Point of View

Sustainable Finance:
Today's Investments, Tomorrow's Impact

May 2024

Foreword

Banks and other financial institutions play an instrumental role in the global transition to a sustainable economy. On the one hand, through sustainable financing, they have the potential to spur innovation, upscale sustainability efforts, and augment decarbonization of economies – fostering a mutually beneficial environment for them, their clients, and the planet at large.

On the other hand, they must make fundamental assessments across their portfolios of the inherent risks of financing sustainable transition opportunities. These risks can be mitigated by establishing robust and effective frameworks in alignment with global best practices. These measures not only help them protect against sustainability-related risks but at the same time safeguard the wider stakeholder community.

Sustainable finance also emerges from commercial imperatives to better manage climate and other sustainability-related risks. In a landscape where banks and other financial institutions are frequently judged on their environmental sustainability, it is crucial to create opportunities in sustainable finance and integrate sustainability-related considerations into capital allocation, loan sanctioning, portfolio oversight, and reporting.

Using sustainable finance solutions as a strategic tool helps expedite decarbonization processes, boosts responsible operations, and promotes an economy based on environmental, social, and governance (ESG) criteria. In that way, banks and other financial institutions contribute significantly to the growth of a sustainable global economy. In this publication, we explore the complexities of sustainable finance and the challenges and prospects it presents for banks and other financial institutions. As significant contributors to sustainable development, they must develop a sustainable finance framework and incorporate initiatives and processes to harness opportunities and mitigate risks in their operations and portfolios. This report gives insights into recent developments in the sustainable finance ecosystem, including relevant institutional and national policies, and the key drivers and robustness of the sustainable finance market. Related topics for banks, such as climate transition planning and measuring financed emissions, shall be covered in a follow-up publication. We sincerely hope you find the enclosed publication informative. We would be happy to participate in any discussions required to provide clarifications on our views captured in the pages that follow. We look forward to hearing from you.

Thank you,

For Uniqus Consultech

Anu Chaudhary
Partner, Global Head of
ESG Consulting

Overview

Sustainable finance incorporates environmental, social, and governance (ESG) factors into financial decision-making, and it aims to foster sustainable economic progress while safeguarding the long-term stability of financial systems. This area has grown significantly in the past two decades, driven by multiple factors such as heightened awareness around material environmental and social issues and the need to manage such risks (e.g., reputational or legal), the rising significance of corporate social responsibility, and the advent of new investment products and strategies focused on ESG criteria.

When implemented properly, sustainable finance supports economic expansion while addressing environmental or social concerns. For example, sustainable finance can be viewed as a climate and ESG risk management tool, since it requires financing customers' transition with climate or ESG adaptation strategies, including within carbon-intensive sectors, and allocating new funds to green projects. In this way, sustainable finance solutions contribute to long-term economic stability and overall resilience, encouraging businesses to adopt sustainable practices and reduce negative environmental and societal impacts. Integrating ESG factors into financing decisions helps to identify, assess, and mitigate long-term risks associated with environmental and social challenges.

Governments, international organizations, and financial regulators worldwide are therefore taking steps to promote sustainable finance, recognizing its potential to help achieve global sustainability goals. As sustainable finance proliferates, financial regulators in many countries find it increasingly necessary to develop a balanced ecosystem that promotes sustainable practices with effective risk management plans.

Financial institutions, and the banking sector in specific, can then play a significant role in unleashing access to capital through the development of sustainable finance tools to support, influence and finance ESG initiatives that support the just transition to a more sustainable economy. Through use of sustainable finance best practices, banks and other financial institutions promote transparency, accountability, improved decision-making, better risk management, and increased investor trust.

In summary, the strategic use of sustainable finance solutions helps to create a more sustainable global economy by aligning financial and investment activities with broader environmental, social, and governance objectives while contributing to long-term stability, resilience, and positive societal impacts.

Framework and Methodologies

Banks and other financial institutions develop a sustainable finance framework to facilitate sustainable finance transactions, of different formats, to meet their sustainability commitments across various categories of projects. A framework ensures a structured way of raising and deploying capital, creating confidence that such investment activities are meeting intended sustainability objectives.

A variety of sustainable investment products can be employed by banks and financial institutions, alongside other institutions (e.g., multilateral, private sector corporate, and municipal entities), including sustainable debt and equities (see the 'Annexure' for more definitions of available sustainable investment products). A strong sustainable finance framework defines the investment products that are included within the scope of a bank's sustainable and transition financing activities, as well as clearly establishes eligibility criteria for applicable financing activities. Although sustainable finance instruments can be employed across a variety of transactions and financial activities, most banks' sustainable finance activities relate to debt issuance and will therefore be a key component of establishing a sustainable finance framework.

