The Green Bond

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SEB Green Bonds Website

Letter to the reader

With all of you in our thoughts – but especially those of you who may have been unfortunate and are going through a tough time right now!

Alert: We might be going in the wrong direction!

With hundreds of billions going into stimulus, it seems as only about 10% have a green tag attached. Listening to climate scientists and looking at the Paris Agreement, that is shocking and scary news!

In busy and very different times
Build back better – or – just produce, use, and throw away, as we are used to doing? Strangely enough, this seems to be the question.

Despite short-term stimulus packages, we have reasons to remain optimistic, as we currently see prime institutions – like the German Government, the Swedish Government, the Danish Government, Daimler, Maersk, EQT and Xylem – making strong announcements and entering the sustainable finance market with long-term plans.

This is a clear sign that sustainability is becoming a core element of finance and it should be a wakeup call for anyone who does not care about the impact of transparency and the purpose of Finance.

Looking back, we have seen that region by region and sector by sector has moved, first slowly, then rapidly, into sustainability. At SEB we talk about clusters of activity (regions: Sweden, Netherlands, France, Switzerland, California, New York, Canada, China, Australia; sectors: SSA, housing, water, pensions, impact investors, insurers etc.). If we can take this as a prediction of the future, we soon need to add Germany, Denmark, transport (Daimler and Maersk) and private equity (EQT) to the drivers of sustainability.

When an institution like Daimler, in a well-structured way – backed by strong corporate action and supporting infrastructure – decides to go into green finance, it serves as a kick-off for the German corporate sector as well as the car industry in a larger scale. We expect this, combined with the Bund announcement of one to two green bond transactions in H2, will be what Germany needs to support its pioneering green issuers (KFW, ENBW, NRW Bank, Land NRW, Berlin Hyp etc) in taking the German financial market all the way to embrace green as a core element of finance.

We are seeing strong movements in the loan market. Despite that the private loan market seems to offer a slimmer protocol than the public bond market, the activity has exploded, and sustainability linked loans become an edge you want to be able to offer! There are two reasons for this: 1) it enables the banks to offer exclusive advice to the borrowers on sustainability activity within finance and regulatory bodies, and 2) it allows the banks to have a more tailored dialogue around ESG materiality items with their clients, and enable the clients to establish infrastructures to produce clear and valuable communication around these themes.

In a perfect world, one might argue that you don't need to do a sustainable financial product to establish this infrastructure. But looking in the mirror, into most of the activities we have been involved in, it clearly helps to have a formal empowerment of the treasury unit to establish a sustainable infrastructure, through the creation of a sustainable financial solution. With large and recognized institutions like Maersk, Norsk Hydro, EQT, Shell, Thames Water, banks need to ensure a broader implementation of sustainability competence to stay relevant. We expect this to be the strongest growth area (together with digitalization) inside finance over the cycle.

However, we are also seeing signs that some areas and industries prioritise short term job creation and re-activation to avoid a social collapse. Consequently, there is an important discussion that needs to take place in respect to getting our priorities right, and we expect this to be one of the most important discussions of the market in H2.

Normally we would have a number of external contributions in The Green Bond. This time we have included an overview of the various principles used by the market as well as a summary of an online webinar on the "reactivation challenges and actions after Covid-19" that we had last week with The World Bank, EIB, AIIB, AIM, APG, Nuveen (TIAA), Zurich, AP3, NIB, Kommuninvest, MuniFin and CICERO – as well as a link to the webinar. (To access the webinar, you have to be a client of the bank. To receive a password, please contact greenbonds@seb.se).

Enjoy your reading and stay safe,

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Transition update

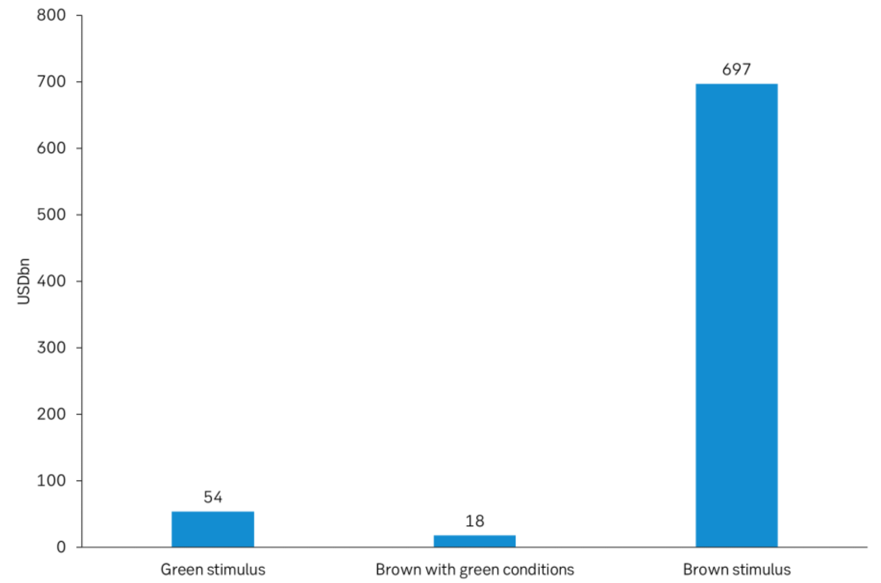
Covid-19: Catalyst for regime change

The Covid-19 pandemic is a major threat and at the same time a huge opportunity for the transition to a zero-emission economy and the fight against the climate crisis.

On the one hand, the crisis has naturally shifted both the focus of policy makers and the availability of funding towards more pressing concerns as budgets are strained and human suffering rises. Several governments have postponed green investment initiatives while the crisis has raged. Funding from socially responsible investors has to some extent been diverted towards new issuance related to the acute crisis, for instance funding the production of ventilators and PPE as well as supporting SMEs.

As a result, the immediate effect of the crisis is to further slow a transition process that was already falling behind in the race to meet the targets in the Paris agreement. The acceleration in both renewable energy investment and green bond issuance that was still gaining pace at the start of the year has not yet recovered from this blow as you can see in the Green Bond Market update.

Figure 1: Brown stimulus in the lead after Covid-19



Source: BNEF

On the other hand, Covid-19 could also sow the seeds for a long-term surge in sustainable investment. The crisis has shown us how fragile the current economic system is to external shocks. The long-term case for building a more sustainable energy system has never been clearer. The crisis may also be the trigger for a move to direct central bank financing, which would remove the budget restrictions that, until now, appear to have prevented many governments from realising their good intentions.

However, the green energy transition is now competing for funds with other areas where investment is needed to address vulnerabilities and broader sustainability issues. Most notably, there is a pressing need to reactivate the economy fast to avoid social and political destabilisation in the wake of the medical crisis. This is likely to take precedence in public spending decisions.

While everyone agrees that it would make more sense if the reactivation also serves a long-term purpose, realistically, green energy investment may not be the fastest way to generate jobs. It will be up to the sustainable investors to provide arguments for why specific investment can serve both purposes.

