

SUSTAINABONDS

World Bank connects investors with impact amid Covid-19

The World Bank has hit new heights in bond issuance since the start of the pandemic, as investors have supported IBRD and IDA in the task of alleviating Covid-19's social and economic damage. *Heike Reichelt*, head of investor relations and sustainable finance, World Bank Treasury, spoke to *Sustainabonds'* Neil Day about how its issuance is connecting investors with impact.



Neil Day, Sustainabonds: The World Bank Treasury is the treasury for both IBRD, known as World Bank in the capital markets, and a relatively new issuer, IDA. Can you give us a very brief overview of the two issuers and their funding programmes?

Heike Reichelt, World Bank (pictured): Until recently, we at the World Bank Treasury were primarily responsible for the funding programme of International Bank for Reconstruction & Development (IBRD). This is the original organisation in the World Bank Group that has been in the market for over 70 years. It has a funding programme of about \$55bn-\$65bn, although some years it is more, like this past fiscal year. IBRD is known as “World Bank” in the capital markets and is a very well established issuer.

In 2018, we introduced another issuer to the capital markets, International De-

velopment Association (IDA). Both IBRD and IDA are focused on achieving the overall goals of the World Bank Group — to end extreme poverty and boost shared prosperity — and support member country governments in achieving their development goals. But they have different capital structures, and are legally separate entities. IBRD focuses on middle-income countries, and IDA on lower-income countries. The financial products IDA provides are also different — for example, IDA provides grants to a group of its poorest members.

IDA has been around a long time, more than 60 years, but until 2018, IDA received funds for its activities exclusively from donors — primarily through a replenishment programme every three years. IDA's financial model was changed as it entered the capital markets, with the introduction of new risk management policies that addressed the needs of bondholders — like

IBRD's, IDA bonds are rated triple-A. IDA now has a funding programme that is already around \$10bn, so it has grown very quickly.

Day, Sustainabonds: The Covid-19 pandemic and plans for “building back better” have influenced many entities' sustainable bond issuance and related activity. How, if at all, has it influenced the issuance of the World Bank and IDA?

Reichelt, World Bank: There are two ways of looking at how it's influenced our activities.

One is on the lending side. While we have many ongoing programmes in different areas, once the pandemic hit there was an immediate focus on addressing the health crisis. It was basically all hands on deck to make sure that we could quickly provide countries with what they needed

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to address this. We worked with each country to assess what they needed most urgently — this included projects such as health worker training, providing personal protective equipment and ventilators, but also finding ways of getting cash transfers to families and, importantly, making sure children had the opportunity for distance learning — in many countries, energy access is not reliable and not every child in a household has access to a computer, so countries had to find different ways to continue teaching.

And then on the other side is funding. Put simply, we just had to do more. So, in April 2020, IBRD issued the largest supra-national bond, an \$8bn transaction. To prepare that transaction we did a net roadshow to highlight the types of projects IBRD was financing as part of our Covid response, but also to make it clear that it was all within our existing risk parameters. IBRD has a capital buffer for use during crises: capital that was set aside so that it can act countercyclically and support countries.

So that's how the pandemic influenced our issuance: we had to do more and

quickly — particularly for IDA. When we introduced IDA in 2018, we expected the funding programme to grow to about \$5bn-\$10bn in five to 10 years. That timeframe was very much shortened: in fiscal year 2020 (to 30 June 2020) we issued \$5bn and this past fiscal year we issued \$10bn, so within four years it's already reached \$10bn. So that was a big change in the issuance programme for IDA.

Day, Sustainabonds: When you were ramping up issuance like that, did you find the market could absorb the higher volumes, and that you had the tools and flexibility to be able to do it?

Reichelt, World Bank: Yes. Fortunately, the markets were good. There was a lot of interest in triple-A issuance. And while investors have to look at the financial characteristics of a bond — the credit, the maturity, the price and so forth — there was also investor interest because of what the World Bank does: a global multilateral organisation that's really at the centre of trying to support countries. If nothing else, this pan-

demical makes it clear how dependent we all are on what happens in other places in the world — I've heard people say, "no one is safe until everyone is safe". I felt that there was a lot of support for our mission.

As for IDA, it is new, we are still working to have investors set up credit lines, and that's just going to be an ongoing process. IDA has issued in dollars, euros, sterling and Swedish kronor, and will be expanding into other currencies. For every market, there's a lot of investor work that needs to be done to explain IDA's financial structure, IDA's purpose, how IDA can provide grants but still be triple-A — it takes some explaining. But as more and more investors get credit lines set up, IDA will be able to grow its programme.

Day, Sustainabonds: As head of sustainable finance, what's your take on the differences between the variety of terms used in this field — SRI, ESG and impact?

