Green Bond Guidelines

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Prepared by the Ministry of Environment

in collaboration with the Jordan Securities Commission, the Central Bank of Jordan, the Ministry of Finance, the Ministry of Planning & International Cooperation

Ministry of Environment

Introduction

Jordan is committed to contributing to global efforts to combat climate change and move towards achievement of its green economy vision. Jordan is an early mover on climate change, ratifying the Nationally Determined Contributions (NDC) under the Paris Agreement in November 2015 and adopting a comprehensive National Climate Change Policy (2013-2020) that has been recently updated for 2021-2030. Jordan has also developed a National Adaptation Plan 2021 and is preparing its Long-Term Low-Emission Development and Climate Resilient Strategy 2050 (LTS) towards a net zero emissions ambition.

Jordan submitted its updated NDC in October 2021. Jordan's updated NDC intend to implement mitigation and adaptation measures, reducing its greenhouse gas emissions by 31% by 2030. The estimated total cost for achieving the 31% goal is over US$ 7.54 billion. This includes an unconditional commitment of 5% using country's own financing and 26% (approx. US%6.3billion) conditional upon availability and access to international financial institutions, and the private sector funding.

Since 2016, Jordan has made green growth a national priority, adopting a National Green Growth Plan in 2016 and launching Green Growth National Action Plans (2021-2025) for Agriculture, Energy, Tourism, Transport, Waste and Water. These plans were created to expand Jordan's climate and sustainable development ambitions by mainstreaming green growth, climate change, and sustainable development objectives into sectoral frameworks.

Jordan adopted the Climate Change bylaw in 2019, establishing an umbrella policy framework to promote climate action through: (i) institutional framework particularly, establishment of comprehensive National Climate Change Committee; (ii) national IT-enabled infrastructure for Monitoring, Reporting, Verification (MRV) and Registry of Climate Actions; (iii) framework for development of sectoral strategies and innovative solutions towards achieving 2030 NDC goals and 2050 long-term climate strategy; and (iv) identifying innovative financial and climate finance options to accelerate public and private sector climate action.

The Ministry of Environment is the national focal point for climate change. This guideline is being published in fulfillment of its mandate to convene and coordinate with stakeholders to identify new areas of finance, such as green bonds. Globally, green bonds are emerging as an important financial instrument for countries to catalyze funds for green and sustainable recovery programs and projects. Such initiative can evince the interest of Sustainable, Responsible and Impact (SRI) investors groups, in addition to local and international private sector in exploring and supporting investments in Jordan.

The green bond guidelines draw upon market best practices such as the Green Bond Principles (GBP), developed by the International Capital Market Association (ICMA). The objectives of these guidelines are to stimulate dialogue with private sector stakeholders interested in the green bonds market and launch Jordan towards issuance of the first green bonds in the near future. These guidelines have been prepared in coordination with Ministry of Finance, Jordan Securities Commission and Central Bank of Jordan. Interested stakeholders are encouraged to participate in the next phase of pilot testing these green bonds guidelines, with consultation on markets, regulations, and verification, towards full operationalization.

Acknowledgments

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1. The Green Bonds Opportunity

1. Objective

1) Facilitate the development of a domestic green security market in Jordan.

2) Maintain credibility of green securities in general through transparency, disclosure, integrity, and quality and prevent “green washing” or “green wash” bonds (green securities labeled as “green” despite having exaggerated or no environmental benefits, or whose proceeds have not been appropriately allocated to green projects) from being issued and invested in. These Guidelines are based on International Capital Market Association (ICMA) Green Bond Principles, 2021 and the Malaysian experience in issuing Green Sukuk and adapted for the Jordanian context.[1]

"Conserving the environment and its ecosystems through developing legal, strategic and policy frameworks in addition to spreading environmental culture and enhancing environmental monitoring and law enforcement and transition to a green economy within a participatory approach and a supporting institutional structure to contribute to achieving sustainable development. The mission expressed the purpose and reasons for the ministry existence which includes the protection of the environment with its various components, ecosystems and biological systems and conserving their diversity" Ministry of Environment.

