

ENGAGING WITH INVESTORS ON ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) ISSUES

A WORLD BANK GUIDE FOR SOVEREIGN DEBT MANAGERS



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Engaging with Investors on Environmental, Social, and Governance (ESG) Issues:
A World Bank Guide for Sovereign Debt Managers
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EXECUTIVE SUMMARY

Bond issuers—including sovereigns, who represent 50 percent of the fixed income asset class—are faced with increasing scrutiny on environmental, social, and governance (ESG) issues from investors. Forums organized by the World Bank Treasury to promote dialogue between institutional investors and sovereign bond issuers have highlighted the challenges sovereign issuers face in engaging with investors on ESG topics and in communicating ESG-related information that investors consider financially material to their portfolios. This document provides examples, best practices, and action plans that can help debt managers enhance their capacity to engage with investors incorporating ESG information in investment decisions.



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The World Bank is pleased to issue this guide, *Engaging with Investors on Environmental, Social, and Governance (ESG) Issues*, for sovereign debt managers. There is a wide array of investors who use ESG criteria in their investment process. In early 2020, the World Bank Treasury conducted surveys of institutional investors and public debt management offices (DMOs)¹ to gather information on ESG issues relevant to investments in sovereign bonds, including challenges in data collection and reporting/communication.

While investors have traditionally focused on governance-related risks, results from both surveys show that they are increasingly considering environmental and social risks when making investment decisions. Consultations during dedicated workshops and discussions at events such as the Government Borrowers Forum show similar results.²

Investors have traditionally focused on governance risks, but environmental and social risks are becoming increasingly important in investment decisions.

¹ Typically, public debt management functions are grouped in a DMO, which is responsible for domestic and external funding, investor relations, strategy development and risk management, debt payment and settlement.

² The Government Borrowers Forum is an annual event that has been held for 37 years. It is organized by the World Bank Treasury and hosted by a different country's ministry of finance each year. The forum brings together senior officials from 30 to 40 countries issuing in international capital markets and treasurers of supranational organizations and it provides them with the opportunity to share debt management strategies and experiences.

The ESG issues that investors consider material (i.e., financially relevant) vary, based on investment objective and strategy, ESG approach, fiduciary considerations, etc. But investors in general, whether investing intentionally for impact or not, recognize that they can play an important role in tackling urgent issues and that their investments can contribute to achieving key sustainability goals. Consequently, investors in sovereign bonds are seeking greater understanding, transparency, and dialogue in relation to sustainability targets, performance, use of proceeds, institutional capacity, and similar factors when making investment decisions. DMOs, tasked with ensuring that the government's financing needs are met at the lowest possible combination of cost and risk over the medium to long term, are at the front line with investors and have natural opportunities to lead the investor engagement.

Thematic bonds—those labeled green, social, sustainable, or sustainability-linked—provide an opportunity for DMOs to reach a new investor base.³ Depending on country-specific circumstances and priorities, DMOs can include the option to issue such bonds in their funding and debt management strategies.⁴

Proactive engagement and better communication with investors can lead to competitive advantage, reduce asymmetric information, and thereby potentially lower bond yields by attracting more investor demand. To achieve these results, DMOs should develop a strategy to better communicate to investors the risks and opportunities presented by their national development plans and goals. Given the complexities of these issues and sensitivities around them, DMOs should coordinate closely with relevant line ministries to collate information and convey a consistent message to investors through investor relations offices (IROs) or investor relations functions.

A few countries are already issuing thematic/impact bonds, and/or systematically communicating ESG-related information to investors, and explaining how the sustainable development policies and goals related to those bonds are being integrated within their funding strategies. Most countries, however, are struggling to understand the rationale for ESG integration, the opportunity or value proposition ESG represents, the mutually beneficial nature, and the modalities for engaging with investors on this topic. In this guide, we present a toolkit of key actions that can help DMOs in this regard.

The World Bank plays a leadership role in promoting and financing sustainable development. Its triple-A-rated innovative bond issuance

Investors are seeking greater understanding, transparency, and dialogue in relation to ESG factors.

Enhanced communication with investors can lead to competitive advantage, reduce asymmetric information, and lower bond yield by attracting more investor demand.

Debt managers should coordinate with line ministries to collate ESG information and convey a consistent message to investors.

Thematic bonds—those labeled green, social, sustainable, or sustainability-linked—can reach a new and growing investor base.

³ Green, Social and Sustainability Bonds are any type of bond instrument where the proceeds will be exclusively applied to eligible environmental and/or social projects. Sustainability-Linked Bonds are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ESG objectives. ICMA, "Green, Social and Sustainability Bonds," <https://www.icmagroup.org/green-social-and-sustainability-bonds/>.

⁴ Broadening the investor base and diversifying funding sources is an important function of a sovereign debt manager; see the IMF-World Bank Revised Guidelines for Public Debt Management (IMF and World Bank 2014).

program has catalyzed sustainable capital markets across the world.⁵ It issued the first labeled “green bond” in 2008, followed by more than 150 transactions in over 20 currencies for a total of approximately \$15 billion.⁶

The World Bank Treasury leverages its experience in the capital markets to serve as advisor to governments on developing sustainable financial systems. It provides technical assistance to facilitate the issuance of green, blue, social, and sustainable bonds; helps regulators understand global sustainability issues, risks, and solutions; and engages in dialogue with investors on ESG issues for all investments.⁷

The World Bank Treasury has also been an important hub for the institution’s debt management advisory practice. For over 20 years, Treasury debt management specialists worked with more than 100 countries to improve debt and risk management practices designed to lower the cost of borrowing, improve access to capital markets, and protect their balance sheets from financial and economic shocks.⁸

Given its breadth of experience and engagement with investors, DMOs, and sustainable development-related initiatives, the World Bank Treasury is promoting a common understanding of ESG-related information. This guide is a part of that effort and is designed to help debt managers engage with investors on ESG issues and meet investors’ expectations in relation to ESG information. As such, it complements the recently published World Bank report “Riding the Wave: Navigating the ESG Landscape for Sovereign Debt Managers,” which defines a framework that debt managers can use to design an appropriate strategy for undertaking ESG activities. We are delighted to share it with readers and hope they will find it of practical use, as we continue supporting sovereign issuers and investors in their engagement around ESG issues.

The World Bank plays a leadership role in promoting and financing sustainable development.

This guide is part of the World Bank Treasury’s effort to promote a common understanding of ESG-related information; it aims to help debt management offices communicate with investors on ESG issues.

5 The World Bank issues over \$50 billion in bonds in 25 currencies and hundreds of transactions each year and engages with investors on sustainable development themes.

6 World Bank, “IBRD Funding Program: Green Bonds,” <https://treasury.worldbank.org/en/about/unit/treasury/ibrd/ibrd-green-bonds>.

7 World Bank, “Sustainable Finance Advisory,” <https://treasury.worldbank.org/en/about/unit/treasury/client-services/sustainable-finance-advisory>.

8 As of February 1, 2020, Treasury’s debt management function was consolidated under the World Bank’s Equitable Growth, Finance and Institution Vice Presidency (EFI). Treasury client advisory teams collaborate extensively with EFI to support emerging market ministries of finance.



ABBREVIATIONS

AUM	assets under management
CONPES	National Council for Economic and Social Policy (Colombia)
CRA	credit rating agency
DMO	debt management office
DMU	debt management unit
EFI	Equitable Growth, Finance and Institution Vice Presidency
EMBI	Emerging Market Bond Index
ESG	environmental, social, and governance
GBI-EM	Government Bond Index-Emerging Market
GDP	gross domestic product
ICMA	International Capital Markets Association
IIF	Institute of International Finance
IMF	International Monetary Fund
IRO	investor relations office
JESG	J. P. Morgan ESG
MDB	multilateral development bank
NDP	National Development Plan (Colombia)
SDG	Sustainable Development Goals
SRI	socially responsible investing

All dollar amounts are US dollars unless otherwise indicated.



INTRODUCTION

Credit rating agencies consider environmental, social, and governance (ESG) factors in their ratings, rating outlooks, and assessments, looking specifically at the impact these factors have on a sovereign issuer's perceived capacity and willingness to meet its financial commitments (S&P Global Ratings 2019). This practice has been recently reflected by the sheer number of rating actions driven by COVID-19 (which is considered to increase social risk).⁹ Recent rating actions by Moody's related to the impact of COVID-19 include changes for Mauritius (outlook changed to negative, rating affirmed), Fiji (outlook changed to negative, rating affirmed), and The Bahamas (rating downgraded to Ba2 from Baa3, outlook negative).¹⁰ S&P Global Ratings had 31 ESG-driven sovereign rating actions in April-May 2020 alone. S&P revised Kenya's outlook from "stable" to "negative" citing the impact of the coronavirus epidemic on its 2020 gross domestic products (GDP) growth and the associated negative impact it will have on public finances, while affirming the rating (S&P Global 2020). Extreme weather events—such as more frequent and destructive storms and floods—can also cause severe and protracted economic disruptions and lead to rating actions, as seen in the change in S&P's outlook on Turks and Caicos Islands from positive to stable in June 2018 (S&P Global 2018).

While early interest in ESG issues was focused on stewardship, investors now recognize the role that ESG factors can play in affecting the risk-return characteristics of investments (i.e., ESG integration); indeed, this has been a prime driver of growth in the adoption of more formal ESG approaches and strategies in recent years. Investors are assessing how such factors impact the financial performance of their investments. As of March 2020, more than 3000 institutions representing approximately \$100 trillion of assets under management had signed on to the United Nations Principles for Responsible Investment (UN PRI), affirming their commitment to incorporate ESG issues into investment analysis and decision-making (PRI 2020). As of the start of 2018, an estimated \$30.7 trillion was invested globally in assets designated as sustainable assets (GSIA 2018).

Investors who place sustainability at the center of their investment

Credit rating agencies consider ESG factors in ratings and assessments because these factors impact the sovereign issuer's capacity and willingness to meet its financial commitments.

More than 1,150 institutions representing approximately \$70 trillion have signed on to the United Nations Principles for Responsible Investment (UN PRI), affirming their commitment to incorporate ESG issues into investment analysis and decision-making.

⁹ Note that rating examples provided throughout this document are based on rating actions taken by relevant credit rating agencies, which are available publicly, and do not necessarily reflect the World Bank's opinions or views on the relevant rating recipients.

¹⁰ See Moody's Investor Services (2020a, 2020b, 2020c). The COVID-19 pandemic, the worst pandemic crisis in 100 years, has highlighted how the lack of social protection can weaken the fiscal positions of many countries. The United Nations Development Programme (UNDP) estimates that developing countries will see income losses in excess of \$220 billion. The resulting economic fallout will heighten financial stress in many low- and middle-income countries, according to the World Bank.

approach and invest specifically with the intention of generating positive, measurable social and environmental impact also use ESG information to identify investment opportunities. The Global Impact Investing Network (GIIN) estimates the current size of the impact investing market to be \$715 billion (GIIN 2020). While this represents a relatively small portion of the of assets dedicated to an ESG-integrated approach, it is growing very rapidly and is a major driver of the overall growth within the ESG segment.

Sovereign debt managers may want to take advantage of this shift in the investment landscape toward greater interest in ESG factors and consider how their debt management strategies and borrowing plans can fully capitalize on it. Such an approach will provide an opportunity to make national sustainable development strategies and public funding programs more integrated, coherent, and connected.

Even debt managers who rely only on the mainstream investor base and traditional financing options are increasingly facing questions on issues such as human rights, income inequality, human capital, energy transition and energy security, natural disaster risk, land use, biodiversity conservation, progress on the Sustainable Development Goals (SDGs),¹¹ and climate commitments,¹² and they will have to improve their ability to address these questions.

Over the last few years, the World Bank has convened a series of roundtable discussions to shape the dialogue between investors and issuers, gather insights and knowledge on investor expectations and issuer challenges, and facilitate the development of sustainable capital markets.

On April 10, 2019, the World Bank Treasury convened a roundtable discussion in partnership with the Government Pension Investment Fund of Japan (GPIF) and APG, the Dutch pension fund, to promote dialogue between institutional investors and sovereign bond issuers on ESG risks and opportunities.¹³ Seventeen institutional investors, including asset owners and asset managers from Asia, Europe, and the United States, discussed their interest in broader proactive engagement with sovereign issuers and shared approaches, perspectives, and expectations with peers. Four sovereign issuers presented the ESG attributes of their government bond programs and described national priorities and progress toward global commitments. The discussions highlighted challenges for both issuers and investors. Issuers, especially those in the emerging markets, do not have a clear understanding of the ESG issues that are relevant for investors. Data availability is a

The Global Impact Investing Network estimates the current size of the impact investing market to be \$715 billion.

Sovereign debt managers should take advantage of this greater interest in ESG and consider how their debt management strategies and borrowing plans can fully capitalize on it.

¹¹ The SDGs are a set of 17 goals (and 169 underlying targets) designed to alleviate many pervasive social, economic, and environmental problems by the year 2030 – especially those that pose a threat to the planet and the ability to live peacefully upon it. Progress toward SDG targets is tracked by 232 indicators.

¹² United Nations Climate Change, “Nationally Determined Contributions (NDCs),” <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement/nationally-determined-contributions-ndcs>.

¹³ World Bank, “ESG Sovereign Investor Workshop, April 10, 2019, Washington, DC,” <https://www.worldbank.org/en/events/2019/04/10/esg-sovereign-investor-workshop#1>.

major issue, as is the need to balance the higher costs and benefits of increased communication and reporting. Investors rely extensively on mandatory financial and nonfinancial reporting, external ESG metrics, and specialized third-party assurance, but there is no shared understanding of key ESG issues at the sovereign level that can have material impact on the valuation of fixed income instruments. These gaps can be addressed through the World Bank's extensive experience and convening power.

On October 21, 2019, the World Bank Treasury convened another collaborative and consultative roundtable with key representatives of relevant stakeholder groups, including sovereign issuers, asset owners, rating agencies and ESG data providers, asset managers, and ESG reporting-standard bodies.¹⁴ Discussions centered on the potential role of guidelines to enhance investors' and sovereign issuers' engagement on ESG issues and triggered a process to develop guidelines.

