



Greening EU Cooperation

Session 15: Green financial instruments

Green bonds

Agenda

- EFSD+ Financing Mechanism: A Brief Recap
- Why does EFSD+ use guarantees to attract private investors?
- An example with FMO
- Green Bonds Overview



European Fund for Sustainable Development +



Under the NDICI-Global Europe Regulation, EFSD+ is a **framework** to implement the Global Gateway



Umbrella for EU external actions using two instruments:

- **Blended finance:** A mix of grants and financial instruments to reduce cost
- **Budgetary guarantee:** guarantees lowering the risk of loans, equity, off-take agreements, etc.



Investment Focus:

- Environmental sustainability
- Climate resilience
- Low carbon development



Investments must align with:

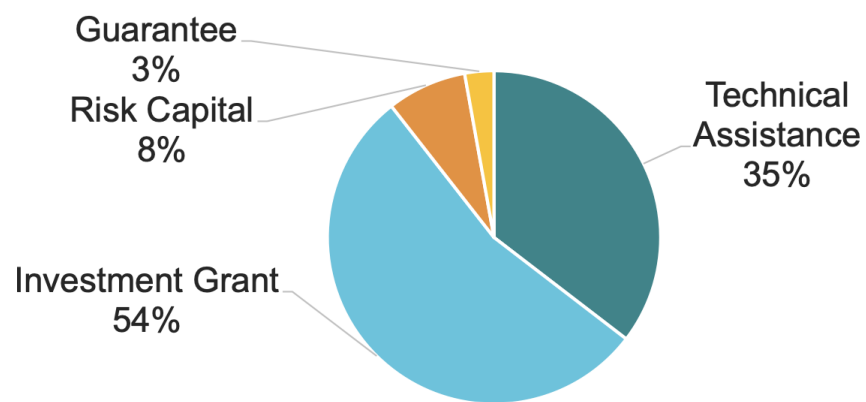
- The DNH principle (“Do No Harm”) of the NDICI-Global Europe Regulation
- The Global Gateway’s ‘green and clean’ principle



Blended Finance

Main EU Blending Operations

2022-2023 EU contributions by type of support



Source: EFSD+ for Dummies

🌐 What is Blending?

The **strategic use of EU grants or TA to mobilise financing from:**

- ✓ Partner Financial Institutions
- ✓ Private Sector

🎯 **Goal:** Enhance the **development impact** of investment projects

📦 + 💼 = 📈 **How It Works**

EU Grants

+

Non-grant Resources:

- Loans
- Equity

🔄 **From:**

- Development Finance Institutions
- Commercial Banks & Institutional Investors and private sector players

- ➔ **De-risking of the project**
- ➔ **Leverage More Capital**
- ➔ **Achieve Greater Development Impact**



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Guarantees



Purpose:

Guarantees are used to **address perceived risks** by transferring them from investors to third parties better able to absorb them.



Objective:

To **mobilise commercial financing** by reducing investment risk.



Definition:

A **guarantee is a legally binding agreement** where the guarantor commits to pay part or all of a bond (green, social, sustainable, transition, blue) in case of:

-  Non-payment
-  Loss of value
-  Other agreed risk events

EFSD+ guarantee amounts 2021-2027

EFSD+ guarantee
€39.8bn

EIB
(dedicated windows)
€26.7bn

'Open architecture'
€13.1bn



Why use Guarantees?



1. De-risking Projects

1. Address various risks that discourage private investors in developing or emerging markets.
2. Reducing Perceived vs. Actual Risk
3. FI are better equipped to evaluate and handle risk than public entities.



2. Mobilize Private Capital

1. Private Capital at Scale
2. Lower Cost of Capital
2. Enhance Creditworthiness
3. Catalytic Effect
4. Bridging the Bankability Gap



3. Leverage Public Funds

1. Contingent Liability
2. Frees up public budget
3. Efficient Risk Allocation



4. Enhance Market Efficiency

1. Competition
2. Innovation



5. Scale Up Projects

1. Enables financing of larger and more complex projects.
2. Create sustainable & inclusive growth and jobs
3. Spillover into the broader local economy



6. Improve Project Bankability

1. Governance.
2. Capacity build-up
3. Better project preparation
4. Due diligence
5. Moving to international standards for monitoring & reporting



