


Making Green Bonds Work

Webinar from Oxfam Hong Kong and Carbon Care Asia, 13 August 2020

Responses to questions posted during the webinar

(Please note: Questions posted and answers given in the Q&A feature during the webinar are reproduced as they were received and have not been edited or corrected.)

Q. Utilising community level projects as underlayers for Green & Social Bond issuance is most challenging. Which mechanism do you utilize to securitize community project risks especially when underwriting is also a challenge?

Answer (online during the webinar): Community engagement and most common, supported by local and INGOS. The companies involved in operation must engage communities right at the sight. Prior consent must be sought. Otherwise the only actions will happen is activist protest.

CCA answer: Community projects in developing countries may, individually, be too small for bond issuance. However, intermediary organizations, for example: community solar energy companies, mobile telephone services, agricultural supplies shops, women's banks, micro-credit schemes, small-scale irrigation, and water or hydropower engineering companies can all raise funds from bonds on the basis of providing services and funds for smaller-scale finance to a number of community-level development activities. A return on the investment can be demonstrated. Risk can be reduced in two ways: through aggregation of a number of small-scale projects, and through partnership with development banks, aid groups and bilateral finance agencies which can design a blended finance model, with the development partner de-risking the project with such roles as providing financial guarantees or by providing concessionary funding for the early stage technical and feasibility studies, institution building or set-up costs.

In countries like the US, small-scale municipal bonds are common to fund items such as local schools or libraries. Funds usually go to non-profit organizations. It would be worthwhile exploring more closely at how appropriate these might be for smaller-scale projects in developing and emerging economies.

Q. MTR just issued USD 1.2 billion green bonds. Unclear however where the money will go? It's mentioned the proceeds will be used to finance the Covid-19 losses. what's your view on this?

CCA answer: Any mass transit company has a reasonable claim that all its activities are inherently green in that they reduce the number of private vehicles, taxis or mini-buses on the road. If the transport is electric, there is a stronger case that this reduces emissions and particulate air pollution. A few caveats are needed in the case of Hong Kong's MTR.

First, the transport will not be emissions free as long as Hong Kong's electricity supply is generated from a mixture of coal, gas and nuclear power. Fully green transport will need to use fully green power sources. Second, close to two-thirds of the MTR corporation's income is related to ownership of properties above its railway system. The MTR is also a majority stakeholder of Octopus Cards Ltd. It is also developing and managing mass transit systems in many other cities beyond Hong Kong. If the green bonds will also be applied to these other parts of the MTR's operations, the green credentials of property and stored value card operations would need to be examined. Third, it's not clear if "best available technology" will be used in the green bond-funded project. Even though the project may fall under the green category, the technology it employs for carbon emissions reduction or energy efficiency will make a big difference to the level of its environmental contributions.

Q. What do Exchanges do to tackle non impact reporting or lack of compliance by the issuers with green bond standards?

CCA answer: Sustainability reporting has been quite recently introduced in most Asian stock exchanges. At this point, some exchanges have prepared an annual overview of submitted reports, pointing out weaknesses and shortfalls in general terms. We have yet to reach the point where the exchanges are identifying individual listed companies with poor reporting or lack of compliance, let alone sanctioning non-compliers. Yet in certain exchanges, the non-compliance in ESG reporting may be regarded as a breach of listing rules, which could have serious consequences for the companies concerned. In the case of green bonds, the question of not adhering to the original commitments (such as delay in impact reports) is not so much a regulatory issue by exchanges, but rather a matter of market judgement by investors and bond buyers.

Q. Issuers appear to rest very heavily on third-party providers to support their 'green' claims, what do you think these external reviewers could do to improve the effectiveness of these third-party reviews? Should they be more embedded in the whole life-cycle of the bond?

CCA answer: In cases of a specific green qualification, such as the Climate Bonds Initiative (CBI), detailed criteria and a specific process are applied, including third party verification and final approval by CBI. There is also a clear follow up process to examine where funds were applied and whether stated sustainability outcomes were achieved. In other green bond standards, external reviews are not necessarily mandatory. Perhaps the most obvious improvement is to make external reviews compulsory for all green bond issuers, and to develop harmonized standards for external reviews.

Q. We heard a lot about GREEN BOND prior to Paris Accord but afterwards, no major issue of Green Bonds by developing nations due to Political / Financial reasons as there is no structured Market for such bonds in countries. Can SGX help other nations/ smart cities to list and trade their Green Bonds?

