Green Bond Principles, 2014
Voluntary Process Guidelines for Issuing Green Bonds

January 13, 2014

I. EXECUTIVE SUMMARY

Green Bonds enable capital-raising and investment for new and existing projects with environmental benefits. Recent activity indicates that the market for Green Bonds is developing rapidly. The Green Bond Principles (GBP) are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond. The GBP are intended for broad use by the market: they provide issuers guidance on the key components involved in launching a credible Green Bond; they aid investors by ensuring availability of information necessary to evaluate the environmental impact of their Green Bond investments; and they assist underwriters by moving the market towards standard disclosures which will facilitate transactions.

The GBP include guidelines for: Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting. There is diversity of opinion on the definition of Green Projects; therefore it is not the intent of the GBP to opine on the eligible Green Project categories. The GBP recommend issuers communicate their Use of Proceeds categories clearly so that investors can determine the bond's consistency with their investment strategy. The transparency and disclosure recommended by the GBP are intended to provide the informational basis for the market to increase capital allocation to environmentally beneficial purposes without any single authority or gate keeper.

The four banks that served as a drafting committee for the Principles will propose in 2014 a governance process that will allow for diverse stakeholder input into the GBP. It is anticipated that an independent third party will be designated to serve as a secretariat whose administrative duties will include facilitating information exchange with issuers, investors, underwriters, and other stakeholders such as non-profit environmental organizations, non-government organizations, academics and other thought leaders.
II. TYPES OF GREEN BONDS

Green Bonds are instruments in which the proceeds will be exclusively applied (either by specifying Use of Proceeds, Direct Project Exposure, or Securitization) towards new and existing Green Projects – defined here as projects and activities that promote climate or other environmental sustainability purposes. There are currently four types of Green Bonds (additional types may emerge as the market develops and these will be incorporated in annual GBP updates):

• **Green Use of Proceeds Bond**: a standard recourse-to-the-issuer debt obligation for which the proceeds shall be moved to a sub-portfolio or otherwise tracked by the issuer and attested to by a formal internal process that will be linked to the issuer’s lending and investment operations for projects. Pending such investment, it is recommended that the issuer make known to investors the intended types of eligible investments for the balance of unallocated proceeds. (See Management of Proceeds section below.)

• **Green Use of Proceeds Revenue Bond**: a non-recourse-to-the-issuer debt obligation in which the credit exposure in the bond is to the pledged cash flows of the revenue streams, fees, taxes etc., and the Use of Proceeds of the bond goes to related or unrelated Green Project(s). The proceeds shall be moved to a sub-portfolio or otherwise tracked by the issuer and attested to by a formal internal process that will be linked to the issuer’s lending and investment operations for projects. Pending such investment, it is recommended that the issuer make known to investors the intended types of eligible investments for the balance of unallocated proceeds. (See Management of Proceeds section below.)

• **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.

• **Green Securitized Bond**: a bond collateralized by one or more specific projects, including but not limited to covered bonds, ABS, and other structures. The first source of repayment is generally the cash flows of the assets. This type of bond covers, for example, asset-backed securitizations of rooftop solar PV and/or energy efficiency assets.
III. GREEN BOND PRINCIPLES

The GBP recommend concrete process and disclosure for issuers which investors, banks, investment banks, underwriters, placement agents and others may use to understand the characteristics of any given Green Bond.

The GBP have four components:

1) Use of Proceeds
2) Process for Project Evaluation and Selection
3) Management of Proceeds
4) Reporting

1. Use of Proceeds

The cornerstone of a Green Bond is the utilization of the proceeds of the bond. For a Green Use of Proceeds Bond or a Green Use of Proceeds Revenue Bond, the issuer should declare the eligible Green Project categories (including types of investments made indirectly through financial intermediaries) in the Use of Proceeds section of the legal documentation for the security. The GBP recommend that all designated Green Project categories provide clear environmental benefits that can be described and, where feasible, quantified and/or assessed.

There are several categories and sets of criteria defining eligible Green Projects already in existence in the market. Issuers and other stakeholders can refer to examples in the Appendix.

The GBP recognize several broad categories of potential eligible Green Projects for the Use of Proceeds including but not limited to:

- Renewable energy
- Energy efficiency (including efficient buildings)
- Sustainable waste management
- Sustainable land use (including sustainable forestry and agriculture)
- Biodiversity conservation
- Clean transportation
- Clean water and/or drinking water
2. Process for Project Evaluation and Selection

The issuer of a Green Bond should outline the investment decision-making process it follows to determine the eligibility of an individual investment using Green Bond proceeds. Where applicable, the issuer should, as a first step, review the investments’ overall environmental profile. In all cases, the issuer should establish a well-defined process for determining how the investments fit within the eligible Green Project categories identified in the Use of Proceeds disclosure.

A process of review should determine and document an investment’s eligibility within the issuers’ stated eligible Green Project categories. If possible, issuers should work to establish impact objectives from the projects selected. To the extent feasible, issuers should consider direct and indirect impacts of Green Projects, such as cases where investments lock-in a current level of emissions into the future.

