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# ‘Second Opinion’ on Swedish Export Credit (SEK)’s Rules and Procedures for Climate-Related Activities

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## Summary and Conclusions

*SEK bases its management of green projects on broad and well established guidelines like IFC's Performance Standards on Environmental and Social Sustainability, IFC's Environmental, Health and Safety General Guidelines and OECD's "Common Approach" to environmental and social risks of projects. Furthermore, SEK employs the "International Financial Institution Framework for Harmonised Approach to Greenhouse Gas Accounting" for their CO<sub>2</sub> impact assessment. Finally, SEK will establish a dedicated website which will allow for transparent reporting on all important aspects of the green bond program.*

*Overall, we therefore find that SEK's green bond framework has a very high probability of securing projects that support a low carbon and climate friendly future.*

## 1. Introduction and Background

As an independent, not-for-profit, research institute, CICERO (Center for International Climate and Environmental Research - Oslo) provides second opinions on institutions' framework and guidance for assessing and selecting eligible projects for green bond investments, and assesses the framework's robustness in meeting the institutions' environmental objectives. The second opinion is based on documentation of rules and frameworks provided by the institutions themselves (the client) and information gathered during meetings, teleconferences and e-mail correspondence with the client.

CICERO's Second Opinions are normally restricted to an evaluation of the mechanisms or framework for selecting eligible projects at a general or overall level. CICERO does not validate or certify the climate effects of single projects, and, thus, has no conflict of interest in regard to single projects. CICERO is neither responsible for how the framework or mechanisms are implemented and followed up by the institutions, nor for the outcome of investments in eligible projects.

This opinion assesses the procedures and guidance as to their ability to support SEK's climate-related mitigation and adaptation activities. The primary documents reviewed for this assessment are shown in Table 1.

### *1.1. The global challenge*

Climate change will have a significant impact on economic development, both from the perspectives of sustainable future development pathways and adapting to changing circumstances. The recently released Intergovernmental Panel on Climate Change report (IPCC, 2013) on the physical science of climate change highlighted the seriousness of human-induced climate effects. The report can be viewed as an immediate call to action on the challenge of reducing greenhouse gas emissions. The 195 countries that have ratified the United Nations Framework Convention on Climate Change (UNFCCC) have agreed to cooperate on climate change, and under the Cancun Agreements in 2010 expressed the objective of reducing greenhouse gas emissions to limit global temperature increase to below 2°C. Reaching this target requires shifting development pathways towards low- or zero-emitting economies, and avoiding locking-in high-emitting capital.

A key concern for CICERO's second opinions is to take a long-term view on activities that support a low-carbon climate resilient society. In some cases, activities or technologies that reduce near-term emissions may result in prolonged use of carbon based infrastructure in the long-run and increased accumulated greenhouse gas emissions. CICERO seeks to avoid locking-in of emissions through careful infrastructure investments, and to move towards low- or zero-emitting infrastructure in the long run.

Table 1 Reviewed documents

Document number and file name	Comments
1. IFC General EHS Guidelines.pdf	An almost 100 page document. The Environmental, Health, and Safety (EHS) Guidelines are technical reference documents with general and industry-specific examples of Good International Industry Practice. The EHS Guidelines contain the performance levels and measures that are generally considered to be achievable in new facilities by existing technology at reasonable costs.
2. IFC Performance Standards.pdf	IFC's Sustainability Framework articulates the Corporation's strategic commitment to sustainable development, and is an integral part of IFC's approach to risk management. The eight Performance Standards establish standards that the client is to meet throughout the life of an investment by IFC and cover: 1) Assessment and Management of Environmental and Social Risks and Impacts, 2) Labor and Working Conditions, 3) Resource Efficiency and Pollution Prevention, 4) Community Health, Safety, and Security, 5) Land Acquisition and Involuntary Resettlement, 6) Biodiversity Conservation and Sustainable Management of Living Natural Resources, 7) Indigenous Peoples, and 8) Cultural Heritage. For our second opinion performance standards 1 and 3 are of most relevance.
3. OECD Common Approaches.pdf	The title of the 21 page document is "Recommendation of the council on common approaches for officially Supported export credits and environmental and social due diligence (the "common approaches")" and is identified as OECD document TAD/ECG(2012)5. It sets out standards and classification of projects into three classes (A, B and C projects where A has the most potential problems with respect to the standards and C the least).
4. Policy för hållbart företagande.pdf	A 9 page document (in Swedish) describing SEK's sustainability policy, based on OECD's Common Approach and IFC's performance standards and guidelines for environment, health and security (EHS). It also describes the reporting and transparency requirements associated with projects of various classes (A, B and C).
5. SEK CSR Due Diligence.docx	A 1 ½ page document describing very briefly the screening tool "Sustainable Risk Map" used to identify environmental and social risks and follow up of high risk projects. Risks are measured along the following dimensions: Project risk (Category A and B from OECD Common Approaches), Corruption, Major Incidents, Human Rights, Non-transparent jurisdiction, Under Sanctions by UN or EU, Conflict Area, and Democracy. Category A- and B-projects are reviewed according to OECD Common Approaches. Other high risk areas as described above according to SEK Policy for Sustainable Business.
6. UTDRAG UR KREDITINSTRUKTIONEN.docx	A half page document (in Swedish) describing ethical, social and environmental risks and who and how to make decisions in various circumstances where such risks are present.
7. SEK Green Bond Framework	A 2 ½ pages document describing eligible mitigation and adaptation project categories and special considerations associated with the various types. Selection rules, assessment methodologies and reporting mechanisms are also described.

