



# Guidance Note on Sovereign Sustainable Instruments

MARCH 2023

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March 2023

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This guidance note on sovereign sustainable (green, social, sustainability) bond and sukuk issuances “Sovereign Sustainable Instruments” aims to enrich the green and sustainable agenda in the Arab region.

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*The findings, interpretations, and conclusions expressed in the section “Sovereign Debt Management in an ESG Context: Key Considerations for Debt Management Officers” are entirely those of the author(s). They do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent.*

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## Abbreviations

AMF	Arab Monetary Fund
bps	Basis Points
COPs	Conference of the Parties, UN Climate Change Conferences (which are attended by the countries that signed the United Nations Framework Convention on Climate Change (UNFCCC))
CHF	Swiss Franc
CNY	Chinese Yuan (the basic unit of the Renminbi)
CRA	Credit Rating Agency
DMO	Debt Management Office
ESG	Environmental, Social, and Governance
EU	European Union
EUR	The official currency of the EU member states that are members of the European Economic and Monetary Union
FDI	Foreign Direct Investment
GBP	Green Bond Principles
GLP	Green Loan Principles
HKD	Hong Kong Dollar
ICMA	International Capital Market Association
IFC	International Finance Corporation
INDCs	Intended Nationally Determined Contributions
KPIs	Key Performance Indicators
KSA	Kingdom of Saudi Arabia
MTDS	Medium-Term Debt Strategy
NAPs	National Adaptation Plans
NDCs	Nationally Determined Contributions
PDM	Public Debt Management
SBP	Social Bond Principles
SDGs	Sustainable Development Goals
SGD	Singapore Dollar
SLB	Sustainability-Linked Bond
SPO	Second Party Opinion
SPTs	Sustainability Performance Targets
VCM	Voluntary Carbon Market
UAE	United Arab Emirates
UNFCCC	United Nations Framework Convention on Climate Change
USD	United States Dollar

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### Green Bonds:

Are any type of bond instrument where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance in part, or in full, new and/or existing eligible Green Projects and which are aligned with the four core components of the Green Bond Principles (GBP) (ICMA, 2020).

### Social Bonds:

Are any type of bond instrument where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance in part, or in full, new and/or existing eligible Social Projects and which are aligned with the four core components of the Social Bond Principles (SBP) (ICMA, 2020).

### Sustainability Bonds (SBs):

Are any type of bond instrument where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance a combination of both Green and Social Projects. 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 (ICMA, 2021).

### Sustainability-Linked Bonds (SLBs):

Are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ ESG objectives. In that sense, issuers are thereby committing explicitly (including in the bond documentation) to future improvements in sustainability outcome(s) within a predefined timeline. SLBs are forward-looking performance based instruments. Those objectives are (i) measured through predefined Key Performance Indicators (KPIs) and (ii) assessed against predefined Sustainability Performance Targets (SPTs). (ICMA, 2020).

### Sustainable Instruments:

Are traditional fixed income instruments and/ or sukuk, which allow investors to finance specific investment themes such as climate change, health, food, education, access to financial services and target specific Sustainable Development Goals (SDGs) through investing.

### Sovereign Sustainable Instruments:

Involve instruments issued by the sovereign, which are aligned with the four core components of green, social, and sustainable bond principles; namely: (i) Use of Proceeds, (ii) Process for Project Evaluation and Selection, (iii) Management of Proceeds, and (iv) Reporting.

### Framework:

Outlines the issuer's approach for launching the sustainable and sustainability-linked instruments in terms of design, commitment, transparency and disclosure practices. It also includes relevant information within the context of the issuer's overarching sustainability strategy.

### External Review:

It is recommended that issuers appoint an external review provider(s) to assess, through a pre-issuance external review, the alignment of their Green, Social and Sustainable Bond program and/or framework with the four core components of the ICMA Principles (i.e. Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting).

### Use-of-Proceeds Bonds/ Sukuk:

These instruments are Devoted to financing new and existing projects, or activities, with positive environmental and/or social impacts.

The sustainable bond and sukuk market has experienced a period of considerable growth. This has been primarily in response to a heightened concern for environmental and social policy considerations, in addition to the widespread introduction of sustainable development targets. As a result of this, between 2020 and 2021 sustainable debt volumes more than doubled, now surpassing USD 2.9 trillion<sup>3</sup>. This expansion is set to continue, with new issuers entering the market in order to meet the demands of social and environmental objectives.

Sustainable bonds and sukuk offer the opportunity for sovereigns across the Arab region to attract valuable investment, as well as facilitate sustainable development. They also allow sovereigns throughout the region to meet their commitments to the National Determined Contributions under the 2015 Paris Agreement. Sovereign Sustainable Instruments can be used to close the climate/sustainability financing gap that many countries across the region are experiencing. Sustainable instruments are not only useful in addressing the changing demands of investors demand (which is strongly emphasized in the report), but they can also help to address fundamental financing gap for implementing the climate/sustainability agenda.

While there is complementarity between sovereign sustainability-linked instruments and the traditional use of proceeds model, which is based on the supply of eligible projects to finance; sovereigns may face challenges in selecting the proper Key Performance Indicators (KPIs) and setting the associated Sustainability Performance Targets (SPTs) that can be achieved and reflect real sovereign interventions, given that proceeds of sustainability-linked instruments are tied to the achievement of predefined sustainability objectives.

Although there is an appetite for the issuing of Sovereign Sustainable Instruments within the region, these

issuances can present significant challenges on account of varying levels of market development. Despite the issuance by many Arab sovereigns in international markets, alongside the frequent issuance in local currency markets, Arab capital markets are generally smaller with issuers being less exposed to public debt markets when compared to other regions.

A recent survey conducted by the Arab Monetary Fund (AMF) on Sovereign Sustainable Instruments revealed that Arab finance ministries are increasingly interested in issuing Sovereign Sustainable Instruments, as well as exploring related opportunities in more depth. Despite this, the survey responses also indicate that they perceive a set of challenges that may hinder the issuance of such instruments, mainly the selection of projects, data collection, inter-agency coordination, regular reporting, impact measurement, and developing sufficient capacity related to ESG activities within the Debt Management Office (DMO). This guidance note aims to address some of the relevant considerations.

Many sovereigns within the region have undertaken initiatives in order to secure the benefits relating to ESG finance. Crucially, these sustainable finance development initiatives are paired with an interest in sustainable development more broadly. These broad initiatives include national strategies for sustainable development and climate adaptation through the setting of Intended Nationally Determined Contributions (INDCs) and National Adaptation Plans (NAPs). These exist alongside other ESG guidelines and frameworks, sustainable finance practices, the issuance of ESG financial instruments and the establishment of suitable institutional frameworks.

3. BIS. (2022). Sovereigns and sustainable bonds: challenges and new options, BIS Quarterly Review. September 2022. Retrieved from: [https://www.bis.org/publ/qtrpdf/r\\_qt2209.pdf](https://www.bis.org/publ/qtrpdf/r_qt2209.pdf).

Greenwashing concerns can be addressed by formulating a credible and transparent framework, robust evaluation methods, regular reporting including impact reports, as well as sound disclosure; in order to ensure adequate ring-fencing of the projects that are funded by the proceeds of Sovereign Sustainable Instruments. Such practices can prevent a negative market sentiment towards Sovereign Sustainable Instruments (particularly an inaugural ones), and also help to mitigate potential risks to the sovereign issuer's reputation in the long term in the event that the labeled sovereign instrument does not appear to comply with the expected ESG standards.<sup>4,5</sup>

This guidance note outlines recommendations and actions for policy makers to adopt Sovereign Sustainable Instruments. These are classified into three main interrelated areas, namely: (i) a policy perspective, (ii) a debt management perspective, and (iii) an issuer perspective.

From a policy perspective, these recommendations highlight the engagement in ESG activities, raising awareness across government agencies, providing clear definitions for ESG terms and activities at the national level including sectors and projects, maintaining a holistic and coordinated approach in designing sustainable finance plans, strengthening awareness and capacity across agencies for a better understanding of sustainable taxonomies, as well as regular tracking and accurate reporting of sustainable investments.

From a debt management perspective, sovereign debt managers should carefully consider any decision to issue a Sovereign Sustainable Instrument. To do so, debt managers need to (i) assess readiness factors and enhance commitment to ESG activities, (ii) engage with domestic and international investors and other

stakeholders proactively, and (iii) leverage the DMO's expertise and position within the country to support other agencies to mobilize ESG funding through capital markets, providing advice on the relevance of Sovereign Sustainable Instruments and their selection.

From an issuer's perspective, the guidance note outlines key milestones to guide sovereign issuers on the issuance process, to enhance transparency, investors' trust and the robustness of ESG market financing.

Moreover, Sovereign Sustainable Instruments can catalyze the domestic market, since they pilot domestic issuances, provide benchmark pricing, boost investors' appetite, and generate opportunities for other issuers. In the meantime, promoting a sustainable domestic market requires further efforts to develop both demand and supply sides as well as other aspects of a market ecosystem.

Developing a regional ESG taxonomy would be an area for further exploration, aiming to support robust regulations and practices while directing investments toward ESG projects and activities. This, in turn, will enhance regional integration through extensive stakeholders' consultations and coordination on sustainable finance.

4. See FCA proposal on new rules to tackle greenwashing, October 2022:

<https://www.fca.org.uk/news/press-releases/fca-proposes-new-rules-tackle-greenwashing>.

5. See FCA Consultation Paper Sustainability Disclosure Requirements (SDR) and investment labels, October 2022.

<https://www.fca.org.uk/publication/consultation/cp22-20.pdf>

## 2. INTRODUCTION

This guidance note aims to promote awareness of ESG investing in the sovereign debt asset class and how it pertains to sovereign issuers in the Arab region. While many market participants suggest that ESG has been a part of sovereign credit analysis for many decades, it is only in recent years that it has become more formalized through the auspices of ESG investing. ESG investing initially developed as an investment approach in equity and corporate debt asset classes, and the framework has also become increasingly integrated into the sovereign debt investment process.

While many investors focus on integrating ESG from a risk management perspective, an increasing cohort of investors are beginning to focus on non-financial returns. This development has been one of the key drivers behind the surge of labeled bond issuances over recent years.

Against such a backdrop, this guidance note provides regional policymakers with an insight into these key developments. While the main focus of this guidance note is at the instrument level, it is important to acknowledge that taking ESG factors into account in the investment process is becoming increasingly relevant for a country's entire investment universe; ranging from investing in the sovereign's own debt instruments to a country's wider Foreign Direct Investment (FDI) flows. As a result, whether a sovereign issuer decides to issue a Sovereign Sustainable Instrument or not, it is important that policy makers across the region keep up to date on current developments and help create a supportive ecosystem for sustainable finance to develop within the local capital markets and banking system more generally.

This guidance note takes stock of recent ESG sovereign market trends, embedded opportunities, the sovereign debt management perspective, the diverse global and regional guidelines and frameworks, and challenges and complexities surrounding the issuance of Sovereign Sustainable Instruments. We draw on an AMF survey on Sovereign Sustainable Instruments conducted in March 2022, which provides insights into Arab finance ministries' perceptions on the topic. Moreover, the document highlights other regions and

countries' experiences that have already issued labeled instruments. Finally, we derive a set of policy recommendations and priorities of actions that support officials in Arab countries in their decisions to introduce Sovereign Sustainable Instruments, the related requirements, and how to set a fully fledged enabling environment.

This guidance note is divided into five sections: (i) History and Overview of the Sovereign Sustainable Instrument Market, (ii) Sovereign Debt Management in an ESG Context: Key Considerations for Debt Management Officers, (iii) Translating the Sustainable Agenda into a Sovereign Sustainable Instrument, (iv) Complexities, Challenges and Pathways for Sovereign Sustainable Instruments, and (v) Recommendations and Forward Steps.

This guidance note also contains six appendices. (i) Appendix 1 shows the volume of Sovereign Instruments issued across the Arab countries; (ii) Appendix 2 sets out the main milestones of policies adopted by Arab countries to address climate and sustainable finance; (iii) [Appendix 3](#) highlights various case studies of frameworks and guidelines adopted by different countries; (iv) Appendix 4 sets out various case studies of Sovereign Sustainable Instruments issued in many countries in and outside of the Arab region; (v) [Appendix 5](#) contains a table comparing diverse sovereign issuer frameworks across Europe, Asia, Latin America and the Arab region; and (vi) [Appendix 6](#) contains a glossary of terms used throughout this guidance note, as well as additional sustainable finance terms and their definitions which were developed by standards setters and relevant international organizations and aim to increase awareness of the sustainable finance industry across the Arab region.



### **3. HISTORY AND OVERVIEW OF THE SOVEREIGN SUSTAINABLE INSTRUMENT MARKET**



### 3.1. Introduction

Investor interest in ESG topics has grown rapidly in recent years. To date, interest has focused mainly on hard currency external debt, but even for local currency debt, the topic has garnered more relevance primarily in domestic markets, where foreign investor participation, particularly institutional investors such as pension funds and asset managers, are active. Figure 1 below highlights how the financial sector architecture is changing, and critical stakeholders are adapting pre-existing and deeply embedded investment practices to account for this change and Figure 2 below illustrates the many different investment approaches to ESG investing.

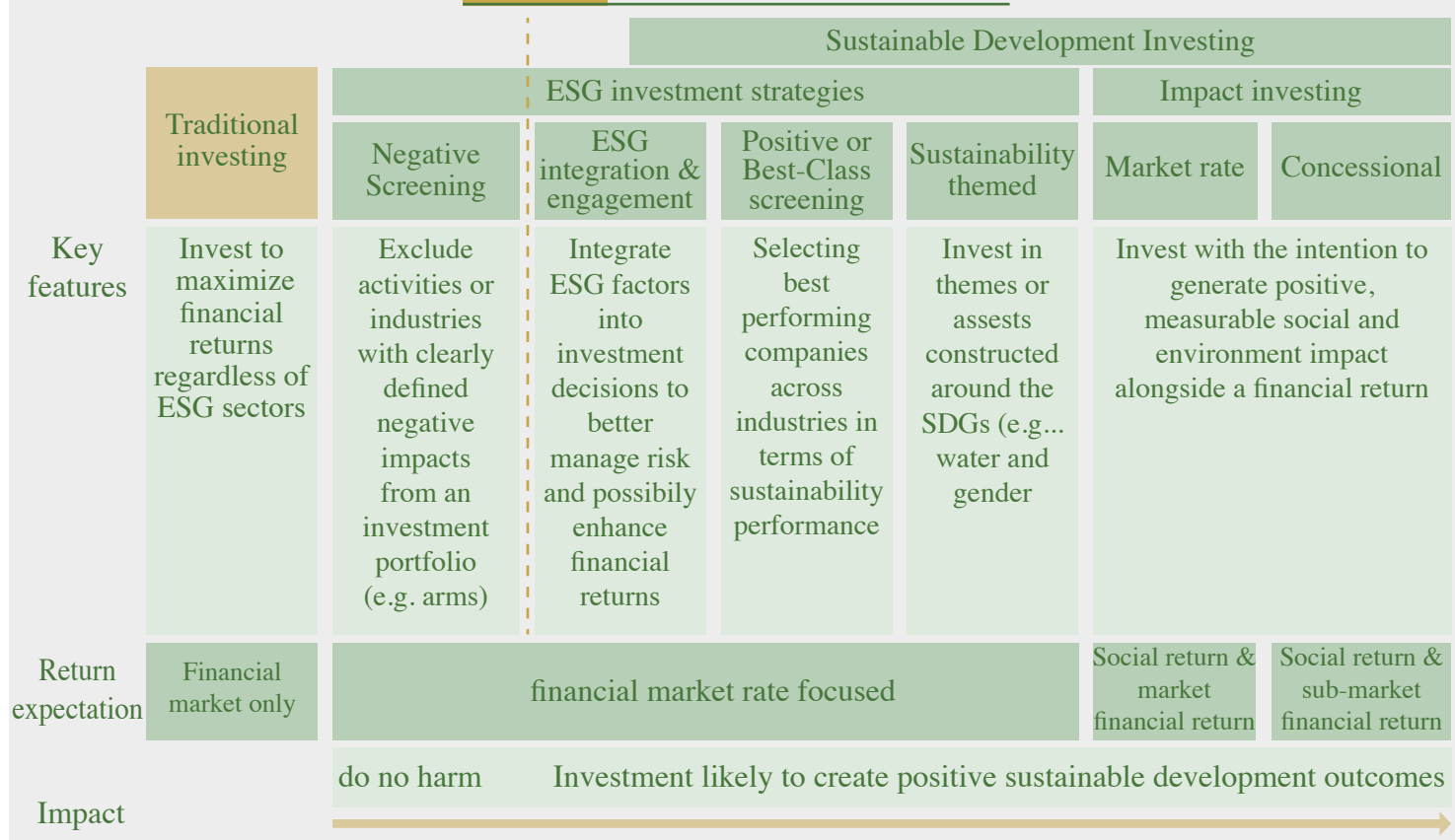
**Figure 1** A changing Financial Sector



Source: World Bank staff illustration, adapted from OECD 2020, 23.

Note: CBI = Climate Bonds Initiative; ESG = environmental, social, and governance; ICMA = International Capital Market Association; OECD = Organisation for Economic Co-operation and Development; UN = United Nations; WBG = World Bank Group

**Figure 2** Approaches to ESG Investing



Source: GISD Alliance 2020.

Note: ESG = Environmental, social, and governance; SDGs = Sustainable Development Goals.

Since the first green bond was issued in 2008, the sustainable bond market has exploded against the backdrop of growing environmental and social concerns as nations strive towards achieving various sustainable development objectives. While socially responsible investing has existed for many decades in various guises, the advent of the green bond instrument as well as the increased focus from end owners on ESG factors in asset classes like equity and corporate debt has resulted in increasing interest from various stakeholders across the financial sector. Much of this was driven by a renewed policy focus on issues such as human rights, climate change and sustainable development, as society and end-asset owners also increasingly highlighted the need to take a more sustainable approach towards economic development.

Against this backdrop investor interest and demand for green bonds dramatically increased. The World Bank Group and the European Investment Bank issued the first green bond in 2008, following initial interest from a group of Swedish pension funds who wanted to invest in climate-focused projects. The Second Party Opinion (SPO) provider, the Centre for International Climate and Environment Research, verified the green bond and included impact reporting, which was revolutionary at the time, as it created a new way to connect dedicated financing from investors to specific climate related projects. Though supranational issuers continued to issue new bonds over the next several years, the market lacked common definitions and goals. With the publication of the Green Bond Principles in 2014, a voluntary coalition of banks, issuers and investors developed

guidelines and recommendations to solidify existing best practices in the market.<sup>6</sup>

The Green Bond Principles provided guidance for further transparency, disclosure and integrity in the green bond market which enabled issuances to significantly increase, tripling over the prior year's volume to USD 36.6 billion in green bonds.<sup>7</sup> According to the Organization for Economic Co-operation and Development (OECD), issuance grew further with USD 40 billion issued by the fourth quarter of 2015.<sup>8</sup>

The first sovereign green bond issuance was by Poland in 2016<sup>9</sup>. Since then, the market has continued to evolve, led by corporate issuers, with ESG labeled issuances composing circa 6% of H1 2022 total debt issuance. Many in the industry expect the market to continue to grow. For example, the Institute of International Finance (IIF), expects sustainable debt issuance to reach an annual pace of USD 3.8 to 7.2 billion by 2025. Figure 3 below provides an overview of the volume of global sustainable debt by instrument type.

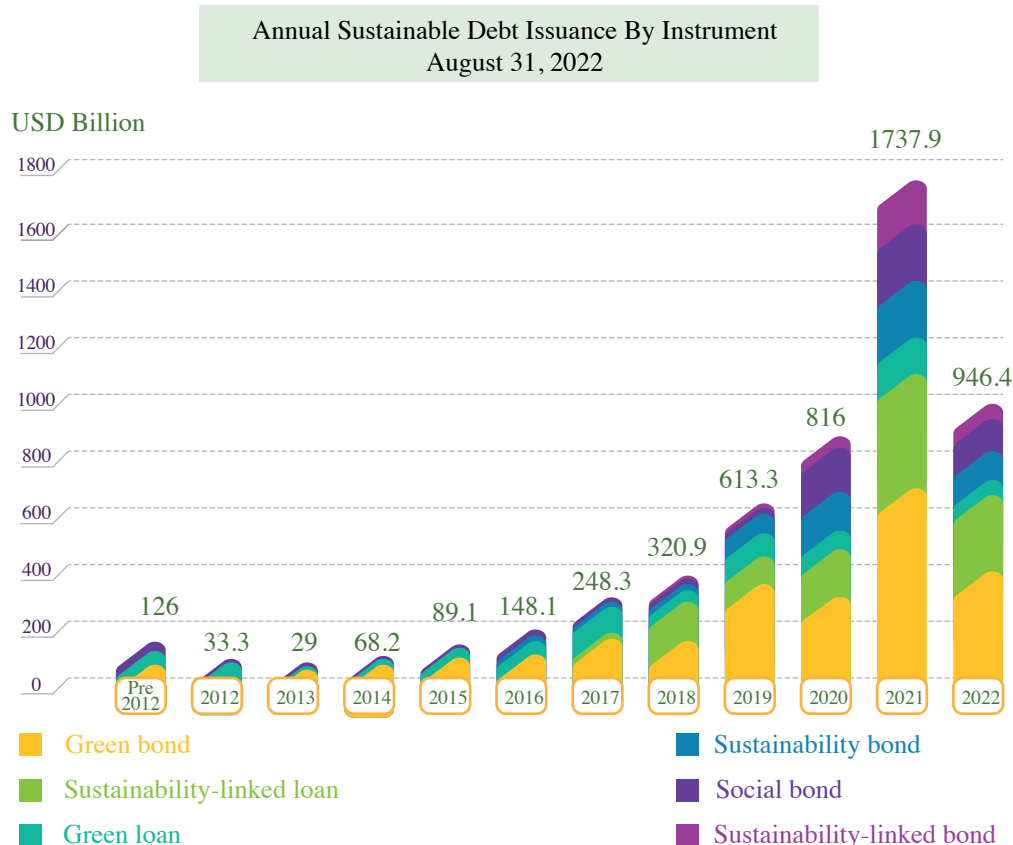
6. Cortellini, G and Panetta, C. (2021). Green Bonds: A Systematic Literature Review for Future Research Agendas.

7. Climate Bonds Initiative, and HSBC. (2015). . Bonds and Climate Change: the state of the market in 2015. Retrieved from: <https://www.climatebonds.net/files/files/CBI-HSBC%20report%207July%20JG01.pdf>

8. OECD, and Bloomberg Philanthropies. (2015). Green bonds: Mobilising the debt capital markets for a low-carbon transition. Retrieved from: <https://www.oecd.org/environment/cc/Green%20bonds%20PP%20%5Bf3%5D%20%5Blr%5D.pdf>

9. World Bank Group. (2019). 10 Years of Green Bonds: Creating the Blueprint for Sustainability Across Capital Markets. Retrieved from: <https://www.worldbank.org/en/news/immersive-story/2019/03/18/10-years-of-green-bonds-creating-the-blueprint-for-sustainability-across-capital-markets>

Figure 3 Global Sustainable Debt Issued by Instrument Type (USD bn)



Source: BloombergNEF, Bloomberg Finance L.P.

While sustainable debt issuance has focused on corporates to date, Sovereign Sustainable Instruments have grown considerably, with over 30 sovereigns now having issued since 2016, mostly in USD or EUR. While many of the initial issues focused on the green bond format, a number of issuers have opted for varied formats such as social and sustainable. For instance, in the first quarter of 2022, Chile became the first issuer to issue a sustainability-linked bond. Sovereign issuers are motivated by a number of factors including investor diversification as well as the opportunity to highlight political commitment to a more sustainable future - which has been a key factor in the euro area. Sovereign issuers have been predominantly European, although several emerging market sovereigns have already issued such as Chile, Mexico, Columbia, Egypt and Indonesia. Many other sovereigns have also expressed interest in issuing at the sovereign level including Tunisia, Saudi Arabia, Oman, Qatar, and Morocco.

In addition to the sustainable bond market, the sukuk market has also been growing in recent years as a mean to scale up financing toward socially responsible and environmentally focused investments. In June 2018, Indonesia was the first sovereign to issue a green sukuk amounting to USD 1.25 billion. The five-year issuance was significantly oversubscribed and signaled the pioneering role of governments in leveraging the growing demand for sustainable and responsible investments related to a sovereign's response to climate change. The Indonesian sukuk are being used to finance projects related to renewable energy, sustainable land use, waste management and green tourism.<sup>10</sup>

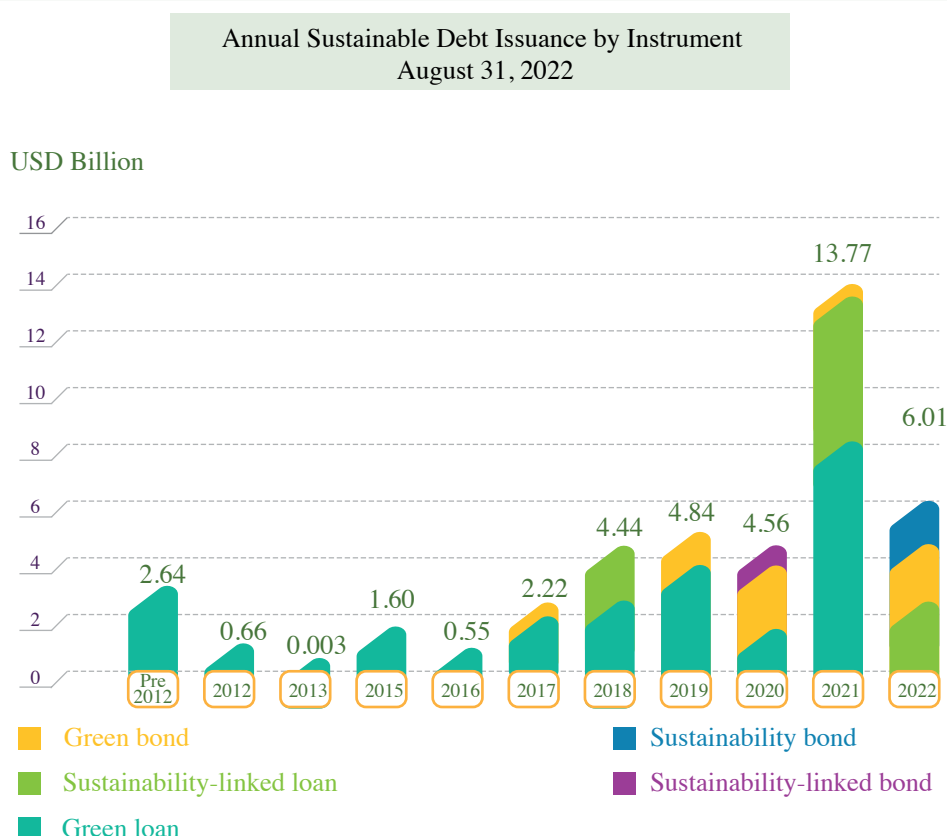
In the Arab region, issuances of sustainable instruments have predominantly taken place within the private sector. In 2017, the first green corporate bond within the Arab region was issued in the United Arab Emirates by the National Bank of Abu Dhabi. This was listed on the London Stock Exchange and valued at USD 587 million.

