

The Green Bond

Your insight into sustainable finance

28 June 2022



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The European Parliament's Committee on Economic and Monetary Affairs recently responded to the Commission's proposal for a European Green Bond Standard. In line with industry-wide trend towards greater scrutiny of sustainable investments, the Committee's position expands and changes the Commission's proposal in several key aspects and increases pressure on issuers to deliver greater transparency, accountability, and impact.

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On 28 June, the International Fund for Agricultural Development (IFAD) issued its first sustainable development bond with Folksam, a leading insurance and pension fund in Sweden investing in a USD 100mn bond. The entry to capital markets sets the stage for IFAD's increased investment in food security, rural development and economic growth.

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Letter to the reader

With Greeting from the GBP/SBP/SLBP AGM in London.

10 years ago – before we created the principles – before the first benchmark green bond transactions, this was still a small market, with (relatively) few people who fought to get attention and highlight the value proposition – not only for impact, but also for efficiency and finance. Today, this is an industry, an industry with an enormous number of individuals contributing across regions, across disciplines, across sectors, and across religions. The achievement of Sustainable Finance and its contribution to society is without doubt. At this stage, we are now facing our biggest challenge so far: The risk of stagflation and consequently the stress placed on financial management (CFO's and MinFin's), has the potential to push forward short-term gains rather than medium to long term structural actions. This needs to be dealt with and we all have a challenge (and an opportunity) in securing that the individuals burdened with this task get the right support to continue driving the transition forward without (too much) hesitation. Looking into our client interactions – we have a larger pipeline than ever, and the pipeline is supported by strong institutional demand. We don't see any indications of investment mandates being changed and actually don't

expect that to happen either. At the same time there are strong indications that energy companies, especially in Europe, will need to delay their journey to Paris and find finance for this in other sources. We expect most such plans to be combined with a demand for increased investments in renewable and CCS technologies. We remain very positive on the labelled market: Apart from the market recovering (especially green bonds) – we see new issuers, like the International Fund for Agricultural Development (IFAD) allowing investors to get a better understanding of challenges and solutions inside the agriculture sector and thereby using finance to address food supply issues across the world – a topic that has never been more relevant and important. We warmly welcome IFAD to the labelled bond market.

Christopher Flensburg

Head of Climate and Sustainable Finance
christopher.flensburg@seb.se

Transition update

A global energy crisis

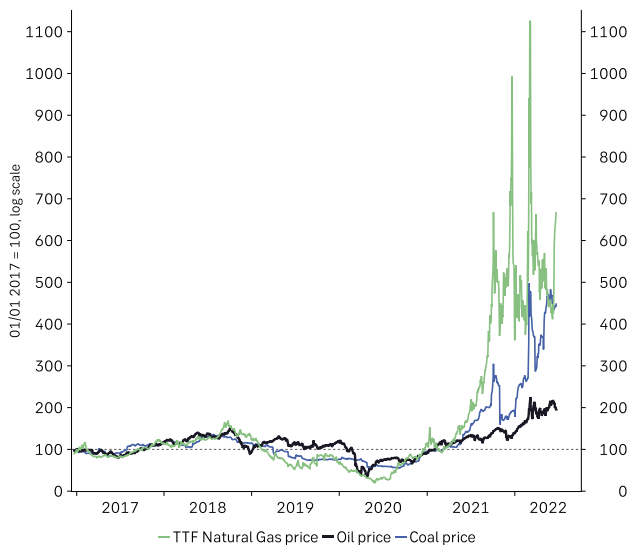
The war in Ukraine has disrupted global energy markets and exposed a structural energy crisis that has been underway for decades. The short-term solution is to burn any available fuel. The long-term solution is a multi-decade investment boom, but it can't start until supply shortages ease.

War exposes structural energy crisis

Since we published the latest issue of The Green Bond, the early conclusions we made regarding energy transition and the impact of the war in Ukraine have been strengthened. This goes both for the negative short-term consequences with a considerably higher level of coal consumption than expected and for the long-term effects in the shape of a faster transition to renewable energy than expected.

This is because the longer the war continues, the less acceptable dependency of energy supplies from Russia is likely to be, and also because the high prices for all types of fossil energy continue to strengthen the argument to deploy renewables instead (Figure 1).

Figure 1 European natural gas, oil and coal price



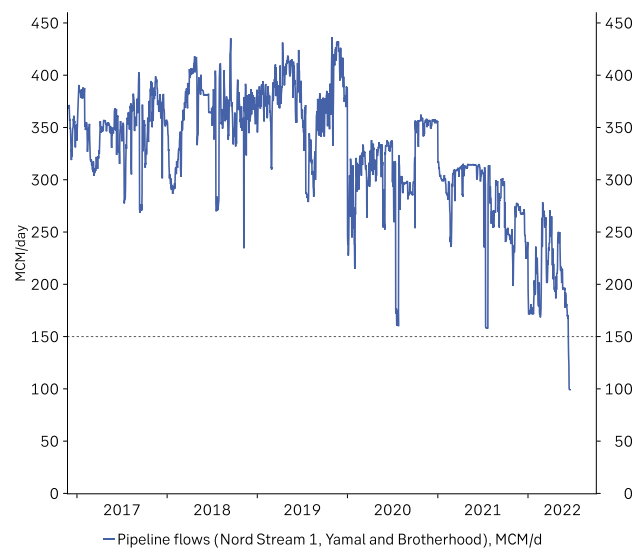
Source: Bloomberg

From a global perspective it is important to note that the war in Ukraine and consequent disruptions has accelerated an energy crisis that already was building up long before Russia invaded Ukraine. That points to a more structural problem with underinvestment within the energy sector over the past couple of decades.

War, disruptions, and shortages

In the short term, the disruption from the war in Ukraine continues to dominate energy markets. EU governments decided shortly after the invasion to exempt Russian natural gas supplies from sanctions, but it was already clear that if the war continued, the security of these supplies would be highly uncertain. Sadly, the war does not appear likely to end anytime soon, which means that there is a continuous threat to energy security.

Figure 2 Natural gas pipeline flows from Russia



Source: Bloomberg

This was demonstrated in recent weeks when flows of natural gas through pipelines from Russia suddenly fell by 50%, which in our opinion could not be explained by the technical excuse offered by Russian authorities (Figure 2). This resulted in a jump in the natural gas price in Europe of 75% within a couple of weeks, and futures indicate this price level is expected to persist through the end of 2022.

As we head into the summer the macroeconomic threat isn't so severe, however there is real doubt whether there will be sufficient inventories for the winter.

Thomas Thygesen

thomas.thygesen@seb.dk

Elizabeth Mathiesen

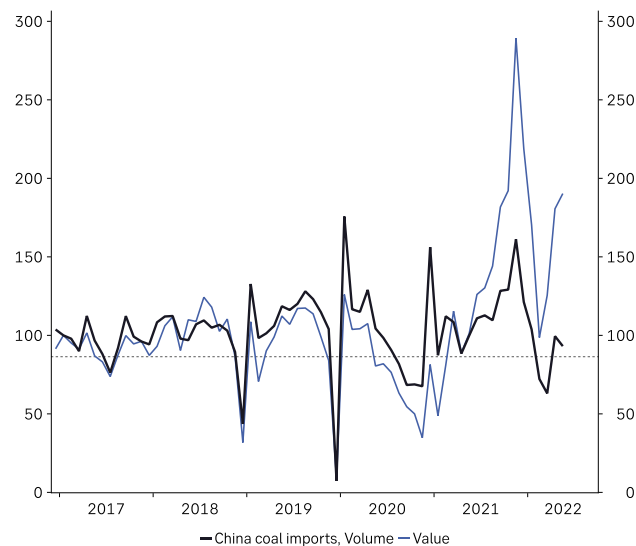
elizabeth.mathiesen@seb.dk

Europe appears to be in the early stages of a supply crisis, and governments have begun to warn of possible rationing, with potentially devastating effects for economic activity.

