Sustainable Finance

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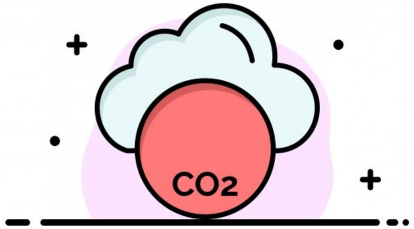
ADA 412 Presentation

What is Sustainable Finance?

- Sustainable finance generally refers to the process of taking due account of **environmental, social and governance (ESG)** considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects.
- **ESG** has become an increasingly popular term that used by companies and instutions.

Environmental Side

- More specifically, **environmental considerations** may refer to climate change mitigation and adaptation, as well as the environment more broadly, such as the preservation of biodiversity, pollution prevention and circular economy.



Social Side

- **Social considerations** may refer to issues of inequality, inclusiveness, labour relations, investment in human capital and communities, as well as human rights issues.

Why it is important?

- Financial investment instruments are the most important tools to achieve the sustainable development goals set by the UN.
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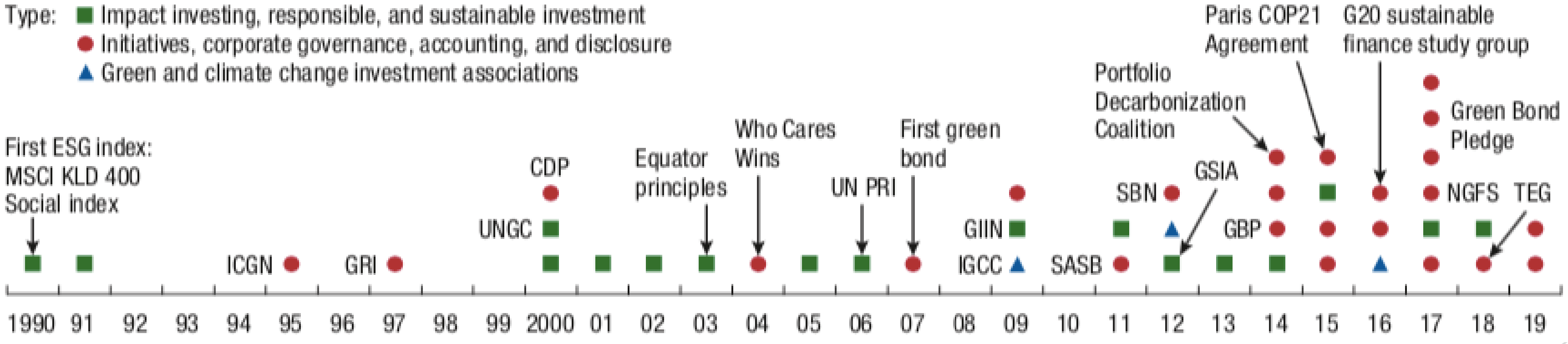
Sustainable Finance Instruments

- Activities that fall under the heading of sustainable finance, to name just a few, include sustainable funds, green bonds, impact investing, microfinance, active ownership, credits for sustainable projects and development of the whole financial system in a more sustainable way.