The evidence so far suggests that green reactivation is not obvious to start with. According to BNEF, out of a total of USD 769bn of stimulus that has been passed so far, only 54bn have been earmarked for 'green' investment (almost exclusively from Germany and Denmark) and 18bn for 'brown' with green conditions attached. At the same time, USD 697bn in support is targeted at carbon-intensive sectors without green conditions.

However, this is the first wave of stimulus in direct response to the crisis, where speed is of the essence and long-term considerations take a back seat. As the immediate crisis fades, we expect governments to focus more on whether the money they spend both generates short-term and long-term advantages at the same time. If the EU Green Recovery plan is passed, for instance, the balance between green and brown will tilt from 10-90 to 50-50.

The case for sustainable reactivation

In the push for reactivation, green investment must compete with things like expanding the buffer capacity of healthcare systems, reducing financial risk in the private sector, improving the rest of our infrastructure, reducing other types of pollution, moving production facilities closer to end-markets and stabilising emerging economies.

However, one could also argue that these are not mutually exclusive targets and that all of this is part of a move to a more sustainable economy in the broadest sense of the word.

Many political leaders clearly see this as a once-in-a-generation chance to execute radical change. Governments have been forced to pay for the party, and that means they get to decide the music. They should make sure that the money they spend is used to create a more robust and less fragile system, so they won't have to do it again. This is not just about renewable energy but will involve deep structural change in most sectors.

The broader headline for this new version of sustainability is likely to be 'circularity', a term that incorporates all the different ways that our production model uses more resources than it creates, in the shape of pollution, waste, heat, water scarcity, damage to the ecosystem etc. It also incorporates the need to balance social and physical sustainability.

All of this makes good sense and the sustainable finance markets have already anticipated these changes: blue bonds, transition bonds and sustainability-linked bonds are all examples of how the market is pushing the boundaries of acceptable investment purposes.

While all elements of sustainability are important, the energy transition still has a special role to play. Only improved energy efficiency can enable us to build a better economy without worsening the climate crisis. A lower cost of energy after adjusting for Climate externalities could facilitate progress in all parts of the economy. Renewable energy is a true 'general purpose technology' that could help achieve this aim in all parts of the economy. This suggests that the energy transition should be given priority from a policy perspective.

Properly designed, investment in improved energy efficiency can also provide strong direct growth effects that support the reactivation of the economy. Renovation and retrofitting of buildings, production and installation of renewable energy production and smart grids, electrification and improvement of the transport system with e.g. high-speed railways or electrified public transport in big cities are all things that can generate both short term and long-term gains for the economy.

An ambitious EU framework

The EU has provided a blueprint of the way forward with a Green Recovery plan worth EUR 750bn that aims to boost growth and improve sustainability simultaneously. It will be funded with common debt issuance in a major step towards a more robust EU policy framework.

Figure 2: The Green Recovery plan

EUR 750bn

EUR 500bn in grants (EUR 310bn to be invested in green / digital transitions) to member states
EUR 250bn in loans to member states.

Building renovations: rooftop solar panels, insulation & renewable heating systems

~EUR 97bn per year in loans and grants

(EUR 350bn incl. private investments)

Clean hydrogen: production of 1 mill ton. to power polluting industrial processes

~ EUR 31bn from EU Commission (together with existing EU fund)

Renewable energy production: 15 GW capacity (2 years)

~ EUR 25bn from EU Commission, additional support from EIB with EUR 10bn loans for projects

Clean public transport: 2 year scheme to boost clean vehicle sales + 2 mill. charging stations installed by 2025

~ EUR 20bn scheme of grants/guarantees

~ EUR 40-60bn fund target zero-emission trains

Up to EUR 20bn investments for cycle infrastructure in cities (changing existing fund)

Source: SEB Strategy Research

The EU Green Recovery plan is likely to facilitate significant investment in renewable energy infrastructure as well as a range of other areas including building upgrades and transportation networks. It offers an easy way to implement EU-wide stimulus indirectly financed by the ECB without the political obstacles. The commission also plans to leverage this investment with private pension funds using the EU green bond framework to accelerate the shift to renewable energy and support growth.

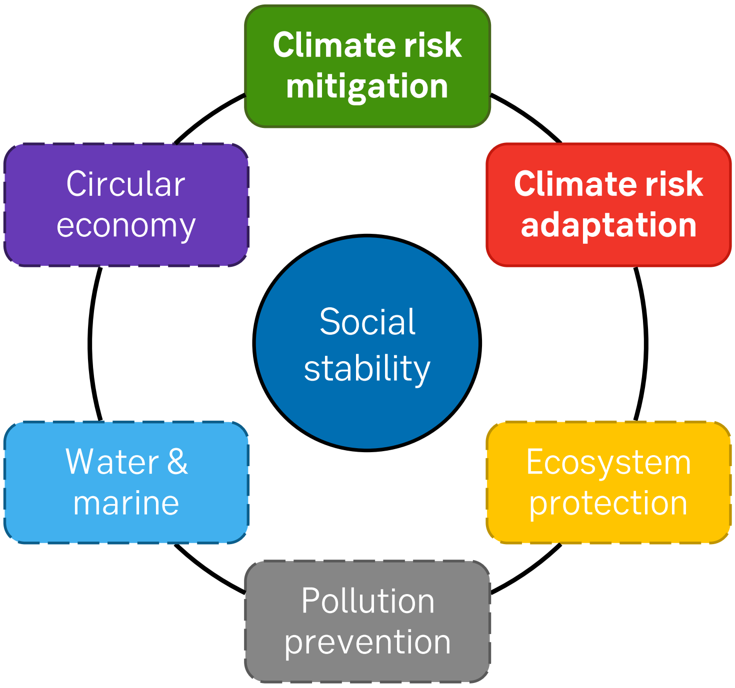
There are indications that the EU is willing to push the envelope on carbon pricing schemes to match the higher ambitions. The price of emission rights is likely to rise further to around USD 40-50/ton as the EU raises the ambition on CO_2 emissions to a decline of 50 or 55% by 2030. USD 40-50 would make this realistic and also bring the cost of carbon closer to the true cost to society from burning fossil fuels.

The EU has also upgraded its broader green framework in connection with the formal approval of the first part of the EU Taxonomy. The first taxonomies, covering climate risk mitigation and adaptation, are only slightly modified and remain likely to be the basic tool for assessing investment from a CO_2 perspective. Due to the more pressing nature of climate risks and the deeper role of energy in the economy, it makes sense to start here.

However, the long-term plans point to a more ambitious future framework with six different taxonomies, covering several aspects of sustainability beyond carbon, including circular economics, will be introduced over the coming years, and there are also plans for a 'social' taxonomy to supplement the more traditional aspects of sustainability.