In early 2020, the World Bank Treasury conducted two surveys to assess how sovereign debt investors and debt managers collected, evaluated, and communicated ESG issues.¹⁵ The current document includes an analysis of the survey results to provide a view of practitioners' opinions on these issues. The analysis sheds light on how different types of sovereign debt investors utilize ESG factors in their investment process. It also shows how debt managers are currently engaging with investors and communicating their governments' efforts in these areas, and how engagement can be improved or even expanded. This work reflects the World Bank Treasury's role as a pioneer in the sustainable finance field and specifically its advisory services, which facilitate the greening of financing systems and the development of sustainable capital markets in emerging and frontier markets.

The remainder of the paper discuss the following questions: (i) the meaning of ESG in the context of sovereign debt investing; (ii) the importance of ESG to investors; (iii) ESG considerations for sovereign debt investments; (iv) the importance of communicating ESG-related information for debt managers; and (v) best practices for debt managers in communicating ESG-related information.

This guide presents an analysis of survey results to show how sovereign debt investors utilize ESG factors in their investment process, how debt managers communicate their governments' ESG-related efforts, and how engagement with investors can be improved.

¹⁴ World Bank, "Roundtable: Sovereign Issuer Engagement with Investors on Environment, Social and Governance (ESG) Issues, October 21, 2019, Washington D.C.," <https://www.worldbank.org/en/events/2019/10/21/roundtable-on-sovereign-issuer-engagement-on-esg-issues>.

¹⁵ One of the World Bank surveys was sent to sovereign debt investors and the other to sovereign debt managers. The sample for the survey of investors consisted of respondents from 20 different investment firms representing a total of \$8.45 trillion in assets under management, of which \$2.16 trillion is dedicated purely to an ESG investment approach. This group included seven respondents who represented investors focused solely on using an ESG investment approach. The sample for the survey of sovereign debt managers consisted of respondents representing 33 countries: 12 in Europe, two in Oceania, eight in the Americas, six in Africa, and five in Asia. In terms of level of income, 16 of the respondents were from high-income countries, 15 from middle-income countries, and two from low-income countries. See appendix A for the survey questions.





ABOUT THE WORLD BANK: MISSION & STRATEGY

The **International Bank for Reconstruction and Development (IBRD)** was established in 1944 and is the original member of the World Bank Group. IBRD is an international global development institution owned by 189 member countries. As the largest development bank in the world, it supports the mission of the World Bank Group (WBG)* by providing loans, guarantees, risk management products, and advisory services to middle-income and creditworthy low-income countries. Today, IBRD and the International Development Association (IDA), which was established in 1960 and lends to low-income countries, are known collectively as the World Bank and share the same leadership and staff. Both IBRD and IDA issue bonds in the international capital markets to support the development mission.

At the heart of the World Bank Group's strategy are two goals endorsed by its Board of Governors in 2013:

END EXTREME POVERTY: Reduce to 3 percent the proportion of people living on less than US\$1.90 a day by 2030.

PROMOTE SHARED PROSPERITY: Foster income growth for the bottom 40 percent of the population in every developing country.

To deliver on the twin goals, as well as support the Sustainable Development Goals, the WBG's management and shareholders have agreed on three main priorities for our work with developing countries, including those affected by fragility, conflict, and violence: to accelerate sustainable and inclusive growth; to invest in human capital; and to strengthen resilience.

This overarching strategic framework rests on four pillars: (1) serving all clients in low- and middle-income countries; (2) creating markets, mobilizing finance for development, and expanding the use of private sector solutions; (3) leading on global issues; and (4) improving the ways we do business to be agile, efficient, and closer to clients. The WBG is committed to bringing together the international community in the urgent task of achieving the goals by 2030. They can be reached only through the collaboration of all partners, including countries, other institutions, civil society, and the private sector.

*The World Bank Group consists of five organizations: the International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, Multilateral Investment Guarantee Agency, and International Centre for Settlement of Investment Disputes.

ABOUT THE WORLD BANK TREASURY

The World Bank Treasury ensures the long-term financial sustainability of the World Bank (IBRD and IDA).

The World Bank Treasury manages the Bank's finances to enable all operations and lending

- By proactive balance sheet management to safeguard our triple-A ratings and our strong financial position,
- Through strategic funding to cost-effectively raise funds from the global capital markets and provide financing to our borrowing clients, and
- By managing and administering assigned internal and external portfolios effectively and delivering targeted excess returns within approved risk limits.

The Treasury acts as a trusted advisor to our member countries to maximize finance for development and support financial stability and resilience

- By applying international best practices to managing our clients' assets and reserves,
- By developing innovative sustainable financing solutions to channel funding to climate, pandemic, refugee crisis, and infrastructure development, among other priorities,
- By leading and shaping the debate on sustainable finance, and
- By offering mechanisms to reduce risks and promote private sector investment.

1.

WHAT DOES ESG
MEAN IN THE
CONTEXT OF
SOVEREIGN DEBT
INVESTING?



ESG has become an umbrella term to describe investment strategies, instruments, or activities that incorporate environmental, social, and governance issues from a variety of perspectives. This variety of perspectives makes ESG difficult to summarize in a single definition. For investment practitioners and market participants, the term aims to articulate the role of relevant environmental, social, or governance objectives in their investment decisions and in the context of their investment beliefs and objectives.

ESG has become an umbrella term and is not easy to summarize in a single definition.

ESG was traditionally related to value-based exclusions. Hence, until recently, some investors tended to regard ESG investing as interchangeable with socially responsible investing (SRI), the latter referring to investment approaches that take into consideration the investor's conviction (or mandate) on certain social values or beliefs and that usually exclude certain investments. In this context (and logically), ESG was usually deemed restrictive by the broader investment community, and therefore frequently viewed with a certain degree of caution.

The growing awareness of global environmental and social issues, spurred to significant extent by the process leading to the adoption of the Paris Agreement on climate change and the Global Development Agenda 2030, has brought about a more holistic understanding of the relevance of ESG issues beyond SRI, and has created opportunities for better-informed understanding of long-term investment risks.

Greater awareness of global environmental and social issues has brought about a more holistic understanding of the relevance of ESG issues beyond socially responsible investing.

Investors can have different motivations for considering ESG issues in the development of their investment objectives and strategies. The past few decades have seen a dramatic expansion of ESG-related (sometimes called thematic or impact) investment instruments,¹⁶ along with markets to accommodate such a variety of ESG approaches. In this context, integrating material ESG issues to enhance understanding of the risk-adjusted return underlying a portfolio or asset has become virtually mainstream in the last few years. Nowadays it is not surprising to see investors combine these different approaches to fulfill investment and institutional objectives.

Table 1 outlines the main generic ESG approaches used by institutional investors driven by values or risk-return objectives.¹⁷

¹⁶ The following definitions will be used throughout the paper unless otherwise specified: Thematic instruments/bonds/securities are instruments that contribute toward broad ESG-related goals and objectives and are labeled as such. Thematic bonds may include instruments in which the proceeds are earmarked for specific purposes (e.g., green, social, or sustainable bonds), as well as those for which the financial and/or structural characteristics vary depending on whether the issuer achieves predefined sustainability or ESG objectives (sustainability-linked bonds). These bonds follow internationally accepted standards and principles, including use of proceeds, selection of projects, monitoring and reporting, sustainability performance targets, and key performance indicators. Non-labeled instruments may or may not specifically earmark proceeds for ESG purposes, or follow generally accepted standards. A number of bonds issued during the COVID-19 pandemic fall under this category.

¹⁷ For a more detailed and complete overview of these approaches, see CFA Institute, "ESG Investing and Analysis: What Is ESG Investing?" <https://www.cfainstitute.org/en/research/esg-investing>.

Table 1.

ESG approaches used by institutional investors

Investor approach	Objective	Implication
Negative screening	Comply with national legislation or international sanctions recognized by investor's government	Exclusion lists (typically at the asset or sector level)
Positive screening (best in class)	Tilt portfolio toward a set of desirable asset characteristics	Enhanced portfolio exposure to desired ESG characteristics
Sustainable thematic investing	Construct theme-based portfolio focused on sectors deemed to offer superior long-term growth while contributing to sustainable development	Greater exposure to identified sectors deemed more attractive and with sustainability relevance due to their long-term perspective
Impact investing	Invest with the intention of generating social and/or environmental impact alongside financial return	Impact through portfolio construction and management, with measurement, reporting, and verification as key activities
ESG integration	Systematically and explicitly consider material ESG issues in the investment analysis process; remain neutral concerning ESG impact objectives	Risk-adjusted return of assets, with portfolios incorporating relevant ESG risks and opportunities
Responsible ownership	In the context of sovereign bond investments, engage with issuers as part of stewardship policies	More open investor communication with portfolio companies or issuers, as applicable, around ESG/sustainable objectives

Source: The World Bank Treasury.

Investors undertaking impact investing, ESG integration, and responsible ownership approaches are becoming increasingly proactive in seeking to understand the implications of their ESG strategies—within their portfolios, the real economy, the wider society and environmental ecosystems. Institutional investors committed to responsible investments are asking a number of key questions:

- How should sustainability be understood in the context of ESG investments?
- Are ESG integration efforts effectively pricing in long-term ESG-related risks as part of present investment decisions?
- In present value terms, how should the potentially disruptive systemic risks of not achieving climate goals and the SDGs be understood at the portfolio level?
- How can economic and financial objectives be reconciled with sustainability on a consistent and systematic basis across investments and asset classes?
- What are the direct and indirect relationships between long-term performance of sovereign bonds and the issuer's sustainable development agenda?

Investors are becoming increasingly proactive in seeking to understand the implications of their ESG strategies—within their portfolios, the real economy, and the wider society and environmental ecosystems.



2.

WHY IS ESG
IMPORTANT TO
INVESTORS OF
SOVEREIGN DEBT?



There is broad convergence around the general meaning of “sustainability”¹⁸ and “sustainable”: these terms refer to the idea that future generations will be able to enjoy the same resources and natural wealth as the present one, in a more equal, inclusive, and enduring fashion. The application of this concept to specific day-to-day investment decisions remains somewhat elusive, however. It is generally agreed that “sustainability” and “sustainable” can be defined only in a country-specific context.

The SDGs provide a useful framework for understanding the different dimensions within which efforts to achieve sustainability should take place. However, the respective national sustainable development plans will determine the priorities for and approach to working toward these goals. A focus on policy documents like the SDGs is important for institutional investors seeking to understand how ESG considerations can enhance their risk assessment and support their ESG engagement strategies as they invest in sovereign debt. Familiarity with environmental and social issues at the local level combined with insights into public governance may help investors understand the prospects for implementing such plans.

Investments in sovereign debt traditionally entail assessing the macroeconomic outlook of the sovereign issuer in order to understand potential future credit spread behavior, credit quality, foreign exchange rates, and other sovereign bond risk factors. Environmental and social sustainability are crucial for enabling long-term economic growth and macro stability. Public governance, on the other hand, functions as a key driver of a sovereign issuer’s progress toward such a long-term sustainable development path.

In assessing the risk profile of a sovereign bond, investors have long included the effect of geopolitical issues, internal politics, demographics, and social dynamics within a country, among other issues. For instance, assessment of governance standards is typically incorporated in analysis of the credit quality of a sovereign investor. The advent of ESG provides a more structured, organized, and in-depth framework to integrate such considerations—along with other relevant issues traditionally relegated to the sidelines—in mainstream sovereign credit analysis.

Given the growing awareness of the interconnections between sustainable development and environmental and social issues at national and global levels, it becomes very important for all investors in sovereign credit to devote appropriate resources and time to understanding the inter-relationships between ESG factors and investment performance.

“Sustainability” and “sustainable” can be defined only in a country-specific context.

Familiarity with environmental and social issues at the local level combined with insights into public governance may help investors understand the prospects for implementing sustainable development plans.

In assessing the risk profile of a sovereign bond, investors include the effect of geopolitical issues, internal politics, demographics, and social dynamics within a country, among other issues.

¹⁸ The term sustainability as used in this paper refers to ESG sustainability and not to debt or fiscal sustainability, which measures the capacity of an issuer to pay back its debt obligations.

Several investors report using relevant ESG data to determine the relative value in certain sovereign spreads to inform their investment strategies. Other investors report using ESG data to better understand their sovereign risk—for example, by categorizing perceived country risk according to predefined ESG criteria, such as climate-related risks, governance, etc. Although the market is not necessarily pricing in ESG related issues such as (i) climate-related risks and environmental degradation; (ii) social inclusion, societal inequalities, demographic trends, and human rights; and (iii) public governance today, sudden and abrupt corrections are becoming more and more frequent. These issues are typically not used in isolation or to exclude other traditional methods for analyzing sovereign risk, but rather as a complement to or additional input in the investment analysis.

As these approaches are still evolving, it is difficult to speak of standard practice, let alone best practice. Undeniably, however, the depth and breadth of such approaches are growing exponentially; the available financial instruments and data are increasing; and investors' interest in assessing material ESG issues in sovereign credit is becoming irreversibly mainstream. The present document aims to provide a framework for understanding both the investor's and issuer's perspectives.

Given the interconnections between sustainable development and environmental and social issues at national and global levels, it is very important for all investors in sovereign credit to devote appropriate resources and time to understanding the ESG footprint of their investments.



3.

WHAT ESG ISSUES
ARE SOVEREIGN
DEBT INVESTORS
CONSIDERING?



Investors are examining an increasingly wide array of ESG factors, and there is significant variability in what they consider to be material (i.e., financially relevant) and over which investment horizon. Materiality will be determined by a number of factors, such as investment objective and strategy, ESG approach, and fiduciary considerations, among others.