2. Definition

These guidelines could be used for both, regular securities, and Shariah Compliant financing instruments. Thus, green securities can be both Green Bonds and Green Sukuk that exclusively finance green, climate-responsive, environmentally positive projects. Green securities are similarly structured to conventional Sukuk or bonds except for the management and use of money proceeds as well as additional disclosure requirements. Proceeds of green securities are to be exclusively applied to financing or re-financing green projects. The terms ‘green bonds’ and ‘green securities’ are used interchangeably throughout this document.

Green Bonds are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible green projects.[2]

Green Sukuk are interest-free bond that generates returns to investors without infringing the principles of shari’ah (Islamic law) which prohibits the payment of interest. It is a shari’ah-compliant security backed by a specific pool of underlying assets.[3] They are also exclusively applied to finance, re-finance eligible green projects. The possibility of listing green sukuk in the sukuk market is subject to the approval of the Central Sharia Supervisory Board on trading sukuk based on Article (3/5) of the instructions for listing sukuk as an Islamic financing.

Green-Bond-Principles-June-2021-100621.pdf (icmagroup.org)[1]

[2] ICMA Green Bond Principles, 2021 https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf

[3] World Bank Group, (2020). *Pioneering the Green Sukuk: Three Years On*, p. 17. https://openknowledge.worldbank.org/bitstream/handle/10986/34569/Pioneering-the-Green-Sukuk-Three-Years-On.pdf?sequence=1&isAllowed=y .

3. Green Bonds Market

The green securities market has emerged under the collective awareness of environmental problems in conjunction with activities that have emerged to reduce environmental pollution caused by human activities.

There are currently four types of Green Bonds according to the GBP 2021:

1. Standard Green Use of Proceeds Bond: a standard recourse-to-the-issuer debt obligation aligned with the GBP.
2. Green Revenue Bond: a non-recourse-to-the-issuer debt obligation aligned with the GBP in which the credit exposure in the bond is to the pledged cash flows of the revenue streams, fees, taxes etc., and whose use of proceeds go to related or unrelated green project(s).
3. Green Project Bond: a project bond for a single or multiple green project(s) for which the investor has direct exposure to the risk of the project(s) with or without potential recourse to the issuer, and that is aligned with the GBP.
4. Green Securitized Bond: a bond collateralized by one or more specific green project(s), including but not limited to covered bonds, ABS, MBS, and other structures; and aligned with the GBP. The first source of repayment is generally the cash flows of the assets.

4. Benefits of Green Bonds

The main reason for the emergence and development of the green securities market is its relationship with three major players: investors, issuers, and government activities. Issuing green bonds have several benefits that can be summarized as follows: (i) expands investor base and increases investors' diversification; (ii) increases visibility as an environment friendly corporate; (iii) helps investors meet clients' needs and help them complete ESG mandates; and (iv) helps investors avoiding reputational risk.

A. For Investors:

Investors are increasingly committing assets to support environmentally positive investments and avoid the risk of investments related to fossil fuels, such as obsolescence, increasing scarcity of natural resources and the financial implications of environmental scandals. Globally, there are regulations being enacted to encourage investments in sustainability through various means such as tax incentives and reporting requirements. Investing in green securities generate returns that are currently similar to conventional Sukuk or bonds but with the added benefit of supporting a global objective of reducing Co2 emissions and mitigating the effects of climate change.

B. For Issuers:

Issuers of green securities cut across industries from financial institutions, corporates, development institutions, municipalities, and sovereigns. Issuers are able to raise awareness of the green projects they are involved in, bringing strategic attention to the sustainable development across sectors. Issuers are also able to gain new investors in their bond offerings because of the growing class of investors who are sensitive to environmental issues. In some cases, issuers have been able to gain advantageous pricing with green securities issuance in comparison to their conventional securities.

C. For Government Activities:

Governments play a key role in the development of the green securities market. Where there was considerable effort to reduce the problem of climate change by developing friendly economic models and directing investments to be environmentally friendly. Sovereigns have begun issuing green bonds to finance infrastructure, research, etc. that address climate change.

