

'Second Opinion' on Region Skåne's Green Bond Framework

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Summary

Overall, Region Skåne's Green Bond Framework provides a clear and sound framework for climate-friendly investments. The framework lists eligible categories of projects that are supportive of the objective of promoting a transition to low-carbon and climate-resilient growth and is supported by a strong governance structure.

Region Skåne has in place ambitious climate policies and is on track to achieve their 2020 goals. The issuer has signed letters of intent with all its suppliers of district heating in order to be fossil fuel free by 2020. Almost all city buses are fossil fuel free today, while the regional busses will be by 2018. Region Skåne explicitly states in their green bond framework that they will not finance nuclear power or fossil fuel energy projects.

It's a strength of the framework that the issuer has a high focus on impact reporting. Region Skåne will encourage and promote impact reporting and will provide that to the largest extent possible. According to the issuer in all cases where Region Skåne is in a position to do so e.g. wind power and energy efficiency projects in buildings, the issuer will measure and report on climate and environmental impacts.

Based on the overall assessment of the project types that will be financed by the green bond and governance and transparency considerations, Region Skåne's Green Bond Framework gets a Dark Green shading.

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 is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure.

CICERO has established the global Expert Network on Second Opinions (ENSO), a network of independent non-profit research institutions on climate change and other environmental issues, to broaden the technical expertise and regional experience for Second Opinions. CICERO works confidentially with other members in the network to enhance the links to climate and environmental science, building upon the CICERO model for Second Opinions. In addition to CICERO, ENSO members currently include Basque Center for Climate Change (BC3), International Institute for Sustainable Development (IISD), Stockholm Environment Institute (SEI), and Tsinghua University's Institute of Energy, Environment and Economy. A more detailed description of CICERO can be found at the end of this report.

The CICERO-led ENSO 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 institution themselves (the client) and information gathered during meetings, teleconferences and email correspondence with the client. ENSO encourages the client to make this Second Opinion publically available. If any part of the Second Opinion is quoted, the full report must be made available.

CICERO's Second Opinions are normally restricted to an evaluation of the mechanisms or framework for selecting eligible projects at a general 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 the outcome of investments in eligible projects.

This note provides a Second Opinion of Region Skåne's Green Bonds Framework and policies for considering the environmental impacts of their projects. The aim is to assess Region Skåne Green Bonds Framework as to its ability to support Region Skåne's stated objective of promoting the transition to low-carbon and climate resilient growth.

CICERO takes 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 result in net emissions or prolonged use of high-emitting infrastructure in the long-run. CICERO strives to avoid locking-in of emissions through careful infrastructure investments, and moving towards low- or zero-emitting infrastructure in the long run. Proceeds from green bonds may be used for financing, including refinancing, new or existing green projects as defined under the mechanisms or framework. CICERO assesses in this Second Opinion the likeliness that the issuer's categories of projects will meet expectations for a low carbon and climate resilient future.

Expressing concerns with 'shades of green'

CICERO Second Opinions are graded dark green, medium green or light green, reflecting the climate and environmental ambitions of the bonds and the robustness of the governance structure of the Green Bond Framework. The grading is based on a broad qualitative assessment of each project type, according to what extent it contributes to building a low-carbon and climate resilient society:

- Dark green for projects and solutions that are realizations today of the long-term vision of a low carbon and climate resilient future. Typically this will entail zero emission solutions and governance structures that integrate environmental concerns into all activities.
- Medium green for projects and solutions that represent steps towards the long-term vision, but are not quite there yet.
- Light green for projects and solutions that are environmentally friendly but do not by themselves represent or is part of the long-term vision (e.g. energy efficiency in fossil based processes).
- Brown for projects that are irrelevant or in opposition to the long-term vision of a low carbon and climate resilient future.

The project types that will be financed by the green bond primarily define the overall grading. However, governance and transparency considerations also factor in, as they can give an indication whether the institution that issues the green bond will be able to fulfil the climate and environmental ambitions of the investment framework.

2. Brief description of Issuer

Region Skåne was created in 1997 when Kristianstad County and Malmöhus County were merged. It covers around 3% of Sweden's total area, but its population of 1,250,000 comprises 13% of Sweden's total population. Region Skåne is a self-governing administrative region in the South of Sweden, funded by taxes, which is governed by a Regional Council of 149 members who are directly elected by the inhabitants of Skåne. The headquarters of Skåne Regional Council is the town of Kristianstad.