The World Bank Investor Survey elicited different responses to the question “Which ESG and/or SDG issues do you consider to be financially material when assessing investments in a sovereign?” Respondents noted that there were many factors that determined whether a particular issue might generate a financial impact, including these:

- **Specific country situation.** Many countries face ESG risks that exposes unique vulnerabilities. This is especially true for environmental concerns that relate to a country’s geography. For example, a nation vulnerable to drought might be especially vulnerable to exacerbation of that risk due to climate change.
- **Investment period and risk materialization period.** Many investors noted that the time period for the materialization of ESG risks differed depending on the risk. Shorter-term risks were likely to impact investments, while those that were realized over the longer term tended to have limited or indirect impacts, or at least it was difficult to objectively price them in, given existing data and knowledge. For example, rising sea levels might have a detrimental effect on a country over a 20- to 30-year period but would be unlikely to significantly affect the yield on a government bond. Conversely, high hurricane risks would likely result in a negative impact on government borrowing terms.
- **Quality of public governance in the country.** In general, investors reported that ESG data could help them understand a country’s macroeconomic performance. Citing the attention to credit spreads in sovereign issuers from emerging countries, several investors indicated that ESG-related considerations might influence the market view of such spreads. This was especially true of governance issues (e.g., strength of institutions, political stability), since these factors are often understood to have a direct effect on a sovereign’s ability to successfully implement national sustainable development policies, which will ultimately influence market perspective on the country’s macroeconomic performance. Investors also noted that developed markets would typically be expected to have more financial resources to withstand both, environmental shocks (e.g., natural disasters) and social shocks (e.g., pandemics). However, developed markets do not necessarily exhibit long-term resilience across ESG issues, as such issues are highly dynamic and can evolve or be eroded in accordance with short- to medium term sustainable performance. According to

Survey respondents cited several factors as financially material in assessing investment in a sovereign, including the specific country situation, the investment period and risk materialization period, and the quality of public governance.

investors who participated in the survey, developed markets may be affected by income inequality, weaknesses in infrastructure and innovation, and climate change-related risks. These issues explain investors' interest in understanding the long-term prospects for such economies, especially in scenarios where global disruptions may be catalyzed by relevant environmental and social issues.

Though many investors cited the above factors, individual investors approach ESG issues from different perspectives, and what they consider material varies. For example, impact investors may give a different weight to the pace of carbon transition than investors taking an ESG integration approach. Additionally, the overall nature of the investor (e.g., size) and its investment mandate affect which ESG risks are viewed as material. Nevertheless, Investor Survey respondents reported evaluating a number of common risks as part of their ESG assessment; these are shown in table 2.

While investors consider many different ESG issues depending on their mandate, strategy and the sector in question, the Investor Survey identifies a set of ESG risks that most investors consider material.



Table 2.

Examples of ESG risks considered in investment decisions

ESG category	Risk factors
Environmental	<ul style="list-style-type: none"> • Climate mitigation/adaptation strategy <ul style="list-style-type: none"> » Exposure to and preparedness for natural disasters (physical risk) » Climate transition (dependence on fossil fuels) • Energy efficiency and security • Air pollution • Carbon footprint • Water pollution and management • Food security • Protection of natural resources (biodiversity, deforestation) • Waste generation and recycling
Social	<ul style="list-style-type: none"> • Demographics (e.g., working-age population) • Social and income inequality • Human rights • Freedom of speech and opinion • Health care • Education and outcomes (e.g., access to schooling) • Human capital development and the labor market • Gender equality • Discrimination
Governance	<ul style="list-style-type: none"> • Government effectiveness and transparency • Rule of law and corruption • Regulatory quality • Macroeconomic policy stability • Ease of doing business • Trade openness • Enforcement of legal rights • Peace and stability • Judicial independence and effectiveness • Regulatory framework • Contract enforcement process

Source: 2020 World Bank Investor Survey.

4.

WHY IS ENGAGING
ON ESG ISSUES
IMPORTANT FOR
SOVEREIGN DEBT
MANAGERS?



According to the “Revised Guidelines for Public Debt Management” (IMF and World Bank 2014), the objective of public debt management is to ensure that the government’s financing needs are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. The management of risks in a country’s debt portfolio is critical for maintaining macroeconomic stability.

As investors seek to diversify their risks by buying a range of securities and investments, public debt managers also aim to reduce the refinancing risk by diversifying the investor base for government securities. To do that, debt managers offer a menu of securities that could appeal to different types of investors (banks, pension funds, asset managers, etc.). This menu can include bonds with different characteristics (e.g., fixed rate or indexed securities) and different tenors (short, medium, and long term) and sold at different markets (e.g., domestic or international, wholesale or retail). At the same time, debt managers try to consolidate issuances into benchmark securities to foster price discovery and market liquidity. This increases the attractiveness of the securities to investors and reduces the liquidity premium that investors demand. A well-diversified investor base mitigates the risk that demand will be severely affected by the behavior of a particular group of investors.

Engagement, transparency, and openness to dialogue with investors can be powerful tools to attract capital and are critical functions of a public debt management office (DMO). As part of their mandate, debt managers communicate with a wide range of stakeholders—from investors and rating agencies to the general public and legislators—to address questions and concerns related to government debt and promote government bonds to current and potential investors.

In this capacity, public debt managers have to be ready to communicate on ESG issues, and for several reasons: (i) the investment community is increasingly adopting strategies that take ESG into account; (ii) the role of ESG in the credit risk assessment process has become more explicit; and (iii) such communication is an opportunity to differentiate an issuer and attract new investors, potentially reducing the cost of borrowing and refinancing risk. The Institute of International Finance (IIF), which conducts an annual evaluation of DMOs’ investor relations and data transparency practices, now includes a specific question about DMOs’ communication on ESG issues with investors.¹⁹ However, for most sovereign debt managers, this responsibility is still new.

¹⁹ In 2020 the IIF included a question on ESG in the annual questionnaire sent to countries to assess investor relations practices in emerging markets: “Do you provide information about how Environmental, Social, and Governance (ESG) factors attribute to government bond programs, national priorities and progress towards global commitments? (a) Do you engage directly with sovereign issuers on ESG risk and opportunities? (b) Are investors able to find information about progress on climate commitments and Sustainable Development Goals (SDG) on your website?”

Public debt managers aim to reduce refinancing risk by diversifying the investor base for government securities. A well-diversified investor base mitigates the risk that demand will be severely affected by the behavior of a particular group of investors.

Engagement, transparency, and openness to dialogue with investors can be powerful tools to attract capital and are critical functions of a public debt management office.

Public debt managers have to be ready to communicate on ESG issues—because investors are increasingly adopting strategies that take ESG into account, because the role of ESG in credit risk assessment has become more explicit, and because communication allows the issuer to differentiate itself from others.

Communication meets investors' increased need for information

As outlined in section 2, sovereign debt investors are paying more and more attention to ESG factors in making their investment decisions. Results from both the Investor Survey and Debt Manager Survey showed that ESG information is an important factor when considering investing in sovereign bonds, and that interest in ESG information is growing. Over 90 percent of debt managers said that they are being asked questions related to ESG issues by investors (figure 1) and that these inquiries have increased in the past year (figure 2).

Over 90 percent of debt managers said that they are being asked questions related to ESG issues by investors and that these inquiries have increased in the past year.

Figure 1. Share of debt managers asked specifically about ESG-related information by investors

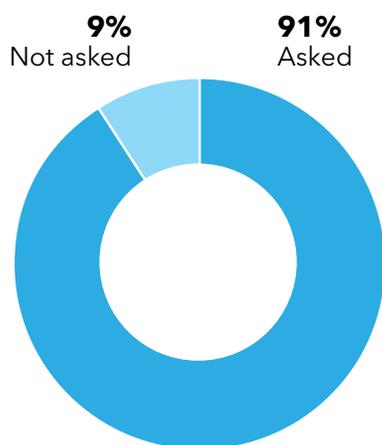
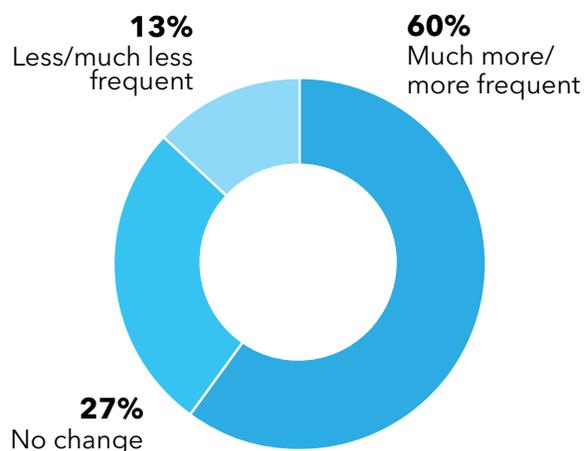


Figure 2. Share of debt managers reporting change in frequency of ESG-related questions over the last 12 months



Source: 2020 World Bank Sovereign Debt Manager Survey.

Debt managers often serve as the main contact point for the investment community. The majority (55 percent) of debt managers said that investors came directly to them with ESG-related questions (figure 3); a smaller share of debt managers (38 percent) had sole responsibility for answering such questions (figure 4).

The majority (55 percent) of debt managers said that investors came directly to them with ESG-related questions.

Figure 3. Share of debt managers directly asked ESG-related questions by investors

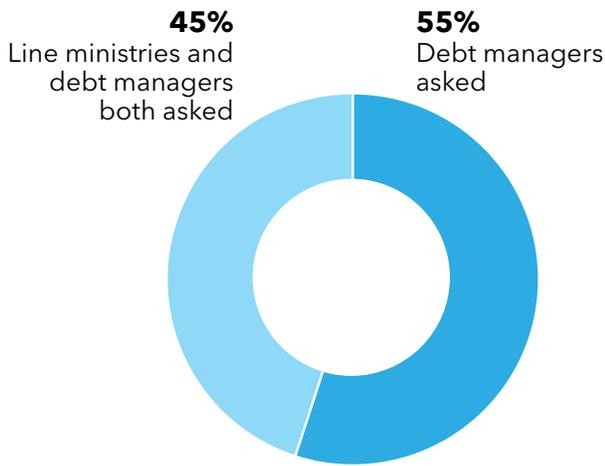
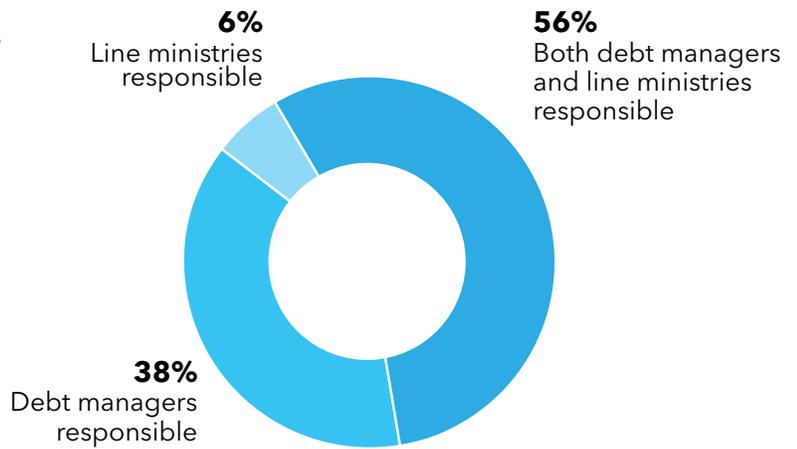


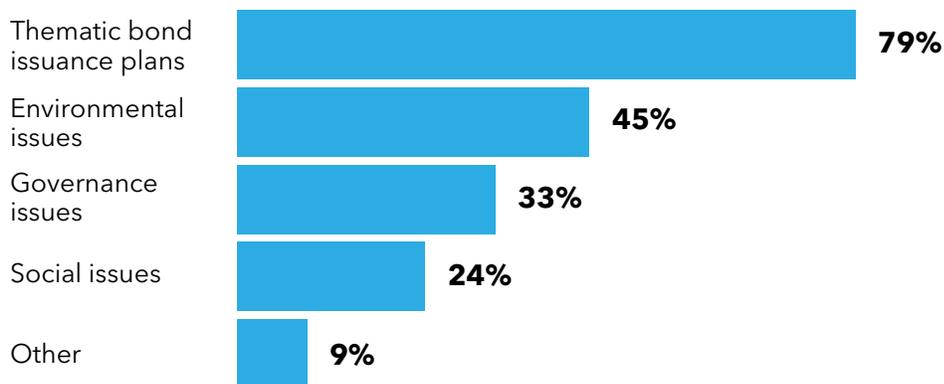
Figure 4. Share of debt managers responsible for responding to ESG-related questions



Source: 2020 World Bank Sovereign Debt Manager Survey.

While many investors are increasingly asking for ESG information from sovereigns, few sovereigns are improving their investor communication to capitalize on this interest—or to enhance the integration between their national sustainable development goals and their funding strategy. Although debt managers reported that they receive more questions on their thematic bond issuance plans than on other topics (figure 5), the majority of them have not made any changes to their issuance plans to communicate on ESG matters with investors (figure 6).

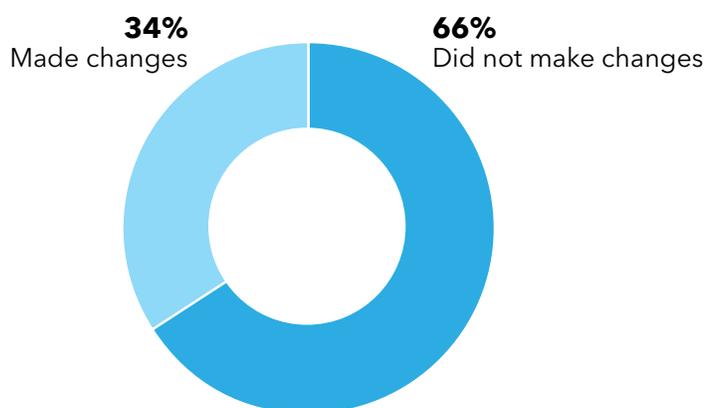
Figure 5. Share of debt managers asked by investors about specific ESG topics, by topic



Source: 2020 World Bank Sovereign Debt Manager Survey.

Figure 6.

Share of sovereign issuers that have made changes to their issuance plan or funding strategy to accommodate impact/ESG investors



Source: 2020 World Bank Sovereign Debt Manager Survey.

Even if debt managers do not make any changes in funding plans, it is becoming increasingly important for them to be able to communicate effectively about ESG issues. The reason is that investors are changing their investment strategies—either because they believe that ESG issues can impact the return on their investments or because they have specific ESG mandates. A joint CFA Institute-Principles for Responsible Investing survey of sovereign debt practitioners found that ESG issues are impacting prices and that this impact is likely to increase. The survey found that in 2017, 35 percent of respondents believed that governance issues impacted sovereign debt yields, compared to 12 percent for environmental issues and 18 percent for social issues. However, when respondents were asked about their predictions for 2022, a larger share of practitioners anticipated these factors to have a pricing impact (44 percent for governance issues, 31 percent for environmental issues, and 32 percent for social issues) (CFA Institute 2019). In particular for international market operations, where there is always a due diligence process, ESG factors are already showing up in the list of questions posed by investors and their legal representatives. If governments are not ready to answer these questions, investors will rely on third-party sources only. Governments will thereby miss an opportunity to give investors relevant context and also risk having existing information misconstrued. In extreme cases, failure to cover these issues could delay international market operations or reduce demand.