## 2. A Brief Description of SEK's Rules and Procedures for Climate-Related Activities

Some key documents for SEK's environmental and social risk management are listed as number 1-3 in Table 1. Together they lay the foundation for SEK's rules and procedures based on IFC's well established performance standards and environmental, health and safety guidelines, together with OECD's "common approach" to environmental and social risks of projects. OECD project categories include types 'A' and 'B', both of which have the potential for adverse environmental impacts. (Projects of type 'C' are not expected to have adverse impacts). Documents 4-6 are then specifications of how these general standards and guidelines are implemented by SEK. Inevitably they are quite general in scope covering social as well as environmental risks. Sustainability concerns are recognized, and use of best available technologies (BAT) is promoted as long as the costs are reasonable. Projects of type 'A' or 'B' should provide an Environment and Social Impact Assessment (ESIA), from an independent third party in the case of projects of type 'A'. Both types of projects are required to fulfill IFC's performance standards as well as IFC's guidelines on health, environment and safety.

Climate change specific issues are not treated in any great detail. The focus in all of the above documents is primarily to avoid damage and minimizing risks to the environment and society in a broad and general sense, however without recognizing the specific demands of climate appropriate projects, cf section 1.1.

While documents 1-6 describe how to avoid environmental damage (among other issues), document 7 describes positive selection criteria for green bond projects at SEK.

The document identifies SEK Sustainability Department as responsible for deciding on eligible projects.

Document 7 on the SEK Green Bond Framework is the document providing the most specific and clearest guidance for selection of eligible projects by SEK.

- In order to qualify, projects should fall into categories that are considered to be of particular interest. These are listed in Table 2. No fossil fuel projects are eligible.

**Table 2 Eligible project categories and types**

Category	Eligible Project examples	Considerations / limitations
Renewable energy	<ul style="list-style-type: none"> <li>- Bioenergy</li> <li>- District heating and cooling</li> <li>- Hydro and Marine Power</li> <li>- Solar</li> <li>- Wind</li> </ul>	Consideration will be given to potential social and environmental impacts of large hydro projects.
Water and Wastewater	<ul style="list-style-type: none"> <li>- Marine technologies</li> <li>- Wastewater Treatment</li> <li>- Water Quality</li> </ul>	
Energy efficiency	<ul style="list-style-type: none"> <li>- Energy storage</li> <li>- Smart grids</li> <li>- Transmission systems</li> <li>- Heating and Cooling</li> <li>- Lighting</li> <li>- Ventilation</li> </ul>	<ul style="list-style-type: none"> <li>- Considerations will be given to potential rebound effects.</li> <li>- No nuclear power projects are eligible.</li> </ul>

Recycling & Waste	<ul style="list-style-type: none"> <li>- Recycling</li> <li>- Waste Management</li> </ul>	
Sustainable Construction	<ul style="list-style-type: none"> <li>- Green buildings</li> <li>- Green Infrastructure</li> </ul>	Considerations will be given to site selection and land use issues and to building standards like LEED (2009) and BREEAM (2013).
Resources & Environment	<ul style="list-style-type: none"> <li>- Forestry</li> <li>- Air Quality</li> <li>- Soil Quality</li> </ul>	Considerations will be given to FSC standards.
Sustainable Materials	<ul style="list-style-type: none"> <li>- Advanced Materials</li> <li>- Green Chemistry</li> </ul>	Subject to SEK assessment.
Sustainable Transport	<ul style="list-style-type: none"> <li>- Fuels and Vehicles</li> <li>- Transport Management</li> </ul>	<p>Potential for emission reduction will be assessed on degree of urbanization, fuel type, and competition with private transportation</p> <p>Considerations will be given to rebound effects and lock-ins due to infrastructure investments.</p>

Most crucially, document 7 states that **energy efficiency projects on fossil fuel and nuclear power projects are not eligible**, as also noted in Table 2.

Financing of eligible projects will concern exports with Swedish interests of BAT technology to projects in any of the above categories. An eligible project should have a positive impact on the environment that is measurable according to an internationally recognized methodology or assessed by an internationally recognized third party.

### *2.1. Reporting and validation*

Impacts are reported on an annual basis to investors. The exporting company provides the data to SEK in accordance with loan agreement. Impacts on CO<sub>2</sub> reduction will be reported on a portfolio basis. Other measurements will be disclosed if relevant. The “International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting” (World Bank, 2012) will be followed when reporting on CO<sub>2</sub> emission reductions.

Impacts reported concern the positive impacts on the environment of the component exported or delivered by the company to the project and disclosed in relation and proportion to the component financed.