1.1. Conceptual and Normative Frameworks

A. Conceptual Framework

Green securities are conventional securities that have restrictions to ensure that the proceeds from the securities are used to exclusively finance environmentally positive green projects. There are several areas where green bonds are used, such as projects that reduce carbon emissions, projects related to increasing water and energy efficiency, waste management, reliance on renewable energy rather than fossil fuel, land reclamation. The determinant of the use of money proceed in green securities is a contractual condition between the issuer and the investor. The investor wishes to invest money in environmentally friendly projects and according to the specific objectives of fundraising. When projects financed by green securities are well known to the investor (for example in the case of refinancing), it is easy for investors to determine whether projects financed will meet their expectations or not. In cases where green securities proceeds are not pre-defined (such as portfolio financing, financing lending institutions that wish to finance environmentally friendly projects), the investment decision requires additional information.

In all cases, it is necessary to ensure the following points:

- Verify the credibility of the potential green securities issuance prior to issuance through an external review (who would be eligible) which ensures the issuer's compliance with these guidelines is accurate and sufficient, with regard to the process of project selection, use of the proceeds, and reporting.

- Set up of adequate and appropriate internal controls and processes to ensure that funds raised through the green securities are tracked and used as pre-agreed.

B. Normative Framework

Green securities are not subject to a specific legal regime, but in general adhere to the general principles governing the relationship between the issuer and the investor, such as: compliance with agreed contractual terms and commitment to provide information periodically and continuously.

However, given the growth in the green securities market, key actors have developed general principles and developed best practices that can be applied and define the relationship between green securities investors and issuers. Key market players in coordination with the International Capital market Association (ICMA) developed the Green Bond Principals (GBP), a set of voluntary guidelines.

There are several initiatives aimed at setting standards for handling green securities:

- **International Capital Market Association (ICMA) Green Bonds Principles (GBP), 2021**

These voluntary principles were formulated in 2014 and updated in 2021 by a global consortium of underwriter banks, investors and issuers. There are now around 300 institutions signed up to the GBP. The GBP are intended for broad use by the market: they provide issuers with guidance on the key components involved in launching a credible green bond; they aid investors by promoting availability of information necessary to evaluate the environmental impact of their green bond investments; and they assist underwriters by moving the market towards expected disclosures that will facilitate transactions.

The four core components for alignment with the GBP are: 1. Use of Proceeds; 2. Process for Project Evaluation and Selection; 3. Management of Proceeds; and 4. Reporting. The key recommendations for heightened transparency are: (i) Green Bond Frameworks (ii) External Reviews.

- **Climate Bonds initiative (CBI)**

This international non-profit organization promotes investment in projects and assets necessary for a rapid transition to a low-carbon and client resilient economy; provides information and reports on the green bond and climate bond market; and sets guidelines for the issuance of bonds targeting each sector, in addition to providing advice and guidance to clients.

The Climate Bonds Standard V3.0 is fully aligned with the GBP but more stringent. It includes mandatory requirements for use of proceeds, selection of projects and assets, management of proceeds and reporting, as well as specific criteria for determining the low-carbon and climate resilient credentials of projects and assets. Three types of reporting (Allocation reporting, Eligibility reporting, and Impact reporting) is mandatory. Verification by a CBI approved verifier is mandatory.

1.2. Principles and Best Practices

The principles outlined in this section are based on the recommendations of the Green Bonds Principles (GBP) developed by ICMA..

The four core components for alignment with the GBP are: 1. Use of Proceeds; 2. Process for Project Evaluation and Selection; 3. Management of Proceeds; and 4. Reporting.

The key recommendations for heightened transparency are: (i) Green Bond Frameworks (ii) External Reviews.

Core Components:

A. **Use of Proceeds**

Government of Jordan has identified investment priorities areas for achieving the national climate change goals and the green growth vision. The green bonds can be utilized for the indicative list of projects listed below:

- Projects included in the approved Nationally Determined Contributions (NDC), National Green Growth Action Plans, National Adaptation Plan, or in the definition and eligibility criteria issued by Ministry of Environment for climate-responsive capital expenditures in Jordan

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

Eligible projects could be new or existing projects which the issuer wishes to refinance using the green securities proceeds. Either way, the issuer needs to specify the percentage of refinancing component, as some investors may have limits on investments in existing projects.

