

BNG SUSTAINABLE MUNICIPALITIES BOND

September, 2014



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INTRODUCTION

BNG's Sustainable Municipalities Bond takes an innovative approach of directing bond proceeds to best-in-class sustainable municipalities in the Netherlands. BNG is using the methodology developed by the Tilburg Sustainability Center of Tilburg University (TSC-Telos) for ranking municipalities based on their sustainability performance. Sustainalytics reviewed the BNG Bank's Sustainable Municipalities Bond framework developed by TSC-Telos. The framework follows the green bond principles approach with some exceptions noted below.

Analysis of TSC-Telos sustainability rating methodology:

Based on Reference Framework for European Sustainable Cities (RFSC) that compares and rates municipalities on their sustainability performance, TSC-Telos developed a methodology that is suited for rating the Dutch municipalities. The TSC-Telos methodology incorporates three "capitals" – Ecological Capital, Social Capital and Economic Capital - with each of these types of capital having corresponding themes and indicators. There are 19 themes and 90 indicators in total. These themes range from energy and climate, soil and groundwater, arts and culture to labour and infrastructure. Furthermore, each indicator has a unit of measure and a target. Each municipality is rated on actual performance vis-a-vis the indicators and placed in one of four performance brackets for that indicator. Additionally, TSC-Telos grouped the 403 Dutch municipalities into eight classes such as agricultural municipalities, old industrial municipalities etc., to better compare them. Based on this methodology TSC-Telos has identified top 15 municipalities within the eight municipality classes. After adjusting for overlap, TSC-Telos had finalized 96 or 23.8% of the total Dutch municipalities as best-in-class.

Based on a detailed review of the capitals, themes and indicators used by the TSC-Telos methodology, Sustainalytics has concluded that it is a robust approach for rating the sustainability performance of Dutch municipalities.

FRAMEWORK

Sustainalytics evaluated the Sustainable Municipalities Bond framework and concluded as follows:

- **Use of Proceeds:** Bond proceeds will be used by BNG to lend to best-in-class sustainable municipalities in the Netherlands as identified by the TSC-Telos methodology. The eligibility criterion is defined as the top 15 municipalities within the eight municipality classes. It should be noted that the loans are for the general use of the most sustainable municipalities. This is a deviation from the Green Bond Principles in that the eligibility criteria for the use of proceeds are based on the sustainability performance of the borrowing entity rather than on the nature of the projects to be funded. Nonetheless, Sustainalytics is of the opinion that the Bond will generate positive impact by channelling funds to the projects and activities of best-in-class municipalities.
- **Selection Process:** Selecting the top 15 sustainable municipalities as rated by TSC-Telos from each of the eight municipal classes is a simple and clear process. The top 15 municipalities within each class, adjusting for overlap, constitute top quartile (23.8% to be exact) of total Dutch municipalities, which is a typical best-in-class approach. The bond proceeds will be disbursed to this year's best-in-class municipalities, identified as "Elected Sustainable Municipalities" by Telos.

- **Management of Proceeds:** The loans to which the proceeds will be allocated, will be earmarked separately which will be easily auditable by external auditors. BNG's commitment to have annual audits carried out by external auditors is in line with emerging best practice for green bonds.
- **Reporting:** BNG indicates in its documentation that disbursements and impact reports will be provided. However, it should be noted that the nature of such reporting is limited as it will not be possible to directly link the bond proceeds to the impact achieved by the municipalities. This limitation exists because of the way in which municipalities receive and allocate funds: funds from varied sources, such as the Dutch government, taxation and loans from financial institutions including BNG, are not separated. BNG has limited influence on the municipalities to create separate accounts. Investors and other stakeholders will be able to view aggregate impacts achieved by the municipalities by reviewing publicly disclosed impact information that Telos will be sharing.

CONCLUSION

Sustainalytics views BNG's best-in-class approach as innovative while noting that this approach comes with some inherent limitations with respect to the ability to link use of proceeds to specific projects and impacts. Sustainalytics is of the opinion that the evaluation methodology being applied and the selection process will result in the bond proceeds being directed towards municipalities that are more likely to use the funds towards sustainable purposes, and that the funding stream will encourage Dutch municipalities to improve their overall sustainability performances.

APPENDIX:

Documents reviewed:

No.	Name	Source	Purpose
1	BNGDOCS-#1631742-vi-Presentatie	BNG	Bond Framework
2	144110_BNG_BANK_15_9	BNG	Bond Framework
3	Sustainability Monitoring of European Cities	TSC-Telos	Sustainable Municipality Rating Methodology
4	pdfversie_factsheets_Nat_monitor	TSC-Telos	Sustainable Municipality Rating Methodology