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REACH and FAB: A performance-linked financing framework for measuring impact and setting targets

Seminar recording

Performance-linked financing instruments, such as sovereign sustainability-linked bonds (SLBs), have gained wide popularity in the corporate market, but greenwashing concerns and the lack of additionality have hampered their uptake in the sovereign space. To overcome these stumbling blocks, we need to ensure that the instruments use the right performance metric and set the right targets. The REACH framework (Relative Evaluation And benchmarking) describes the requirements for the key performance indicator (KPI) to ensure (a) that the issuer has strong incentives to perform, and (b) that the investor has credible impact to report. The FAB matrix (feasibility and ambitiousness matrix) helps identify targets that are both feasible and ambitious. It recommends staying away from targets that are low hanging fruits and long shots. We illustrate the REACH framework using Brazilian deforestation and FAB matrix using Senegalese education.

Related:
- Research Paper: Could Sustainability-Linked Bonds Incentivize Lower Deforestation in Brazil’s Legal Amazon?

Speakers:
Fiona Stewart works for the World Bank's Global Capital Markets, Non-bank Financial Institutions group, which provides policy advice on pension reform to governments around the world. Previously, she worked for the OECD’s Financial Affairs Division for eight years and led the Secretariat of the International Organisation of Pension Supervisors (IOPS), an international body representing over 70 countries, dedicated to cooperation and research on pension supervisory issues. Prior to working at the OECD, Fiona worked in the pension fund industry. As head of American Express Asset Management in Japan she was responsible for investing $2bn in Asian equity markets, and, as part of an international team, for managing $20bn globally. She holds degrees from Oxford and Johns Hopkins Universities and a Chartered Financial Analyst qualification. She also served on the advisory board of one of the OECD’s own pension funds.

Dieter Wang is a sustainable finance specialist at the World Bank's Finance, Competitiveness & Innovation Global Practice (GP). He first joined the Bank in
2018 and has since worked with different units, such as Environment & Natural Resources; Fragility, Conflict & Violence; Macroeconomics, Trade & Investment, and Development Economics. During his time, he has led and contributed to modelling efforts on sustainable finance, sovereign ESG, credit ratings, natural capital, and other financial/stochastic modeling tasks. He applies econometrics and machine learning to various datasets, ranging from financial Bloomberg data to geospatial satellite data, and likes to tell their stories with compelling visualizations. Dieter has a PhD in financial econometrics from the Tinbergen Institute/VU Amsterdam with an MPhil in economics from the Tinbergen Institute and a B.Sc. from the University of Tübingen. Previously, he held visiting positions at Columbia Business School and the research department of the Dutch Central Bank.