THE BASIC GREEN FINANCE REFERENCE GUIDE

FOR ISSUERS, EXTERNAL REVIEWS, AND INVESTORS

AN INITIATIVE OF THE IFC GREEN BOND TECHNICAL ASSISTANCE PROGRAM

GB-TAP Green Bond Technical Assistance Program

IFC International Finance Corporation WORLD BANK GROUP

Creating Markets, Creating Opportunities

IN PARTNERSHIP WITH

THE BASIC GREEN FINANCE REFERENCE GUIDE

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IFC—a sister organization of the World Bank and member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work with more than 2,000 businesses worldwide, using our capital, expertise, and influence to create markets and opportunities where they are needed most. In fiscal year 2019, we delivered more than $19 billion in long-term financing for developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity. For more information, visit **www.ifc.org**

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INTRODUCTION

This first edition of the *Green Finance Reference Guide (GFRG)* aims to be a source of knowledge and best practice for the Green Bond practitioner. It is not a step-by-step guide on how to issue a Green Bond: for such a guide, readers should consult the *Green Bond Handbook (GBH)*, a sister publication by the IFC. Rather, the GFRG provides the most important curated references that Green Bond practitioners can turn to for answers and guidance and to enhance their own knowledge base. Our aim is to bring under one roof some of the substantial body of knowledge that has been built up since the market's effective inception in 2007 and which has dramatically accelerated in the last few years.

We aim for this to be a *living document* which we will plan to review and update annually to accurately reflect developments in this fast-evolving market.

We hope that the GFRG will be a helpful reference point for issuers, investors, and other market participants from the Green Bond ecosystem. We aim for it to be helpful for the newcomer to the market as well as for the more experienced practitioner.

The ESG focused bond market began with bonds whose proceeds were invested in environmentally targeted projects (it is widely recognised that the first effective 'Green Bond' was issued by the European Investment Bank in 2007 under the label 'Climate Awareness Bond'). Hence, the term 'Green Bond'. However, issuance now encompasses bonds backed by social projects ('Social Bonds') or a mixture of green and social projects ('Sustainability Bonds'). It has also evolved into new types of instruments such as Sustainability-Linked Bonds and Climate Transition Bonds. The GFRG will aim to address all these different markets and instruments. However, in a number of instruments – such as Green, Social, and Sustainability Bonds – there is considerable overlap in terms of product features. In such cases we will use the term *Green Bond* generically, highlighting specific aspects where differentiation is required.

I. Background in Search of Best Practice and Comparability of Approach

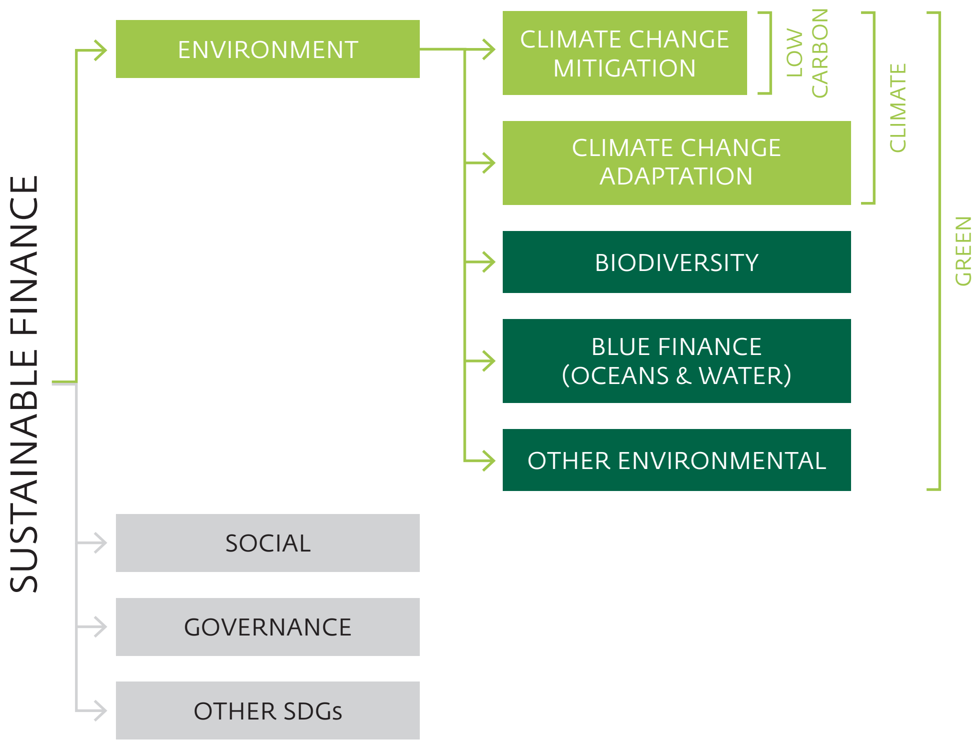
Sustainable Finance could be said to be the practice of using finance for making a substantial contribution to the UN's Sustainable Development Goals (SDGs). In terms of approach, a more practical definition of Sustainable Finance is the finance or refinance, through bonds or loans, that follow any of the following internationally acknowledged Principles: The Green Bond Principles (GBP), the Social Bond Principles (SBP), the Sustainability Bond Guidelines (SBG), the Sustainability-Linked Bond Principles (SLBP), the Green Loan Principles (GLP), the Social Loan Principles (SLP), and the Sustainability-Linked Loan Principles (SLLP). Together these "Principles" have become the global leading framework for practitioners working on Sustainable Finance. Cumulative GSS bonds outstanding totaled $2.1 trillion at H1 2021 according to Climate Bonds Initiative. This amount, however, is a mix of non-comparable and non-aggregable instruments where dollars and impacts are not necessarily counted in consistent ways.