Figure 3: Towards a broader definition of sustainability

- Reactivation has two-sided objective: social stability AND broad sustainability
- Not just climate: EU plans a full range of taxonomies to guide investment (boxes)
- Companies and societies face complex optimisation between the two circles



Source: SEB Strategy Research

This all fits very well with the change in perspective we outlined above. It will make sustainability assessment more complex, because investments will be measured across a range of different parameters, but it also makes it more realistic and useful. When scope 3 exposures are introduced to disclosures and the analysis includes the whole supply chain, it could trigger major changes in business models across sectors.

A broader role for sustainable finance

The broader sustainability aspects in the government-sponsored sustainable reactivation investment is likely to lead to a broader and larger market for sustainable finance assets, embracing not just green debt, but a whole rainbow of different approved purposes.

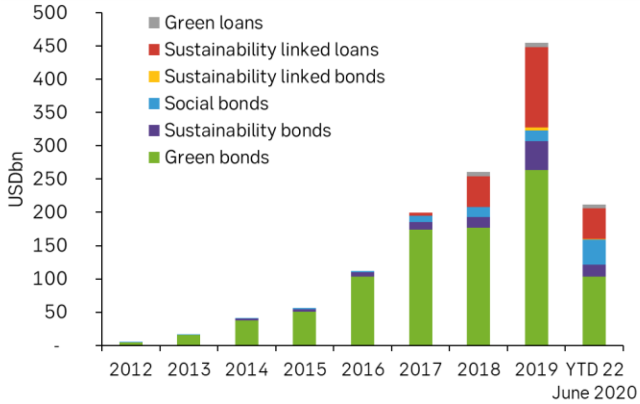
Sustainable finance is also likely to support the broader shift to a more sustainable economy. Indeed, sustainable assets that combine more than one aspect of sustainability (e.g. both job creation and CO_2 reductions) should have a stronger appeal to investors.

The sustainable investment markets are already reflecting the broadening perception of what sustainability means; in 2020 the share of the total sustainable lending that is not designated as green bonds is now larger than 50% as shown in Figure 5.

The challenge for the sustainable finance community is how to embrace and benefit from the increased focus on broader sustainability without diluting the transparency and accountability of the green bond framework.

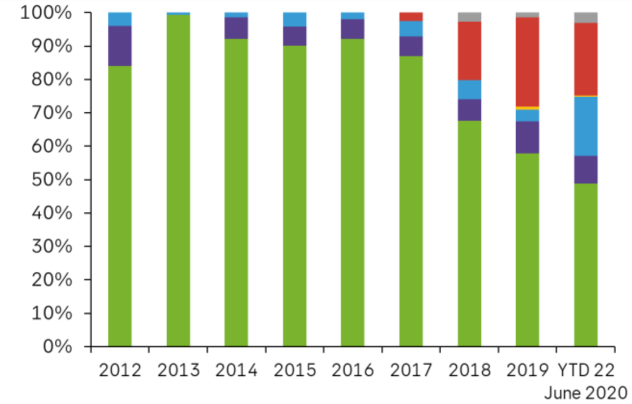
Within two-three years, we may have all the numbers needed to understand how an investment contributes to a more sustainable economy (or not). Today investors remain limited by the lack of data and are forced to allocate capital based on subjective assessment.

Figure 4: Development of sustainable finance market



Source: SEB analysis based on Bloomberg and SEB data, as of 30 June 2020

Figure 5: Other products now more than 50% of market



Source: SEB analysis based on Bloomberg and SEB data, as of 30 June 2020

As a result, it is important that the qualities of the green bond principles are carried over to the broader sustainable finance universe of transition bonds, social bonds or sustainability-linked bonds to maintain credibility.

The new guidelines on sustainability-linked and social bonds from the ICMA is likely to mark the start of this process, which ultimately will result in a larger and more dynamic pool of investments allocated to financing investments that help speed up the transition.

The Green Bond

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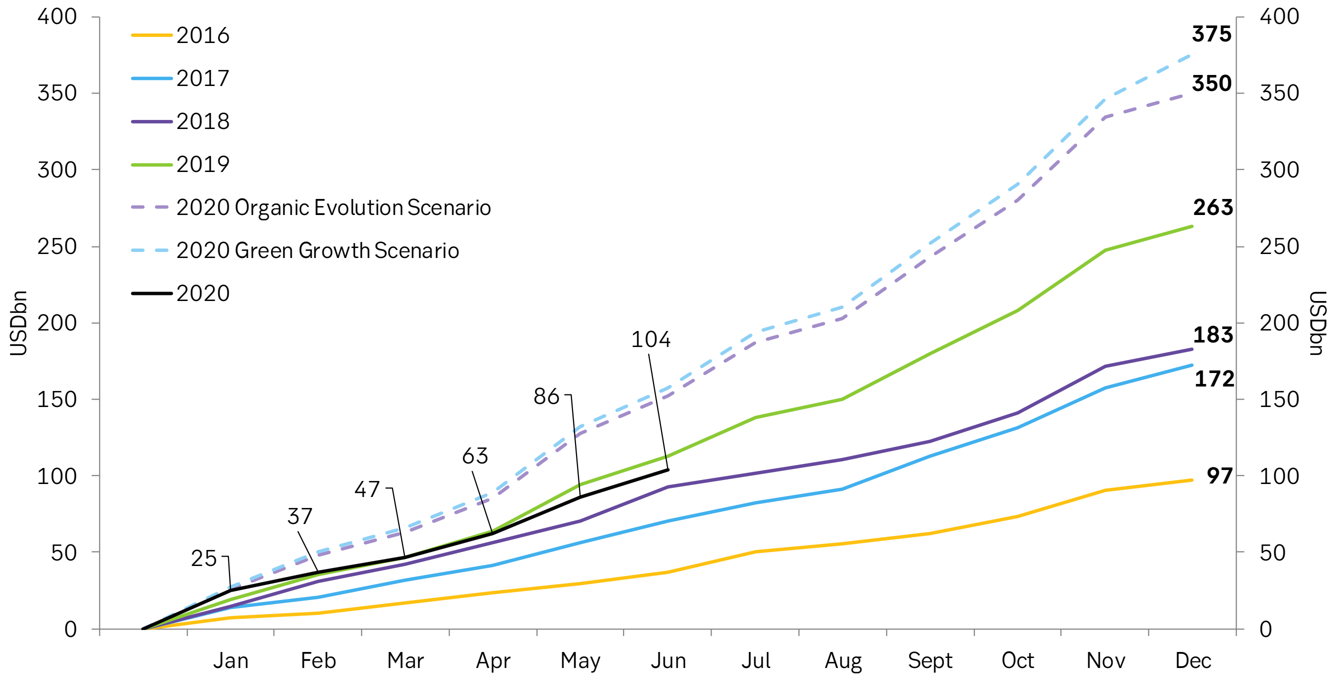
Green Bond Market Update

The green bond market recovered in Q2 2020 with a combined USD 54.5bn of issuance after a slowdown in February and March. Issuance in May 2020 was slightly behind the pace of issuance in the same period last year, as illustrated in Figure 6, but May 2019 was an exceptionally strong period for the green bond market. June 2020 was slightly ahead of last year and YTD 30 June issuance was USD 104.1m as a result, which was USD 8.5bn behind last year and USD 47.9bn behind our organic evolution scenario.

