Sustainable Finance Newsletter Q3 2023

S&P Global Ratings

This report does not constitute a rating action

2023 Second party opinions (no.)

- **60** Green bonds
- **21** Sustainability-linked bonds
- **18** Sustainable bonds
- **6** Social bonds
- **10** Company assessments
- **4** Impact reporting reviews

Source: S&P Global Ratings.

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Key Takeaways

- In July 2023, we merged the historical S&P Global Ratings and Shades of Green Methodologies, and released our combined Use of Proceeds SPO Methodology.
- Currently, we are working on consolidating our Sustainability-Linked SPO Methodology.
- We published 19 SPOs in the third quarter of 2023 and 105 for the year through the end of the third quarter. We have published more than 450 cumulative SPOs since the product's inception.
- We expect the global sustainable debt market will exceed $900 billion in 2023, in line with our original forecast from early 2023.
- We also published several research pieces this quarter, commenting on our sustainable debt outlook, post-COVID workforce dynamics in the U.S., lost water, and the recent UN PRI Conference.

Credit Ratings Newsletter

Recent events continue to show the growing relevance of sustainability in financing markets across the globe. We believe this is likely to affect companies' financials via regulation. As regulations intensify in response to climate and other sustainability goals, we'll continue to see companies adjust their business models to account for more stringent rules around emissions and to take advantage of incentives for clean energy development. In our engagement with SPO clients, we've observed management teams understand the energy transition to be both a risk and an opportunity.

Moreover, where thorough environmental, social, and governance (ESG) disclosure was once chiefly a focus of large, corporate issuers, the growth of private credit markets during the past few years has brought attention to how these issuers communicate on their ability to manage ESG risks, albeit with a different group of financial stakeholders. However, disclosure requirements are currently minimal in this space, though groups like the ESG Integrated Disclosure Project (IDP), of which S&P Global Ratings is a member, are seeking to harmonize reporting frameworks to allow for greater transparency.

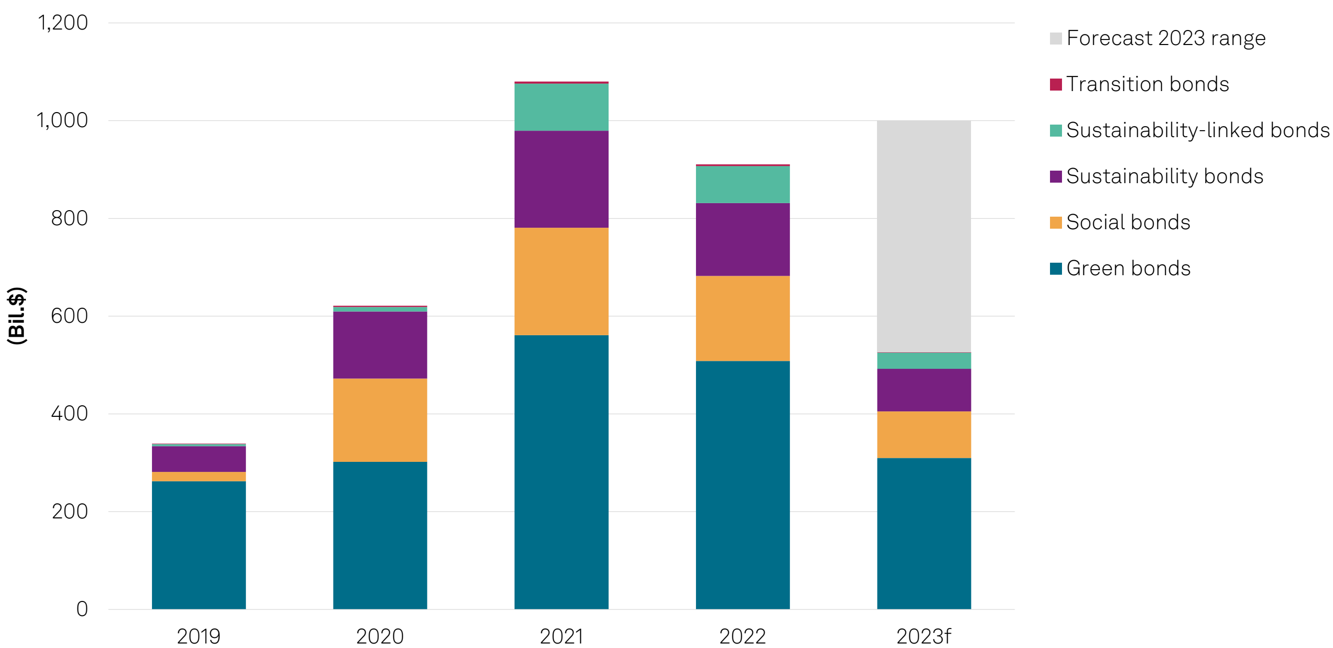
Global Sustainable Bonds 2023 Issuance To Exceed $900 Billion