Reichelt, World Bank: There are so many different terms and people use them inter-

Examples of some of the World Bank's 150+ Covid response projects



Note: IBRD projects; Source: World Bank

changeably, but actually there are differences in the approaches these represent. I like to keep things simple, so I use something I once heard: the ABCs of SRI, ESG and impact, which tries to bucket the different approaches.

“A” refers to “Avoiding”, or filtering, certain securities, issuers or sectors, and that is typically referred to as socially responsible investing (SRI). It can take different forms, like negative screening, or best in class, and so forth. SRI has been a common approach in the US for many decades.

Then the “B” is an approach to portfolio management that tries to “Benefit” stakeholders. It’s also referred to as ESG integration, because it is about minimising ESG risks or looking for ESG opportunities — but only to increase the value of the portfolio.

Lastly, the “C” is an approach that tries to focus on ways to channel investments to also “Contribute” to society — that’s impact investing.

The three strategies are not exclusive; on the contrary, most investors do some of each — especially investors who look at labelled bonds. They expect issuers to have some sort of screening, avoiding certain types of investments; they focus on ESG integration, because they are also looking at ESG from a risk perspective; but they also want to see the impact — that’s a key component. Investors are looking for labelled bonds because they are looking for ways to show that they are making a positive difference.

So that’s the ABC, and I consider sustainable investing to be the umbrella term for the different approaches. All the approaches are trying to channel capital towards activities that help with sustainability — which itself is about meeting the needs of today’s generation without compromising the needs of future generations.

Day, Sustainabonds: You have been in the markets for a long time. How have the markets changed — especially in connection to sustainable finance — over the years?

Examples of dedicated themes



Source: World Bank

Reichelt, World Bank: There are a couple of keywords that capture the key changes. One is “connecting”.

I come from the field of project finance, having started in the export project finance department of KfW, and we could see what we were financing. When we were financing projects such as telecommunications in Asia, for example, we’d see the buildings where the data lines would be set up. Then, when I moved over to capital markets, it was rather anonymous. At the time, we would

much further: investors are connected to the purpose of their investments; issuers are connecting with investors in a dialogue on building sustainable finance; within issuers, we are much more connected to the departments that are financing the projects; and so forth. Also, in relation to regulators and policymakers — before green bonds, there was a lot of focus about tackling climate change, but there was no connection to financing. I remember speaking in 2015 at an event at the annual COP that was held in France that year, to an audience that contained no financial people, it was all policymakers. The capital markets just weren’t connected to policymakers the way they are today.

Transparency goes hand in hand with the connection to purpose

issue bonds in French francs or Dutch guilders, and then we’d move on to the next transaction. And there were no questions from investors about how we were using the funds. When I moved to the World Bank, it was at a time in the markets when this was changing. We were starting to get questions from investors about the World Bank as an issuer and its development approach. But it wasn’t really until the World Bank issued the world’s first labelled green bond in 2008 that catalysed this development of investors wanting to be connected to the purpose of their investments.

That would be the big change I’ve witnessed, this connection. You can take that

Another keyword to capture the changes is “transparency” — and it goes hand in hand with the connection to purpose. Investors are asking for a lot of information about the use of funds — transparency and reporting around issuers’ approaches, the types of projects, the different sectors that we are supporting, project examples, metrics, and so forth.

So those are two key developments that I see as part of the development of sustainable investing. Of course, it all goes back to the general public recognising the climate crisis and more recently — catalysed by the pandemic — the attention being raised on addressing social aspects to bring about a more sustainable future.

Day, Sustainabonds: Some say that the pandemic has brought the focus on the importance of “S” in “ESG investing”. To what extent is this evident?

Reichelt, World Bank: Before the pandemic, some investors said, “don’t forget the S in ESG”, but for the most part — in the bond markets, at least — when people would say ESG, they actually meant E, they meant green, or if they said sustainable, they meant green. That’s because they recognised the huge impact climate risk has on the value of their portfolios. This was behind the very first green bond that the World Bank issued in 2008. A set of Scandinavian investors approached us because they saw that climate risk was affecting the value of their portfolio, and they wanted to find a way to support projects that made a positive difference. But the focus was just very much on the E.

With the onset of the pandemic, social problems came to the surface globally and showed what a financial impact they could have, in the areas of health, inequality, and social tensions within society. Many people have referred to the pandemic as a crisis of inequality. So, when investing in a company, S is more than about how many women are on the board; it’s also about how organisations are supporting healthcare for workers, for example. For countries, it could be about education and healthcare, and also about how many jobs are in the formal sector and how many are in the informal sector.

So, yes, the pandemic has focused investors on how important it is to also consider the S in ESG, and not just for your own portfolio in terms of benefiting your own stakeholders, but also for society.