At the time of writing this guidance, Sustainable Finance practitioners are witnessing how new regulations and definitions are being rolled out in select markets. For example, the EU Sustainable Finance Disclosure Regulation (SFDR)[1] defines 'sustainable investment' as an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.
The SFDR complements other instruments such as the EU Taxonomy for Sustainable Finance.

In this guidance document, Green Finance is the finance that follows either the Green Bond Principles (GBP) or the Green Loan Principles (GLP). While it is focused on contributing to environmental objectives, its implementation relies on the ability to keep track of the use of proceeds.

Practitioners wonder how Green Finance in Emerging Markets could be developed consistently, at least at a high level, with the EU and other developed market regulations. In this evolving context, the GFRG aims to provide orientation on how to use existing best practice resources (for example, from ICMA, IRENA, WB, etc.) to improve comparability and consistency in Green Finance.

[1] https://eur-lex.europa.eu/eli/reg/2019/2088/oj

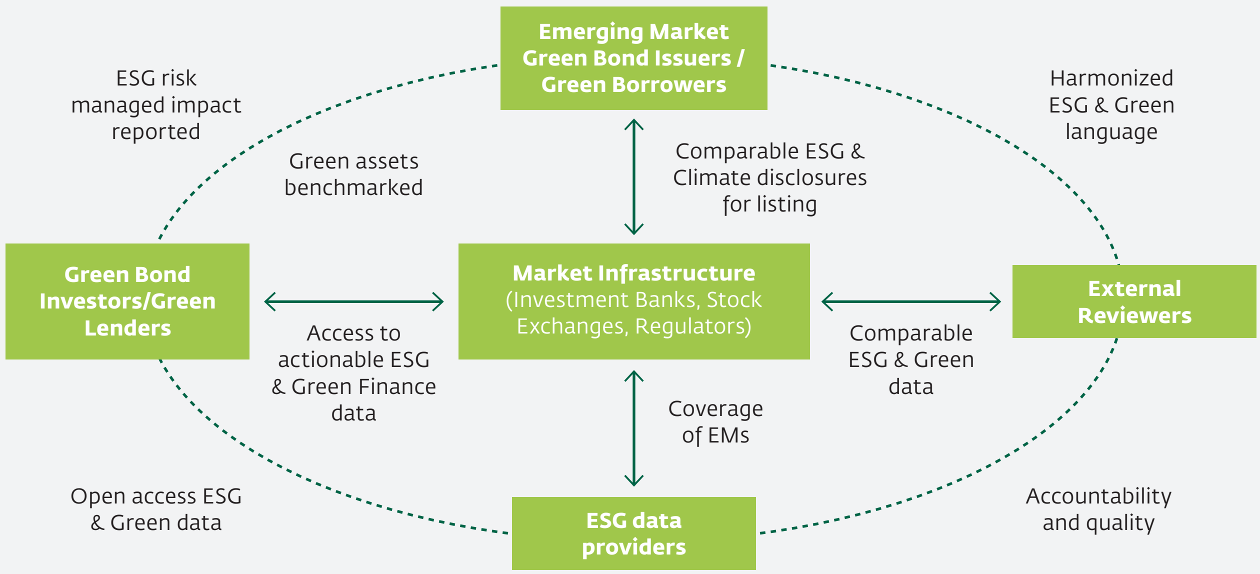


FUNDING INSTRUMENTS

Based on Use of Proceeds: Loans with climate components, green loans and green bonds.

Based on Targets: Sustainability-linked Bonds and Sustainability-linked Loans.

The practice of sustainable finance would benefit if its ecosystem evolved toward greater consistency and enabled access to comparable, analytics-ready information across the market.



The first phase of building such an ecosystem is to help practitioners navigate through essential best practice resources as they progress on the basic consistent steps of implementing green finance. The following sections of the GFRG guide market practitioners toward these resources.

II. Green Finance Reference Guide for Issuers/Borrowers

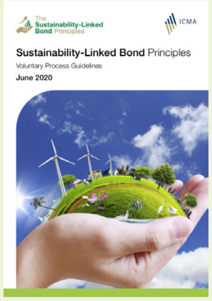
In this section, we outline a number of key reference points for issuers/borrowers who are considering the issuance of a GSS bond/loan and who are setting out on their journey. We highlight why we believe each reference point to be of value and what are the key points/materials it contains. We then make suggestions for further materials that will help an issuer/borrower as they work through the key stages of issuance of a Green Finance instrument. We believe that by referring to these sources, issuers/borrowers will access 'best practice' materials which will guide them toward issuing high quality GSS finance instruments.

As stated above, this reference guide endorses alignment of GSS instruments with the Green Bond Principles/ Social Bond Principles/Sustainability Bond Guidelines/ Sustainability-Linked Bond Guidelines as administered by ICMA and the Green Loan Principles as administered by the Loan Market Association (LMA). These guidelines can be referred to collectively as the 'Principles' and should form the bedrock of any issuer/borrower preparation.