In the case of new projects, the proceeds must be employed for pre-defined projects prior to issuance. In the case of refinancing, the proceeds of the issue are aligned with a portfolio of existing projects, the issuer has a set of assets, and the resources originally allocated to these projects are replaced by the green bonds' proceeds. Consequently, the use of proceeds in this case is unrestricted, but the issuer must ensure that there is a portfolio of eligible projects corresponding at least to the outstanding balance of the issue.

B. Process for Project Evaluation and Selection

In some cases, the proceeds of the issue are not intended to finance a specific project, where the issuer's objective is to finance its portfolio of several environmentally friendly projects that are not certainly known. In this case, the issuer must have a well-defined project selection process in order to obtain financing. The process should also include criteria to address the situation when some of the assets financed by green bond funds are removed.

External Reviews

The use of external reviews is recommended to enhance the credibility of green securities, and the reviews are through four levels:

- Consultant advice: A recognized expert to advise the issuer and assist him in the process of issuing and reviewing the securities (nature of the projects, their environmental impacts, use of the issuance proceeds).
- Verification: The issuer may resort to a third party to verify certain aspects of the securities such as an external auditor (e.g., project selection criteria, money management, used and unused balance) and environmental impact.
- Obtaining the relevant approvals and certificates from a third party confirming the issuer's compliance with external standards related to the environment.
- Valuation of securities through rating agencies. (no credit rating agencies in Jordan).

The Executive Committee of the Principles and the Advisory Council in consultation with a group of leading external reviewers, with the support of the ICMA Secretariat have developed Guidelines for External Reviewers with the objective to promote best practice in the provision of external review services for green, social, sustainability and sustainability-linked bonds.[4]

C. Management of Proceeds

To ensure that proceeds are used in the pre-agreed objectives at the issuance, the proceeds of green securities must be restricted in special accounts. So long as the green securities are outstanding, the balance of the tracked proceeds should be periodically adjusted to match allocations to eligible green projects made during that period.

The issuer must also have strict methodological procedures to track these funds throughout the securities period. These procedures are intended to monitor where the proceeds have been invested, and if there is any remaining balance that has not been invested. Funds that have not yet been invested can be temporarily invested by the issuer in liquid financial instruments that are in line with the issuer's specific principles and are disclosed to the investor.

D. Reporting

The issuer shall prepare annual reports containing information previously indicated at the time of issuance and these shall be disclosed to investors at least once a year and throughout the lifetime of the securities. These reports shall include the nature of the projects financed in detail and the expected environmental results of such projects.

[4] ICMA, https://www.icmagroup.org/sustainable-finance/external-reviews/

2. Best Practices for Issuance of Green Bonds

This section presents an adaptation of global best-practices for issuance of green bonds to the Jordanian context. According to securities law and Issuance regulations issuance of green securities will follow the rules and procedures applicable to the type of securities chosen since the preparation of green securities offer is very similar to that of a conventional security. All specific process, regulations, and market requirements for issuance of green securities will be duly established by the relevant regulatory bodies including, Central Bank of Jordan, Jordan Securities Commission, Ministry of Finance and Ministry of Environment during the pilot phase.

1. **Prior to the Issuance**

   A. **Identify Projects**

- Projects that will be funded by the issuer should be clearly defined, add to this determining their expected impact on the environment.
- In case of unidentified projects, the issuer must define a policy describing the criteria for which investments should be aligned and identify specific procedures for evaluation, selection and financing of projects.
- It is recommended that the issuer describes processes and methods adopted for identifying and managing potentially material social and environmental risks associated with projects being financed, especially in the case of the financing of large infrastructure projects.
- If the financing is directed to the refinancing of the projects, whether in part or in full, the issuer should identify the projects refinanced from the issuance and each share of the issue value.
- In all cases, measures should be put in place to control investments and reporting procedures on their environmental impact.
- There are many criteria and categories for project identification and preparation of the draft documents mentioned in section 1.2 that provides a combination of global best practices and Jordan specific criteria.

