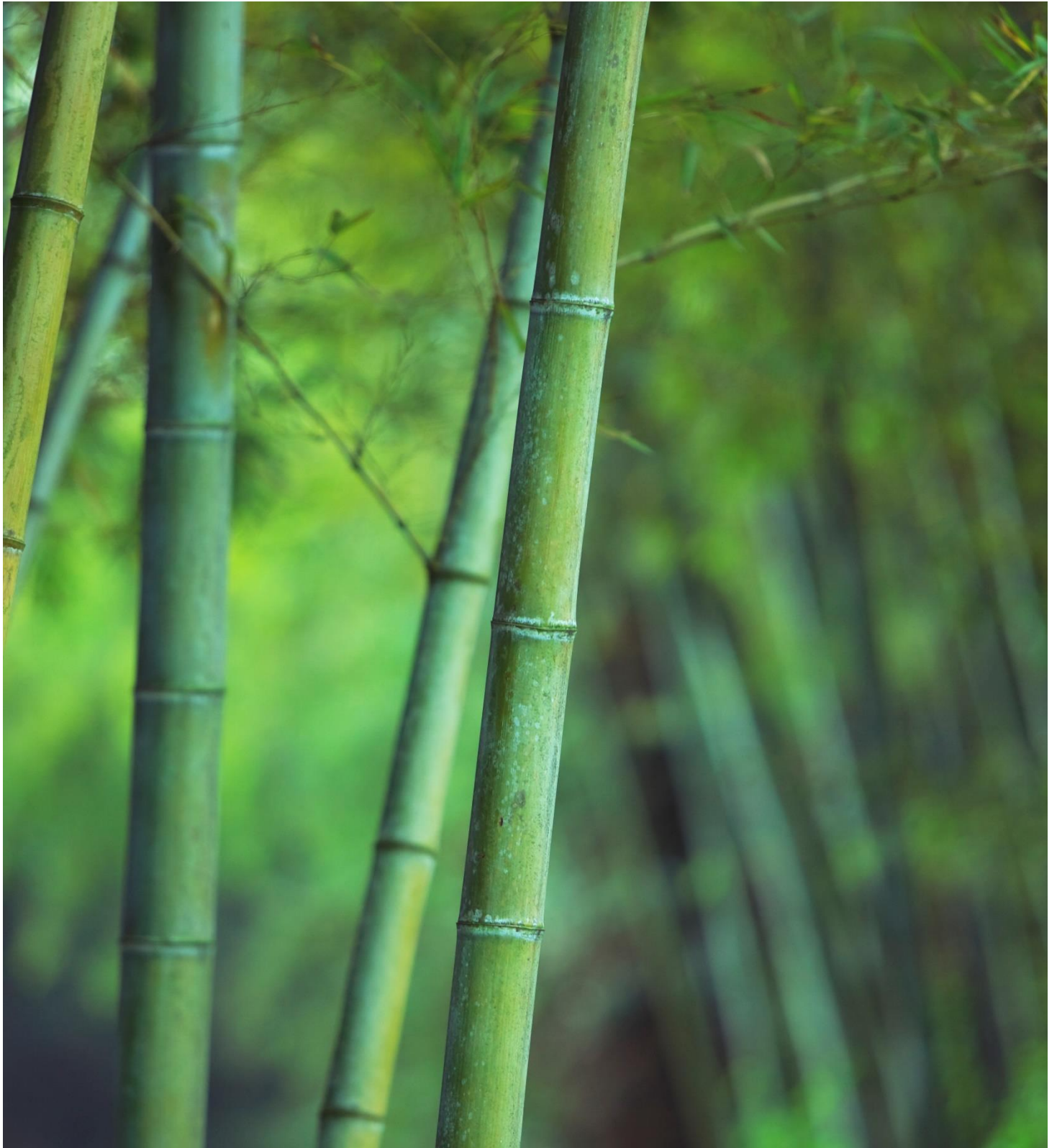


# The Green Bond

Your insight into sustainable finance

21 February 2024  
The greenwashing issue



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To foster robust, transparent and pragmatic impact reporting practices, a group of Nordic issuers of green bonds cooperate on the topic, sharing their views in a position paper first published in 2017. A forthcoming update introduces new baseline emission factors as well as a set of recommendations to reflect recent market developments.	
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On February 16, SEB organized a closed online roundtable event on the topic of greenwashing. The goal of the event, which targeted the large corporate and institutional clients of the bank, was to generate a discussion about how greenwashing cases, allegations and regulations affect the trajectory of the development of the sustainable finance market.	
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# Letter to the reader

Dear reader,

Over the last few months, we have seen an increasing interest in addressing the essential questions around labelled transactions – when is a transaction green? When do you label it at all? And what is the role of Finance in the development of ESG.

For this reason, last Friday we held an event dedicated to the topic of greenwashing, where both institutional investors as well as corporates took part in a roundtable. The many different perspectives highlighted in the discussion painted an insightful picture of the complexity of the issue. We, in finance, suddenly engage in a well-established area and need to find a balance in the speed of integration, the claim we make (and the benchmarks we use), as well as the level of ambition we set for ourselves (and why we set it). This creates clear headline risks and can lead to a heated debate around our role and the way we handle responsibilities. Hence, there is a good reason to tread carefully and to ensure that the benchmarks we use are well recognized by third parties.

What also became apparent during the event was the need to ensure good governance at the early stage – institutions that move too fast without solid infrastructure run a significant risk of organizational failure and greenwashing allegations.

Now, back to the market development, the growth of green bonds and the lack of growth (or decline!) of SLLs. We believe that the solid infrastructure with second opinions and good references as well as the dedication of specific

mandates do and will continue to benefit the green bond market. The decline of SLLs can be seen from a few different angles. Some are using the word fatigue, but I think that the need for any treasurer to show a transition plan and how they navigate the declining carbon budget from lenders is all but showing fatigue. Maybe this market is just becoming more mainstream. As highlighted in the report, there is a strong transition drive from China, and some disappointment from Europe. We are hearing some concerns from different parts of Europe on the compliance requirements to access certain pools of money, and that this trend delays the transition.

Nevertheless, we remain optimistic on the outlook for sustainable finance. Our optimism is based on the activity we see across the bank in our interaction with a global client base. We believe that water will be the theme of 2024 and start playing an important role already after summer.

In this issue, we also have the great pleasure of presenting you with a preview of the updated impact reporting guidelines of Nordic issuers which will be published in March.

Enjoy your reading,

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Christopher Flensburg

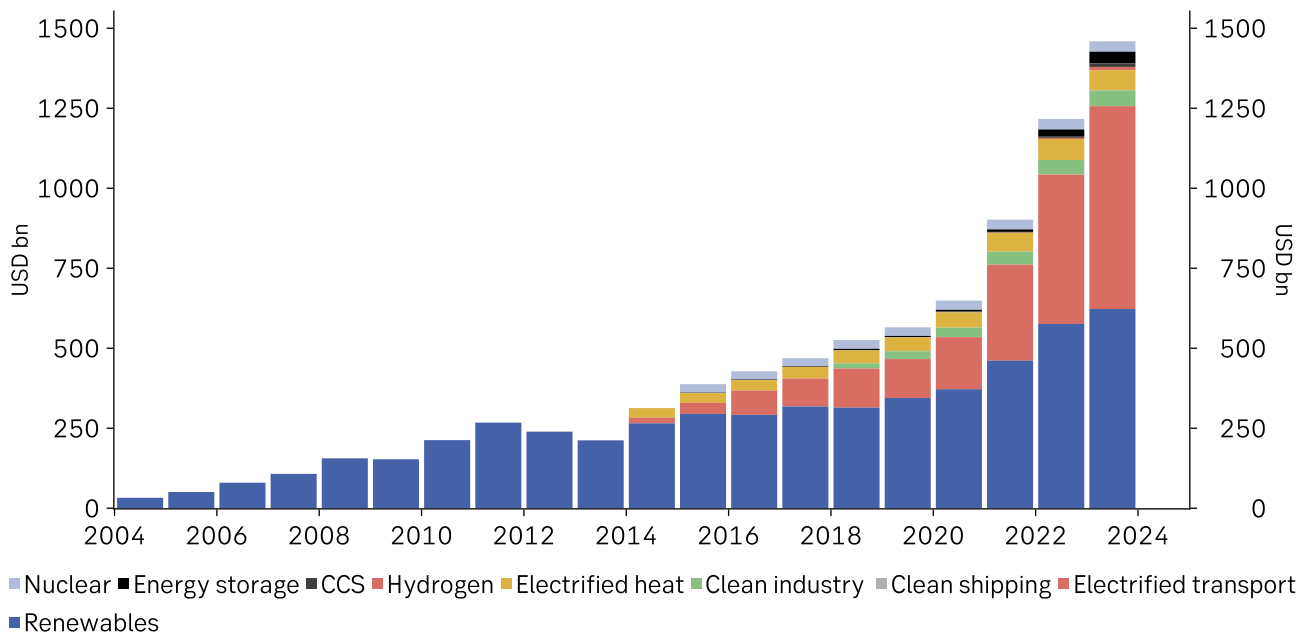
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# Transition update

Transition investment set to recover after temporary setback

Global transition investment hit a new high in 2023, but the growth rate slowed and 2024 is still likely to see a temporary dip in investment. However, costs have started falling again and subsidies accelerate deployment. We still expect total investment to double by 2030.

