



# **Sustainable Energy Financing in MENA**

## **Tapping Capital Markets through Green Bonds**

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# Tapping Capital Markets through Green Bonds

Did you know?

- ✓ Talks are in progress for a universal climate agreement to be signed in Paris in December 2015
- ✓ The Green Bond market is growing very rapidly. As of today, Green Bond issuance has reached over USD33bn, treble the USD11bn issued during the whole of 2013
- ✓ The Intergovernmental Panel on Climate Change (IPCC) estimate that over 2010-2012 some USD343-385bn flowed towards low-carbon activities. Around 95% of this was for reducing emissions (mitigation).
- ✓ Implementing smart climate policies could result in GDP growth. For example, the World Bank estimates that the annual benefits of such policies in just six regions (Brazil, China, EU, India, Mexico, US) would result in GDP growth in 2030 equivalent to USD1.8-2.6 trillion.
- ✓ The sources of pollution and climate change are similar, so tackling climate change through policy and innovation could bring other co-benefits such as reduced health costs.

# What is a Green Bond?



# What is a Green Bond?

## The Green Bond Principles (“GBP”)

The Green Bond principles were published in January 2014

HSBC was an early member and was involved in the active dialogue and feedback period ahead of the publication of the GBP

Initial executive committee of the Green Bond Principles run by ICMA: In May 2014, HSBC was also appointed a member of the initial executive committee of the Green Bond Principles run by ICMA, which is made up of 18 organisations across investors, issuers and banks

- **Use of Proceeds**
  - Currently, the extent of disclosure varies greatly among issuers
  - All issuers should state eligible green categories in the Use of Proceeds section of the prospectus
- **Process for Project Evaluation and Selection**
  - Issuers are encouraged to establish a formal review process to select green projects
  - Such processes can be made public and/or reviewed by a third party
- **Management of Proceeds**
  - The recommendations are ring-fencing, increased disclosure and the appointment of an auditor to improve the transparency and integrity of the process
- **Reporting**
  - Annual, if not semi-annual reporting is encouraged
- They assume four key types of Green Bonds:
  - **Green Use of Proceeds Bond:** Senior debt, where proceeds allocated to specific sub-portfolio awaiting disbursement to Green projects
  - **Green Project Bond:** For single/multiple Green project(s) where investor has direct exposure to risk or project
  - **Green Securitised Bond:** Structure collateralized by one or more specific projects (eg. Covered Bond and ABS)
  - **Green Use of Proceeds Revenue Bond**

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All issuers should state eligible green categories in the Use of Proceeds section of the prospectus

- The cornerstone of a Green Bond is the utilization of the proceeds of the bond
- For a Green Use of Proceeds Bond or a Green Use of Proceeds Revenue Bond, the issuer should declare the eligible Green Project categories (including types of investments made indirectly through financial intermediaries) in the Use of Proceeds section of the legal documentation for the security
- The GBP recognize several broad categories of potential eligible Green Projects for the Use of Proceeds including but not limited to :

