Questions and Answers: NextGenerationEU Green Bond framework and funding plan update

Brussels, 7 September 2021

NextGenerationEU Green Bond framework

Why is the EU issuing green bonds?

The European Commission’s intention to raise 30% of NextGenerationEU funds via green bonds, amounting to up to €250 billion in current prices, has a wide range of advantages. This move will:

- Bring a new highly rated and liquid green asset to the market, allowing a wide range of investors access to green investments;
- Enable the European Commission to access a wider range of investors;
- Allow investors to diversify their portfolio of green investments with a highly rated liquid asset, thereby potentially accelerating a virtuous circle of sustainable investments;
- Confirm the European Commission’s commitment to sustainable finance;
- Further boost the green bond market and serve as an inspiration to other issuers;
- Strengthen the role of the European Union (EU) and of the euro in the sustainable finance markets.

What is the objective of the NextGenerationEU Green Bond framework?

The NextGenerationEU Green Bond framework is a step forward towards enabling the Commission to issue up to some €250 billion green bonds, or 30% of NextGenerationEU's borrowing.

The framework provides information to investors about how their investments in green bonds will be used, and how the Commission intends to report on the use of proceeds. Based on this framework, investors in green bonds can make well-informed decisions about their investments in NextGenerationEU green bonds.

In line with established market practice, the NextGenerationEU Green Bond framework centres around four main pillars. These are:

1. **Use of proceeds.** What are the NextGenerationEU green bond proceeds used for?
2. **Process for expenditure evaluation and selection.** How does the Commission select the green investments in which it will invest?
3. **Management of proceeds.** How are the proceeds of the NextGenerationEU green bond issuances managed and how are they then allocated to green investments?
4. **Reporting.** How will the Commission report on the allocation of proceeds and on the environmental impact of the investments?

How was the framework prepared?

The NextGenerationEU Green Bond framework was prepared by the European Commission, which will issue the NextGenerationEU green bonds on behalf of the EU.

The Green Bond framework is aligned with the green bond principles of the International Capital Market Association (ICMA), which is a market standard for green bonds. In line with standard practice, it has been reviewed by a second party opinion provider, Vigeo Eiris, part of Moody's ESG Solutions. The evaluator has confirmed that the framework is aligned with the ICMA's Green Bond Principles, is coherent with the EU's wider Environmental, Social and Governance (ESG) strategy and will provide a robust contribution to sustainability.

The framework has been aligned, to the extent feasible, with the European green bond standard. The EU Green Bond standard proposal was adopted in July 2021 with a subsequent co-decision process in the European Parliament and Council, which will be followed by an implementation period prior to
entry into force. This alignment is reflected for example in the fact that a portion of the eligible investments under the Recovery and Resilience Facility (RRF) – the main instrument to drive Europe's recovery - have integrated the EU taxonomy technical screening criteria.

How will the framework guarantee that the proceeds from the NextGenerationEU green bonds are used for a truly green objective?

The largest share of NextGenerationEU – or about 90% - will go to the EU's main recovery instrument, the Recovery and Resilience Facility (RRF). Under the RRF rules, every Member State has to dedicate at least 37% of their national Recovery and Resilience Plan – the roadmap to spending the RRF funds – to climate-relevant investments and reforms, with a number of Member States planning to do more than required.

These expenditures will be tracked using EU climate coefficients, where expenditures are assigned a score (0%/ 40%/ 100%) based on their contribution to the climate. The list of eligible climate-related activities can be found in Annex VI of the RRF regulation. These EU climate coefficients have integrated, where feasible, technical screening criteria of the EU Taxonomy.

The Commission, during its assessment process, examines each plan thoroughly to check their compliance with its assessment criteria, one of them being the “contribution to the green transition”. This includes a check on the correct assignment of climate coefficients. The Commission will not positively assess a Recovery and Resilience Plan if it considers that its assessment criteria have not been fulfilled to a satisfactory degree.

Crucially, all investments under the RRF, including the climate-relevant investments, need to fulfil the "Do No Significant Harm" criteria. This ensures that all investments under the RRF have no negative effects. Under the RRF rules, Member States will report to the Commission the green expenditures that they make. The Commission will then use that information to show to investors how the green bonds proceeds have been used to finance the green transition.