**Figure 1 Global investments in energy transition**



Source: BloombergNEF, Macrobond

## Transition investment is levelling off

Total transition related investments rose to the highest level ever in 2023, although the rate of increase declined significantly compared to 2021 and 2022.

The starting point for our transition analysis is the separation of two supply chains: one for the supply of new clean energy (primary energy supply) and one for the electrification of energy-using activities (essentially everything to the right of the first column in Figure 2).

The supply of clean energy and the demand for clean energy must evolve together to secure a successful transition, so over time they need to go in lockstep.

Renewable energy supply was first out of the starting block, reaching cost parity with fossil alternatives in the late 2010's. However, total investment in electrification and other complementary technologies now exceeds investments in renewable energy (Figure 1).

These investments are still concentrated in electrified transportation (EVs), but there are early signs of take-off in new segments such as energy storage and hydrogen, albeit starting from a low level (we excluded grids, where BNEF data only start in 2020 and show no clear rising trend yet).

The slowdown in 2023 was evident in both these parts of the clean energy transition. However, while the near-term outlook remains muted and political support is less clear-cut than it was in 2022, the long-term outlook remains unchanged, because the learning curves remain intact.

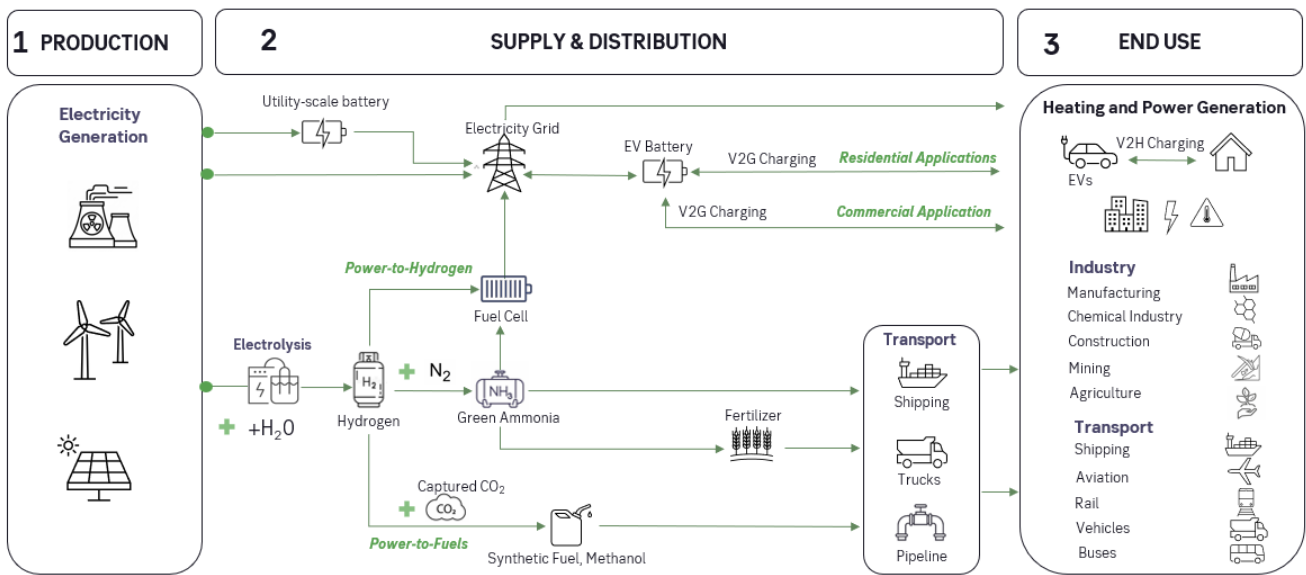
The clean energy technology complex is superior to its fossil predecessor, and it will replace it even if we leave it to market forces. However, as global temperatures continue rising faster than expected, speed is essential. Europe needs to learn from the new US industrial policy, and the US commitment must be extended beyond election day to complete decarbonization by 2050.

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**Figure 2 Energy demand vs. supply**

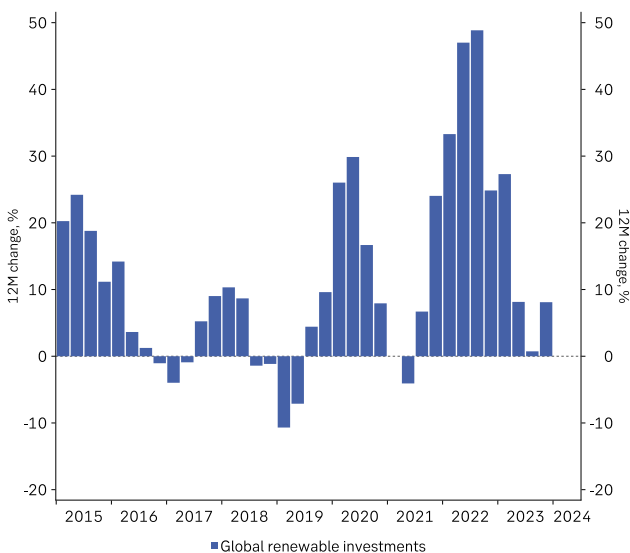


Source: SEB

**Renewable energy investments hit road bump**

Global investments in new supply of renewable energy rose in 2023 to a new all-time high, but the rate of increase slowed considerably compared to 2022. After growth reached a peak of almost 50% during 2022, it slowed to less than 10% in 2023 (Figure 3).

**Figure 3 Y/Y changes in renewable energy investments**



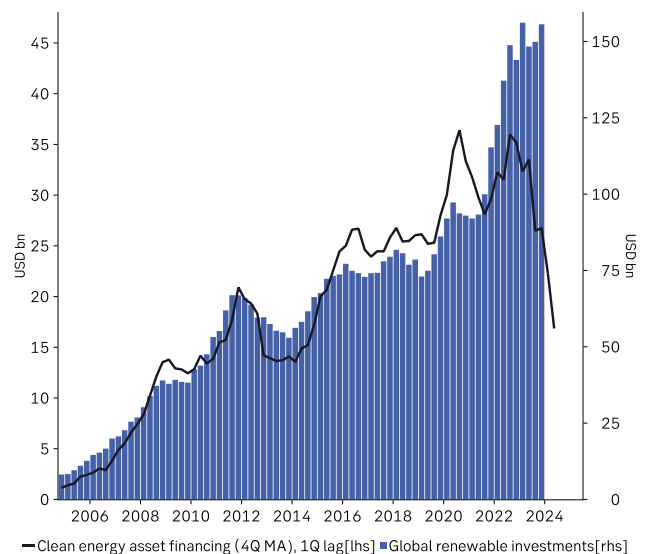
Source: BloombergNEF, Macrobond

There are several reasons behind the slowdown in renewable energy investment: costs of new clean energy installations increased temporarily during the global inflation and interest rate shock, China had basically completed the shift to an investment level consistent with an accelerated transition and the political support for clean energy investment in Europe wavered after the initial shock of the energy crisis faded.

There are early indications that 2024 could see an outright decline. Figure 4 shows that clean energy asset financing has returned to 2015 levels (we have included data for the first half of Q1, 2024, adjusted to a quarterly level). This is a significant concern when it comes to 2024 investments in the renewable energy space.

These numbers suggest there is significant risk that a delayed reaction to the 50% drop in asset financing in 2023 will hit renewable investment in 2024. However, it is not a 1:1 relationship between financing and investment activity. Higher rates may have changed the funding model used for new projects and other indicators like sustainable debt issuance suggest that the outcome will be less dramatic, but it does warrant monitoring.

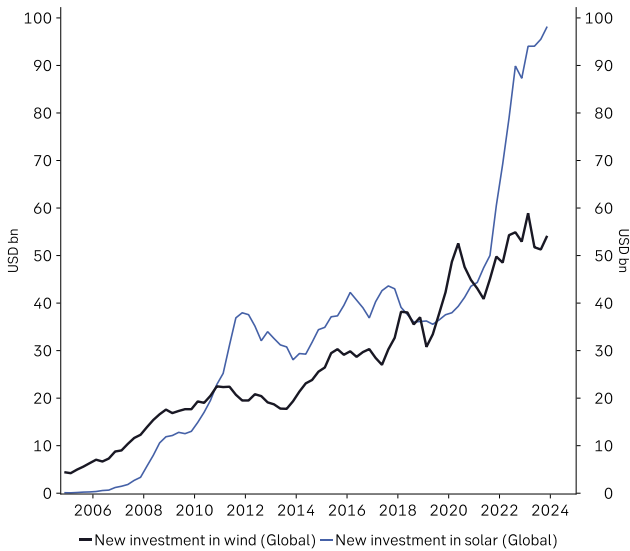
**Figure 4 Global renewable investment, asset financing**



Source: BloombergNEF, Macrobond

The gap between new investments in solar and wind continues to widen with investments in solar closing in on USD 400 bn annually, almost double that of wind (Figure 5). Solar investment has doubled since 2020, while investment in wind power is up less than 20%.