7. Accelerate Climate & UN SDGs Impact

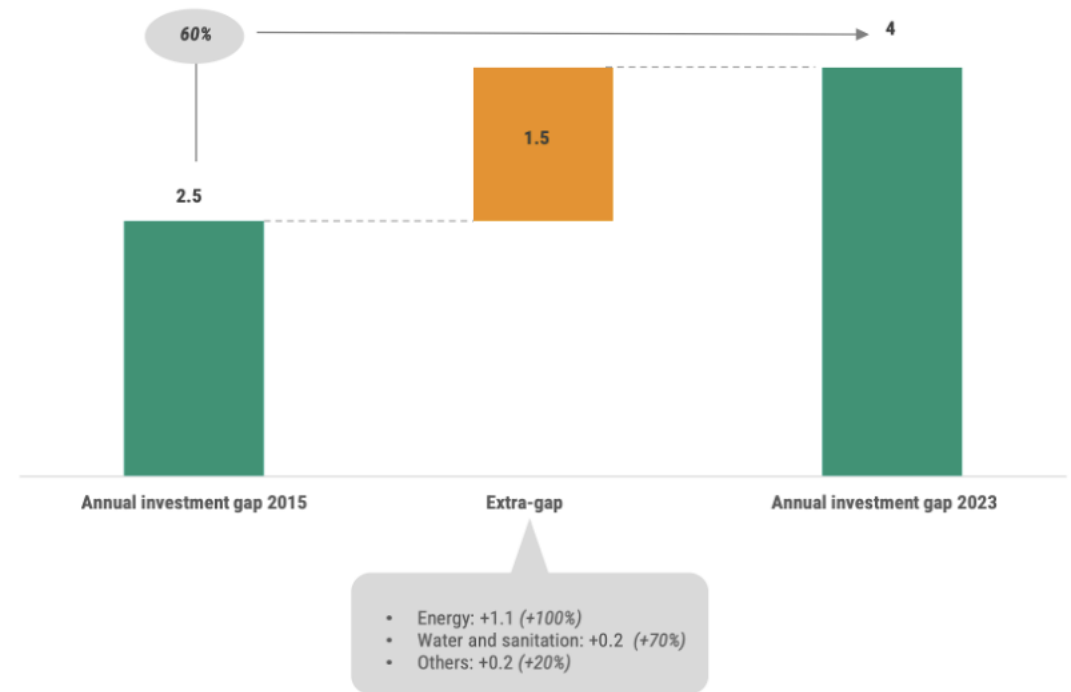
1. National Plans
2. Paris Agreement NDC
3. NBSAP
4. Delivers measurable environmental & social outcome



Why does EFSD+ use Guarantees?

- Estimated financing needs are up from US\$4 trillion in 2015 to **US\$5.5 trillion** a year until 2030 to meet UN SDGs (Source: UN economists)
- **Annual financing needs surged by 36%** between 2015 and 2022 driven by:
 - Climate challenges
 - COVID-19 pandemic
 - Supply chain disruptions
 - Rising food & energy prices
- Annual investment is close to US\$1.5 trillion, so the investment gap keeps growing.
- While Official Development Aid (**ODA**) is an essential source of sustainable development financing, it cannot meet global needs alone. In 2024, Total ODA amounted to USD 212 billion, representing 0.33% of member countries' combined gross national income (GNI).

Change in Annual Investment Gap in key SDG sectors, 2015 and 2023 (trillion of US\$)