In order to support standardization of sustainability-related issuance, the International Capital Market Association (ICMA) and the Loan Market Association (LMA) have issued global guidelines for creating sustainable debt instruments. These guidelines promote global debt capital markets' role in financing progress toward environmental and social sustainability. The United Nations (UN) has also published related guidance for sustainable fixed income products and market participants. Finally, market jurisdictions are adopting standards around sustainable finance products, such as the voluntary European Green Bond Standard in the European Union (EU).[1] Internationally recognized or market-based taxonomies may also be employed to align products to sustainability-related definitions, such as the EU Taxonomy, Multilateral Development Banks (MDBs) – International Development Finance Club (IDCF) Common Principles, and the UN Sustainable Development Goals (SDGs).[2] Several of these guidelines and frameworks are summarized as follows.

Principles	Description
Green Bond Principles (GBP) [3]	This voluntary process framework recommends clear disclosure, transparency, and honesty in the growth of the green bond market by providing clarity on the process for issuing a **green bond,** which finances eligible green projects. Eligible green projects include renewable energy, energy efficiency, pollution prevention and control, environmentally sustainable management of living natural resources and land use, circular economy, and more.
Green Loan Principles (GLP) [4]	These voluntary, recommended guidelines provide a framework of standards for market participants to use on a case-by-case basis, depending on the specific features of the transaction. They aim to enhance integrity in the growth of the green loan market by clarifying when a loan can be classified as a **green loan,** which finances eligible green projects.
Social Bond Principles (SBP) [5]	This voluntary process framework supports issuers in financing sound and sustainable projects that achieve greater social benefits through a **social bond,** which finances eligible social projects. Eligible social projects include affordable basic infrastructure, access to essential services, affordable housing, food security, socioeconomic advancement, employment generation, and more. An aligned issuance should provide transparent social credentials alongside an investment.
Social Loan Principles (SLP) [6]	These voluntary, recommended guidelines aim to promote the development of the social loan product by providing a framework of market standards and guidelines for use of a **social loan,** which finances eligible social projects, while allowing the loan product to retain flexibility.

Principles	Description
Sustainability Bond Guidelines (SBG) [7]	These global guidelines outline best practices when issuing a sustainability bond for both social and/or environmental purposes and recommendations that promote transparency and disclosure, underpinning market integrity. A **sustainability bond** finances a combination of eligible green and social projects, or eligible green/social projects with social/green co-benefits, and therefore align with relevant components of the GBP and SBP.
Sustainability-Linked Bond Principles (SLBP) [8]	This voluntary process framework outlines best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in developing the sustainability-linked bond market by clarifying the approach for issuing a **sustainability-linked bond** through the achievement of key performance indicators (KPIs) and sustainability performance targets (STPs).
Sustainability Linked Loan Principles (SLLP) [9]	These voluntary, recommended principles aim to promote the development of the **sustainability-linked loan** product by providing a recommended framework to articulate the fundamental characteristics of the product. The product incentivizes borrowers to achieve material, ambitious, pre-determined, regularly monitored, and externally verified sustainability objectives through the achievement of key performance indicators (KPIs) and sustainability performance targets (STPs).
UN Principles of Responsible Investment (PRI)	The UN PRI is the foremost global advocate for responsible investing practices. It aims to comprehend the investment consequences of ESG factors and assists its global network of investor signatories in integrating these factors into their investment and ownership choices, and it provides guidance and reporting requirements tailored to asset managers and owners across investment strategies, such as credit.
UN Principles of Responsible Banking (PRB)	These principles comprise a unique framework for ensuring that signatory banks' strategy and practices align with society's vision for the future in line with SDGs and the Paris Climate Agreement. The coalition includes the Net-Zero Banking Alliance (NZBA) initiative, and it has released target setting guidance for climate and nature-related issues.

These principles offer issuers advice and guidance on the essential elements required to launch sustainable debt products. Collectively, they assist investors by promoting the availability of information necessary to evaluate the environmental impact of their green, social, sustainability, and sustainability-linked (GSS+) investments. They also help underwriters by offering vital steps to facilitate transactions that preserve the market's integrity.

Summarizing these global best practices, a sustainable finance framework for debt products is often based on at least five key elements: the use of proceeds, the process for evaluating and selecting projects, managing proceeds, reporting, and assurance.

01

Use of Proceeds:
Identification of eligible green, social, and transition categories of projects, as well as exclusion criteria on practices or sectors.