Green Bond Principles
(2021 Version)

Social Bond Principles
(2021 Version)

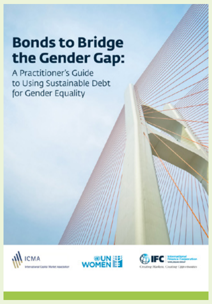
Sustainability Bond Guidelines
(2021 Version)



Sustainability-Linked Bond Principles
(2020 Version)

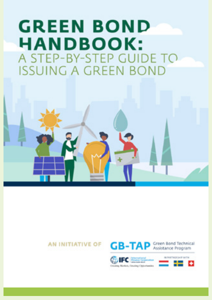
Green Loan Principles
(2021 Version)

Guidance Handbook
(2022 Version)

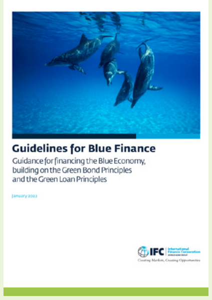


Bonds to Bridge the Gender Gap
(2021 Version)

Impact Report
(2021 Version)



Green Bond Handbook
(2021 Version)



Blue Finance Guidelines
(2022 Version)

» IFC will also be releasing two additional guides for reference in Fall 2022: the SME Green Finance Guide and the Biodiversity Finance Reference Guide.

In addition, and as a complement to the Principles, we recommend issuers to refer to the ICMA GBP Guidance Handbook[2] (2021 Version - 'The Handbook') as they implement the steps below.

The following are some of the GFRG's basic recommendations for issuers/borrowers:

I.	II.	III.	IV.	V.
Specify the Environmental Objective on which there is an intent to make a substantial contribution.	For each environmental objective refer to the respective taxonomy used.	List Use of Proceeds consistent with Taxonomy and Issuer/Borrower's Business Model.	Document processes (ESG safeguards, project appraisal data, etc.) for assessing and selecting eligible activities/assets and managing proceeds.	Describe the measures to deliver informative and complete impact reports.

I.a.

The first key step in planning a Green Finance issuance is to identify the asset types that will be eligible within the 'Pillar 1 – Use of Proceeds' within the instrument. In this context, we recommend issuers and borrowers reference the ICMA Green Project Mapping (2021). This mapping helps market participants to 'relate and evaluate the benefits and contribution of the GBP's Green Project categories to its (GBP's) own five stated environmental objectives which are: Climate Change Mitigation, Climate Change Adaptation, Natural Resource Conservation, Biodiversity Conservation, and Pollution Prevention and Control. The Green Project Mapping match the main group of activities to categories used by the China Green Bond Endorsed Project Catalogue 2020, the Climate Bonds Initiative, the Multi-Lateral Development Bank/International Development Finance Club (Climate Change Mitigation Only) climate finance tracking methodology, and the EU Taxonomy.

[2] The Handbook refers to the ICMA administered Principles and is helpful because it gives an overview of the governance architecture of the Principles, also answers a number of Frequently Asked Questions and includes reference to the Climate Transition Finance Handbook. It is divided into the following sections:
- Fundamentals
- Core Components of the GBP/SBP/SLBP
- Market and Technical Issues
- Governance and Membership
- Other Market and Official Sector Initiatives
- Social Bonds Related to COVID-19

I.b.

The issuer should also elaborate on the materiality of the referred environmental objective and how it aligns with the issuer's sustainability strategy. See Pillar 2 of the Green Bond Principles ('Project Evaluation and Selection') for guidance on the alignment of Issuer Strategy with Use of Proceeds.

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II.a.

We recommend that the issuer/borrower specifies (publisher, year, version) in its Green Finance Framework the taxonomy[3] used for identifying assets or activities that substantially contribute to each environmental objective.

II.b.

Issuers/borrowers with limited or no experience in the use of taxonomies and sustainability labels might wish to refer to the ICMA Guidance on Usability of Taxonomies and Nomenclatures for the Green, Social and Sustainable Bond Markets (March 2021) and to ICMA's Overview and Recommendations for Sustainable Taxonomies (May 2021).

[3] The development of taxonomies – and even the creation of new ones – continues to attract much discussion. This is because taxonomies are central to the discussion of 'what is green'. The reader should note that the GBPs provide suggested categories of eligible assets but do not specify performance criteria for those assets. The GBPs have provided a platform for other sets of guidelines which use the GBPs as a foundation upon which to build frameworks with regional variations. One such example is the Association of Southeast Asian Nations ('ASEAN)' Green Bond Standards (ASEAN GBS) here. The ASEAN GBS, compiled and published by the Asian Capital Markets Forum (ACMF), acknowledge their collaboration with ICMA and the GBPs and publish Social Bond Standards here and Sustainability Bond Standards. However, they also go further in certain measures. For example, in November 2021 the ACMF published its ASEAN Taxonomy for Sustainable Finance (Version 1) here. Although ACMF considers this taxonomy to be a basis for consultation in its current format, it nevertheless provides greater granularity in terms of Environmental Objectives, Sector Prioritization, Industrial Classification Systems, and a Classification System based on a color code of Green, Amber, and Red.

II.c.

Issuers/borrowers with plans to engage investors from the European Union might wish to refer to the EU Taxonomy. This is part of a sustainable finance framework that includes other EU disclosure tools such as the Corporate Sustainability Reporting Directive (CSRD) and the Sustainable Finance Disclosure Regulation (SFDR). The EU Taxonomy aims to be a tool to help investors, companies, issuers, and project promoters plan and report the transition to a low-carbon, climate resilient, environmentally and resource efficient economy, and achieve the EU environmental objectives.

