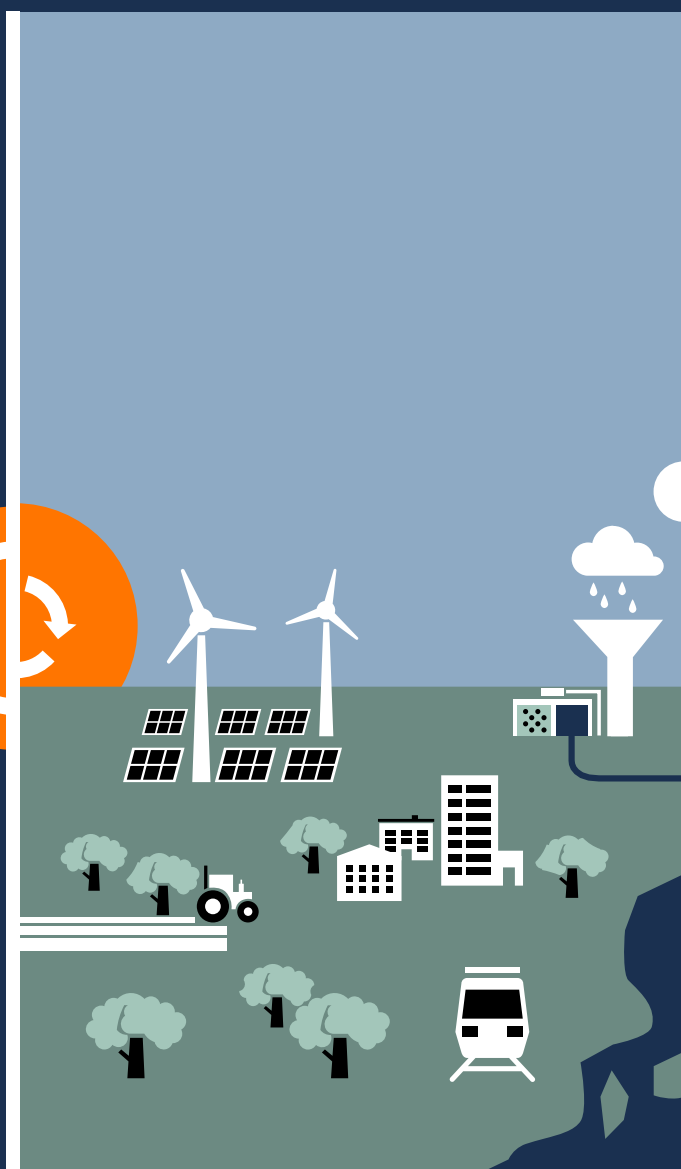


# Sweden's sovereign green bond framework

Government decision of 4 June 2020



# Sweden's sovereign green bond framework

## 1. Introduction

Urgent action is needed to reverse the current trend of environmental degradation and climate change as the effects of inaction are becoming increasingly apparent and alarming. Sweden is aware of the severity of this challenge and is determined to be one of the most dynamic actors and strongest voices on the international scene when it comes to supporting and promoting effective multilateral cooperation. Sweden has been a catalyst, and will continue to act as such, in accelerating action to realise the vision and goals of the United Nations 2030 Agenda for Sustainable Development, the Paris Agreement on climate change and other international environmental conventions such as the Convention on Biological Diversity.

At national level, the clear commitment on limiting environmental degradation and climate change was manifested in the environmental policy's generational goal and the environmental quality objectives adopted by the Riksdag (the Swedish Parliament) 20 years ago, and subsequently supplemented by a national climate policy framework.<sup>1</sup>

The financial markets have a fundamental role to play in the necessary transition. By steering capital towards sustainable investments, the financial markets contribute to a sustainable future. As a clear recognition of the pivotal role of the financial sector and the importance of political action to steer capital towards sustainable investments, the goal that the financial system must contribute to sustainable development was adopted by the Riksdag in 2015.<sup>2</sup> The Government is pursuing an ambitious political agenda to create sustainable financial markets that can contribute to fulfilling Sweden's environmental and climate objectives, the UN Sustainable Development Goals (SDGs) and the Paris Agreement.

