



CLUSTER EVALUATION

Green Bonds: Pioneering Inception and Navigating Maturity

Evaluation of EBRD's Green Bond Investments (2017-2022)

IEvD ID: SS23-198

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This report was prepared by IEvD independently and is circulated under the authority of the Chief Evaluator, Véronique Salze-Lozac'h. It was prepared under the supervision of Samer Hachem, Director of Sector, Country and Project Division, by Oskar Andruszkiewicz and Regina Husakova, Senior Evaluators at IEvD, and with contributions from Raymond Seager (ICMA Associate) and Jérôme Kisielewicz (ICF Consulting), external consultants. The External Reviewers were Andreas Hoepner (University College Dublin) and Agnieszka Smolenska (Florence School of Banking and Finance). Lastly, the team would like to thank project teams in EBRD from Treasury, Banking and Climate Strategy and Delivery for their forthcoming engagement and candour.

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© European Bank for Reconstruction and Development
Five Bank Street
London E14 4BG
United Kingdom

Web site: www.ebrd.com

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Abbreviations

ABI	Annual Bank Investment	ICMA	International Capital Markets Association
AMI	Annual Mobilised Investment	IEvD	Independent Evaluation Department
BAU	Business as Usual	IFC	International Finance Corporation
CapEx	Capital Expenditure	KPI	Key Performance Indicator
CBI	Climate Bond Initiative	LICs	Lower Income Countries
CEF	Credit Enhanced Facility	MDB	Multilateral Development Bank
CFO	Chief Financial Officers	MICs	Middle Income Countries
CFMD	Capital & Financial Markets Development	MIGA	Multilateral Investment Guarantee Agency
CoOs	(EBRD) Countries of Operations	MREL	Minimum Requirement for Own Funds and Liabilities
CPI	Climate Policy Initiative	NCBI	Net Cumulative Bank Investment
CSD	Climate Strategy and Delivery	NDC	Nationally Determined Contributions
CSDR	Country Strategy Delivery Review	OECD	Organisation for Economic Co-operation and Development
DD	Due Diligence	OL	Operational Leader
DFI	Development Finance Institution	OpEx	Operational Expenditures
EC	European Commission	PD	Policy Dialogue
EM	Emerging Markets	RAROC	Risk Adjusted Return on Capital
ESD	Environmental and Social Department	RE	Renewable energy
ESG	Environmental, Social and Governance	SCF	Strategic and Capital Framework
ESA	European Supervisory Authorities	SECO	Swiss State Secretariat for Economic Affairs
ESAP	Environmental and Social Action Plan	SEMED	Southern and Eastern Mediterranean
ESMA	European Securities and Markets Authority	SIDA	Swedish International Development Corporation Agency (SIDA)
EU	European Union	SMEs	Small and medium-sized enterprises
EuGBS	EU Green Bond Standards	SO	Sub-operation
FI	Financial Institution	SOE	State-owned entity
GB	Green Bond	SPO	Second Party Opinion
GBP	Green Bond Principles	TA	Technical Assistance
GB-TAP	Green Bond Technical Assistance Programme		
GET	Green Economy Transition		
GGBI	Global Green Bond Initiative		
GHG	Greenhouse Gas		

TC	Technical Cooperation	TIMS	Transition Impact Monitoring System
TCFD	Task Force on Climate -Related Financial Disclosures	TQ	Transition Quality
TI	Transition Impact	TRK	Türkiye
		UoP	Use of Proceeds

Executive Summary

Introduction

Green bonds have seen a buoyant growth in recent years, already accounting for approximately 4% of the global bond market and they are vital to channelling capital towards green projects. EBRD has been issuing green bonds since 2010. In 2017, it also started investing in the asset class issued by corporates and financial institutions (FIs) in the Bank's Countries of Operations (CoOs), with the portfolio size reaching €1.25 billion by the end of 2022. By doing so, the Bank sought to play a meaningful role in developing the nascent green bond markets in its CoOs.

The objective of this report is to provide evaluative evidence on the Bank's relevance as a green bond investor, as well as on the effectiveness and efficiency of its investments, related activities and overall approach to green bond markets. Findings flow primarily (although not exclusively) from the evaluation of the sample of 10 EBRD investments in 10 green bonds issued by a mix of corporates and FIs from seven countries in 2017-2022. EBRD's own green bond issuances and the Bank's policy dialogue activities are out of the scope of this evaluation.

This is the first evaluation of multilateral development banks' (MDBs) investments in green bonds. To that end, it represents a novel and important contribution in the field of climate finance evaluation.

The Bank delivered a sterling contribution to the development of green bond markets

EBRD's investments accounted for a sizeable share of green bond issuances in CoOs in 2017-2022. The Bank also did commendable work in supporting first time issuers. Excluding sovereign issuances, the Bank's investments accounted for 7% and 47% in terms of the overall volume and

number of issuances by the Bank, respectively. Out of 11 countries represented in its green bond portfolio, the EBRD participated in the first non-sovereign green bond issuances in four of them. Out of the 29 individual green bond issuers that benefited from the Bank's investments, EBRD's investment was part of the first ever green bond issuance for 90% of them.

The Bank has been a sought-after and trusted anchor investor with financial clout. Its financial additionality was strong, even if it rarely stemmed from the green label specifically. The financial additionality of investments has been tied mostly to specific market conditions and issuers' circumstances. The largest source of was the comfort that the Bank's involvement, as an anchor investor, provided issuers in launching a bond. In 8/10 issuances in the sample the EBRD was among the top three largest investors and the largest one on a few occasions.

EBRD acts as a catalyst of demand in many instances, even if direct private mobilisation is rare. EBRD rarely invests in green bonds that are privately placed and almost never as a solo financier, which supports the participation of other investors. While direct private mobilisation is not common, there is evidence of indirect mobilisation and the catalytic effect of the EBRD's presence.

Yet, the most recent series of investments made in 2023 mark a major departure from the pattern in 2017-2022. There were far fewer investments in first time issuers, the vast majority were issuances by FIs and no single investment was for a non-EU issuer.

EBRD's investments in green bonds may not automatically translate into green impact

Green bonds from the majority of issuers went in tandem with a genuine shift from 'business as usual' (BAU) towards credible

decarbonisation strategies. The assessment of the credibility of the issuers' sustainability strategy is of particular importance for green results.

The EBRD's assessment of the issuers' sustainability strategies has not been methodical enough, at times leaning too heavily on Second Party Opinions (SPO). The coherence of a green bond with a credible sustainability strategy of the issuer is an integral part of Green Bond Principles (GBP). Its absence may equate to "greenwashing".

Proceeds from the Bank's investments were used significantly more often for refinancing than new assets – lowering the environmental additionality of projects. Over 70% of all EBRD's proceeds (invested in the sample of projects) were used entirely to refinance existing debt rather than new investments. In half of the cases, look-back periods either exceeded the 36-month mark or were not communicated by issuers. While the market has evolved and many investors now demand green bonds with no/limited refinancing, the EBRD has not had any targets limiting the use of refinancing nor qualitatively defined aspirations to promote issuances with a higher share of new investments. It also does not monitor the share of refinancing as part of its overall green bond portfolio nor report on it.

The majority of issuers in the EBRD's green bond portfolio published annual allocation reports. Impact reporting, however, was patchier. Specifically, 83% of issuers published allocation reporting, which is a core requirement of a green bond aligned with the GBP, and 63% impact reporting. For 54% of issuers, the impact reporting also included the methodology of the impact assessment, as recommended by the International Capital Markets Association (ICMA).

EBRD could have done more in supporting quality reporting. Allocation and impact reporting is an integral part of green bonds. In the early days, allocation reporting was often sufficient. However, robust impact reporting is now the standard that the

market expects. In the evaluation sample, post-issuance reporting revealed shortcomings, especially for impact reporting. EBRD, as a sought-after anchor investor could, prior to issuance, demand reporting commitments and enforce them ex-post. This lies at the heart of the Bank's market development role.

EBRD's internal cuisine of green bond investments – a mixed bag

As a MDB, given its mandate and additional tasks pre-conditioning its investment in a green bond, the EBRD needs at least double the time to invest compared to private institutional investors. This might have caused the Bank to miss participating in some deals. On balance though, the EBRD's longer timeline does not appear to be a major handicap, especially when it does it for the right reasons, i.e. more thorough feedback on a client's green bond framework and standards. Integrity and financial due diligence (DD) and negotiations on the Environmental and Social Action Plans (ESAPs) may add to the timeline, which are precisely the type of inputs that one expects from MDBs.

EBRD failed to deploy its green bond related €1.1 million Technical Cooperation (TC) Programme A few factors were at play, including a lack of demand from the type of green bond issuers that the Bank typically invested in, i.e. large FIs from EU countries that had comfortable budgets to finance any extra consulting expertise. Project level technical assistance (TA) support may still be relevant if properly designed though, i.e. especially for a certain sub-set of first time issuers and for selected goals, like impact reporting and assets' appraisal.

The data on the green impact of green bond investments is poorly managed. Green Economy Transition (GET) ex-ante estimates are unreliable. This is due to uncertainty about the specific Use of Proceeds (UoP), a lack of transparency on methodology and incompatibility with issuers' own impact calculation methodologies.

The financial performance of EBRD's investments in green bonds has been sound. The Bank has generally held its green bond investments to maturity, which has also supported the performance of the assets in the secondary market. There has been no single default and interest has been paid on time. The average Risk Adjusted Rate of Return (RAROC) at signing for the sample investments was 13.7%.

Recommendations

Recommendation 1:

Establish a formal approach to green bond investments and related TA with clear guidance on priorities, to reflect the current and changing state of the market and the Bank's position at the forefront of its further development. Markets have matured and the EBRD now needs to formalise its approach to green bond investments. This includes a clear articulation of the transition impact (TI) it aims to achieve through its investments and what market segments it will target in doing so (i.e. EU versus non-EU). The EBRD's TA to green bond issuers has barely been utilised until now. It requires a re-think, including a sound assessment of prospective demand.

Recommendation 2:

Improve assessments of green bonds and issuers' credentials and encourage more detailed and transparent investment criteria to raise the robustness of the EBRD's green bond portfolio and the overall clarity of its approach to green bond investments.

In addition to reviewing SPO, the Bank should have a more structured and systematised approach to assessing: (i) the consistency between green bonds' UoP and issuers' sustainability strategies, and (ii) the level of ambition of the intended UoP. It should also enhance its scrutiny of issuers' post-issuance impact reporting. The Bank should publish its green bond investment criteria, so it is clear to issuers and investors alike what minimum standards it demands.

Recommendation 3:

Strengthen the standards related to issuers' pre-issuance green bond framework commitments to impact reporting, and to issuers' post-issuance allocation and impact reporting. This will contribute to the robustness of the issuers' commitments, and market standards more broadly. At pre-issuance, the EBRD should work closely with issuers to ensure commitments for allocation and impact reporting are as aligned with the ICMA Harmonised Framework for Impact Reporting as possible. This includes disclosure of key metrics, methods and assumptions for the impact reporting. Post-issuance, it should maintain regular contact with issuers and demand improvements in allocation and impact reporting, when relevant.

Recommendation 4:

Adopt operational improvements in the approach to GET outcomes management for green bonds to introduce greater transparency and comparability. These should include: (i) assumptions, baselines and calculations that underpin GET ex-ante estimates being incorporated in all Board project documents, and (ii) tailored, formalised and more realistic approaches to ex-ante GET physical results' estimates and the introduction of a systematic approach to ex-post allocation and impact data collection/reporting for all green bonds.

Recommendation 5:

Monitor, report, and when opportunities arise, reduce the overall use of EBRD's proceeds to refinance and favour investment in new assets. This would not only bolster environmental additionality of the Bank's whole green bond portfolio, but also respond to growing demand from investors who are sensitive to Environmental, Social and Governance (ESG) and position the EBRD at the forefront of efforts in setting high market standards – where it should be.

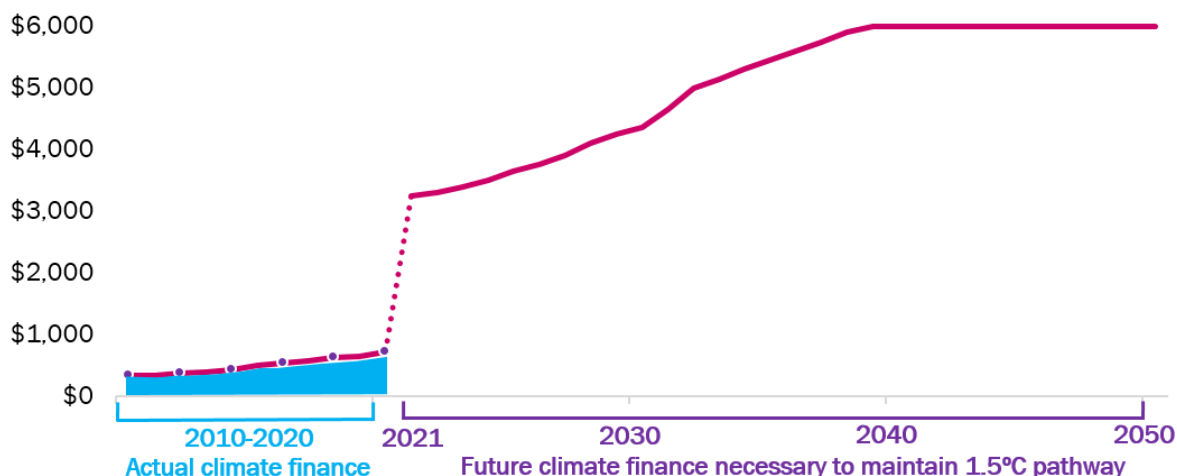
1. Background and context

1.1. Evaluation rationale

This evaluation is part of the Independent Evaluation Department’s (IEVD) Work Programme 2023-2025, which was agreed upon by the EBRD Audit and Risk Committee on 6th December 2022.¹

1. Deploying sustainable finance at speed and scale is of paramount importance if tackling the climate crisis and reaching the goals of the Paris Agreement are still to have a chance to be achieved. And MDBs have a role to play. According to the estimates of the Climate Policy Initiative (CPI), climate finance must increase at least six-fold – to approximately \$4.3 trillion per year by 2030 – to meet our climate objectives. In 2020, multilateral development finance institutions (DFIs), a category that includes the EBRD, provided approximately 10% of actual climate finance, according to the same CPI estimates (Figure 1). The gap in access to climate investment is considerably greater in emerging and developing economies than in developed ones.²

Figure 1: Global tracked finance flows and the average estimated annual climate investment need through to 2050 (billions)



Source: Climate Policy Initiative, 2021. Global Landscape of Climate Finance 2021.

2. Green bond markets have considerably grown in size³ and sophistication in several of the Bank’s CoOs.⁴ A greater number and diversity of investors and issuers have become involved, further guidance on the GBP has been developed and the role of MDBs has also evolved, while some bottlenecks have persisted, and new challenges⁵ have also emerged.

3. EBRD’s process of pivoting towards being a ‘green’ MDB has also taken multiple facets. Green bonds have been among an array of rapidly growing financial instruments that have been an integral part of the shift within the Bank. This is in addition to broader efforts to mobilise

¹ IEVD, 2022. Work Programme and Budget 2023-2025. BDS22-198

² IEA and IFC, 2023. Scaling up private finance for clean energy in emerging and developing economies. Available at: <https://www.iea.org/reports/scaling-up-private-finance-for-clean-energy-in-emerging-and-developing-economies>

³ Going forward, green bonds are expected to increase their share in the global bond market relative to conventional bonds.

⁴ EBRD, 2024. Where we are. Available at: <https://www.ebrd.com/where-we-are.html>

⁵ Recent rise in allegations of ‘greenwashing’

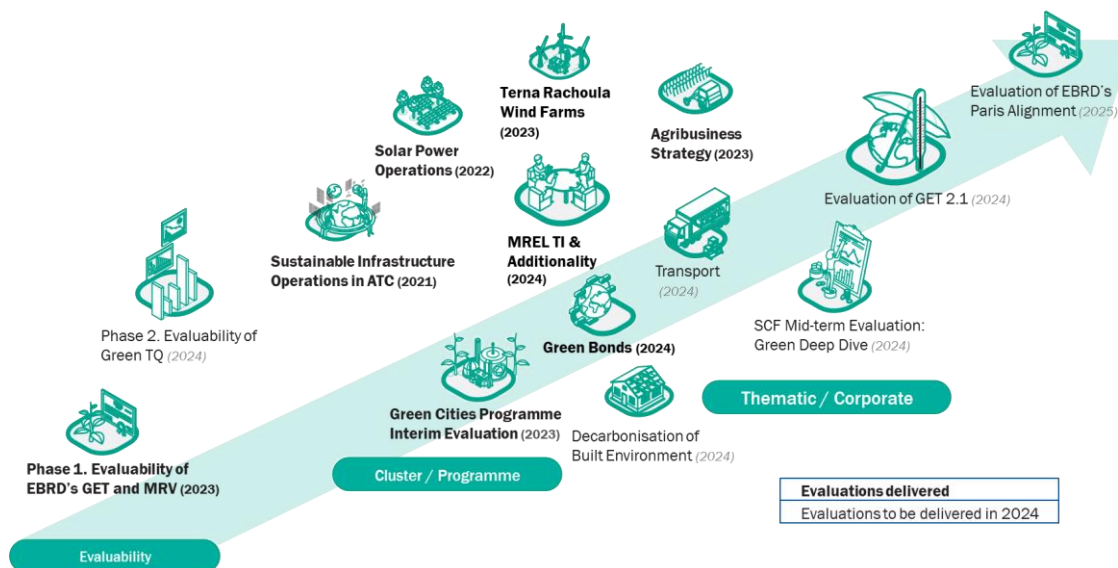
private capital, steering it towards green investments, addressing the large financing gap and tackling climate change. Meanwhile, EBRD’s green bond investment portfolio grew to €1.25 billion by the end of 2022 and is now among the top 10% of the largest green bond funds worldwide, by assets under management.⁶

4. **These developments warrant a stock-taking exercise, hence this evaluation.** It provides an assessment of the Bank’s efforts to date based on operation-level insights into the rationale, design and performance of investments in green bonds, and where possible, more general findings on the Bank’s green bond investments beyond the projects sampled.

5. **Green bond markets are poised to continue growing rapidly in size and status as pressures on greening the financial system mount.**⁷ Against this backdrop, the evaluation offers a forward-looking perspective. It strives to contribute to questions around the Bank’s additionality and its role in fostering green bond issuances in less developed markets, the critical issue of crowding-in private capital and the EBRD’s role in promoting high and credible green bond standards of practice, among others.

6. **More broadly, IEvD aims to contribute to the Bank’s green agenda and strategic objectives by delivering a series of green-focused evaluations (Figure 2) over the Strategic and Capital Framework (SCF) 2021-2025 period.** These evaluations are building a body of evidence that enables key stakeholders to gain a deeper understanding of the results of the EBRD’s green finance and policy actions.

Figure 2: IEvD green-focused evaluations



Source: IEvD

7. **Lastly, this evaluation is the first evaluation of investments in green bonds among MDBs.** While there have been some sporadic evaluative attempts concentrating on MDBs’ own issuances of green bonds,⁸ there have been none focusing on MDBs’ investments in green

⁶ Environmental Finance, 2023. Green Bond Funds – Impact Reporting Practices 2023.

⁷ CBI, 2023. Five by Five Manifesto. Available at: <https://www.climatebonds.net/about/five-five-manifesto>

⁸ Notably, Evaluation of EIB’s Climate Awareness Bonds. Available at: <https://www.eib.org/en/publications/evaluation-of-the-eibs-climate-awareness-bonds>

bonds – until now. Therefore, this research represents a novel and important contribution in the field of climate finance evaluation.

8. This report is structured as follows:

- Sections 1.2 – 1.4 introduce the green bond instrument, the EBRD and wider market context of green bond investments and outlines the methodology for this evaluation.
- Sections 3 and 4 present evaluation findings.
- Section 5 lays out key insights and puts forward five specific recommendations.
- Lastly, this report is accompanied by a series of appendices, providing further details and data.

1.2. Green Bonds: Wider market context

1.2.1. Early days and the development of the green bond market

9. The inaugural green bonds were issued by the European Investment Bank (EIB) in the form of a ‘climate awareness bond’ in 2007, followed by the World Bank in 2008. EIB’s trade pioneered the concept of dedicating the bond proceeds to specific environmental projects. The World Bank built upon this, adding an obligation for issuers to report on the impact of the projects financed and external reviews of their process. The market remained very much the domain of supranational and government agency issuers for the next few years. It gradually grew and was largely seen as a niche market for borrowers specifically targeting investors focused on ESG. EBRD issued its first green bond in 2010.

10. In 2013, the International Finance Corporation (IFC) issued a \$1 billion green bond, offering a blueprint for the rapid growth and mainstreaming of the sustainable bond market by utilising a public order gathering process (bookbuild), as they would for a conventional public bond. This allowed both ESG investors and those unconcerned with those features to participate, i.e. it was as much about the liquidity of the bond as the buyers. This set the stage for green bonds to become mainstream instruments.

11. The following year, 2014, was a big developmental year for the market. Debut corporate and financial green bonds, with the ICMA taking on the role of secretariat to the GBP,⁹ and green bond indices were launched. With these foundations, the market began to grow exponentially, both in the diversification of sectors and geography, including the launch of the China Green Bond catalogue in 2015. As the market developed, there was a growth in other UoP bonds, such as Social Bonds, and a new instrument was introduced with Sustainability-Linked Bonds.

1.2.2. Green Bonds Principles (GBP) administered by ICMA

12. The ICMA administered GBP, which comprises of four pillars and are described as “Voluntary Process Guidelines for Issuing Green Bonds”. They offer a process to issuers on how they can

⁹ ICMA, 2023. Green Bond Principles. Available at: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/>

organise themselves internally and disclose their issuance process to investors in a transparent and accountable way.

Box 1: ICMA GBP: Four pillars

1. **UoP:** A cornerstone pillar where the issuer makes a commitment to investors to spend the bond proceeds on projects with clear environment benefits. The GBP has a non-exhaustive list of ten specified categories¹⁰ of environmentally focused projects (though to note, inclusion in the list does not necessarily mean the project qualifies). Financing of new and refinancing of existing investments (with some restrictions¹¹) is allowed.
2. **Process for Project Evaluation and Selection:** Envisages an auditable and robust process for choosing specific projects. It also includes issuers' disclosure on the links between the project and its wider environmentally sustainable objectives/strategy.
3. **Management of Proceeds:** Defines how issuers manage a notional equivalent amount of the bond proceeds on their balance sheet throughout the life of the bond. For instance, net proceeds should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer.
4. **Reporting:** Provides an obligation to report to investors annually, until full allocation, on the project allocation and impact. Impact reporting is typically ex-ante (though ex-post is encouraged where possible). These are with qualitative performance indicators and, where feasible, quantitative performance measures.

Source: ICMA

13. To claim “GBP alignment”, an issuer must adhere to these four pillars. Also, there are two further recommendations for an external review and framework. The former comes in various forms – e.g. SPO or third-party assurance – and comprises an outside party opining on aspects, such as the issuer’s processes and environmental contribution of projects.¹² The latter is akin to a roadmap from the issuer laying out their approach to the sustainable bond market and how they have tailored the principles to their own organisation. It is released prior to issuance and subject to review by SPO and updated from time to time.

14. The GBP-aligned green bond market is a self-regulated market. There is no regulator enforcing adherence to the GBP, nor is there any legal recourse for investors should issuers subsequently deviate from the roadmap they present in their framework or other documents.

15. The GBP, organised by finance professionals,¹³ does not look to define minimum or target levels of environmental or social contribution. Rather it points issuers to the required levels of transparency, as well as to available certifications, technologies, metrics and so forth. It looks to issuers to use the most appropriate definitions to their geography and sector, guided by investor and wider market expectation.

16. According to ICMA analysis, all green bonds issued by European entities in 2022 were aligned with ICMA GBP.¹⁴ To note, the GBP are often described as “descriptive, not prescriptive” – i.e. they lay out an open architecture to describe a borrower’s processes, but do not prescribe the level of ambition of those processes or assets being financed. Therefore, alignment with ICMA

¹⁰ Renewable energy, Energy efficiency, Pollution prevention and control, environmentally sustainable management of living natural resources and land use, Terrestrial and aquatic biodiversity conservation, Clean transportation, Sustainable water and wastewater management, Climate change adaptation, Circular economy adapted products, production technologies and processes, Green buildings

¹¹ The GBP recommend that issuers disclose the split between new financings and refinancing of existing projects, as well as specifying the look-back period for refinancing. The GBP leave the exact terms to the issuer’s discretion, with a minimum of 50% new financing and a look-back of 2-3 years most commonly used.

¹² According to CBI data, globally and in 2020, 89% of all issuances were subject to at least one external party verification of which SPOs were dominant form.

¹³ A combination of issuers, investors and underwriters consulting with the wider market

¹⁴ ICMA analysis based on Environmental Finance Bond Data

GBP is often seen as ‘just a starting point’ for investors as they differ in their demands for the level of ambition.

17. There are also certification systems in the market that build upon or incorporate ICMA’s work and look to set standards for the environmental contribution of the assets. For example, the Climate Bond Standards¹⁵ launched in 2012 prior to the introduction of ICMA’s GBP and the more recent EU Green Bond Standards (EuGBS).¹⁶

1.2.3. Rationale for green bonds and some challenges: Issuers’ and investors’ perspectives

18. There are two main reasons for issuers to turn to the green bond market: (i) strategic and (ii) investor traction/diversification. Firstly, from a strategic perspective, the bond market provides a strong platform for issuers to broadcast their sustainability strategy and signal their environmental commitment. It is an opportunity for the borrowers to enhance their reputation as a sustainable organisation and align their capital markets activities with their wider business. Secondly, it improves their funding activities by providing access to a new, more loyal investor base. Thus, with a larger, more dedicated investor pool, there is the potential for improved execution of their funding. However, this could backfire if a borrower fails to fulfil its obligations, or these are assessed as being insufficiently robust, or if there is a dissonance between their business and/or strategy and the sustainability goals expressed through the instrument. This could undermine their green credentials, inflict reputational damage and/or impact their ability to fund efficiently.

19. In the last few years, the market has become increasingly familiar with “greeniums” for sustainable bonds. This is a pricing premium paid by investors for sustainable bonds over and above conventional equivalents. Whilst not guaranteed and hard to pin down, this has been available to some issuances and is largely a technical dynamic (i.e. demand outweighing supply). Issuers can tip the balance in their favour by focusing on aspects like tapping wider ESG investor bases, targeting undersupplied market segments or developing green bond frameworks that are perceived as high quality.¹⁷

20. For investors, there are various drivers, but ultimately it comes down to a demand for these assets from their end clients. Increasingly, the clients of asset managers, pension funds and so forth have ESG mandates and targets.¹⁸ Green bonds often fulfil that need. For EBRD’s borrowing client base, those investors may offer particularly attractive pricing and diversification.

21. There are a number of challenges in the green bond markets. ESG considerations and wider sustainability strategies are still not commonplace in many of the EBRD’s CoOs and investors’ appetite for green bonds may differ (domestic versus international). Issuing green bonds is also associated with additional costs (compared to “plain vanilla” bonds). Importantly, the debt capital markets are currently dealing with charges of greenwashing (Box 2) and the quality of impact reporting has been a central issue for many investors. Annex 4 outlines those challenges in more detail.

¹⁵ Climate Bond Initiative, 2023. Climate Bond Standards. Available at: <https://www.climatebonds.net/standard>

¹⁶ European Commission, 2024. European green bond standard. Available at: https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/european-green-bond-standard-supporting-transition_en

¹⁷ CBI, 2023. Semi-Annual Pricing Reports. Available at: <https://www.climatebonds.net/resources/reports>

¹⁸ Number of funds with ESG mandate has been growing reaching \$7.3 trillion globally by Q4 2022 cf. \$4.3 trillion in Q1 2021. Available at: <https://www.afme.eu/publications/data-research/details/afme-esg-finance-report-q4-2022-and-full-year-2022>

Box 2: Definition of ‘greenwashing’

“A practice where sustainability-related statements, declarations, actions or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product or financial services. This practice may be misleading to consumers, investors or other market participants.”

Greenwashing can be intentional or inadvertent. It also does not require investors being actually harmed.

Source: ESMA, 2023. Progress Report on Greenwashing

1.3. Green Bonds: EBRD’s context

1.3.1. EBRD’s strategic and operational approach and its green bond portfolio

22. The rising importance of green bond investments as part of the Bank’s toolbox stems from its key strategic documents. While the EBRD’s SCF for 2016-2020¹⁹ did not make any specific references to green bonds, the current SCF (2021-2025)²⁰ considers them as part of the Bank’s overall strategy in preserving and accelerating the transition over the SCF period.²¹ Also, the most recent Strategy Implementation Plan (SIP)²² for 2023-2025 discusses green bonds in the context of progressing SCF green economy priorities by driving innovative climate finance forward, including through mobilisation.²³

23. The EBRD’s operational approach to green bond investments was first put in place in 2018 and has evolved since then. Following the first green bond investments in 2017, the Bank developed the regional FI Green and Sustainability Bond Framework²⁴ in 2018 – a seminal step in shaping a consistent approach to green bonds. This approach later formed the basis for the GET Handbook guidance on GET eligibility of bonds. The investments in green bonds were supported by the Capital and Financial Markets Development (CFMD) team until September 2022, when responsibility was transferred to the Climate Strategy and Delivery (CSD) department. This team now supports both EBRD bankers and potential green bond issuers in delivering a product in line with the standards set for green bonds internally. In addition, the Environmental and Sustainability Department (ESD) plays a scrutinising role, while the Treasury team provides feedback on prospective issuers’ GB frameworks. For more details of the EBRD’s strategic and operational approach to green bond investments, see Annex 7.

24. Box 3 offers selected headline figures from the EBRD’s portfolio analysis. Detailed portfolio analysis, enhanced with some market level data and analysis to put the Bank’s green bond investments in a wider context, is presented in Annex 1.

Box 3: Portfolio analysis: Selected headline figures

- **Overall volume:** Between January 2017 and December 2022, the EBRD made 42 individual green bond investments as part of 36 operations, for a cumulative investment of €1.25 billion.

¹⁹ BDS15-013 (Final): Report of the Board of Directors to the Board of Governors: 2015 Annual Meeting – SCF 2016-2020

²⁰ BDS20-030 (Final): Report of the Board of Directors to the Board of Governors: SCF2021-2025

²¹ Specifically, the priority actions in the FI sector include supporting the development of green finance by scaling up existing activity as well as broadening the suite of products, including risk sharing and GBs. The SCF further credits GBs for their contribution to the Bank’s rising green finance ratio, and also refers to EBRD’s own green and social bond issuances for mobilising finance. The LC2 Strategy 2019-2024 highlights green transition challenges and features promoting capital market instruments for green finance

²² BDS22-175 (Final): Strategy Implementation Plan 2023 – 2025

²³ This includes green capital markets with a considerable increase in the number and volume of transactions, their complexity and diversity of instruments (from standard green bonds to sustainability-linked bonds and sustainability bonds).

²⁴ BDS18-150: Regional: FI Green and Sustainability Bond Framework

- **Growth rate:** Since EBRD's first historical investment in green bonds in July 2017, investments saw a relatively timid growth until 2020. Since then, they have quickly expanded – way above the growth rate of the global green bond market – with nearly 600% growth in 2021 versus 86% of market growth in 2021.
- **EBRD's share of the market:** €1.25 billion of investments in green bonds in all the Bank's CoOs accounted for 4.9%²⁵ of the overall volume of issuances (€25.75 billion) in those countries in 2017-2022.
- **Geographical distribution:** EBRD's green bond investments have concentrated in a limited number of relatively advanced transition countries, while investments in less developed markets have been rare. Romania, Poland and Greece were the top three countries in terms of volume for EBRD's green bond investments (€503 million, or 40% of total portfolio).
- **Sector distribution:** The largest share of EBRD's green bond investment by the issuer's sector of operations was in FIs (40%), followed by renewable energy (RE) (14.1%) and energy (13.8%) sectors.
- **Private versus public:** Almost 90% of investment (by volume) was in private issuers' green bonds.
- **EBRD's Transition Qualities (TQ):** TQs Green (20 investments) and Resilient (17 investments) dominate the portfolio as primary TQs.
- **Tenor:** The average tenor of green bond issuance in the portfolio in which EBRD invested was seven years.
- **Oversubscription:** For 19 out of 42 investments (45%) where such figures are available, on average, the demand exceeded the planned issuance by 3.2 times

Source: IEvD analysis based on the portfolio data shared by CSD team and enhanced by the data from DTM, Refinitiv, Moody's, Fitch and S&P, Environmental Finance, Factiva, and others

1.4. Evaluation methodology

1.4.1. Approach and scope – “cluster evaluation”

25. This “cluster evaluation” and the findings flow *primarily* from the sample of ten project evaluations, although not exclusively. A cluster evaluation focuses on a set of interventions that pursue similar or complementary objectives and share common features, such as applicable strategy, sector or instrument of implementation. For this evaluation, the common feature of the cluster operations is implementation through the Bank's direct investments in green bond issuances.

