



**Pilot Initiative to Integrate  
Resilience and  
Disaster Risk Reduction into the  
Sustainable Debt Capital Markets**  
ARISE AGM Meeting | October, 2021



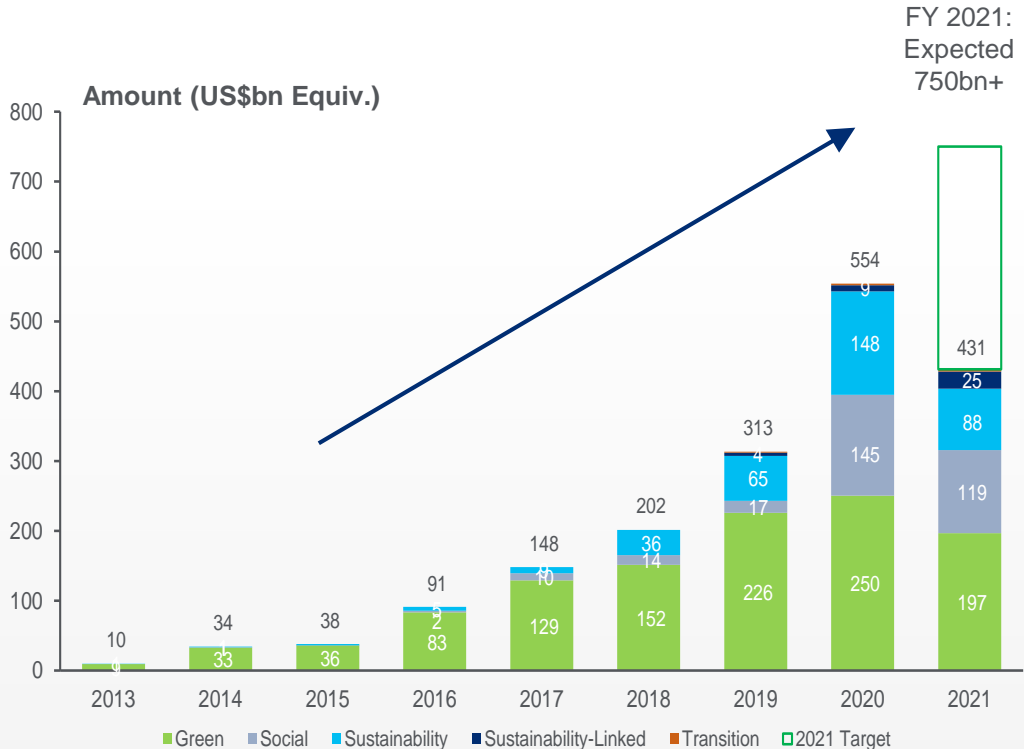
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# Sustainable Bond Markets Continue to Grow Exponentially

The Green, Social, Sustainability and Sustainability-Linked bond market continues to develop with record issuance.

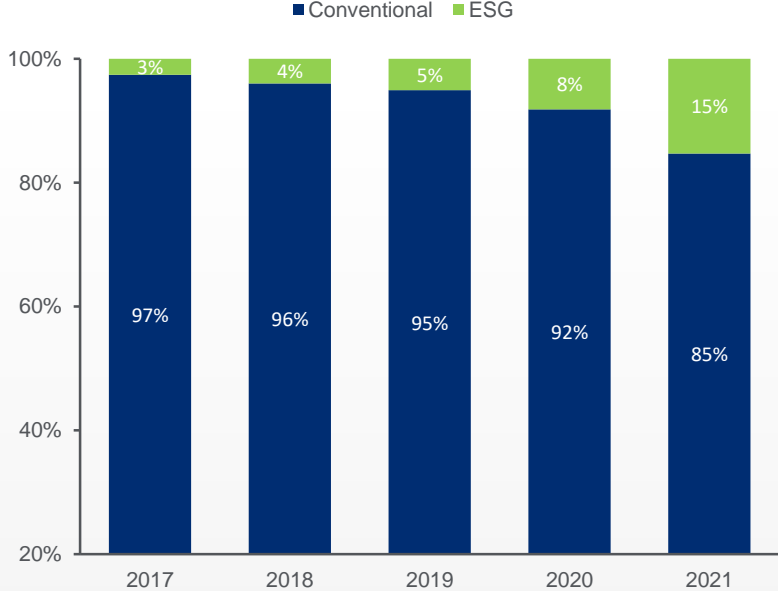
## Sustainable Bond Issuance Volumes

The Green, Social, Sustainability & Sustainability-Linked Bond market has now grown to **\$1.7 Trillion** in outstanding bonds