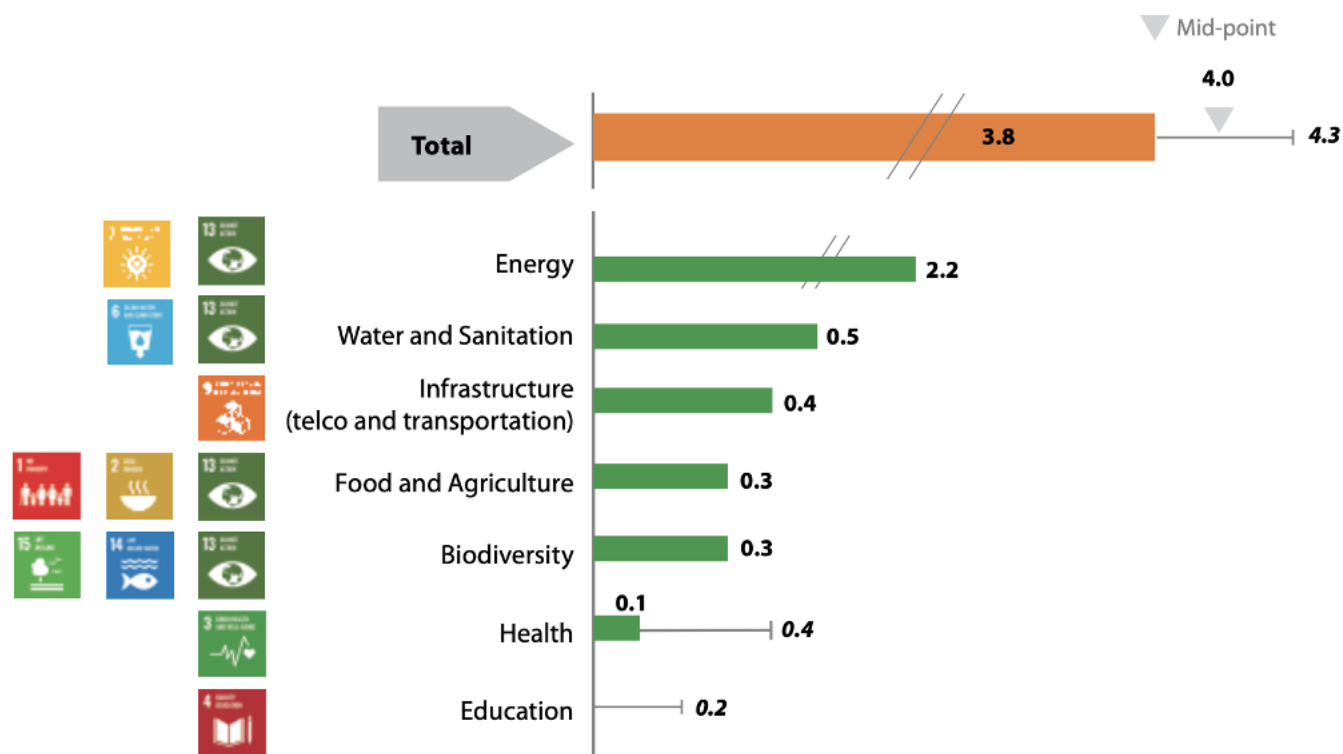


Source: UNCTAD.



Estimated Annual Investment Gap

(public & private) in key SDG Sectors (Trillions of US\$)



Source: UNCTAD, SDG Investment Trends Monitor (Issue 4).

Note: Figures are rounded at the first decimal (\$100 billion). Investment refers to capital expenditure (capex). The range reflects the uncertainty about the size of the capex component of the investment gap for two sectors (Health and Education) for which the operational expenditure component is substantial.



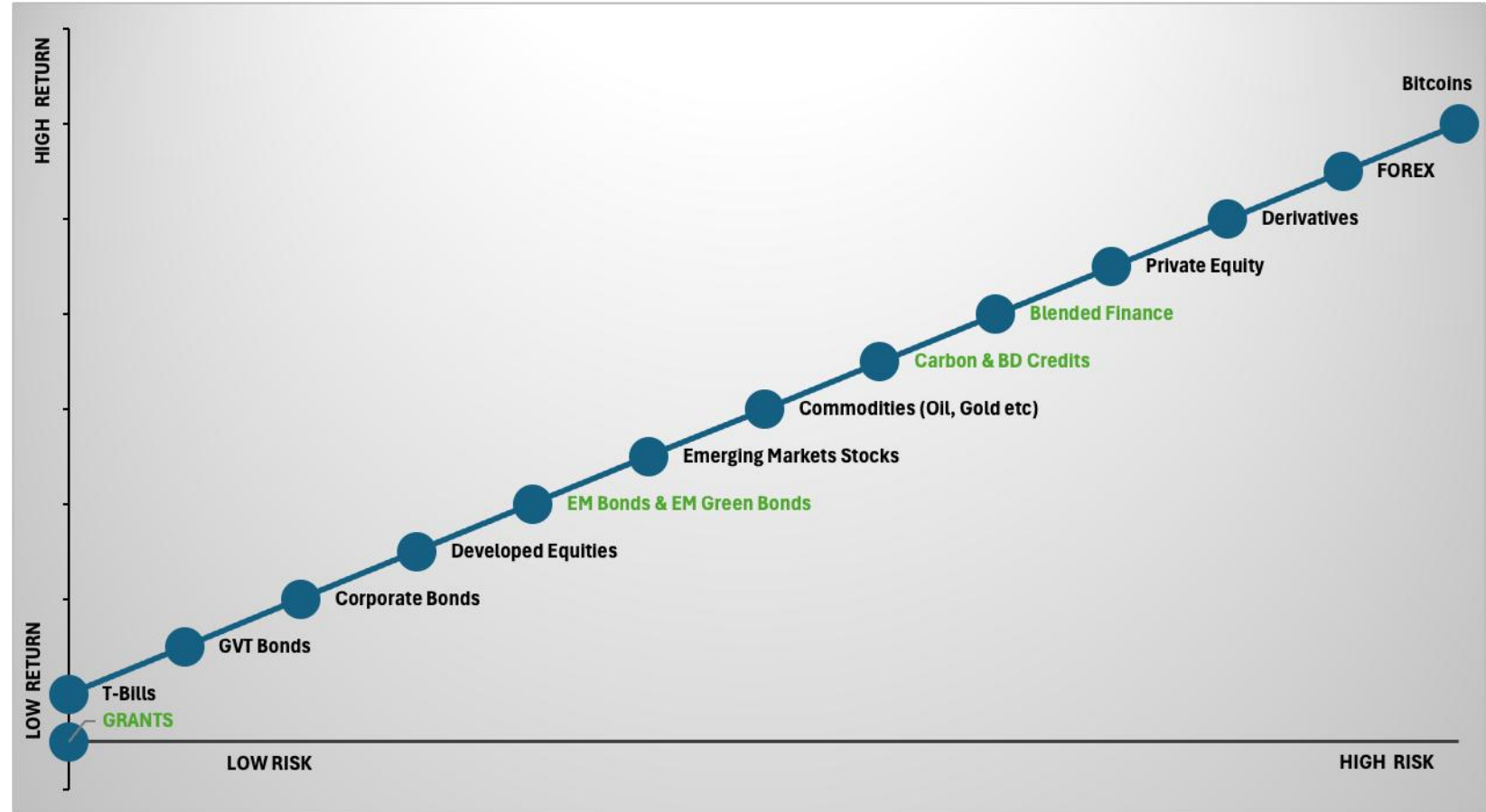
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Illustrative Risk & Return Characteristics of Financial Instruments