Swedish financial actors in both the private and public sectors have paved the way for the development of, and support for, sustainable financing. The Swedish green bond market emerged out of demand from Swedish institutional investors who engaged in dialogue with a Swedish bank, resulting in the World Bank issuing the first green bond for institutional investors in 2008.<sup>3</sup> In 2013, the first green bonds were issued in the Swedish municipal and business sectors.

In December 2016, the Government appointed an inquiry tasked with analysing ways to promote the green bond market. In January 2018, the report 'Promoting green bonds' (SOU 2017:115) was presented.<sup>4</sup> The report has been circulated for comment.<sup>5</sup> The Inquiry Chair considered that the single most important measure, and that which would have the greatest impact, would be for the Swedish State to issue green bonds. Issuance by the State would help send an important signal about the seriousness of the sustainability issue, it would give the market increased legitimacy and serve as a general reference for issuing green bonds, thus making green bonds more conventional and lowering the threshold for other issuers to enter the market. The Inquiry Chair also considered that it would facilitate more integrated action on the climate objectives and provide an opportunity for investors to move capital from traditional securities to green securities.

Issuing Swedish sovereign green bonds corresponds well with the Government's goal of supporting and promoting sustainable financing, and should be seen as part of a broad range of measures the Government has taken. These include requirements that fund managers report on how sustainability is integrated into fund management, criteria for eco-labelling on the fund marketplace for premium pensions and new rules for the AP funds on increased sustainability considerations and requirements for exemplary management. In July 2019, the Government tasked the Swedish National Debt Office with implementing an issue of Swedish sovereign green bonds in 2020 at the latest that gives investors an opportunity to

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<sup>1</sup> [https://www.riksdagen.se/sv/dokument-lagar/arende/betankande/miljopolitiken\\_GM01MJU6](https://www.riksdagen.se/sv/dokument-lagar/arende/betankande/miljopolitiken_GM01MJU6)

<sup>2</sup> [https://www.riksdagen.se/sv/dokument-lagar/arende/betankande/utgiftsomrade-2-samhallsekonomi-och\\_H301FiU2](https://www.riksdagen.se/sv/dokument-lagar/arende/betankande/utgiftsomrade-2-samhallsekonomi-och_H301FiU2)

<sup>3</sup> <https://www.worldbank.org/en/events/2018/11/16/from-evolution-to-revolution-10-years-of-green-bonds>

<sup>4</sup> <https://www.regeringen.se/rattsliga-dokument/statens-offentliga-utredningar/2018/01/sou-2017115/>

<sup>5</sup> <https://www.regeringen.se/remisser/2018/01/remiss-av-sou-2017115-att-framja-grona-obligationer/>

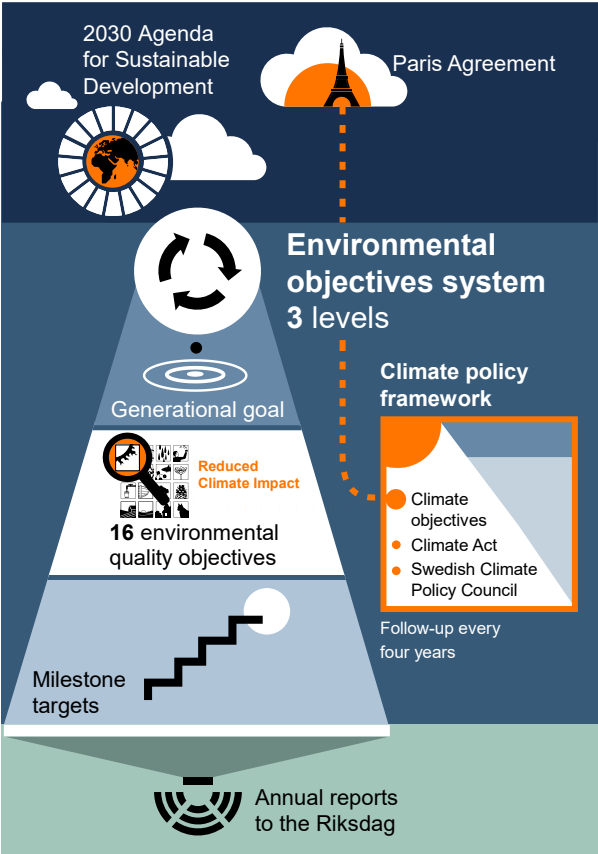
contribute to the transition to an environmentally sustainable society.<sup>6</sup> The remit stated that a central government framework would be developed within the Government Offices and, if necessary, in consultation with relevant expert agencies. The aim of Swedish sovereign green bonds is to finance a portfolio of expenditures that meets the highest green ambitions and is in line with the goal of carbon neutrality by 2045.