10. United Nations Environment Programme Finance Initiative. (2020). Consultation Draft: Promoting Sustainable Finance in the Arab region. Retrieved from: <https://www.unepfi.org/wordpress/wp-content/uploads/2020/10/ConsultationDraft-Promoting-Sustainable-Finance-in-the-Arab-Region.pdf>

The bank (now First Abu Dhabi Bank) has since issued several green bonds. In May 2019, the first corporate green sukuk was issued in the Arab region by Majid Al Futtaim<sup>11</sup>. The issuance was more than six times oversubscribed, valued at USD 600 million, and is being used to finance green projects related to

green buildings, renewable energy, sustainable water management and energy efficiency. Figure 4 below sets out the volume of sustainable debt issued by instrument type in the Arab region.

**Figure 4** Arab Region Sustainable Debt Issued by Instrument Type (USD bn)



Source: BloombergNEF and staff calculations.

In 2020, the first and only sovereign green bond issuance in the Arab region to date was launched by Egypt. Considering Egypt's commitments to climate adaptation and its sustainability agenda, as well as achieving investor base diversification and scaling up

of funding sources, the green bond was viewed as a fitting financial solution for the sovereign. To date, there have been no sovereign sustainable sukuk issuances in the Arab region.

11. Majid Al Futtaim. (2019). World's 1st Benchmark Corporate Green Sukuk. Retrieved from: <https://www.majidalfuttaim.com/en/media-centre/press-releases/2019/05/majid-al-futtaim-lists-world-s-first-benchmark-corporate-green-sukuk-on-nasdaq-dubai>

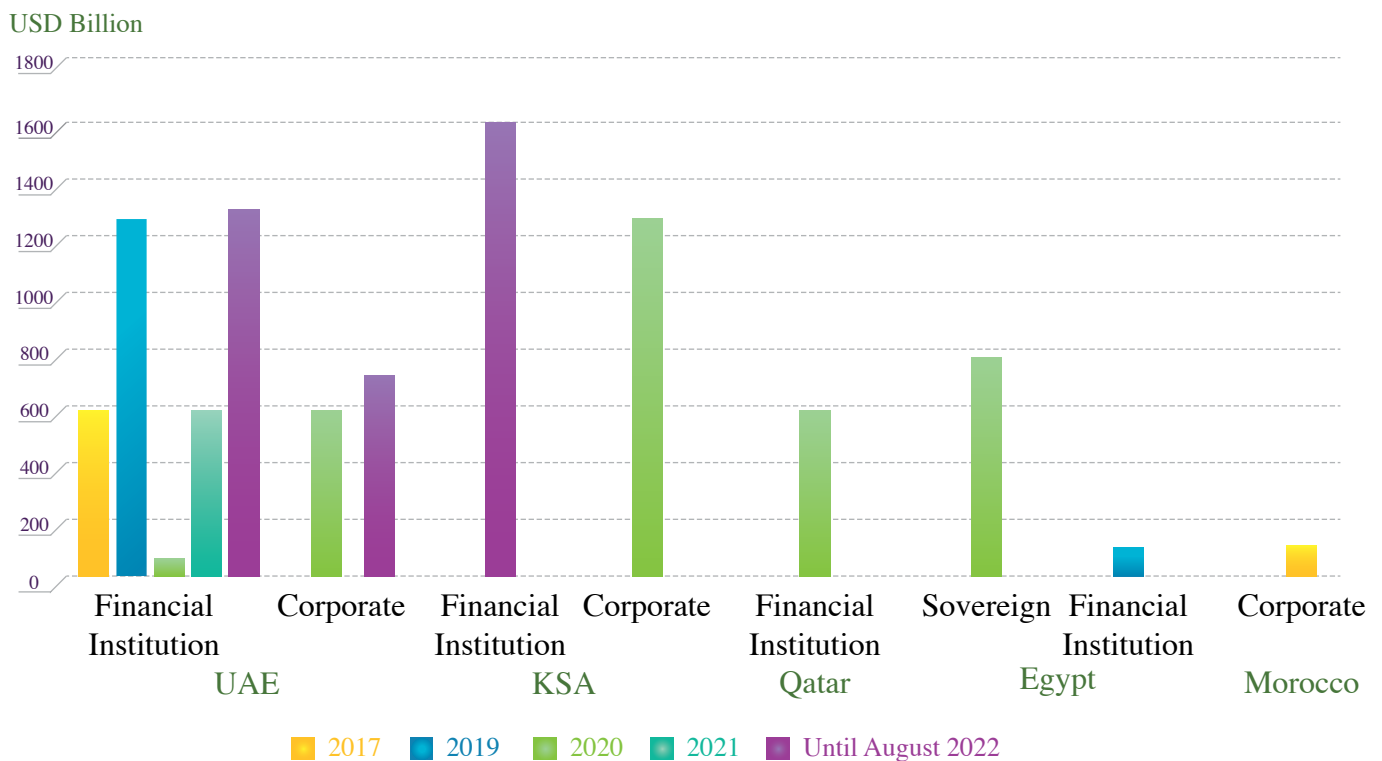
Regional issuance of sustainable and sustainability-linked instruments has been led by corporate and financial institutions. Among these, green issuances have predominated, with 78% of total bonds and sukuk issuances. Nevertheless, sustainable and sustainability-linked instruments are also growing and account for the remaining 22% of issued instruments.

The largest share (52%) of the region's sustainable and sustainability-linked instruments is structured in conventional bond format, with notable issuances by First Abu Dhabi Bank (FAB), Sweihan PV Power Co., Qatar National Bank (QNB) and the Moroccan ACWA Power Development company. These are in addition to Egypt's green sovereign bonds as shown

in Figure 5a below. It is worth noting that the Arab Petroleum Investment Corporation (APICORP), a multilateral development financial institution, raised USD 750 million in green bond in October 2021. The five-year green bond is dedicated to renewable energy, green buildings, pollution prevention and control, as well as low-carbon technologies and solutions.

In October 2022, Saudi Arabia's Public Investment Fund issued USD 3 billion worth of green bonds to finance or refinance its green investments. The bonds were issued over three maturities, including a 100-year tranche. This was the first issuance by the sovereign wealth fund and the first ever "century" green bond.

**Figure 5a** Sustainable and Sustainability-Linked (bond & sukuk) from Arab Countries from January 2017 to August 2022



Source: Bloomberg NEF and staff calculations.



Moreover, sukuk represents 48% of the Arab region's sustainable and sustainability-linked instruments. This is driven by Majid Al Futtaim (MAF), Etihad Airlines (the sole issuer of a sustainability-linked instrument in the Arab region to date), Saudi Electricity Company (SEC), Riyadh Bank and Saudi National Bank (SNB).

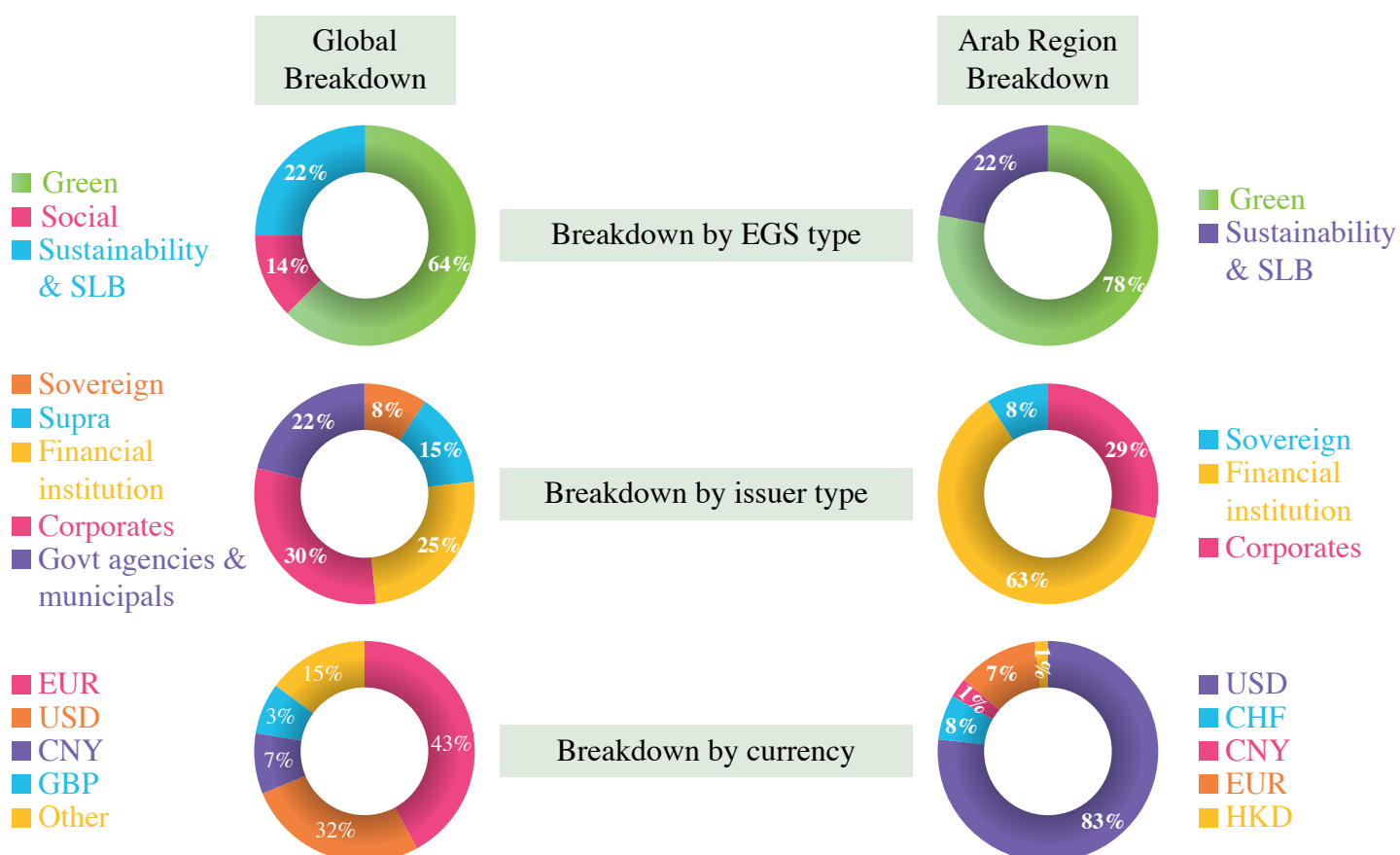
In relation to the breakdown by currency, it is worth noting that 83% of all sustainable and sustainability-linked instruments in the region are USD denominated. The remaining 17% are split between 10% for FAB green bonds issuances in HKD, CHF and CNY during the period (2020 - 2022), in addition to the

CYN sustainability bond raised by SNB in July 2022 and 7% EUR denominated for green bonds issued by FAB and the Moroccan ACWA Power Development company.

Figure 5b below illustrates the breakdown of sustainable and sustainability-linked instruments issued by Arab countries compared to the global breakdown as of August 2022.<sup>12</sup>

Please refer to [Appendix 1](#) for a breakdown of the region's sovereign issuances in international markets by volume (for conventional bonds, sukuk, and green instruments).

**Figure 5b** Issuances Breakdown of Regional and Global ESG



Source: Bloomberg NEF and staff calculations.

As market demand grows, sustainable bonds and sukuk offer an opportunity for sovereigns to attract the investment needed for sustainable development, whilst also helping to reach their national commitments and National Determined Contributions under the 2015 Paris Agreement.

12. The year 2017 marked the beginning of sustainable and sustainability-linked instruments by Arab issuers.

### 3.2 Opportunities of Sovereign Sustainable Instruments

Sovereign Sustainable Instruments offer a means for countries to capitalize on growing investor demand for sustainable investment. Such financial instruments offer the opportunity to drive capital towards national strategies and National Determined Contributions (NDCs) under the 2015 Paris Agreement, as well as combat the impacts of climate change as the globe transitions towards a more sustainable future.

There is considerable interest among sovereigns in the region to further explore and issue Sovereign Sustainable Instruments. This political will aligns with policy commitments to sustainable agendas through various national visions, strategies and programs. Examples of these include Saudi Arabia's Vision 2030, Egypt and the United Arab Emirates (UAE) Sustainable Finance Frameworks, and the sustainable bond frameworks issued in Tunisia and Morocco. Sustainable finance strategies are also currently under development in Saudi Arabia (KSA) and Oman.

Many countries in the region have not yet fulfilled the pre-conditions to issue Sovereign Sustainable Instruments. Among these pre-conditions are frameworks and organization across key government departments.

As most capital markets in the region lack depth and investors are in the early stages of their ESG journeys, the greatest opportunity for issuers is issuing a Sovereign Sustainable Instrument in EUR or USD. Nevertheless, there has been some progress across the region in developing both local and foreign currency yield curves, which in turn support market access by private issuers. The complexity of instruments available has also evolved, with issuances now occurring in both conventional and Shari'ah compliant formats as well as in a variety of currencies. The region's fixed income investor base is relatively small compared to other regions but is growing in terms of both engagement and sophistication.

### 3.3 Results of Survey of Arab finance ministries on their attitudes towards Sovereign Sustainable Instrument Issuances

The AMF conducted a survey in early 2022 of Arab finance ministries on their views in relation to Sovereign Sustainable Instruments. Ten of the Arab countries participated namely: Jordan, UAE, Bahrain, Algeria, KSA, Sudan, Iraq, Oman, Egypt and Morocco.<sup>13</sup>

Survey responses from seven of the countries surveyed revealed a growing interest in further exploring and issuing sovereign instruments aiming to finance green, social and sustainable activities. 70% of respondents (UAE, KSA, Sudan, Iraq, Oman, Egypt and Morocco) indicated their eagerness to further explore and issue Sovereign Sustainable Instruments.

Arab countries consider there to be various benefits to including these instruments in the funding mix, such as: (i) deploying funding to ESG projects which will diversify the financing resources allocated for such activities, (ii) attracting an additional layer of investors that are targeting sustainable opportunities, (iii) enhancing transparency in green and sustainable projects, (iv) leveraging countries' ESG goals, and (v) positive market and public perception.

Participants in the survey identified a set of challenges in issuing Sovereign Sustainable Instruments, which are set out in Figure 6 below. Arab countries cite the selection of projects, data collection, and inter-agency coordination as most challenging. Another concern arising from the survey was organizing and collaborating across a diverse spectrum of private sector, other governmental agencies, local and international development partners, and NGOs.

The reporting element as well as capacity issue, particularly in the debt management area, were also identified as key challenges. The preparation of Sovereign Sustainable Instruments and post-issuance obligations can put many government ministries under pressure as they may operate in the absence of uniform procedures and deal with other priorities. Similarly, survey responses indicated that compiling data, reports and the necessary documents from environmental and social services agencies is challenging and could impede the credibility of related sovereign issuances.

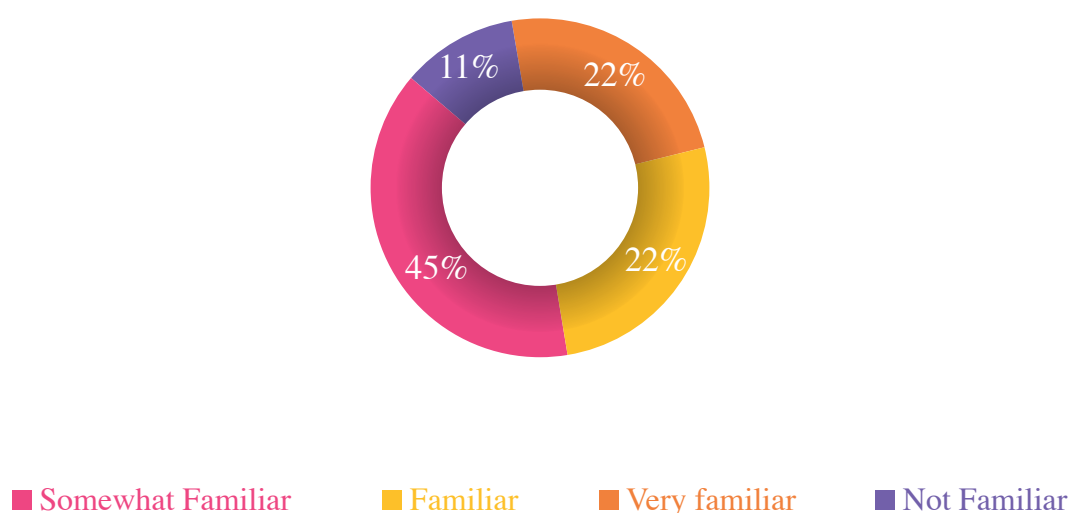
13. Arab countries are cited in their alphabetical order of the League of Arab States.

**Figure 6** Challenges Related to Sovereign Sustainable Instruments in the Arab Region



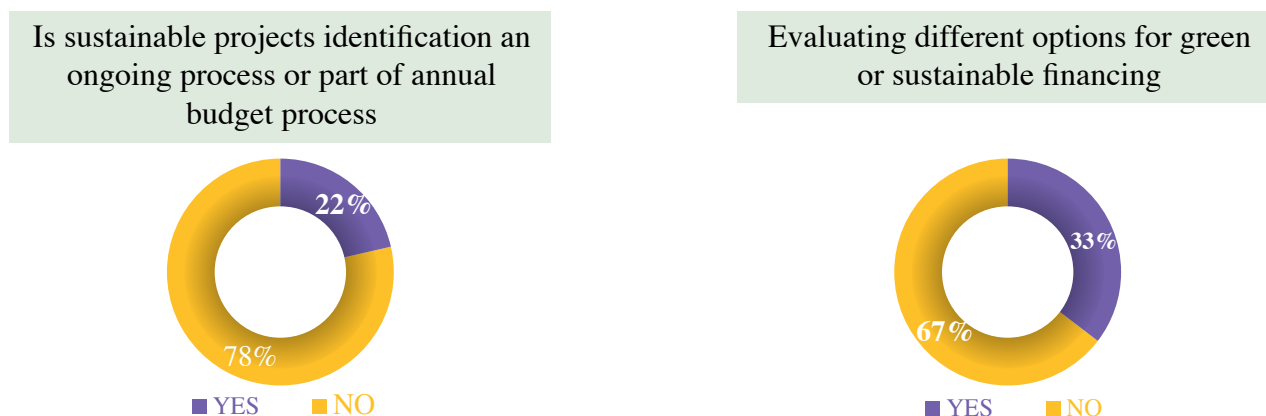
There are also varying levels of familiarity with green and sustainable market financing, as set out in Figure 7 below.

**Figure 7.** Familiarity with Green/Sustainable Market Financing



In addition, the survey results found that most Arab region finance ministries, with the exception of the ministries in Egypt, Saudi Arabia and Bahrain, do not currently assess different options for green or sustainable financing in their debt management strategy, as set out in Figure 8 below.

**Figure 8** Sustainable Finance Options and the Budget Process



All three countries have used Sovereign Sustainable Instruments recently to diversify their funding mix to fund sustainable projects. For example, Egypt arranged for a USD 3 billion syndicated financing facility for three years to finance green projects, which was equally divided into Islamic finance and green components. KSA launched a USD 258 million green Export Credit Agency (ECA) loan to finance 842 buses for the new Riyadh public transport network. This is in addition to Bahrain's sustainability-linked loans for USD 2.9 billion and continued assessment of other sustainable issuance options.

Moreover, issuances in local currency are challenging due to domestic market development levels and readiness, in addition to the required expertise from the issuer, investors and various stakeholders (more elaboration on sovereign issuer readiness and its link to domestic market development are available in Section 4 “*Sovereign Debt Management in an ESG Context: Key Considerations for Debt Management Officers*”).

### 3.4 Priorities to Close the Gap

The results of the survey highlight a need for capacity development programs on Sovereign Sustainable Instruments across the region. Such programs would include institutional capacity, as well as raising awareness via regular workshops, trainings and conferences. Such capacity building would aim to enhance the expertise of debt management staff and other key stakeholders on Sovereign Sustainable Instruments. Opportunities for peer-to-peer learning with leading countries from the region and beyond would also be welcomed.

A country's budget process is fundamental to ensure consistent planning for green, social and sustainable

projects. For instance, Egypt's public investments in green and social projects are anticipated to reach 50% of total public spending during the fiscal year 2024/2025, which would represent a 10% increase from the level in 2022/2023. Additionally, Gender-Responsive planning investments are projected to represent 20% of public spending by the fiscal year 2023/2024 compared to 10% in 2022/2023. The Sustainable Development Plan for the current fiscal year 2022/2023 involves programs reflecting the government's commitment to develop health, education and housing, improving basic infrastructure, as well as empowering vulnerable groups including women. Similarly, government programs for fiscal years during the period (2018-2022) involved sustainability programs such as rationalizing water consumption, coasts protection, developing renewable energy resources, transformation to a green economy, waste management, setting up environmentally compatible industrial arrays, etc.<sup>14</sup>

As per the Arab countries' responses to the survey, targeted sectors and activities reside mainly within the environmental, renewable energy, sustainable water and wastewater management, as well as the social sphere. However, for the majority of the finance ministries' responses to the survey, eligible projects and assets that could be considered for financing through the Sovereign Sustainable Instruments have not yet been identified, or are currently at some stage of being identified. In addition, there are no plans to regularly incorporate the eligible projects for green and sustainable finance into the budget with the exception of Egypt and Sudan, where it can be planned into the annual and medium-term budget. Additionally, in the case of the UAE, it may be too early to reach a conclusion as the relevant procedures may change in the future, as illustrated in Figure 8 above.

14. Egypt Ministry of Finance. 2022. Sovereign Sustainable Financing Framework. November 2022. Retrieved: <https://mof.gov.eg/en/archive/publicDept/5fef221390744800073130a8/Public%20Debt>

### 3.5 Public Policy for Key Issues Pertaining to Net Zero

#### 3.5.1 The History of Climate Change Public Policy: The Road to Paris

The United Nations Framework Convention on Climate Change (UNFCCC), ratified by 197 countries, is the most widely accepted international forum for global environmental policy discussions. The ultimate objective of the UNFCCC is to stabilize greenhouse gas concentrations at “a level that would prevent dangerous anthropogenic (human-induced) interference with the climate system”. The framework states that “such a level should be achieved within a timeframe sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened, and to enable economic development to proceed in a sustainable manner”. Conference of Parties (COP) is the UNFCCC’s decision-making body. All countries that ratify the Convention are represented at COPs and meet yearly unless the parties decide otherwise. In December 1995, the first Conference of Parties (COP 1) was held in Berlin, Germany.

The Kyoto Protocol (an international treaty), established at COP 3 held in Kyoto, Japan, in December 1997, included the first legally binding targets set among the parties of the UNFCCC. Article 3 of the Protocol stated that countries included in Annex 1 must reduce their greenhouse gas emissions by 5% from 1990 levels between the commitment period 2008 to 2012. The Kyoto Protocol came into force in February 2005.<sup>15</sup>

Despite this momentous point in the history of public policy and international cooperation on climate change, acceleration toward a low carbon future was largely stalled in the following decade and early 2000s. A series of deemed “failed” COPs ensued in Copenhagen (2009), Cancun (2010) and Durban (2011), where no agreement or commitments were declared for the horizon beyond 2012 and the end of the Kyoto Protocol. However, at COP18 held in Doha, Qatar in 2012, the Doha Amendment was adopted by 192 countries, extending the application of the 1997 Kyoto Protocol with a second commitment period from 2013 to 2020.

#### 3.5.2 Paris Agreement, 2015

In December 2015, the Paris Agreement was adopted by 196 parties at COP 21 in Paris, France, and came into force in November 2016, with a commitment period to 2030. Building on the Kyoto Protocol, it is a legally binding international treaty aimed at strengthening the UNFCCC’s “global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty”. The Paris Agreement represented a new quantifiable target for countries focused on global temperature. It aims to limit the increase in the global average temperature to well below 2 degrees Celsius, preferably to 1.5 degrees, compared to pre-industrial levels. In addition, through the flow of finance, the agreement aims to facilitate the pathway toward adaptation to the “adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development”. Crucially, countries that are part of the UNFCCC must undertake and communicate their ambitious efforts to the global response to climate change through “Nationally Determined Contributions” (NDCs). In their NDCs, they must communicate the actions that will be taken to reduce greenhouse gases to reach the goals of the Paris Agreement and explain how they will build resilience to adapt to the impacts of rising temperatures.<sup>16</sup>

In Article 2 of the Paris Agreement, the concept that climate change sits more broadly within global sustainable development (a concept first established during the Earth Summit in Stockholm 1972) is made abundantly apparent. Critically, the adoption of the Paris Agreement coincided with the establishment of the United Nations Sustainable Development Goals (UN SDGs), which officially came into force in January 2016.

The UN SDGs, set out in Figure 9 below, are a set of shared global goals, supported by 169 targets, that focus on the global environmental, political, social and economic challenges.