- According to OECD, US\$379tr of assets are held in banks, II & AM
- 1.1% assets need to be mobilised to finance ODA financial gaps annually
- Guarantees and BF are key to derisk and accelerate capital flows



EC Guarantee to FMO – DFCD* Aya Land Use Facility



FMO

Entrepreneurial
Development
Bank

Objective:

1. **Mobilise EUR 2 bn** of private capital towards climate adaptation and mitigation in developing and emerging markets
2. Strengthen food security and climate resilience of vulnerable populations and ecosystems



Asia-Pacific, Sub-Saharan Africa, Latin America & Caribbean

- **Sector:** environmental protection, agriculture, forestry, water & sanitation
- **Total guarantee volume:** € 105 million
- **Types of investments:** debt and equity investments
- **Ticket size:** between EUR 6 and 21 million
- **Technical Assistance:** EUR 7.6 million



GG Flagships/TEIs: NaturAfrica, Forest Partnership, Great Green Wall, Green Pact for Sierra Leone, Green Initiative TEI in Partnership with ASEAN/South-East Asia, GGIA on supporting Caribbean biodiversity and fighting ocean pollution, Five Great Forests of Mesoamerica



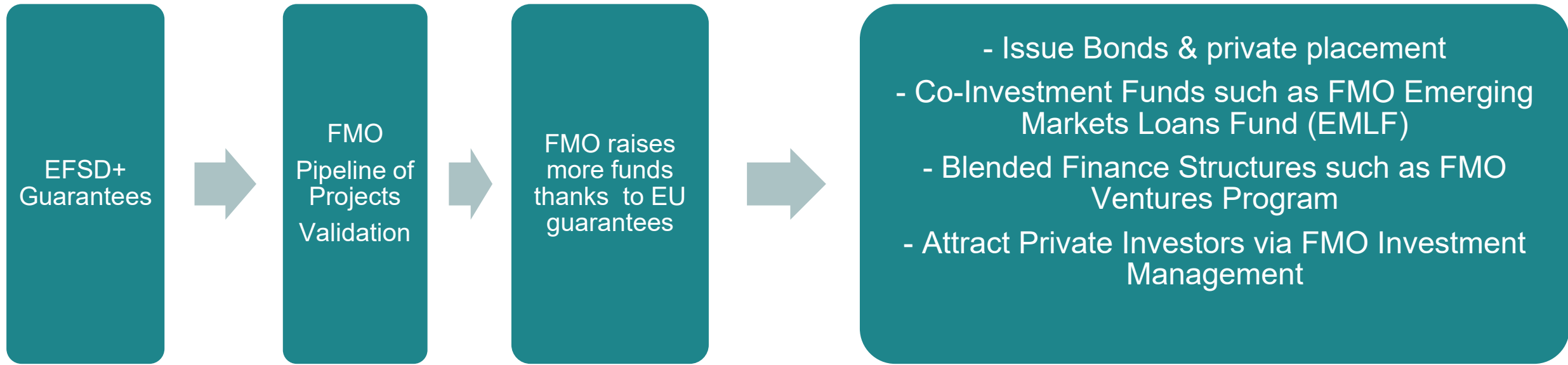
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*Dutch Fund for Climate and Development



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FMO's Funding Model for Impactful Investment in Emerging Markets

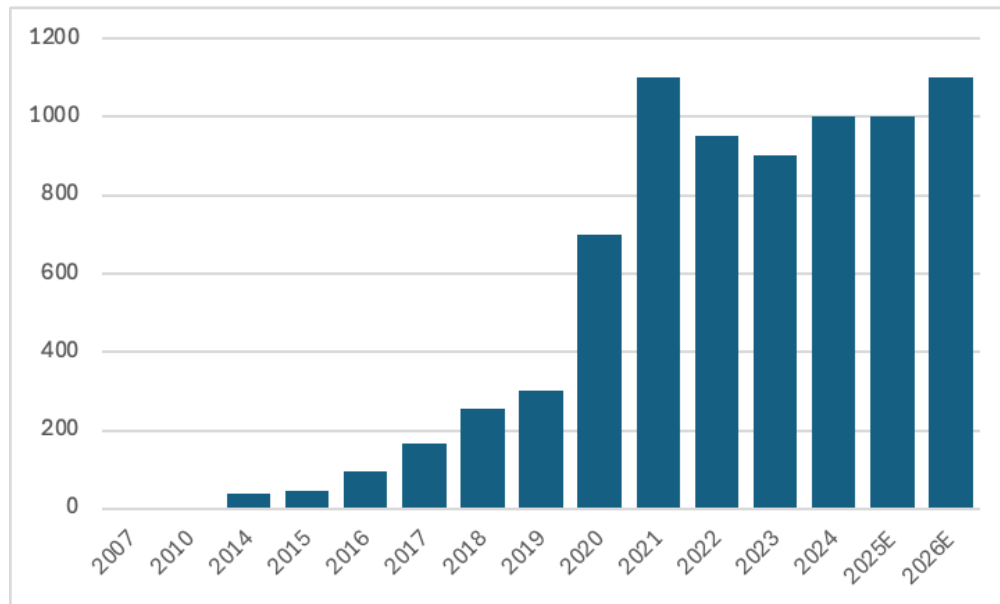


FMO's funding model is **multi-faceted**, relying on a mix of public market funding (bonds), co-investment vehicles for institutional investors, blended finance with public sector support, and direct investments.

