked Bonds". November 2021. https://documents1.worldbank.org/curated/en/935681641463424672/pdf/Striking-the-Right-Note-Key-Performance-Indicators-for-Sovereign-Sustainability-Linked-Bonds.pdf
97 World Bank. "Could Sustainability-Linked Bonds Incentivize Lower Deforestation in Brazil's Legal Amazon?" September 2023 https://documents1.worldbank.org/curated/en/099354409042343013/pdf/IDU024051b5607a6f04cc809b4a0d926e299c521.pdf

The tools and methodologies available to measure the performance of nature-related issues are quickly evolving. A paper published by the Sustainability Linked Sovereign Debt Hub presents 23 tools for financial institutions which are supplemented by more than 100 resources available in the Taskforce on Nature-related Financial Disclosures' "Tools Catalogue".[98] Certain indicators, such as ranking indices, may not be suitable for monitoring progress against SPTs as the methodology for determining the ranking may change over time meaning results would not be easily comparable thus making it difficult to track progress.[99]

Below are some key considerations related to the KPI identification process for SLBs that potential African issuers should be aware of:

KPI/SPT DEVELOPMENT & DESIGN

The establishment of mechanics to identify, develop and measure KPI/SPTs is time and resource intensive. SPTs must be challenging, but achievable.

The timeline for KPI/SPT development will differ depending on the KPI/SPT and level of involvement, but a reasonable estimate would be 6-12 months.

PROJECT RESPONSIBILITY

The party who will be responsbile for monitoring the KPIs should be identified.

The public sector could take responsibility for encouraging the achievement of SPTs and ensuring Sustainability-linked projects:are adequately resourced (e.g. by assisting with financing); are bankable; and that there are no barriers hindering their achievement (e.g. legislation).

USING PRINCIPLES FOR INSPIRATION

The example KPIs in the ICMA Principles can be used for inspiration. A sovereign issuer could tailer these principles to fit key initiatives or projects in their country.

MEASURABLE AND TRANSPARENT

The SPTs must be measurable to ensure transparency.

98 Sustainability Linked Sovereign Debt Hub. "Assessing Nature-Related Issues in Sovereign Debt Investment". 12 October 2023. https://www.ssdh.net/resources/assessing-nature-related-issues-in-sovereign-debt-investment.
99 World Bank Group. "Striking the Right Note: Key Performance Indicators for Sovereign Sustainability - Linked Bonds". November 2021. https://documents1.worldbank.org/curated/en/935681641463424672/pdf/Striking-the-Right-Note-Key-Performance-Indicators-for-Sovereign-Sustainability-Linked-Bonds.pdf

Step 4 – Institutional Arrangements, Governance and Regulation and state-level issues

Governance, regulation, country specific debt issuance policies and any necessary institutional arrangements should be considered at an early point of the product development stage. Sovereigns should establish teams to review these elements when pursing a thematic product.

Some key considerations for sovereigns relating to institutional arrangements and governance needed to issue a sovereign thematic instrument include:

Project management

(i) The parties responsible for key milestones and tasks could be documented by a formal or informal agreement. It may be helpful to establish specialised working groups.

(ii) Where a technical assistance programme is being utilised, project management is usually run by the technical assistance provider in coordination with the relevant ministry/department.

Collaboration

(i) The issuance of a sovereign thematic bond may straddle multiple ministries and administrations. Governments should facilitate collaboration between ministries and relevant third parties such as NGOs, where appropriate.

Transparency

(i) Institutional arrangements may be formalised through a decree or other regulatory action.

(ii) The thematic product may require certain administrative functions to be implemented, such as the creation of a new treasury or bank account to hold the proceeds raised through the thematic issuance. Any such arrangements should be implemented as formally as possible, with transparency being a key component.

Accountability

(i) The processes established for product oversight (e.g. accounting processes) are key.

(ii) For use of proceeds bonds, the segregation of the thematic bond proceeds is not compulsory, but the traceability of those funds is and should be verified and audited on an annual basis.

(iii) For SLBs, the evaluation of the achievement of KPIs/ SPTs is completed in accordance with a monitoring and evaluation framework. This framework should be included in the institutional arrangements disclosed by the issuer. This accountability will help investors to trust the product.

Regulation

(i) Where relevant, authorisations for issuances or the relevant underlying Framework must be obtained.

(i) Any legislative or regulatory hurdles relating to the thematic issuance must be removed or complied with.

Implementing robust institutional and governance policies will improve perceptions of ESG within the region and can gain the confidence of potential issuers and investors. However, this will take time to implement. With meaningful engagement, a 12-month period would be realistic.

Below we set out some policy and regulatory steps which may be useful to consider:

Identify and implement legislation locally

- Any legislation or reguations which limit ESG related activities should be developed, amended or removed.

Requiring consideration of ESG factors

- Governments within Africa can encourage managers to consider ESG by ensuring that fiduciary duties require some consideration of ESG factors. This could also encourage a local thematic market.

Tax Incentives (and Disincentives)

- Tax incentives could include:
- tax credit bonds (where investors receive tax credits instead of interest and issuers do not have to pay interest on their bonds);
- direct subsidy bonds (where issuers receive cash rebates from government to subsidise their interest payments); and
- tax-exempt bonds (where investors do not pay income tax on the bonds they hold. This could also encourage a local thematic market).
- Tax incentives in favour of greener projects coud be accompanied by punitive measures disincentivising unsustainable practices (e.g. carbon and pollution taxes).
- One key advantage of tax incentives as tools to encourage ESG-focused investing is that they can be carefully targeted at specific sectors and products that the government may wish to promote.

Regulatory Capital Treatment

- Major financial institutions have become subject to more stringent controls on the levels and quality of capital they are required to hold. Where this applies in Africa, regulators and governments could incentivise such investments by separating out “green” investments from the conventional regulatory capital regime.

Supporting Project Identification / Aggregation

- Policy and government platforms could be developed to allow projects to be pooled, supervised and monitered. This would create efficiencies in getting funding to appropriate projects across the country (or indeed the region).
- This is particularly applicable where non-governmental projects will be financed.

Engaging with credit enhancement

- One way of improving the credit rating of a particular issuance would be to add a sovereign guarantee (if the issuer is at sub-sovereign level) and/or a partial guarantee from an IFI. This may require regulatory changes to be implemented.

Step 5 - Framework Development

The Framework is drawn up by the issuer and outlines the possible green/social characteristics of its thematic bond issuances.

Decision 1 :

Which industry standards will be used? (e.g. ICMA)

Decision 2 :

Is there a precedent or base that can be adapted to form the basis of the underpinning thematic Framework?

Decision 3 :

How will the projects/KPIs/ SPTs be selected and evaluated if a substainability-linked instrument?

Decision 4 :

How will proceeds be managed and tracked?

Decision 5 :

How will reporting be conducted?

Frameworks are a method of documenting the best practice that the issuer wishes to follow in relation to its thematic bond issuances. Most are less than ten pages long and are clear, concise and structured around the standards the issuer intends to comply with.

In some jurisdictions, the Framework may need to be authorised and approved by a parliament or legislative body. This process would not make the Framework legally binding between the issuer and its investors.

The Framework, together with the second party opinion (as discussed below), are key documents which are of interest to potential investors. Frameworks are carefully reviewed by external reviewers when preparing second party opinions and many issuers share or reference these documents when marketing thematic products.[100]

The topics covered by a Framework include (i) the description of the types of eligible projects or the KPIs and SPTs; (ii) the specification of how these projects align with the SDGs and that country's development and ESG-related priorities; (iii) details of alignment with any relevant Principles and/or taxonomies; and (iv) reporting of information relevant to the relevant projects or KPIs.

In terms of the contents of Frameworks, the ICMA Principles for Green Bonds[101] and Social Bonds[102] centre on four pillars:

1. Use of proceeds;
2. Process for Project Evaluation and Selection;
3. Management of Proceeds; and
4. Reporting,
2. while the ICMA Principles for SLBs[103] focus on five:
1. Selection of KPIs;
2. Calibration of SPTs;
3. Bond Characteristics;
4. Reporting; and
5. Verification.

For further information on the ICMA Principles please refer to Annex B of this guide.

There are considerable efficiencies to be realised from region-wide ESG Frameworks. For example, cost efficiencies could be achieved if Frameworks for Africa are prepared on a basis which contemplates the African region or sub-regions as a whole. This would require coordination across several countries but would be attractive to ESG focused investors in favour of market standardisation.

KPI Drafting and Development for SLBs

By way of recap, an SLB is a bond where the funds raised can be spend on general budgetary purposes benefiting the issuer, but whose financial and/or structural characteristics may vary depending on whether the issuer achieves pre-defined ESG/SDG objectives

The financial and/or structural characteristics of a SLB may include an interest rate step-up, an interest rate reduction, a prepayment event, an undertaking to take remedial action to obtain the objective, or a sustainability premium paid into a specific account used by the debtor only for ESG-specific purposes.

SPTs may include, for example, a specified percentage reduction in CO2 emissions, a specified increased volume of recycling, obtaining certain ESG ratings, a specified decrease in water consumption, or specific education

100 IFC. "Green Bond Handbook: A Step-By-Step Guide to Issuing a Green Bond". April 2022. https://www.ifc.org/en/insights-reports/2022/202203-green-bond-handbook
101 ICMA. "Green Bond Principles". June 2022. https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles_June-2022-280622.pdf
102 ICMA. "Social Bond Principles". June 2022. https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Social-Bond-Principles_June-2022v3-020822.pdf
103 ICMA. "Sustainability-Linked Bond Principles". June 2020. https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-Principles-June-2020-171120.pdf

focused achievements. SPTs must be measurable and progress should be recorded.

In the African region, example metrics could include:

- *Renewable Energy*: kWh of energy generated or the number of people with renewable energy access;
- *Clean Transportation*: Tons of CO2 avoided or percentage of clean transport options available;
- *Sustainable Water Management*: Cubic meters of water saved or treated; and/or
- *Social Housing Project*: Number of houses built or percentage of population in suitable housing.

Similar metrics could provide a basis for Use of Proceeds SPTs.

It may not be possible to provide fully accurate data on the impact of projects or objectives. Under these circumstances, issuers may consider robust estimation techniques to collect and aggregate data which can be presented to investors. These should also be properly documented, e.g. within the bond issuance documentation itself.

CASE STUDY: GREEN CLIMATE FUND (GCF)104

FUNDING FOR THEMATIC BONDS AND POSSIBLY FRAMEWORKS

Background and aim: Established in 2010, the GCF is the world's largest climate fund, serving the Paris Agreement. It has the aim of supporting developing countries' goals in becoming more climate change resilient and producing lower carbon emissions.

Activities of the GCF

- Network: The GCF operates via a network of partners who encourage coalitions between private investors, development agencies and civil society organisations to achieve change and to support the alignment of standards and practices;

- Focus: The GCF offers specialist investing in projects that take place in small islands developing states, lower income countries and African states;

- Financing: The GCF follows a country-driven approach and structures its financial support through a flexible combination of finance products to support climate action in developing countries; and

- Project Development: The GCF can take on higher levels of risk when supporting certain early stage projects regarding climate change.

Application process for funding

- "Accredited Entities" partner with the GCF to implement projects.

- The "Accredited Entities" work with the governments to identify ideas for projects and submit proposals for funding to the GCF Board for approval.

Reputation and investor interest

Investors increasingly have a preference for investments which demonstrate their impact metrics with clear and transparent reporting over the life of the project in addition to clear compliance with industry standards.

Investors are keen to avoid the reputational damage which can arise from "greenwashing". As such, considerations relating to reputation frequently factor into ESG-focused investment decisions and can affect the transparency, framework, reporting and use of proceeds requirements of some investors when making decisions on investments.

Many institutions also implement rigorous reviews of their investment decisions, whereby the positive ESG impact of the issuance is assessed alongside its alignment with the issuer's global sustainability strategy.

Building strong governance and institutional arrangements can help bolster an issuer's reputation. Investors may avoid bonds issued by issuers with poor track records of transparency, governance and also environmental compliance.

For more information on governance and transparency, please also reference the **ALSF Debt Guide on Governance and Transparency**.

104 Further information on the Green Climate Fund is available here: https://www.greenclimate.fund/about and here: https://climatefundsupdate.org/the-funds/green-climate-fund/#:~:text=The%20GCF%20is%20currently%20the ,to%20respond%20to%20climate%20change.

Step 6 – Obtaining a Second Party Opinion

Principles, guidelines and standards

"*Principles*", "*guidelines*" or "*standards*" are essentially a guide to best practice when issuing thematic bonds. They can be used to clarify the approach for issuing a bond which is labelled in a specific way which investors value and trust. They should not be confused with "*Frameworks*", which are a particular issuer's method of documenting how it will specifically be implementing these "*principles*", "*guidelines*" or "*standards*" in relation to its own bond issuances.

Certification or an opinion of an expert regarding the relevant Framework for the issuance and its alignment with the relevant principles, guidelines or standards (for example, ICMA's) are often obtained for thematic bonds.

The verifications or opinions are given once the ESG credentials of the thematic bonds have been analysed and verified in accordance with specific criteria that that institution applies across all such bonds. As such, they are often valued by investors seeking to minimise the risk of being associated with "*greenwashing*". It would be sensible for any African issuer of thematic bonds to obtain such an opinion on its underlying Framework.

TERMINOLOGY: EXTERNAL REVIEWS AND REVIEWERS

What is a second-party opinion? External reviewers, such as Vigeo Eiris, CICERO, Oekom, DNV GL or Sustainalytics, provide second-party opinions on an issuer's thematic bond framework to confirm its alignment with the relevant industry principles.

What is verification? Qualified parties, such as auditors, can independently certify the bond, its Framework, and any underlying assets to verify its alignment with any internal standards or claims made by the issuer.

What is certification? Qualified third parties certify the issuer's bond Framework / use of proceeds against an external standard such as Climate Bond Standards.

ICMA Principles, Blue Bond Principles and Guidance

ICMA's voluntary guidelines are practitioner developed, non-prescriptive principles which were established to encourage the growth of the thematic, use of proceeds bond market. They also seek to foster standardisation. For each label of bond, they cover the use of proceeds, project selection, management of proceeds and requirements relating to reporting (or the equivalent for SLBs).[105] It is worth noting that these elements form the core of any Framework created by an issuer to the extent it aligns with the relevant industry standard for the relevant label.

Where participants use the ICMA Principles, a second-party opinion is often provided in the form of a pre-issuance report to investors on the alignment of the bond with the relevant Principles. Such opinion will cover these core principles where the product is use of proceeds focused.

For further information on the ICMA Principles, see Annex B to this guide.

CBI

Alternative models of scoping thematic bonds include the CBI "*Climate Bond Standard and Certification Scheme*". The CBI is a not-for-profit organisation which aims to grow the market in climate bonds and promote a low carbon and climate resilient economy. One of its workstreams is developing market standards. Accordingly, it has developed the CBS Certification Scheme (**CBS**). This is a labelling scheme for both bonds and loans.

The CBS certification provides comfort to investors as it requires the bonds to be checked by an approved, independent verifier who verifies if the bond issuance meets the requirements of the Climate Bonds Standard. This could be used as a screening tool to enable investors to determine the environmental impact or "*greenness*" of a bond. The scheme incorporates green bond principles and green loan principles and is aligned with other guidelines and rules across the world. **Costs and timing**

There are costs involved with external reviews and third parties may have timing constraints that require them to have:

- access to information in advance;
- sufficient time to complete their analysis; and
- sufficient time to reflect any recommendations.

105 Additional guidance on their practical application is also provided in the ICMA Guidance Handbook, https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/The-GBP-Guidance-Handbook-June-2021-140621.pdf

Step 7 – Appointing Third Parties including obtaining ratings and related criteria

Once the Framework and second party opinion are finalised, the structuring of the issuance can start. Depending on the type of instrument that is to be issued, the issuer may need an investment bank, an underwriter and/or broker service, a law firm, a credit rating agency (if the bond needs to be rated) and the usual agents for listing and clearing/payments services etc. A guarantor may be needed if the issuer wishes to benefit from credit enhancement.

FINANCIAL ADVISORS/ INVESTMENT BANKS

Can help with structuring through to investor identification and marketing.

RATING AGENCIES

Appointed to review and rate credit risks related to a product and issuer

LAWYERS

Typically, there will be at least two sets of lawyers, one representing the issuer and the other the financial institutions (e.g. the banks). There may also be involvement with investors' counsel

REVIEWERS

While not a specific component of the ICMA Principles or Climate Bond Standards, opinions, verification and certification by third party experts are often used to corroborate compliance with applicable principles and transparency goals.

CREDIT SUPPORT PROVIDERS

As described in Section 3, credit enhancement such as guarantees, for instance from IFIs, could be considered.

AGENTS

•A number of agents may be involved, including agents to assist with listing the bonds on an exchange and agents to assist with making payments to investors in relation to an instrument.

Underwriters/Brokers

This may involve acting as an inermediary between the issuer and the ultimate bond purchaser, along with other functions depending on the scope of the engagement.

Generally, the requirements for the issuance of thematic bonds mirror those of a normal plain vanilla issuance. Therefore, African sovereigns can use their existing processes to contract relevant third parties. However, one of the main benefits of a thematic bond is that it can attract new investors. As such, it may be beneficial for the issuer to work with third parties which have experience in thematic bonds, particularly as it relates to the investment bank, underwriter, broker and the legal advisory firm.

The only third party which is specific to a thematic bond is the reviewer/auditor who will assess the environmental/social commitments of the issuance, as disclosed in the Framework.

ESG Performance and ratings

Rating agencies and indices are playing a growing role in providing information on the credentials of issuers; they have even created products which provide companies with an ESG risk rating and, when reviewing the profile of an issuer, investors will look to this information. ESG indices are also now on the rise and a number of stock exchanges have sustainability indices, such as the Carbon Efficient Index of Brazil.

In 2019 the World Bank launched a free online platform which provides sovereign-related ESG data.[106]

The launch of these indices is a sign of how important transparency is to investors as well as the importance and size of the ESG market. This trend of transparency is likely to continue and to become more standardised. An issuer's ESG credentials are therefore a significant factor in raising ESG-related debt and should be built into as many policy decisions as possible.[107]

106 The World Bank Sovereign ESG Data portal is available here: https://esgdata.worldbank.org/?lang=en.
107 IDB Policy Brief. "The Business Case for ESG Investing for Pension and Sovereign Wealth Funds". June 2020. https://publications.iadb.org/publications/english/document/The-Business-Case-for-ESG-Investing-for-Pension-and-Sovereign-Wealth-Funds.pdf

Step 8 - Engagement with NGOs, civil society, conservationists and other experts

At this stage, the issuer will have a clear understanding of the type of thematic instrument to be issued, the projects / objectives that the funds from the issuance will contribute to and of any standards that need to be adhered to.

To ensure the success of the green / social project envisaged by the issuance, issuers should engage with relevant NGOs and conservationists together with civil society and other experts who have knowledge of the relevant area. Engaging with these parties will not only raise awareness of the project but will also provide the issuer with the opportunity to gain advice and support on social/green projects from those with experience.

Being open and transparent about the goal of the thematic issuance can help African sovereigns to increase stakeholders' effective and efficient participation in the project. This is of benefit to issuers, investors and the ultimate beneficiaries of the social / green project funded by the issuance.

Step 9 - Investor Identification

One of the main benefits of a thematic issuance is to broaden the investor base for the issuer. Often the investment banks assisting with the issuance of the thematic product will assist with investor identification and that is why the choice of a bank with experience in thematic bonds is important. However, the issuer may also have their own regular investors that they engage with, and it is possible such investors have already indicated interest in a thematic product. Further, where support is being provided by an entity such as an IFI, the supporting entity may also be able to advise and assist with investor identification.

ESG investors are mainly in Europe and North America and that is the reason why alignment with international standards and taxonomies is important. For the moment, and for the sake of simplicity, alignment with the ICMA Principles for green, social and sustainability linked bonds and the CBI for green bonds would ensure the eligibility of a thematic bond for those investors. Developments of local and regional taxonomies and regulations are to be followed with attention.

- *For smaller issuances*, club deals and private placements can also be a solution. Specific investors with a particular ESG mandate (such as foundations, green bond or ESG funds, sovereign wealth funds etc.) are often interested in entering these kinds of deals. IFIs may also prefer such deals as it is easier for them to impose particular safeguards and requirements in those deals than it would be in a public offering.

- *For first time issuers*, an anchor investment from an IFI or renowned investor can help to attract other investors.

