

Supranationals: accelerating green, social and sustainable bond issuance

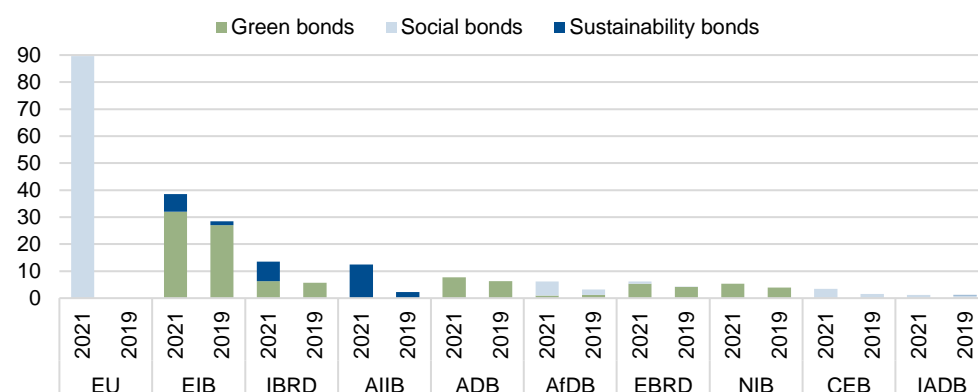


Scope
Ratings

Supranational issuers have increasingly made use of green, social and sustainability (GSS) bonds to finance their Covid-19 related activities. This increases the global availability of GSS-related bonds, boosts the credibility of the supranationals' climate finance targets, and buttresses the importance of their social and sustainability linked mandates, which are set to increase GSS issuance over the medium term.

GSS bond issuance by SSA issuers has accelerated and diversified over the past year, driven by the increased financing needs of supranationals in supporting corporates, households and sovereigns in the Covid-19 crisis. The amount of outstanding GSS bonds issued by selected SSAs (ADB, AfDB, AIIB, CEB, EBRD, EIB, EU, IADB, IBRD, NIB¹) stood at EUR 184bn as of 20 May 2021, up 225% from EUR 57bn at the end of 2019. While green bonds accounted for the majority of GSS issuance at end-2019 (85%), their share has declined to 31%, while social bonds now account for 55%, mostly driven by the European Commission's issuance of social bonds for the Support to mitigate Unemployment Risks in an Emergency (SURE) programme (Figure 1).

Figure 1: Total ESG bonds outstanding by selected SSA issuers, May 2021 and 2019 bn EUR



Green, social and sustainability bonds classified through Bloomberg's Green Bond Indicator, Social Bond Indicator and Sustainability Bond Indicator. As of 20 May 2021 and 31 December 2019.
Source: Bloomberg Finance L.P., Scope Ratings GmbH

The main developments are:

- **Main issuers:** The EU has become the largest GSS issuer through its social-labelled SURE bonds. Its GSS bond portfolio now stands at almost EUR 90bn, representing 43% of the global outstanding GSS bonds of SSA issuers. Issuance of NGEU bonds will further increase the volume, as 30% of the total volume of EUR 800bn is planned in the form of green bonds. With an anticipated average annual borrowing of around EUR 150bn, this could expand the market for GSS bonds by EUR 45bn per year. Other main players are the EIB (currently EUR 38.5bn GSS bonds outstanding) and the IBRD (EUR 13.5bn).
- **Rising issuance:** In relative terms, the AIIB increased its GSS issuance the most (by 456%), followed by the IBRD (136%) and the CEB (129%), while in absolute terms the EU (EUR 90bn), the AIIB (EUR 10.2bn) and the EIB (EUR 10.1bn) issued the most GSS bonds since 2019.

¹ Asian Development Bank, African Development Bank, Asian Infrastructure Investment Bank, Council of Europe Development Bank, European Bank for Reconstruction and Development, European Investment Bank, European Union, Inter-American Development Bank, International for Reconstruction and Development, Nordic Investment Bank.