## 2. Sweden’s environmental objectives

The Swedish environmental objectives<sup>7</sup> are an important starting point for Sweden’s national implementation of the UN 2030 Agenda and its 17 Sustainable Development Goals. The Swedish climate objectives are part of the environmental objectives system and a central part of Sweden’s efforts to comply with the Paris Agreement.

### 2.1 Sweden’s environmental objectives system

Environmental policy is based on the national environmental quality objectives and the generational goal for environmental work adopted by the Riksdag.<sup>8</sup> The Swedish environmental objectives also send a long-term signal to society as a whole of what the Government and the Riksdag want to achieve through environmental policy. All of society must contribute to efforts to achieve the environmental objectives. From an international perspective, the Swedish environmental objectives system is unique.<sup>9</sup>



**Figure 1. Sweden’s environmental objectives system**

The environmental objectives system has three levels, as illustrated in Figure 1. The highest level is the overall generational goal – to pass on to the next generation a society in which the major environmental problems have been solved without increasing environmental and health problems beyond Sweden’s borders. The generational goal is intended to provide guidance on all levels of society and to show the transition society must undergo within one generation to achieve the environmental quality objectives.

The second level consists of the environmental quality objectives that show the environmental quality that is to be achieved, illustrated in Figure 2. The Riksdag has adopted 16 environmental quality objectives. Each objective has a number of specifications that clearly define the substance of the environmental quality objectives and the environmental state that is to be achieved.

To facilitate progress towards the generational goal and the environmental quality objectives, the

Government (in priority areas) and the Riksdag (in the area of climate change) have adopted milestone targets, which is the third level of the environmental objectives system.

<sup>6</sup> <https://www.regeringen.se/regeringsuppdrag/2019/07/uppdrag-till-riksgaldskontoret-att-genomfora-en-emission-av-grona-obligationer/>

<sup>7</sup> <https://www.regeringen.se/regeringens-politik/miljo-och-klimat/mal-for-miljo/>

<sup>8</sup> At the proposal of the Government in Government Bill ‘Swedish Environmental Quality Objectives – environmental policy for a sustainable Sweden’, in April 1999 the Riksdag adopted a new structure for work on environmental goals, and set 15 national environmental quality objectives (Govt Bill 1997/98:145, Committee Report 1998/99: MJU6, Riksdag Communication 1998/99:183). The 16th environmental quality objective was adopted on 25 November 2005 (Govt Bill 2004/05:150, Committee Report 2005/06: MJU3, Riksdag Communication 2005/06:48, Riksdag Communication 2005/06:49).

<sup>9</sup> <https://sverigesmiljomal.se/>

## 2.1.1 The environmental objectives are integrated into society and all policy areas

Figure 2 Sweden's environmental quality objectives



Copyright environmental quality objectives:  
Tobias Flygar / Swedish Environmental Protection Agency

Work to achieve the environmental objectives is being carried out by a broad spectrum of stakeholders at all levels of society. Government agencies and county administrative boards are working to achieve the environmental objectives and are monitoring progress made, guided and coordinated by the Swedish Environmental Protection Agency. The objectives are monitored regularly in annual reports to the Government and in-depth evaluations conducted every four years, most recently in 2019.<sup>10</sup> The reports contain follow-up and assessments of whether the adopted policy instruments and the planned measures will be sufficient to achieve the healthy environment which the objectives describe. This shows whether existing instruments need to be changed or whether new instruments and measures are necessary. There are currently some one hundred indicators to assess progress, based on regular sampling, emission statistics, questionnaires and other studies.