Given first-half trends, in September 2023 we reiterated our previous forecast for $900 billion to $1 trillion of GSSSB issuance in 2023. This is in line with our forecasts published Feb. 7, 2023, (see ""). Financial markets rebounded somewhat in April through June this year. This enabled many sectors to reduce or reverse first quarter year-on-year issuance shortfalls in the traditional global bond market (see chart 1).

Chart 1

GSSSB issuance totals are forecast to increase by 5%-17% in 2023 versus 2022

Annual GSSSB issuance by instrument type



Note: Excludes structured finance issuance. Data for 2023 combines January-June results with our forecasts for the full year. f--S&P Global Ratings forecast. GSSSB--Green, social, sustainable, and sustainability-linked bonds. Sources: Environmental Finance Bond Database. S&P Global Ratings.

We continue to believe GSSSB issuance will account for 14%-16% of total bond issuance in 2023. We draw on issuance from nonfinancial corporates, financial services, and the U.S. and international public finance sectors. GSSSB data also includes sovereign issuance. GSSSB issuance captured nearly 13% of total global bond issuance from Jan. 1 to June 30. In our view, GSSSB issuance growth will continue to outpace that of traditional bond issuance for the remainder of 2023 and claim its highest-ever percentage of global bond issuance. **Read full report >**

Second Party Opinions (SPOs) In 2023

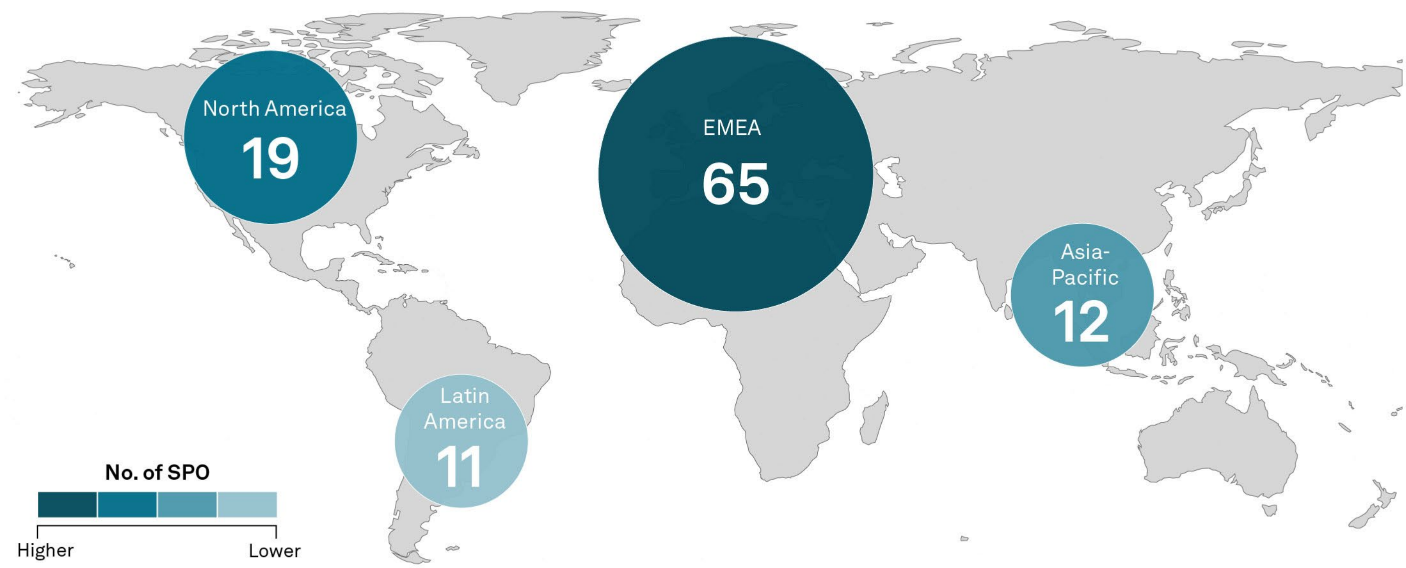
In 2023 through September 30, we have evaluated 107 SPOs, with 60% issued in EMEA (chart 2). More than half of the SPOs covered green bond frameworks, reflecting the global trend of higher green bond issuance (charts 5 and 6). The top 3 sectors for the public SPOs have been industrials, public finance, and financials (charts 3 and 4).