II.d.

One of the taxonomies that contributed to the advancement of transparency in the use of proceeds is the Climate Bonds Initiative (CBI) Taxonomy. Its aim is to identify the 'assets, activities, and projects needed to deliver a low carbon economy' consistent with the goals of the Paris agreement. The CBI Taxonomy now has criteria for the following activities: Energy, Transport, Water, Buildings, Land Use and Marine Resources, Industry, Waste and Pollution Control, and ICT.

To increase standardization and compatibility between different regional and national taxonomies, the International Platform on Sustainable Finance (IPSF) has published a consultation paper on its Common Ground Taxonomy proposal: International Platform for Sustainable Finance.

II.e.

We note that most available taxonomies tend to focus on climate change mitigation and climate change adaptation. In cases where the issuer/borrower wants to make a substantial contribution to areas beyond climate action, such as biodiversity, water and ocean protection, GFRG recommends applying the guidance developed by IFC for blue finance and biodiversity-related finance.

I.	II.	III.	IV.	V.
Specify the Environmental Objective on which there is an intent to make a substantial contribution.	For each environmental objective refer to the respective taxonomy used.	List Use of Proceeds consistent with Taxonomy and Issuer/Borrower's Business Model.	Document processes (ESG safeguards, project appraisal data, etc.) for assessing and selecting eligible activities/assets and managing proceeds.	Describe the measures to deliver informative and complete impact reports.

III.a. Issuers/borrowers should crosscheck which asset types and activities present or planned in their existing portfolio and pipeline are listed in the chosen and referenced taxonomy and match them accordingly.

III.b. Having defined the eligible use of proceeds these can be included in the respective section of the issuer/borrower's Green Finance Framework. The Green Finance Framework is the key document that should set out all the non-financial characteristics of the Green Bonds/Loans that the borrower intends to issue. The Green Bond Principles recommends that the issuer should create a Green Finance Framework and that this should be publicly available along with any External Review. The Green Finance Framework is typically modeled around the four Pillars of the GBPs (investors will be critically focused on whether the External Review confirms that the instrument to be issued, as framed by the Green Finance Framework, is aligned with the GBPs).

III.c. We recommend that issuers/borrowers follow the ICMA High Level Mapping to the SDGs when specifying the contribution to SDGs from the proposed use of proceeds. As implied, the document aims to map each of the 17 individual Sustainable Development Goals (SDGs) to broad categories for use of proceeds within the Green and Social Bond Principles (the paper recognises that Green projects might have Social co-benefits and vice-versa). The mapping also provides 'Example Indicators' which issuers might use in the framework of their impact assessment and reporting. 15 of the 17 SDGs have been found to map to the categories of the GBPs and the SBPs and the full list of SDGs can be found here.

I.	II.	III.	IV.	V.
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IV.a.

To stay consistent with the Green Bond Principles and Green Loan Principles, an issuer of green bonds or green loans should set out, within its Green Finance Framework, the process for evaluating and selecting green eligible activities and assets. This aligns with Pillar 2 of the GBPs: Project Evaluation and Selection.

IV.b.

The issuer or borrower may choose to underpin this evaluation and selection process by putting in place Environmental and Social risk management measures such as IFC's Environmental and Social risk management standards, Equator Principles or similar as part of the selection of assets and activities. Investors are increasingly interested in the overarching ESG internal infrastructure within issuers/borrowers and not just with the process related to the Green Bond / Loan. The issuer/borrower should specify how its internal process is aligned with market practice (for example, which internal committees have been put in place to perform project evaluation and selection).

IV.c.

Issuers/borrowers that aim to access EU-based investors may wish to articulate how the internal ESG Risk Management practice covers the Do No Significant Harm (DNSH) and Minimum Safeguards required by the EU Taxonomy for Sustainable Activities for the proposed use of proceeds.

IV.d.

Issuers/borrowers based in emerging markets may also briefly highlight the ESG reality or actual status (for example, access to electricity) of their host country using the World Bank's Sovereign Environmental, Social, and Governance Data. This can help investors understand the difference in context and impact of the investment compared to an equivalent investment in developed markets.

I. Specify the Environmental Objective on which there is an intent to make a substantial contribution.	**II.** For each environmental objective refer to the respective taxonomy used.	**III.** List Use of Proceeds consistent with Taxonomy and Issuer/Borrower's Business Model.	**IV.** Document processes (ESG safeguards, project appraisal data, etc.) for assessing and selecting eligible activities/assets and managing proceeds.	**V.** Describe the measures to deliver informative and complete impact reports.

V.a.

If the bond or loan combines Green and Social assets in its use of proceeds (for example, a Sustainability Bond) then the annual impact report should clearly distinguish between the Green use of proceeds (for example, certified Green Buildings) and Social use of proceeds (for example, Social Housing). This differentiation should also be clearly reflected at the outset in the issuer's/borrower' Framework. For example, a Sustainability Bond Framework would have separate Pillar 1 Use of proceeds sections for both Green and Social assets although Pillar 2 (Project Evaluation and Selection) and Pillar 3 (Management of Proceeds) would likely be the same as for a stand-alone Green or Social Finance Framework.

V.b.