02

Process for project evaluation and selection:
Identification and mitigation of environmental and social risks, an outline of the requirements and procedures for a project to comply with required standards, and the development of due diligence processes.

03

Management of proceeds:
Process to track proceeds appropriately, to promote and maintain transparency and integrity, and decide on key KPIs, to track progress and alignment with the framework.

04

Reporting:
Reporting up-to-date information on the use of proceeds and details of material developments. It also includes impact reporting on the performance of key indicators tagged.

05

Assurance:
External review and independent assurance for the data reported and performance measurement.

Significant Milestones and Evolution

While its uptake has been gradual, significant developments in the global and national sustainable finance ecosystem have accumulated over time, especially in more recent years. Milestone developments include the following:

1999

The Dow Jones Sustainability Index (1999), **the Asia Pacific Index** (2009), **and other indices** made it easier for investors to select companies that have been assessed as having best-in-class approaches to economic, environmental, and social issues.

2000

The UN Millennium Development Goals (MDGs) (2000) directly informed the 2015 UN Sustainable Development Goals (SDGs), a common framework used by investors to define positive impact objectives from projects, and were influential in setting the scene for the Global Reporting Initiative (GRI), which created a widely-recognized sustainability-focused reporting framework by the same name.

2006

The UN Principles for Responsible Investment (PRI) (2006) have helped investors meet their beneficiary commitments while aligning investment activities with broader ESG goals. Signatories promise to uphold the UN Principles and report annually on their responsible investment practices and outcomes.

2016

The UAE Sustainable Finance Framework (2016) presents a set of recommendations to mitigate the private sector's risks and to incentivize sustainable finance products and initiatives. Recently, the UAE launched a landmark declaration on a global climate finance framework. The UAE Declaration on a Global Climate Finance Framework has seen over ten parties launch a roadmap for making climate finance available, accessible, and affordable. This declaration builds on a series of initiatives that have set the path for climate finance reforms which started in 2016 and are aligned with the UAE Vision 2021, Green Agenda 2015-2030, National Climate Change Plan 2017-2050.

2019

The UN Principles for Responsible Banking (PRB) (2019) provides banks with a framework to align their strategy and practices with the goals of the Paris Agreement and the UN SDGs.

2021

The EU's Sustainable Finance Disclosure Regulation (SFDR) (2021) was launched with the Taxonomy Regulation and the Low Carbon Benchmarks Regulation as legislative initiatives stemming from the European Commission's Action Plan on Sustainable Finance. The SFDR mandates ESG disclosure requirements for asset managers and other financial market participants, and the main provisions of the regulation came into effect on 10 March 2021.

2023

The Securities and Exchange Board of India's Business Responsibility and Sustainability Report (BRSR) (2023) imposed novel sustainability-related reporting requirements for its top 1,000 listed companies by market capitalization, providing investors (including banks) with more transparency and standardization around companies' sustainability-related risks and opportunities.

2024

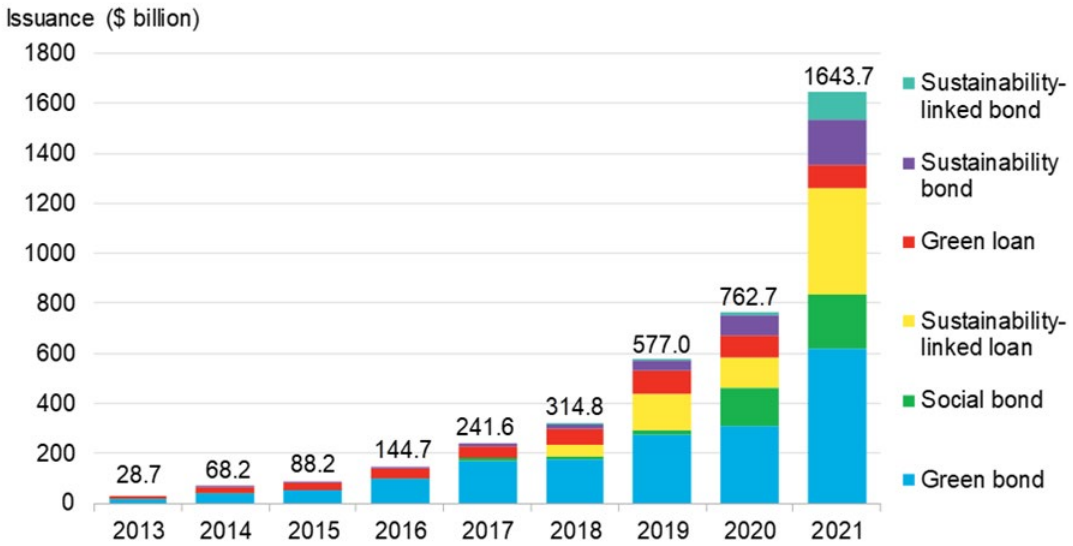
The US Securities and Exchange Commission's final rules around climate-related disclosures for investors (2024) were adopted to enhance and standardize climate-related disclosures by public companies and in public offerings. Although currently stayed, the rules are expected to meet the growing expectations of investors (including banks) for businesses to disclose consistent, comparable, and reliable information around the financial effects of climate change. In California, similar disclosure requirements have been enacted into law.