2. Evolution of Selected ESG Finance Associations, Standards, and Codes

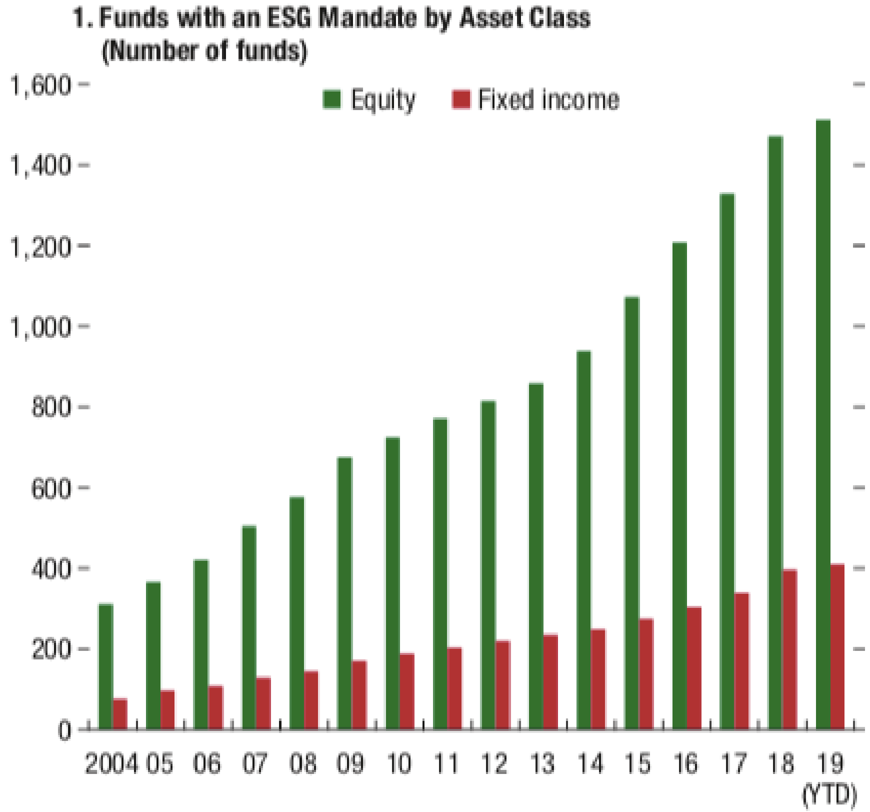


Sustainable Funds

- Sustainable funds invest with two lenses: They analyze company performance with regard to ESG criteria (environmental, social, and governance) alongside traditional factors such as valuations and earnings growth.
- Examples of environmental factors we consider include a company's carbon intensity, water use, or waste reduction efforts. Social factors include employee well-being and commitments to workplace equality and diversity.

Sustainable Funds: Growth

- ESG funds are still small compared with mainstream investment funds, controlling some $850 billion in assets (**less than 2 percent** of the total investment fund universe), but are rising fast. Equity funds traditionally had a much faster adoption rate of ESG factors than fixed income. ESG equity funds have reached **$560 billion** in 2019.



Sustainable Funds: Performance

- Nine of the biggest ESG mutual funds in the U.S. outperformed the Standard & Poor's 500 Index last year, and seven of them beat their market benchmarks over the past five years.

- The $878 million Ave Maria Growth Fund was the top performer in 2019, followed by the $3.8 billion Calvert Equity Fund and the $4.9 billion Putnam Sustainable Leaders Fund. All three funds posted gains of more than 35%, compared with the S&P 500's 31.5% with reinvested dividends. Morgan Stanley's $3.9 billion Global Opportunity Portfolio and the $2.1 billion Brown Advisory Sustainable Growth Fund placed atop the rankings in the five-year period.

Sustainable Funds: Outcome

- As large investment firms evaluate companies according to their ESG performance and continue to use this data in their investment decisions, companies will be more willing to improve themselves. This will increase the number of responsible companies in the market.

Green Bonds

- Green bonds are broadly defined as fixed-income securities that raise capital for a project with specific environmental benefits. The majority of green bonds issued to date have raised money for renewable energy projects, energy efficiency measures, mass transit and water technology.

Facts&Figures
USD754bn cumulative issuance (since inception in 2007)
5,931 deals
927 issuers
USA leading with USD171.5bn, followed by China (USD107.3bn) and France (USD86.7bn)
Certified Climate Bonds reach USD100bn milestone (2019)

- USD258.9bn issued in 2019 (+51% vs. 2018)

Green Bonds: Case Studies

- The African Development Bank has been issuing green bonds since 2013 and by June 2019 it had allocated \$3.7bn to 48 projects across at least 18 African countries, including solar and hydropower, energy efficiency, clean transport, biogas, forestry conservation, water and wastewater management.