What kind of reporting has been foreseen to guarantee to investors that proceeds from the NextGenerationEU bonds will be used for green investments?

In line with standard practice, the framework will report on both allocation and impact.

For the allocation reporting, the Commission will use Member States' data on spending on green projects. The reporting will be organised around nine categories as identified in the NextGenerationEU Green Bond framework. These are: Research and innovation activities supporting the green transition, Digital technologies supporting the green transition, Energy efficiency, Clean energy & network, Climate change adaptation, Water & Waste management, Clean transport & Infrastructure, Nature protection, rehabilitation and biodiversity, Other. Energy efficiency, clean transportation and clean energy will have the largest share of all.

On the basis of data by the Member States, the Commission will disclose how the proceeds of the NextGenerationEU green bonds have been allocated to different investment categories and Member States. An independent external auditor will verify the allocation reporting.

The report on the environmental impact of the green bonds investments will enable investors in NextGenerationEU green bonds to gauge the beneficial impact of their investment. Impact reporting will be a cross-Commission exercise, drawing on the wide expertise inside the institution. To ensure that the impact reporting is meaningful, unbiased and accurate, the European Commission will rely on independent expert advice. The modalities for the independent assessment of the impact reporting will be finalised and announced in due course.

When will Commission proceed with its first NextGenerationEU green bond?

Now that the framework has been adopted, the Commission will soon proceed with the first green bond issuance in the month of October, subject to market conditions. Further details will be revealed closer to the date.

When will the first reports under the framework come out?

The first allocation report for the NextGenerationEU green bonds will come out approximately a year after its first issuance. The Commission will then continue to report on the use of NextGenerationEU green bonds on an annual basis.

The first impact report may take a little bit longer and is planned to be published in autumn 2023, once the relevant methodologies have been developed and necessary indicators collected from the EU Member States. Following the first impact report, the Commission intends to report on the impact of the NextGenerationEU green bonds and their proceeds every year.
What is the role of the second party opinion provider?

The second party opinion provider is a professional external party that independently assesses the alignment of the issuer’s Green Bond framework with the guidelines that it needs to adhere to. In addition, the provider tends to give its opinion on the coherence of the framework with the wider Environmental, Social and Governance (ESG) strategy of the issuer, ensuring that the issuance of bonds fits in the bigger picture.

After a procurement process, the Commission has decided to work with Vigeo Eiris as a second party opinion provider.

After a thorough and independent assessment, Vigeo Eiris has confirmed that the Commission’s framework is aligned with the Green Bond Principles of the ICMA, a current standard. Vigeo Eiris has also judged that the NextGenerationEU Green Bond framework is coherent with the Commission’s wider ESG strategy, will provide a robust contribution to sustainability, and that it provides a best-in-class approach towards impact reporting.

What is the link between the recently adopted EU green bonds standard and the NextGenerationEU Green Bond framework?

To maintain our credibility as a leading issuer, the Commission has prepared a robust and credible framework for the NextGenerationEU green bond issuances. It is based on market standards while catering for the specific structure of the programme where, inter alia, spending authorities are separate from the issuing institution. This framework provides the necessary guarantees to investors that the proceeds will be used for green investments.

It is already clear that the framework is making a step forward towards the use of the Taxonomy. The framework is aligned, to the extent feasible, with the EU Green Bond Standard.

The Commission proposal for an EU Green Bond standard was adopted on 6 July 2021 and is based on alignment with the EU Taxonomy. It will only enter into force at a later stage, after adoption by the European Parliament and the Council. To finance the recovery, the EU will start issuing green bonds in October 2021 already building on a tailored framework reflecting the modalities of NextGenerationEU.

To cater for this difference in timing the EU institutions agreed to act early and introduce elements of the EU taxonomy – into the rules governing the Recovery and Resilience Facility already in December 2020. In this way, the EU has aligned, where feasible, the criteria for green spending under the Recovery and Resilience Facility with the EU taxonomy, while also allowing a broader set of green investments to be financed via the Recovery and Resilience Facility. The Commission will also publish the share of eligible expenditure that it considers to be aligned with the Taxonomy.

How are the NextGenerationEU green bonds expected to impact the financial markets?

The NextGenerationEU green bond programme will turn the EU into the biggest green bond issuer worldwide.