CCA answer: Figures would suggest it is not true that developing nations (or at least emerging economies) have been less active in issuing green bonds since 2015; in fact issuance has grown for many years since then.

There is competition between stock exchanges around the world to position themselves as green finance hubs and it is encouraging to see more of them recognizing this trend. Apart from regional green finance standards, we doubt the stock exchanges will actively help listings and trading in competing exchanges if they don't have a share of ownership.

Q. The report is very insightful, esp the proportion of Green Bonds issued that have exposure to Fossil Fuel etc. Do we have any data on Green Bonds that are incorporating other SDGs into their metrics (e.g. gender, energy access, livelihoods, etc.)?

Some of the best practice related to SDGs are highlighted in the full report, but as of now referencing the SDGs is still uncommon. This is an area that leaves much room for improvement.

Q. What kind of mandatory disclosures are imposed by regulators?

The level of disclosure is guided by the green bond standard the issuer chooses to adopt. In general, regulators do not impose mandatory disclosures.

Q. With the rapid growth in green bond issuance in recent months, have you seen an improvement in green bond environmental claim quality (even over such a short period)?

CCA answer: In recent months there has been a rapid growth of social and sustainability bond issuances and green bond issuances have slowed down, notably in Asia Pacific. It is too early to discern any trend of improved environmental claims.

Q. Green Bond issuance with no regard and relation to Social Impact, SDG & Paris 1.5 Global warming target jumping into the bandwagon, and engage in greenwashing. The financial world needs to step back and consider investments that contribute to Inclusive Prosperity.

CCA answer: We think broader recognition of the need for both environmental and social good is the direction of travel of the many progressive actors within the finance sector. Increasingly, aspects such as climate risk are becoming mainstreamed through initiatives such as TCFD. The International Capital Markets Association has social bond framework looking at social progress, mirroring most of the SDG targets, and sustainability-linked finance seeks to link measurable achievements on social and environmental targets to better interest rates.

It is early days, but we think there are a number of drivers which give cause for optimism. TCFD and now Covid-19 fallout has made it clear to many in business and finance that ignoring environmental or social issues, thinking only short term and not looking at the longer horizon, is bad for business. Covid-19 has reminded us all of the dictum that what's good for society is good for business.

At least three parties play a role in ousting greenwashing: governments trying to build credible standards to attract this fast growing financial business; civil society groups who are able to identify rhetoric-reality gaps or unfair practices and can name and shame; and last but certainly not least, the investors themselves, whose job is to check out the projects and businesses receiving their money, and who work to avoid risks and false claims and their own reputational damage from poor environmental and social performance.

Q. HKEx is planning to launch STAGE - do panelists agree disclosures on post-issuance reporting (impact reporting especially) should be mandatory?

CCA answer: Our understanding is that STAGE is an information platform for investible green projects and companies, rather than a formal record of all green finance activities in Hong Kong. With more open platforms like STAGE, there could be more pressure for issuers to avoid delays in issuing impact reports, which is an improvement to disclosure per se.

STAGE responds to the oft-heard complaints by green project holders that it is hard to seek finance while the finance sector often reports that there are not enough green projects on offer.

Q. Is negative social impact from green bonds primarily centred around hydropower projects, or do other projects (such as solar and wind farms) also present examples of negative social impact? If so, what kind of issues were raised?

Answer (during the webinar): There are indeed in solar and wind farms in cases but the most controversial and dominant in Asia, involving the Mekong countries. The issues raised include impact from disasters caused naturally and man-made; communities give no prior consent to those projects; no protection to vulnerable people like women and children; and no fair compensation.

CCA answer: Depending on the types of projects or business sector of issuers, there are a number of areas where environmental projects could produce negative social impacts. A good starting point for monitoring problem areas would be to look behind the social reporting requirements of groups like GRI or SASB. These indicate the types of social and environmental issues on which business needs to maintain and raise standards. Social impacts centre on labour conditions, health and safety and labour rights. These run right through the value chain, not only within the company, but also in relation to supply of goods and services, sub-contracting, and distribution networks, including issues of child labour and modern day slavery. Green projects are no less vulnerable to these challenges. A good example are the rare metal ores and minerals used in batteries and other green technologies, some of which come from conflict zones or countries with high levels of child labour or modern day slavery in the extractive industries.

Environmentally beneficial projects must, like all others, pay attention to social issues of product responsibility and equal opportunities.