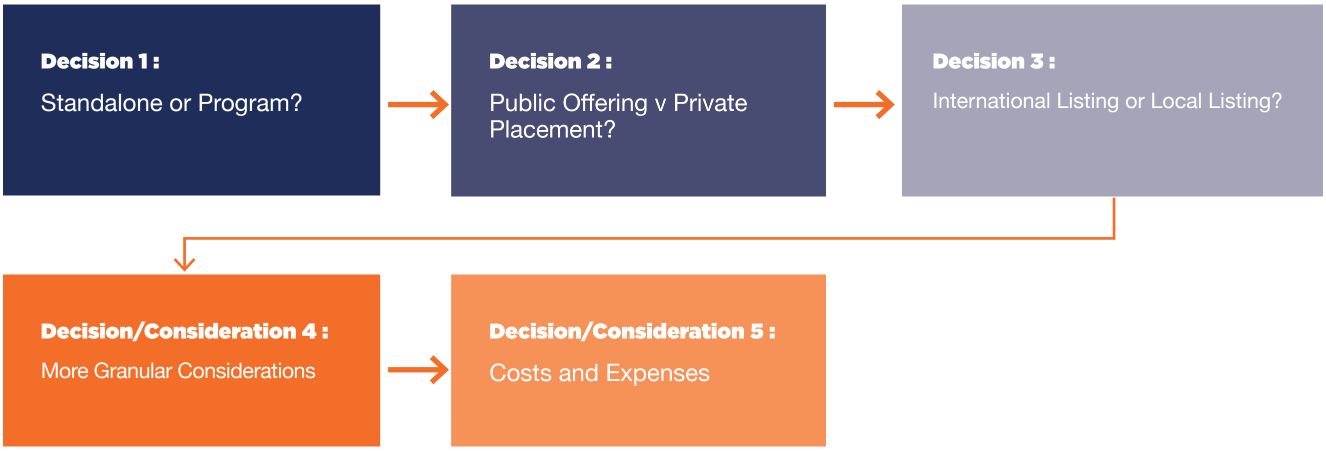
Starting a dialogue with investors early-on in the process is important. It may help to identify particular preferences or concerns with the issuer and/or investment labelling. Such dialogue will ensure the product aligns with investor preferences. An intermediary (e.g. investment bank) can work with an issuer to commence this dialogue, for example, by way of non-deal roadshows. IFIs or other platforms such as the Emerging Markets Investors Alliance can also help by facilitating an exchange of ideas between investors and potential issuers and may be able to assist with investor identification.[108]

In order to build this dialogue, potential sovereign issuers must start building internal capacity around ESG themes in their different ministries, design a specific communication around the thematic issuance and find "*champions*" in the relevant ministries to "*sell*" the issuance to the investing community.

108 World Economic Forum. "From the Margins to the Mainstream Assessment of the Impact Investment Sector and Opportunities to Engage Mainstream Investors Industry Agenda September 2013: A report by the World Economic Forum Investors Industries Prepared in collaboration with Deloitte Touche Tohmatsu". September 2013. https://www3.weforum.org/docs/WEF_II_FromMarginsMainstream_Report_2013.pdf

Step 10 - Transaction Structuring and Other Considerations

When preparing to issue a thematic bond, it is helpful to prepare and negotiate a term sheet outlining the key terms of the issuance. There will also be discussions about the bigger picture structuring elements such as the type of disbursement of the bond; the placement of the bond; the jurisdiction of the bond; and if the bonds will be rated. This section provides an overview of these "*big picture*" items and some of the decisions which an issuer will have to make.



Standalone Issuance or Programme?

Bonds can be issued as follows on either a standalone basis or under a programme:

Standalone

These issuances are one time, single and "*standalone*" issuance.

Standalone issuances require a full documentation suite to be developed for each issuance and so the documentation-side of such a transaction can be more extensive. However, subsequent issuances may be able to re-use existing documentation as precedents for future issuances of a similar nature. This may be a more suitable option for African issuers who may issue thematic bonds less frequently.

Programme

Bonds can also be issued under a medium-term note/debt issuance programme.

Each issuance forms a "*drawdown*" on the programme. The terms of each drawdown vary and notes are not fungible across the series. An issuance under a programme can also be "*tapped*" where permitted (as described below).

Establishing a programme requires a comprehensive documentation suite that may necessitate annual or bi-annual updating (although changes in each update may be minimal).

However, once the programme is established, a series of notes can be issued quickly, efficiently and with fewer, more streamlined documents than in a standalone issuance.

Alternatively, issuers can amend any pre-existing bond programmes they have to allow thematic products to be issued. A programme which allows issuers to issue both thematic and vanilla bonds can provide additional flexibility.

A programme may be best suited to African issuers who will issue thematic bonds on several occasions.

Tap

A tap issuance is where further bonds are issued on the same terms as the original bonds (e.g. with the same maturity date), but at a later date. Bonds that are "*taps*" are fungible with the original bonds (meaning bondholders view them as interchangeable).

This could be an option where a particular bond is successful and there is scope to issue further notes on the same terms. However, issuing on the same terms creates certain inflexibilities.

The most appropriate disbursement method varies on a case-by-case basis. Relevant considerations include:

FLEXIBILITY

·A standalone issuance or drawdown allows flexibility on commercial terms, whilst in a tap issuance new bonds will be issued on the same terms as the original bonds.

COST

Drawdowns under a program tend to be more cost-effective than multiple standalone issuances as program documentation, (such as the base prospectus), is already in place and simply needs to be updated or supplemented. Similarly, for tap issuances, existing documentation is merely supplemented.

TIMING

Tap issuances or program drawdowns allow capital to be raised at different times by the issuer.

EXPERIENCE

An issuer which is new to the capital markets may prefer the simpler structure and documentation of a standalone issuance to a program. Only one thematic bond Framework would be needed in the case of either option.

Public Offering or Private Placement?

When considering the market into which bonds might be issued, a public offering and a private placement provide two distinct options.

- Public

Generally, a public offering is addressed to a number (often unlimited) of potential investors which have not been individually selected.

- Private

A private placement can be characterised as an issuance and placement of debt directly with a small select group of (typically highly sophisticated) investors.

Both private and public placements can work for thematic bond issuances.

Some issuer may find the characteristics of a private placement work better for their issuance, especially where deal sizes are smaller. However, issuers familiar with public issuances may prefer those.

Any African issuer considering a private placement should consider the following which apply to private placements compared with public offerings:

Disclosure

The disclosure requirements for a private placement tend to be less onerous than those for a public offering. A private offering memorandum may be prepared however, containing disclosure and information relating to the issuer. Public issuers who have existing public disclosure might not be required by private placement investors to provide a detailed memorandum, however they may need to respond to due diligence questions. While this may be considered beneficial for the issuer (as it avoids the cumbersome process of public transactions), the sometimes opaque nature of private placements may be unappealing to potential investors.

Direct Relationship

Generally, privately placed bonds are placed directly with investors and therefore any agents or intermediaries involved are not underwriters and do not purchase the bonds themselves. Given the direct dealings between issuer and investor, this can create an additional administrative burden for the issuer. However, this direct contact can also allow for the tailoring of products to the requirements of a specific investor or group of investors. This may also have pricing / admin cost benefits.

Ranking

Privately placed bonds will generally be senior, unconditional and unsubordinated.

Listing

Privately placed bonds are often issued in definitive form and are not expected to be listed, rated or cleared through any clearing system. This creates cost savings, but also may be preferred for where an issuer wishes to avoid these elements.

Trading

While privately placed bonds may be transferable, they are generally not traded in the secondary market. Given the comparative lack of liquidity in the private placement market, investors tend to adopt a "buy-and-hold" approach. This is also the case with thematic bonds.

Investors

The investor base for privately placed bonds is generally smaller than for publicly offered bonds. The private placement investor base is normally a medium-size, institutional, often non-banking entity, which may be unrated and might have barriers to entry in the public bond market. For example, typical investors may include insurance companies, pension funds, asset management companies, investment/debt funds, hedge funds or sovereign wealth funds.

Tenor

Privately placed bonds generally have a longer term than those which are publicly issued. The term can vary from medium-term debt (around seven years) to longer-term debt (around 20-25 years). The longer tenor of privately placed debt tends to complement the needs of relevant investors' long-term liabilities in pensions and savings. This may be a useful feature for aligning bond durations to average project lengths which may be longer in nature as they take time to establish and make returns.

Flexibility

The private placement bond market allows for greater flexibility as compared to the public market, in terms of structuring generally, currency, size, process and interest rate.

Timing

The private placement bond market allows for greater flexibility as compared to the public market, in terms of structuring generally, currency, size, process and interest rate.

International sting or Local Listing?

International Listing

- On the international capital markets, adding a thematic feature to any bond can help African issuers to access new pools of investors and to obtain better conditions. This is true not only for new debt, but also for debt which is being rolled over or restructured.
- Listing on a particular international stock exchange/ market determines the range of potential investors. Bonds traded on large, well-established markets (such as the Main Market of the London Stock Exchange) tend to be more liquid than bonds traded on smaller or less active markets. This may allow issuers to attract a wider range of investors.
- One option for listing international ESG bonds is a specialist green exchange, such as the Luxembourg Green Exchange or the London Stock Exchange Sustainable Bond Market.
- The Luxembourg Green Exchange was the first exchange dedicated to green bonds and currently lists over 1,660 sustainable bonds.[109]
- The London Stock Exchange Sustainable Bond Market currently lists over 300 bonds, with £70 billion raised.
- Bonds will only be listed on a specialist green exchange if the issuer demonstrates adherence to specified ESG standards on admission and on an ongoing basis. Advantages include enhancing the credibility of the blue or green framework and reaching a target market of investors with an ESG focus. However, compliance with additional disclosure or verification requirements may be time-consuming and increase costs.
- Typical international requirements that apply equally to thematic issuances include:[110]

RESTRICTIONS ON MINIMUM DEAL SIZE

For example, the Luxembourg Stock Exchange requires that each issuance is of at least €200,000. On the London Stock Exchange, the expected aggregate market capitalisation of each issuance must be at least £200,000. Exchanges may relax the restriction provided there will be a sufficiently liquid market for the bonds, but in practice very few issuances are so modest in size and it is generally accepted that an international bond will be sized at USD 150 million (or above).

DISCLOSURE OBLIGATIONS

Generally, the offering document/prospectus must contain certain prescribed information and issuers must also comply with ongoing disclosure obligations. For instance, in EEA member states, issuers of bonds which are offered to the public or admitted to trading on a regulated market need to publish a prospectus compliant with the Prospectus Regulation, unless an exemption applies. Substantially similar rules apply in the UK except that all sovereign issues are exempt from the requirements of the UK Prospectus Regulation. Prospectus disclosure is less burdensome where a prospectus (for a tap issuance) or a base prospectus (for a program) is already in place.

Local Listing

- Even where bonds are placed locally, adding a thematic feature can help. A local issuance also assists in fostering local thematic markets, even if the local fixed income markets are incipient.
- In their report on Developing the Green Bond Market in Africa, the London Africa Advisory Group (part of the London Stock Exchange Group) noted the value of creating green bond segments in local markets to provide investors, issuers and other relevant parties with information and a specialised platform for specific types of listing and investing. The report also notes that, "green bond market development can be part of the general bond market development process".111

109 • As of April 2023, available here: https://www.luxse.com/discover-lgx
110 • Further information is available here: https://www.luxse.com/ and here: https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX-%3A32017R1129
111 • The LSEG Advisory Group's report of recommendations on developing the green bond market in Africa, is available here: https://www.lseg.com/content/dam/lseg/en_us/documents/media-centre/developing-the-green-bond-market-africa.pdf.

WHAT IS CLEARING AND HOW DOES IT DIFFER ON AN INTERNATIONAL v LOCAL ISSUANCE?

Clearing systems such as Clearstream and Euroclear (in Europe) and DTC (in the US) facilitate electronic trading of bonds. Clearing and settlement are composed of three main stages: (1) the terms of the trade between the issuer and the bond subscriber are confirmed, (2) the obligations of each of the issuer and the bond subscriber are established; and (3) there is the delivery of the bonds from the issuer to the bond subscriber and the payment of funds from the bond subscriber to the issuer.

Equivalent functions are performed in the African region, including by CSCS Plc, which is the clearing house of the Nigerian Capital Market.

More granular terms and considerations

This part of the guide looks at elements of that decision-making process that potential issuers should take note of when preparing for their issuance. These will be important factors for investors and an awareness of these will help ensure that issuers incorporate features into their bond products which are attractive to investors.

REPAYMENT (BULLET/AMORTISING)

The repayment structure of a bond can have important consequences on how investors perceive rollover risk (i.e. the risk that debt may have to be rolled over on maturity), which is more pronounced in bonds with a bullet repayment structure, as opposed to an amortized repayment structure. Rollover risk is a more significant concern in countries with volatile and/or rapidly deteriorating economic indicators, lower credit rating, perceived poor governance, high political risk and high levels of indebtedness.

DEFERRAL PROVISIONS

Additional innovative features such as climate event deferral mechanics could be a valuable tool for African issuers. Provisions of this type would serve countries in the region well in the future by insulating them to some degree from certain risks. Whilst to date, these provisions have only been used in limited circumstances, they could be included as an additional feature in new instruments.

GOVERNING LAW

The governing law may have an impact on pricing. From an investor's perspective, sovereign bonds governed by the laws of foreign jurisdictions are, all other things being equal, likely to be preferred to bonds governed by the laws of the domestic jurisdiction. This is because the country's government could theoretically, through legislation, change the terms of the domestic bonds. A study by the European Central Bank found that foreign-law governed bonds did trade at a premium when compared to equivalent domestic law-governed bonds. By way of example: (1) Barbados' two international issuances are governed by the law of England & Wales and (2) Jamaica's international government bonds are primarily governed by the law of New York, while its domestic bonds are issued under Jamaican law.

WAIVERS OF IMMUNITY AND SUBMISSION TO JURISDICTION/ARBITRATION

A sovereign issuer will be expected to waive its sovereign immunity from both suit and enforcement to the fullest extent permitted by law. Most issuers will, however, be limited by their domestic law on the extent to which they may waive their sovereign immunity in respect of proceedings brought against it in its own jurisdiction.

RATING

Ratings provide investors with useful indications of the credit risks related to a product. Certifications (e.g. through a third party on a thematic Framework) can also be used as verification of the impacts that an investment will have in relation to the environment or socially. Reputable ratings or certifications provide an objective standard by which investors can assess their investment, as well as potentially satisfying internal requirements that they may have.The credit raiting of a thematic bond is the credit rating of the issuer.

Costs and expenses

Generally, thematic bonds are likely to involve higher upfront costs than bond issuances without these features. The underlying Framework for qualifying financing, whether green, blue or social, would need to be developed ahead of any issuance.

Typically, under Frameworks the expectation may be that the issuer has appropriate monitoring systems to ensure bond proceeds are being directed as contemplated. There are also reporting requirements which will carry a cost. An independent third party may be required to review the issuer's systems to ensure compliance with the applicable principles / Framework.

Step 11 – Reporting and Monitoring and best practices in the use of proceeds oversight and management

Reporting is arguably the most important commitment an issuer makes when issuing a thematic bond. Partly in a bid to avoid so called "*greenwashing*", the focus on measuring the impact of thematic instruments is growing. There is a linked increased emphasis on actual outcomes tied to environmental or social factors.

Additional weight is often placed by investors on the role of the SDGs. This requires additional attention in areas such as the monitoring of progress, accountability on important issues such as the use of proceeds, and the reporting of results in connection with the ESG-associated projects.

In relation to this, some further steps to be considered post-issuance include:

- confirmation of the eligibility of projects when compared against the Framework;
- the establishment and monitoring of accountability for key issues including use of proceeds, or the achievement of KPIs; and
- the creation and maintenance of reports which cover the outcomes of the eligible projects and use of funds.

An issuer who opts to provide reports to investors may choose to have such reports assessed at set intervals, such as annually. Doing so would provide investors with additional comfort on the information being reported.

SECTION 5
CASE STUDIES

1. Mexico's SDG 2020 bond

Summary box – Mexico	
Issuer	The Federal Government of Mexico
Credit Rating	Baa1 / BBB / BBB- (Moody's/S&P/Fitch)
Currency	EUR
Tenor	7-year
Maturity	18 September 2027
IPT	+235 bps area
Benchmark	-0.347%
Spread	+195 bps
Yield	1.603%
Coupon	1.35%
Bond Framework	here

1. ***Transaction highlights***: the first SDG sovereign bond with total demand at 6.5 times the amount offered, 44% issuance allocated to 78 new accounts.[112]

2. This represents the first issuance of an SDG bond by a sovereign and the issuance was supported by the UNDP.

3. The bond was partially a response to cuts in public funding, to raise finance for Mexico's national strategy for the UN's 2030 Agenda for Sustainable Development – the SDG Sovereign Bond Framework, which it released on 21 February 2020 when announcing the transaction. Mexico's Ministry of Finance said the bond was significant in directing budget resources towards sustainable projects and guaranteeing their continuity over the coming years with a sound governance structure that reinforces accountability.

4. The SDG Sovereign Bond Framework is aligned with ICMA's Green Bond Principles, Social Bond Principles and the 2021 Sustainability Bond Guidelines so the government has the flexibility to issue SDG Bonds relating to Social, Green and Sustainable Eligible Expenditures.

5. From its inaugural issuance, Mexico allocated an amount equal to the net proceeds of the €750m raised to existing Eligible Expenditures within the SDG Sovereign Bond Framework standards – spanning 1,345 cities, this was spread across projects tackling hunger, improving health services, economic growth, education and resilient infrastructure.

6. Mexico also implemented a geospatial eligibility criteria to identify the most disadvantaged and vulnerable territories and populations/areas – the Social Gap Index is derived from analysing the population by measuring percentages across three key focuses:

   (b) Education – illiteracy above the age of 15, 6-14 year olds not attending school, population above the age of 15 with an incomplete basic education

   (c) Health – population without access to health services, homes without a toilet or bathroom, homes without access to public piped water

   (d) Habitat Services – dwellings with a mud floor, homes without drainage, homes without electricity, homes without a washing machine, and homes without a fridge

   (e) This targeted approximately 22 million citizens in 1,345 cities with the greatest social lag where the SDG Bond proceeds could have the greatest impact.

7. As part of its SDG Sovereign Bond Framework, Mexico's Federal Government committed to producing an annual Allocation and Impact Report of the Eligible Expenditures from the SDG Sovereign Bond Framework. setting out the performance of the 37 areas.

8. For more information see Mexico's SDG Sovereign Bond Framework here: https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/ori/Espanol/SDG/UMS_MarcoReferenciaBonosSoberanos_

112 • Finanzas Públicas. «Bono ODS de México, Reporte de Asignación e Impacto de 2021». November 2021. https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/ori/Espanol/SDG/Mexico_SDG_Bond_Allocation-Impact_Report_2021.pdf.

ODS.pdf and the summary information published by the World Bank[113].

9. African sovereigns could develop their ESG/SDG financing in a similar way, using the proceeds of SDG linked bonds to fund projects aiming to improve the education, health and living conditions of the African people.

2. Chile's SLB Framework

Summary box	
Issuer	Chile
Credit Rating	A- (Fitch)
Currency	USD
Maturity	3 July 2042
Spread	T + 200
Yield	4.35%
Coupon	4.34%

1. In 2022, Chile launched the world's first SLB – a USD 2 billion offering focused on accelerating Chile's energy transition. The transaction is the inaugural offering under the SLB Framework Chile published in early 2021 which linked its financing plan to its climate and nature targets established under the Paris Agreement.

2. Transaction highlights: First sovereign SLB globally, total demand was 4.1 times the amount offered.

3. Supported by Chile's SLB framework, the Bond is linked to two Sustainability Performance Targets from Chile's Framework which are related to its National Determined Contributions, its climate pledges under the Paris Agreement. It specifically targets two Key Performance Indicators: (i) reducing absolute greenhouse gas emissions, and (ii) generating half of its electric power from non-conventional renewable energies (renewable energies are those that come from virtually inexhaustible natural sources, either because of the immense amount of energy they contain, or because they are capable of regeneration through natural means) over the next six years and achieving 60% by 2032. KPIs are longer-term outcomes benchmarked by SPTs and, to review Chile's progress, relevant SPTs will be reviewed and assessed in 2030 and 2032.

4. The step-up mechanism will see Chile paying a premium for non-compliance with the targets its set, paying out an extra 12.5 basis points of interest a year if it fails to meet one target, and 25 basis points if it fails both.

5. There are no restrictions or allocations on the proceeds from SLBs, so they are being used here towards concurrent buybacks of outstanding bonds and for general budgetary purposes.

6. The Framework is aligned with ICMA's 2020 Sustainability-Linked Bond Principles.

7. With a tenor of 20 years, it also embedded sustainable incentives at the core of the country's debt management strategy and political landscape over the course of several political cycles, generating a long-term commitment to achieving the targets set regardless of the incumbent administration.

8. This provides an example of how SLBs can be used by African sovereigns. Africa has a wealth of natural resources which can be utilised in renewable energy projects.