26. The approach of the evaluation of these operations is from a bottom-up, project perspective. Why this way? Firstly, drilling into the *nitty-gritty* of each project offers far more nuanced insights, which is even more essential in the self-regulated market of green bonds as it is characterised by a variety of approaches. Secondly, the benefit of evaluating a series of projects with shared characteristics is that broader patterns and relationships can be identified, as well as potential cumulative effects, or developments through time. And yet, where possible and with due caveats, the evaluation team also sought to generate some broader knowledge on the approach to and performance of the Bank's green bond investments in general/beyond the ten evaluated projects.

27. The 10 EBRD investments selected are individual non-sovereign green bond issuances that were approved between January 2017 and December 2022. This sample represents a total of €434 million in investment, corresponding to 35% (€434 million out of €1,25 billion) of the

²⁵ Including sovereign green bond issuances and 7.3% if sovereign green bond issuances are excluded.

Bank's total green bond investment volume and 24% (10 out of 42) of all individual green bond investments from the same period.

28. The sample consists of three FIs and seven corporates from seven sectors²⁶ and seven countries.²⁷ Annex 2 presents details on each project. The reader is encouraged to get familiar with those before moving to the next section.

29. Selected operations were evaluated individually with a common project evaluation template, which was guided by evaluation questions and sub-questions. Based on project-level analysis and a standalone report for each, findings were drawn, substantiated by complementary evidence and analysis and summarised in this report (Evaluation Matrix in Annex 3).

30. This evaluation does not focus, however, on EBRD's own issuances of green bonds. Nor does it assess the Bank's non-investment interventions (Policy Dialogue) aimed at fostering the development of green bond markets. Despite being approximately seven times bigger than its green bond investment volume, EBRD's own issuances have key differences in rationale and characteristics and are out of the scope of this evaluation. Some key Policy Dialogue operations, although described briefly, are not evaluated either. Lastly, the possible implications of the EuGBS are also out of scope.

1.4.2. Evaluation questions

31. The evaluation report seeks to address one **overarching question**:

Are EBRD's investments in green bonds fit for purpose?

32. To answer this question, the evaluation team has identified three specific questions to guide this evaluation. These questions correspond to the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee's (DAC) criteria of relevance, efficiency and effectiveness.

EQ1: To what extent did the objectives of the EBRD's green bond investments and related activities respond to the needs and priorities of local issuers, investors and local green bond markets more broadly?

EQ2: To what extent were the EBRD's green bond investments and related activities structured and delivered efficiently and to what extent was the EBRD fit to deliver them?

EQ3: To what extent did the EBRD's green bond investments yield the intended results?

1.4.3. Data collection and research tools

33. The evaluation was grounded in the mixed methods approach comprising:

Portfolio and wider market data analysis: The EBRD's portfolio of 42 investments in 42 green bonds complemented with external data sources, e.g. Environmental Finance's data, Climate Bond Initiative (CBI) and ICMA statistics, Bond Radar, Refinitiv and Bloomberg data and Factiva database (Annex 1).

Desk review: Examined documentation fell into two categories: project related and non-project related. As part of the former, issuers' prospectuses, GB frameworks, SPO, annual allocation and

²⁶ Financial services, telecommunication, energy utility, renewable energy, rail transport, logistics and industry.

²⁷ Egypt, Georgia, Greece, Romania, Poland, Türkiye, Lithuania. In addition, one investment was made in Regional issuance.

impact reports, post-issuance verification reports, sustainability strategies and reports, ESG ratings, credit rating agencies notes, issuers websites, along with various EBRD internal project documentation²⁸ were reviewed. As part of the latter, ICMA and CBI guidelines and reports, relevant academic and grey literature, including industry reports, specialised financial press, relevant MDBs' publications, among others, were accessed.

Interview programme: Overall, this evaluation draws on 65 semi-structured interviews. The majority (39) related to 10 selected project evaluations and consisted of: (i) EBRD banking and non-banking teams directly involved, and (ii) issuers – typically senior treasury staff, Chief Financial Officers (CFOs) and ESG experts, and (iii) arrangers/underwriters, and in some cases (iv) investors. Beyond the projects' sample, selected EBRD staff from CSD, ESD and Treasury teams were consulted. In addition, to ensure that the evaluation draws on the valuable market perspective, the team reached out to some leading green bond investors and underwriters.²⁹ To safeguard candid and non-biased responses that underpin the validity of the evaluation findings, in line with best practice and independence principles, all external interviews (including those with issuers) were conducted *without* the presence of the EBRD's banking teams and on a “not for attribution basis”.³⁰ The full list of external interviews is presented in Annex 6.

1.4.4. Challenges and limitations

34. There has been one material limitation to the evaluation, although it does not affect the general robustness of the analysis and evaluation findings. Due to the nature of capital market transactions and the absence of a relationship between the EBRD and the other bond investors in an issuance, the evaluation team was only able to conduct a limited number of interviews with investors who participated in issuances selected for the evaluation sample. This somewhat limited the evaluation team's ability to draw inferences, such as catalytic role of the EBRD.³¹

Finally, although not a limitation per se, the evaluation team did not manage to consult senior IFC staff in charge of the design and execution of IFC's green bond investments.³² IFC also does not publish even basic aggregate data on its green bond investment portfolio. As a leading investor in non-sovereign green bonds across MDBs, insights from IFC could have offered valuable peer comparison, added to MDBs' transparency and enriched this evaluation.

²⁸ Including Board Approval documents, framework agreements with issuers, GET questionnaires, Credit, TIMS, PMM, PSD and CSD/ESD notes.

²⁹ Including BlackRock, Goldman Sachs, ING, J.P. Morgan, Nuveen and Tridos IM.

³⁰ Unless consent to use a quote was given.

³¹ To mitigate it, interviews with wider green bond investor and underwriter community were triangulated with the evidence from the data analysis and desk review

³² The evaluation team had an exemplary discussion and subsequent collaboration with the IFC GB-TAP staff but despite number of attempts to reach out to FIs and Climate Finance teams, it did not receive any response.

2. EBRD green bond investments: A tale of market development and green impacts – and some trade-offs

2.1. EBRD’s investments delivered a sterling contribution to green bond market’s development

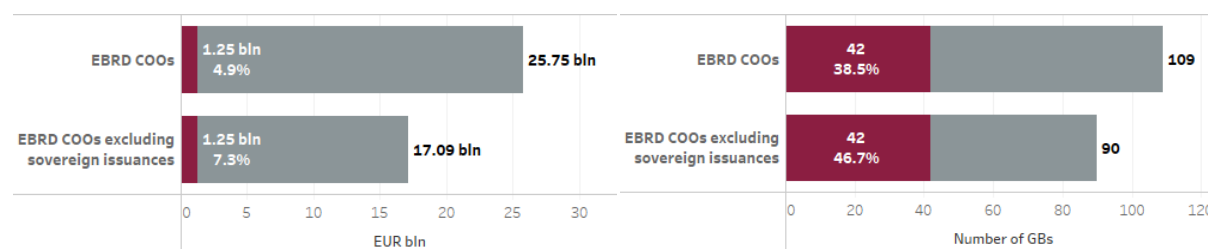
2.1.1. Quo vadis? Developing nascent green bond markets and some possible trade-offs

35. In the early years of the EBRD’s investments in green bonds, the Bank, as with other investors, faced a trade-off. Many first-time issuers were entering the market, but the green credentials of their bonds may not have been high. Investing in the bonds from first time issuers in emerging markets (EM) presented a clear-cut case for market development by introducing a new sustainable finance instrument. However, issuers (and investors) were still learning the ropes. This included putting in place sufficiently credible GB frameworks and ensuring alignment of the UoP with their overarching sustainability strategies. Accordingly, the accent may have been tilted towards market development. With time though, markets matured and expectations for higher standards rose. This section concentrates on the market development aspect while Section 2.2 outlines some possible trade-offs.

2.1.2. The EBRD’s role in bolstering green bond markets – mostly an upbeat story, until 2023

36. The ability to contribute to the development of nascent markets also depends on the scale of involvement in them. Although market data is imperfect,³³ there is little doubt that the EBRD’s investments accounted for a very sizable share of green bond issuances by issuers from CoOs. Estimations based on Environmental Finance’s data suggest that in 2017-2022, €25.75 billion of green bonds were issued by issuers from the EBRD’s CoOs. This included sovereign issuances, of which the Bank’s investments accounted for €1.25 billion, or 4.9% of the overall volume. Yet, looking at the number of green bond issuances, the EBRD invested in 42 of a total of 109 green bond issuances in that same period, or 38.5% of all issuances. Further, by *excluding* sovereign issuances,³⁴ its share climbed even more – to 7.3% and 46.7% in terms of the overall volume and number of issuances, respectively (Figure 3).

Figure 3: Share of EBRD’s green bond investments in total green bond issuances by issuers from EBRD CoOs, by volume and by number (2017-2022)



Note: EBRD CoOs excluding the Russian Federation
 Source: Environmental Finance data and IEvD calculations

³³ It does not capture some of the smaller green bond issuances and may overstate EBRD’s share of the market
³⁴ 19 issuances for the total amount of €8.7 billion between 2017-2022, based on Environmental Finance data

37. So far, the EBRD has been investing in issuers from larger CoOs, most often in the European Union (EU), with relatively rare involvement in issuance by clients from non-EU countries. There were green bonds by issuers from 25 countries out of the total of 38 (amounting to 65%) of EBRD's CoOs in 2017-2022. The 11 countries represented in EBRD's green bond investments (i.e. 44% of the countries issuing) represented 82% of the issuance volume by issuers from the CoOs. As a share of its own green bond portfolio, the Bank's investments in bonds by EU-based issuers stood at €968 million – or circa 75% of the portfolio. A greater focus by the EBRD on the EU-based issuers may have been to some extent forced by the market reality. Non-EU countries in the EBRD region have typically shallower bond markets, weaker capital markets infrastructure and local issuers have lower credit ratings than those from the EU. In general, non-EU countries have seen fewer green bond issuances. Further details on the distribution of the Bank's green bond investments are presented in Annex 1 (Portfolio analysis).

38. Beginnings were hard. The 2018 FI Green and Sustainability Bond Framework, an important step in developing a consistent EBRD approach to green bonds, failed on all its key green bond market development targets. The Framework, aimed at the development of green bond markets in the FI sector, sought to support first time issuers (of which 60% were to be in non-EU countries) and to introduce the innovative product to at least four different countries. This proved more difficult than anticipated. Most importantly, the Framework did not manage to utilise its headroom (€250 million) and closed with only four green bond investments of €82 million in total. This meant that its ambitions for green bond market development did not materialise. It only invested in two countries (Poland and Türkiye) rather than four and only reached three FIs, compared to the minimum five targeted. The only investment outside of Poland (Finansbank Türkiye) was a private placement with limited market development impacts. The Transition Impact Monitoring System (TIMS) report from May 2022 explains that: “*Covid-19 was probably an important brake to the framework expansion*”, which does not appear entirely convincing given buoyant growth in green bond markets in 2020 and 2021. Lastly, despite having a stand-alone €1.1 million TC Programme available to support first time issuers, none of this funding was utilised (Section 3.3.2).

39. On balance though, judging by the investments made in first time green bond issuances³⁵ as their share of the overall 2017-2022 green bond portfolio, the EBRD has done commendable work in fostering the development of green bond issuance by issuers from EBRD CoOs. Out of the 11 countries represented in its green bond portfolio, the Bank was involved in the first ever non-sovereign green bond issuances by issuers from four of them.³⁶ Further, out of 42 green bond investments it made, 15 (or 36%) were made in inaugural issuances in a given sector of a country, i.e. the first ever green bond issuance in RE sector (Aydem Renewables of Türkiye and Scatec of Egypt), transport (Georgian Railways of Georgia and ONCF of Morocco), telecoms (Cyfrowy Polsat of Poland), industry (Mytilineos of Greece) or banking (NBG of Greece, PKO BH of Poland, Raiffeisen Bank of Romania and Tatra Bank of Slovenia). More remarkably still, out of the total of 29 individual green bond issuers that benefited from the Bank's investments, the EBRD's investment was part of their first ever green bond issuance for 90% of them.

40. Naturally, with time and markets maturing, the proportion of the EBRD's investments in first time issuers started to fall, albeit fairly gradually. Splitting the Bank's green bond portfolio in two halves with 21 investments made between July 2017–July 2021 and the remaining 21 between August 2021–December 2022, it shows that the share of first time issuers³⁷ fell from 71% to 52%.

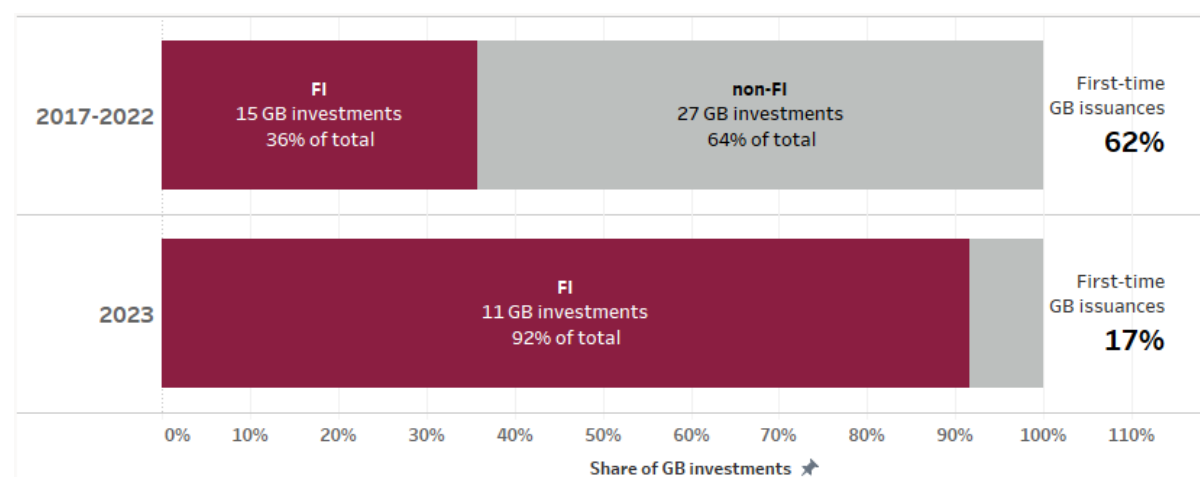
³⁵ Whether in a given country, sector or for the issuer itself

³⁶ Irrespective whether an issuer issued in the domestic exchange or abroad

³⁷ Defined as those where EBRD investment coincided with first ever green bond issuance

41. However, the most recent EBRD investments in green bonds in year 2023 marks a major rupture from 2017-22 pattern. There were far fewer investments in first-time issuers, the vast majority were in FIs, and no single one was for a non-EU issuer. Out of 12 green bond investments made by the Bank in 2023, two (or 17% by number) were for first time issuers. Further, 11 out of 12 investments were made in FIs, of which seven were Minimum Requirement for Own Funds and Liabilities (MREL) transactions.³⁸ Only one investment was in a corporate/non-FI issuance (a repeated issuer) and no investment in non-EU issuers was in contrast with the previous years’ pattern of the EBRD’ investments (Figure 4) (and broader green bond market developments in 2023³⁹). Since 2023 is beyond the timeframe of this evaluation – examination of the reasons for this major break was out of the scope of this evaluation.

Figure 4: EBRD green bond investments: Share of first time and FIs issuers: 2017-2022 vs 2023



Source: IEvD calculations

2.1.3. The contribution to green bond market development through demonstration was supported by the size of investments and/or support for first-of-a-kind green bond issuance

42. Most of the green bond investments in the sample envisaged a significant demonstration effect to support the market development⁴⁰ (Table 1). The intended TI on the development of green bond markets relied in large part on a ‘demonstration effect’ of investments – successfully issued green bonds would send a signal to other issuers and to investors about potential opportunities in sustainable finance. This effect was pursued through investing in an issuance (and sometimes even by enabling it in the first place) of green bond market ‘firsts’. These are the inaugural green bonds from an issuer of a country, in a sector or listed on a local exchange. This is then directly linked to investing in green bonds of first time issuers, as discussed in Section 2.1.2. While international listings (rather than domestic) of four bonds⁴¹ in the sample limited the contributions to the development of local capital markets, these were justified by the issuance

³⁸ Looking at MREL transactions, number of EBRD MREL transactions more than doubled between 2022-2023 (rise from 3 to 7). Note also the IEvD upcoming Evaluation of the EBRD’s Involvement in MREL Bail-in-able Instruments.

³⁹ According to CBI data for Q1-Q3 2023, for green bonds issued globally, government-backed entities, FIs, non-FI corporates and development banks issued \$997 billion, \$947 billion, \$895 billion and \$698 billion GSS bonds. Therefore, volumes issued by FIs and non-FI corporates were of similar size. See CBI, November 2023. Sustainable Debt Market – Q2 2023. Available at: https://www.climatebonds.net/files/reports/cbi_susdebtsun_q32023_01e.pdf. Overall, according to the latest *Environmental Finance* data, green bond issuances globally grew by 10% in 2023 year-on-year basis (to \$575 billion). Available at: <https://www.environmental-finance.com/content/news/record-2023-green-issuance-leads-sustainable-bond-rebound.html>

⁴⁰ As described in the project rationale in the Board Approved project documents

⁴¹ Aydem Renewables (Dublin), Georgian Railways (London), Mytilineos (Luxembourg), VGP (Luxembourg)

size, which would likely not have been supported locally. These issuances also fostered the visibility of sustainable finance and related standards, including reporting.

Table 1: Overview of cluster project findings on demonstration effects

Green Bond Issuer (OpID)	Findings on demonstration effects
Lietuvos (50268)	The first green bond issuance by Lietuvos (now Ignitis) is still the largest issuance in Lithuania to date and was supported by EBRD. The issuer followed with a second issuance (sample project) of the same size. Achieving a ten-year issuance despite uncertainty whether the market was willing to digest another large green bond from the same issuer only one year after the first issuance. However, the following issuance was a conventional bond, due to lack of pipeline of eligible projects.
PKO Bank Hipoteczny (50718)	The second ever green covered bond issued on the Polish debt market, following the first ever issued by PKO BH a few months earlier (June 2019). Subsequent issuances of green covered bonds on the Polish market followed, by PKO BH as well as other mortgage providers.
Cyfrowy Polsat (51673)	First ever corporate green bond issuance in Poland. Issued in local currency and on the Warsaw Stock Exchange, with the size and tenor above the average for the Polish corporate issuances at the time. No green bond issuances have been made by a Polish telecom company since then. The issuer moved onto sustainability-linked bond issuance, with no UoP reporting.
Mytilineos (52790)	Listed on the Luxembourg Stock Exchange, limiting its impact on the Greek capital market. Despite a green bond best practice in many aspects, it did not create the anticipated demonstration effect. Since this 2021 green bond, the Greek market only saw five more green and sustainability-linked bond issuances. Possible reason is the limited level of maturity of the sustainability strategies of Greek corporates.
Georgian Railway (52549)	While listed internationally, it represented a highly visible move to sustainable finance principles by one of key state-owned market actors. It was the second green bond in Georgia, a first one for a state-owned entity (SOE) and the first in the transport sector. This issuance was further followed by the first domestic green bond issuance in 2022, in which EBRD also participated. Most recently, in 2023, the first local currency green bond was issued in Georgia.
Finansbank (52623)	Not the first green bond issued by a FI in Türkiye and demonstration effect may have been also limited by its private placement (100% investment by EBRD) and lack of listing. The project expected to generate a certain level of demonstration effect through the public communication by the issuer, though IEvD did not find much evidence of it.
Aydem Renewables (53042)	Benchmark size issuance, but a volatile macro-environment in Türkiye halted many bond issuances. Since Aydem's issuance, and up until May 2023, only one Turkish corporate issued a green bond.
VGP Parks (51120)	The project did not aim to develop a green bond/ capital markets. The bond was issued by a sophisticated Belgian issuer, listed at Luxemburg Stock Exchange.
Scatec (52879)	Due to a specific blended finance structure, the expectation for demonstration was through 'innovative business model' rather than development of green bonds markets. No similar financing structure has been deployed in the SEMED region/Sub-Saharan Africa since, despite some interest generated. There are a number of constraints to the replication of the structure and its scalability, i.e., the use of Green (Project) Bonds for this structure is questionable.
Raiffeisen Bank Romania (53520)	This was a third Raiffeisen Bank Romania (RBRO) green bond issuance; EBRD participated in all three (May 2021, June 2021, June 2022) issuances. The initial green bond was the first green bond issued by a bank in Romania. While the primary listing was Luxemburg Stock Exchange, they were passported in the Bucharest SE after issuance. The bonds were also successfully issued in local currency and were some of the first senior non-preferred bonds in the market.

43. The proposition that the Bank contributed to the development and growth of green bond markets through demonstration is plausible. While direct demonstration effect⁴² is not possible to ascertain conclusively, the proposition makes sense conceptually and is supported by indirect evidence. One part of this evidence is the relatively large presence of EBRD in green bonds

⁴² I.e. conclusive causal link between one issuance and a subsequent one.

issuers in its CoOs, as discussed in Section 2.1.2 – estimated at some 46.7% of non-sovereign issuances by number – together with its financial additionality (Section 3.4.1). Of course, EBRD cannot be considered the only contributor and external factors played a role too.⁴³ In countries and sectors where EBRD invested in a first green bond, others often followed, e.g. FIs in Romania and Poland and corporates in Georgia and Poland.

44. For 4 out of 10 issuers, the inaugural green bond was not a one-off affair and evolved into subsequent green bond issuances. Whether with the EBRD’s support or not, subsequent bond issuances followed (Raiffeisen Romania, PKO BH, Lietuvos, VGP Parks). Some issuers, however, also moved away from green bonds, either to other sustainable finance instruments (Raiffeisen Romania, Cyfrowy Polsat) or to conventional bonds due to a lack of eligible green pipeline (Lietuvos) (Table 1).

45. Two projects in the sample did not have ambitions to develop the green bond market. Scatec and VGP Parks did not expect TI in the green bond markets, which was also reflected in the absence of TQ Resilient benchmarks. VGP Parks bond, while a first time green bond issuer, was issued by a sophisticated Belgian corporate with ample capital market experience and listed on the Luxemburg Stock Exchange. Scatec in Egypt used a tailored blended finance project structure, which had an ambition for replication in the markets – albeit with limited success so far.⁴⁴ Here, the green bond label was merely an “add on” though, hardly complying with the GBP ethos.

2.1.4. EBRD’s role in strengthening green bond markets via investments was often combined with other elements of capital markets’ development support

46. While promoting green bonds as an instrument was commonly a part of the rationale of the investments, there were often other elements of support to capital markets that came in parallel. Investing in local currency bonds (22% of the overall portfolio by volume) supported issuers in shallow capital markets where investors were thinly spread (Poland, Romania). In the FI sector, a large part of green bond investments were in the context of ‘bail-in-able’ programmes (i.e., MREL), seeking to contribute to the capitalisation of banks and stability of financial systems. These represented 10 investments out of 42 over the evaluation period, which equated to two thirds of all FI green bond investments.

47. In addition to investments in green bonds, EBRD pursued targeted policy dialogue activities to develop local capital markets. In some cases, such activities had specific links to green bonds. While the Bank’s policy dialogue activities are out of scope of this evaluation, it is likely that some of them contributed to a favourable context for the growth of green bond markets as well. Examples include programmes in Georgia, the Baltics, Poland and Greece (Annex 9).

⁴³ For instance, where macroeconomic environment is not conducive to bond issuances in general, this will have impact on green bonds as well (e.g. Türkiye)

⁴⁴ Since the issuance of the bond by Scatec in April 2022, no similar credit-enhancement structure was used in SEMED/Sub-Saharan Africa region and there has been only one example outside it (sovereign issuer in Asia).

2.2. EBRD's investments in green finance may not automatically translate into green impact

2.2.1. Green bonds from the majority of issuers went in tandem with a genuine shift from “business as usual” towards credible decarbonisation strategies.

48. **Alignment of a green bond with an issuers' credible sustainability strategy is an integral part of the ICMA GBP. Its absence may equate to “greenwashing”.** Apart from the consistency of a green bond with the four GBP pillars, the issuer needs to disclose how the issuance fits within its overarching sustainability strategy. As with the underlying projects, the strategy should go beyond a “BAU” trajectory. The difference between a credible versus a questionable sustainability strategy will often hinge on the level of ambition and presence of tangible commitments. For instance, clear impact key performance indicators (KPIs) (including short and mid-term rather than just long-term decarbonisation targets) and specifics on the issuer's proportion of revenue, capital expenditure (CapEx) and operational expenditure (OpEx) to be directed for decarbonisation efforts, are good signs. The EuGBS also introduces transitions plans.⁴⁵ Generally, the fungibility of proceeds – albeit they should be tracked separately – makes the DD at an issuer level vital.

49. **A recent ICMA study found that greenwashing⁴⁶ has not been prevalent in the green bond market.⁴⁷ Yet, it still points to strategic inconsistency as one of the four key greenwashing risk areas in the market.** Strategic inconsistency exists when “...there is a lack of a broader sustainability/environmental strategy accompanying a green bond, especially where there is a clear inconsistency between the green label and what the issuer does beyond the label”.⁴⁸ The other three areas are: (i) a lack of ambition (for UoP), (ii) mismanagement of wider sustainability risks and (iii) actual deception. Hints of strategic inconsistency may include vague articulation/boiler plate language in the strategy, a lack of KPIs, a capital spending plan lacking green investments, reliance on the issuer's parent company strategy (rather than its own), or simply the absence of the sustainability strategy altogether. Also, some backward looking indicators may shed some light on an issuer's genuine intentions, such as green asset ratio⁴⁹ for the past periods, ESG ratings, as well as relevant policies undertaken (or not) by an issuer. Such enhanced screening is even more essential for brown sector issuers.

50. **Were sustainability strategies of green bond issuers supported by the EBRD credible? Typically, yes, albeit with two notable exceptions.** The majority of projects within the sample (70%) had green bonds that were a strong fit with issuers' wider strategies. Unambiguous examples were issuers like Aydem and Scatec (pure-play renewables) or Mytilineos and Cyfrowy Polsat, the strategies of which offered specific mid and long-term KPIs and were backed by a proven track-record of sizeable green CaPex and bold investment plans. In the two cases of Finansbank and PKO BH, however, alignment was weak. This made it difficult to see how both green bonds contributed to the delivery of anything beyond BAU. Table 2 outlines the details on the degree of alignment for all sample projects, as assessed by IEvD.

⁴⁵ Part of the pre-issuance Factsheet, those will disclose how the proceeds would contribute to the plans.

⁴⁶ As noted by ICMA, ongoing debates on the perimeters of greenwashing make its quantification challenging. In practice, in the sustainable bond market, estimates have relied to date on proxies such as reported controversies, press articles and anecdotal evidence, as well as academic studies extrapolating decarbonisation trajectories of sustainable issuers

⁴⁷ ICMA, October 2023. Market Integrity and greenwashing risks in sustainable finance. Available at:

<https://www.icmagroup.org/News/news-in-brief/icma-releases-new-paper-on-market-integrity-and-greenwashing-risks-in-sustainable-finance/>

⁴⁸ Ibidem

⁴⁹ Ratio quantifying EU Taxonomy-aligned assets as a percentage of total covered assets.

Table 2: Issuers' sustainability strategies: Credibility assessment

Green Bond Issuer	Issuer's sustainability strategy	Credibility
Lietuvos (50268)	While this was one of the first green bonds in 2017-2018 when the green bond market and guidelines were at their infancy, the GB framework was issued following important changes to the issuer's strategy and business model . It embarked on a trajectory of decarbonisation and acquisition of renewable energy sources. The issuer now has a comprehensive sustainability strategy, including specific medium-term targets for renewable energy (RE) generation expansion and decarbonisation and publishes its greenhouse gas (GHG) inventory reports .	Strong
PKO Bank Hipoteczny (50718)	Little evidence of any tangible pivoting of the issuer's overall business strategy, beyond "BAU" . At the time of issuance, PKO BH did not have a strategy and relied on the Corporate Responsibility Strategy (not sustainable strategy) of its parent company (PKO BP). Hence, no specific KPIs, among others. The issuer's ESG Risk was 'Medium' , as rated by Sustainalytics. Refinitiv rating of its Environmental Pillar was B⁵⁰ in 2022 (no improvement since 2019).	Weak
Cyfrowy Polsat (51673)	Even though Cyfrowy Polsat still did not have a stand-alone sustainability strategy document when preparing the issuance, the Group and its key shareholders were already recognised for their actual commitment to green their business, including an ambitious expansion into the renewables sector . Eighteen months after the issuance, Cyfrowy Polsat approved its Strategy 2023+ with the third Pillar of Clean Energy and specific KPIs, a timeline and identified sources of funding .	Strong
Mytilineos (52790)	The company had a credible sustainability strategy at the time of issuance, including specific KPIs (i.e. 30% reduction by 2030 and net-zero target by 2050) and a reliable track record of tangible actions. This included an expansion into renewables and sustainable transport sectors .	Strong
Georgian Railway (52549)	The GB framework does not ground the intended UoP in an overarching sustainability strategy . The section of the framework that discusses sustainability refers largely to the company's compliance with various national regulations. Given that the Georgian Railway has been fully electrified since the 1990s, and the bond UoP is dedicated to a modernisation project which was 96% complete at the time of issuance , it is hard to see the framework representing ambition beyond BAU. The nature of its business (sustainable transport) is a mitigating circumstance , but even pure-plays are not exempt from overall sustainability strategies.	Weak/Medium
Finansbank (52623)	This green bond was issued under its parent company's (Qatar-based Qatar National Bank (QNB)) Green, Social and Sustainability Framework (GSS framework), rather than its own. GSS framework lacked specific KPIs , so did Finansbank Sustainability and Framework Strategy, offering only vague and non-committal language . Finansbank ESG Risk Rating at the time of issuance was 'High' and remains so , ⁵¹	Weak
Aydem Renewables (53042)	As pure-play renewable , Ayden's operations were bound to be more sustainable than corporates from other sectors. Its sustainable strategy included standard KPIs , i.e. 30%, 65% and net-zero by 2025, 2035 and 2050, respectively, and even biodiversity KPIs . It also comprised an ambitious target of doubling installed capacity (from 1 MWh to 2 MWh) in 2021-2025.	Strong
VGP Parks (51120)	The green bond supported the broader sustainability strategy of the issuer. The company policies set 50% CO₂ emission reduction from its own operations by 2030 and net-zero by 2045 . These targets are supported by clear and concrete measures at the company level. This also feeds into increasing investment in renewable energy .	Strong

⁵⁰ And B+ and B- for Social and Governance Pillars respectively.

⁵¹ Sustainalytics, 2024. QNB Finansbank AS. Available at: <https://www.sustainalytics.com/esg-rating/qnb-finansbank-as/1008757802>

Scatec (52879)	As a pure-play renewable , sustainability was an integral part of the business. In 2020, the company set specific Scope 1 and 2 targets to reduce CO ₂ emissions by 50% by 2030 and reach net-zero by 2050. It was in the process of mapping Scope 3. It sharpened the strategy in 2022, aiming at net-zero in 2040.	Strong
Raiffeisen Bank Romania (RBRO) (53520)	The RBRO's broader sustainability strategy integrates best practices in sustainable finance. The implementation of the existing sustainability strategy and the related reputational benefits of being the leader in green finance were the key rationale for the inaugural green bond issuances.	Strong

51. Overall, EBRD's assessments⁵² of the coherence between issuers' strategies and their green bonds did not appear to be methodical. In a few instances, it also leaned too heavily on SPOs. By default, EBRD examines the GB framework of a prospective issuer and corresponding SPO. The latter, in the best-case scenario, should also evaluate the wider strategy of an issuer. However, there is no traceable documented evidence of the strategies' assessment undertaken by the Bank. Interviews with the EBRD banking teams did not suggest such assessments were done in a systematic way either.⁵³ Further, SPOs' appraisals for the sample of projects⁵⁴ reviewed by IEvD appeared to be somewhat uneven, with a few of substandard diligence.⁵⁵ Importantly, the direction to review the issuer's sustainability strategy is already part of the GET Handbook, which says not only that *"the alignment with the GBP is confirmed by an external review provider"*, but also that *"the EBRD has reviewed the information and deems that the bonds have been issued in alignment with the GBP"*.