These initiatives help in sustainable development and contribute significantly to a global economy with ESG considerations. For example, since the European Investment Bank issued the first green bond ("Climate Awareness Bond") of about EUR 600 million (~USD 650 million) in 2007 to finance climate-related projects, the total annual issuance of sustainable financial instruments has risen to USD 939 billion worldwide in 2023.

Sustainable Debt Market Overview

Sustainable finance is a growing market segment due to regulatory and market changes as banks pursue their climate and net-zero transition strategies. Over the past decade, issuance of sustainable debt instruments – the main focus of banks' sustainable finance activities – has risen significantly, peaking in 2021 and expected to increase in the future. Key trends are summarized as follows:

Issuance of sustainable debt products, (billions USD)



Source: Bloomberg

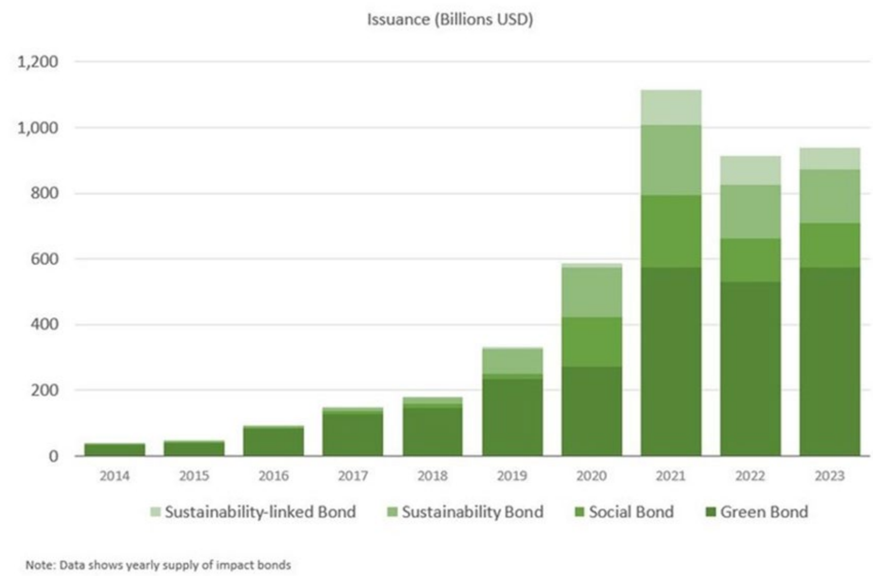
- **Sustainable debt issuance peaked in 2021:**
  By the end of 2021, total sustainable debt issuance surpassed USD 4 trillion, experiencing a remarkable period of growth characterized by a record-breaking annual issuance volume of approximately USD 1.6 trillion.

- **Sustainable debt issuance is dominated by bonds:**
  Between loan and bond products, GSS+ bonds accounted for almost 70% of the total issuance of sustainable debt products, exceeding USD 1 trillion in annual issuance for the first time. Green bonds continued to dominate the GSS+ debt market, as their issuance doubled to USD 621 billion in 2021. However, newer categories like sustainability and sustainability-linked bonds are gaining traction. Indeed, although total issuance of green bonds has increased in absolute volume over time, its label's share of the GSS+ bond market fell from 90% to 55% between 2017 to 2021.

- **Sustainability-linked loans drives growth within the sustainable lending market:**
  Sustainable loans, which made up the other 30% of total sustainable debt issuance in 2021, grew as sustainability-linked loans nearly tripled to USD 428 billion.