113 •The World Bank. "Sovereign Green, Social and Sustainability Bonds: Unlocking the Potential for Emerging Markets and Developing Economies". 8 November 2022. https://thedocs.worldbank.org/en/doc/4de3839b85c57eb958dd207fad132f8e-0340012022/original/WB-GSS-Bonds-Survey-Report.pdf

3. Uruguay's Sustainability-Linked Bond

Summary box	
Issuer	Uruguay
Credit Rating	BBB-
Currency	USD
Maturity	2034
Coupon	5.75%
Bond Framework	here

1. On the 20 October 2022, Uruguay issued its first SLB, with a step-down mechanism that is activated if it reaches certain environmental targets.

2. Proceeds of the Uruguay SLB have been used for general purposes of the government. The coupon adjustment is based upon Uruguay's compliance with preset Sustainability Performance Targets tied to two Key Performance Indicators outlined in Uruguay's Sovereign Sustainability-Linked Bond Framework. These are:

   (a) Greenhouse Gas emissions intensity as a share of GDP; and

   (b) Maintenance of native forest area.

3. Transaction highlights: First usage of two-way pricing/ ratchet-down feature in SLB, the offering was four times oversubscribed by demand across 188 global accounts, and 21% of investors were new holders of Uruguayan debt showing popularity with a diversified investor base.

4. The Framework was prepared with help from the Inter-American Development Bank and, further to the usual coupon step-up feature which sees the issuer paying more for missing targets, this was the first public SLB to also allow for the reverse - the Bond activates a step-down mechanism if Uruguay reaches certain 'overperformance' targets. This strengthens the perceived correlation between environmental performance and credit risk: while a step-up feature offsets any fall in bond price that an investor may suffer as a result of disappointing performance from the Issuer, this step-up now implies that performance exceeding expectations implies a lower credit risk. For Uruguay, good progress can now be rewarded by lowering the cost of capital.

5. The KPIs the Bond is attached to are (i) reducing aggregate gross greenhouse gas emissions, and (ii) maintaining native forest area.

6. The yield spread between the bond and the benchmark US Treasury bond is 170 basis points, which will reduce by up to 30 basis points if the goals are met. It will conversely pay an extra 15 basis points per target it misses. This incentivises Uruguay's progression towards achieving targets to avoid such penalties. It also incentivises sovereigns to be ambitious, as investors are not willing to fund easily achievable targets.

7. The deal increased visibility of its climate strategy and, in a 'big leap for an emerging market country', the head of Uruguay's sovereign debt management said that "it was also rewarding to see that many investors valued the country's resolve of turning its Nationally Determined Contribution goals into financially binding commitments".

8. African sovereigns planning to issue SLBs could consider using a similar step-down coupon structure.

4. Benin's Sustainability-Linked Bond

Summary box	
Issuer	Benin
Currency	EUR
Maturity	22 of January 2035
Yield	5.25%
Coupon	4.95%
Bond Framework	here

1. In July 2021, Benin launched its first SDG Bond, raising €500m and marking the first foray by an African sovereign into SDG issuances. The motivation behind the issuance was the funding of various social and environmental projects contributing to Benin's commitments to achieve the United Nations SDGs.

2. Three major challenges Benin faced were convincing investors of Benin's macroeconomic fundamentals and the relevance of the development plan that the government has initiated, convincing investors of the innovative nature and particularities of the security, and reassuring investors of the planned effective use of resources and of the communication strategy on the progress that Benin has made. Benin addressed these challenges by taking the following major steps:

   (a) Drafting an SDG bond framework that presents its Benin's climate commitments and the strategy for achieving the SDGs;

   (b) Signing an agreement with Vigeo Eiris (Moody's group) to conduct an independent study of the Benin issuance project;

   (c) Reassuring investors about the soundness of the country's macroeconomic fundamentals;

   (d) Establishing a steering, monitoring, and reporting committee for SDG obligations with the following main missions:

      (i) Validation of compliance and eligibility of projects for SDG funding;

      (i) Evaluation and selection of eligible expenses and allocation of associated funds (analytical allocation of funds raised) throughout the obligation period;

      (i) Production of an annual report on allocation and impact of funds that Benin has allocated to SDG projects;

      (i) Supervision of any revision of the master issuance document;

      (i) Review of audit reports and taking corrective action; and

   (e) Establishing a dedicated website (odd.gouv.bj) to disseminate information on Benin's progress in achieving the SDGs.

3. Benin is prioritising the 49 most pressing SDG targets it has identified and calculated the total cost – their costing methodology consisted of:

   (a) identifying bottlenecks in way of achieving SDGs (particularly SDGs which are strategically significant in contributing towards other goals);

   (b) identifying accelerators that can eliminate those bottlenecks; and

   (c) evaluating the cost of implementing these actions.

This was estimated at €18 billion from 2021-25, 40% of which is to come from the national budget, hence the need for capital raising.

4. The Sustainable Development Solutions Network (SDSN) has partnered with Benin to evaluate progress towards targets. It will compare Benin's performance against its peers and advise the SDG Bond Steering Committee on distributing Use-of-Proceeds to maximise impact. This will also generate impact reporting, transparency and investor information.

5. The issuance was three years in the making – its origins date back to Benin being selected as one of five emerging market countries chosen to join an IMF-UN pilot programme under the UNDP's oversight to assess the costs of meeting the United Nations SDGs.

6. Benin classified eligible expenditure in relation to the debt issuance according to **the four pillars of Benin's national development plans: population, prosperity, planet and partnerships (as further described below). Benin's framework also contains a set of stringent exclusions for example (i) any project involving the deforestation of primary forests, modified natural forests or mangroves and (ii) fossil fuels in all their forms (solid, liquid, gaseous).**[114]

114 Natixis. "Republic of Benin's trailblazing €500m 12,5-Y inaugural issuance under its new SDG Bond Framework". 28

(a) "Population" or Social (which includes developing agriculture, access to drinking water, housing for the poor).

(b) "Prosperity" or Economy (which includes access to low-carbon, reliable and affordable energy).

(c) "Planet" or Environment (which includes sustainable infrastructure, conservation of biodiversity, restoration of forest).

(d) "Peace/Partnership" or Governance (promoting heritage sites, educational sites).

7. Head of Benin's Debt Management Office Arsene Dansou thinks the issuance sent a "compelling message" for Benin's African peers – "that innovative debt solutions can help solve key social challenges of our country, for durable and responsible long term growth and development, through a swift achievement of the SDGs without adverse impact on debt *sustainability, as the terms are better than the alternatives*".[115]

July 2021.https://gsh.cib.natixis.com/our-center-of-expertise/articles/republic-of-benin-s-trailblazing-500m-12-5-y-inaugural-issuance-under-its-new-sdg-bond-framework

115 Sustainabonds. "Benin sends message, saves costs with first African sovereign SDG bond". 27 July 2021. https://sustainabonds.com/benin-sends-message-saves-costs-with-first-african-sovereign-sdg-bond/

5. BRD's Sustainability-Linked Bond

Summary box	
Issuer	Banque Rwandaise de Développement (**BRD**)
Second Party Opinion	Issued by S&P Global Ratings, available here
Currency	Rwandan Francs (**RWF**)
Maturity	11 October 2030
Coupon	12.85%
Bond Framework	here

1. In 2023, BRD published a sustainability-linked bond framework (and accompanying second party opinion) and approved a RWF 150 billion sustainability-linked bond program. The first bonds under the programme were launched on the Rwanda Stock Exchange on 29 September 2023.

2. Transaction highlights: BRD is the first national development bank to publish a sustainability-linked bond framework and issue SLB bonds.

3. The KPIs are in line with Vision 2050 (Rwanda's national development strategy) which has an overarching goal of promoting economic growth and prosperity and a high quality of life for the people of Rwanda. The KPIs are:

   (a) Robust environmental and social management system implementation

      (i) The aim is to develop an environmental and social management system, in line with international best practice. The SPT is that 75% of participating financial institutions will be able to show robust implementation of the system by the end of December 2028

   (b) Loans to women-led small to medium enterprises

      The SPT is to increase the number of loans awarded to women-led small to medium enterprises to 30% of the total number of small to medium enterprise loans by the end of December 2028

   (c) Affordable housing

      The SPT is to increase the cumulative number of affordable housing loans extended or refinanced by participating financial institutions to 13,000 by the end of December 2028.

4. The SLBs have a step-down coupon structure meaning that, should the issuer achieve the SPTs, they will be rewarded with a reduction in the coupon rate. The coupon rate will be reduced by 20 basis points if two SPTs are met or by 40 basis points if all three SPTs are achieved.

5. BRD will publish externally verified annual updates on the progress made against each KPI in BRD's integrated annual report. A sustainability certificate and limited assurance report will be published as part of BRD's annual reporting process for the SPT measurement date. Failure to deliver either or both of the sustainability certificate and the limited assurance report will result in the coupon rate being increased by 40 basis points.

6. BRD benefited from USD 100 million in additional credit support from the IDA. The loan from the World Bank was used to fund credit enhancement for the issuance, making it more attractive to potential investors. Keith Hansen, the World Bank Country Director for Kenya, Rwanda, Somalia and Uganda, noted that he is, "confident that this issuance will act as a template for many other countries in the coming years".[116]

116 • The World Bank. "Rwanda Development Bank Launches First Sustainability-Linked Bond to Promote Inclusive Sustainable Development". 29 September 2023. https://www.world-bank.org/en/news/press-release/2023/09/29/rwanda-afe-development-bank-launches-first-sustainability-linked-bond-to-promote-inclusive-sustainable-development

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https://gsh.cib.natixis.com/our-center-of-expertise/articles/republic-of-benin-s-trailblazing-500m-12-5-y-inaugural-issuance-under-its-new-sdg-bond-framework

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SECTION 6 – OCEANS AND THE BLUE ECONOMY

Oceans are crucial for climate mitigation and adaptation – they cover 71% of the Earth's surface and absorb one third of CO2 emissions and 90% of excess heat that is created by greenhouse gas emissions.[117] Half of humanity relies on the ocean for food.[118] Vital industries, including tourism, aquaculture, fishing, energy, shipping and ports, also rely on a healthy ocean.[119] OECD projections anticipate that by 2030 the Blue Economy could "*outperform the growth of the global economy as a whole, both in terms of value added and employment*."[120]

However, with 90% of the world's fish stock in advanced decline, coastal deforestation rates (e.g. of mangroves) three to five times higher than those of terrestrial forests, 90% of coral reefs under threat of extinction by 2030 and an expected one ton of plastic in the oceans for every three tons of fish by 2025, these resources are under considerable pressure.121 It is estimated that Africa is the 'second-biggest ocean plastic polluter' – with its growing urban population and poor waste management expected to result in the continent becoming the largest contributor to global mismanaged plastic waste by 2060.122 With approximately 11 million tons of plastic flowing into the ocean each year, the endorsement in March 2022 of the resolution to "End Plastic Pollution"123 and develop an internationally legally binding agreement by 2024 sends a market signal to shift away from single-use plastics and invest in circular solutions.

Several studies indicate that SDG #14 (life below water) has historically attracted less investment globally than the other SDGs and, while blue bonds are perceived to have potential by a number of countries, they remain underused.124 As the largest asset class in the global financial market, the bond market can play a significant role in catalysing investments. In the last 5 years, a series of "blue bond" issuances (green bonds focused on the sustainable use of maritime resources and the promotion of related sustainable economic activities) demonstrate a growing appetite for ocean-themed bonds.125

One area where the Africa region could take a global lead is in the blue economy. The region already has marine protected areas in operation (in 2021 Africa had protected over 1.8 million square kilometers, or 12% of its waters126, and the World Bank Group recently supported Morocco's Department of Maritime Fisheries to locate the ideal marine protected areas127). This said, it would be beneficial if more were established (and those that are in operation would benefit from sustainable operation frameworks to ensure their optimal impact). In economic terms, the sustainable blue economy is already estimated to grow to USUSD 405 billion by 2030 – which could help the region diversify away from tourism-dependent economies, recover from the pandemic, and build climate resilience.128

"Blue" in Africa has the potential to increase growth across the region through increased tourism, shipping traffic and aquaculture. It could also be used to tackle challenges such as pollution, food security, energy security, unemployment and poverty, and improve resilience to climate events and climate change. The Blue Economy generated nearly USD300 billion for the African continent in 2018, creating 49 million jobs in the process.129 These and other crucial benefits are entirely dependent on the health and productivity of coastal and marine areas. There are already numerous projects and initiatives up and running to support and build the blue economy, including examples of countries within the region that have established Blue economy programmes, such as the USD350 million Blue Economy Program for Results in Morocco, approved on May 23, 2022.130 However, to maximise the full potential of the African blue economy there is a need for significant further investment, as well as a need to develop a strong institutional framework which will require a coordination entity (such as an inter-ministerial commission and/or regional coordination

117 • National Geographic, "Huge amounts of greenhouse gases lurk in the oceans, and could make warming far worse" dated December 2019 (available here).
118 • UNEP Finance Initiative, "Rising Tide: Mapping Ocean Finance for a New Decade" dated March 2021 (available here).
119 • European Commission, "2020 Blue Economy Report" dated June 2020 (available here).
120 • OECD, "Multilingual Summaries The Ocean Economy in 2030" (available here).
121 • Annual Reviews, "The State of the World's Mangrove Forests: Past, Present and Future" dated August 2019 (available here); IUCN, "Thailand celebrates its first National Mangrove Forest Day" (available here); World Economic Forum, "90% of fish stocks are used up – fisheries subsidies must stop emptying the ocean" (available here); UN, "Reefs at risk" (available here); One Green Planet Earth, "There Will be More Plastic in the Oceans Than Fish by 2050" (available here).
122 • World Bank Group, "Overview: Blue Economy for Resilient Africa Program" dated 2022 (available here).
123 • United Nations. "Resolution adopted by the United Nations Environment Assembly on 2 March 2022 - End plastic pollution: towards an international legally binding instrument". https://wedocs.unep.org/xmlui/bitstream/handle/20.500.11822/39764/END%20PLASTIC%20POLLUTION%20-%20TOWARDS%20AN%20INTERNATIONAL%20LEGALLY%20BINDING%20INSTRUMENT%20-%20English.pdf?sequence=1&isAllowed=y
124 • UNEP Finance Initiative, "Rising Tide: Mapping Ocean Finance for a New Decade" dated March 2021 (available here).
125 • The International Capital Market Association. "Bonds to Finance the Sustainable Blue Economy". https://www.icmagroup.org/assets/documents/Sustainable-finance/Bonds-to-Finance-the-Sustainable-Blue-Economy-a-Practitioners-Guide-September-2023.pdf
126 • World Economic Forum, "3 lessons we can learn from marine protection in sub-Saharan Africa" dated August 2021 (available here).
127 • World Bank Group, "Overview: Blue Economy for Resilient Africa Program" dated 2022 (available here).
128 • World Bank Group, "Overview: Blue Economy for Resilient Africa Program" dated 2022 (available here).
129 • World Bank Group, "Overview: Blue Economy for Resilient Africa Program" dated 2022 (available here).
130 • World Bank Group, "Overview: Blue Economy for Resilient Africa Program" dated 2022 (available here).

mechanisms) that can oversee investments in blue sector activities.131

The case for advancing blue investment through blue bonds in Africa is strong and is capable of having a significantly positive impact on future economic growth of the region. One key element of this guide is therefore directed at using financial instruments to develop further, and generate additional investment in, the blue economy.

131 • World Bank Group, "Overview: Blue Economy for Resilient Africa Program" dated 2022 (available here).

SECTION 7 – UTILISING NATURAL CAPITAL

Natural capital (i.e. forests, mangroves, coral reefs, oceans etc.) are sources of finance, and are existing natural resources that offer long-term opportunities for sustainability and economic growth.132 Although Africa holds a significant proportion of the world's natural resources, according to the UN Environment Programme, "it loses an estimated USD 195 billion annually of its natural capital through illicit financial flows, illegal mining, illegal logging, illegal trade in wildlife, unregulated fishing, environmental degradation and loss among others."133

Nature-based solutions fundamentally rely on making use of existing natural capital to mitigate climate change risks and loss of biodiversity and to develop climate resilience. Importantly, nature-based solutions can provide an alternative to sovereign financing that does not rely on perpetuating the debt cycle by integrating nature into debt arrangements (e.g. debt for nature, nature performance) and by accessing financing through new environmental market instruments (e.g. carbon credits, one of which equals one tonne of carbon dioxide or the equivalent amount of a different greenhouse gas)[134]. We see this in Gabon for example, in an arrangement that enables Gabon to receive USD 150 million over 10 years for protecting its carbon-absorbing tropical forests, and a guaranteed payment from Norway of at least USD 10 for each tonne of carbon certified as being stored.[135]

Natural capital can be monetised by way of carbon credits by creating carbon offset projects (such as forest and land-restoration projects, and other climate mitigation initiatives),136 which result in credits that can be bought and sold on the carbon market.137 Internationally, the United Nations Framework Convention on Climate Chance is the primary body responsible for regulating carbon credits and, on a national level, government agencies or other regulatory bodies regulate carbon credit programs.138

Less attention has been paid to the ecological importance and economic opportunities of biodiversity however, which should itself be at the forefront of government thinking and policymaking. For instance, Africa's natural capital is declining at a high rate, exceeding global trends. Between 2001 and 2020: (i) several African countries lost up to 30 percent of their tree cover, compared to 11 percent globally; (ii) African biodiversity declined on average by 4.2 percent, considerably higher than the global average of 2.7 percent; and (iii) 25 percent of African countries are now considered water stressed (making acute water shortages such as South Africa's 2018 water crisis more likely).139 Therefore, as national leaders, sovereign borrowers could benefit from exploring how to raise finance for projects that can preserve and restore natural capital, which can in turn enhance a range of broader climate-related resilience and social objectives. The key is to align economic interests with environmental ones, by transforming natural capital into a clearly quantified asset.140

From a sovereign debt perspective, nature-based solutions provide an economically and ecologically harmonious approach towards debt and natural wealth management. As Africa has significant natural capital, the focus should now turn to protecting and restoring it, urgently taking "policy, institutional and legal measures and reforms to a new level if it is to win the battle in reversing the losses accrued from mismanagement of natural capital"141, to create innovative finances and structures that can support investment into this critical asset class.

132 • The Principles Consultative Group, "Principles for Stable Capital Flows and Fair Debt Restructuring", https://www.iif.com/portals/0/Files/content/PCG%20Report%202021.pdf
133 • UN Environment Programme, "Is Africa's Natural Capital the Gateway to Finance Its Development?", https://www.unep.org/news-and-stories/story/africas-natural-capital-gateway-finance-its-development
134 • UNDP. "What are carbon markets and why are they so important?" 18 May 2022. https://climatepromise.undp.org/news-and-stories/what-are-carbon-markets-and-why-are-they-important
135 • The Principles Consultative Group, "Principles for Stable Capital Flows and Fair Debt Restructuring", https://www.iif.com/portals/0/Files/content/PCG%20Report%202021.pdf
136 • UNDP. "Africa needs carbon markets". 16 June 2022. https://climatepromise.undp.org/news-and-stories/africa-needs-carbon-markets
137 • Choose. "Carbon credit explained: an introduction to carbon markets". 5 January 2023. https://www.chooose.today/insights/carbon-credit-explained-an-introduction-to-carbon-markets
138 • Ibid.
139 • Report prepared for FSDAfrica, "Nature and financial institutions in Africa: A first assessment of opportunities and risks", https://fsdafrica.org/wp-content/uploads/2022/06/Nature-and-financial-institutions-in-africa-a-first-assessment-of-opportunities-and-risks_compressed.pdf
140 • The Principles Consultative Group, "Principles for Stable Capital Flows and Fair Debt Restructuring", https://www.iif.com/portals/0/Files/content/PCG%20Report%202021.pdf
141 • UN Environment Programme, "Is Africa's Natural Capital the Gateway to Finance Its Development?", https://www.unep.org/news-and-stories/story/africas-natural-capital-gateway-finance-its-development

Annex A – Part 1: Example Frameworks

GREEN BOND FRAMEWORKS[142]						
Issuer Name	**# Notes**	**Framework**	**Use of Proceeds**	**Project Evaluation/ Selection**	**Management of Proceeds**	**Reporting**
Bundesrepublik Deutschland Bundesanleihe (German Federal Securities)	2	Yes, in line with the GBP and available here. The second-party opinion issued by ISS Corporate Solutions can be found here.	The Green German Federal Security will refinance eligible asset categories that tie to Germany's climate strategy and the Climate Action Programme 2030. The budgetary resources to achieve these goals include: Transport; Research, Innovation and Awareness raising; Energy and Industry; Agriculture, Forestry, Natural Landscapes and Biodiversity; and International Cooperation. These use of proceed categories have a significant positive contribution to the SDGs 6 'Affordable and clean energy', 13 'Climate action', 14 'Life below water' and 15 'Life on land'.	An Inter-Ministerial Working Group has been established to oversee and validate key decisions about the Green German Federal securities, validation of the Green Bond Framework, the selection of Eligible Green Expenditures, and consequent allocation and impact reporting established from it. A Core Green Bond Team (CGBT) has also been created to manage all operational tasks related to Green German Federal securities and the elements described in the Framework.	The proceeds will be part of the overall funding of the Federal Republic of Germany. Consequently, the German Finance Agency will manage proceeds of the issued Green German Federal securities in line with the treasury policy of the German Federal Government. The allocation of an amount equal to the proceeds of the issued Green German Federal securities to Eligible Green Expenditures will thereafter be tracked by the CGBT.	Every calendar year, starting in 2021, an allocation report will be published providing details on the composition and exact amounts of the Final Eligible Green Expenditures for the preceding year. An impact report will be published for each green sector. This impact report will usually be published between one and three years following the respective issuance, and in any case at least once in each bond's lifetime. An external body will provide third-party verification on the allocation reports and their conformity with the Green Bond Framework.