To achieve broad political consensus on environmental issues that require setting general and long-term political priorities, the All-Party Committee on Environmental Objectives (M 2010:04) was appointed in 2010.<sup>11</sup> The Committee is tasked, within the areas specified by the Government, with proposing how the environmental quality objectives can be achieved through politically anchored proposals for strategies with milestone targets, policy instruments and other measures.

## 2.2 Government ambition to increase the pace

In order to increase the pace of work, the Government has also established the Environmental Objectives Council.<sup>12</sup> The Environmental Objectives Council consists of the heads of 18 government agencies of strategic importance to being able to achieve the generational goal and the environmental quality objectives. The task of the Environmental Objectives Council is to work to cost-effectively increase the pace of work to achieve the environmental quality objectives and the generational goal. Its mandate extends until 6 May 2022.

To achieve the environmental quality objectives and the transition needed to comply with the Paris Agreement and other international environmental commitments, continued efforts are needed to integrate environment and climate into all policy areas with underlying drivers of environmental problems, as well as solutions to these problems.

The Government is investing a great deal to achieve the environmental objectives in areas such as climate, seas and water, and biodiversity.

<sup>10</sup> <https://www.naturvardsverket.se/Miljoarbete-i-samhallet/Sveriges-miljomal/Miljomalssystemet/Fordjupad-utvardering-2019/>

<sup>11</sup> <https://www.sverigemiljomal.se/sa-fungerar-arbetet-med-sveriges-miljomal/vem-gor-vad-i-miljomalssystemet/miljomalsberedningen/>

<sup>12</sup> <https://sverigemiljomal.se/miljomalsradet>

## 2.2.1 Climate

Sweden has developed an ambitious climate policy framework<sup>13</sup> composed of three pillars, each of which is vital for creating a sustainable future: the climate objectives, the Climate Act and the Climate Policy Council.

### Climate objectives

Sweden will be one of the world's first fossil-free welfare nations. By leading the way in the necessary climate transition, Sweden is contributing to the ambitious implementation of the Paris Agreement. The first pillar of the climate policy framework stipulates that Sweden is to have net zero greenhouse gas emissions by 2045 and should thereafter achieve negative net emissions.<sup>14</sup> Achieving net zero greenhouse gas emissions means that emissions from activities in Sweden must be at least 85 per cent lower in 2045 compared with 1990 levels. The remaining reduction to net zero emissions will be achieved through supplementary measures such as increased uptake of carbon dioxide by forests and land as the result of additional measures, verified emission reductions carried out beyond Sweden's borders and carbon capture and storage from biomass combustion (Bio-CCS). These measures can also contribute to negative net emissions after 2045.

### The Climate Act

The second pillar of the climate policy framework is the Climate Act (2017:720)<sup>15</sup>, which stipulates that the Government's climate policy must be based on the climate objectives and specifies how this work is to be carried out. Under the Act, the Government is to present a climate report every year in its Budget Bill. Every fourth year, the Government is to present a climate policy action plan outlining how the climate objectives are to be achieved. In December 2019, the Government submitted the first climate policy action plan to the Riksdag, 'A Unified Policy for Climate – Climate Policy Action Plan' (Govt Bill 2019/20:65).<sup>16</sup> In the action plan, the Government describes how climate policy work should be conducted during the electoral period, including the adopted and planned measures that contribute to achieving the national and global climate goals.

### The Swedish Climate Policy Council

The third pillar of the framework describes the establishment of the Swedish Climate Policy Council and its mandate.<sup>17</sup> The Council was established in 2017 as an expert body tasked with conducting an independent assessment of how the overall policy the Government presents is aligned with the climate objectives.<sup>18</sup> The Council is to evaluate whether the direction of various relevant policy areas will increase or reduce the likelihood of achieving the climate objectives.