## Market Highlights

- Sustainable bonds make up **15%** of this year's international bond issuances (EUR & USD issuance, all issuer types)



Source: Citi, Dealogic, updated as of 7<sup>th</sup> June 2021, Volumes include IBRD (World Bank)'s green bonds and sustainable development bonds

# With Increased Diversification of Sustainable Bond Types

The most common themed bonds in the sustainable bond market are labelled Green, Social and Sustainability Bonds. However, recently we've seen the emergence of several other labels including Transition Bonds and Sustainability KPI-Linked Bonds.

	Green Bonds	Social Bonds	Sustainability Bonds	Sustainability KPI-Linked Bonds
Bond Qualification	Use of Proceeds directed to Climate and / or <b>environmental sustainability purposes</b>	Use of Proceeds directed to <b>Social projects</b> , e.g. SME Lending, Social Housing, Education where the service is freely accessible	Use of Proceeds directed to Can be both <b>climate / environmental projects as well as specific social projects</b>	Use of Proceeds directed to <b>General Corporate Purpose</b>  Bond characteristics linked to <b>Sustainability related Key Performance Indicators (KPI)</b>
Alignment with external guidance	ICMA Green Bond Principles EU Green Bond Standard ( <i>being developed</i> )	Social Bond Principles	Sustainability Bond Guidelines	Sustainability Linked Bond Principles
Market Issuance in 2020 (% Total Sustainable Bonds)	\$250.0bn (45%)	\$144.6bn (26%)	\$148.1bn (26%)	\$8.5bn (2%)
Market Issuance in 2021YTD (% Total Sustainable Bonds)	\$196.7bn (45%)	\$118.8bn (28%)	\$88.0bn (20%)	\$24.7bn (6%)
Common Eligible Projects	<ul style="list-style-type: none"> <li>Renewable Energy</li> <li>Pollution Prevention &amp; Control</li> <li>Climate Change Adaptation</li> <li>Clean Transportation</li> </ul>	<ul style="list-style-type: none"> <li>Access to Essential services (e.g. Healthcare and Education)</li> <li>Affordable Housing</li> <li>Affordable Basic Infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Combination of Green and/or Social projects</li> <li>Frameworks linked to the UNSDGs</li> </ul>	<ul style="list-style-type: none"> <li>Common KPIs: GHG Reduction, Renewable Installed Capacity</li> </ul>

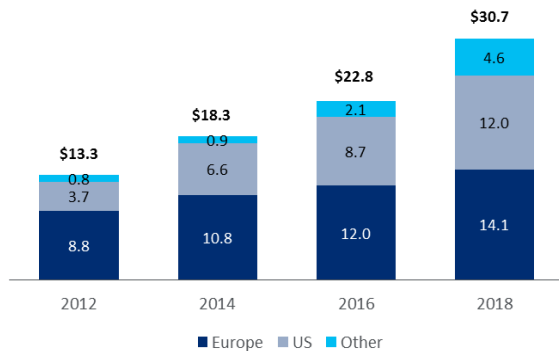
Source: Citi, Dealogic, updated as of 7<sup>th</sup> June 2021. Volumes include IBRD (World Bank)'s green bonds and sustainable development bonds

# Investor Interest in ESG Investing is Now Mainstream

ESG Investing is no longer niche. This market is growing rapidly, with the volume of AUM growing across all regions. This momentum is only set to continue over the coming years as ESG Investing becomes more mature.

## Global ESG-Related AUM Growing at 15% CAGR

Global ESG-Related Assets by Region, in \$Tr



- 2018 saw global assets surpass the \$30 trillion mark across the markets, a 34% increase in two years
- All regions demonstrating strong growth across a spectrum of SRI / ESG investment strategies

## Investor Feedback on ESG Investing



*Sustainable investing will be a core component for how everyone invests in the future. I do believe that the demand for ESG is going to transform all investing. Now that may be one or five years away from now, but it's not that far away.*

Larry Fink, CEO BlackRock



In October 2018, BlackRock predicted that assets in ESG-focused ETF's would grow from \$20 billion to more than \$400 billion by 2028.