Figure 6: Cumulative annual green bonds issuance & 2020 scenarios (USDbn)



Source: SEB analysis based on Bloomberg and SEB data, as of 30 June 2020

The lower than expected growth of the green bond market coincides with better than expected growth rates for social and sustainability bonds, particularly within the supranational sector. YTD 30 June of social bonds was USD 39.6bn – already more than double the volume issued in 2019 (USD 17.1bn). Social bonds as well as sustainability bonds, which themselves had accumulated USD 18.6bn by YTD 30 June, were already on a strong growth trajectory in the latter half of 2019 and early 2020 - this has only been accelerated by the response to Covid-19. As a result of this development, the total market for green, social and sustainability bonds was USD 162.2bn at YTD 30 June.

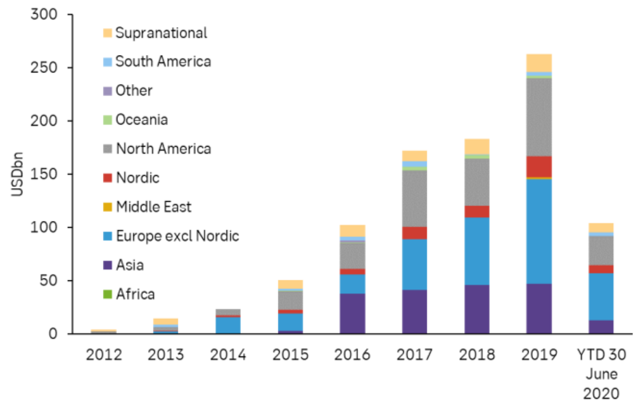
Regional update

Europe (excl. Nordics) continues to be the key region for green bonds with 2020 issuance reaching a total of USD 43.9bn, or 42.1% of the global market, by 30 June. French issuers, consisting primarily of government agencies and financial institutions, were responsible for a volume of USD 11.9bn across 16 green bond issuances so far in 2020, whereby USD 5.3bn was issued in Q2. Issuers in Germany, The Netherlands and Spain have issued a total USD 15.2bn of green bonds in 2020, of which USD 8.2bn was added in Q2.

In the North American market, the total issuance in Q2 was USD 15.3bn, where USD 5.5bn was issued by 44 municipalities and USD 6.7bn by 14 corporates. As a result, the total volume for YTD 30 June 2020 was USD 26.8bn.

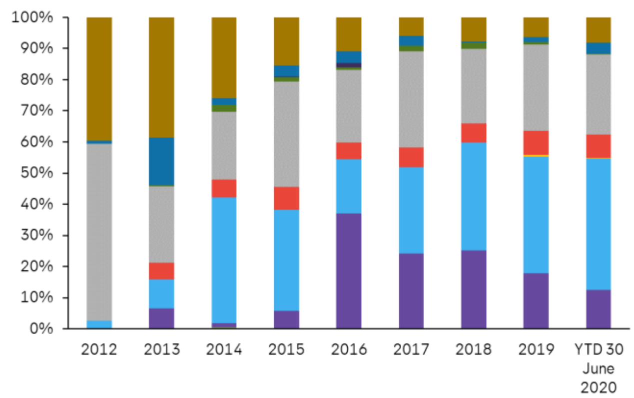
The Asian green bond market was far more active in Q2 than earlier in the year with a total volume of USD 6.8bn across 34 issuances, from financial institutions, corporates and government agencies. The YTD 30 June Asian market was USD 13.1bn as a result.

Figure 7: Green Bond market growth by region (USD bn)



Source: SEB analysis based on Bloomberg and SEB data, as of 30 June 2020

Figure 8: Regional evolution (% share of ann. issuance)



Source: SEB analysis based on Bloomberg and SEB data, as of 30 June 2020

The Nordic sector has added USD 4.3bn of green bond issuances in Q2, taking the total for the year so far to USD 7.9bn. Supranationals have issued 14 green bonds in Q2 at a total volume of USD 4.8bn. However, supranationals have in the same period issued social and sustainability bonds totaling USD 42.9bn, which reflects the trend in the supranational market that started in 2018 and was strengthened with the immediate need of funding initiatives for social projects related to Covid-19.

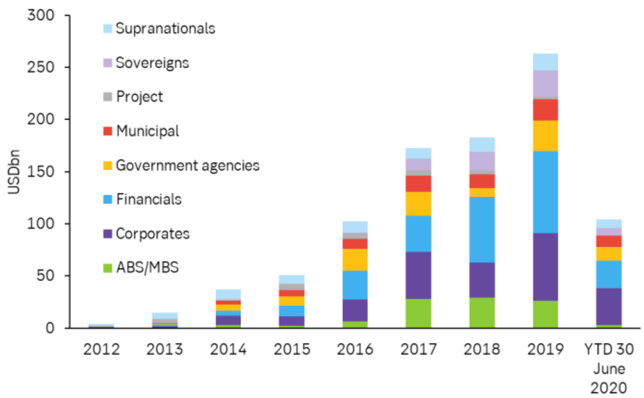
Sector analysis

The corporate sector had combined green bond issuances of USD 18.9bn for Q2, taking the total to USD 34.8bn for the year, or 33.4% of the total green bond market. The 58 corporate green bonds issued in Q2 came from 21 different countries within Europe, North America and Asia.

European companies were responsible for four of the five largest transactions during the period. French passenger transportation company Societe Nationale SNCF issued the largest green bond in the period with a EUR 1.25bn (USD 1.4bn) issuance aimed at funding environmentally friendly infrastructure projects. German company BASF was responsible for the second largest corporate green bond issuance with a EUR 1.0bn (USD 1.1bn) where proceeds are used for eligible projects within the eco-efficiency/circular economy and renewable energy categories. Spanish energy company Iberdrola and Dutch airport operator Royal Schiphol Group, where the latter has created a new 2020 green finance framework with proceeds going towards green buildings and clean transportation (electric vehicles used on the premises and charging stations), both issued green bonds totalling EUR 750m (USD 819m).

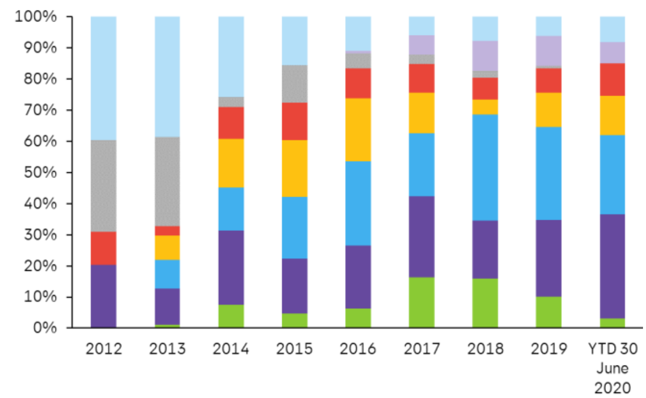
Three other energy companies – EDP (Energias de Portugal), Avangrid and Ontario Power Generation, also issued USD +500m in April. LeasePlan, another Dutch company, issued a EUR 500m (USD 539m) green bond for the purpose of financing electric vehicles. Interestingly, their framework excludes all ICE (internal combustion engine), including those with a plug-in hybrid technology.