142 • Bloomberg data on sovereign issuances of green and social bonds as of 16 April 2021.

GREEN BOND FRAMEWORKS[142]

Issuer Name	# Notes	Framework	Use of Proceeds	Project Evaluation/ Selection	Management of Proceeds	Reporting
Chile Government International Bond	4	Yes, in line with the GBP and available here. The second-party opinion issued by Vigeo Eiris can be found here. Certain of the prospectuses and final terms can be found here, here, here, here, here, here, here, here, here, and here.	An amount equal to net proceeds of any government issuance under the sovereign green bond framework will be allocated to finance or refinance new or existing green eligible expenditures. These are intended to encourage Chile's transition to a "low-carbon, climate resilient and environmentally sustainable economy" or serve its commitments under 2030 Agenda5 and Nationally Determined Contributions under the Paris Climate Agreement. It may include: tax expenditures (subsidies and exemptions); operational expenditures (funding for agencies, authorities as well as companies that deploy Chile's environmental and climate strategies; real assets (investment and maintenance costs for public infrastructure); intangible assets; and capital transfers to public and private entities. It excludes expenditures that relate to nuclear power generation, deforestation, and fossil fuels that exceed set thresholds.	An inter-departmental committee, the Green Bond Committee (GBC) oversees implementation of the green bond framework, monitors allocation of funds raised among eligible projects, and coordinates the preparation of investor reports. The GBC is led by the Ministry of Finance (MOF) with the support of the Ministry of Environment (MOE), and is composed of representatives from the main ministries charged with executing the public budget. The evaluation and selection process involves gathering green project, asset, and expenditure-related information, that is transmitted from the budget office and the various ministries, which is then analysed by both the MOF and the MOE.	Net proceeds from issuances are transferred to the general account of Chile, and will be managed by the MOF according to law until fully allocated to eligible green expenditures. Eligible green expenditures will be managed on a notional basis. Allocation of an amount at least equal to the net proceeds of completed issuances is tracked by the MOF.	Until proceeds are fully allocated, information on the following will be provided: project description and disbursed amounts, percentage allocated for each program, percentage allocated for financing, refinancing, and co-financing, and unallocated proceeds. For the period that the green bond remains outstanding, an annual impact report will be provided containing available information on the expected impact of the project and assets, qualitative and quantitative performance indicators, as well as the methodology underlying the same.

GREEN BOND FRAMEWORKS[142]

Issuer Name	# Notes	Framework	Use of Proceeds	Project Evaluation/ Selection	Management of Proceeds	Reporting
Fiji Government Bond	2	Yes, in line with the GBP and available here. The second-party opinion issued by Sustainalytics can be found here.	The Fiji Green Bonds will fund a pool of new and existing eligible green projects in eligible sectors such as: renewable energy and energy efficiency; climate resilience; clean and resilient transportation, reduction of pollution and emissions; water efficiency and wastewater management; sustainable management of natural resources; and eco-efficiency. Eligible green projects must have "clear environmental benefits and promote the transition to low carbon and climate resilient growth." Eligible expenditures can include investment and operational expenditures, tax credits and exemptions, guarantee schemes, as well as subsidies. It can be finance or refinance an eligible project but, "to avoid double counting, [it] may not finance any portion of a project that already has a dedicated revenue source funding the project."	The Green Bond Steering Committee (GBSC) has been established to oversee the implementation and allocation process in accordance with the adopted framework. The GBSC is composed of regulators and representatives from the Ministry of Economy (MOE), the Office of the Attorney General, and environment experts. The GBSc will endorse potential eligible projects while the MOE will be ultimately responsible for determining project eligibility. The Director of Climate Change, MOE, will manage the project identification process and will assess and recommend potential projects to the Green Bond Steering Committee based on: eligible sectors, climate change and environment policy, Fiji government commitments, projected timelines, and capacity to comply with reporting requirements.	Proceeds from Green Bond issuances are directed to a ring-fenced account established by the MOE. The MOE will be responsible for tracking eligible expenditures. Fiji will apply its usual liquidity management practices for any portion of the proceeds that is not spent. Eligible expenditures are prioritized in the year for which it is raised. The funds may be used for future financial year eligible expenditures only when there are no remaining eligible expenditures for the year it was raised. Coupon payments and principal repayments will be made out of the consolidated fund account, in accord with usual government practice. The principal and the interest will not be linked with financial performance or return on investment of any specific eligible project.	An internal process to monitor the allocation of proceeds will be executed, and it will include a list of projects to which proceeds have been allocated, the total signed amount, and the amount of proceeds allocated to such projects. The Reserve Bank of Fiji will make the following available on its website: key information about the Green Bond Program and its selection criteria; progress reports on projects included in the Green Bond portfolio; and information on compliance with ESG aspects and risk assessment documentation. An annual newsletter will also be provided including progress reports and environmental impacts of the projects.

GREEN BOND FRAMEWORKS[142]

Issuer Name	# Notes	Framework	Use of Proceeds	Project Evaluation/ Selection	Management of Proceeds	Reporting
French Republic Government Bond OAT	2	Yes, in line with the GBP and available here. The second-party opinion issued by Vigeo Eiris can be found here.	Green eligible expenditures are classified under six identified sectors: buildings, transport, energy, living resources, adaptation, and pollution and eco-efficiency. It includes expenditures related to real assets (e.g. land, energy efficient building and infrastructure) and intangible assets (e.g. human capital and organizations, research and innovation). It may come in the form of tax, investment, operating and intervention expenditures and may be directed towards state agencies, local authorities, companies, as well as households. It excludes expenditure to an agency or local authority that “could use itself to issue its own green bonds.” It also excludes any French state expenditure that is already financed through a dedicated source.	Selection is primarily performed by an Inter-Ministerial Group. It aims to exclude nuclear activities, armament, and fossil fuel-related expenditures. The process includes screening by the Ministry of Finance and Ministry of Environment based on budget documents and environmental policy. The Inter-Ministerial Working group then screens potential green expenditures with the Transition Energetique et Ecologique pour le Climat (TEEC) label as a guiding reference. After which, the MOF and MOE performs the final validation of eligible green expenditures.	Green eligible expenditures are tracked by the MOF and managed to ensure that more than 50% of the allocation relates to current year budget or future years budget. It will prioritize expenditures made in the previous year and the current year, and will include future expenditures only when previous and current year expenditures are exhausted.	Investors will be provided with information relating to the allocation of bond proceeds (externally audited); the outputs of eligible green expenditures, including performance indicators; and environmental impacts. The Green Bond Evaluation Council will create guidelines and determine the frequency of environmental impact reporting that is appropriate for selected eligible green expenditures.

GREEN BOND FRAMEWORKS[142]

Issuer Name	# Notes	Framework	Use of Proceeds	Project Evaluation/ Selection	Management of Proceeds	Reporting
Hong Kong Government International Bond	8	Yes, in line with the GBP and available here. The second-party opinion issued by Vigeo Eiris can be found here.	Green bond proceeds will be used exclusively to finance or refinance projects providing "environmental benefits and support the sustainable development of Hong Kong" and falling under the following eligible categories: renewable energy, energy efficiency and conservation, pollution prevention and control, waste management and resource recovery, water and wastewater management, nature conservation and biodiversity, clean transportation, and green buildings. Eligible projects exclude fossil fuel-based electric power generation or any improvement in the same. It will also exclude large scale hydropower plants and concentrated solar power.	The Steering Committee (SC) on the Government Green Bond Programme was established to oversee the implementation of the program, review each green bond transaction, allocation of proceeds, and continued eligibility of projects during the life of the bond. Bureaus and departments submit potential eligible projects for review by the SC, which considers: the description of the project and its approach towards obtaining environmental benefits; the certificates received with regard to compliance with relevant standards; and in some cases, reviews available energy, water, waste management review data. A qualified third party may be commissioned to investigate eligibility of projects under the framework.	Pending allocation to eligible projects, the proceeds of green bonds are directed to the Capital Works Reserve Fund administered by the Financial Services and the Treasury Bureau (FSTB). The FSTB will track key information on the transaction as well as allocation of proceeds. Proceeds of each green bond transaction will be allocated only to expenditures within two years prior and subsequent to the issue date. More than 50% is expected to be allocated to future expenditures.	The FSTB will issue a Green Bond Report annually containing information on net proceeds allocation. It will contain: (1) a summary key information pertaining to all green bond transactions within the reporting period; (2) proceeds allocated to various eligible project categories, description of major eligible projects, aggregate amount of allocated proceeds, balance of unallocated proceeds, and percentage of financing and refinancing; and (3) environmental and social impacts for each green bond transaction. The Green Bond Report will be reviewed by the SC and vetted by an independent qualified third party.
Hungary Government International Bond	3	Yes, in line with the GBP and available here. The second-party opinion issued by Cicero is available here.	An amount equal to the net proceeds will finance or refinance expenditure within the central government budget, including eligible green expenditures under the following categories: renewable energy, energy efficiency, living use and living natural resources, waste and water management, clean transportation, and adaptation. It might include investment, intervention, operating, and tax expenditures for activities with an environmental benefit. It excludes expenditures for which there is dedicated funding. Also excluded are expenditure related to fossil fuel production and power generation, nuclear power, waste to energy, and arms.	A Steering Committee (SC) and an Inter-Governmental Working Group (IWG) were set up under the Green Bond Framework. Ministries identify potential projects based on their policy goals. Potential projects are then evaluated and selected by the IWG annually and are approved by the SC.	Proceeds are managed by the Ministry of Finance (MOF) on a notional basis. IWG monitors the level of eligible green bond expenditure and the MOF keeps a record of unallocated proceeds pending full allocation to eligible green expenditures.	Impact and allocation reporting will be made on an annual basis. Each relevant ministry collects data and drafts corresponding sections of the report to be reviewed by the IWG and validated by the SC. The allocation report will include information such as total proceeds raised, amount allocated, and breakdown by green sectors. The impact report will likely focus on carbon impact metrics and be made on a project-by-project basis.

GREEN BOND FRAMEWORKS[142]

Issuer Name	# Notes	Framework	Use of Proceeds	Project Evaluation/ Selection	Management of Proceeds	Reporting
Ireland Government Bond	1	Yes, in line with the GBP and available here. The second-party opinion issued by Sustainalytics can be found here.	An amount equal to net proceeds of any Irish Sovereign Green Bond (ISGB) will be allocated to finance or refinance new or existing eligible green projects, which promote Ireland's "transition to a low carbon, climate- resilient and environmentally sustainable economy;" subject of Exchequer financial support, and falling under eligible green categories. These categories are: sustainable water and wastewater management, clean transportation, environmentally sustainable management of living natural resources and land use; built environment/ energy efficiency; and climate change adaptation. Eligible green projects exclude those that relate to nuclear power generation, large scale hydro projects, and fossil fuels that exceed set thresholds.	A Green Bond Working Group was established to oversee implementation of the framework, allocation of funds to eligible projects, and provision of investor reports. In consultation with government departments and state agencies, it identifies eligible green bond projects for evaluation; approves annual allocation reports; and approves impact reports.	Pending allocation to eligible green projects, an amount equal to unallocated ISGB proceeds are held in Ireland's Central Fund and managed in accord with appropriate prudential liquidity policies. The National Treasury Management Agency and the Department of Public Expenditure will track the expenditure on eligible green projects to the extent of ISGB net proceeds. Principal and interest payments will be made from the Central Fund and are not conditioned on the performance of the eligible green projects. ISGBs rank pari passu with other Irish government bonds.	Until net proceeds are fully allocated, investors are provided with an annual allocation report detailing the amount allocated to eligible green projects, the amount allocated to each eligible green category, and total amount that remains unallocated. An impact report will also be provided biennially subject to the availability of data. It will include key environmental impact indicators, and where the same is unavailable, qualitative reports may be provided instead.
Italy Buoni Poliennali Del Tesoro	1	Yes, in line with the GBP and available here. The second-party opinion issued by Vigeo Eiris can be found here.	To be eligible, expenses must contribute to achieving environmental objectives and must fall under one of the following Green Sectors: renewable electricity and heat; energy efficiency; transport; pollution prevention and control and circular economy; protection of the environment and biological diversity; and research. Eligible expenses include tax expenses, capital expenditure, current expenses and transfers. It excludes expenses for which there is dedicated financing or revenue. Also excluded are expenditure related to: nuclear power (fission), tobacco; gambling, military contracts, arms, alcohol, fossil fuels, and energy plants with carbon dioxide emissions beyond a set threshold.	The Department of the Treasury screens budge data and identifies potential expenses that are verified by relevant ministries as eligible expenditures. A portfolio of eligible expenditures is then reviewed by the Inter-ministerial Committee. Eligibility of expenses is assessed through the following criteria: significance of the contribution of the expense towards achieving or hindering environmental objectives; and conformity with minimum social protection criteria within the applicable legal framework of the expense.	Proceeds are transferred to a general Treasury Cash account at the Bank of Italy. These proceeds are tracked virtually –"as an accounting entry initially credited with the bond amount and gradually debited as projects require funding."	The Italian Sovereign Green Bond Allocation and Impact Report will be verified externally and published annually. It will show allocation of proceeds for previous years and include information on disbursement progress. It will also contain information regarding the environmental impact of the expenditures that have reached the implementation stage.

GREEN BOND FRAMEWORKS[142]

Issuer Name	# Notes	Framework	Use of Proceeds	Project Evaluation/ Selection	Management of Proceeds	Reporting
Kingdom of Belgium Government Bond	1	Yes, in line with the GBP and available here. The second-party opinion issued by Sustainalytics can be found here.	The Kingdom of Belgium developed a Green Bond Framework ('Green OLO Framework') which will enable the Belgian Debt Agency to issue green bonds (or 'green OLOs'). Proceeds of the bonds will be used to finance or refinance 'Eligible Green Expenditures' in five 'Green Sectors': Clean Transportation, Energy Efficiency, Renewable Energy, Circular Economy (waste management and circular economy adapted products), and Living Resources and Land Use (including climate change adaptation, and pollution prevention and control.	The selection of Eligible Green Expenditures will be annually managed by an Inter-Ministerial Working Group, coordinated by the Ministry of Finance (Federal Public Service Finance) and the Belgian Debt Agency (BDA), THE Minister of the Environment and the Prime Minister. Each Federal Public Service PS (FPS) holds the responsibility for identifying and reporting on Eligible Green Expenditures within its programs. Each FPA leverages on existing budgetary processes and relies on its services and agencies.	The tracking of Eligible Green Expenditures will be done by the Belgian Debt Agency, ensuring that the allocation of proceeds will not allow for listing of the same budget allocation twice. Eligible Green Expenditures include: Recent Expenditures, Current Expenditures, and Federal State's Portfolio of Green Holdings. The proceeds of the Green OLO will be allocated between these categories of Eligible Green Expenditures, with no priority given to any of the categories.	The Ministry of Finance and the Belgian Debt Agency will coordinate and publish a report on the management/allocation of proceeds of the proceeding year. The first allocation reporting will be published in the year following the first issuance and then annually until full allocation. The allocation proceeds will be broken down by green sector (e.g. energy efficiency, clean transportation) and by type of expenditure (e.g. investment expenditure, tax expenditure). The allocation of proceeds will also be reviewed by an independent audit firm. The Minister of Environment will coordinate and publish a report assessing the environmental impact of Eligible Green Expenditures. The first impact report will be published in the year following the issuance, and as necessary thereafter.

GREEN BOND FRAMEWORKS[142]

Issuer Name	# Notes	Framework	Use of Proceeds	Project Evaluation/ Selection	Management of Proceeds	Reporting
Lithuania Government Bond	1	Yes, in line with the GBP and available here. Moody's assigned a Green Bond Assessment (GBA) of GB1 (Excellent) to the Government of Lithuania's green bonds. However, due to changes in the corporate structure, it later withdrew its outstanding Green Bond Assessments (GBAs), for all issuers, including Lithuania.	The Government of the Republic of Lithuania intends to issue Government Securities, Green Bonds, and use the proceeds for modernization of multi-apartment buildings to achieve energy efficiency. The Ministry of Finance will issue loan to the Public Investment Development Agency (VIPA) which will use the proceeds to on-lent through multiple small sub-loans to finance energy efficiency investments in multi apartment buildings (Eligible Projects) in line with the Multi-Apartment Building Modernization Program approved by the government. The use of proceeds has been designed to tackle increasing fuel consumption, energy demand, and greenhouse gas emissions by supporting modernization of multi-apartment buildings and raising public awareness of on energy saving. The Green Bonds issued is developed in alignment with the Green Bond Principles of 2017 set by the International Capital Market Association (IMCA).	Technical project evaluation, including energy efficiency savings for the eligible projects will be performed by the Housing and Energy Saving Agency (BETA), an independent agency under the Ministry of Environment. VIPA will carry out financial, reputational and management capacity and risk assessment of the projects and will perform administrative audits on sites on a selective basis. To ensure compliance with legal requirements, the State Territorial Planning and Construction Inspectorate under the Ministry of Environment will regularly carry out planned and unplanned inspections of construction sites to check the compliance of performed activities with project commitments, technical regulations and other national legislation.	The net proceeds from the green bonds will be on-lent to VIPA which will open a separate account to manage these proceeds. Consequently, the account will be used: to receive net proceeds, to disburse payments to the work contractors implementing the Eligible Projects, to issue other Eligible Project related payments. And to receive loan payments from the end borrowers.	To monitor performance of Eligible Projects, certain indicators have been selected as follows: energy performance of the buildings before and after modernization, amount of greenhouse gases emitted into the atmosphere, number of modernized building financed using proceeds. Monitoring of the Eligible Projects is organized and performed by BETA. On the basis of annual reports prepared by BETA, VIPA will issue annual performance reports containing additional information. (including information recommended by ICMA).

GREEN BOND FRAMEWORKS[142]

Issuer Name	# Notes	Framework	Use of Proceeds	Project Evaluation/ Selection	Management of Proceeds	Reporting
Netherlands Government Bond	1	Yes, in line with the GBP and available here. The second-party opinion issued by Sustainalytics can be found here.	The State of Netherlands has developed the State of Netherlands Green Bond Framework under which it intends to issue green bonds and use the proceeds to finance and refinance existing and future government expenditures that promote the Netherlands realization of policy objectives aimed at decarbonizing the country's energy, housing and transportation sector, while building resilience to climate change. Expenditures related to renewable energy, energy efficiency, clean transportation, climate change adaptation and sustainable water management will lead to positive environmental impacts and advance the UN Sustainable Development Goals (7) Affordable and Clean Energy, (9) Industry, Innovation and Infrastructure, (11) Sustainable Cities and Communities (13) Climate Action.	Potential expenditures are initially screened by the Dutch State Treasury Agency (DTSA) before being evaluated and selected during the annual review by the Green Bond Working Group. The Green Bond Working Group is comprised of representatives from the DSTA, Ministry of Finance, Ministry of Economic Affairs and Climate policy and Ministry of Infrastructure and Water Management.	The State of Netherlands plans to allocate at least 50% of net proceeds to eligible expenditures in the budget year of issuance or future years. Up to 50% of an issuance could be allocated to government expenditures realized in the budget year preceding issuance. Expenditures will be tracked based on the National Financial Annual Reporting while unallocated proceeds will be managed according to the treasury policy of the Dutch State and proceeds will be tracked and reviewed until full allocation.	The State of Netherlands intends to publish an allocation report annually, within three months following the publication of the National Financial Annual Report. The report will include an overview of the allocation of Green bond proceeds to the eligible expenditure categories, a breakdown of allocation per expenditure category and the unallocated proceeds (if any). Impact reporting will be published annually in an impact report and will provide information on the relevant impact categories.