15. United Nations Framework Convention on Climate Change. (1998). Kyoto protocol to the United Nations Framework Convention on Climate Change. Retrieved from: [unfccc.int/resource/docs/convkp/kpeng.pdf](http://unfccc.int/resource/docs/convkp/kpeng.pdf)

16. Ibid



Figure 9

## The UN 17 Sustainable Development Goals (UN SDGs)



UN. (2015). UN Sustainable Development Goals (UN SDGs), United Nations' 2030 Sustainable Development Agenda.

Countries that are part of the UN are expected to take ownership and establish national frameworks for achieving these goals, as well as being responsible for their follow-up and review at the national, regional and global levels with regard to progress made in implementation until 2030. Climate Action is the 13<sup>th</sup> United Nations Sustainable Development Goal and acknowledges that the United Nations Framework Convention on Climate Change (UNFCCC) is the primary international, intergovernmental forum for negotiating the global response to climate change. The integration of the fight against climate change within the global sustainable development goals clearly illustrates the symbiotic nature of these agendas and highlights that sovereigns should address these concerns collectively.

### 3.5.3 COP26 : the Net Zero Imperative

In November 2021, COP 26 took place in Glasgow, United Kingdom. The main goal of the conference was to secure a global agreement of participating countries committing to net zero carbon emissions and limiting global temperature increases to a maximum of 1.5 degrees Celsius by 2050. These aims were realized by finalizing the Paris Rulebook, which set out the guidelines of how the Paris Agreement was

to be delivered and the Glasgow Climate Pact (a series of decisions and resolutions built on the agreement) agreed on 13 November.

The terms which were agreed to during the COP 26 summit were formalized in the Glasgow Climate Pact. The Glasgow Climate Pact included language supporting a “phase-down of unabated coal power”, which is the single biggest source of global temperature rise, new rules for trading carbon credits across borders and a request for a yearly report summarizing nations’ annual commitments to reduce emissions.

COP 26 represented the first mainstream use of the term “net zero”, a term to describe a situation where “anthropogenic emissions of greenhouse gases into the atmosphere are balanced by anthropogenic removals over a specified period”.

Whilst positive progress was undoubtedly made at the COP 26 summit, experts have commented that the actual terms which were agreed to by the participants fell short of the ambitious aims of the summit. One area which is often cited is the failure of the Glasgow Climate Pact to include a firm global commitment to the eradication of the use of coal power, with some developing countries indicating that they will not completely stop using coal until the 2040s or later.

“According to our upcoming Roadmap, reaching net-zero will triple clean energy investment opportunities over the next decade. This will generate millions of well-paid jobs and create the industries of the future. But, our priority is to make sure these benefits reach as many people as possible. We need to work together to achieve our goals and create a better future for all of us.”

*Dr Fatih Birol, IEA Executive Director – 23<sup>rd</sup>. April 2021*



### 3.5.4 COP27, 2022

The COP 27 summit (the 27<sup>th</sup> Conference of the Parties of the UNFCCC) was held in Sharm El Sheikh, Egypt in November 2022. The summit aimed to drive robust implementation of the Paris Agreement. COP 27 was the second COP summit to take place in the Arab region after the COP 22 summit which was held in Marrakesh, Morocco.

During the COP 27 climate summit, Egypt launched the African Market for Carbon Certificates, as the first African voluntary market for the issuance and trading of carbon certificates. The African platform will allow the trading of carbon certificates in Africa while ensuring the highest level of integrity and transparency. The platform will also help companies operating in Egypt and Africa to recover part of their investments in reducing carbon emissions and reinvest these resources in activities which will help to achieve carbon neutrality. The Egyptian authorities will develop frameworks, business models and organizational structures necessary to activate the new market, by adopting the value chain, in addition to setting the necessary standards and regulations for the issuance, registration, and trading of these certificates.<sup>17</sup>

Moreover, Egypt initiated an inter-ministerial committee to launch its national Hydrogen strategy by 2023. This supports Egypt's diversified initiatives to boost its renewable energy program with the development of low-carbon hydrogen alternatives (green hydrogen/ammonia). Sustainable finance was a key focus of the conference, whereby expectations to raise finance for green energy projects were about USD 300 billion from both the private and public sectors, of which USD 40 billion are expected to be deployed to developing countries. During the summit, the UN partners formulated a plan that was signed by 50 countries, to mobilize funds of USD 3.1 billion for early warning systems by 2027.

This amount represents only 6% of the needed resources of USD 50 billion for climate adaptation.<sup>18</sup>

One significant outcome of COP 27 was that the parties agreed to set up a “Loss and Damage” emergency fund to support financing vulnerable countries impacted by climate change. In addition, COP 27 witnessed commitments of more than USD 230 million to be dedicated to the Adaptation Fund through tangible solutions.<sup>19</sup>

At the conclusion of the COP 27 conference, the presidency announced the “Sharm el-Sheikh Implementation Plan”, which highlighted the main building blocks of the transition to full and equitable implementation. The draft decision sets out the pillars to enable an enhanced implementation, including those related to finance, technology, and capacity building. Simultaneously, the decision document stressed the need for significant additional resources to alleviate developing economies' financing loss and damage due to climate change. The cover decision considers the increasing financing gap between the mobilized resources and the required size of funds that is anticipated to reach USD 5.9 trillion by 2030.<sup>20</sup>

It also reported that funding deployed to developing countries is projected to stand at USD 803 billion in 2019-2020, which is lower than what is required.<sup>21</sup>

17. State of Information Services (Egypt). 2022. Egypt Launches the First African Voluntary Carbon Market. November 9<sup>th</sup>, 2022. Retrieved from : <https://beta.sis.gov.eg/en/search?pageNumber=1&q=Africa%20Carbon%20Market&l1=-1&culture=en-US>

18. UN News. 2022. COP27: \$3.1 Billion Plan to Achieve Early Warning Systems For All by 2027. November 7<sup>th</sup>, 2022. Retrieved from: <https://news.un.org/en/story/2022/11/1130277>

19. UN Climate Change. 2022. COP 27 Reaches Breakthrough Agreement on New “Loss and Damage” Fund for Vulnerable Countries. November 20<sup>th</sup>, 2022. Retrieved from: <https://unfccc.int/news/cop27-reaches-breakthrough-agreement-on-new-loss-and-damage-fund-for-vulnerable-countries>

20. UNFCCC. 2022. Sharm el-Sheikh Implementation Plan. Sharm el-Sheikh Climate Change Conference - November 2022. 20 Nov 2022. Retrieved from: <https://unfccc.int/documents/624444>.

21. UNFCCC. 2022. UNFCCC Standing Committee on Finance- Fifth Biennial Assessment and Overview of Climate Finance Flows, October 2022. Retrieved from: <https://unfccc.int/documents/619173>

### 3.6 The Arab Region Sustainable Finance Context

The economies in the Arab region are generally split in two parts between emerging markets and high-income economies, which have largely derived their wealth from hydrocarbon resources. Large and diverse in nature, the region is faced with a varied set of challenges: achieving sustainable development for emerging markets and transitioning high-income economies away from hydrocarbon dependency.

Beyond economic challenges, the region is also highly vulnerable to climate change. The impacts are increasingly being felt across the region as the risk of water scarcity, rising sea level, drought, land degradation, and desertification rapidly increase. Each country within the Arab region has issued a National Determined Contribution Plan under the Paris Agreement, to scale-up finance and action toward climate resilience and are each signatories of the United Nations Sustainable Development Goals.

The global financing gap for achieving the UN SDGs is estimated at USD 5–7 trillion annually. For countries in the Arab region, the financing gap for achieving the UN SDGs is estimated to be at least USD 230 billion annually.<sup>22</sup>

Countries throughout the Arab region face huge responsibilities and pressures to fund these gaps and respond to the impacts of climate change, whilst also transitioning toward a sustainable future. Currently labeled the “decade for action” as both developed and emerging countries accelerate policy actions toward sustainability, sustainable instruments are able to act as a key facilitator for driving innovation, job creation, economic diversification and education toward a global and just transition.

Appendix 2 sets out the main milestones of policies adopted by Arab countries to address climate and sustainable finance, which are divided into two main building blocks: (i) Climate and Sustainable Development Strategies, and (ii) Sustainable Finance Practices including recent initiatives to set carbon credit markets.

22. OECD. (2020). Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet. Paris, OECD Publishing (2020). Retrieved from: [https://www.oecd-ilibrary.org/development/global-outlook-on-financing-for-sustainable-development-2021\\_6ea613f4-en](https://www.oecd-ilibrary.org/development/global-outlook-on-financing-for-sustainable-development-2021_6ea613f4-en)

## 4. SOVEREIGN DEBT MANAGEMENT IN AN ESG CONTEXT: KEY CONSIDERATIONS FOR DEBT MANAGEMENT OFFICERS

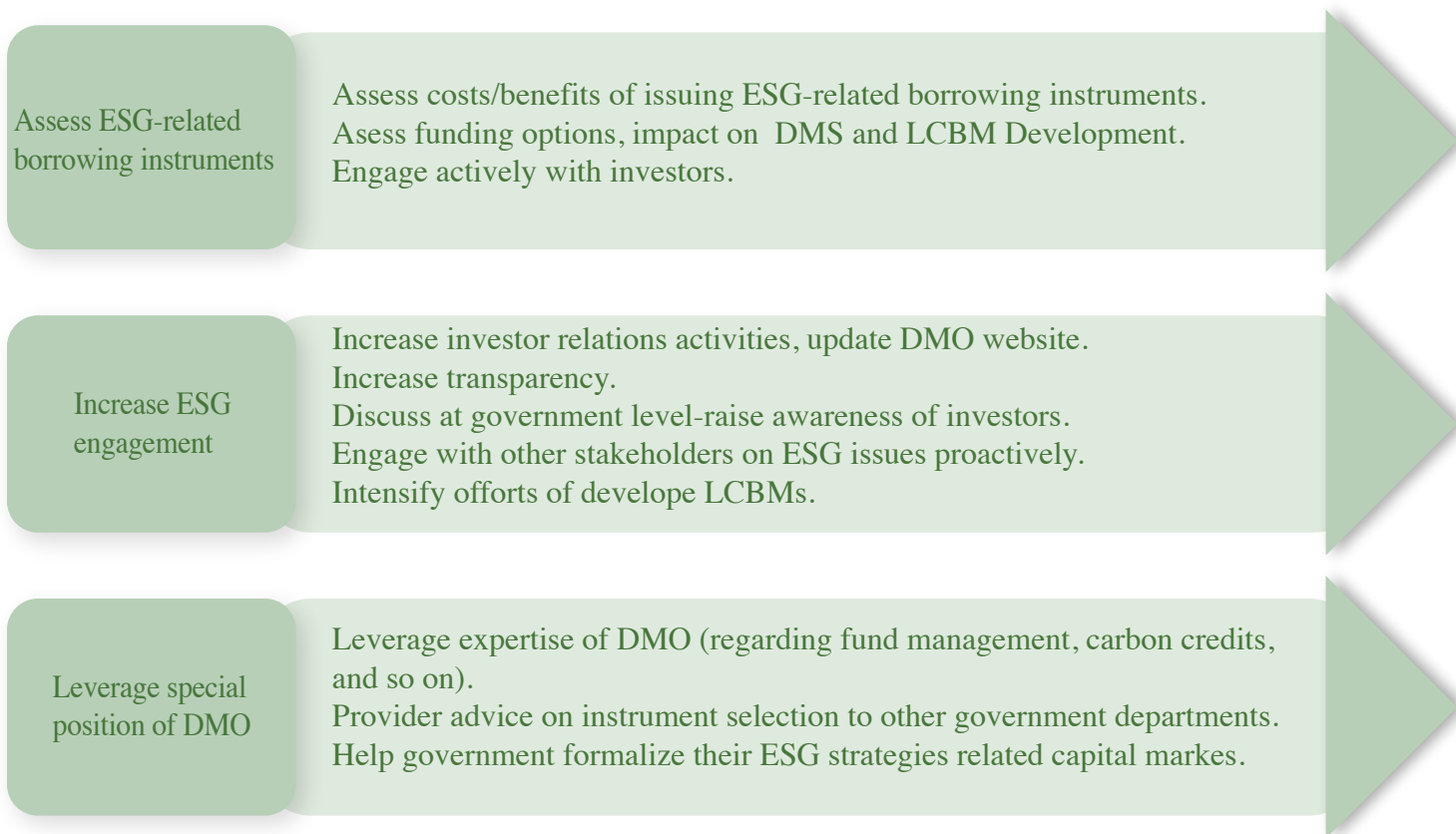




## 4.1 Introduction

This section provides a road map for Debt Management Officers and public policymakers engaged in public debt management (PDM) to navigate the evolving ESG topic. Any discussion on ESG and sovereign debt management should be cognizant of the mandate of the Debt Management Office (DMO)<sup>23</sup>, which is generally to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk. The framework identifies three primary ESG roles for debt management within its core public debt management mandate, as set out in Figure 10 below. The extent to which an ESG activity will be relevant for a DMO<sup>24</sup> will depend on several readiness factors outlined in Box 1 below. These ESG readiness factors should ideally be in place before the DMO engages on these issues because the various ESG activities involve many trade-offs, may affect capital market development and thus, require a supportive enabling environment.

**Figure 10** Key PDM ESG Activities and Specific Focus Points



Source: World Bank Group illustration.

Note: DMO = debt management office; DMS = debt management strategy; ESG = environmental, social, and governance; LCBM = local currency bond market; PDM = public debt management.

23. As per PDM guidelines issued by the International Monetary Fund and the World Bank Group (World Bank Group and International Monetary Fund, 2014).

24. The institutional setup of a debt management office differs across countries for multiple reasons. For this note, the DMO is the entity in charge of managing the sovereign debt portfolio, including the design of the issuance strategy, the execution of debt transactions, the monitoring of relevant risks, the recording of debt information, and the like.

**a) The ESG enabling environment covers** aspects such as political commitment, consistent environmental policies, a sound and well supervised financial sector, and stage of domestic financial sector and capital market development; all central to the decision on whether and how the DMO should integrate ESG activities in its operations. Other enabling conditions such as general macroeconomic conditions, financing needs of the government, and debt management capacity are of fundamental importance for the development of the general bond market and are also relevant for ESG activities.

**b) Clear market definitions and standards,** credible guidelines, and independent reviews are essential for ESG investing because they help investors make informed decisions, increase investor confidence and contribute to ESG market development. Establishing national definitions and standards (taxonomy) is not an easy feat, but many country templates around the world can be adapted for local circumstances.

**c) Project Pipeline:** Governments must identify eligible sectors and activities to ensure more efficient and clearer priorities in their budgets. By developing their national green taxonomy or adapting an existing green taxonomy, sovereigns can identify eligible sectors and activities such as renewable energy, clean transportation, landfill rehabilitation, and afforestation for which the proceeds of labeled bond issuances can be used efficiently to meet sustainability targets, thereby ensuring targeted delivery of budgets.<sup>25</sup> Many sovereigns have also begun tagging green and climate related expenditure in national budgets<sup>26</sup>, which helps to improve transparency and also makes a potential ESG related instrument easier in the future. Budget tagging is extremely important to help develop a strong pipeline, which covers both establishing more projects that are purely ‘green’ or ‘sustainable’, and also mainstreaming climate/sustainable considerations into broader public investment management (PIM) framework.

**d) Investor Base:** DMOs should pay close attention to respective investor profiles and the focus of such investors, i.e. the domestic or foreign investor base; and their preferences like hard currency issuances.

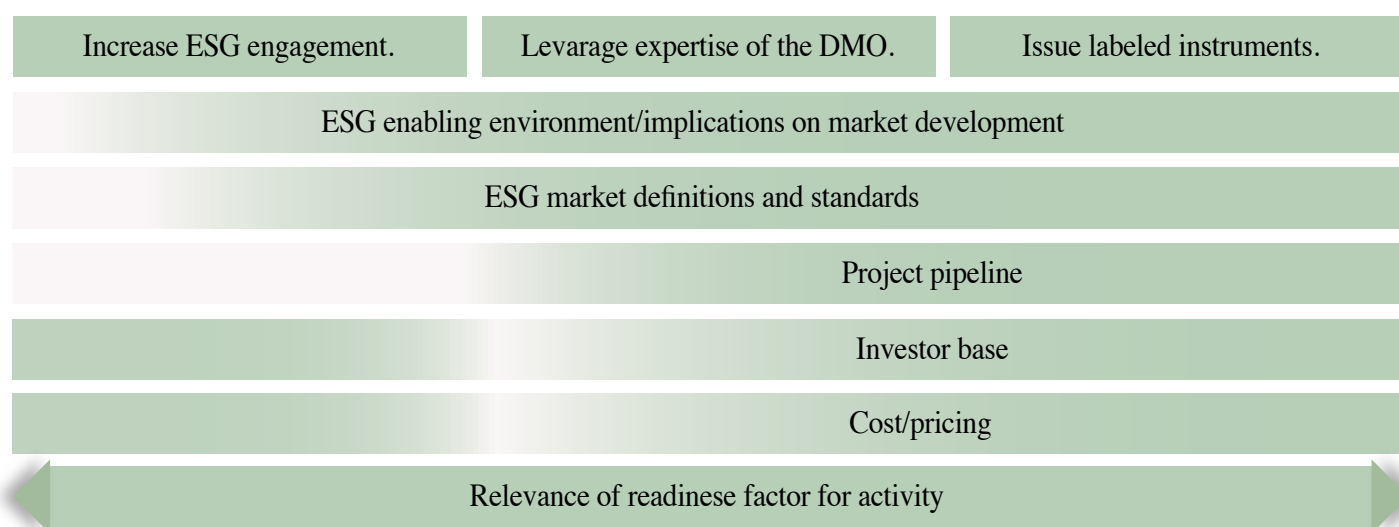
**e) Cost and Pricing:** The cost of different ESG activities and any potential pricing benefits from labeled bond issuances are essential considerations. The marginal benefit of pursuing an ESG activity should not exceed its marginal cost, although a cost-benefit analysis would be highly dependent on country specificities. Additionally, implementing ESG activities other than the issuance of labeled bonds involves costs that should be considered.

Figure 11 below illustrates the ESG market readiness factors and their importance to the three DMO ESG activities discussed in this section (*darker color indicates increased relevance*). For example, ESG market definitions and standards are essential for issuing labeled instruments but are less critical for increasing ESG engagement. Conversely, the investor base is crucial for both ESG engagement and the issuance of labeled instruments but is less important for leveraging the expertise of the DMO.

25. The World Bank Group guide on how to develop a National Green Taxonomy may be useful.

26. <https://openknowledge.worldbank.org/handle/10986/35174>

**Figure 11** ESG Market Readiness Factors and their Relative Importance for Different ESG Activities



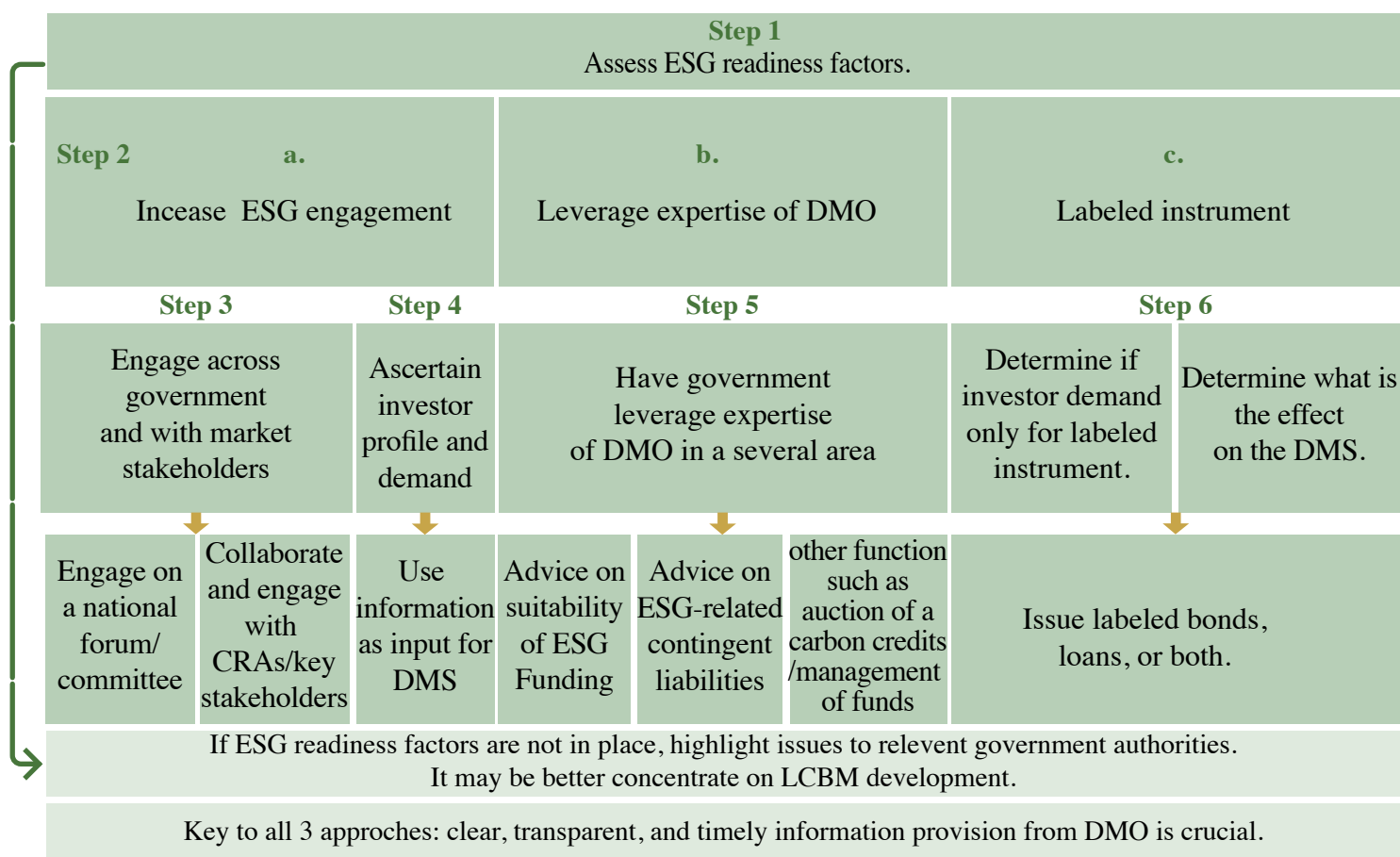
Source: World Bank Group staff illustration.

Note: **DMO** = debt management organization; **ESG** = environmental, social, and governance. Darker color indicates increased importance.

## 4.2 An ESG framework for Sovereign Debt Management Decision-Making

We draw on the World Bank Group's public debt management (PDM) ESG framework developed in 2020.<sup>27</sup> This framework provides a road map for debt managers to help them on this topic in their decision-making process, as indicated in Figure 12 below.

**Figure 12** A Public Debt Management (PDM) ESG Framework



Source: World bank staff illustration

Note: **CRAs** = credit rating agencies, **DMO** = debt management office, **DMS** = debt management strategy, **ESG** = environmental social, and government, **LCBM** = local currency bond market.

27. Boitreaud, Sebastien; Gratcheva, Ekaterina M.; Gurhy, Bryan; Paladines, Cindy; Skarnulis, Andrius. (2020). Navigating the ESG Landscape for Sovereign Debt Managers. Equitable Growth, Finance and Institutions Insight. Retrieved from: <https://openknowledge.worldbank.org/handle/10986/34673>



### **Step 1:**

*The DMO assesses ESG readiness factors. Countries not meeting pre-conditions could address bottlenecks. Many countries may need to work on adopting a suitable taxonomy or raise awareness across governments on ESG topics.*

### **Step 2:**

*For countries where the ESG assessment study is positive, the DMO could begin engaging on ESG issues. This would initially entail more formal engagement across crucial government departments and allow the DMO to build a straightforward narrative around the countries' ESG performance. In many cases, the DMO will need to be able to explain government policy on critical issues such as climate change, social issues, and human rights. Data is essential, as is being able to show positive momentum on ESG issues.*

### **Step 3:**

*The DMO could consider engaging with Credit Rating Agencies (CRAs) and external stakeholders such as ESG data providers.*

### **Step 4:**

*Once the DMO establishes a sound ESG message, it should consider engaging further with the investor base (both domestic and international). During this stage, the DMO can gauge the level of interest for possible labeled issuance.*

### **Step 5:**

*Some DMOs may leverage their financial expertise of the DMO on ESG-related issues. This could entail advising ESG borrowing instruments to the public sector or providing an investor perspective on government ESG-related policies.*

### **Step 6:**

*The DMO could weigh up the advantages and disadvantages of labeled bond issuance.*

## **4.3 Core ESG activities of the DMO**

### **4.3.1 The Issuance of Labeled Instruments is the Most Central to the PDM Mandate of the DMO**

The DMO has a crucial role in assessing the pricing and costs of these instruments compared to other conventional instruments that have similar characteristics (i.e. maturity, redemption profile, fixed or floating coupon, currency). The cost of the new instrument is assessed regarding the different risks it entails, mostly market risks (interest rate, foreign exchange, liquidity) but, as much as possible, other risks as well (e.g. operational, reputational). If the cost-risk assessment is deemed favorable, the next step would be to ensure that the new instrument aligns to the country's debt management strategy (DMS).

Indeed, some DMOs have started considering issuance of sustainable instruments as part of their debt management strategy (e.g. Egypt). Such activity can be an important signal to investors of a country's commitment to the sustainability agenda and transparency and outlines the DMOs vision in this important area. Figure 13 below summarizes the advantages and disadvantages of the issuance of labeled instruments. Furthermore, Section 6 (Complexities, Challenges and Pathways for Sovereign Sustainable Instruments) addresses some of the recent dynamics in the pricing of sovereign labeled bonds vis a vis conventional bonds in the primary market.

Box 2 looks at the use case for Sovereign Sustainability-Linked Bonds (SLBs), which could be particularly amenable to the sovereign context.

The following sub-section documents the three PDM roles in further detail, as outlined in Figure 11.