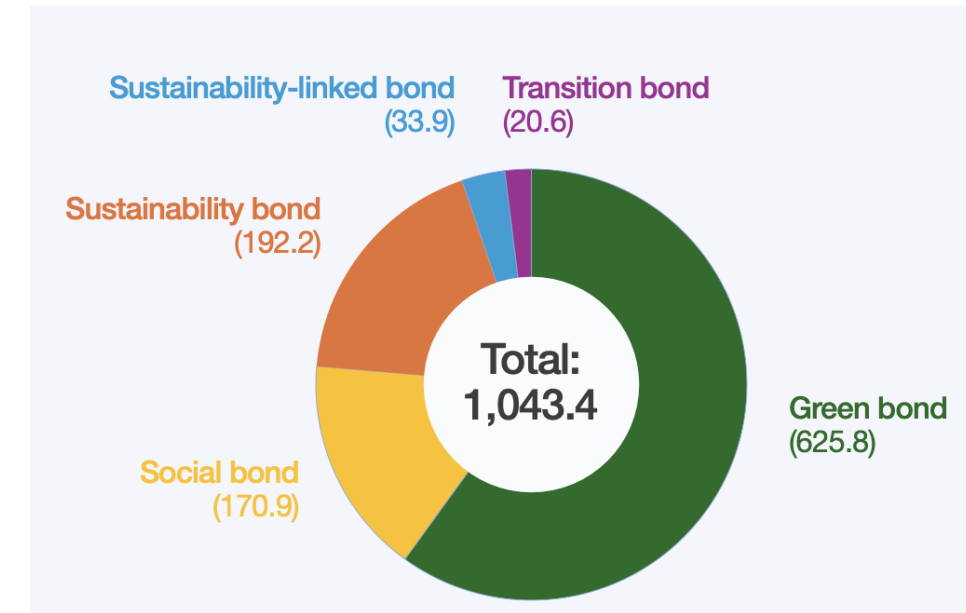


Sustainable Global Bond Issuance (US\$bn)

Sustainable Bond's new issuance volume 2022-2026e
(US\$ Bn)



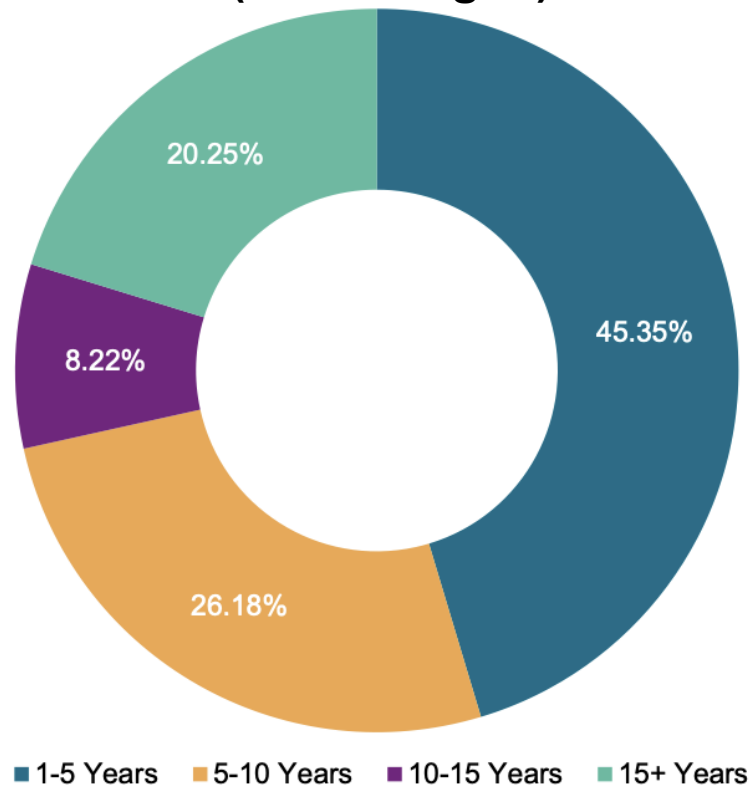
2024 Sustainable bond issuance volume
breakdown (US\$ Bn)



The European Commission was the largest green bond issuer in 2024, raising US\$21 billion to support its 2050 net zero strategy.