GREEN BOND FRAMEWORKS[142]

Issuer Name	# Notes	Framework	Use of Proceeds	Project Evaluation/ Selection	Management of Proceeds	Reporting
Nigeria Government Bond	2	Aligns with the Federal Ministry of the Environment's Green Bond Guidelines, an adaptation of the Green Bond Principles and available here. The second-party opinion issued by Moody's can be found here.	Proceeds from the Nigerian Government's second green bond issuance will be used to finance or re-finance existing and new projects with environmental benefits that qualify under the government's green bond framework. Under Nigeria's green bond framework, green bond proceeds must be allocated to the following broad eligible projects categories: energy efficiency, resource efficiency, renewable energy, clean technology, and sustainable forest management. Eligible projects refers to funding from the Republic of Nigeria that in whole, or in part, promote the transition to low-emission economy and climate resilient growth, including both climate mitigation and adaptation.	The Federal Ministry of Environment through the Inter-Ministerial Committee on Climate Change (ICCC) will review sector strategies for projects that have climate credentials and are consistent with the expectations of the green bond guidelines. These programs and projects will be communicated to the Federal Ministry of Finance through the Debt Management Office for inclusion in the projects that will be funded through a green bond. The Federal Ministry of Finance will approve resources that are equivalent to the allocations of the eligible projects to be included in the borrowing plan. The relevant projects will be included in the annual budgets of the supervising ministries, departments, and agencies and the budget when submitted by the President of the Federal Republic of Nigeria is approved as is by the National Assembly.	All proceeds from the Ministry of Finance issued Green Bonds should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process linked to the issuer's lending and investment operations for Green projects. The Debt Management Office (DMO) will have custody of the Green Bond Proceeds Account and will authorize payments from the account. Upon approval of the budget, the specific amounts approved for the environmental projects to be finance will be confirmed by the Federal Ministry of Environment from the budget office and advised to the DMO and Office of the Accountant General of the Federation. This will include details of the implementing Ministry, department or agency and the project code.	Implementing Ministries, Departments and Agencies (MDAs) are to submit quarterly implementation reports to the Climate Change Department of the Federal Ministry of the Environment. The Climate Change Department is to ensure that projects are implemented in line with national objectives. The Federal Ministry of Environment supported by the Ministry of Finance, represented by the Debt Management Office and the Office of the Accountant General of the Federation, will report bi-annually, initially within one year of the issuance and until full allocation on amounts equal to the net proceeds of the Green Bonds issued to investors. Furthermore, the Federal Ministry of the Environment, the Ministry of Finance, and the Office of the Accountant General will write impact reports and confirm that the use of proceeds of the Green Bond issuance conforms to the Green Bond Framework. The Central Bank of Nigeria will also provide the periodic report on the account and use of proceeds.

GREEN BOND FRAMEWORKS[142]

Issuer Name	# Notes	Framework	Use of Proceeds	Project Evaluation/ Selection	Management of Proceeds	Reporting
Indonesia	7	In line with the GBP and available here. The second-party opinion issued by Cicero is available here. Certain of the prospectuses and term sheets can be found here, here and here.	The Republic of Indonesia has developed a Green Bond and Green Sukuk framework under which it plans to finance or re-finance Eligible Green Projects. Eligible Green Projects refer to projects which promote the transition to low-emission economy and climate resilient growth, including climate mitigation, adaptation, and biodiversity. Eligible Sectors include: Renewable Energy, Energy Efficiency, Sustainable Transport, Waste to Energy and Waste Management, Sustainable Management of Natural Resources, Green Tourism, Sustainable Agriculture and Green Buildings.	The selection process for inclusion in the pool of Eligible Green Projects is two-fold: the activities of line ministries are first tagged as mitigation or adaptation activities, then screened against the criteria outlined in the Green Bond and Green Sukuk framework. Eligible Green Projects will be selected from the pool of mitigation and adaptation projects. Respective ministries will identify potential Eligible Green Projects in accordance with the criteria and process set out in the framework. Final inclusion in the Eligible Green Project Pool is decided with the consensus of individual ministries together with the National Development Planning Agency (BAPPENAS), the Ministry of Environment and Forestry and endorsed by the Ministry of Finance. As per Indonesian law, all projects must comply with the AMDAL regulation, requiring environmental clearance before implementation.	Disbursement of proceeds and proceeds allocation will be tracked with a system managed by the Ministry of Finance. Each Eligible Green Project will be identified through a unique budget code number by which the process of disbursement can be traced. The Ministry of Finance shall manage the processes for allocation of the proceeds of each Green Bond and Green Sukuk Issuance and ensure that the proceeds are used in accordance with the SUKUK Framework. A Green Bonds and Green Sukuk allocation register will also be established to record the allocation of Green Bonds and Green Sukuk proceeds. The register will contain, for each Green Bond and Sukuk issued, information including: details of Green Bonds and Green Sukuk such as ISIN, Pricing date, maturity date and a list of Eligible Green Projects including: Summary of project details, amount of proceeds allocated to each eligible project, expected climate and/or environmental impacts of eligible projects, aggregate amount of proceeds from Green Bonds and Green Sukuk allocated to eligible projects and remaining balance of unallocated proceeds.	The Ministry of Finance of the Republic of Indonesia will prepare and publish a Green Bond and Green Sukuk Report annually on the allocation and impact of use of proceeds of each Green Bond and Green Sukuk outstanding. The report will contain: A list of all projects to which Green Bond and Greek Sukuk proceeds have been allocated, and whether the project was funded through Green Bond or Green Sukuk issuance, the amount of Green Bond and Green Sukuk proceeds allocated (allocated amount) to such projects, and an estimation of the environmental benefits arising from the implementation of Eligible Green Projects aggregated by sector (project category).

GREEN BOND FRAMEWORKS[142]

Issuer Name	# Notes	Framework	Use of Proceeds	Project Evaluation/ Selection	Management of Proceeds	Reporting
Republic of Poland Government International Bond	4	Yes, in line with the GBP and available here. The second-party opinion issued by Sustainalytics can be found here.	The State Treasury of the Republic of Poland, represented by the Minister of Development and Finance has developed a framework under which is plans to finance or re-finance Eligible Projects via a Ministry of Finance, Poland Green Bond. Eligible Projects refer to funding from The State Treasury of the Republic of Poland that in whole or in part, promote the transition to low-emission economy and climate resilient growth, including both climate mitigation and adaptation. Eligible projects must also fall into one of the following sectors: Renewable Energy, Clear Transportation, Sustainable Agriculture Operations, Afforestation, National Parks and Reclamation of Heaps.	The State Treasury of the Republic of Poland, represented by the Minister of Development and Finance, will review and approve budget allocation/ subsidies/projects as eligible use of proceeds for each Green Bond issued. Eligible Projects will be selected from the following considerations: Alignment with identified Eligible sectors, Investment horizon, Availability of information to facilitate reporting, Other ESG/ external factors related to the agencies/organizations.	All proceeds from Ministry of Finance, Poland Green Bond are set aside in a designated account for funding exclusively projects as defined in the Eligible Sectors disclosed in this Green Bond Framework. The proceeds are credited to a separate "Green Cash Account" and disbursed to Green Bond Eligible Projects. Disbursements are often made over a period of time, depending on a project's amortization schedule. As Green Bond proceeds are disbursed, corresponding amounts are adjusted from the Green Cash Account accordingly. Any balance of issuance proceeds not allocated to eligible Green Projects will be held in accordance with The State Treasury of the Republic of Poland, represented by the Minister of Development and Finance's normal liquidity management policy. Payment of principal and interest of the notes will be made from general funds and will not be directly linked to the performance of the eligible Green Projects.	The State Treasury of the Republic of Poland, represented by the Minister of Development and Finance, will report annually, initially within one year of issuance and until full allocation, on amounts equal to the net proceeds of the Green Bond issued to provide investors: aggregate amount allocated to various Eligible Sectors, remaining balance of funds which have not yet been utilized, examples of Green Projects from each Eligible Sector. Where possible, The State Treasury of the Republic of Poland, represented by the Minister of Development and Finance, will report on the environmental and social impacts resulting from each Green Project allocated from the respective Green Bond.

GREEN BOND FRAMEWORKS[142]

Issuer Name	# Notes	Framework	Use of Proceeds	Project Evaluation/ Selection	Management of Proceeds	Reporting
Sweden Government International Bond	2	Yes, in line with the GBP and available here. The second-party opinion issued by Cicero is available here.	The framework for the Swedish sovereign green bonds has been developed in accordance with the guidelines in the Green Bond Principles (GBP). Eligible Green Expenditure will be selected among realized expenditure from the previous year and expenditure for the current year in the central government budget adopted by the Riksdag. Eligible Green Expenditures is defined as central government expenditures that contribute to the fulfilment of the environmental objectives. Examples of Eligible Green Expenditures include: mitigating climate change, strengthening biodiversity, promoting renewable energy projects or reducing carbon emissions in the transport sector,	The selection of eligible green expenditures is based on the environmental objectives system and the climate policy framework. Selection is carried out at Government offices and, when necessary, in consultation with relevant expert agencies. The selection of eligible green expenditures is also based on an assessment of pre-determined criteria including: The expenditure must significantly contribute to at least one of the environmental quality objectives, the expenditure does not significantly counteract another environmental quality objective and it is highly likely that the expenditure will contribute to long-term net positive environmental results and impacts.	The Swedish National Debt Office is responsible for issuing Swedish sovereign green bonds. The proceeds are monitored and documented by the National Debt office according to special procedures and administered within the regular liquidity and debt management. The National Debt office uses a register/virtual account to keep track of green bonds that have been issued, and the follow-up of the allocation of proceeds to the portfolio of eligible green expenditures that were selected.	The Swedish National Debt Office is to publish an investor report no later than the fourth quarter of the year following the issue of the Swedish sovereign green bonds and every year thereafter, if deemed necessary by the Swedish National Debt Office. The report will specify the distribution of the proceeds from the Swedish sovereign green bonds between the eligible expenditures in the portfolio. The report will also include output and impact statements outlining the positive environmental impacts of the green expenditures. The report will also be compiled in collaboration with the Swedish Environmental Protection Agency.

SOCIAL BOND FRAMEWORKS

Issuer Name	# Notes	Framework	Use of Proceeds	Project Evaluation/Selection	Management of Proceeds	Reporting
Ecuador Government International Bond	2	Yes, in line with the SBP and available here. The second-party opinion issued by Vigeo Eiris is available here.	Eligible mortgage loans falling under one eligible social category, which has been formalized in the Framework: Affordable and Decent Housing. Aligns with SDG 1. No Poverty and SDG 11. Sustainable Cities and Communities.	The evaluation and selection of the mortgage loans is carried out by relevant internal and external experts: (1) selection process for the Public and Social Interest Housing Loans by Intermediary Financial Institutions responsible for carrying out an exhaustive analysis of the loan risk. The Mortgage Securitization Company (CTH S.A.) will act as the financial and legal structurer of the securitisation mechanism of the mortgages associated with the mortgage loans, and reviewing that the financed loans comply with the applicable eligibility criteria. The traceability of decisions will be ensured by the creation of loan reports, which must contain all the documents required by the operative regulation, i.e. the necessary declarations from debtors, promotors, property sellers, and evaluators. An independent external auditor will verify annually the compliance of the mortgage loans with the evaluation and selection process, including the eligibility criteria.	The net amount of the Bond will be deposited, under the responsibility of the Ministry of Economy and Finance (MEF), in a bank account in the Central Bank of Ecuador. The allocation of these resources will be carried out through a Project Coordinating Unit formed by officials of the MEF responsible for the creation of a Resource Management Trust Fund to administer the bond funds. In addition, the UDP will be in charge of the control and monitoring of the operation. The issuer confirmed that all funds will be allocated within 60 months.	The MEF with the support of CTH S.A. will be responsible for collecting the necessary data to provide a report on the allocation of funds and impact of the bond. The reports will be published on the MEF website on an annual basis.
Guatemala Government Bond	2	Not publicly available. The offering memorandum can be found here.	-	-	-	-

SUSTAINABLE BOND FRAMEWORKS

Issuer Name	# Notes	Framework	Use of Proceeds	Project Evaluation/Selection	Management of Proceeds	Reporting
Chile Government International Bond	3	Yes, it is in line with the SBP, GBP and SBG and it is available here. The second-party opinion issued by Vigeo Eiris can be found here.	Green sectors: (1) clean transport, (2) energy efficiency, (3) renewable energy, (4) living natural resources, land use and use of protected marine areas, (5) efficient and climate resilient water management and (6) green buildings. Social sectors: (1) support for the elderly or people with special needs in vulnerable situation, (2) support for low income families, (3) support for the community through job creation, (4) support for human rights victims, (5) access to affordable housing, (6) access to education, (7) food security, (8) access to essential health services and (9) social programs designed to prevent and/or alleviate unemployment derived from socio-economic crisis, and financing SMEs and micro-finance. Exclusions include nuclear energy, fossil fuels etc. Note: The Framework notes the environmental / social benefits and also the SDG contributions of projects.	The Ministry of Finance (MoF) established a decision-making process, including: (1) a declaration about the objectives (environmental or social) of the bond, (2) a process to determine the eligibility of the project, assets and expenditures, and (3) the associated eligibility criteria, criteria for exclusion or any other process used to identify and manage environmental and/or social risks associated with the project. As part of the process to determine the eligibility of projects, assets and expenditures, the MoF heads an inter-ministerial committee called the “Sustainable Bond Committee”, with the goal of supervising complete implementation of the Framework. For green activities, the included ministries shall be: Ministry of the Environment, Ministry of Public Works, Ministry of Energy, Ministry of Transport and Ministry of Agriculture, among others. When dealing with social proceeds, the Department of Social Policies of the Ministry of Finance along with the International Finance Unit shall carry out the analysis and selection process.	The net proceeds from the issuances will be transferred to the general account of Chile. The MoF guarantee that an amount at least equal to the net proceeds of the issuances completed under the framework will be allocated to financing and/or refinancing of expenditures that fulfil the eligibility criteria established in the Framework.	Allocation Report along with an Impact Report for the investors. This information will be published on the website of the Ministry in April of each year.

SUSTAINABILITY-LINKED BOND FRAMEWORKS

Issuer Name	# Notes	Framework	KPIs	Sustainability Targets (SPTs)	Reporting
Republic of Chile	3	Yes, it is in line with the SLBP and it is available here. The second party opinion issued by Sustainalytics can be found here.	The Framework sets out three KPIs, in relation to the following: (1) Greenhouse Gas Emissions per year (2) Non-Conventional Renewable Energy Electric Generation, as the percentage (%) generated in the National Electric System (3) Percentage of women in Board Member positions at companies that report to the CMF	The SPTs are coherent with the KPIs and Chile's sustainability goals, and are verifiable through methodologies which are comparable, ambitious and realistic.	Chile has committed to publish an SLB report annually, containing qualitative and quantitative explanations of the evolution and progress of the KPIs. KPI 1 data will be published biennially, and KPI 2 and KPI 3 data will be published annually. The SLB report may also include other information which may be relevant to investors' monitoring of KPI progress.
BRD	1	Yes, it is in line with the SLBP and it is available here. The second-party opinion issued by S&P Global Ratings can be found here.	BRD set out three KPIs: (1) Robust Environment and Social Management System Implementation (2) Increasing number of loans to Women-Led SMEs expressed as a percentage of the total number of SME loans (3) Increasing the cumulative number of affordable housing loans extended or refinanced by Participating Financial InstitutionS	BRD sets out SPTs for each KPI, including factors that support the achievement of the target and risks to the target.	BRD has committed to publish annually and keep readily available an update on any SLBs issued under the Framework. In addition, BRD has undertaken to include in the integrated annual report an update on the KPI performance that is independently verified and incorporates sufficient up-to-date information to allow investors and/or lenders to monitor the performance against the SPTs. For the SPT Measurement Date, BRD will publish a sustainability certificate that confirms performance against each SPT for the target observation year and the related impact (and timing thereof) on the relevant SLB's economic characteristics.
Uruguay Government	1	Yes, it is in line with the SLBP and it is available here. The second-party opinion issued by Sustainalytics US. Inc can be found here.	The Framework sets out two KPIs: (1) Reduction of aggregate gross greenhouse gas emissions per real GDP unit with respect to a reference year (2) Maintenance of native forest area with respect to a reference year	Uruguay established two SPTs for each KPI. All SPTs refer to the same target year 2025.	Uruguay has committed to annual reporting of greenhouse gas emissions, which will be accurate, timely, transparent and include a credible external verification of the KPIs. Uruguay will also use geospatial data and satellite-imaging mapping to estimate the native forest area every four years, in line with international best practices. Uruguay commits to have an external, independent, and qualified review conducted by the United Nations Development Program on both KPIs throughout the life of the SSLBs.

Annex A – Part 2: Example Template Blue Bonds/Green Bonds/Social/ Sustainable Bond Framework

[Insert name of Sovereign]

[Blue/Green/Social/Sustainable] Bond Framework

Dated [•] 20[•]

This [Blue/Green/Social/Sustainable] Bond Framework (the "**Framework**") has been prepared in alignment with the [Insert relevant ICMA Principles] 20[•] published by [the International Capital Market Association (ICMA)] (the "**Principles**").

The Framework has been independently assessed by [•], who have provided an opinion confirming its compliance with the Principles.

INTRODUCTION

[Describe the reasons for implementing this framework; the benefits of [blue/green/social/sustainable] bonds to the country; and anything else that may be relevant.]

POLICY INITIATIVES

[Describe any internal policy initiatives which will also be used by the country to support the Framework and its objectives. E.g. any development plans or climate change policies.][Describe any external policy initiatives which will also be used by the country to support the Framework and its objectives. E.g. Paris Agreement commitments or Sustainable Development Goals.]

BONDS ISSUED BY [INSERT NAME OF SOVEREIGN]

[*Insert name of Sovereign*] intends to use this Framework to issue sovereign [Blue/Green/Social/Sustainable] Bonds. The information set out below provides background and context to [*Insert name of Sovereign*] as an issuer of bonds. [*Describe previous bond issuances/restructurings by the country.*][*Consider describing some key economic factors; the country's latest ratings.*]

[INSERT RELEVANT ICMA PRINCIPLES] 20[•]

The Principles are voluntary guidelines for best practice when issuing [Blue/Green/Social/Sustainable] Bonds. As confirmed by the Opinion, this Framework is aligned with the [four core components of the Principles: (1) Use of Proceeds, (2) Process for Project Evaluation and Selection, (3) Management of Proceeds and (4) Reporting].

1. Use of Proceeds

[Describe how the proposed bonds align with this component. Which Eligible Projects which will benefit from the bond proceeds, e.g. renewable energy, water efficiency or waste management, green transport etc.? How will funds be deployed within an Eligible Project, e.g. operational expenditures, subsidies etc? Describe any limitations to investment in Eligible Projects/the objectives e.g. funds going to a company that is not wholly "green".]

2. Process for Project Evaluation and Selection

[*Describe how the proposed bonds align with this component. Who will identify Eligible Projects? Will an Eligible Project evaluation/steering committee be established? Will there be a criteria for Eligible Projects?*]

3. Management of Proceeds

[*Describe how the proposed bonds align with this component. Will an account earmarked for the proceeds be opened? How will expenditure on Eligible Projects be tracked? How will payments on the bonds be made? Will returns on the bond be linked to the return on investment or the financial performance of any specific Eligible Projects?*]

4. Reporting

[*Describe how the proposed bonds align with this component. How will transparency be ensured, e.g. disclosure of Eligible Projects and funds received? Will there be a website where information can be uploaded for review, e.g. information as to the Eligible Project criteria? Will the Eligible Projects be monitored and information as to results be released? How will you measure and report impact from investment into the Eligible Projects?*]

ENSURING COMPLIANCE

1. Compliance methodology

[*Describe the mechanisms which will be in place to ensure compliance with this Framework, e.g. an oversight committee.*]

2. Auditor

[*Will a third-party auditor be appointed to monitor the Eligible Projects/Use of Proceeds? Will they prepare reports which will be accessible to investors?*]

SECOND-PARTY OPINIONS

[*Describe any second-party opinions with have been obtained in relation to this framework and the findings documented by such opinion.*]

The objective of the Opinion from [•] is to provide investors with an independent assessment of this Framework.

A copy of both this Framework and the Opinion will be published on [•].

Annex B • Bonds in Context – ICMA Principles

Below we provide more detail on the four components of the ICMA Principles.

Process for project evaluation and selection

This element addresses the decision-making process for determining which projects will be funded. Issuers should communicate their environmental objectives and describe the process they will employ to determine if projects fit within the "eligible project" categories.

There can be overlap between the projects that can sit within a specific thematic bond.

