BBVA – extending sustainable finance beyond just dark green

Ott Tammik

04/01/2021

BBVA, a pioneer of sustainable finance, has bolstered its track record with the launch of sustainability advisory services this year. The banking sector will be a crucial enabler for facilitating sustainability-linked goals, BBVA's heads of ESG and structured & project finance advisory tell IJGlobal.

A look at BBVA reveals a microcosm of how the world has changed over the last few decades. The bank boasts a number of pioneering achievements, not least becoming the first Spanish financial institution to adopt the World Bank's Equator Principles in 2004.

- To read the full magazine in which this article appears, CLICK HERE...

"The Equator Principles were really the first step that the banks took towards sustainability. Today it's part of the day to day business of the banks," says Enrique Bofill (*pictured*), Head of Sustainability Advisory at BBVA Corporate & Investment Banking. "Banks can be an important part of the sustainability solution by channelling financial flows to the right companies and to the right projects."

Since the early days of the Equator Principles, BBVA has integrated sustainability into everything it does: from a net zero commitment within its own organisation, to innovation in all of its wholesale banking sustainable products, ranging from bonds to loans to a sustainable framework for its transaction banking solutions, as well as offering more specific products like green derivatives and green FX transactions.

BBVA has been a frontrunner in sustainability for a long time. In 2007, BBVA participated in the world's first green bond issuance. More recently, it provided the first green loan to a utility – a €500m debt facility for Iberdrola – and the first green loan to a corporate in Mexico. The bank was also among the first private lenders to issue its own social bond to alleviate the impact of the Covid-19 crisis, and it is well on track to achieving its pledge of mobilising €100 billion of sustainable finance by 2025. BBVA's aim is to have a sustainable alternative to all of its products in the next few years.

This year, BBVA set up its Global Sustainability Office and launched a specialised sustainability advisory service. The advisory service supports clients on ESG targets, benchmarking KPIs with peer companies, reporting transparency, sustainable finance products and other objectives. "Through the strategic dialogue with our clients, we want to help them improve their sustainability profile and propose clear roadmaps on how to do it," says Bofill.

If the Equator Principles marked the beginning of the sustainable finance journey, the tipping point was much more recent.

The United Nations Framework Convention on Climate Change has been around since 1988, but the inflection point of the sustainability movement didn't come until 2015 – with the launch of the Sustainable Development Goals and the Paris Agreement. At last, social demand, political sentiment and financial clout appeared to be aligned, giving ESG even more momentum.

In December 2018, BBVA joined 4 other international banks in the Katowice commitment – a joint effort to adapt lending portfolios to the Paris Agreement. In turn, the Katowice commitment helped inspire the Principles for Responsible Banking – this time signed by 132 banks – in September 2019.

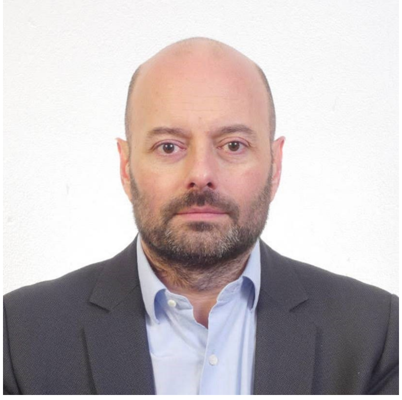
"If we want to control climate change, then the 2020s will be critical," says Bofill. "Our stakeholders demand action – not only our clients, investors and regulators, but also ourselves as BBVA employees and the rest of the communities where we live."

In recent years, the energy transition has become a tangible part of the global economy, with fossil fuel energy players diversifying into renewables and industrial groups making net zero commitments. Meanwhile, a growing number of funds are integrating sustainability into their investment strategies.

On the financing side, the more rigorous ESG requirements set out by the financial community and regulators have made certain infrastructure and energy projects less eligible for financing – most obviously coal-fired power plants. This has disrupted the traditional business of a number of sponsors, but it is also a challenge for some developing countries that still need to develop reliable and cheap power generation into their energy mix.