## 2.2.2 Oceans, water and biodiversity

The Government is implementing comprehensive measures to achieve the environmental quality objectives related to oceans and water. Robust measures are needed to save Sweden's lakes, seas and coastal areas from eutrophication, hazardous substances, litter and other environmental threats. Protection is important to preserve biodiversity in coastal and marine areas. By means of supplementary terms of reference, the Government has instructed the All-Party Committee on Environmental Objective to submit proposals by 1 December 2020 on further measures, including possible new milestone targets, for the conservation and sustainable use of seas and marine resources.<sup>19</sup>

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<sup>13</sup> <https://www.naturvardsverket.se/Miljoarbete-i-samhallet/Miljoarbete-i-Sverige/Uppdelat-efter-omrade/Klimat/Sveriges-klimatlag-och-klimatpolitiska-ramverk/>

<sup>14</sup> <https://www.regeringen.se/49fe25/contentassets/480ed767687b4b7ba6c960f9c1d4857f/ett-klimatpolitiskt-ramverk-for-sverige-prop.-201617146>

<sup>15</sup> [https://www.riksdagen.se/sv/dokument-lagar/dokument/svensk-forfattningssamling/klimatlag-2017720\\_sfs-2017-720](https://www.riksdagen.se/sv/dokument-lagar/dokument/svensk-forfattningssamling/klimatlag-2017720_sfs-2017-720)

<sup>16</sup> <https://www.regeringen.se/4afbe4/contentassets/61f93d2abb184289a0c81c75395207b6/en-samlad-politik-for-klimatet--klimatpolitisk-handlingsplan-prop.-20192065>

<sup>17</sup> <https://www.klimatpolitiskaradet.se/>

<sup>18</sup> <http://rkrattsbaser.gov.se/sfst?bet=2017:1268>

<sup>19</sup> <https://www.regeringen.se/rattsliga-dokument/kommittedirektiv/2018/06/dir.-201844/>

Sweden has high ambitions in efforts on nature conservation, biodiversity and ecosystem services. The Government considers that additional measures will be needed to achieve the environmental quality objectives related to natural and cultural environmental protection. Measures to achieve resilient ecosystems and ecosystem services, stable populations and good genetic variation are important for reaching these objectives and will also contribute to sustainable development and climate adaptation.

### 3. The framework for Swedish sovereign green bonds

This framework for Swedish sovereign green bonds has been developed in accordance with the guidelines in the Green Bond Principles (GBP), which was published in 2018 by the International Capital Market Association (ICMA). The work was carried out within the Government Offices in consultation with relevant expert agencies and reviewed by an independent expert.<sup>20</sup>

In accordance with the criteria stated in the framework, eligible green expenditure will be selected among realised expenditure from the previous year and expenditure for the current year in the central government budget adopted by the Riksdag. The issue size of the Swedish sovereign green bonds must fit within the eligible expenditure with a sufficient margin that takes account of the uncertainty that exists during the current fiscal year. Within this frame, the Swedish National Debt Office is to set the issue size based on the goal for central government debt policy and applicable regulations for central government debt management. This means that the size of the issue may be lower than the total portfolio of eligible green expenditures should the Swedish National Debt Office consider this necessary for efficient central government debt management.

The framework is to follow the core components under the GBP: use of proceeds (section 3.1), process for project evaluation and selection (section 3.2), management of proceeds (section 3.3), reporting (section 3.4) and external reviews (section 3.5).

#### 3.1 Use of proceeds and eligible green expenditures

In this framework, 'eligible green expenditures' is defined as central government expenditures that contribute to the fulfilment of the environmental objectives described in section 2. Examples of eligible expenditures include expenditures aimed at mitigating climate change, strengthening biodiversity, promoting renewable energy projects or reducing carbon emissions in the transport sector. Expenditures related to nuclear energy, fossil energy, new investments in large-scale hydro power<sup>21</sup> or exclusively administrative appropriations<sup>22</sup> are not included.

Domestic transport accounts for one third of Sweden's total emissions. The importance of the transport sector to climate mitigation is emphasised by the fact that it is the only sector for which the Riksdag has adopted a sector-specific climate objective: that greenhouse gas emissions from domestic transport (excluding domestic aviation, which is included in the EU Emissions Trading System) must be reduced by at least 70 per cent by 2030 compared with 2010. In addition to achieving the milestone target for domestic transport by 2030, the transport sector must also contribute to the long-term climate objective of net zero emissions by 2045. The measures taken with the aim of achieving the milestone target for domestic transport should therefore take into account that the long-term climate objective must also be achieved in an as efficient a manner as possible.