It is worth noting that investors may have a list of activities or projects which they expressly exclude, for instance fossil fuel extraction, coal-related projects, tobacco related, or the manufacture of weapons.

PROCESS FOR PROJECT EVALUATION AND SELECTION

The Green Bond Principles (GBP) are used for the issuance of green bonds. Issuers should clearly communicate to investors:

- the environmental sustainability objectives of the eligible green projects;
- the process by which the issuer determines how the projects fit within the eligible green projects categories identified in the diagram above;
- complementary information on processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s).

The GBP encourage transparency and recommend that an issuer's Framework for project evaluation and selection be supplemented by an external review (more information below under the heading "*External Review*". The GBP are available here). Issuers may also refer to the Pre-Issuance Checklist for Green Bonds[143] or the Green Project Mapping[144] guide.

The Social Bond Principles (SBP) for the issuance of social bonds. Issuers should clearly communicate to investors:

- the social objectives of the Social Projects;
- the process by which the issuer determines how the projects fit within the eligible Social Project categories identified above and shows the intended benefit to the relevant target population(s);
- complementary information on processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant Project(s).

The SBP encourage transparency and recommend that an issuer's Framework for project evaluation and selection be supplemented by an external review (more information below under the heading "*External Review*". The SBP are available here[145]). Issuers may also refer to the Pre-issuance Check List for Social Bonds / Social Bond Programmes[146].

The Blue Bond Principles for blue bonds. In September 2023, ICMA published guidance for the issuance of blue bonds – the Blue Bond Principles. The Blue Bond Principles are available here and build on and are intended to be used in conjunction with the existing global standards that underpin the global sustainable bond markets by virtue of the principles.

The Sustainability Bond Guidelines (SBG) for sustainable bonds. The SBG are available here [147] and the Voluntary Process Guidelines here[148] and they follow the same process for Project Evaluation and Selection as either the GBP or the SBP (as applicable). Note: This is not to be confused with Sustainability-Linked Bond Principles (described below) as they function quite differently.

143 • ICMA. 2023. "Pre-issuance Checklist for Green Bonds / Green Bond Programmes". https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Pre-issuance-Check-List-for-Green-Bonds-Green-Bond-Programmes-June-2023-220623.pdf
144 • ICMA. 2021. "Green Project Mapping". https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Project-Mapping-June-2021-100621.pdf
145 • ICMA. 2023. "Social Bond Principles—Voluntary Process Guidelines for Issuing Social Bonds". https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/social-bond-principles-sbp/
146 • ICMA. 2023. "Pre-issuance Check List for Social Bonds / Social Bond Programmes". https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Pre-issuance-Check-List-for-Social-Bonds-Social-Bond-Programmes-June-2023-220623.pdf
147 • ICMA. 2021. Sustainability Bond Guidelines. https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Sustainability-Bond-Guidelines-June-2021-140621.pdf
148 • ICMA. 2023. Sustainability-Linked Bond Principles - Voluntary Process Guidelines. https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Sustainability-Linked-Bond-Principles-June-2023-220623.pdf

Use of Proceeds

Central to all thematic use of proceeds bonds is how proceeds are spent. Proceeds must be used for green, blue, social or sustainable projects (as applicable) that are considered to be "eligible projects". The relevant ICMA Principles or guidance set out broad categories of eligible projects and they are different for each category of bond. For instance, an example eligible project under the "social" label would be the creation of affordable housing.

Those investing in thematic use of proceeds bonds expect the use of proceeds section to be described in sufficient detail in the legal documentation for the bond. Many investors will not invest where the use of proceeds is not adequately detailed or aligned with the relevant ICMA (or other) principles and guidelines. It is important to note that Green, Social and Sustainability Bonds should not be considered fungible with bonds that are not aligned with the four core components of the relevant Principles.

USE OF PROCEEDS

The GBP are used for the issuance of green bonds. They aim to promote greater environmental sustainability through the use of proceeds being applied to specific projects, which provide clear environmental benefits that will be assessed and (where feasible) quantified by the issuer. They include several broad categories of eligible green projects that contribute to environmental objectives such as climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control:

- **Renewable Energy** (e.g., production, transmission, appliances and products).
- Energy Efficiency (e.g., energy storage, smart grids, appliances and products).
- Pollution prevention and control (e.g., greenhouse gas control, waste reduction or recycling).
- Environmentally sustainable management of living natural resources and land use (e.g., environmentally sustainable agriculture, animal husbandry, irrigation, fishery and aquaculture, forestry, or natural landscape restoration or preservation).
- Terrestrial and aquatic biodiversity conservation (e.g., protection of coastal, marine and watershed environments).
- Clean transportation (e.g., electric, hybrid, public, rail, multi-modal, infrastructure for clean energy vehicles and emissions reduction).
- Sustainable water and wastewater management (e.g., sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems, and flood mitigation).
- Climate change adaption (e.g., information support systems, such as early warning or climate observation).
- Circular economy adapted products, production technologies and processes, and/or certified eco-efficient products (e.g., development and introduction of sustainable products, with an eco-label or environmental certification, resource-efficient packaging).
- Green Buildings (which meet recognised standards).

Bonds aligned to GBP should provide an investment opportunity with transparent green credentials. The GBP available here.

The SBP are used for the issuance of social bonds. They aim to enable and develop the key role that the debt markets can play in funding new and existing projects that address or mitigate a specific social issue and/or seek to achieve positive social outcomes. A social issue threatens, hinders, or damages the well-being of society or a specific target population. All designated Social Projects should provide clear social benefits, which will be assessed and, where feasible, quantified by the issuer. Commonly used eligible projects include:

- Affordable basic infrastructure (e.g., clean drinking water, sewers, sanitation, transport, energy).
- Access to essential services (e.g., health, education and vocational training, healthcare, financial services).
- Affordable housing
- Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises (e.g., through the potential effect of SME financing and microfinance).
- Food security and sustainable food systems (e.g., physical, social, and economic access to safe, nutritious, and sufficient food that meets dietary needs and requirements; resilient agricultural practices; reduction of food loss and waste; and improved productivity of small-scale producers).
- Socioeconomic advancement and empowerment (e.g., equitable access to and control over assets, services, resources, and opportunities; equitable participation and integration into the market and society, including reduction of income inequality).

The SBP also provide additional clarity on the term “Target Population”: (1) living below the poverty line, (2) excluded/marginalised communities, (3) people with disabilities, (4) migrants/displaced persons, (5) undereducated, (6) underserved (from goods/services), (7) women / sexual or gender minorities, (8) unemployed, (9) aging populations, or (10) other vulnerable groups.

It is understood that social projects may have environmental co-benefits and the classification of the bond should be based on the issuer’s primary objective. The SBP promote investment opportunities with transparent social credentials. The SBP are available here149.

149 • ICMA. 2023. 2023. Sustainability-Linked Bond Principles - Voluntary Process Guidelines. https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Sustainability-Linked-Bond-Principles-June-2023-220623.pdf

USE OF PROCEEDS

The Blue Bond Principles are used for the issuance of blue bonds. The Blue Bond Principles contain an indicative list of blue project categories (closely related to GBP Categories) that captures the most commonly used types of projects supported or expected to be supported by the "blue bond" market. These include:

- **Coastal Climate Adaptation and Resilience** (e.g. projects that support ecological and community resilience and adaptation to climate change including using nature-based solutions)
- **Marine Ecosystem Management, Conservation, and Restoration** (e.g. projects that manage, conserve, and restore the health of coastal and marine ecosystems)
- **Sustainable Coastal and Marine Tourism** (e.g. projects that improve the environmental sustainability of coastal and marine tourism)
- **Sustainable Marine Value Chains** (e.g. sustainable marine fisheries management, sustainable aquaculture operations (algae, bivalves, fish, and seagrass) and seafood supply chain sustainability)
- **Marine Renewable Energy** (e.g. projects that increase contribution of marine and offshore renewable energy to energy mix and renewable energy projects that support other SBE sectors while safeguarding the marine environment)
- **Marine Pollution** (e.g. projects that prevent, control, and reduce waste from entering the coastal and marine environments)
- **Sustainable Ports** (e.g. projects that increase environmental performance and sustainability of port functions and infrastructure)
- **Sustainable Marine Transport** (e.g. projects that involve increasing environmental performance and sustainability of maritime transportation

The Blue Bond Principles are available here.

The SBG are used for the issuance of sustainable bonds. Bonds that intentionally mix green and social projects should follow the SBG. Sustainability Bonds are aligned with the four core components of both the GBP and SBP with the former being especially relevant to underlying green projects and the latter to underlying Social Projects.

The SBG are available here[150].

Note: This is not to be confused with the Sustainability-Linked Bond Principles (described below) as they function quite differently.

Management of proceeds

This component deals with the management of funds raised through the bond issuance and requires formal internal processes to track how proceeds are applied to green, social or sustainability projects (as applicable).

ICMA recommends that funds raised from a thematic bond are applied to the relevant projects as soon as possible, while also recognising that disbursement of funds to projects can sometimes take time. They also place emphasis on transparency to investors as to where funds are held and the provision of information relating to the allocation of funds (e.g., in annual reports). There are also recommendations for there to be an audit or third-party verification of proceeds and their allocation.[151]

Bank Accounts and Tracking Proceeds from thematic bonds should, where possible, be segregated from other funds. This is to ensure that funds are specifically applied against eligible projects. This may also be easier than tracking the location and debiting of the funds. Below are the main methods for managing proceeds:

- **Separate Account**: a separate bank account is opened to deposit the proceeds from the thematic bond, with debits from this account to fund the eligible projects. This is the approach which Poland uses under its green bond framework, with all proceeds credited to a separate "*Green Cash Account*".[152]
- **Sub-Account**: a sub-account to a general account (where all other amounts are deposited) is created, with amounts transferred to and debited from the sub-account when eligible projects are funded up to the amount raised from the thematic bond. Fiji's Ministry of Economy use a specific sub-account designated for the proceeds from their green bond issuances.[153]
- **Tracking**: this approach treats all funds the same with the thematic bond proceeds being transferred to a general account, when funds are applied to eligible projects they are tracked virtually (as an accounting entry). A form of this method is employed by the French Tresor, with proceeds credited to the general account of the French State with other bond proceeds. Each

150 • ICMA. 2023. 2023. Sustainability-Linked Bond Principles - Voluntary Process Guidelines. https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Sustainability-Linked-Bond-Principles-June-2023-220623.pdf
151 • The World Bank, "Green Bond Proceeds Management and Reporting" dated 2018 https://documents1.worldbank.org/curated/en/246031536956395600/pdf/129937-WP-Green-Bond-Proceeds-Management-and-Reporting.pdf; ICMA, "Guidance Handbook" dated March 2020 https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Guidance-Handbook-March-2020-120320.pdf.
152 • Sustainalytics opinion on Poland's Green Bond Framework dated 5 December 2016 https://www.sustainalytics.com/sites/default/files/green_bond_opinion_poland.pdf.
153 • Fiji's Green Bond Framework dated October 2017 https://www.rbf.gov.fj/wp-content/uploads/2020/03/Fijis-Green-Bond-Framework-October-2017.pdf.

fiscal year, there is a public audit process, including a report on the green eligible bond expenditure and a review from an external audit firm.[154]

Reporting requirements

This final component of the ICMA Principles is ongoing sustainability reporting. This addresses frequency of reports on use of proceeds, descriptions of projects, and expected environmental impact. Where possible this requires compliance with voluntary impact reporting guidelines, in addition to annual reporting on the use of proceeds.

Many investors recognise that reporting relating to the impact that projects are having may limited. However, expectations relating to transparency, reporting and ongoing obligations are likely to become increasingly important to investors. These expectations span across the life of the financial instrument and perhaps beyond and may also incorporate regular independent reviews.

By way of example, the GBP recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures (e.g., energy capacity, electricity generation, greenhouse gas emissions reduced/ avoided, number of people provided with access to clean power, decrease in water use, reduction in the number of cars required, etc.)[155]

Key recommendations

The ICMA Principles conclude by making two recommendations. These are on the use of frameworks and external reviews.

It is recommended that issuers explain the alignment of their thematic bond with the four core components of the relevant Principles, whether in the issuer's framework or in the legal documentation. Such framework and/or legal documentation should be available in a readily accessible format to investors. In addition, it is recommended that issuers summarise in their framework relevant information within the context of the issuer's overarching sustainability strategy.

It is also recommended that issuers appoint (an) external review provider(s) to assess through pre-issuance external review the alignment of their thematic bond with the four core components of the relevant Principles. Post issuance, it is recommended that an issuer's management of proceeds be supplemented by the use of an external auditor, or other third party, to verify the internal tracking and the allocation of funds from the proceeds. There are a variety of ways for issuers to obtain outside input to their thematic bond process and there are several types of review that can be provided to the market. Issuers may wish to consult the Guidelines for External Reviews for recommendations and explanations on the different types of reviews, which is available here[156]. Issuers may also wish to consult other guidance published in this field, as set out below:

- ICMA - Mapping of the Sustainable Development Goals[157]
- ICMA - Harmonized Frameworks for Impact Reporting[158]
- ICMA - Overview and Recommendations for Sustainable Finance Taxonomies[159]
- ICMA - Sustainable Finance: High-level definitions[160]
- ICMA - Climate Transition Finance Handbook 2023[161]
- IFC - Guidance for Financing the Blue Economy, Building on the Green Bond Principles and the Green Loan Principles (the "**GLP**")[162]

154 • France's Green OAT Framework dated 10 January 2017 https://www.aft.gouv.fr/files/archives/attachments/25562.pdf.
155 • More metrics for reporting "green" or "social" projects can be found here: https://www.icmagroup.org/sustainable-finance/impact-reporting/.
156 • ICMA. 2022. Guidelines for External Reviews. https://www.icmagroup.org/sustainable-finance/external-reviews/
157 • ICMA. 2023. "Mapping of the Sustainable Development Goals". https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/mapping-to-the-sustainable-development-goals/
158 • ICMA. 2023. "Harmonized Frameworks for Impact Reporting". https://www.icmagroup.org/sustainable-finance/impact-reporting/green-projects/
159 • ICMA. 2021. "Overview and Recommendations for Sustainable Finance Taxonomies". https://www.icmagroup.org/assets/documents/Sustainable-finance/ICMA-Overview-and-Recommendations-for-Sustainable-Finance-Taxonomies-May-2021-180521.pdf
160 • ICMA. 2020. "Sustainable Finance: High-level definitions". https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Sustainable-Finance-High-Level-Definitions-May-2020-051020.pdf
161 • ICMA. 2023. "Climate Transition Finance Handbook 2023". https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/climate-transition-finance-handbook/
162 • IFC. 2022. "Guidelines for Blue Finance:: Guidance for Financing the Blue Economy, Building on the Green Bond Principles and the Green Loan Principles". Washington, DC. https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/resources/guidelines-for-blue-finance

Annex C – Other Possible Financing Options

This section sets out to identify alternative financial instruments and structures that could be utilised by African sovereigns to provide financing options for thematically-oriented projects, as well as the various advantages and disadvantages related to each alternative approach. Again, practical examples from the marketplace are selectively referred to throughout.

By way of overview we note that in this section we cover:

- Loans
- Impact Bonds
- Debt Conversion Swaps

As mentioned previously, there is significant value of adding a thematic feature to standard instruments. Putting in frameworks, governance and other infrastructure to support this is invaluable and stretches beyond just thematic bonds. As examples such as Chile demonstrate, choosing one product or theme does not tie in an issuer for all time and there will be numerous opportunities to diversify into other products or themes.

Summary Table

The main considerations of each instrument are set out below, followed by more detailed information on each instrument.

LOANS	IMPACT BONDS
• Loans would be a useful option for African sovereigns in circumstances where the funding needed is less than would be required to issue a bond. • Some parties in Africa may be more familiar with loans and may have existing credit facilities in operation. • As with thematic bonds, thematic loans have their own set of principles (see Loan Market Association for example which has its own GLP, Sustainability Linked – Loan Principles' and Social Loan Principles). • There is a greater amount of flexibility when drafting a loan, which African sovereigns could use to their benefit. Blended finance can work well with loans (arranging banks may then repackage the partially fragmented loan). • *However*, the use of loans may not attract longer term as much new investment into the region and may not have the same "*greenium*" attached to it as a bond instrument would.	• Impact bonds are outcomes-based contracts between an investor, a service provider and an outcome funder. The investor covers the upfront cost for the service provider to achieve an agreed outcome for a particular social or environmental issue. The outcome funder will pay the investor if the agreed outcome is achieved. • Impact bonds can be largely driven by investors, requiring less Government involvement on a day-to-day basis. • They are an interesting option for African countries which are reluctant to incur more debt as repayments are dependent on the achievement of specific outcomes. • However, it may be difficult to find investors and parties to structure the transaction. • Impact bond structures can be more complex than other thematic instruments and do not offer the same economies of scale as thematic bonds.

DEBT SWAPS
• Where existing debt can be acquired at a discount (for example, because the creditors are not expecting to recover the full value of the existing debt and therefore are willing to accept less), African sovereigns can utilise debt swaps to "swap" a portion of a country's debt for the achievement of thematic goals or investment in thematic projects. • *However*, debt swaps can be complicated and rely on the willingness of the relevant lenders to forgive debt for an investment in environmental or social issues. They are also limited by the amount of eligible debt.

Part A: Loans

Similarly to thematic bonds, there are two main categories of thematic loan: (1) a loan where the proceeds of the loan are used to fund projects which align with their labelling (e.g. a green loan will apply funds to environmental products, in a similar way to a green bond) (**Use of Proceeds Loan**); and (2) the objectives-focused loan (or sustainability-linked loan), where there are no specific use of proceeds requirements, but there is a structural adjustment tied to the achievement of targets (in a similar way to a SLB) (**Sustainability-Linked Loan**). For more information on Loans and their advantages please see here.

Given that it is possible to achieve similar outcomes using either a bond and a loan, we set out below some reasons why a loan may be preferred and also some considerations as to why a bond may work better for potential African issuers.

ADVANTAGES ASSOCIATED WITH USING LOAN FINANCE IN AFRICA

DISCLOSURE MAY BE MORE LIMITED

The terms of a loan can be negotiated in private, with the due diligence process conducted in confidence by the lender.

A public bond issuance by contrast will involve more extensive disclosure in the public realm in order to attract investors and comply with regulatory and listing requirements. Although in African countries with existing sovereign bonds this will be a familiar process, for those with no history of this process it may prove timely and costly.

Loans do not involve roadshows - this may benefit countries where there are internal limitations on capacity.

MORE FLEXIBLE

The limited number of parties involved in a loan may better facilitate a renegotiation of terms or a new loan to refinance a maturing loan where that proves to be necessary. Equally, it is easier to leverage off a good, existing borrower-lender relationship.This flexibility may prove useful for countries who require restructuring ability within their financial instruments, e..g. following a climate event.

Furthermore, loans may provide additional structuring benefits and flexibility, they can for instance be tailored to allow for drawdowns by reference to milestones.

Sustainability-linked loans can also deliver cost savings as KPIs are met.

MORE WIDELY ACCESSIBLE

Illiquid local financial markets, combined with unfavorable credit ratings make access to the capital markets challenging for some borrowers within Africa at times.

Loans therefore can provide a more accessible form of credit for less established borrowers and access to a different lending pool.

Generally, there are no rating agencies involved in loans. Additionally, there is no need for clearing and settlement. This may open them up more to African entities with poor credit rating, or less capacity.

SIZE AND DRAWDOWNS

Issuers in Africa may find it challenging to meet the deal size requirements of capital markets. Loans may provide an option to finance one project or several smaller projects.

Loans also work better for transactions where a smaller investor base is being targeted; the investor and the borrower have a strong, pre-existing relationship; or the base is more domestically focused (e.g. local banks where there may be existing credit lines).

A loan can be structured with multiple drawdowns more easily, which may better reflect the financing needs of the underlying borrower. This may prove a useful feature in some African countries where the project pipeline requiring finance may fluctuate or develop over time.

There are a number of other factors to consider in relation to the use of thematic loans by countries in Africa, as compared with bond financing:

- **Reduced lender pool**: Sovereign loans will generally only be offered by a small pool of banks and other international financial institutions. This may be quite limited within Africa and certainly does not offer the same scope of new investors as a bond issuance.

- **Borrowing costs**: Interest rates in loans are commonly determined by reference to a floating rate. Fluctuations in the underlying rate may affect the interest rate paid by the borrower, making it more challenging to predict. A fixed rate note may be preferred.

- **More Onerous Covenants**: Higher individual creditor risk and better enforcement prospects will likely mean that a comprehensive set of covenants will be included in the loan agreement.

- **Shorter maturities are more commonplace**: Given the high level of financial commitment, lenders may be reluctant to agree loans with a long maturity. Africa may benefit from the longer maturities that can be offered by bonds.