52. Admittedly, the Bank's decisions on whether the alignment was (in)sufficient had to involve some necessary trade-offs. Firstly, some first time issuers a few years ago may not have had a convincing sustainability strategy (e.g. certainly the case for PKO BH and Finansbank). Nonetheless, the EBRD's intention to promote a green bond instrument in an issuer's country/sector may have warranted the Bank's somehow more lenient/pragmatic approach. Ultimately, green bonds are very often a by-product of a sustainability strategy, though it is plausible that in some cases they may also catalyse a re-think of corporate goals. The potential wider demonstration effects of an inaugural issuance may have been worth the risk. Secondly, instigating a strategic shift of an issuer's business model is not a small undertaking. These rarely happen quickly and require buy-in from the issuer's Board and shareholders. EBRD's push, despite the levers it often has, may not suffice.

53. Going forward, the EBRD's assessment will need to be tightened. With a shrinking pool of opportunities to invest in first time issuances in EBRD's CoOs, the rationale to take a softer stance on the acceptable threshold of alignment between issuers' green bond and its sustainability strategy weakens markedly. While instilling a structural change in business is a complex process and the possibility to shape the terms of a green bond investment may be lower than for traditional lending, the EBRD with its long-standing relationship with many prospective issuers (Section 3.1) and its anchor investor status (Section 3.4.1) may be in a strong position to call for

"We look at projects, but also at the issuer itself. We reject 36% of green bonds we look at. About half for issuer-related reasons"
Goldman Sachs Green Bond Fund

⁵² For instance, as per Board documentation

⁵³ IEvD could identify one specific example (Cyfrowy Polsat) where the banking team did bring up the alignment aspect with the client and made concrete suggestions on that front.

⁵⁴ SPOs for the sample: Sustainalytics (4), CICERO (2), S&P Global (2), ISS ESG (1), DNV (1)

⁵⁵ (1) PKO BH: SPO comments on some metrics related to its level of sustainable investments, i.e. share of ecological projects (11.4%) in the total business financing and share of investment in renewables (1.4%). It also acknowledges the level of investment in mining (2.3% in 2016). But there is no forward-looking assessment, i.e. commitments on how those would/would not change going forward; (2) Finansbank: SPO is for QNB rather than QNB Finansbank, hence it does not assess QNB Finansbank strategy. The issuer had a 'High' ESG risk. The assessment of the QNB strategic alignment was superfluous – cursory language, no comments on any KPIs, planned scale of green investments, reasons for absence of those, etc.

a bolder business transformation. This includes being able to ask for it to be properly articulated in the issuer's GB framework, for instance. If such alignment is not sufficient, the EBRD can still offer other instruments than green bonds, i.e. green loans. More broadly, enhanced screening at both the green bond framework and the issuer level, without an overreliance on SPOs, has been a core appraisal component for the majority of ESG funds interviewed by the evaluation team.⁵⁶ Without it, EBRD would be falling behind market standards, rather than leading them.

2.2.2. Assessing the credibility of issuers' sustainability strategy is particularly important for green results

54. **Direct green results⁵⁷ can most often be straightforwardly associated with investments in 'pure-play' issuers.** Pure-play entities are those whose business activities are exclusively focused on the green economy.⁵⁸ An example of such an issuer in the evaluation sample is Aydem Renewable, the largest pure-play RE company in Türkiye.⁵⁹ Bonds issued by pure-plays still have to explicitly align to the GBP to obtain a green label.⁶⁰ SPO providers, as well as ESG investors, have developed their own methodologies for assessing the 'greenness' of bonds. One of the most recognised, Cicero's 'shades of green' methodology,⁶¹ distinguishes between *light green*, *medium green* and *dark green* bonds. Their dark green rating is awarded to projects that contribute long-term to a, low-carbon and climate resilient future. The development of renewable capacity for the UoP would be an example of a *dark green* bond, while a *light green* bond indicates an activity that significantly reduces CO₂ emissions but does not shift underlying infrastructure away from fossil fuels.⁶²

55. **'Lighter' green bonds are still fully eligible in their UoP, but it is essential that they are linked to the issuer's credible sustainability strategy.** While green results associated with pure-plays can deliver the 'darkest' green results, it is not strictly necessary for the bond to have a green label to induce strong results. In EBRD-terms, this financing would be 100% GET, even for a conventional bond or a loan with the same UoP. The overarching purpose of green bonds, however, goes beyond the immediate UoP and implies a contribution to a high level of transparency for reporting on project selection, impacts as well as an ambitious sustainability strategy going beyond BAU. This is particularly important for issuers that are not 'pure-plays', because while the UoP may be 'lighter', there are secondary transitional effects in medium/long-term ways of doing business.⁶³ This will typically entail KPIs, such as carbon reduction targets, and also governance structures that integrate environmental concerns into all activities of the issuer. Therefore, the assessment of the credibility and ambition of the issuer's sustainability strategy, and not just eligible UoP, is of particular importance.

⁵⁶ For instance, proprietary screening methodologies of green bond investments made by designated funds of Amundi, Goldman Sachs, JP Morgan and BlackRock specify explicitly issuer's level assessment as core element of the screening process.

⁵⁷ Stemming directly from the UoP, as opposed to indirect ones stemming from the sustainability strategy of a given entity.

⁵⁸ ICMA [Guidance Handbook, June 2019](#). According to CBI, entities deriving 90% of their revenues from climate-aligned activities can be considered 'pure-play'. In addition, pure play companies must not participate in any ineligible activities, for example the production of fossil fuels, etc.: CBI [Green Bond Database Methodology](#), July 2022.

⁵⁹ 53042 Aydem Renewables Green Bond.

⁶⁰ ICMA [Guidance Handbook, June 2019](#).

⁶¹ Cicero was acquired by S&P Global at the end of 2022; <https://www.spglobal.com/ratings/en/products-benefits/products/shades-of-green>.

⁶² https://www.spglobal.com/ratings/division-assets/pdfs/cicero_shades_of_green_company_assessment_methodology_master.pdf

⁶³ Sustainability strategies are of course relevant for pure-plays as well – e.g. Aydem's strategy was found by the evaluation to be credible and included specific KPIs (e.g. CO₂ reduction scale by 2030 and 2050) and was backed by ambitious investment plan centered on new generation capacity.

2.2.3. The green bond investments have mostly been for re-financing purposes, which puts environmental additionality in question

56. All or a portion of proceeds from green bond issuances can be used either to finance new investments or refinance existing investments (ICMA GBP).⁶⁴ The environmental benefits/ environmental additionality of each option, however, may differ substantially. For instance, take a stylised example of an issuer of a green bond – a corporate seeking to reduce the energy intensity of its business. It may use the green bond proceeds to finance new CaPex, i.e. to install solar panels and purchase more energy efficient production machinery. Alternatively, it may use the green bond proceeds to refinance the debt that it had *already* raised on account of solar panels and more energy efficient machinery, which had been *already* purchased and installed.

57. In the former case, environmental benefits are clear-cut – an issuer invests in new assets which directly supports energy savings/reduction of CO₂ emission. In the latter case, however, outcomes may be less certain. The corporate may, for example, simply improve the profitability of its business thanks to the lower cost of debt secured from a green bond issuance (compared to the original debt), but no new assets are purchased, and no new capacity is added. Ergo, the presence of environmental benefits, without making further assumptions,⁶⁵ is much more debatable. Box 4 presents a snapshot of some common arguments for and against the use of re-financing.

Box 4: Use of green bond proceeds for re-financing: For or against?

Re-financing plays a fundamental role. Its absence, given a frequent mismatch between the length of a project (e.g. 15 years) versus the tenor of the original debt (e.g. five years), would mean no funding is available to continue an already commenced project after year five. By rolling over the debt (and often reducing its cost), re-financing may also allow the issuer to free-up some capital, which otherwise would have to be used to pay off the original debt in full. This could limit subsequent investment opportunities (including those with environmental benefits).

Furthermore, the use of re-financing in some sectors is typically unambiguous from the impact perspective. RE companies, where CaPex goes into green assets by default, is the most obvious example. For FIs that follow a portfolio approach, where all outstanding green bonds finance a replenishing portfolio of green projects and where they update their disclosure to include the number of new loans brought into it over the last calendar year, this helps to prevent the financing of a 'dead portfolio' and allows the FI to focus on new assets.

And yet, there is some empirical evidence indicating a more pronounced, significant and long-lasting decrease in CO₂ emissions when green bonds with re-financing purposes are excluded. This is consistent with an increase in the volume of climate-friendly activities, due to new projects (see Fatica, S. and Panzica, R. March, 2021 and Bongaerts & Schoenmake, 2020). Plus, while establishing a direct link between re-financing and a flow of future green CaPex is much easier in some sectors (i.e., RE), such a link for others may be weaker or none, i.e. any such link would have to be indirect, in the sense that the re-financing (presumably at lower rates) would free up capital, which the issuer might (or might not) elect to use to pursue green objectives (Curtis, Q and Weidemaier, M, 2023). Typically, financing new assets as opposed to refinancing would also mean assuming higher risk – a role commonly expected from MDBs.

58. For green bonds within the scope of this evaluation, proceeds from the Bank's investments were used significantly more often to refinance existing debt than to finance new investments. Currently, EBRD neither monitors the share of re-financing of its green bond portfolio nor has any limits on it. For the evaluated sample the proceeds from the Bank's investments⁶⁶ were used significantly more often to re-finance existing debt rather than to invest in new projects. For 6 out of the 10 issuances in the sample (60%), or €309 million out of the total of €434 million (71%)

⁶⁴ Note that ICMA GBP does not set any threshold for re-financing as share of UoP.

⁶⁵ For instance, on the extent to which improved profitability may or may not lead to future environmentally beneficial investments

⁶⁶ Both, whether 'ring-fenced' or not.

EBRD investments made in issuances, proceeds were used *entirely* to re-finance existing debt.⁶⁷ For three specific projects, a tangible increase in environmentally friendly activities as a direct result of the issuances is questionable (Box 5).

Box 5: Refinancing: Questionable environmental additionality

Project examples

Cyfrowy Polsat (51673)

While the EBRD team brought up with the client a desire to include at least some new assets in the pool, the trade still ended up being 100% refinancing (with some assets having a look-back period of more than 36 months). In the telecom sector, where the search for efficiencies and cost reductions enabled by new technologies is a regular occurrence, a lack of new assets can be seen as a missed opportunity in this case.

Finansbank (52623)

The project envisaged 100% refinancing of a single building – a shopping mall. Further, while any information on a look-back period is absent from the public domain, it appears that the shopping mall had tenants and was already operating at the time of issuance. This may give rise to the concern that the proceeds were therefore wholly or significantly being used for other, possibly non-green purposes.

Scatec (52879)

The project consisted entirely of refinancing, of mostly solar panel installations that were constructed long before the issuance (with effective look-back periods of four to five years). Further, these assets were already installed and in operation at the time of the issuance. It would seem that the issuer's key intention was to benefit from the lower interest rate environment and increase its project's profitability, but meaningful environmental additionality is hard to argue. Given the EBRD's participation in the original investment (i.e. the Bank was refinancing its own debt), it rightly refrained from reporting any physical impacts as part of its GET ex-ante estimates, to avoid 'double counting'.

59. The look-back periods for the majority of green bond issuances in the sample that involved re-financing were generally in line with 36 months, seen as acceptable by most investors. In two specific cases though, look-backs exceeded it markedly.⁶⁸ Further, in three specific cases,⁶⁹ look-backs were not stated in the issuers' respective GB frameworks.

60. More broadly, there is scant data on the share of refinancing as part of green bonds issued on the market, making any comparison hard. For certified green bonds globally, CBI puts its guesstimate at 30%-40%, and most with look-back periods of 24-36 months. Though, it also notes a consistent decline in the share of refinancing as part of green bond issuances over recent years. A recent report from Sustainable Fitch states that from over 500 green bonds it reviewed, 88% either had the share of new assets below 25% or no information on the split was available.⁷⁰

⁶⁷ And further two EBRD investments that envisaged partial share of re-financing at 22 and 38%

⁶⁸ For Cyfrowy Polsat, look-back was defined in terms of three financial years since the issuance. Although often done this way, in practice it implied nearly four calendar years (48 months). For Scatec, look-back period was not stated in the GB framework, but given the timeline of the initial investments that were subsequently refinanced it was de facto 48-60 months.

⁶⁹ VGP, Finansbank and PKO BH

⁷⁰ Sustainable Fitch, August 2023. ESG Ratings Insights: UoP in Instrument Ratings. Available at: <https://www.sustainablefitch.com/corporate-finance/esg-ratings-insights-bond-use-of-proceeds-07-08-2023>

61. While some green bond investors remain agnostic about the choice between refinancing and new assets,⁷¹ the market has evolved. In search of maximising impact, there has been a clear trend among investors who increasingly favour green bonds with no or a limited share of refinancing. For instance, an interviewed ESG underwriting team from J.P. Morgan that supported more than 200 green bond issuances globally in 2023 alone, pointed to a major shift in investors' demand (see the quote). Amundi, one of the leading GB fund managers, is considering putting more emphasis on the share of new financing in its future GB strategies. Not through prescriptive limits (on re-financing), but instead through an engagement with issuers to maximise the opportunities to use proceeds for new assets more extensively. A number of other investors have followed the same path. In rare instances, some investors may qualify re-financing-only strategy as "greenwashing".⁷²

"Nowadays, investors want to see at least a 50/50 split and ideally no refinancing at all... Preference is to have a forward-looking story. With new assets, we create expectations to find new projects and higher additionality."
J.P. Morgan

62. In the absence of any limits on refinancing in green bonds, the EBRD invested significantly more in refinancings than new investments. This approach is not in-keeping with market developments and warrants a review going forward. The Bank currently has neither numerical targets limiting use of refinancing nor a qualitatively defined aspiration to promote issuances with a higher share of new investments. It also does not monitor the share of refinancing as part of its overall green bond portfolio, nor split between CapEx and OpEx. In the early days of the Bank's investments in green bonds, several first time issuers already had an existing pool of eligible green assets and refinancing those via green bond was often a natural and more straightforward start. Refinancing as an option will remain essential, but markets have evolved. What was "good enough" from a MDB several years ago may not be anymore. IEvD suggests that the question of whether the Bank could (and should) step up its role as an anchor investor that incentivises a greater UoP for new investments is a valid one.

2.2.4. Going forward – fewer first time issuance opportunities warrant a shift in the EBRD's investment focus

63. Going forward – a shrinking pool of first time issuance opportunities in the EBRD's CoOs will mean a greater need for the Bank to be selective and back 'dark green' bonds. As green bond markets matured, there is now fewer first time green bond issuances with a clear market development component (Primary TQ Resilient). This means an expected shift in the Bank's investment focus towards green bond issuances that are not inaugural, but offset with strong green credentials (Primary TQ Green). This raises some challenges, i.e. the need for an even more thorough assessment and an even higher standards' threshold.

⁷¹ For instance, Goldman Sachs and Nuveen

⁷² As stated publicly by Tridos Asset Management: "We do not support a re-financing-only strategy, and, in fact, qualify it as greenwashing. We are surprised to see frameworks with long look-back periods still receiving positive qualifications from second party opinion providers. These second party opinion providers judge impact bond frameworks based on their intended UoP, the processes for project selection and allocation, and proposed impact reporting. Apparently, though, they do not consider the lack of additionality". Available at: <https://www.tridos-im.com/articles/2019/green-and-social-bonds>

3. EBRD: A sought-after green bond investor with clout

3.1. EBRD's *modus operandi* – investment in a green bond typically followed prior business with an issuer and came alongside other investors (rather than solo)

64. When the EBRD invested in a green bond, it often already had a prior relationship with an issuer. Out of 29 issuers in the Bank's 2017-2022 green bond portfolio, 22 (or 76% of all) already had prior engagement with the Bank and had obtained at least one investment⁷³. That proportion for the sample was even higher – 9/10⁷⁴. Quite often, these entailed EBRD investments in bonds (plain vanilla) and that client relationship mattered. The green bond was frequently another step in “an issuer's sustainability journey”. The Bank's familiarity with the context meant a better understanding of what was feasible (and what was not), more tailored and at times comprehensive Bank inputs (including an incorporation of ESAPs and TCs) and swifter progress. Speed was not a trivial aspect given the fast-paced nature of some Eurobond issuances (see Section 4.2.1). It is plausible that for some issuers, long-term engagement with the EBRD prior to a green bond issuance contributed materially to their “learning of green”.

65. All except one EBRD green bond investment made between 2017-2022 were made alongside other investors (rather than solo), and mostly via listings on a securities exchange (rather than via private placements). While this rule has not been formalised in the Bank's operational guidance, in practice the Bank invested via private placements on only three occasions,⁷⁵ and there was only one specific case where the EBRD was a sole investor in a green bond (Finansbank). The EBRD's approach is consistent, aiming to maximise the mobilisation effort and to bolster capital markets by encouraging listings on local exchanges. This approach appears to differ somewhat from the IFC. The latter, according to publicly available information, has a large proportion of private placements among its green bond investments.⁷⁶

3.2. EBRD's investments were highly relevant for issuers, given the barriers faced by the latter

3.2.1. The rationale to issue a green bond: Financial incentives rather than reputational gains moved the needle most

66. Market practice and some literature point to a set of common reasons behind an eventual decision to issue a green bond. Section 1.2.3 presents a brief overview of those. In general, the business case/incentives such as mainstreaming the sustainability strategy and broader reputational and signalling effects appear to have played a greater role than financial

⁷³ This includes EBRD investment in Aydem Renewables (53042) where although the Bank had not made prior investments, it was extensively involved in negotiations about its investment in company's planned international IPO year earlier.

⁷⁴ Ibidem.

⁷⁵ 3 out of 42 EBRD investments in green bonds between 2017-2022.

⁷⁶ For instance, green bond issuances by Khan Bank in Mongolia (2023), Jordan Kuwait Bank in Jordan (2023), Commercial International Bank in Egypt (2022), Fransabank in Lebanon (2017), Banque Populaire in Morocco (2017) and Punjab National Bank in India (2017).

incentives.⁷⁷ Though, these determinants are not static and may also change over time, they may be affected by the issuer's profile and context (emerging versus developed markets).⁷⁸

67. For the sample of evaluated projects, the chief reason to issue a green bond for the majority of issuers was, however, of a financial nature. Broadcasting the issuers' sustainability credentials, including any expected reputational gains, mattered, but to a lesser extent.

Increasing their access to liquidity/broadening their investor base (including an explicit intention to attract the EBRD) and refinancing existing debt on more favourable terms were the primary reasons for 7 out of 10 issuers (Table 3). There were then strategic reasons, i.e. a clear link to their business sustainability strategy. For some issuers, seizing primacy on the local market by becoming the first issuer of a green bond in the sector/country was an extra incentive. Lastly, and rather interestingly, the prospect of "greenium", whether plausible or not, did not capture the issuers' imagination and played no material role in the decision-making process.

Table 3: Issuers' main reason(s) to seek green label

Green Bond Issuer	Main reason(s)	Main reason(s) - type
Lietuvos (50268)	With its two first green bond issuances, Lietuvos' (Ignitis) objectives were to diversify its debt portfolio and finance its clean energy investments that have been part of a €1.8 billion, ten-year investment programme.	Financial
PKO Bank Hipoteczny (50718)	While there was no single reason that played a decisive role in PKO BH's decision to pursue the first issuance of a green covered bond on the Polish market, the potential to widen its investor base, including the participation of the EBRD , was mentioned by the issuer as an important one.	Financial
Cyfrowy Polsat (51673)	By the time of the issuance, Cyfrowy Polsat already had a track record of undertaking a wide range of sophisticated operations on the capital markets, including multiple bond issuances. Issuance of a new instrument, such as a green bond, was therefore seen by the Group's Treasury as a natural path of development: "Whatever new is there, we try it."	Non-financial
Mytilineos (52790)	As stated by the issuer, the objective behind the issuance was to support the implementation of the company's sustainability strategy , aiming to achieve net-zero across all of its business activities by 2050.	Non-financial
Georgian Railway (52549)	The decision on green labelling was motivated by IFIs' preferences and the expectation for broadening the investor base, as well as accruing reputational benefits.	Financial
Finansbank (52623)	The primary objective was to pilot a new type of financial instrument and benefit from the EBRD's green finance expertise. Besides, issuance was expected to enable the diversification of the issuer's international funding base and to some extent, increase the synergy between Finansbank and QNB in the field of sustainability.	Mixed
Aydem Renewables (53042)	Issuance of the green bond meant (primarily) to enable Aydem to replace existing, more expensive and shorter tenor outstanding debt to Turkish banks, with debt on better terms offered by 'patient' international investors. Being the leading pure play renewable in the country, it also saw an issuance of a green bond as an endeavour that could strengthen its reputation.	Financial
VGP Parks (51120)	The primary reason to issue its first green bond was to diversify sources of financing , though it is still linked to the company's sustainability strategy.	Financial

⁷⁷ Maltas, A and Nykvist, B. 2019. Understanding the role of green bonds in advancing sustainability.

⁷⁸ For instance, different state of the markets in late 2010s versus nowadays. Rationale depends also on issuer's stage in the sustainability journey, i.e. first time issuers on the markets where no/few green bonds were issued may be attracted by prospect of reputational gains from being the first while a rationale for a repeated issuers may be different.

Scatec (52879)	Widening the investor base and subsequently lowering the cost of debt servicing by refinancing (at a more favourable rate)/increasing the profitability of six sites was the chief reason for this issuance.	Financial
Raiffeisen Bank Romania (53520)	The implementation of the existing sustainability strategy and the related reputational benefits of being a leader in green finance was the key rationale for the inaugural green bond issuance.	Non-financial

68. **In at least five cases, the EBRD appeared to have played more than just a nudging role in an issuer's decision to pursue a green bond issuance.** This was above all because of the Bank's greater readiness to invest in a green bond over a conventional bond, as perceived by these issuers and de facto the Bank's approach. Issuers rightly reasoned that by seeking the green label, they were more likely to secure investment from an anchor investor like the EBRD (see Section 3.4.1 for discussions on financial additionality). An established relationship between several issuers and the Bank prior to issuance (see also Section 3.1) was helpful in this context.

3.2.2. Barriers to issue a green bond: Costs related to a green label mattered somewhat less

69. **Perception of costs associated with a green issuance, along with the complexity of the process, have been regularly identified among key deterrents for prospective issuers in existing literature.**⁷⁹ Numerous cost items may all feed into a general reluctance to issue a green bond. These include drafting the green bond framework, assets' appraisal and selection, assembling an internal green bond project team, the cost of a SPO (typically €20,000-€25,000), post-issuance costs related to monitoring, disclosure and impact reporting. Not surprisingly, these costs may be a bigger issue in EM and less so for EU issuers, for instance.

70. **So how did those matter for the issuers in the sample? In short, these costs were not seen as excessive and were not a barrier to issue a green bond.** Figure 5 summarises issuers' responses to the following question: "How significant did each cost item in your considerations seem prior to issuance and how significant did it actually turn out to be?". Across 10 issuers, on average, these costs were assessed as *slightly significant* or towards *moderately significant*. Costs related to assets' appraisal and selection for the green pool and costs of external SPO were two specific items that were assessed as somewhat more material. There were essentially no differences between how significant those costs had been perceived (prior to the issuance) and how significant they turned out to be. Overall, this is not surprising. Issuers in the sample, reflective of a typical profile of an issuer that the Bank has been investing in more widely, are large listed FIs/corporates, often from the EU and with ample budgets. They may have asked themselves "how to issue a green bond?", rather than "how affordable is it?". In the future, certain type of issuers, like municipalities, may be more cost sensitive. So far, however, those issued green bonds only exceptionally and the EBRD has not invested in a single one yet.

⁷⁹ See for instance, Deschryver, P. 2020. What future for the green bond market? How can policymakers, companies and investors unlock the potential of the Green Bond Market?; and KPMG, 2021. Perspektywy rozwoju rynku zielonych obligacji w Polsce.

Figure 5: Costs of green label to issuers – perceived and actual

Cost item	Perceived significance of costs prior to										Actual significance of costs post issuance											
	Lietuvos	PKO BH	Cyfrowy Polsat	Finansbank	Mytilineos	Georgian Railways	Aydem	VGP Parks	Scatec	Raiffeisen BR	Average	Lietuvos	PKO BH	Cyfrowy Polsat	Finansbank	Mytilineos	Georgian Railways	Aydem	VGP Parks	Scatec	Raiffeisen BR	Average
Cost related to the drafting of the Green Bond Framework	3	1	2	n/a	1	1	2	1	3	2	1.8	3	1	2	n/a	1	1	2	1	3	2	1.8
Cost related to assets’ appraisal and selection	3	3	3	n/a	1	3	3	1	3	2	2.4	4	3	3	n/a	1	2	3	1	3	2	2.4
Cost of setting up and running the internal Green Bond Project Team (including any external appointments, if relevant)	2	2	2	3	1	3	2	1	3	3	2.2	2	2	2	3	1	2	2	2	2	3	2.1
Continuous costs related to annual allocation & impact reporting	3	1	2	3	1	1	1	1	2	2	1.7	3	1	2	3	1	1	1	2	2	2	1.8
Cost of external SPO	3	2	4	n/a	1	2	4	1	1	2	2.2	3	2	4	n/a	1	2	4	1	1	2	2.2

Where: 1 – not significant; 2 – slightly significant; 3 – moderately significant; 4 – significant; 5 – very significant; n/a – not available
 Source: responses from the issuers

71. Rather than the cost of a green label, the most common challenges to issue a green bond were of an exogenous nature and applicable to the wider bond market. These included shallow domestic debt markets, volatile macro-environments or the sovereign risk of the issuer’s country. Table 4 shows specific barriers/challenges faced for the issuances, as stated by the issuers. Broadly, those were more often shocks of an exogenous nature than stemming from an issuer’s internal constraints. Specifically, issuers in Egypt, Türkiye and Poland referred to underdeveloped/shallow local debt markets, with limited financial firepower of local investors and volatile macro-environment and perceptions of the sovereign risk. The case of PKO BH and Cyfrowy Polsat from Poland is noteworthy. While conventional wisdom suggests the country’s financial sector belongs to one of the most developed in the EBRD CoOs, issuers, EBRD banking teams and arrangers pointed in unison to the shallowness of the local bond market as the key constraint (impacting conventional and green bonds alike). This finding corroborates with some recent research from the Independent Evaluation Group (IEG), an independent unit within the World Bank, and leads to a broader issue; many domestic capital markets are not very developed and may not grow at a pace sufficient to scale up green finance as radically as needed.⁸⁰

Table 4: Main barrier(s) to issue green bond according to issuers

Green Bond Issuer (OpID)	Main barrier(s)
Lietuvos (50268)	Challenge in identification, appraisal and selection of a sufficiently large pipeline of eligible green projects .
PKO Bank Hipoteczny (50718)	The main barrier in the context of June and December 2019 issuances was an underdeveloped and shallow local debt market and limited demand from investors , making larger ticket size issuance problematic.
Cyfrowy Polsat (51673)	The main barrier in the context of this issuance was a shallow local debt market and limited interest from domestic investors in green bond label.
Mytilineos (52790)	Given Mytilineos’ existing sustainability strategy and its previous Eurobond issuance, and despite the limited development of the Greek green bond market, opting for a green bond (Eurobond) did not generate particular challenges .
Georgian Railway (52549)	No significant challenges .

⁸⁰ IEG, 2023. Creating and Enabling Environment for Private Sector Climate Action.

Finansbank (52623)	Challenging funding environment in Türkiye in the summer 2021 , and for its capital market in particular, and QNB Finansbank's limited pipeline of commercially viable projects aligned with the ICMA GBP.
Aydem Renewables (53042)	Volatile macroeconomic environment in Türkiye was one of the key challenges in the context of this issuance, making the right choice of the timing for the issuance even more critical.
VGP Parks (51120)	No significant challenges.
Scatec (52879)	Underdeveloped bond market, limited financial firepower of local investors (particularly local banks favouring government bonds) and an elevated risk profile of Egypt , deterring some international investors.
Raiffeisen Bank Romania (53520)	Limited pipeline of eligible projects.

3.3. EBRD added value in promoting green bond standards, but has a greater role to play in promoting sound reporting

3.3.1. EBRD lags in promoting post-issuance reporting standards

72. **Allocation and impact reporting is an integral part of GBP, and impact reporting in particular has been increasingly sought (and scrutinised) by investors.** Green bond issuers are required to report on both the use of green bond proceeds and their expected environmental impacts post-issuance, at least on an annual basis.⁸¹

73. **In the early days, allocation reporting was generally sufficient. But now transparent impact reporting is the standard the market expects.**

Insufficient impact disclosure, while taken as a given in the early days of green bonds, has now become the issue for investors.⁸² It has been a key source of addressing 'greenwashing' risks and became a reason for choking off flows of much needed investment in sustainable projects across EM.⁸³ The upcoming EuGBS will lift reporting requirements further (compared to the GBP).⁸⁴

"In emerging markets, we face lack of transparency on allocation and impact. We do not have a chance to glean much information from allocation and impact reports."

Amundi Emerging Market GB Fund

74. **The majority of green bond issuers in the EBRD portfolio published their annual allocation reports. Impact reporting, however, has been patchier.** The GBP reporting requirements are internally translated into the GET Handbook, which makes specific reference to the ICMA Harmonised Framework on reporting and expands on the requirements of green bond impact reporting.⁸⁵ IEvD verified the existence of post-issuance reporting for the whole EBRD green bond portfolio.⁸⁶ The majority of issuers have published their reporting, although there is room for improvement; 83% of issuers published allocation reporting and 63% impact reporting. For 54%

⁸¹ ICMA Harmonised Framework for Impact Reporting, June 2023; <https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Handbook-Harmonised-framework-for-impact-reporting-June-2023-220623.pdf>

⁸² E.g. the Green Bond Funds Impact Reporting Practices 2021 report by Environmental Finance found that *Nine out of ten investors regard impact reports as 'crucial'; Almost 70% of green bond funds rely on bond issuers' impact data; but also that Three-quarters of investors say current impact reporting practices are 'inadequate'; More than half the investors said poor data and impact reporting were deterring them from making further investments; and Key areas for improvement are transparency and standardisation of the reports.* Available at: <https://www.environmental-finance.com/assets/files/reports/green-bond-funds-impact-reporting-practices-2021.pdf>

⁸³ IFC-Amundi, July 2023. Emerging Market Green Bonds. Joint Report.

⁸⁴ EuGBS requires, among others, mandatory review by a regulated entity of the final allocation report. Regarding impact reporting, while it requires only one impact report post-issuance, alignment with the EU taxonomy will presumably give a certain level of comfort on the environmental contributions.

⁸⁵ Annexes to the Green Economy Transition (GET) Handbook, June 2023; Annex 5.9

⁸⁶ This included green bonds issued before June 2022 as a cut-off point, which provided an 18-month window for annual reporting by the end of 2023. This represented 35 investments in issuances of 24 issuers out of the entirety of the green bond portfolio.

of issuers, the impact reporting also included the methodology underpinning the impact assessment, as recommended by ICMA. This is in line with the wider market trend reported by CBI (Table 5).

Table 5: Reporting by green bond issuers: EBRD's portfolio versus market

		CBI Study (2021)			EBRD green bond portfolio 2017-2022		
		UoP reporting	Impact reporting	Both	UoP reporting	Impact reporting	Impact methodology
Number of issuers	Reporting	493	377	364	20	15	13
	Non-reporting	147	262	275	4	9	11
	% of reporting	77%	59%	57%	83%	63%	54%
Number of bonds	Reporting	534	437	430	28	22	16
	Non-reporting	159	257	264	7	13	19
	% of reporting	77%	63%	62%	80%	63%	46%

Source: CBI Post-Issuance Reporting in Green Bond Market (2021) and IeVd calculations

Note: (1) Cut-off point for EBRD sample is June 2022 issuances to factor in 18 months period until Jan 2023 during which the most recent issuances in the sample would be already expected to produce allocation and impact reporting. In total 35 investments in issuances of 24 issuers; (2) For EBRD green bond portfolio, to categorise an issuer as reporting on impact methodologies, a low-threshold approach was followed with even a brief referencing to it being a sufficient condition.