Necessary initiatives include those that facilitate a transfer of traffic to a more energy-efficient and climate-friendly mode of traffic, such as bicycle, public transport and railway. Transport by railway is efficient with very low energy consumption per person-kilometre or per unit of freight, and forms an important component for achieving the objective. Initiatives that allow accessibility without transport, such as sustainable urban planning and digitalisation, are also needed, as are initiatives that speed up the transition to an electrified vehicle fleet. Sweden is a vast country and plug-in hybrids represent an important part of the transition during a period when the Swedish charging infrastructure is growing. Expenditures that

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<sup>20</sup> Fi2019/04112/FMASTAB Direct procurement externally verified.

<sup>21</sup> In the framework, 'large-scale hydro power' is defined as plants with a capacity of more than 10 MW. The exclusion relates to investments in new plants and does not cover investments in maintenance, improvements and streamlining of existing plants. Central government expenditure related to new power generation in Sweden is not relevant as this is financed by public or private companies.

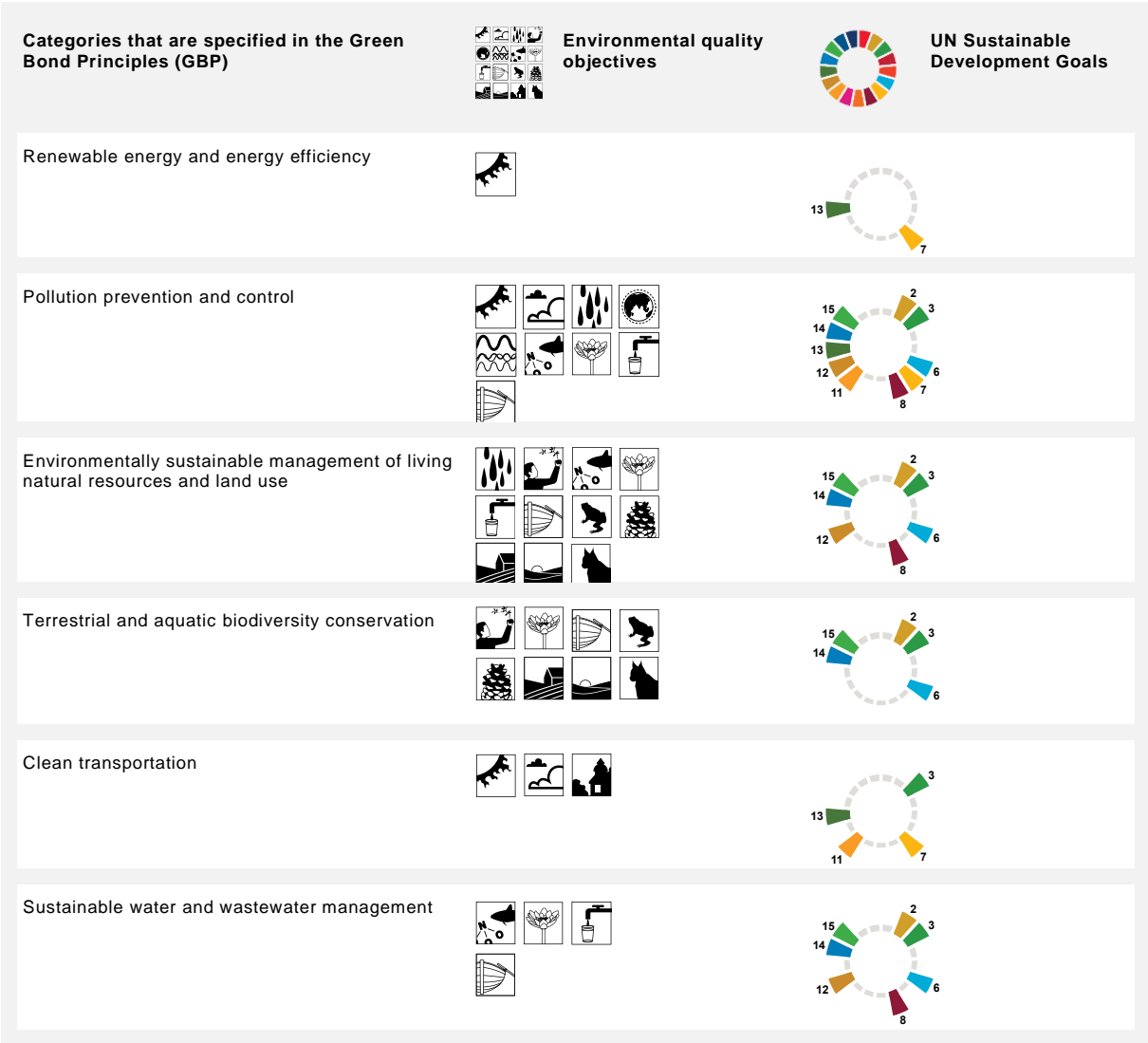
<sup>22</sup> Administrative appropriations are used to finance an agency's activities and cover matters such as salaries.