This disruption also has global repercussions, as natural gas (as opposed to oil) cannot be re-routed to other markets. For now, the global consequences have been offset by another disruption: China's pandemic related lockdown, which has led to a temporary drop in demand during Q2.

It is worth noting that the first significant spike in natural gas prices in chart 1 came well before the war, in the Autumn of 2021, when Chinese supply shortages forced authorities to ration electricity, and boost imports of coal and gas to secure short-term energy supplies. While coal prices did not fall back, the volume of Chinese coal imports has declined in 2022 as inventories had been refilled and energy demand declined during lockdowns (Figure 3).

Figure 3 China coal imports



Source: Macroboond

This meant that Europe wasn't competing with China for coal and natural gas after the invasion to the same degree as during the winter. This has dampened the immediate effect of Russia's reduced supply and reduced the contagion from gas to other energy sources.

Nonetheless, the price of coal remains five-six times above the average price over the past five years and competition for available energy supplies is likely to heat up as the larger cities in China gradually reopen.

Global energy supply problems are also amplified by a shortage of refining capacity after a decade of low investment. This means that prices for refined products like diesel, gasoline and jet fuel have moved well above the level normally implied by crude oil prices. US consumers now pay more than USD 5.5 per gallon of diesel, 20% more than current crude prices would normally justify (Figure 4).

Figure 4 WTI and diesel price



Source: Bloomberg, Macroboond

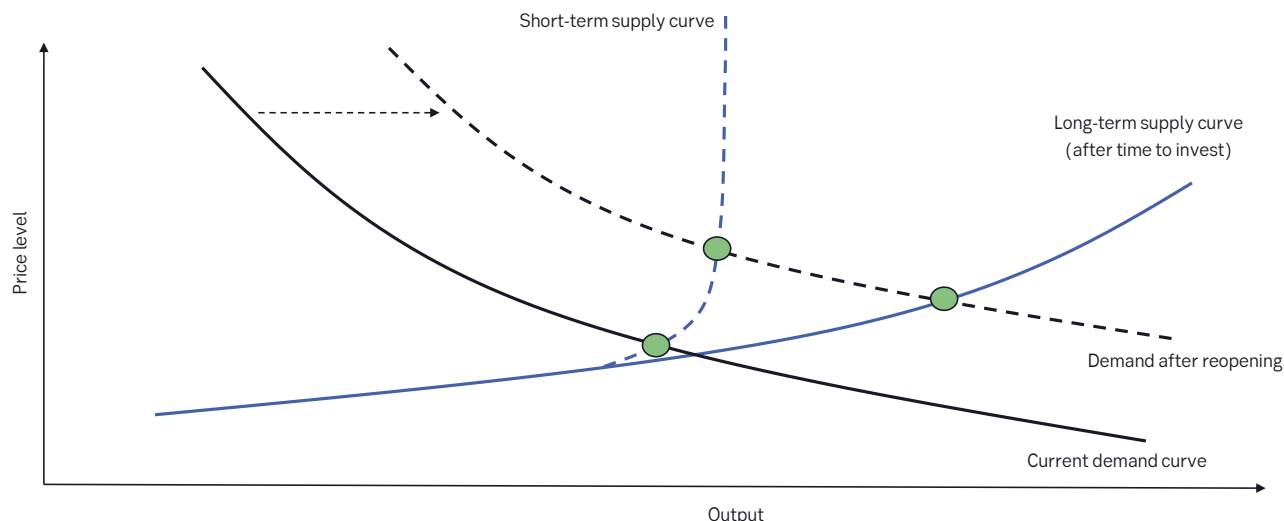
The structural energy crisis

While disruptions and random shocks have played a key role in triggering the energy shortages, they were only the catalysts exposing a more structural shortage of energy and other key inputs to production that has built up over decades.

The result is that a whole range of markets appear to have reached the vertical part of the supply curve at the same time. At this point, there is no added supply available at any price before sufficient time has passed to expand capacity with new investment. The vertical segment of the supply curve is a characteristic of capital-intensive sectors like energy, mining, and shipping, where there is a significant time lag between when you decide to expand supply and when it comes online (Figure 5).

Thus, for practical purposes, the supply curve can become vertical for time horizons of less than three-five years. Once the last reserve capacity is used, rising demand will only lead to exponential price increases, with no upper limit. This is a non-linear process, which also explains why inflation has quadrupled instead of moving incrementally higher.

Looking only at crude oil, it is debatable whether we are at this physical limit, as OPEC+ is generally believed to hold back excess capacity from the market to support prices. However, if Russia's energy exports are more permanently impaired, it is not obvious that Saudi Arabia and other OPEC members can compensate immediately. More generally, the explosive increases in coal and natural gas prices suggest that the world's total energy supply is approaching a broader physical limit, with substitution effects ultimately bringing oil closer to the physical limit as well.

Figure 5 Illustration of vertical short term supply curve

Source: SEB Strategy Research

This sets a painful dynamic in motion. The open-ended increase in prices when reaching the vertical part of the supply curve is essentially the market's way to balance demand and supply by destroying demand. There is no upper limit for prices, they just rise until they become too costly to consume.

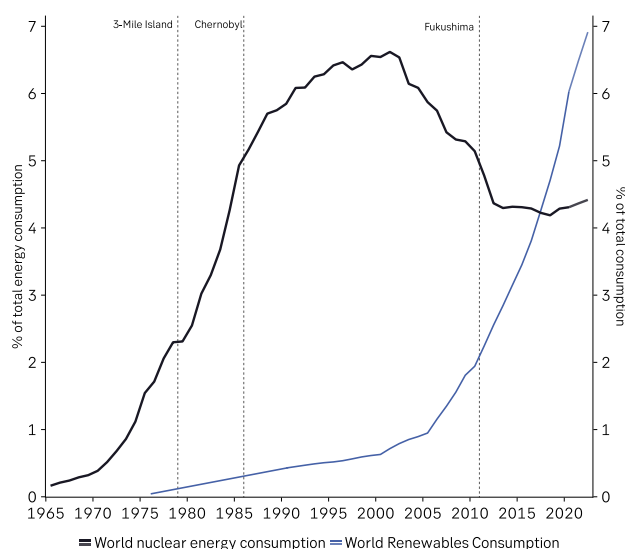
This has macroeconomic effects, as energy is the most pervasive general-purpose technology, used in every part of economic activity. Since the energy intensity of GDP is embedded in physical production capital and cannot be easily changed over short horizons, reducing energy demand typically means reducing GDP and overall economic activity as well.

Decades of underinvestment

The roots of the structural energy crisis can ultimately be traced back to the 1980s, when we abandoned nuclear power after 30 years of development and failed to prioritize public investments in alternative energy sources.

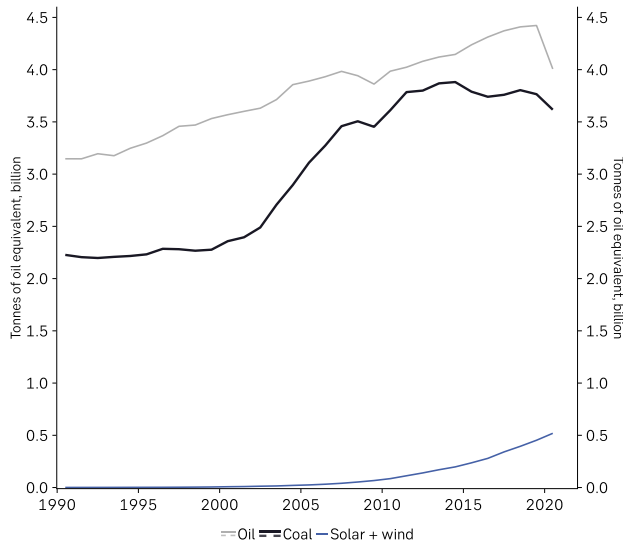
This meant that we had to wait until 2010 before renewable energy reached just 1% of global energy consumption (Figure 6). Compounding this problem, over the past decade investment in fossil fuels has been curtailed due to climate concerns which has led investors to withdraw from oil & gas sectors, signalling to companies they shouldn't expand capacity for fossil energy.