The Regional Council makes decisions regarding budget and direction for Region Skåne's various operations concerning everything from health care and public transport to regional development and culture.

Region Skåne has in place ambitious environmental policies and goals that are broadly implemented in the organization. The issuer decided in 2009 that all transport and heat production in 2020 should use renewable energy. Region Skåne has received several prizes for its environmental friendly vehicle fleet and wind power installations. In 2015, 70% of public transport was fueled by renewable energy.

Eligible Projects will be selected in consensus by the Finance Department and the Environmental Department (i.e. both parties have a veto). The Environmental Department has environmental expertise and will also draw on environmental expertise within all departments of the organization as needed to evaluate and select/reject Eligible Projects.

To enable investors to follow the development and provide insight to prioritized areas, Region Skåne will provide an annual investor letter to investors including 1) a list of projects financed 2) a selection of project examples with impact reporting and 3) a summary of Region Skåne's Green Bond development.

The investor letter will be made publically available on Region Skåne's web page. Furthermore, the principle of free access to public records is applied which enables both investors and potential investors generous insight.

The table below lists the documents that formed the basis for this Second Opinion:

Table 1: Documents Reviewed

Document Number	Document Name
1	Region Skåne's Green Bonds Framework
2	Övergripande information om Region Skånes miljöledningssystem, certifierat enligt ISO 14001
3	Region Skånes Miljöprogram, inklusive miljöpolicy http://www.skane.se/organisation-politik/om-region-skane/Publikationer/politik-organisation/miljoprogram-for-region-skane-2010--2020/?highlight=milj%c3%b6program
4	Region Skånes Miljöredovisning 2015, inkluderad i Region Skånes årsredovisning 2015 (Se s. 58) http://www.skane.se/organisation-politik/om-region-skane/Publikationer/politik-organisation/arsredovisning-2015/
5	Certifikat enligt ISO 14001 http://utveckling.skane.se/siteassets/publikationer_dokument/certifikat-regionskane-iso-14001.pdf
6	Region Skånes upphandlingspolicy http://www.skane.se/siteassets/gora_affarer/dokument/upphandlingspolicy.pdf?highlight=upphandlingspolicy
7	Region Skånes uppförandekod http://www.skane.se/organisation-politik/Att-gora-affarer/hallbar-upphandling/?highlight=uppf%c3%b6randekod
8	Region Skånes miljökrav vid upphandlingar http://www.skane.se/organisation-politik/Att-gora-affarer/miljokrav/
9	Region Skånes miljökrav på privata vårdgivare http://vardgivare.skane.se/uppdrag-avtal/miljokrav/
10	Region Skånes miljökrav på finansierade externa verksamheter http://utveckling.skane.se/utlysningar-och-finansiering/nar-du-har-fatt-bidrag/region-skanes-miljobevis/
11	Region Skånes miljökrav vid framtida byggnader av fastigheter (miljöklass guld, se sid 4) http://www.skane.se/Public/Protokoll/Regionstyrelsen/2015-06-04/Infrastruktur%20för%20framtidens%20hälso-%20och%20sjukvård/BFS_Beslutsförslag.pdf
12	Miljökrav vid senaste nybygget, sjukvårdsbyggnad i Helsingborg (miljöklass silver) http://www.skane.se/organisation-politik/Nyheter/Framtid-och-utveckling/2015/byggstart-av-ny-sjukvårdsbyggnad/?highlight=milj%c3%b6byggnad+silver
13	Skånetrafikens miljö- och hållbarhetsprogram https://www.skandetrafiken.se/globalassets/dokumentbank/miljo/miljo--och-hallbarhetsprogram-for-skandetrafiken-2016-2025-20160307.pdf
14	Skånetrafikens hållbarhetsredovisning 2015 https://www.skandetrafiken.se/globalassets/dokumentbank/miljo/skanetrafiken_hallbarhetsredovisning_2015-final-mindre-fil.pdf
15	Skånetrafikens resor är märkta med Bra Miljöval https://www.skandetrafiken.se/om-oss/miljo/

16	Skånetrafikens licens för Bra Miljöval https://www.skånetrafiken.se/globalassets/dokumentbank/miljo/2014.2653_licens-6-2014-0012-5.pdf
17	Region Skåne har i flera år fått topplaceringen när Sveriges landstings och kommuners miljöfordon har granskats http://miljofordonsyd.se/projekt/fordonsgranskning/
18	Region Skåne fick vindkraftspris 2015 http://skanesvindkraftsakademi.se/aktiviteter/2014-2015/
19	Länk till ytterligare formation om Region Skånes miljöarbete http://www.skane.se/framtid-och-utveckling/Miljo-och-natur/
20	Region Skånes webbsida: www.skane.se

3. Assessment of Issuer

Overall, Region Skåne's green bond framework provides a detailed and sound framework for climate-friendly investments. The framework and procedures for Region Skåne's green bond investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects, whereas the weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where issuers should be aware of potential macro-level impacts of investment projects.