Figure 13 Key Advantages and Disadvantages of Issuing Labeled Instruments

Sovereign issuer-labeled bonds	
Advantages	Disadvantage
Clear political signaling—demonstrates and implements sovereign’s ESG agenda	Significant work involved; puts DMO capacity and resources under pressure
Potential for new investor demand—improves diversification	Investor demand also constrained by other factors (such as ratings)
Some evidence of more buy-to-hold investors—and less secondary market volatility	Upfront and ongoing transaction costs; potential increased foreign exchange risks if investor has an appetite for hard currency issuances or if domestic investor group lack demand for local currency issuances, or both
Improved transparency and governance structures; also aids wider market development	Diversifies funding—may affect conventional bond market liquidity and functioning
Potential rise in demand and consequent decrease in borrowing costs from the inclusion in ESG indices	Risk of cannibalizing investor demand, particularly in domestic currency and increased corporate issuance
Potentially attract further FDI to the country	Reputational risk if bond’s credentials are challenged
Potentially opens market for corporate borrowers	Increased rigidity in budget execution (proceeds allocated to specific programs)
Potentially positive treatment in indices calculation	

Source: World Bank Group staff illustration, adapted from OECD 2015.

Much attention has focused on the existence of a pricing advantage or “greenium” for sovereign labeled bonds. While in the initial phase of sovereign green bond issuance (2017-2019) there was inconclusive evidence of a “greenium”, many of the more recent sovereign labeled bond issuances indicate the existence of a premium, particularly in the primary market. This indicates the current significant investor demand for sovereign ESG-related instruments. Evidence in the secondary market is less conclusive, and any assessment can be skewed when market liquidity factors are also considered. In general, the existence of a “greenium” or otherwise should not be the motivation behind a sovereign-labeled bond issuance.

It is unlikely that a clear pricing differential will evolve between labeled bonds and conventional bonds, barring further regulatory-induced investor demand. The main reason for this is that the labeled bonds and conventional bonds are ranked *pari passu*.<sup>28</sup> Nevertheless, for many emerging market economies, a potential greenium is a factor to consider when assessing the merits of issuing such an instrument. As a result, “greeniums” on new sovereign issues are likely to remain a sporadic function of the

issuer’s credit, investor demand, prevailing risk sentiment at issuance, syndicate desk marketing, and book-building dynamics. Indeed, some have argued that the existence of greeniums is a negative market development.<sup>29</sup> Nevertheless, many structural drivers support the increased demand for labeled sovereign bonds. For example, implementing the Sustainable Finance Disclosures Regulation (SFDR) in the EU is likely to remain a driver supporting the increased demand for these instruments over the medium term.

Although the debate around the existence of “greeniums” will continue, it is important to acknowledge the indirect benefits for sovereigns of issuing a labeled bond, which is much harder to quantify. These benefits include the establishment of a risk-free green curve for private issuers to use as a benchmark for green pricing; setting conventions for issuance, including definitions of acceptable green projects or climate goals; investor base diversification, and encouraging the development of climate finance expertise in the local financial services community, driving wider product innovation. Such benefits would help to scale up private investment, which is greatly needed in order to support climate/sustainable action.

28. A *pari passu* clause included in sovereign bond issuances imply that the bonds rank “equal among equals” with each other and with other unsecured (payment) obligations of the issuer.

29. Environmental Finance. Dutch central bank warns of green bubbles and greenwashing. Retrieved from: <https://www.environmental-finance.com/content/news/dutch-central-bank-warns-of-green-bubbles-and-greenwashing.html>

Sovereign Sustainability-Linked Bonds (SLBs) could be a useful complement to the traditional use of proceed model (i.e. standard green bonds). Unlike green bonds, SLBs do not fund projects. Instead, their coupon or principal steps up or down if the issuer fails (succeeds) in meeting pre-agreed environmental or social targets. A key factor for DMOs in deciding to issue use of proceeds bonds is the supply of eligible projects to finance. While one issuance may be viable, issuers should assess the associated costs and benefits if further issuance is not possible due to a shortage of eligible projects. Several DMOs have raised this issue.<sup>30</sup> Chile has been quite innovative in addressing a lack of green projects to finance by issuing other use-of-proceed bonds (e.g., social bonds). Chile has also become the first sovereign to issue an SLB.

Unlike use-of-proceed bonds, proceeds of SLBs are not ring-fenced, instead, interest rates or a refinancing mechanism are tied to the achievement of sustainability goals. The use of a special purpose vehicle (SPV) called a Performance Trust fund, with donor funding support, could be interesting to some countries. Such an approach could help bridge any difference between the desired discount of the government for its commitment to KPIs and the lower coupon that investors may be willing to receive as the market for these instruments develops.<sup>31</sup>

Choosing relevant KPIs is a key task for an issuer if they consider the issuance of SLBs. The International Capital Market Association (ICMA) provides initial guidance on a framework for assessing the suitability of KPIs, including whether a potential indicator is sufficiently robust, adequately interpreted, aligned with the country's context, and is credibly ambitious. A recent World Bank Group report built on the ICMA principles, establishing a framework for selecting KPIs and setting the associated sustainable performance targets (SPTs) for sovereign SLBs. In general, KPIs should be (a) available; (b) attributable (i.e. can

the indicator be plausibly associated with sovereign interventions?); (c) frequent (i.e. are the data current and produced with enough frequency?); (d) regular (i.e. are the data provided regularly and over a considerably long period?); and (e) comparable (i.e. are the data within datasets consistent across countries?). KPIs and targets should also be aligned with the country's context. For example, attribution of outcome-based indicators is a challenge for sovereign SLBs—as these outcomes may depend on factors outside the government's control. Certain KPIs may need additional screening to assess their genuine contribution to sustainability performance objectives. A combination of short-term policy indicators and associated long-term outcome indicators could ensure that the outcomes are aligned with long-term development goals and reflect real sovereign interventions, rather than factors outside the government's control.

Greenwashing is an important consideration when considering KPI selection. There are various options for setting and assessing the ambition of KPI targets. Potential options include (a) assessing alignment with internationally agreed goals (for example, 1.5–2°C temperature goals under the Paris Agreement); (b) developing eligibility criteria (for example, positive or negative lists); (c) benchmarking with comparable countries; (d) issuing baseline targets (for example, targets relative to a base year or a business-as-usual scenario); and (e) assessing planetary boundaries (for example, the level of resources that meets people's needs without exceeding critical planetary thresholds). Each of these options has its pros and cons that should be carefully considered. For example, some of these options may result in inaccuracies due to modeling assumptions. Some indicators may not truly reflect actual sovereign interventions if the outcome (for example, emission reduction) is achieved through non policy factors (for example, an economic downturn).

30. Outside of the euro area, this concern has been raised by the head of Chile's public debt office and the head of the UK's Debt Management Office (Bloomberg, 23 September 2021). And in the euro, the Finnish Treasury has said that there aren't enough green projects that the Finnish sovereign can finance to justify issuing green bonds (Bloomberg, 31 August 2020).

31. The World Bank Group has proposed various derisking facilities. See for example: Caputo Silva, A and Stewart, A (2021) "Virtue and a reward: Linking sustainable policies with sovereign debt". Retrieved from:

<https://blogs.worldbank.org/psd/virtue-and-reward-linking-sustainable-policies-sovereign-debt>

32. The World Bank Group. (2021). Striking the Right Note: Key Performance Indicators for Sovereign Sustainability-Linked Bonds.

Retrieved from: <https://documents1.worldbank.org/curated/en/935681641463424672/pdf/Striking-the-Right-Note-Key-Performance-Indicators-for-Sovereign-Sustainability-Linked-Bonds.pdf>

#### *4.3.2 Increase ESG Engagement with Investors and other Stakeholders*

The DMO is uniquely positioned to provide a country's perspective on its ESG performance. As many investors and market participants are already taking a view on a particular country's ESG credentials, it is essential that its government can explain its policies and plans on ESG related topics, such as climate change and plans for the transition to a more sustainable economy.

Rapid market growth, as well as overall dynamism in the sustainable instruments' market imply that many parameters, such as costs and benefits of issuing sustainable instruments, can change relatively fast, therefore, DMOs' engagement (if any) in this area cannot be sporadic. The DMO is often a critical point of contact for many debt stakeholders such as primary dealers, Credit Rating Agencies (CRAs), and domestic and foreign investors through regular investor relation contacts. As the financial sector ecosystem changes, the DMO must have the information and toolkit required to adequately inform key stakeholders on all relevant issues.

Improved investor relations not only increase the visibility of the government's ESG initiatives but can also attract new investors that would otherwise not participate in sovereign debt issuances. Over time, this could also promote foreign direct investment (FDI) and other private sector investments. Credit Rating agencies are also increasingly interested in ESG issues and how they may influence a country's creditworthiness. The DMO can increase ESG related information provision to CRAs and help channel CRA questions to relevant government departments. Over time, DMOs can improve their knowledge and exposure to ESG issues, help frame government communication to capital markets, and provide input on the formulation of ESG policies as far as debt stakeholders are concerned. This promotes a better understanding of the changing investor behavior and financial ecosystem for the DMO, but it can also facilitate better decision-making on whether to issue or not Sovereign Sustainable Instruments. Lastly, DMO activities such as acting as a point of contact, channeling questions to relevant government departments, and providing reliable data to investors are likely to build strong rapport across government, boosting transparency, investor confidence, and commitment.

#### *4.3.3 Leveraging the DMO's Expertise and Position within the Country's Financial Sector*

The DMO's expertise can often be leveraged, given the breadth of a country's ESG issues. For example, DMOs are often well placed to advise other government agencies on the relevance of ESG issues, the possibility of ESG-related financing, and the management of risk transfer solutions to manage catastrophic risks such as hurricanes or earthquakes. DMOs have helped manage environment-related investment funds, carbon credit auctions, and credits management in some countries. There is also an opportunity to develop climate finance expertise in the local financial services community, drive more comprehensive product innovation, and set conventions for issuances, including definitions of acceptable green projects or climate goals, by leveraging the DMO's role of providing advice on the selection of instruments to other government departments.

Many DMOs in the region need to develop adequate capacity. The survey showed that 56% percent of respondent Arab finance ministries are either not familiar or only somewhat familiar with green/sustainable financial markets, indicating that there may be tangible gaps within DMOs as well. As a result, there is a significant need for DMOs and ministries to upskill on the sustainable finance agenda in order to play an effective role.



## 5. TRANSLATING THE SUSTAINABLE AGENDA INTO A SOVEREIGN SUSTAINABLE INSTRUMENT



## 5.1 Introduction

This section considers the evolving global practices in formulating guidelines and frameworks. Various country case studies are included in [Appendix 3](#) and [Appendix 4](#).

Guidance on issuing Sovereign Sustainable Instruments is generally divided into official frameworks and market-based standards. While there is no one global standard, official frameworks are in general the result of regulatory decisions by national governments or supranational sovereign organizations (i.e. the EU). Market-based standards in contrast have a more focused purpose, aiming to provide a common rulebook largely based on ESG investor preferences.

Potential sectors and types of projects financed by Sovereign Sustainable Instruments vary from country to country according to their specific conditions, development needs and infrastructures. However, in general terms, these would include renewable energy, waste management, solid waste management, resilient infrastructure, build environment, greater efficiency in transportation and clean transportation, energy efficient building construction, reforestation and avoided deforestation, protection against extreme events, agriculture, sustainable land use, forests and ecological resources, energy efficiency, pollution prevention and control, biodiversity conservation, etc.<sup>33</sup>

Regulators issue guidance and frameworks to define thematic bonds/sukuk in their jurisdiction, often aligned with ICMA principles and standards, and sovereign frameworks. Many countries and jurisdictions are also developing taxonomies, which are classification systems for identifying activities or investments that will move a country toward meeting specific targets related to priority environmental objectives. A taxonomy aims to help financial actors and other stakeholders determine which investments can be labeled “green /sustainable” for their jurisdictions.

Recently, green taxonomy<sup>34</sup> discussion and development has evolved around the world, with the EU and China leading the way. The main objective of adopt-

ing a taxonomy is to curb ambiguity in green and sustainable activities by giving clearer definitions and measurable information, which will in turn mitigate greenwashing and give room for market standardization.

Differences between taxonomies and guidelines reside mainly in the fact that taxonomies provide clarity on what can be considered green and therefore decrease the need for explanation or extensive due diligence. Taxonomies introduce detailed and/or numerical information on appropriate activities to be eligible for green or sustainable space. They are also publicly available, ensuring they are understood, accepted and used across many stakeholders. In addition, taxonomies are based on quantitative and qualitative methodologies rather than on national priorities or perceptions. The World Bank Group recommends a common approach across jurisdictions for taxonomy development by identifying which environmental goals should be used to organize the taxonomy, prioritizing sectors with the highest contribution to the identified environmental goals, and selecting eligible activities based on how they meet either a national target or a standard or accepted threshold.

## 5.2 Global Principles and Guidelines

While the development of a taxonomy is a more medium goal for many countries, Sovereign ESG frameworks are often aligned with ICMA principles (see Figure 14 below). Such frameworks typically provide guidance by the sovereigns on envisaged use of proceeds, other issuers’ commitment, transparency and disclosure practices. They are also used by other stakeholders, i.e. investors, rating agencies, external reviewers and auditors, to assess the robustness of the issuer approach for launching the Sovereign Sustainable Instruments. This gives assurance of compliance with best available practices. The main pillars of sustainability bonds, i.e. green, social, sustainable, and sustainability linked bond principles and guidelines are listed as shown in figure 14.

33. World Bank Group. (2020). Developing a National Green Taxonomy: A World Bank Guide. Retrieved from:










<https://documents1.worldbank.org/curated/en/953011593410423487/pdf/Developing-a-National-Green-Taxonomy-A-World-Bank-Guide.pdf>

34. Green or Sustainable Taxonomy: describes a classification system that identifies activities, assets, or revenue segments that deliver on key environmental/sustainable objectives.



Figure 15 and Figure 16 below provide an overview of various guidelines.

Figure 14 Sustainable / ESG Finance Frameworks

Sustainable / ESG Finance Frameworks	
Green, Social, Sustainability Framework	Sustainability-Linked Framework
<ul style="list-style-type: none"><li>● Aligned to one, or a combination of, the ICMA's related principles &amp; guidelines.</li><li>● Will describe expenditure categories, outline the internal governance to select projects, manage proceeds, as well as vommitment to both allocation and impact reporting</li></ul>	<ul style="list-style-type: none"><li>● Aligned to the ICMA's Sustainability Linked Bond Principles.</li><li>● Will Specify the ESG through KPIs and SPTs and specify the commitment to reporting on progress and for external verification.</li></ul>
 Use of Proceeds	 Pre-define key performance Indicators (KPIs)
 Evaluation and selection of eligible projects/ assets	 Pre-define Sustainable Performance Targets (SPTS)
 Management of proceeds	 Bond Characteristics
 Reporting	 Reporting
	 Verification

Source: ICMA, staff illustration.

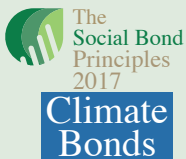



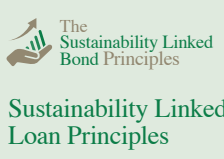
A framework will usually be published (on a non-reliance basis) on the relevant ministry’s website on, or prior to, the commencement of the roadshow for the Sustainable Bond ([Appendix 5](#) confirms the online location of different sovereign issuers’ published frameworks). However, although a high-level reference to, or summary of, a framework may be included in the Sustainable Bond offering document, typically, efforts will be made to ensure that the relevant framework is not integrated as part of the offering document (in which event it would be subject to the same 10b-5 liability as the offering document).

Figure 15 ICMA Sustainability Guidelines and Principles



Source: ICMA, 2022.

**Figure 16** Sustainable Finance Principles and Guidelines

	Use of Proceeds Instruments				Sustainability Linked
	Green	Social	Sustainability	Transition	
Principles/ Guidelines					
Issuance – last update	2014 - updated 2021	2018 - updated 2021	2019 - updated 2021	Issued 2020	2020-loans updated 2022
Purpose	To support environmental activities.	To support social activities.	To support environmental and social sustainable activities.	To support climate transition activities that are aligned with Paris Agreement.	To support issuer in advancing sustainability performance.
Voluntary/ Mandatory	ICMA: Voluntary CBI: Certification required	Voluntary	Voluntary	Voluntary	Voluntary
Scope	Finance or re-finance of new and/or existing eligible green projects.	Finance or re- finance of new and/or existing eligible social projects.	Finance or re- finance of new and/or existing eligible social and/or green projects.	Finance or re-finance of transition projects to achieve issuers' climate change goals.	Finance or re-finance of issuers' general purposes linked to ESG performance.
Eligible Projects	Ten categories of green projects including, but not limited to: climate, change adaption, clean transportation, renewable energy, natural resource conservation, biodiversity conservation, and pollution prevention control.	Non exhaustive list of six categories of social projects including: affordable basic infrastructure, access to essential services, affordable housing, employment generation through SME financing & microfinance, food security, and socioeconomic empowerment.	Prior lists of eligible green and social projects.	Transition projects are sector specific, or sector driven projects aligned with established science-based targets and pathways.  Issuer level disclosures are required on: climate transition strategy and governance, business model environmental materiality, climate transition strategy to be “science based” including targets and pathways, and implementation transparency.	Issuer's performance against predetermined sustainability (ESG) objectives (KPIs, SPTs).  Which affects the interest rate, incentivizing improved performance over time.
Framework	Required	Required	Required	Required	Required: - Framework - Issuer strategy
Proceeds	Specific use of proceeds	Specific use of proceeds	Specific use of proceeds	Specific use of proceeds	General purposes
Disclosure	ICMA: Non mandatory CBI: Mandatory disclosure	Non mandatory	Non mandatory	Mandatory	Non mandatory
Second Party Opinion (SPO)	SPO, and External Verification	SPO, and External Verification	SPO, and External Verification	SPO, and External Verification	SPO, and External Verification of Targets

Source: ICMA, 2021. CBI, 2021. Standard Chartered, 2022.

### 5.3 Requirements for Issuing Sustainable Sukuk

There is a harmony between traditional sukuk issuance and alignment with ESG standards due to Shari'ah screening process.

However, sustainable sukuk may feature more complex process than conventional instruments, due to the structuring in accordance with Shari'ah princi-

ples and ESG specific features, which requires a combination of expertise for Shari'ah and ESG legal advice. As reported by Fitch Ratings in its recent report on “Global ESG Sukuk Market”, ESG sukuk represent 2.6% of the global outstanding sukuk, estimating this portion to grow to reach around 5% in the next five years.<sup>35</sup>

### 5.4 Regional Standards and Taxonomies

Table 1 below maps key milestones for two regional frameworks: the EU Green Bond Standard, named as European Sustainable Finance Taxonomy, and ASEAN Green, Social, Sustainability, Bonds Standards.

35. Fitch Ratings. (2022). Global ESG Sukuk Market, Special Report, August 2022. Retrieved from: <https://www.fitchratings.com/research/non-bank-financial-institutions/global-esg-sukuk-market-03-08-2022>

**Table 1. Regional Green, Social, Sustainable Standards**

	European Sustainable Finance Taxonomy–EU Green Bond Standard	ASEAN Green, Social, Sustainability Bond Standards (ASEAN GBS, SBS)
Issuance	2020. Most recent taxonomy embedding rigorous regulation.	2018 (GBS issued in 2014 and revised in 2018). In collaboration with ICMA.
Scope	Defines economic activities that can be environmentally sustainable including: (i) climate change mitigation; (ii) climate change adaptation; (iii) sustainable use and protection of water and marine resources; (iv) transition to a circular economy; (v) pollution prevention and control; and (vi) protection and restoration of biodiversity and ecosystems. Non climate categories to be included from 2023. <sup>36</sup>	Projects must not be used for ineligible projects specified by the ASEAN GBS and SBS (e.g., fossil fuel power generation, projects that involve activities with negative social impact related to alcohol, gambling, tobacco, and weaponry).
Framework	Mandatory with the required disclosures.	Recommended
Components	Aligned to the four core components of ICMA Principles, in addition to the required disclosures.	Guided by the four core components of ICMA Principles: (i) use of proceeds; (ii) project evaluation and selection; (iii) management of proceeds, and; (iv) reporting.
Use of Proceeds	Must be aligned with the EU Taxonomy.	Must be aligned with green, social and sustainability bonds standards.
Pre-issuance disclosure	Mandatory: green bond factsheet.	Recommended as best practice.
Post-issuance disclosure	Mandatory: (i) Annual report on the allocation of the use of proceeds; and (ii) At least one report on the environmental impact of the bond.	Recommended.
External Review	Disclosures are subject to mandatory external verification.	Detailed guidance on external reviewer: (i) qualifications of external review providers; (ii) requirements of the external review process; (iii) coverage and types of review; and (iv) the building blocks of the external review report.

Source: ASEAN GBP, SBP, SBP; 2018. EU Sustainable Finance Taxonomy, TEG report, 2020. Morgan Stanley Research, 2022.

## 5.5 IFC Guidelines for Blue Finance

The IFC Guidelines for Blue Finance provide guidance for financing the Blue Economy, building on the Green Bond Principles and the Green Loan Principles (GBP/GLP), while contributing to the UN SDGs: “Ensure availability and sustainable management of water and sanitation for all”, and “Conserve and sustainably use the oceans, seas and marine resources for sustainable development”. The Guidelines provide a list of eligible use of proceeds as a reference, aiming to relate the usual primary objective of a blue activity and its indicative level of impact to the GBP/GLP environmental objectives.

The blue finance guidelines involve main building blocks, which are based on ICMA guidelines, namely (i) blue use of proceeds, (ii) project selection, (iii) management of proceeds, (iv) impact reporting, and (v) external review of blue finance.

The blue finance guidelines highlight the Blue Use of Proceeds as mapping for blue activities under the Green Bond Principles and Green Loan Principles, which comprises the following broad categories of eligibility: (i) water supply, (ii) water sanitation, (iii) ocean-friendly and water-friendly products, (iv) ocean-friendly chemicals and plastic related sectors, (v) sustainable shipping and port logistics sectors, (vi) fisheries, aquaculture, and seafood value chain, (vii) marine ecosystem restoration, (viii) sustainable tourism services, and (ix) offshore renewable energy production.

37. IFC. (2022). Guidelines for Blue Finance - Guidance for financing the Blue Economy, building on the Green Bond Principles and the Green Loan Principles.



## 6. COMPLEXITIES, CHALLENGES AND PATHWAYS FOR SOVEREIGN SUSTAINABLE INSTRUMENTS



## 6.1 Structuring and Preparation

Similar structuring considerations apply to a Sovereign Sustainable Instrument as would be relevant to any other conventional or sukuk issuance. These considerations include tax, securities law issues, limitations under applicable local law, the issuance structure (i.e. project bond, securitized bond, revenue bond, standard recourse bond, etc.), covenants, guarantees and/or security package. However, a sovereign issuer ought to consider certain additional factors before issuing a Sovereign Sustainable Instrument:

Figure 17 Considerations for Sovereign Issuances

Key considerations for all issuances	Additional considerations for ESG issuances	
<ul style="list-style-type: none"><li>■ Tax</li><li>■ Securities law issues</li><li>■ Limitations under applicable law</li><li>■ Issuance structure</li><li>■ Covenants</li><li>■ Guarantees and/or securities package</li></ul>	<ul style="list-style-type: none"><li>■ Legislative approval</li><li>■ Establishment of a working group</li><li>■ Preparation of a framework</li><li>■ Selection of assets and projects</li></ul>	<ul style="list-style-type: none"><li>■ "Greenwashing" mitigation</li><li>■ Longer lead-time to issuance</li><li>■ Additional documentary and diligence requirements</li><li>■ Reporting</li></ul>

Source: Latham & Watkins LLP (2022)

### 6.1.1 Legislative Approval

Legislative approval will be required to proceed with the establishment of a framework, and all the other steps that follow, in order to issue a Sovereign Sustainable Instrument, particularly if the sovereign issuer is issuing its debut Sovereign Sustainable Instrument. Often, the Ministry of Finance, Debt Management Office (DMO) or similar government entity (the Lead Ministry), will be delegated the power to issue a Sovereign Sustainable Instrument.

Given the non-financial investment criteria inherent in a Sovereign Sustainable Instrument, additional legislative approval may be needed as compared with a conventional issuance. Ordinarily, government policies that are driving the need or desire for issuing Sovereign Sustainable Instruments are already in place – for example, the Sovereign Sustainable Instrument is designed to finance “green” projects that have already been carried out or to contribute to a country’s pre-existing sustainability strategy or “net zero” and carbon emissions reductions targets.

Therefore, the country’s budget may already set aside certain approved borrowings for ESG projects and the Sovereign Sustainable Instrument proceeds can be contributed to such projects accordingly.

However, approvals may still be required to tie a Sovereign Sustainable Instrument to a particular piece of existing legislation or policy. For instance, unlike with a corporate issuer, many countries have public financing frameworks that prevent or restrict allocating revenues to specific uses. Although cash is fungible, in light of this challenge, countries may have to change their laws to allow dedicated accounts to be established for depositing proceeds of a Sovereign Sustainable Instrument (as was the case with Poland), or otherwise circumventing these restrictions (such as Belgium and Ireland). In addition, broader considerations may be necessary regarding how a Sovereign Sustainable Instrument will fit into the existing policies of the government, including ensuring alignment with the existing debt management framework and strategy of the country.

### 6.1.2 Establishment of a Working Group and Preparation of a Framework

Once the Lead Ministry is ready to begin the process of issuing a Sovereign Sustainable Instrument, it will ordinarily establish a working group, comprising a number of different ministries and departments, to manage the day-to-day steps and decision-making of the project (the Working Group). The Lead Ministry may also seek the guidance or involvement of stakeholders outside of government ministries, such as industry experts, to contribute to the Working Group. Given the ever-changing rules, guidelines and standards in the rapidly evolving ESG market, the Working Group and deal team should be well-informed and actively monitor developments. In emerging markets, such as countries from the Arab region, development banks may be brought in to assist the Working Group at a technical level.

The Working Group can then take different approaches in the development of their framework, from benchmarking against the frameworks used by other countries to scrutinizing and assessing the project portfolio in their own country. A well-designed framework should be robust enough to handle any political changes and simplify ongoing reporting obligations. It should also be a “living instrument”, capable of being adapted to market developments. Importantly, the framework will also need to be aligned to the relevant industry principles (most often, the ICMA principles, as described above). Establishing the committee by order of the Minister of Finance or the office of the Prime Minister, with a direct reporting line, and clearly defined timeline, can be an important mechanism to ensure buy-in from broader government ministries.