Day, Sustainabonds: The World Bank has been labelling bonds for investors interested in ESG and impact since the first “green bond” issued in 2008 and has expanded the label to “sustainable development bonds”. Can you explain how this fits in the



World Bank’s overall funding strategy this year?

Reichelt, World Bank: Even when I would be explaining our green bonds to investors, I’d note that the overall mandate of the World Bank is a social mandate. As I mentioned earlier, the twin goals are to eradicate extreme poverty and boost shared prosperity. That’s all focused on people, and the reason climate is such a big part of what we do is because of its effect on people. So, one could make the argument that green is social, that everything is social. In our communication with in-

Green bonds are a sub-set of sustainable development bonds

vestors, we were therefore finding it very hard to silo things. Take a school that has solar panels, for example: we have that in our green bond project portfolio, but it’s also an education project and about ensuring people have access to energy. So, it’s very difficult to separate out the S — and, of course, the G runs through everything. In our communication with investors, we therefore expanded our approach to become a more holistic one, labelling all our issuance as sustainable development

bonds, because that covers the entire balance sheet of the World Bank and our entire funding programme.

The labels are a way to communicate to investors the types of projects the programmes are helping support, but of course they’re also funding the bank. Our funding strategy remains to offer investors a diverse set of bonds in different currencies, different maturities and different structures as our product mix. This past fiscal year we had a big focus on extending the maturity of our funding.

Day, Sustainabonds: You recently published an impact report that consolidates your impact reporting into one report for both sustainable development bonds and green bonds. Why did you decide to publish one report, instead of separate reports?

Reichelt, World Bank: It’s really based on this holistic approach that we are talking about. Green bonds are a sub-set of sustainable development bonds. In the report, we’ve tagged with a green leaf projects that are part of the entire balance sheet but are also the focus of green bonds.

We issued the first green bond report in 2015 and have learned a lot from producing it, and from the feedback we have received from investors. We have also worked with other issuers on reporting, including to set up the first harmonised impact reporting guidelines that were updated by the impact working group we are on that is part of the Green Bond Principles coordinated by ICMA. So, we’ve built on the experience of green bond reporting and expanded that to the entire balance sheet. The approach has to be somewhat different because we have some 600 projects in the report, so it’s much bigger and covers a wider variety of sectors than the green bond reporting does, so we have broken the report into separate chapters. Green bond investors can still see the projects where we’re allocating equivalent amounts to, from green bonds, and they can see the expected impact. It’s still very

Project example: Health resilience in Lebanon

Development Challenge: Lebanon has the highest per capita concentration of refugees in the world, including approx. 1.5 million displaced Syrians. The population of Lebanon increased by 30% in the past six years, straining resources and public services. The current economic and financial crisis, and the Covid-19 pandemic significantly compounded challenges faced by the health sector.

Project Description: Increase access to quality healthcare services for poor Lebanese and displaced Syrians and strengthen capacity to respond to Covid-19 by scaling up the scope and capacity of primary healthcare, supporting the provision of healthcare services in public hospitals, and strengthening the country's capacity to respond to the pandemic. The project was revised to increase the government's ability to test and treat Covid-19 cases and finance the procurement of vaccines, in what was the first World Bank-financed Covid-19 vaccine operation globally.

Expected Results (include):

- Primary care services for 250,000 poor Lebanese and 250,000 displaced Syrians
- Increase pregnant women receiving at least four visits to 60%
- Increase children fully vaccinated under the age of two to 75%
- Train 850 health personnel
- Covid-19 response: 11 treatment centres set up and equipped; 20 response teams; 2.25 million vaccines procured (for 1.1 million fully vaccinated people)

IBRD Financing: approx. \$100m



Source: World Bank

much focused on climate and environment metrics for the green bond section, but there are a broader range of metrics for projects covered in the sustainable development bonds section. If it's an education-related project, for example, it also has education metrics.

This helps us highlight our holistic approach and, again, focus on transparency — we're not only pulling back the curtain to reveal just the green slice; we're opening it all the way to show all our projects.

Day, Sustainabonds: In your engagement with investors and in your communication around bond issues, you have highlighted various sustainability themes in your issuance over the years. How does that work, and are there any in particular that you have been focusing on in transactions recently?

Reichelt, World Bank: All the bonds that we issue are sustainable development bonds, but we then engage with investors to raise awareness for certain themes. In the virtual roadshow in April last year, for example, we focused on Covid and provided some examples of health projects. Earlier this year we had several interactions with investors where we highlighted gender and how women and girls have been disproportionately

affected by the crisis. A higher percentage of women are frontline workers in the health and elder care industry, and also in retail, and more women than men lost jobs. So we have issued a few sustainable development bonds raising awareness

8% of greenhouse gas emissions are caused by food that is never eaten

for certain development themes like gender and health, and also for clean water and oceans — although these are still under the labels of green bonds and sustainable development bonds, to avoid a proliferation of labels.