Figure 9: Green Bond market growth by sector (USD bn)



Source: SEB analysis based on Bloomberg and SEB data, as of 30 June 2020

Figure 10: Regional sector (% share of ann. issuance)



Source: SEB analysis based on Bloomberg and SEB data, as of 30 June 2020

The financial sector had total green bond issuances of USD 15.1bn in Q2, taking the total to USD 26.5bn YTD 30 June. The largest region in Q2 was Europe (excl. Nordic) with a green bond volume of USD, while USD 1.9bn was issued by Nordic institutions and 2.8bn was issued by Asian institutions. North America had only four issuances totalling USD 2.0bn from the financial sector, but that included Citigroup with a 4-year USD 1.5bn green bond – the single largest green bond from the financial sector throughout Q2.

The largest issuance outside of North America was a 3-year CNY 10bn (USD 1.4bn) green bond from Huaxia Bank. Other notable issuances in Asia include Bank of Ganzhou's 3-year CNY 1.5bn (HSD 211m) green bond and Nanjing Financial City Construction & Development's two green bonds (2-year and 3-year tenors) totalling CNY 2.4bn (USD 340m).

The largest Asian issuer outside of China came from the Japanese real estate developer Nippon Prologis with two 20-year and 30-year green bonds totalling JPY 10.0bn (USD 92m). The largest issuance in Europe was from Groupe BPCE with a 10-year EUR 1.25bn (USD 1.4bn) green bond under a new sustainable development framework that includes a broad list of green eligible projects. The largest Nordic issuer was SpareBank 1 Boligkreditt from Norway with a 5-year SEK 7.5bn (USD 779m) green bond.

Green bond issuance from government agencies totalled USD 6.3bn in Q2 with 16 issuances, taking the total to 13.1bn by YTD 30 June. The largest issuer in Q2 was Societe Du Grand Paris with a 40-year EUR 1.5bn (USD 1.6bn) issuance in April and a 50-year EUR 750m issuance in June. Other notable issuances included a 5-year EUR 700m (USD 761m) issuance from Export-Import Bank of Korea, a 3-year SEK 5bn (USD 514m) issuance from Swedish agency Kommuninvest, a 10-year USD 500m issuance from Dutch public bank NWB and Japan Housing Finance Agency issued a JPY 30bn (USD 277m). The other government agencies which issued a green bond in Q2 were from China, Indonesia and the United States.

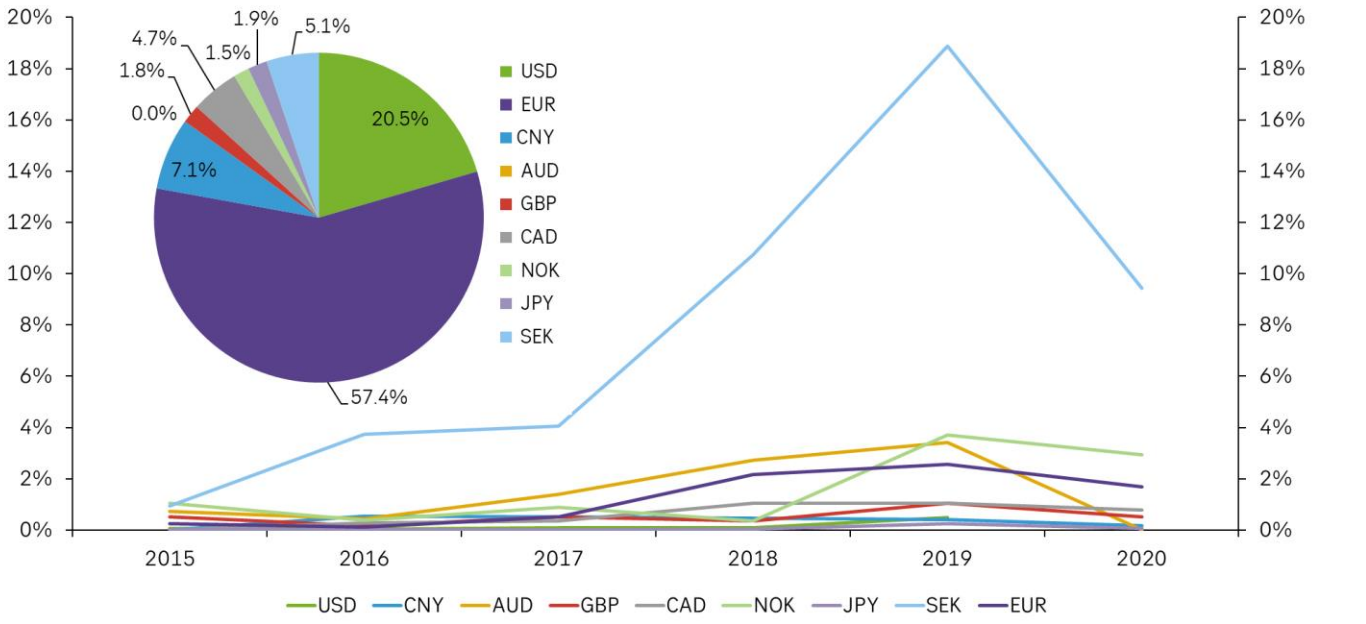
The supranational green bond sector increased by 4.8bn in Q2 on the back of 14 new issuances. The largest transaction came from EIB with a 15-year EUR 1.0bn (USD 1.1bn) climate awareness bond. For the first time, EIB's EUR bonds have EU taxonomy-compliant documentation. In addition, they issued a 3-year NOK 2.0bn (USD 190m), the first Climate Awareness bond issued in NOK. NIB issued a 7-year EUR 500m green bond in April.

The municipal green bond sector amounted to USD 6.5bn in Q2. 43 municipalities in the United States issued green bonds totalling USD 5.3bn, while the remaining green bonds in the period were issued by municipalities in Sweden (two issuers), Spain and Canada. This brought the total YTD 30 June municipal green bond sector to USD 10.8bn.

Fannie Mae issued mortgage backed securities totalling USD 330m in April and USD 251m in May (June transactions have not yet been registered). In addition, three other asset backed securities were issued in Q2 from Loanpal Solar, Mosaic Solar and Sunnova Energy. As a result, total issuance for the year so far was USD 3.2bn.

Green Bond Currency Analysis
The percentage of SEK bonds that have the green label is at 9.4% so far in 2020, far lower than last year when green bonds accounted for almost 20% of total bond issuances in SEK. However, this is to some extent a result of supranationals bonds issued in SEK coming in the form of social and sustainability bonds.