*Renewable Energy*



*Energy Efficiency*



*Sustainable Waste Management*



*Biodiversity Conservation*



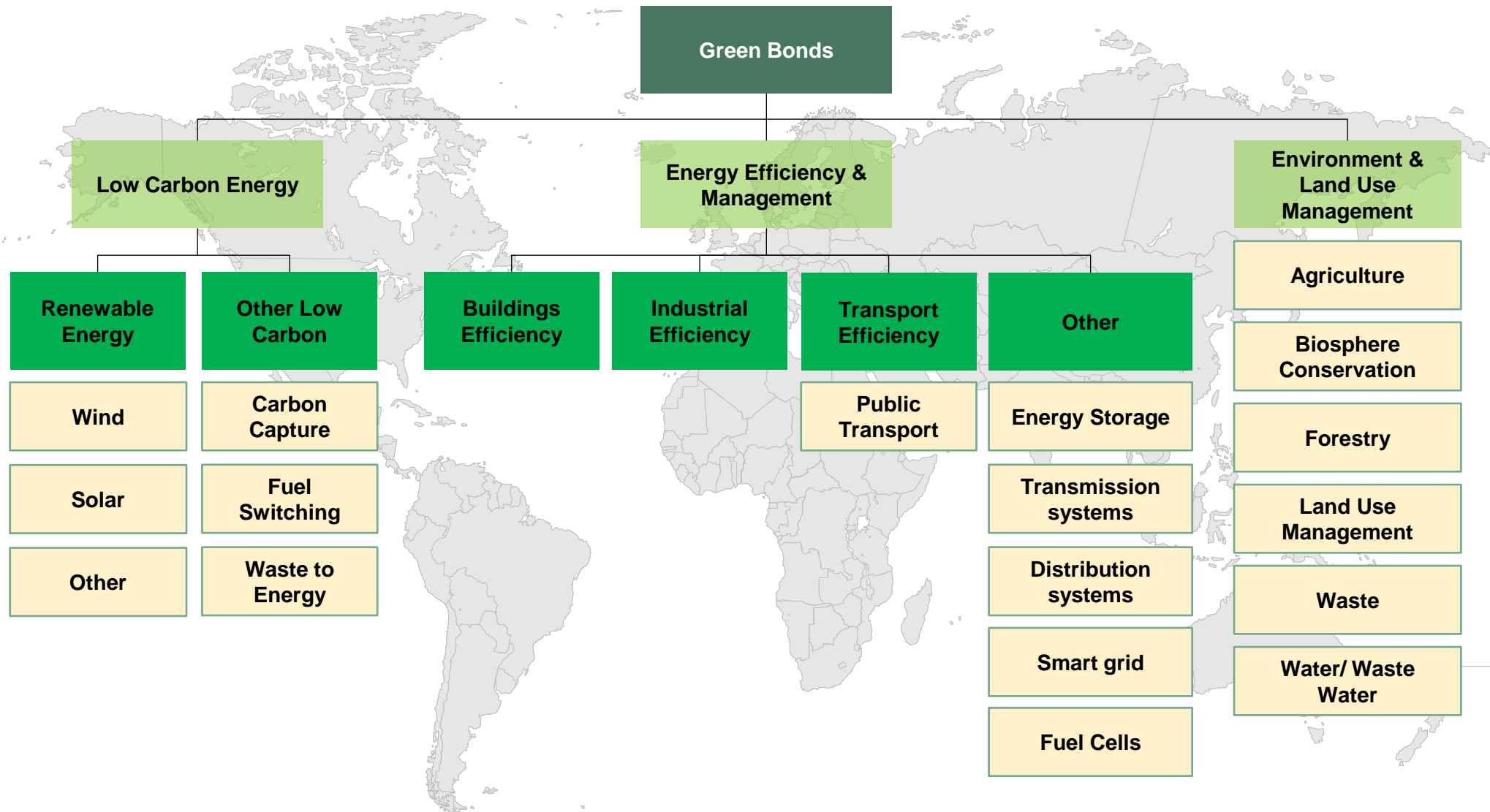
*Clean Transportation*



*Clean Water and / or Drinking Water*



## The Green Bond Family\*



\*Source: HSBC Research, Green Bond Principles

Ongoing periodic reporting and traceability of funds are integral to successful Green Bond issuance








These two elements are vital for fostering investor interest and for building a market with integrity and consistency

- Periodic reporting is aimed at achieving transparency towards investors and the market on an ongoing and consistent basis
- If the issuer plans to be a repeat issuer in the Green Bond market, ongoing reporting is essential
- To ensure transparency, the issuer should report to investors through an investor letter
  - A dedicated website or webpages can also be developed into an important information distribution tool
- The investor letter/website should include:
  - A list of projects financed
  - Detail on selected projects
  - A summary of the issuer's Green progress
- Transparency allows investor to understand what they are lending to and thus diversify their risk