Multilateral and bilateral agencies and other International Finance Institutions have established processes to ensure that environmental criteria are considered for each project to which they allocate funds, independent of whether they qualify for use of Green Bond proceeds. These reviews are carried out with resident teams of environmental experts. The GBP recommend all issuers, where applicable, engage in similar environmental reviews of the projects they are financing. In addition to the Green Bond process, criteria and assurances that an issuer provides, many Green Bond investors may also take into consideration an issuer's overall environmental and social and governance framework.

3. Management of Proceeds

The net proceeds of Green Bonds should be moved to a sub-portfolio or otherwise tracked by the issuer and attested to by a formal internal process that will be linked to the issuer’s lending and investment operations for projects. So long as the Green Bonds are outstanding, the balance of the tracked proceeds should be periodically reduced by amounts matching investments made during that period. Pending such investments, it is recommended that the issuer make known to investors the intended types of eligible instruments for the balance of unallocated proceeds.

The management process to be followed by the issuer for tracking the proceeds should be clearly and publicly disclosed. The environmental integrity of Green Bond instruments will be enhanced if an external auditor, or other third party, verifies the internal tracking method for the flow of funds from the Green Bond proceeds. Depending on issuers’ and investors’ expectations, outside review of the internal tracking method may or may not be necessary.
4. Reporting

In addition to reporting on the Use of Proceeds and the eligible investments for unallocated proceeds, issuers should report at least annually, if not semi-annually, via newsletters, website updates or filed financial reports on the specific investments made from the Green Bond proceeds, detailing wherever possible the specific project and the dollars invested in the project.

The GBP recommend the use of quantitative and/or qualitative performance indicators which measure, where feasible, the impact of the specific investments (e.g. reductions in greenhouse gas emissions, number of people provided with access to clean power or clean water, or avoided vehicle miles travelled, etc.). While there is variability in impact measurement systems, much progress towards standardization has been made in the past several years. Issuers are recommended to familiarize themselves with impact reporting standards and, where feasible, to report on the positive environmental impact of the investments funded by Green Bond proceeds.

IV. ASSURANCE

Attention will be paid to the accuracy and integrity of sustainability information and data whose disclosure is recommended by the GBP and which will be reported by issuers to stakeholders and used for strategic decision making by investors. There are a variety of ways for issuers to obtain outside input to the formulation of their Green Bond offerings such that they address the issues raised by the GBP. There are also several levels of independent assurance that can be provided to the market. Such guidance and assurance might include, in order of increasing rigor:

(i) **Second party consultation**: for example, an issuer (“first party”) can hire an expert consultant (“second party”) with climate expertise to help in the establishment of a Green Bond’s eligible Green Project categories. The issuer may choose to keep the recommendations of the consultant private.

(ii) **Publicly available reviews and audits**: if an expert consultant or auditor and an issuer so choose, a consultant’s recommendations or an auditor’s evaluation may be put in the public domain by the issuer.

(iii) **Third party, independent verification/certification**: at the moment, at least one or more standards intended for use by accredited third parties to certify Green Bonds are in development. The GBP are supportive of certification of Green Bonds against fully developed and vetted standards. It is also the intention of the GBP to allow for
third party evaluation/audit of conformance with the guidelines recommended herein. (Further review in 2014 will refine this intended use and related communications.)

DISCLAIMER

The Green Bond Principles are voluntary process guidelines that neither constitute an offer to purchase or sell securities nor constitute specific advice of whatever form (tax, legal, environmental, accounting or regulatory) in respect of Green Bonds or any other securities. The Green Bond Principles do not create any rights in, or liability to, any person, public or private. Issuers adopt and implement the Green Bond Principles voluntarily and independently, without reliance on or recourse to the Green Bond Principles, and are solely responsible for the decision to issue Green Bonds. Underwriters of Green Bonds are not responsible if issuers do not comply with their commitments to Green Bonds and the use of the resulting net proceeds. If there is a conflict between any applicable laws, statutes and regulations and the guidelines set forth in the Green Bond Principles, the relevant local laws, statutes and regulations shall prevail.
V. APPENDIX

For reference, below are publicly available resources addressing the Use of Proceeds from existing Green Bond issuers, non-profit and non-government organizations, and other relevant stakeholders. By providing this material, the GBP aim to aid investors in strengthening the environmental integrity of their investments.

A. Climate Bonds Initiative, Draft Green Bonds Taxonomy (Climate Bonds Initiative is not a Green Bonds Issuer but is developing an independent, third party standard)

http://www.climatebonds.net/taxonomy-project

B. European Investment Bank, Environmental and Social Practices Handbook and EIB’s Screening and Assessment Criteria for Energy Projects (EIB is a Green Bonds Issuer)


http://www.eib.org/attachments/strategies/eib_energy_lending_criteria_en.pdf

C. International Finance Corporation, Definitions and Metrics for Climate-Related Activities (IFC is a Green Bonds Issuer and a second party opinion was consulted for this investment criteria statement)


D. Organization of Economic Development and Cooperation (OECD), OECD Environment Working Papers, No. 46: Mobilizing Investment in Low Carbon, Climate Resilient Infrastructure; See pp. 73-78, Defining Low Carbon, Climate Resilient Infrastructure Systems

http://dx.doi.org/10.1787/5k8zm3gxxmnq-en

E. World Bank, World Bank Green Bond Project Selection Criteria (WB is a Green Bonds Issuer)


F. European Bank for Reconstruction and Development, web site detailing EBRD criteria (EBRD is a Green Bonds Issuer)