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Related Research

European Supranational Outlook
2021 – 16 February 2021

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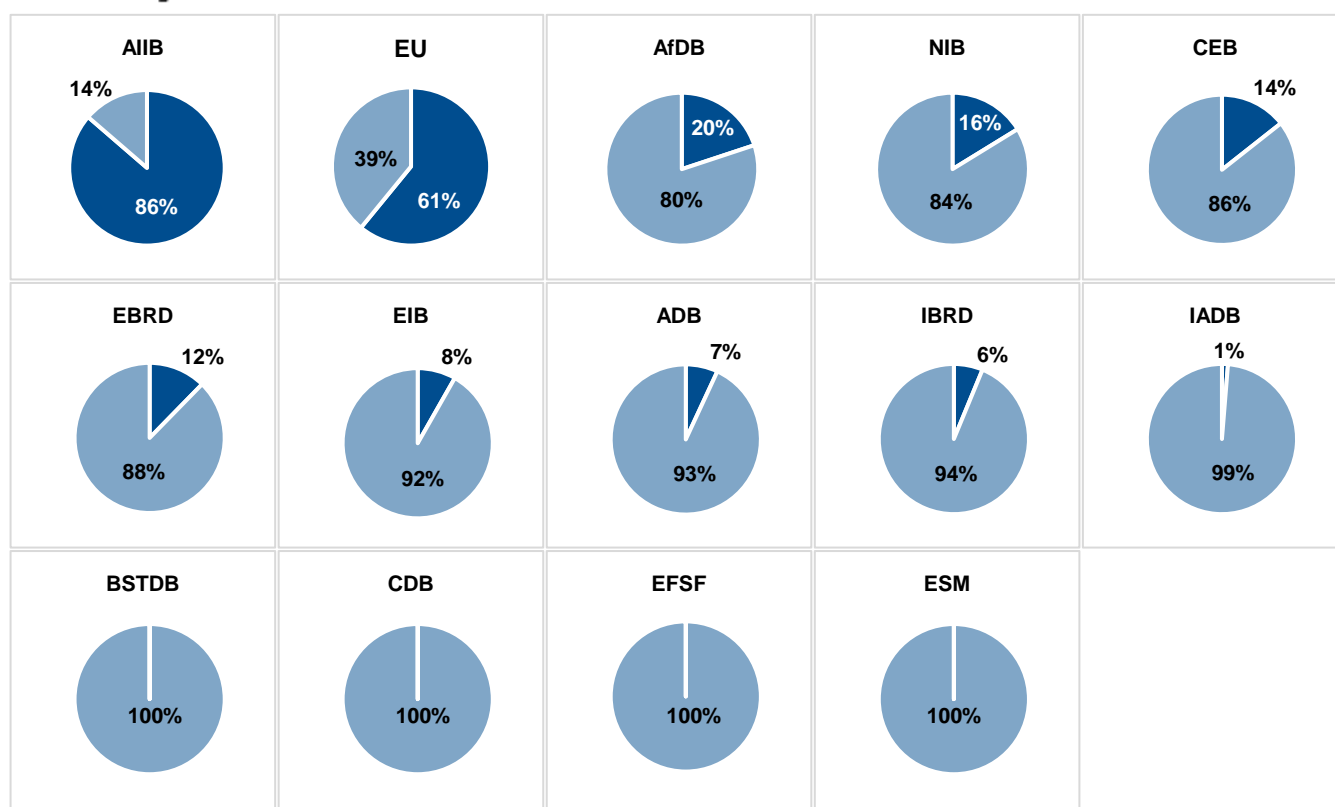


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- **Rising share in portfolios:** In terms of bond portfolio composition, the AIIB has the largest share of GSS bonds of around 86%, followed by the EU (61%) and the AfDB (20%) (**Figure 2**). We expect this share to increase over the coming years for most supranationals, while it is likely to decline somewhat for the AIIB and the EU as non-GSS issuance increases.
- **Funding targets:** SSAs have set themselves targets for their climate finance activities, reflecting changes in mandates and operational frameworks. For example, the AIIB, EBRD and EIB are targeting a 50% share of green finance in annual commitments by 2025. We therefore expect SSAs to increase their GSS issuance activity in the medium term (**Table 1**).

Figure 2. Share of GSS and regular bonds outstanding in 2021

■ GSS ■ Regular



Source: Bloomberg Finance L.P., Scope Ratings GmbH, as of 20 May 2021.

Table 1. Climate finance targets	
ADB	Target of 75% for its committed operations in support of climate change mitigation and adaptation by 2030
AfDB	Commitment to mobilise USD 25bn in climate finance between 2020 and 2025
AIIB	Target to reach or exceed 50% of climate finance as a share of its actual annual lending approvals by 2025
BSTDB	Target to allocate at least 30% of financing to climate mitigation, adaptation, and co-benefits operations by 2030
EBRD	Aim to increase the volume of green lending to over 50% of annual commitments by 2025
EIB	Aim to increase support for climate action and environmental sustainability investments to more than 50% of annual financing by 2025
IADB	Target that 65% of annual project approvals include investments in adaptation and climate action
IBRD	Aim for 35% of its financing to have climate co-benefits on average over the next five years (2020-2025), and will also seek to ensure that 50% of this financing supports adaptation and resilience

Source: Official websites., Scope Ratings GmbH



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