75. In the sample, reporting revealed material shortcomings. Two issuers did not produce any reporting at all.⁸⁷ For the rest of the issuers, the quality varied substantially – from robust reports aligned with best market practices⁸⁸ to rudimentary ones, which did not provide enough or any data on impacts.⁸⁹ Explanation of the methodological approach to calculate impact was typically cursory (at best).

76. Many issuers, including two who did not publish reporting or published reports of sub-standard quality, indicated that they did not register any interest from investors in their reports. This corresponds to a situation of early-stage markets, where ESG-specialist investors were not yet present.

77. Out of sight out of mind: the EBRD followed on post-issuance reporting randomly. For a few projects, the EBRD checked whether issuers produced reports. But by and large, this does not appear to have been done systematically. It was even less so for verifying the soundness and transparency of the impact reporting and its alignment with GBP and GET requirements. There was also no evidence of the use of impact data for corroborating the EBRD's own impact reporting.

78. EBRD, as a sought-after anchor investor, has the ability to demand locking-in reporting commitments prior to issuance and enforcing them ex-post. This is at the heart of its market development role. Transparency is an antidote to greenwashing. EBRD's anchor investor status, financial additionality and long-standing relationship with many issuers put it in an excellent position to influence the standards, including post-issuance reporting. The issuers outline their intentions with respect to reporting in their GB frameworks (in the majority of the projects, the EBRD commented on the Framework before their finalisation). It is desirable that already at this stage, issuers commit to reporting that is unambiguously aligned with ICMA recommendations, for the benefit of all investors. While these commitments are still not legally binding, the Bank's

⁸⁷ Scatec, Cyfrowy Polsat

⁸⁸ Mytilineos, Lietuvos (now Ignitis)

⁸⁹ Georgian Railway, PKO BH

position would allow it to decisively tackle non-compliance with issuers, with a high chance of success. Not doing so diminishes the Bank's non-financial additionality.

3.3.2. Formal TA: EBRD failed to deploy its green bond related TC Programme

79. The 2018 FI Green and Sustainability Bond Framework envisaged €1.1 million for *formal*⁹⁰ TA via a stand-alone TC Programme⁹¹ attached to the Framework. Yet, none of this funding was utilised by the end of 2022. Interviews with issuers and the EBRD banking teams revealed valid reasons why this was the case. Firstly, the lack of need and demand for it. Large FIs eligible for the TC Programme in the evaluated sample (but also corporates more broadly that were not eligible under the Framework), the majority of which were from more advanced EU markets, had comfortable budgets to finance any extra consulting expertise that may have been helpful in supporting a green bond issuance (and some like PKO BH did so⁹²). Secondly, TA was often redundant. The EBRD's participation, apart from financing, entailed fewer formal inputs while issuers were also routinely guided by well versed underwriters/arrangers like Citigroup, HSBC or J.P. Morgan. In short, while the assumption behind offering the TC Programme to first time green bond issuers was perfectly logical, its format made it redundant for FIs (and would have made for corporates too, had they been eligible).

80. Project-level TA support may still be relevant. But given a typical profile of issuers in which the EBRD has invested so far, its scope seems limited. There was a consensus among interviewees who commented on the potential relevance of project-level TA that this may be predominately beneficial to first time issuers, mostly to a certain subset of them (i.e. SOEs and municipalities), and mostly on selected themes only.⁹³ The recent rollout of the EuGBS may spur some demand for technical support among prospective EU issuers and some non-EU ones seeking to comply with it.

“It (formal TA) may be beneficial for first time issuers. But markets have evolved since early days. And ultimately, issuing a green bond is not that complicated.”

Nuveen Investment Management

⁹⁰ Funded by donor funds and deployed via external resources, i.e. external consultants

⁹¹ TC Programme meant to be delivered in three phases: (i) engaging with potential issuers, (ii) assisting in defining their key gaps in terms of issuance readiness, i.e. gap analysis performed by external consultants, (iii) support for the issuance itself.

⁹² External mortgage consultant (Dress & Sommer ABT) supported PKO BH at pre-issuance in developing five specific eligibility criteria for new and existing buildings. It also provided advice on the post-issuance annual allocation & impact reports, i.e. development of the reporting methodology and templates.

⁹³ For instance, asset appraisal and selection and impact reporting.

Box 6: IFC Green Bond Technical Assistance Programme (GB-TAP) – source of good insights?

Although not a like-for-like comparison, for future consideration about project-level TA that may be offered by the EBRD, the IFC Green Bond Technical Assistance Programme (GB TAP⁹⁴) is a landmark TA launched in 2018, which may offer some good insights. While managed by IFC, GB-TAP's total budget of \$13.5 million (approximately ten times bigger than the EBRD's TC Programme) has been funded entirely by three donors.⁹⁵ So far, it has focused on FIs only, and given strong demand it subsequently expanded its content into wider product range, including Social Bonds and Sustainability Linked Bonds. GB-TAP consists of six components, though Component 1 – *Executive training on green bonds for FI professionals on how to issue green bonds* – stands for the largest share of its budget (approximately 60%). IFC shared that as of summer 2023, the training under Component 1 contributed to the issuance of 37 green bonds worth \$3.6 billion – 75%-80% of which were first time issuers. Annex 8 presents a detailed case study of the IFC GB-TAP prepared by the evaluation team.

81. Overall, the failure to utilise the funding available under the TC Programme offers an invitation for a general re-think of the EBRD's approach to green bond related TA, supported by potential demand diagnostics. Some project-level TA may still be valid, i.e. because of the focus on first time non-EU issuers, the complex requirements of the new EuGBS and the need for more comprehensive support to municipalities (when/if they start issuing) and SOEs. This is where TA could strengthen the Bank's non-financial additionality. There may also be activities, that are not strictly project related and would not duplicate GB-TAP, that the Bank could be well placed to support. Since the EBRD will be involved in the upcoming Global Green Bond Initiative (GGBI),⁹⁶ including its technical component, such a re-think would need to take it into account. More broadly, it would also need to take into account what extent the Bank may focus on first time non-EU issuers.

3.3.3. ESAPs and TCs – common add-ons to the EBRD's green bond investments

82. The majority of projects in the sample (six) included ESAPs, a worthwhile and distinctive add-on from the EBRD that private green bond investors do not ask for. An ESAP consists of a timebound set of actions covering various sets of mitigating and corrective measures. EBRD was in a position to demand this extra effort from issuers, largely because it already had an established relationship with them. These ESAPs envisaged meaningful actions, often aiming for improvements beyond local market practice. For instance, this would be labour and working conditions and the development of ESG compliant procurement policies in relation to climate reporting (i.e. Aydem's and Mytilneos' compliance with the Task Force on Climate-Related Financial Disclosures (TCFD)). For most of the projects, progress was largely on track, as per monitoring documentation assessed by the IEvD.

83. In addition, 4 out of 10 projects incorporated TCs, in all but one case funded entirely by the EBRD/donors. With one exception, none of the TCs related to environmental aspects. Instead, the most common type of TC related to gender and inclusion, i.e. internship programmes (VGP), improving employment opportunities for the local population neighbouring the project site (Scatec) and improving gender balance in the company, such as a female oriented training programme (Georgian Railways). While not directly related to the green bond as such, these TCs, if relevant and well-designed, can be a part of the Bank's non-financial additionality.

⁹⁴ IFC, 2024. GB-TAP. Available at: <https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/climate-finance/green-bond-technical-assistance-program>

⁹⁵ Swiss State Secretariat for Economic Affairs (SECO), Swedish International Development Corporation Agency (SIDA) and Ministry of Finance of Luxembourg donated \$7.5 million, \$5 million and \$1 million respectively

⁹⁶ EIB, September 2023. Global Green Bond Initiative. Available at: <https://www.eib.org/en/press/all/2023-318-the-global-green-bond-initiative-is-reinforced-thanks-to-a-new-strategic-partnership-to-foster-green-capital-markets>

3.4. EBRD had strong financial additionality as a trusted anchor investor with catalysing effects/indirect mobilisation

3.4.1. The financial additionality of the EBRD in green bonds was transaction specific, mostly present and often significant. However, it rarely stemmed from the green label per se

84. The financial additionality of investments has been tied mostly to the specific market conditions and issuers' circumstances, rather than to the green bond label. The Bank's financial additionality was confirmed for the vast majority of investments in the sample. A number of green bond issuances represented genuine achievements in the context of the local markets, including in terms of size and tenor.⁹⁷ For example, both issuances of Lietuvos Energija⁹⁸ are the largest in Lithuania to date. Plus, the bond by Cyfrowy Polsat was the first corporate green bond in Poland with significantly above average size and tenor and the Bank's presence played a crucial role in Aydem's decision to proceed with their inaugural benchmark size issuance. There is limited evidence though that financial additionality was attached to the green labelling of the bond per se. This is because in domestic ESG-sensitive investors in many local markets only had a marginal foothold. Meanwhile, international ESG investors may face constraints in investing in green bonds from EM, such as currency mismatches. Two apparent exceptions were Lietuvos Energija and Georgian Railway; both said the green label meaningfully broadened their investor base.

85. That said, in a number of cases pursuing the green label was specifically encouraged by EBRD and might not have been a feature of the trade otherwise. EBRD still played a central role in encouraging the green labelling in a number of cases, where it otherwise might not have been the case, including PKO BH, Mytilineos, Georgian Railway, and Aydem Renewables. This helped the development of the green bond market by introducing the instrument to issuers and investors, which is a sign of the EBRD's additionality in itself. The perceived benefits of having the EBRD on side as an investor was an incentive for issuers to accept extra the financial and non-financial costs of labelling their bond.

86. The largest source of financial additionality was the comfort that the Bank's involvement as anchor investor provided to issuers in launching a green bond. Almost universally confirmed by both issuers and arrangers, the presence of the EBRD was crucial in providing a confidence boost when launching green bonds in local markets that were often shallow. Here, some domestic investors tended to "sit on the fence till the very last moment",⁹⁹ but also Eurobond markets are generally challenging for EM issuers. In this context, two EBRD attributes were instrumental. Firstly, the size of its investments – in 8/10 issuances in the sample, the EBRD was among top three largest investors and the largest on a few occasions. Secondly, the Bank's early presence in the orderbook – allowing arrangers to deliver encouraging book-building updates early on – attracted other potential investors.

87. Notably, the EBRD invested in green bonds issued by relatively higher risk entities. Approximately half of the clients in the portfolio who had a credit rating issued by Fitch, Moody's and/or S&P at the time of a placement were classified as of 'Low-Medium' creditworthiness – corresponding to Moody's Baa1-3 credit rating or S&P/Fitch BBB+- credit rating.¹⁰⁰ For

⁹⁷ Average tenor for the sample was 8.9 years. For tenor length of the whole portfolio see Annex 1.

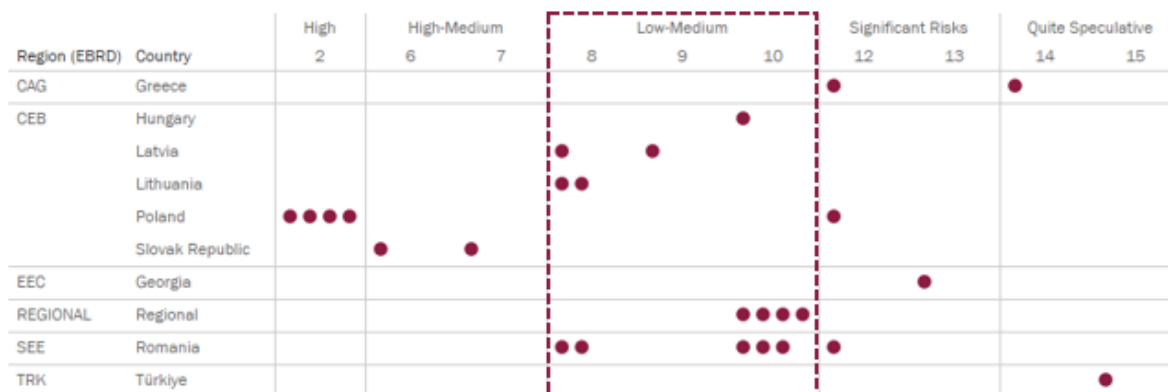
⁹⁸ Now Ignitis Grupe

⁹⁹ For instance, interviews with EBRD, PKO treasury and arranger pointed to common pattern of some institutional investors waiting with their commitment till very last moment of book building, or even withdrawing it at late stage.

¹⁰⁰ Research Gate, 2023. Credit Rating Conversion Chart. Available at: https://www.researchgate.net/figure/Credit-Ratings-Conversion-Chart_tbl6_355448763

comparison, globally and as of 2021, 61% of green bonds were issued by entities with a credit rating of A or higher (corresponding to 2-6 on the scale of Figure 6).¹⁰¹

Figure 6: Credit rating of an issuer at the time of EBRD's investment



Source: EvD calculation based on Refinitiv data and [Credit Rating Conversion Chart](#) used to standardise credit ratings from Fitch, S&P and Moody's into one scale

Note: (1) The figure includes credit ratings for 26 out of 42 EBRD's investments in green bonds between January 2017 and December 2022 as some issuers did not have a credit rating issued by neither of Fitch, Moody's or S&P; (2) All ratings of an issuer are as of issuance date rather than current date.

88. An oversubscription of green bonds was common, but it is not always an indication of the lack of financial additionality. The average oversubscription level for the green bonds in the sample was 3.2 times, with only one bond with no oversubscription and few of relatively high oversubscription.¹⁰² While an indicator of demand, oversubscription cannot always be relied upon as a definitive sign of a lack of financial additionality on the EBRD's side. This is primarily because its additionality is closely tied to the pre-issue confidence building of the issuer and other market participants and the resulting catalysation (if not direct mobilisation) of demand. If this additionality is present, the demand should increase as well. Secondly, the level of oversubscription is an imperfect proxy on its own.¹⁰³

89. EBRD scales back for a larger share of private investors, but the Bank got preferential treatment in some cases. Scale-backs are a mechanism for decreasing an individual investor's allocation in the case of a bond oversubscription. In some cases, this is proactively requested by the Bank, with the view of higher demand. The final allocation level is always up to the arranger/issuer. While allocation can be split proportionally across all investors, the EBRD was treated with preference in a number of cases and was subject to a proportionally smaller cut in the final subscription (than other investors). This included no scale-back at all (PKO BH, Aydem Renewables), or a proportionally smaller one (Mytilineos, VGP Parks). Such cases were explained by the relatively small size of the bond overall (so EBRD could still receive a certain minimum amount), or by the Bank's long-standing relationship with the issuer, its input at pre-issuance stage and its overall perception as a high-value investor, which typically holds bonds to maturity. The latter may help the performance of a bond on the secondary market. Reducing the EBRD's allocation may be more likely with a Eurobond issuance denominated in Euros or US dollars,

¹⁰¹ IFC, 2022. Green Bonds. Available at: <https://www.ifc.org/wps/wcm/connect/0cb13769-8d18-4ce0-b7ac-c6e007a94a5b/202112-Green-bonds-infographics.pdf?MOD=AJPERES&CVID=nSC9m.s&attachment=true>

¹⁰² Cyfrowy Poolsat (no oversubscription), Lietuvos Energija (4), PKO BH (1.8), Mytilineos (4), Georgian Railways (8.4), Aydem (2.1), VGP Parks (2.5), Raiffeisen Bank Romania (1.9). NB: No oversubscription figures apply to Finansbank (private placement) and Scatec (green project bond).

¹⁰³ This is because of the presence of inflated orders (i.e. investors placing higher orders anticipating some scale-backs), and price limits (i.e. the price changes iteratively through the book-building process, as the demand becomes clearer; the actual demand at the final price could be lower than the reported over-subscription)

which typically benefits from higher investor demand as opposed to issuance denominated in local currencies. This is especially the case when issued in local markets where the Bank's additionality may be stronger.

90. There is little evidence of 'greenium', though it is plausible that it was present in a few cases. The evidence for a greenium in green bond markets, defined as a pricing premium paid by green bond investors over a non-labelled bond, has been limited in general (Portfolio analysis in Annex 1). The majority of issuers either reported no greenium or sensed that it might have been marginal (at best), but two issuers claimed the green label helped them achieve a better price. Georgian Railway estimated the greenium at 20-50 basis points (bps) and RBRO Romania, who made a comparison to a non-labelled SNP bond by another FI at the same time, and estimated the greenium at 40 bps.

3.4.2. EBRD acts as a catalyst of demand in many instances, but there is little private direct mobilisation on green bonds

91. Mobilisation of private capital is a must for the green transition to happen. So far, it has taken place at an insufficient scale and far too slowly. To keep the climate just about safe, estimates suggest that one would need to reduce fossil-burning from of the global economy roughly *five times faster* this decade than was managed over the past two decades.¹⁰⁴ And according to the CPI, climate finance must increase by *at least six-fold* by 2030. Net-zero will not happen without dramatically ramping up private capital mobilisation. Winning slowly is the same as losing.

92. In 2021, the EBRD committed to double its private climate finance mobilisation by 2025.¹⁰⁵ Bank investments in green bonds were fleshed out as one of the key channels to achieve it.¹⁰⁶ There have been no targets set for green bond investments, however, green bonds are linked to catalysation and enabling effects rather than direct mobilisation. Some research¹⁰⁷ suggests a major trade-off between impact and mobilised volumes and calls for MDBs to develop differentiated strategies, i.e. investments in Low Income Countries (LICs) offer higher impact,¹⁰⁸ but lower mobilisation opportunities compared to Middle Income Countries (MICs). However, the Bank's approach has not differentiated between both. At an operational level – to increase the private sector's involvement in its investments, it has used private placements only sporadically¹⁰⁹ – in some contrast to the IFC.

93. There is weak evidence for private direct mobilisation by the EBRD as part of its green bond investments. Private direct mobilisation is defined as financing from a private entity on commercial terms due to the active and direct involvement of a MDB leading to that commitment.¹¹⁰ Due to the nature of capital market transactions, private direct mobilisation is not a strong feature of green bonds. EBRD is often an anchor investor with an early and firm commitment. However, while there is certainly *some* signalling effect, it may have been muted. The EBRD's intended participation in an issuance is not disclosed in the bond prospectus as a general rule, and fundamentally, the Bank does not interact with other investors pre and throughout the book-building process. Its interest in a green bond might be easier to gauge in smaller local markets with fewer investors, e.g. based on the track-record of past EBRD

¹⁰⁴ Simon Sharpe, 2023. Five Times Faster. Rethinking the science, economics, and diplomacy of climate change.

¹⁰⁵ EBRD, 2021. Action Plan to Mobilise Climate Finance. Available at: <https://www.ebrd.com/news/2021/at-cop26-ebrd-launches-plan-to-mobilise-private-capital-for-climate-finance.html>

¹⁰⁶ Ibidem

¹⁰⁷ Lankes, H. and Le Houérou, P. 2023. Mastering the private sector for development and climate in Global South. Is it realistic? Available: <https://ferdi.fr/en/publications/916ceb3c-906f-445e-99bf-43e5f06e2d50>

¹⁰⁸ Marginal benefit of a project is higher in countries or regions that are in an early stage of sustainable transition.

¹⁰⁹ Only 3 out of 42 green bond investments in the portfolio were made via private placements, among which only one where EBRD acquired 100% subscription (Finansbank)

¹¹⁰ Joint MDB reference guide to private investment mobilisation:

<https://documents1.worldbank.org/curated/en/813091529416636675/pdf/WP-PUBLIC-DocumentsPrivInvestMob-Draft-Ref-Guide-Master-June2018-v3.pdf>

investments in an issuer or informal signalling by arrangers. Yet, for large Eurobond issuances with many investors and a highly automated and rapid transaction and execution process, investors are less likely to be aware of EBRD's interest and hence draw confidence from it.

94. Not surprisingly then, EBRD's Annual Mobilised Investment (AMI) figures on green bond investments are practically non-existent. AMI is the EBRD's measure of mobilisation, linked to a target in the institutional scorecard.¹¹¹ In the whole green bond portfolio, only two transactions were associated with AMI. Scatec, in the sample of projects, reported AMI of €180 million out of which only €40 million was private.¹¹² The weak link between bonds (in general) and direct mobilisation is evident from the rules guiding the AMI attribution.¹¹³ This guidance excludes bonds listed on non-CoOs exchanges (the majority of green bonds in the portfolio) and requires an almost absolute novel character of the instrument, with a documented role by EBRD in its creation. Such a strict set of conditions is in line with the conservative approach and results in singling-out very clear-cut cases.¹¹⁴ It therefore excludes some less definite, but still likely, catalytic effects, i.e. where the Bank presence was not a "make or break" for a trade, but still crowded-in some extra capital.

95. There is reasonable evidence for indirect mobilisation or catalytic effects of the EBRD's presence. EBRD's presence as a catalyst of demand is linked to the financial additionality and its role of a trusted anchor investor (Section 3.4.1). Without the Bank's presence, some issuances would not have been made or would have ended up smaller, as confirmed by the issuers. While the EBRD's commitment is not formally disclosed, investors still have some ways to determine who is likely to invest i.e. via verbal communication by arrangers during bond 'roadshows'. According to interviewed arrangers, EBRD is known for thorough DD, high requirements and selectivity. Therefore, its assumed presence acts as a quality stamp for an asset. Having the EBRD on side reinforces an issuer's credibility in terms of governance and disclosure and transparency. Overall, the indirect mobilisation effect was tangible and credited by issuers and arrangers for increased demand on at least four projects,¹¹⁵ even if this was not possible to quantify. Also, four of the green bonds in the sample still relied on sizeable orders from other official institutions, including other MDBs,¹¹⁶ a domestic development bank¹¹⁷ and a national central bank.¹¹⁸

96. The universe of green bond investors is diverse. EBRD's catalytic role, and what spot(s) the Bank's participation may hit (if any), will vary. Apart from sophisticated, ESG sensitive investors i.e. Article 9 funds,¹¹⁹ there are also those who outsource a lot of their investment functions or who do not have specific ESG mandates. These may be certain insurance companies, pension funds, universal banks and so on. For some, the EBRD's presence might add an appeal to the green bond because of a perception of its relatively stringent assessment of green credentials. For others, ESG factors will play no role and they may focus on financial DD by the EBRD only, from which they may draw confidence.

¹¹¹ <https://intranet.ebrd.com/home/departments-and-groups/vp-cfo-office/debt-mobilisation#mobilisation-definitions>

¹¹² The rest of the AMI was ascribed to co-financing by other DFIs – DEG, FMO, US IDFC. The other green bond in the portfolio which reported AMI was 51879 Latvenergo Green Bond, AMI €5 million.

¹¹³ AMI claim can be made only for a new form of bond issued in the country of operation, while at the same time the Bank 'must have been instrumental in the facilitation/creation of this new financial instrument through the undertaking of meaningful and evidenced policy dialogue'. The client or arranger will also have to confirm in a letter their view of EBRD being instrumental for the success of the issue for the reasons listed above. Annual Mobilised Investment Guidelines for Banking <https://intranet.ebrd.com/Operations-Committee-Secretariat/annual-mobilised.doc>

¹¹⁴ Issuances that with full certainty would not have taken place had EBRD not participated.

¹¹⁵ Georgia Railways, Lietuvos, Cyfrowy Polsat and Mytilineos

¹¹⁶ Georgia Railways and Raiffeisen Romania

¹¹⁷ Cyfrowy Polsat

¹¹⁸ VGP Parks

¹¹⁹ Funds that have sustainable investment as their objective (dark green). As per Article 9 of the Sustainable Finance Disclosure Regulation

97. While indirect mobilisation was likely taking place, crowding-in ESG investors was less common, due to their as yet marginal presence in EM. One of the reasons for issuing a green bond may be broadening the investor base by attracting investors with clear ESG mandates. There was limited evidence for it across the sample projects. The main reason was quite prosaic – even in markets like Poland and Romania, ESG investors had only a marginal foothold, while investors in Eurobonds may have other limitations for not investing in green bonds from EM issuers. Still, it does not mean that the green label did not catalyse any ESG capital at all.¹²⁰

98. Two specific project cases were at opposite ends of the spectrum of the EBRD’s mobilisation efforts. One bond in the sample (Finansbank Türkiye) was issued through a private placement, where EBRD bought 100% of the bond. Such practice obviously does not contribute to any easily attributable catalytic role or mobilisation in the green bond market. On the other side of the spectrum, Scatec in Egypt showcased exceptional mobilisation efforts. The bond relied on a tailored blended finance project structure, with a Multilateral Investment Guarantee Agency (MIGA) enhanced further by the EBRD’s Credit Enhancement Facility to reduce the risk profile of the project. However, the complexity of this project’s structure, misaligned incentives between parties, protracted delays and deteriorating financing conditions meant that the share of private investors was eventually half of what was initially anticipated (25% versus 50%). The Scatec case shows the limited scalability of blended finance structures in a green bond context.

¹²⁰ For example, Raiffeisen Romania credited the ‘novelty’ of the instrument with increased demand.

4. EBRD internal cuisine of green bond investments – processes and measurement

4.1. EBRD’s approach introduces some transparency issues, contrary to the spirit of GBP

4.1.1. The use of bilateral framework agreements has given some extra comfort in bringing issuers to the EBRD’s standards, but transparency should be a pre-requisite

99. Bonds (including labelled ones) come with a prospectus for investors, unlike bespoke loan agreements. To ensure issuers’ alignment with its requirements, the EBRD has been signing bilateral framework agreements. These are a form of side-agreement signed with issuers, 10-15 pages long, used consistently as part of all the Bank’s green bond investments since 2017. Some sections resemble a loan agreement.¹²¹ Some may include exclusion criteria¹²²/a delineation of assets that the Bank wishes to direct its proceeds to, as well as details on the Bank’s ESAPs or TC projects. Unlike loan agreements though, bilateral framework agreements are not legally enforceable and have been more of a “statement of a good will”.¹²³ One of the key reasons for such a framework has been a challenge in reflecting all the Bank’s mandated requirements and standards in the issuers’ prospectuses and GB frameworks.¹²⁴

100. These bilateral framework agreements are not valid where they cover aspects directly relevant to green bonds (and hence impacting other investors’ interests). Including such provisions in the bilateral agreements constitutes a breach of the *pari-passu* principle of bonds. All investors are subject to identical terms and outcomes and it is not possible to bilaterally agree otherwise with the issuers.

101. Notwithstanding transparency and enforceability issues, bilateral frameworks have still been a useful way of anchoring issuers’ commitments, including those related to ESAPs. For the sample, the majority of projects (six) included ESAPs (usually attached as appendices to the framework agreements). In the absence of loan agreements, bilateral framework agreements provided an alternative way to explicitly spell out issuers’ commitments agreed as part of the ESAPs – at times ambitious and beyond average market practice (Section 3.3.3). More generally, it is plausible that without these frameworks, and in particular at an early stage of green bond markets, some of the Bank’s targets/standards and subsequent outcomes would have been much harder/even impossible to demand and be met by some issuers.

4.1.2. “Asset ring-fencing” used by the EBRD raises some reputational risk

102. For the majority of its green bond investments in the sample, the Bank demanded “asset ring-fencing”. Green bonds, like all bonds more broadly, are *pari-passu* instruments. This also

¹²¹ Typically, bilateral framework agreement would include the following sections: definitions, representations and warranties, EBRD investment in bonds, affirmative covenants, and miscellaneous.

¹²² The Bank has sought to ensure that a portion of any bond proceeds, which is at a minimum equivalent to the monies invested by the Bank, will not be applied to assets on EBRD’s prevailing exclusion list.

¹²³ Therefore, their implementation is much less certain compared to loans. Long standing relationship between the EBRD and an issuer may help, but in the event of issuer falling short of the commitments, there is no legal recourse. There is a possibility of EBRD divesting from the bond, at least in theory, but in practice such threat may not be credible and may apply only in extreme cases of a blunt greenwashing. There has been no such case at EBRD so far.

¹²⁴ This is also because the design of the transaction is primarily undertaken by the arranging bank(s), who are bringing the bond to market, and not by EBRD, who is usually only a small investor in the issuance. This makes it more challenging for the Bank to ensure that its standards and exclusions are upheld in any such financing.

means that the Bank's investments, akin to all other investors, should finance *all* the UoP equally. Instead, for seven out of ten investments in the sample, the Bank requested issuers to apportion its proceeds only to certain type of assets i.e. practice that may be called "assets ring-fencing" (or "cherry-picking"). The motivations for doing so appeared to vary. Some were dictated by practical reasons. For example, the exclusion of financing new assets that could have benefited from local content premia (against EBRD procurement rules) and focus on re-financing instead,¹²⁵ or request by the EBRD to use its proceeds only for investments in specific geographies.¹²⁶ In a few instances though, the reason(s) for carving out/excluding specific assets by the EBRD was not clear to the evaluation team.

103. "Assets ring-fencing" is *de jure* and *de facto* in breach of capital markets best practice, including labelled bonds. Continuing it may expose EBRD and issuers to risks. For example, the Bank demanding to allocate its proceeds to some preferred assets rather than the totality of an asset pool of a bond, because those may exhibit more appealing expected environmental outcomes, will contradict *pari-passu* asset allocation. In practice, investors do not seem to have even been aware of this practice, while asset ring-fencing also creates some legal ambiguity.¹²⁷ Further, there are ramifications for GET results reporting because for three bonds¹²⁸ with ring-fenced assets, reporting of impacts by the Bank has been based precisely on those picked assets – rather than proportionally on the whole bond. At the same time, this would not be recognised and in line with the reporting done by other ESG investors in a bond as those will still report their share of green impacts on *pari-passu* basis.

104. The practice of asset ring-fencing is subject to an on-going internal discussion within the Bank, with some recognition that it should be discontinued. Besides, leaving aside clear disadvantages, a few potential benefits of "asset ring-fencing" may be also questioned.¹²⁹

105. To conclude, there may be some valid considerations to use bilateral frameworks. However, "asset ring-fencing" raises a number of concerns and continuing it is in breach of capital markets best practice and entails risk for the Bank and issuers. Bilateral framework agreements may still serve a purpose, such as anchoring issuer's commitments to ESAPs and TC projects, assuming those frameworks would not cover aspects that are directly related to a green bond and hence would have ramifications for other investors. Lastly, evident disadvantages of "assets ring-fencing" along with doubtful (at best) benefits, and inherent reputational risks for the Bank and issuers, make its use hardly justifiable.

¹²⁵ Case of Aydem Renewables

¹²⁶ Case of VGP

¹²⁷ Ring-fencing in bilateral frameworks, which are not legally binding, contradict prospectuses, which are legally binding and where equal distribution across investors (subject to the level of their subscription in a green bond) is ensured.

¹²⁸ Lietuvos, Cyfrowy Polsay and Mytilineos.

¹²⁹ As argued by Treasury, if, for instance, the bond were to default because of a failure in the assets that fell within the Bank's exclusion criteria, the EBRD would nonetheless be treated equally with all other investors. "Theoretical ring-fencing" will also not protect the Bank from any reputational risks were, for instance, a media outlet or NGO to publicly express concern over investments made by the issuer through a bond in which EBRD hold a position. Here, the Bank could not claim with any credibility that it solely invested in a different portion of the controversial bond.

4.2. Pace does not matter (that much): Forward is forward

4.2.1. EBRD moves at least 2 x slower than private institutional investors. This may have cost the Bank some deals, but it does it for the right reasons

106. As a MDB, given its mandate and additional tasks pre-conditioning its investment in a green bond, the EBRD needs at least double the time to invest compared to private institutional investors. At the Bank, key tasks in the run up to an investment in a green bond comprise: (i) initial discussions with a client, (ii) the assessment of green bond credentials involving banking, CSD, ESD and Treasury team, and (iii) financial and integrity DD, and (iv) a three-stage review and approval process concluded by Board approval and signing.¹³⁰ All add up, in an optimal scenario, to approximately six to eight weeks, vis-à-vis the two to three weeks¹³¹ required by many mainstream private institutional investors.

107. At times, this might have caused the EBRD to miss out on some deals and raised some (limited) concerns outside of the Bank. A few EBRD bankers, as well as the Treasury team, confirmed that the Bank might have lost some investment opportunities in the past i.e. Eurobond trades where issuers were more inclined to move faster, especially if they saw a strong appetite from investors, making EBRD's involvement less additional. One interviewed underwriter pointed to some complications stemming from the EBRD's timeline.

“EBRD needs to be involved early as it needs two to three months before it buys, it is a long ‘lead time’...It may then ask for this and for that...rather than just rely on a SPO's view. There are some compliance issues too [for not treating market equally].”