# Socially Responsible Investment (SRI) Certification Institutions

## Key Examples

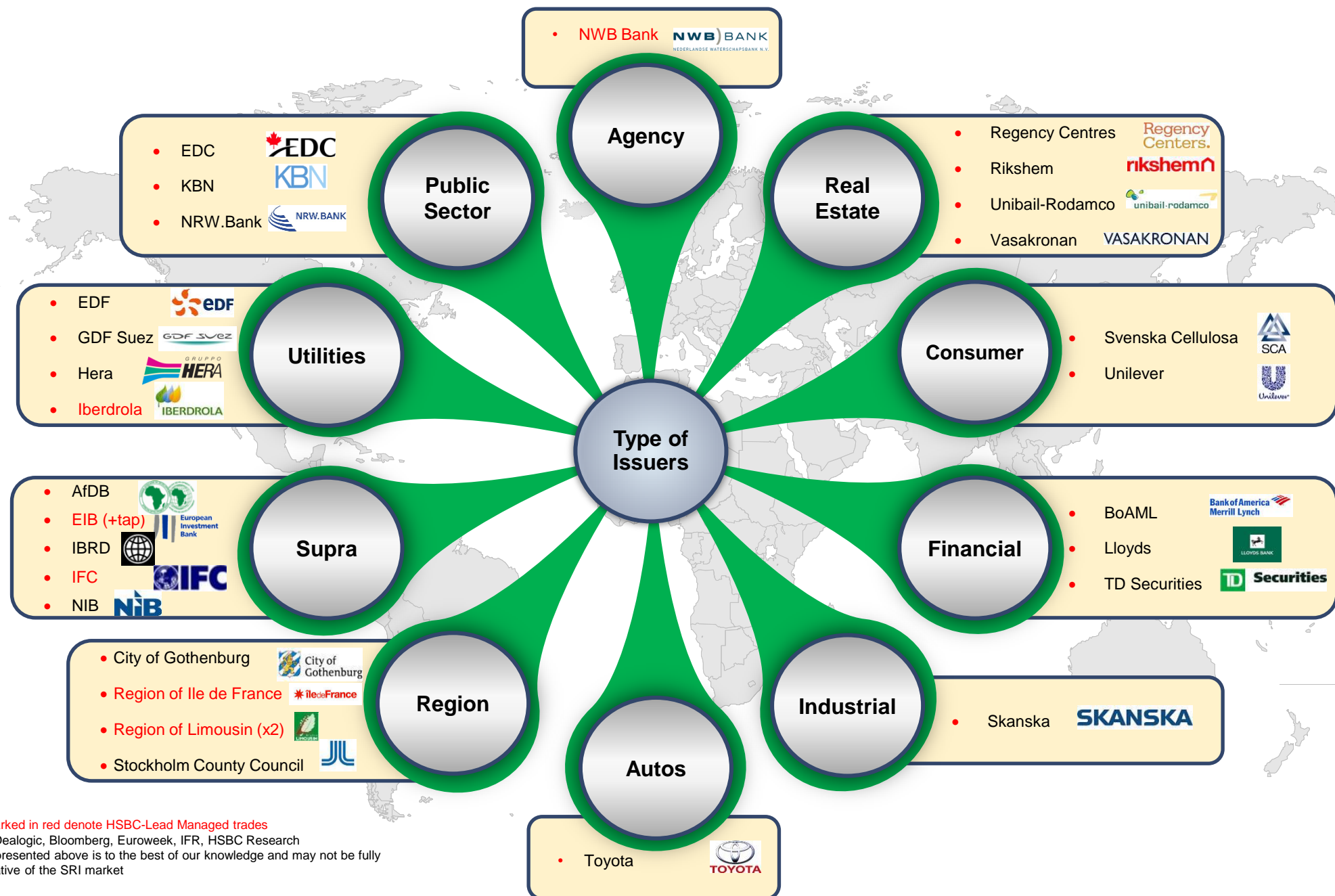
	<ul style="list-style-type: none"> <li>• An independent research centre associated with the University of Oslo established by royal decree in 1990</li> <li>• Conducts research on and provides information and expert advice about national and international issues related to climate change and climate policy</li> <li>• Have certified IFC's and IBRD's Green bonds</li> </ul>
	<ul style="list-style-type: none"> <li>• Since its foundation as of 12 of September in 2013, the firm has taken position as one of the top three certification bodies in the world.</li> <li>• Certified Unilever's GBP250m 2% due 2018 Green Bond</li> </ul>
	<ul style="list-style-type: none"> <li>• Vigeo rating is the leading expert in Europe in responsible performance. It measures the performances and risks of companies in 6 fields of social responsibility</li> <li>• The Sustainable Country Rating database comprises the ESG scores and benchmarks of over 170 sovereign countries, based on the analysis of more than 130 ESG risk and performance indicators in three domains: <ul style="list-style-type: none"> <li>- Environmental protection</li> <li>- Social protection and solidarity</li> <li>- Rule of law and governance</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>• Provides a certification scheme for "Climate" bonds, which acts as a screening tool for investors and governments to support investment</li> <li>• The implementation of the Climate Bond Standard and Certification Scheme is coordinated through the work of dedicated groups overseen by a board representing investors and environmental NGOs</li> <li>• Certification requires a third party verification by DNV-Kema, KPMG or Bureau Veritas and will cost approximately €15,000 - €40,000</li> </ul>
	<ul style="list-style-type: none"> <li>• Ekom Research is a leading rating agency worldwide in the field of sustainable investment</li> <li>• Analyses companies and countries with regard to their environmental and social performance</li> <li>• The cost for a rating ranges between €20,000 and €40,000 and require 3 to 6 weeks</li> </ul>
	<ul style="list-style-type: none"> <li>• A leader in sustainability research and analysis, for global investors and financial institutions</li> <li>• Research is used by investors to integrate environmental, social and governance factors into their investment processes</li> <li>• Have certified EIB's "Climate Awareness Bonds" and Lloyds "ESG Bond"</li> </ul>
	<ul style="list-style-type: none"> <li>• MSCI ESG Research provides in-depth research, ratings and analysis of the environmental, social and governance-related business practices</li> <li>• Ratings and data from MSCI ESG Research are also used in the construction of the MSCI ESG indices</li> <li>• The MSCI ESG Research team consists of more than 150 ESG specialists worldwide, including more than 90 dedicated ESG analysts and researchers</li> </ul>



