SDG BONDS

Leveraging Capital Markets for the SDGs

Prepared by
The UN Global Compact Action Platform on
Financial Innovation for the SDGs

United Nations Global Compact

UNEP FINANCE INITIATIVE

ABOUT THE UNITED NATIONS GLOBAL COMPACT

The **United Nations Global Compact** is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 9,500 companies and 3,000 non-business signatories based in over 160 countries, and nearly 70 Local Networks.

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ABOUT THE ACTION PLATFORM ON FINANCIAL INNOVATION FOR THE SDGs

The *UN Global Compact's Financial Innovation for the SDGs Action Platform* brings together a multi-disciplinary group of finance practitioners and experts to develop innovative private financial instruments that have the potential to direct private finance towards critical sustainability solutions. Led in collaboration with the Principles for Responsible Investment (PRI) and the United Nations Environment Programme Finance Initiative (UNEP FI), the platform will develop guidance on impact investment strategies that support the Sustainable Development Goals (SDGs), map current and emerging financial instruments, and provide a laboratory for the development of new innovative instruments. Ultimately, the goal is to improve the risk/return profile of SDG investments to attract institutional investors.

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ABOUT

SDG Bonds | Leveraging Capital Markets for the SDGs is part of a broad agenda of the United Nations Global Compact to continue secure private capital for the Sustainable Development Goals (SDGs). The goal is to inspire major players in the investment value chain (including UN Global Compact participants and other multinational companies) to build a market for mainstream SDG investments, with enough scale, liquidity and diversification to attract large institutional investors and finance a broad set of private- and public-sector activities in support of the SDGs.

This report was prepared by the UN Global Compact Action Platform on Financial Innovation for the SDGs, a group of leading organizations representing the entire investment value chain, including corporate and sovereign issuers, banks, institutional investors, UN agencies and development banks.

The goal of the Action Platform is to provide guidance on investment strategies that support the SDGs. The Action Platform maps current and emerging financial instruments and serves as a laboratory for the creation of innovative new instruments.

This document is based on *SDG Bonds and Corporate Finance: A Roadmap to Mainstream SDG Investments*, a publication initially released at the UN Global Compact Leaders Summit in September 2018.

Action Platform Participants

Real Economy	enel, eni, 中国石化 SINOPEC, IBERDROLA, PIRELLI, Terna
Banks & Insurance	BANK OF AMERICA, ANZ, AVIVA, Itaú
Institutional Investors	PIMCO, SOMPO HOLDINGS Sompo Japan Nipponkoa Asset Management
Development Banks	国家开发银行 CHINA DEVELOPMENT BANK, IDB, Sida, IFC International Finance Corporation World Bank Group, The World Bank
Investor Initiatives	PRI Principles for Responsible Investment, UNEP Finance Initiative, Global Impact Initiative, SSE Sustainable Stock Exchanges Initiative
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INTRODUCTION

In September 2015, all 193 United Nations Member States adopted the 2030 Agenda for Sustainable Development, a 15-year plan to end extreme poverty, fight inequality and injustice, and protect our planet. At the heart of the 2030 Agenda are the 17 Sustainable Development Goals (SDGs) and their 169 underlying targets.

While the public sector and public finance will be core to the implementation of the SDGs, it is widely acknowledged in the international community that the private sector and capital markets must also play a key role.

According to some estimates, implementation of the SDGs will open market opportunities valued in trillions of U.S. dollars. The Business Commission for Sustainable Development identified some 60 sustainable and inclusive market "hotspots" in four key economic sectors worth at least US$ 12 trillion: energy, US$ 4.3 trillion; cities, US$ 3.7 trillion; food and agriculture, US$ 2.3 trillion; and health and well-being, US$ 1.8 trillion.[1]

At the same time, investor interest in the SDGs is growing. Many of the world's largest institutional investors see the goals as a key framework to fill a growing investor demand for impact and to support sustainable investment strategies. A recent publication by Principles for Responsible Investment (PRI), *The SDG Investment Case*, points out the alignment of the Principles and the SDGs.

Since the launch of the Principles for Responsible Investment in 2006, the preamble to the Principles has said: "We recognise that applying these Principles may better align investors with broader objectives of society." Never before have these "broader objectives of society" been more clearly defined than in the SDGs.[2]

The confluence of these trends suggests that a market for mainstream SDG investments could be created, with enough scale, liquidity and diversification, to attract large institutional investors and finance a broad set of private- and public-sector activities in support of the SDGs. Efficient capital markets could play a key role in encouraging companies and others to experiment with and improve upon a wide range of solutions to ensure that the most effective approaches are discovered and financed.

With the release of this report, *SDG Bonds — Leveraging Capital Markets for the SDGs*, we are hoping to inspire and guide companies, Governments, cities and others involved in the implementation of the 2030 Agenda to tap into the private capital markets and benefit from cheaper and more reliable funding. Our goal is also to inspire major players in the investment community, investors, banks and other financial institutions to increase their allocation of capital toward SDG investments and to contribute to lowering the cost of capital to finance the SDGs.

We seek to introduce a flexible framework to support the many ways businesses and Governments can contribute to the SDGs, while creating a large and diversified market for investors. In addition, we seek a paradigm shift where companies and other issuers can compete for capital based not only on their investment thesis, but also on their impact thesis and how they will use funds to contribute to the SDGs.

Our focus is on bonds as the only financing mechanism that cuts across a broad set of actors involved in the realization of the SDGs, including companies, Governments, cities, assets, infrastructure projects and public-private partnerships. The bond market is also a longer-term, lower-risk asset class that matches the profile of SDG activities and has enough scale — with US$ 6.7 trillion of annual issuance — to fill the SDG financing gap.[3]

1 *Better Business, Better World,* Business Commission for Sustainable Development, January 2017.

2 *SDG Investment Case,* Principles for Responsible Investment, 2017.

3 Source: The Future of Global Debt Issuance: 2025 Outlook, Aite Group, September 2017.

Our other focus is on financing the SDGs in emerging markets, since this is where investments are most needed and where access to capital is most limited and expensive. In these markets, sovereign bonds and foreign direct investment (FDI) are the main source of external financing, in part because of their inherent stability. In least developed countries (LDCs), FDI is the primary source of financing after official development assistance (ODA) and remittances. Through FDI, multinational companies with significant operations in emerging markets and access to global capital markets can significantly contribute to the SDGs — and to the SDG funding gap. By extension, *corporate finance* can become *a major source of SDG investments* through corporate bonds and equity that support an integrated SDG strategy in emerging markets.

This publication addresses key considerations in the creation of a market for mainstream SDG investments, including ensuring that the market is sufficiently large, liquid, diversified and transparent for institutional investors.

Section I defines a broad portfolio of SDG investments that can be financed through SDG Bonds. We envision that a market for corporate SDG Bonds could develop quickly, as a growing number of companies will require capital to pursue opportunities associated with the SDGs or to transition to a sustainable business model. There is also a large potential market around sovereign, municipal and project bonds that can support the implementation of countries' national plans for the SDGs. Demand for SDG Bonds could also develop around structured products to de-risk and scale investments in public-private partnerships and blended capital products.[4]

Section II identifies gaps in the current market for corporate SDG investments and suggests several paths forward. These include expanding the scope of the asset- and project-based market for green, social and sustainability bonds. Another path is to introduce a model for corporate SDG finance whereby corporate-level SDG contributions are integrated into companies' strategies and governance, and can be financed by general-purpose bonds and equity.

Section III explores how a broad and liquid market can contribute to maximizing the scale and credibility of SDG investments. This can be achieved through the self-disciplining effect of broad, public and transparent capital markets and risk mitigation inherent in sustainable investments.

Section IV explores how a diversified market for SDG investments can attract the growing but equally diverse investor base interested in the SDGs, based on a trade-off between impact and risk/return considerations.

Lastly, in *Section V,* we focus on SDG Investments in emerging markets where access to finance and capital markets is more limited than in developed countries and where sovereign bonds, direct investment by foreign companies and bank loans constitute the main channels of private finance.

4 Blended Finance is an approach to structured finance that enables development and philanthropic funding to mobilize private capital into a project or company that promotes development outcomes, by mitigating risk and/or ensuring commercial risk adjusted returns. World Economic Forum.

SECTION I. DEFINING A BROAD PORTFOLIO OF FIXED-INCOME SDG INVESTMENTS

The immense financing gap for the SDGs, the trillions of dollars in market opportunities and the multitude of actors involved in achieving the SDGs all contribute to tremendous investment opportunities, many of which can be financed through the bond market.

In this section, we define a broad portfolio of fixed-income SDG investments, ranging from large corporations and banks developing market solutions for the SDGs to national and subnational Governments looking to fund public programmes related to the SDGs. This portfolio also includes large infrastructure projects and smaller investments that can be pooled together and securitized.