An underwriter

108. On balance, the EBRD's longer timeline does not appear to be a major handicap. When the Bank takes time, it does it for the right reasons. EBRD's role as a *sui generis* anchor investor means that it looks beyond financial return. The Bank's more thorough feedback on a client's green bond framework and standards, integrity and financial DD and design and negotiations of the ESAPs may add to the timeline. However, these are precisely the type of inputs that one expects from MDBs. Further, some issuers stated that “they are aware how MDBs operate” and “are able to adjust”. EBRD teams are now more versed with the green bond product than they were several years back and the EBRD's prior client relationships – a frequent feature (Section 3.1) – certainly help too. In addition, issuances on domestic markets (20% of the sample) also exhibit a slower pace, allowing the EBRD's protracted timeline to be accommodated (in contrast to some Eurobond issuances, which generally have much tighter schedule).

4.2.2. Holding till maturity (by and large) and stable income stream

109. Although there was the odd exception to this rule,¹³² the EBRD generally held its green bond investments to maturity. Unlike some other bond investors (i.e. some hedge funds) that may follow a short-term investment strategy and tend to flip assets,¹³³ the Bank, once it acquires its green bond allocation, normally holds it to maturity and does not engage in secondary market transactions. This is in line with the general debt capital market investment guide and not specific

¹³⁰ Unless an investment takes place under delegated authority (i.e. specific Framework agreement), in which case direct Board Approval is not required.

¹³¹ Timeframe between a read-show to signing

¹³² Bank investment in Aydem Renewables green bond (53042)

¹³³ Acquire some subscription before listing and then sell off its stake shortly after potentially affecting the bond price on a secondary market.

to green bonds.¹³⁴ The rationale for staying involved to maturity is also related to the green results that normally only materialise over time.

110. Financial performance of the green bond investments (from the sample) has been sound. Issuers' interest payments for all green bond investments in the sample have been on time so far and none of the issuers exhibit any plausible risk of insolvency. The average RAROC at signing for sample investments was 13.7%, ranging from 9.1% to 17.5%. Performance of green bonds on the secondary markets, for instance benchmarked against relevant indices,¹³⁵ is out of the scope for this evaluation.

4.3. Poor GET outcomes management

*Detailed findings for this section are in Annex 5.*¹³⁶

4.3.1. Green bond investments have grown in volume, but the GET rulebook does not adequately cater for them

111. While green bonds are covered by the GET Handbook, some aspects of the existing rules have not been optimal for instruments with imprecisely defined UoP ex-ante. The nature of green bonds means that the GET Handbook allows for the full amount of the EBRD's investment to be allocated to GET finance. However, it also requires precise clarity on the bond's UoP, so the ex-ante GET indicators impact calculations can be carried out by the CSD specialist with a reasonable degree of certainty by the time of the Board approval. In practice, such certainty on the UoP is not in place in many cases – in particular for portfolio approaches, used primarily by FIs.

4.3.2. The reliability of GET ex-ante estimates on green bonds is not systematically ensured

112. GET ex-ante estimates of physical impacts were calculated for all but one project in the sample, in accordance with the rules. All but one of the projects in the sample followed the rules on presenting the GET ex-ante estimated impacts at approval. In the case of the Georgian Railway GB, however, no such estimates were calculated.

113. GET ex-ante estimates are unreliable. This is due to uncertainty about the UoP, lack of transparency on methodology and incompatibility with issuers' own impact calculation methodologies. Based on the review of the sample green bond projects, the major sources of this unreliability are:

- **Difficult to have correct assumptions about the UoP.** Calculations of GET outcomes must be based on assumptions about the UoP of the bond. This may be straightforward in some cases where the bond issue underpins a well-defined investment programme, or refinancing of existing assets. However, in other cases, the ex-ante assumptions are based on a green bond framework, which specifies the types of projects to be financed although their details and

¹³⁴ <https://intranet.ebrd.com/Treasury/DebtCapitalMarket.pdf>; In accordance with the new Portfolio Management Approach to Debt Capital Markets Instruments approved by OpsCom on 13 December 2019, the Bank would normally Hold bonds To Maturity. The Bank would only actively seek to sell bonds to manage concentration risks or if there are specific credit or reputational concerns, as identified in cooperation with Risk Management and OCCO.

¹³⁵ For instance, Bloomberg Barclays MSCI Green Bond Index

¹³⁶ A number of recent IEvD evaluations highlight similar and complementary findings related to GET management e.g. the evaluation of EBRD's Investments in Decarbonisation of the Built Environment (2014-2022)

composition is not yet known. The issue is especially pertinent for, but not limited to FIs, as illustrated in the case of RBRO's green bond (Annex 5).

- **Unsupported baselines.** The methodology used for the calculation of GET physical impacts relies on the use of sound baselines i.e. counterfactuals against which the incremental green benefits are measured. In some projects the chosen baselines were arguably not realistic, artificially inflating the green benefits of those projects. Examples from the sample of projects include PKO BH and Finansbank green bonds.
- **Lack of transparency and scrutiny.** Issues with calculation methodology, assumptions and baselines can be understandable in some cases, i.e. where estimates are made for bonds with less than certain distribution of the proceeds. In such a context, however, full transparency is even more important. None of the project documents available to the Board for approval contained an annex with the background and calculations of the GET impact estimates, to allow for the assumptions or baselines to be questioned. This information is crucial for basic scrutiny of a project and to compare projects. As it stands, ex-ante GET impacts are presented in the Board documents devoid of context and cannot be meaningfully scrutinised.

114. In most cases it is either not possible to compare reported ex-ante GET outcomes to those reported by issuers, or this comparison shows substantial discrepancies. IEvD could only validate one project (Lietuvos) out of nine¹³⁷ where GET reported outcomes matched with the achieved outcomes reported by the issuer. For the remaining eight projects, this comparison was either not possible (four projects), or showed substantial discrepancies (four projects). Regarding discrepancies, two cases included apparent over-reporting by GET estimates (Finansbank, Aydem), while there was under-reporting compared to the issuer's estimates in another instance (Mytilineos).

115. Lack of follow-up on issuers' allocation and impact reporting is not only a data issue, but also a TI issue. Cases where comparison between GET estimates and issuer reporting was not possible included instances of absent or sub-standard issuer reporting. It is important to stress that following up on the issuer allocation and impact reporting post-issuance is part of the EBRD's responsibility in green bonds. It is key to its contribution to the development of best market practices in sustainable finance. The lack of engagement with issuers who provide no reporting at all or of sub-standard quality is an omission on the EBRD's side, directly weakening its TI (TQ Resilient/green bond market development).

116. Overall, while best efforts are extended into calculating the environmental benefits of green bonds ex-ante, the value of these estimates in aggregate is arguable. The main issues stem from the lack of definite data on the UoP, resulting in assumptions not borne out. This is compounded by using unsupported baselines and a lack of transparency. Separately, insufficient enforcement of issuers' reporting standards post-issuance adds to the lack of real data available, as well as diminishing EBRD's contribution to claimed TI in the development of sustainable finance markets.

4.3.3. GET database indicates issues with data governance and the quality assurance processes

117. There are indications of systemic issues of data governance of the GET database, which are beyond the scope of this evaluation. Separately from issues related to the approach to GET ex-ante calculations, the processes behind recording this data in the GET database appear to lack necessary safeguards for quality assurance and the standardised application of existing rules. However, this finding is based on a limited sample of projects, representing one instrument only

¹³⁷ Not counting Scatec (52879), where GET estimates were not recorded due to refinancing

and should not be overinterpreted. It still constitutes a warning, highlighting a need for further scrutiny.

118. Importantly, a lack of credibility in the GET data governance carries reputational risks, including potential 'impact washing' accusations. The GET database is the authoritative source of all the EBRD's climate finance and impact data for all its operations. Issues of its data governance and quality assurance can have repercussions for the credibility and comparability of data. This matters. In a system fully reliant on the ex-ante estimates for its reporting of green impacts, the data from the GET database has been routinely presented as 'results' and used in a variety of internal and external reports.

5. Insights and Recommendations

5.1. Key findings and insights

Overall, EBRD's green bond investments made in 2017-2022 delivered good outcomes, especially given where the markets were at the time

119. The early days of the Bank's presence as an investor on the market saw a somewhat sluggish start with only few investments in green bonds between 2017-20. It was only natural that the issuers and investors' community were still learning the ropes, and so did the EBRD in a way.

120. The Bank's investments in green bonds surged from 2021 onwards though, and in the grand scheme of things and looking at the whole 2017-22 period, these delivered good outcomes. The EBRD accomplished an excellent record of supporting first time issuers and thus promoting the green bond instrument and bolstering nascent markets in its region. Broadly speaking, the Bank did it in the right manner. It entered trades as a trusted anchor investor, alongside other financiers rather than solo and often asked for higher standards that few or no other investors may have done. The trades the Bank supported were generally good; certainly from a market development perspective and often from a green perspective.

121. The Bank was able to establish its presence in the green bond markets thanks to its role as a trusted anchor investor. EBRD has been consistently seen as a leading investor for issuance in the Bank's CoOs by issuers and arrangers. Its financial additionality is closely tied to pre-issue confidence building of the issuers and other market participants, as well as the resulting catalysation (if not direct mobilisation) of demand. Issuers' desires to have EBRD on-board reflects the Bank's financial clout, which can in turn translate into greater leverage to push for higher standards.

At times the Bank's approach was too ad hoc, often going for low hanging fruit with less due diligence *pre* and *post*-issuance than one may have expected

122. In hindsight, consistency and diligence could have been stronger. The Bank's assessment of the alignment between the UoP and some issuers' sustainability strategies lacked a more methodical approach at times, while ESG sensitive investors were clearly upping their expectations. It also let some poor/mediocre allocation and impact reporting standards by some issuers slip through the Bank's supervision nets, and rarely engaged on the post-issuance reports. The UoP for re-financing, rather than new assets, may be legitimate, and especially where they have a replenishing portfolio of assets which the issuer is expecting to finance through an ongoing green bond issuance programme. However, the Bank did not pay enough attention to some relevant criteria and disclosures, such as to any maximum amount of refinancing, maximum look-back periods differentiating between CapEx and OpEx, if the latter is included. Only a minority of proceeds were directed towards assets with unambiguous environmental additionality and without the requisite disclosures and monitoring. Despite established and cordial relationships with issuers, these were important levers that the Bank held during a period when greenwashing became *the issue* for many investors.

123. Most recently, the Bank's green bond investments have seen some major rupture from established patterns of the past. Investments made in 2023 were in stark contrast with those made in 2017-2022. That there were fewer first time issuers may be less surprising, but the overconcentration in FIs (with most tied with MREL) and virtually no investments in issuers from non-EU markets does not add comfort.

124. The Bank struggles with understanding the green impacts of its green bond investments. The reporting of green outcomes is based solely on ex-ante estimates, which are unreliable due to uncertain UoP, incorrect assumptions, unsupported baselines and an overall lack of transparency and scrutiny. There is no follow-up on any issuers' allocation and impact reporting (which is often of a sub-standard quality), and no use made of annual impact data from issuers. Aside from hindering the ability to understand the green impacts internally, this may introduce reputational risks and accusations of impact-washing in the Bank's own investment reporting.

125. Some of the Bank's internal processes have not been appropriately tailored to the specifics of green bonds. The standard use of bilateral frameworks with issuers is warranted for ESAPs and technical cooperation unrelated to the bond. However, where side agreements are used to mischaracterise these *pari-passu* instruments with other investors and suggest both internally and in external impact reporting that the Bank can 'cherry-pick' assets within the UoP, this is misleading. This often derives from a need to apply all the Bank's policies and standards to capital market instruments for which they are not easily applicable. Similarly, where the side agreement creates an issuer commitment to invest a minimum amount in the Bank's CoOs, this needs to be clear in the documentation so investors can make an appropriate assessment. The lack of such transparency is contrary to the principles of green bonds (and capital markets more broadly).

126. A sizeable budget for TA remained, surprisingly, unutilised. The €1.1 million TC Programme attached to the FI Green and Sustainability Bond Framework was not used in any transaction due to its design not matching issuers' needs and demand.

The old way is not good enough anymore. As developed markets press on and emerging ones need attention and renewed impetus, EBRD could do more – a robust case for a 2.0 approach

127. Green bond markets have come a long way since the EBRD's first historical investment in July 2017. The initial take on green bond investments could be loosely captured by the following phrase: "Something is better than nothing – let the market build and grow, get the momentum, and then do the clean-up." Since then though, the regulatory environment and the principles and practice have sharpened, and will continue to do so, perhaps further still with the recent adoption of the EuGBS. Investors' awareness about greenwashing and their appetite for bonds of sound standard rose markedly. What sufficed in the past often does not today. The EBRD, to champion high standards and further market development, needs to put itself in the front seat of robust standard setting too and develop a clear internal approach. This would guide its interactions with the market. To contribute to a positive evolution, this evaluation proposes five specific recommendations based on its findings (Section 5.2).

5.2. Recommendations

IEvD proposes five specific recommendations:

FINDINGS	RECOMMENDATIONS
<p>The EBRD has been a force for positive change in the first phase of green bond markets development in its CoOs.</p> <p>Now that the market is more mature, so should the EBRD's approach to it. What sufficed in the past often does not anymore. The EBRD now needs a disciplined approach differentiating key segments (notably EU and non-EU issuers) with a transparently articulated, robust and ambitious level of standards it expects from issuers.</p> <p>Over the evaluation period, the Bank failed to utilise any of the €1.1 million funding available under the TC Programme to support green bond issuers. This was, to a considerable degree, driven by the characteristics of the typical issuer in the EBRD's green bond portfolio – large FIs/corporates from the EU with ample headroom to finance any external advisory services. TA may be suitable for some type of issuers in the future, and especially to facilitate the reporting of impacts and/or the overall transition pathway at an issuer level that the UoP is consistent with.</p>	<p>Recommendation 1:</p> <p>Establish a formal approach to green bond investments and related TA, with clear guidance on priorities to reflect the current and changing state of the market and the Bank's position at the forefront of its further developments.</p> <p>The EBRD should have a formalised approach to green bond investments in the next three to five years. This should articulate, among other things, what aspects of TI it aims to achieve through its investments and what market segments it will target in doing so.</p> <p>The Bank should use the approach to better spell out the use of TA related to green bond investments. Determining future size and format of the TA should be informed by greater clarity on the desired type of green bond investments that the EBRD wishes to pursue. In particular, the approach should make clear the extent to which there is a focus on first time issuers and on issuers in non-EU countries. A demand assessment and an analysis of the other on-going initiatives, as part of a diagnostic, are options for improving the effectiveness of TA.</p> <p><i>*This approach should include the recommendations that follow.</i></p>
<p>Overall, the EBRD's assessment of the coherence between issuers' strategies and their green bonds did not appear to be methodical. In a few instances, it also leaned too heavily on SPOs.</p> <p>For findings related to an enhanced approach to <i>pre</i> and <i>post</i>-issuance impact reporting, refer to Recommendation 3.</p>	<p>Recommendation 2:</p> <p>Improve the assessment of green bonds and issuers' credentials and encourage a more detailed and transparent investment criteria to raise the robustness of the EBRD's green bond portfolio and the overall clarity of its approach to green bond investments.</p> <p>The EBRD should publish a green bond investment's criteria so issuers and investors can clearly understand the minimum EBRD standards. It should also improve and formalise internal assessment of green bonds:</p> <ol style="list-style-type: none"> i. The SPO confirming alignment with the GBP should be necessary, but not a sufficient condition for an investment. A systematic EBRD DD, based on the GET Handbook, but also supplementing it, should include: <ul style="list-style-type: none"> o A structured approach to examining the consistency between the UoP and the sustainability strategy with a separate and documented evaluation of: (i) the existence/reliability of science based KPIs, (ii) overall capital spending plans, and (iii) the sustainability performance (e.g. green finance ratio). o An assessment of the bond's 'greenness'. o An enhanced approach to pre and post-issuance impact reporting (refer to Recommendation 3).
<p>The majority of green bond issuers in the EBRD's portfolio published their annual allocation reports. Impact reporting, however, has been patchier. Insufficient impact disclosure, while understandable in the early days of green bonds, became <i>the</i> issue for</p>	<p>Recommendation 3:</p> <p>Strengthen standards related to issuers' pre-issuance green bond framework commitments to impact reporting and to issuers' post-issuance allocation and impact reporting, in</p>

<p>investors¹³⁸ and a key requirement. Without the wherewithal to analyse the expected impact of their green bonds, investors have a key source of potential reputational ('greenwashing') risks. Some have started choking off flows from much-needed investment in sustainable projects across EM.</p> <p>Many issuers, including two who did not publish reporting or published reports of sub-standard quality, indicated that they did not register any interest from investors in the reports. EBRD did not consistently monitor the reports that were issued after the bonds were launched. It also did not check thoroughly if the reports on the impact of the bonds were clear and accurate, and if they matched the GBP and GET criteria or the Bank's initial assessment. There was no sign that EBRD used the data from the issuers to report on its own impact.</p>	<p>order to contribute positively to their robustness and market standards more broadly.</p> <ul style="list-style-type: none"> i. <i>Pre-issuance:</i> Before issuing, the EBRD should require an issuer to state unambiguously in the GB framework their commitment to: (i) publish both the allocation and impact reporting and (ii) disclose key metrics, methods and assumptions for the impact reporting. The EBRD should work closely with the issuer to ensure that the planned allocation and impact reporting are as aligned with ICMA's Harmonised Framework for Impact Reporting as possible. ii. <i>Post-issuance:</i> The EBRD should maintain regular contact with all issuers whose bonds it invested in, to check the quality of the allocation and impact reporting, and that it should be as aligned with ICMA's Harmonised Framework for Impact Reporting as possible. This would also mean, when relevant, the EBRD requesting improvements in publicly available allocation and impact reporting.
<p>The GET Handbook does not adequately cater for green bonds as instruments. Green bonds are 100% GET, but the distribution of the proceeds may not be known at the time of issue. While following the existing GET rules, the management of GET outcomes has therefore been poor.</p> <p>GET ex-ante estimates are unreliable due to incorrect assumptions, unsupported baselines and the lack of transparency and scrutiny. Issuers' allocation and impact reporting data has not been utilised.</p> <p>There are also indications of wider underlying issues with GET data governance and quality assurance.</p> <p>The lack of credibility in GET data governance carries reputational risks, including potential 'impact washing' accusations.</p>	<p>Recommendation 4:</p> <p>Adopt operational improvements in the approach to GET outcomes management for green bonds to introduce greater transparency and comparability.</p> <p>Enhanced transparency and comparability of GET outcomes should include the following actions:</p> <ul style="list-style-type: none"> i. All Board project documents should include the assumptions, baselines and calculations that underpin GET ex-ante estimates, allowing for adequate scrutiny of these calculations to improve investment decisions and comparability across projects. ii. An approach to ex-ante GET results estimates should be tailored and formalised, including a realistic approach to ex-ante estimates for green bonds with less specifically defined UoP (in particular Fls), and the introduction of a systematic approach to ex-post allocation and impact data collection/reporting for all green bonds. This will improve GET data accuracy and accountability and reduce the reputational risks of misreporting.
<p>Currently, the EBRD neither monitors the share of the re-financing of its green bond portfolio nor has any limits on it. It also does not report on it internally and externally.</p> <p>For the evaluated sample, the proceeds from the Bank's investments¹³⁹ were used significantly more often to refinance existing debt rather than to invest in new projects. Concretely, for six out of ten projects (60%) – or €309 million out of a total of €434 million (71%) EBRD investments in green bond issuances – the proceeds were used <i>entirely</i> to refinance existing debt.¹⁴⁰</p>	<p>Recommendation 5:</p> <p>Monitor, report, and when opportunities arise, reduce the overall use of EBRD proceeds to refinance and favour investment in new assets.</p> <p>It is important that the EBRD starts monitoring the share of re-financing at a bond level and in relation to the Bank's whole portfolio, including the split between CapEx and OpEx, and report this information internally and externally (i.e. EBRD Annual Sustainability Reports).</p> <p>Further, to support environmental additionality of the EBRD's investments in green bonds, and to fortify the Bank's role in</p>

¹³⁸ E.g. the Green Bond Funds Impact Reporting Practices 2021 report by Environmental Finance found that 9 out of ten investors regard impact reports as 'crucial'; Almost 70% of green bond funds rely on bond issuers' impact data; but also that Three-quarters of investors say current impact reporting practices are 'inadequate'; More than half the investors said poor data and impact reporting were deterring them from making further investments; and Key areas for improvement are transparency and standardisation of the reports. Available at: <https://www.environmental-finance.com/assets/files/reports/green-bond-funds-impact-reporting-practices-2021.pdf>

¹³⁹ Both, whether 'ring-fenced' or not.

¹⁴⁰ And further two EBRD investments that envisaged partial share of re-financing at 22 and 38%

<p>For three of the specific projects in the sample with 100% refinancing, a tangible increase in environmentally friendly activities as a direct result of the issuances is questionable. In five cases, the 'look-back' periods either exceeded markedly the typical market standard of 36 months and/or were not stated at all in issuers' GB frameworks.</p> <p>More broadly, there has been a clear trend among investors to increasingly favour green bonds with limited/no re-financing in order to lower the risk of greenwashing.</p>	<p>setting best standards, the Bank should ensure that every bond specifies whether it will include re-financing and, if so, what 'look-back' criteria it will employ, as well as split between CapEx and OpEx. The Bank may lead by example and consider a set of specific actions to limit the share of re-financing (at its own green bond investments portfolio level).</p>
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6. ANNEXES

Annex 1. Portfolio analysis

This portfolio analysis draws primarily on the data provided by the CSD team at the outset of the evaluation. This data was corrected when evident errors were found in the course of the evaluation, on a best effort rather than a systematic basis. The data was further complemented by the DW_Banking_Operational data, as well as some market level data kindly researched and supplied by the Business Information Services team.

Investments by volume, year, number, size and currency

Overall, between January 2017 and December 2022, the EBRD made 42 individual green bond investments as part of 36 operations (OpIDs), for a cumulative investment of €1.25 billion. This means that six Bank operations (OpIDs) consisted of two separate consecutive green bond investments with the same issuer.¹⁴¹

Although market data is imperfect,¹⁴² there is little doubt that the EBRD's investments accounted for a very sizable share of green bond issuances in CoOs. Estimations based on Environmental Finance's data suggest that €25.75 billion of green bonds were issued in the EBRD's CoOs in 2017-2022, including sovereign issuances, of which the Bank's investments accounted for €1.25 billion – 4.9% of the overall volume. Yet, looking at the number of green bond issuances, the EBRD invested in 42 of a total of 109 green bond issuances in that same period – or 38.5% of all issuances. Further, by *excluding* sovereign issuances,¹⁴³ its share rises even more – to 7.3% and 46.7% in terms of the overall volume and number of issuances, respectively. EBRD has largely invested in the larger bonds/markets so far. There were green bonds issued in 25 countries within EBRD's CoOs in 2017-2022. The 11 countries that EBRD invested in (i.e. 44% of the countries issuing) represented 82% of the issuance volume in the CoOs.

EBRD's investments in green bonds saw relatively timid growth in 2017-2020, but have greatly expanded and way above the growth rate of the global green bond market since then. Growth in the Bank's investments in 2017-2020 closely reflected the global trend in green bond issuances.¹⁴⁴ Yet, while the global green bond market grew by 86%¹⁴⁵ year-on-year in 2020-2021, the EBRD's investments increased by six-fold over the same period, to nearly €600 million. As global bond markets deteriorated somewhat in 2022, the Bank's green bond investments also declined to approximately €450 million – though this is still a markedly higher level compared to the investment volumes in 2017-2020 (Figure 7).

¹⁴¹ In addition, Photon Energy issued one GB with a total size of €80 million but used a serial (tranching) approach. EBRD invested in three tranches of this GB, in November 2021, May 2022 and November 2022, with a total investment €17.5 million (OpIDs 52971 & 53764). While these three investments were technically into the same GB, for the purpose of this portfolio these are counted as three GBs as they represented three separate investment decisions from the investors' perspective.

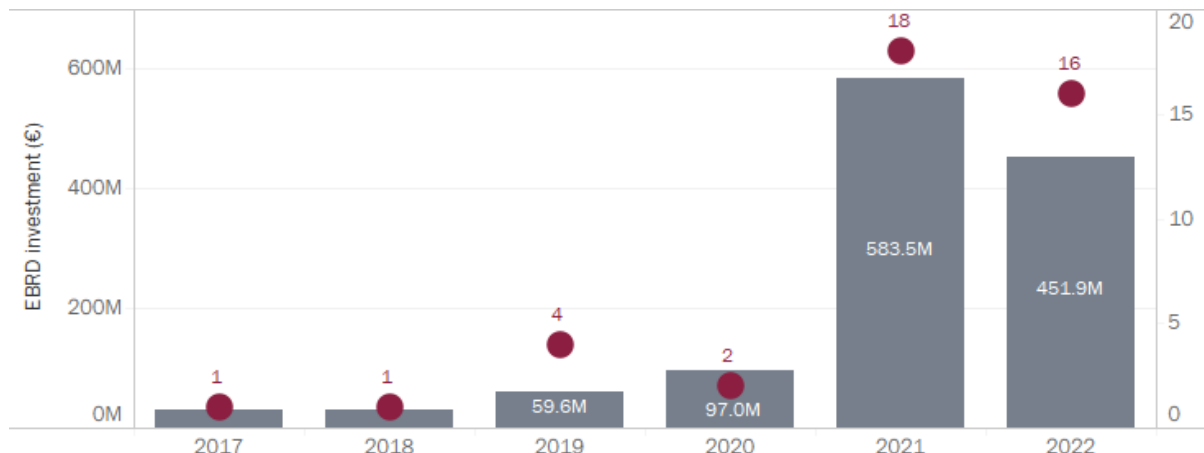
¹⁴² It does not capture some of the smaller green bond issuances and may overstate EBRD's share of the market

¹⁴³ 19 issuances for the total amount of €8.7 billion between 2017-2022, based on Environmental Finance data

¹⁴⁴ Based on Environmental Finance's data from February 2023 analysed by EBRD, global GBs' issuance in 2017, 2018 and 2019 reached £173 billion, \$183 billion and \$260 billion respectively.

¹⁴⁵ From \$296 billion in 2020 to \$551 billion in 2021.

Figure 7: Number and value of EBRD investments in green bonds – 2017-2022



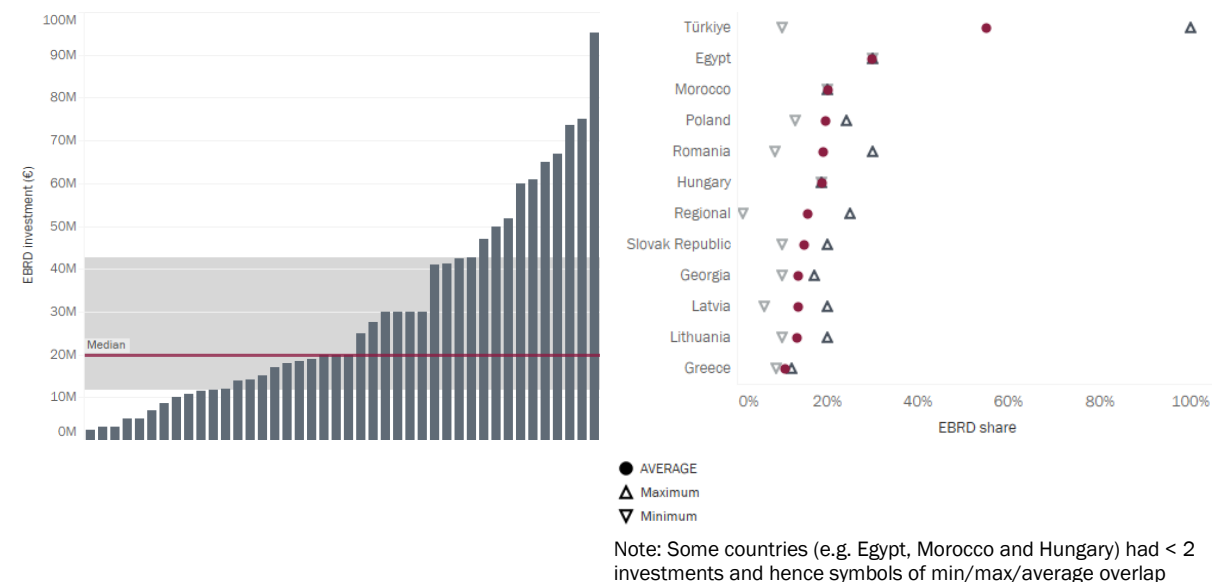
Median EBRD investment in an issuance was €20 million, although sizes varied greatly across individual transactions. While the minimum investment was €2.5 million in a tranche of green bond issuances by Photon Energy (Regional), the maximum investment of €95 million was made as part of a €319 million green bond issuance by Statec (Egypt) (Figure 8). In terms of the Bank’s investment share in a given issuance, it typically ranged between 10% and 20% (28 out of 42 investments), with an overall portfolio average of 18%.^{146,147} There was one transaction where the Bank was the sole investor, taking 100% of the placement.¹⁴⁸ The average EBRD investment, as the share of overall issuance, was slightly higher for countries outside Europe, like Egypt and Türkiye. However, a limited number of investments in these countries warrants caution with any strong conclusions (Figure 9).

¹⁴⁶ For Photon Energy, the EBRD share was calculated across the three tranches of the same GB cumulatively and assigned to each of the three investments (i.e. 21.9% on all three, calculated as a total EBRD participation €17.5 million to total issued in the GB, €80 million)

¹⁴⁷ For comparison, EBRD weighted average stake in corporate issuances EBRD participated in between 2018-2022 stood at 16%.

¹⁴⁸ FI Green & Sustainability Bond Framework: Project Crystal [Op Id: 52623] - Türkiye

Figure 8: EBRD investment in green bonds – size distribution – **Figure 9: EBRD share in green bond issuances by country**



Slightly less than one fourth of all investments (ten out of 42) for a total equivalent of €273 million (or 22% of the portfolio) were made in local currencies, with the remaining investments in Euros and US dollars. This mirrors the overall currency distribution of EBRD’s bond investments, with 26% of all bond investments (including green bonds) made in local currencies. The remaining 74% were made in Euros and US dollars in 2018-2022.¹⁴⁹ Among transactions made in local currencies, those in Romanian leu, Polish zloty and Moroccan dirham accounted for €148 million, €106 million and €19 million, respectively. In CBI’s 2019 European Investor Survey, most investors stated that they would wish to expand their holdings in EM. However, at the same time, 65% of survey respondents pointed to currency as a restriction with a considerable share of them being constrained to exposures in Euros and US dollars.¹⁵⁰

Share of green bond issuances and investments in an IFI funding/investment profile – EBRD, IFC, EIB and KfW

DFI and EBRD issuances of green bonds have been on the rise. Green bond issuance volumes have generally been on the rise. Issuance profiles from the EBRD and its peers mirrors that trend, in particular EIB and KfW. Issuance trends from the EBRD and IFC are more volatile. It is worth noting that there is not a perfect correlation between projects that an organisation may deem environmental internally and what the market may deem as environmental for green bond issuances. This is particularly the case in developing countries, hence the discrepancy between EBRD/IFC and EIB/KfW.

Table 6 presents the overall ESG bond issuance by selected DFIs (including social and sustainability bonds) and clearly shows an increase in the percentage of overall funding, albeit still volatile for the EBRD.