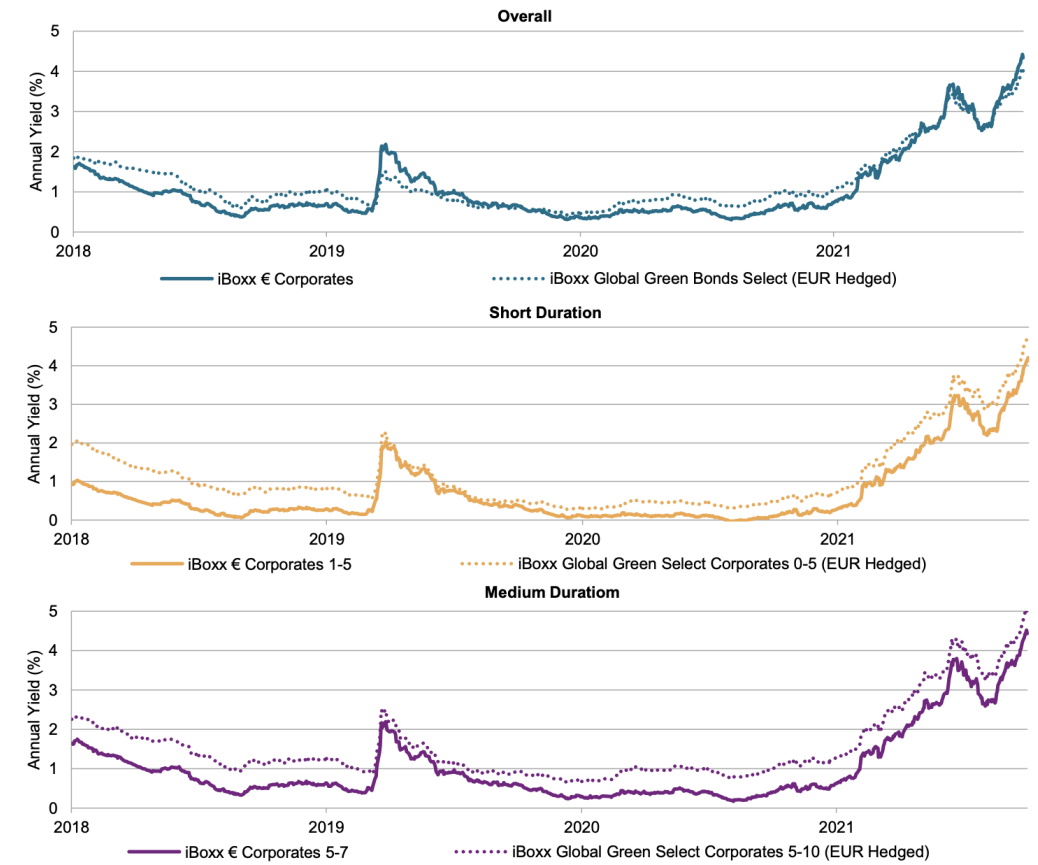
Green bond indices closely matched their broader European credit benchmarks

Maturity Buckets of the iBoxx Global Green Bonds Select (EUR Hedged)