For green projects there are issues of land and resource control when large investments are made in small vulnerable communities. This includes the impact of large operations on local small to medium scale enterprises, as well as impact on local jobs, wage levels and prices.

So, for example, many renewable energy projects raise questions of land control, and affordable access to energy in the nearby community. Waste management projects involve issues of impact on the livelihoods of existing informal recyclers, or the site choices of waste treatment and hazardous waste storage and recycling plants near vulnerable communities. Many green projects raise issues of water supplies, and some may have an impact on biodiversity.

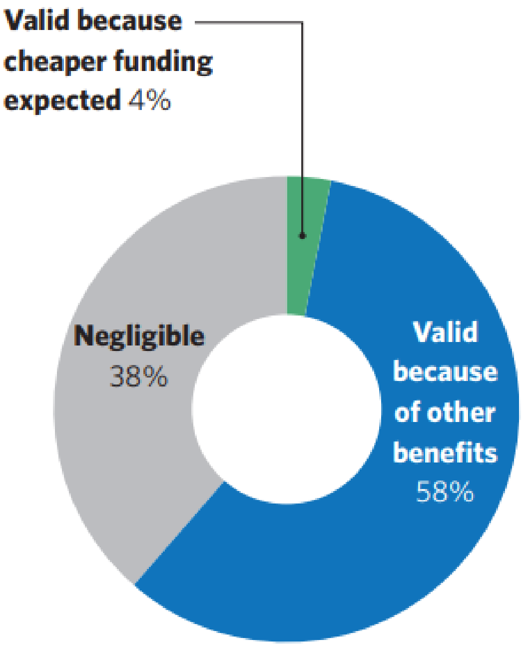
Q. Do you believe that if sustainable companies that can provide KPIs that meet many of the SDGs of the UN will be welcome to pursue green bonds in Singapore? And can provide a triple bottom line will these be sought out? Especially companies that can provide KPIs with regard to improved water quality, addressing GHG and methane emissions, and improved soil and livestock impacts?

CCA answer: Certainly companies with plans that demonstrate positive impact on one or more of the SDG targets are likely to be in line with the green bond or social bond project categories from ICMA. Clear KPIs also improve credentials for green financing. To move this to green bond issuance, these companies also need to have clear plans in relation to the process issues: selection of projects, allocation of funds, management of funds and reporting.

Q. What percentage of the typical green bond is spent on metrics and compliance?

CCA answer: There is no statistics on this specific question but according to CBI's Green Bond Treasurer Survey, "Most respondents (62%) perceived the additional costs, such as those of commissioning an SPO, extra legal costs, and post issuance reporting, as valid because of reasons other than pricing, while 41% described the costs as negligible. Only 4% of respondents said the issuance costs were justified because of cheaper funding. These perceptions do not vary considerably by issuer size or the duration of activity in the green bond market."

11. Most respondents said extra issuance costs were valid



Source: Green Bond Treasurer Survey, Climate Bonds Initiative, April 2020

Q. With the additional cost for issuing green bonds and doing due diligence on investments, should investors openly accept and signal to their clients that returns will be lower but for better risk-reward benefits to help support growth of the market?

CCA answer: As some of the speakers at the webinar made clear, evidence exists that green bonds and green indices are retaining value better than average in these turbulent times. Studies before the pandemic indicated that green investments at best outperformed and at worst simply matched the value of other investments. We can see from the issues facing fossil fuel industries that green bonds are likely to outperform vanilla bonds in the medium to long term, as are ESG-linked indexes.

Here is a link to some statistics on ESG and green fund performance compared to average: https://www.visualcapitalist.com/esg-megatrend-green-bonds/

Q. What measures are being taken by all actors within the global ecosystem to make Green Bonds more transparent and bring in more accountability? To whom should investors look up to for raising grievances?

CCA answer: Where governments and inter-governmental groups have announced green bond standards, it is reasonable for investors and others to name and shame any greenwashing arising from a disconnect between the actual impact of funds and the environmental claims in the prospectus, press release or verification documents.

Q. There are limitations on the examples of Energy/Environment Impact-focused KPIs, but a limitation on the Social domains. What is the best example of an 'Integrated' Green Bond (that integrates a balance of KPIs across all 3 domains?

It's hard to find the 'best example' of an integrated green bond but some of the best practices can be found in the full report, such as a case study on PT Sarana Multi Infrastruktur in Indonesia.

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