- **Documentation**: While there are some similarities conceptually with bond private placements, the documentary structure is different, with most loans using the Loan Market Association's standard documentation suite. There is less transparency when it comes to the terms within a loan as generally the terms are private and it is difficult to find a comparable benchmark.

- **Third Parties**: Loans may require an agent bank for syndicated loans where there are extensive inter-creditor provisions. Although, generally, fewer third parties will appear in a loan transaction.

Use of Proceeds Loans

Thematic Use of Proceeds Loans are structured in a similar way to standard loans save that the proceeds raised from the loan are allocated to eligible projects. Similarly, to in the bond market, there are ESG frameworks in place for loan products, and verification and reporting requirements also exist. This makes them similar in outcome to a thematic Use of Proceeds Bond.

The most common type of thematic loan is the "*Green*

Loan" and there are principles which guide the structuring of these, including the GLP. The GLP define green loans as: "*any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and / or existing eligible Green Projects. Green loans must align with the four core components of the GLP, as set out in the GLP*." Unlike for thematic bonds, there are no Sustainable Loan Principles (for mixed green and social projects). However, there are both Social Loan Principles and Sustainability-Linked Loan Principles (**SLLP**).

Where an African issuer has a set of eligible projects available that require funding, this may be a good option to consider; especially where the aggregate amount of such projects does not meet the issuance value needed to issue a bond. Nonetheless, where projects are lacking or insufficiently developed a Sustainability-Linked Loan may provide additional flexibility. Generally, the Use of Proceeds feature of this instrument means that term loans are more suited to this structure (than a revolving credit facility) as it may prove easier to segregate and track the proceeds.

The Guidance notes that a loan can follow both the GLP and the SLLP, although this is rare.

GREEN LOAN PRINCIPLES

In 2018, the Loan Market Association (LMA) and the Asia Pacific Loan Market Association (APLMA) published their GLP. The U.S. based Loan Syndications and Trading Association (**LSTA**) has also passed Green Bond Principles. These follow the same structure as the GLP, but they differ from the approach of the SLLP (described below), particularly on reporting, the selection of suitable eligible projects, and the allocation of funds. As per Green Bonds, it is recommended that external reviews are performed and, similarly to the GBP, the GLP establish four core components for a Green Loan:

Use of Proceeds: All designated Green Projects should provide clear environmental benefits. The GLP explicitly recognize several broad categories of eligibility for Green Projects with the objective of addressing key areas of environmental concerns such as climate change, natural resource depletion, loss of biodiversity, and air, water and soil pollution. The specific project list is based on the categories provided in the GBP (2018) – more information on these categories is found under the heading "*ICMA Principles and Guidance – Use of Proceeds*" above.	**Process for Project Evaluation and Selection**: Borrowers should inform lenders of: (a) its environmental sustainability objectives; (b) the process by which the borrower determines how projects fit within the eligible categories; and (c) the related eligibility criteria, including, if applicable, exclusion criteria or any other process applied to identify and manage risks.
Management of Proceeds: Green loan proceeds should be credited to a dedicated account or tracked by the borrower in another suitable way. Where there are multiple tranches of a loan facility, each green tranche(s) must be clearly designated, with proceeds of the green tranche(s) credited to a separate account or tracked by the borrower in an appropriate manner.	**Reporting**: Borrowers should keep up to date records, including of the Green Projects which have received funds and their expected impact. The GLP strongly support a transparent approach to reporting, with, where feasible, quantitative performance measures and disclosure of key underlying methodologies and assumptions.

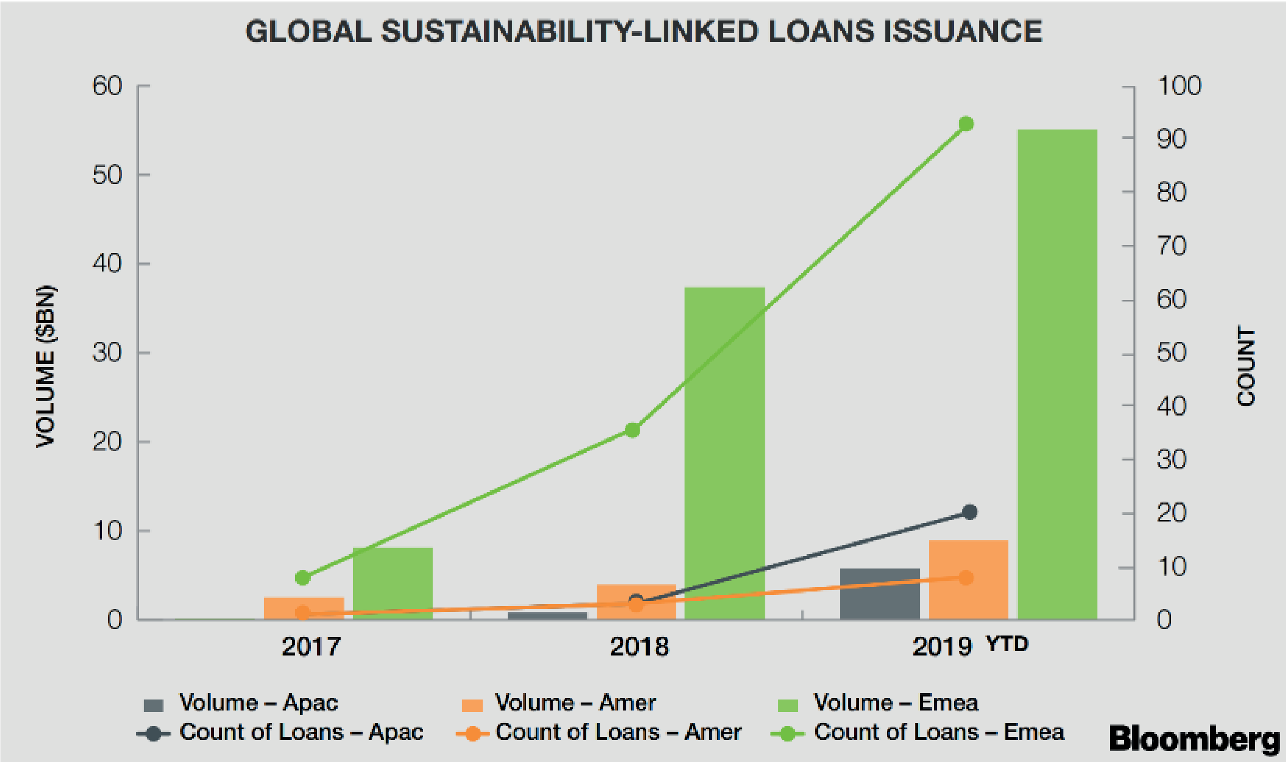
SOCIAL LOAN PRINCIPLES

In April 2021, the LMA, the Loan Syndications and Trading Association (LSTA) and the Asia Pacific Loan Market Association (APLMA) published their SLP. These follow the same structure as the GLP, but they differ from the approach of the SLLP (described below), particularly on reporting, the selection of suitable eligible projects, and the allocation of funds. As per Green Loans, it is recommended that external reviews are performed and, similarly to the GLP, the SLP establish four core components for a Social Loan:

Use of Proceeds: All designated Social Projects should provide benefits of a social nature. The SLP explicitly recognize several broad categories of eligibility for Social Projects with the objective of addressing a specific social issue and/or seeking to achieve positive social outcomes especially but not exclusively for a target population(s). A social issue threatens, hinders or damages the well-being of society or of a specific target population. The specific project list includes areas such as affordable housing, employment generation, and food security.	**Process for Project Evaluation and Selection**: Borrowers should inform lenders of: (a) its social objectives; (b) the process by which the borrower determines how projects fit within the eligible categories; and (c) the related eligibility criteria, including, if applicable, exclusion criteria or any other process applied to identify and manage risks.
Management of Proceeds: Social loan proceeds should be credited to a dedicated account or tracked by the borrower in another suitable way. Where there are multiple tranches of a loan facility, each social tranche(s) must be clearly designated, with proceeds of the social tranche(s) credited to a separate account or tracked by the borrower in an appropriate manner.	**Reporting**: Borrowers should keep up to date records, including of the Social Projects which have received funds and their expected impact. The SLP strongly support a transparent approach to reporting, with, where feasible, quantitative performance measures and disclosure of key underlying methodologies and assumptions.

Sustainability-Linked Loans (also known as Sustainability-Linked Loans, KPI loans, ESG-Linked Loans, Sustainability Improvement Loans, or SDG-Linked Loans)

The "*sustainability-linked loan*" developed more recently than green loans, while there is no specific use of proceeds requirement, the loan includes a pricing or structural adjustment where the borrower achieves specified sustainable or ESG objectives (or KPIs). These features commonly also include step-downs, which have not been adopted within the SLB market where it may be more challenging to implement such features.



Launched in 2019, the SLLP define a sustainability-linked loan as: "…*any types of loan instruments and/or contingent facilities (such as bonding lines, guarantee lines or letters of credit) which incentivize the borrower's achievement of ambitious, predetermined sustainability performance objectives. The borrower's sustainability performance is measured using sustainability performance targets (SPTs), as set against key performance indicators, external ratings and/or equivalent metrics and which measure improvements in the borrower's sustainability profile*".[163]

As can be seen from the data above provided by Bloomberg, sustainability-linked loans have achieved rapid growth over the past few years. This is in part because they offer borrowers the flexibility of being able to use loan proceeds for any purpose, while also potentially optimizing pricing and availability of sustainable finance. They also provide a platform for demonstrating the borrower's ESG credentials.

Sustainability-Linked Loan Principles

In 2019, the LMA, the LSTA, and APLMA published the SLLP. The SLBP and the SLLP are voluntary guidelines that aim to "*incentivize material sustainability achievements by the borrower*" – they focus on obtaining objectives rather than how proceeds are spent. The main differences between the SLBP and the SLLP are that the SLBP provides more detail on the definition and standardization of KPIs and SPTs, promotes higher levels of transparency, and requires post-issuance verification be made publicly available. These differences evolve from the more public nature and wider distribution of bonds. The SLLP have four core elements:

163 • ICMA, "Sustainability-Linked Bond Principles – Related Questions" (available here).

The relationship of the loan to the borrower's overall sustainability strategy: borrowers should clearly communicate to lenders their sustainability objectives (per their sustainability strategy) and how such objectives align with their proposed SPTs.

Reporting: where possible, borrowers should prepare and have readily available up to date information relating to their SPTs (such as any external ESG ratings). This information should be provided to lenders at least once a year. The SLLP strongly recommend transparency, e.g. through a borrower's annual report, methodology and/or assumptions.

Target setting - the measurement of the sustainability performance target (SPT): appropriate SPTs should be negotiated and established for each loan. SPTs should be ambitious, meaningful to the borrower's business, and tied to a sustainability improvement for a predetermined performance target benchmark. "*Sustainability Coordinator(s)*" or "*Sustainability Structuring Agent(s)*" can assist borrowers with this process. A third party may also opine on the appropriateness of a borrower's SPTs.

Review: external reviews may be agreed between borrowers and lenders – this approach is supported by the SLLP, in particular for there to be a review of the borrower's performance against its SPTs. Public companies may disclose sufficient information to satisfy this, but the SLLP still recommend an independent external review. They also recommend that such reviews occur annually. It is also possible that the borrower may have the internal expertise to review and validate the calculation of its performance against its SPTs.

The SLLP provides the following categories of SPTs (indicative only):

Category	Example
Energy efficiency	Improvements in the energy efficiency rating of buildings and/or machinery owned or leased by the borrower.
Greenhouse gas emissions	Reductions in greenhouse gas emissions in relation to products manufactured or sold by the borrower or to the production or manufacturing cycle.
Renewable energy	Increases in the amount of renewable energy generated or used by the borrower.
Water consumption	Water savings made by the borrower.
Affordable housing	Increases in the number of affordable housing units developed by the borrower
Sustainable sourcing	Increases in the use of verified sustainable raw materials/supplies.
Circular economy	Increases in recycling rates or use of recycled raw materials/supplies.
Sustainable farming and food	Improvements in sourcing/producing sustainable products and/or quality products (using appropriate labels or certifications).
Biodiversity	Improvements in conservation and protection of biodiversity.
Global ESG assessment	Improvements in the borrower's ESG rating and/or achievement of a recognized ESG certification.

Part B: Impact Bonds

Similarly to some SLBs, the return on an Impact Bond is determined by the success of the underlying project and/or the attainment of certain milestones or objectives. These milestones or objectives may be tied to the projects achieving budget savings. Accordingly, this requires parties to agree on:

- measurable goals;
- a methodology for assessing those goals; and
- a timeframe for their achievement.

Nonetheless, there are significant structural differences from the other objectives focused instruments that are covered by this guide and these are shown more clearly in Diagram 1 below.

Diagram 1

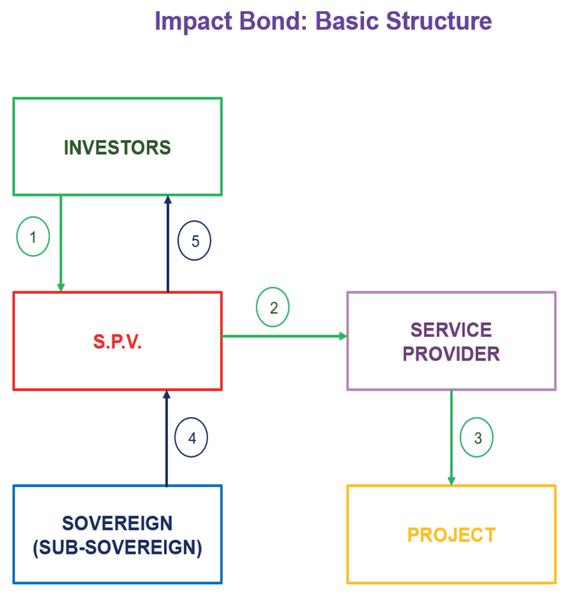
*1) The SPV (or other intermediary) receives investment funds from the investor. Investors are usually "impact investors".**

2) The SPV provides the Service Provider with working capital for their performance of the Project. It may also raise additional funds for the Project.

*3) The Service Provider** co-ordinates and pursues the objectives of the Project. The Project's performance is monitored and there may be reporting requirements. It may also raise additional funds for the Project or invest its own funds.*

4) Where the objectives of the Impact Bond in respect of the Project are achieved (within the requisite time frame), the Sovereign (or sub-sovereign) will make a pay-out to the SPV (according to the terms of the contract). A third party will usually verify the success of the Project in relation to the objectives.

*5) The SPV will then provide the returns (where relevant) to the investors.****



(*DIAGRAM 1*)

** "Impact investors" is the name given to investors that are focused on philanthropic concerns and are not only focused on returns but rather on the social impact their investments have.* [164]

*** Service providers are often NGOs or other non-profit organizations.* [165]

*** Often these structures also involve a guarantee from a private foundation on a portion of the principal. [166]

164 • ECLAC, "A primer on social impact bonds" (available here).
165 • ECLAC, "A primer on social impact bonds" (available here).
166 • ECLAC, "A primer on social impact bonds" (available here).

We set out below some reasons why an Impact Bond may be preferred for some sovereigns within Africa.

ADVANTAGES ASSOCIATED WITH USING IMPACT BONDS IN AFRICA

CONTINGENT PAYMENT

Payment by the Government is contingent on the achievement of pre-determined targets. There may also be no payment due if the pre-requisite results are not achieved. Impact Bonds provide additional budgetary space for Governments as the projects are funded on day one by investors. Repayments only become due if (and once) the targets have been achieved. Repayments may also be reflective of current or future savings rather than requiring fresh capital funding. This could benefit African countries who do not wish to incur additional debt

SOLUTION-ORIENTED

The whole structure is solution-oriented which could be beneficial where there are clear problems or targets that need to be achieved but the solution is yet to be determined, there is no funding for the solution, or the relevant party is not yet at a stage where it can itself implement a solution.

Third party involvement brings new expertise to the table and possibly new solutions to problems

FEWER HURDLES FOR GOVERNMENTS

Pricing is not tied to the countries credit rating, or history.

Additionally, there is no need for clearing and settlement.

This may open them up more to African entities with poor credit rating, or less capacity

SIZE AND DRAWDOWNS

Impact Bonds may provide an option to finance one project or several smaller projects related to the same theme.

This may prove a useful feature in Africawhere the project pipeline requiring finance may fluctuate or develop over time

There are a number of other factors to consider in relation to the use of Impact Bonds in Africa, as compared with bond financing:

Structural Complexities: Despite their advantages, Impact Bonds involve certain complexities, including those relating to the legal framework and general structuring of the transaction, which may not present the same economies of scale that other ESG instruments offer. These factors may, in turn, impact investor appetite and also increase lead-in times.[167]

- **Difficult to define outcomes:** Given that payments are tied to results, it is important to define clearly the triggers for payment to ensure that there is no conflict in respect of when payment is (or is not) due. There must also be quality data available to ascertain when the pre-determined results have been obtained. Creating and defining thresholds may require expert knowledge, but it may also be challenging for more intangible targets. These elements have crossover with sustainability-linked loans and bonds.
- **Less flexibility:** Impact Bonds do not tend to offer the same flexibility as some thematic bonds whereby funds raised can be allocated to projects across a range of themes from biodiversity to prison rehabilitation. Nonetheless, Impact Bonds may be an interesting option in Africa where individual projects or ambitions need funding or solutions which may lack the scale required for a bond issuance.
- **Rate of Return:** It is worth noting that, due to their nature, they do not offer a fixed rate of return. Instead the sovereign (or sub-sovereign) commits to pay the SPV (which in turn pays the investors) for the achievement of specific goals that (may) result in public sector savings –"*rather than a bond, it is a partnership*". [168]
- **Target Audience:** Unlike other thematic products, Impact Bonds have become more domestically-focused and tailored more towards PPP-type arrangements within the host country. This may be work well where there are potential investors already in the country, but may cause problems for countries with a more limited domestic investor base.[169]

Below we describe two types of Impact Bond: (1) the Environmental Impact Bond and (2) the Social Impact Bond, each of which may have some transferability to Africa for specific projects.

- **Environmental Impact Bonds**: Based on Social Impact Bonds, Environmental Impact Bonds raise investment in an environmental issue or problem which the sovereign (or sub-sovereign) wishes to solve. This has previously included "*blue*" activities. For instance, in 2016, DC Water issued an Environmental Impact Bond in the water space, which listed Goldman Sachs Urban Investment Group and Calvert Foundation as investors. The contracts contain a provision for "*a USD 3.3 million payment payable to investors by DC Water or to DC Water by investors, contingent on the relative success or failure of the project*".[170] This could be a good option for funding blue projects in Africa.
- **Social Impact Bonds**: The first social impact bond was in the U.K. in 2010. Generally, Social Impact Bonds require a social issue or problem which the sovereign (or sub-sovereign) wishes to solve within a target population. Once established funds from Social Impact Bonds can be used to seek to tackle a range of specific social issues from the provision of social housing to reducing youth reoffending rates. The U.K. for instance has more than thirty active Social Impact Bonds focusing on areas such as youth unemployment, mental health and homelessness. Social Impact Bonds are also present in Latin America.

167 • ECLAC, "A primer on social impact bonds" (available here).
168 • The UK Government has template Social Impact Bond Contracts (and related guidance) (available here).
169 • The UK Government has template Social Impact Bond Contracts (and related guidance) (available here).
170 • U.S. Environmental Protection Agency, "DC Water's Environmental Impact Bond: A First of its Kind" dated April 2017 (available here).

CASE STUDY – PETERBOROUGH PRISON SOCIAL IMPACT BOND (2010)

- **Objective:** Reduce reoffending rates over a five-year period involving three groups of prisoners with sentences of less than a year.[171]
- **Outcome Funders:** The Ministry of Justice.
- **Investors:** Charitable trusts and foundations.
- **Amount:** The investment closed at £5 million.
- **Payments by results:** The Ministry of Justice agreed to make payments to the investors if re-offending rates reduced below an agreed threshold of: (1) 7.5% across all three cohorts compared to the general population or (2) 10% across a single cohort compared to the general population.

The greater the reduction in re-offending beyond these thresholds the greater the payments received by investments, subject to a cap of up to 13.5% of the original investment. The contract for delivering the project was delegated to a number of trusts (including St Giles Trust and Ormiston Trust).