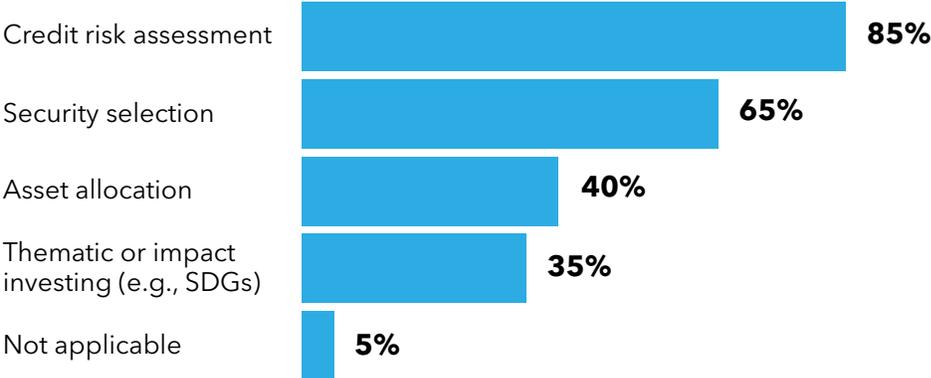
Debt managers need to engage proactively on ESG issues with investors because investors are changing their investment strategies—either because they believe that ESG issues can impact the return on their investments or because they have specific ESG mandates.

ESG information is important in credit risk assessment

Many credit rating agencies (CRAs) and investors are now including ESG factors within their sovereign credit assessment methodology or making them more explicit (box 1). The increased importance of ESG in credit risk assessments is demonstrated by the 150 investors (representing \$30 trillion of assets under management) and 19 CRAs (including Moody's, S&P, and Fitch) that signed onto the PRI Statement on ESG in Credit Risk and Ratings, which commits signatories to incorporating ESG in their credit analyses in a systematic and transparent way.²⁰ There are similar findings from the World Bank Investor Survey, where the vast majority of investors (85 percent) indicated that they used ESG information to assess credit risk (figure 7).

The World Bank Investor Survey shows that 85 percent of investors use ESG information to assess credit risk.

Figure 7. Share of investors using ESG information during investment processes, by type of process



Source: 2020 World Bank Investor Survey.

²⁰ PRI (Principles for Responsible Investment), "Statement on ESG in Credit Risk and Ratings," <https://www.unpri.org/credit-ratings/statement-on-esg-in-credit-risk-and-ratings-available-in-different-languages/77.article#:~:text=We%2C%20the%20undersigned%2C%20recognise%20that,assessing%20the%20creditworthiness%20of%20borrowers.>

A major challenge in integrating these issues into credit assessments is that there is no uniform definition for what constitutes an ESG risk, resulting in a variety of approaches. Although often spoken about together, environmental, social, and governance risks are generally assessed separately.

The following is an example of an approach based on inputs provided by some credit rating agencies participating in the survey:

Environmental issues can be separated into the following categories: (i) the impact of climate change, (ii) water scarcity and usage, (iii) use and export of natural resources, (iv) pollution, and (v) energy and greenhouse gas generation. These issues are incorporated in the credit assessment based on impacts they can have on both a government's revenues (e.g., reduced government revenues due to a fall in oil exports) and its expenses (e.g., destruction of infrastructure due to natural disasters).

- Example 1: In December 2013, severe flooding and heavy rain damaged important infrastructure in St. Vincent and the Grenadines. This caused a strain on the country's finances, resulting in a need for International Monetary Fund (IMF) emergency financing and an increase in debt. Moody's downgraded the country's rating by one notch in November 2014 (iWitnessNews 2014).
- Example 2: Sint Maarten is very vulnerable to hurricanes and related damages. In 2017, Hurricane Irma hit Sint. Maarten and caused significant damage, resulting in economic losses of greater than 100 percent of the country's GDP. In response, Moody's placed the island on review for downgrade, which included an assessment of the event's impact on tourism—the island's primary economic driver (SXM Talks 2017).²¹

Social issues can be separated into the following categories: (i) demographic changes, (ii) human capital and labor, (iii) public safety, (iv) income equality, and (v) human development, health, and education. Many of these issues are interrelated, as are the risks that arise from them. For example, an aging population represents a demographic risk that impacts health (by increasing spending on health services for elderly citizens) as well as labor and income (by reducing the percentage of the population in the labor force).

- Example 1: In its February 2020 Rating Action Commentary for Bulgaria, Fitch wrote that "unfavorable demographics could hinder growth over the long term" and could also hamper "the economy's medium-term growth potential." Fitch noted that Bulgaria's BBB rating was constrained by this assessment and gave demographic trends its second highest ESG relevance score (4), reflecting the importance of this factor to the underlying rating (Fitch Ratings 2020a).
- Example 2: Concerning its 2020 downgrade of South Africa, Fitch noted that "exceptionally high inequality" had the potential to hamper the government's ability to achieve economic growth in the future. Fitch's employment and income equality rating received its second highest ESG relevance score (4). Fitch also noted that the high income inequality could threaten political stability, which is highly relevant to the rating (Fitch Ratings 2020b).

Governance issues can be separated into the following categories: (i) corruption, institutional strength, and rule of law, (ii) political stability and rights, (iii) transparency, and (iv) credibility

²¹ Although these two examples refer to rating actions after the materialization of an environmental risk, ESG risks are also considered ex-ante, as illustrated by the examples on social and governance below.

and effectiveness. These issues are of critical importance in credit risk assessments because, particularly for sovereigns, they have a significant impact on the ability to meet financial commitments.

- Example: Despite changes in Thailand's government due to coups, Moody's ratings of Thailand has remained relatively stable. Moody's cited the transparent and effective policies produced by the country's strong institutions and governance by way of explanation (Bangkok Post 2019). Fitch also gave its highest ESG relevance score (5) to Thailand's political stability and rights. Fitch noted lower social and political tension as a main factor triggering a positive rating action. Conversely, political disruption was noted as a main driver for negative rating action (Thailand Business News 2019).

Governance issues have historically had the greatest impact on—and were already explicitly covered in—credit risk assessments. They pose a particular risk given that political stability and rule of law have a direct impact on creditors' rights. However, risks posed by climate events have increased the importance of environmental issues. This is especially true for countries that are susceptible to natural disasters. Moody's finds that vulnerability to climate change demonstrates strong correlation to a sovereign's rating. This finding is supported by a climate risk study showing that climate-related physical impacts over the next 10 to 30 years are locked in due to the carbon dioxide that has already been emitted (Four Twenty Seven 2019). Social issues are also likely to see increased focus in the future in the wake of the COVID-19 pandemic, which has exposed the economic impact of weaknesses in a country's social structure.



Box 1. Examples of consideration of ESG factors in credit assessments

Moody's sovereign ratings are based on four key country factors: economic strength, institutional strength, government fiscal strength, and susceptibility to event risk. ESG risks are incorporated into each of those factors, both directly and indirectly. Moody's analyzes a variety of ESG indicators to establish a quantitative relationship by assessing the correlation between each indicator and the sovereign's rating as well as the four key factors. Those factors that are highly correlated with ESG indicators are directly included in the final determination of the sovereign rating, while those with weaker correlations are either used indirectly or not utilized.

Fitch produces an ESG relevance score that rates the degree of 15 individual risk elements on a scale of 1 to 5, with 1 being irrelevant from a credit perspective and 5 being a key rating driver. The risk elements are equally split among environmental, social, and governance categories. The score does not evaluate whether a sovereign has positive or negative ESG practices but simply the impact of these practices on its credit rating.

Scores are determined in a two part-process:

- A quantitative assessment using a proprietary regression rating model analyzes quantitative variables to produce a score equivalent to a Long-Term Foreign-Currency Issuer Default Rating.
- The model is then adjusted using a forward-looking qualitative framework (known as the Qualitative Overlay) that captures criteria not fully quantifiable.

In an analysis of the 118 rated sovereigns, governance was the driving category followed by social factors. Environmental factors were found to be partial drivers of credit ratings, but were not the main rating driver for most countries.

S&P's sovereign rating methodology is based on an assessment of five dimensions: (i) institutional, (ii) economic, (iii) external, (iv) fiscal, and (v) monetary.

The assessment of institutional dimensions explicitly considers governance factors such as the track record in managing past political crises, predictability of the overall policy framework, and perceived level of corruption, among others. Other factors considered include the independence of statistical offices, the central bank and its policies, and the media and the rule of law.

Some social factors are also explicitly considered as part of S&P's assessment of institutional capacity. For example, the cohesiveness of civil society is analyzed "as evidenced by social mobility, social inclusion, prevalence of civic organizations, degree of social order, and capacity of political institutions to respond to societal priorities." The assessment likewise considers "significant challenges to the legitimacy of institutions on ethnic, religious, or political grounds." A low score on the Human Development Index, seen as a sign of government underspending on social services and infrastructure for the population, can also affect the fiscal performance and flexibility assessment.

Environmental factors may pose more limited risks to sovereign creditworthiness, but they can still impact the economic assessment for countries where the "economic activity is vulnerable

to constant exposure to natural disasters or adverse weather conditions.” Countries with significant exposure to energy transition (typically, hydrocarbon exporters), or conversely those countries that spend significantly on resilience to natural disasters, have wide degrees of economic, fiscal, and external exposure to environmental factors.

ESG factors can also be reflected through the “supplemental adjustment.” “Event risk,” encompassing situations of escalating domestic conflict or acute institutional instability caused by a rare but severe natural catastrophe, may shave off one notch from the final rating.

Sources: Fitch; Moody's; S&P.



The trend toward ESG investing is especially important with the rise of indexes. In keeping with broader investing trends, indexed ESG investing has grown in popularity and has accelerated over the past years. From 2015 to 2019, annual inflows into open-ended sustainable exchange-traded funds (ETFs) available to U.S. investors have increased every year, with 2019 recording a record of over \$20 billion in inflows. This trend continued in 2020 with a record inflow of \$10.5 billion in the first quarter alone (Morningstar 2019, 2020). Recently a number of ESG versions of traditional emerging market bond indexes have been launched, such as the J.P. Morgan ESG index suite (described in box 2). While the COVID-19 pandemic may affect this trend in the second quarter, it is likely to continue in the long term. Sovereigns can benefit from this overall trend, as illustrated by Uruguay, one of the most heavily weighted countries in the JESG, at 4.8 percent.²²

Box 2. The J.P. Morgan ESG index suite

In early 2018, J.P. Morgan launched ESG-weighted versions of the Emerging Market Bond Index (EMBI) and Government Bond Index–Emerging Market (GBI-EM)—referred to as JESG EMBI and JESG GBI-EM, respectively; the former tracks emerging market debt in hard currency and the latter in local currency. The conventional versions of the indexes are well known to sovereign debt managers for the very extensive assets under management (AUM) tracking them (\$375 billion for the EMBI and \$222 billion for the GBI-EM, as of May 2020). Debt managers know that inclusion in these indexes and changes in weights can significantly impact the demand for their bonds.

According to J.P. Morgan, the ESG suite “is designed to combine key ESG practices (ESG integration, best-in-class, negative and positive screening) into a unified composite index to foster standardization across ESG investing in fixed income.” In two years the new ESG indexes have attracted more than \$15 billion in AUM, and this is expected to grow to \$20 billion by the end of 2020. To date most of the AUM (approximately 85 percent) have been concentrated in the JESG EMBI, which has consistently outperformed the baseline (conventional) EMBI. Although they currently represent a small size relative to conventional indexes, their strong growth in a short period of time well illustrates the growing importance of ESG considerations for sovereign debt managers.

Sources: J.P. Morgan ESG Fixed Income Indices, Index Research, May 2020; J.P. Morgan JESG on Cloud Seven, Global Index Research, May 2020.

22 Data on Uruguay are from J.P. Morgan. More information on Uruguay's ESG practices is in box 4.

Strong messaging is an opportunity for differentiation

The fact that the investor community is increasingly focused on ESG issues presents both risks and opportunities for sovereigns. The Dutch Metal Workers' pension scheme, for example, worked with its asset manager MN in 2019 to develop its own benchmarks focused on its criteria for sustainability and its risk-return profile. As part of the exercise, it removed 40 percent of the countries in its emerging debt index (IPE 2019).

Strong messaging around national initiatives and performance, on the other hand, may provide an opportunity for governments to attract capital by differentiating themselves from others. The Investor Survey results show that ESG factors play an important role for many investors in security selection (65 percent of respondents), asset allocation (40 percent), and thematic investing (35 percent) (figure 7). The importance of ESG factors among investors is reflected in the rapid rise in sustainable investing assets, which have grown 34 percent globally between 2016 to 2018, reaching \$30.7 trillion (GSIA 2018). This increase represents an opportunity for issuers, whose assets could be included in these funds.

The Investor Survey results show that ESG factors play an important role for many investors in security selection (65 percent of respondents), asset allocation (40 percent), and thematic investing (35 percent).



5.

HOW SHOULD DEBT
MANAGERS ENGAGE
WITH INVESTORS
ON ESG FACTORS?



Governments can engage with investors regarding any of the approaches discussed in section 1 (ESG integration, responsible ownership, positive and negative screening, sustainable thematic investing, and impact investing) by demonstrating more specifically and explicitly the connection between their borrowing operations and their national sustainable development policies (see table 3).

Such initiatives may be especially important differentiating factors to attract investors who use screening and sustainable thematic/impact investing methods. This type of appeal can directly help debt managers expand and diversify their investor base, with the potential to lower borrowing costs or financial risks. This section illustrates the ways DMOs can enhance their engagement with investors by issuing thematic bonds and developing communication strategies in line with investor interest. The first subsection, “Issue thematic bonds,” describes the types of bonds available and looks in some detail at the process for issuing them. The next subsection, “Communicate ESG efforts,” describes best practices for communicating on ESG.

DMOs can enhance their engagement with investors by issuing thematic bonds and developing communication strategies in line with investor interest.