Data around sustainable loan products is not as readily available after 2021. However, information around issuance of bond products has been more prevalent for the past two years, with key trends summarized below:

Issuance of GSS+ bonds (billions USD)

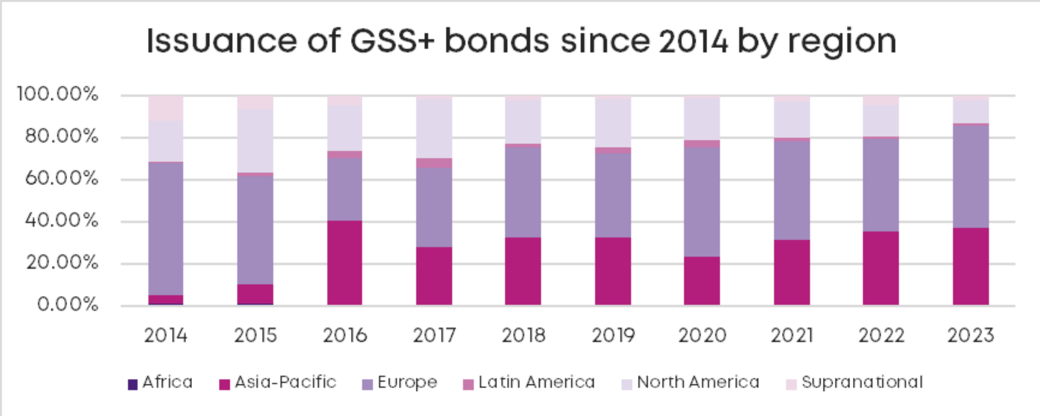


Source: Bloomberg

- **GSS+ bond issuance declined in 2022:**
  Issuance of GSS+ bonds decreased in 2022 from record-setting highs from 2021. A myriad of global market conditions (e.g., rising interest rates, energy price spikes, geopolitical turmoil) hampered issuance of all debt products. However, rising regulatory scrutiny around issuer sustainability claims and concerns around greenwashing have also contributed to the decrease in issuance. This heightened skepticism underscores the importance of issuers to adopt best practice sustainable finance frameworks.

- **GSS+ bond issuance rebounded in 2023:**
  The total issuance of GSS+ bond instruments has rebounded in 2023 to USD 939 billion. [10] While sustainability-linked bonds fell in issuance in 2023 (22% year-over-year decrease), this has been offset by increased sales of other GSS+ bonds. Notably, green bond issuance returned to 2021 levels in 2023 (18% year-over-year increase), as borrowers have pivoted to long-term climate goals. Social bond issuance remained approximately equivalent to 2022, below the record-setting 2021 levels used by borrowers largely to fund pandemic relief measures. Sustainability bond sales remained approximately equivalent to 2022. As a percentage of global debt capital markets proceeds, GSS+ bond instruments account for 13% of overall debt capital market activity during 2023. [11]

Issuance of GSS+ debt products has also changed over time. For example, the following figure summarizes issuance of GSS+ bonds since 2014, broken down by region:



Source: Climate Bonds Initiative

- **Europe dominates the sustainable bond market, but other markets are rapidly developing:**
  In 2023, European issuers continued to dominate the GSS+ bond market, holding approximately 48% market share, while issuers from Asia-Pacific and the Americas accounted for 37% and 12%, respectively. Asia-Pacific has seen considerable growth in issuance since 2019, particularly due to the entrance of new market participants and focus on social initiatives. In 2023, the Middle East and Africa region also experienced a surge in sustainable debt issuance through bonds, sukuk (i.e., Islamic bonds), and loans. For example, approximately USD 14 billion in green and ESG bonds and sukuk were issued in the first seven months of 2023, compared to USD 8.9 billion in 2022. [12] To facilitate the growth of the sustainable sukuk market, the International Capital Market Association (ICMA), the Islamic Development Bank (IsDB) and the LSEG (London Stock Exchange Group) came together at COP28 in the UAE in December 2023 to develop this guidance for market participants, especially potential green and sustainability sukuk issuers and investors, that are less familiar with the structure of these instruments. [13]

In summation, the market for sustainable finance has rebounded and grown globally due to various catalysts. As demand for green funding expands, regulators demand transparency and accountability for issuance, and governments – including those in the oil-rich bloc – push to meet their net-zero commitments. Governments, banks, and other institutions continue to introduce innovative, sustainable financial products and expand product coverage. This diversification caters to the evolving preferences of investors seeking sustainable investment avenues.

We foresee an increased growth in the demand and supply of sustainable debt products globally due to the urgent need to transition to a more responsible world, with the banks playing a principal role. Particularly, forecasts show that GSS+ bond issuance could reach USD 1.05 trillion in 2024, a share of global bond issuance of up to 14%. [14]

Key Drivers

Globally, some long-term structural drivers underpin the growing momentum and demand for sustainable finance.