It is clear that many investors would like to see more detailed and more standardised impact reporting so that they can better measure the impact of their own investments. With better impact reporting comes a need for better quality and granularity of data. This data is not always available – particularly in some Emerging Markets. Providing better impact reporting – or any impact reporting at all – can be a challenge for some issuers, particularly for smaller entities with resource constraints. The usual finance function – the Treasury – may not have the specialised resources necessary to plan and execute high quality impact reporting. Indeed, the necessary internal resources might not exist anywhere within the entity. Therefore, a prospective issuer might choose to look to external resources such as a specialised consultancy.

However, the need to provide impact reporting is only going to intensify so a good place for an issuer to start its research is with ICMA's Handbook 'Harmonised Framework for Impact Reporting' (2021 Version).

The original version of this Handbook was published in 2015 and was the initiative of a number of International Financial Institutions (IFIs). The working group that has produced the latest version comprises a large number of interested stakeholders and was led by EBRD, EIB, IFC, KfW, NIB and the World Bank.

The working group has also worked over recent years to publish guidance for impact reporting by sector. Sectors with individual guidance now comprise:

- Renewable Energy
- Energy Efficiency
- Sustainable Water and Wastewater Management
- Waste Management and Resource Efficiency
- Clean Transportation
- Green Buildings
- Biodiversity
- Climate Change Adaptation
- Circular Economy and/or Eco-Efficient Products

Each set of sector specific guidance and reporting metrics is accompanied by dedicated Reporting Templates. These templates provide suggested core impact indicators according to sector and other information that it is proposed that the issuer reports – such as the total amount of the bond, its currency and the share of the bond taken by the issuer. Separate templates are suggested for Project-by-Project Reporting and for Portfolio-based Reporting. These templates can serve as a useful foundation for an issuer's impact reporting.

V.c.

The Green Bond Principles recommend that the methodology underlying any quantitative measurements of impact should be disclosed and that issuers should use the templates provided in the *Harmonized Framework* for reporting purposes. For GHG calculations, we would recommend issuers/borrowers to specify the respective emission factors and calculation formulas, or procedures used.

V.d. *Reporting GHG Savings:* To ease the comparability and aggregation of GHG savings of Renewable Energy and Energy Efficiency Projects, we would recommend applying the Harmonized GHG Accounting Standards/Approaches and Guidelines developed by the IFI GHG Accounting Group, including the Harmonized IFI Grid Emission Factor Data Set.

V.e. *Reporting Renewable Energy Generated:* In the absence of project level data, FI issuers/borrowers can use the installed capacity and conservative load factors data (e.g., from IRENA) per technology to estimate Renewable Energy Generated per year.

V.f. *Reporting Energy Savings:* Apply quality control and assurance, for example, checking if the amount of energy savings is substantial (e.g., over 20%) or if the order of magnitude (considering units) is below original total energy consumption or energy consumption per unit of service.

V.g. *If Bond/Loan focuses on Blue Finance Impact:* IFC has published through ICMA guidelines for Blue Finance a set of Blue Finance Impact Indicators to which issuers and borrowers might wish to refer.

V.h. It is one of the key recommendations of the GBPs/GLPs that, once the Green Finance Framework has been developed, the issuer/borrower should commission a pre-issuance External Review to confirm that the Framework is aligned with the GBPs/GLPs. Furthermore, the GBPs recommend that the issuer/borrower should commission a post-issuance audit of its management of proceeds process to confirm that the proceeds of issuance have been allocated to eligible Green projects as set out in the Green Finance Framework. In the Appendix, we attach a sample Terms of Reference for the Appointment of a Second Opinion Provider.

III. Green Finance Reference Guide for External Reviews

External Reviews have grown to be a key part of the ecosystem surrounding Green Bond/Loan issuance. An External Review can take different forms (see later) and is commissioned by the issuer from an independent third party. A key purpose of the External Review is to provide to investors and other stakeholders a review of the issuer's Green Finance Framework and proposed Bond/Loan issuance and to confirm that it is aligned, for example, with the four core components of the Green Bond/Loan Principles or another chosen set of standards or guidelines. As such, it is a key communication tool for the issuer and is usually posted on the issuer's website along with the Green Bond Framework when the bond marketing process begins.

There are also growing attempts from bodies such as the EU to regulate the industry. ICMA has promoted best practices for External Reviewers in its *Guidelines For Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews (February, 2021: here).*

The ICMA Guidelines aim to promote:

Integrity	Objectivity	Professional Competence and Due Care	Confidentiality	Professional Behavior

There are four main types of External Review. These are:

Second Party Opinion (SPO):
An independent institution with environmental expertise provides a pre-issuance opinion on the issuer's Framework and Bond, particularly in respect of its alignment with, for example, the Green Bond Principles and/or the Green Loan Principles.

Verification:
An issuer obtains independent verification of performance against a designated set of environmental/social/sustainability criteria. These services are typically conducted by audit firms.

Certification:
An issuer has the bond certified against the pre-established criteria of a certain label or standard. A common standard in the market, for example, is the *Climate Bonds Standard* here which is designed and administered by the Climate Bonds Initiative.

Bond Scoring / Rating:
An established ESG-driven rating methodology is applied to the Bond such as those provided by ratings agencies and others.