¹⁴⁹ EBRD Information Session, 11 May 2023. Capital Markets in 2022 and EBRD response. SGS23-065

¹⁵⁰ CBI, 2020. Green Bond – European Investor Survey. Available at: https://www.climatebonds.net/files/reports/gb_investor_survey_final.pdf

Table 6: Overview of green bond issuance, green bonds' share of total funding in % and GBs share in ESG funding across selected DFIs in 2017-2022

		2017	2018	2019	2020	2021	2022
EBRD	GB (€bln)	0.6	0.2	2.9	1.7	0.7	0.4
	GB % ¹⁵¹	7%	2%	25%	11%	6%	5%
	GSS % ¹⁵²	7%	3%	25%	11%	13%	5%
EIB	GB (€bln)	4.2	4.1	3.2	6.3	8.2	13.3
	GB %	7%	7%	6%	9%	15%	30%
	GSS %	7%	8%	7%	14%	20%	44%
IFC	GB (€bln)	1.3	1.1	0.9	0.1	0.8	0.2
	GB %	11%	9%	9%	1%	7%	2%
	GSS %	16%	9%	11%	14%	5%	15%
KfW	GB (€bln)	3.7	1.6	8.1	8.3	15.7	10.5
	GB %	5%	2%	10%	13%	19%	12%
	GSS %	5%	2%	10%	13%	19%	12%

Investments under the EBRD's frameworks versus stand-alone operations

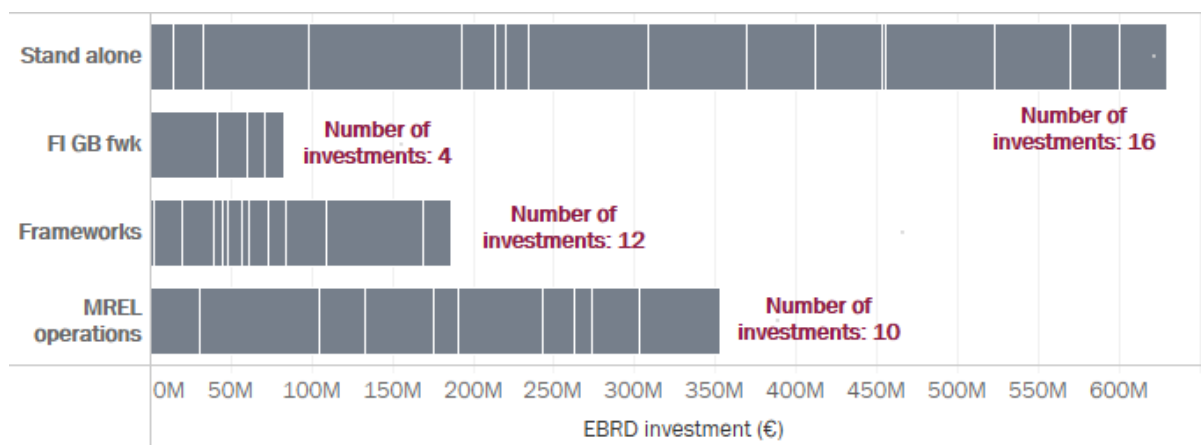
Out of total 42 green bond investments, 16 were made as stand-alone operations. While stand-alone operations represented about 38% of the investments by number, they amounted to €630 million in investment volume, or 50% (Figure 10). There has only been one framework so far which is fully dedicated to investments in green and sustainability bonds – *49932 FI Green & Sustainability Bond Framework*. This framework was approved in 2018 with a headroom of €250 million. There were four investments in three sub-operations¹⁵³ under this framework (all in green bonds), with a total investment of €83 million before the framework closure in 2020. There have been a further 12 investments implemented under other frameworks, including direct finance frameworks and Greek corporate bond frameworks. In addition, ten investments were made in MREL¹⁵⁴ Bail-unable programmes where the investments are made within a headroom approved for the purpose of operations with a single client (FI) (Figure 10, Table 7).

¹⁵¹ Green bonds as a percentage of total funding volumes

¹⁵² Green, social, sustainability bonds as a percentage of total funding volumes

¹⁵³ 50718 Project Jade (two investments); 51302 Project Green Orange; 52623 Project Crystal

¹⁵⁴ EvD is conducting an evaluation of EBRD's approach to MREL that will be coordinated with this evaluation

Figure 10: Volume and number of green bond investments by framework type**Table 7: Overview of frameworks and MREL programmes used for green bond investments**

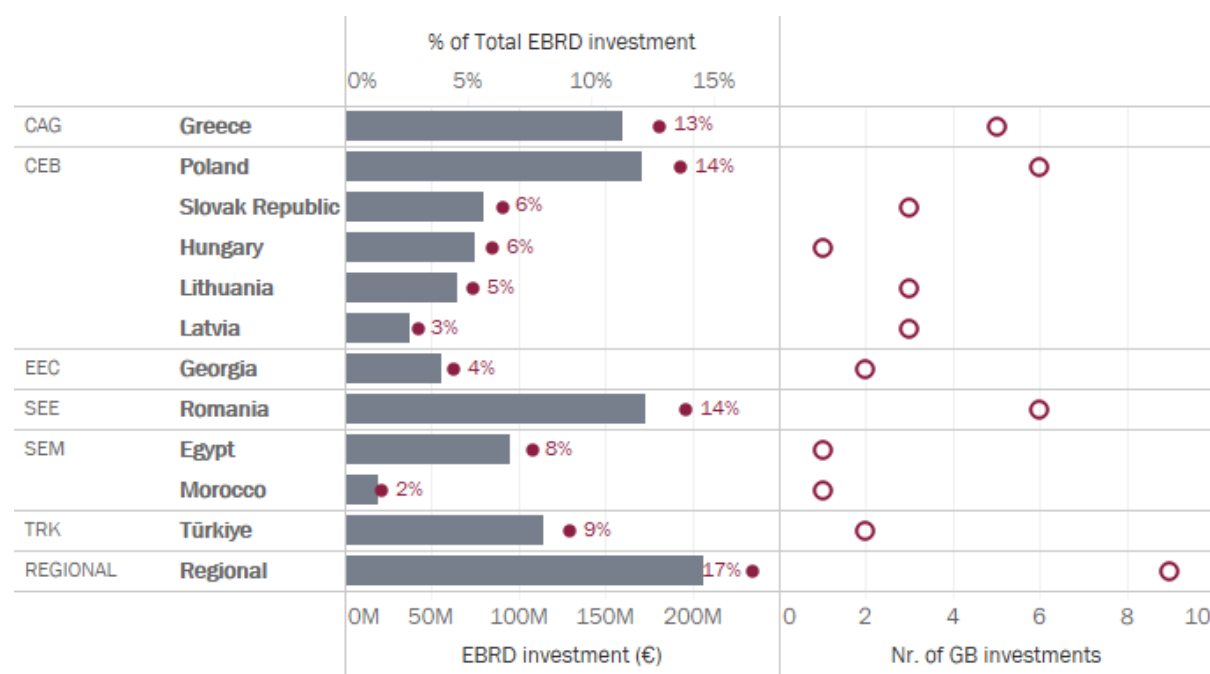
Framework OpID	Framework name	Nr. Of GB sub-operations	Nr. Of GB investments	Total EBRD GB investment
47420	Direct Finance Framework SME	4	5	€39.5m
48501	Direct Finance Framework non-SME	2	3	€36.9m
49932	FI Green & Sustainability Bond Framework	3	4	€82.7m
50326	Greek CB Framework (GCBF) II	1	1	€18.0m
51758	Greek CB Framework (GCBF) III	3	3	€92.0m
	MREL Programme		Nr. Of GB investments	Total EBRD GB investment
52478	Project Ares (Bail-in-able Programme)		1	€50.0m
52479	Project Vah (Bail-in-able Programme)		1	€20.0m
52481	Project Eval (Bail-in-able Programme)		2	€60.0m
52483	Project Nemo (Bail-in-able Programme)		1	€75.0m
52837	BCR Bail-in-able Programme (Project Oskar)		2	€57.8m
52953	Project Prater (Bail-in-able Programme)		3	€90.3m

Countries and volumes

The Bank's investments in green bonds have been concentrated in a limited number of relatively advanced transition countries, while investments in less developed markets have been rare. Romania, Poland and Greece have been the top three countries in terms of the volume of the EBRD's green bond investments. In 2017-2022, the EBRD made 33 green bond investments in 11 countries and a further nine investments in 'Regional' issuances – those where proceeds were to finance projects located in more than one country. Investments in EU countries – Romania, Poland, Greece, Slovak Republic, Hungary, Lithuania and Latvia – reached €761 million over 27 investments. This as 61% of the EBRD's total investment in green bonds. Combined further with €207 million invested in 'Regional' issuances (which almost exclusively were also

located in these more developed markets), the Bank’s green bond investments in more developed markets stand at approximately €968 million – 75% of its portfolio. The remaining one quarter (€284 million) corresponds to the EBRD’s green bond investments in Egypt, Morocco, Georgia and Türkiye (Figure 11) for a total issuance of €1,685 million. Note that the total green bond issuance in these four markets in 2017–2022 reached €2,067 million.

Figure 11: EBRD investments in green bonds – number and volume of investments per country, share of total investment per country



Russia’s war on Ukraine, beyond fuelling uncertainty across the bond markets, also had implications for the potential pipeline of the Bank’s investments in Ukraine. This would normally have been a source of some deals in less developed markets. Cumulative green bond issuances in the Ukrainian market, prior to February 2022, reached €1.2 billion.¹⁵⁵ Although still comparatively small, there was great potential for green infrastructure projects before the war, which remained heavily underdeveloped.¹⁵⁶

Sectors and portfolio class

The largest share of the EBRD’s green bond investment by the issuer’s sector of operations was in FIs (40%), followed by RE (14.1%) and energy (13.8%). Almost 90% of investment was in the Private portfolio class. Typically, FIs issue green bonds more frequently than corporates (and even more so in EM¹⁵⁷). Their placements are also more homogenous, reducing complexity and costs for investors and issuers alike. The large majority of the EBRD’s overall investments (87.5%, or €1.09 billion) were made in private sector clients’ placements, while investments in public sector clients’ issuances were limited to a few state-owned enterprises and three specific sectors.

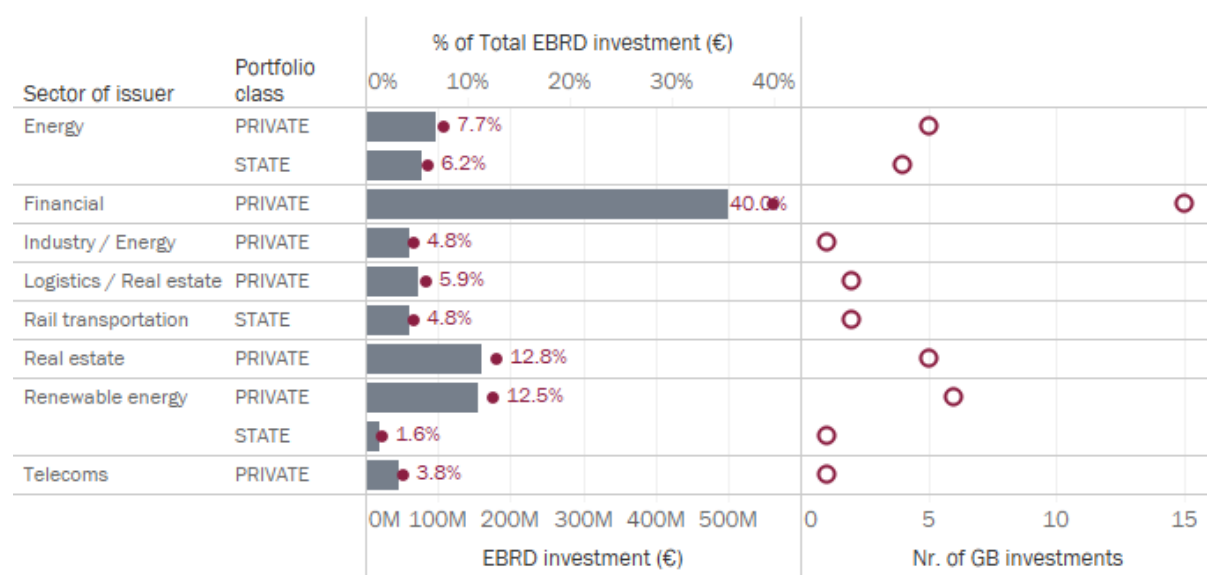
¹⁵⁵ Amundi & IFC, 2022. Emerging Market Green Bond Report 2021. Available at: <https://www.environmental-finance.com/assets/files/IFC/emerging-market-green-bonds-report-2021.pdf>

¹⁵⁶ UNDP, 2022. Supporting Green Bond Development for Ukraine.

¹⁵⁷ IEA & IFC, 2023. Scaling up private finance for clean energy in emerging and developing economies. Available at: <https://www.iea.org/events/scaling-up-private-sector-finance-for-clean-energy-in-emerging-and-developing-economies>

These were RE, energy and railway transportation (Figure 12). There has been no single EBRD investment in green bonds issued by municipalities – the segment of the market with considerable potential and which yet still remains underdeveloped in Europe and the US.¹⁵⁸ Also, by default, the Bank has not been investing in any sovereign issuances in its CoO. Generally, the composition of the corporate green bond market differs significantly from the non-green equivalent. In 2022, FIs accounted for 52% of outstanding green bonds globally, while the industrial and utilities sector had a combined 24% market share. In contrast, for the non-green bond market, industrial companies alone accounted for 52% of the issuance volume in 2022.¹⁵⁹

Figure 12: EBRD investments in green bonds – number and volume of investments, share of total investment by sector and portfolio class



Sectors and countries

The largest sector of the EBRD’s green bond investment (FI) was concentrated in EU countries, while the largest investments in the following two sectors, RE and energy, were located in Egypt and Türkiye, respectively. The three largest sectors of green bond investments cumulatively assume almost 70% of the investment portfolio, but these investments have not been evenly distributed among the regions of operations. The FI sector dominates the portfolio in EU countries, with a €460 million investment over 14 green bond operations.¹⁶⁰ The only FI investment outside of the EU was carried out in Türkiye. The largest RE investment was in Egypt at €95 million, which alone represented more than half of total investments in the sector. Lastly, the largest energy sector investment was in Türkiye at €74 million, which represented more than 40% of green bond investments in the sector (Figure 13). The full distribution of sector investments by country is presented in Figure 14.

¹⁵⁸ For instance, according to KPMG (KPMG, 2021), over the period 2014-20 only 2% of overall volume of all issuances of green bonds on the European market was made by municipalities (compared to 27% by non-financial corporates). In the US market, according to Refinitiv (Refinitiv, 2021), municipal debt under green bond category, as of Jul 2021, accounted for just about 2% of the green bond market in the US while conventional muni debt made up close to 30% of the total US bond market.

¹⁵⁹ Goldman Sachs, 2023. Green Bond Market Guide – Financing the Market Transition

¹⁶⁰ This was driven by investments under MREL programmes, which assumed 10 GBs with cumulative €353 million investment

Figure 13: Geographic distribution of green bond investments in the three largest sectors of green bond investment – number and volume of operations

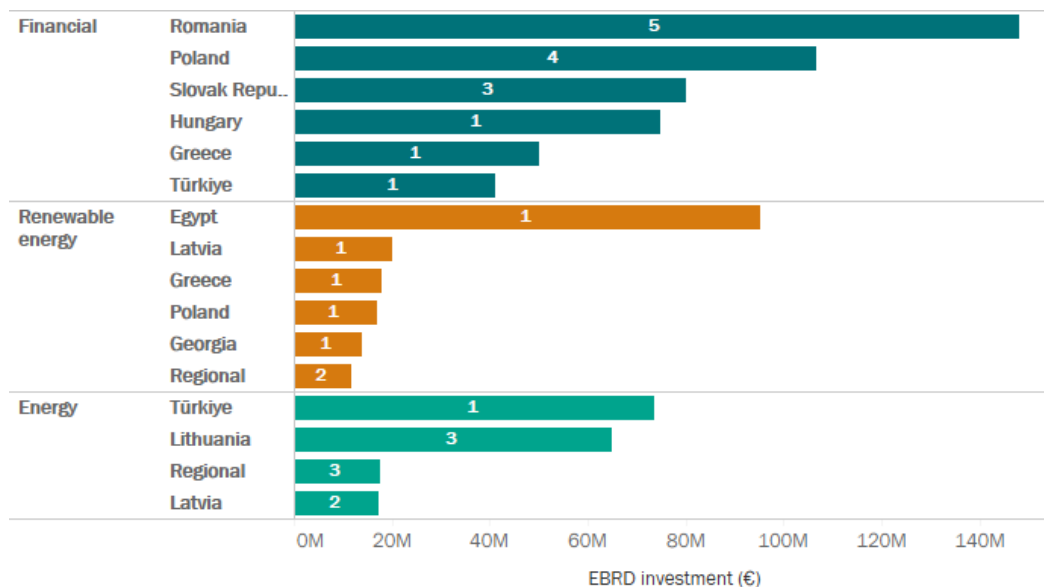
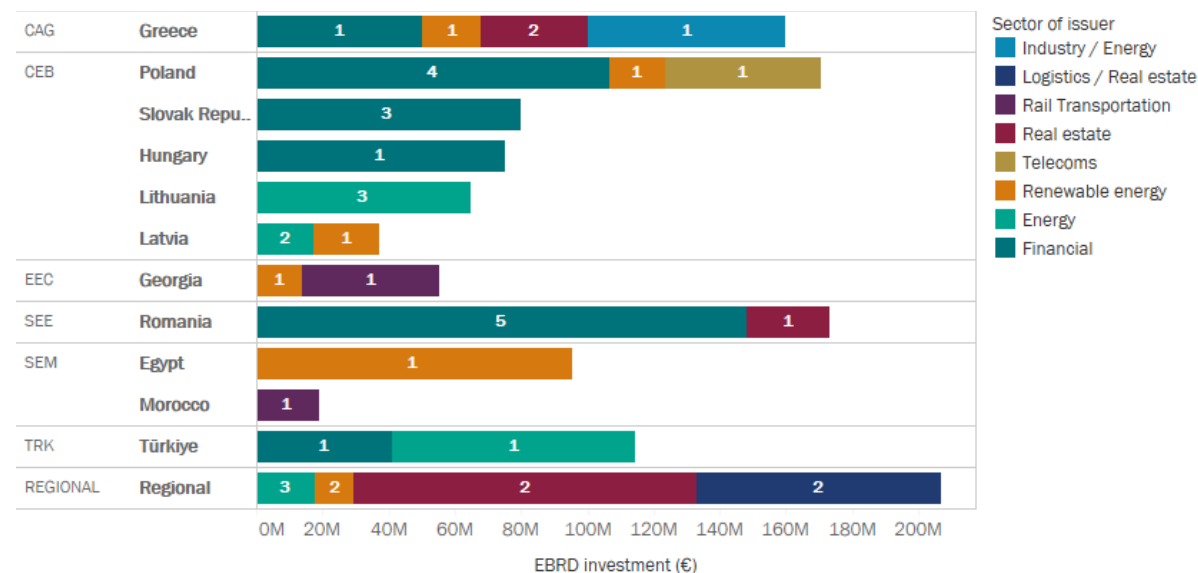


Figure 14: Sector distribution of green bond investments by country – number and volume of operations



Transition Qualities

In terms of transition objectives, TQs Green and Resilient dominate in the portfolio, as by primary TQ. These were complemented by strong representation of Inclusive as a secondary TQ. A total of 20 green bond investments had Green as primary TQ, representing just under half of the total investment volume at €613 million. This is followed by TQ Resilient, which was the primary TQ for 17 green bonds, and a total of €570 million investment (Figure 15). TQs Green and

Resilient also most commonly complemented each other as primary and secondary TQ sources, and this combination of TQs was represented in 22 green bonds, or €597 million. TQ Inclusive, while not represented as a primary TQ, was a secondary TQ for six green bonds with primary TQ Green, with total investment of €346 million (Figure 16). While Green as a primary TQ is distributed fairly evenly among regions and sectors of operations, primary TQ Resilient is largely driven by operations in the financial sector in EU countries (CEB, SEE – Romania, CAG – Greece) (Figure 17, Figure 18). This is underpinned by the ten sub-operations under MREL programmes (Table 7).

Figure 15: Green bond investments by primary TQ – volume and number of investments

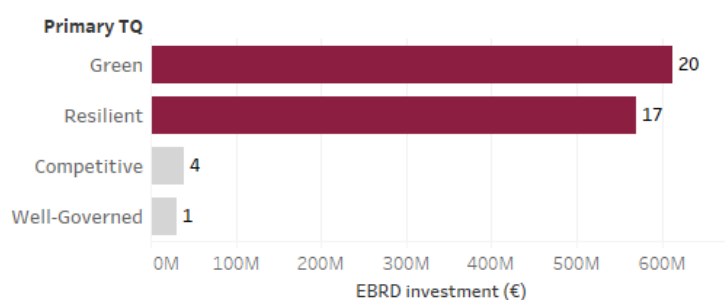


Figure 16: Green bond investments by TQ combination – volume and number of investments



Figure 17: Primary TQ distribution by region

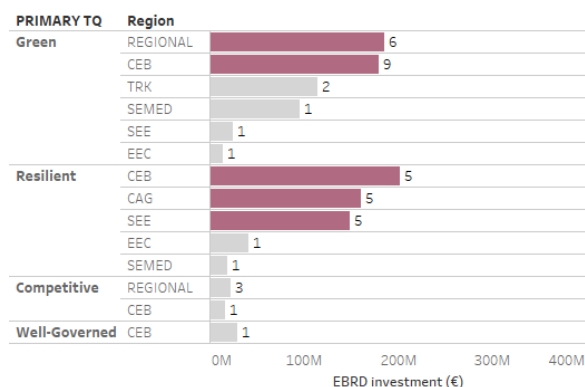
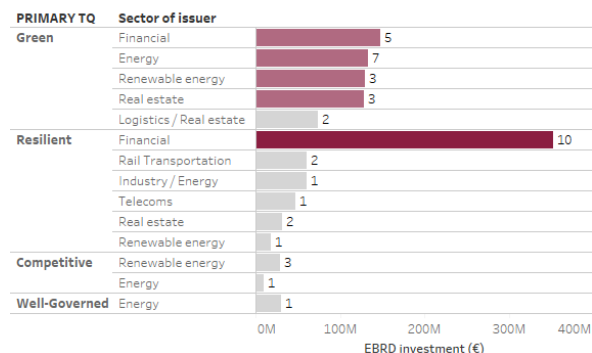


Figure 18: Primary TQ distribution by sector of issuer



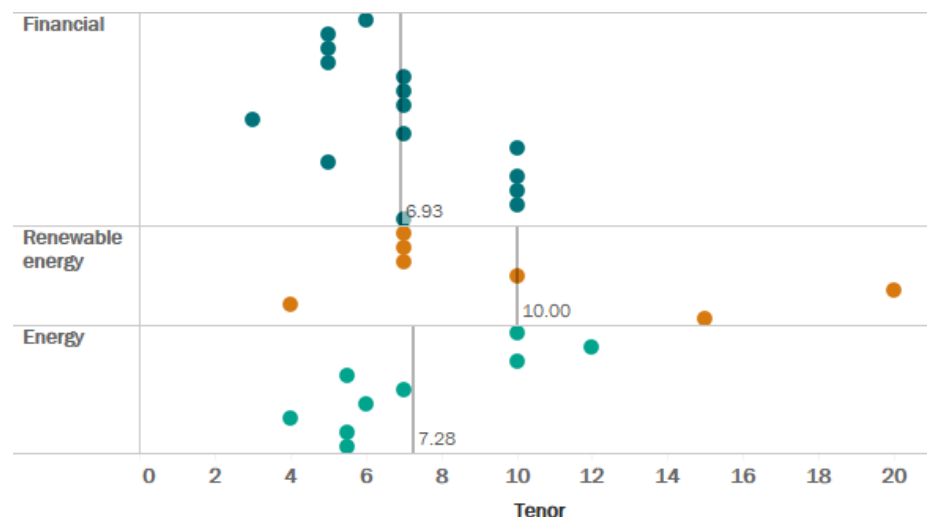
Tenor

The average tenor of green bond issuances in the portfolio was eight years, but this differed by sector and region of operations. In the FI sector, the average tenor was just under seven years, with the lowest tenor of three years on a green bond in Türkiye and the longest tenor of ten years on four green bonds in Romania, Poland and Hungary. Green bonds in RE achieved the longest tenor on average, at ten years. This ranged from four years on a green bond in Poland to 15 and 20 years on green bonds in Georgia and Egypt, respectively. In energy, the average tenor was more than seven years, ranging from four years to 12 years, both in Lithuania. Globally, strong investor demand in recent years had skewed green bond issuances to have slightly longer tenors than the broader bond market.¹⁶¹ In addition, there is some evidence that green bonds offer superior performance on secondary markets and investors tend to have more of a ‘buy and hold’ nature and typically hold on to their investments in periods of greater market volatility, compared to investors in conventional bonds.^{162,163}

¹⁶¹ Goldman Sachs, 2023. Green Bond Market Guide – Financing the Market Transition.

¹⁶² IFC, 2023. Green Bonds Handbook.

¹⁶³ Flammer, C. 2021. Corporate green bonds. Journal of Financial Economics 142 (2021)

Figure 19: Tenor distribution and average for the largest three sectors of green bond investments

Oversubscription, spread compression, “greenium” and coupons

The data on the level of oversubscription for portfolio transactions, a proxy for excess demand, is incomplete. For 19 out of 42 investments where such figures are available, on average, the demand exceeded the planned issuance by 3.2 times. The issuance with the highest oversubscription level (8.4 times) was made by Georgian Railway.¹⁶⁴ Typically, higher oversubscription may be indicative of the presence of some ‘greenium’. It may also suggest somehow lower financial additionality of a MDB’s investment though. The oversubscription level for the subset of 19 investments where the data is available declined over time – from an average 4.1 times oversubscribed for January 2017–June 2021, to an average of 2.2 times oversubscribed for July 2021–July 2022. In this context, EBRD’s investment in an issuance may be scaled back compared to the initial intended amount in case of high oversubscription, but EvD does not currently have any data on this for the portfolio.¹⁶⁵ Generally, some research suggests that the level of oversubscription for green bonds is often higher than for conventional bonds.¹⁶⁶ For instance, globally and for issuances in 2020 specifically, average oversubscription for green bonds and conventional bonds issued in Euros was 4.2 and 2.9 times oversubscribed, respectively.¹⁶⁷

Typically, green bonds also exhibit higher spread compression during the book building period than vanilla bonds,¹⁶⁸ albeit EvD does not have access to specific figures for the EBRD’s portfolio.

For issuances in which EBRD invested, there is no available data on whether issuers benefited from “greenium”, and if at all, to what degree. According to the International Energy Agency (IEA) and IFC, the average “greenium” for EM issuers on secondary market and in 2021 and 2022,

¹⁶⁴ Project Kolkheti, Op Id: 52549

¹⁶⁵ The report (SGS23-065) shared as part of the Information Session: Capital Markets in 2022 and EBRD response notes that “the average oversubscription of all FI issuances was low at 1.48 x while EBRD was on average scaled back by 21%”

¹⁶⁶ EIB, 2021. Evaluation of the EIB’s Climate Awareness Bonds. Available at: <https://www.eib.org/en/publications/evaluation-of-the-eibs-climate-awareness-bonds>

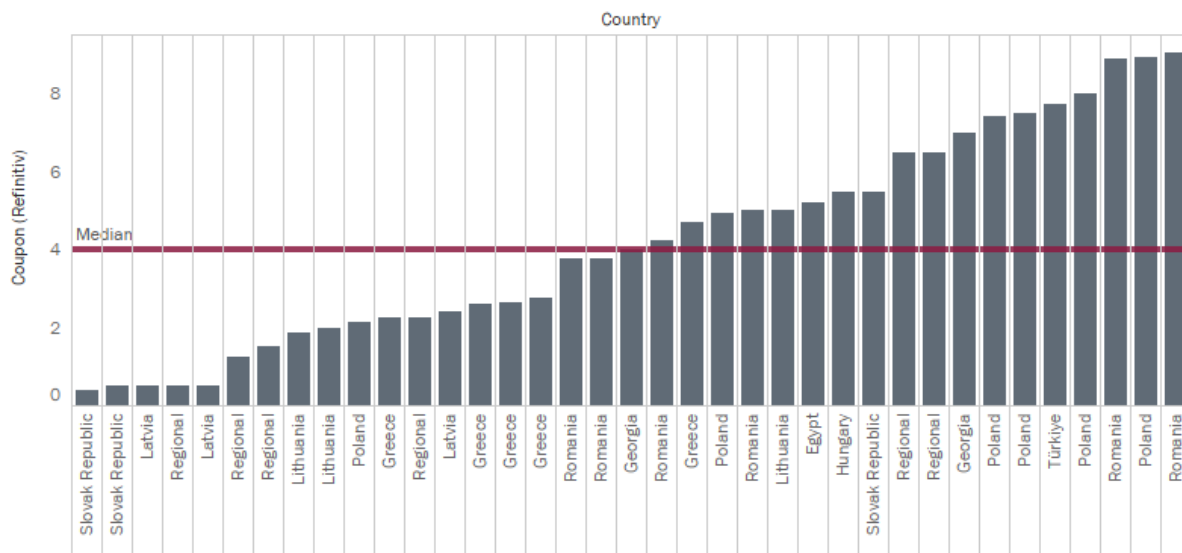
¹⁶⁷ CBI, 2021. Sustainable Debt. Global State of the market 2020.

¹⁶⁸ See for instance, CBI, 2023. Green Bond pricing in the Primary Market: July-December 2022. Available at: https://www.climatebonds.net/files/reports/cbi_pricing_h2_2022_01c.pdf

was 3.4bps and 6.8bps, respectively.¹⁶⁹ Some studies found that if there is any evidence of greenium at all, it was often limited to EM or climate exposed countries.¹⁷⁰

The median coupon paid by green bonds in which the Bank invested was 4% (Figure 20). Typically, the size of the coupon is a function of issuer’s riskiness, as well as prevailing market conditions at a given point of time. In addition, there is some evidence suggesting that green bond issuance triggers a positive stock market response for some issuers.¹⁷¹

Figure 20: EBRD investments in green bond – size of the coupon by issuer and its country



Source: Refinitiv

Credit ratings of issuers

The external credit rating of an issuer at the time of the EBRD’s investment offers some insights on the type of clients that the Bank supported, as well as risk distribution across the portfolio. EBRD’s client base is heterogeneous. Approximately half of the clients in the portfolio who had a credit rating issued by Fitch, Moody’s and/or S&P at the time of a placement were classified as ‘Low-Medium’ creditworthiness. This corresponds to Moody’s Baa1-3 credit rating, or S&P/Fitch BBB+- credit rating.¹⁷² For comparison, globally and as of 2021, 61% of green bonds were issued by entities with a credit rating of A or higher (corresponding to 2-6 on the scale of Figure 21).¹⁷³

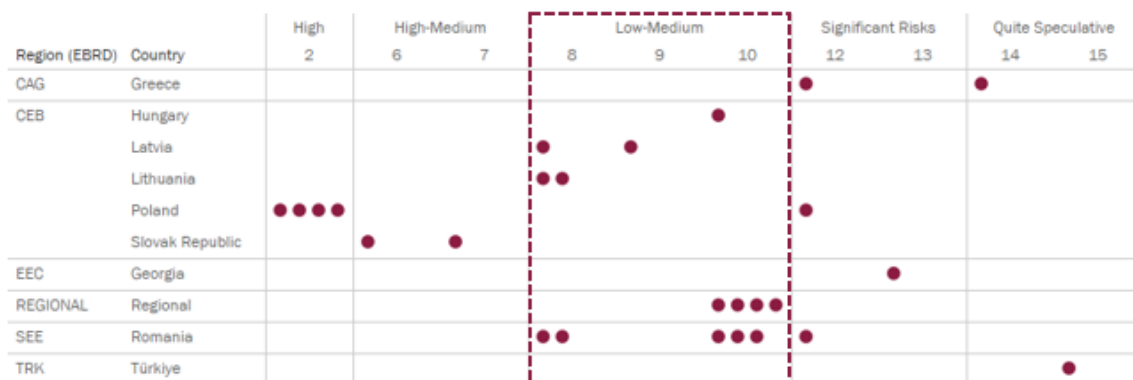
¹⁶⁹ IEA & IFC, 2023. Scaling up private finance for clean energy in emerging and developing economies. Available at: <https://www.iea.org/events/scaling-up-private-sector-finance-for-clean-energy-in-emerging-and-developing-economies>

¹⁷¹ Flammer, C. 2021. Corporate green bonds. Journal of Financial Economics 142 (2021)

¹⁷² Research Gate, 2023. Credit Rating Conversion Chart. Available at: https://www.researchgate.net/figure/Credit-Ratings-Conversion-Chart_tbl6_355448763

¹⁷³ IFC, 2022. Green Bonds. Available at: <https://www.ifc.org/wps/wcm/connect/0cb13769-8d18-4ce0-b7ac-c6e007a94a5b/202112-Green-bonds-infographics.pdf?MOD=AJPERES&CVID=nSC9m.s&attachment=true>

Figure 21: Credit rating of an issuer at the time of EBRD investment



Source: EvD calculation based on Refinitiv data and [Credit Rating Conversion Chart](#) used to standardise credit ratings from Fitch, S&P and Moody's into one scale

Note: (1) The figure includes credit ratings for 26 out of 42 EBRD's investments in green bonds between January 2017 and December 2022 as some issuers did not have a credit rating issued by neither of Fitch, Moody's or S&P; (2) All ratings of an issuer are as of issuance date rather than current date.