finance programmes where parts of the programme go to plug-in hybrids can therefore be accepted – even though they can partly operate on fossil fuels – provided that they represent a smaller proportion of the total portfolio of eligible green expenditures. Administrative charges can also be accepted in so far as they form a small part of the appropriation and are necessary for realising the appropriation’s purpose and objective.

Eligible green expenditures are limited to central government budget expenditures and do not include foregone central government tax revenue resulting from environmental or climate considerations, or expenditures financed by state-owned companies, regions or municipalities.

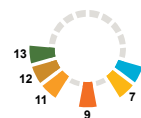
Figure 3 provides a schematic overview of the categories of eligible green expenditures according to the GBP and the corresponding Swedish environmental quality objectives to which the eligible green expenditures correspond. The environmental quality objectives also relate to the appropriate corresponding goal of the UN Sustainable Development Goals (SDGs).<sup>23</sup>

**Figure 3. Eligible categories: the Swedish environmental quality objectives with mapping to the categories in the GBP and related SDGs** <sup>24</sup>



<sup>23</sup> <https://www.regeringen.se/4adae5/contentassets/c689564aa19c4d29bcebb1c037a2e37b/utgiftsomrade-20-allman-miljo-och-naturvard.pdf>, p. 20.

<sup>24</sup> Many of the environmental quality objectives correspond to several different categories in the Green Bond Principles. The list in Figure 3 is not exhaustive but indicates the category/categories in the GBP that are most relevant in the individual case.



### 3.2 Process for selection of eligible green expenditures

In line with the Government's remit to the Swedish National Debt Office, the selection of eligible green expenditures is based on the environmental objectives system and the climate policy framework. Selection is carried out at the Government Offices and, when necessary, in consultation with relevant expert agencies. The selection process includes ensuring that an amount corresponding to the proceeds from the issue of the Swedish sovereign green bonds is only linked to the eligible expenditures that qualify based on the pre-determined criteria.

The selection of eligible green expenditures is based on an assessment of the criteria specified in this framework. The evaluation and selection process comprise three steps:

1. For an expenditure appropriation (or part of an appropriation) in the central government budget to qualify as an eligible green expenditure, the conditions for its use must fulfil the following strict criteria:
  - a. The expenditure significantly contributes to at least one of the environmental quality objectives.
  - b. The expenditure does not significantly counteract another environmental quality objective.
  - c. It is highly likely that the expenditure will contribute to long-term net positive environmental results and impacts.

The starting point for measures within the framework of Sweden's environmental and climate policy is that they should contribute to achieve the environmental objectives. Each measure implemented within the framework of the environmental quality objectives has been preceded by an overall assessment based on a number of different aspects derived from available information. In this, a life-cycle perspective is an important starting point, as are the consequences for other social objectives and the risk of possible lock-in effects.

The initial part of the selection process involves identifying all appropriations in the central government budget deemed eligible according to the selection criteria. As additional quality assurance, the appropriations are discussed with experts to prioritise and select those appropriations with the highest target fulfilment for contributing to the environmental objectives and the pre-determined selection criteria. **This portfolio of appropriations is compiled in a recommendation of eligible green expenditures to the Government.**

Accordingly, appropriations that may initially appear eligible but which, during the iterative selection process, are deemed not to meet corresponding high standards as the appropriations finally recommended as eligible, are disqualified. Possible reasons for this could be the risk that the appropriation contains unjustified administrative components or difficulties with checking details in the appropriation.

