Global context for green stimulus

South Africa / Sean Kidney
Context: green bonds growth

Use of proceeds has changed as the market has developed
Green Bonds pricing

**Bookbuilding**
- Tend to attract larger book cover than vanilla equivalents
- Tend to experience larger spread compression than vanilla equivalents

**Pricing**
- 20% greenium, 30% on the curve, 50% normal new issue premium
- 53% average of green bonds placed with investors describing themselves as green

**Secondary**
- Tend to tighten more than equivalent indices in the secondary market
- Tend to tighten more than vanilla baskets in the secondary market

+ Halo effect in stock market
Green bonds have spawned a larger market
2020 has seen a boost for social & sustainability bonds
Examples

Netherlands, France, Germany sovereigns
Indonesia Pandemic - USD750m
China – 700 COVID bonds
EU Resilience & Recovery Fund
Green finance standards to date

Voluntary rules for green bonds

Global efforts

Sustainability disclosure regulation
Taxonomy regulation

CBIRC Green Credit Guidelines
Green bond regulations
Green industry classifications

Japan Ministry of Enviro green bond guidelines

India Securities Commission green bond guidelines

ASEAN securities regulators issue joint green bond guidelines

Market Development

Regulation & official guidelines
Listing requirements
Private initiatives
In the pipeline
Taxonomy clarity helps market growth
## EU Action plan on financing sustainable growth

The Action Plan 2018 stretches across the whole investment chain

<table>
<thead>
<tr>
<th>1</th>
<th>Taxonomy</th>
<th>Develop an EU classification system for environmentally sustainable economic activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Standards and labels</td>
<td>Develop EU standards (such as EU Green Bond Standard) and labels for sustainable financial products (via Ecolabel) to protect integrity and trust of sustainable finance market</td>
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<tr>
<td>3</td>
<td>Fostering investment in sustainable projects</td>
<td>Exploring measures to improve the efficiency and impact of instruments aiming at investment support. Mapping on investment gaps and financing.</td>
</tr>
<tr>
<td>4</td>
<td>Incorporating sustainability in financial advice</td>
<td>Amend MiFID II and IDD delegated acts to ensure that sustainability preferences are taken into account in the suitability assessment.</td>
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<tr>
<td>5</td>
<td>Developing sustainability benchmarks</td>
<td>Develop climate benchmarks and ESG disclosures for benchmarks</td>
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<tr>
<td>6</td>
<td>Sustainability in research and ratings</td>
<td>Explore how credit rating agencies could more explicitly integrate sustainability in to their assessments. Study on sustainability ratings and research and exploring possible measures to encourage their uptake.</td>
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<tr>
<td>7</td>
<td>Disclosures by financial market participants</td>
<td>Enhance transparency to end-investors on how financial market participants consider sustainability</td>
</tr>
<tr>
<td>8</td>
<td>Sustainability in prudential requirements</td>
<td>Explore the feasibility of reflecting sustainability in prudential rules (where justified from a risk perspective)</td>
</tr>
<tr>
<td>9</td>
<td>Strengthening sustainability disclosures by corporates</td>
<td>Enhance climate and sustainability-related information provided by corporations</td>
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<tr>
<td>10</td>
<td>Fostering sustainable corporate governance &amp; promoting long-termism</td>
<td>Collect evidence of undue short-term pressures from capital markets on corporations and consider steps for promoting corporate governance that is more conducive to sustainable investments.</td>
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</tbody>
</table>
EU Taxonomy covers all financial sector

1. Financial market participants: bonds, equity, activities
   • Investors with more than 500 staff
   • Corporations
   • Banks
2. EU Member States
3. Companies seeking EU finance

A conceptual shift from relative measures to absolute measures.
EU Taxonomy - common framework

Science-based
Leverage existing labels
Dynamic

- Substantially contribute to at least one of the six environmental objectives as defined in the proposed Regulation
- Do no significant harm to any of the other five environmental objectives as defined in the proposed Regulation
- Comply with minimum safeguards

Climate mitigation & adaptation
Circular economy
Protection of marine resources
Pollution prevention
Biodiversity restoration
Taxonomy is about transition and resilience as well as green

**Low carbon & enabling investments**
- Likely to be stable and long term
- Clean energy, transport, afforestation
- Manufacture of components
- Mining

**Contributing to transition**
- Likely to be revised regularly and tightened over time
- Dirty industries going clean
- Buildings - best in class

**Adaptation & resilience**
- Infrastructure hardening
- Resilience measures
- Climate risk advisory services

**Recovery**
- Economic & social resilience
- Health system investments
- Economy support measures
- Food security
Taxonomies developing around the world

**Electricity:** 100gms Coe/KWh
- Solar, wind, geothermal, hydro
- Gas only if with CCS
- Storage, transmission

**Transport**
- Very low emissions: electric, hydrogen

**Energy efficiency, adaptation**

**Buildings**
- Top 15%, or 30% improvements
- Supply chain / SMEs

**Landuse**
- Maintaining carbon
- Improving carbon
- Best practice farming

**Transport**
- Very low emissions: electric, hydrogen

**Energy efficiency, adaptation**

**Manufacturing**
- Transitions
- Components
- Aluminium
- Steel
- Concrete
- Plastics

**Next**
- Shipping
- Aviation
- Mining
- Tourism
- Fisheries

**Resilience**
Process

1. Supervisory committee formed. Prepare brief for experts.
2. Compare existing taxonomies. Decide on Fast Track and other sectors.
3. Choose domain experts, by invitation or open call.
4. Meet on industry sector groups: get experts to review default criteria and discuss potential new criteria.
5. Public consultation for drafts.
1. Green stimulus with jobs
   - Energy efficiency & green buildings
   - Enviro restoration, afforestation
   - Distributed solar
   - Just transition

2. Institutionalising resilience
   - Agriculture & food
   - Health
   - Economic resilience
     Emergency cash & automatic stabilisers
     SME support measures
   - Social resilience
     Sick pay portability
     Connectivity
   - EcoSystem resilience
     Biodiversity

3. Sovereign bonds
   Recovery & resilience
   Reporting & transparency

4. International collaboration
   - China-EU harmonization
   - IPSF

Next