CORPORATE SDG BONDS (NON-FINANCIAL)

New business models, markets or sources of payment for SDG-related activities can become attractive investment opportunities for companies and can be financed through corporate bonds. Companies transitioning to these sustainable business models are expected to have substantial capital needs for research and development, human resources, physical assets and other corporate activities.

These include:

- Companies operating in prime SDG sectors and geographies[5]
- Companies adopting new circular or inclusive business models
- Companies addressing new markets and consumers for sustainable goods and services
- Financial institutions providing consumer finance and other services that support sustainable consumption or access to essential products and services

Companies can finance their SDG activities using general funds raised through traditional corporate finance mechanisms. However, such financing makes it difficult for investors to identify companies that meaningfully contribute to the SDGs. Also, financing SDG-related activities through generic financial products makes it hard to determine whether the funds are actually used for those purposes and if the investment has a credible impact on the SDGs.

One solution is to introduce SDG-themed bonds with corporate governance mechanisms to ensure that investments are directed toward SDG-related activities. This approach reveals the final impact of corporate activities (the “what”) as well as the way they were executed (the “how”). The process of issuing such bonds provides an opportunity for companies to communicate with capital markets and differentiate themselves from less sustainable peers. Through bond documentation and structure, companies can formulate a credible theory and strategy for SDG impact. They can allocate specific assets or resources to implement the strategy and commit to credible governance mechanisms that ensure transparent monitoring of activities and results.

These corporate SDG Bonds can take the form of *use-of-proceed bonds* whereby companies can identify specific assets or projects that contribute to the SDGs and commit to a strict accountability on use-of-proceed bonds. In the absence of such assets and projects, or if companies are looking to finance a more comprehensive SDG strategy at the corporate level, corporate SDG Bonds can be issued as *general-purpose bonds* with a commitment to accountability on the general use of proceeds and corporate-level impacts (general-purpose bonds).

5 Prime SDG sectors are those that contribute most to the SDGs including health, food, water & sanitation, energy, infrastructure, education and finance. Prime geographies depend on each goal but often include low- and middle-income countries.

To date, there has not been any SDG Bond issued by companies in real-economy sectors. However, some social bonds have been issued by real-economy companies with social projects that contribute to the SDGs. In addition, many corporate green bonds[6] have social elements, suggesting that companies are looking to expand the scope of activities they finance through the use-of-proceed bond model.

Furthermore, some companies and investors are interested in leveraging general-purpose bonds to support a corporate-level strategy to contribute to the SDGs.

Importantly, corporate bonds can be a critical source of SDG finance in emerging markets. First, depending on the sophistication of local markets and companies, emerging market companies can raise money directly through local or international capital markets through corporate bonds that support the company's SDG-related projects, assets or strategy.

Second, multinational companies that are based in developed or developing markets and have access to broad, deep and global capital markets can raise capital through bonds and use these funds to make direct investments in these markets, through foreign direct investments (FDI). This is particularly relevant in the less developed countries, where capital markets are also less developed and FDI is one of the main sources of external financing. The role of FDI in promoting SDG investment in emerging markets is addressed in Section V.

SDG BONDS BY BANKS AND FINANCIAL INSTITUTIONS

Larger banks and financial institutions can raise funds on global capital markets and in turn provide loans or other non-capital market financial products supporting the SDGs. Such financial intermediation is critical because it makes capital available for activities or issuers who do not have access to public markets. Financial intermediation also leverages the original investment into many more investments or financing at the local level, with high potential impact.

This includes:

- Mortgages, loans and credit solutions to support financial inclusion
- Loans and credit solutions to finance consumption of SDG-related products (such as energy efficiency and renewable energy)
- Leases to finance circular economy models

If done at the local level, financial intermediation can also result in a local transfer of ownership of the business and financial assets, driving economic and social development. It can also trigger a multiplier effect of money creation that is typical in a well-functioning economy.

This is particularly important in emerging markets, where capital markets are less developed and local companies and individuals are more reliant on loans from local financial institutions. The role of financial institutions in promoting SDG investment in emerging markets is addressed in Section V.

A growing proportion of green bonds are issued by financial companies. In 2018, green bond issuance by financial companies more than doubled, reaching US$ 49.2 billion and 29.4% of the overall market.[7] In addition, many social bonds and sustainability bonds (including all those designated as SDG Bonds) were issued by financial institutions. For example, the commercial banks ANZ, HSBC and Société Générale have raised capital from private investors to finance their commercial and other banking activities in support of the SDGs.

SDG Bonds can also be issued by multilateral, regional and national development banks, leveraging the capital of donor countries to fund sustainable development projects. For example, the World Bank leverages its triple-A credit rating to issue between US$ 50–60 billion in the global capital markets every year, with proceeds supporting development programmes

6 A green bond is a bond specifically earmarked to be used for climate and environmental projects. These bonds are typically asset-linked and backed by the issuer's balance sheet, and are also referred to as climate bonds. (Source: Investopedia.)

7 *Green Bonds – The State of the Market* 2018, Climate Bond Initiative.

aligned with the SDGs. These include access to healthcare, waste management, water, sanitation and rehabilitation of ecosystems.

Development banks can borrow on the private capital markets on favorable financial conditions based on their Government backing and high credit rating. In turn, this capital can be used to finance programmes and activities that support the implementation of the SDGs. Recently, the World Bank partnered with Swedish insurance company Folksam Group to issue a US$ 350 million bond for specific development activities aligned with the SDGs.[8]

ASSET-BACKED AND PROJECT SDG BONDS

Non-corporate assets and projects can also form the basis for SDG investments. Most commonly, stand-alone infrastructure projects (those not financed through corporate balance sheets) can be funded using fixed-income financial products based on the stability of the cash flow they generate and the value of the underlying asset. For example, the financing for a bridge or road can be based on toll revenues tied to the general driving activity.

While these infrastructure projects are typically financed through bank loans, banks often refinance such loans, selling them as securities on the bond market once the project is complete, operational and no longer carries construction risk.

Bonds can also be a vehicle to finance smaller financial assets that contribute to the SDGs and are spun-off from the balance sheets of companies or banks. Examples include leases for electric vehicles, loans for residential solar panels, loans to small farmers, and small and medium enterprises (SMEs) in areas or populations with little access to finance. While these financial assets are too small and risky to be financed on the bond markets on a stand-alone basis, they can be pooled together and "securitized" as a bond, provided they are relatively standardized.

Pooling of assets is a form of financial intermediation in which funds raised on capital markets can be used to finance projects or assets that are too small or too risky for the borrower to gain direct access capital markets. It is related to the financial intermediation role that banks play and share some of the same multiplier effects. (For more on this topic, see *SDG Bonds by Banks and Financial Institutions* earlier in this section).

To date, there have not been any issuances of asset-backed or project SDG Bonds. However, many green bonds have been issued to finance infrastructure and financial assets. In 2017, asset-backed and mortgage-backed securities represented 15% of the green bond market with US$ 24.6 billion in issuance.[9] The scope of the market could easily be expanded to a broader range of topics covered in the SDGs.

SOVEREIGN SDG BONDS

While the private sector plays a significant role in achieving the SDGs, many of the goals and targets cannot be fulfilled by the private sector alone and require either direct or indirect intervention by the Government (e.g. public services around poverty alleviation, health and education).

Governments can tap into the private capital market to finance these public or public-private initiatives. They often use the bond market to finance their activities and programmes at a low cost of capital, based on their ability to collect taxes and their general creditworthiness. These are known as sovereign bonds and represent a sizeable part of the global bond market.

Governments can issue sovereign bonds that are tied to SDG-related programmes and follow a strict governance process to ensure the credibility of impact, including monitoring and reporting.

For investors, sovereign SDG Bonds can be compelling investment vehicles to achieve SDG impact. Investing in these bonds can

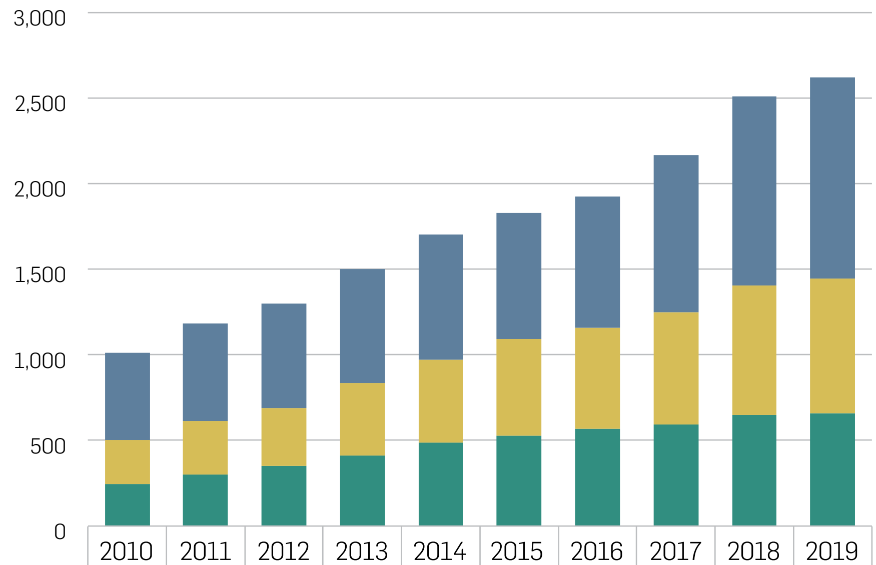
8 *World Bank Bond Highlights Investor Focus on Sustainable Development Goals*, World Bank Group, February 2018.