Despite the concentration of labelled green bonds, we are witnessing other trends emerge that may shape the sustainable debt market in years to come. First, at least in Latin America and Europe, we are seeing some renewed interest of the sustainability-linked bond and loan market which, despite some credibility challenges, appears to have become the financing mechanism of choice for hard-to-abate sectors, with transition bonds remaining niche issuances. While our recent update to our SPO methodology only considers Use of Proceeds, we are currently also working on an integrated sustainable-linked bond (SLB) product, while still offering our legacy S&P Global Ratings and Shades of Green SLB SPOs for now. Despite a comparatively weak investment appetite for labelled transition bonds, an increasing number of green and sustainable bond issuers are seeking to demonstrate that their issuances adhere to Climate Transition Finance Handbook (CTFH) guidelines.

Additionally, ICMA recently released Blue Bond guidelines—these marine-related sustainable bonds represent only a small subset of Green Bonds for now, but the guidelines will provide clarity on what would be considered in scope for such issuances, and how impact can be effectively reported for these types of projects. These bonds consider the eligible projects' ability to address climate change mitigation, adaptation, natural resource and biodiversity conservation, and pollution prevention. In addition to determining whether these bonds aligned with the Green Bond Principles, we would describe their blue attributes as well, including whether they help create a Blue Sustainable Economy (BSE).

Chart 2

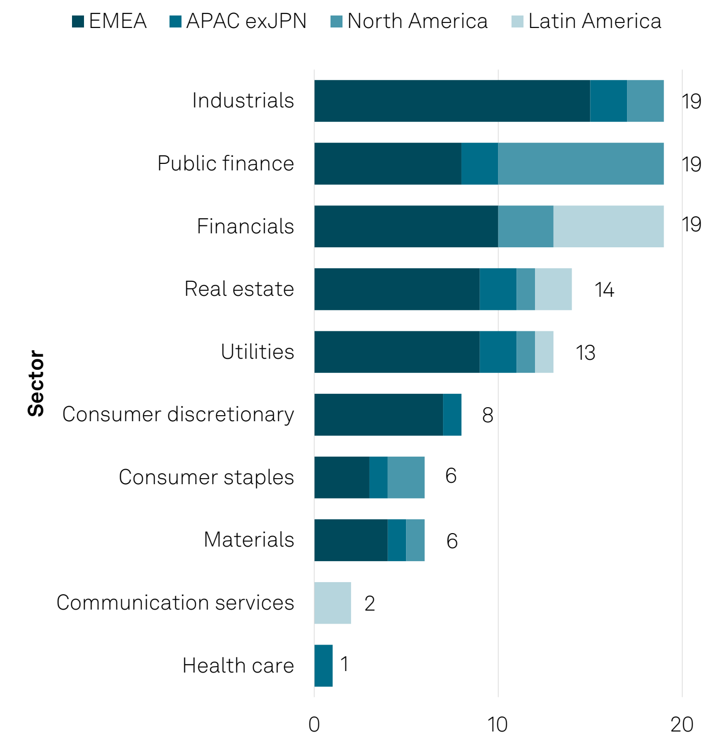
2023 SPOs by region (no)



Source: S&P Global Ratings.