By bringing such a sizeable green, safe asset to the market, the Commission will provide access to the green bond market to a wide range of investors. At the same time, the European Commission will be able to diversify its investor base to dedicated green investors.

The boost that the green bond market will receive should inspire other issuers to issue green bonds as well and allow investors to diversify their green portfolio with a safe asset, thereby potentially increasing much needed investments to other green opportunities as well.

How will the issuance of NGEU green bonds help in achieving the EU climate targets such as 55% reduction by 2030 and climate neutrality by 2050?

The NextGenerationEU green bond proceeds will finance the climate-relevant investments (at least 37%) of Member States' Recovery and Resilience Plans. These plans must be consistent with national energy and climate plans. Therefore, investments in NGEU green bonds will be directly contributing to achieving national climate plans and EU climate targets.

In addition, NGEU green bonds aim to further bolster the European sustainable finance markets, by potentially further increasing much needed financial flows to green economic activities.

NextGenerationEU updated funding plan and start of auctioning

Why is the Commission announcing an update to its funding plan?

In June 2021, when the Commission proposed its original funding plan for the recovery in 2021, we committed to review it to take into account the most recent data about the funding needs of EU
Member States in the context of the NextGenerationEU recovery instrument.

The Commission has now reviewed this plan and has confirmed its plan to issue a total of around €80 billion of long-term bonds this year, to be topped up by tens of billions of euros of short-term EU-Bills.

Today's plan is based on the latest forecasts about the precise funding needs of EU countries by the end of the year. Thanks to this financing, the Commission will be able to fund, over the period, all planned grants and loans to Member States under RRF, as well as cover the needs of the EU policies that receive NextGenerationEU funding.

What does the Commission exact issuance plans foresee?

To raise the necessary funding by the end of the year, the Commission intends to carry out three more syndicated transactions, in September, October and November 2021.

To ensure additional flexibility of its funding needs, the Commission will be launching its auction programme already later this month. The Commission will be auctioning both its EU-Bills and EU-Bonds. The auctions for the bonds will be taking place once per month, on the fourth Monday of the month. For EU-Bills, in principle two auctions per month will take place, on the first and third Wednesday of the month. The Commission will use 3-month and 6-month tenors with new lines to be issued in the first auction of the month, followed by taps in the second auction of the month.

The planned issuance dates by the end of the year are available below.

### Issuance weeks for syndicated transactions:

<table>
<thead>
<tr>
<th>Week 37</th>
<th>Monday 13 - Friday 17 September</th>
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<tbody>
<tr>
<td>Week 41</td>
<td>Monday 11 - Friday 15 October</td>
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<tr>
<td>Week 45</td>
<td>Monday 8 - Friday 12 November</td>
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### EU-Bonds auction dates:

- Monday 27 September
- Monday 25 October
- Monday 22 November

### EU-Bills auction dates:

<table>
<thead>
<tr>
<th>Wednesday 15 September</th>
<th>Wednesday 3 November</th>
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<tbody>
<tr>
<td>Wednesday 22 September</td>
<td>Wednesday 17 November</td>
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<tr>
<td>Wednesday 6 October</td>
<td>Wednesday 1 December</td>
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<tr>
<td>Wednesday 20 October</td>
<td>[optional auction]</td>
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<td></td>
<td>Wednesday 15 December</td>
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Why are the auction platform and the EU-Bill programme important?

The launch of the auction platform and the EU-Bill framework are significant milestones for the implementation of the Commission's diversified funding strategy outlined earlier this year.

With the EU-Bills, the Commission will be able to address the short-term funding needs under the NextGenerationEU instrument and be flexible in the context of the changing market conditions. The
EU-Bill programme will enable the Commission to further widen our investor base and to support the international role of the euro.

**When will the Commission issue its next funding plan?**

The Commission has already announced its intention to communicate on its future funding needs twice a year.

The next funding plan, to cover the period from January-June 2022, will be published in time to serve as the basis for the timely and open communication with market participants ahead of the start of the borrowing operations in the first half of 2022.

**For more information**

Green Bond framework  
NextGenerationEU Green Bonds  
Press release on NextGenerationEU Green Bond framework  
EU as a borrower website  
Recovery plan for Europe

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