

Sovereign Green Bonds: Poland sets a precedent

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Authors: [Andrzej Sutkowski](#), [Cenzi Gargaro](#), [Tallat Hussain](#)

Demand in the Green Bond market has historically been driven largely by environmentally and socially responsible investors. As the market becomes more mainstream, the investor base has expanded to include pension funds, insurance companies, asset managers and retail investors. With growth in the diversity of issuer type and structure, Green Bonds have developed into an asset class of their own providing fixed income products that meet investors' underlying financial requirements, and enable them to show support for initiatives they deem to be important global priorities.

The entry into force of the Paris Agreement of the United Nations Framework Convention on Climate Change (the "**Paris Agreement**")¹, provides new impetus for sovereigns and other national institutions to consider green financing structures such as Green Bonds to fund infrastructure projects that have environmental benefits in order to achieve national commitments.

Poland's Green Bond

Poland is the first sovereign to tap into this as a solution to meet its environmental policy objectives. In December 2016, having worked with a team of White & Case lawyers based in Warsaw and other advisors, the Government of Poland became the first country to issue a sovereign Green Bond.

The €750 million five year note, which was issued following a successful roadshow in London, Paris, Amsterdam and Germany, was two times oversubscribed and priced at 48bp over mid-swaps. Piotr Nowak, the Undersecretary of State in Poland's Ministry for Finance, confirmed this was "flat to or inside" what Poland could have achieved on its conventional five year bond². In news reports following pricing, he reaffirmed Poland's commitment to a sustainable future, noting that its aim was to issue Green Bonds with some degree of regularity going forward.

The deal was allocated 61 per cent. to green accounts³, which surpassed the expectations of both Poland's Ministry of Finance and the lead managers on the deal (HSBC, JP Morgan and PKO Bank Polski).⁴ The terms of the Green Bond Framework published by Poland on 5 December 2016 is considered to have contributed to this.

¹ The Paris Agreement of the United Nations Framework Convention on Climate Change is the world's first comprehensive climate agreement outlining the contribution required of each country to achieve the global greenhouse gas emissions reduction targets (referred to as nationally determined contributions or "NDCs"). http://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf

² <http://www.globalcapital.com/article/b10tlq6nxy07r3/poland-sets-strong-precedent-with-first-sovereign-green-bond>

³ <https://www.emis.com/blog/poland-issues-eur-750-mn-five-year-%E2%80%9Cgreen-bonds%E2%80%9D>

⁴ <http://moderninvestor.com/news/poland-issues-world-s-first-sovereign-green-bonds/a978643>

The Green Bond Framework

Poland's Green Bond Framework⁵ was developed by the State Treasury applying the Green Bond Principles⁶ (the "GBP") in order to demonstrate its plans to issue Green Bonds "to fund new financing or the re-financing of projects with environmental and social benefits".

It is split into the following sections:

1. **Use of Proceeds** identifies 'Eligible Projects' for which the proceeds of Poland's Green Bond issuances can be used by government ministries, each falling into an 'Eligible Sector', including renewable energy, clean transportation, national parks, landfill rehabilitation and afforestation.
2. **Project Evaluation and Selection** sets out the considerations that Poland's Minister of Development and Finance will take into account when determining the eligibility of a particular project, including the relevant sector, availability of information to facilitate reporting and other environmental and social governance or external factors. It also describes accountability mechanisms such as reconciliation with the annual budget to ensure against 'double counting' of green Eligible Projects.
3. **Management of Proceeds** confirms that all proceeds from Green Bond issuances are set aside in a designated 'Green Cash Account' and disbursed to the relevant Eligible Projects.
4. **Reporting** describes the arrangements through which Poland's State Treasury will report annually (until full allocation) on the use of proceeds of Green Bond issuances and report on compliance with the Green Bond Framework, as well as the environmental and social impacts resulting from the Green Projects that are funded by Green Bond issuances. The relevant reporting metrics for renewable energy, for example, may include the total megawatt capacity of clean energy produced or the number of wind turbines installed and operating in a particular location.
5. **External Review** confirms that the Green Bond Framework has been reviewed by a second party opinion provider, who has given an independent assessment on its alignment with the GBP.