Table 3.
Issuer engagement strategies for ESG approaches

Investor approach	Objective	Implication	Issuer engagement strategy
Negative screening	Complying with national legislation or international sanctions recognized by investor’s government	Exclusion lists (typically at the asset or sector level)	Ensure that investors have the right data and information. Develop capacity to disclose and report on internationally agreed commitments and relevant national laws and strategies, targets, track record, and actual performance in meeting targets.
Positive screening (best in class)	Tilt portfolio toward a set of desirable asset characteristics	Enhanced portfolio exposure to desired ESG characteristics	Develop capacity to disclose and report on progress of key sustainability policies that are the basis for “best-in-class” categorization.

Investor approach	Objective	Implication	Issuer engagement strategy
Sustainable thematic investing	Construct theme-based portfolio focused on sectors deemed to offer superior long-term growth while contributing to sustainable development	Greater exposure to identified sectors deemed more attractive and with sustainability relevance due to their long-term perspective	<p>Enhance and expand capacity to report on and explain linkages between funding strategies and sustainable development policy performance.</p> <p>Develop capacity to issue labelled thematic bonds (green, social, sustainable, etc.).</p>
Impact investing	Invest with the intention of generating social and/or environmental impact alongside financial return	Impact through portfolio construction and management, with measurement, reporting, and verification key activities	<p>Build capacity to clearly articulate the use of proceeds for projects or initiatives financed annually, be able and willing to report on key performance indicators for the specific social and environmental impact achieved.</p> <p>Ensure continuous and greater integration between the country's sustainable development policies/ framework and debt management strategies.</p>
ESG integration	Systematically and explicitly consider material ESG issues in the investment analysis process; remain neutral concerning ESG impact objectives	Risk-adjusted return of assets, with portfolios incorporating relevant ESG risks and opportunities	<p>Seek greater visibility and transparency on the issuer's sustainable development metrics and policy framework.</p> <p>Understand leading ESG practices and investor expectations.</p> <p>Be ready to engage on key ESG issues that investors find material and develop a strategy for mitigating perceived ESG risks.</p>

Investor approach	Objective	Implication	Issuer engagement strategy
Responsible ownership	In the context of sovereign bond investments, engage with issuers as part of their stewardship policies	More open investor communication with portfolio companies or issuers, as applicable, around ESG/sustainable objectives	<p>Develop a formal and structured sustainable investor engagement strategy to enhance overall investor outreach efforts.</p> <p>Install capacity within the DMO to engage with investors on the country's sustainable development policies and framework.</p>

Source: 2020 World Bank Investor Survey.



Issue thematic bonds

Thematic bonds (green, blue, social, or sustainability bonds) can serve both sustainable thematic investing and impact investing strategies. Investors using ESG analysis in their investment decisions may also use these bonds as part of their risk management strategy—for example, they could use green bonds for achieving carbon neutral portfolios. In the Debt Manager Survey, 79 percent of respondents reported that most of the questions on ESG-related topics posed by investors were on thematic bond issuance plans (figure 5).

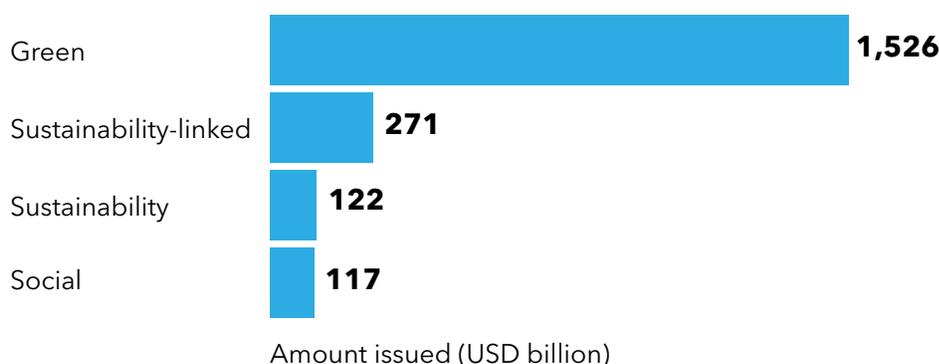
Thematic bonds allow sovereign issuers to communicate their environment- and climate-related commitments or Nationally Determined Contributions as part of the Paris Agreement, as well as their progress toward the SDGs. These bonds can be useful tools for public debt managers as they seek to maximize opportunities to close funding gaps for sustainable development and engage with investors interested in channeling more funds toward sustainable activities. In addition to helping issuers demonstrate their sustainability credentials and diversify their investor base,²³ these bonds promote transparency with regards to use of proceeds.

Within the thematic bond categories, green bonds are by far the most popular, accounting for most issuances by volume since 2007. See figure 8 for total thematic issuances (including sovereigns and non-sovereigns).

In the Debt Manager Survey, 79 percent of respondents reported that most of the questions on ESG-related topics posed by investors were on thematic bond issuance plans.

Figure 8.

Thematic bond issuances, 2007–September 2020



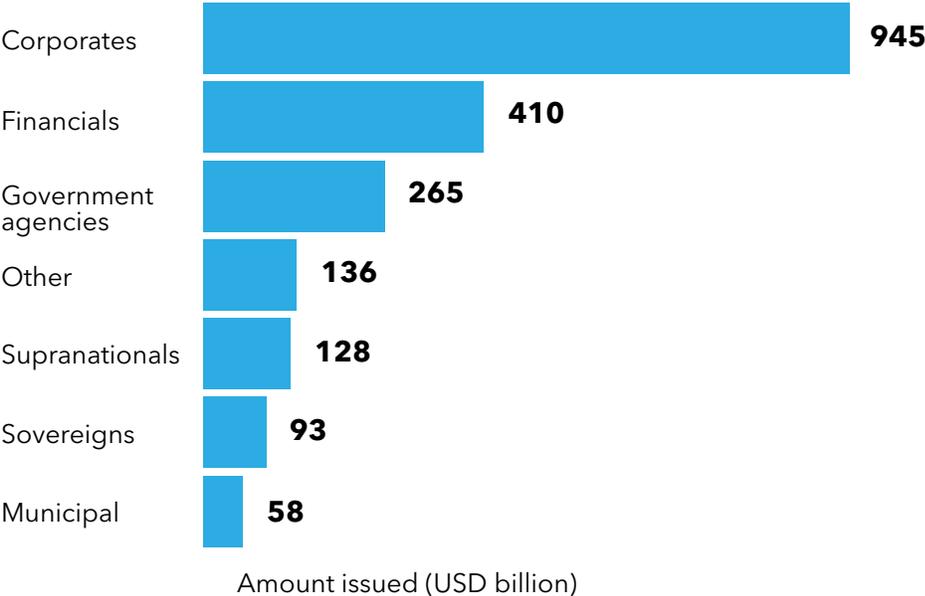
Source: Bloomberg.

²³ Poland achieved significant investor diversification with thematic bonds. Green investors made up 61 percent of the investor pool—a share that surpassed the expectations of Poland’s Ministry of Finance and the lead managers on the deal (White and Case 2017).

However, there has been increasing interest in broader social and sustainability bonds in the past five years. Sustainability bonds have grown from \$2.6 billion in 2014 to \$44.2 billion in 2019, while social bonds increased from \$0.6 billion to \$16.5 billion in the same period. Although they still amount to much less than the \$282.1 billion in green bond issuances in 2019, these other thematic bonds represent an opportunity to leverage capital markets for a wider range of ESG issues.

A range of entities has issued these types of bonds. While the most prolific issuers have been private entities (financial and nonfinancial corporates), public entities such as government agencies and supranationals have been important issuers as well. With growing investor interest, sovereigns have also begun to enter these markets (box 3). As a result, sovereign thematic bond issuances grew from \$0.78 billion in 2016 to 25.8 billion in 2019.²⁴ These issuance types will likely continue to increase, and debt managers should be ready to capitalize on this trend (see figure 9).

Figure 9.
Thematic bond issuances by issuer type, 2007–September 2020



Source: Bloomberg.

24 Data from Bloomberg.

Issuance process

All decisions about issuances of both traditional and thematic bonds should be made in accordance with a broader debt management strategy that takes into account a wide range of cost and risk factors since these bonds contribute to levels of debt in the same way as regular bonds. DMOs need to assess the demand for and benefits of such products as they would with any other debt instrument, ensuring that any new borrowing keeps public debt on a sustainable path, and in accordance with the medium-term debt management strategy.

The issuance process for thematic bonds is similar to that for a traditional bond, with a few additional steps designed to increase investors' confidence in governance and transparency regarding the use of proceeds (see figure 11).

Investors expect thematic bonds to follow well-recognized standards such as the Green Bond Principles, Social Bond Principles, and Sustainable Bond Guidelines developed by the International Capital Markets Association (ICMA). These guidelines, although voluntary, have come to be accepted as best practice. They recommend that issuers specify what expenditure items are eligible and how they are selected, tracked, and reported, so that investors can easily follow what the bond proceeds go towards and evaluate their intended impact from an environmental and social perspective. Thematic bond proceeds fund expenditure items in the government budget that are linked to sustainable investments and projects. For instance, green expenditure items are selected on the basis of the country's environmental and climate policy objectives. Similarly, social expenditure items are selected based on national priorities and sustainable development goals. **The debt office works with relevant ministries and departments to develop a "framework" that discloses all of the above.**

The second step is to get a second opinion, certification or verification from a credible independent entity that will review the framework and assess whether it meets best practices.

The size of the issuance will depend on eligible expenditures in the budget as defined in the framework. **The third step is to analyze the portfolio of green expenditures to determine the size of the bond.**

The fourth step is to allocate the proceeds of the bond based on the eligibility criteria defined in the framework.

The final step is post-issuance reporting. A unique aspect of thematic bonds is the requirement to report on eligible activities that have received funding and the expected environmental or social benefits of those activities. DMO staff are normally not familiar with such technical details. Therefore, they need to coordinate with line agencies and operational units overseeing the projects to obtain the required information. See box 3 for examples of sovereign thematic bond transactions.

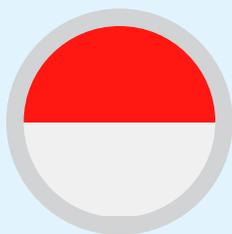
Investors expect thematic bonds to follow well-recognized standards such as the Green Bond Principles, Social Bond Principles, and Sustainable Bond Guidelines developed by the International Capital Markets Association (ICMA).

Figure 10.
Thematic bond issuance process



Source: The World Bank Treasury.

Box 3. Communicating sustainability strategies through thematic bonds: Country examples



Indonesia

The Government of Indonesia issued the first sovereign Green Sukuk^a in the world in March 2018 with a \$1.25 billion offering, followed by a \$750 million Green Sukuk in February 2019, and a Savings Retail Sukuk (the first green retail sukuk in the world) in November 2019. The three instruments are indicative of the Government's serious commitment towards climate action and appealed to traditional emerging market investors, dedicated green funds and the Islamic Finance market. The 2018 offering saw pricing tightening by 30 bps from the initial pricing guidance.^b The second offering also came in 25 to 30 basis points lower than its initial pricing guidance and was oversubscribed 3.8 times.

Indonesia's Green Bond and Green Sukuk Framework^c is aligned with the Green Bond Principles and received a second party opinion from CICERO. The proceeds from the Green Sukuk are financing projects in line with national strategies on mitigation, adaptation and biodiversity. The government introduced a climate budget tagging mechanism to identify government expenditures that deliver specified climate change benefits in accordance with the government's climate objectives.



Egypt

In September 2020, the Government of Egypt successfully issued a five-year \$750 million sovereign green bond, the first of its kind in the Middle East and North Africa. The issuance confirms Egypt's commitment to its environmental and sustainable development goals. Vigeo Eiris assessed its Green Bond Framework^c and eligible project categories and declared it to be in line with the Green Bond Principles (2018) and Egypt's strategic sustainability priorities. The deal offered investors a 5.25% yield, approximately 50 basis points lower than initial price guidance. The subscription reached more than \$3.7 billion and was five times oversubscribed, attracting new investors in Europe (47%), the US (41%), East Asia (6%) and the Middle East (6%).

The proceeds will support the financing of expenditures that contribute to achieving Egypt's environmental objectives. Egypt has a of \$1.9 bn portfolio of eligible green projects, of which approximately 16% is renewable energy, 19%, clean transportation, 26% sustainable water and wastewater management, and 39% pollution prevention and control (as of September 2020).



Mexico

In September 2020, Mexico issued a groundbreaking seven-year SDG bond for a total amount of €750 million (approximately \$890 million). This transaction represents both the world's first sovereign bond to fund social expenditures under the government's SDG Framework and the inaugural of México's sustainable financing program which aims at building a "sustainable yield curve" comprising thematic bonds denominated in foreign currency. The framework is unique in its use of the Social Gap Index to define eligibility and target regions that are lagging behind in SDGs, indicators, and exclusions for screening expenditures. Demand for the bonds reached close to €4.8 billion (6.45 times bid-to-cover) as more than 267 institutional investors from across the world participated in the process. Ultimately 44 percent of the bond was allocated to 78 new investors committed to sustainable development.^d

Sources: Ministry of Finance, Egypt; Ministry of Finance, Indonesia; Ministry of Finance, Mexico.

a. Sukuk are bonds that conform to Islamic Investing Principles. <https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/sukuk/>

b. <http://www.mof.gov.eg/English/Pages/Green-Bond-Documentation.aspx>

c. Dunkley, Emma. Indonesia issues world's first green sukuk bond, Financial Times, Republic of Indonesia, "Green Bond and Green Sukuk Framework," <https://www.djppr.kemenkeu.go.id/uploads/files/dmodata/in/6Publikasi/Offering%20Circular/ROI%20Green%20Bond%20and%20Green%20Sukuk%20Framework.pdf>.

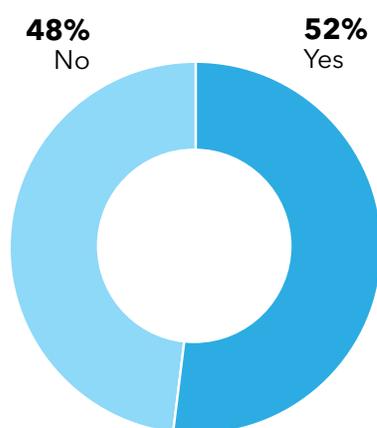
d. Government of Mexico, Ministry of Finance and Public Credit, "SDG Sovereign Bond Framework--United Mexican States Building Prosperity: Financing SDGs for an Inclusive Economy," https://www.finanzaspublicas.hacienda.gob.mx/work/models/Finanzas_Publicas/docs/ori/Espanol/SDG/UMS-SDG_Sustainable_Bond_Framework.pdf.