9 *Green Bonds – The State of the Market* 2018, Climate Bond Initiative.

Table 1. Bond Market Growth in Emerging Markets

International debt securities outstanding 2010-2019 (US$ billion)

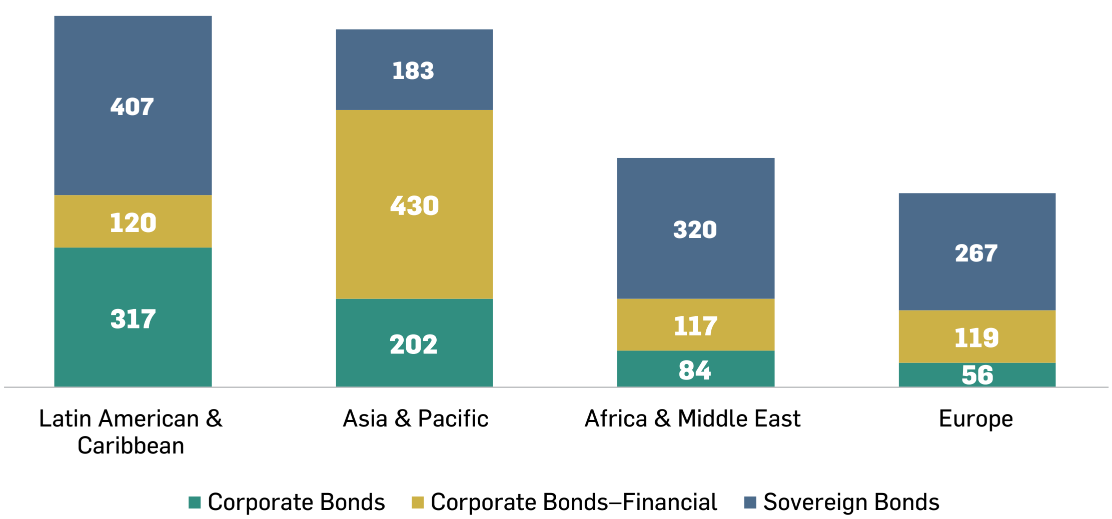
All emerging market and developing economies



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Sovereign Bonds	506	570	613	664	730	734	765	915	1,102	1,177
Corporate Bonds–Financial	258	309	336	422	486	566	592	655	758	786
Corporate Bonds	246	302	352	414	487	527	568	594	649	659

International debt securities outstanding 2019 (US$ billion)

Emerging market and developing economies–by regions



Source: UN Global Compact analysis; Bank for International Settlement data

Definitions:

International Debt Securities: Debt security issued in a market other than the local market of the country where the borrower resides, including eurobonds and foreign bonds.

Corporate Bonds: Bonds issued by non-financial corporations.

Corporate Bonds–Financial: Bonds issued by banks and other financial corporations.

support Governments implementing country-specific SDG plans. Investors can also benefit from diversifying their portfolios of SDG investments, focusing on different types of issuers and activities.

Sovereign bonds play an important role in financing the SDGs in emerging markets. While the market is relatively small when compared with developed markets, bonds issued by Governments represent an important source of outside financing in emerging markets. According to the International Monetary Fund, the total market capitalization of emerging market sovereign debt stood at just over US$ 7.3 trillion in 2016,[10] while the global market for sovereign debt is expected to reach US$ 50 trillion in 2019, 11 with the United States and Japan representing about half of the market.

The market for emerging market sovereign bonds is also growing — alongside the corporate bond market — based on interest from both issuers and investors, and successful efforts by many countries to improve their investment climate, including through sustain-able development. (See in section III how country-level implementation of the SDGs can lower market risks.) Table 1 shows the growth of sovereign bonds and corporate bonds — both financial and non-financial — in emerging markets for the past 10 years.

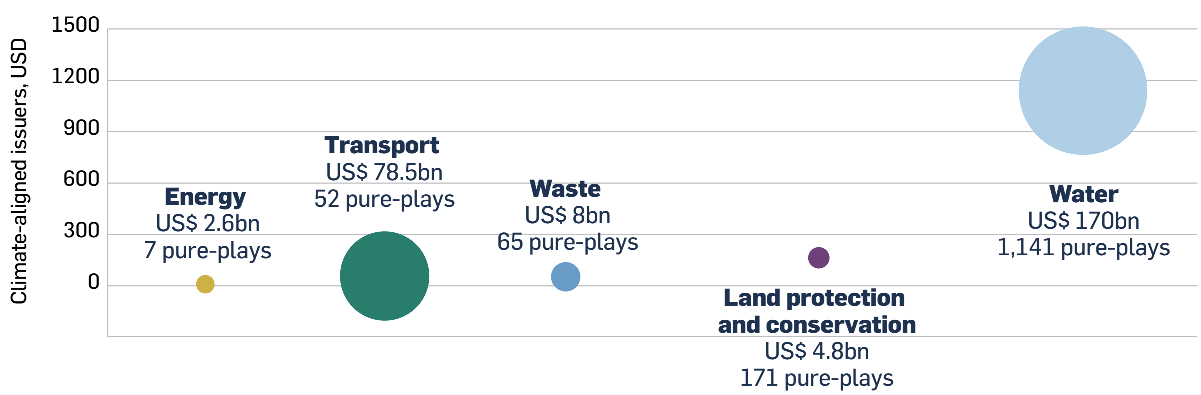
MUNICIPAL SDG BONDS

Municipal bonds can provide a meaningful response to the financing gap for sustainable development in the context of broad infrastructure needs, urbanization[12] and sometimes challenging political environments at the national level.

In the United States, and to some extent Japan, the municipal bond market has developed into a major asset class with increasing interest from international (non-tax-exempt) investors, based on low risks and diversification benefits. At the same time, municipal bonds typically finance projects with a strong focus on economic and social development, making them an ideal vehicle to finance a broad range of sustainable development priorities.

In 2018, the Climate Bond Initiative (CBI) conducted a study of the market for climate-aligned municipal bonds in the United States, whether or not they were labelled as “green” or “climate.” CBI found US$ 264 billion of bonds outstanding from 1,436 municipal issuers with 95% of revenue derived from climate solutions in the areas of water, transport, waste, energy, and land protection and conservation projects (See Figure 1).[13]

Figure 1. Assessment of U.S. Market for Climate-aligned Municipal Bonds



Source: Climate Bond Initiative (CBI)

10 *Working Paper on International Integration of Emerging Sovereign Bond Markets,* IMF, 2018.

11 *Global sovereign debt to jump to $50 trillion* - S&P Global, February 2019.

12 Currently 50% of the world population lives in urban areas, predicted to be 70% by 2050.

13 Can US municipals scale up green bond issuance? Likely, “yes”, Climate Bond Initiative, 2018.

Table 2. Investment Potential in Cities by Region and Sector 2018–2030

	East Asia Pacific	South Asia	Europe and Central Asia	Middle East and North Africa	Sub-Saharan Africa	Latin America and Caribbean	Total
Waste	$82 billion	$22 billion	$17 billion	$28 billion	$13 billion	$3.7 billion	$200 billion
Renewables energy	$266 billion	$141 billion	$88 billion	$31 billion	$89 billion	$22.6 billion	$842 billion
Public transportation	$135 billion	$217 billion	$116 billion	$281 billion	$159 billion	$109 billion	$1 trillion
Climate smart water	$461 billion	$110 billion	$64 billion	$79 billion	$101 billion	$228 billion	$1 trillion
Electric vehicles	$569 billion	$214 billion	$46 billion	$133 billion	$34 billion	$285 billion	$1.6 trillion
Green buildings	$16 trillion	$1.8 trillion	$881 billion	$1.1 trillion	$768 billion	$4.1 trillion	$24.7 trillion
Total	$17.5 trillion	$2.5 trillion	$1.2 trillion	$1.7 trillion	$1.5 trillion	$5 trillion	$29.4 trillion

Source: IFC

CBI found that most climate-aligned U.S. municipal bonds were not labeled as green bonds. Examples of non-labelled municipal bonds in the 'green' sector included rail projects, flood defenses or sewage treatment. In the social space, they include affordable housing, public education, not-for-profit healthcare and infrastructure, such as bridges or parks.

As with climate-aligned bonds, there is an opportunity to identify—and re-brand—a broad category of municipal bonds that focuses on essential services for economic and social development, in line with the SDGs, and promote thriving market for municipal SDG bonds.