# Overview of the Green Bond Market



# Types of Issuers in the Green Bond Market



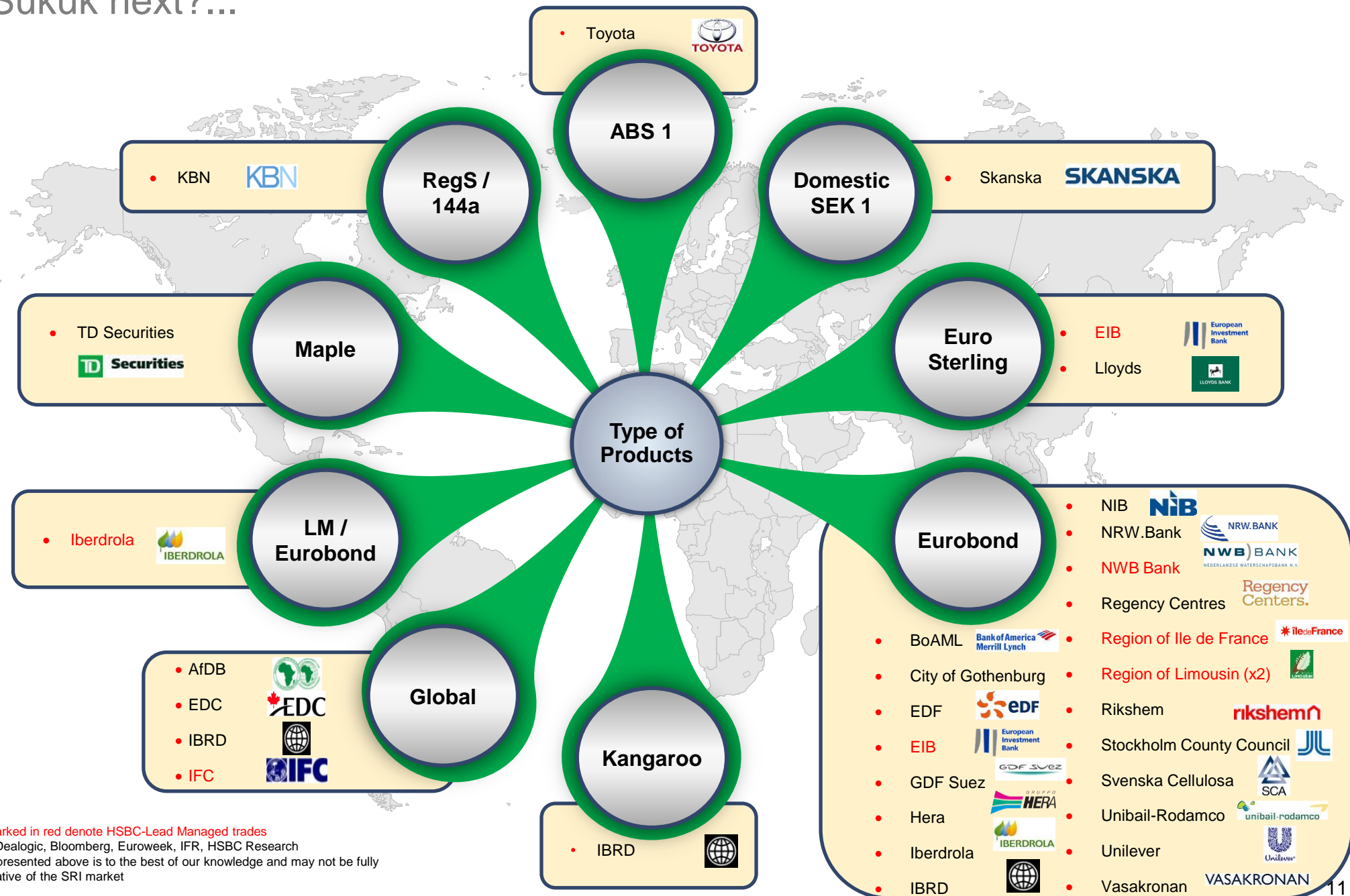
Clients marked in red denote HSBC-Lead Managed trades

\*Source: Dealogic, Bloomberg, Euroweek, IFR, HSBC Research

The data presented above is to the best of our knowledge and may not be fully representative of the SRI market

