

## **EBRD's environmental sustainability bonds – Frequently Asked Questions.**

### **1. What are EBRD's environmental sustainability bonds?**

These are one of the three types of green bonds that EBRD issues to provide an opportunity to invest in environmental and sustainable solutions through a triple-A security that supports state and private sector environmental businesses in the EBRD's countries of operations. The proceeds from the bonds are directed towards the EBRD's environmental projects through legal definitions contained in the bond documentation.

### **2. How does the EBRD set the criteria for the environmental sustainability bonds?**

The EBRD's Environmental and Sustainability, Banking, Treasury and Legal departments established the underlying criteria for projects to be designated as part of the Green Project Portfolio that will be funded by the EBRD's environmental sustainability bonds. The Environmental and Sustainability Department's specialists review the EBRD's committed projects to establish those projects that are consistent with the criteria established for the Green Project Portfolio. Only projects in respect of which the entire, or substantially the entire amounts disbursed are directed at environmental goals are included.

### **3. Does the EBRD have an environmental policy?**

The EBRD is committed to promoting "in the full range of its activities environmentally sound and sustainable development" pursuant to its constituent treaty (the Agreement Establishing the European Bank for Reconstruction and Development). The EBRD's Environmental and Social Policy is a key document of the Bank which further details such commitments. The Policy includes 10 environmental and social Performance Requirements (PRs) which all EBRD-supported projects are expected to meet, whether or not they are eligible for inclusion in the Sustainability bond portfolio. The PRs are consistent with the IFC/Equator Principles Performance Standards but include a number of additional requirements, such as compliance with EU environmental standards.

<http://www.ebrd.com/news/publications/policies/environmental-and-social-policy-esp.html>

### **4. Which projects are financed by environmental sustainability bonds?**

"Green Project Portfolio" shall mean, as determined by the Issuer, the sum of all loans that are funded, in whole or in part, by the Issuer and in respect of which the entire or substantially the entire amount disbursed or invested is directed at, as determined by the Issuer, any of the following areas: energy efficiency, clean energy, water management, waste management, environmental services, and sustainable public transport.

Examples of projects in the Green Project Portfolio include, without limitation, financings of:

- Renewable energy projects, such as
  - photovoltaic installations, and production of photovoltaic cells/modules,
  - installation of wind turbines,
  - construction of mini-hydro cascades,
  - geothermal and biomass facilities
- Rehabilitation of transmission/distribution facilities to reduce total greenhouse gas ("GHG") emissions
- Modernisation of industrial installations to reduce total GHG emissions
- New technologies that result in significant reductions in total GHG emissions, e.g. smart distribution networks
- Greater efficiency in mass transportation, such as investment in fuel-efficiency (fleet replacement) or more energy efficient infrastructure
- Methane capture on waste landfills and waste water treatment plants
- Rehabilitation of municipal water/waste water infrastructure to improve drinking water quality and wastewater treatment and reduce water consumption and waste water discharges
- Improvements to solid waste management (minimisation, collection, recovery, treatment, recycling, storage and disposal)
- Energy efficiency investments in existing buildings (insulation, lighting, heating/cooling systems)
- Investments to improve efficiency of industrial water use
- Sustainable and stress-resilient agriculture, including investments in water-efficient irrigation
- Sustainable forest management, reforestation, watershed management, and the prevention of deforestation and soil erosion.

The above examples are illustrative only and no assurance can be provided that investments in projects with these specific characteristics will be made.

## 5. Is there a project exclusion list?

Projects involving the following activities are not eligible for inclusion in the environmental sustainability bond portfolio:

- Activities listed on the Exclusion list in Appendix 2 of the EBRD's Environmental and Social Policy (<http://www.ebrd.com/documents/comms-and-bis/pdf-environmental-and-social-policy.pdf>)
- Construction of new large hydropower installations (as defined by ICOLD)
- Nuclear energy generation
- Fossil fuel production and projects, with significant consumption of fossil fuels (coal, heating oil, oil shale ) (as determined by ESD)
- Biofuel production (pending the adoption of internationally recognised sustainability criteria)
- Alcohol production, defence-related activities, tobacco industry, standalone gambling facilities
- Projects requiring a derogation from the Environmental and Social Policy for not being able to meet the Bank's environmental and social Performance Requirements within the term of the EBRD transaction
- Equity investments (subject to review)
- Investments in RUB (Russian Rouble) (subject to review)

Specific exclusions, the list of which is maintained, is updated and amended by the ESD on quarterly basis.