To enable investors to follow the implementation of the SEK Green Bonds Program, impact reporting on Eligible Projects and links to relevant documents will be disclosed at [www.sek.se](http://www.sek.se). In addition an annual newsletter will be provided to inform of Eligible Projects, CO<sub>2</sub> emission reductions and a summary of the SEK Green Bond development.

### 3. Assessment of SEK's Climate-Related Rules and Procedures

Overall, the documents provided by SEK describe a sound framework for the broader goal of minimizing risks to the environment and society in broad terms. In particular document 7 on the Green Bond Framework is enlightening in describing eligibility criteria for mitigation and adaptation projects, selection rules, methodologies for reporting on CO<sub>2</sub> reductions and monitoring and impact reporting.

#### 3.1. Project guidelines

The mitigation project classification listed in Table 2 is here assessed according to the likelihood of meeting a low carbon and climate friendly development objective, using the designations of 'good', 'medium' and 'poor'. An investment category that includes activities that support greenhouse gas reduction and transitioning to a low-carbon society in the long-term is rated as 'good'; 'medium' indicates that there are some activities or technologies in the category that reduce greenhouse gas in addition to some that do not support a low-carbon society; and 'poor' indicates that the activities do not result in greenhouse gas reductions.

**Table 3 Mitigation taxonomy and likelihood of meeting objectives**

Category type	Eligible project examples	Likelihood of meeting objective
Renewable energy	<ul style="list-style-type: none"> <li>- Bioenergy</li> <li>- District heating and cooling</li> <li>- Hydro and Marine Power</li> <li>- Solar</li> <li>- Wind</li> </ul>	Good, but be aware of environmental impacts from possible rebound effects. For biofuels, care should be taken to observe complex impacts of some bioenergy sources and effects on lifecycle emissions.
Water and Wastewater	<ul style="list-style-type: none"> <li>- Marine technologies</li> <li>- Wastewater Treatment</li> <li>- Water Quality</li> </ul>	Good. This is an important topic given climate change scenarios and higher frequency of extreme weather conditions.
Energy efficiency	<ul style="list-style-type: none"> <li>- Energy storage</li> <li>- Smart grids</li> <li>- Transmission systems</li> <li>- Heating and Cooling</li> <li>- Lighting- Ventilation</li> </ul>	Good. The avoidance of energy efficiency projects on fossil fuels is very positive.
Recycling & Waste	<ul style="list-style-type: none"> <li>- Recycling</li> <li>- Waste Management</li> </ul>	Good.
Sustainable Construction	<ul style="list-style-type: none"> <li>- Green buildings</li> <li>- Green Infrastructure</li> </ul>	Good, with careful consideration of site selection and land use issues (distance to public transport, alternative land use, to mention two relevant issues), in addition to building standards like LEED (2009) and BREEAM (2013).
Resources & Environment	<ul style="list-style-type: none"> <li>- Forestry</li> <li>- Air Quality</li> <li>- Soil Quality</li> </ul>	Good. Resource consciousness and improved environmental quality is usually beneficial also for climate

		change.
Sustainable Materials	- Advanced Materials - Green Chemistry	Good. Difficult to assess, but probably <i>good</i> given SEK's framework for eligible projects.
Sustainable Transport	- Fuels and Vehicles - Transport Management	Good due to SEK's considerations of potentially damaging side effects.

Note: An investment category that includes activities that support greenhouse gas reduction and transitioning to a low-carbon society in the long-term is rated as 'good'; 'medium' indicates that there are some activities or technologies in the category that reduce greenhouse gas in addition to some that do not support a low-carbon society; and 'poor' indicates that the activities do not result in greenhouse gas reductions. The climate impacts of Sustainable Materials were not possible to assess due to lack of information.

### 3.2. Macro impacts of projects

Beyond the consideration of specific project types, it is important to evaluate the potential for macro-level impacts of climate-related activities. Potential macro issues that deserve examination include cross-boundary impacts (leakages), rebound effects and the danger of lock-ins.

Leakage can be defined as a change in greenhouse gas emissions beyond the project boundary. It can result from displacing a source of greenhouse gas emissions off-site or causing an increase in greenhouse gas emissions at a third party operation. Rebound effects occurs when projects result in increased activity levels, partially or fully offsetting the mitigation impacts of the investments. Energy efficiency projects and transport related projects are particularly vulnerable to rebound effects. Lock-ins occurs when projects makes it harder at a later date to shift to low carbon climate friendly solutions than it would have been without the project.

While control of macro impacts is primarily the responsibility of policy makers, it is essential for green bond issuers to be aware and combat negative impacts as far as possible.

SEK, through the documents provided, do show awareness of these issues and address potential cross-boundary impacts ("leakages"), rebound effects and lock-ins through their procedures.

### 3.3. Transparency and monitoring, reporting and verification

As mentioned, SEK will provide at [www.sek.se](http://www.sek.se) impact reporting on Eligible Projects and links to relevant documents in order to enable investors to follow the implementation of the SEK Green Bonds Program. In addition an annual newsletter will be provided to inform of Eligible Projects, CO<sub>2</sub> emission reductions and a summary of the SEK Green Bond development.

We find this to be very good.



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