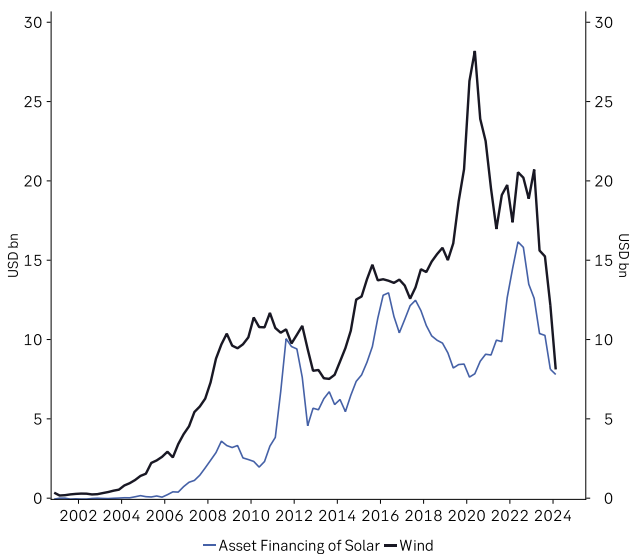
**Figure 5 Global new investments in wind and solar**



Source: BloombergNEF, Macrobond

The financing of wind projects continues to suffer on the back of sector headwinds (Figure 6). However, the trend is similar for the financing of solar projects, which is fast approaching the latest trough in 2020. This suggests that both solar and wind could see a temporary setback in investment levels in 2024.

**Figure 6 Asset financing of solar and wind projects**

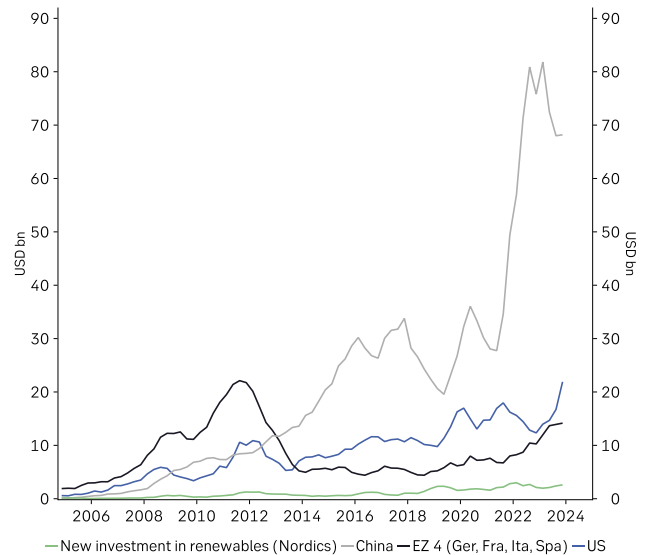


Source: BloombergNEF, Macrobond

At the regional level, we may be starting to see the effect of the more comprehensive initiatives in the US, not least due to the Inflation Reduction Act (IRA). China is still in a league of its own but retreating slightly from more than USD 300

bn in 2022 to around USD 275 bn in 2023, a decline of close to 10%. US investment rebounded in 2023 with growth of more than 75%, while Europe's growth rate levelled off around 40%. Nordic investment returned to growth in 2023 with an increase of just above 20% after a temporary setback (Figure 7).

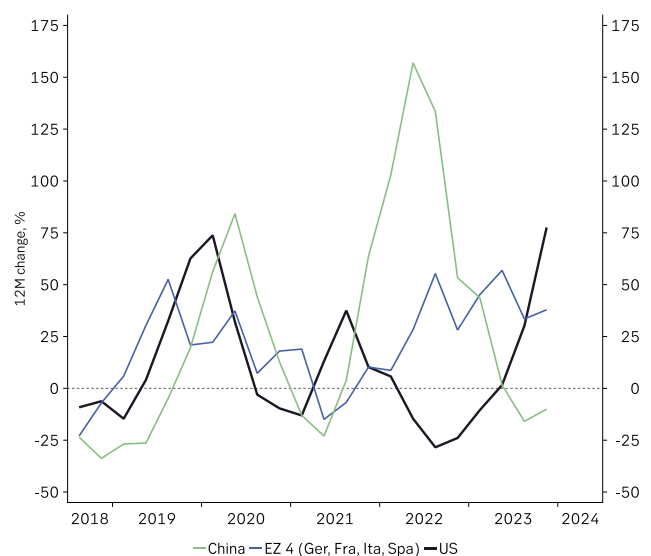
**Figure 7 New investments in renewables across regions**



Source: BloombergNEF, Macrobond

The continued slump in asset financing of renewable energy projects still suggests that 2024 could see a temporary decline in renewable energy investments globally. However, the US and Europe are finally starting to narrow the gap to China, and the issuance of sustainable debt appears to have bottomed.

**Figure 8 Y/Y change in renewable investment, regions**



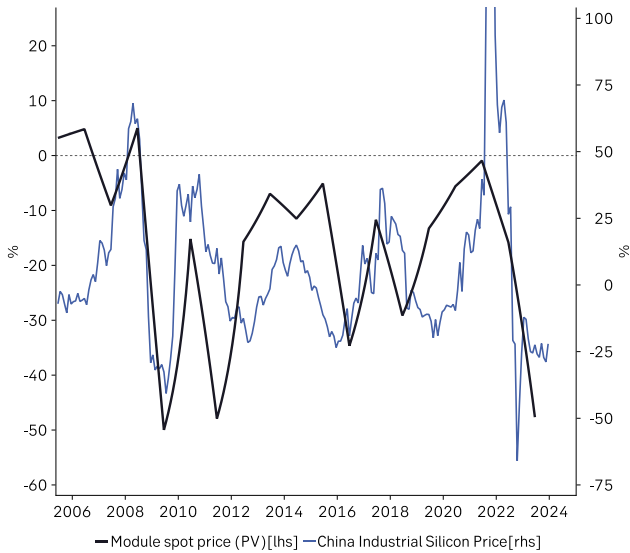
Source: BloombergNEF, Macrobond

We still expect global investment to double again before 2030 because the revolutionary characteristics of renewable energy technology remain intact after the recent



cost shocks. The cost of solar panels declined 50% in 2023 as the spike in silicon prices reversed. Over longer periods of time, the trend cost decline is 20-30% per annum. this means the relative cost advantage over fossil energy will continue to widen. The transition will come, the only issue is that it may be progressing too slowly.

**Figure 9 Solar panel price and silicon price, 12M change**

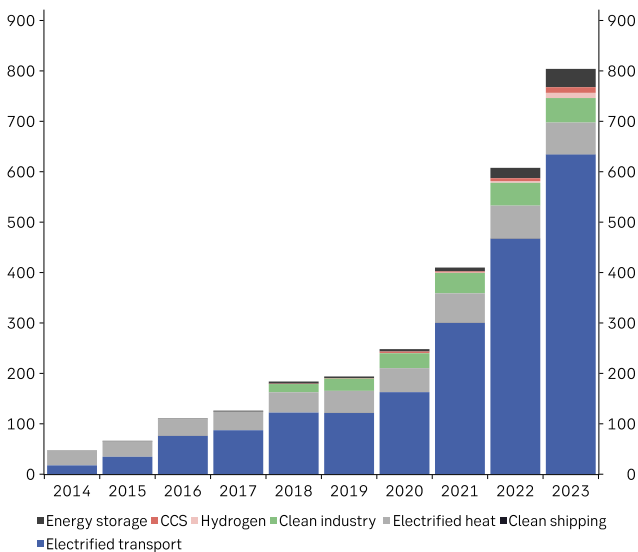


Source: BloombergNEF, Bloomberg, Macrobond

**Investments in electrification: broadening**

Turning from the supply of energy to the demand for clean energy, global investments in electrification and other complementary investments needed to make clean energy available and useful also slowed down a little in 2023.

**Figure 10 Global investments: energy usage technologies**



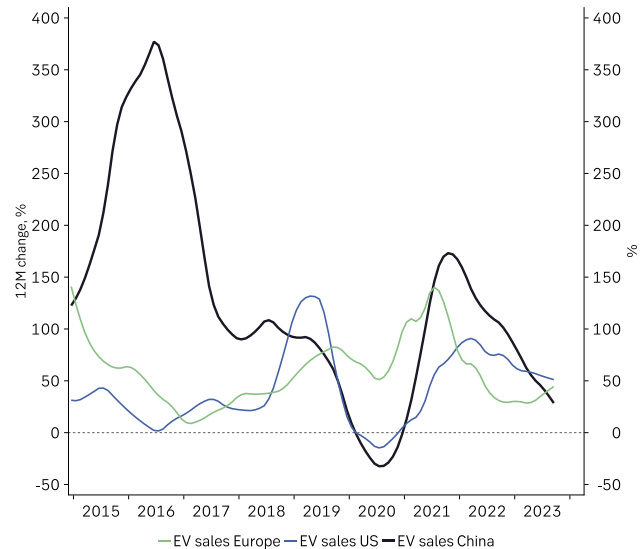
Source: BloombergNEF, Macrobond

The bulk of investments are still in electrified transportation where 2023 saw more than USD 600 bn. This reflects the fact that electric vehicles currently are the only area where electrified alternatives already are competitive.