## 6. Does the EBRD finance nuclear energy?

The EBRD's involvement in the nuclear sector is restricted to improving nuclear safety. The EBRD manages six donor funds on behalf of 30 donors, including the G-8 countries and the European Commission, who together have pledged more than €3 billion to enhance nuclear safety of high-risk existing nuclear plants in the region. The funds provide support in the decommissioning of outdated power plants, the safety of Chernobyl nuclear power plant and the legacy of the operations of the Russian nuclear fleet in North West Russia, in particular with the resulting spent nuclear fuel and radioactive waste. More information can be found on the EBRD web site under

<http://www.ebrd.com/nuclear-safety.html>

With regard to the use of its own ordinary capital resources to complete or upgrade nuclear plants, the Bank will not consider providing financing to new reactors. However, it may provide financing to an operating facility in relation to nuclear safety improvements, or for the safe and secure management of radioactive waste and spent nuclear fuel, as well as for decommissioning.

***Please note that none of the above activities are eligible for inclusion in the Sustainability Bond portfolio.***

## **7. What is the EBRD stance on forest logging?**

The EBRD promotes sustainable forest management through its investments in the forest products industry and biomass energy projects. Forest resource use is carefully reviewed during the environmental and social due diligence and the Bank requires its clients to adhere to rigorous corporate wood procurement policies and procedures aimed at ensuring that all wood used for EBRD forest industry projects is of legal and sustainable origin.

The degree of the EBRD requirements vary between the projects that either involve direct management of the forests and those that are fully dependent on external wood supplies. Clients involved in forest management are required to ensure that all forest areas over which they have management control are independently certified to internationally accepted principles of sustainable forest management. This entails that forest areas of high biodiversity value must not be converted or degraded and the harvesting of wood must be undertaken in a sustainable way. Those clients that rely on external suppliers are required to adopt and implement sustainable wood procurement procedures so as to ensure that wood for their operations does not originate from protected or high biodiversity value forests, that the origin of the wood is monitored and that the wood is supplied by responsible harvesting companies that operate in accordance with the principles of sustainable forest management.

Most of the EBRD's projects using forest resources rely on external wood supplies; hence the focus has been on ensuring the clients will comply with chain-of-custody/wood procurement requirements. Such clients are also required give preference to purchasing resources certified to internationally accepted principles of sustainable management, where available.

The EBRD also encourages its clients to engage in dialogue with governments to support the development of state controlled legal enforcement and governance systems towards sustainable forest management and to promote certification of state-owned forests.

## **8. Explain EBRD activities in biomass power projects:**

EBRD is financing biomass (using forest or agriculture residues as fuel) power projects, but currently are not considering Biofuels, or until the adoption of internationally recognised sustainability criteria, including a full life-cycle carbon footprint assessment methodology. The key eligibility criteria for the biomass power projects are ensuring the sustainability of the biomass fuel supply (e.g. forest certification).

*To clarify the terminology:*

*Biomass power - means thermal power (or heat) generated by burning of biomass as fuel, where such biomass fuel may comprise one or more of the following: timber, forestry/logging residues, wood processing residues, straw and other organic agricultural waste material.*

*Biofuels - mean bioethanol or biodiesel, that are produced by refining of vegetable oils yielded from organic feedstock, such as palm oil, corn, rapeseed, etc, or in some cases waste vegetable oils. Biofuels are mainly used for substituting a fraction of fossil fuels (petrol or diesel fuel) in transport fuels to reduce carbon emissions.*

## 9. What is the EBRD stance on urban transport?

**Urban infrastructure and services.** Sustainability in urban transport means directing investments at projects that enhance and sustain the underlying economic and social vibrancy of cities. While covering both public transport and streets, this will involve primarily modernising existing services and infrastructure networks, while also providing financing for strategic missing links where justified. Due to the importance of city centres in areas with stable populations, focusing investment on the core areas should also help to sustain urban areas. The Bank will aim to improve the sustainability of the sector by focusing on certain goals:

### Urban Transport - Sustainability Goals

- Increase walking, cycling and public transport usage.
- Reduce traffic congestion through traffic reduction measures.
- Increase the energy efficiency of urban transport systems.
- Introduce the use of sustainable renewable energy for urban public transport.