Chart 3

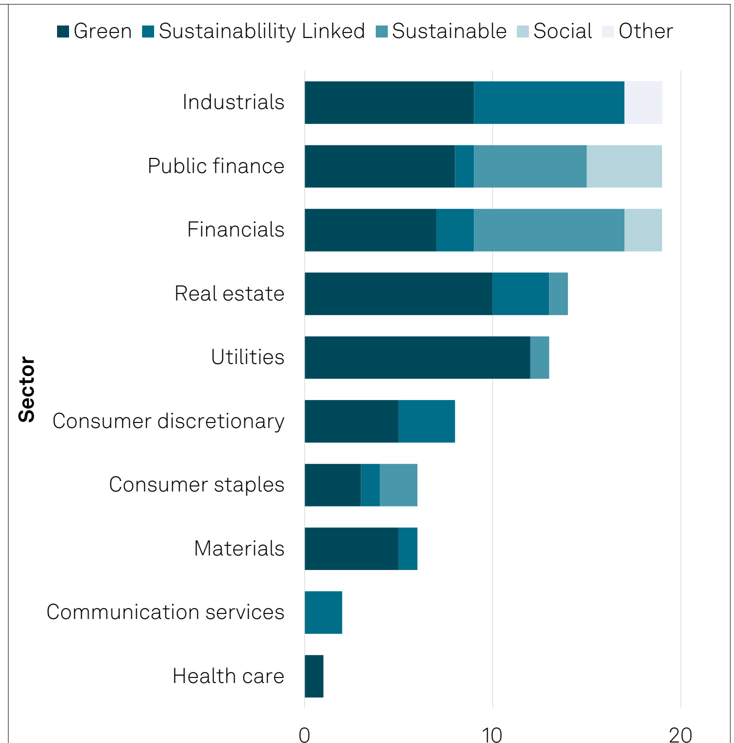
Distribution of all SPOs across sectors and regions (no.)



Source: S&P Global Ratings.

Chart 4

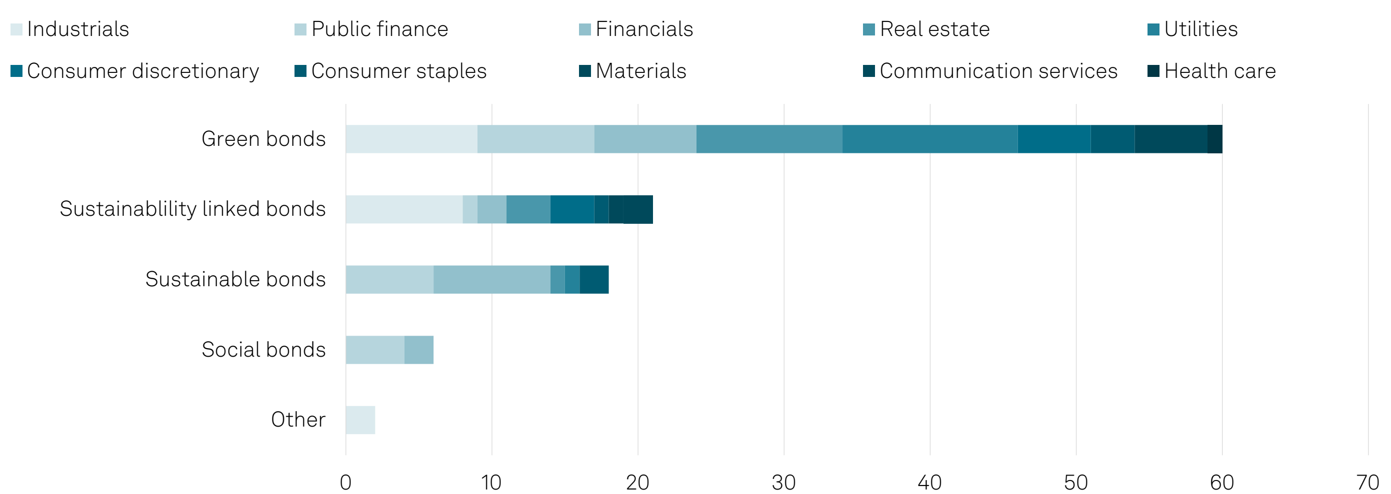
Distribution of all SPOs across sectors and bond types(no.)