# Types of Products in the Green Bond Market

## Sukuk next?...

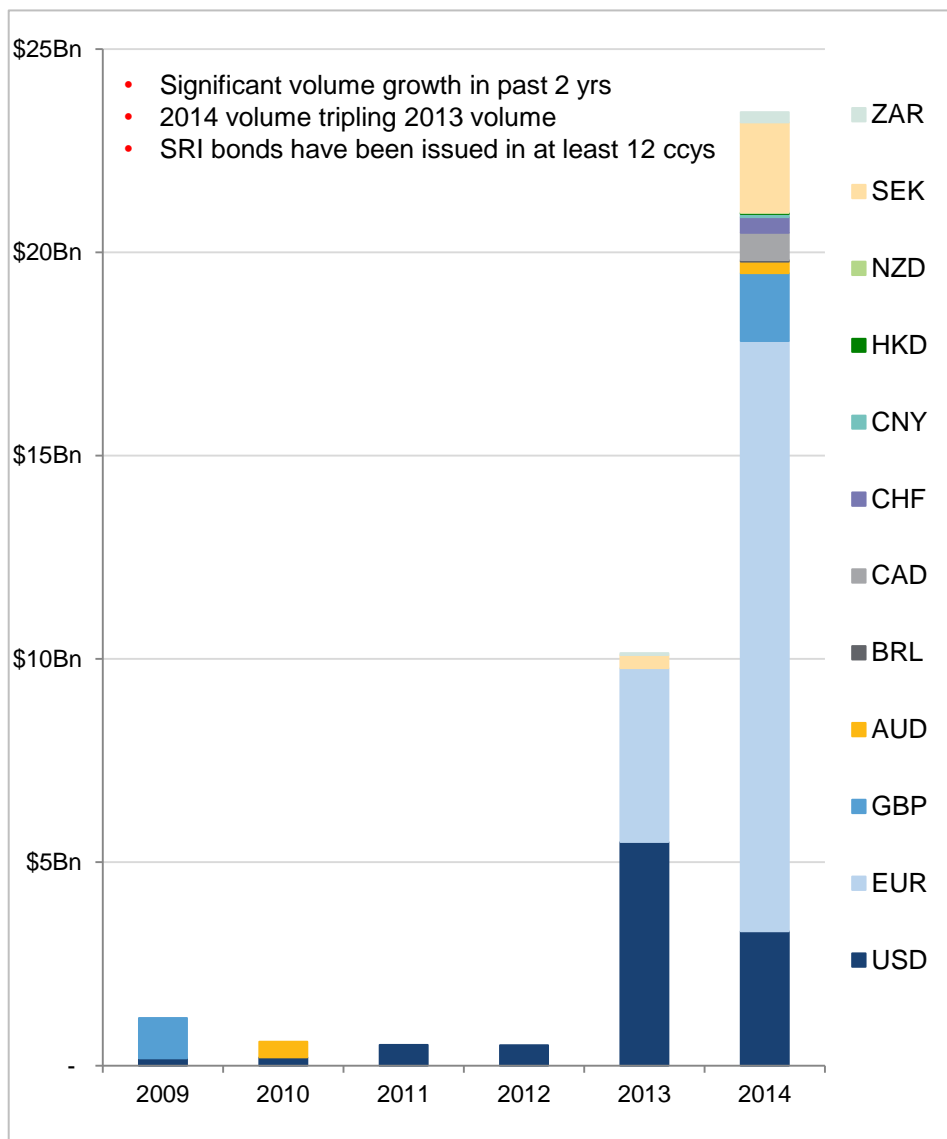


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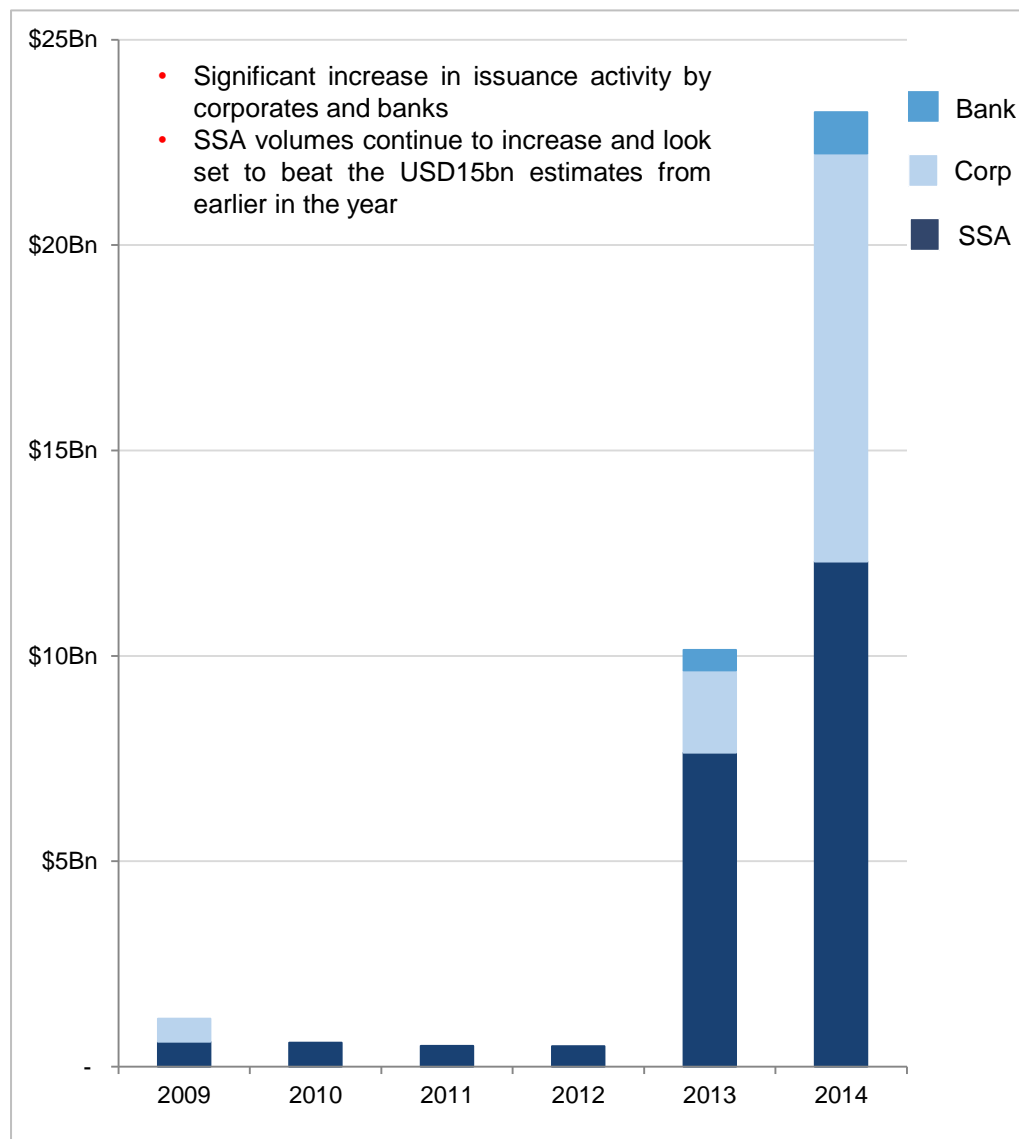
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## Green Bond Issuance By Currency (USDm Equiv)