Commitment to global goals and local targets:

Collective action is needed to achieve global goals such as the UN SDGs and international and national obligations under the Paris Agreement. Banks and other financial institutions play an enabling role in sustainable development, given their ability to channel financing flows toward sustainable activities and unlock additional capital. Banks and other financial institutions can link global commitments, local targets, and financing needs.

Financial, economic, and stakeholder risks:

Unaddressed ESG risks, such as climate change, can threaten financial systems, the economy, and overall stakeholder wellbeing. Neglected ESG risks can undermine the stability of bank portfolios. Significant exposure to carbon-intensive and high-emitting sectors can lead to financial risks (e.g., policy, technological, market) related to the global net-zero transition, for example.

Growing investment opportunities:

Climate investment opportunities in emerging markets are estimated at USD 23 trillion until 2030, according to the International Finance Corporation (IFC).[15] The total funding required for the global transition away from fossil fuels has been estimated to be USD 50 trillion, with an annual financing gap of USD 2.5 trillion needed to achieve a broader sustainability agenda in developing countries. As a result, financial institutions, including banks, must increase the share of climate lending from 7% to 30% by 2030 to mobilize the necessary financing for investment opportunities presented by the National Determined Contributions (NDCs) globally.

Changing regulatory and market environment:

Global investors increasingly demand that banks and other financial actors uphold sustainability standards and become more responsible in their operations. Clients are demanding that investors incorporate ESG issues into their decision-making. The regulatory environment on sustainable finance is evolving rapidly, with newer regulations and frameworks requiring banks to integrate ESG issues in financial decision-making, management systems, and disclosure practices.

COP28 and climate finance pledges:

Governments, multilaterals, banks, and NGOs made climate finance pledges at COP28 to issue sustainable finance instruments. Thirteen countries (including the UAE, India, the U.S., Germany, and France) are endorsing a Global Climate Finance Framework, which aims to unlock investment opportunities for climate action through collective action (delivering commitments and ambitions, freeing up fiscal space for climate action, and broadening concessional finance), opportunity for all (leaving no one behind, country plans and investment pipelines, better and bigger Multilateral Development Banks (MDBs)), and delivering at scale (mobilizing domestic resources, unlocking a high pathway of private finance, and delivering high-integrity carbon markets).

Multilateral role:

The World Bank aims to increase climate funding to 45% of its total lending, which equates to an increase of USD 9 billion annually. [16] Japan and France intend to back a plan by the African Development Bank (ADB) and Inter-American Development Bank (IDB) to leverage IMF Special Drawing Rights for climate and development. The ADB aims to allocate USD 10 billion for climate investment in the Philippines between 2024 and 2029. The Development Bank of Latin America and the Caribbean (CAF) aims to invest over USD 2 billion annually until 2030 in Latin America to fight climate change. [17] Also, charitable donors, including the Bezos Earth Fund, joined a climate financing venture to generate USD 11 billion in investments in developing countries. The UAE launched the USD 30 billion catalytic climate fund, ALTÉRRA, equipped with a special USD 5 billion risk-mitigation facility dedicated to incentivizing investments in developing countries, and with the ambition to mobilize USD 250 billion by 2030 for climate transition by private and institutional investors. UAE banks pledged to mobilize AED 1 trillion (USD 270 billion) in green finance by 2030. [18] UAE banks contributing to the sustainable finance pledge by 2030 at COP28 included First Abu Dhabi Bank, Abu Dhabi Commercial Bank, Emirates NBD, Mashreq Bank, Dubai Islamic Bank, RAK Bank, National Bank of Fujairah, and Abu Dhabi Islamic Bank.

Maturity Assessment

To understand the maturity of banks in their approach to sustainable finance, we conducted a secondary research study focusing on the banking sector; we researched sixty-seven leading banks across India, the Middle East, and the U.S. to ascertain their level of maturity and progress across specific sustainability parameters. This was based on researching publicly available information (e.g., sustainability/ESG reports, annual reports, and TCFD-aligned climate reports). The focus areas included sustainability reporting, a formal sustainable finance framework, and ESG ratings, among others.

Maturity Assessment: Key Findings

Banks are progressing towards establishing a formal sustainable finance framework as a consistent and comprehensive methodology for classification, due diligence, reporting, and verification of financial products. The sixty-seven banks we researched included twelve banks in India, twenty-five in the Middle East, and thirty in the U.S.

Based on our 2023 pilot study results, 40% of the total banks surveyed, have published a formal sustainable finance framework. However, some banks still offer sustainable finance products and services without a structured, sustainable finance framework to ensure effective and efficient oversight in compliance with global best practices, principles, and frameworks.

