



GREEN AND SOCIAL BONDS PRINCIPLES

This Framework is a guide on the operational regulatory environment on Green Bonds and Social Bonds

Definitions

Act	The Securities and Exchange Act [Chapter 24:25]
Bond	An instrument of indebtedness issued by an entity to which this framework applies, to secure the repayment of money borrowed by such body.
Commission	The Securities and Exchange Commission of Zimbabwe
Green Bond	A bond issued to finance or re-finance in part or in full new or existing eligible environmental or climate projects. (e.g. renewable energy, energy efficiency, climate change adaptation)
Green Project	Is an environmental friendly undertaking whose objective is to reduce pollution, reduce fossil fuel consumption, or achieve other positive effects on the environment.
Green washing	Means the superficial or insincere display of concern for the environment including – (a) mislabeling of a bond as green; or (b) the overstatement of the environmental benefits of a project that the proceeds of the Green Bond will fund;
Independent Verifier	Means an Investment Advisor independent of an issuer, the issuers directors, senior management and advisers which is; i) compliant with the International Capital Markets Association’s Guidelines for External Reviewers; or ii) accredited under the Climate Bonds Standards and Certification Scheme; or iii) any other professional body acceptable by the ZSE.
Investment Advisor	Means the holder of a securities (investment advisers) licence
Listing Rules	The Securities and Exchange (Zimbabwe Stock Exchange Listing Requirements) Rules, 2019
Prospectus	Means the prospectus issued by a company in accordance with the Companies Act [Chapter 24:03]

Social Bond	A bond which addresses social issues and/or seeks to achieve positive social outcomes for a target population such as the poor, vulnerable, unemployed, uneducated etc.
ZSE	The Zimbabwe Stock Exchange Limited

1. Application of the Rules

- 1.1 These rules shall apply to green and social bonds.
- 1.2 An issuer of green and social bonds shall comply with the requirements in these rules in addition to the relevant provisions of the Act, its Regulations and Listing Rules as amended from time to time.

2. Procedure for Listing

- 2.1 An issuer shall appoint an Independent Verifier to carry out a pre-issuance review and confirm to investors, the Commission, and the ZSE where the issuance is intended to be listed, that the issuance is eligible to be classified as green pursuant to green guidelines and standards applicable.
- 2.2 An issuer shall prepare a Prospectus which shall comply with the Listing Rules and shall contain a statement from the Independent Verifier, in the form of a report, confirming whether the proposed issuance meets the eligibility criteria for Green Bond and Social Bonds.
- 2.3 The Prospectus referred in paragraph 2.2 shall contain the following particulars –
 - (a) a statement on the green the social objectives of the proposed bond and the process to determine project eligibility and related eligibility criteria;
 - (b) a statement of the systems, policies and processes to be used for the management, allocation and reporting of the bond funds and investments; and

(c) a statement to confirm that the proposed bond issuance can be classified as green or social.

2.4 The Issuer shall demonstrate that the proposed bond shall comply with the Green and Social Bond requirements below;

2.4.1 Use of Proceeds

- (a) The bond prospectus and other relevant documentation shall clearly describe the purpose or projects towards which the proceeds shall be applied, and how the projects address environmental/climate or social concerns.
- (b) The use of proceeds for green bonds shall be aimed at addressing key areas of environmental and climate matters including but not limited to climate change adaptation, clean transportation, green buildings, sustainable waste management, natural resources depletion, renewable energy, energy efficiency, prevention of loss of biodiversity, pollution prevention and control, terrestrial and aquatic biodiversity conservation, sustainable water and wastewater management.
- (c) The proceeds raised from the issuance of social bonds shall be used to address key social issues such as;
 - i. providing and/or promoting affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport),
 - ii. providing access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services), affordable housing, employment generation including through the potential effect of SME financing and microfinance, food security and Socioeconomic advancement and empowerment.
- (d) The Social or Green Projects to which the proceeds will be applied must provide clear social or environmental benefits, which will be assessed and

quantified by the Issuer and verified by the independent verifier.

- (e) In the event that all or a proportion of the proceeds are used for refinancing, the issuer must clarify the projects being refinanced.

2.4.2 **Disclosure of Process for Project Evaluation and Selection:**

The Issuer shall:

- (a) Clearly disclose the process for project evaluation and selection;
- (b) Demonstrate how the projects fit within the eligible Projects categories identified above;
- (c) Indicate the process applied to identify and manage environmental and social risks associated with the projects; and
- (d) Disclose the environmental sustainability objectives.

2.4.3 **Management of Proceeds**

- (a) The Issuer shall open an escrow bank account into which the net proceeds of the issue; and shall prudently manage the proceeds from the offer in order to ensure strict allocation to proposed projects.
- (b) The management of the proceeds shall be done in a transparent manner. The management process should be subjected to an annual audit.
- (c) As long as the bond is outstanding, the balance of the net proceeds shall be periodically adjusted to match allocations to eligible Projects during the period.
- (d) All temporary placements of unallocated net proceeds shall be disclosed to bond holders.
- (e) The principles encourage a high level of transparency and recommend that an issuer's management of proceeds be supplemented by the use of an auditor, or other third party, to verify the internal tracking method and the allocation of funds from the Green or Social Bond proceeds.

3. Publication of the Annual Report

3.1 Reporting

1. Issuers shall maintain up to date and accurate records of the use of proceeds and report on an annual basis until full allocation of the proceeds, which shall be presented in an annual report to bondholders.
2. Issuers should disclose any material developments on the use of proceeds. make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and as necessary thereafter in the event of material developments. This should include a list of the projects to which bond proceeds have been allocated, as well as a brief description of the Projects and the amounts allocated, and their expected impact. Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the principles recommend that information is presented in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories).

3.2 Annual Report

1. The issuer shall publish an annual report at most 6 months after year end for the duration of the bond.
2. The annual report shall contain the following information;
 - (a) a brief description of the projects and the amounts disbursed, including the percentage of proceeds that have been allocated to different projects and to financing and refinancing of such projects,
 - (b) where confidentiality agreements limit the amount of detail that can be disclosed, the information shall be presented to the investors, in generic terms, and the ZSE may request detailed information for regulatory purposes;
 - (c) the expected impact of the projects and assets;
 - (d) the qualitative performance indicators, and, where feasible, quantitative performance measures of the impact of the projects;

- (e) the methodology and underlying assumptions used to prepare performance indicators and metrics; and
 - (f) The first report shall be due twelve (12) months from the date the bond was issued.
3. The annual report shall be reviewed and confirmed by the Independent Verifier.

4. Eligibility as an Independent Verifier

An Independent Verifier shall be an entity –

- (a) Licensed as an investment advisor by the Commission
- (b) With sufficient financial and market-specific expertise to perform a comprehensive assessment of the use of proceeds of bonds;
- (c) Independent of the issuer, its directors, senior management and advisors;
- (d) Compliant with the International Capital Markets Association's Guidelines for External Reviewers, or accredited under the Climate Standards and Certification Scheme, or any industry body acceptable to the ZSE.

5. Consequences for Breach of Green or Social Requirements by an Issuer of a Listed Bond

The consequences for breach of green requirements by an issuer of a listed Green or Social Bond shall be in accordance with the provisions of the Listing Rules.