Sales of EVs are still growing, but it is a concern that the growth rates are falling in all major regions at once, when EVs have yet to break above a 20% share of new car sales. The current pattern suggests that EVs may struggle to reach even 50% of total sales.

This momentum loss for EV market shares is in our view partly a reflection of the still nascent state of the new technology. EVs are competitive, but only for big vehicles. All the EVs you can currently buy in Europe are large and expensive, and there are still no alternatives for buyers in the most popular segment for small, cheap cars. As an example (pattern is similar for all incumbents) the cheapest Volkswagen EV is the ID3, for instance, starting at EUR 40,000 – this compares to the best-selling Polo where prices start at EUR 21,000. Prices are coming down, as any Tesla owner can testify to, but there is still no real EV alternative in the high-volume 'budget car' segment.

**Figure 11 Y/Y change in EV sales across regions**

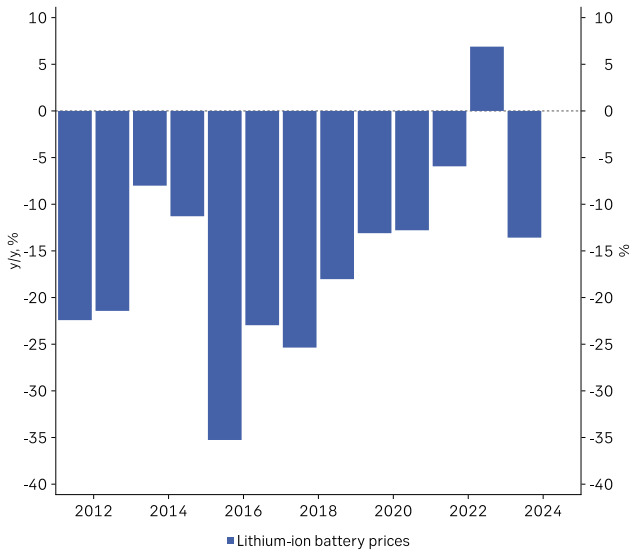


Source: BloombergNEF, Macrobond

The cost declines were also halted during the inflation shock during 2021-22, when the price of lithium-ion batteries rose for the first time in a decade. However, 2023 saw a renewed decline in battery prices, opening for a further decline in the price of EVs (Figure 12).

New battery technologies also offer hope of improved performance (or smaller EVs with same performance/price level as big EVs). In December 2023, for instance, Chinese auto producer Zeekr introduced its model 007 which has 870km range according to China's CLTC standard and can charge up to 500km range in less than 15 minutes (no European standard test yet) using a new Lithium-Iron Phosphate 'Golden Battery' technology. If batteries keep getting both cheaper and better, it is only a question of time before the cost advantage swings clearly in favour of EVs also in the lower-priced segments.

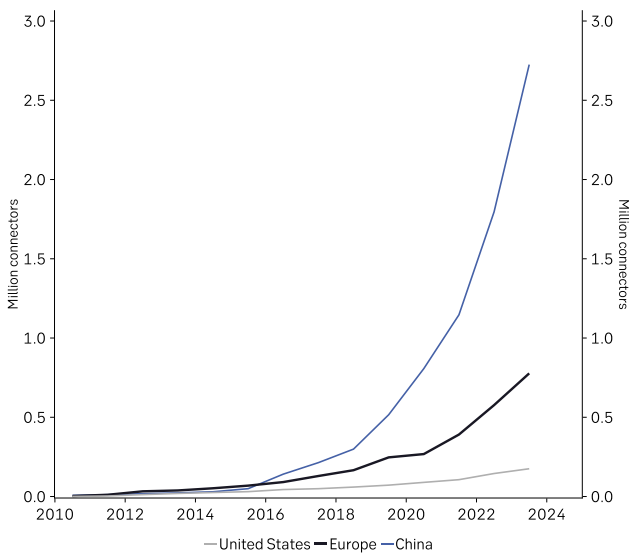
**Figure 12 Cost of lithium ion batteries**



Source: BloombergNEF, Macrobond

EV penetration is also held back by inadequate charging infrastructure, lack of pricing transparency and homogeneity across providers. China remains far ahead of the curve in this vital part of the EV infrastructure, while Europe and especially the US are behind (Figure 13). Until EV technology improves to the point where access to charging is a less important parameter, this shortfall is likely to hold back the diffusion of electrified personal transportation outside China.

**Figure 13 Global public charging infrastructure**



Source: BloombergNEF, Macrobond

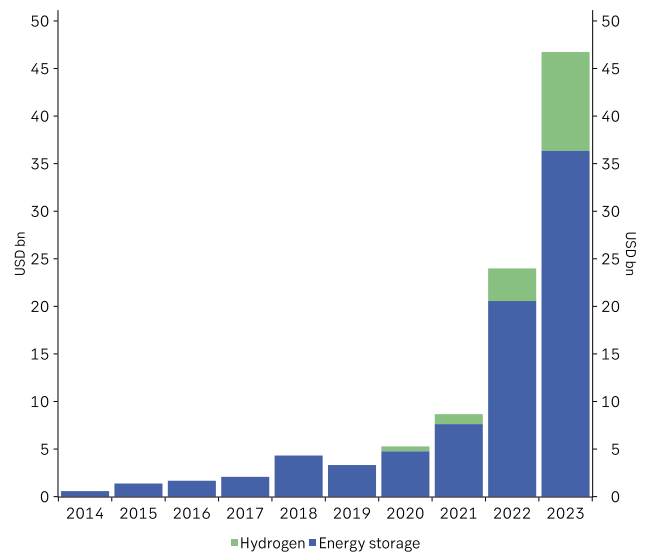
**Storage and hydrogen are the next to move**

Looking beyond EVs, the investment activity remains at a very low level due to the immature state of the technologies being developed. Total investment in the electrification of shipping, industry, heating, hydrogen as well as energy

storage and carbon capture amounted to less than USD 200 bn in 2023. However, some segments are starting to show the same exponential growth trends that EVs have exhibited for some years. Global investment in energy storage and green hydrogen has increased ten-fold since 2020, suggesting that this is the next wave in the transition for energy users (Figure 14).

Both of these segments are crucial for the long-term success of renewable energy given the intermittent nature of their production. Allowing energy to be stored for future use will remove a key obstacle for a complete transition to a zero-emission energy system, but scaling up the supply of such solutions requires long time horizons and deep pockets. The lavish subsidies provided by the IRA in the US are also starting to provide support for technologies that have yet to reach the tipping point, where costs are competitive. New technologies also offer hope in this area, with sodium-ion batteries set to deliver substantial cost declines for utility-scale batteries.

**Figure 14 Global investment in hydrogen, energy storage**



Source: BloombergNEF, Macrobond

**Bottom line: more action requires**

The analysis in this section suggests that the clean energy transition is progressing but outside China the pace is still far too slow to be consistent with a full decarbonization by 2050. In the US, the IRA seems to be doing its job, but the November presidential election raises some question-marks about how sustained the political commitment is. In Europe, we are still waiting to see the funding required to realize all the ambitions the EU has set up. Developing economies lack the economic capacity to lift capex without international support. Markets will get us there eventually, but if it has to happen faster, which the climate crisis suggests it must, then more political action is required.

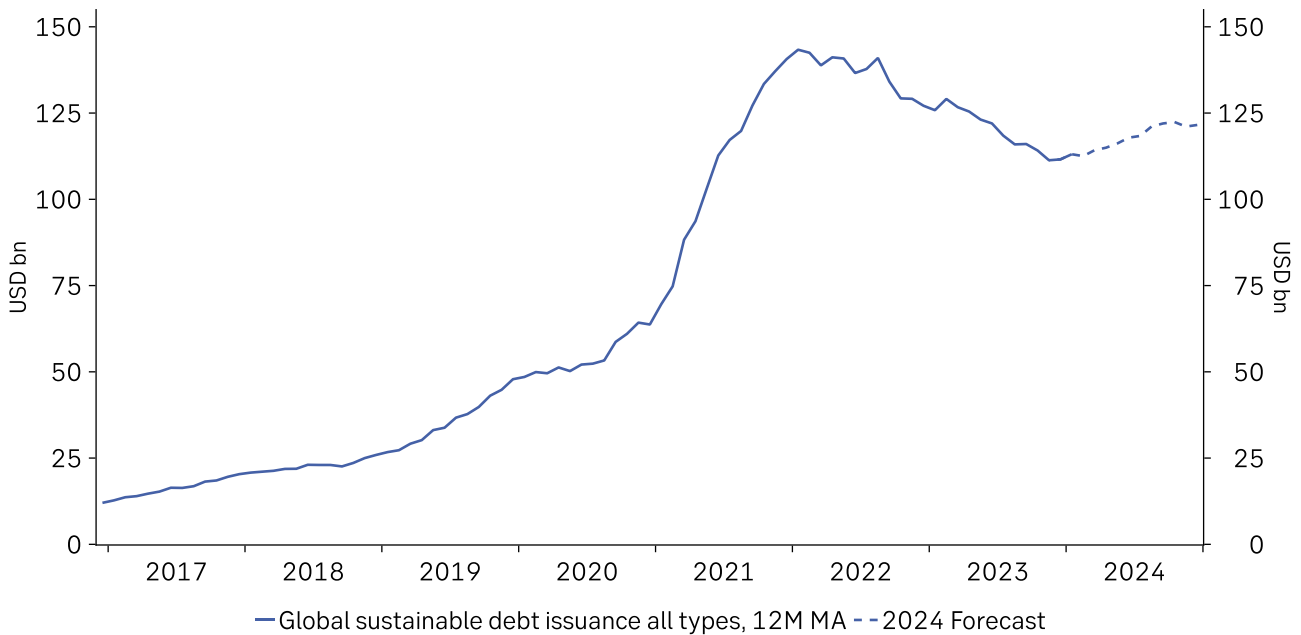


# Sustainable finance market update

Strongest ever January in debt, but 'green equities' still struggle

After the second year in the row of Y/Y decline, the sustainable finance market showed signs of life last month with the highest volume of new debt transactions ever for January. For equity markets, data points in the opposite direction, with clean energy stock underperforming the general market by 50% in the past 15 months.