**Environmental and social sustainability.** The selection of both the type of project and the choice of technology is important. Generally, projects that reduce the carbon intensity of the sector contribute to sustainable transport, with electric transport (tram, trolley, light rail transit and metro) being prime examples. Dense urban cities that favour walking and cycling also rank highly. Finally, when public transport is well planned with gender aspects in mind (e.g., with well-lit, secure streets, stations and vehicles), this type of investment can contribute to further promoting services that allow women, who typically make up the majority of users, to use public transport to a greater degree.

**Energy efficiency and climate change.** While cities with extensive and well-managed public transport systems are inherently more energy efficient, the financing of 'best available technology' is another means of fostering the conversion to a low-carbon economy. Rolling-stock renewal is important: replacement of dirty diesel buses with clean diesel and compressed natural gas bus units, as well as new trams and metro cars with regenerative braking capabilities reduce energy consumption by up to 30 per cent. Public lighting, which accounts for typically 25 per cent of a city's electricity bill, can be reduced by up to 70 per cent with new light emitting diode technology. Finally, traffic management systems that smooth traffic flow reduce vehicle emission per car by approximately 50 per cent versus cars in stop-and-go conditions.

**10. In which currencies and maturities can environmental sustainability bonds be issued?**

The Bank's environmental sustainability bonds can take the form of eurobonds, global bonds and domestic issues in selected markets, similar to the Bank's general debt issuance. To date, the Bank has issued debt instruments in 39 currencies, the proceeds of which are swapped mostly into floating rate EUR and USD. While the tenors of individual projects in the Green Project Portfolio vary from 1 to 20 years, the Bank will monitor the average life of the environmental sustainability bonds it has issued, to ensure that it does not exceed that of the Green Project Portfolio.

**11. Are there size restrictions on the environmental sustainability bonds?**

There is no minimum issuance size for environmental sustainability bonds but the total amount of the environmental sustainability bonds outstanding will not exceed 70 per cent of the Green Project Portfolio.

**12. Why does the GPP include projects undertaken in the last 10 years?**

Projects under the GPP typically have long disbursement periods with a significant time between signing and the first disbursement. Indeed, despite the projects in the GPP having an average age of approximately 3 years – counted from the time of signing the loan documentation - significant amounts have yet to disburse.

**13. Why does the GPP allow for the refinancing of projects?**

The average term of projects under the GPP significantly exceeds that of typical bond tenors, with a weighted initial average term of investments in excess of 13 years, and a weighted remaining average age of approximately 10 years.

**14. Could a project be included in the GPP and EBRD's GTPP?**

Projects under the GPP are distinct from those incorporated under the Green Transition Project Portfolio (GTPP) that underpins EBRD's Green Transition bond issuance. While the GPP criteria, in keeping with the eligible Green Project categories under the Green Bond Principles, allow for the inclusion of energy and resource efficiency projects, these would have to be consistent with the GPP focus on "dark green" investments, and the requirement that substantially all the proceeds are directed to the intended environmental purpose. The GTPP, by contrast focuses on transition projects in those sectors of the economy that are today highly dependent on fossil fuels.

## **15. What reporting will EBRD undertake on the GPP?**

EBRD will report on a portfolio level in relation to the Use of Proceeds, providing details of the projects by geography, industry and green project category, as well as giving details of the number of projects, total committed amounts, and a comparison between the amount drawn-down (“operating assets”) and total Environmental Sustainability Bonds outstanding.

Impact reporting on the GPP will typically be measured in reductions in CO<sub>2</sub> and pollutants, renewable energy installed, and in improved energy, water and material efficiency against a baseline and/or benchmark.

Based on this approach, the results of projects in the GPP are reported collectively at least annually in the Sustainability Report and in EBRD’s investor presentation “Focus on Environment”, which will be accessible from the website: <https://www.ebrd.com/work-with-us/sri/funding.html>