In emerging markets, the municipal bond market is only nascent, and so far only cities with deeper financial resources have issued municipal bonds (e.g. Johannesburg, São Paulo, Rio, Mumbai). However, the market is growing based on investor interest and countries' efforts to improve their investment climate. For example, India has issued a guidance note on municipal bond financing for infrastructure investments, with recommendations to enhance creditworthiness, the regulatory framework and the process of bond issuance.

In addition, infrastructure and other sustainable development needs create vast opportunities for sustainable investment in cities. In the climate space alone, the International Finance Corporation (IFC) estimates that an investment opportunity of US$ 29.4 trillion exists across six key sectors in emerging market cities between 2018 and 2030 (see Table 2 below).[14] This includes areas where municipal finance can play a key role, such as electric vehicles (US$ 1.6 trillion), public transport infrastructure (US$ 1 trillion), climate-smart water (US$ 1 trillion), renewable energy (US$ 0.8 trillion) and municipal solid waste management (US$ 0.2 trillion).

Ultimately, however, the growth of emerging markets' municipal SDG Bonds will depend on decentralization in these countries and delegation of power — including on tax collection — to cities and municipalities. According to IFC, in 2013, only 4% of the 500 largest cities in developing countries had access to international debt markets, and only 20% are creditworthy in local markets.

14 Climate Investment Opportunities in Cities–An IFC Analysis, IFC, 2018.

SECTION II. ADDRESSING A GAP IN THE MARKET FOR CORPORATE SDG INVESTMENTS

At a broad level, the shortfall in private capital to finance the SDGs can be understood through an inverse relationship between the size of asset classes and their SDG impact.[15] Currently, traditional investment vehicles that have the potential to attract the largest institutional investors, such as corporate equity or bonds, have only limited measurable impact on the SDGs. While the private sector plays a crucial role in achieving the SDGs, companies have only recently begun to map and report their contribution to the SDGs. Few firms have adopted active strategies to maximize those contributions.

The market for corporate Green, Social and Sustainability (GSS) Bonds, based on a use-of-proceed model and following ICMA's Green and Social Bond Principles, is a real exception to that limitation, which is likely the reason for its success. The green bond market nearly doubled since 2016, reaching US$ 167.6 billion 2018.[16] Corporations represented about half of the overall market in 2018, with financial companies representing the fastest-growing segment. Further growth is expected from ICMA's introduction of the Social and Sustainability Bond Principles to expand the scope of activities that can be financed through a thematic use-of-proceed bond, as well as a linkage document illustrating the relationship between eligible categories for Green and Social Bonds and the SDGs.[17] While still small, the market for sustainability bonds is also growing fast, rising from US$ 2.2 billion in 2016 to US$ 21 billion in 2018.[18]

Green bonds (and later social bonds) were initially modeled after project-based investments in clean energy or infrastructure by development banks. Strict rules were applied on how the funds would be used to finance the building and operation of pre-defined assets (use-of-proceeds). In addition, procedures were introduced to track and report such uses. Given these roots, the GSS bond market has proven to be successful in a pocket of the market that finances targeted corporate and public investments in energy and infrastructure assets, as well as banks providing loans and other financial services to support green activities.

However, despite industry efforts to expand the taxonomy of eligible projects, the market has yet to meaningfully expand to support the broader set of environmental, social and economic solutions for the SDGs, especially by real economy companies.

In 2017, the vast majority of corporate issuers of green bonds were concentrated in a few industry sectors: financials (43%), utilities and energy (35%) and industrials (11%).[19] Also, private sector issuers of social bonds represented only 15% of the market in 2017, with US$ 1.3 billion of issuance and many of them were issued by financial institutions.

Given its strict use-of-proceed structure, the GSS bond market does not easily accommodate the financing needs for corporate SDG strategies and activities that are less capital-intensive and more dispersed. This creates a white space to address the financing needs of these companies as they develop SDG solutions that neither fit in the current taxonomy of green or social bonds nor are associated directly with specific assets or projects, as expected in ICMA's Green and Social Bond Principles.

15 *See Appendix B.*

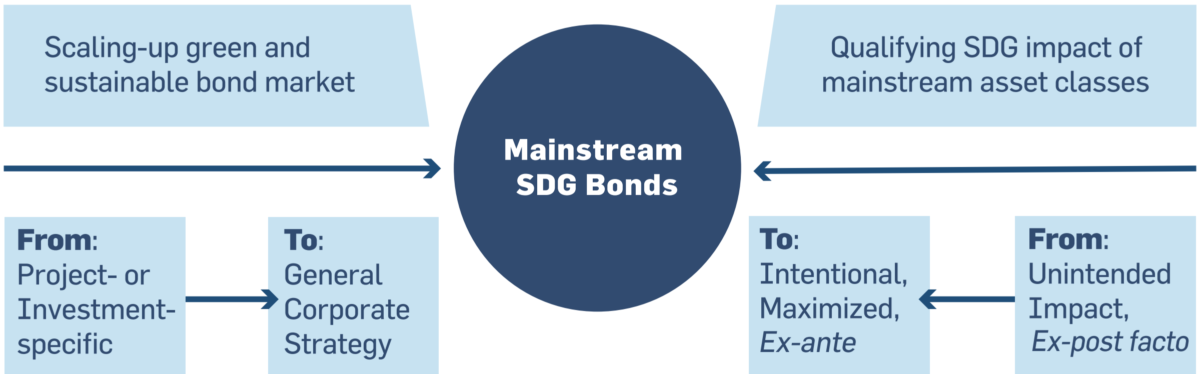
16 *Climate Bond Initiative.*

17 *Green and Social Bonds: A High-Level Mapping to the Sustainable Development Goals,* ICMA. 2018.

18 *Blossoming green-bond market growing toward $250 billion year*, Bloomberg Intelligence, March 08, 2018.

19 *Green & Social Bond Market Update, Bond Market Contact Group, European Central Bank,* ICMA, February 2018.

Figure 2. A Path for Mainstream SDG Investments: Scaling the Green Bonds and Qualifying Mainstream Asset Classes



To address this white space, we suggest a dual approach:

- Support the expansion of the market for *asset- and project-based SDG Bonds*, where companies and other issuers identify specific SDG-related assets or projects and finance them under a strict use-of-proceeds framework, as contemplated by ICMA's Green and Social Bond Principles.
- Introduce an *Integrated Model for Corporate SDG Finance* whereby companies define a unique theory of SDG impact and integrate it into their strategic and governance procedures, including board oversight, internal and external audit and public reporting. This would provide a path toward issuing general-purpose bonds (and eventually equity) that support a corporate-level SDG contribution.

This dual approach provides a path for the creation of a market for mainstream SDG investment that supports a broad range of companies in providing solutions for the SDGs (see Figure 2).

EXPANDING THE MARKET FOR ASSET- AND PROJECT-BASED SDG BONDS

As discussed in the previous sections, green, social and sustainability (GSS) bonds are very popular in a pocket of the market represented by financial and energy companies, as well as industrial companies with a large energy footprint.

The use-of-proceed model could also be a very effective vehicle to finance a broader range of activities contributing to the SDGs when they can be identified as separate assets and projects, including infrastructure and financial assets.

In fact, it is now common practice for green, social and sustainability bond issuers to explain how their use-of-proceeds align with the SDGs. According to Environmental Finance, 40% of GSS bonds issued to date are explicitly aligned with SDGs.

ICMA has recently introduced a linkage document illustrating the relationship between eligible categories for Green and Social Bonds and the SDGs.[20] Table 3 shows an excerpt of the mapping for SDGs 3-6.

Further growth in this part of the SDG bond market will come from expanding the categories of eligible assets and projects that contribute to the SDGs. Many market

20 *Green and Social Bonds: A High-Level Mapping to the Sustainable Development Goals*, ICMA. 2018.

Table 3. Mapping Green and Social Bonds-Eligible Projects to the SDGs[21]

SDG	SBP Project Categories[14]	GBP Project Categories[15]	Example Indicators
3 GOOD HEALTH AND WELL-BEING	Access to Essential Services (3.1, 3.2, 3.3, 3.4, 3.5, 3.7, 3.8, 3B, 3C) Affordable Basic Infrastructure (3.6)	Pollution Prevention and Control (3.9) Renewable Energy (3.9)	3.1 Number of people reached with improved health care 3.2 Cost reduction for standard treatments and medicines 3.3 Amount of waste water treated, reused or avoided before and after the project 3.4 Amount of raw/untreated sewage sludge that is treated and disposed of
4 QUALITY EDUCATION	Access to Essential Services (4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 4A, 4C) Socioeconomic Advancement and Empowerment (4.4, 4.5)		4.1 Number of people receiving education services 4.2 Number of students attaining standard for education level 4.3 Education facilities for inclusive and effective learning environments
5 GENDER EQUALITY	Access to Essential Services (5.4) Socio Economic Advancement and Empowerment (5.1, 5.4, 5.5, 5B)		5.1 Number of equal paying jobs created for women another under-represented gender groups 5B Number of women using technology products
6 CLEAN WATER AND SANITATION	Affordable Basic Infrastructure	Sustainable water and wastewater management (6.1, 6.2, 6.3, 6.4, 6.5, 6A, 6B) Terrestrial and aquatic biodiversity conservation (6.6)	6.1 Number of people provided was safe and affordable drinking water 6.2 Number of people provided with adequate an equitable sanitation 6.3 Volume of water saved 6.4 Volume of waste water treated for reuse 6.6 Area covered by sustainable land of water resources management practices

Source: The International Capital Market Association (ICMA)

participants, including the EU High-level Expert Group on Sustainable Finance, are advocating for the creation of taxonomy of investments that constitute green, social and sustainable investments.