**Figure 15 Rolling 12M sustainable debt transactions**



Source: BloombergNEF 31 January 2024, Macrobond, SEB

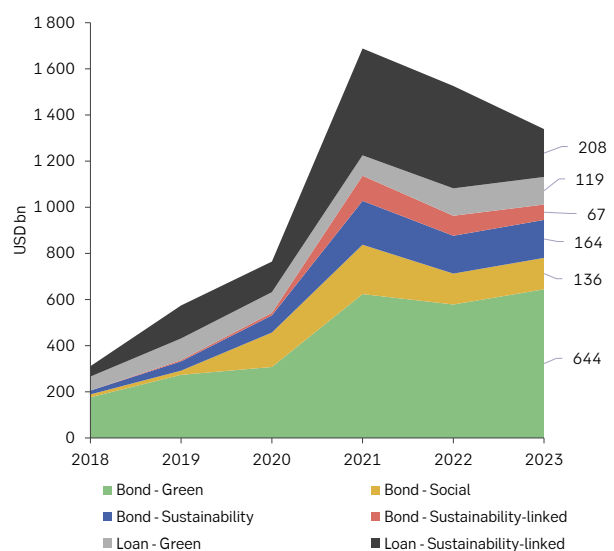
## Review of the sustainable Finance market of 2023

The market for sustainable bonds and loans experienced its second Y/Y decline in 2023 with cumulative debt transactions reaching USD 1.34 trillion. This is a 12% drop from 2022 and 20% lower than the best ever year for sustainable finance in 2021.

The decline in new sustainable borrowing last year was not unexpected given the macroeconomic headwinds that the entire debt market faced with the record-breaking interest rate cycle only abating in the second half of the year and reverberation of Russia's war on Ukraine impacting the global energy market.

Green bonds maintained their leadership position last year, with USD 644 bn in new issuances, followed on the bond side by USD 164bn and USD 136bn in sustainable and social bonds, respectively.

**Figure 16 Sustainable debt transactions by product, 2023**



Source: BloombergNEF 31 January 2024, SEB

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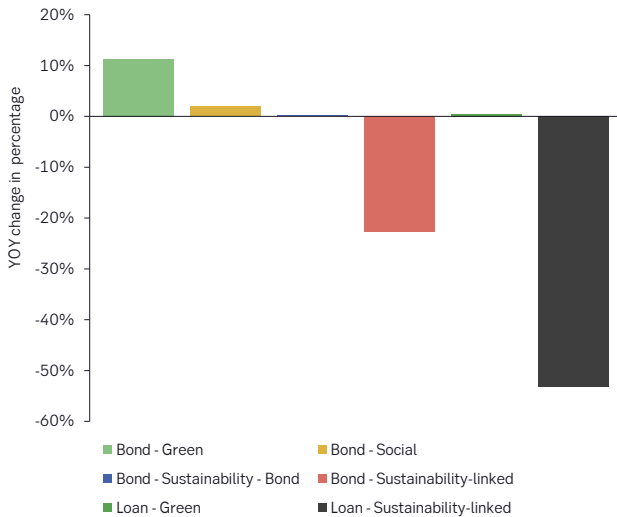
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Looking at Y/Y changes, we can see that sustainability-linked loans suffered a more than 50% decline in 2023. This, together with the more than 20% drop in sustainability-linked bonds suggests that that performance-based sustainable lending products are going through a crisis at the moment.

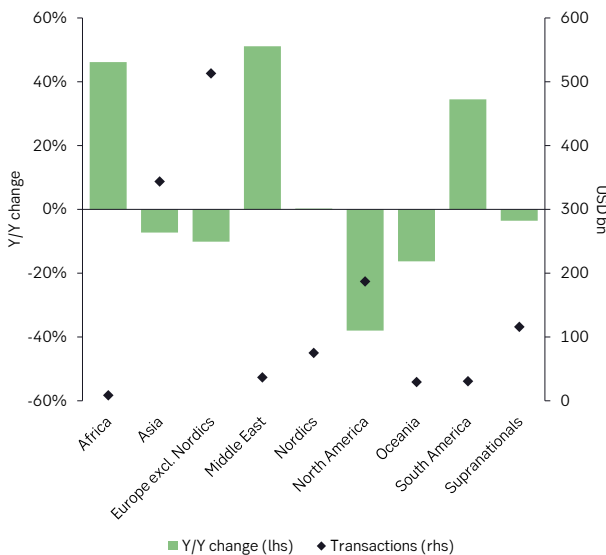
**Figure 17 Y/Y change in sustainable debt transactions, 2023**



Source: BloombergNEF 31 January 2024, SEB

Europe maintained its position as the world's largest originator of sustainable debt, with cumulative debt transactions of more than USD 585bn in 2023.

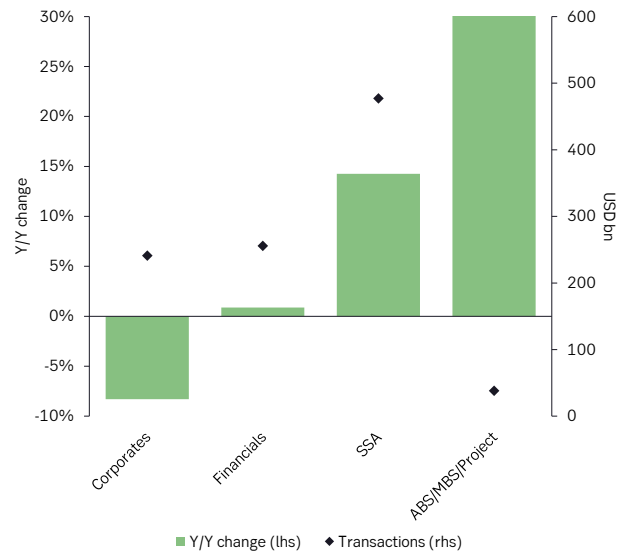
**Figure 18 Sustainable debt transactions by region, 2023<sup>1</sup>**



Source: Source: BloombergNEF 31 January 2024

Nevertheless, Europe still recorded a 10% decline in new sustainable debt as issuers had to manage higher capital costs and worsening macroeconomic conditions. The decline was even stronger in North America while sustainable lending by Supranational institutions and in Asia stagnated. Only relative niche markets like Africa, the Middle East and South America saw considerable growth in labelled bonds and loans in 2023.

**Figure 19 Sustainable debt transactions by sector, 2023**



Source: Source: BloombergNEF 31 January 2024, SEB

**January 2024 surprises on the upside**

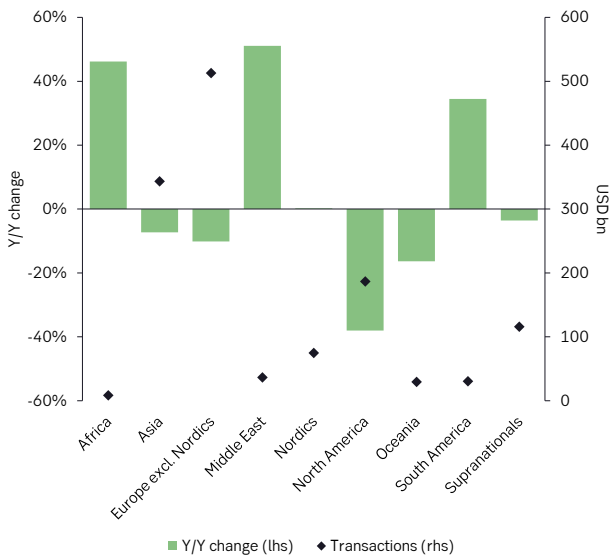
With tensions in the Middle East flaring up and elections scheduled in 50 countries including the US and the EU, 2024 is not short of potential downsides for the sustainable finance market. Furthermore, rate cuts, previously expected for late spring appear to have been postponed until the second half of the year. On top of this, macroeconomic signals are worsening in key sustainable finance markets in Europe.