Source: S&P Global Ratings.

Chart 5

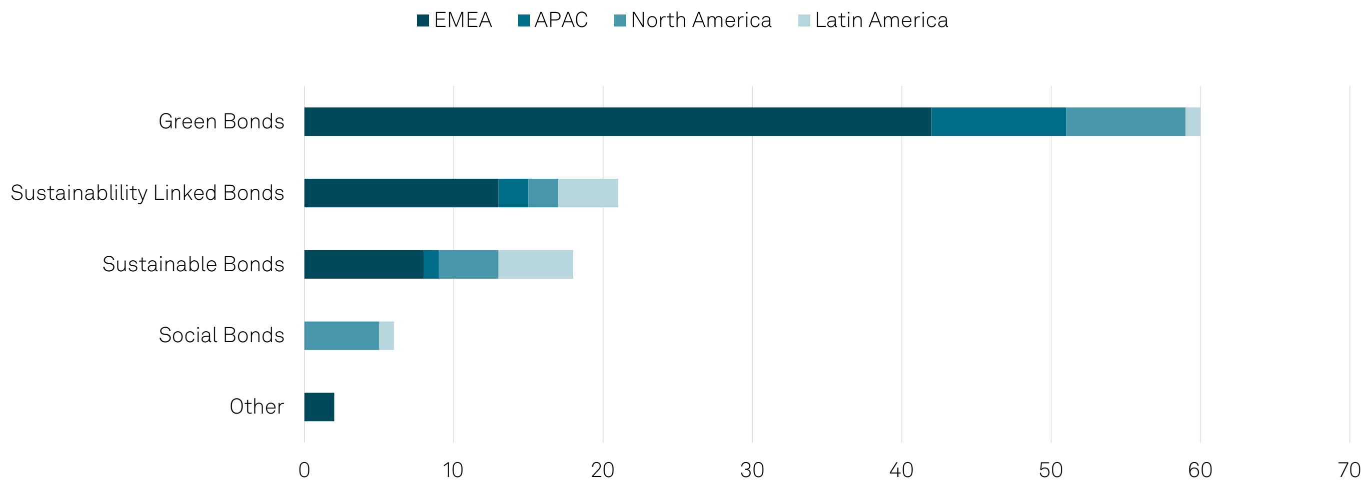
Distribution of SPO bond types (no. of SPOs)



Source: S&P Global Ratings.

Chart 6

Geographic distribution of SPOs (no. of SPOs)



Source: S&P Global Ratings.

How Changing Workforce Dynamics May Affect U.S. Companies

This research examines four key corporate workforce dynamics that emerged or intensified since the onset of the COVID-19 pandemic in the U.S.: voluntary employee exits, skills mismatches, demographic shifts, and working from home. The authors (hereafter, "we") explore how these trends, and depending on their importance (or materiality) to a sector, how they could affect operations, influence decision-making, and potentially impact the future financial performance of companies in the sector. We do so in part based on the experience of our sustainable finance team meeting with management teams in connection with over 200 ESG Evaluations, as well as our ongoing work in credit analysis.

Key Takeaways

- Changing relationships between workers and employers in the U.S. and a sharp increase in voluntary employee turnover have resulted in a tight labor market. In some sectors it has been particularly difficult to attract and retain workers with specialized skills.
- Demographic shifts in the workplace accelerated during the first years of the pandemic, with younger people now making up a far more substantial portion of the U.S. workforce.
- Reimagining the workforce culture and employee experience remains a challenge for management teams in some sectors, mainly due to technological disruption and staff attitudes toward hybrid work.
- Sectoral characteristics influence how and the extent to which workforce issues could affect company operational and financial performance.
- Financial impacts of this workforce transformation have remained muted so far, though leaders in certain sectors are preparing for significant change.