Communicate ESG efforts

As mentioned earlier, debt managers play an important role in maintaining regular communication and providing transparency on debt management issues to a wide range of stakeholders, including investors, CRAs, and primary dealers. Despite this, many DMOs have not made a distinct effort to incorporate these factors in their communication strategy, as shown in figure 11.

Figure 11.

Share of sovereign issuers that have changed their communication and outreach material to incorporate ESG factors



Source: 2020 World Bank Sovereign Debt Manager Survey.

This situation highlights a disconnect between investors and issuers. Investors increasingly expect ESG information to be integrated into the sovereign's overall communication strategy throughout the investment process. DMOs can meet this expectation in a variety of ways and provide consistent contact in many key areas of the investment process, as described below.

Some DMOs have a dedicated investor relations office (IRO) focused on communication with investors, primary dealers, and rating agencies. An advantage of an IRO is that it works as a focal point and can coordinate and deliver a unified message on all debt-related issues to a variety of stakeholders.

For DMOs that do not have an IRO, these functions are generally divided between different groups within the front, middle, and back offices. In such cases, the front office serves as the point of contact with investors, while the back and middle offices provide the debt information and analysis. There is no single best practice. This type of communication and engagement can be carried out successfully with or without a dedicated IRO, as long as investor relations functions are established and operate in an organized fashion.

Despite investor interest, many DMOs have not made concerted efforts to incorporate ESG information in communication and outreach material

This type of communication and engagement can be carried out successfully with or without a dedicated investor relations office.

Know your investor

Apart from making general ESG information available publicly, the investor relations function needs to understand key investors' interests, concerns, and priorities and must be able to tailor communications to respond to their expectations. It should map out the targeted investor base; analyze their ESG strategies (impact investing or ESG integration), commitments to international frameworks, public statements, reports, and policies; and conduct in-depth interviews to identify the ESG topics investors consider most important and to gain an overall perception of the sovereign and perceived areas of risk. Having this knowledge will enable the debt management office to engage more effectively with investors on ESG as well as demonstrate that the government is thinking about and addressing these issues.

Similarly, the investor relations function should have a good understanding of the methodologies of major ESG data providers or research firms to determine which topics are important to them and why. This information can help ensure that the DMO is prepared to respond to inquiries from investors and ratings agencies; in addition, it can help DMOs communicate investor concerns to relevant government agencies and address sensitivities.

Coordinate with line ministries

Transparent communication with outside stakeholders is very important. It necessitates close coordination among departments within the ministry of finance as well as other line ministries that have vital information on ESG-related initiatives. As many debt managers are aware, investors are approaching both DMOs and line ministries with ESG-related questions (figure 3), and both DMOs and line ministries are needed to respond to those questions (figure 4). DMOs should collaborate with ministry departments in charge of economic planning and the national agenda on climate change and sustainable development in order to take the following actions:

- Identify and understand the ESG topics that are highest priority for the country and those that are most interesting to investors, including vulnerabilities and sensitive topics
- Ensure that sustainable development plans, goals, and activities are collected and relevant issues addressed
- Develop a clearly defined strategy with messaging that is well understood, accepted, and consistently presented by relevant government authorities

DMOs' communications materials should reflect the outcome of these efforts.

For examples of how some countries are communicating ESG information, see box 4.

The investor relations function should take the lead in understanding investors' interests, concerns, and priorities and can tailor communications to respond to investors' expectations.

DMOs should collaborate with line ministries to identify and understand the ESG topics that are important for the country and interesting to investors, including vulnerabilities and sensitive topics, and lead the discussion.

Box 4. Communicating ESG information: Country examples



Colombia

Colombia has made a concerted effort to integrate the SDGs into its national development strategy. As of April 2019, the government had incorporated 92 of the 169 targets in its National Development Plan (NDP), territorial plans, laws, decrees, and the National Council for Economic and Social Policy (CONPES) agenda. The four-year NDP focuses on (i) sustainability of productive activity and mitigation of climate change, (ii) development of financial, economic, and market instruments, (iii) quality of air and water, and (iv) the circular economy.

The SDG High Level Commission is responsible for institutionalizing the implementation of the 2030 Agenda for Sustainable Development in Colombia. The commission comprises the following: Ministry of Finance and Public Credit, Ministry of Environment and Sustainable Development, Ministry of Foreign Affairs, Administrative Department of the Presidency of the Republic, National Statistics Department, Department for Social Prosperity, and National Planning Department. The Presidency and the Technical Secretariat of the SDG Commission are led by the National Planning Department.

The National Planning Department presents SDG initiatives under CONPES 3918 and NDP 2018–2022 on its website (<https://www.ods.gov.co/>). Progress made toward national SDG targets and goals is tracked and displayed by region, gender, and age. This centralized system allows investors as well as the General Directorate of Public Credit and National Treasury (Colombian DMO) to easily access information on the government's ESG initiatives. In the Debt Manager Survey, the Colombian DMO indicated that it regularly addresses investor questions by sharing SDG reports prepared by the National Planning Department and the National Statistics Department.

Formal investor relations functions are well established under the Deputy Directorate of External Funding in the DMO. The DMO conducts regular meetings with domestic and external investors, prepares outreach material, keeps an active mailing list of stakeholders, and is in charge of road shows, among other investor relations activities. The DMO has gradually been incorporating ESG issues in its dialogue with investors.

The Ministry of Finance and Public Credit, the National Planning Department, the Ministry of Environment, and the Financial Superintendency, among others, are jointly developing a national green taxonomy, which will underpin the issuance of public and private sector green bonds and promote green lending. This is Colombia's strategic response to the growing trend in the financial markets of addressing environmental sustainability issues and scaling up environmentally sustainable economic development.



Uruguay

The Debt Management Unit (DMU) in Uruguay's Ministry of Finance is in charge of investor relations activities and has historically included ESG-related information in selected reports. Recognizing the growing importance of ESG factors in credit-risk assessments and fixed-income strategies over the last two years, the DMU has given more prominence to sustainability issues and impact investing in institutional presentations, seminars and engagement with investors. It has also expanded this approach to include other channels of outreach, such as a special quarterly ESG report, establishing itself as a leader in ESG communication with investors. The quarterly report provides detailed information highlighting Uruguay's ESG practices and commitments to SDGs:

- **Environmental information:** Participation in international agreements, environmental policy measures, carbon footprint, recent climate action milestones, sources of electricity generation, environmental policy news, changes in the energy matrix towards renewal resources, and investments in environmental projects.
- **Social information:** Poverty rate, share of middle-class citizens, gender equality indicators, social security coverage, labor market formalization, social unrest, social mobility, GDP per capita, and income distribution.
- **Governance information:** Indicators on political stability, democratic foundations, rule of law, corruption perception, prosperity, press freedom, economic freedom, and fiscal transparency.
- **Aggregated indicators:** J.P. Morgan's ESG EMBI; Goldman Sachs and Verisk Maplecroft ESG scores.

The DMU continues to develop new ways to engage with investors and other investor community stakeholders on ESG issues: it assesses Uruguay's performance on ESG dimensions through exchanges with third-party providers of ESG indicators and scores, seeks to better understand investors' approach to ESG risk and opportunity assessment, monitors growth of ESG-mandated AUM, and explores ways to integrate ESG initiatives into its funding strategy with investment banks and multilateral institutions.

Sources: Colombia Department of Public Credit, Ministry of Finance; Uruguay Debt Management Unit, Ministry of Finance.

Ensure information shared is relevant

While recognizing that the relevance of ESG issues will differ from country to country and investor to investor, DMOs will do well to focus on the risk factors identified by investors in the Investor Survey. At a minimum, DMOs should be able to report their overall sustainable development and climate change-related agendas, the country's compliance with commitments under international environmental agreements, efforts to protect biodiversity and prevention of illegal trade in species, the broader framework for managing environmental and social risks in public investments, and progress in environmental protection, social issues, human rights, and anti-corruption and bribery, among others.

In this context, greater integration between a country's sustainable development policies and its public funding strategies is becoming not merely desirable but indispensable. Besides supporting the effective financing of key sustainability goals, such integration can enhance the communication between issuer and investors, and enable better monitoring and tracking of sustainable finance performance within the national economy.

For ESG information to be useful to investors it must be robust, measurable, and comparable across countries. Metrics should be derived from any consensus that exists in the scientific community or other relevant expert community. The World Bank's Sovereign Environmental, Social and Governance Data Portal, designed to address ESG-focused investors' demand for transparency around sovereign bonds, can provide a useful reference point.²⁵ See appendix B for indicators used in the Sovereign ESG Data Portal in relation to ESG factors identified in the World Bank Investor Survey.

At a minimum, Debt Managers should report the country's overall sustainable development and climate change-related agendas, its commitments under global environmental agreements, its protection of biodiversity and prevention of illegal trade in species, the broader framework for managing environmental and social risks in public investments, and progress in environmental protection, social issues, human rights, and anti-corruption and bribery.

²⁵ Since its launch in 2019, the World Bank's Sovereign ESG Data Portal has averaged over 1,400 unique visitors and close to 400 downloads per month. Many investors are using it as a basis for developing their own ESG rating systems or integrating the information into their overall analytical processes. Information about the portal is at World Bank, "Sovereign Environmental, Social, and Governance Data: Data, Tools, and Guidance (beta)," <http://datatopics.worldbank.org/esg/index.html>.

Communicate progress in SDGs

Investors are becoming increasingly interested in understanding the sovereign issuer's agenda with regards to the SDGs. The SDGs provide a common language for them. For investors, the SDGs are a useful framework to articulate the relationship between investments and goals. For DMOs, SDGs represent an opportunity to provide insight into the country's overall ESG performance. To that end, DMOs should highlight progress on specific metrics related to SDGs (e.g., percentage of electricity produced using renewable sources, which can be linked to the SDG on Affordable and Clean Energy).²⁶ Communicating this information on a regular basis can also allow DMOs to explain any gaps and shortfalls, along with their plans to address them.

Countries are already reporting on their progress toward these goals through the Voluntary National Reviews (VNRs), which are country-level and country-driven progress reports on the SDGs. DMOs should reach out to other areas of the government to leverage the data that is already being reported in this area and present this information in an investor-friendly manner. This step will reduce the amount of effort and work needed from the DMO.

Some DMOs are going a step further by mapping expenditures to SDGs, which allows them to show how much they are investing for each goal. Investors have warmly welcomed Mexico's approach to mapping the federal budget against the SDGs and using geospatial eligibility to direct public financing towards SDG gaps (see box 5).

Debt management offices can map the government's budget expenditures to SDG targets to show how much they are investing for each goal. DMOs can also provide insight into the country's overall ESG performance by highlighting progress on specific metrics related to SDGs.

26 Country SDG rankings and scores can be found at <https://www.sdgindex.org/>.

Box 5. Mexico's budget alignment to SDGs

Mexico is consistently incorporating the intersecting principles and objectives of the 2030 Agenda into its development plans, public policies and federal budgets to implement a comprehensive model of sustainable development. Since 2018, the Federal Government has established a formal link between the current national planning process, the global 2030 Agenda and the SDGs. This provides the government with the necessary inputs for implementing long-term strategic planning towards the 2030 Agenda, as well as for monitoring and reporting its results and impacts. Based on the yearly budgetary approval process, the government can make public policy decisions and subsequently propose to the Chamber of Deputies SDG-aligned budgetary resource allocations. Mexico's annual budgetary approval process takes into consideration:

- National Development Planning System
- Programmatic Structure based in Budgetary programs
- Performance Evaluation System



The National Development Planning System has three main levels: (i) the Planning level, which expresses national aspirations; (ii) the Programs level, which sets forth policies and objectives through which the plans will be accomplished; and (iii) the budgetary level, which sets out specific activities overseen by the Federal Entities, which align with the NDP. Only the projects in the third level are included in the Executive Branch proposal to the Chamber of Deputies to receive budgetary resources. As a whole, the process is based on a democratic system which sets out the relationship between public sector entities and other local authorities, and proposes the mechanisms under which they act by mutual agreement. The mechanisms and programs are organized as follows :

- Special Programs (transversal)
- Sectorial Programs
- Institutional, Regional and Special Programs

In order to systematize public resources, Mexico uses a programmatic structure based in budgetary programs, which allows it to group allocations representatively and homogenously. A budgetary program is a spending category based on groups of goods or services with a common objective. It is a foundational aspect of the Performance Based Budgeting and the Performance Evaluation System.

The detailed methodology used to link the annual budgets with the SDGs is publicly available on the Mexican Federal Government website.

Source: Sovereign Bond Framework, United Mexican States Building Prosperity: Financing SDGs for an inclusive economy

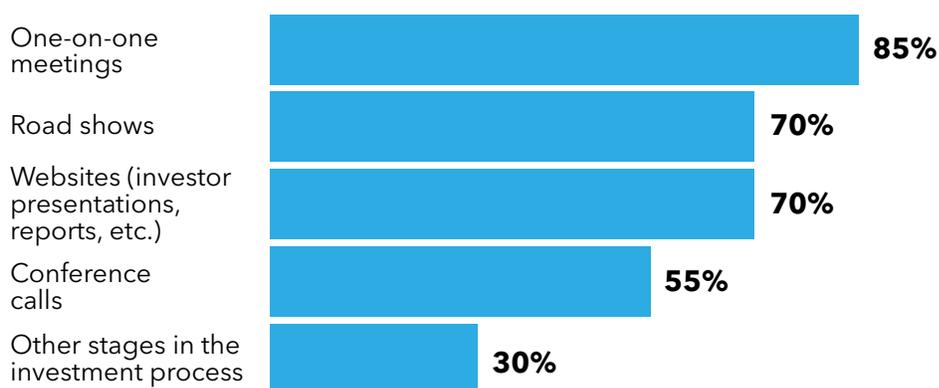


Use multiple channels to communicate with investors

Given the need for information throughout the investment process, debt managers should make it possible for investors to interact with the government across a variety of platforms. The Investor Survey showed that one-on-one meetings are the primary means by which investors and issuers discuss ESG issues (cited by 85 percent of respondents), but many other platforms and events were also very important, such as road shows (cited by 70 percent), websites (70 percent), and conference calls (55 percent) (figure 12).

Figure 12.

Share of investors using specific means to gather ESG-related information from issuers during the investment process



Source: The World Bank Treasury.