The following are some of the GFRG's basic recommendations for external reviewers:

I.	II.	III.	IV.	V.
Check materiality of proposed Environmental Objective based on the issuer/ borrower's business model.	Confirm that issuer/borrower understands the requirements of the taxonomy used.	Check that Green Finance Framework details Use of Proceeds with enough detail to confirm compliance with the Taxonomy requirements.	Review capabilities to implement minimum safeguards and minimize harm to other environmental objectives, and manage proceeds in accordance with GBP/GLP.	Review issuer/ borrower's capabilities to follow the ICMA Handbook for a Harmonised Framework for Impact Reporting.

I.a.

External reviewers are encouraged to check if the proposed environmental objectives are relevant or material for the issuer/borrower. Examples of approaches include, but are not limited to, the Sector Study on Sustainability Materiality of the SDG Targets & GRI Indicators or the SASB Materiality Map.

I.	II.	III.	IV.	V.
Check materiality of proposed Environmental Objective based on the issuer/ borrower's business model.	**Confirm that issuer/borrower understands the requirements of the taxonomy used.**	Check that Green Finance Framework details Use of Proceeds with enough detail to confirm compliance with the Taxonomy requirements.	Review capabilities to implement minimum safeguards and minimize harm to other environmental objectives, and manage proceeds in accordance with GBP/GLP.	Review issuer/ borrower's capabilities to follow the ICMA Handbook for a Harmonised Framework for Impact Reporting.

II.a

External reviewers are encouraged to confirm that they have checked that the issuer/borrower has the in-house capabilities to understand the taxonomy employed. For example, that the issuer/borrower understands how eligibility conditions may affect implementation of project types which are included within the issuer's Pillar 1 Use of Proceeds section of the Green Finance Framework (for example, required efficiency standard, additional measures, eligibility threshold, etc.)

I.	II.	III.	IV.	V.
Check materiality of proposed Environmental Objective based on the issuer/borrower's business model.	Confirm that issuer/borrower understands the requirements of the taxonomy used.	Check that Green Finance Framework details Use of Proceeds with enough detail to confirm compliance with the Taxonomy requirements.	Review capabilities to implement minimum safeguards and minimize harm to other environmental objectives, and manage proceeds in accordance with GBP/GLP.	Review issuer/borrower's capabilities to follow the ICMA Handbook for a Harmonised Framework for Impact Reporting.

III.a.

To minimize risk of greenwashing, external reviewers may want to review the language used to detail Pillar 1 Use of Proceeds to make sure that it is not 'open to arbitrary interpretation'. The eligibility of assets should be precisely specified in language that is not 'generic'.

III.b.

To minimize risk of greenwashing, external reviewers may want to check if issuers/borrowers avoid generic terms in green bond/loan documentation and instead use standardized language such as the ICMA Sustainable Finance High-level definitions and the LMA's Green and Sustainable Lending Glossary of terms.

I.	II.	III.	IV.	V.
Check materiality of proposed Environmental Objective based on the issuer/borrower's business model.	Confirm that issuer/borrower understands the requirements of the taxonomy used.	Check that Green Finance Framework details Use of Proceeds with enough detail to confirm compliance with the Taxonomy requirements.	Review capabilities to implement minimum safeguards and minimize harm to other environmental objectives, and manage proceeds in accordance with GBP/GLP.	Review issuer/borrower's capabilities to follow the ICMA Handbook for a Harmonised Framework for Impact Reporting.

IV.a.

External reviewers are encouraged to disclose the approach followed to review the overall ESG profile and capacities of the issuer/borrower. This can include but is not limited to the Loan Market Association's ESG Diligence Questionnaire – Asset Manager, the EU Taxonomy's requirements for Do No Significant Harm (DNSH) and Minimum Safeguards, or the LMA Best Practice Guide To Term Sheet Completeness.

I.	II.	III.	IV.	V.
Check materiality of proposed Environmental Objective based on the issuer/ borrower's business model.	Confirm that issuer/borrower understands the requirements of the taxonomy used.	Check that Green Finance Framework details Use of Proceeds with enough detail to confirm compliance with the Taxonomy requirements.	Review capabilities to implement minimum safeguards and minimize harm to other environmental objectives, and manage proceeds in accordance with GBP/GLP.	Review issuer/ borrower's capabilities to follow the ICMA Handbook for a Harmonised Framework for Impact Reporting.

V.a.

External reviewers are encouraged to confirm that the issuer/borrower has not only developed a Green Finance Framework aligned to the GLP or GBP, but also that the issuer/borrower is in a position to deliver on the necessary post-issuance steps including Allocation and Impact Reporting. This could be done by checking if the issuer/borrower understands the technical recommendations of the ICMA Handbook for a Harmonized Framework for Impact Reporting. The issuer's management may, of course, choose to engage a reviewer to provide post-issuance verification of processes, such as Allocation Reporting.

V.b.

External reviewers are encouraged to also consider whether the issuer/ borrower's internal systems and governance are in a position to collect, assess, and report extra-financial data on the use of proceeds (for example, energy consumption and sources before and after project implementation, energy generated/saved, certifications, physical location, etc.). The isuer may choose to supplement its own internal resources in this respect with outside expertise.