As a response, several initiatives, such as those spearheaded by the European Commission, are looking into creating taxonomy of eligible assets for sustainable financing. Generally, these taxonomies seek to identify and define eligible assets within the broad categories outlined by ICMA's green and social bond principles. This gives issuers clarity and confidence in aligning their capital expenditure (CapEx) plans and designing their GSS bond frameworks.

These taxonomies and mappings are essential elements in the growth of the SDG bond market because they provide an initial and illustrative set of assets and activities that qualify as sustainable investments. They can also provide an organizational tool for investors — like an industry classification system — to compare, analyze and bundle together investments in similar areas of focus related to the SDGs.

21 ICMA, 2018. Green and Social Bonds: A High-level Mapping to the Sustainable Development Goals.

INTRODUCING AN INTEGRATED MODEL FOR CORPORATE SDG FINANCE

Green bonds were modeled after either project-based investments in clean energy or infrastructure by development banks. Such project-based investments require extra layers of management and oversight since they lack the governance systems of corporations, which have their own legal personality. These layers include pre-approved use of funds, investment committee approval of the use of funds and independent verification of the use of funds. Similarly, financial institutions typically require additional oversight of invest-ment activities through investment committees, given fiduciary duties and the importance of risk management.

However, this structure is not as relevant for other industry sectors where SDG contribution is not necessarily tied to a specific asset (real or financial) or managed as a separate project. Also, it can be cumbersome for companies to create additional and separate management to account for and report on the process for SDG-themed financing. While this is less of an issue for smaller dedicated financing, it can become problematic if the market grows and issuers must manage two different types of internal funds, with separate governance and reporting processes.

Therefore, we propose an *Integrated Model Corporate SDG Finance* that can support the issuance of a full range of corporate finance instruments to finance corporate-level SDG contributions, including both use-of-proceeds and general-purpose bonds (see Figure 3). It complements the asset- and project-based model prevalent in most green and social bonds and accommodate for a more diverse range of corporate contributions to the SDGs.

The Integrated Model for Corporate SDG Finance, further developed in a recent UN Global Compact publication on *Corporate Finance — A Roadmap to Mainstream SDG Investments*,[22] is based on the following characteristics:[23]

- It allows companies to develop unique theories of impact that describe how they contribute to the SDGs based on their specific capability, footprint and operating context. The model creates an opportunity to expand the scope of SDG activities that can be financed through SDG Bonds, beyond the current taxonomy of eligible assets. It also empowers companies to promote their impact strategy to capital markets, alongside their investment thesis, and compete for impact capital with the most effective solutions for the SDGs.
- It leverages existing corporate governance mechanisms in place at most publicly listed companies to provide investors assurance that funds are used toward impactful activities. In this model, companies define and implement their unique SDG impact

Figure 3. Integrated Model for Corporate SDG Finance

Step 1. **Develop a credible SDG impact theory**

↓

Step 2. **Measure and monitor the impact of SDG investments**

↓

Step 3. **Integrate SDG impact in corporate strategy and governance**

↓

Step 4. **Structure general-purpose bonds and equity**

22 Corporate Finance – A Roadmap to Mainstream SDG Investments, United Nations Global Compact, 2019.

23 This section is an excerpt from Corporate Finance – A Roadmap to Mainstream SDG Investments.

theory as part of their primary strategy. Compliance with the impact theory is then monitored through corporate governance procedures, including board oversight, internal and external audits, and public reporting. The model builds on ICMA's guidance for green bonds by integrating the structure and governance mechanisms of green bonds into the existing management and governance structure of a corporate environment.

- It provides investors with an understanding of impact in the context of a company's overall strategy and activities, beyond isolated assets or projects. This is particularly important as the market expands from green- and social-only bonds to SDG Bonds. As the scope of impact of the SDGs is broad and the goals are interconnected, SDG Bonds will require a more comprehensive and integrated impact thesis. The model also provides an opportunity for companies to address both the positive and negative aspects of their contribution to the SDGs.
- It enables companies to use a variety of financial instruments to support their SDG strategy, including use-of-proceed bonds, general-purpose bonds and equity. It helps expand the scale and diversity of corporate SDG Bonds while developing a market for SDG-themed equity investments.

RESOURCE:

Corporate Finance | A Roadmap to Mainstream SDG Investments UN Global Compact, 2018

This report provides guidance to companies looking to integrate the SDGs into their financial strategy and business model. A credible SDG strategy allows companies to clearly communicate impact, facilitate easier access to the growing market for SDG financing, and connect investors with a pipeline of potential opportunities to address the SDG investment gap.

SECTION III. LEVERAGING MARKET EFFICIENCY TO MAXIMIZE IMPACT AND SCALE

As stated in the introduction, the goal is to inspire the creation of a large liquid asset class that credibly contributes to the SDGs. However, the goals of scale and credibility can sometimes be at odds. This is because structuring considerations that help strengthen credibility can also restrict the size of the market by making financial products less standardized, and harder and more expensive to issue (see Figure 4).

A market for mainstream SDG investment would create a new paradigm where the relationship between scale and credibility can be optimized through the *discipline and efficiency of broad capital markets* and *specific risk mitigation factors related to sustainable development* (see Figure 5).

LEVERAGING THE SCALE, DISCIPLINE AND EFFICIENCY OF BROAD CAPITAL MARKETS

We envision a broad market for mainstream SDG investments including mainstream (or "plain vanilla") bonds — senior unsecured debt, backed by the general creditworthiness of the issuer. These include corporate bonds, sovereign bonds and municipal bonds. These bonds usually carry a fixed interest rate, with interests payable in installments or at the end of the borrowing period, along with the principal. Unlike general loans, bonds are "securities" that can be traded on financial exchanges or over-the-counter.

To ensure scale and liquidity of the market, we seek to replicate the traditional bond market's quasi-standardized documentation and issuance process, as well as its reliance upon high standards of accountability and transparency.

The bond market, given its size, benefits from the self-discipline of large and efficient capital markets, where millions of independent agents compete for price discovery, while ensuring a high level of transparency and accountability. The promise of a 'mainstream' SDG bond market is that it can reach a critical mass of investors and market participants and benefit from the market infrastructure of mainstream bonds, including high standards of accountability and transparency.

Another advantage of a broad, standardized market for SDG investments is that investors

Figure 4. Current Paradigm

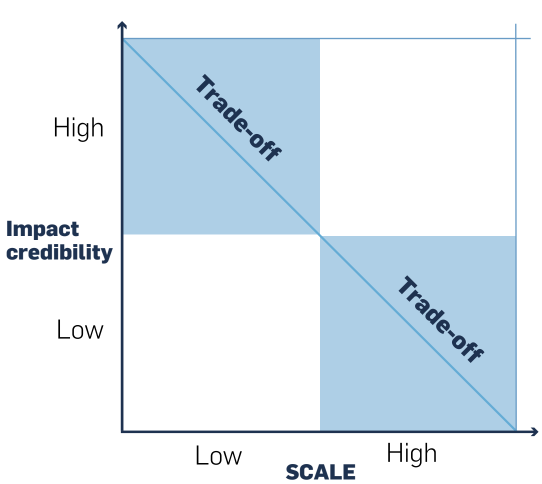
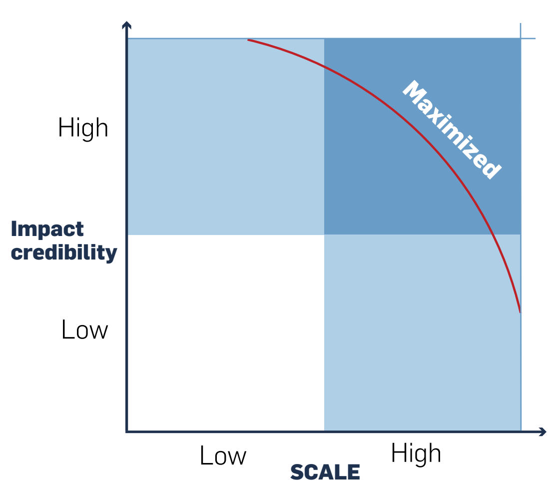


Figure 5. New Paradigm



can apply modern portfolio management techniques such as diversification, pooling and securitization to lower risk and increase the flow of capital.