Chart 7

U.S. worker quit rates remain elevated since their 2021 peaks

Source: U.S. Bureau of Labor Statistics; S&P Global Ratings

A sharp increase in voluntary turnover, first arising in the latter half of 2020, has compounded the challenges of a persistently tight labor market. According to a report from the World Economic Forum, employees across sectors left or changed jobs in record numbers during this period. The report also found companies of all sizes have had significant difficulty filling open positions. In the U.S., quit rates, which reflect the number of workers who voluntarily leave their jobs during a month, increased by 31% to 3.0% of total employment in November 2021 (see chart 2). The figure was up from 2.3% immediately before the pandemic in February 2020. Even though quit rates have moderated somewhat in 2023, they remain above their pre-pandemic levels. **Read full report >**

Lost Water: Challenges And Opportunities

Non-revenue water or "lost water" deters investment in water infrastructure, representing a global sustainability challenge.

In this research, S&P Global Ratings looks at water infrastructure challenges through the lens of non-revenue water (NRW), meaning water that a utility sources and treats but for which it receives no financial compensation. We explore how water infrastructure is currently financed; whether there is a significant case for increasing investment in water infrastructure to reduce NRW for stakeholders and rated entities financing water infrastructure; and why underinvestment persists.

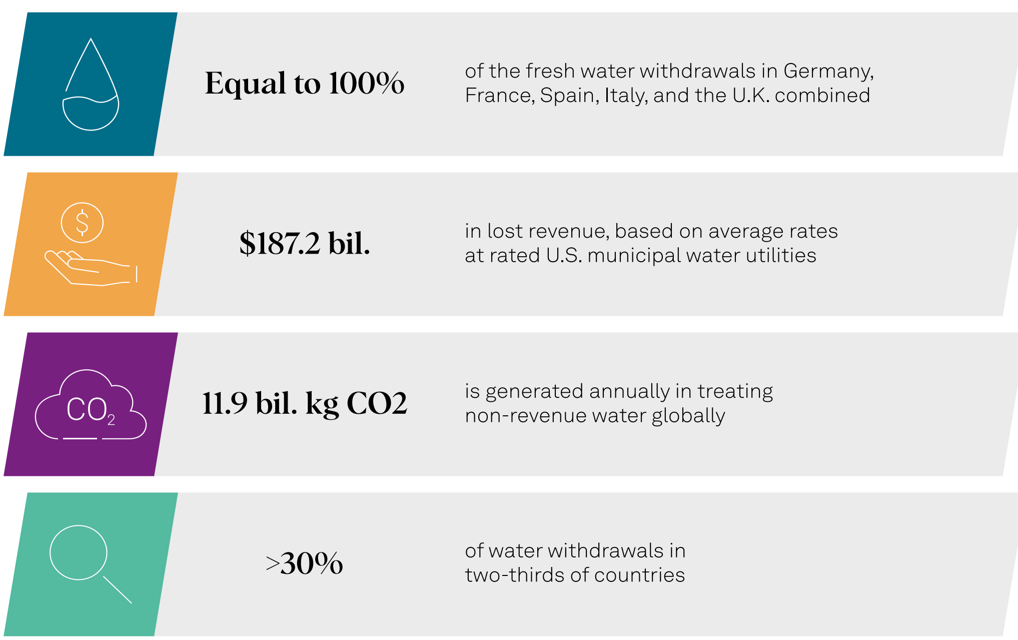
Key Takeaways

- NRW, or lost water, deters investment in water infrastructure assets. Analyzing NRW can provide valuable information about the infrastructure's performance, financial vulnerability, and governance in the sector.
- Reducing NRW can have many benefits, including increasing universal access to safe water, mitigating water stress, reducing the impacts of freshwater withdrawals on ecosystems, and mitigating global greenhouse gas emissions.
- Investment decisions made today could significantly affect future NRW rates, yet in many cases--particularly emerging markets--access to private-sector funding is limited and regulatory incentives are insufficient.
- High NRW rates may pose operating risks for water utilities. In severe cases, this could contribute to downgrades, but these have been rare among the utilities we rate.

