Emerging Markets Investors Alliance

Actionable Intelligence for Responsible Investing

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Enhanced Labeled Bond Principles

The Emerging Markets Investors Alliance's (EMIA) Enhanced Labeled Bond Principles offer guidance for emerging market labeled bonds to promote the development of a labeled bond market that can make a meaningful contribution toward improved environmental, social, and governance (ESG) outcomes. EMIA plans to periodically revise these principles as the labeled bond market develops.

Principles for Use-of-Proceeds Bonds (Green, Social, and Sustainability)

Regarding Use of Proceeds

1. Use of proceeds on green and social bonds must be solely allocated to the uses specified in the legal documentation provided at issuance.

2. Use of proceeds on sustainability bonds must provide an intended percentage breakdown between green and social uses ex ante, to ensure appropriate thematic labeling.

3. Net proceeds from use-of-proceeds bonds may not be used to refinance the issuer's existing bonds, unless those bonds were also use-of-proceeds bonds and the original projects have retained their economic value. Issuers must disclose the lookback period if refinancing any existing bonds.

Regarding the Process for Project Evaluation and Selection

4. Use-of-proceeds frameworks (e.g., an issuer's green bond framework) must include a well-articulated, inclusive process that details community/grassroot-level involvement. The issuer must also conduct and provide clear and comprehensive analysis of the intended and unintended impacts across E, S, and G dimensions, typically carried out over several months.

5. The project selection committee should have independent oversight, with the majority of the selection committee composed of independent members, i.e., those who are not part of the company's management. In addition, the use of proceeds must be independently audited by an external verifier. For sovereign issuers and agencies, the independent oversight should be provided by a multilateral development bank or other international financial institution, whenever possible.

Regarding Management of Proceeds and Post-Issuance Reporting (Accountability of the External Verifier)

6. Unless otherwise prohibited by law, net proceeds should be kept in a structure that is ring-fenced from the general budget or other funds to avoid commingling and to ensure separation from general operating expenses or other non-impact items. This must be verified by external oversight.

7. Issuers of use-of-proceeds bonds must make annual impact reporting publicly available for all targeted projects. While it is expected that annual impact reporting will be conducted by the same independent external verifier who provides an initial opinion on the issuer's impact framework, unless the original external verifier is an official multilateral organization use-of-proceeds bonds must include a mechanism allowing bondholders to change the external verifier throughout the life of the bond.

8. Recourse on misuse of funds: Should the independent verifier find in their annual review that any funds have been spent on items different from those specified in the legal documentation provided at issuance, they should make this public, and the issuer should be required to immediately replenish these funds in the ring-fenced pool from its general budget.

9. Issuers must report any findings from the external verifier regarding a failure to spend proceeds on specified uses throughout the life of the bond to all ESG data providers and scoring agencies for a reassessment of implications regarding the issuer's general ESG status/ratings (with consequences that could include losing labeled certification, exclusion from ESG benchmark indexes, Bloomberg de-labeling, etc.). Issuers should be required to report the reasons for the change in the use of funds, including those stemming from the issuer's inability to find eligible projects, a general change in strategic goals or financial situation, or any other reason.

Principles for Sustainability-Linked Bonds (SLBs)

10. Additionality - Timeliness and Scope: Predetermined sustainability performance targets (SPTs) must comprise a new or strengthened set of key performance indicator (KPI) targets and a new timeframe. An issuer should not issue a bond with target levels and plans used in previous issuances. The use of more than one KPI is encouraged, with the possibility of intermediate milestones.

11. Materiality - SLB sustainability performance targets must be material to the issuer's central ESG strategy. In the case of corporate bonds, performance targets should be mapped to leading international standards for the sector in which the company/issuer operates. In the case of sovereign bonds, the issuer should explain why the chosen KPIs matter to their socioeconomic and environmental objectives.

12. Reporting - Issuers must report accurately and timely throughout the life of the bond, even after the SPTs observation dates. Where feasible according to the chosen KPIs, sovereigns should strive to perform annual frequency reporting, in line with standards for corporates.

13. Verification - Issuers are required to obtain a pre-issuance SPO, as well as annual post-issuance verification from recognized external verifiers. It is expected that performance reporting against the SPTs will be conducted by the same independent external verifier who provides the initial opinion on the issuer's SLB framework. Unless the original external verifier is an official multilateral organization, SLBs should include a mechanism for bondholders to change the external verifier throughout the life of the bond when its work is deemed unreliable.

14. Financial structure - Variation in the bond's financial terms and/or structural characteristics triggered by overperformance, performance, or underperformance relative to the SPTs should be commensurate and meaningful relative to the financial characteristics of the issuer's non-labeled bond. Trigger events should be set no later than midway between the issuance date and the earlier of the maturity date or call date.

15. Transparency - Issuers must report their ability or inability to achieve the predetermined SPTs before or at the target observation date [the specific date at which the performance of each KPI(s) against each predefined SPT(s) is observed] to ESG data providers and scoring agencies. The disclosures could lead to a reassessment of the positive or negative implications regarding the issuer's general ESG ratings and status.