We've been connecting these themes to the Sustainable Development Goals (SDGs). When we issue bonds raising awareness for gender, we will highlight SDG 5, if it's education, SDG 4, and so forth, so when investors do their own reporting, they have a connection to the SDGs that we're also supporting. But the funds are not earmarked — we have to make sure investors understand that; we're just raising awareness for the types of projects that the World Bank supports in these areas. Investors are very receptive firstly, because it connects them to the purpose

of their investments, and secondly, because it's all very interesting.

One theme I've found particularly interesting is food loss and waste. We were asked by colleagues in operations if we could raise awareness for this. The theme was particularly popular among Japanese and Scandinavian investors. Some of the facts I've learned when engaging investors around this are eye-opening: a third of all food that is produced is wasted; 8% of greenhouse gas emissions are caused by food that is never eaten; 25% of all water in agriculture is used for food that's never eaten — it's shocking. It's something that we'd never thought about, and I can tell you, the next time you think about throwing away those strawberries because they don't look too pretty, you'll think again, given all the greenhouse gas emissions and water that was needed to produce them, and probably eat them anyway. So, it can change personal behaviours, too.

Day, Sustainabonds: As you mentioned, while trying to help investors achieve impact, your sustainable development bonds are also funding. One of the notable transactions you did this year was in an ultra-long maturity, 40 years in January — how did this play out?

Reichelt, World Bank: That was a phenomenal transaction — a €2bn 40 year bond with over 100 investors and an order book of €3.6bn. This was down to a combination of factors. The market was very conducive to ultra-long maturities, high credit quality issuance, and — as mentioned earlier — we were looking to extend duration, so it came together really nicely. The investors were mostly asset managers, insurance companies and pension funds, mainly from Germany and France.

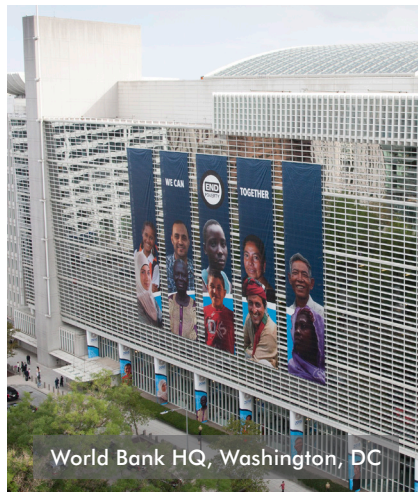
We are looking to extend duration and the euro market is a good market for that. It's going to be an ongoing focus, so we'll be looking to issue more long maturity bonds in this new fiscal year.

Day, Sustainabonds: Are there any other notable bonds that you would like to highlight?

Reichelt, World Bank: Since the \$8bn record transaction last year, we have issued several two-tranche benchmarks, also for an aggregate of \$8bn. We have also issued several SOFR bonds that support the growth of that market and help with the transition to the new benchmark.

But some of the nice transactions are those where investors have shown a particular interest in a theme and we have then designed a bond to connect them to this. Just recently, Fiera Capital bought a sustainable development bond that raised awareness for the importance of water and ocean resources. Earlier, the Equality Fund bought a private placement in Canadian dollars to raise awareness for gender equality. And Fukoku Life highlighted support for digital education during Covid.

Day, Sustainabonds: What do you make of where we are in terms of the green and sustainable bond market? While growth has been impressive, volumes are still short of what some observers say is required. Are you encouraged? What needs to be done to further develop it?



Reichelt, World Bank: This focus on volumes for labelled bond issuance misrepresents the revolution we have seen in the bond market. With labels, we are talking about just around 1% of the bond market by volume, but I've been saying for some time now that I don't think that's a fair reflection of what is going on — the whole discussion around labelled bonds has revolutionised how investors look at everything they invest in, whether it's labelled or not. If the planet earth represents the size of the overall bond market, the relative size of the labelled bond market is like the moon we see — it's tiny. But that isn't reflective of the

size of “sustainable finance” in the bond market — there are many bonds financing sustainable activities that aren't captured in labelled bonds.

What more needs to be done? Again, it goes back to this issue of transparency and data. The better issuers get at disclosing the ESG and impact of their overall activities, the better information investors have as to what they'd like to support. With data and technology, people are going to be able to figure out how much of the 99% of the rest of the bond market they also consider sustainable.

There are incredible advances in data. Some investors specialise in scraping and collating data — although we need to be careful about how they interpret and use that. We have been speaking to a lot of academics about looking at ways investors can internalise external costs, so that their investments can be more efficiently allocated.

So the labelled bond market will also continue to grow, and it plays an incredibly important role in getting issuers to communicate their approach through their frameworks and report through their impact reports. Things have to move faster, of course, but it's going in the right direction. ●

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