TO:
THE GREEN BOND PRINCIPLES EXECUTIVE COMMITTEE;
THE GREEN BONDS PRINCIPLES SECRETARIAT; AND
GREEN BOND PRINCIPLES MEMBER ORGANISATIONS.
Sent via electronic mail

SUBJECT:
OPEN LETTER ON THE 2015 UPDATE OF THE GREEN BOND PRINCIPLES 30 APRIL 2015

With this letter we undersigned organisations wish to respond to the publication of the 2015 update of the Green Bond Principles, launched on 27th March.[1] This follows an earlier open letter sent in April 2014 by a coalition of civil society organisations, which gave a cautious welcome to the launch of the Principles and outlined a number of recommendations for their further development.[2] BankTrack reiterated these recommendations in a submission to the consultation on the update, coordinated with the other civil society signatories.

Firstly we would like to reiterate our support for the growth of a green bonds market if it is genuinely environmentally sound, socially just, and supports the urgent transition to a post-carbon economy. And we welcome the fact that NGOs including BankTrack have been accepted as Observers of the Principles, with the opportunity to make submissions as part of this recent revision process.

However, we are increasingly concerned about the significant gap between the stated aims of the Green Bond Principles to increase transparency and disclosure, and their actual contents, which explicitly allow and provide for important information on green bonds to remain under wraps. Combined with the decision of the Principles to avoid addressing the issue of "what is green" head-on, this lack of transparency means that Observers, civil society organisations and others do not have the information available to adequately scrutinise the market's development.

We will address this concern regarding lack of transparency in more detail below, after reviewing the new Principles against earlier civil society recommendations.

THE NEW PRINCIPLES DIVERGE FROM CIVIL SOCIETY RECOMMENDATIONS

The civil society open letter of April 2014 cautiously welcomed the development of the Green Bond Principles, but called on them to:

- revise the principles to include real commitments rather than broad recommendations;
- reference clear and science-based definitions and criteria of what constitutes "green"; and
- commit unambiguously to third party, independent verification of sustainability and use of proceeds information reported by bond issuers.

[1] This correspondence takes the form of an open letter in order to promote constructive debate and engagement over the Green Bond Principles and their future direction, and to ensure our response is available to civil society colleagues and other interested parties.
[2] Open Letter to Supporting Banks on Green Bond Principles, April 2014.

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It was apparent from the Secretariat's summary of the results of the consultation on the 2015 update that many of these views were widely shared. Nonetheless, the new update of the Principles has not taken up these concerns, and on the contrary, has affirmed its commitment to providing only broad recommendations for the market, while avoiding defining what can be considered "green" or committing to independent verification of green bonds.

At the same time, membership of the Principles has grown from 13 financial sector organisations at the time of the original open letter, to over 80 member organisations, including investors and bond issuers as well as financial sector underwriters. In this context, we recognise that the latest update makes it unlikely that the Green Bond Principles will, in the short term, take the form of a set of (voluntary) commitments or agree to a definition of "green", and that the enlarged membership of the Principles makes agreement over a satisfactory definition of "green" more challenging to achieve.

GREEN BONDS ALREADY LINKED TO DESTRUCTIVE PROJECTS

Without a clear definition of what is green, our fears that the Green Bond Principles may be associated with the financing of destructive projects have already been realised. 2014 saw the first example, to our knowledge, of a green bond supporting a project with egregious environmental, social and human rights impacts - the GDF Suez bond, which – while labelled as "green" - financed (among other projects) the Jirau mega-dam in Brazil.

The Jirau dam is an environmental, economic and social disaster. It has involved significant labour and human rights violations, including impacts on uncontacted and other Indigenous Peoples which breach their rights to Free, Prior and Informed Consent.[3] It is accused by Brazil's Federal Water Management Agency (ANA) of contributing to disastrous floods which displaced tens of thousands of people upstream from the dam, and of failing to implement measures to mitigate these impacts.[4] And on pure environmental grounds, it has significant potential for greenhouse gas emissions, aggravated by the dam's flooding of forest in the reservoir: a recent peer-reviewed study conservatively estimated emissions of 2.7 million tons CO_2 equivalent from the dam, without accounting for the deforestation it caused.[5]

These social and environmental violations are not divorced from economic considerations: they have led to significant delays in construction, as a result of which the dam is on the verge of bankruptcy, even before being actually completed. In addition, the dam is now linked to a major corruption scandal, with the CEO and top executives of Camargo Correa, the project's main contractor, now in jail.[6]

As the Jirau dam was already virtually complete at the time of the bond's issue, these human and environmental impacts are unlikely to be reversible. However, the impact on the reputation of the green bond market could have been easily avoided by excluding the project from the bond's use of proceeds. This indicates that the project's inclusion in the bond portfolio may have had more to do with GDF Suez' wider efforts to market this dam as "green" than the need to raise finance for the project.

The revised version of the Green Bond Principles is unlikely to head off further such issuances of green bonds for destructive projects, making civil society scrutiny of this market as it develops all the more crucial.

We consider that projects which come at the expense of human rights violations and significant negative social and environmental impacts should not be considered "green", and recommend that the Green Bond Principles take steps to make this clear.