   B. **Independent Reviews**

Independent reviews from a qualified third party contribute to:

- Assure investors about the positive impact of projects on the environment, which contributes to the success of the issue.
- Protect the reputation of the issuer against potential claims of *greenwashing,* especially in case of failure to achieve the expected impacts of the project.
- Incorporating experience of a third party helps the issuer to identify the best projects and prepare the necessary documents related to them and reduce the cost of documentation, and gives a clearer picture to the investors

2. **Approval Stage for Green Securities**

   A. **Submission of the Application**

A request for approval of the issuance of green securities shall be submitted to the relevant regulator as in the case of ordinary security in addition to the following requirements:

- Bond or Sukuk indenture including all issuer obligations.
- Accurate description on the type of projects being finance. Accurate criteria for selecting eligible projects (expected impact, profitability)
- Eligible investment assessment mechanism (Assessment Steps Required Reports)
- Mechanism of management and control of the proceeds of the issuance: include authorizations and determinants relating to the movement of funds and periodic examination and adjustments required for the account, and reports of funds used and remaining (excluding refinanced projects).
- The investor's communication policy indicates the information that the issuer is obliged to disclose during the life of the security (such as the nature of the information, its period, means of publication, the place of its availability, the responsible persons).
- The mechanism used when the issuer fails to meet its obligation (e.g., the issuer's inability to execute the investments, disposal of one of the asset portfolio).
- Reports submitted by the independent third party, who reviewed the proposed issuance (statement of independence, adoption of his publications, autobiography).
- Additional data depending on the nature of the issuer and the issuance.

B. File examination

It should be noted that the Jordan Securities Commission does not guarantee that the securities are really "green" (environmentally friendly), and therefore the Commission relies on the report submitted by the independent third party. However, the Commission ensures that the issuer has disclosed sufficient information to potential investors.

Accordingly, the issuance of green securities is subject to the regular standards and procedures at the Commission, taking into account the following aspects:

- The use of the proceeds of the issue must be clearly defined.
- The mechanism for selecting projects and their expected environmental impacts should be clarified.
- If the issuance is directed to finance a new project, the proceeds of the issuance must be restricted to a bank account dedicated to this project. To follow formal and strict procedures, to ensure that the funds utilized in the project and the surplus balance are tracked.
- If the issue is directed at refinancing a portfolio of projects, the issuer must ensure that the portfolio size is at least equal to the issue amount.
- Information disclosed to investors must be specific, clear, and continuously updated.
- The conclusions of the independent external reviews should be disclosed to investors.
- All the principles mentioned above should be disclosed in the prospectus and accompanying documents and reviewed by the Commission to ensure protection to investors and the market.

3. Throughout the Life of Green Security

A. Periodic Information

- The issuer should regularly disclose how the proceeds of the issue are used (projects, types of projects funded, funds spent on these projects, surplus balances).

- Disclosure of environmental impacts from projects financed using the green security proceeds. The effects should be disclosed in a standardized, understandable, and comparative manner using the same indicators, and if indicators change, it should be disclosed.
- Providing environmental impact documentation for projects on the website at the issuer's headquarters, at the request of investors.
- Exposed environmental effects must be reviewed by a trusted third party.
- The external auditor should certify the issuer's compliance with the procedures mentioned in the documents submitted.
- The issuer must disclose the above at least once a year until the bond matures.

B. Ongoing Information

As in the case of any common securities issuer, issuers must disclose any material information as it occurs. In the case of the green securities, the following events are considered to be significant:

- There is a delay in using the proceeds of the issue compared to what was disclosed.
- There is considerable variance between the expected environmental impact and the real environmental impact of the funded projects.
- Any change to auditors and certified auditors.
- Any event that is expected to have an impact on the environmental performance of the project or on the economic feasibility of the project.
- Any change in the issuer's obligations (bearing in mind that any change in the issuer's obligations must be with the approval of the bond or Sukuk holders at a public authority meeting or the approval of their representatives in accordance with the initial agreement with the bondholders).