Figure 11: Green bond issuance as a percentage of total bond issuance in major currencies and distribution



Source: SEB analysis based on Bloomberg and SEB data, as of 30 June 2020

All major labelled bond types (green, social and sustainability) as a percentage of total bonds is 13.8%, which reflects that almost a third of bonds issued under the major labelled bond types in SEK are social or sustainability bonds. This is also true for other major currencies so far in 2020. For USD, the ratio of green, social and sustainability bonds to total bonds for USD is almost twice at 0.4% than for solely green, while the ratio in EUR increases from 1.7% of green to total bonds to 3.2% when social and sustainability bonds are included.

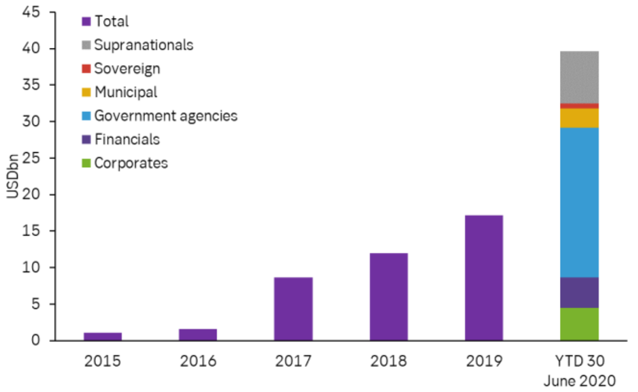
Social and Sustainability Bonds

Social and sustainability bonds issuance totaled USD 42.9bn in Q2. These two product types accounted for as much as 44.0% of the labelled bond market, a significant increase from previous years. The total 30 June YTD issuance for the two product types combined was USD 58.6bn. The development of the labelled bond market from a primarily green bond market to a market with a diversified set of labels was already underway in 2019, but it has accelerated in recent months. A major driver for this is, as we noted in the April issue of this publication, the response to COVID-19. Issuers have applied the use of proceeds method, the foundation for the green bond market, to a new global challenge and investors have engaged in this process. This indicates that the labelled sustainable finance market is maturing into a flexible, responsive, and nuanced marketplace. As we note in the transition update of this publication, it will be interesting to track this development going forward as the economic reactivation process gets underway.

Social Bonds

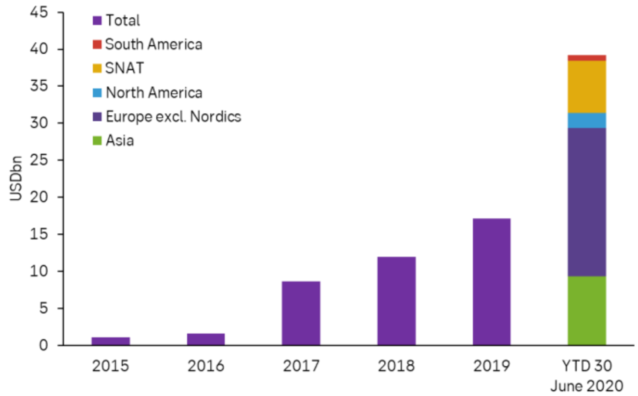
Social bond issuance YTD 30 June totalled USD 39.6bn and as such the market is already twice that of the full-year 2019 market. Of this total, USD 29.3bn was issued in Q2. This included two social bonds, a 3-year USD 3bn and a 3-year SEK 2.5bn (USD 250m), from the AfDB (African Development Bank). NWB issued a 7-year EUR 2bn (USD 2.2bn) social bond while CEB (Council of Europe Development Bank) issued a 7-year EUR 1bn (USD 1.1bn) social bond. The two bonds from AfDB and the CEB social bond were directly linked to combatting COVID-19, underlining the impact the outbreak has had on the labelled bond market. IFC followed up their active social bond engagement of previous months with a 15-year AUD 200m (USD 127m) issuance.

Figure 12: Social bond market growth by sector



Source: SEB analysis based on Bloomberg and SEB data, as of 30 June 2020

Figure 13: Social bond market growth by region



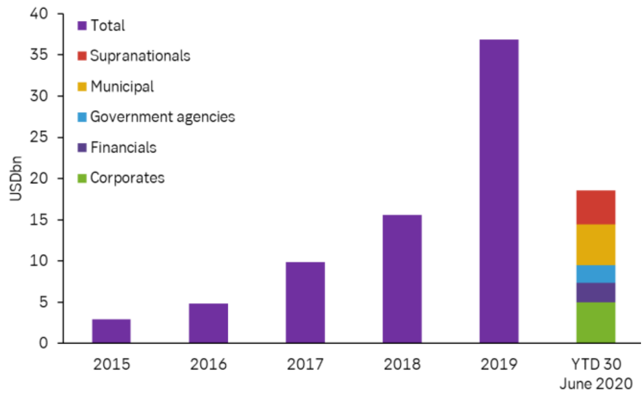
Source: SEB analysis based on Bloomberg and SEB data, as of 30 June 2020

Sustainability bonds

The sustainability bond market increased by USD 13.7bn in Q2 through 33 new issuances, taking the total for YTD 30 June to USD 18.6bn. The largest issuer, by a good margin, was EIB (European Investment Bank) with three sustainability bonds - an 8-year EUR 1bn (USD 1.1bn) issuance, a 10-year 1.25bn USD issuance and a 3-year SEK 3bn (USD 300m) issuance. These bonds are part of EIB's EUR 40bn package to support European companies and finance health interventions stemming from COVID-19. EIB has also extended their sustainability awareness program to include such measures.

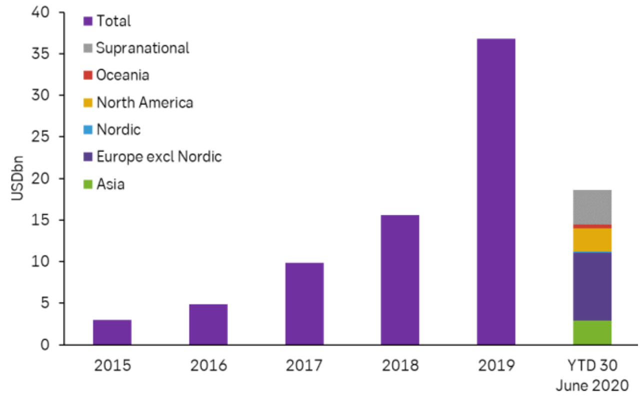
Comunidad de Madrid issued a 10-year EUR 1.25bn sustainability bond for the purpose of funding affordable housing, education, healthcare, social inclusion, economic inclusion and small and medium enterprises financing. The Dutch development bank FMO issued a 7-year EUR 500m (USD 540m) sustainability bond that will fund the projects defined within their sustainability bond framework, including microfinance, women-owned SMEs, agricultural SMEs as well as youth finance and smallholder finance. Although the issuance is not linked to Covid-19, FMO notes that they are closely monitoring the impact on emerging markets and exploring financial options. The Flemish Community issued a 10-year EUR 1.25bn issuance (USD 1.36bn), but it is not stated if this has been done in connection to Covid-19.