Mainstream capital markets can also play an essential role in promoting competition and price discovery for the most effective solutions for sustainable development. This will spur a race to the top among companies and investees to maximize the impact investments.

When applying the efficient market hypothesis to sustainable investments, we envision that a critical mass of independent market participants could contribute to the identification and pricing of the most effective private-sector solutions to SDGs. Ultimately, an SDG investment market with enough scale, liquidity and transparency could act as a market clearing mechanism for investments with the highest impact per unit of risk-adjusted return.

In this new paradigm, it is the role and responsibilities of investors — directly or through market intermediaries — to assess the ultimate impact of each SDG investment. Independent auditors play a key role as intermediaries in helping issuers and investors gain mutual confidence. ICMA recently released Guidelines for GSS Bond External Reviews, which outline the different types of external reviews.[24]

As with traditional financial markets, the critical element is to ensure that investors have enough information to make an informed decision. According to Sompo Japan Nipponkoa Asset Management:

> *"Sufficient disclosure through prospectus and CSR reports will enable investors to get to know issuers' activities towards SDGs. If investors are not convinced of the SDGs bond's contributions, then it will be challenging for them to invest in the issuer's SDGs bond going forward. This is how the market mechanism would work, in our view."*

Leveraging Sustainable Development as a Risk-Mitigating Factor

All else being equal, investments that maximize opportunities to further sustainable development can benefit from better risk-adjusted returns in the long term. This is achieved by mitigating environmental, social and governance (ESG) risks and aligning with country plans to implement the SDGs, including regulations, incentives and investment programmes.

Country-level implementation of the SDGs can lower market risks

At a macro level, successful implementation of the SDGs can lead to a lower country risk premium in emerging and frontier markets.

One of the main barriers to a larger allocation of capital to the SDGs is the additional cost of capital resulting from higher risk associated with weaker country governance and lower economic development. (See Table 4 in Section V for the yields on 10-year treasury bonds for countries in different income groups.) This not only raises the cost of capital for local Governments and companies, but it can also exclude the participation of many institutional investors whose investment mandate and fiduciary duties restrict them to investment-grade options.

However, country risk premium in emerging markets often reflects the same development and institutional gaps that the SDGs aim to address. Therefore, investors in developing countries and least developed countries with a strong commitment and successful implementation of the SDGs could expect a lower country risk premium.

Aligning SDG investments with SDG country plans can strengthen financial results

At the country level, SDG investments can benefit from the momentum created by Governments' commitments to the 2030 Agenda, as well as their concrete strategies and actions to meet the SDGs, as detailed in their Voluntary National Reviews (VNRs) for

24 *Guidelines for Green, Social and Sustainability Bonds External Reviews,* ICMA. June 2018.

implementation of the SDGs and the nationally determined contribution (NDCs) to the Paris Agreement on climate change. As discussed in Section II, aligning SDG investments to country plans for the SDG can help reinforce the credibility of the impact thesis. As a corollary, alignment with SDG country plans can also lead to financial benefits such as co-investments or incentives by the public sector, potentially improving the risk-return profile of specific SDG investments. For example, businesses that implement the SDGs could attract support from key players, including the Government, and receive direct or indirect support in the form of incentives, subsidies or favorable policies and regulatory regimes. Some Government incentives have started to emerge in the green bond market, for example, to cover the additional cost of issuance.[25]

Managing and disclosing ESG risks can lower investment-specific risks

As discussed in Section II, managing the downside risk of SDG investments helps reinforce the credibility of the impact thesis. As a corollary, managing ESG downside can also lead to better risk-adjusted returns, especially in emerging and frontier markets, by somewhat insulating the company from country-level risks and reducing the country risk premium for specific investments.

Similarly, part of the risk premium for emerging companies can be attributed to a lack of transparency on environmental, social and governance factors. Strong disclosure and transparency practices can alleviate uncertainty, contributing to better pricing of the risk.

25 In 2017, the Monetary Authority of Singapore launched a Green Bond Grant scheme to cover the costs of external reviews for green bond issuance.

SECTION IV. MATCHING SDG INVESTMENTS WITH MAINSTREAM INVESTORS

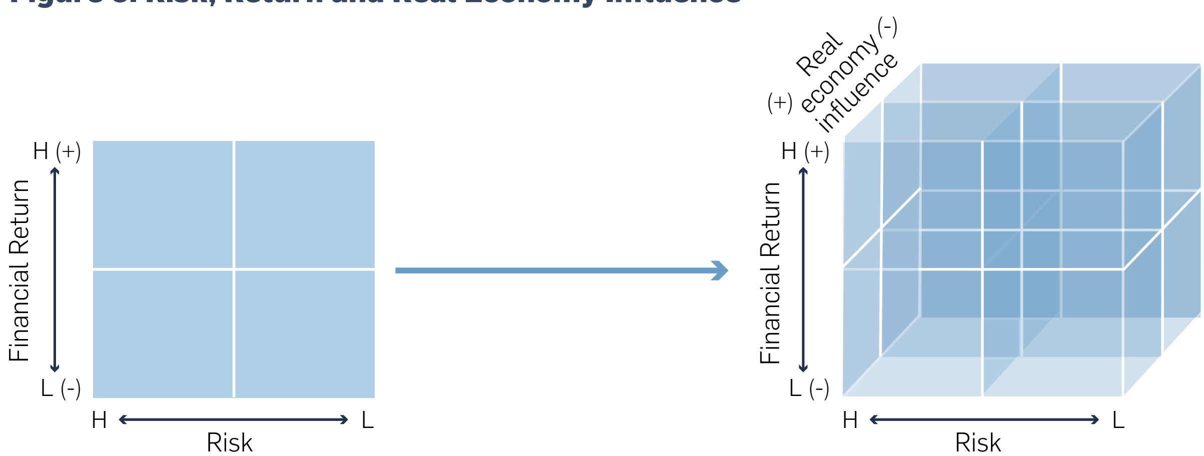
The promise of a broad market for SDG investments is that it provides a wide range of investment opportunities with different financial and sustainability characteristics. This is critical to match the equally wide range of investment goals of the millions of participants in capital markets, from individual to institutional investors.

To meet the rising demand for SDG Investments and to allocate this capital in support of SDG-related activities, new tools are needed to characterize the demand for SDG investments and to assess the risk-return profile of SDG investors. At the same time, the financial and sustainability profiles of SDG investments must be analyzed, including by rating agencies.

ASSESSING THE RISK, RETURN AND IMPACT PROFILE OF INVESTORS

One promising innovation is the concept of *risk, return and impact profile*, which helps gauge investors' appetite for impact and how it competes with the traditional dimensions of investor profiles, risk and return.[26] The concept, illustrated in Figure 6 below, can be used to match different types of investors with the right SDG investments. For impact investors, the model can be used to understand the trade-offs that investors are willing to make between impact and risk-adjusted returns. For institutional investors with a more restrictive fiduciary duty, it can be used to choose investments with the highest impact, given similar risk-adjusted returns.

Figure 6. Risk, Return and Real Economy Influence



Source: Principles for Responsible Investment

26 The concept of risk-return-impact profile was introduced in 2012 in a JPMorgan research report: A Portfolio Approach to Impact Investment, Global Social Finance, 2012.

The model could also be useful to understand the risk, return and impact profile of a certain category of institutional investors whose underlying beneficiaries have a "natural" interest in the environmental, social and economic impact of their investment, including:

- Corporate pensions: employees of sustainable companies may want their pension plans to reflect their employer's commitment to sustainability.
- Public pension funds in emerging markets may have a political mandate to support economic and social development locally or regionally (e.g. the Government Employee Pension Fund of South Africa).
- Sovereign wealth funds often have investment mandates that include the promotion of economic and social development of the country.
- Philanthropic foundations have a moral interest to invest their endowment alongside the foundations' mission.

ASSESSING THE RISK, RETURN AND IMPACT PROFILE OF INVESTMENTS

Mainstream SDG investments have unique risk-return characteristics. Some aspects, including a focus on emerging markets and technologies, contribute to higher risks that need to be compensated through higher returns.

At the same time, as highlighted in Section II, investments that maximize opportunities to further sustainable development can benefit from better risk-adjusted returns in the long term. This can be achieved by mitigating environmental, social and governance (ESG) risks and aligning with country plans to implement the SDGs.

In order to efficiently match investors with the relevant SDG investments, the risk, return and impact profile of SDG investments should be systematically analyzed. This information should be presented to ratings agencies and should be integrated into the rating of publicly-listed SDG investments.