2. **The recommendation of eligible green expenditures is being prepared at the Government Offices.** The process of joint preparation at the Government Offices, i.e. collecting comments and approval from relevant ministries, ensures that the Government's decision is an expression of values held by the Government as a whole.
3. The portfolio with eligible green expenditures is **established through a government decision.**



### **3.3 Management of Proceeds**

The Swedish National Debt Office is responsible for issuing Swedish sovereign green bonds. The proceeds are monitored and documented by the National Debt Office according to special procedures and administered within the regular liquidity and debt management.

When the Swedish sovereign green bonds have been issued, the follow-up involves allocating an amount corresponding to the proceeds to the portfolio of eligible green expenditures that has been selected and approved in accordance with this framework. The National Debt Office uses a register/virtual account for this.

Once the Government has submitted the government letter 'Central Government Annual Report' for the year the Swedish sovereign green bonds are issued, the National Debt Office is to publish the final balance of the register/virtual account for the proceeds. Based on the follow-up of green expenditures, the National Debt Office is responsible for reporting to investors in accordance with section 3.4.

### **3.4 Reporting**

The Swedish National Debt Office is to publish an investor report no later than the fourth quarter of the year following the issue of the Swedish sovereign green bonds and every year thereafter, if the Swedish National Debt Office deems it necessary.

The report will specify the distribution of the proceeds from the Swedish sovereign green bonds between the eligible expenditures in the portfolio. The report will also include output and impact statements outlining the positive environmental impacts of the green expenditures in so far as this information is provided in the existing regular environmental objectives reports or other available reports. The output and impact statement will be linked to the objectives of the expenditures. For example, expenditures to reduce greenhouse gas emissions will be measured in terms of greenhouse gas emissions that have been avoided (carbon dioxide equivalents) on an overall level rather directly corresponding impacts from funded projects in an expenditure area during a specific year.

The fact that the investor report uses existing reports within the framework of the environmental objectives system and other relevant available reports shows that a high degree of transparency, realistic commitments and robust management is sought. The report is compiled in collaboration with the Swedish Environmental Protection Agency.

### **3.5 External review**

The Government Offices has appointed an independent external reviewer, the Center for International Climate and Environmental Research (CICERO), which has evaluated this framework for Swedish sovereign green bonds and has issued a second party opinion. The framework and second party opinion are published on both the Government's and the Swedish National Debt Office's website.

The National Debt Office's documentation regarding follow-up of the proceeds and the register/virtual account is to be included in the Office's annual report and thus is subject to the audit procedures applicable to all Swedish government agencies.

SEK million

Appropriation	Name	2019	2020
		Outcome <sup>1</sup>	Central government budget <sup>2</sup>
20 01 003	Measures for valuable natural environments	862	1 115
20 01 008	Climate bonus	1 280	1 760
20 01 011	Measures for marine and aquatic environments	1 151	1 390
20 01 014	Protection of valuable natural environments	977	876
20 01 016	Climate investments	569	1 955
20 01 019/20	Green Industry Leap	41	600
21 01 007	Energy technologies	730	835
22 01 002 AD2	Maintenance of state transport infrastructure, Railways	9 779	10 152
23 01 019	Measures to improve the environment in agriculture	180	50

**Authorised green expenditure 2019** **15 567**

Green appropriations in the central government budget for 2020 18 733

Safety margin for 2020<sup>3</sup> -3 600

**Authorised green expenditure 2020** **15 133**

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**Maximum amount to be issued (sum 2019 and 2020)** **30 700**

<sup>1</sup> The amounts are rounded off and does not always equate to the overall sum.

<sup>2</sup> Allocated by the Riksdag for 2020 following a proposal by the Government in the Budget Bill for 2020.

<sup>3</sup> Allocated funds are not entirely exhausted in many cases. The safety margin ensures that the issued amount falls below the final outcome for 2020.

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