As at 16<sup>th</sup> Sept 2014

## Green Bond Issuance By Type (USDm Equiv)



As at 16<sup>th</sup> Sept 2014

Many issuers have made reference to a number of external sources to assess the “Greenness” of investors

For example, the Institutional Investors Group on Climate Change (IIGCC) provides investors with a collaborative platform to encourage public policies, investment practices, and corporate behaviour that address long-term risks and opportunities associated with climate change

The UN Principles for Responsible Investment (PRI), has a goal to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices

## Types of investor

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### i. Dedicated SRI Buyers

- Investors who have a specific, dedicated mandate/portfolio for buying Green bonds
- Tickets size is generally small
- These investors provide a pure diversification element for the issuer
- Arise from the ESG Equity side and are dedicated green bond buyers

### ii. Committed Investors

- Recent large/frequent buyers of SRI/Green bonds qualifying as “committed investors”
- These accounts have sustainable policies around their general investment portfolio
- These are the majority of the buyers and typically the drivers behind transactions

### iii. Opportunistic Buyers

- Other “committed investors”, however less regular/smaller in size in comparison to the “priority” investors
- They buy the bonds and like to be seen as Green Bond buyers, however they do not have a specific SRI internal strategy/fund

# Considerations for Green Bond issuance

How do we grow the Socially Responsible Investment (SRI ) market?

## SRI Bond Market Appeal

Growing focus and issuance volumes

- Building on the issuer's profile in the Green Bond market
- Increasing sustainable investments
- Fostering investor diversification

## Driving Investments

Transparency is key

- Use of proceeds should be associated with clear and quantifiable environmental and/or social benefits.
- These will ideally be flagged in advance, however there have been examples where use of proceeds have been flagged retrospectively
- Green project criteria are set out in the framework
- Obtaining external certification/second opinions is strongly recommended
- Transparency is maintained through regular reporting (e.g. investor letters)



















## Growing Issuance

Using existing EMTN programme

- Issued under the same documentation as regular bonds
- Bond terms and format are the same as for conventional bonds
- Pricing comparable to conventional bonds
- Builds on an the issuer's existing investor base by introducing new investors who have dedicated Green portfolios

# New Issues September / October 2014

## New issuances in September/October 2014 (> EUR 250 Mio.; ex Taps/PPs)

Issuer	Sector	Pricing date	Currency	Amount	Maturity date	Typ	Description	HSBC-led deal
 NIB	SSA	23.09.2014	USD	500m	30.09.2021	Global	Environmental Bond - NIB Environmental Bond (NEB) – inaugural Green Bond issue	
 AFD	SSA	10.09.2014	EUR	1bn	17.09.2024	Eurobond	Climate Bond – first Climate Bond of a french agency	
 EIB	SSA	18.09.2014	EUR	750m	13.11.2026	Eurobond	Climate Awareness Bond	
 MIT	SSA	22.09.2014	USD	370m	01.07.2038	US Inland	Green Bond for the realisation of ecological sustainable projects	
 Münchener Hypo	Financials	17.09.2014	EUR	300m	24.09.2019	Pfandbrief	ESG labeled – first Pfandbrief	
 Abengoa	Corporates	25.09.2014	EUR USD	265m 300m	01.10.2019	144A/RegS	Green Bond – First European high yield Green Bond	
 KfW	SSA	07.10.2014	USD	1500m	15.10.2019	Global	Green Bond	
 DBJ	SSA	30.09.2014	EUR	250m	06.10.2017	Euro MTN	Green Bond	
 Province of Ontario	SSA	02.10.2014	CAD	500m	09.10.2018	Global	Green Bond	
 EIB	SSA	08.10.2014	USD	1bn	15.10.2024	Global	Green Bond	
 BNG	SSA	06.10.2014	EUR	500m	14.10.2019	Euro MTN	Green Bond	
 Stockland	Corporates	23.10.2014	EUR	300m	03.11.2021	Euro MTN	Green Bond	
 NRW.BANK	SSA	28.10.2014	EUR	500m	XX.XX.2018	Euro MTN	Green Bond	