SECTION V. PROMOTING SDG INVESTMENTS IN EMERGING MARKETS

Many of the investments needed for the realization of the SDGs are in emerging markets, where access to finance and capital markets is more limited than in developed countries. One key barrier to financing the SDGs in emerging markets is the higher cost of capital, reflecting the actual or perceived risk of investing in these countries (risk premium). Table 4 shows that the yield (interest rate) on 10-year treasury bonds (sovereign bonds) averages 1.7% for high-income countries versus 8.6% for upper middle-income countries and 10.6% for lower middle-income countries. Low-income countries (those with Gross National Income (GNI) per person of US$ 996 and under) have virtually no access to international capital markets.

In this context of limited access to capital markets and heightened investment risks, public bonds backed by the credit-worthiness of Governments, direct investment by foreign companies, and bank loans constitute the main channels of private finance for the SDGs in emerging markets.

According to World Bank data, public bonds and foreign direct investment[27] (FDI) represented a large share of private capital for emerging markets, at 5% and 3.6% of GDP respectively, compared with private bonds at 0.8% and equity portfolio investments at 0.2% (see Table 5).

The situation is exacerbated in upper middle-income countries, where sovereign bonds reached 7.7% of GDP and in low-income countries, where the share of all capital market instruments drops and FDI becomes the primary source of capital at 3.9% of GDP.

According to the United Nations Conference on Trade and Development (UNCTAD),[28] FDI constituted the most significant external source of financing for developing economies in 2017 (39%), followed by portfolio investments (18%) and bank loans (9%). In the least developed countries (LDCs), the primary sources of external finance are Official Development Assistance (ODA) and remittances. However, FDI remains a substantial source of external financing at 21% and the contribution of bank loans reaches 14%.

For developing economies, FDI is also a stable source of financing compared with portfolio investments and bank loans, which experience dramatic fluctuations over business cycles (see Table 6 below).

Foreign companies that make direct investments in emerging markets are often multinational enterprises (MNEs) based either in developed or developing markets with access to broad, global capital markets. These companies can be a source of SDG-related investments in emerging markets in several ways:

- A developed market company making direct investments in emerging markets
- An emerging market company making direct investments in a different emerging market
- An emerging market company raising capital abroad and repatriating the funds home

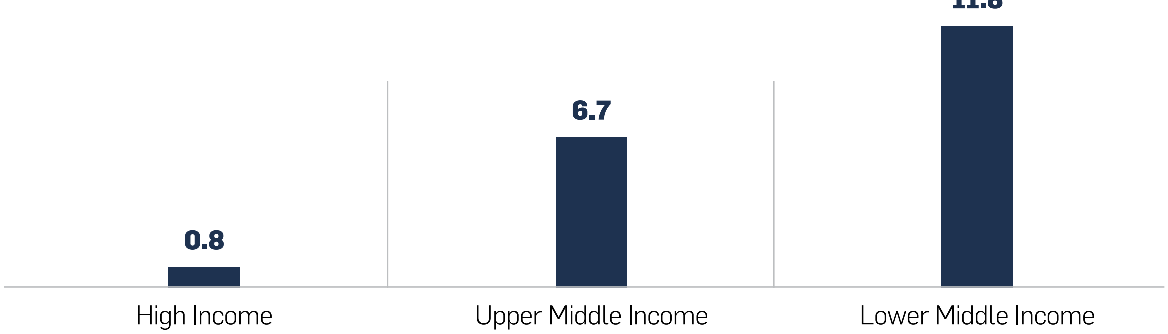
To the extent that these investments contribute to the SDGs, they can fill a significant part of the SDG funding gap in emerging markets. This is acknowledged in the Addis Ababa Action Agenda on Financing for Development, which recognizes the critical importance of FDI for sustainable development.[29]

27 Foreign direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 per cent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship. The World Bank.

28 *World Investment Report 2018*, UNCTAD.

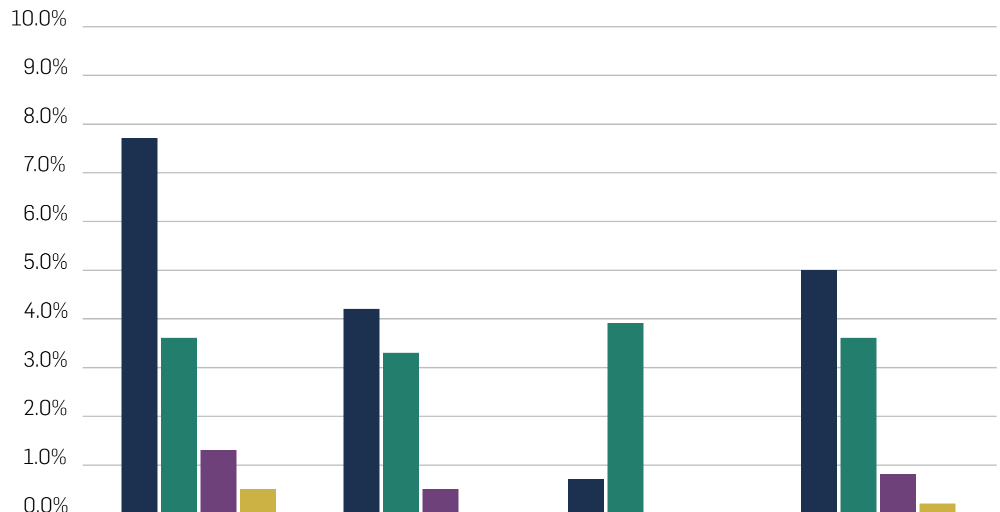
29 *World Investment Report 2018*, UNCTAD.

Table 4. Average Yield, 10-year Government Bonds (%)



Source: UN Global Compact analysis; Trading Economics data. Average of 10-year yield on sovereign bonds as of August 2019, using World Bank country income classification. Income level based on 2017 GNI per capita: lower middle-income between US$ 996 and US$ 3,895, upper middle-income between US$ 3,896 and US$ 12,055 and high income above US$ 12,055.

Table 5. Source of Capital in Emerging Markets (% of GDP)



	Upper Middle Income	Lower Middle Income	Low Income	All Emerging Markets
Public Bonds	7.7%	4.2%	0.7%	5.0%
FDI	3.6%	3.3%	3.9%	3.6%
Private Bonds	1.3%	0.5%	0.0%	0.8%
Portfolio Equity Flow	0.5%	0.0%	0.0%	0.2%

Source: UN Global Compact analysis; World Bank data for 2017

Public Bonds. Public and publicly guaranteed debt from bonds that are either publicly issued or privately placed. Total outstanding.

Private Bonds. Private nonguaranteed long-term debt of a private debtor not guaranteed for repayment by a public entity. Total outstanding.

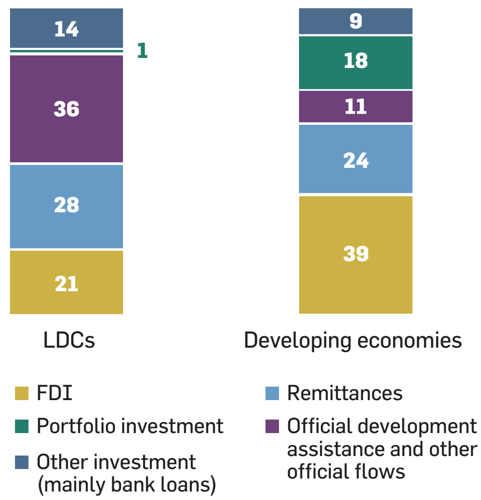
FDI (foreign direct investment) refers to direct investment equity flows from a resident in one economy owning 10% of ordinary shares of voting stock of an enterprise resident in another economy. It includes equity capital, reinvestment of earnings and other capital.

Portfolio equity flows include net inflows from equity securities other than those recorded as direct investment and including shares, stocks, depository receipts (American or global) and direct purchases of shares in local stock markets by foreign investors.

Income Levels. Countries' income level calculated based on 2017 GNI per capita, as follows:
low income is US$ 995 or less; lower middle-income between US$ 996 and US$ 3,895 and upper middle-income between US$ 3,896 and US$ 12,055.