Amid this rather uncertain background, the sustainable finance market staged a surprise in January. With USD 147bn in new sustainable bonds and loans, last month saw the highest cumulative transaction in sustainable finance in January ever. Green bonds experienced a 25% Y/Y increase to USD 76bn, while sustainability and social bonds climbed 16% compared to the first month of 2023, to USD 36bn and USD 30bn in new issuance, respectively. Green loans also saw strong growth of 171% to USD 6.7bn. Only sustainability-linked borrowing continued to decline by 64% Y/Y to USD 3.6bn for bonds, and by 31% Y/Y to USD 6.0bn

<sup>1</sup> Numbers for North America shows here have been corrected for an error in the numbers we reported in December.

for loans. This suggests that the crisis of performance-based lending continues into 2024.

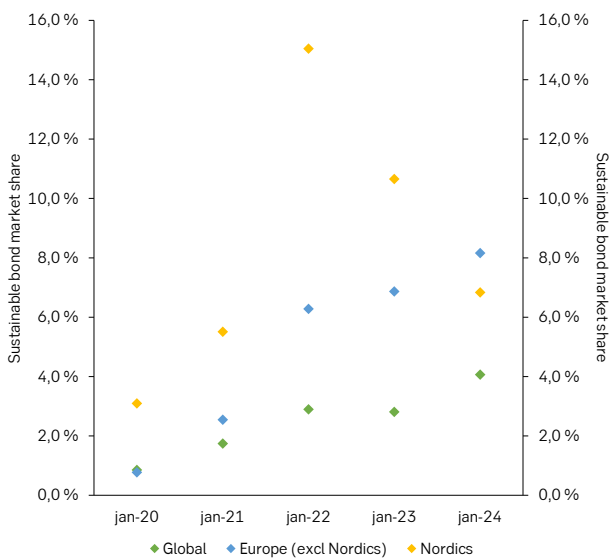
**Figure 20 Sustainable debt transactions by product, January 2024**



Source: Source: BloombergNEF 31 January 2024, SEB

Growth in sustainable bonds last month was even stronger than the uptick in overall bond market issuance. This increased the market share of green, social, sustainability, and sustainability-linked bonds of total new issuance to 4.1% globally, and 8.2% in Europe. The Nordic region does not yet show a significant trend because this market can be drastically affected by single transaction in a given month.

**Figure 21 Share of sustainable bonds by region, January only**



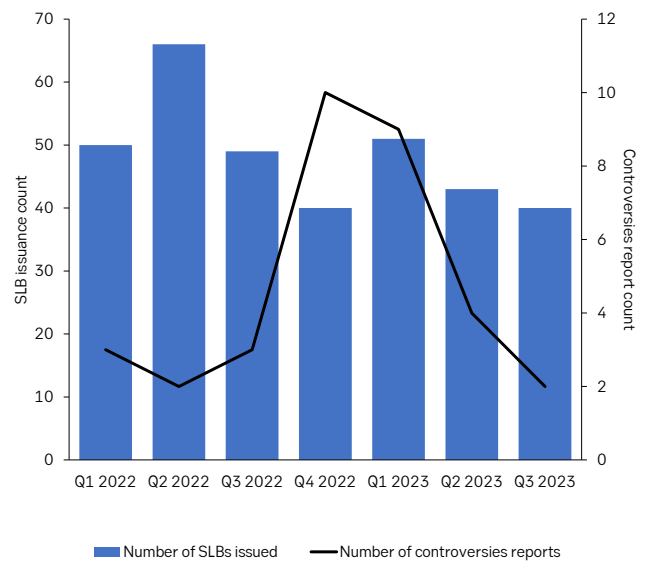
Source: Bloomberg 15 February 2024, SEB

### Greenwashing risk in the sustainable finance market

Greenwashing in relation to the sustainable finance market has been defined by ICMA as “misrepresentation of the sustainability characteristics of a financial product and/or of the sustainable commitments and/or achievements of an issuer that is either intentional or due to gross negligence<sup>2</sup>

While there appears little evidence to suggest that greenwashing is a widespread problem in the use-of-proceed bond market, concerns have been raised by investors and the media about the lack of ambitious sustainability performance targets (SPTs) and the materiality of penalties of sustainability-linked bonds. An analysis of the largest issuers of sustainability-linked bonds from January 2022 to September 2023 shows that transactions from 15 issuers representing USD20.8 billion (19% of the total amount issued during this period) had prompted some form of controversy over penalties<sup>3</sup>.

**Figure 22 Number of SLBs issued vs number of controversies reports**



Source: ICMA

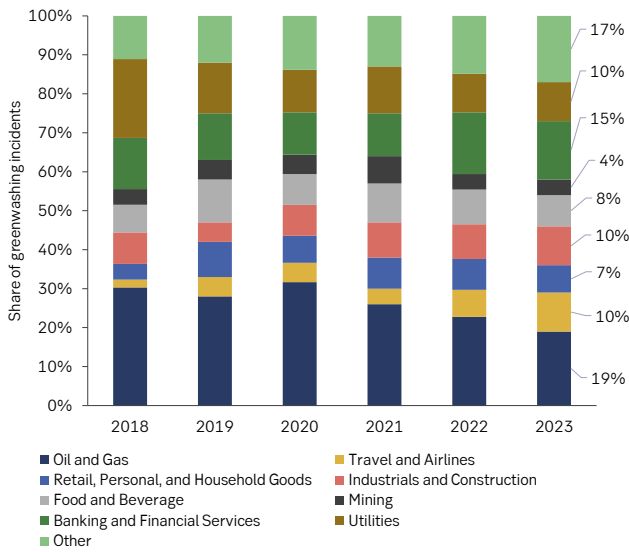
High-emitting sectors like oil and gas, utilities, industrials, and construction are responsible for a large share of incidents linked to misleading communication surrounding climate change, greenhouse gas emissions, and pollution. However, in recent years, there has been more diffusion of greenwashing risk across sectors including consumer facing companies in the travel, airline, food and beverage industries. Notably, the banking and financial services sectors displayed a notable increase in the number of greenwashing risk incidents since 2022, as also observed by the European Supervisory Authorities (see Sustainable

<sup>2</sup> [Market-integrity-and-greenwashing-risks-in-sustainable-finance-October-2023.pdf \(icmagroup.org\)](#)

<sup>3</sup> Ibid.

finance regulation update for more details on how EU legislators are combating greenwashing risk)

**Figure 23 Greenwashing incidents by sector**



Source: RepRisk. 2023 values reflect data from January to September.

**Clean energy stocks still under pressure**

In the equity market, ‘labelled’ investment in the secondary market remains under pressure, reflecting the unwinding of the ‘ESG bubble’ that emerged in 2020 and 2021.

**Figure 24 S&P Clean Energy Index vs. S&P Global and ESG/SRI equity fund flows**



Source: EPFR, Bloomberg, Macrobond

The monthly inflows to ESG/SRI funds peaked in 2020, slowed to around zero in 2022 and have recently reversed into outright outflows.

The S&P Clean Energy index, whose constituents are heavy exposures in many labelled funds, fell back relative to the global stock market as fund inflows slowed in 2021, but initially held up in relative terms as fund flows came to a halt in 2022. However, the past 15 months have seen clean energy stocks underperform the global market by a further almost 50%, taking the total relative return back to pre-bubble level.

In absolute terms, the Clean Energy Index bottomed in Q4, 2023, but the rebound since then has not been strong enough to outpace the broader global index more than temporarily. The underperformance resumed in the first months of 2024 alongside an acceleration of outflows from ESG/SRI equity funds.

**Figure 25 S&P Global Clean Energy Index, 12m fwd EPS**



Source: Bloomberg, Macrobond

We have been looking for the Clean Energy index to start outperforming again after the completion of the post-bubble repricing. The fundamental case is still there in the shape of convergence between falling clean energy index share prices and rising earnings expectations (Figure 25). However, in light of the abysmal return over the past three years and a P/E rate that is still a bit above that of the broader market, we suspect that it will require a more clear-cut increase in earnings estimates before that materializes.

# Sustainable finance regulation update

## Regulatory action to prevent and combat greenwashing risk

Greenwashing is generally understood as practices that exaggerate green credentials. In March, the EU's Green Claims Directive is expected to be formally adopted, aiming to curb greenwashing through the requirement of verification for environmental claims for both products and entities.

### Definitions of Greenwashing

Greenwashing has over the past years climbed increasingly high on policymakers' and regulators' agendas. A legally binding definition does not exist, but the term generally refers to practices that overstate green credentials of a product or an entity. The former concerns statements such as "made of 100% recycled materials". The latter relates to the entity, where statements might include being "Paris-aligned". Important goals of the focus on greenwashing are consumer protection on the one hand and ensuring progress in the green transition on the other.

### EU Green Claims Directive

The most targeted regulatory initiative to mitigate greenwashing risk is the Green Claims Directive. Formal adoption is expected by end of March 2024, but the content is not expected to change from the provisional agreement between the EU Parliament and [Council](#). In scope of the directive are voluntary statements about environmental characteristics that refer to products as well as entities. At the core of the proposal is the idea that green claims must be robustly substantiated (according to guidelines in the regulation) and independently verified.