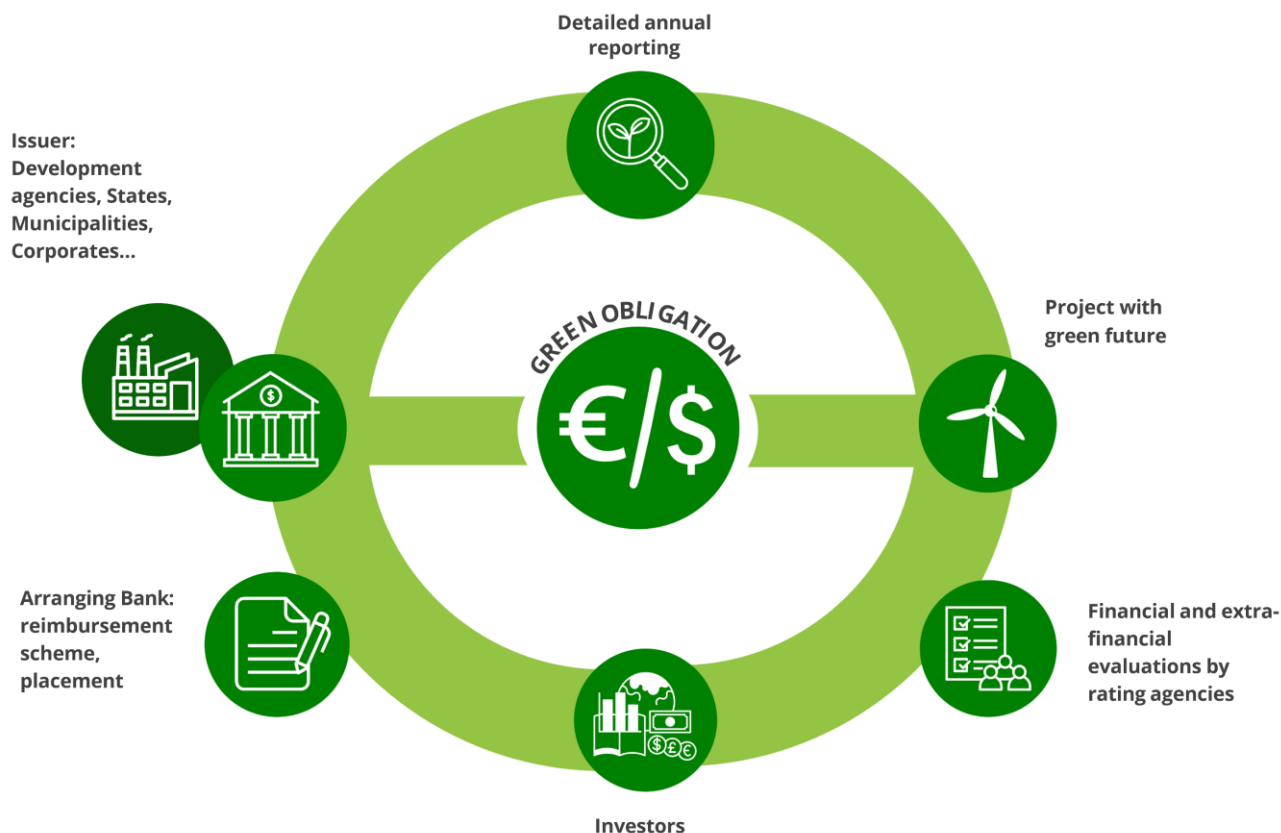


Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2022.

Annual Yield for Green Bond and Non-Green Bond Indices



Scan of a Green Bond & Example



AfDB Finance eligible green projects

- Investments in low-carbon and climate-resilient development across Africa.
- In line with AfDB's Sustainability Governance ESS and Sustainable Bond Framework.

Issuer:	African Development Bank ("AfDB")
Issuer rating:	Aaa / AAA / AAA (Moody's / S&P / Fitch, all stable)
Size:	EUR 500 million
Pricing date:	15-May-24
Settlement date:	23 May 2024 (T+6)
Maturity date:	23-Mar-28
Coupon:	2.88%
Spread to Bund:	+39.5 basis points
Final Order Book:	€3.2 billion (6.4x oversubscription)
Strong ESG investor interest	63% of the book order
Tighter pricing ever for an AfDB EUR bond:	3bps tighter than initial guidance
Arranging Banks:	Citi, Crédit Agricole CIB, HSBC Natixis

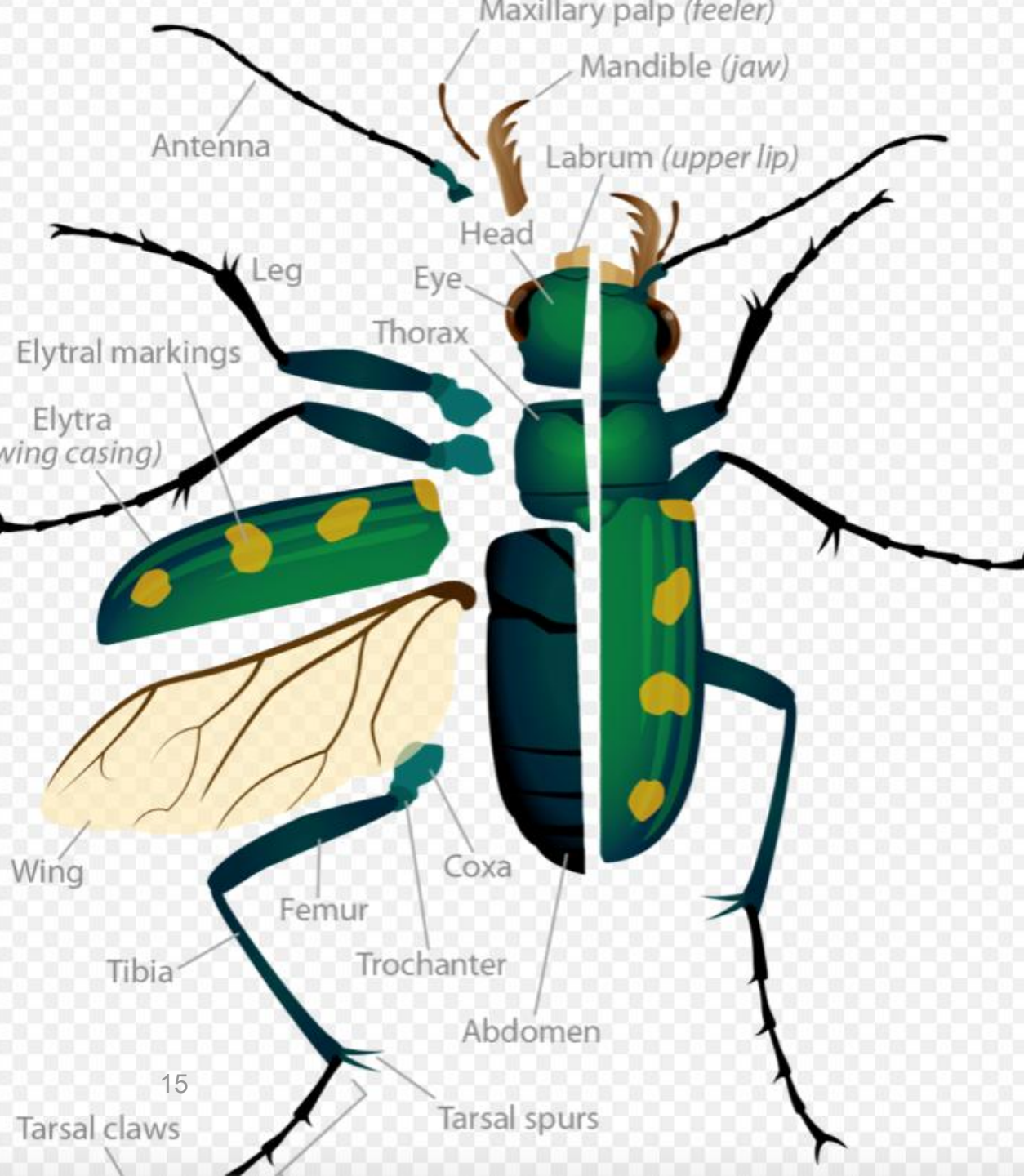
Source: https://www.afdb.org/fr/news-and-events/press-releases/african-development-bank-launches-inaugural-eur-500-million-2875-short-4-year-green-benchmark-due-march-2028-70807?utm_source=chatgpt.com