For reasons that are hard to understand today but appear to have been linked to financial considerations, we failed to increase investments in renewable energy to compensate for the decline in fossil energy production.

Figure 6 Nuclear and renewable energy consumption

Source: BP, Macrobond

From a global supply perspective, it will require at least 10-20 years of significantly elevated investment in energy, broadly speaking, to compensate for this historical error of judgement. If you add in the time left before we enter an irreversible climate disaster, with unimaginable economic implications, this strongly suggests that this surge in investment will be concentrated in renewable energy, once we overcome the immediate supply concerns using any energy sources available.

Figure 7 Global energy consumption

Source: BP, Macrobond

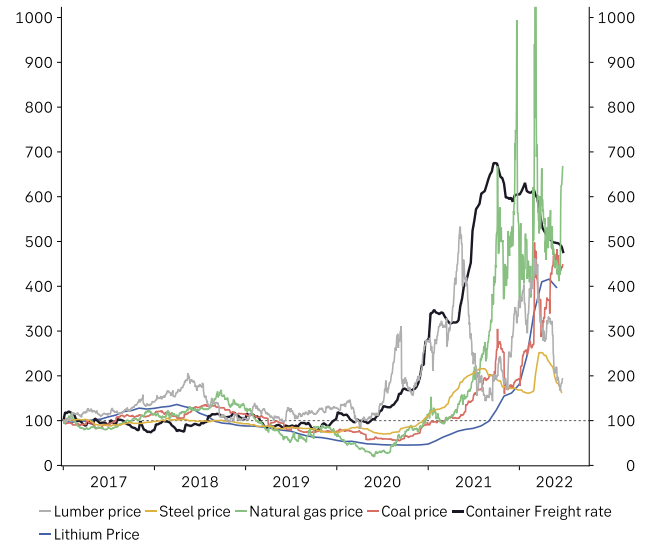
Due to the time lag between investing in renewable energy supply and receiving the supply, it will take 5-10 years before the growth in renewable energy supply dominates the global increase in demand and fossil fuel consumption enters a terminal decline (Figure 7). Even if the long-term energy transition is likely to be strongly accelerated by the current crisis, there will thus likely be a focus of finding short term supply of any kind, including coal, regardless of climate and other considerations.

The Catch-22 problem

The only long-term solution for a structural energy shortage is to invest massively in new capacity. However, investment in new energy supply requires its own supply of energy as well as a range of other inputs, a supply which is currently not available. Similar problems can be seen in container shipping and parts of commodity production where capex seems to be the only long-term fix but is currently impossible to ramp up due to lack of resources. The result is that prices have spiked by orders of magnitude (Figure 8).

This creates a Catch-22 situation, named after Joseph Heller's eponymous novel, where WWII bomber pilots can be sent home and avoid death if they are insane – but if they ask to be sent home, it proves they are not insane. In the case of the energy crisis, you can add more supply by investing more – but you can only invest more once you already have the supply.

Both governments and the business sector appear to have understood the message. Investing in securing energy independence from foreign powers is likely to be given an open-ended budget in most parts of the world.

Figure 8 Price developments for inputs to production

Source: Bloomberg

From a business perspective, both protection from disruptions and huge cost advantages provide a powerful incentive to invest in decentralized clean energy supplies to supplement the ailing public grid.

However, with prices at current levels a recession may be the only way to create enough room in the economy for such long-term solutions to be accommodated without pushing inflation even higher.

Accelerated transition still likely

While there are plenty of concerns for the coming years, we still think a short-term energy crisis is the best possible catalyst for a long-term acceleration of the transition to a sustainable energy system.

For decades, it has been clear that there was a huge externality on the energy system: users of fossil fuels were not paying a price that even remotely covered the destruction they caused to the planet. This has led to overconsumption and long-term damage to the planet, not least in the shape of a soon irreversible temperature increase that could wreak havoc with the welfare of future generations.

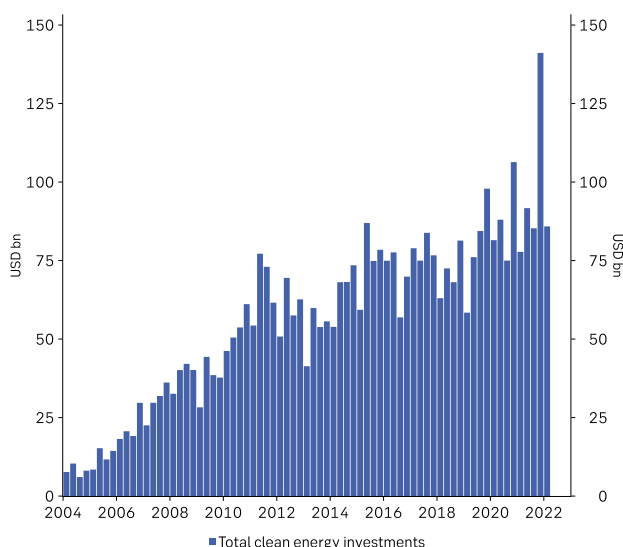
Even though we knew this, there was no political willingness to invest in alternative energy sources. The short-term economic argument always outweighed the long-term climate argument. This is part of the reason for the chronic shortages we now face, but this will also change the economic argument.

Market prices are thus now much better aligned with the real costs including indirect costs. Renewable energy can be produced at a cost of less than EUR 50/MWh, compared with a market price that is almost four times as high.

At the same time, the geopolitical argument for energy independence has received a major boost from Russia's invasion of Ukraine. Disruptions and sanctions highlight the lack of reliability of such supplies, while the conflict also has exposed the geopolitical blackmail that such dependency can make possible.

Renewable energy has the advantage in this area, also compared to nuclear energy where Russia also has a controlling role in the supply of uranium. From the perspective of energy independence, nothing is superior to wind and solar short of having your own oil supply – and from an economic perspective, they are just superior from all perspectives.

Figure 9 Total clean energy investments



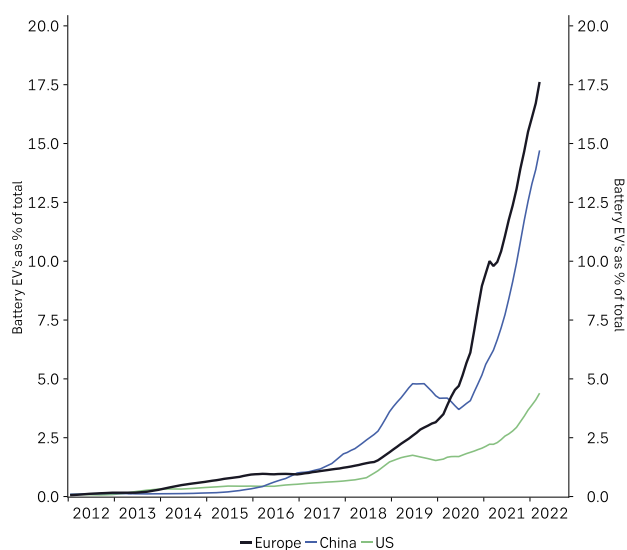
Source: Bloomberg New Energy Finance

This does not change the fact that the surge in investment we expected from the start of 2022 is likely to be delayed as governments and companies are forced to focus on fixing short-term problems before they turn their attention to longer-term solutions. But we still expect the total annual global investment in transition, including renewable

energy, to reach USD 1tn next year and double twice more before the end of the decade (Figure 9).