A framework will usually be published (on a non-reliance basis) on the Lead Ministry’s website on, or prior to, the commencement of the roadshow for the Sovereign Sustainable Instrument (Appendix 5) provides analysis on where different sovereign issuers that have come to market have published their frameworks). A high-level reference to or summary of a framework may be included in the offering document, or the framework itself may even be appended. However, typically, efforts will be made to ensure that the relevant framework is not integrated as part of the offering document to avoid liability attaching as a result of its inclusion.

### 6.1.3 Additional Sukuk-Specific Considerations

There are natural synergies between sukuk and ESG; both require specific non-financial investment criteria and are focused on applying proceeds to activities that are unlikely to be prohibited by Islamic law. The possibility of proceeding with a Shari’ah-compliant Sovereign Sustainable Instrument opens up the possibility of tapping a wider investor pool, attracting not only traditional investors in sukuk, such as Islamic banks and Shari’ah-compliant investment funds, but also investors outside the traditional sukuk space who are interested in investing in Sovereign Sustainable Instruments.

Notwithstanding the similarities, a Sovereign Sustainable Instrument is not necessarily Shari’ah-compliant. Sukuk represent proportionate undivided ownership in the underlying assets or investments, so in order to structure a Shari’ah-compliant Sovereign Sustainable Instrument, the Lead Ministry and the Working Group will need to identify unencumbered assets that can form the basis for the sukuk and that also satisfy the requirements of the framework. In addition, Shari’ah scholars who may have differing views will necessarily be involved in the process of seeking comfort that a Sovereign Sustainable Instrument is Shari’ah-compliant. Such involvement adds another layer of expense and uncertainty, particularly given the novel nature of a Shari’ah-compliant Sovereign Sustainable Instrument.

To date, there have been no sovereign green sukuk in the GCC, with Indonesia being the only sovereign so far to issue a green sukuk. The lack of regional market precedent creates additional risk in and of itself, both from a Shari’ah compliance perspective and the investor sentiment angle.

### 6.1.4 Other Factors

The sovereign issuer and its Working Group will be faced with a number of challenges and considerations to weigh prior to proceeding with issuing a Sovereign Sustainable Instrument:

#### (i) Selecting assets / projects

Fundamentally, a Sovereign Sustainable Instrument requires relevant assets or projects for the proceeds to be applied against. The Working Group should carefully and thoughtfully consider the factors described in Figure 14 (such as “Project Evaluation and Selection”) on an ongoing basis.

### (ii) “Greenwashing”

The ESG label to be attached to the Sovereign Sustainable Instrument (e.g. “green bonds”) can be seen as superficial by investors if the sovereign issuer operates, or has historically operated, in a way that does not seem to comply with expected ESG norms. This is a particular challenge for certain emerging market economies that, for instance, rely heavily on the extraction of fossil fuels. A negative market reaction to a Sovereign Sustainable Instrument, particularly a debut one, may have long-term damaging effects on the sovereign issuer’s reputation. The Working Group and other relevant stakeholders should formulate a strategy and framework to mitigate such views, or to ensure adequate ring-fencing of the projects that are at the center of the Sovereign Sustainable Instrument.

### (iii) Reporting

The Working Group should consider the reporting process in advance and ensure that the relevant ministries, departments and stakeholders are aware of what will be required of them. Sovereign Sustainable Instruments and the annual impact and allocation reporting associated with them require significantly more than the vanilla financial reporting associated with conventional instruments.

### (iv) Timing

Given that a Sovereign Sustainable Instrument (particularly an inaugural one) will likely take longer than a conventional issuance to prepare for, a sovereign issuer should make election considerations before embarking on the process. Any concept or framework for a Sovereign Sustainable Instrument should be robust enough to survive any changes in government.

### (v) Complexity

In a complicated area with different standards and issues, it is important not to underestimate the importance to investors of a plain language framework, with a succinct description of high-profile and memorable projects and clear reporting standards. In addition, if overly ambitious targets are set in the framework, failure to meet such targets could have a negative financial and reputational impact on the sovereign issuer.

### (vi) Cost

Although the overall cost of a Sovereign Sustainable Instrument is likely to be similar to a conventional instrument, there are additional costs to be factored into the issuance of a Sovereign Sustainable Instrument, including the external review costs and the cost of adviser assistance in the creation of a framework.

## 6.2 Offering Documentation and Due Diligence

With relevant government approvals and the “deal team” in place, together with the initial preparation and framework for the Sovereign Sustainable Instrument, it will be important to focus on crafting disclosure to the market that is tailored to ESG and investor expectations. This includes setting out what the underlying green activities are and how the proceeds will be tied to such activities.

Securities laws also require mandatory disclosure on, for example, material developments affecting investors of both conventional instruments and Sovereign Sustainable Instruments. Sovereign Sustainable Instruments require, by market practice, an additional layer of specific disclosure, including on use of proceeds, the selection of projects, the management of proceeds and reporting. In addition, ESG as a subject matter is generally becoming more and more material in and of itself – ESG facts, considerations and circumstances can be potentially material in any issuance, and therefore such matters are only heightened in importance in issuances of Sovereign Sustainable Instruments.

### 6.2.1 Risk Factors

Sovereign issuers will need to include specific risk factors in addition to the risk factors that they may outline for a conventional issuance. These risk factors will need to be tailored to the particular sovereign issuer and structure, but could include the following:

#### (i) The Second Party Opinion (SPO) may be revoked

As discussed in Section 4 (*Sovereign Debt Management in an ESG Context: Key Considerations for Debt Management Officers*), the SPO does not form part of the offering document. It is designed to provide verification, but the sovereign issuer or the SPO provider ordinarily do not face any liability if such opinion is revoked.

#### (ii) No market consensus on what is “green”

The lack of standardization with Sovereign Sustainable Instruments leaves room for projects funded by the proceeds of a Sovereign Sustainable Instrument failing to satisfy evolving market expectations.



(iii) Sustainability targets of a particular investor may not be satisfied

Ordinarily, a sovereign issuer will provide no representation or warranty that an investor's present or future expectations or requirements regarding ESG benefits will be achieved or maintained.

(iv) No event of default for non-compliance with the Framework

This risk factor is tied to the point above and described further in "Use of Proceeds and Investor Recourse" below. Ordinarily, no assurance is given that the framework will be complied with or that there will be any investor recourse if the sovereign issuer fails to comply.

(v) Greenwashing risk

Linked to the lack of standardization discussed, it can be difficult to say conclusively if the market will determine that a Sovereign Sustainable Instrument or sovereign issuer is in fact complying with what they view as ESG principles.

### 6.2.2 Addressing Greenwashing: Certification and Verification of Green Bond Issuances

The issuance of labeled bonds by sovereign issuers that may have heavy economic interest in industries that are not economically sustainable may result in concerns around "greenwashing." In the first half of 2022, there has been a rise in public controversy over allegedly inconsistent ESG ratings and greenwashing, which has challenged the credibility of ESG products. The root of the issue lies in a divergence between the simplistic, largely environmental-based public understanding of ESG, and the wide array of definitions, frameworks and evaluation methods under the ESG umbrella. Improved standardization and transparency will likely be required to regain the trust of investors and the public.

Against this backdrop, sovereign issuers issuing a labeled bond must have a credible, clear, and transparent framework. Developing a consistent and transparent bond framework and identifying eligible projects are crucial steps. Receiving an external review of the bond framework from an independent third party is also necessary. Finally, defining reporting commitment and the use of proceeds and impact reports are critical. During this process, proactive investor

engagement will also be beneficial. Not having a transparent framework or reporting framework, in place could result in negative investor sentiment and impact a sovereign's conventional bond program.

The World Bank Group has worked with many emerging market countries on their labeled bond issuance programs. Support has been very wide-ranging, from organizing awareness-raising workshops and developing green taxonomies and bond frameworks to assessing the merit of issuing such bonds (aligned to Medium Term Debt Strategy (MTDS)) and the communication strategy and post-issuance impact reporting. Often, involving an international financial institution can help bring greater credibility to the issuance process and increase investor confidence.

### 6.2.3 Forward-Looking Statement Disclaimers

The nature of Sovereign Sustainable Instruments and the focus on the use of proceeds accentuates the risk that statements are made about future actions or performance that could later prove to be false. To mitigate this potential liability under securities laws, it is important to ensure that forward-looking statements are (1) identified as such, and (2) accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the forward-looking statement.

### 6.2.4 Due Diligence

The focus on ESG will require the sovereign issuer to respond to specific, tailored questions around its ESG credentials and its future plans. This is a critical component of verifying and obtaining comfort that the contents of the offering document are accurate. The sovereign issuer will require its relevant advisers, including both its internal and external legal and technical advisers, to work closely together to satisfactorily address any diligence issues and make available the necessary resources.

38. World Bank Group. (2020). Engaging with Investors on Environmental, Social and Governance (ESG) Issues: A World Bank guide for Sovereign Debt Managers.

Retrieved from: <https://thedocs.worldbank.org/en/doc/375981604591250621-0340022020/original/WorldBankESGGuide2020FINAL.11.5.2020.pdf>

39. In countries such as Colombia, Egypt, and Romania.

### 6.2.5 Use of Proceeds and Investor Recourse

Sovereign issuers will be expected to describe the use of proceeds and reporting mechanics as disclosure in the relevant offering document. However, any failure by a sovereign issuer to comply with the principles, or with its own framework, would not typically trigger a default or event of default under the transaction documentation constituting and documenting the Sovereign Sustainable Instrument. The intention is to ensure the investor does not have a contractual right to force the sovereign issuer to repay the bond or sukuk on the basis of non-compliance with ESG standards. However, any such breach may result in the revocation of the relevant SPO provided for the Sovereign Sustainable Instrument and/or the delisting of the Sovereign Sustainable Instrument from any green or sustainable listing segment it may be listed on.

Investors may also be unable or unwilling to continue to hold the relevant bonds or sukuk and the price of such instruments could be adversely affected. In such circumstances, an investor could still seek to bring claims against the sovereign issuer (although to date, no such claims have been successful that we are aware of). Further, a sovereign issuer may attract criticism from the investment community and/or face allegations of “greenwashing”, creating potential risk to its reputation and to its capital markets securities in the longer term. Despite the fact that none of the GCC sovereigns have so far come to market with a Sovereign Sustainable Instrument, public discourse is already questioning the compatibility of large oil-producing nations with the principles behind Sovereign Sustainable Instruments, particularly given that the proceeds generated by such issuances will be fungible.

To provide additional investor comfort, more explicit project and development targets may be stated in the disclosure, by clearly defining the intended areas of investment and sub-allocating proceeds, as well as setting out more extensive reporting (such as a comprehensive list of performance indicators which its impact reporting will report against).

### 6.2.6 External Review

The SPO should be published (on a non-reliance basis) on the Lead Ministry’s website on or before the launch of the roadshow for the Sovereign Sustainable Instrument, and will not be included in the offering document (for the same reasons as described above for the framework).

A sovereign issuer also commonly obtains external verification by a third-party consultant to provide investors with assurances on the sovereign issuer’s capacity to use the proceeds in line with its initial commitments and implement the evaluation and selection, allocation and reporting processes, each in line with its framework.

## 6.3 Marketing and Selling

Most issuances of Sovereign Sustainable Instruments will involve a roadshow, with the preparation likely to be more time-intensive than a “normal” vanilla bond or sukuk issuance, with additional questions focusing on ESG credentials. This, in turn, requires greater preparation from, and cooperation between, the Working Group, relevant ministers and other advisers. In addition, given the current investor attention on the topic of ESG, many countries have arranged for the attendance of high-profile ministers at their roadshows for such issuances to convey the government’s commitment to investors.

## 6.4 Listing

The sovereign issuer should consider if it wants to list its Sovereign Sustainable Instrument on a green or sustainable listing segment of a stock exchange. Such segments have been opened in many international stock exchanges, including on the London Stock Exchange (Fiji and Egypt have listed green bonds on their Sustainable Bond Market, for example), Euro-next Dublin, the Cayman Islands Stock Exchange (CSX), The International Stock Exchange (TISE), Vienna MTF and the Bermuda Stock Exchange (BSX).

Such a listing could potentially increase visibility to investors and provide investors with a more consistent disclosure, in turn providing greater liquidity. If so, the sovereign issuer and the Sovereign Sustainable Instrument will have to comply with additional listing rules and continuing obligations for the relevant stock exchange and segment. For example, a listing on the London Stock Exchange’s Sustainable Bond Market will require the completion of a comple-



ted declaration, which covers: (i) the description of the type of Sovereign Sustainable Instrument (i.e. green, social, etc.); (ii) disclosure of sustainability related documents (such as the framework and an acceptable external third-party review, which assesses the Sovereign Sustainable Instrument's adherence to eligible relevant international principles); and (iii) an acknowledgment and commitment to ongoing annual post-issuance ESG reporting.

For sovereign issuers with existing listed securities, the sovereign issuer may elect to list on the same exchange as their non-Sovereign Sustainable Instrument, in order to maximize existing processes already in place to satisfy disclosure and reporting obligations. In most cases, the Sovereign Sustainable Instrument may also need to first be listed on one of the relevant stock exchange's main markets as a pre-condition for eligibility to be listed on the relevant ESG segment (this is the case with both the London Stock Exchange and Euronext Dublin). Legal advisers, or specific listing agents, will be able to assist the sovereign issuer with the listing process.

## 6.5 Rating

A sovereign issuer may elect to obtain an ESG rating in advance of (or in connection with) the Sovereign Sustainable Instrument. These agencies have their own specific criteria for assessing and evaluating the performance of issuers on ESG and sustainability metrics. Obtaining an ESG rating will require early engagement with the relevant agency and an understanding of the applicable criteria and process. Appointing legal and financial advisers with experience in dealing with ESG ratings is a prudent method of ensuring a smooth process and securing a positive outcome for the issuer.

The relevant ratings agency will typically be unwilling to allow the ESG rating itself (or a summary thereof) to be included in the issuer's offering documentation but may permit the inclusion of the ESG rating summary in roadshow materials for the Sovereign Sustainable Instrument.

For example, in April 2022 APICORP obtained an A2 sustainability rating from Moody's ESG Solutions, allowing the company to demonstrate its success in integrating ESG factors into its strategy, operations and risk management processes.

## 6.6 Reporting

As mentioned in Section 4 (*Sovereign Debt Management in an ESG Context: Key Considerations for Debt Management Officers*), the framework will outline the reporting to be provided by a sovereign issuer. Typically, these will include annual reporting on allocation (a report on the total amount allocated, the amount remaining to be allocated and a breakdown of financing vs. refinancing) and impact (expected environmental impact measured against certain performance indicators). The sovereign issuer and its Working Group should consider a number of factors in this regard, including:

### 6.6.1 Adequate preparation and systems in place

Such preparation will ensure reporting can be effectively provided and required deadlines satisfied. This step involves creating an adequate data collection and reporting framework, as well as clear methods and systems to measure and monitor performance. Sovereign issuers, including Indonesia, Fiji and Nigeria, have been reportedly late to publishing their reports, so the risk of reporting oversight is a genuine concern.

### 6.6.2 Accessibility

The report should be publicly available and in a format that investors can easily digest (i.e. Excel rather than read-only PDF). Monitoring the market to ensure any standardization movements are reflected will likely be appreciated by investors

### 6.6.3 Data aggregation, metrics and methodology

Following developing market standards and trends, ensuring transparent data and providing granularity and depth of information will be important to investors.

### 6.6.4 External reviews

Any audits or assurance process, verification (for example, under any certification schemes), and reviews by SPO providers or rating agencies that is described in the framework or results in material disclosure will need to be communicated to investors.

## 7. RECOMMENDATIONS AND FORWARD STEPS



## 7.1 Introduction

This section provides a final set of recommendations and next steps for sovereign issuers across the region. The note highlights the changing financial sector ecosphere, increased investor awareness of ESG related risks, as well as rising investor demand for Sovereign Sustainable Instruments. Issuers across the region should keep up to date on this quickly evolving topic, as the topic is relevant for sovereign debt financing as well as a countries attractiveness in attracting wider foreign direct investment flows. Investors and credit rating agencies, as well as other stakeholders are increasingly looking at issuers ESG profiles which highlights the need for sovereign issuers to be proactive on this topic and raise awareness at the government level if not already doing so. While issuing Sovereign Sustainable Instruments requires much effort, the decision to do so should pay due regard to a number of key issues.

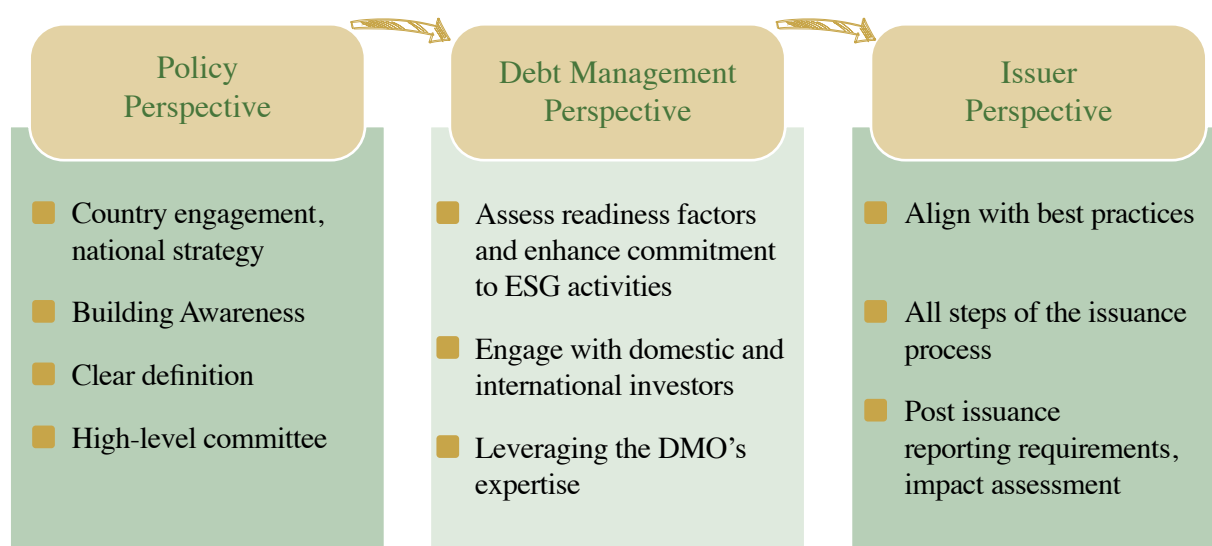
## 7.2 Guidance to Adopt Sovereign Sustainable Instruments

There are three interrelated areas where policy makers can consider initiatives to adopt Sovereign Sustainable Instruments or ESG at large. These efforts can be classified into three main areas, namely:

(i) policy perspectives, (ii) debt management perspective, and (iii) issuer perspective.

These are illustrated in Figure 18 below.

Figure 18 Perspectives on Sovereign Sustainable Instruments



### 7.2.1 Policy Perspectives

#### 7.2.1.1. Initiate national engagement to green social and sustainable activities.

Ensuring a country's commitment to sustainable agenda could be through a national policy document, such as a national strategy for ESG. The strategy is a policy document that aligns country's sustainable engagement, maps all stakeholders' objectives into a clear set of initiatives and programs, and coordinates efforts among national stakeholders. This, in turn, ensures the buy in of stakeholders and their commitment to ESG activities. It might also include an assessment for ESG financing challenges, opportunities, and pathways to scale-up sustainable finance within the country. Moreover, a national strategy for sustainable finance provides guidance and roadmap to channel diverse potential financing alternatives according to the country's priorities. It also outlines and harmonizes funding arrangements from various sources, such as development and development financial institutions, private sector, government, public sector, and capital markets. In addition, sustainable finance strategy may involve innovative financial models to reach the targeted sustainable goals.

### *7.2.1.2. Raise awareness across government agencies about ESG activities.*

This creates a collaborative and harmonized approach among relevant government entities to adopt ESG projects. This would imply establishing a high-level committee at the national level that is composed of diverse relevant authorities along with ministry of finance, such as environment, energy, transportation, planning etc. This aims to create a commitment among stakeholders and avoid disconnection that may generate risks over time for the environment, society, as well financial performance.

### *7.2.1.3. Provide clear definitions for ESG terms and activities at the national level including sectors and projects.*

The leading government agency, i.e. Ministry of Finance, would lead such a collaborative work in coordination with other government stakeholders. This could adhere to the available global definitions taking into consideration the local specificities. For instance, according to international arrangements, there are distinctions between green, climate, social and sustainable finance, where a sustainable finance term is more comprehensive including environmental, social, and economic aspects. In other words, green finance involves climate finance excluding social and economic aspects, while climate activities represent a subset of environmental aspects.

### *7.2.1.4. Strengthen capacity through training on the definition of, and guidelines for, green and sustainable instruments.*

A better understanding of green and sustainable definitions and taxonomies can support sovereign issuers accelerating issuance of green and sustainable bond and sukuk. Moreover, developing capacity efforts would prioritize enriching the institutional technical skill rather than depending on external consultants' technical assistance.

### *7.2.1.5. Keep track of green and sustainable investments.*

Regular and accurate tracking and reporting will support ensuring the market's integrity. On one hand, it supports governments in formulating policies and regulatory guidance for the labeling, issuance, and reporting of green and sustainable instruments. On the other hand, tracking of green and sustainable

instruments can help investors in identifying available opportunities and mobilizing capital flows toward sustainable investments.

## *7.2.2 Debt Management Perspective*

### *7.2.2.1 The relevance of ESG investing for sovereign debt managers.*

Debt managers should keep abreast of developments in this area. Any decision to issue a Sovereign Sustainable Instrument should involve the following actions on the part of the debt manager:

i. **Assessing readiness factors and enhance commitment to ESG activities**, weighing advantages and shortcomings of labeled instruments. This also includes assessing the cost-risk trade-offs of labeled instruments in comparison to conventional ones.

ii. **Engaging with domestic and international investors and other stakeholders proactively**. This implies improving the DMO Investors' relation function to enhance visibility of country's ESG initiatives and attract new investor base, which in turn will boost transparency, investor confidence, and commitment. Moreover, efforts need to be coupled with diverse domestic market development initiatives.

iii. **Leveraging the DMO's expertise and position within the country**, to support other government agencies to mobilize ESG funding through capital markets, providing advice on the relevance of Sovereign Sustainable Instruments and their selection

## *7.2.3. Issuer Perspective*

### *7.2.3.1. Align with international guidelines.*

This reflects investors' perceptions that Sovereign Sustainable Instruments are credible and trusted. As discussed in Section 5.2 (*Global Principles and Guidelines*), there are many international and regional guidelines and taxonomies<sup>40</sup> for green, social, and sustainable instruments; with the only certification scheme is established and managed by the Climate Bonds Initiative. Also, all guidelines are initially built on the ICMA principles. In 2020, it was reported that two major green labeled issuances were leading the global market, of which 25% were certified by the climate bonds initiative and 80% were in adherence to the Green Bonds Principles issued by ICMA (Global Center on Adaptation, 2022).<sup>41</sup>

40. Taxonomy: Identification and classification system for green and sustainable finance activities, assets or revenue; and their eligibility criteria.

41. Total of market share under the two schemes is more than 100%, as both are compatible.



#### *7.2.3.2. Formulate framework for the labeled sovereign instrument.*

This should adhere to international guidelines and practices until a national framework is developed. The latter is based on international guidelines and may take into consideration local specificities and conditions. The framework aims to guide issuer on key milestones of Sovereign Sustainable Instruments' life cycle, along with ensuring disclosure and transparency to investors, and provide necessary information for impact evaluation. It also enables governments to scale up investments for ESG activities within a best practices' context, while protecting investors from greenwashing.

However, a good framework is not a game changer, investors seek trust that sustainable instruments align with their objectives, and projects/assets or activities that are being financed are significant and quantifiable.

#### *7.2.3.3. Appropriate sectors and projects selection.*

As more global and regional taxonomies are evolving, local authorities can better determine the eligible sectors and projects for the use of proceeds. It is worth noting a taxonomy aims to give more clarity and guidance on which activities and/or assets are eligible for sustainable investment. Moreover, there are two schemes that detail the eligibility criteria for ESG activities, namely the EU Green Bonds Standards and the ICMA Harmonized Framework for Impact Reporting.

#### *7.2.3.4. Getting external review or second opinion advice.*

This represents an independent verification by a qualified party to assure investors about the labeled instrument credentials, and its framework credibility. An external review or Second Party Opinion does not deny the necessity of issuer internal screening criteria. Second opinion providers have their own assessment methodologies that are based on one-to-one contractual arrangement.

#### *7.2.3.5. Establishing a high-level committee.*

This acts as a steering committee and working group to drive the instruments issuance. It is highly recommended to initiate a ministerial committee lead by the Ministry of Finance and (or) the DMO, which involves representatives of authorities related to the designated ESG activities; aiming at selecting the

eligible projects/assets. The high-level committee, acting as a working group driving the Sovereign <sup>42</sup> Sustainable Instruments' issuance, could be the same high-level committee mentioned earlier in the guidelines to embrace ESG activities in the country.

#### *7.2.3.6. Trade-off between issuance at the international capital markets or at the domestic level.*

This comparison involves two elements of assessment: (i) segments of targeted investors', whether domestic or the wide international investors' base, which is well established in green, social and sustainable instruments across several regions worldwide. It is worth noting that domestic investors, whether new segments or the traditional ones, need to build awareness. Since current demand is mainly in EUR and USD, issuance in local currency is much more challenging. Moreover, issuance in the domestic market necessitates examining the trade-off between attracting new investors and fragmenting the current investors base, in addition to adopting sound market development plans; and (ii) cost and benefits of issuance in foreign currencies.

#### *7.2.3.7. Consider the entire asset/project value and scale.*

Since issuance in markets requires a minimum size of bonds and/or sukuk, the issuer can pull together small scale individual ESG projects/assets to meet issuance requirements. In other words, Sovereign Sustainable Instruments do not need to necessarily match with one particular project/asset but can involve other eligible projects/assets that meet one or more ESG goals.