Figure 14: Sustainability bond market growth by sector



Source: SEB analysis based on Bloomberg and SEB data, as of 30 June 2020

Figure 15: Sustainability bond market growth by region



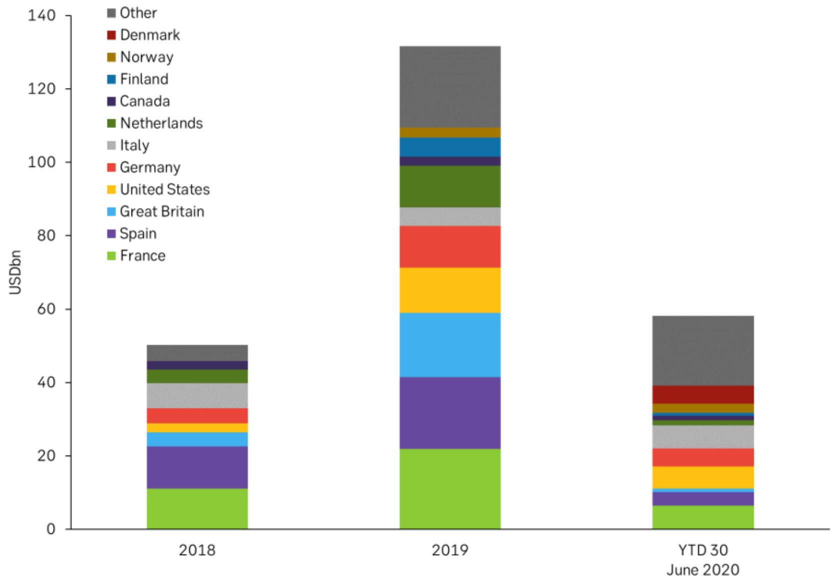
Source: SEB analysis based on Bloomberg and SEB data, as of 30 June 2020

Sustainability-linked loans

Note on data: The sustainability-linked loan market, whereby the loan margin is typically linked to a set of targets or an ESG score, is a private market with limited access to information. We use the loans listed in Bloomberg New Energy Finance, which we think provides a good reflection of the overall market.

The sustainability-linked loan market has continued to be active in the first six months of 2020, but data gathering is a bit slower as it consists of private debt facilities. Total loans registered YTD 30 June at the point of this publication was USD 58.1bn. France, Italy, United States and Germany were the largest countries for sustainability-linked loans, accounting for 40% of the market so far in 2020. The largest transaction so far has been Italian energy company Enel SpA which has borrowed USD 5.4bn. Danish shipping company Maersk borrowed USD 5bn in the form of a sustainability-linked revolving credit facility, the second largest transaction so far in 2020.

Figure 16: Sustainability-linked loans by country (USD bn)



Source: SEB analysis based on Bloomberg and SEB data, as of 30 June 2020

Publicly Announced Green, Social & Sustainability Bond Pipeline[1]

- Generali issues EUR 600m green bond
- Nepi Rockcastle mandates EUR 3bn green bond
- Shinhan Financial plans to issue USD COVID-19 bond
- Modern Land plans to issue USD green bond
- Grieg Seafood issues NOK 1bn green bond
- Uniqa issues EUR 200m green bond
- Vasakronan issues EUR 150m tap of green bond
- Sparebanken Vest issues EUR 500m green bond
- The German Federal Government plans to issue its first sovereign green bond in the second half of 2020
- Daimler plans to issue green debt under a new Green Finance Framework that have received a Dark Green rating from CICERO. Eligible projects include R&D of electrified drivetrain systems, manufacturing of zero emission vehicles and drivetrains, charging/supporting infrastructure, energy efficiency projects, pollution prevention and control projects, and renewable energy projects
- The Swedish Government presented its green bond framework on 5 June and plans to issue the first sovereign green bond in 2020. The green bond framework has an extensive list of eligible projects with a particular emphasis on clean transportation

[1] As of 6th July 2020

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Navigating through principles in the sustainable finance space

The sustainable finance space has gradually increased its family of guidelines and principles for financial instruments. Most recently, the Sustainability Linked Bond Principles were published.

There are two quite distinct models often referred to within sustainable finance:

1. The use of proceeds model, where the issuer or borrower is committing to a sustainability related spend or allocation of the proceeds of the financial instrument and
2. the performance-based model, where the issuer or borrower is committing to future improvements in sustainability related outcomes of/in its operations.

The roots of the mainstream sustainable finance market go back to the introduction of the green bond, a use of proceeds instrument (in relevant cases backed by green loans), followed by a gradual expansion into socially themed investments and allocations, but also from the bond market into the loan market by the introduction of stand-alone green loans. The strong growth in the volumes of sustainability linked loans, a performance-based instrument, in recent years paved way for the first signs of development of equivalent instruments in the bond market.

Figure 17: Overview of the two different models within sustainable finance

	Use of proceeds	Performance based
Application of funds	Earmarked application of funds for pre-defined green/social/sustainable projects/assets	General purpose (not monitored)
Description	Commitment to a spend or allocation	Commitment to a future outcome, forward looking
Focus	Impact of proceeds from financial instrument	Impact created by issuer/borrower
Set-up	Investments in green/social/sustainable assets/projects	Sustainability targets
Impact	Green/social/sustainable benefit created through investment	Change in sustainability profile of issuer/borrower
Outcome	Outcome monitored without quantified expectations on impact	Outcome monitored with clearly documented expectations on impact
Structure	The structure of the financial instrument is not adjusted	The financial or structural characteristics are linked to the outcome of the performance (e.g. through triggering variations in coupon or margin)
Typical type of instrument	Drawn proceeds under bonds and loans	Undrawn commitments under loan structures and Drawn proceeds under bond and loan structures
Financial instruments	Green bonds Social bonds Sustainability bonds Green loans	Sustainability Linked Loans Sustainability Linked Bonds

Source: SEB Climate and Sustainable Finance

Variations of these models or concepts exist, and there is even a possibility to combine the two concepts as they are complementary in nature. In addition, a range of labels for financial instruments based on these concepts are referred to in the market such as for example Blue bonds, Transition bonds, SDG bonds, Covid-19 bonds, Positive incentive loans, ESG linked loans etc. And lastly, there are further concepts which do not necessarily fully lend themselves to a clear alignment with either of the above approaches.

Each of the above-mentioned financial instruments has its own set of principles or voluntary process guidelines, which are used as references for best practice in the market. Note that all labelled sustainability themed financial products are not necessarily aligned, or claim to be aligned, with these principles (regardless of label).