Eligible projects

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide certainty to investors that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (ICMA, 2016) state that project categories should provide clear environmental benefits and encourage a high level of transparency for project evaluation and selection.

Table 2 Eligible project categories

Category	Eligible project types	Green Shading and some concerns
Energy efficiency	<ul style="list-style-type: none"> • Sustainable buildings: <ul style="list-style-type: none"> - New buildings with at least 25% less energy use per m² than required by applicable regulations (Boverkets byggregler, BBR) and preferably a minimum certification of Miljöbyggnad silver – 	<p>Medium Green</p> <ul style="list-style-type: none"> ✓ Building criteria are considered adequate but may not reflect best available technology nor the highest level of standards possible in Sweden. ✓ In addition to climate issues, Miljöbyggnad certification cover a broader set of issues, which is important to overall sustainable development.

	<ul style="list-style-type: none"> - Major renovation of buildings leading to a reduced energy use per m² of at least 25% • Energy efficiency measures leading to improvements of at least 20% 	
Clean transportation	<ul style="list-style-type: none"> • Sustainable public and cargo transportation (non-fossil) 	<p>Dark Green</p> <ul style="list-style-type: none"> ✓ Potential for emission reduction depends on area planning and degree of urbanization, introduction of new vehicle technologies for passenger and goods transportation, and fuel types.
Climate change adaptation	<ul style="list-style-type: none"> • Adaptation measures in buildings and infrastructure 	<p>Dark Green</p> <ul style="list-style-type: none"> ✓ Important given climate change scenarios and higher frequency of extreme weather conditions. ✓ Potential for good synergies with mitigation actions and opportunities
Renewable energy	<ul style="list-style-type: none"> • Wind, solar, geothermal and bioenergy and biogas from waste. 	<p>Dark Green</p> <ul style="list-style-type: none"> ✓ Consider life cycle emissions, and avoid negative impacts on biodiversity of particular importance for wind projects. ✓ The issuer has informed us that the majority of biogas is locally produced, primarily from food waste. Peat will not be eligible. ✓ Potential for heavy metal pollution in thermal energy projects.

Strengths

Region Skåne has in place ambitious climate policies and is on track to achieve their 2020 goals. The issuer has signed letters of intent with all its suppliers of district heating in order to be fossil fuel free by 2020. Almost all city buses are fossil fuel free today, while the regional busses will be by 2018. All suppliers to regions in Sweden have to act responsible on social and environmental issues. Suppliers should aim to continually improve their environmental performance and minimize the use of resources and the production

of waste. The supplier shall aim towards employing a life-cycle perspective concerning environmental impact from products and services and shall place environmental requirements on subcontractors. The issuer is ISO 140001 certified.

CICERO takes a long-term view on climate change, and thus recommends excluding projects that support prolonged use of fossil fuel-based infrastructure that will contribute to GHGs in the long run. It is a clear strength that Region Skåne explicitly states in their green bond framework that they will not finance nuclear power or fossil fuel energy projects.

The backbone of the governance structure is the Region Skåne Green Bond Framework. The Bond framework includes a comprehensive list of project categories that are important for low-carbon and climate change resilient growth.

Region Skåne has a good structure for approval of projects in place that ensure environmental integrity. Eligible projects have to be approved by consensus by the Finance Department and the Environmental Department. The issuer will strive for lifecycle analysis. All contracts Region Skåne enters into, appropriate sustainability performance will be required from its subcontractors and lifecycle analysis should be employed as appropriate.

Weaknesses

There are no obvious weaknesses in Region Skåne's Green Bond Framework.