## Key Trends and Drivers of ESG Investing in Recent Years

### 1 Growth of Responsible Investment Initiatives

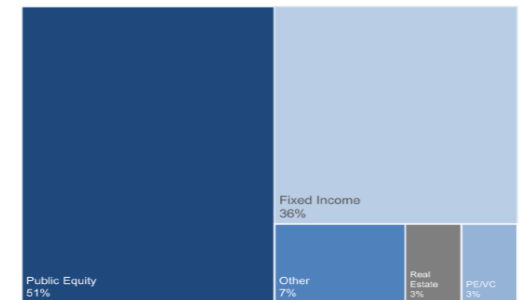
- In a short timeframe, ESG has gone from being a “nice to have” to a “must have”
- The number of ESG investors having committed to decarbonisation and responsible investment has been on the rise over years – PRI is the world’s leading proponent of responsible investment
- Half of the top 10 institutional investors globally, collectively accounting for \$3.9 trillion in asset, are U.N. PRI signatories and have explicitly committed themselves to ESG principles



### 2 ESG Investing growing in Fixed Income

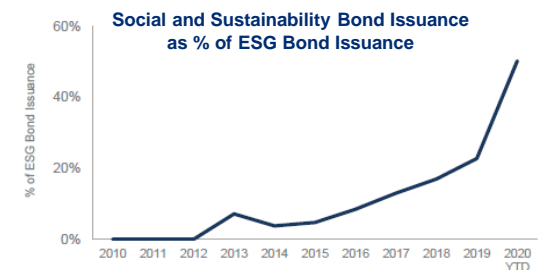
- ESG investing is weighted to public equities, though fixed income offerings are increasing through the issuance of green, social and sustainability bonds as well as ESG-linked structured loans
- Record levels of ESG bond issuance in 2020 (\$552bn)
- 71% of managers behind bond-only offerings are discussing ESG topics with issuers

### Breakdown of ESG Aligned AUM by Asset Class 2018: \$30.7Trn



### 3 The Rise of the “S” in ESG Investing











- Coming into 2020, social issues were seen as long-term concerns that might upend portfolios over time
- The elevation of social concerns due to the pandemic re-focused the dialog on how and where systemic risks may emerge - We now observe very strong performance from the “S” of ESG



Source: Citi, Global Sustainable Investment Alliance, Principles for Responsible Investment

# Variety of Standards, but Limited Links to Resilience/DRR

Several bodies have published taxonomies outlining what constitutes “green” and/or “sustainable” activity across industries as guidance for Sustainable Bonds.