Read full report >

Chart 8

About 126 billion cubic meters of water is lost every year



Source: S&P Global Ratings.

Appendix

Table 1

Latest second party opinions (Jul.-Sept. 2023)

All reports are available for download here

Company	Assessment type	Issuer	Month
Banco ABC Brasil S.A.	Sustainable Framework SPO	Financials	Sep. 2023
Banco Internacional del PerÃƒÂº S.A.A. - Interbank	Sustainable Framework SPO	Financials	Sep. 2023
City of New York	Integrated Social Framework SPO	Public Finance	Sep. 2023
Zhangzhou JiuLongjiang Group Company Limited	Green Framework SPO	Health Care	Sep. 2023
Sacyr, S.A.	Sustainability-Linked Framework SPO	Industrials	Sep. 2023
Thames Tideway Tunnel Ltd	SoG Green SPO	Industrials	Sep. 2023
Brisa - Auto-Estradas de Portugal SA	Sustainability-Linked Framework SPO	Industrials	Aug. 2023
Caritas Affordable Housing, Inc.	Social Framework SPO	Public Finance	Aug. 2023
Excelcredit S.A.S	Integrated Social Framework SPO	Financials	Aug. 2023
Akademiska Hus AB	SoG Green SPO	Real Estate	Aug. 2023
Doosan Enerbility Co., Ltd.	Green Framework SPO	Industrials	Aug. 2023
Knorr-Bremse AG	Sustainability-Linked Framework SPO	Industrials	Aug. 2023
Korea Hydro & Nuclear Power Co., Ltd.	Green Framework SPO	Utilities	Aug. 2023
Hero Asia Investment Limited	Green Framework SPO	Utilities	Aug. 2023
Schaeffler AG	Green Framework SPO	Consumer Discretionary	Aug. 2023
California Housing Finance Agency	Sustainable Transaction SPO	Public Finance	Jul. 2023
The NHP Foundation	Social Framework SPO	Public Finance	Jul. 2023
ACWA POWER Company	Green Framework SPO	Utilities	Jul. 2023
Fibra Danhos	Sustainability-Linked Framework SPO	Real Estate	Jul. 2023

N/A--Not applicable. Source: S&P Global Ratings.

Related Research

- Sustainability Insights: Research: Middle East Sustainable Bonds May Expand Further, Nov. 14, 2023
- UN PRI Conference 2023: 5 Takeaways That Matter, Oct. 23, 2023
- Sustainability Insights Research: Lost Water: Challenges And Opportunities, Sep. 6, 2023
- Sustainability Insights: Research: How Changing Workforce Dynamics May Affect U.S. Companies, Aug. 1, 2023
- Use of Proceeds SPO Methodology, Jul. 27, 2023
- Analytical Approach: Shades Of Green Assessments, July 27, 2023
- Analytical Approach: Second Party Opinions: Use Of Proceeds, July 27, 2023
- S&P Global Ratings To Launch Integrated SPOs Soon, July 6, 2023
- S&P Global Highlights Interconnectedness Of Global Sustainability Challenges, June 28, 2023
- Sustainability Insights: Research: Carbon Capture, Removal, And Credits Pose Challenges For Companies, June 8, 2023
- Sustainability Insights: Research: U.S. Broadband Expansion: Bridging Access Gaps, April 6, 2023
- Purchased Energy Emissions In Second Party Opinions And ESG Evaluations, March 23, 2023
- Sustainability Insights: Research: Latin America Sustainable Bond Issuance To Recover In 2023, Feb. 23, 2023
- Sustainability Insights: Research: Asia-Pacific Sustainable Bond Issuance To Increase In 2023, Feb. 14, 2023
- Sustainability Insights: Research: Sustainable Bond Issuance Will Return To Growth In 2023, Feb. 7 2023
- Crunch Time: Can Adaptation Finance Protect Against the Worst Impacts From Physical Climate Risks?, Jan. 13, 2023

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