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[3] See for example Amazon Watch, "The Madeira River Complex"; Survival International: "Background Briefing: Madeira River dams".
[4] "Agência acusa Jirau de agravar inundações", Estadão, 19 March 2015.
[5] "Barragens do Rio Madeira - Crédito de carbono para Jirau", Amazônia Real, 22 September 2014
[6] E.g. see "Decisão da Aneel pode deixar Jirau com rombo de R$ 3,2 bi", Estadão, 4th February 2015; "Dono de Jirau queria adiar obra em 535 dias; Aneel só admite 157", Estadão, 19th April 2015; "PF vai investigar se esquema de Alberto Youssef também envolvia negócios com hidrelétricas", O Globo, 16th November 2014.

THE TRANSPARENCY GAP

Although promoting transparency is a core objective of the Green Bond Principles, data on recent green bonds issuances indicate that levels of transparency in the green bonds marketplace remain low.

Second party reviews: A review of the self-labelled green bonds issued during 2014, as listed on the Climate Bonds Initiative website, shows that of 141 bonds issued, 81 (or 57%) were accompanied by a “second opinion” providing some level of assurance as recommended by the Principles. However, this opinion was only made public in 50 cases (35% of the total).[7] Even green bond issuances from a founder member of the Green Bond Principles were issued without any second opinion at all, public or private.

Furthermore, an analysis of the bonds issued in the first quarter of 2015 from the same source reveals that the proportion of second opinions made public has in fact dropped, to 19%. This is a concerning indication that the Green Bond Principles are not succeeding in their aim of encouraging transparency.

The publication of second opinions is only one aspect of transparency, together with the publication of details of the intended use of proceeds, and of annual reporting of the actual use of proceeds. However it is one area where data is readily available. We have focussed here on second opinions primarily due to the availability of data.

Gap between Principles and current best practice: The Green Bond Principles state that they “encourage a high level of transparency” and that “to this end, this process for project evaluation and selection can be supplemented by a review by a second party”. However, the Assurance section now makes explicit that “the views and reports of the second party are private, and may be made public only at the discretion of the issuer”. There is similarly no explicit recommendation for information on use of proceeds to be made available to the general public.

The revised Principles explicitly aim to reflect the evolution of best practice; however in providing for second opinions to be kept private, the Principles are falling short of this aim. Indeed, in making clear that second opinions “are private”, the Principles may even encourage lower levels of disclosure than current best practice represents.

Green bond market transparency through public disclosure of second opinions would support greater commitment and trust by investors, including long term institutional investors such as pension funds, to invest in climate action in the future.

In addition, we consider that the public interest in the development of the green bonds market makes public disclosure appropriate, and that without such information being made public and accessible, it is not possible for Observers of the Green Bond Principles and other civil society organisations to monitor the market’s development adequately.

We strongly recommend that the Green Bond Principles explicitly require that information on second party reviews or other assurance, use of proceeds and annual reporting be placed in the public domain.

URGENT ACTION IS NEEDED TO REDUCE FOSSIL FUEL FINANCE

Institutions underwriting or investing in green bonds must also give urgent attention to decreasing their financial support (including investment, underwriting, lending or other forms of financing) for the extraction, production, or utilization of fossil fuels – as without this, efforts to combat climate change by growing the green bond market will fail.

We urge all those involved in green bonds in the finance sector to make the case within their organisations for rapidly decreasing their involvement in fossil fuel projects in line with climate targets and social justice principles.

[7] Analysis of data at http://www.climatebonds.net/cbi/pub/data/bonds

Invitation to discuss the role of civil society further

At the recent Green Bond Principles AGM it was noted that, given the decision of the Principles not to define green categories, Observers of the Green Bond Principles and others should hold the market to account, acting as a watchdog to keep the industry honest.

We would welcome further debate with the Green Bonds Principles Secretariat, Members and/or Executive Committee on how civil society can better perform this function given the current low levels of transparency.

We intend to focus our efforts through the year on scrutinising the available information on the development of the green bond market, in order to promote growth in the direction of genuine transparency, and will continue to draw attention to any examples of green bonds which finance projects with negative environmental or social impacts.

If you would like to discuss any of the matters raised in this letter, please contact Ryan Brightwell at BankTrack (ryan@banktrack.org). We look forward to continuing to engage with you on these issues as this market develops.

Signed:

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Roberto Smeraldi, **Amigos da Terra – Amazônia Brasileira**, Brazil

Ryan Brightwell, **BankTrack**, Netherlands

Hasan Mehedi, **CLEAN (Coastal Livelihood and Environmental Action Network)**, Bangladesh

Surveyor Efik, **Climate Change Network Nigeria**, Nigeria

Thomas Wenidoppler, **ECA Watch Austria - Project Finance and Trade Watch**, Austria

Karen Orenstein, **Friends of the Earth US**, United States

Josh Klemm, **International Rivers**, United States

Anabella Rosemberg, **International Trade Union Confederation**, France

Maurice Ouma Odhiambo, **Jamaa Resource Initiatives**, Kenya

Lucie Pinson, **Les Amis De La Terre**, France

Julien Vincent, **Market Forces**, Australia

Barbara Bramble, **National Wildlife Federation**, United States

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