Green Bonds: Case Studies

- Tesla Motors' inaugural bond issue has been, as you'd expect, electrifying (just had to say that). The US electric sports car manufacturer has just issued a 5 year, $600m convertible bond(link is external) in a fundraising program(link is external) which has seen it raise approximately $1bn through shares and convertible bonds.

Social Bonds

- Social Bonds are use of proceeds bonds that raise funds for new and existing projects with positive social outcomes. Social Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or refinance in part or in full new and/or existing eligible Social Projects.
  - Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, energy).
  - Access to essential services (e.g. health, education and vocational training, healthcare, financing, and financial services).
  - Affordable housing.
  - Employment generation including through the potential effect of SME financing and microfinance.
  - Food security.
  - Socioeconomic advancement and empowerment.

Social Bond: Case Studies (African Development Bank)

Use of Proceeds	Target Population	Indicators
Rural electrification	Living below the poverty line	Access rate to water and sanitation
Last mile connectivity for rural communities	Excluded and/or marginalized populations and/or communities	% population covered with medical insurance
Sustainable water supply and sanitation delivery	Vulnerable groups, including as a result of natural disasters	Number of beneficiaries
Construction and/ or rehabilitation of hospitals and healthcare centers	People with disabilities	Number of jobs created
Enhanced infrastructure and capacity building for schools	Migrants and/or displaced persons	Number of people trained

Social Bond: Case Studies (Danone)

Use of Proceeds	Target Population	Indicators
Social Inclusiveness	Populations which daily income per day per person is between 1.25 and 5 USD PPP	Number of beneficiaries (Upstream & Downstream)
Direct social businesses financing		Number of beneficiaries with access to drinking water
Access to adequate food for low- income populations		Number of beneficiaries in the fight against malnutrition and poverty
Access to clean drinking water for low-income populations		

Sustainability Linked Loans

- Sustainability Linked Loans (SLLs) are not the same thing as green loans. The term 'green loan' refers to a loan that is used to finance a specific green purpose. SLLs, on the other hand, can be applied for any purpose (whether 'green' or not), but an in-built pricing mechanism means that the loan is cheaper if the borrower achieves certain sustainable or ESG (environmental, social and governance) related targets.

Sustainability Linked Loans: Outcome

- By setting sustainability targets under loan financing conditions, it provides companies with financial advantage and motivation to integrate more sustainable business practices. With the guidance of the financial sector, companies will take bolder steps in the field of sustainability to provide more advantageous loan financing.

FUTURE FINANCE

Microloans

- Refers to small loans from a microfinance institution granted to lower income entrepreneurs in developing and emerging market countries. These loans contribute to the development of local economies and therewith contribute to creating jobs and reduce poverty.

Microloans: Success Stories

- Agness Mpinganjira has a business selling milk to people in her village. She also has four children who are all financially dependent on her.
- Since receiving her loan, Agness' business has expanded significantly, and she currently makes around £5.20 per week, compared to the £1.05 she was initially making before her loan.
- Agness now has an additional business selling scones and plans on expanding further. She intends on using the profits she has made so far to buy goats and chickens to help generate more income.

Microloans: Success Stories

- After hearing about our work in a neighbouring village, Josophine decided to join a MicroLoan group. She saw this as an opportunity to gain better knowledge about running a business. After receiving her loans and conducting market research with the help of her Loan & Training Officer, Josophine switched from selling washing powder to selling cosmetics.

Microloans: Outcome

- "Microcredit is an effective catalyst in alleviating poverty in Africa. People need access to capital to grow their informal and formal businesses that offer them a regular income and enable them to lead decent lives," says Mads Kjaer, chief executive of MYC4, a Denmark-based online platform that helps individuals to loan money to small enterprises in sub-Saharan Africa. The average loan is about $150 per month.

- Microloans are a powerful tool to reduce or eradicate **extreme poverty**.

> Forget all the fluffy stuff about the planet, equality or your grandchildren: the bottom line depends on sustainability.

Sasja Beslik

Head of Sustainable Finance, Nordea Group

WORLD ECONOMIC FORUM

Thank you for your attention!

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