#### *7.2.3.8. Meeting post issuance reporting requirements.*

Robust tracking and management of allocated proceeds and unallocated ones is required to ensure that proceeds are utilized in line with the issuance framework within transparent reporting to investors. Issuers should publicly disclose annual information on the allocation of proceeds until full allocation and whenever material development occurs. The annual report includes identification and brief description of projects to which proceeds have been allocated, the allotted amounts, as well as the expected impact. Sovereign Sustainable Instruments should illustrate impact, so that their proceeds are contributing to sound outcomes.

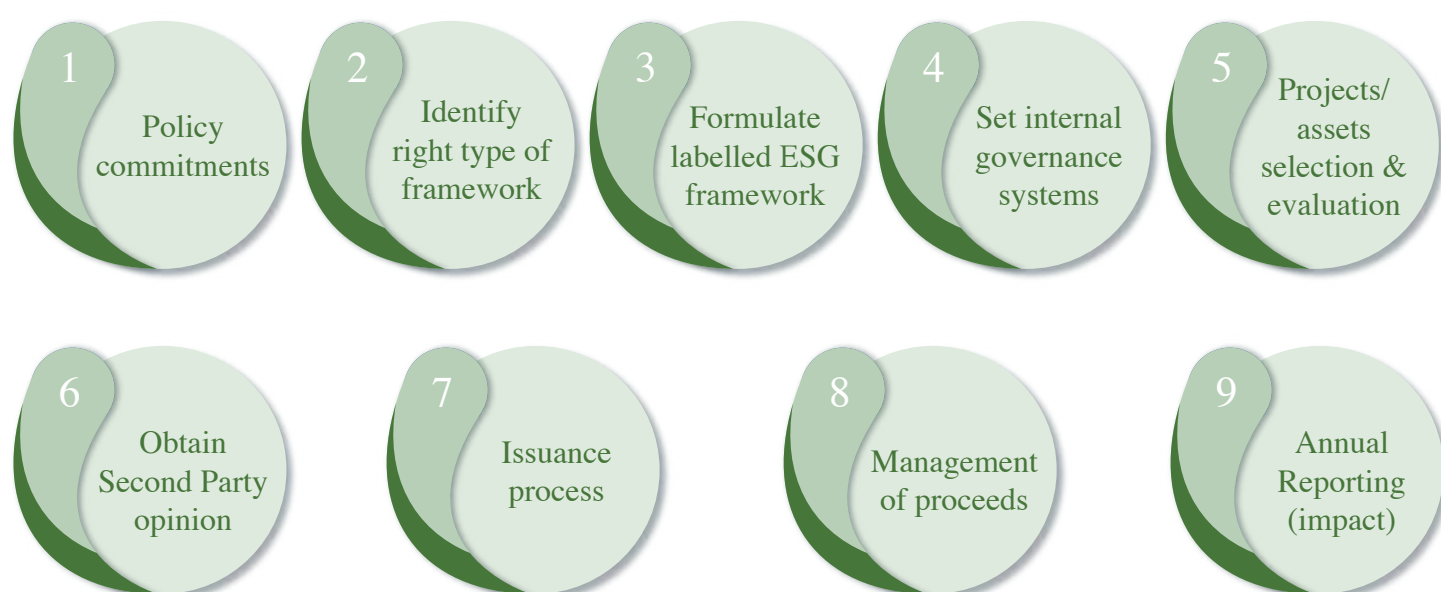
42. Global Center on Adoption .(2022). "Green Bonds for Climate Resilience: A guide for Issuers".



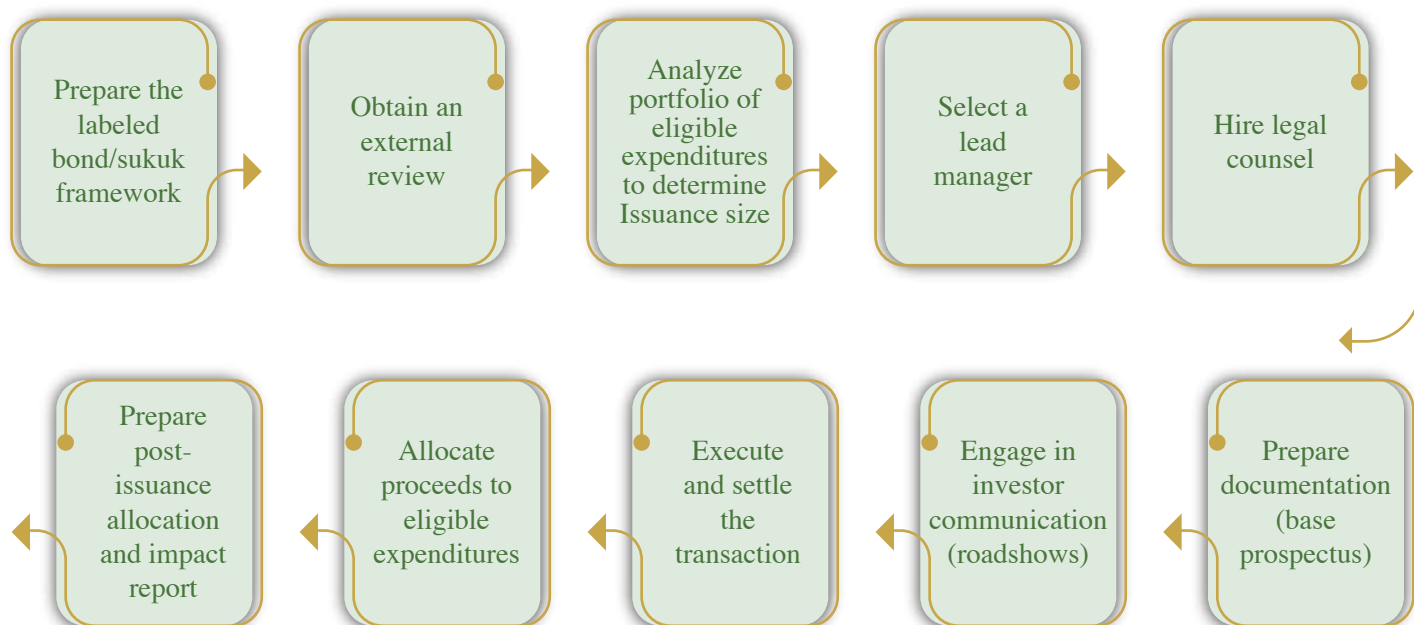
### 7.2.3.9. Sovereign Sustainable Instruments can enhance local sustainable bond markets to emerge and grow.

Since they pilot domestic issuances, give benchmark pricing, catalyze investor appetite, and generate opportunities for other issuers. To promote sustainable domestic market, both demand and supply sides and the whole ecosystem need to be developed. This would imply (i) enlarging the investors base by harnessing opportunities of increasing demand from institutional investors seeking sustainable investment opportunities, (ii) developing institutional capacity of issuer to identify types of projects/ assets eligible for sustainable finance and overcome possible related higher costs, and, (iii) increasing awareness of green and sustainable taxonomies across stakeholders of the domestic market.

**Figure 19** Timeline for the issuance of Sovereign Sustainable Instruments



**Figure 20** Detailed Issuance Steps for Sovereign Sustainable Instruments in International Markets



Source: World Bank Group illustration.

*7.2.3.10. At all stages of the Sovereign Sustainable Instrument issuance process, the provision of clear, timely and transparent information is crucial.*

#### 7.2.4. Regional Taxonomy

Developing a regional ESG taxonomy would be an area of further exploration, aiming to support robust regulations and practices while directing investments toward ESG projects and activities. This, in turn, will enhance regional integration through extensive stakeholders' consultation, and sustainable finance coordination.

Table 2. below consolidates a set of high-level policy recommendations to advance sovereign sustainable finance agenda in Arab countries.

Pillars	The Way Forward
Enabling environment	<ul style="list-style-type: none"> <li>Build public awareness to perceive the opportunities of sustainable finance.</li> <li>Raise awareness among diverse government entities to ensure commitment to national sustainable finance objectives and roadmap.</li> <li>Consolidate national efforts by the leading organization and/ or industry association for developing capacities in financial industry and related government entities.</li> </ul>
Policies and Roadmap	<ul style="list-style-type: none"> <li>Formulate a national strategy to consolidate and align country's various initiatives that aimed at achieving sustainable finance objectives.</li> <li>Develop national guidelines for green and sustainable finance, which aims to standardize definitions, eligible activities, disclosure, reporting, targets, KPIs, etc.</li> <li>Build national data repository for sustainable bankable projects.</li> <li>Set formal initiative to enhance data collection and bridge data gaps in various sustainable finance aspects including activities, reporting, disclosure, risk management, etc.</li> </ul>
Governance Scheme	<ul style="list-style-type: none"> <li>Initiate high-level committee/s to pilot country's sustainable agenda and foster regular consultation among stakeholders.</li> <li>Establish a high-level task force or working group for sovereign sustainable issuance, run by the leading ministry and involving diverse stakeholders, to ensure credible administration and practices.</li> </ul>
Public Finance Aspect	<ul style="list-style-type: none"> <li>Incorporate eligible projects for green and sustainable finance in the regular budget plan.</li> <li>Consider debt management perspective, mentioned earlier, throughout the planning for sovereign sustainable instruments.</li> <li>Harmonize Sovereign Sustainable Instruments with the existing debt management framework and strategy of the country.</li> </ul>
Sovereign Sustainable Market Instruments	<ul style="list-style-type: none"> <li>Align different phases of issuance, verification and reporting, i.e. preparation, issuance and post issuance; with recognized best practices.</li> <li>Consider sustainability linked instruments as complementary financing tools to the use of proceed instruments, as they provide the advantage of flexibility in allocating proceeds toward sustainability targets rather than specific projects.</li> </ul>
Domestic Market Development	<ul style="list-style-type: none"> <li>Leverage country's commitment to sustainability objectives and experience with issuance in international markets, if any, to enhance domestic market practices and create sovereign domestic benchmarks.</li> <li>Promote the investment of long-term funds such as pension and sovereign wealth funds in sustainable finance tools.</li> </ul>

## APPENDICES



## Appendix 1

### Arab Countries' Issuances in International Markets <sup>43</sup>

Countries	2019	2020	2021
<b>Jordan</b>	-	Bonds (5 & 10 y): USD 1.75 billion	
<b>UAE</b>	-	-	Bonds (10, 20, 40 y): USD 4.0 billion
<b>Bahrain</b>	Bonds (12 y): USD 1.0 billion  Sukuk (8 y): USD 1.0 billion	Bonds (10, 12 y): USD 2.0 billion  Sukuk (4, 7 y): USD 2.0 billion	Bonds (7, 12, 13, 30 y): USD 3.0 billion  Sukuk: (8 y): USD 1.0 billion
<b>Saudi Arabia</b>	Bonds (10, 31 y): USD 7.5 billion  Sukuk (10 y): USD 2.5 billion  Bonds denominated in Euro (8, 30 y): EUR 3.0 billion	Bonds (7, 12, 35 y): USD 5.0 billion  Bonds (5, 10, 40 y): USD 7.0 billion	Bonds (12, 40 y): USD 5.0 billion Bonds denominated in Euro (3, 9 y): EUR 1.5 billion
<b>Oman</b>	Bonds (6, 10 y): USD 3.0 billion	Bonds (7, 12 y): USD 2.5 billion	Bonds (10, 20 y): 3.25 billion Sukuk (9 y): 1.75 billion
<b>Qatar</b>	Bonds (5, 10, 40 y): USD 12.0 billion	Bonds (5, 10, 30 y): USD 10.0 billion	-
<b>Egypt</b>	Bonds (4, 5, 10, 12, 30, 40 y): USD 6.0 billion  Bonds denominated in Euro (6, 12 y): EUR 2.1 billion USD 12.0 billion	Bonds (4, 12, 30 y): USD 5.0 billion  Green Bonds (5 y): USD 0.75 billion	Bonds (5, 10, 30, 40 y): 6.75 billion
<b>Morocco</b>	Bonds denominated in Euro (12 y): EUR 1.05 billion	Bonds denominated in Euro (5.5, 10 y): USD 1.05 billion	Bonds (7, 12, 30 y): USD 3.0 billion

43. AMF 2022 survey on Sovereign Sustainable Instruments, which has benefited from responses from ten of the Arab countries until end of August, 2022; namely: Jordan, UAE, Bahrain, Algeria, KSA, Sudan, Oman, Iraq, Egypt, and Morocco.

## Main Policies Addressing Climate and Sustainable Finance

	Jordan	UAE	Bahrain	Tunisia	Saudi Arabia	Iraq	Egypt	Morocco
Climate and Sustainable Development Strategies								
National Strategies for Sustainable Development	<a href="#">Jordan Vision-2025</a>	<a href="#">UAE Centennial 2071</a>	<a href="#">Bahrain Economic Vision 2030</a>	<a href="#">Tunisia Development Plan 2016 - 2020</a>	<a href="#">Saudi Vision 2030</a> <a href="#">KSA Sustainability Review-2018</a>	<a href="#">Iraq NDP 2022</a>	<a href="#">Egypt Vision 2030</a>	<a href="#">Morocco NSDS-2030</a>
Energy Strategies and Action Plans	<a href="#">Jordan Energy Strategy</a>	<a href="#">UAE Energy Strategy 2050</a>	<a href="#">Bahrain NEEAP-2025</a> <a href="#">Bahrain NREAP</a>	<a href="#">Renewable Energy Action Plan (2017-2030)</a>		<a href="#">The Integrated National Energy Strategy (2013-2030)</a> <sup>44</sup>	<a href="#">Integrated Sustainable Energy Strategy (ISES): (2018-2035)</a> <sup>45</sup>	<a href="#">National Energy strategy (2019-2030)</a> <sup>46</sup>
Climate Strategies	<a href="#">Jordan Green Growth Plan-2025</a>	<a href="#">UAE Green Plan 2030</a>		<a href="#">Climate Change Strategy</a>	<a href="#">KSA NTP (2021-2025)</a>	<a href="#">Environment Protection Law 2009</a>	<a href="#">Egypt Climate Change Strategy 2050</a>	<a href="#">Morocco National Plan Climate Change-2030.</a>
Intended Nationally Determined Contributions (INDCs)	<a href="#">Jordan Updated INDCs-2021</a>			<a href="#">Tunisia NDCs-2015</a>	<a href="#">KSA INDCs-2021</a>	<a href="#">Iraq INDCs 2011</a>	<a href="#">Egypt Updated NDCs- 2022</a>	<a href="#">Morocco NDCs Report-2021</a>
National Adaptation Plans (NAPs)	<a href="#">Jordan Climate Change NAP</a>	<a href="#">By 2050, Clean Energy reaches 50% in capacity mix</a>		<a href="#">NAPs priorities are mainly in agriculture, water management, and food security.</a> <sup>47</sup>	<a href="#">By 2030, renewables reach 30% of the power generating Capacity, and 70% from natural gas.</a>	<a href="#">NAP to enhance resilience of affected sectors to climate Change</a> <sup>48</sup>	<a href="#">The NAP process involved 10 sectors</a> <sup>49</sup>	<a href="#">The NAP sets 8 strategic sectoral pillars with concentration on water, forestry and agriculture sectors</a> <sup>50</sup>
Sustainable (ESG) Finance Guidelines and Frameworks	<a href="#">The Association of Banks (ABJ) issued sustainability strategy.</a> <sup>51</sup>	<a href="#">UAE Sustainable Framework-2031</a>	<a href="#">BAB Sustainable Finance Policy Recommendations</a>				<a href="#">EGY Sovereign Green Bond Framework CBE Guiding Principles- Sustainable Finance</a>	

44. Iraq Energy. (2014). Iraq's Management of its Natural Gas Potential – Integrated National Energy Strategy – Revisited (Report). Retrieved from: <https://iraqenergy.org/product/iraqs-management-of-its-natural-gas-potential-ines-revisited-report/>

45. United Nations Environment Programme. (2021). Promoting Sustainable Finance and Climate Finance in the Arab region. Retrieved from: <https://www.unepfi.org/wordpress/wp-content/uploads/2021/01/Sustainable-Arab-Finance-Report-Jan-2021.pdf>

46. International Energy Agency. (2019). Morocco Renewable Energy Target 2030. Retrieved from: <https://www.iea.org/policies/6557-morocco-renewable-energy-target-2030>



	Dubai Financial Market (DFM)-Sustainable Issuance Guide	Tamkeen launched the Solar Financing Scheme for transformation to renewable energy, through Shari'ah compliant finance. <sup>52</sup>						Financial Regulatory Authority regulates green bonds issuance	
Sustainable Finance Practices in Banking Sector	Jordan Ahli Bank and Jordan Kuwait Bank publish their annual sustainability reports.						- CIB and AAIB banks are calculating carbon footprint, and issue related sustainability reports. - CIB offers green finance products coupled with technical support, and Climate Financial Disclosures.	Morocco Roadmap for Sustainable Financial Sector	
Sustainable Finance Practices in Capital Market	Securities Commodities Authority Sustainability Plan ADX-ESG Disclosure Guidance DFM- ESG Reporting & Disclosure Guide ESG Pan Arab Index The Green Bond Accelerator Program launched in 2020. DFM Sustainability Report-2021 ADX Sustainability Report-2019	Bahrain Bourse ESG Reporting Guide	ESG Disclosure Guidelines for Listed companies issued by Saudi Exchange "Tadawul".				EGX Guidance Reporting ESG Performance  Financial Regulatory Authority (FRA) regulations for NBFIs and listed companies to provide quarterly disclosure reports fo ESG and TCFD 53	Capital Market Authority Green Bonds Guidelines  Capital Market Authority Green Social & Sustainability Bonds Guidelines Stock Exchange Reporting Guide-Corporate Social Responsibility & ESG  ESG index "Casablanca ESG 10" for the 10 best performing listed firms by ESG rating.	

Sustainable Finance Practices in NBFIs	Insurace Authority worked on developing sustainable products and incentive schemes.	Moroccan Agency for Sustainable Energy green bond for 1.15 billion Dirham.	Al Omrane Holding (state-owned housing developer) issued Dh 500 million green Bonds.	Five green bonds were issued in early 2020 in local market for Dh 4 billion: by Masen, Casablanca Finance City, and two banks.		
		Sovereign Green Bond (USD 750 million)- Sep 2020.	Commercial International Bank (CIB) green bond for USD 100 million.		Initiated the Sustainable Finance WG	CBE and FRA established dedicated departments to promote sustainable finance.
	Tomoh-ELITE program initiated by (Monshaat) for eligible SMEs. <sup>44</sup>	Saudi Electricity green sukuk for USD 1.3 billion (2020).				
ESG Financial Instruments						
		First Abu Dhabi Bank (FAB) green bonds issuances (2017-2019). Al Futaim Group green sukuk issuance (2019). Etihad Airlines Transition sukuk- 2020 (under Etihad transition Finance Framework and linked to its carbon reduction target).		Established the Sustainable Finance WG		
Institutional Frameworks						

47. Agence française de développement. (2022). Tunisia Prioritizing Climate Change Adaptation in Agriculture. Retrieved from: <https://www.afd.fr/en/actualites/tunisia-prioritizing-climate-change-adaptation-agriculture>

48. United Nations Environmental Programme. (2020). Iraq launches National Adaptation Plan process for climate change resilience. Retrieved from: <https://www.unep.org/news-and-stories/press-release/iraq-launches-national-adaptation-plan-process-climate-change>

49. UNDP et al. (2018). National Adaptation Plans in focus: Lessons from Egypt. Retrieved from: [https://www.adaptation-undp.org/sites/default/files/resources/naps\\_in\\_focus\\_lessons\\_from\\_egypt.pdf](https://www.adaptation-undp.org/sites/default/files/resources/naps_in_focus_lessons_from_egypt.pdf)

CBE guiding principles embrace building capacity and awareness in banking sector (1 <sup>st</sup> principle). FRA established the regional Center for Sustainable Finance (RCSF). <u>Be An Ambassador</u> Program. <sup>56</sup>	Initiated the African Voluntary Market for the issuance and trading of Carbon Certificates. EGX launched a Carbon Certificates Trading Company.
Executive Certified Program in Sustainable Finance by Abu Dhabi Global Market (ADGM) Academy	ADGM to set up a fully regulated Carbon Trading Exchange and Carbon Clearing House.
Amman Stock Exchange Sustainability reporting booklet to raise market awareness.	
Awareness and Building Capacity	Carbon Credit Market

50. UNDP et al. (2017). National Adaptation Plans in focus: Lessons from Morocco. Retrieved from: [https://www.globalsupportprogramme.org/sites/default/files/resources/morocco\\_nap\\_country\\_briefing\\_final.pdf](https://www.globalsupportprogramme.org/sites/default/files/resources/morocco_nap_country_briefing_final.pdf)

51. United Nations Environment Programme. (2021). Promoting Sustainable Finance and Climate Finance in the Arab region.

52. Tamkeen. (2020). Tamkeen Launches the Solar Financing Scheme as part of its Tamweel Scheme to help organizations save on energy. Retrieved from: <https://www.tamkeen.bh/tamkeen-launches-the-solar-financing-scheme-as-part-of-its-tamweel-scheme-to-help-organizations-save-on-energy>

53. Egypt's Financial Regulatory Authority (FRA) issued decrees no. 107 and 108 for year 2021 requiring NBFIs and companies listed in the Egyptian Stock Exchange to submit their quarterly disclosure reports for ESG and the Task Force on Climate-related Financial Disclosures (TCFD).

54. Argaam. (2020). Monshaat says Tomoh-ELITE programme supports SMEs eligible for listing in equity markets. Retrieved from: <https://www.argaam.com/en/article/articledetail/id/1423394>

55. Oxford Business Group. (2020). Green financing attracts investors to Morocco's banking sector. Retrieved from: <https://oxfordbusinessgroup.com/analysis/breath-fresh-air-investors-turn-green-bonds-finance-clean-energy-and-sustainable-construction>

56. The Egyptian Ministry of Planning and Economic Development. Ambassadors for Sustainable Development Program. Retrieved from: <http://nigsd.gov.eg/be-an-ambassador/>

### Case Studies: Frameworks and Guidelines

#### Case Study 1: The Republic of Chile

##### 1 Framework

As a frequent issuer of sovereign sustainable bonds, namely green bonds, social bonds and SLBs, Chile released its Sustainable Bonds Framework in November 2020. This is broader than existing the Green Bond Framework, defining the conditions for issuances of Green Bonds, Social Bonds and Sustainable Bonds (which include the funding of green and social projects).

As with the Green Bond Framework, this recent document establishes the Use of Proceeds, the Evaluation and Selection of the Projects' process, the Management of Proceeds and the Reporting process after the issuances of these instruments. It adds new social categories, including those specific for the support of the population most affected by the COVID-19 pandemic. The sustainable bonds framework complies with ICMA standards for Green and Social bonds.

##### 2 Framework Details

**Table 3. Chile Sustainable Framework**

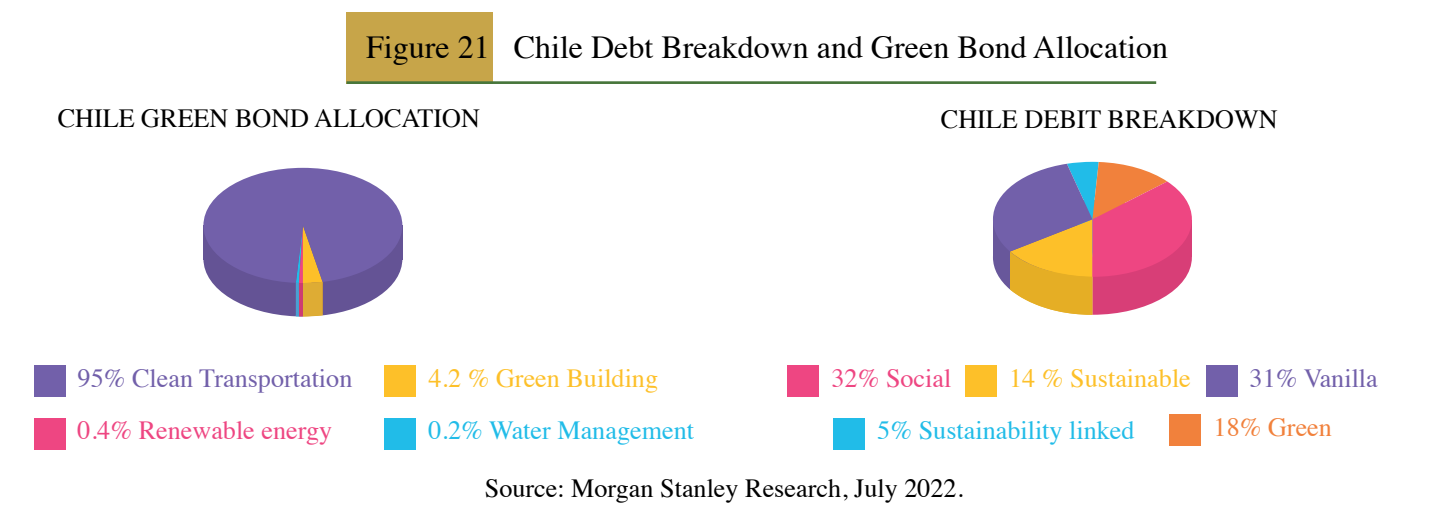
<i>Framework Details</i>	
Proceeds Allocation	“Net proceeds under this framework shall be allocated to finance and/or refinance new Green or Eligible Social Expenditures”
Management of Proceeds	Ministry of Finance leads an inter-ministerial Sustainable Bond Committee responsible for allocation.
Allocation Period	Expected to fall between 3-5 years, and to be communicated before each bond issuance.
Look-back Period	Up to 2 years before issuance.
Allocation Verification	Ministry of Finance appoints an external reviewer to assure that the allocation report is complying with the Framework.
<i>Second Party Opinion (SPO)</i>	
Initial Verification	SPO was provided by Vigeo Eiris, who assured the alignment with the four core components of the 2018 green bond principles, 2020 social bond principles, and 2018 sustainability bond guidelines.
External Reviewer Report	The external reviewer, Vigeo Eiris, provided his note clarifying that bond meet the post issuance commitment.