Pitfalls

The buildings sector accounts for 40% of primary energy consumption in most International Energy Agency (IEA) member countries (IEA/UNDP, 2011). Energy efficiency improvements in buildings are thus important building blocks for reaching the 2 degree C climate change goal. Region Skåne applies criteria for both new buildings and in renovation of existing buildings with energy efficiency requirements over and above status quo (building regulations). In addition, Miljöbyggnad Silver is preferred by Region Skåne. The building regulations in Sweden are ambitious and have low requirements for energy use per m², in particular for the south of Sweden. It is a strength that Region Skåne requires additional energy requirements to the regulations. However in a low carbon 2050 perspective the energy performance of buildings, is expected to be improved, with passive house technology becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments.

The use of bioenergy and biogas from waste for energy purposes represents a potential pitfall when it comes to supporting a low carbon and climate resilient future. However Region Skåne busses are required to operate using fuel that reduces CO₂ emissions by 60% from diesel fuel. The issuer has informed us that the majority of biogas is locally produced from food waste, with a small portion of biogas produced from manure in Denmark. Further, the region is surveying biogas and CO₂ reductions for additional information, and Skånetrafikens emissions are audited by an external auditor as part of the environmental license Bra Miljöval.

Impacts beyond the project boundary

Due to the complexity of how socio-economic activities impact the climate, a specific project is likely to have interactions with the broader community beyond the project borders. These interactions may or may not be climate-friendly, and thus need to be considered with regards to the net impact of climate-related investments.

Rebound effects

Efficiency improvements may lead to rebound effects. When the cost of an activity is reduced there will be incentives to do more of the same activity. From the project categories in Table 2 an example is improved energy efficiency, which in part may lead to more energy use. Region Skåne should be aware of such effects and possibly avoid Green Bond funding of projects where the risk of rebound effects is particularly high.

Transparency, monitoring, reporting and verification

Impact reporting is an important tool to enhance transparency in regard to the projects economic risk from climate change and the environmental effectiveness of the projects. Thus, it is important to verify that projects perform as intended with respect to mitigation of greenhouse gas emissions and enhancing climate change resilience, as well as avoiding significant unwanted external effects. The Green Bond framework outlines a procedure for reporting: an overview of Green Bond projects, more detailed information about some project examples, and a summary of the Green Bond development will be available through an annual investor letter, to be made publically available at a dedicated website. Also, the principle of free access to public records applies. These enable all stakeholders to have broad insight.

It is a strength of the framework that the issuer has a high focus on impact reporting. Region Skåne will encourage and promote impact reporting and will provide that to the largest extent possible. According to the issuer in all cases where Region Skåne is in a position to do so e.g. wind power and energy efficiency projects in buildings, the issuer will measure and report on climate and environmental impacts. According to the issuer for some projects it is more difficult to calculate achieved emission reductions e.g. procurement of new trains. In these cases more general approaches will be taken when presenting environmental and climate impacts. Internal green bond procedures include management of proceeds that will be part of the annual ISO 14001 certification. The issuer's overall greenhouse gas emissions are reported in the annual report.

The Green Bond framework would benefit from a clearer requirement of impact reporting against standard indicators and external review or verification. The processes for allocation of use of proceeds, tracking and management of funds will be part of Region Skåne's annual ISO 14001 certification.

References

- ICMA (2016). Green Bond Principles. International Capital Markets Association.
- IPCC (2013). Climate Change 2013: The Physical Science Basis, Fifth Assessment Report, Intergovernmental Panel on Climate Change.
- IEA/UNDP (2011). Modernizing Building Energy Codes, International Energy Agency and United Nations Development Programme.

Appendix: About CICERO

CICERO (Center for International Climate and Environmental Research – Oslo) is Norway’s foremost institute for interdisciplinary climate Research. We deliver new insight that help solve the climate challenge and strengthen international climate cooperation.

We help to solve the climate problem and strengthen international climate cooperation by predicting and responding to society’s climate challenges through research and dissemination of a high international standard. Our researchers collaborate with top researchers from around the world, and publish their work in recognized international journals, reports, books and periodicals.

CICERO has garnered particular attention for its research on the effects of manmade emissions on the climate, society’s response to climate change, and the formulation of international agreements. We have played an active role in the IPCC since 1995. In recent years we have also developed considerable expertise in climate financing and is currently a lead provider of Second Opinions on Green Bonds.

CICERO has a national role in promoting knowledge about climate change and is internationally recognised as a driving force for innovative climate communication. We are in constant dialogue about the responses to climate change with public and private decision makers, government administration and civil society.

See: <http://www.cicero.uio.no/en/posts/news/cicero-grades-climate-friendly-bonds-with-shades-of-green>