IV. Green Finance Reference Guide for Investors

Investors increasingly implement systems and allocate resources to the task of engaging effectively with issuers/borrowers on the alignment of an issuer's/borrower's funding strategy with its overall sustainability strategy. Investors may do this through proactive participation in issuer annual meetings or through bilateral engagement with issuers. Some potential issuers will conduct 'non-deal' roadshows with investors which allow the issuer/borrower to present its ESG credentials in advance of any potential transaction. The issuer/borrower may, for example, choose to showcase a draft Green Finance Framework to an investor. This 'non-deal' format allows the issuer to gather feedback and make changes where necessary to the terms of its intended framework and financing before coming to market.

The following are some of the practices identified by GFRG that investors may want to consider:

I. Check consistency of proposed Environmental Objective based on your investment and sustainability strategy.

II. In the investment agreement insert issuer/borrower's obligations to apply Eligibility rules for Use of Proceeds and requirements of the taxonomy used.

III. Annex Green Finance Framework to Investment Agreement.

IV. In the investment agreement insert issuer/borrower's obligations to minimize harm to other environmental objectives, implement safeguards and manage proceeds in accordance with GBP/GLP.

V. Insert issuer/borrower's obligations to report annually in accordance with the ICMA Handbook for a Harmonised Framework for Impact Reporting.

I.a.

Investors may want to confirm there is an alignment between their own strategic priorities and the environmental objectives of the issuer/borrower. For example, Energy Funds that have a mandate to invest in green eligible power assets may use investment in green bonds to be exposed to the desired assets (for example, solar power) but if the Green Finance Framework of the issuer/borrower is broad the investor may not get the desired exposure to solar power and instead may end up with other types of green assets (for example, Green Buildings, Forestry, etc.) This potential misalignment of interests may be overcome by the issuer specifying the particular use of proceeds from within the eligible pool at the time of each individual issuance.

I.	II.	III.	IV.	V.
Check consistency of proposed Environmental Objective based on your investment and sustainability strategy.	In the investment agreement insert issuer/ borrower's obligations to apply Eligibility rules for Use of Proceeds and requirements of the taxonomy used.	Annex Green Finance Framework to Investment Agreement.	In the investment agreement insert issuer/borrower's obligations to minimize harm to other environmental objectives, implement safeguards and manage proceeds in accordance with GBP/GLP.	Insert issuer/ borrower's obligations to report annually in accordance with the ICMA Handbook for a Harmonised Framework for Impact Reporting.

II.a.

To minimize the risk of greenwashing investors may want to draft investment agreements that include definitions of green loan/bond terminology and very clear eligibility rules for use of proceeds.

II.b.

To minimize the risk of greenwashing investors may want to draft investment agreements that include basic obligations for the issuer/ borrower:

- Develop a Green Finance Framework.
- Contract an External Review which may be done in accordance with the Sample Terms of Reference for the Appointment of a Second Opinion Provider (included in section V of this document).
- Obtain an External Review Report confirming alignment with the GLP and/or GBP.
- Report annually throughout the tenor of the loan/bond on the allocation of proceeds and the respective impact in accordance to the ICMA Handbook for a Harmonized Framework for Impact Reporting.

I.	II.	III.	IV.	V.
Check consistency of proposed Environmental Objective based on your investment and sustainability strategy.	In the investment agreement insert issuer/ borrower's obligations to apply Eligibility rules for Use of Proceeds and requirements of the taxonomy used.	**Annex Green Finance Framework to Investment Agreement.**	In the investment agreement insert issuer/borrower's obligations to minimize harm to other environmental objectives, implement safeguards and manage proceeds in accordance with GBP/GLP.	Insert issuer/ borrower's obligations to report annually in accordance with the ICMA Handbook for a Harmonised Framework for Impact Reporting.

III.a. Investors may want to include the Green Finance Framework as a reference annex to the Investment Agreement or other documentation. This may provide a quick reference to the eligibility rules for the use of proceeds section of the Green Finance Framework.

III.b. In select cases (e.g., if investors want to be exposed only to a subset of the Green Finance Framework's proposed use of proceeds) investors may want to complement eligibility rules for use of proceeds based on their appetite or priority areas.

I.	II.	III.	IV.	V.
Check consistency of proposed Environmental Objective based on your investment and sustainability strategy.	In the investment agreement insert issuer/ borrower's obligations to apply Eligibility rules for Use of Proceeds and requirements of the taxonomy used.	Annex Green Finance Framework to Investment Agreement.	**In the investment agreement insert issuer/borrower's obligations to minimize harm to other environmental objectives, implement safeguards and manage proceeds in accordance with GBP/GLP.**	Insert issuer/ borrower's obligations to report annually in accordance with the ICMA Handbook for a Harmonised Framework for Impact Reporting.

IV.a. Investors may want to manage exposure to a third party ESG risk through the consideration of specific ESG risk management obligations in the issuer/borrower.

IV.b.

Investors based in the EU may want to include covenants to ensure the Do No Significant Harm (DNSH) and Minimum Safeguards' requirements of the EU Taxonomy and SFDR are properly addressed by the issuer/borrower.

I.	II.	III.	IV.	V.
Check consistency of proposed Environmental Objective based on your investment and sustainability strategy.	In the investment agreement insert issuer/ borrower's obligations to apply Eligibility rules for Use of Proceeds and requirements of the taxonomy used.	Annex Green Finance Framework to Investment Agreement.	In the investment agreement insert issuer/borrower's obligations to minimize harm to other environmental objectives, implement safeguards and manage proceeds in accordance with GBP/GLP.	Insert issuer/ borrower's obligations to report annually in accordance with the ICMA Handbook for a Harmonised Framework for Impact Reporting.