### 3 Chile ESG Labeled Debt

In March 2022, Chile issued the first ever SLBs with USD 2 billion in value and with a 20-year tenor. The demand for the bonds amounted to USD 8 billion, representing four times the original amount offered. The SLBs were allocated to investors across Europe, Asia and the Americas and are considered a significant milestone on the way to meeting Chile’s objectives based on both its national goals and international climate commitments under the Paris Agreement (COP21) (ICMA, 2022).

It’s worth mentioning that 69% of Chile’s sovereign debt outstanding is now green, social, sustainable or sustainability-linked. This is a trend that the Chilean government might continue in the future. Labeled bonds have also broadened Chile’s investor base. Figure 21 below illustrates the breakdown of Chile’s outstanding debt and the green bond allocation, as of July 2022.

Figure 21 below illustrates the breakdown of Chile’s outstanding debt and the green bond allocation as of July 2022.



## Case Study 2: Malaysia

### 1 Framework

In April 2021, the Government of Malaysia (GoM) introduced the UN SDG sukuk Framework, under which it plans to issue green social, and sustainability sukuk (collectively referred as “UN SDG sukuk”). Sukuk issued under the framework will be aligned to (i) ICMA’s Green, Social Bond Principles, and Sustainability Bond Guidelines and (ii) ASEAN Green, Social and Sustainability Bond standards.

**Table 4. Malaysia UN SDG Sukuk Framework**

<i>Framework Details</i>	
Proceeds Allocation	Net proceeds of the UN SDG sukuk will be used to finance or refinance, in whole or in part, new or existing development expenditures with social and/or green focus as eligible expenditure (below illustration on eligible project categories).
Management of Proceeds	GoM initiated the UN SDG sukuk Technical Committee, to be responsible for selecting projects in line with the Framework's eligibility criteria.
Allocation Period	GoM intends to fully allocate the net proceeds to eligible expenditures within the first year of issuance.
Look-back Period	Up to 2 years before issuance.
Pre and Post Issuance Verification <sup>57</sup>	<ul style="list-style-type: none"> <li>• GoM appoints an external reviewer to issue an independent Second Party Opinion (SPO) on the Framework.</li> <li>• GoM will engage an independent third party to provide assurance on its UN SDG sukuk Report(s).</li> </ul>
<i>Second Party Opinion (SPO)</i>	
Initial Verification	SPO was provided by Sustainalytics, in April 2021. Opinion assured that “the Government of Malaysia UN SDG sukuk Framework is credible, impactful and aligns with the four core components of the Green Bond Principles 2018, the Social Bond Principles 2020, and the ASEAN Sustainability Bond Standards 2018”.
External Reviewer Report	Sustainalytics noted that the GoM has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds. <sup>58</sup>

Figure 22 below shows Social, Green and Sustainable projects categories to be financed or refinanced, in whole or in part by the proceeds of the UN SDG Sukuk issuance.

57. Government of Malaysia. (2021). The Government of Malaysia SDG Sukuk Framework. Retrieved from: <https://www.mof.gov.my/portal/pdf/economy/sustainability/sukuk/>

58. Sustainalytics. (2021). Second-Party Opinion The Government of Malaysia SDG Sukuk Framework.



**Figure 22** Eligible Project Categories for Sustainable Sukuk Issuance

Eligible Green Project Category	Eligible Social Project Category	Eligible Sustainable Project Category
<ul style="list-style-type: none"> <li>- Clean Transportation</li> <li>- Sustainable Management of Natural Resources</li> <li>- Renewable Energy</li> <li>- Green Buildings</li> </ul>	<p>Accessibility to:</p> <ul style="list-style-type: none"> <li>-Quality Healthcare,</li> <li>-Quality Education and Training,</li> <li>-Affordable and Quality Basic Infrastructure,</li> <li>-Employment Generation through SMEs,</li> <li>-Financing and Microfinance,</li> <li>-Socioeconomic Advancement and Empowerment</li> </ul>	<p>A combination of eligible Green and Social Projects</p>

Source: Malaysia Securities Commission, 2019.

### Case Study 3: Indonesia

Indonesia's Ministry of Finance implemented a Climate Budget Tagging program that aims to identify and monitor public expenditures that deliver climate change benefits according to the priorities of the Indonesian government.

This subsequent series of Green sukuk issuances, distributed both in the global market and at the domestic retail level, raised over USD 3.9 billion to finance the government's green projects that conform with Shari'ah.

#### 1 Framework

Furthermore, Indonesia issued a Green Framework in January 2018 to provide guidance on the sectors and types of projects eligible to receive proceeds of a green bond or green sukuk issuance. Highlights of the Framework include, but are not limited to, (i) two-step project selection process, (ii) list of eligible projects from the Climate Budget Tagging system and then creating a shortlist of priority projects (iii) reporting process that frames the preparation and presenta-

tion of an annual Impact Report, in addition to (iv) annual independent Auditing Report disclosed to investors, which affirm that proceeds have been managed in accordance with the Green Framework.

In August 2021, Indonesia published a framework titled the "UN SDGs Government Securities Framework" to which all green and sustainability sovereign instruments are required to align to. It is worth noting that the Green and UN SDG framework sets quantitative targets (impact indicators) for eligible projects.

59. CICERO, and IISD. (2021). Republic of Indonesia SDGs Framework Second Opinion. <https://pub.cicero.oslo.no/ciceroxmlui/bitstream/handle/11250/2772846/SPO.%20Republic%20of%20Indonesia.%201%20Sept.%202021.pdf?sequence=1&isAllowed=y>

**Table 5. Indonesia Green and UN SDG Government Securities Framework**

### *Framework Details*

Proceeds Allocation	The net proceeds of Green and UN SDG Government Securities will be used to finance and/or refinance, in whole or in part, new or existing Eligible UN SDG Expenditures with a green and/or social focus.
Management of Proceeds	The Ministry of Finance will manage the processes for allocation of the proceeds of each Green and UN SDG Government Securities issuance, and make sure that the proceeds are used in accordance with this Framework.
Management of Proceeds	The Ministry of Finance will manage the processes for allocation of the proceeds of each Green and UN SDG Government Securities issuance, and make sure that the proceeds are used in accordance with this Framework.
Allocation Period	Not specified
Look-back Period	Up to 2 years before issuance.
Allocation Verification	Indonesia will engage an independent third party to provide assurance on its framework, the annual reporting on Green and UN SDG Government Securities, and the compliance of each Green and UN SDG Government Security issued with this Framework.

### *Second Party Opinion (SPO)*

Initial Verification	IISD jointly with CICERO Shades of Green were the SPO provider, who assured that the framework is found to be in alignment with ICMA's the green bond principles, social bond principles, and sustainability bond guidelines. Also, reported that governance procedures in Indonesia's framework to be Good.
External Reviewer Report	IISD – CICERO noted that regional climate resilience and adaptation measures are to be implemented as part of national regulatory frameworks and Indonesia's updated NDC. <sup>59</sup>

### **Case Study 4.a: Egypt - Sovereign Sustainable Financing Framework**

## 1 Framework

In November 2022, Egypt introduced its “Sovereign Sustainable Financing Framework”, as an update to the current “Sovereign Green Financing Framework”, announcing that the framework will be reviewed regularly and amended as deemed by the designated ministerial steering committee, the “Sustainable Finance Working Group (SFWG)”.

The Sovereign Sustainable Financing Framework is in line with ICMA principles and considers the IFC guidelines for Blue Finance as well as the UN Gender Bonds Guidance.<sup>60</sup> The framework was subject to a Second Party Opinion by an external reviewer.

59. CICERO, and IISD. (2021). Republic of Indonesia SDGs Framework Second Opinion.  
<https://pub.cicero.oslo.no/ciceroxmlui/bitstream/handle/11250/2772846/SPO.%20Republic%20of%20Indonesia.%201%20Sept.%202021.pdf?sequence=1&isAllowed=y>

To ensure a robust practice, Egypt set up the Sustainable Finance Working Group (SFWG) to manage Sovereign Sustainable Finance's related activities. The SFWG is led by the Ministry of Finance and involves 21 government entities in charge of the eligible sustainable categories identified in the framework.

## 2 Framework Details

**Table 6. Egypt Sovereign Sustainable Financing Framework**

<i>Framework Details</i>	
Proceeds Allocation	To finance or re-finance, in part or full expenditures under the eligibility criteria determined in the framework, which are qualified for green and social projects including eligible blue and gender finance. Eligibility criteria are classified under seven categories for green projects, and seven categories for social projects that are associated with identified targeted population for each. Moreover, the share of refinancing will be publicly announced before each issuance.
Inter-Ministerial Committee	Egypt is to set up the Sustainable Finance Working Group (SFWG) to oversee the sovereign sustainable financing activities and their adherence to the framework (including evaluation & selection processes, exclusion criteria, management of proceeds, and reallocation process-if any). Also, the SFWG will review the framework and related processes on regular basis.
Management of Proceeds	The framework clearly identifies the process of allocation and management of proceeds, the unallocated ones, as well as the replacement of projects that turned into ineligible, within a regular monitoring process.
Allocation Period	Egypt committed to allocate proceeds to eligible expenditures by a maximum of two budget years following the budget year of the Sovereign Sustainable Instrument issuance.
Look-back Period	Up to three budget years before the issuance of the Sovereign Sustainable Instrument.
Framework Review	The SFWG will review the framework regularly, and in case of material modification; it will be disclosed. Also, the framework will be posted on the Ministry of Finance website replacing the previous one.
<i>Second Party Opinion (SPO)</i>	
Initial Verification	An SPO was provided by Moody's Investors Service, which assured the framework's alignment with the four components of the ICMA principles and reported that the framework contributes significantly to sustainability. <sup>61</sup>
External Reviewer Report	Egypt is committed to engage an external reviewer on an annual basis until the full allocation of proceeds. All reporting materials will be posted on the Ministry of Finance website.

60. IFC. (2021). Bonds to Bridge the Gender Gap: A Practitioner's Guide to Using Sustainable Debt for Gender Equality. November 2021. Retrieved from: <https://www.unwomen.org/sites/default/files/2021-11/Bonds-to-bridge-the-gender-gap-en.pdf>

## Case Study 4.b: Egypt - Sovereign Green Financing Framework

### 1 Framework

In 2020, Egypt released its Green Financing Framework. This framework was released in accordance with a green bond issuance described in [Appendix 4](#), as a sovereign green financing framework, which has been upgraded to a sustainable framework in November 2022. The Green Bond Framework is based on ICMA standards and its green bonds principles, which were followed by engaging an external reviewer to provide a Second Party Opinion on the framework.

**Table 7. Egypt Sovereign Green Financing Framework**

<i>Framework Details</i>	
Proceeds Allocation	To finance clean transportation (46.2%), sustainable water and wastewater management projects (53.8%).  Proceeds were allocated to eligible expenditures between 2017 and September 2021.
Management of Proceeds	Established Inter- Ministerial Green Financing Working Group, led by Ministry of Finance (see below details in <a href="#">Appendix 4</a> ).
Allocation Period	Egypt committed to allocate green bond proceeds to eligible expenditures no later than 24 months from the bond issuance date, supporting new and existing expenditures.
Look-back Period	Up to 36 months before the issuance of any green bond.
Allocation Verification	Ministry of Finance appoints an external reviewer to assure that the green bond issuance is complying with its Framework.
<i>Second Party Opinion (SPO)</i>	
Initial Verification	A SPO was provided by Vigeo Eiris, who assured the framework alignment with the four core components of the Green Bond Principles 2018.
External Reviewer Report	Vigeo Eiris, an external reviewer, provided its note clarifying that the rules for the management of proceeds are clearly defined and will be verified, i.e. complying with best practice, which will enable a documented and transparent allocation process. <sup>62</sup>

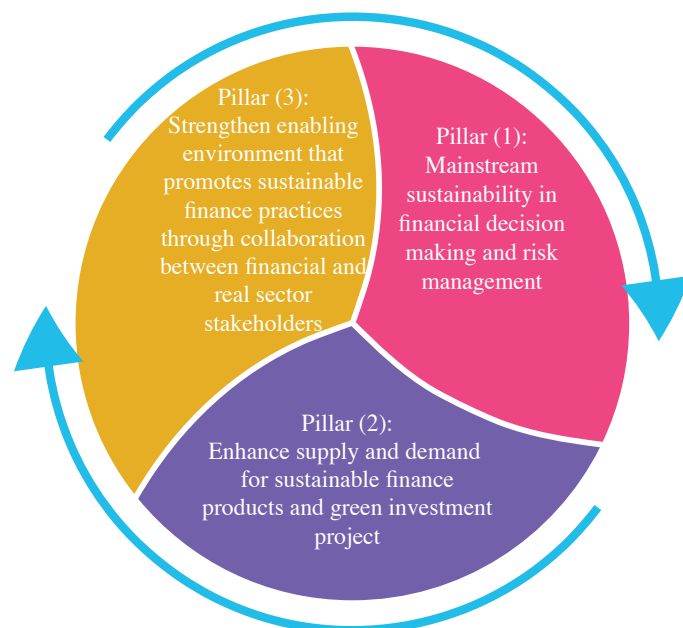
61. Moody's (MIS). (2022). Government of Egypt - Second Party Opinion – Sustainable Financing Framework - Assigned SQS2 Sustainability Quality Score. November 2022. Retrieved from: <https://mof.gov.eg/en/posts/publicDept/636babd5a37898000a9a4ba4/Second%20Party%20Opinion%20Moody%20MIS%209-Nov-2022>

62. Eiris, V. (2020). Second Party Opinion on the sustainability of the Arab Republic of Egypt's Sovereign Green Financing Framework. Retrieved from: [https://assets.website-files.com/5df9172583d7eec04960799a/6274e9631cfa0f54deef31bd\\_20200923\\_VE\\_SPO\\_ARE%20Egypt.pdf](https://assets.website-files.com/5df9172583d7eec04960799a/6274e9631cfa0f54deef31bd_20200923_VE_SPO_ARE%20Egypt.pdf)

Figure 23 Pillars of the UAE Sustainable Finance Framework (2021-2031)

### Case Study 5: UAE Sustainable Finance Framework

Aiming to develop an inclusive taxonomy for social finance and green investment in UAE, the Ministry of Climate Change & Environment published the Sustainable Finance Framework for the period 2021-2031. This framework provides recommendations for the private sector to enhance sustainable finance products and initiatives while mitigating related risks. It is worth noting that all green and sustainable issuances in the UAE have been by banks, corporations and quasi government authorities, such as Masdar (Abu Dhabi Future Energy Company).



Source: UAE Sustainable Finance Framework 2021-2031.

### Case Study 6: Tunisia

In another development across the Arab region, the Tunisian Financial Market Council (Conseil du Marché Financier) issued its guidelines to develop the country's green, social and sustainable bonds market in January 2022. These guidelines articulated specific directions and recommendations that align with ICMA standards.<sup>63 64</sup>

### Case Study 7: Morocco

In 2018, the Moroccan Capital Market Authority (AMMC) issued the Green, Social and Sustainability Bonds guidelines,<sup>65</sup> which followed the Green Bonds guidelines in 2016.<sup>66</sup> This allowed for several green bond issuances including the following:

- In early 2020, five green bonds were issued in Moroccan market for Dirham 4 billion, namely by the Moroccan Agency for Sustainable Energy (Masen), Casablanca Finance City, and two banks.
- In November 2018, the state-owned housing developer, Al Omrane Holding, issued Dirham 500 million green Bonds. The first green bond was issued by Masen in November 2016 for Dirham 1.15 billion.

63. IFC. (2019). IFC, Conseil du Marché Financier of Tunisia Begin Consultation on Green Bonds Guidelines in Tunisia. Retrieved from: <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=16856>

64. ICMA. (2022). Sustainable bond markets – overview of regional market developments and regulations.

65. AMMC. (2018). Green, Social & Sustainability Bonds: Instruments de Financement du Développement Durable. Guide de l'AMMC. Retrieved from: [https://www.ammc.ma/sites/default/files/AMMC\\_%20Guide%20sur%20les%20Green%2C%20Social%20and%20Sustainability%20Bonds.pdf](https://www.ammc.ma/sites/default/files/AMMC_%20Guide%20sur%20les%20Green%2C%20Social%20and%20Sustainability%20Bonds.pdf)

66. AMMC. (2018). Green Bonds Guidelines. Retrieved from: <https://www.ammc.ma/sites/default/files/AMMC%20BROCHURE%20VGB.pdf>



### Case Studies: Sovereign Sustainable Instruments

#### Case Study 1: Chile

In March 2022, Chile issued the world's first sovereign SLB amounting to USD 2 billion over 20 years, at 4.345% coupon. This followed the issuance of Chile's SLB framework that included two KPIs, which assess absolute greenhouse gas emissions and the share of non-conventional renewable energy generation in the national electric system.

According to the Chilean SLB structure, the bond's financial characteristics are linked to the achievement of the sustainability performance targets (SPTs). Bondholders will be paid a premium of 12.5 bps in case one SPT is not met at the target observation date, and the premium will be cumulative (25 bps) in case more than one SPT are not achieved.

#### Case Study 2: Colombia

Colombia's green bond market cumulative issuance reached over USD 1 billion by the end of 2021, including issuances from financial institutions, energy companies and the first green sovereign bond launched in September 2021.

All green bonds were issued domestically in local currency, and are mainly held to maturity, leading to limited trading in the secondary market. Furthermore, some innovation schemes emerged, such as a securitization structure to fund low-carbon buses; known as Bogota's Sustainable Mass Transit Securitization.

Colombia was able to raise funds through the issuance of a 10-year green sovereign bond in the local market, known as TES, which received strong demand from both domestic and foreign investors leading to an increase in its initial offer from 500 billion Colombian pesos (USD 130 million) to 750 billion Colombian pesos (USD 195 million). In addition, it was re-opened in October 2021 for another 650 billion Colombian pesos (USD 169 million).<sup>67</sup>

The green sovereign bonds used the "twin bond" concept, which pairs each green bond with a conventional bond of the same maturity that it can be exchanged with, aiming to have the same terms as the conventional Colombian TES that is due in 2031 with a coupon of 7%. Hence, TES achieved a greenium of 7 bps at issuance. The objective of adapting this innovative model, initiated by Germany and applied by many emerging markets issuers, is to enhance the liquidity of issuances.

Allocation for the green sovereign bond proceeds was dedicated mainly to water management (40%), clean and sustainable transport system (27%), biodiversity protection (16%), nonconventional renewable energies (14%), waste and circular economy (2%); and sustainable agriculture (1%).

Furthermore, the government introduced a portfolio for eligible green expenditure for public investment amounting for 2 trillion Colombian pesos (USD 510 million), which was based on the fiscal plans for 2020 and 2021. It included 27 projects having same allocation as above.

Aiming to give a signal to market stakeholders about the country's consistent approach to build an ecosystem for green and sustainable bonds that align the domestic financial sector with Colombia sustainability objectives, the government undertook various initiatives, both from a legislative and regulatory aspect, or by maintaining a medium-term approach to deepen its local green bond market.

Colombia introduced a comprehensive regulatory framework for sustainable finance that included ESG activities. This also included sustainable finance for banking sector, capital markets, asset management, as well as pension funds.

Moreover, Colombia introduced legislation in 2020 allowing the design of frameworks for the issuance of Sovereign Sustainable Instruments (Law 2073 of

67. Environmental Finance (2022) "Environmental Finance's Bond Awards 2022, Green bond of the year - sovereign: Republic of Colombia". Retrieved from: <https://www.environmental-finance.com/content/awards/environmental-finances-bond-awards-2022/winners/green-bond-of-the-year-sovereign-republic-of-colombia.html>

2020), which was followed by the introduction of the sovereign green bond framework through Resolution 1687 of 2021.

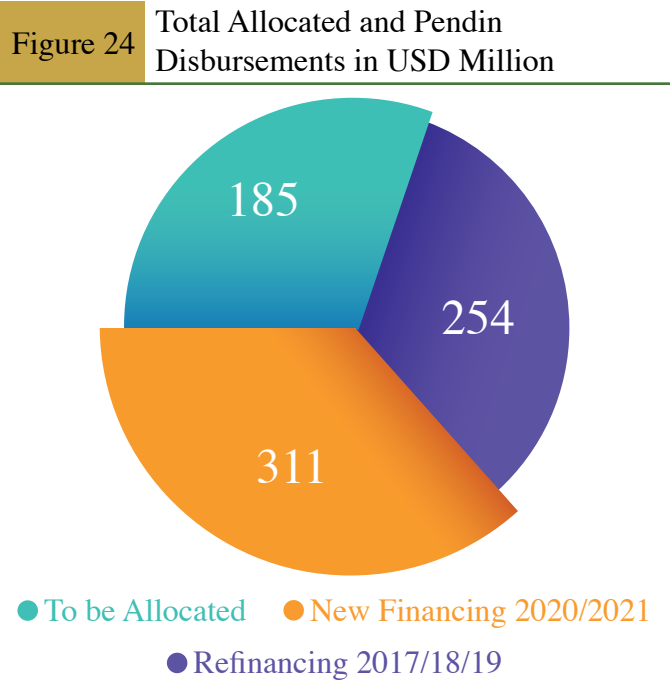
All initiatives were built on international standards and guidance, taking into consideration other countries' experiences.

In April 2022, Colombia initiated a green taxonomy, aiming to support all stakeholders in identifying and evaluating green and environmental activities or assets, provided they meet the country's environmental objectives. The taxonomy has a greater emphasis on land use, since a large volume of Colombia's carbon missions is related to land use. This is in addition to livestock and agriculture, forestry, as well as marine resources.

Case Study 3: Egypt

In September 2020, Egypt raised USD 750 million in 5-year sovereign international green bonds following the release of its Sovereign Green Financing Framework. The issuance was listed on the London Stock Exchange.

Figure 24 below highlights the breakdown of total allocated proceeds including: (i) disbursed expenditures as refinancing (34%); (ii) new financing (41%); and (iii) the remaining amount to be allocated in 2022 (25%).



Source: Egypt Sovereign Green Bond Allocation and Impact Report – 2021, 2022.

Furthermore, the proceeds support Egypt's wider sustainable strategy, Egypt Vision 2030, which aims to raise the proportion of green projects in the government's investment budget from 14 percent in 2020 to 30 percent in 2022.

The preparation process started eight months before the bond launch which was conducted in alignment with ICMA standards and included an external reviewer.

The issuance was well received by investors in global markets, achieving a five times oversubscription and pricing 12.5 bps below a comparable 5-year conventional Eurobond. Based on this reception, the issuance was increased in size from USD 500 million to USD 750 million.

The breakdown of investors revealed a diverse pool from various geographic areas around the world, such as Europe, North and Latin America, Far East, and GCC countries. However, there was a significant concentration of European investors, which can be explained by the continent's well-established sustainable finance industry and high level of investor awareness.

The Egyptian government established an inter-ministerial committee, led by the Ministry of Finance, comprising five other ministries, namely: Planning and Economic Development, Electricity and Renewable Energy, Environment, Housing Utilities and Urban Communities, as well as Petroleum. This working group was a milestone to ensure engagement and close coordination for the whole process, particularly for sharing data and reporting the allocation of proceeds.

Challenges arising from the issuance included showcasing and promoting the objective and relevance of issuance, the coordination with relevant stakeholders from other authorities, the heavy and time-consuming workload that debt management staff face; selection of the eligible projects, the scarcity of knowledge in ESG fields, availability of data, impact assessment task, particularly deriving the impact indicators, especially those related to the environment that need specialized knowledge and experts.

68. World Bank Group. (2020). Supporting Egypt's Inaugural Green Bond Issuance. Retrieved from: <https://www.worldbank.org/en/news/feature/2022/03/02/supporting-egypt-s-inaugural-green-bond-issuance>

Lessons learned from the Egyptian case study mainly included: (i) initiating the Inter-Ministerial Green Financing Working Group. (ii) Ministry of Finance leading an intra-agency coordination and keeping a regular pace spreading awareness among official authorities on various aspects of green and sustainable issuance (iii) debt management staff expertise in that field evolving tremendously through the course of sovereign green bond issuance and other planned labeled instruments, (iv) conducting investor relations related to green and sustainable instruments, and (v) formulating guidelines at the national level.

#### Case Study 4: Germany

Germany placed its fourth sovereign domestic green bond in September 2021, with a 10-year tenor and initial size of EUR 3.5 billion, as part of the EUR 24 billion total green sovereign bonds; which represents 2% of total sovereign debt by end of 2021.

Following its twin-bond methodology, Germany matched the new green issuance with a vanilla bond sized by EUR 5 billion and issued in June 2021.

The green bond was distributed in the local market via auction mechanism aiming to build higher order books compared to syndicated transactions. The auction comprised 31 eligible primary dealers that can distribute their allocations to their own clients.

The fourth green bond achieved a greenium of 4.3 bps, adding one data point to the German green yield curve that covers up to this moment four points.

#### Case Study 5: Singapore

In August 2022, Singapore issued its first sovereign green bond, amounting to 2.4 billion Singapore dollar (SGD) for a 50-year maturity, labeled Green Singapore Government Securities “SGS” (Infrastructure); the longest tenor yet for a sovereign green bond. The SGS will be used to finance long-term green infrastructure in Singapore, in particular the upcoming rail lines: Cross Island Line and Jurong Region Line.<sup>69</sup>

The issuance followed the 2022 budget announcement, by which the public sector will issue up to SGD 35 billion of green bonds by 2030, which will fall under the overall judicial gross borrowing limit and the annual effective interest cost limit. Singapore Green

Bond aim to maintain Singapore commitments to decarbonisation and adoption of its Green Plan 2030 that accelerate achieving sustainable development national agenda, in addition to deepen the domestic green market.<sup>70</sup>

The SGS yield annual coupon of 3.00% and an effective yield of 3.04%, corresponding to 11 basis points tighter than the targeted price at the beginning of the book building; and was placed into two tranches, SGD 2.35 billion to institutional and accredited investors, while the remaining SGD 50 million were dedicated to individual investors, who were able to submit their demand via designated electronic applications. Moreover, the issuance was well received by investors, reaching a coverage ratio of 2.26 times over the offered amount.<sup>71</sup>

The SGS framework was released in June 2022 based on both the ICMA Green Bond Principles 2021 and the ASEAN Green Bond Standards 2018. Similarly, green eligibility criteria were set in adherence to global standards, e.g. the ICMA Green Bond Principles and the Climate Bond Initiative Taxonomy and Sector Criteria.<sup>72</sup>

The Second Party Opinion review was provided by Sustainalytics, who reported that the SGS framework is in line with the ICMA Green Bond Principles 2021 and the ASEAN Green Bond Standards 2018.<sup>73</sup>

A major milestone was the establishment of Green Bond Steering Committee (GBSC) aiming to ensure robust governance, transparency, and accountability. The GBSC is mandated to run Singapore green bond and make related decisions, including (i) design and maintenance of the framework, (ii) selection and evaluation of eligible green projects and management of proceeds, as well as (iii) reporting of allocation and impact of the issued green bond.