The high cost of fossil fuel will also lead to a faster electrification of transportation system. Both in Europe and China, the share of EVs in total auto sales is exploding and approaching 20% as the cost of gasoline and diesel surges (Figure 10). The US remains a laggard both when it comes to renewable energy and electric vehicles. The EV share is now more than three times higher in the two other major regions.

Figure 10 EV share of total car sales



Source: Bloomberg New Energy Finance

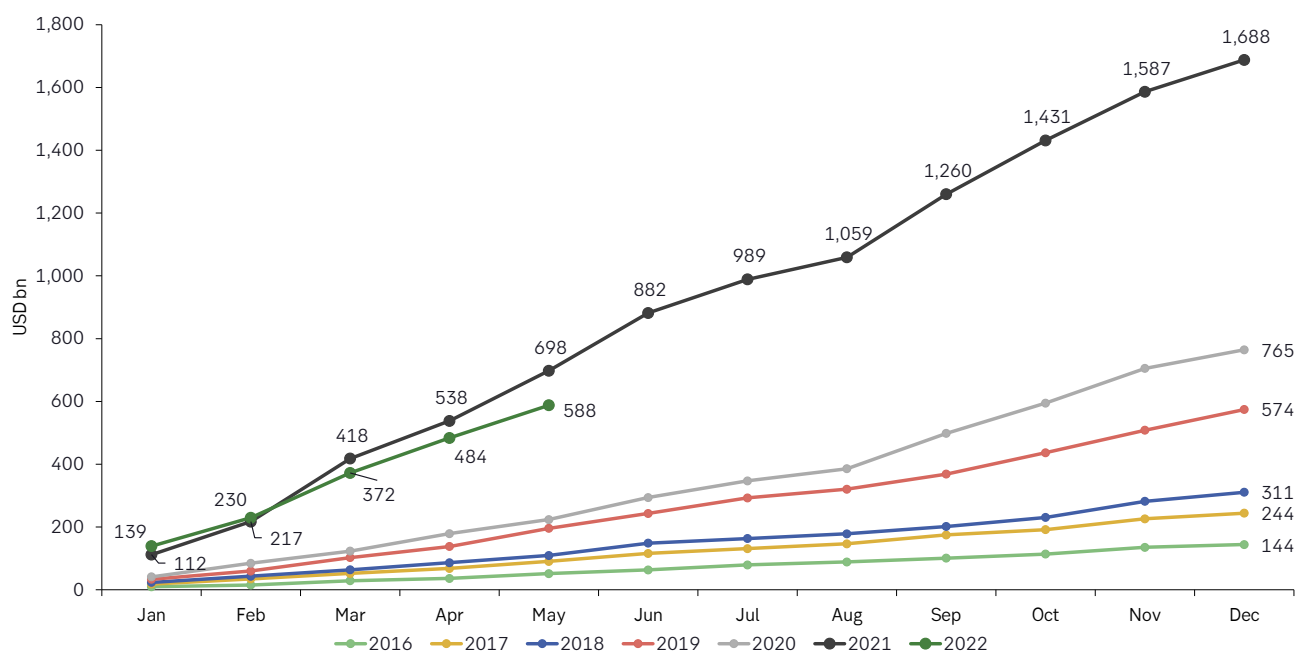
Looking at the share of total energy consumption coming from renewable energy, the US is also lagging far behind Europe, along with China that still has to put action behind their long-term transition plans, but at least they have a plan. In the US, planning appears to be left to the market, which may slow the process. This will be a problem in the future if we are right that electrification offers superior economic performance.

Sustainable Finance Market Update

Increased focus on impact and capex

After an initial drop in new transactions in Q1, the global market for sustainable debt remained lacklustre in April and May, but green bond issuance improved, while equity returns for clean energy stocks stabilized. While short-term supply challenges dominate the agenda, markets appear to anticipate the surge in transition investment that is likely to follow. Investors are likely to focus on impact as the demand for capital increases.

Figure 11 Cumulative sustainable debt transactions



Source: Bloomberg New Energy Finance 31 May 2022

Pockets of strength

In the first five months of 2022, a total of USD 587.9bn in new labelled bonds and loans were issued (Figure 11). This is a decline of 16% compared with the same period last year. This should be seen in the context of a 23% decline in total US corporate bond issuance in the same period according to SIFMA. The relative resilience in the sustainability debt market is mainly due to green and sustainability linked bonds which have seen growth of 7% and 37% respectively compared to the same period in 2021.

However, our prediction that social bonds would increase as countries are dealing with the humanitarian fallout of the war in Ukraine, food shortages and new Covid-19

lockdowns has not materialized, at least not yet. Social bond issuance in 2022 remains down more than 50%.

This may change soon as more and more sovereigns and multilateral development institutions are likely to tap capital markets to deal with the plethora of crises. A structural energy crisis is emerging, supply chains need to be re-routed and food supplies to the poorest countries are challenged. Once immediate shortages have been dealt with, demand for capital is likely to increase significantly.

An increased focus on impact combined with economic and geopolitical arguments that now clearly favour renewables should lead to a major acceleration in investments and funding for the global energy transition. We think this will lead to stronger demand for quantifiable impact from investors. The long-term challenges require more funding

for major investment now and participating in this process is likely to be important for pension savers.

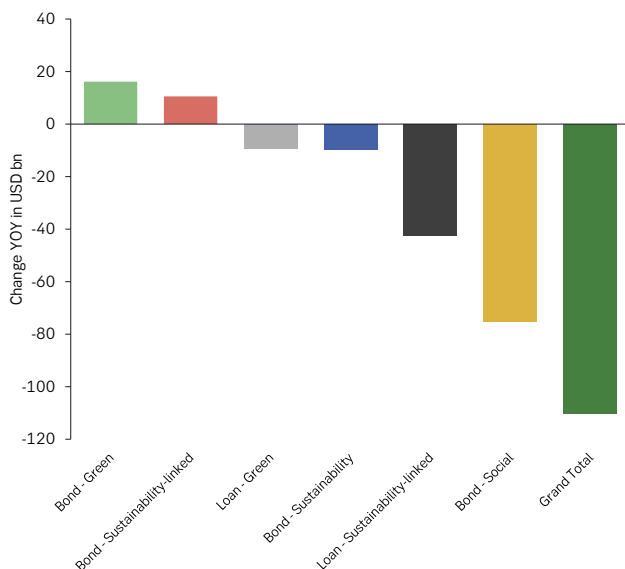
Given their serious nature, investors are also likely to accept funding solutions to short-term problems (energy shortages, geopolitical threats) and focus less on making a benevolent impression. Sustainable finance strategies that either conflict with short-term objectives (like excluding energy and armaments) or ignore them (like passive ESG screening) are less likely to attract demand in this environment.

At the same time, confidence in passive ESG investment management has been questioned by US and German regulators recently, forcing the industry to become more focused on documenting the real effects. The relative success of green bonds, where the Use of Proceeds principle provides a clear link from asset to impact, adds some support to this conclusion.

Green bonds lead issuance

After an initial drop in new transactions in the first quarter of this year, the global market for sustainable debt has remained lackluster in Q2. In May and June, a total of USD 156.6bn of new sustainability-themed bonds were issued, compared with USD 176.7 billion in 2021. For the first five months of the year, total issuance of sustainable-themed bonds is now down 12% (Figure 12).

Figure 12 Y/Y change in sustainable debt market by product type, Jan-May



Source: Bloomberg New Energy Finance

While overall issuance of sustainable debt has slowed, green bonds and sustainability-linked bonds stand out with an impressive increase in issuance in a very difficult year for markets.