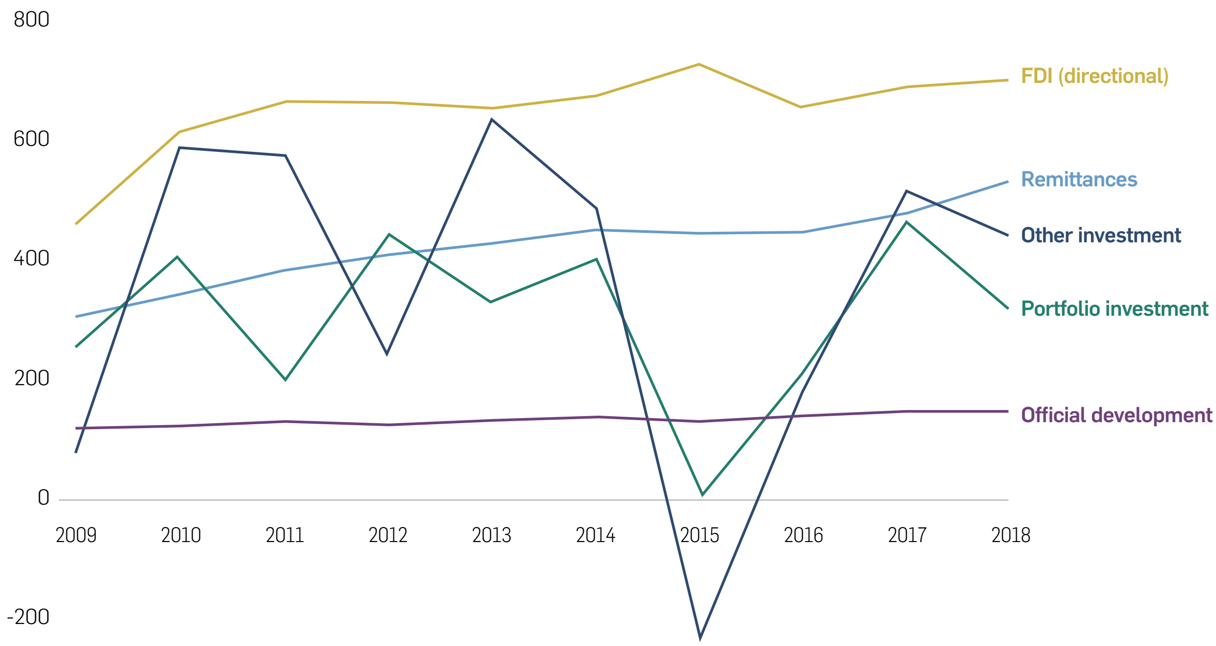
Table 6. The Importance of Foreign Direct Investments

Sources of external finance, developing economies and LCDs, 2013–2017 (Per cent)



	Growth rates (%) 2017	2013–2017 average	Volatility index
Developing economies			
FDI	0	0	20
Remittances	95	27	
ODA and other official flows	-1	2	19
Portfolio investment	110	-80	88
Other investment (mainly bank loans)	70	-25	90
Least developed countries			
FDI	-17	6	23
REmittances	4	3	35
ODA and other official flows	-1	2	17
Portfolio investment	21	-13	237
Other investment (mainly bank loans)	-58	6	113

Developing Economies: Sources of External Finance, 2009-2018 (Billions of Dollars)



Source: UNCTAD, based on KNOMAD (for remittances), UNCTAD (for FDI), IMF World Economic Dataset (for portfolio investment and other investment) and OECD (for ODA)

Note: Remittances and ODA are approximated by flows to low and middle income countries, as grouped by the World Bank.

By extension, multinational enterprises raising capital through mainstream corporate finance instruments, such as general-purpose corporate bonds and equity can represent a critical source of SDG finance in emerging markets.

Similarly, banks making private loans in emerging markets and least developed countries can raise funds on the capital markets and channel a substantial amount of private capital towards SDG investments in emerging markets. (See the concept of financial intermediation for the SDGs in Section I.)

APPENDIX A: DEFINITIONS AND DISCLAIMER

The terms defined below are used descriptively with conceptual definitions to help the understanding of how public capital markets can contribute to financing the SDGs. Our purpose is not to introduce official names, standards or principles related to any financial products.

Over time, the market will establish clear labels and categories for these products. These will be created as issuers and their advisers adopt designations that best reflect their strategy and investors promote categories that provide clear signals to the market and support portfolio construction.

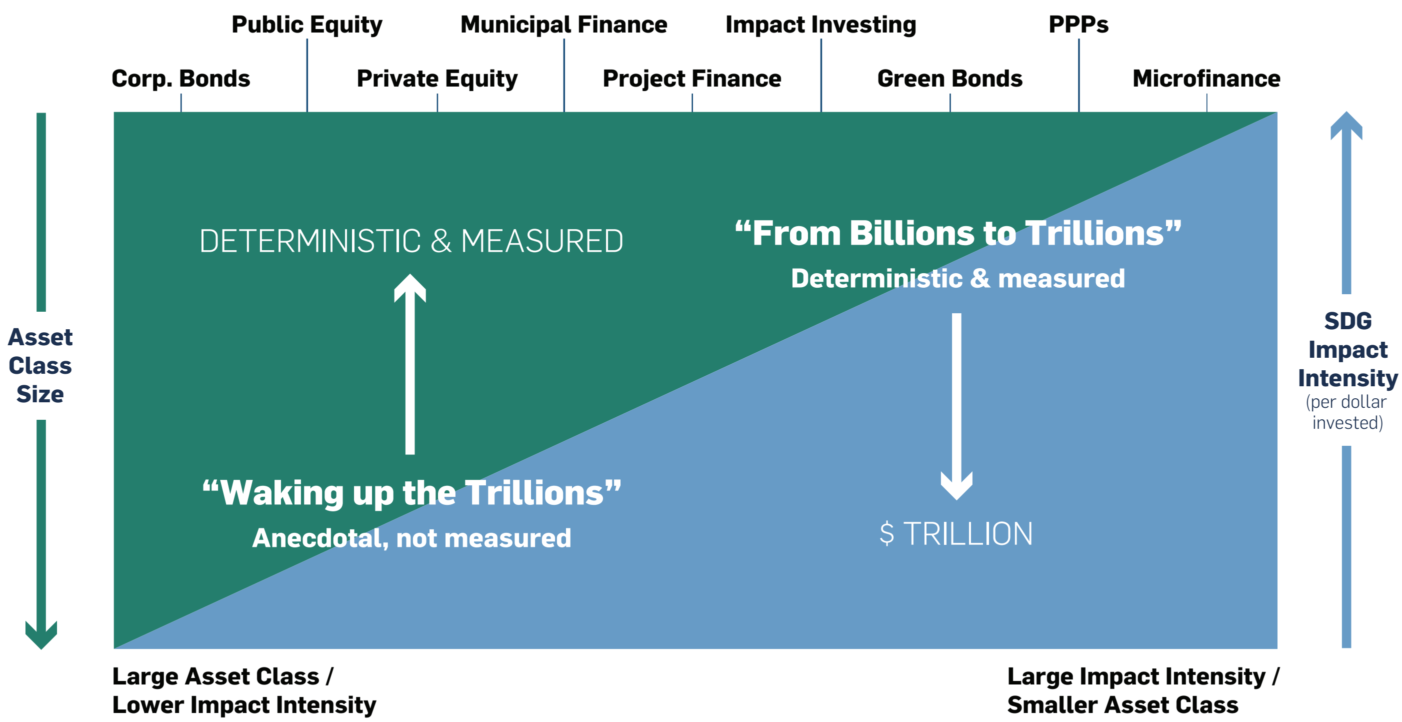
SDG Bonds: Broad category that includes use-of-proceed and general-purpose bonds either issued by companies, Governments and municipalities, or for assets and projects.

Use-of-proceed SDG Bonds: Bonds with strict accountability of the use of proceeds toward eligible green, social or climate activities and a link to the SDGs. They are issued in accordance with the Green and Social Bond Principles (ICMA) or the Climate Bond Standard (CBI). Use-of-proceed SDG bonds can be issued by companies, Governments and municipalities as well as for assets and projects. They can be unsecured, backed by the creditworthiness of the corporate or Government issuer. They can also be secured with collateral on a specific asset.

General-purpose SDG Bonds: Bonds issued by companies that have adopted a corporate-level strategy to contribute to the SDGs and that are committed to providing accountability for the general use of funds and corporate-level SDG impacts. General-purpose SDG Bonds can also be issued by Governments and they are unsecured.

Corporate SDG Finance: Strategic use of different financial instruments to fund corporate-level SDG strategies, including (but not limited to) the instruments listed above.

APPENDIX B: QUALIFYING MAINSTREAM ASSET CLASSES AND SCALING GREEN AND SUSTAINABLE INVESTMENTS



THE TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT

HUMAN RIGHTS

1 Businesses should support and respect the protection of internationally proclaimed human rights; and

2 make sure that they are not complicit in human rights abuses.

LABOUR

3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

4 the elimination of all forms of forced and compulsory labour;

5 the effective abolition of child labour; and

6 the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

7 Businesses should support a precautionary approach to environmental challenges;

8 undertake initiatives to promote greater environmental responsibility; and

9 encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

10 Businesses should work against corruption in all its forms, including extortion and bribery.

The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

ABOUT THE UNITED NATIONS GLOBAL COMPACT

As a special initiative of the UN Secretary-General, the United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universal principles in the areas of human rights, labour, environment and anti-corruption. Launched in 2000, the mandate of the UN Global Compact is to guide and support the global business community in advancing UN goals and values through responsible corporate practices. With more than 9,500 companies and 3,000 non-business signatories based in over 160 countries, and more than 70 Local Networks, it is the largest corporate sustainability initiative in the world.

For more information, follow **@globalcompact** on social media and visit our website at **unglobalcompact.org**.

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