The GBSC is led by the Second Minister for Finance and involves members from: (i) Ministry of Finance, (ii) Monetary Authority of Singapore, (iii) Accountant-General’s Department, (iv) Ministry of Sustainability and the Environment, and (vi) Ministry of Transport.<sup>74</sup>

69. Singapore Ministry of Finance. (2022). Green Bonds. Retrieved from: <https://www.mof.gov.sg/policies/fiscal/greenbonds>.

70. Ibid

## Case Study 6: United Kingdom <sup>75-76</sup>

The UK conducted diverse initiatives to pursue its leadership in green finance and set itself as a global hub for green and sustainable finance. This mainly consisted of developing a green taxonomy and positioning the London Stock Exchange as a high-profile venue for green, sustainable, and transition bonds attracting issuers from around the world.

The UK green bond framework was issued in June 2021, which classified six eligible project categories for green expenditures, namely clean transportation, renewable energy, energy efficiency, pollution prevention and control, living and natural resources, and climate change adaptation. Additionally, it provided a non-exhaustive list of sub-categories and examples of projects within them. Furthermore, each category referred to metrics to monitor environmental and social positive impacts and benefits.

In September 2021, the UK issued its first sovereign green bond, known as the “green Gilt”, in the amount of at a price of GBP 10 billion (USD 13.6 billion) over 22 years (maturing in 2033). This was the largest green sovereign issuance at the time, it was 10 times oversubscribed, attracting an order book of over GBP 100 billion. The 22-year green Gilt achieved a greenium of 2.5 bps.

Another green Gilt was issued in October 2021 in the amount of GBP 6 billion (USD 8.3 billion), with a 31 year tenor (2053), having an order book that exceeded GBP 74 billion. It is worth noting that both green Gilt attracted large institutional investors, from which local investors were allocated 83% of the 2033 green Gilt, and 88% of the 2053 green Gilt.

A major milestone was the establishment of an inter-departmental Green Bond Board by the HM Treasury. This board comprised representatives from various players, namely: the HM Treasury as a Chair, the UK Debt Management Office, the Department for Business, Energy & Industrial Strategy (BEIS), the Department for Environment, Food & Rural Affairs (Defra), the Department for Transport (DfT), the Foreign, Commonwealth & Development Office (FCDO), and the National Savings and Investments (NS&I).

The inter-departmental Green Bond Board was mandated to support the HM Treasury in: (i) the design, implementation and maintenance of the Green Financing Framework, (ii) the evaluation and selection of Eligible Green Expenditures, (iii) the allocation and management of Green Financing proceeds, and (iv) investor reporting on Green Financing.

71. Monetary Authority of Singapore. (2022). 50-year Inaugural Sovereign Green Bond. Retrieved from: <https://www.mas.gov.sg/news/media-releases/2022/singapore-prices-2-4-billion-50-year-inaugural-sovereign-green-bond-public-offer-now-open-for-individual-investors>

72. Singapore Ministry of Finance. (2022). Singapore Green Bond Framework. Retrieved from: <https://www.mof.gov.sg/docs/default-source/policies/fiscal/singapore-green-bond-framework.pdf>.

73. Singapore Ministry of Finance. (2022). Second Party Opinion. Retrieved from: <https://www.mof.gov.sg/docs/default-source/policies/fiscal/second-party-opinion.pdf>.

74. Singapore Ministry of Finance. (2022). Singapore Green Bond Framework. Retrieved from: <https://www.mof.gov.sg/docs/default-source/policies/fiscal/singapore-green-bond-framework.pdf>.

75. HM Treasury, and UK Debt Management Office. (2021). UK Government Green Financing Framework. Retrieved from: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1002578/20210630\\_UK\\_Government\\_Green\\_Financing\\_Framework.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1002578/20210630_UK_Government_Green_Financing_Framework.pdf)

76. Climate Bonds Initiative. (2022). Sustainable Debt Global State of the Market 2021. Retrieved from: <https://www.climatebonds.net/resources/reports/sustainable-debt-global-state-market-2021>

## Appendix 5

### Sovereign Issuers' Frameworks

The table below provides a snapshot of the frameworks that have been published by sovereign issuers across Asia, Europe, Latin America and the Arab region and details the different departments that are involved in the process of a Sovereign Sustainable Bond issuance.

Country (Framework) - where published	Maximum “look-back” and “look-forward” period for use of proceeds	Department responsible for overseeing identification of possible uses of proceeds	Committee responsible for monitoring / management of allocations and coordinating reporting	Committee representatives or other departments that assist the lead department	Frequency of Committee Meetings
<u><a href="#">Egypt (Sovereign Sustainable Financing Framework 2022)</a></u> – Ministry of Finance website	3 budget years and 2 budget years following the year of issuance.  Unallocated proceeds will be directed toward cash investments.	Ministry of Finance with members of the steering committee, called the Sustainable Finance Working Group (SFWG).	Sustainable Finance Working Group (SFWG).	Ministry of Finance (chair) and 21 government entities in charge of the eligible sustainable categories and projects.	Regular meetings and whenever deemed appropriate.  Semi-annual review of eligible projects, exclusion criteria, and the compliance to the eligibility criteria.
<u><a href="#">Singapore (Green Bond framework) – Ministry of Finance website</a></u>	2 years and 2-3 years.  Unallocated proceeds will be held as cash or in short-term liquidity instruments.	Ministry of Finance with members of the Green Bond Steering Committee.	Green Bond Steering Committee (GBSC).	Ministry of Finance (Chair), <b>GBSC Members:</b> - Monetary Authority of Singapore, - Accountant-General's Department, - Ministry of Sustainability and the Environment, - Ministry of Transport.	Not stated
<u><a href="#">Chile (Green Bond Framework, updated) – Ministry of Finance website</a></u>	1 year and 1 year (with flexibility to look-forward further).	Ministry of Finance with the support of Ministry of Environment	Green Bond Committee	Ministry of Finance (co-chair), Ministry of Environment (co-chair), Ministry of Public works, Ministry of Energy, Ministry of Transport, Ministry of Agriculture and others	Not stated



<u><a href="#">Egypt (Green Financing Framework, September 2020)</a></u> – Ministry of Finance website	3 years and 2 years	Green Finance Working Group	Green Finance Working Group	Ministry of Finance (Chair), Ministry of Planning and Economic Development, Ministry of Environment, Ministry of Transportation, Ministry of Housing, Utilities & Urban Communities, Ministry of Electricity and Renewable Energy, New and Renewable Energy Authority, Egyptian Electricity Transmission Company and Construction, Authority for Potable Water & Wastewater	Semi-annual consultations and reviews
<u><a href="#">Hong Kong (Green Bond Framework, 28 March 2019)</a></u> – published on a dedicated Government Bonds website	2 financial years and 2 financial years	Steering Committee on the Government Green Bond Program	Steering Committee on the Government Green Bond Program	Financial Secretary (chair), Secretary for Financial Services and the Treasury, Secretary for the Environment and Deputy Chief Executive of the Hong Kong Monetary Authority and others	Not stated
<u><a href="#">Italy (Green Bond Framework, February 2021)</a></u> – Ministry of Economy and Finance website	3 years and 1 year	Department of Treasury in the Ministry of the Economy and Finance	Inter-ministerial Committee	Ministry of the Economy and Finance (who also acts as President and Secretary of the Committee), Prime Minister Office, Ministry of the Environment, Ministry of Economic Development, Ministry of Infrastructure and Transportation, Ministry of University and Research, Ministry of Tourism and Cultural Goods and Ministry of Agriculture.	Committee will monitor use of funds annually

<a href="#"><u>Ireland (Green Bond Framework, 19 July 2018) – National Treasury Management Agency website</u></a>	2 years and not stated	Green Bond Working Group	Green Bond Working Group	National Treasury Management Agency, Department of Public Expenditure and Reform, Department of Communications, Climate Action and Environment, and Department of Finance	Not stated
<a href="#"><u>Latvia (Sustainability Bond Framework, November 2021) – Treasury website</u></a>	2 budget years and 2 budget years	Treasury of the Republic	Inter-ministerial Working Group (“IWG”)	Ministry of Finance (chair) and Treasury of the Republic	IWG will meet at least once a year
<a href="#"><u>Peru (Sustainable Bond Framework, July 2021) – Ministry of Economy and Finance website</u></a>	3 fiscal years and no limit	Ministry of Economy and Finance	Ministry of Economy and Finance	Ministry of Economy and Finance (chair), General Directorate of Multiannual Investment Programming, and General Directorate of Public Budget (the General Director of the Public Treasury involved in the implementing issuances and transferring proceeds)	Not stated
<a href="#"><u>Philippines (Sustainable Finance Framework, November 2021) – Department of Finance website</u></a>	2 years and 2 budget years	Interagency Technical Working Group on Sustainable Finance (through the Department of Budget and Maintenance)	Interagency Technical Working Group on Sustainable Finance (under the Philippines’ Development Budget Coordination Committee)	Department of Finance, Bureau of the Treasury, National Economic Development Authority, Department of Budget, and Management, and other sectoral experts from industries and academia, as well as other national government agencies.	Not stated

<p><b><u>United Kingdom</u></b>  <b><u>(Green Financing</u></b>  <b><u>Framework,</u></b>  <b><u>June 2021)</u></b> –  <b>UK Government</b>  <b>website</b></p>	<p>1 budget year, and  2 budget years</p>	<p>HM Treasury</p>	<p>Inter-departmental  Green Bond Board</p>	<p>Senior representatives  from HM Treasury  (chair), the UK Debt  Management Office,  National Savings &amp;  Investments,  Department for  Business, Energy and  Industrial Strategy,  Department for  Environment,  Food and Rural  Affairs, Department  for Transport,  Foreign and  Commonwealth  Office, and all  other departments  whose budgets  include eligible  green expenditures</p>	<p>Committee meets  at least twice a year.</p>
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Glossary of Sustainable Finance Terms <sup>77</sup>

**2015 Paris Agreement:** The Paris Agreement is the legally binding international treaty on climate change adopted by COP 21 in Paris, on 12 December 2015 and entered into force on 4 November 2016.

**Arab Countries:** Jordan, United Arab Emirates, Bahrain, Tunisia, Algeria, Djibouti, Saudi Arabia, Sudan, Syria, Somalia, Iraq, Oman, Palestine, Qatar, Comoros, Kuwait, Lebanon, Libya, Egypt, Morocco, Mauritania, and Yemen. <sup>78</sup>

**Baseline:** the baseline is a fixed point of reference that is used for comparison, to determine the measurement of the performance of the Sustainability Performance Targets (SPTs).<sup>1</sup>

**Benchmark:** a benchmark is a reference that can be used to measure or compare performance.<sup>1</sup>

**Blue Bond:** fixed income instruments that are aligned to the Green Bond Principles and where the proceeds are exclusively dedicated to finance or refinance activities that contribute to oceans protection and/or improved water management.<sup>2</sup>

**Blue Economy:** sustainable use of ocean resources for economic growth, improved livelihoods, and jobs, while preserving the health of ocean ecosystems and water resources.<sup>2</sup>

**Blue Finance:** investments dedicated to finance or refinance activities that contribute to oceans protection and/or improved water management.<sup>2</sup>

**Blue Impact:** The measurable variation in a physical, chemical, or biological variable of oceans ecosystems or water related systems as expressed by a quantitative indicator.<sup>2</sup>

**Blue Loan:** a loan that is aligned to the Green Loan Principles and where the proceeds are exclusively dedicated to finance or refinance activities that contribute to oceans protection and/or improved water management.<sup>2</sup>

**Circular Economy:** a type of economic system that, depending on its design, may be either restorative or regenerative. Circular economies are based on business models that either shift the “end-of-life” of resources toward waste reduction or reuse, recycle, and recover materials in the production, distribution and consumption of products. Consequently, a circular economy operates at three levels: the micro level (products, companies, consumer), the meso level (eco-industrial parks) and the macro level (city, region, nation and beyond), with the aim to accomplish sustainable development for the benefit of current and future generations.<sup>3</sup>

**Climate Change:** a long-term shift in global or regional climate patterns. Often climate change refers specifically to the rise in global temperatures from the mid-20<sup>th</sup> century to present. Climate change has also been connected with other damaging weather events such as more frequent and more intense hurricanes, floods, downpours, and winter storms.<sup>4</sup>

**Climate Resilience Investments:** improve the ability of assets and systems to persist, adapt and/or transform in a timely, efficient and fair manner that reduces risk, avoids maladaptation, unlocks development and creates benefits, including for the public good, against the increasing prevalence and severity of climate-related stresses and shocks.<sup>5</sup>

**Climate Resilience Principles:** principles developed by the Climate Bonds Initiative which require issuers to demonstrate that for the assets and activities (re)financed via a green bond that they: (i) understand the climate risks posed by the asset, activity or system in question; (ii) have addressed those risks by undertaking risk-reduction measures and adopting flexible management plans that take account of inherent uncertainties around climate change, ensuring that the asset, activity or system is robust, flexible and fit-for-purpose in the face of that uncertainty; (iii) can deliver resilience benefits over and above addressing identified risks (for system-focused investments), and (iv) are undertaking regular (re)evaluation of the asset and/or system’s climate resilience performance, while adjusting to risk reduction measures over time as needed.<sup>6</sup>

77. This glossary of terms includes sustainable finance terms and their definitions aiming to increase awareness of such industry in the Arab region.

78. Arab countries are listed in the Arabic alphabetical order of the League of Arab States.

**Climate Transition Bonds:** new products that aim to finance the transition to a low-carbon economy. ICMA has not published separate guidelines for climate transition-labeled bonds. The “Climate Transition Finance Handbook” published by ICMA in December 2020 recommends disclosures for issuers marking either use-of proceeds or sustainability-linked instruments with a climate transition label. Key elements of the recommended disclosures include the issuer’s climate transition strategy and governance; business model environmental materiality; a science-based climate transition strategy; and an implementation transparency.<sup>7</sup>

**ESG:** Environmental, Social and Governance.

**External Review:** it is recommended that issuers appoint an external review provider(s) to assess, through a pre-issuance external review, the alignment of their Green, Social and Sustainable Bond program and/or framework with the four core components of the ICMA Principles (i.e. Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting).<sup>8</sup>

ICMA’s Green Bond and Social Bond Principles Executive Committee has published Guidelines for External Review and have outlined 4 types of external review

- (i) Second Party Opinion
- (ii) Verification
- (iii) Certification and (iv) Scoring/Rating.<sup>1</sup>

The Social Linked Bonds Principles recommend pre-issuance Second Party Opinions but requires Verification as one of its five core components.<sup>1</sup>

**The Five Capital:** the five types of sustainable capital that humans depend on to create the goods and services required to improve life (natural, human, social, manufactured and financial capital).<sup>9</sup>

**Framework:** outlines the issuer approach for launching the Sovereign Sustainable Instruments in term of design, commitment, transparency and disclosure practices. It also includes relevant information within the context of the issuer’s overarching sustainability strategy.

**Green Bonds:** any type of bond instrument where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects and which are aligned with the four core components of the Green Bond Principles (GBP).<sup>8</sup>

**The Green Bond Principles (GBP):** developed under the auspices of the International Capital Markets Association (ICMA) with four components: use of proceeds, process for project evaluation and selection, management of proceeds, and reporting. These principles were updated in June 2021 to identify key recommendations regarding green bond frameworks and external reviews. A number of countries and jurisdictions have developed their own set of guidelines for green bond issuance, many of which align with the GBP.<sup>7</sup>

## Types of Green Bonds:<sup>10</sup>

**Standard Green Use of Proceeds Bond:** a standard recourse-to-the-issuer debt obligation aligned with the GBP.

**Green Revenue Bond:** a non-recourse-to-the-issuer debt obligation aligned with the GBP in which the credit exposure in the bond is to the pledged cash flows of the revenue streams, fees, taxes etc., and whose use of proceeds go to related or unrelated Green Project(s).

**Green Project Bond:** a project bond for a single or multiple Green Project(s) for which the investor has direct exposure to the risk of the project(s) with or without potential recourse to the issuer, and that is aligned with the GBP.

**Secured Green Bond:** a secured bond where the net proceeds will be exclusively applied to finance or refinance either:

- i. The green project(s) securing the specific bond only (a “Secured Green Collateral Bond”); or
- ii. The green project(s) of the issuer, originator or sponsor, where such green projects may, or may not be, securing the specific bond in whole, or in part (a “Secured Green Standard Bond”). A Secured Green Standard Bond may be a specific class in and of itself or tranche within a larger transaction.

Secured Green Bonds may include, but are not limited to, covered bonds, securitizations, asset-backed commercial paper, secured notes and other secured structures, where generally, the cash flows of assets are available as a source of repayment or assets serve as security for the bonds in priority to other claims.

**Greenhouse Gas:** a combination of gases, such as carbon dioxide, methane and chlorofluorocarbons, which contribute to the greenhouse effect by absorbing infrared radiation.<sup>11</sup>



## **Green, Low-carbon and Sustainable Finance:**<sup>12</sup>

the terms “green finance”, “sustainable finance”, “climate finance” and “low carbon finance” relate to an overlapping territory of issues, applied to financial decision-making and flows:

**1. Environmental issues:** relate to the quality and functioning of the natural environment and natural systems including biodiversity loss, greenhouse gas emissions, renewable energy, energy efficiency, natural resource depletion or pollution, waste management, ozone depletion, changes in land use, ocean acidification and changes to the nitrogen and phosphorus cycles.

**2. Social issues:** relate to the rights, well-being and interests of people and communities including human rights, labor standards, health and safety, relations with local communities, activities in conflict zones, health and access to medicine, consumer protection, and controversial weapons.

**3. Economic issues:** relate to investees’ impacts on economic conditions at local, national, and global levels. Performance areas include direct financial performance and risk, and indirect impacts such as through employment, supply chains, and provision of infrastructure.

**4. Governance issues:** are related to the management of investee entities. Issues include board structure, size, diversity, skills and independence, executive pay, shareholder rights, stakeholder interaction, disclosure of information, business ethics, bribery and corruption, internal controls and risk management, and, in general, issues dealing with the relationship between a company’s management, its board, its shareholders and its other stakeholders.

**Green or Sustainable Taxonomy:** describes a classification system that identifies activities, assets or revenue segments that deliver on key environmental/sustainable objectives. A taxonomy is intended to provide clarity and guidance to financial market participants on which activities/assets are eligible for sustainable investment providing a crucial framework for market standardization. Taxonomies help issuers to identify suitable projects to finance on the one hand, and investors to preference sustainable investments on the other. In recent years, it has gained increasing market acceptance and use.<sup>13</sup>

**Greenwashing:** greenwashing is when a management team makes incomplete, unsubstantiated, or outright false claims around the sustainability characteristics of a product, service, or a firm’s actual operations. Greenwashing tends to occur when management teams wish to appear that they are engaged in rigorous ESG analysis, given the pressure to do so in today’s business environment. Management teams that wish to avoid the perception of greenwashing must present ESG disclosures using a reputable, global reporting framework such as GRI, PRI, or SASB. These frameworks require that the presentation of ESG information be standardized and comparable.<sup>14</sup>

**Key Performance Indicators (KPIs):** quantifiable metrics used to measure the performance of selected indicators.<sup>1</sup>

**Lead Ministry:** the sovereign issuer’s Ministry of Finance, Debt Management Office or other government entity or department responsible for the issuance of a Sovereign Sustainable Instrument.

**Look-back Period:** refers to a maximum period in the past that an issuer will look back to identify assets/earlier disbursements to such eligible sustainable projects that will be included in the sustainable instrument reporting.<sup>25</sup>

**Nationally Determined Contributions (NDCs):** a non-binding national plan which highlights climate change mitigation, including climate-related targets for greenhouse gas emission reductions. These plans also include policies and measures governments aim to implement in response to climate change and as a contribution to achieve the global targets set out in the Paris Agreement.

**Net Positive:** an approach to doing business where more resources are channeled back into society, the environment and the global economy than are taken out.<sup>15</sup>

**Social Bonds:** are any type of bond instrument where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible Social Projects and which are aligned with the four core components of the Social Bond Principles (SBP).<sup>16</sup>

**Social Bond Principles (SBP):** principles that outline best practices when issuing bonds serving social and/or environmental purposes through global guidelines and recommendations that promote transparency and disclosure, thereby underpinning the integrity of the market. ICMA's SBP have four components analogous to the GBP: use of proceeds, process for project evaluation and selection, management of proceeds, and reporting.<sup>16</sup>

The 2017 SBP were updated in June 2020 to reflect changes in the market in light of the COVID-19 pandemic, notably by expanding social project categories and target populations. It was then further updated in June 2021, to identify key recommendations regarding social bond frameworks and external reviews.<sup>7</sup>

### Types of Social Bonds:<sup>17</sup>

**Standard Social Use of Proceeds Bond:** a standard recourse-to-the-issuer debt obligation aligned with the Social Bond Principles (SBP).

**Social Revenue Bond:** a non-recourse-to-the-issuer debt obligation aligned with the SBP in which the credit exposure in the bond is to the pledged cash flows of the revenue streams, fees, taxes etc., and whose use of proceeds go to related or unrelated Social Project(s).

**Social Project Bond:** a project bond for a single, or multiple, Social Project(s) for which the investor has direct exposure to the risk of the project(s) with or without potential recourse to the issuer, and that is aligned with the SBP.

**Secured Social Bond:** a secured bond where the net proceeds will be exclusively applied to finance or refinance either:

- i. The Social Project(s) securing the specific bond only (a "Secured Social Collateral Bond"); or
- ii. The Social Project(s) of the issuer, originator or sponsor, where such Social Projects may, or may not be, securing the specific bond in whole, or in part (a "Secured Social Standard Bond"). A Secured Social Standard Bond may be a specific class or tranche of a larger transaction.

This Secured Social Bond category may include, but is not limited to, covered bonds, securitizations, asset-backed commercial paper, secured notes and other secured structures, where generally, the cash flows of assets are available as a source of repayment or assets serve as security for the bonds in priority to

other claims.

**Socially Responsible Investing (SRI):** an investment approach that aims to avoid objectionable business practices that exploit human or natural resources for profit.<sup>18</sup>

**Social Return on Investment (SROI):** a tool that organizations can utilize to measure the social, environmental and economic value they are creating.<sup>19</sup>

**Sovereign Sustainable Instrument:** an instrument issued by the sovereign, which is aligned with the four core components of green, social, and sustainable bond principles; namely: (i) Use of Proceeds, (ii) Process for Project Evaluation and Selection, (iii) Management of Proceeds, and (iv) Reporting.

**Sustainability Bonds (SBs):** are any type of bond instrument where the proceeds, or an equivalent amount, will be exclusively applied to finance or re-finance a combination of both Green and Social Projects. 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.<sup>20</sup>

**Sustainability Bond Guidelines (SBGs):** established by ICMA and are aligned with the core components of both Green Bond Principles and Social Bond Principles.<sup>20</sup>

**Sustainability-Linked Bonds (SLBs):** any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ ESG objectives. In that sense, issuers are thereby committing explicitly (including in the bond documentation) to future improvements in sustainability outcome(s) within a predefined timeline. SLBs are a forward-looking performance-based instrument.

Those objectives are (i) measured through predefined Key Performance Indicators (KPIs) and (ii) assessed against predefined Sustainability Performance Targets (SPTs).

The proceeds of SLBs are intended to be used for general purposes, hence the use of proceeds is not a determinant in its categorization. Regardless, in select cases, issuers may choose to combine the GBP/SBP approach with the SLBP. Thus, please note that SLB are not to be confused with Sustainability Bonds (i.e. Use of Proceeds bonds).

**The Sustainability-Linked Bond Principles (SLBP):** guidelines published by ICMA that recommend structuring features, disclosure and reporting for SLBs. They are intended for use by market participants and are designed to drive the provision of information needed to increase capital allocation to such financial products.<sup>1</sup>

**Sustainability Performance Targets (SPTs):** measurable improvements in KPIs on to which issuers commit to a predefined timeline. SPTs should be ambitious, material and where possible benchmarked and consistent with an issuer's overall sustainability/ESG strategy.<sup>1</sup>

**Sustainable Development:** sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.<sup>21</sup>

**Sustainable Development Goals (SDGs):** were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that, by 2030, all people will enjoy peace and prosperity. The 17 UN SDGs are integrated so that development must balance social, economic and environmental sustainability.<sup>22</sup>

**Sustainable Finance:** sustainable finance generally refers to the process of taking due account of environmental and social considerations when making investment decisions, leading to increased investment in longer-term and sustainable activities.<sup>23</sup>

**Sustainable Finance Outcome:** an outcome that is designed so that capital flows to activities are aligned with the transition to a sustainable future. For the context of this course, a sustainable financial outcome is defined as the positive change resulting from an action or initiative that contributes to achieving the goals of the UN 2030 agenda, sustainable development goals and the Paris Agreement.<sup>15</sup>

**Target Observation Date:** the specific date at which the performance of each KPI(s) against each predefined SPT(s) is observed.<sup>1</sup>

**Target Setting:** the recommended process of establishing credible SPTs as outlined in the SLBPs.<sup>1</sup>

**Taxonomy:** generally used in scientific fields to describe a system for the identification and classification of information.<sup>24</sup>

**Trigger Event:** the result of the observation of whether a KPI has achieved a given predefined SPT or not, which may cause a change in the financial and/or structural characteristics of the bond.<sup>1</sup>

**Use-of-Proceeds Bonds/Sukuk:** these instruments are devoted to financing new and existing projects, or activities, with positive environmental and/or social impacts.

**Verification:** a verification or attestation, typically in the form of limited or reasonable assurance, is performed by an independent third party with relevant expertise and credentials.<sup>1</sup>

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