Source: Dealogic, Bloomberg

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# Why should MENA Issuers consider Green Bonds?



# Green Bonds: Promoting Ethical and Corporate Image

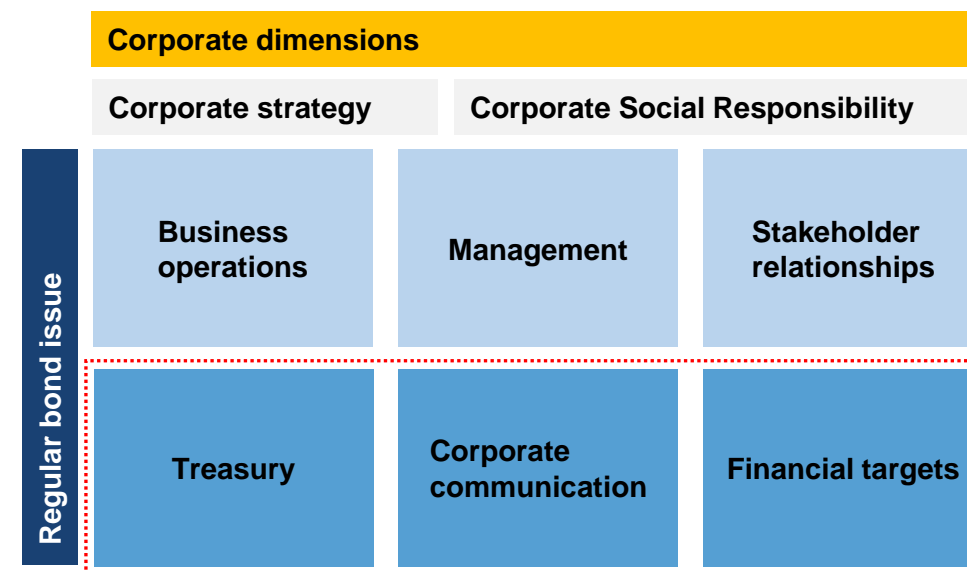
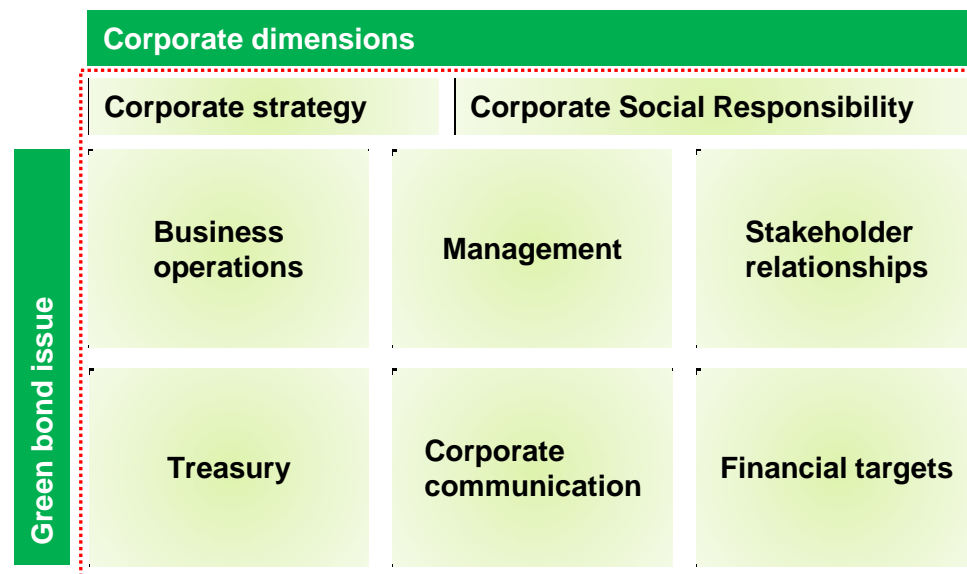
## Why is this attractive?