<p><b>1</b></p>  <p><b>International Capital Markets Association Principles</b></p>	<p><b>2</b></p>  <p><b>European Commission Technical Expert Group</b></p>	<p><b>3</b></p>  <p><b>Climate Bonds Initiative</b></p>	<p><b>4</b></p>  <p><b>United Nations Sustainable Development Goals</b></p>
<ul style="list-style-type: none"> <li>Green Bond Principles (“GBP”) was established in 2014 by two banks, including Citi. The Social Bond Principles (“SBP”) followed in 2017</li> <li>The GBP and SBP are voluntary guidelines that provide recommendations for minimum disclosure requirements for issuers of green and or social bonds.</li> <li><b>The GBP and SBP suggest several broad categories of eligibility for green and social projects, however the GBP / SBP do not provide specific criteria to define what is “green” or “social”</b></li> <li>While the GBP and SBP’s purpose is not to take a position on which green technologies, standards, claims and declarations are optimal for environmentally sustainable benefits, it notes that there are several initiatives to produce taxonomies (such as CBI), as well as to provide mapping between them to ensure comparability</li> </ul>	<ul style="list-style-type: none"> <li>European Commission set up a Technical Expert Group on Sustainable Finance (“TEG”) to assist with <b>developing the EU taxonomy to determine whether economic activity is environ-mentally sustainable</b></li> <li>The first round of the comprehensive technical report was published in Jun 2019</li> <li>The <b>taxonomy defines criteria for a sustainable economic activity in the following sectors</b> <ul style="list-style-type: none"> <li>– Agriculture;</li> <li>– Forestry and fishing;</li> <li>– Manufacturing;</li> <li>– Electricity;</li> <li>– Gas steam and air condition supply;</li> <li>– Water, sewerage, waste and remediation;</li> <li>– Transportation and storage;</li> <li>– ICT; and</li> <li>– Construction and real estate activities</li> </ul> </li> <li><b>To be compliant with the taxonomy the activity must also comply with “do no significant harm” approach.</b> Where an issuer must demonstrate minimum requirements are met to avoid significant harm to environmental objectives relevant to each activity</li> </ul>	<ul style="list-style-type: none"> <li>The CBI provides <b>definitions of green projects that are sector specific, developed by scientists and industry experts</b></li> <li>The GBP is “fully integrated” into the CBI Climate Bonds Standard</li> <li>The Climate Bonds Taxonomy identifies the assets and projects needed to deliver a low carbon economy and gives greenhouse gas emissions screening criteria consistent with the 2-degree global warming target set by the COP 21 Paris Agreement</li> <li>The <b>Climate Bonds Taxonomy has been developed based on the latest climate science</b> including research from the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA)</li> <li>The Climate Bond Taxonomy is regularly updated</li> </ul>	<ul style="list-style-type: none"> <li><b>In 2015, all United Nations member states adopted 17 United Nations Sustainable Development Goals</b> (“UN SDGs”)</li> <li>Although there is no formal taxonomy to define each goal issuers can map their economic activities to achieving one or more of the 17 UN SDGs</li> <li>For example, economic activities that help achieve the following SDGs may be classified as “green projects”</li> </ul> <div style="display: flex; flex-direction: column; gap: 10px;"> <div data-bbox="1591 745 2026 811">  <b>SDG6</b> – Clean Water and Sanitation         </div> <div data-bbox="1591 825 2026 882">  <b>SDG7</b> – Affordable and Clean Energy         </div> <div data-bbox="1591 911 2026 973">  <b>SDG12</b> – Responsible Consumption and Production         </div> <div data-bbox="1591 1002 2026 1059">  <b>SDG13</b> – Climate Action         </div> <div data-bbox="1591 1082 2026 1139">  <b>SDG14</b> – Life Below Water         </div> <div data-bbox="1591 1159 2026 1225">  <b>SDG15</b> – Life on Land         </div> </div>

**Across existing taxonomies there is limited inclusion of investments and economic activities related to Resilience and Disaster Risk Reduction.**

# Sustainability and Resilience Are Two Sides of the Same Coin

A huge opportunity exists for the Sustainable Bond markets to finance on a more significant scale investments and initiatives related to Resilience and Disaster Risk Reduciton.

- The COVID-19 pandemic and the ongoing climate crisis have ushered in a sense of urgency to achieve both sustainability and resilience in the 21<sup>st</sup> century
- International agreements and standards have emerged to provide guidance to the public and private sectors on sustainability strategy & disclosure and resilience building & risk management
- There exist critical gaps that need immediate attention. The potential for converging systemic risks, whether man-made, nature driven or a combination thereof, sits at the heart of the urgency.
- ***While the 17 SDGs and the Paris Climate Agreement targets are now influencing the scope of issues considered in the Sustainable Bond markets, the priorities and targets of the Sendai Framework are not.***
- Considering that the exponential growth in resources applied to Sustainable Bonds and Loans in recent years, it is of great importance that the inclusion of Resilience and Disaster Risk Reduction as eligible investments for this market.



## Project Goals

- Enable Companies/FIs/Agencies/Governments to **finance investments and initiatives related to Resilience and Disaster Risk Reduction** in the Sustainable Bond Markets
- Explore and map how to **integrate Resilience/DRR in existing Sustainable Bond frameworks** (Green, Social, Sustainability-Linked Bonds)

## Principal Workstreams

### Resilience/DRR & Taxonomy



### Resilience/DRR & Key Performance Indicators

- Guidance for Issuers on relevant Resilience KPIs

### Resilience/DRR & Reporting



## Next Steps

1. Prepare and circulate draft Project Document to ARISE members
2. Obtain feedback and engagement from ARISE members on Project Document
  - *Contact: Fernando Britto ( [fernando@aisr.com.br](mailto:fernando@aisr.com.br) )*
3. Identification of potential issuer(s) and investor(s) to tap this market
4. Issuance of an inaugural Sustainable Bond with Resilience-related goals
5. Launch of a Guidance Document on 'How to' integrate resilience and DRR into sustainability bonds (GP 2022)

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