Green bonds have seen the largest increase in terms of capital raised, up from USD 234.2bn in the first five months of last year to USD 250.3 bn in 2022, partly reversing the slide in their share of total issuance in recent years.

In percentage terms, the increase is even more significant for sustainability-linked bonds, which tie borrowing conditions to issuer's performance in material KPI's against ambitious sustainability targets. Sustainability-linked bonds grew 37% in January to May this year compared to the same period in 2021. The main takeaway from the success of these bond types relative to other sustainable assets is an increased focus on measurable impact.

Green bond performance remains weak

While issuance is holding up, performance of the Bloomberg Green Bond Index in the secondary market remains surprisingly poor in what is shaping up to be an unusually tough year for all bond market investors (Figure 13).

Figure 13 Global agg. bonds and green bonds return



Source: Bloomberg

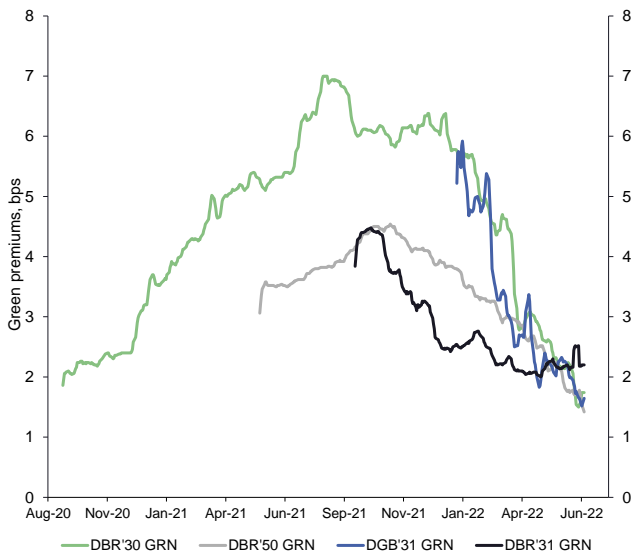
While EUR-based investors in the Bloomberg Global Aggregate bond index have lost 9.8% so far in 2022, the loss for the Bloomberg Green Bond index is 14%. The two indices tracked closely until 2018, after which Green bonds outperformed for three years, only to give up all of them and more in the past year.

'Greenium' normalization complete

Higher duration and lower liquidity for the Green Bond index are most likely to blame for the recent underperformance. However, we also note that the 'greenium' (spread for green bonds vs regular) has declined in the past year too after rising in the preceding years, suggesting it may be related to a general change in pricing of green assets.

As we explained in the last issue of The Green Bond, there is no strong a priori reason for a greenium for bonds that are otherwise similar. It thus like there may have been a general overpricing of sustainable assets based on unrealistic return assumptions, which has now been removed.

Figure 14 The premiums in green DBRs and DGB'31 vs twin bonds



Source: SEB Fixed Income Research

This is most clearly illustrated by looking at the greenium for German and Danish 'twin bonds', where there is no difference between the green bond and its non-green counterpart. It started out around 2bp almost two years ago, rose to 4-7bp at the peak late last year and is now back to around 2bps. We think this repricing to more realistic assumptions is healthy for the market in the longer term

Good greenium: early evidence of halo effect

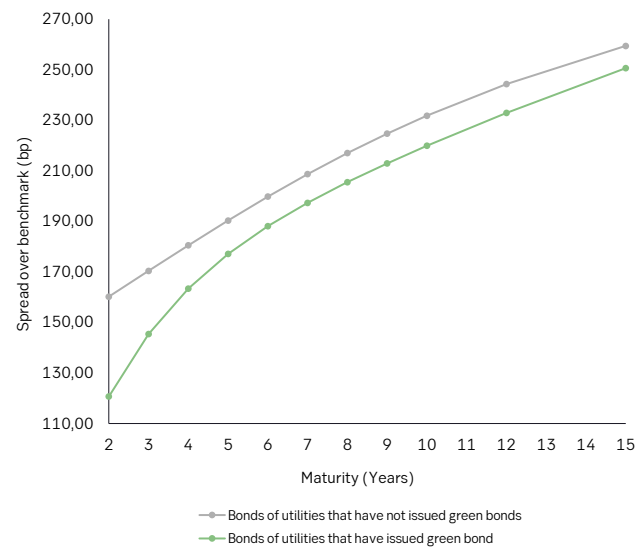
According to the Bank of France, there are two types of pricing benefits for green bond issuers. The 'bad' greenium we look at above is indicative of a mismatch between supply and demand. The 'good' greenium on the other side is the difference in pricing between a green issuer and a non-green issuer for the whole capital structure.

This 'Halo effect' describes the positive contribution of green bond issuance to both the green and non-green pricing curves. Figure 15 shows the credit spread curves for EUR-denominated bonds with a BBB-rating issued by two different groups of utilities companies in Western Europe: One group that hasn't issued green bonds, and one group of utilities that has.

This premium is not easy to observe directly, because it requires a comparison between different issuers that could have many other idiosyncratic differences. In most sectors, both the transition and the green bond issuance is also too limited to offer much of a comparison.

As a result, we should be careful interpreting the result of halo effect analysis at this early stage, but the first indications provide some support.

Figure 15 Aggregated credit spread curves of Western European utilities



Source: Bloomberg

Looking at aggregate yield curves, bonds issued by European utilities that have issued green bonds trade tighter relative to the benchmark than bonds of their peers that haven't issued green bonds yet, even if they all share the same credit rating. This may be an indication that similar effects can be found in other sectors, geographies, or credit ratings, but confirming this conclusion will require further analysis.

Equity ESG fund inflows level off

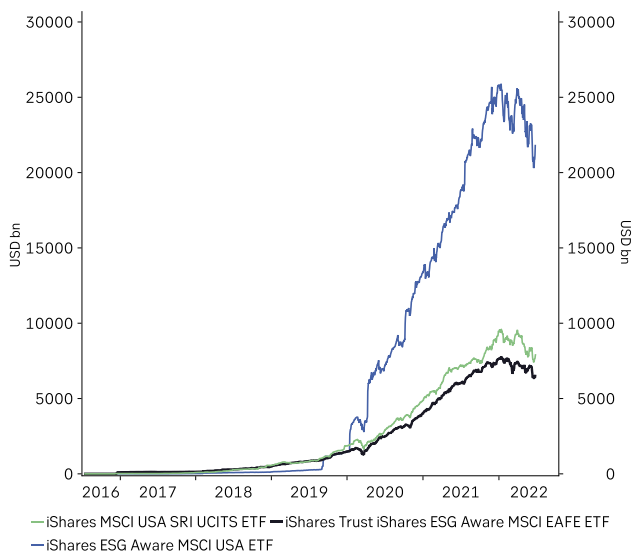
In the stock market, there are also signs of a change in the flows. After soaring for three years, ESG-labelled equity funds appear to have seen their first outflows in Q2 2022 (Figure 16). This may partly be a result of poor stock market performance leading to outflows from all equity funds but could also be related to recent blows to the credibility of the ESG strategy. First, Russia's invasion of Ukraine highlighted the subjective and not necessarily stable nature of the ratings used.

A global energy crisis is also likely to change investor perceptions. Savers that are faced with the real risk of outright energy shortages and rationing or are concerned by the geopolitical risks associated with energy dependence of foreign powers are less likely to prioritize the exclusion of things like natural gas production from their portfolio.

More recently, financial authorities in Germany and the US have come down hard on some labelled funds with accusations of greenwashing, forcing some high-level

executives to resign. While the funds involved may not have been representative of the business, the negative media reports may impact investor preferences for all ESG funds.