It is expected that the directive will expressly prohibit making statements about a product's neutral, reduced, or positive impact in terms of greenhouse gas emissions through carbon offsetting, as well as making representations in relation to an entire entity or product, when in fact it only concerns part of the activities/product. An example of the latter would be to claim that a product is "better for the environment" because it is recyclable, but not considering the life cycle impacts of the product. In the case of the former, the EU parliament has proposed that companies could still mention offsetting schemes if they have already

reduced their emissions as much as possible and use these schemes for residual emissions only. The carbon credits used to neutralize residual emissions would have to be certified under the forthcoming Carbon Removals [Certification Framework](#).

### Greenwashing in financial and non-financial disclosure regulations

Notably excluded from the Green Claims Directive is that which is covered by other legal frameworks. Common claims as to the green credentials of, for example, financial products are largely governed under other regulations including SFDR and Taxonomy disclosures, as well as broader financial regulation. Although not explicitly referred to as "greenwashing regulations", these financial and non-financial disclosure regulations actually constitute core components of European supervisors' approach to counter greenwashing. Increased transparency and the establishment of environmental performance benchmarks for economic activities are key enablers for improved comparability and accountability. To ensure the effectiveness of disclosures, the reliability of such information must be robust. This is why the introduction of third-party verification was prioritised in the CSRD and the EU GBS.

In addition, regulators increasingly take these disclosure regulations as a starting point to monitor compliance from a greenwashing perspective. At the end of 2022, the Swedish financial supervisory authority Finansinspektionen launched a strategy explicitly to prevent greenwashing. This was followed by increased scrutiny of regulatory compliance, as well as of sustainability claims more broadly during [2023](#). Germany's Bafin has also made preventing and combating greenwashing risk part of its 2023 sustainable finance [strategy](#).

On a European level, the European Supervisory Authorities (ESA) are addressing the topic through a two-step approach. In the summer of 2023, they outlined their agreed understanding of the term "greenwashing" as encompassing claims or actions that do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. Also in 2023, ESMA found that capital markets do not punish greenwashing by corporates and that a regulatory response is needed. The ESAs are expected to come out with recommendations on the regulatory response to greenwashing in the financial sector later this spring. The increased attention also extends to non-public financial instruments. For instance, the UK FCA published an open letter outlining concern regarding the environmental integrity of the sustainability linked loan market in June 2023.

### Greenwashing within the EU's regulatory framework

Taken together, the image is one of a multilayered supervisory response: direct bans on misleading claims; disclosures to enhance accountability; existing regulations that can be applied to the greenwashing phenomenon (within e.g. consumer protection or misleading advertisement); as well as ad-hoc supervision efforts where specific issues are identified.

**Figure 26 Greenwashing under EU regulations**



Source: SEB

What these regulations have in common is that they all target financial or non-financial claims about the environmental credentials of products, services or entities. In that sense, greenwashing regulations differ from business conduct regulations which are arguably more powerful to reduce environmental harm. One example of business conduct regulations is the Corporate Sustainability Due Diligence Directive (CSDDD) which among other things mandate companies to adopt a climate transition plan which in turn must be disclosed under the CSRD. With the CSRD having run into political opposition right before crossing the finish line, the timeline of adoption and potential alterations to the current draft are uncertain.

### Unintended consequences and looking ahead

The intense scrutiny and attention on fighting greenwashing is not without risk. "Greenhushing", where organisations refrain from communicating on sustainability efforts or lower their ambition to avoid greenwashing, risks slowing the pace of the transition and lower transparency. More critically, the risk of greenwashing accusations may cause organisations to not prioritise sustainability at all.

Looking ahead, several amendments to greenwashing-related regulation in the EU are currently being discussed. During last autumn, two parallel proposals for revisions to the SFDR were out for consultation. One was of more technical nature (and can be changed through a simplified process), and proposed changes to the existing disclosures for financial products. The other, which would require the whole legislative process to be redone, opened the door to more structural changes to the SFDR. With the end of the current EU Commission mandate approaching, however, it appears increasingly unlikely that further steps will be taken until the new one takes office.



# Nordic issuers to update impact reporting guidance



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The Nordic public sector cooperation<sup>4</sup> on harmonising and advancing green bond impact reporting practices date back to the nascent days of green bonds issuance in the Nordic countries.

Developed as a practical user guide and “first-point-of-entry” for issuers engaged in impact reporting, the Nordic Position Paper on Green Bonds Impact Reporting primarily targets the Nordic market but has also come to influence sustainable finance markets more broadly. While the recommendations build on and reference the reporting approaches suggested by the ICMA Green Bond Principles, it is tailored to the specific characteristics of the Nordic markets and its interconnected energy systems.

Now, the group is in the final stages of preparing a 2024 update, following on two previous updates in 2019 and 2020. This article explores some of the main highlights of the forthcoming publication.

## Revised emission factors for electricity and district heating

Deciding on a joint approach for estimating the impact of electricity used, reduced or produced has been one of the major tasks of the group, since the emission factor for electricity is the key determinant for the environmental impact of the projects financed.

The group has settled on a consequential approach which it deems both appropriate and conservative: an emission factor based on a European grid, however excluding Cyprus which is not connected to the EU grid while including the UK and Norway, which are connected. This is deemed to be the relevant grid factor due to the Nordic energy system’s interconnectedness with Europe. In essence, a green project that reduces the use of electricity or adds new capacity from renewable energy sources will increase the net export of clean electricity from the Nordic energy system to continental Europe.

The 2024 update again sees a downward revision for the emission factor for electricity, from 315 g CO<sub>2</sub>e/kWh in the 2020 update to 191 g CO<sub>2</sub>e/kWh. This reflects mainly the continuing decarbonisation of the European energy system, as displayed in updated grid factors from the International Energy Agency (IEA) and the International Financial Institutions (IFIs<sup>5</sup>), but also a more ambitious expected future decarbonisation of the European energy grids. The Nordic group also slightly revises its methodology for calculating impact for electrification projects, where the group is now aligned with the IFI approach as regards to the so-called Operating Margin and Build Margin. Moreover, baseline emission factors for district heating have also been revised downwards<sup>6</sup>.

Revising grid factors downwards is essentially good news, as this reflects ongoing and future expected

<sup>4</sup> The cooperation began in 2016 and comprise local government funding agencies Kommunalbanken (Norway), Kommunekredit (Denmark), Kommuninvest (Sweden) and MuniFin (Finland); the Swedish Export Credit Corporation, SEK; and several Swedish municipal or regional issuers including City of Gothenburg, Region Stockholm and the municipalities of Lund and Örebro. Crédit Agricole CIB, the Nordic Investment Bank and SEB are advising the group of issuers.

<sup>5</sup> IFIs - Harmonization of Standards for GHG accounting: [IFIs - Harmonization of Standards for GHG accounting | UNFCCC](#)

<sup>6</sup> New emission factor for district heating, representing avoided emissions from alternative heating sources: 56 g CO<sub>2</sub>/kWh (Scope 2). Environmental benefit ascribed to energy recovery from waste (avoidance of land fill and methane leakage): 28 g CO<sub>2</sub>/kWh. Total emission factor for projects involving waste-to-energy: 84 g CO<sub>2</sub>e/kWh. Emission factor from district heating production: 46 g CO<sub>2</sub>/kWh (scope 2).

decarbonisation of energy systems. In impact reports this will result in lowering the positive impact of energy efficiency projects and renewable energy production, whilst reducing the negative impact of electrification projects.

### New recommendations for vintage reporting

Reflecting the fact that many Nordic issuers to an increasing degree consider recent regulatory developments, such as the EU Taxonomy, in their frameworks, with several updated frameworks already in the market, new recommendations have been introduced for vintage reporting. Vintage reporting refers to a situation where an issuer is reporting on a portfolio where assets have been approved under different framework vintages.

Recommendations have been introduced to promote transparency for investors, such as regarding the process for project selection and allocation of new bond proceeds in the pool, regarding the allocation of individual bonds to different framework vintages as well as regarding the major differences between frameworks. The recommendations are primarily relevant for issuers following a portfolio approach to green bond issuance and whose presence in the green bond market stretches over several years.

Figure 27 provides a comparison of the chosen baseline emission factor for electricity by the Nordic issuers (EU-Cyprus+UK+Norway) to a range of alternatives, including the corresponding reported environmental impact.

**Figure 27 Comparison of alternative baselines**

57g CO <sub>2</sub> e per kWh	Combined Margin Nordic grids
CM: 191g CO <sub>2</sub> e per kWh	Nordic Position Paper/IFI Harmonized Framework
CM: 234g CO <sub>2</sub> e per kWh	Northern European interconnected system
GA: 293g CO <sub>2</sub> e per kWh	Grid Average European countries
CM: 296g CO <sub>2</sub> e per kWh	Intermittent generation, IFI Framework

Source: Nordic Position Paper on Green Bonds Impact Reporting

### Adding clarity on current topics

In addition to the above, transparency recommendations have been added regarding the reporting on look-back and allocation periods deployed in frameworks, regarding framework age limits as well as on topics including communication of sustainability strategy and the process for identification and management of ESG risks in financed projects. The paper also addresses regulatory referencing, such as to the EU Taxonomy, the EU Green Bond Standard and the Sustainable Finance Disclosure Regulation.