Formal Sustainable Finance Framework

India	Middle East	US
25% Present	48% Present	40% Present
75% Absent	52% Absent	60% Absent

Source: Uniqus (Internal)

Banks' disclosures have become widespread in most geographies, primarily based on global reporting standards such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), and banks also often aligned to the UN's Sustainable Development Goals (SDGs). The use of TCFD has been selective. This suggests that banks are yet to focus more specifically on issues about climate-related risks and opportunities.

We found extensive evidence that banks have begun developing ESG reports due to mandatory regulatory requirements for large and/or listed entities to disclose their ESG performance, increased investor demand, or competitive peer pressures. Top banks we analyzed also receive ESG ratings to highlight how well they manage their ESG risks subject to bank-specific and industry exposure. However, most ESG-rated banks fall between medium and high risk. This suggests that most banks must establish ESG policies, practices, strategies, and initiatives to manage their heightened ESG risks, including a sustainable finance framework, if not doing so already.

Uniqus POV

Uniqus recommends several steps for banks to consider moving forward, based on trends around sustainable debt issuance and our maturity assessment of banks' sustainable finance activities. Namely, banks should consider moving forward by:

01. Establishing effective ESG governance and strategy:

Setting the right tone at the top and implementing appropriate ESG initiatives to help mitigate material ESG risks, in alignment with legal and regulatory frameworks. This includes developing an ESG strategy aligned with global, national, and industry-specific objectives, disclosure on climate policy engagement, and building ESG competency and effective oversight at the board and management levels. This will serve in parallel as the basis for a robust sustainable finance framework.

02. Creating a sustainable finance framework:

Adopting formal sustainable finance frameworks aligned with global principles ensures that banks maintain transparency, accuracy, and integrity, and that they can expand categorizations and offerings for sustainable finance products and services. Banks must evaluate their existing lending policies and practices (e.g., current loan book and portfolio exposure), define the scope of investment activities covered under sustainable finance, and establish eligibility criteria upon which to assess projects. They can also confer with key stakeholders (e.g., senior management), review applicable regulatory expectations and taxonomies, and refer to industry best practice guidance to inform the development of a sustainable finance framework.

03. Operationalizing a sustainable finance framework:

Operationalizing the sustainable finance framework requires development of policies, procedures, and tools related to credit risk and lending. For example, banks must develop due diligence processes to evaluate whether projects comply with required standards, as well as identify and mitigate social or environmental risks associated with such projects. The management of proceeds related to sustainable finance products must also be appropriately managed, and a policy outlining how banks track proceeds in alignment with their framework shall promote transparency and integrity.

04. Reporting on sustainability-related activities and outcomes:

Enhancing ESG reports to align with broader stakeholder focus on material ESG issues, as well as meeting the specific demand of investors – acting proactively by adopting global reporting frameworks that could be mandated by regulators and market stakeholders (e.g., IFRS S1 and S2). Enhanced sustainable-related disclosure help ensure transparency and progress, providing a granular and accessible record to assess progress on sustainability objectives. Third-party assurance of such data also supports confidence in reported information.

Contact Uniqus Consultech today to learn more about how we can support your bank with creating, testing, and implementing a comprehensive sustainable finance framework.

Contributing Authors:
Elena Primikiri (Associate Partner, ESG), Hitesh Kataria (Associate Director, ESG), Sudhir Kolukula (Advisor, ESG), Samuel Aisabokhae (Assistant Manager, ESG), Ryan Kim (Associate Consultant, ESG).

Annexure

Appendix of commonly used sustainable finance product labels.

Sustainable Finance Product	Definition	Example
Green Bond	Bond instrument where proceeds will be exclusively applied to finance eligible green projects.	Banks purchase green bonds or make green loans which are used to finance the construction, maintenance, and operation of renewable solar farm projects.
Green Loan	Loan instrument where funds will be exclusively applied to finance eligible green projects.	
Social Bond	Bond instrument where proceeds will be exclusively applied to finance eligible social projects.	Banks purchase social bonds or make green loans which are used to finance the development of affordable housing projects.
Social Loan	Loan instrument where funds will exclusively be applied to finance eligible social projects.	
Sustainability Bond	Bond instrument where proceeds will be exclusively applied to finance a combination of eligible green and social projects, understanding that certain projects make have social or environmental co-benefits.	Banks purchase sustainability bonds which are used to finance wind farm projects in an underserved community.
Transition Bond	Bond instrument where proceeds will be exclusively applied to finance eligible transition-related activities. Does not require the project or issuer to be classified as green.	Bank purchase transition bonds which are used by coal mining firms to finance efforts to capture and store carbon.
Sustainable Fund	Diversified investment options (e.g., mutual funds) that incorporate sustainability-related criteria alongside traditional financial factors.	Banks may offer certain ESG-focused investment products to retail investors, or invest their profits within funds with sustainability-related criteria.