Figure 16 Market cap for different ESG ETFs



Source: Bloomberg

Even more important, perhaps, is the fact that relative returns for ESG indices in 2022 have challenged the assumption of higher returns that often helped sell ESG funds. There was never any strong theoretical foundation for this claim, as all other funds could invest in the same stocks as ESG funds and presumably would do so if they were likely to have a higher return. However, ESG funds are prevented from investing on other parts of the market like oil & gas that recently have seen high returns.

As in the bond market, we expect sustainability-oriented investors to have an increasing preference for measurable impact rather than ESG ratings to guide their investment strategies. ESG funds are likely to remain popular with value-based investors and we do not expect big outflows, but rather that new inflows may be concentrated elsewhere.

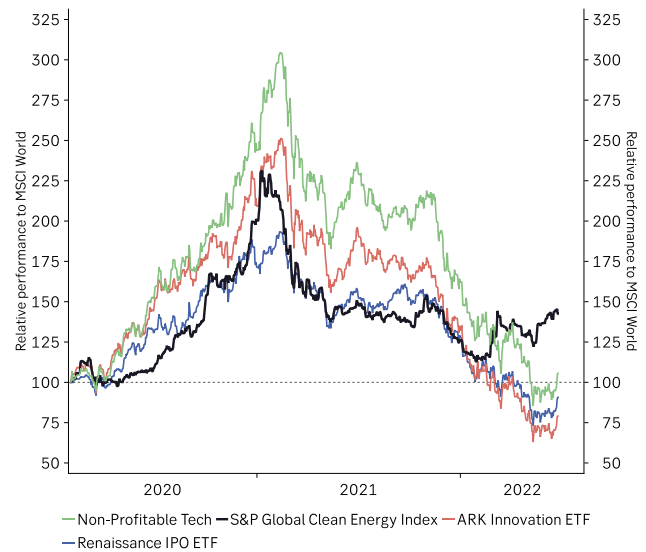
Clean energy stocks decouple

The S&P Clean Energy index has tracked a whole range of liquidity-driven market segments (like non-profitable tech, IPO and ARKK indices) closely in recent years, but the last few months have seen a tentative decoupling from the growth stock mayhem (Figure 17).

While high-multiple growth stocks have continued to underperform, clean energy stocks have outperformed the MSCI World since Russia's invasion of Ukraine. The most likely explanation is that investors are starting to anticipate a flood of new clean energy investments once the initial energy shortage issues have been resolved. Based on the analysis presented in the Transition Update section of this

report, that would appear to be a reasonable assumption, at least when it comes to sales.

Figure 17 Clean energy and growth stocks performance



Source: Bloomberg

Whether this will translate into a similar increase in earnings remains to be seen. Solar panel producers have seen huge volume increases as prices declined and production scaled up but operate at cut-throat margins. In a world with continued pressure on resources, margins could come under pressure in other parts of the clean energy production supply chain.

Figure 18 Clean energy earnings and price



Source: Bloomberg

Nonetheless, there is little doubt that a secular investment boom will lift the fortunes of more than a few corporate actors. So far, however, earnings estimates have not backed the decoupling, but instead continue the falling trend of the past year.

100 million reasons to engage with UNHCR



Åsa Widell

General Secretary, UNHCR Sweden

asa.widell@sverigeforunhcr.se

The United Nations High Commissioner for Refugees (UNHCR) has the UN mandate to lead the protection of refugees and other displaced people. We work in 132 countries and have 18,000 staff. Most of these are highly specialized experts, of whom 91% are based in the field.

In a sudden emergency, such as the outbreak of a war or natural disaster, we focus on urgent needs for shelter, food, and protection. We distribute core relief items, such as food, sleeping bags, hygiene products, solar lamps, cooking utensils, water jerry cans and materials for shelter. As we are present in most countries around the world, we can start the emergency response immediately.

Figure 19 Support with water in refugee camp for Rohingya



Source: UNHCR

When the situation stabilises, the focus shifts to supporting refugees getting registered in host countries, supporting family reunification, and setting up or improving transit centres and refugee camps. It also includes providing cash assistance to refugees for basic needs and actions to prevent trafficking and abuse.

In more protracted refugee crises, our work is more long-term, such as supporting refugees with education, entrepreneurship, integration, and resettlement. UNHCR is responsible for the global resettlement system with quota refugees. Many of our interventions demand large-scale, long-term investments, such as solar cells on health facilities, sanitation systems in refugee settlements, programmes for cash assistance, infrastructure, and structural improvements in education systems.

Work around the clock for Ukrainian refugees

The war in Ukraine has forced 5 million people to flee the country, of whom 90% are women and children. Another 7 million people are displaced within Ukraine. This crisis has evoked an unprecedented wave of global solidarity leading to an immense inflow of contributions from a multitude of donors, not the least in Sweden. UNHCR has received USD 732mn for this emergency, covering 61% of our total 2022 appeal of USD 1.2mn, meaning there is still a significant funding gap.

Almost half of the funds received come from corporates, foundations and individual donors, and the other half from government donors. If we receive the entire appeal amount, we will be able to reach 4.3 million people with emergency support such as cash assistance, essential food and non-food items, protection assistance and shelter support. We currently have 200 staff present in Ukraine and 400 in the neighbouring countries. We work in close cooperation with national authorities, other UN agencies and hundreds of civil society organisations.

So far, our focus has been on emergency support to cover the refugees' urgent need for food, water, shelter, safety, and protection from abuse. UNHCR has the crucial role of supporting the governments in handling the massive refugee flows and coordinating the interventions of

hundreds of humanitarian actors. The UN has provided support to 7.8 million people, of which 1.2 million directly by UNHCR. This includes:

- Core relief items to 500,000 people.
- Protection assistance at border points, transit, and reception centres to 230,000 people.
- Training for more than 1,000 frontline workers (i.e., volunteers, border guards, social workers) in protection measures against trafficking, gender-based violence and abuse.
- Cash assistance to 600,000 vulnerable refugees in the region.

Cash assistance to cover basic needs

In record time, we have set up a large system for cash assistance to vulnerable refugees in Ukraine and neighbouring countries. 600,000 Ukrainians across five countries are now registered. Cash support (approximately USD 90 in Ukraine and USD 170 in Poland) is a cost-effective way of enabling refugees to cover basic needs such as temporary housing, food and health care. It also stimulates the local economies.

Figure 20 Cash assistance centre in Poland.



Source: UNHCR

The recipients are registered in a secure system with biometric data, and the cash is distributed through local banks and post offices. The cash support is meant to be a temporary solution until the refugees get integrated in the national social security system. We use this cash support mechanism in more than 100 countries covering USD 1bn per year ([Interview with UNHCR Cash Assistance Manager Annika Sjöberg](#)).

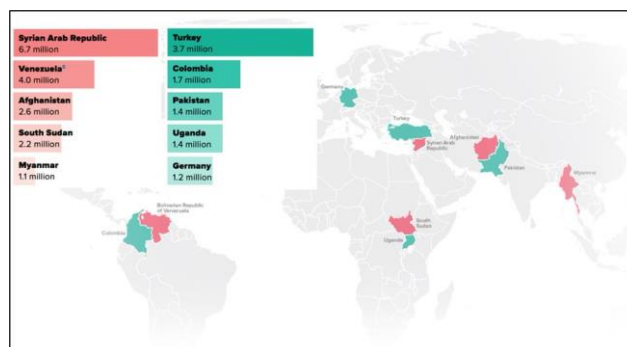
After emergencies and in refugee situations, UNHCR stays as long as necessary. In the areas of Ukraine where it is now possible, UNHCR has already started reconstruction work, mainly to repair houses. We have been present in the country since 1994, and since the armed conflict in 2014, we have supported the repair of tens of thousands of homes.

