# Romania Sovereign Green Bond: Financing a Green Transition

**The World Bank provided technical assistance to the Government of Romania to establish its sovereign green bond program and facilitated the issuance of its first EUR 2 billion transaction.**

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## Background

After becoming a member of the European Union (EU) in 2007, Romania emerged as one of the fastest-growing economies in the EU between 2010-2020. This economic growth, coupled with the transition from an agrarian to an industrial economy, led to a rise in the country's energy demand. According to the European Commission, Romania needs EUR 127 billion (approximately 6% of current GDP per annum) from 2021 to 2030 to achieve the objectives of its Energy Strategy.

Romania's Nationally Determined Contribution (NDC) target is to reduce its GHG emissions by 78% percent by 2030 compared to 1990 levels and achieve carbon neutrality (net-zero) by 2050. To help continue to finance its climate goals and energy transition , the Government of Romania has taken steps to access sustainable finance opportunities.

After meeting with investors to gauge their interest and perspectives and carefully thinking through the implications, the Ministry of Finance took steps to include green, social and sustainability bonds in its menu of debt instruments through Government Decision no. 353/2023.[1] In December 2023, the Ministry of Finance, on behalf of the Government of Romania, outlined and publicly disclosed the processes they will use to issue sovereign green bonds in line with market best practices. These bonds are intended to enable the country to raise debt capital and channel it towards budgetary programs that generate positive environmental and/or social impacts. These impacts span across the entire economy including but not limited to energy efficiency, renewable energy, and land use projects.

## Financial Solution

Green bonds are debt securities designed specifically to fund projects that result in positive environmental outcomes. They are a creative means to raise debt at a large scale from investors interested in integrating environmental, social and governance (ESG) factors in investment decisions and/or generate positive environmental impact. Governments and companies use green bonds to green the economy and the financial sector.

Despite the high interest rate macro environment, green, social, sustainability and sustainability-linked bond issuances in 2024 went above $1 trillion in volume.[2] Green bond issuances represented 64% of the market. Like many other sovereign issuers, Romania wanted to tap into the market to expand its investor base and unlock capital that will be essential in meeting its environmental priorities and climate commitments.

### Use of Proceeds

With technical assistance from the World Bank Treasury's Sustainable Finance and ESG Advisory Program, the Ministry of Finance published Romania's sovereign Green Bond framework in December 2023. The Framework is aligned with the Green Bond Principles administered by the International Capital Markets Association (ICMA) and outlines eight eligible expenses within the scope of

[1] The Government decision also allows the Ministry of Finance to hire external reviewers to fulfil market requirements.

[2] The cumulative volume of such bonds reached $4.9 trillion in 2023.

sustainable bond transactions, as well as detailed eligibility criteria per eligible expense.

**Process for project evaluation and selection**
The Government of Romania established an Inter-Ministerial Committee to govern green bond projects, chaired by the Minister of Finance. Decisions are made by majority vote, with the President of the country holding veto power. Ministries propose projects that are evaluated on a monthly basis according to the eligibility criteria set forth in the Green Bond Framework. Moreover, an environmental assessment is mandated before the execution of any eligible project that is approved. Finally, Romania obtained a second party opinion from S&P Global to evaluate the alignment of the processes established to issue green bonds with the Green Bond Principles.

**Management of proceeds**
The Ministry of Finance's General Directorate of Treasury and Public Debt will oversee the issuance and management of green bonds. Proceeds will be allocated to a diverse portfolio of green projects, aiming to match the bond issuance. Unallocated funds will be managed according to prudential liquidity policies. Payment terms will adhere to standard debt provisions, while tracking of funds will be maintained through a Green Financing Register under the Ministry of Finance.

**Allocation and impact reporting**
The Ministry of Finance's General Directorate of Treasury and Public Debt will prepare annual allocation and impact reports for investors until proceeds are fully allocated. Romania aims to adhere to ICMA's reporting recommendations for transparency and alignment with international standards.

## Outcomes

The inaugural green bond transaction on February 15, 2024 was highly successful. The 12-year EUR 2 billion green tranche was the largest euro-denominated green bond issued by an emerging market issuer to date. The transaction attracted overwhelming demand from a diverse set of investors, reaching over EUR8 billion in subscriptions, reflecting robust investor interest in green bonds. This transaction also diversified Romania's public debt investor base both in terms of investor type (45% are ESG aligned) and geography: Great Britain and Ireland (48%), rest of Europe (19%), Romania (11%), USA (9%), Central and Eastern Europe (8%), Germany, Austria and Switzerland (3%), and others (2%). The success of the transaction is expected to encourage other Central and Eastern European borrowers to utilize dedicated financial tools to meet their sustainability goals.

## World Bank's Role

The World Bank Treasury's Sustainable Finance and ESG Advisory Program provided technical assistance to facilitate this transaction, in coordination with the Bank's Finance, Competitiveness and Innovation Global Practice. This included advising on best practices, sharing international experience, capacity building for the General Directorate of Treasury and Public Debt and related line ministries, identifying governance arrangements, establishing project identification and selection criteria, screening eligible projects, advising on impact assessment methodology, and investor communication strategy.

| Table 2: Summary of Financial Terms | |
|---|---|
| Issue Date | February 15, 2024 |
| Amount | EUR 2 billion |
| Tenor | 12 years |
| Coupon/Yield | 5.625% / 5.734% |
| Oversubscription | 4x |

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