Co-investors

IEvD sought to conduct a rapid assessment of the current shareholding composition for green bonds where the EBRD had invested, based on Refinitiv data provided by the EBRD Business Information Service (BIS) team. Overall, investors' base for issuances across the whole portfolio was predominantly from the US and Western Europe. The exceptions were green bond placements in Greece and Poland, where domestic institutional investors often invested along with the EBRD. Most of the green bonds in which the EBRD invested were listed on stock exchanges (e.g. Luxembourg, Athens and the Warsaw Stock Exchange), with only a handful of private placements.

Annex 2. Sample of project evaluations and selection criteria

The selection of projects for this cluster evaluation followed a purposeful sampling¹⁷⁴ principle. The evaluation team ensured a broad alignment of the sample with the portfolio in terms of capturing diversity of the key characteristics, like geographical and sectorial distribution, total issuances and the EBRD investment size, level of oversubscription, and others. This was all done to maximise the evaluation utility within the Bank and externally; generalisability was not an objective.

Accordingly, the sampling was driven by set of key criteria, as follows:

- Inclusion of projects approved under FI Green and Sustainability Bond Framework as the key document guiding early EBRD GB investments.
- Representation of projects from the initial (2017-2019) and later (2020-2022) periods of investment.
- Geographical diversification, including countries with a relatively large share of EBRD investment and an appropriate coverage of investments in less developed markets.
- Sectorial diversification reflecting a relatively larger share of FIs in the portfolio and at least one project from each of the following (non-FI) corporate sectors: RE, energy, transportation, industry, logistics and telecoms.
- Inclusion of both state-owned and private issuers.
- Use of proceeds diversification, with at least one project from each of the following: RE, energy efficiency, green buildings and clean transportation.
- Size of the issuance and respective EBRD investments with a balanced mix between smaller and larger projects.
- Inclusion of some projects that attracted particularly high interest from investors reflected in high oversubscriptions.
- Inclusion of some projects that were supported with TA activities.¹⁷⁵
- Inclusion of at least one project that consisted of two separate subsequent issuances.

Table below outlines **10 specific projects selected for this cluster evaluation** comprising the sample of 10 Bank's individual GB investments.

¹⁷⁴ Palinkas et al, 2015. Purposeful sampling for qualitative data collection and analysis in mixed methods approach. Available at: <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4012002/>

¹⁷⁵ The evaluation team currently does not have information on which projects included a meaningful TA components and will seek clarification on that from Management prior to the finalisation of the sample.

Issuer name [Op Id]	Country	Issuer overview	Issuance date	Sector [Private/State]	Issuance size/EBRD investment	Use of proceeds & selected project characteristics
Lietuvos energija (Ignitis grupė) [50268]	LT	Lietuvos Energija (changed its name to UAB Ignitis Grupe in 2019) is a Lithuanian state-owned energy company, the largest energy group in the Baltic states with operations across the Baltic states, Poland and Finland. Following important changes to its strategy and business model, the company describes itself as a renewables-focused integrated utility.	July 2018	Energy [State]	€300 million/€30 million	<ul style="list-style-type: none"> - <u>UoP</u>: RE, pollution prevention and control, energy efficiency, clean transport - EBRD asset ring-fencing - <u>Selected project characteristics</u>: (i) Second ever EBRD GB investment, following inaugural investment in 2017 with the same client; (ii) project attracted high investor demand (four times oversubscribed) leading to an increase in target size of issuance
PKO Bank Hipoteczny [50718]	PL	PKO BH is the largest residential mortgage bank in Poland with approximately 25% of the market share, as of 2022. It is wholly-owned by PKO BP, the largest commercial bank in Poland.	June 2019 December 2019	Financial [Private]	€57.8 million/€11.4 million	<ul style="list-style-type: none"> - <u>UoP</u>: Refinancing mortgages for (i) upgrade of existing buildings with minimum 30% CO₂ emission reduction/energy consumption savings; (ii) purchase flats in top 15% of the most carbon efficient building stock in Poland - <u>Selected project characteristics</u>: (i) Second ever EBRD GB project (first ever under FI GB framework), and third ever GB issuance in PL; (ii) first mortgage bank in PL that entered Green Covered Bond market
Cyfrowy Polsat [51673]	PL	Cyfrowy Polsat is a leading telecommunication and media group in Poland, operating across the full spectrum of telecom services i.e. free-to-air television broadcasting and content production, satellite pay television, mobile telephony, fixed and mobile broadband, mobile television and online video. From the late 2010s, it expanded its business operations into renewables.	February 2020	Telecoms [Private]	€235 million/€47 million	<ul style="list-style-type: none"> - <u>UoP</u>: 100% of Bank's proceeds mean to refinance existing CaPex projects i.e. upgrade the network of mobile base stations to be more energy efficient and an energy efficiency upgrade of Cyfrowy Polsat's corporate building - <u>Selected project characteristics</u>: (i) First ever telecom sector issuer in Poland; (ii) local currency issuance
Finansbank [52623]	TRK	Finansbank is the eighth largest Turkish bank by asset size, standing for circa 4% of the sector. It is owned	June 2021	Financial [Private]	€41.1 million/€41.1 million	<ul style="list-style-type: none"> - <u>UoP</u>: All proceeds used to refinance the debt related to an earlier investment in a

		<p>by Qatar National Bank Q.P.S.C. (QNB), the largest financial institution in the Middle East and Africa (and 50% owned by the Qatar Investment Authority – Qatar’s sovereign wealth fund).</p> <p>It has focused on expanding its presence in the corporate and commercial segment (39% of Gross Loan Portfolio at year end-2020), while maintaining its market shares in retail (32%) and small and medium-sized enterprises (SME) lending (28%).</p>				<p>single commercial building (with lower energy efficiency)</p> <ul style="list-style-type: none"> - <u>Selected project characteristics:</u> (i) Private placement where the EBRD took 100% subscription
<p>Mytilineos [52790]</p>	EL	<p>Mytilineos is a globally operating industrial and energy company based in Greece and involved in power generation and supply, gas trading, alumina and aluminium production, engineering solutions (power plants, infrastructure, energy projects) and the development of photovoltaic (PV) and energy storage projects – both for third parties and Build-Operate-Transfer (BOT) purposes.</p>	April 2021	Industry [Private]	€500 million/€60 million	<ul style="list-style-type: none"> - <u>UoP:</u> To purchase secondary aluminium by Mytilineos to use in its production process, instead of primary aluminium. Primary aluminium production is almost ten times more energy-intensive than secondary production - <u>Selected project characteristics:</u> (i) First ever GB issued by a private company in Greece; (ii) relatively high oversubscription (x4); (iii) the only representative of the industry sector in the whole portfolio
<p>Georgian Railways [52549]</p>	GA	<p>JSC Georgian Railway is a state-owned railway company in Georgia, providing freight and passenger transportation services and managing railway infrastructure. In 2021, the company generated \$172.9 million revenue.</p>	June 2021	Rail transportation [State]	€413 million/€41 million	<ul style="list-style-type: none"> - <u>UoP:</u> Refinancing an existing 2012 ten-year \$500 million Eurobond issued for the Railway Modernisation Project - EBRD ring-fencing assets for refinancing only - <u>Selected project characteristics:</u> (i) Project attracted exceptional investors’ demand (8.4 times oversubscribed) and bond was floated on the London Stock Exchange (LSE)

Aydem Renewables [53042]	TRK	Aydem is the largest pure play RE company in Türkiye with 25 energy generation power plants and approximately one GW installed capacity.	July 2021	Energy [Private]	€735 million/€73.5 million	<ul style="list-style-type: none"> - <u>UoP</u>: Directed fully for refinancing of existing company short-term debt from local Turkish banks - <u>Selected project characteristics</u>: (i) the largest issuance in the whole EBRD portfolio
VGP Parks [51120]	Regional	VGP Parks is a pan-European owner, developer and manager of high-quality logistics and semi-industrial real estate. At the end of 2022, the Group counted 383 staff and owned a property portfolio of €2.5 billion. This consists of 50 completed buildings with a total lettable area of over 1,364,000 m ² .	March 2021 Jan 2022	Logistics [Private]	€600 million/€67 million	<ul style="list-style-type: none"> - <u>UoP</u>: RE, energy efficiency, environmentally friendly project - <u>Selected project characteristics</u>: (i) Representative of the subset of 'regional' projects and the only project from the logistics' sector; (ii) project consisted of two separate issuances
Scatec [52879]	EG	<p>Founded in 2007, Scatec is a leading international RE producer based in Norway. The company has targeted 15GW capacity in operation or under construction by the end of 2025.</p> <p>The company, via six local entities, has developed, operated and maintained six solar PV plants – Aswan, Kom Ombo, Upper Egypt, Red Sea, Zafarana and Daraw. Each with the capacity of circa 50MWp.</p>	April 2022	Renewable energy [Private]	€319 million/€95.2 million	<ul style="list-style-type: none"> - <u>UoP</u>: Refinancing existing six solar power plants in Benban in Egypt of which installation had already been co-financed earlier by the EBRD - <u>Selected project characteristics</u>: (i) First private green (project) bond issuance in Egypt and the SEMED region more generally; (ii) large size issuance and the largest ever EBRD investment in a green bond; (iii) EBRD also provided a credit enhancement facility to crowd-in private institutional investors
Raiffeisen Bank [53520]	RO	RBRO is the fifth largest bank by assets with a 9% market share. It is a subsidiary of Austria's Raiffeisen Bank International (RBI), which indirectly owns 99.92% of its share capital. RBRO is classified as domestically systemically important.	June 2022	Financial [Private]	€106 million/€27.6 million	<ul style="list-style-type: none"> - <u>UoP</u>: On-lending for green buildings, both commercial and residential; RE, energy efficiency/technology, clean transportation - <u>Selected project characteristics</u>: (i) Project in Romania with repeated client following two previous investments as part of Prater I and II projects

Annex 3. Evaluation Matrix

OECD- DAC criteria	Evaluation Questions	Judgement Criteria	Indicators	Methods and sources of data
Relevance	EQ1: To what extent did the objectives of the EBRD's green bond investments and related activities respond to the needs and priorities of local issuers, investors and local green bond markets more broadly?	Relevance for issuers	<ul style="list-style-type: none"> Rationale/potential benefits for GB issuance from an issuer perspective, e.g. signalling of environmental commitment/reputational benefits, shareholders'/investors' demand, widening investors' base, longer tenor, "greenium", a grant to partially cover issuance-related expenses, local currency support, other Key obstacles to issue GBs from an issuer's perspective, e.g. additional costs – an attempt to rank a few main cost items will be made, low market liquidity for GBs, regulatory barriers, limited pipeline of commercially viable projects, other Evidence of specific type of issuers/sectors that remain largely untapped for EBRD due to specific barrier(s), e.g. limited issuances by municipalities 	<p>Document review</p> <ul style="list-style-type: none"> Project level documentation Other relevant EBRD documentation, e.g. reporting from the Capital and Financial Markets Development team Relevant external documentation, e.g. academic research, think-tank and consultancy reports, financial and economic press, others <p>Key-informant interviews [for 'sample']</p> <ul style="list-style-type: none"> CSD team OLs Issuer's representative(s) Co-investor(s) Underwriter(s) Provider of the SPO/third party assurance <p>Key-informant interviews [beyond 'sample']</p> <ul style="list-style-type: none"> ICMA and CBI representatives External GBs experts knowledgeable about the local markets e.g. Local Capital Market Associations <p>Portfolio and market data analysis</p>
		Relevance to EBRD	<ul style="list-style-type: none"> Relevance to Bank's key strategies, country and sector strategies, GET (including GB investments as a share of the annual GET volumes) and other initiative(s) Relevance to countries/markets of operations. 	<p>Document review</p> <ul style="list-style-type: none"> Project level documentation Relevant EBRD documentation, e.g. Sector and Country Strategies Relevant external documentation, e.g. academic research, think-tank, consultancy reports, financial and economic press, others <p>Key-informant interviews [for 'sample']</p> <ul style="list-style-type: none"> CSD team Staff from the CFMD team and selected Regional Offices

				<ul style="list-style-type: none"> - OLS <p>Key-informant interviews [beyond 'sample']</p> <ul style="list-style-type: none"> - ICMA and CBI representatives - External GBs experts knowledgeable about the local markets, e.g. Local Capital Market Associations <p>Portfolio and market data analysis</p>
		Additionality – financial	<ul style="list-style-type: none"> • EBRD as key GB issuance facilitator (issuer would likely not have issued a GB without the EBRD) • Private investors' mobilisation/crowding-in, e.g. evidence (if any) of a signalling effect of the EBRD's presence at book building stage as an anchor investor, and any evidence on possible differences in catalytic effect for non-FI versus FIs' issuances • Balance achieved between refinancing and future assets measured at sample level (and portfolio level, if possible) • Any evidence of "greenium" • Cases of high oversubscription and/or spread compression and any evidence of the EBRD <i>voluntarily</i> scaling-back its investments 	<p>Document review</p> <ul style="list-style-type: none"> - Project level documentation - Other relevant EBRD documentation, e.g. Sector and Country Strategies - Relevant external documentation, e.g. market research, financial and economic press, others <p>Key-informant interviews [for 'sample']</p> <ul style="list-style-type: none"> - CSD and Debt Mobilisation teams - OLS - Issuer's representative(s) - Co-investor(s) - Underwriter(s) <p>Key-informant interviews [beyond 'sample']</p> <ul style="list-style-type: none"> - ICMA and CBI representatives - External GBs experts knowledgeable about the local markets, e.g. Local Capital Market Associations <p>Portfolio and market data analysis</p>
		Additionality – non-financial	<ul style="list-style-type: none"> • Presence and UoP within the EBRD to enhance credibility, quality and to bring assurance of the best practice standards/absence of greenwashing, e.g. issuer's collection of social and environmental data, improved DD and sustainability strategies, improved procurement, project design from sustainability perspective, etc [NB: overall perception of these efforts by investors] • TA support provided to issuers 	<p>Document review</p> <ul style="list-style-type: none"> - Project level documentation - Other relevant EBRD documentation, e.g. Sector and Country Strategies, DCF reports - Relevant external documentation, e.g. market research, financial and economic press, others <p>Key-informant interviews [for 'sample']</p> <ul style="list-style-type: none"> - CSD team - OLS - Issuer's representative(s) - Co-investor(s) - Underwriter(s)

			<p>[NB: available evidence on TA programme of at least one relevant DFI (IFC's GB-TAP) will complement this analysis]</p> <ul style="list-style-type: none"> • Other support to issuers (beyond formally budgeted TA) • Relevant Bank's policy contributions (to be listed but not evaluated) • NB: assessment will include possible examples of non-ESG additionality, e.g. gender related 	<p>Key-informant interviews [beyond 'sample']</p> <ul style="list-style-type: none"> - ICMA and CBI representatives - External GBs experts knowledgeable about the local markets, e.g. Local Capital Market Associations - Representatives of ESG investor communities
		Alignment with ICMA GBP and beyond	<ul style="list-style-type: none"> • Standardised processes within the Bank to ensure the full alignment with ICMA GBP exists and are used • Alignment with ICMA GBP confirmed for sample of GB investments • EBRD having in place and systematically using processes to set standards aligned with ICMA GBP in relation to: <ul style="list-style-type: none"> - UoP - project evaluation and selection - management of proceeds - reporting - + any other extra dimensions, e.g. encouraging issuers to put in place credible frameworks with sufficient green ambition and to secure an external review <p>[NB: evidence on approaches to standards' setting going <i>beyond</i> ICMA GBP applied by EBRD and other relevant MDBs will complement this analysis]</p> <ul style="list-style-type: none"> • Any evidence of EBRD's selectivity, e.g. prospective transactions dropped by the Bank due to risk of or insufficient standards. 	<p>Document review</p> <ul style="list-style-type: none"> - Project level documentation - Relevant external documentation, e.g. ICMA GBS, CBI <p>Key-informant interviews [for 'sample']</p> <ul style="list-style-type: none"> - CSD team - OLS - Issuer's representative(s) - Co-investor(s) - Underwriter(s) - Provider of the SPO/third party assurance - External Evaluation Experts <p>Key-informant interviews [beyond 'sample']</p> <ul style="list-style-type: none"> - ICMA and CBI representatives - External Evaluation Experts
Efficiency	EQ2: To what extent were the EBRD's green bond investments and related activities structured and delivered efficiently and to what extent	For issuers	<ul style="list-style-type: none"> • Issuer's perception of the EBRD's support in an issuance from an efficiency perspective, e.g. adequate level of support from the Bank available, timeliness of Bank's engagement, fit of EBRD's sui generis requirements, other 	<p>Document review</p> <ul style="list-style-type: none"> - Project level documentation - Other relevant EBRD documentation, e.g. DCF reports <p>Key informant interviews [for 'sample']</p> <ul style="list-style-type: none"> - CSD, CFMD and ESD teams - Issuer's representative(s) - Co-investor(s) - Underwriter(s)

	was the EBRD fit to deliver them?	For EBRD	<ul style="list-style-type: none"> • Adequacy of resources within the Bank to support investments with related TA programme • Adequacy of internal compliance requirements and safeguards support GBs investments (and any potential trade-offs with flexibility) • Financial performance of the projects selected for the sample and the whole portfolio (the latter subject to data availability) 	<p>Document review</p> <ul style="list-style-type: none"> – Project level documentation – Other relevant EBRD documentation, e.g. DCF reports <p>Key informant interviews [for 'sample']</p> <ul style="list-style-type: none"> – CSD, CFMD and ESD teams – The OLs <p>Portfolio data analysis</p>
Effectiveness	EQ3: To what extent did the EBRD's green bond investments yield the intended results?	Results at project level	<ul style="list-style-type: none"> • Existing results from projects, e.g. progress in allocations, ex-ante versus ex-post results in relation to projects' KPIs, like reduction in GHG emission, increase in energy efficiency, etc • GET results and verification 	<p>Document review</p> <ul style="list-style-type: none"> – Project level documentation – Relevant external documentation, e.g. issuers' allocation reports, post-allocation verification reports, publicly available sustainability reports <p>Key informant interviews [for 'sample']</p> <ul style="list-style-type: none"> – CDS team – OLs – Issuer's representative(s) – Provider of the SPO/third party assurance – External Evaluation Experts
		Results from an issuer perspective	<ul style="list-style-type: none"> • Any indication that EBRD investments may have contributed to the transformation of issuer's sustainable strategy and concrete actions that followed, e.g. issuance as share of annual funding of an issuer, changes in issuer's corporate governance, changes in the asset composition of an issuer, including uplift in the Green Asset Ratio • Any indication that EBRD investment may have helped an issuer consider and address any potentially negative social and/or environmental effects of an issuance • Evidence of subsequent GB issuances without an IFI support. 	<p>Document review</p> <ul style="list-style-type: none"> – Project level documentation – Relevant external documentation, e.g. issuers' strategic and annual reports <p>Key informant interviews [for 'sample']</p> <ul style="list-style-type: none"> – CSD team – OLs – Issuer's representative(s) – Provider of the SPO/third party assurance <p>Portfolio and market data analysis</p>
		Market effects	<ul style="list-style-type: none"> • Evidence of wider demonstration effects stemming from investments in individual projects, and any subsequent evidence of impact on local capital markets, e.g. "proof of concept", contribution of an issuance to the 	<p>Document review</p> <ul style="list-style-type: none"> – Project level documentation – Other relevant EBRD documentation, e.g. reporting from the CSD, DCF and CFMD teams – Comprehensive list of non-transactional TCs and policy dialogue operations shared by the

			<p>development of reference yield curve for local markets, etc</p> <ul style="list-style-type: none"> • Listing of relevant and non-transactional TCs and policy dialogue operations that may have been material in leading to conducive regulatory changes/supporting the development of local green bond markets • Qualitative assessment of issuers of the extent of the EBRD's role in the GB market developments in the sector/country 	<p>Management that may have been material in supporting the development of local green bond markets</p> <ul style="list-style-type: none"> - Relevant external documentation, e.g. relevant market reports <p>Key informant interviews [for 'sample']</p> <ul style="list-style-type: none"> - CSD, ESD and CFMD teams - OLS - Issuer's representative(s) - Provider of the SPO/third party assurance <p>Key-informant interviews [beyond 'sample']</p> <ul style="list-style-type: none"> - ICMA and CBI representatives - External Evaluation Experts <p>Market data analysis</p>
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Annex 4. Challenges in the green bond market

There are a number of challenges in the green bond markets. In developed markets, ESG considerations and wider sustainability strategies are increasingly commonplace. However, this is not yet the case for many of the EBRD's CoOs. On the issuance side, organisations often do not yet feel the same push internally or externally to focus on sustainability. As a result, they may lack some of the tools required for this international market, such as a robust and coherent sustainability strategy and the availability of a substantive project pipeline and/or the sustainability data requested by investors. Other common challenges includes purely financial constraints, such as shallow bond markets and a common mismatch between the currency in which green projects generate income (typically local currency) and those sought by international investors (typically Euros and US dollars).

On the investor side, there are differences across domestic/regional investors versus international investors. The former may not be getting the same demand from end clients to focus on ESG mandate as the latter.

There are also increased costs associated with green bond issuances, which can be split between financial costs and personnel time. Issuers will typically get one or two forms of external review, with SPOs being the most common and typically costing €20,000-€25,000. Aside from the reviews, there are limited additional costs beyond those of conventional debt issuance. Personnel time is typically described as the biggest “cost” by issuers. This involves the initial assets appraisal and selection, writing the framework, strengthening the processes and systems and then ongoing obligations to monitor the project portfolio and the annual impact reporting – all of which absorbs considerable person-hours.

Allocation and impact reporting is an integral part of GBP and is required of all green bond issuers, but not all have yet been fully compliant. With the market maturing and becoming more sophisticated, including the growth of dedicated ESG impact investment funds, the expectations for transparency and full impact reporting are not yet being fully met. The Green Bond Funds Impact Reporting Practices 2021 report by Environmental Finance found that three-quarters of investors say current impact reporting practices are ‘inadequate’. More than half the investors said poor data and impact reporting were deterring them from making further investments and key areas for improvement are the transparency and standardisation of the reports.¹⁷⁶

As with many sectors, the debt capital markets are currently dealing with charges of greenwashing – both on the investor and issuer side. Late in 2022, the European Supervisory Authorities (ESA) issued a Call for Evidence¹⁷⁷ into greenwashing in an effort to define greenwashing as a first step toward potential regulation. The ICMA response¹⁷⁸ lays out the concerns for ESG bonds, including green bonds. For issuers, they look at four potential areas: lack of ambition, mismanagement of wider sustainability risks, strategic inconsistency and actual deception. On the investor side, they looked at vague or ambiguous responsible investment methodologies, unclear or misleading fund labelling and naming and actual deception.

¹⁷⁶ Available at: <https://www.environmental-finance.com/assets/files/reports/green-bond-funds-impact-reporting-practices-2021.pdf>

¹⁷⁷ ESMA, 2022. ESAs Call for Evidence on greenwashing. Available at: <https://www.esma.europa.eu/press-news/consultations/esas-call-evidence-greenwashing>

¹⁷⁸ ICMA, February 2023. Response to the ESMA's Guidelines on fund's names using ESG or sustainability related terms. Available at: <https://www.icmagroup.org/assets/documents/Sustainable-finance/Responses/ICMA-Response-to-the-ESMAs-Guidelines-on-funds-names-using-ESG-or-sustainability-related-terms-220223.pdf>

Annex 5. Assessment of GET aspects of green bond investments

Green bond investments have grown in volume, but the GET rulebook does not adequately cater for them.

The management of GET is guided by the GET Handbook and its Annexes. The GET Handbook contains principles and eligibility criteria for GET projects and guidance for the implementation and operationalisation of GET. This includes the rules for assigning GET categories to projects (mitigation, adaptation, environmental finance), for calculating GET's share of EBRD's finance and for estimating the physical outcomes of projects. The Handbook is a live document, which is regularly updated, revised and published internally. The latest iteration of the Handbook was in July 2023.¹⁷⁹

The assessment of environmental benefits and estimation for GET impact indicators for green bonds are the responsibility of the CSD specialists and are reviewed and signed-off by ESD. In the period under this evaluation (2017-2022), GET-eligible projects were subjected to a review of GET Clearing House – a technical committee with representatives of CSD, ESD and Impact (or the predecessors of these units). Following the approval of the EBRD's methodology for alignment with the Paris Agreement, and the clarification of green governance, CSD is responsible and ESD is accountable for confirming the GET eligibility and GET share of projects. This new GET governance also included the introduction of a Monitoring, Reporting and Verification (MRV) system, which aims to strengthen the data on achieved GET outcomes. The green bond projects within the scope of this evaluation are not subject to the MRV system.

While green bonds are covered by the GET Handbook, some aspects of the existing rules have not been optimal for instruments with imprecisely defined UoP ex-ante. The nature of green bonds means that the GET Handbook allows for the full amount of the EBRD investment to be allocated to GET finance (Box 7). However, it also requires a fairly precise clarity of the bond's UoP, so that the ex-ante GET indicators impact calculations can be carried out by the CSD specialist with a reasonable degree of certainty by the time of the Board approval. In practice, such certainty on the UoP is not in place in many cases. This is especially prominent for portfolio approaches used primarily by FIs.

Box 7: Summary of GET rules for green bonds

Green Bond definition

For the purposes of GET, a bond is considered a green bond if it complies with the following criteria:

- It is issued in line with GBP
- The alignment with GBP is confirmed by an external review provider
- The EBRD has reviewed the information and deems that the bonds have been issued in alignment with the GBP

If these criteria are met, and the UoP of the bond is aligned with the GET eligibility and exclusion criteria, **green bonds are allocated 100% GET finance.**

GET impact attribution

As a general principle, capital market debt transactions (such as corporate bonds, sustainability-linked bonds) can produce retroactive GET attribution after Board approval. However, this does not apply to labelled green bonds, for which an initial **GET allocation is done at the time of approval.**

¹⁷⁹ The GET Handbook is available internally: <https://intranet.ebrd.com/get-clearing-house/get-handbook-and-guidance>; An overview of GET methodology and attribution can be found e.g. in this presentation for a Board Information Session on the topic: <https://intranet.ebrd.com/ESD/GET-methodology-attribution.pdf>; February 2021

Refinancing

In general, EBRD projects refinancing UoP can only be eligible as GET if the project has not been completed at the time of Board approval. This does not apply to green bonds: green bonds, where proceeds are used to **refinance existing green projects that have been completed at the time of Board approval, qualify as GET finance.**

There is **no cap on the cumulative proceeds of a green bond used to refinance** existing eligible green projects. An estimate of the share of refinancing should be provided to the Bank.

Source: *GET Handbook and Annexes, June 2023 edition*

The reliability of GET ex-ante estimates on green bonds is not systematically ensured

GET ex-ante estimates of physical impacts were calculated for all but one project in the sample, in accordance with the rules. In the case of the Georgian Railway GB (52549), however, no such estimates were calculated. This is despite the fact that the bond was used entirely for refinancing a modernisation project, which was 96% completed at the time of approval. The lack of clarity on the green benefits of the project led to the Asian Development Bank's (ADB) decision not to include their investment share in the green bond as climate finance. Internally, these concerns were discussed at the Board meeting at the approval of the project. Management noted that: *'[T]he Bank's independently verified methodology had calculated the bond's green credentials. The divergence of green assessments between MDBs might be due to different qualification criteria.'*¹⁸⁰ There is evidence that the estimation of the green benefits was in reality forfeited due to an apparent lack of data.

GET ex-ante estimates are unreliable. This is due to uncertainty about the UoP, lack of transparency on methodology and incompatibility with issuers' own impact calculation methodologies. Based on the review of the sample green bond projects, the major sources of the unreliability are as follows:

Incorrect assumptions about the UoP. Calculations of GET outcomes must be based on assumptions about the UoP of the bond. This may be straightforward in some cases where the bond issue underpins a well-defined investment programme, or refinancing of existing assets. In other cases, the ex-ante assumptions are based on a green bond framework, which specifies the types of projects to be financed – but their specifics and composition are not yet known. The issue is especially pertinent for, but not limited to, FIs, as illustrated in the case of RBRO's Green Bonds (Box 8). CSD is aware of this problem and has recently proposed a simplified approach to the GET estimates for FI projects specifically. These estimates would be based on standardised estimates per the Euros invested, rather than attempted calculations for each project, as is the practice now.

Box 8: Assumptions versus actual UoP (RBRO's Green Bonds, 52494, 52996, 53520)

In case of RBRO's Green Bonds (project Prater, consisting of three green bonds issued by RBRO), IEvD used the most recent allocation and impact report by the issuer to make comparisons of current allocations with ex-ante EBRD estimates. The report presented data as of December 2022, at which point Prater I and II Green Bonds were 80% allocated and Prater III was 40% allocated.

- Out of four categories of portfolio allocation, the allocation for **only one category was estimated accurately** (commercial buildings).
- Notably, the assumed allocation to RE (solar PV) installation of 35% of the portfolio has not borne out in reality, with only 2% of the capital being dedicated to it so far. This has implications for GET

¹⁸⁰ BDS/M/21-12 (Addendum 1) (Final): Minutes of the Board Meeting of 9 June 2021

estimates of RE capacity and RE generated annually as reported for the project. Prater reported **32MW of installed RE capacity and 39,950 MWh/yr of RE generation, based on the assumption of 35% of the proceeds invested in RE installations.**

- Overall, in cases where assumptions are not matched by reality, the estimate of GET outcomes cease to be relevant as an indication of the project's green impacts.

	EBRD assumed ratio of allocation for GET calculations	Actual ratio of allocation of project categories based on the issuer's allocation report	Percentage point difference
Commercial buildings	20%	21%	+1%
Residential Mortgage	15%	71%	+56%
RE (solar PV)	35%	2%	-33%
Transport vehicles	30%	5%	-25%

- **Unsupported baselines.** The methodology used for the calculation of GET physical impacts relies on the use of appropriate baselines – i.e. the counterfactuals against which the incremental green benefits are measured. In some projects, the chosen baselines were arguably not realistic, artificially inflating the green benefits of those projects. Examples from the sample of projects include PKO BH and Finansbank' green bonds (Box 9).

Box 9: Examples of unsupported baselines used for GET calculations

PKO Bank Hipoteczny (50718)

Specifically, it was assumed that in the absence of the green covered bond issuance, **88% (or €51 million) of all capital raised differently by PKO BH would have been approved for mortgages to purchase the properties in buildings constructed before 2002**, with an average primary energy consumption of 258.8 kw/m². Conversely, the issuance would result in 100% of all raised capital (€58 million) to be directed to mortgages to purchase the properties in buildings constructed after 2016, with an average primary energy consumption of 90 kw/m². Therefore, the net aggregate primary energy consumption savings depend largely on the difference between primary energy consumption at baseline (258.8 kw/m²) versus the issuance scenario (90 kw/m²).

However, a **more realistic way of constructing the baseline would have been the derivation of the baseline figure from the actual age of building stock to which PKO BH mortgages were flowing to prior to the issuance** – arguably much younger and hence more energy efficient than under the chosen baseline. The loan book for PKO BH in 2015-2019 shows that only 30% of mortgages went to buildings constructed before 2002, **three times less than assumed under the baseline.**

Finansbank (52623)

The GET ex-ante **estimates of CO₂ savings for the project are more than two times higher than the impact reported** by the issuer. The difference between the two figures can be explained in particular by the choice of a much less conservative (and debatable) baseline. **The baseline applied by EBRD (primary energy consumption of 300 kw/m²) is very different than the one applied by Finansbank (187 kw/m² - average primary energy consumption of buildings in Turkey).** The baseline figure used by the EBRD was derived from an outdated document (published in 2008), while the trade took place in 2021.

- **Lack of transparency and scrutiny.** Issues with calculation methodology, assumptions and baselines can be in some cases be understandable i.e. where estimates are made for bonds with less than certain distribution of the proceeds. However, full transparency about the assumptions and baselines is even more important in this context. None of the project documents available to the Board for approval contained an annex with the background and calculations of the GET impact estimates, so the assumptions or baselines could be questioned. This information is crucial for the simple scrutiny of a

project and to compare projects. As it stands, expected GET impacts are presented in the Board documents devoid of context and cannot therefore be meaningfully scrutinised.