Sustainable Finance Product	Definition	Example
Sustainability-Linked Bond (SLB)	Bond instrument for which the financial or structural characteristics can depend upon achievement of pre-defined sustainability objectives. Such objectives are measured through KPIs and assessed against SPTs and timelines.	Banks purchase sustainability-linked bonds or make sustainability-linked loans whose coupon rates adjusts when triggered by the achievement of pre-defined decarbonization targets. Proceeds can be used for general corporate or other purposes.
Sustainability-Linked Loan (SLL)	Loan instrument for which the economic characteristics can depend upon achievement of pre-defined sustainability objectives. Such objectives are measured through KPIs and assessed against SPTs and timelines.	
Sustainable Equity	Investment options in individual companies which advance positive sustainability-related outcomes.	Banks may offer investment research and advice to clients regarding the ESG ratings of companies.
Sustainability-Linked Derivative (SLD)	A derivative transaction for which the counterparty may receive a cashflow benefit upon achievement of pre-defined sustainability objectives. Such objectives are measured through KPIs and assessed against SPTs and timelines.	Banks can offer SLDs to support clients with ESG targets, risk management, and commitments.
Green Sukuk Framework	Sukuk (plural of the Arabic word "Sakk" meaning 'certificate') are defined as "certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership) of assets of particular projects or special investment activity.	Sukuk share similarities with conventional bonds found in the international capital markets, as they can typically be traded, listed, rated, etc.

Sources

[1] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32023R2631

[2] https://www.icmagroup.org/assets/documents/Sustainable-finance/ICMA-Overview-and-Recommendations-for-Sustainable-Finance-Taxonomies-May-2021-180521.pdf

[3] https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles-June-2022-060623.pdf

[4] https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/LMA_Green_Loan_Principles_Booklet-220318.pdf

[5] https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Social-Bond-Principles-SBP-June-2023-220623.pdf

[6] https://www.lma.eu.com/application/files/9416/9755/3230/Social_Loan_Principles_23_February_2023.pdf

[7] https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Sustainability-Bond-Guidelines-June-2021-140621.pdf

[8] https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Sustainability-Linked-Bond-Principles-June-2023-220623.pdf

[9] https://www.lma.eu.com/application/files/9216/9755/2878/Sustainability_Linked_Loan_Principles_23_February_2023_v.2.pdf

[10] https://www.bloomberg.com/professional/insights/trading/green-bonds-reached-new-heights-in-2023/#:~:text=Sustainable%20bond%20issuance%20topped%20more,the%20same%20period%20last%20year

[11] https://www.spglobal.com/_assets/documents/ratings/research/101593071.pdf

[12] https://www.lseg.com/en/insights/data-analytics/sustainability-initiatives-redefine-future-for-mena/

[13] ICMA-IsDB-LSEG-Guidance-on-Green-Social-and-Sustainability-Sukuk-April-2024.pdf (icmagroup.org)

[14] https://www.spglobal.com/_assets/documents/ratings/research/101593071.pdf

[15] https://www.ifc.org/content/dam/ifc/doc/mgrt/3503-ifc-climate-investment-opportunity-report-dec-final.pdf

[16] https://www.worldbank.org/en/news/press-release/2023/12/01/world-bank-group-doubles-down-on-financial-ambition-to-drive-climate-action-and-build-resilience

A TEAM THAT
YOU CAN TRUST TO DELIVER

Jamil Khatri
Co-Founder & CEO
jamilkhatri@uniqus.com

Anu Chaudhary
Partner, Global Head of ESG Consulting
anuchaudhary@uniqus.com

Nirav Patel
Partner, ESG
niravp@uniqus.com

Dr. Rajesh Nair
Partner, ESG
rajeshnair@uniqus.com

Sagar Lakhani
Partner, ARC
sagarlakhani@uniqus.com

Venkateswaran Narayanan
Partner, ARC
vn@uniqus.com

Elena Primikiri
Associate Partner , ESG
ep@uniqus.com

Matt Berner
Managing Director, ESG
mattberner@uniqus.com

Hitesh Kataria
Associate Director, ESG
hiteshkataria@uniqus.com

To know more about us, please visit www.uniqus.com