But as some sectors are phased out, new opportunities emerge. BBVA's structured finance business has benefited from growing demand to introduce sustainability considerations in non-recourse financings. For financial advisers, alongside technical and environmental consultants, this also requires devoting more time to the preparation of ESG aspects in view of increasingly demanding lender due diligence processes.

"A relevant aspect in the credit chain and due diligence process with respect to ESG considerations, is still driven by the Equator Principles guidelines," says Javier Fidalgo (*pictured*), Head of Structured Finance & Project Finance Advisory.



"This has been getting more and more sophisticated since 2004. Today there are a number of additional considerations with respect to the Paris Agreement that are progressively being integrated, but right now in infrastructure financing this is the most demanding aspect in top of any institutional policy that may apply to some sectors (e.g. coal)."

From a corporate strategy and investor perspective, ESG is a risk management tool, and there is a growing body of research that finds ESG securities and indexes can outperform the market. While the jury is still out on this "greenium," it is easy to see the argument that proper ESG risk management helps future-proof a business.

Going forward, sustainability principles applied to structured financing solutions will also need to be extended beyond just the obvious sectors – and from green sectors to social sectors. "The starting point for sustainable finance was to focus on renewable energy projects, but BBVA is broadening its approach to public transport systems, hospitals and social infrastructure," says Fidalgo.

"We are currently running a social and green certification process under our advisory assignment for the refinancing of a hospital in Iberia," says Fidalgo. "And sustainability represents an increasing number of opportunities, with the market volume for sustainable-labelled structured bonds and loans only set to grow – not only in Europe, but globally as other countries catch up."

While BBVA's European clients tend to be more advanced in terms of ESG adoption – partly in anticipation of the implementation of the EU's sustainable finance regulations next year – the degree of sophistication in each region varies from company to company.

Outside of Europe, BBVA's core business includes Mexico, Turkey, the US, Colombia, Peru and Argentina. In Latin

America, some of BBVA's clients are taking their first steps in ESG awareness, transparency and targets, while other clients – especially large multinationals that are already experts in ESG – are seeking to increase their use of sustainable finance products. Another regional difference is that there is more of a social angle to ESG initiatives in Mexico and South America, whereas Europe's focus tends to be on climate change.

"Our wholesale clients have varying levels of awareness and sophistication when it comes to sustainability. We want to partner with all of our clients in their transition towards a more sustainable future – not just the greener ones," says Bofill.

"Some clients are worried about what they are going to gain from these products. They are very focused on pricing and one of the things that we try to convince them of is that, while pricing is very important, it is not the only variable in decision-making because we think the use of sustainable finance should be coherent with your business strategy."

Looking to the future, BBVA emphasises the importance of transition strategies and – in addition to environmental concerns – the growing role of social matters. The bank anticipates more standardisation – in ratings, reporting and issuing principles – as well as the development of new types of ESG securities, such Green IPOs.

The future also holds a shift in focus from dark green investments to other colours. "We think the solution to the climate change problem comes from brown companies that are seeking to transition to a more sustainable economy," says Bofill.

BBVA's ESG Track Record

- 2004 – first Spanish financial entity to sign Equator Principles
- 2006 – signed Principles for Responsible Investment
- 2014 – signed Green Bond Principles
- 2016 – led first green bond transaction for Iberdrola
- 2017 – signed first bilateral green loan for a utility globally with Iberdrola
- 2018 – among the first banks to publish sustainability pledge
- 2018 – BBVA joined 4 other international banks in the Katowice commitment
- 2019 – signed the Principles for Responsible Banking with 131 other banks
- 2020 – mobilised €40 billion of sustainable finance to date; adopted sustainability as one of the 6 strategic priorities of BBVA; committed to being carbon neutral at the end of this year; created a Global Sustainability Office
- 2025 – mobilising €100 billion of sustainable finance