In most cases it is either not possible to compare reported ex-ante GET outcomes to those reported by issuers, or this comparison shows substantial discrepancies. IEvD could only validate one project (Lietuvos 50268) out of nine¹⁸¹ where GET reported outcomes matched with achieved outcomes reported by the issuer. For the remaining eight projects, this comparison either was not possible (four projects) or showed substantial discrepancies (four projects). Regarding discrepancies, two cases entailed apparent over-reporting by the GET estimates (Finansbank, Aydem), while one under-reported compared to the issuer’s estimates (Mytilineos 52790) (Table 8).¹⁸²

A lack of follow-up on issuers’ allocation and impact reporting is not only a data issue – it is also a TI issue. Cases where comparisons between GET estimates and issuer reporting was not possible included absent or sub-standard issuer reporting. It is vital to stress that following up on the issuer allocation and impact reporting post-issuance is part of EBRD’s responsibility in green bonds. It is crucial in its contribution to the development of best market practices in sustainable finance. A lack of engagement with issuers who either do not provide reporting at all or of sub-standard quality is an omission on the EBRD’s side, directly weakening its TI (TQ Resilient/green bond market development).¹⁸³

Table 8: Overview of cluster project GET ex-ante estimates comparison with reported outcomes

Green Bond Issuer (OpID)	Is a comparison between ex-ante GET estimates and the issuer’s reported outcomes possible?	How do GET ex-ante estimates compare to the issuer’s reported outcomes?
Lietuvos (50268)	Yes. Despite the green bonds with Lietuvos being one of the first green bond investments, the approach to ex-ante GET calculations was generally sound. Issuers reported exceptionally high quality and transparency. GET approach was to calculate on ring-fenced assets	Estimates in the same order of magnitude as the impacts reported by Ignitis (Lietuvos)
PKO Bank Hipoteczny (50718)	No, because of the very poor quality of the issuer’s reporting. EBRD did not request improvements in allocation and impact reporting, to be compatible with ICMA standards/offer investors reliable data	n/a <i>Indications of unsupported baseline for GET calculations, potentially inflating impact estimates</i>
Cyfrowy Polsat (51673)	No. No reporting from the issuer on allocation and impacts. EBRD did not request public reporting from issuer, contrary to ICMA standards	n/a <i>Unclear asset allocation, some assets counted in GET calculations were sold by the issuer in 2021</i>
Mytilineos (52790)	Yes, good quality issuer reporting. GET approach was to calculate ‘ring-fenced’ assets	CO ₂ savings under-estimated by approximately two times compared to issuer’s reporting, due to apparent diverging methodologies

¹⁸¹ Not counting Scatec (52879), where GET estimates were not recorded due to refinancing

¹⁸² Notably, among four cases where ex-ante GET estimations were possible to be validated with issuers’ impact reporting, ‘ring-fencing’ approach to the GET estimates was used in two (Lietuvos, Mytilineos). This means that GET outcomes were calculated only on assets ‘ring-fenced’ (claimed) by EBRD from the bonds UoP via bilateral agreement with the issuer. While this was in line with the GET rules, and provided more certainty for the calculation of those outcomes, the general practice of ring-fencing assets in Green Bonds is questionable. This is discussed in more detail in Section 4.1.2.

¹⁸³ The GET Handbook discusses the EBRD requirements on issuer post-issue allocation and impact reporting in Annex 5.9.1; this includes “Uses-of-proceeds reporting: Clients will provide the EBRD and all other investors with a list and a clear description of all the projects to which the green bond proceeds have been allocated and their expected impacts, at least once a year.”; and “Impact reporting: Clients should provide the EBRD and other investors with an impact report on the mitigation, adaptation and environmental benefits of the green projects with the underlying methodology used to estimate the impacts, or alternatively should provide sufficient information to estimate their relative positive environmental impact and absolute environmental impact. The impact report should be based on the Handbook - Harmonised Framework for Impact Reporting. If an impact report is not available at the time of issuance, the EBRD will require a commitment from the client to provide this report.”

Georgian Railway (52549)	No. No GET ex-ante estimates were calculated, contrary to the applicable rules.	n/a
Finansbank (52623)	Yes. Reporting by the issuer follows market standards, although is quite simple due the nature of the transaction. Reporting was reviewed by the EBRD before its publication	CO ₂ savings over-estimated by approximately double compared to issuer's reporting, due to different methodology, in particular the choice of baseline
Aydem Renewables (53042)	Yes. Reporting by the issuer was of sufficient quality, though with some deficiencies (no breakdown between new assets and refinancing, lack of methodological note)	GET reported impacts over-reported by ten-30 times: - GET estimates for Aydem were not pro-rated based on EBRD's share of finance – inflating the estimates by ten times (EBRD's share was 10% in the bond) - Unexplained conversion factor applied on energy savings, triple additional increase
VGP Parks (51120)	No. While GET ex-ante estimates were found to be based on sound assumptions and methodology, the issuer does not report CO ₂ savings in its green bond impact reporting	n/a
Scatec (52879)	Did not report any GET outcomes as this was refinancing of an operation previously also financed by EBRD; in line with GET rules on refinancing to avoid double-counting	n/a
Raiffeisen Bank Romania (53520)	Yes. Issuer's reporting with sufficient granularity on allocation and impacts	Use of proceeds materially different from assumptions underlying GET calculations; GET estimates are not a relevant indication of the bond's green outcomes

Overall, while best efforts are extended into calculating the environmental benefits of green bonds ex-ante, the value of these estimates in aggregate is arguable. The main issues stem from the lack of definite data on the UoP, resulting in assumptions not confirmed. This is compounded by using unsupported baselines and a lack of transparency. Separately, insufficient enforcement of issuers' reporting standards post-issuance adds to the lack of real data available, as well as diminishing EBRD's contribution to claimed TI in the development of sustainable finance markets.

GET database indicates issues with data governance and quality assurance processes

There are indications of systemic issues of data governance of the GET database, which are beyond the scope of this evaluation. Aside from issues related to the approach to GET ex-ante calculations, the processes behind recording this data in the GET database appear to lack necessary safeguards for quality assurance and standardised application of existing rules. However, this finding is based on a limited sample of projects representing one instrument only, so it should not be overinterpreted. Yet, it constitutes a warning, highlighting a need for further investigation. Some examples of concern are presented in Box 10. The upcoming comprehensive evaluation of GET should include the review of the GET data governance as part of its scope.

Box 10: Examples of data inconsistencies in the GET database

Lack of pro-rating

- Aydem Renewables (53042): GET estimates calculated by CSD were not pro-rated when inserted in the GET database, based on the share of EBRD's finance (10%).

Inconsistent application of rules

- Prater (52494, 52996, 53520): Internal rule on including RE energy generated also as Energy saved was inconsistently applied only for the third bond on this project – resulting in reporting Energy saved as 1,241; 5,975; and 47,641 GJ/yr for the three bonds respectively. Had the rule been applied uniformly, the third bond would have reported 3,181 GJ/yr.

One-off outcomes presented as annual

- Mytilneos (52790): Bond-financed working capital (inputs of materials for production) delivers only one-off benefits (i.e. via the utilisation of those inputs). This is different from capital investments where, for example, new technology delivers continued benefits on annual basis. Yet, the CO₂ savings calculated here for the one-off benefit (ktCO₂) are then reported in the GET database as if annually repeated (ktCO₂/yr).

Different figures in GET database and presented to the Board

- Cyfrowy Polsat (51673): GET outcomes presented to the Board were substantially different from those reported in the GET database: Primary Energy Saved (GJ/years) reported in the GET database was 769,312 and 262,217 was reported to the Board.

Importantly, lack of credibility in the GET data governance carries reputational risks, including potential ‘impact washing’ accusations. The GET database is the authoritative source of all EBRD’s climate finance and impact data for all its operations. Issues of its data governance and quality assurance can have repercussions for the credibility and comparability of data. And this matters. In a system which is fully reliant on the ex-ante estimates for its reporting of green impacts, the data from the GET database has routinely been presented as ‘results’ and used in a variety of internal and external reports. This includes country reporting (Country Strategy Delivery Review (CSDRs), Country Result Snapshots), flagship EBRD Sustainability Reports and EBRD’s allocation and impact reporting on its own green bond issuances.¹⁸⁴

¹⁸⁴ Green Bond investments, such as those covered within the scope of this evaluation, are not included in the EBRD green project portfolio, which serves for the allocation of capital raised through EBRD Green Bond issuances.

Annex 6. External Interviews

No	Category	Country	Name of the organisation
1	Issuers	Lithuania	Lietuvos Energija
2		Poland	PKO Bank Hipoteczny
3		Poland	Cyfrowy Polsat
4		Türkiye	QNB Finansbank
5		Türkiye	Isbank
5		Greece	Mytilineos
6		Georgia	Georgian Railways
7		Türkiye	Aydem
8		Belgium	VGP Parks
9		Romania	Raiffeisen Bank Romania
10	Egypt	Scatec*	
11	International/Domestic Financial Institutions DFIs	N/A	International Finance Corporation (IFC - GB-TAP)
12		Netherlands	Dutch Entrepreneurial Development Bank (FMO)
13		N/A	Asian Development Bank (ADB)
14		USA	Development Finance Corporation (DFC)
15	Investors	France	Amundi Asset Management
16		UK	Blackrock
17		UK	Goldman Sachs
18		USA	Nuveen
19		Netherlands	Tridos Investment Management
20	Underwriters/arrangers	UK	JP Morgan
21		US	JP Morgan Development Finance Institution
22		Poland	Galt & Taggart
23		UK	ING
24		UK	Mitsubishi UFJ Financial Group
25		Poland	PKO BP
26		Poland	Trigon Dom Maklerski
27	Other	UK	Climate Bond Initiative
28		Ireland	University College London
29		UK	LSE Grantham's Research Institute on Climate Change

*written responses instead of interview

Annex 7. EBRD's strategic and operational approach to green bond investments

EBRD's operational approach to green bond investments

The rising importance of green bond investments as a part of the Bank's toolbox stems from its key strategic documents. While the initial EBRD's SCF for 2016-2020¹⁸⁵ did not yet make any specific references to GBs, the current SCF (2021-2025)¹⁸⁶ already firmly considers them as part of the Bank's overall strategy in preserving and accelerating transition over the SCF period.¹⁸⁷ Also, the most recent Strategy Implementation Plan (SIP)¹⁸⁸ for 2023-2025 discusses green bonds in the context of progressing SCF green economy priorities by driving innovative climate finance forward, including through mobilisation.¹⁸⁹ This includes green capital markets with a considerable increase in the number and volume of transactions, their complexity and diversity of instruments (from standard green bonds to sustainability-linked bonds and sustainability bonds). It notes that the EBRD reached a milestone in 2022 of having invested more than €1 billion directly in pioneering investments in green bonds since 2017. In addition, the SIP foresaw that the Bank would pursue projects that address the impact of the war on Ukraine and refugee influx by inter alia enabling access to alternative and innovative financing instruments, such as green and sustainability-linked bonds and loans.

The Financial Sector Strategy¹⁹⁰ for 2016-2020 did not refer to green bonds specifically, despite the fact that it was within its timeframe when the initial green bond investments were made and the seminal FI Green and Sustainability Bonds Framework was approved in 2018. The current FI Strategy (2021-2025),¹⁹¹ however, features green bonds prominently under its Priority 1: Transforming the financial sector to lead the transition to green, low-carbon economies, referring both to investment and policy work.¹⁹² With respect to regional distribution, these activities are indicated in the current strategy to have high opportunities in the relatively more developed capital markets of Central Europe, South Eastern Europe and Türkiye and somewhat less so in all other regions.

The recent Energy Sector Strategy¹⁹³ for 2019-2023 identifies the need for financing solutions, including green bonds. It outlines the Bank's role in fostering innovation by supporting green capital market development by offering clients assistance and guidance to turn their bonds into green and/or climate bonds.

Prompted by IFC-Amundi Fund,¹⁹⁴ and following the first initial stand-alone investments in the issuance of green bonds by Lietuvos Energija in 2017 and 2018,¹⁹⁵ the Bank developed the regional FI Green and Sustainability Bond Framework¹⁹⁶ in 2018. This Framework of up to €250 million was for direct investments into green and sustainability bonds issued by eligible FIs located in the EBRD region and in alignment with the GBP and the Sustainability Bond Guidelines. The Framework was expected to help establish financial infrastructure at the issuer level for these new instruments, supporting investments with clear environmental benefits or positive socio-economic outcomes. It was an important step in the development of a consistent EBRD approach to green bonds: "Ensuring integrity and consistency of a new product defining the EBRD's Green and Sustainable Bond investment standards."¹⁹⁷ In this regard, it included an Annex outlining the EBRD green bond ESG criteria, which became an

¹⁸⁵ BDS15-013 (Final): Report of the Board of Directors to the Board of Governors: 2015 Annual Meeting – SCF 2016-2020

¹⁸⁶ BDS20-030 (Final): Report of the Board of Directors to the Board of Governors: SCF 2021-2025

¹⁸⁷ Specifically, the priority actions in the FI sector include supporting the development of green finance by scaling up existing activity as well as broadening the suite of products, including risk sharing and GBs. The SCF further credits GBs for their contribution to the Bank's rising green finance ratio, and also refers to EBRD's own green and social bond issuances for mobilising finance. The LC2 Strategy 2019-2024 highlights green transition challenges and features promoting capital market instruments for green finance

¹⁸⁸ BDS22-175 (Final): Strategy Implementation Plan 2023-2025

¹⁸⁹ This includes green capital markets with a considerable increase in the number and volume of transactions, their complexity and diversity of instruments (from standard green bonds to sustainability-linked bonds and sustainability bonds)

¹⁹⁰ BDS15-310 (Final): Financial Sector Strategy 2016-2020

¹⁹¹ BDS21-178 (Final): Financial Sector Strategy 2021-2025

¹⁹² And it encapsulates three specific objectives: (1) Support expansion of issuance of green bonds and green covered bonds by banks from more advanced markets, and supporting banks in less advanced markets; (2) Promote adoption of best practice including global standards such as the ICMA Green Bond Principles, the CBI Climate Bonds Standard and Certification Scheme, and the forthcoming EU Green Bond Standard; (3) Support clients where appropriate in preparing to align issuances with these standards

¹⁹³ BDS18-237: Energy Sector Strategy 2019-2023

¹⁹⁴ Amundi, 2018. IFC and Amundi successfully close world's largest green bond fund. Available at:

<https://www.amundi.lu/professional/Local-Content/News/IFC-and-Amundi-successfully-close-world-s-largest-green-bond-fund>

¹⁹⁵ OpID 49433, 50268

¹⁹⁶ BDS18-150: Regional: FI Green and Sustainability Bond Framework

¹⁹⁷ Ibid., p.10

integral part of each EBRD investment in labelled green bond issuances. It was also supported by the €1.1 stand-alone TC Programme.¹⁹⁸

This approach later formed the basis for the GET Handbook guidance on the GET eligibility of bonds.¹⁹⁹ The GET Handbook now provides some guidance related to the GET eligibility of green bonds and other types of labelled bonds,²⁰⁰ issued by any type of issuer. The full alignment of the bond with ICMA GBP, which are otherwise voluntary, is a key EBRD eligibility requirement for participation in green bond issuances. This includes the definition of green bonds based on the UoP and exclusions, and requirements on reporting (an annual green loan allocation and impact report). The EBRD's approach also includes requirements on external reviews and the development and publication of the issuer's overall GB framework, which is also now demanded by the vast majority of investors. More generally, given that virtually all green bond issuers at a minimum now align with the core recommendations of the ICMA GBP, there is an expectation that MDBs' support would encourage issuers to also follow the recommendation of the ICMA GBP. This would underpin a credible pivoting of the whole business towards a more sustainable model backed by science-based targets, especially in the hard-to-abate sectors, granular and externally audited allocation and impact disclosures.

In terms of the EBRD's organisational arrangements, the investments in green bonds were supported by the CFMD team from the first operation in 2017 until September 2022. At this point, responsibility transferred to the CSD department. This team supports both EBRD bankers and potential green bond issuers in delivering a product in line with the standards set for green bonds internally. This includes support on process and technical eligibility criteria, including compliance with GET requirements where ESD's scrutinising role ('second line of defence') is also important. The Treasury team has also been providing feedback on prospective issuers' GB frameworks. The advisory for issuers can be supported by TC funds, but so far this has mostly been delivered through internal capacities. Prior to the EBRD's investment in a green bond, a separate bilateral framework agreement between EBRD and the issuer is signed to ensure that the EBRD's specific policies and requirements are adhered to. Investments in green bonds are subject to the standard requirements for TI review, establishment of TI objectives benchmarks and their monitoring.

More broadly, EBRD has also done policy work in the sphere of green bonds. For instance, EBRD participated in CBI's workstream by developing sector eligibility criteria for Energy Transmission, Distribution and Storage Systems and ISO 14097 working group. It provided input to the development of the standard for evaluation and reporting of climate-related impacts in investments and financing activities. It has also been a member of the ICMA Executive Committee and is active in its working groups, contributing to the development of a green bond standards. Plus, it is an observer in the EU Technical Expert Group for Sustainable Finance, which has provided inputs on the EU taxonomy and the EuGBS.

¹⁹⁸ TCRS: Green Bond TC Programme, #8975 project description. Specifically, (1) Scoping for the Green Bond Readiness Programme for FIs to provide a market analysis on green bond issuances, and define a methodology to be used for gap analysis; (2) Using the Green Bond Readiness Programme to implement a gap analysis in the operations of selected FIs to meet Green Bond Principles' requirements; and (3) Offering Green Bond implementation support (following completion of a Green Bond Readiness Assessment) as a dedicated TC to be delivered to target specific areas with the issuer

¹⁹⁹ EBRD Green Economy Transition (GET) Handbook, December 2019, Annex 5.10; revised in January 2022 Annex 5.9

²⁰⁰ With the exception of Climate Resilience Bonds

Annex 8. IFC GB-TAP

IFC GB-TAP¹

Overview

GB-TAP was launched in 2018 with the goal to support the supply of green bonds² in EM, both in terms of volume and quality. While GB-TAP has seven years' experience (2018-2025), Amundi Planet Emerging One Fund (AP EGO)³ has 12 years. GB-TAP may support prospective issuers who also benefit from AP EGO investments. It is neither restricted to it nor to IFC green bond investments more generally though, and GB TAP has been also backing up prospective issuers with no commercial relationship with AP EGO or IFC – a fundamental difference compared to EBRD's Technical Assistance Programme (EBRD TAP) offered as part of the 2018 FIs GBS Framework, which comes strictly as part of the Bank's investment offer only.

GB-TAP's total budget of \$13.5 million has been funded entirely by three donors. Swiss State Secretariat for Economic Affairs (SECO), Swedish International Development Corporation Agency (SIDA) and the Ministry of Finance of Luxembourg donated \$7.5 million, \$5 million and \$1 million, respectively. Although like-for-like comparison cannot apply here, the budget of EBRD TAP was €1.1 million – approximately ten times smaller.

GB-TAP consists of six specific type of support activities, or components:

- Component 1: Executive training on GBs for FI professionals on how to issue GBs (delivered with partners, such as ICMA, Luxembourg Stock Exchange, HEC Paris and Stockholm School of Economics)
- Component 2: Communication and dissemination of ICMA GBP
- Component 3: Quality reporting enhancement through knowledge products and ESG data collection
- Component 4: Knowledge sharing through reports, case studies, on-line training, webinars and workshops on green and sustainable financing
- Component 5: Green bond and green finance policy development support to public sector institutions, including support in the development of national green bond taxonomies
- Component 6: TA to EM green bond issuers, including bespoke 1:1 advice to FIs facing concrete challenges on the issuance path

In its initial phase, GB-TAP focused exclusively on support for green bond issuers, which remains its core beneficiaries. Yet, the fast evolving nature of the market and rapid expansion of other labelled bonds since the Covid-19 pandemic, plus strong demand from FIs, means it subsequently expanded its content into a wider product range, e.g. social bonds, sustainability bonds and sustainability-linked bonds.

Eligibility

GB-TAP has been supporting FIs only, a deliberate choice given the fairly standardised issuance process compared to a more heterogenous group of non-FI corporates from various sectors that would require more bespoke support and would therefore limit the outreach of GB-TAP. While it also targets first time issuers, it has not been restricted to those and has been reaching FIs with at least some prior track-record in issuing plain vanilla bonds. GB-TAP is not restricted to any geographies, albeit larger FIs from Middle Income Countries (MICs) have been a typical profile of a beneficiary. It is not restricted to one-off support neither; repeated assistance is possible.

Delivery [Component 1 only]

Component 1 of the GB-TAP has so far been the most important and stood for the largest share of its budget expenditure, at 60%. The underlying assumption has been that green bond issuance may often be an anchor for an FI to kick-off internal transformation, while bankers who will push for an issuance are often champions of change who are likely to face multiple challenges on the path to issuance. They need specific and highly practical support. Thus, GB-TAP's distinctive feature, also compared to other trainings offered on the market by ICMA or CBI, for example, has been a strong focus on highly tailored and practical content. This focuses on addressing real-life issues that bankers may face while preparing for/unrolling an issuance.

The current training is offered free of charge, lasts three to four working days, requires in-person attendance⁴ and participants are capped at 36 per session in order to maximise learning outcomes. A central element of the course – green bond issuance design and implementation case study – is substantiated with, inter alia, market examples and inputs from technical industry experts. For example, this may be on assets' appraisal and selection in specific sectors like clean transportation or renewables, advice on how participants can organise themselves and pitch for an issuance within their organisations' corporate structures, impact reporting tailored to FIs and practical guidance on dealing with SPO providers, among others. The training also features alumni of the training who have gone on to issue green, social and sustainability bonds. The delivery of the training has been accompanied by the IFC Green Bond Handbook.⁵ The demand for the training has historically exceeded available places with applicants' acceptance rate oscillating around 65%-70%. It targets more senior staff within FIs who are more likely to get buy-in and push an issuance goal within their organisation.

Team

GB-TAB has been delivered largely by an in-house team, with some support from external experts. The core team consists of three seasoned IFC professionals from the Climate Business Department with 10%-25% capacity devoted to GB-TAP training and one technical consultant with past, hands-on market experience of underwriting green bond issuances. When relevant, external experts with specific technical know-how are contracted, although a pool of suitable experts has been somewhat limited.⁶

Results [Component 1 & 6 only]

GB-TAP consists of set KPIs that are reported periodically to all three donors (all consistently met so far, according to IFC). As part of Component 1, and as of August 2023, GB-TAP delivered 28 executive trainings to 1,065 participants (of which 40% female) from 292 FIs across 74 countries. IFC reports that as part of GB-TAP, and with respect to green bonds specifically, “*the training has contributed under Component 1 public goods training⁷ to the issuance of 37 green bonds worth \$3.6 billion and under Component 6 one-on-one support to the issuance of 17 green bonds worth \$1.8 billion*”.⁸ Approximately 75%-80% of these combined 54 green bond issuances were done by first time issuers.

Under Component 6, IFC has invested approximately 85% of the bond issued and under Component 1, IFC has invested approximately 25% of the bond issued. For comparison, out of 42 EBRD green investments in 2017-2022, none benefited from EBRD TAP.

Selected lessons shared by the GB-TAP team from the last five years of GB-TAP's activities:

- Ability to increase the supply of green bonds by scaling up TA has its limits. Underdeveloped markets with FIs with poor credit ratings or lacking them altogether, and FIs seeking investors in local currency rather than Euros or US dollars, are a few examples of common constraints.
- A ‘real’ market development, with a predominant focus on first time issuers in less developed economies, requires much more resource-intensive TA and hinges on a plethora of other local markets’ characteristics.
- There is large and still unmet demand for training content that is as practical as possible and tailored to real-life issues faced by banking teams, with particularly strong demand for impact reporting advisory and understanding of climate risk. Training programmes with generic content are not adequate and not what market is looking for at this stage of development.

Annex 9. Examples of relevant policy dialogues activities for capital market developments

Country	Example of relevant policy dialogue operation
<p>Georgia</p>	<p>The EBRD has been supporting the development of the Georgian capital market through investments, policy dialogue and TA. Examples of successful reform include Georgia's adoption of derivatives legislation in 2019 and the reform of the local benchmark rate. In 2021, the EBRD and the National Bank of Georgia (NBG) launched a TA project to create a legal and regulatory framework for covered bonds.</p> <p>In 2021, with the financial support of the EU, the EBRD launched a Capital Market Support programme aimed at increasing companies' access to the local securities market and building the capacity of Georgian enterprises. The programme addressed the lack of awareness of capital markets by designing seven thematic webinars and workshops on initial public offerings (IPOs) and ESG issuances. The programme's grant component supported issuers by reimbursing part of their issuance-related fees. Seven companies received this grant support, of which three were green bond issuances. This included Georgian Renewable Power Operations (GRPO), the first green bond listed on the local market, and Tegeta, the first green bond in local currency.</p> <p>More information about programmes: Capital market development Transforming Georgia's Capital Market</p>
<p>Poland</p>	<p>The EBRD implemented several initiatives/projects in Poland that were directly or indirectly supportive of the development of the domestic green bond market.</p> <p>The Bank contributed substantially to the drafting and implementation of the Capital Markets Development Strategy (2019-2023), which the Polish government approved in 2019.</p> <p>In addition, the EBRD was also involved in the reform of the Polish covered bonds framework, which eventually proved to be relevant for some of the issuers of green (covered) bonds as well.</p> <p>Most recently, the Bank has been a member of a working group for recommendations for the development of the national Sustainable Finance Roadmap.</p> <p>More information about programmes: Warsaw Stock Exchange Covered bonds in Poland Capital market development strategy</p>
<p>Lithuania</p>	<p>Together with the European Commission (EC), the EBRD supported the initiative to create a pan-Baltic capital market to harmonise regulation and facilitate investments in the Baltic states in 2017. The goal of the initiative was to attract investment through the creation of a common capital market by combining the strengths of the three Baltic states and overcoming the constraints they face due to their limited size. One of the first projects under the agreement was support for the creation of a legal framework for a pan-Baltic covered bond.</p> <p>Since then, EBRD has promoted capital market development in the Baltics through policy dialogue, being an anchor investor in large bond issues and investing in equity funds focused on SMEs and mid-cap companies. The EBRD also worked with the Baltic governments, the EC and Nasdaq Baltic to regionally consolidate the Estonian, Latvian and Lithuanian markets for the purpose of MSCI index construction and maintenance. The new single index allows the three markets to raise the profile of the region among international investors.</p> <p>More information about programmes:</p>

	<u>Pan-Baltic Capital Market</u>
Greece	<p>The EBRD was the main contributor to the design of the Capital Market Development Strategy for Greece, including Green/Sustainability aspects.</p> <p>More information about programmes: <u>Capital Market Development Strategy</u></p>

Annex 10. Recommendations from External Consultant and Peer-Reviewer

Raymond Seager – External Consultant, Independent Sustainable Finance Expert/ ICMA Associate

EBRD began their Green Bond Investment programme in 2017. Although the first green bond was issued 10 years previously and the Green Bond Principles were three years old by then, sustainable bond issuance in EBRD's CoOs was less than 1% of cumulative issuance at just USD1.2bn (Dealogic). So, the programme really was started towards the very beginnings of the market in EBRD's CoO and EBRD was breaking new ground. Since then, we've seen over USD2.5 trillion in total green bond issuance and EBRD's CoOs have issued nearly USD50bn. This is symptomatic of the mainstreaming of the green bond market and growing sophistication of its participants, and is thus important context to understand what EBRD was entering in the first phase of this programme and what considerations there should be for the second phase.

As an overarching review of the programme from 2017-2022, EBRD's operations have clearly been successful with a number of first time issuers, overall improved environmental and social standards and volumes grown. That's not to say the programme was perfect, more that considering the level of issuance and the market standards, EBRD achieved a number of key goals. Below are several considerations (not exhaustive) for round two. Given limited visibility from the outside, some may already be in place, either for round one or since implemented.

As EBRD looks to move to the next phase, there are some key areas worth paying some closer attention to in order to raise the bar for market development and growth, in particular as greenwashing concerns take to the fore. The core markets have evolved considerably around areas such as overall sustainability strategy of the issuer, improved external reviews (pre and post issuance), tighter look back periods, use of taxonomies, increased new finance vs refinance etc. And these standards are starting to make their way into EM. However, context will be key and there should be some differentiation between regions and borrower types – i.e. higher expectations for EBRD's more core markets, with increased support the closer you get to frontier markets and new sectors.

Issuer type – the previous round of investment was concentrated on larger issuers in the more developed of EBRD's CoOs. Natural given the state of the market. Round two could look towards smaller issuers/new sectors in the more developed countries, as well as taking in less developed markets. Potentially with appropriate goals around sectors, countries, regions etc.

Technical Assistance – this seemed quite ad hoc previously. In order to fulfil the goals on issuer type, you could look to design a more comprehensive and strictly applied TA offering that delivers more structured advice throughout the process – from helping to write sustainability strategies, asset identification through to issuance (framework writing, SPOs, investor presentations etc) and finally with impact reporting to ensure this happens and in a high quality format (likely including assurance). Potentially combined with capacity building. Most likely, this will include a mix of EBRD staff and consultants, with advice and where appropriate, grants to support smaller issuers.

Formalised and documented internal procedures – TA offering, client requests, post issuance follow up (including to ensure impact reports produced), impact reporting internally again all felt a little ad hoc. Previously, this would have reflected nascent market dynamics. We now have established market best practices to improve the governance within EBRD to make sure that key features such as those just mentioned are carried out.

Raising the bar – more generally addressing the risk of greenwashing where issuers are not going far enough beyond business as usual. E.g. improved ESAP (including incorporation of social factors for green), less refi with tighter look back periods, more defined environmental contributions (higher minimums) and so forth. Applying taxonomies in an appropriate manner to ensure standards but not stifle issuance.

Beyond Green – the market is around 50% green bonds. Sustainability and sustainability-linked bonds in particular are key tools for EBRD's CoOs where you are dealing with smaller issuers and transition plans. A

programme that was more inclusive of all the labels would allow for the maximum possible uptake from EBRD's clients and thus market development.

Transition Plans – this will inevitably be a key focus for EBRD's clients. So, just to make sure they are in line with one of the established frameworks and science based.

Follow up trades – many of the trades in the first round lacked follow up transactions. It's difficult to have the visibility from here on whether this happened previously or not, but to get maximum bang for buck, a rigorous and documented follow up process to ensure precedents are leveraged as much as possible – this may include supporting second and third trades from the same issuer, actively pursuing peers or other issuers in the country (potentially beyond EBRD's established client base or working with other IFIs). One off trades will not create markets, whereas trades two, three and four start to build a momentum that may be self-sustaining.

Andreas Hoepner – External Peer-Reviewer, Professor of Banking & Finance, University College Dublin

Five main recommendations:

1. EBRD may want to explore, which extent of ringfencing of green proceeds is practically feasible. Ring-fencing simply of individual accounts within a legal entity seems wide open to abuse such as using said accounts as collateral elsewhere. Hence, ring-fencing of green proceeds needs to be more extensive to be meaningful. Ring-fencing an entire legal entity as suitable for exclusively green bond issuances maybe a way forward.
2. On a similar topic, ESMA's fund naming guidelines established in May this year establish that green bonds issued by oil and gas firms should not be bought by funds using the terms sustainable, green, environment or impact in their names. EBRD does have some exposure (e.g. Org ID 52790) and may want to consider going forward if alignment with ESMA's fund naming guidelines appear suitable.
3. I also want to highlight the importance of sustainability covenants and the special role EBRD can play here in advancing the green bond market by including legal enforceable covenants in the contracting which guarantee outcomes or force issuers to make penalty payments to investors. Such legally enforceable sustainability covenants are an available solution for the poor GET outcomes observed in the report. They will not too often be volunteered by issues and investment bankers and hence it is paramount that large institutional investors such as EBRD step up to introduce them into the green bond market.
4. EBRD may want to advance the data governance of the green bond investing process where neither the issuer, nor the SPO, nor the investment banker, nor the investor has a financial incentive to expose a substantial underreporting on impact of even a potential greenwash which occurred after the issuance. In other words, once the cash is committed everyone is incentivized to rely on the issuers' promises without having secured these via covenants. Hence, it is paramount to establish a data governance process, which continuously monitors the accountability displayed by issues in the post-issuance reporting process. Technology means exist to do this cost efficiently.
5. Finally, given that this review did uncover a number of missed opportunities and processes that would be revised if redone, the EBRD may want to consider the establishment of an independent technical advisory board for green bonds of 2-3 advisers. Just 3-4 feedback meetings per year would have probably altered a considerable number of decisions and allow for the development of multiple innovations such as a data governance framework.