For this first issuance by Poland, the second party opinion was provided by Sustainalytics⁷ and took into account the use and management of proceeds and the reporting mechanism of the Green Bond Framework, in addition to Poland's climate change and environmental targets more generally. It concluded that Poland's Green Bond Framework will "contribute to achieving Polish and European GHG emission reduction targets, and will also contribute to advancing the UN Sustainable Development Goals". The opinion also confirmed that the Green Bond Framework is aligned with the four pillars of the GBPs⁸ and is "transparent, robust and credible".

Investor Opinions

Some investors in green instruments viewed news of Poland's planned green bond with scepticism, given that Poland has the largest economy in Central Europe that relies on coal to generate the majority of its electricity needs.

Others applauded Poland for setting a positive example by implementing the necessary changes to legislation⁹ to support the Green Bond Framework that it created (including transparency and traceability). Although coal is an intrinsic part of the Polish economy, the Polish Green Bond Framework, its supporting legislation, the public commitment to Green finance and the promotion of green policies has demonstrated the Polish Government's commitment to diversifying into green energy and a more sustainable future.

⁵ <http://www.finanse.mf.gov.pl/documents/766655/c7ef4509-80ee-41e6-8dca-084250f63b6b>

⁶ <http://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GBP-2016-Final-16-June-2016.pdf>

⁷ http://www.sustainalytics.com/sites/default/files/green_bond_opinion_poland.pdf

⁸ The four pillars of the GBPs are: (i) use of proceeds; (ii) process for project evaluation and selection; (iii) management of proceeds; and (iv) reporting.

⁹ The Act that was amended was the Polish Public Finance Act dated 27 August 2009.

Future Sovereign Green Bond Issuances

Poland's Green Bond sets a strong precedent for sovereigns, particularly considering its deployment from an economy largely perceived as coal-based. It also confirms how the markets value green aspirations. With such a bold example, we expect other countries such as China, France¹⁰, Luxembourg and Nigeria, all of which have expressed interest in doing so previously, to follow Poland in using Green financing methods to raise funds for low carbon or green infrastructure projects. France is currently roadshowing its debut Green Bond, focusing on investors in Europe and Asia. The deal is expected to close in the last week of January¹¹ subject to market conditions. It is understood that France intends to establish a Green Bond Assessment Council, composed of well-known scientific and economic experts, to monitor the environmental performance of its green investments. Such a support structure would be an innovative way of imposing environmental accountability.

About White & Case

Our global Green Finance knowledge and experience is extensive, covering a range of industries, issuers, dealers/managers and financial intermediaries, investors, structures and financial service providers. The combination of our legal, policy and regulatory capabilities makes our Green Finance team ideally placed to seamlessly guide you through the structuring process of a Green Bond issuance or other green financing arrangements.¹²

Green Bonds are one specific sub-set of bonds used for renewable power, green infrastructure and other general 'green' purposes. Our top tier Capital Markets, Structured Finance and Environmental teams across the world have a history of providing ground-breaking advice on green financing, including Green Bonds. Renewable power specialists form part of our global team with practices covering sources such as onshore and offshore wind, solar, geothermal, hydropower and biofuels. White & Case has represented numerous clients in bond issuances which, although not labelled as Green Bonds, address the construction and operation of green assets or infrastructure. As the market develops we expect many of these 'other' bonds to enter the Green Bond market.

White & Case LLP
5 Old Broad Street
London EC2N 1DW
United Kingdom
T +44 20 7532 1000

White & Case
M. Studniarek i Wspólnicy - Kancelaria Prawna sp.k.
ul. Marszałkowska 142
00-061 Warszawa
Poland
T +48 22 50 50 100

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¹⁰ <http://www.globalcapital.com/article/b10x9bsmk9w5pv/france-to-go-long-with-debut-green-bond>

¹¹ <https://financialtribune.com/articles/world-economy/56894/france-to-launch-green-bond>

¹² White & Case is a contributing Observer Member of the ICMA Green Bond Principles Working Group and a select member of the UK Green Finance Initiative.