

African Development Bank



Green Bonds Framework: Portfolio Selection, Allocation of Proceeds and Monitoring

October 2013

I. Portfolio Selection

ELIGIBLE PROJECTS

"Eligible projects" for the Bank's Green Bonds Portfolio means a pool of projects that have been selected firstly based on the Bank's methodology for tracking climate change mitigation and adaptation finance and secondly based on additional criteria to be applied for the specific purpose of the Bank's Green Bonds Portfolio.

The guiding principles of the Bank's methodology for tracking climate change mitigation and adaptation finance are:

For climate change mitigation

Eligible projects include projects that target a reduction in emissions of Greenhouse Gases (GHG) into the atmosphere or absorption of them from the atmosphere (reductions are measured against a "no-project" baseline) ("Mitigation Projects").

A type of activity can be labeled as contributing to climate change mitigation if it is one among a set of options available to decision-makers and if it leads (according to the available information) to a relatively significant emission reduction as compared to the other options. As further experience is accumulated (in particular by means of emission impact assessments), activities may be included or excluded. Furthermore, an activity may be mainstreamed to such an extent that it may become virtually the *only* option, in which case it will no longer be considered as contributing to climate change mitigation. The methodology needs to be dynamic, in order to capture these changes over time.

For climate change adaptation

Eligible projects include projects that target the reduction in the vulnerability of human or natural systems to the impacts of climate change related risks by maintaining or increasing adaptive capacity and resilience ("Adaptation Projects").

It is purpose, context and activity based: A project activity must fulfil three design process criteria for finance to be reported as adaptation finance. It must:

- Include a statement of purpose or intent to address or improve climate resilience in order to differentiate between adaptation to current and future climate change and good development;
- Set out a context of climate vulnerability (climate data, exposure and sensitivity), considering both the impacts from climate change as well as climate variability related risks;
- Link project activities to the context of climate vulnerability (e.g., socio-economic conditions and geographical location), reflecting only direct contributions to climate resilience.

Activities that do not explicitly meet all the above three criteria are not included. An activity can be a project, a project component, or a proportion of a project.

The Bank's methodology for tracking climate change mitigation and adaptation finance contains an extended list of illustrative activities as a way to raise general awareness about climate change mitigation and adaptation among key stakeholders. The tracking of climate finance will however be based on the application of the principles highlighted above, which means that an activity might be on the list and not qualify as climate finance if it doesn't meet those principles.

Additional selection criteria to be applied for the specific purpose of the Bank's Green Bonds Portfolio include:

- Projects that are eligible for financing under the African Development Bank. Projects eligible for financing under the African Development Fund and Nigerian Trust Fund will be excluded.
- Projects whose financing by the Bank can be qualified in full as promoting either low-carbon or climate resilient development. Projects whose financing by the Bank can be qualified only partially as promoting either low-carbon or climate resilient development will be excluded.

- Projects that will lead to significant accumulated GHG emissions reduction over the lifetime of the asset.

Examples of Typical Eligible Projects include:

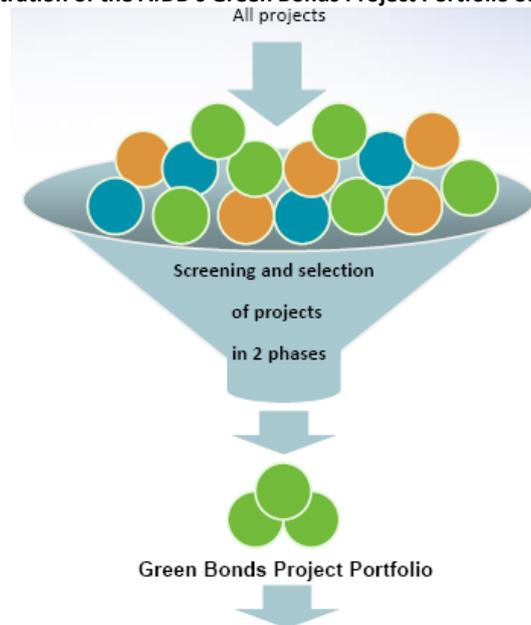
- Greenfield Renewable Energy Generation (e.g. solar, wind, geothermal and ocean power)
- Demand-side Brownfield and Greenfield Energy Efficiency (e.g. energy efficiency improvements in lighting and equipment; retrofit of transmission lines, substations or distribution systems to reduce technical losses)
- Vehicle energy efficiency fleet retrofit or urban transport modal change
- Biosphere conservation projects (reduce emissions from deforestation and degradation of ecosystems)
- Solid Waste Management (e.g. incineration of waste, landfill gas capture and landfill gas combustion)
- Industrial Processes (reduce GHG emissions from industrial processes improvements and cleaner production)
- Fugitive emissions and carbon capture (e.g. carbon capture and storage, reduction of gas flaring or methane fugitive emissions in the oil and gas industry, coal mine methane capture)
- Urban Development (e.g. rehabilitation and upgrade of urban water drainage systems in areas vulnerable to frequency and/or severity of flash floods and storm surges brought by climate change)
- Water Supply and Access (e.g. water saving measures such as introduction of less water intensive crops or preservation of soil moisture and fertility)

SELECTION OF ELIGIBLE PROJECTS

The selection of eligible projects will be done in two phases as follows:

- Phase 1: the Energy, Environment and Climate Change Department will identify and categorize among all projects approved in any given fiscal year the climate change projects using the Joint MDB and AfDB's climate finance tracking methodologies.
- Phase 2: the Energy, Environment and Climate Change Department will apply the additional selection criteria under the AfDB's Green Bonds Program and categorize the projects that can be part of the that program. The final list of projects to be part of the portfolio for any Green Bonds issuance will be agreed upon jointly by the Bank's Energy, Environment and Climate Change Department and Treasury Department based on the proposed list by the former.

Figure 1. Illustration of the AfDB's Green Bonds Project Portfolio Selection Process



II. Allocation of Proceeds

An amount equal to the net proceeds of the issue of the Notes will be allocated within the AfDB's treasury to a sub-portfolio that will be linked to the AfDB's lending operations in the fields of climate change adaptation and mitigation ("Eligible projects"). So long as the Notes are outstanding, the balance of this sub-portfolio will be reduced, at the end of each semi-annual period by amounts matching the disbursements made during such semi-annual period in respect of Eligible projects. Pending such disbursements, the net proceeds of the issue of the Notes will be held in the AfDB's liquidity portfolio.

III. Monitoring

To enable investors to follow the implementation of the AfDB's Green Bonds Program, the Bank will establish a dedicated website which will include, among other things:

- 1) key documents related to the AfDB Green Bonds Program and links to other relevant Bank documents such as the Long-Term Strategy or the Environment Policy;
- 2) Key information about the AfDB's Green Bond Program and Framework, including project selection criteria;
- 3) progress status report on the selection and implementation of the projects which are part of the Green Bonds portfolio (e.g. information on implementation status, disbursement status and other relevant indicators as they are collected as part of the Bank's project monitoring procedures).

In addition, the Bank will produce an annual newsletter for investors which will include a summary of the information under points 2) and 3) above.