More than 100 million refugees

While continuing to support Ukrainians, we must not forget the many millions of other refugees around the world.

Today, a record high of 100 million people are forcibly displaced from their homes due to conflict, violence, serious human rights violations and persecution. This is mainly due to new or protracted conflicts in countries such as Ukraine, Syria, Venezuela, Ethiopia, and Afghanistan. Most of the displaced persons are women and 42% are children.

Figure 21 More than two thirds of all refugees derive from five countries.



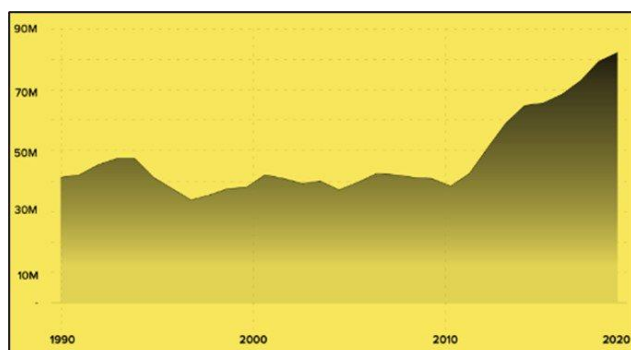
Source: UNHCR

Of the 100 million displaced, around 83% are hosted in low- and middle-income countries (often neighbouring) with limited resources. This means that many refugees lack access to the rights and services they are entitled to such as protection, health care, education, and sanitation. For example, 48% of all refugee children are out of school. The average time a refugee remains a refugee is 17 years, a heart-breaking and unacceptable fact.

Reliant on voluntary contributions

In 2022, our global appeal (the costed plan of interventions) is USD 9bn. 85% of these funds go directly to field operations, 7% are allocated for global programmes helping refugees and internally displaced people. Only 8% covers fundraising and headquarter overhead costs. With 9 million USD, we can provide support to 103 million people in 133 countries. For example, USD 700mn in cash assistance would be provided to vulnerable refugees to cover basic needs, 4.75 million people would be provided with shelter assistance, 2 million children would be enrolled in primary education and 80,000 refugees would be resettled through UNHCR.

Figure 22 The number of people forced to flee has more than doubled since 2010. From 41 million to over 100 million.

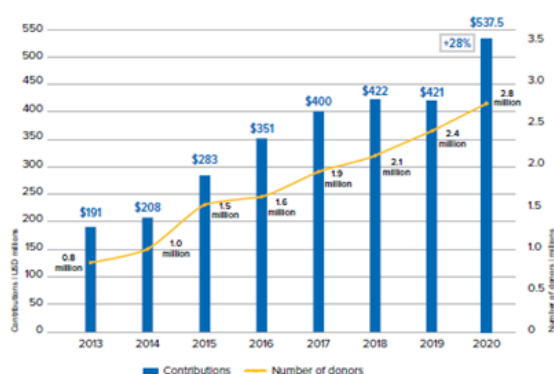


Source: UNHCR

This comparatively low budget is for example due to our ability to negotiate lower prices with large volumes, as well as service providers offering services and products pro bono or prices considerably lower than on the market. Most years however, our global appeal only gets funded to about 50%. Our largest operations are in countries having received many refugees: Ukraine and neighbouring countries (USD 1,2bn), Lebanon (USD 534mn), Turkey (USD 349mn), and Bangladesh (USD 285).

We are to a large part funded by voluntary contributions. 85% comes from governments and 11% from the private sector, including foundations, corporations, and individuals. Donors from the private sector are however becoming increasingly important for the organisation. They contribute with crucial resources in the form of cash donations, products and services, refugee employment and employee engagement.

Figure 23 Private sector contributions and donor numbers 2013-2020.



Source: UNHCR

Many refugee situations are largely underfunded. These have often fallen out of the media spotlight or were never there at all. Some examples are Syria, South Sudan and Iraq that are only 30-40% funded. There are less well-known situations like Central African Republic that normally receive even less funding. With the rising trend in number of refugees globally, it is probable that the funding needs will continue to increase in the years ahead.

Flexible, unearmarked funding more cost-effective

A huge challenge for the organisation is the low share of flexible funding that is not earmarked. About 85% of our donations are to some degree earmarked to a certain programme or country. Working with earmarked funding gives us less flexibility and more administration at all levels. Earmarked funding also means that the donors have a rather large influence on what operations and refugee populations in the world to be prioritized, which is not how it should be.

Reporting

It is important for UNHCR to report back to all our donors on what impact their contributions have had. To the donors contributing with unearmarked resources, we report back on our overall work. Donors to larger emergency interventions, such as Ukraine, receive reports after one month, six months and then annually. When donors contribute with more specific, earmarked funds, they receive a tailored report describing what results their donation has led to. Our largest private sector partners are also entitled to do a field visit to the country in focus of their donation.

Join us

Everyone within UNHCR works hard to support women, men and children who have been forced to flee and leave everything behind to stay safe and get a better life with hope and opportunities. And we have thousands of donors standing behind and helping us with this.

Negotiations about the EU Green Bond Standard enter the final phase

Gregor Vulturius, PhD

Advisor, Climate & Sustainable Finance, SEB
gregor.vulturius@seb.se

In spring 2018, the European Commission announced plans to establish a voluntary EU Green Bond Standard (EU GBS) as part of its Sustainable Finance Action Plan. The Commission's goal has been to establish the global gold standard for how companies and public authorities can use green bonds to meet the Union's climate targets, while meeting stringent sustainability requirements and reducing investor's exposure to greenwashing.

To that end, the Commission put forward its proposal for a green bond standard in July of 2021. The proposal included three key requirements: 1) Proceeds should be allocated fully to projects that are aligned with the EU taxonomy, 2) Detailed allocation and impact reporting to enhance transparency, 3) External review to ensure compliance with the standard and taxonomy regulations. The reviewers need to fulfil certain criteria and be approved by ESMA that will keep a register of the approved reviewers as well as prohibited reviewers that has violated the criteria.

This spring, negotiations about the EU GBS entered the next phase in the EU's legislative process. On 8 April, the Council of European Member States reached agreement on a joint response to the Commission's proposal. Later in May, the European Parliament's Committee on Economic and Monetary Affairs (ECON) adopted its negotiation position¹, widening and amending Commission's proposal in several key aspects:

EU GBS remains voluntary but requires minimum sustainability disclosure for all "environmentally sustainable" bonds

There has been extensive discussion about the degree to which the existing green bond market should comply with the EU GBS. The ECB recently suggested that the standard should become mandatory for all issuers within the EU.

On the contrary, the ECON supports the Commission's proposal of keeping the European green bond standard voluntary. Nevertheless, the Parliament still wants to enforce at least some level of compliance through mandatory disclosure requirements placed on bonds marketed in the EU as "environmentally sustainable".

Issuers of green bonds that do not use the designation 'certified green deal bond' shall disclose in their pre-issuance factsheets, allocation report and impact report their alignment with the EU Taxonomy. In addition, issuers of non-certified green deal bonds also need to declare that funded economic activities comply with the Do-No-Significant Harm (DNSH) criteria of the EU's Taxonomy.

Audited transition plans and taxonomy-alignment reporting for EU GBs and SLBs

Sustainability-linked bonds (SLBs) are the fastest growing segment of the sustainable bond universe with new issuance growing by more than 12 times to USD 52.6bn in EU member countries between 2020 and 2021. It should therefore come as no surprise that European

¹ [Report on the Proposal for a regulation of the European and of the Council on European green bonds A9-0156/2022](#)

Parliamentarians are attempting to expand the scope of the EU GBS to include performance-based debt.