Funding activities can reinforce the Issuers corporate strategy and ethics, as well as brand image

The growing awareness of environmental issues and the associated business impact have incentivised issuers to take a greater responsibility to support a sustainable environment

Issuers are forming environmental policies which are implemented in their strategies and in the way they build their brands externally as well as internally

- The treasury function is normally disconnected from an issuer's environmental policies
  - These are normally handled and communicated by senior management
- For example, a regular bond issue is often exclusively driven by financing needs and rarely involves departments other than the treasury and corporate communications
- However, the issuance of a Green Bond allows treasury to play an important role in an issuer's environmental strategy and also invites a wider range business functions to take part in the issue process
- This, in turn, allows more business areas to share the benefits of the publicity of the Green Bond issuance and adds to the understanding of the company's efforts to support the environment



# Why Issue in the Green Bond Market?

## Benefits to Issuers

### ✓ Raising Issuer Profile

#### Highlights Sustainability Credentials

- **Image:** Perfect way to show your commitment to the sustainable economy
- **Products:** Helps grow sustainable lending business by providing opportunities to cross-market with clients in green/sustainability sectors
- **Trailblazing:** Early mover advantage

### ✓ Socially Responsible Market Appeal

#### Growing focus and issuance volumes

- **Investor loyalty**
- Building on and/or raising profile in the Socially Responsible Investment (SRI) market
- Introducing brand new investors and/or investments from existing investors' specific SRI portfolios

### ✓ Complementary Funding Tool

#### Using existing EMTN programme

- **Investor diversification**
- Issued under the same documentation as regular bonds
- Bond terms and format are the same as for vanilla bonds
- Pricing comparable to regular bonds
- Simple reporting requirements

### ✓ Capture a Growing Trend

#### SRI Issuance is Booming

- SRI issuance in 2014 YTD has tripled the size of supply in 2013.
- Issuers are tapping into latent demand from SRI investors for fixed income assets

# SRI Bond Issuance

## Key Considerations and Characteristics

### Key considerations for issuing a SRI bond:

Question	Alternative	Answer
<b>Step 1: How do you plan to invest the proceeds of the bond ?</b>	1.a. New project or existing project ? Specific theme or general SRI fund?	<ul style="list-style-type: none"> <li>- General SRI fund</li> <li>- Renewable energy</li> <li>- Energy efficiency</li> <li>- Water management</li> <li>- Poverty reduction</li> <li>- Possibility to give a precise list of projects you are planning on investing in</li> </ul>
	1.b. Communication on investment evaluation processes?	<ul style="list-style-type: none"> <li>- No specific methodology, "best efforts" basis</li> <li>- Explicit description of the criteria used when deciding to invest in a project</li> </ul>
<b>Step 2: Do you plan to ring-fence the proceeds of the bond? It is not an absolute requirement but it serves to assuage investor concerns</b>	2.a. "Best efforts" only	<ul style="list-style-type: none"> <li>- The use of proceeds section is included in the final terms and is on a "best efforts" basis, otherwise the remainder of the bond documentation is on the whole unchanged</li> </ul>
	2.b. Funds are "ring-fenced"	<ul style="list-style-type: none"> <li>- The proceeds are distinct from other debt instruments and treated separately, for instance as a sub-portfolio (e.g. IFC) or a special fund (e.g. EBRD)</li> </ul>
<b>Step 3: Enhanced communication / transparency to the market ?</b>	3.a. Transparency about the use of proceeds to investors	<ul style="list-style-type: none"> <li>- The issuer can opt for better transparency regarding the projects invested in by communicating via, for example: <ul style="list-style-type: none"> <li>- Investor letters</li> <li>- Conferences</li> <li>- Online updates</li> <li>- Corporate Social Responsibility reports</li> <li>- etc.</li> </ul> </li> </ul>
	3.b. Certification by an SRI specialised rating agency	<ul style="list-style-type: none"> <li>- Various Social and Environmental certification institutions exist, they can provide an evaluation on : <ul style="list-style-type: none"> <li>- Specific SRI bond issue</li> <li>- The issuer as an entity</li> </ul> </li> <li>- For example, Cicero, DVI, Vigeo and Oekom Research are involved in SRI evaluation and certification</li> </ul>

### SRI bond execution/characteristics

<b>Documentation</b>	EMTN programme
<b>SRI Rating Use of Proceeds Ring Fencing</b>	For maximum impact in terms of publicity and investors, formal accreditation and a specific use of proceeds are recommended Ring fencing helps with "Green" story however may be unattractive
<b>Marketing</b>	Physical marketing or investor call recommended to present the rationale of the bond issue contemplated and obtain best possible publicity
<b>Size</b>	Same as in vanilla bond market
<b>Maturity</b>	Same as in vanilla bond market
<b>Pricing</b>	Precedent transactions have priced in line with vanilla bonds
<b>Investors</b>	Growing investor base with increasing dedicated SRI / green portfolios supplemented by opportunistic traditional investors

# Questions



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