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Anatomy of green financial instruments

Each financial instrument can become green when supported by complementary governance practices within the implementing DFI:

1/ Sustainability strategy or framework, policies, Theory of change, integration of sustainability into constitutional documents...

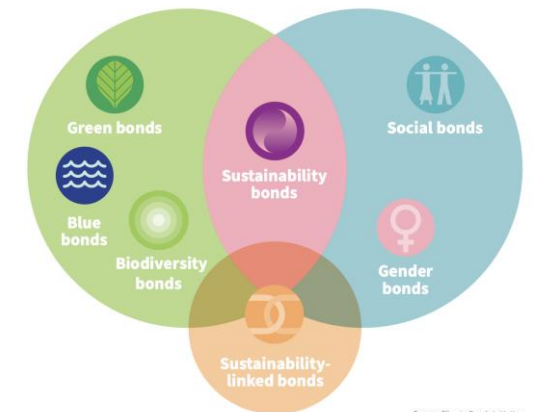
2/ Sustainability operational tools and practice: Environmental and Social Standards/Safeguards, Exclusion List, Positive Impact targets and KPIs, adapted monitoring, sectoral guidance, clear integration of sustainability into investment process steps (documents and committees)

Green bonds are ...

- ... a type of fixed-income investment used to fund projects with a positive environmental impact
- Like traditional bonds, green bonds offer investors a stated return
- Additionally, they offer a promise to use the proceeds to finance or refinance sustainable projects, either in part or whole

There is a large variety of green bonds

- Sustainable bonds
- Blue bonds
- Sustainability-linked Bonds
- Climate bonds
- Transition bonds



Source: Climate Bonds Initiative



How to Set Up a Green Bond Theme

- Define the Strategic Objective (prospectus)
- Establish a Green Bond Framework (GBF)
 - 🔗 **Align with international standards:** EU Green Bond Standard/ ICMA Green Bond Principles (optional but increasingly relevant)/Taxonomies (e.g. EU Taxonomy for Sustainable Activities)
- Get a Second Party Opinion (SPO) – (Climate Bond Initiative/ CICERO)
- Pipeline Identification and Project Readiness
- Internal Governance and Capacity
- Decide on Issuance Strategy
- Marketing and Disclosure
- Post-Issuance Reporting

📌 Practical Challenges



Loans and Bonds – What are the differences?

Feature	Loan	Bond
Definition	A private agreement between a borrower and a single lender (e.g., a bank) to borrow a sum of money under agreed terms.	A tradable debt security issued by a borrower (issuer) to multiple investors in the public or private capital markets.
Origination	Negotiated directly with one lender or a small syndicate.	Issued to the market via an underwriting bank or placement agent.
Interest Rate	Often variable (e.g., LIBOR/EURIBOR-plus spread) but can be fixed.	Typically fixed coupon; can also be floating or inflation-linked.
Repayment	Amortizing (periodic principal + interest) or bullet (interest-only with lump-sum principal at maturity).	Usually bullet: periodic coupon payments and full principal at maturity.
Marketability	Generally non-tradeable; held by the original lender(s) unless assigned.	Tradeable on secondary markets (exchanges or OTC), providing liquidity to investors.
Size & Tenor	Commonly up to a few hundred million; maturities from 1–10+ years.	Can range from tens of millions to billions; maturities from short (1 year) to ultra-long (30+ years).
Credit Rating	Lender conducts its own credit assessment; the loan itself isn't usually rated.	Often rated by credit agencies (e.g., S&P, Moody's), providing standardized risk signals to investors.
Covenants & Flexibility	Can be highly customized (financial covenants, collateral, drawdown tranches).	Standardized covenant packages; less flexibility once issued without consent of bondholders.
Costs	Upfront arrangement fees; ongoing commitment and agency fees.	Underwriting fees, listing fees, legal and rating agency fees.