CASE STUDY – COLOMBIA – WORKFORCE DEVELOPMENT SOCIAL IMPACT BOND (2017)

- **Objective:** Sustained employment for vulnerable youth, particularly those displaced by conflict.
- **Outcome Funders:** Prosperidad Social (Government of Colombia), Swiss Secretariat of Economic affairs through IDB/MIF.
- **Investors:** Fundación Bolívar Davivienda, Mario Santo Domingo, Fundación Corona, Corporación Inversor (also financial and performance manager).
- **Capital Commitment:** USD 0.95million
- **Results:** "*899 people were placed in formal jobs (117% of 766 expected outcome beneficiaries), 677 people retained in their jobs for three months (88% of 766 expected outcome beneficiaries) and 309 people retained in their jobs for six months (60% of 514 expected outcome beneficiaries)*". [172]

171 • OECD, "Social Impact Bonds: State of Play and Lessons Learnt" dated 2016 (available here).
172 • Brookings, "It takes more than 2 to tango: impact bonds in Latin America and the Caribbean" dated 15 February 2019 (available here).

Part C: Debt Swaps AND DEBT CONVERSIONS

Debt swaps relieve a portion of a developing country's debt in exchange for local investment into specific projects on agreed terms. Generally, debt swaps have been either negotiated between a debtor country, a donor and sovereign creditors (where official sector debt is involved) or are negotiated bilaterally between a debtor country and a donor (where debt owed to the private sector is acquired on the secondary market as part of the overall arrangement). In either case, these swaps frequently involve an NGO.[173] Below we set out some FAQs on what a debt swap is and how it works:

DEBT SWAP – Q&A

WHAT IS SWAPPED?

Existing foreign currency debt (typically acquired at a discount to face value) is extinguished in return for commitments to use local currency equivalents to carry out the agreed activities (e.g. marine conservation, or climate change adaption).

WHO IS WILLING TO EXTINGUISH DEBT?

In terms of volume, the overwhelming majority of debt swaps have involved the release / extinguishing of official sector sovereign debt for nature swap described later in this section. There have, however, growing examples of debt for nature swaps involving sovereign debt owed to private sector creditors.

WHERE DOES THE MONEY FOR PROJECTS COME FROM?

When the debt is extinguished, the borrower or the issuer saves money and it is an element of those savings which are then invested into thematic projects.

OTHER CONSIDERATIONS?

These transactions often involve the monetization in local currency of a former foreign currency sovereign debt obligations. They therefore raise potential concerns over domestic inflation, which if conducted at scale, could create challenges for the host state or its central bank. These challenges may be greater in a currency union (for example, the regional currency unions in Africa

DOES IT REDUCE THE DEBT BURDEN?

The debt burden of the issuer or borrower reduces in respect of the swapped debt as the debt that it owes it is extinguished in part or in full.

However, the borrower or issuer instead commits to investing a proportion of the savings into the projects it has agreed with the lender and so it may not be dollar for dollar better off.

HAVE THERE BEEN MANY DEBT SWAPS?

Yes there have been a growing number of debt swaps, including in the Caribbean region.

UNDP notes that " While the fortunes of [the debt for nature swaps] have fluctuated with time, the amount of resources mobilized is significant".

Debt conversions are similar to debt swaps, but potentially with limited or no debt forgiveness. Through debt conversions, relevant debt is converted into other debt which has more beneficial terms (for example, it bears a lower coupon). By allowing an issuer to borrow at a lower rate, savings can be realized that can be redeployed for conservation purposes. Debt conversions can work alongside debt swaps and may have greater applicability for transactions involving existing Eurobonds.

DEBT FOR CLIMATE SWAPS

Debt for climate swaps are largely similar to debt for nature swaps (described below) with bilateral and multilateral debt relief reducing external debt, but with the savings invested into climate adaptation and mitigation projects.[174] They provide funds to build climate resilience which might not otherwise be available, but also do not add to the debt burden. There may be significant overlap with debt for nature swaps (also labelled debt for the environment swaps) as projects may benefit both climate mitigation and environment-related projects (such as reforestation) and so it becomes more a matter of labelling preference.

Many institutions, including the World Bank, the Commonwealth Secretariat and the Economic Commission for Latin America and the Caribbean (**ECLAC**) have been involved in discussions for debt for climate swaps in Africa and SIDS. However, debt for climate swaps are complex.

- **Debt for Climate Adaptation Swap Initiative**: The initiative aims to tailor responses to climate change

173 • UNDP, "Debt for Nature Swaps" web page (available here.)
174 • Frances Fuller et al, "Debt for Climate Swaps: Caribbean Outlook" (available here).

and climate events to the region's high debt levels.[175]

- The first meeting of the task force to advance ECLAC's "*Debt for Climate Adaptation Swap Initiative*" was in 2017 and, although significant progress has been made, there is still no single approach or mechanism that regions can adopt to engage in debt for climate swaps.

Debt for Nature Swaps and conversions

Debt for nature swaps exchange debt for local investment into environmental and conservation projects. The first debt for nature swap was completed in 1987 in Bolivia.

- **Bolivia – debt for nature swap**: In 1987, Bolivia and the Conservation International (**CI**) (a US non-profit organization) agreed that CI would purchase USD 650,000 of Bolivia's foreign-denominated debt from the secondary market for USD 100,000. In exchange, 3.7 million acres were established as conservation areas by the Bolivian government. This is an example of a commercial/private debt for nature swap.[176]

- **Argentina – debt for environment swap**: This swap with the United States allowed debt owed by Argentina to be purchased in local currency and reinvested into projects related to the conservation of biodiversity and forests. The face value of the debt was USD 38.1 million and the environmental swap was USD 3.1 million.[177]

- The structure of the Seychelles Debt for Nature Swap in particular could be a useful template for similarly placed countries in Africa looking to convert official bilateral claims.

CASE STUDY: SEYCHELLES DEBT CONVERSION[178]

The deal, which was facilitated by TNC and the country's Paris Club creditors, provided the Government with partial debt forgiveness and a new debt instrument on more favourable terms, in exchange for funds being re-directed towards climate adaptation and marine conservation.

Key elements of the overall structure include:

- The Seychelles Conservation and Climate Adaptation Trust (SeyCCAT) was established in 2015

- USUSD 21.6 million face amount of Paris Club debt was retired at a cost of USUSD 20.2 million (funded by a loan from SeyCCAT to the Republic of Seychelles). The discount from face value was approximately 6.5%

- There were multiple underlying SeyCCAT projects

- Seychelles issued two promissory notes to SeyCCAT each with repayment in instalments. The first promissory note, with a face value of USUSD 15.2 million, has a 3% p.a. interest rate and is repayable over ten years. In an economic sense this provides SeyCCAT with the resources required to make payments under its loan from the impact investors

- The second promissory note is to be paid back at 3% p.a. over 20 years. In an economic sense this provides SeyCCAT with the resources required to fund projects and builds an endowment for use after 20 years

Other points to note include:

- SeyCCAT received grants and a loan on attractive terms which together allowed SeyCCAT to fund the loan to the Republic of Seychelles to acquire the Paris Club debt. The inclusion of grant and concessional elements may be a limiting factor in practice

- The sale of the Paris Club debt was at a modest discount to face value; the higher the discount, the greater the level of external debt reduced (other things being equal)

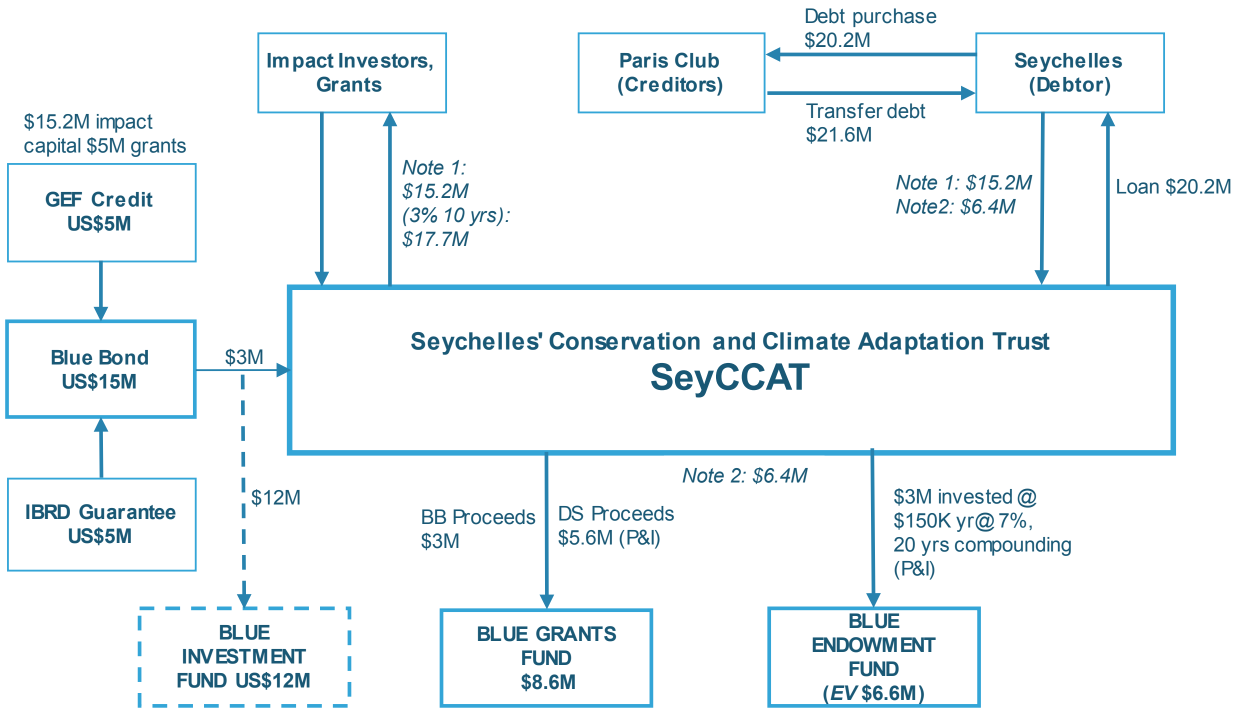
- The impact of debt of SeyCCATT or any entity like SeyCCAT for the public accounts (and associated public debt-to-GDP ratio) will be key

- Generally, transactions should be capable of being structured so that the overall arrangement does not add pressure to debt sustainability concerns with a suitable mix of grant/concessional elements, discount rate on external debt retired and the interest rate and amortization profile on the promissory notes

The diagrammatic representation of the Seychelles debt conversion, including the later ground breaking blue bond issued by Seychelles and partially guaranteed by the

175 • Frances Fuller et al, "Debt for Climate Swaps: Caribbean Outlook" (available here).
176 • Belt and Road Initiative (BRI), "Debt for nature swaps: A Triple-Win Solution for Debt Sustainability and Biodiversity Finance in the Belt and Road Initiative (BRI)?" dated 1 February 22021 (available here).
177 • International Institute for Sustainable Development, "Debt for Climate Swaps can help developing countries make a green recovery" dated 13 November 2020 (available here).
178 • Further Reading: The Commonwealth Blue Charter, "Innovative Financing – Debt for Conservation Swap, Seychelles' Conservation and Climate Adaptation Trust and the Blue Bonds Plan, Seychelles" (available here).

World Bank, is set out below:



Following the success of the Seychelles debt conversion, TNC sponsored and closed a USD 553 million refinancing for Belize in 2021. TNC worked with a leading investment bank to raise USD 364 million from international capital markets to refinance a legacy Belize Eurobond. The transaction reduced Belize's debt-to-GDP ratio by 12 percentage points, created long-term sustainable financing for conservation, and locked in commitment to protect 30% of Belize's ocean (15% of which in strict protection), in addition to a range of other conservation measures. The savings achieved allowed Belize to create an estimated USD 180 million in conservation financing over 20 years, composed of annual cashflows from the government into an independent Conservation Fund and an endowment for the fund.

Barbados – Debt conversion with climate and pandemic resilient debt clauses

The features of a debt conversion can be constructed to cater to specific areas of concern for the relevant sovereign.

In September 2022, the Government of Barbados completed a USD 150 million debt conversion. The transaction involved Credit Suisse (via an SPV) and CIBC FirstCaribbean providing term facilities to Barbados. These term facilities are guaranteed by the Inter American Development Bank (**IADB**) and TNC and were used by Barbados to buy back some of its outstanding bonds. This generated fiscal savings as the debt service payments under the new financing arrangement (4.9%) are lower than those that were due under the bonds which were bought back (with an average cost of 7.2%). [179] Those savings are directed to the Barbados Environmental Sustainability Fund via a Conservation Funding Agreement.

The debt conversion secured:

- funding for marine conservation and other environmental and sustainable development projects in Barbados; and
- binding conservation commitments by the Government of Barbados, including to protect and sustainably manage up to 30% of its Exclusive Economic Zone and Territorial Sea, an area of more than 55,000 square kilometres.

Like KPIs, the conservation commitments are time bound and failure to meet a commitment would have financial implications for the Government of Barbados.

The structure also included innovative climate and pandemic resilient debt clauses which would allow Barbados to temporarily suspend debt service upon the occurrence of certain weather events or a pandemic, provided that certain criteria were met. African sovereigns considering a debt conversion or a thematic bond should consider the inclusion of such clauses, tailored to that country's risk profile, which are complementary to the goals of the wider transaction and support debt resilience. Such transactions may also include a parametric insurance element linked to the sovereign's climate and/or natural disaster risks.

179 • The Nature Conservancy. "Case Study Barbados Blue Bonds for Ocean Conservation" https://www.nature.org/content/dam/tnc/nature/en/documents/TNC-Barbados-Debt-Conversion-Case-Study.pdf

Ecuador– the largest debt conversion for marine conservation

Ecuador executed its debt conversion transaction in May 2023. It is the largest transaction of its kind to date, with Ecuador buying back USD 1.628 billion of its outstanding bonds from the market via a third-party tender offer led by Credit Suisse. The buyback was financed by a USD 656 million loan to Ecuador from an SPV which funded itself via a bond issue also arranged by Credit Suisse. The transaction was made possible by a USD 656 million political risk insurance policy from the US International Development Finance Corporation (DFC) and an USD 85 million liquidity guarantee from IADB, which allowed Ecuador to swap USD 1.628 billion of commercial bonded debt, paying commercial rates of interest, for USD 656 million of debt effectively guaranteed by DFC, paying a lower rate of interest.

The transaction will generate an estimated USD 323 million for marine conservation in the Galápagos Islands during the life of the deal, split between operational funding and funding for an endowment, with the goal of supporting marine conservation projects beyond the term of the transaction. The conservation funding is paid to a newly established Delaware non-profit organisation, the Galápagos Life Fund, which is tasked with directing the funding in furtherance of the agreed conservation objectives. The Galápagos Life Fund is governed by an 11-member board of directors that includes five Ecuadorian government ministers and six non-government representatives and will finance conservation activities over the life of the deal in both the Galápagos Marine Reserve and the Reserva Marina Hermandad, an area of conservation created in the Galápagos area in 2022.

Gabon – Continental Africa's first debt for nature swap

Gabon's debt for nature swap, which completed on 14 August 2023, allowed the country to refinance USD500 million of outstanding debt and is expected to USD163 million in funding for ocean conservation. With Bank of America acting as arranger, proceeds from a new issuance of blue bonds were used to buy back a portion of Gabon's outstanding US dollar dominated bonds. DFC provided political risk insurance which strengthened the credit rating of the new bonds.

TNC acted as the project manager and technical adviser for an independent conservation fund. The transaction will allow the Gabon to make annual contributions to both the independent conservation fund and an endowment to fund conservation which will remain in place after the bonds have been repaid. Gabon's debt for nature swap is the fourth blue bonds project for TNC (following the debt conversions in Seychelles, Belize, and Barbados) and is part of TNC's "Blue Bonds for Ocean Conservation" program.

Whilst most recent debt conversion deals have involved the buy back of bonded debt at significant discounts (Belize bought back its debt at 55 cents on the dollar and Ecuador at between 38 and 52 cents on the dollar), the recent transaction by Gabon, in which the debt was bought back at between 85 and 96.75 cents on the dollar, has shown that a deep discount is not an essential precondition (though clearly a deeper discount on the tender offer will generate more savings for the sovereign and therefore more funds redirected to the conservation objectives). One takeaway from the Gabon transaction is perhaps that debt conversions have a role to play beyond distressed exchanges.

For more information on debt swaps, including debt-for-nature and debt-for-climate swaps, please also reference the ALSF Debt Guide on Debt Swaps.

GLOSSARY

Blended Finance

Refers to the strategic use of international financial institutions and multilateral development banks for the mobilisation of commercial finance towards sustainable development in developing countries.

Debt Swap

A transaction in which a portion of a country's existing debt can be acquired at a discount to be "*swapped*" for the achievement of SDG/ESG-related goals or investment in SDG/ESG-related projects.

Debt-to-GDP ratio

Ratio between a country's government debt and its GDP, used to understand a country's ability to pay back its debts.

Economic Commission for Latin America and the Caribbean (ECLAC)

A UN regional commission to promote the economic, social and environmentally sustainable development of Latin America and the Caribbean through continuous international cooperation.

Eligible Projects

List of projects to which the proceeds of a use of proceeds bond may be applied.

ESG

Environmental Social Governance, these being the three central factors most commonly used in evaluating the sustainability and ethical impact of an investment.

ESG/SDG bonds

Bonds which are geared towards achieving an ESG and/or SDG impact. Often referred to as "*sustainable bonds*".

Eurobond

An international bond issuance denominated in a currency not native to the country where it is issued. It can be categorised according to the currency in which it is issued. Eurobonds are named after the currency in which they are denominated. For example Eurodollar bonds are denominated in US dollars.

Fixed income

An investment where the borrower or issuer is obliged to make payments of a fixed amount on a fixed schedule. Practically speaking this term often refers to bond investments, which generally fit this definition.

Framework

A document drawn up by the issuer outlining the green and/or social characteristics of the projects envisaged for the use of proceeds. Usually structured around principles and standards which the issuer intends to comply with.

G20 Common Framework

A multilateral mechanism for forgiving and restructuring sovereign debt, requiring private creditors to participate on comparable terms to overcome collection action challenges and ensure fair burden sharing.

GDP

Gross Domestic Product, the estimated total value of all the finished goods and services produced within a country's borders in a specific time period.

Green Loan Principles (GLP)

Voluntary recommended guidelines which regarding transparency and disclosure, and which aim to promote the development of the green loan product.

Green bond

A bond whose proceeds are ring-fenced and used exclusively to finance or re-finance environmentally sustainable projects. Also called a "*climate bond*".

Greenium

Refers to an issuer's savings on coupon payments due to the bond being a green bond.

GSS bonds

Category of use of proceeds bonds which includes green, social and sustainability bonds.

ICMA

The International Capital Market Association.

ICMA Principles

Guidance published by ICMA on sustainable finance instruments. Includes the Green Bond Principles (GBP), the Social Bond Principles (SBP), the Sustainability Bond Guidelines (SBG) and the Sustainability-Linked Bond Principles (SLBP).

Issuer

A legal entity such as a corporation, investment trust, government or government agency that develops, registers and sells bonds on the capital markets to finance its operations.

Key Performance Indicator

A measure of revenue, profits or other financial results used for gathering and review on a specific basis.

Official Development Assistance

Government aid which promotes and targets the economic development and welfare of developing countries.

Private sector

Part of the economy which is run by individuals and companies for profit and is therefore not state-controlled.

Public sector

Part of the economy which is run by the state, comprising the general government sector plus government-controlled entities.

SDGs

The 17 Sustainable Development Goals, published in 2015 by the United Nations.

SLBP

The ICMA Sustainability-Linked Bond Principles which are guidelines that recommend structuring features, disclosure and reporting.

Second party opinion

Opinion obtained from an expect regarding the alignment of a framework with relevant principles, guidelines or standards.

Sustainability-Linked Loan Principles (SLLP)

Principles which aim to promote the development of sustainability-linked loans by providing a recommended framework to articular the fundamental characteristics of such loans.

Social bond

A bond whose proceeds are exclusively applied to finance or re-finance social projects or activities that achieve positive social outcomes and/or address a social issue.

Special Purpose Vehicle

A legal entity created for a specific and limited purpose, typically to enter into contracts and hold assets related to a financing.

SPTs

Sustainability Performance Targets, used in the context of a sustainability-linked bond. Refers to measurable improvements in key performance indicators to which an issuer commits on a pre-defined timetable.

Sustainability bond

A bond whose proceeds are exclusively applied to finance or re-finance a combination of both green and social projects.

Sustainability-linked bond (SLB)

A bond where the funds raised can be spend on general corporate or budgetary purposes benefiting the issuer, but whose financial and/or structural characteristics vary depending on whether the issuer achieves pre-defined ESG/SDG objectives.

Thematic bond

Financial instrument which allows investors to finance specific investment themes such as climate change, health, food, education etc.

Use of proceeds bond

A standard recourse-to-the-issuer debt obligation where the proceeds are earmarked for a specific eligible use.

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ALSF SOVEREIGN DEBT KNOWLEDGE PRODUCT AND CAPACITY BUILDING PROJECT: SUSTAINABILITY FINANCING DEBT GUIDE

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