Given the pervasive nature of ESG issues, it is increasingly important that debt managers integrate ESG messaging into all aspects of their investor relations communication. Investors are increasingly expecting that DMOs can answer ESG questions in any of their interactions—not just in discussions of thematic bonds or conference calls that specifically address ESG, but in all general communications. To meet this expectation, the DMO will need to develop a strategy to ensure consistent messaging across all channels through which the country interacts with investors; these are discussed in turn below.²⁷ A comprehensive approach to communicating ESG information will demonstrate that the government is taking these issues seriously and has integrated ESG information throughout its development strategy.

²⁷ A key goal of an investor relations office is to ensure that the government sends consistent messages to investors. This consistency is even more critical with ESG-related information, which falls outside the realm of “conventional” messages around debt, fiscal, and monetary policies that DMOs are used to dealing with. Line ministries typically have deeper technical knowledge of the topics than DMOs, but they may not be used to engaging with investors and credit rating agencies. Harmonizing those messages is therefore an especially important role of the investor relations office.

The Investor Survey showed that one-on-one meetings are the primary means by which investors and issuers discuss ESG issues (cited by 85 percent of respondents), but other platforms and events were also very important, such as road shows (cited by 70 percent), websites (70 percent), and conference calls (55 percent).

Investor meetings (one-on-one meetings, road shows, and conference calls)²⁸

Road shows are an effective way for the government to connect directly with its potential investors and generate interest in its issuances. Given that they represent such an important focal point, DMOs should integrate their messaging on ESG into their road shows. ESG information is best communicated visually and orally; presenters should avoid text-heavy slides. It is sound general investor relations practice to ensure investor presentations are standardized, as they are usually the first point of contact for entities that are new to investing in a country's debt. These presentations should highlight the country's debt issues and also incorporate high-level messaging on the country's ESG progress. Presentations should address any perceived ESG risks and seek to generate interest in investing in both traditional and thematic issuances.

Since most road shows devote a significant period of time to questions and answers, debt managers should be prepared to answer questions on all aspects of their country's ESG situation, especially those concerning hot button issues or newsworthy events.

Conference calls are generally used by DMOs to enhance communication with existing investors and reach out to new investors. Debt managers should also use conference calls to inform investors of major or notable ESG achievements and initiatives, and to promote their bonds as strong investment opportunities for impact investors and others.

In addition, debt managers should consider compiling frequently asked questions or conducting surveys to better understand investors' major concerns related to ESG.²⁹ These should be periodically updated to reflect changing investor priorities and the evolving nature of the ESG space.

Road shows are an effective way for the government to connect directly with potential investors and generate interest in its issuances. Debt management offices should also arrange conference calls with new and existing investors, compile frequently asked questions, and conduct surveys.

²⁸ This section was prepared before the COVID-19 pandemic, but that experience highlights the urgency of building institutional capacity to conduct investor meetings in an online or virtual format and through more extensive use of dedicated websites (as explained more fully under "Websites and online portals" below).

²⁹ This suggestion, and most of the other suggestions made here, are already part of sound investor relations practices; the recommendation is to incorporate ESG communication into those.

Engagement with credit rating agencies

DMOs are the main counterpart for CRAs and should engage with them on ESG issues. DMOs generally have the opportunity to engage with CRAs more effectively during ratings assessment visits. DMOs should play a lead role in preparing material for the meetings and make sure the information is consistent with information from other areas of the government, especially line ministries involved in ESG efforts.

In preparation for these meetings, DMOs need to develop a strong understanding of the risk rating methodologies CRAs use for ESG, just as they need to understand investors' ESG approaches. This will allow them to research the corresponding data from the country, determine whether the CRA information aligns with the official data, and understand any differences. It will also help focus their conversations with CRAs on issues that are most critical to the credit rating process; the tendency of DMOs to engage with CRAs on multiple issues limits the effectiveness of their communication. Given that investors pay close attention to CRAs' risk ratings, understanding their risk ratings will also be very helpful in debt managers' engagement with the investor community.

It is also advisable for senior management (minister, head of the DMO) to engage with the credit rating agencies whenever possible to reiterate the country's commitment to ESG initiatives, and more importantly its progress in achieving its own sustainable development goals. DMOs should likewise engage with ESG research firms.

Reports (impact reports and other publications)

Many DMOs produce regular reports, newsletters and investor presentations on the country's debt that illustrate key data, highlight relevant macroeconomic indicators, and present other relevant information. These reports help increase transparency and enable stakeholders to access important information easily. DMOs should similarly produce reports that highlight the effort and related impact of their ESG initiatives. These publications would clearly show the investment community how the sovereign is using the funds it raises on capital markets to further ESG causes and illustrate the statistical results of these efforts.

Using samples and templates available in the market, issuers can start with a basic level of reporting for investors and gradually improve transparency and disclosure, while also working to improve data collection and expertise. For the example of how the World Bank investor relations team communicates impact and results to investors, see box 6.

Debt management offices should also proactively engage with credit rating agencies and ESG research firms on ESG issues.

Reports, newsletters and presentations can be used to highlight the government's efforts and impact of ESG initiatives.

Websites and online portals

Many countries maintain a website that allows investors to understand what the government is doing with respect to ESG issues. Some 70 percent of World Bank Investor Survey respondents said they use websites to help them in the information-gathering process (figure 12). However, many of these websites cover all ministry of finance or DMO activities, so it can be challenging for investors to find the information they are seeking. This is especially true for ESG-related issues, which may be found not only within the ministry of finance or DMO's website, but also across the websites of many different line ministries. Establishing an online portal that investors can subscribe to and receive investor relations information from would make it easier for all investors to access relevant information related to the country's debt. Within this online portal, debt managers should also highlight the government's efforts on ESG issues for ESG and impact-focused investors. A range of information could be featured on this website:

- Key high-level ESG metrics
- ESG reports on overall achievements by the country and updates on specific initiatives
- Updates on relevant national policies that impact ESG
- A communication channel allowing investors to submit questions or comments to the DMO, IRO, or relevant line ministries
- Links to other relevant line ministry pages

Maintaining a website as described above would allow the sovereign to more directly reach its entire investor community; specifically for ESG, it would communicate relevant information so that investors do not have to rely fully on data from outside sources. Debt managers should not miss the opportunity offered by websites to provide the best, most up-to-date information and frame the conversation around their various initiatives. It is important to emphasize that any information provided needs to be updated regularly, as having outdated information could result in adverse outcomes.

Conferences and forums

DMOs should proactively seek opportunities to cover ESG topics in seminars, panels, conferences, and international events such as the World Bank Government Borrowers Forum, Sovereign Debt Management Forum, IMF Public Debt Management Forum, Central Banks Seminar (primary dealers), Euromoney conferences, and international banking conferences. Participating in those forums can help DMOs understand what to communicate on ESG and can give them an opportunity to connect with others in the ESG investment community. Presenting at or attending conferences of this type provides an opportunity to discuss what the government is doing as well as further show commitment to tackling ESG issues.

A well-maintained website allows investors to understand what the government is doing with respect to ESG issues.

Participation in high level seminars, conferences and panels give debt management offices the opportunity to connect with the ESG investment community and convey the government's commitment to relevant areas.

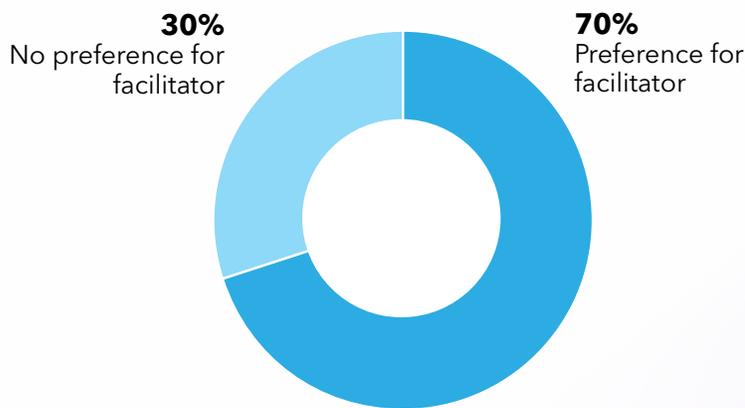
Third-party engagement

Many investors who participated in the survey cited the need for a third party, such as a multilateral development bank (MDB), to serve as an intermediary in communications about ESG issues, given their potentially sensitive nature (figure 13). MDBs can use their convening power to bring together sovereigns and investors for open discussions of issues they are facing, and thus help increase mobilization of funds for issuers' sustainable development objectives.

MDB's like the World Bank can bring together investor and sovereign issuers to address gaps in communication.

Figure 13.

Share of investors preferring a third party to facilitate communication with the sovereign issuer over direct engagement



Source: 2020 World Bank Sovereign Debt Manager Survey.



Box 6. How the World Bank communicates and engages with investors on ESG issues

The World Bank is one of the largest global bond issuers, offering liquid, high-quality investments to connect global savings to sustainable development purposes. While engaging with investors, the World Bank's investor relations team highlights the Bank's financial strength and track record, as well as global issues addressed through its innovative funding program, such as gender equality, access to clean water, protection of oceans, and reduction of food waste. All World Bank bonds are presented as sustainable development bonds that provide investors with an opportunity to do well by doing good.^a

The World Bank's processes are regarded as a model for best practice and were the blueprint for the green bond market and widely recognized Green Bond Principles that are coordinated by the ICMA. Recent transactions have supported the flow of finance into (and raised awareness about) such development challenges as gender, water and oceans, food loss and waste, pandemics, and other themes linked to the Sustainable Development Goals and other development-related initiatives. In 2020, the World Bank engaged with investors on efforts to help member countries prepare emergency responses and address the economic effects of the COVID-19 crisis (World Bank 2020^b).

This type of ongoing dialogue with investors is integral to the World Bank's approach. Communication is primarily through one-on-one meetings and workshops, but it also occurs through periodic road shows, including internet road shows and presentations at conferences. The World Bank has a dedicated email account for investor inquiries that is monitored daily. It responds to these and other inquiries by regularly scheduled calls and by email. The World Bank Treasury website contains comprehensive resources for investors, including bond documentation, issuance framework, impact reports, newsletters, videos, investor presentations, and press releases.^c

The World Bank communicates outcomes and environmental and social impacts across 11 sectors in which it provides financing. Investors in World Bank bonds can get a clear understanding of what the entire balance sheet supports, not just green bonds. All World Bank project documentation includes environmental risk assessments and reporting on social risk and mitigation efforts and is available to the public on the World Bank project portal.^d

The Treasury department frequently invites World Bank technical experts to participate in investor meetings. These experts provide essential details and first-hand experience about how World Bank projects benefit communities and deliver positive social outcomes.

Senior management plays an important role in communicating the World Bank's commitment and strategy to investors. Messages from senior management are included in impact reports to reiterate the approach and priorities as well as to update stakeholders on important developments and new initiatives.

The World Bank is building relationships with internal stakeholders to gather data in a timely and efficient manner and to communicate how the private sector helps support the World Bank's development mission by buying World Bank bonds. Working with internal stakeholders to gather information needed for impact reporting presents an opportunity to build awareness about the importance of presenting ESG credentials to a growing body of engaged investors.

Measuring impact and showing results

Impact reporting for the World Bank began with newsletters and eventually developed into full-fledged impact reports, which are prepared by the World Bank Treasury and draw from internal databases with detailed project information. The sustainable development bond impact report (World Bank 2019) covers all bond issuances. The report, which is modeled on the World Bank Green Bond Impact Report (published since 2015), explains how World Bank bond proceeds are used to support and make progress toward the SDGs. It was put together with input from investors, underwriters, capital market service providers, thought leaders, and World Bank technical and financial experts and management.

The World Bank publishes other sustainability and results reporting beyond the impact reports, including the Sustainability Review (World Bank 2020a) Corporate Scorecards,^e and Annual Report.^f

Reporting continues to evolve and benefit from external feedback. The investor relations team is considering options to automate data collection and analysis, including the use of artificial intelligence, natural language processing, and other data tools. The World Bank is also developing methodologies that map the impact of World Bank projects to the SDGs, which are central to many investors' sustainable investment strategies.

a. World Bank Treasury, "World Bank Bonds," <https://treasury.worldbank.org/en/about/unit/treasury/ibrd#4>.

b. World Bank, "IBRD Funding Program/World Bank Bonds: Sustainable Development," <https://treasury.worldbank.org/en/about/unit/treasury/ibrd/ibrd-sustainable-development-bonds>.

c. World Bank Treasury, "Who We Are," <https://treasury.worldbank.org/en/about/unit/treasury/ibrd>.

d. Information on the World Bank's environmental and social safeguards can be found at World Bank, "Environmental and Social Policies," <https://www.worldbank.org/en/projects-operations/environmental-and-social-policies>.

e. World Bank, "World Bank Group Corporate Scorecards," <https://scorecard.worldbank.org/>.

f. World Bank, "Corporate Responsibility," <https://www.worldbank.org/en/about/what-we-do/crinfo>.

6.

A TOOLKIT FOR SOVEREIGN DEBT MANAGERS

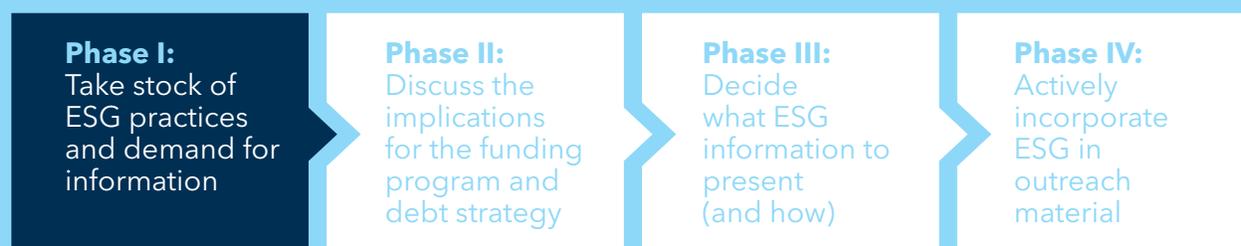




The previous section showed that as more investors grow interested in incorporating ESG factors into mainstream investing, the consequences for sovereign debt managers are profound. Debt managers will need to acquire a deep understanding of ESG factors and their implications, as well as different ESG strategies, in order to adjust debt management strategies, funding plans and investor relations activities. This is not a trivial process but rather one that requires debt managers to leave their comfort zones and engage with line ministries, budget departments, and ESG data and score providers—even when resources are constrained as they typically are in debt management offices.