The ECON proposes that issuers of certified EU Green Bonds (EU GBs) as well as SLBs that are subject to the CSRD are required to have audited transition plan aligned with climate neutrality by 2050. These transition plans should be part of the pre-contractual disclosures and sustainability impact reports and include information on how and to what extent the issuance of EU GBs or SLBs increase the issuer's proportion of taxonomy-aligned economic activities.

Greater scrutiny of investments in nuclear energy and fossil gas

The ECON also requires that EU GBs that allocate proceeds to nuclear or fossil gas related economic activities must declare that on the first page of the pre-issuance factsheet. Where applicable, issuers of bonds also need to report the amount and proportion of proceeds allocated to taxonomy-aligned nuclear energy and fossil gas related activities.

Demands for greater transparency for gas and nuclear may have anticipated the decision by the ECON on 14 June to support for a resolution which attempts to block the Commission's delegated act to include gas and nuclear in the EU's taxonomy. The full European Parliament is expected to vote on the resolution in early July.

Grandfather, allocation periods to activities that will meet taxonomy criteria remain flexible

The ECON proposed no changes to the grandfathering period include the Commission's proposal. The Parliament also agrees with the Commission that issuers should be given the flexibility to allocate proceeds to economic activities that do not yet meet the taxonomy requirements, but will do so within five, and in certain circumstances ten years.

In those cases, the ECON proposes that issuers should set out in CapEx plans the details of when and by what means those activities will meet the taxonomy requirements and how alignment will be guaranteed.

Furthermore, the Parliament opines that where CapEx plans relate to transitional economic activities such activities should meet the relevant taxonomy criteria within two years. The list of economic activities and investments eligible for the application of an extended period should be

established by the Commission by means of a delegated act.

Reflections and outlook

Recently launched investigations by the SEC and the German Financial Supervisory Authority into asset managers have called into questions the general argument that sustainable investments per definition have positive impacts on environmental sustainability. In this context, the ECON's position is part of an industry-wide shift towards greater transparency and accountability in sustainable investment.

Transition plans have the potential to give investors third-party assurance that their investments are getting issuers on the track towards carbon neutrality. Going forward, EU legislators need to clearly define what should go into these plans and how they align with well-established benchmarks specifically the ICMA Transition Finance Handbook and the Science-based target Initiative.

When it comes expectations on issuers to allocate proceeds to taxonomy-aligned activities, further tightening of the standard may be needed to assure investors that their money is going to the right places. Current market practice is to allocate green bond proceeds within 36 months after issuance. Allowing issuers to take up to ten years to align proceeds to the EU taxonomy could expose issuers to considerable greenwashing risk.

Lastly, for the EU GBS to become the gold standard of the sustainable bond market, more sovereigns – and particularly the EU itself – may need to apply the standard to their own green bond issuance. The status of the EU GBS as best-in-class may also depends on future tightening of the technical screening criteria of the EU taxonomy to reflect what is considered ambitious and best-in-class in the different sectors.

Looking ahead, negotiations between the Commission, Council and Parliament will start this summer. The timetable for a triologue resolution of the competing versions of the GBS has not been announced yet. Observers don't expect the negotiations to conclude before the end of this year.

IFAD 's bond issuance marks milestone, connecting capital markets to rural poor around the world



Natalia Toschi

Head of Funding Unit, International Fund for Agricultural Development (IFAD)

n.toschi@ifad.org

On 28 June, the International Fund for Agricultural Development (IFAD) today issued its first sustainable development bond with Folksam, a leading insurance and pension fund in Sweden investing in a USD 100mn bond. The entry to capital markets sets the stage for IFAD's increased investment in food security, rural development and economic growth at a time when the war in Ukraine is pushing global food, fertilizer and energy prices to record levels, putting millions more rural people already reeling from the COVID-19 pandemic at risk of falling into hunger and poverty.

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This inaugural transaction is a key milestone for IFAD and an opportunity to significantly step up its financing to build the resilience of rural populations. We urgently need to scale-up investments to ensure that rural populations who produce one third of the world's food can continue to feed communities and offer a decent future to their children.

Small-scale farmers are vulnerable to many shocks in particular climate change impacts, with yields affected by extreme weather events, higher temperatures and changing weather patterns. Currently one in ten people globally do not have enough to eat, while hunger has been on the rise

for the last five years reaching more than 800 mn people in 2020

The proceeds of IFAD's first bond issuance will augment IFAD's capacity to help small-scale farmers adapt to climate change, access supply chains and markets, and produce more diverse foods, thus stimulating rural economies and directly contributing to many Sustainable Development Goals, in particular ending hunger and poverty.

According to Ylva Wessén, President and CEO of Folksam, the need for investment in agriculture is great. The war in Ukraine has, in addition to the suffering of the Ukrainian people, meant record high prices for energy, food and fertilizers. In addition, there is climate change, which is already affecting farmers in many parts of the world. There is therefore an imminent risk of a famine in the world's poorer countries.

SEB arranged this transaction. According to Christopher Flensburg, Head of Climate and Sustainable Finance at SEB, it has never been more important, and it has been a privilege to assist IFAD to broaden the knowledge around food challenges, solutions and security. Flensburg also highlights that it is essential to enable private capital to support IFAD's it is welcomed to see that the Folksam Group takes the lead in this effort.

In recent years, IFAD has been exploring new funding models to empower vulnerable rural populations, meet the changing needs of developing countries which borrow from IFAD and reach its objective of doubling its impact on reducing poverty and hunger by 2030.

The Green Bond Editorial Team

Thomas Thygesen

Head of Strategy, Head of Research
Climate & Sustainable Finance
thomas.thygesen@seb.dk

Elizabeth Mathiesen

Senior Strategist
Equity Strategy Research
elizabeth.mathiesen@seb.dk

Gregor Vulturius, PhD

Advisor
Climate & Sustainable Finance
gregor.vulturius@seb.se

Tine Vist

Quantitative Strategist
Equity Strategy Research
tine.vist@seb.dk

Filip Carlsson

Junior Quantitative Strategist
Macro & FICC Research
filip.carlsson@seb.se

Lina Apsheva

Analyst
Climate & Sustainable Finance
lina.apsheva@seb.se

Contacts at SEB

Hans Beyer

Chief Sustainability Officer of SEB
hans.beyer@seb.se

Christopher Flensburg

Head Climate & Sustainable Finance
christopher.flensburg@seb.se

SEB Norway:**Ben Powell**

Head Climate & Sustainable Finance in Norway
benjamin.powell@seb.no

SEB Finland:**Anssi Kiviniemi**

Head of Sustainability in Finland
anssi.kiviniemi@seb.fi

SEB Germany:**Alexandra Themistocli**

Head of Sustainable Banking in Germany
alexandra.themistocli@seb.de

SEB UK:**Renato Beltran**

Client Executive, LC&FI
renato.beltran@seb.co.uk

SEB Hong Kong:**Carol Au-Yeung**

Client Executive, Financial Institutions Coverage
carol.au.yeung@seb.se

SEB Singapore:**Eng Kiat Ong**

Financial Institution Coverage Singapore
eng-kiat.ong@seb.se

The Climate & Sustainable Finance Team

greenbonds@seb.se

SEB Denmark:**Lars Eibeholm**

Head of Sustainable Banking in Denmark
lars.eibeholm@seb.dk

SEB USA:**John Arne Wang**

General Manager
john.wang@sebny.com

SEB Baltics:**Aušra Šamšonienė**

Sustainability Officer, Baltics
ausra.samsoniene@seb.lt

Viktors Toropovs

Sustainability Officer in Latvia
viktors.toropovs@seb.lv

Audrius Rutkauskas

Sustainability Officer in Lithuania
audrius.rutkauskas@seb.lt

Evelin Allas

Sustainability Officer in Estonia
evelin.allas@seb.ee

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