Figure 18: Overview of principles and links to their framework documentation

	Principles	First published	Host / author	Guidance documents and further information
Use of Proceeds	Green Bond Principles (GBP)	2014	GBP / SBP / SLBP Principles, ICMA	Guidance Handbook A wide range of further information and guidance (incl. e.g. impact reporting) can be found on the host's webpage: GBP/SBP/SLBP Principles, ICMA
	Social Bond Principles (SBP)	2017		
	Sustainability Bond Guidelines (makes reference to the Green- and Social Bond Principles for the combination of green and social projects)	2017		
	Green Loan Principles (GLP) Link to LMA webpage	2018	LMA, APLMA, LSTA	**Guidance on Green Loan Principles** Link to LMA webpage
Performance Based	Sustainability Linked Bond Principles (SLBP)	2020	GBP / SBP / SLBP Principles, ICMA	No specific guidance available A wide range of other relevant information and guidance can be found on the host's webpage: GBP/SBP/SLBP Principles, ICMA
	Sustainability Linked Loan Principles (SLLP) Link to LMA webpage	2019	LMA, APLMA, LSTA	**Guidance on Sustainability Linked Loan Principles** Link to LMA webpage

Source: SEB Climate and Sustainable Finance

These principles, as voluntary process guidelines, are structured around a number of core components or pillars which can be applied for general structuring and outline of frameworks, essentially for the due diligence process in preparation of establishing a sustainable finance instrument, and which can prove to be relevant for sustainability related governance aspects.

And lastly, a comment in relation to the Transition concept, often (but not necessarily) referenced in the context of climate transition. Whilst a guidance note on best practices in climate transition finance is yet to be published through the GBP/SBP/SLBP Principles a connection is often made to the issuer's or borrower's climate strategy and objectives.

Figure 19: Overview of core components

	Use of proceeds (definitions)	
	Green / Social Bond Principles	**Green Loan Principles**
Core components / pillars	Use of Proceeds	Use of Proceeds
	Process for Project Evaluation and Selection	Process for Project Evaluation and Selection
	Management of Proceeds	Management of Proceeds
	Reporting	Reporting
Recommen-dation	External Review	Review

	Performance based (definitions)	
	Sustainability Linked Bond Principles	**Sustainability Linked Loan Principles**
Core components / pillars		Relationship to Borrower's Overall Sustainability Strategy
	Selection of Key Performance Indicators (KPIs)	Target Setting, Measuring the Sustainability of the Borrower
	Calibration of Sustainability Performance Targets (SPTs)	
	Bond characteristics	
	Reporting	Reporting
	Verification	Review

Source: SEB Climate and Sustainable Finance

It remains to be seen whether transition based financial instruments will commonly align with use of proceeds principles or with performance-based principles, or perhaps even a combination of them both or a flexibility to choose the most suitable for the specific framework.

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Link to the webinar

To access the webinar, you have to be a client of the bank. To receive a password, please contact greenbonds@seb.se

Coming out of the lockdown: What will it take and will sustainability play a role? – webinar summary

On 23 June 2020 SEB arranged for a webinar on the topic of post Covid-19 recovery and the potential role of sustainability in it. The webinar attracted a large audience. Present in the webinar was a prominent group of speakers from the financial sector and the field of sustainability, including Cicero, European Investment Bank, the World Bank, International Bank for Reconstruction and Development, Asian Infrastructure Investment Bank, Affirmative Investment Management, APG, AP3, Nuveen, Zurich Insurance Group, Nordic Investment Bank, Municipality Finance and Kommuninvest. The discussions held during the webinar focused on the effects of and the responses to the Covid-19 pandemic, sustainable strategies for recovery and reactivation, sustainable investment opportunities, and the involvement of investors in the recovery process.

The following is a summary built on the key take-aways from this webinar. Please note that the comments and arguments reviewed here are presented in a random order and do not necessarily reflect the consensus of the group.

The Covid-19 pandemic has caused a world-wide social and economic crisis. Certain sectors have been severely hit, especially the service, transport and healthcare sectors but also the infrastructure and the oil and gas industry. Structural problems have been uncovered such as weaknesses in the medical sector, limits to the supply of basic products and services needed. Moreover, severe inequalities have deepened as the pandemic has pushed even more people into poverty. Unemployment has increased and is at risk of increasing even further in the future as it is currently held up by governmental stimulus. Companies have had to adapt to new ways of working and facing their customers, in which digital solutions have become vital.

In terms of financing, lenders otherwise focusing on long-term lending have stepped up to help their clients survive through short-term support. A wide spectrum of response bonds entered the market, providing liquidity for different sectors, i.e. healthcare, small businesses, social security and infrastructure. From an equity point of view, all the stimulus has made company valuations based on cash flows irrelevant. The differences in monetary and political policies between countries have made money stay closer to home. One of the participants pointed out the great variation of the effects that the pandemic has had on the different areas of the equity market and the ways in which transition in the market may benefit financial service providers, such as pension funds. Moreover, a speaker expressed an expectation of a large demand for project investments on the side of equity as well as the need for an increase in risk to be able to generate higher return.

The environment, on the other hand, has in a way benefited, with CO_2 emissions decreasing by about 8% since the start of the outbreak. Such a decrease resulted from the major behavioral changes caused by the pandemic. However, as it was pointed out in the webinar, it is important to keep in mind that in order to keep up with the international climate agreements, we must cut the emissions by about 8% on a yearly basis. Therefore, while such a decrease may seem like a big step, it also shows us that even drastic global behavioral change may not be enough for governments and companies to meet their commitments on climate. Hence, sustainable investments must be used as a tool for reducing the emissions through financing of i.e. building of retro-fits, clean transportation, education and training, eco-system resilience and clean technology.

The pandemic created an opening for new opportunities for recovery to aim at "building back green". People now have a greater understanding of what is meant by ESG-risks. The outbreak of Covid-19 showed how interconnected climate change is with social and economic issues - that there is a fundamental link between the environment, health, poverty, development and the economy. The future must therefore bring a more holistic approach in addressing these issues.

Investors will need to know more to assess company risks and opportunities. As of now, equity does not incorporate ESG-risks in valuations. Such assessments will be key in the future and need to include the whole balance sheet. Small and mid-sized companies will have to become more resilient and, in general, ESG will become more mainstream as investors look to stable cash flows.

Going forward, investments will have to give greater focus to the "S" in ESG. The bond market will have to expand the eligibility to also include social investments. Green and social must be integrated. Transparency and reporting of data will be required. Selection criteria for de-carbonizing of portfolios and carbon-pricing will be introduced, maybe even by governments. Investment decisions will have to be sustainable and long-term for developing ESG-risks-resistant economy.

Investments in clean infrastructure, transportation and technology will help companies adapt to the new world of business with new work manners. Still, the crisis has led only to an insignificant reduction in energy consumption. The building sector has the potential to play a huge role in reducing yearly add-ons of CO_2 emissions.

To sum up, this crisis revealed the depth of ESG-risks and highlighted the importance of sustainable, holistic and long-term investing for building a resilient and prosperous economy in the future. Let us now cease this opportunity to make structural change and to accelerate the transition towards a better tomorrow.

Link to the webinar
To access the webinar, you have to be a client of the bank. To receive a password, please contact greenbonds@seb.se.

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