The toolkit included here lists key actions that sovereign debt managers should take to ensure they meet investor expectations in this changing environment. It summarizes the issues discussed above with the aim of making sure debt managers continue to efficiently fulfill their mandates: funding government needs at the lowest possible cost in the medium to long term and with prudent degrees of risk.

TOOLKIT FOR THE SOVEREIGN DEBT MANAGER



Phase I: Take stock of ESG practices, metrics, implications and demand for information.

- Understand and map the country's progress toward SDG goals.
- Collect questions and demand for information from investors (through surveys, meetings, etc.).
- Collect key ESG concerns from CRA and investors.
- Understand World Bank governance indicators.
- Understand ESG strengths and weaknesses.
- Collect similar data on peer countries (same region / same rating / similar economic structures).
- Engage and coordinate with line ministries in charge of the ESG issues to understand the situation and discuss messaging.
- Engage with budget department and discuss expenditure tracking by SDG goal, ESG topic, or other approach.
- Engage with key providers of ESG data and ESG scores to understand and compare the metrics.
- Engage with regulators to discuss ESG implications.
- Participate in international forums to exchange lessons learned with other DMOs.
- Formally establish investor relations functions with ESG responsibilities.



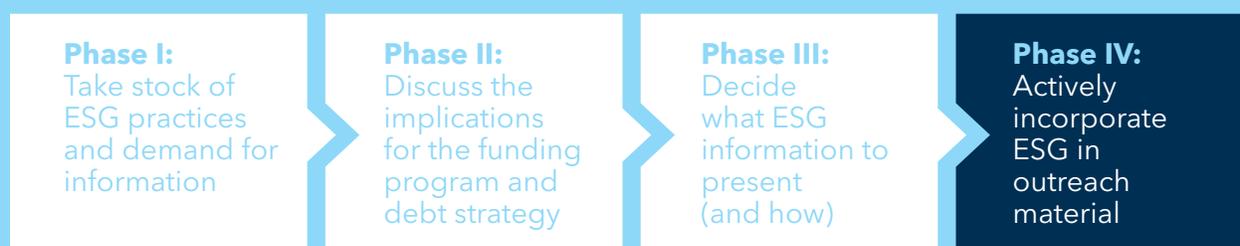
Phase II: Discuss the implications for the funding program and debt strategy.

- Understand the different ESG strategies investors use and analyze demand for existing and new instruments.
- Discuss pros and cons of introducing new financing instruments (green bonds, social bonds, etc.).
- Consider benefits of setting standards for the development of sustainable private capital markets.
- Understand the Green Bond Principles, Social Bond Principles, Sustainable Bond Guidelines.
- Understand the process for issuing a thematic bond (documentation, selection of projects, second-party opinion, reporting, etc.).



Phase III: Decide what ESG information to present.

- Present relevant country specific ESG information.
- Illustrate national policies or programs relevant to ESG themes.
- Show progress on SDGs.
- Map expenditures to SDG goals, ESG factors or specific themes.
- Highlight positive ESG information (strengths); incorporate messaging in overall investor relations material.
- Tackle negative ESG information (weaknesses). Discuss what measures are or will be in place to mitigate them or other considerations that counterbalance the current situation.



Phase IV: Actively incorporate ESG information in outreach material.

- Incorporate ESG information in
 - » Investor presentations and critical outreach materials (website, annual debt report, newsletter, etc.)
 - » Presentations for CRAs
 - » FAQs on the website
 - » Road shows and meetings and conference calls with investors
 - » Due-diligence process and documentation for international market operations
- Overall, develop an investor outreach strategy that incorporates ESG factors.
- Be selective and concentrate on building a strong message; outreach material should not be a collection of data/tables/graphs.

7. CONCLUSION



As ESG issues take an increasingly important role in the investing world, debt managers will benefit from understanding the concerns of investors and other stakeholders so they can effectively address them in their communication strategy. While historically ESG investing was regarded as a niche category, there has been a dramatic shift toward mainstreaming ESG integration and engagement in the last few years. As described in section 1, there are several different approaches to including ESG factors in the investment process, including (i) negative screening, (ii) positive screening, (iii) sustainable thematic investing, (iv) impact investing, (v) ESG integration, and (vi) responsible ownership.

Many investors are utilizing these approaches either in separate funds or in combination within a fund. Irrespective of the approach used, there is broad acceptance that ESG issues can have a material impact on sovereign investments. With investors and CRAs increasingly including more ESG factors in their credit risk assessments and ratings, and with the growth of thematic and impact investing, sovereign debt issuers have the opportunity to capitalize on this growing trend.

Investor interest in thematic bonds has increased significantly in the last 10 years. The demand for social bonds in particular has soared during the COVID-19 pandemic. Thematic bonds can be useful tools for public debt managers to engage with investors interested in channeling funds towards sustainable activities. DMOs should include options to issue thematic bonds in their funding and debt management strategies.

Investors need ESG data to make their investment decisions, and if the sovereign issuer fails to provide relevant information, they will obtain it from other sources, leaving DMOs unable to convey the country's own perspective on its sustainability challenges, opportunities and goals. As an inherent part of the sovereign issuer's government, the DMO should position itself as the most detailed information source on the country's own ESG efforts. The DMO is also in the best position to describe the country's policies and approach to these issues and the existing sustainable development policies. In doing so, DMOs can help investors assess the risks and opportunities presented by investment in their debt. This reduction in information gaps or asymmetry can also potentially result in lower risk premiums and reduce the cost of borrowing for the sovereign issuer.

In the absence of this direct dialogue from government representatives, investors may be unable to properly price in the country's sustainability efforts, potentially resulting in higher expected risk premium on the issuing country's debt. On the other hand, governments that share positive data or trends may see investors express greater confidence in their debt as an investment. To properly satisfy the investment community's need for information, governments must make sure they understand the risks that are most critical to the country, and must track, record and actively communicate the relevant data, as well as any mitigating actions the government is taking.

As more ESG factors are included in credit risk assessments and ratings, countries should capitalize on the opportunity to contextualize their ESG initiatives.

Sovereign debt managers should consider the issuance of thematic bonds to attract the growing investor base interested in not only delivering financial returns, but also producing positive environmental and social impacts.

As the main focal point on government debt, DMOs should take on this role. They would benefit from understanding investor views of ESG issues and from being able to effectively communicate what the country is doing with respect to these issues. DMOs may consider establishing an investor relations function or designating an investor relations officer within the DMO to be responsible for coordinating with line ministries and disseminating ESG-related information. This centralized approach would increase cooperation across government ministries and agencies and reduce the likelihood of subjective assessment by investors, rating agencies or data providers.

There is a need and opportunity for consistent communication with investors through a variety of methods, both traditional (one-on-one meetings, road shows) and new (dedicated online portal). DMOs should therefore be ready to engage with investors on their commitment and performance in SDGs. Third-party sources such as the World Bank's ESG portal can also serve as a data resource for investors and debt managers alike. The ability to track national data in a way that is consistent with SDGs and other commonly used standards allows DMOs to more effectively communicate their country's sustainable development efforts.

Debt management offices need to be sure they understand investors' view of ESG issues and can communicate the government's actions with respect to these issues.



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APPENDIX A.

Surveys

2020 World Bank Investor Survey

1. Do you have a direct channel of communication with sovereign issuers in whose bonds you are invested or are planning to invest? *(Yes/No)*
2. What is the main motivation or purpose of such engagement? Please select and explain the rationale. *(Enhanced long-term risk-adjusted returns/Impact (sustainability, enhanced ESG performance, etc.)/Other)*
3. Do you use ESG information to assess the following in the sovereign fixed income space? Please select as applicable and briefly explain your approach, how it has evolved thus far and whether it differs between developed and emerging markets. *(Credit risk/Asset allocation/Security selection/Thematic or impact investing (e.g., SDGs)/Not applicable)*
4. Select the events at which you discuss ESG-related issues with sovereigns or where you can easily find ESG information during the investment process. Please select all that apply. *(Road shows/One-on-one meetings/Conference calls/Website (investor presentations, reports, etc.)/Other stages in the investment process)*
5. Would you prefer to have a facilitator or some kind of interface to communicate with the sovereign issuer rather than engaging with the issuer directly? Please explain. *(Yes/No)*
6. Which ESG and/or SDG issues do you consider to be financially material when assessing investments in sovereign bonds? Please include all the issues you consider material.
7. In addition to the material issues you mentioned above, is there any other information you consider sovereigns should report related to ESG and/or SDGs?
8. Which data source do you use for sovereign ESG data? *(World Bank/Other)*

2020 World Bank Sovereign Debt Manager Survey

1. Have investors asked you specifically about environmental, social, and governance-related information (ESG) in your country?
 - YES
 - NO
2. If yes, how much more frequently have investors inquired about ESG issues over the last 12 months?
 - MUCH MORE
 - MORE
 - EQUAL
 - LESS
 - MUCH LESS
3. What specific questions are they asking?
 - Environmental issues
 - Social issues
 - Governance issues
 - Thematic bond issuance plans (green/social/sustainable, etc.)
 - Other (Please specify below):
4. Are you able to provide information on ESG-related issues to investors easily?
 - YES
 - NOPlease explain below.
5. What type of information on ESG-related issues are you able to provide normally?
6. Do you have a clear understanding of the purpose of this information?
7. Do you respond to investor questions on ESG-related information directly or do you refer them to line ministries?
 - DIRECTLY
 - LINE MINISTRIES
 - BOTH
8. Do investors ask you ESG-related questions or do they contact line ministries that are in charge of those issues?
 - DIRECTLY
 - LINE MINISTRIES
 - BOTH
9. Have you made changes to your issuance plan or funding strategy to accommodate impact investors or investors who integrate ESG metrics in their research, valuations and investment decision-making?
 - YES
 - NOPlease explain below.
10. Have you made changes to your communication and outreach material (website, road shows, investor presentations, debt reports, etc.) to explicitly incorporate ESG factors?
 - YES
 - NOPlease explain below.

APPENDIX B.

Indicators used in the World Bank sovereign environmental, social and governance data portal

The indicators were selected based on the following and can also be mapped to the SDGs:

- Survey of World Bank data currently used by investors;
- Indicators relevant to the World Bank’s own policy analysis;
- Other key indicators identified by World Bank expert teams; and
- Availability, coverage, and timeliness of data.

Category	Risk factor	Indicator
Environmental	Emissions & pollution	CO ₂ emissions (metric tons per capita)
		Greenhouse gas net emissions/removals by LUCF (metric tons of CO ₂ equivalent)
		Methane emissions (metric tons of CO ₂ equivalent per capita)
		Nitrous oxide emissions (metric tons of CO ₂ equivalent per capita)
		PM2.5 air pollution, mean annual exposure (micrograms per cubic meter)
	Natural capital endowment & management	Adjusted savings: natural resources depletion (% of GNI)
		Adjusted savings: net forest depletion (% of GNI)
		Annual freshwater withdrawals, total (% of internal resources)
		Forest area (% of land area)
		Mammal species, threatened
		Terrestrial and marine protected areas (% of total territorial area)

Category	Risk factor	Indicator
Environmental	Energy use & security	Electricity production from coal sources (% of total)
		Energy imports, net (% of energy use)
		Energy intensity level of primary energy (MJ/US\$ 2011 PPP GDP)
		Energy use (kg of oil equivalent per capita)
		Fossil fuel energy consumption (% of total)
		Renewable electricity output (% of total electricity output)
		Renewable energy consumption (% of total final energy consumption)
	Environment/ climate risk & resilience	Cooling degree days (projected change in number of degrees Celsius)
		Droughts, floods, extreme temperatures (% of population, average 1990-2009)
		Heat index 35 °C (projected change in days)
		Maximum 5-day rainfall, 25-year return level (projected change in mm)
		Mean drought index (projected change, unitless)
		Population density (people per square km of land area)
	Food security	Agricultural land (% of land area)
		Agriculture, value added (% of GDP)
Food production index (2004-2006 = 100)		
Social	Education & skills	Government expenditure on education, total (% of government expenditure)
		Literacy rate, adult total (% of people ages 15 and above)
		School enrollment, primary (% gross)

Category	Risk factor	Indicator
Social	Employment	Children in employment, total (% of children ages 7-14)
		Labor force participation rate, total (% of total population ages 15-64) (modeled ILO estimate)
		Unemployment, total (% of total labor force) (modeled ILO estimate)
	Demography	Fertility rate, total (births per woman)
		Life expectancy at birth, total (years)
		Population ages 65 and above (% of total population)
	Poverty & inequality	Annualized average growth rate in per capita real survey mean consumption or income, total population (%)
		GINI index (World Bank estimate)
		Income share held by lowest 20%
		Poverty headcount ratio at national poverty lines (% of population)
	Health & nutrition	Cause of death, by communicable diseases and maternal, prenatal, and nutrition conditions (% of total)
		Hospital beds (per 1,000 people)
		Mortality rate, under-5 (per 1,000 live births)
		Prevalence of overweight (% of adults)
		Prevalence of undernourishment (% of population)
	Access to services	Access to clean fuels and technologies for cooking (% of population)
		Access to electricity (% of population)
		People using safely managed drinking water services (% of population)
		People using safely managed sanitation services (% of population)

Category	Risk factor	Indicator
Governance	Human rights	Strength of legal rights index (0 = weak to 12 = strong)
		Voice and accountability: Estimate
	Government effectiveness	Government effectiveness: Estimate
		Regulatory quality: Estimate
	Stability & rule of law	Control of corruption: Estimate
		Net migration
		Political stability and absence of violence/ terrorism: Estimate
		Rule of law: Estimate
	Economic environment	Ease of doing business index (1 = most business-friendly regulations)
		GDP growth (annual %)
		Individuals using the internet (% of population)
	Gender	Proportion of seats held by women in national parliaments (%)
		Ratio of female to male labor force participation rate (%) (modeled ILO estimate)
		School enrollment, primary and secondary (gross), gender parity index (GPI)
		Unmet need for contraception (% of married women ages 15-49)
	Innovation	Patent applications, residents
		Research and development expenditure (% of GDP)
		Scientific and technical journal articles

Note: GNI = gross national income; ILO = International Labour Organization; LUCF = land use change and forestry; PPP = purchasing power parity.

APPENDIX C.

Background sources

Credit rating agency reports

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