V.a.

Investors may want to note the conclusions of the Environmental Finance Report Green Bond Funds Impact Reporting Practices 2020, which include:

i. More than two-thirds of investors regard impact reports as 'crucial'.

ii. 60% of investors say current impact reporting practices are 'inadequate'.

iii. Most investors prefer standalone impact reports rather than integrated reporting.

iv. Key areas for improvement are transparency and standardization of the reports.

v. More than 80% of green bond funds monitor the ESG ratings of issuers.

vi. 74% of green bond funds already issue impact reports; a further 16% intend to do so.

vii. Two-thirds of funds report in line with the Harmonized Framework for Impact Reporting.

viii. 90% of fund impact reports discuss their portfolio's alignment with the SDGs.

ix. Key metrics (for both funds and investors) are GHG reductions, clean energy generated, and energy efficiency gains.

x. 70% of funds expect to include additional impact metrics in future reports.

V.b.

Investors may want to introduce in its investment agreement obligations for the issuer/borrower to align its reporting practices with the ICMA Handbook for a Harmonized Framework for Impact Reporting.

V.c.

Investors may want to introduce specific reporting obligation practices in the issuer/borrower, including but not limited to:

i. If the bond or loan goes beyond Green finance (e.g., combining Social and Green use of proceeds) then the annual impact report distinguishes, to the extent possible, between the Green use of proceeds (e.g., certified Green Building) and Social use of proceeds (e.g., social housing).

ii. Specify the respective emission factors and calculation formulas, or procedures used.

iii. Apply the Harmonized GHG Accounting Standards/Approaches and Guidelines developed by the IFI GHG Accounting Group, including the Harmonized IFI Grid Emission Factor Data Set.

iv. If part or all the proceeds of the loan or bond were allocated in blue eligible activities or assets, then apply the IFC Guidelines for Blue Finance published in the ICMA website.

V. A Good Example of a Second Opinion Provider Terms of Reference

A. BACKGROUND AND OBJECTIVES

These terms of reference ("TOR") are for the appointment of an independent Second-Opinion Provider ("SOP") for [LEGAL NAME] ("The Company") in respect of an assessment of its Green Finance Framework to confirm its alignment with the Loan Market Association (LMA)'s Green Loan Principles (GLP) [and/or] the International Capital Market Association (ICMA)'s Green Bond Principles (GBP). The proposed [loan][bond] entails an up to [X year, corporate, unsecured, covenant lite A/B/Parallel] [Loan][Bond] for up to [AMOUNT AND CURRENCY OF] [LOAN] [ISSUANCE] to The Company by the [Lenders][Investors]. The Company is [INSERT DESCRIPTION OF THE COMPANY].

Specifically, the [loan][bond] proceeds will be used to fund:
[DESCRIBE THE INTENDED USE OF PROCEEDS]
[INSERT ESTIMATED IMPACT IF AVAILABLE].

The Company now seeks to contract an independent SOP for the review and assessment of the Green Finance Framework which will culminate in a final Second Opinion Report.

B. SCOPE OF WORK

Through a desktop review, the SOP will conduct an independent assessment of the Green Finance Framework, including the additional relevant Inputs (further detailed in Section D), in order to determine the [Loan][Bond]'s adherence with the GLP and its qualification as a Green Loan [and the GBP and its qualification as a Green Bond]. Principally, the SOP will assess the Green Finance Framework containing a description of: (i) use of proceeds; (ii) management of proceeds; (iii) project evaluation and selection; and (iv) reporting.

C. DELIVERABLES/SPECIFIC OUTPUTS EXPECTED FROM CONSULTANT

The SOP will provide (i) one Draft Opinion Report; and (ii) one Final Opinion Report (together, the "Deliverables").

- With the Final Opinion Report, the SOP will confirm alignment, or not, of the Green Finance Framework to the GLP [and GBP] and its status as a Green Loan [or Green Bond].
- The SOP will work closely with the Company on the above deliverables.
- The SOP will follow the ICMA Guidelines for Green, Social, Sustainability and Sustainability Linked Bonds External Reviews.
- The Final Opinion Report will be formatted in accordance to the ICMA Template for External Review Service.

An indicative timetable of anticipated milestones and deliverable deadlines is provided, below.

TIMETABLE	
Due date for submission of proposals	**[DATE]**
Second-Opinion Provider selection	**[DATE]**
Kick-off meeting (by teleconference)	**[DATE]**
Delivery of Draft Opinion Report	**[2 weeks after kickoff]**
Delivery of Final Opinion Report	**[4 weeks after kickoff]**

D. SPECIFIC INPUTS TO BE PRESENTED BY THE COMPANY

(i) The Company, [with assistance from its sustainability advisor], will provide the Green Finance Framework and certain inputs (as needed) to the SOP to facilitate the assessment and preparation of the Deliverables (e.g., information on the Environmental and Social ("E&S") impact).

E. SPECIAL TERMS & CONDITIONS / SPECIFIC CRITERIA

- By accepting this letter, you agree to keep all information regarding the Project and related matters confidential.

- You shall have proven technical expertise in understanding the underlying project types in the underlying sector.

THE BASIC GREEN FINANCE REFERENCE GUIDE

GB-TAP Green Bond Technical Assistance Program

IFC International Finance Corporation WORLD BANK GROUP
Creating Markets, Creating Opportunities

IN PARTNERSHIP WITH