### Mitigating greenwashing concerns

In order for sustainable bonds to retain and strengthen their reputation as useful tools to finance the transition, it is of pivotal importance that market participants undertake issuance and reporting in a diligent and transparent manner, with a view to not overstating project impact or contributing to finance business-as-usual activities disguised as green.

### Reporting compliance with the paper

Issuers that follow the Position Paper recommendations, or similar initiatives to promote harmonized, robust, transparent and conservative impact reporting, are encouraged to state such compliance in their impact reports and green bond framework(s)

As of the 2024 update, recommendations are structured on three levels, with a sliding scale of imperative to follow: “should”; “are encouraged to”; “may choose to”. The paper states that issuers which claim compliance to the Position Paper should comply with all “should” recommendations and to explain the rationale for deviations from them, if any.

### Launch in mid-March

The updated Position Paper will be launched in connection with a Sustainable Finance conference held in Stockholm, Sweden on March 14 and is available for download from the signatories' web pages such as [munifin.fi](http://munifin.fi), [kbn.com](http://kbn.com), [kommuninvest.se](http://kommuninvest.se) as of that date. It can also be accessed via ICMA's impact reporting guidance for sustainable finance, [icmagroup.org](http://icmagroup.org). The group of signatories and advisors welcome feedback on the updated Position Paper.

# Event summary: “The Greenwashing Dilemma: Influencing the momentum in the sustainable finance markets”

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## Introduction

On February 16, SEB organized a closed online roundtable event on the topic of greenwashing. The event, titled “The Greenwashing Dilemma: Influencing the momentum in the sustainable finance markets”, targeted the large corporate and institutional clients of the bank. Our goal was to generate a discussion about how greenwashing cases, allegations and regulations affect the trajectory of the development of the sustainable finance market. The discussion was held under Chatham House Rules and we, therefore, will not be revealing the names or the affiliations of the external participants.

The reason why we decided to call the event “The Greenwashing Dilemma” lies in the fact that in the recent years, the market has seen an emergence of the so-called “greenhushing” – a trend where some organizations are so worried and cautious about the risk of greenwashing accusations that they decide to opt out of communicating their sustainability plans and commitments altogether. The dilemma can, therefore, be described as follows: How can the market cultivate an environment where organizations can openly communicate their sustainability ambitions, while there are also robust structures in place to prevent and identify greenwashing.

In the opening remarks of the event, Benjamin Powell, the Head of Sustainability, Fixed Income at SEB, used the example of the energy transition to highlight the importance of such structures for identifying greenwashing. Pointing out that investors use specific definitions of transition assets and activities to assess companies' transition plans, he raised the question of what tools and data the markets would require to ensure that capital is targeted towards companies that have credible

strategies for decarbonization. He then introduced the panel, consisting of two large European corporates, two large European institutional investors and a representative of a not-for-profit market association and moderated by Alexandra Themistocli, the Head of Sustainable Finance at SEB Germany.

## The roundtable

Opening the roundtable discussion, Alexandra pointed out that today regulators are active in providing definitions and guidance on how to mitigate greenwashing risks, not only on a product, but also on entity level. However, the different stakeholders, such as banks, asset managers, and corporates are struggling with their own individual challenges in mitigating the greenwashing risks. At the roundtable, participants representing different areas of the market shared their own experiences with greenwashing allegations and thoughts on how they can best manage greenwashing risks moving forward.

At the mention of their own experience with allegations of greenwashing, one of the asset managers pointed out that the sustainable finance market developed so rapidly in the past 10 years, that regulations were not able to catch up in time, therefore leaving a void of necessary considerations and definitions for sustainable finance products, creating risk for misrepresentation. Reflecting on the experience of facing the allegations, the investor shared that one of the main lessons learned for them was the importance of internal sustainability-related control and governance structures, and in particular documentation and demonstration of compliance.

The other asset manager agreed that the operating environment of sustainable investments has changed in the past years, in part due to the loud greenwashing allegation cases seen in the market. The speaker pointed out that about 5 years ago, when many investors were first developing their sustainable investment strategies, “you couldn’t lose”, and greenwashing wasn’t necessarily at the top of everyone’s mind. Today, every new strategy must, rightfully so, go through a process of being proofed against greenwashing risks and investors must ensure that the communicated promises are met. This investor explained that in their organization, one of the chosen ways to ensure this, is to have a big team of people working with sustainability, which also fits well with their active management approach. The speaker also highlighted the necessity for the market to work together when it comes to addressing greenwashing, because greenwashing allegations against even one market actor affect the market as a whole.

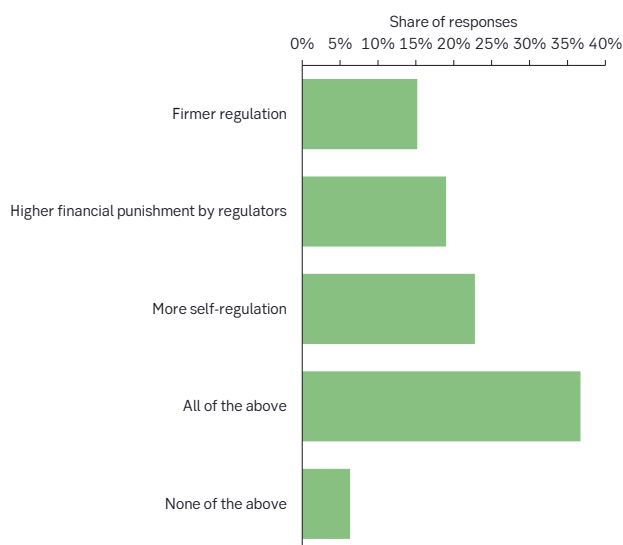
When the conversation turned toward the corporates, one of the speakers reflected that greenwashing was certainly real and taking place in response to increased scrutiny in relation to greenwashing. They highlighted the importance of transparency as a measure against greenwashing risk. Both corporate representatives explained that a big part of their work on reducing greenwashing had to do with the use of certificates and labels placed on their products. One of the speakers added that according to some feedback they receive from consumers, there are too many labels placed on products today, which makes it difficult for customers to navigate in this market. The speaker added that more regulation in the area would create a risk of confusing the consumers.

The market association representative also highlighted that “greenwashing” is an umbrella term, which means different things in different industries. When it comes to the sustainable debt market, the speaker added, it can mean three things: lack of ambition, strategic inconsistency presenting itself in e.g. mismanagement of wider sustainability risks, and actual deception. They also reflected on the argument about regulation, stating that, in their opinion, there was no necessity for more regulation around greenwashing in the market, but rather a need for actionable strategies.

During the event, we conducted a poll where we asked the audience to answer the following question: “How do you think the market can solve the greenwashing dilemma?” with answer options being “firmer regulation”, “higher financial punishment by regulators”, “more self-regulation”, “all of the above” and “none of the above”. One of the asset managers reflected that there is still no complete solidarity

in the sustainable finance market when it comes to ESG terms, and therefore regulation creating a more levelled playing field would be helpful. One of the corporate representatives agreed with this point and highlighted the need for targeted regulations for individual industries.

**Figure 28** Poll answers to the question “How do you think the market can solve the greenwashing dilemma?”



Source: SEB

The discussion also touched on the topic of Sustainability-Linked Bonds being at the receiving end of most greenwashing related criticism when it comes to sustainable finance debt products. One of the investors pointed out the positive role of SLBs for hard-to-abate sectors, while acknowledging that it is a newer product which still needs to be developed further. “We, as an investor, do not want to only invest in dark green companies, (...) we want to also invest in the companies that are not at the desired level of sustainability yet, but have a clear transition story to tell, because that is where a lot of impact can be made”, they added.

One of the corporates, reflecting on their own successful SLB issuance, attributed its success to close collaboration within the company, in particular between the sustainability and financing departments. The other corporate, which has recently chosen to go down the Use of Proceeds path instead of issuing an SLB, pointed out the importance of materiality and inclusion of all material subjects, beyond just climate, in the financing frameworks. Some of the examples mentioned were water and biodiversity. The speaker also highlighted the importance of external assurance when merging sustainability strategies with finance.

**Conclusion**

In the concluding remarks, Christopher Flensburg, the Head of Climate & Sustainable Finance at SEB, highlighted that banks have an important role to play in the sustainability transition but must be humble in respect to the ESG compliance structures and have a strong understanding of greenwashing risks. He pointed out that a repricing of assets is underway and led by the transition, which means that the financial industry will be re-mobilized in a whole new way in the near future.

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“The Green Bond” is SEB’s research publication that strives to bring you the latest insight into the world of sustainable finance – one theme at a time. Even though the publication covers all kinds of products and developments in the sustainable finance market, we decided to keep its historic name – “The Green Bond” – as tribute to our role as a pioneer in the Green Bond market.

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