Land of Nordrhein-Westfalen (Germany)

The only German land issuing sustainability bonds

Among Germany’s (Aaa stable) regional governments (Länder), the Land of Nordrhein-Westfalen (NRW, Aa1 stable) has been a pioneer in the issuance of sustainability bonds since 2015. In March 2019, NRW issued its fifth consecutive annual sustainability bond (EUR2.25 billion), meeting growing investor demand and consolidating its presence in the market. NRW is now one of the largest issuers of sustainability bonds in Europe, with a total outstanding volume of EUR8.4 billion. We consider this development to be credit positive as it improves NRW’s already excellent capital market access by diversifying its investor base and supports its sustainability strategy.

For several years, the Land has been promoting its sustainability strategy through various initiatives, which includes ambitious plans to reduce CO₂ emissions. This is particularly significant given that NRW has a strong industrial background and a history with one of the largest coal mine areas in Europe (Ruhr area). The region produces around one third of national carbon emissions, while constituting approximately 22% of Germany’s population. As a result, it has significant potential to reduce national emissions.

NRW is also leading the way among the Länder in terms of transparent reporting on sustainability standards. It applies the United Nations (UN) taxonomy on Sustainable Development Goals (SDG) for its own reporting, and we expect NRW to attract increased investor interest and a more diverse investor base.

Exhibit 1
Targeted distribution of the proceeds of NRW’s fifth sustainability bond

Definition of sustainability bond: see International Capital Market Association (ICMA) guidelines.
Source: Issuer
NRW is at the forefront of sustainability bond issuance in Europe

In March 2015, NRW became the first - and is since then the only one - of the German Länder to issue a sustainability bond (of EUR750 million). Since then, it has continued to issue these bonds, with each issuance increasing in volume (see Exhibit 2). In March 2019, the Land raised EUR2.25 billion with its fifth sustainability bond. We consider this development to be credit positive as it improves NRW’s already excellent capital market access and diversifies its investor base. In this context we note that investors are shifting towards green, social and sustainable investment opportunities.

Exhibit 2 shows that proceeds from recent sustainability bonds are predominantly used for education and sustainability research as well as the modernisation of educational and health facilities, which together make up more than half of the amount. Typically, social related expenses are taking a larger share of German Länder budget, as opposed to green (or climate) related expenses.

Exhibit 2
Targeted use of proceeds from NRW’s sustainability bonds since 2015

As shown in Exhibit 3, more than 6% of its outstanding debt of EUR140 billion (as of mid-2019) is funded via sustainability bonds (EUR8.4 billion). NRW’s medium-term financial planning indicates a stable nominal debt level, and we expect the share of sustainability-related funding sources to continue to increase.

Exhibit 3
NRW’s sustainability bonds are continuing to increase in volume

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NRW is now one of the largest and most active issuers in Europe's growing sustainable investment market. So far, no other German Land has issued green, social or sustainability bonds in capital markets. When compared with other regional and local governments (RLGs) in other countries, the amount of NRW’s bonds exceeds the total amount of all RLGs in other individual countries. For example, in 2018, two Spanish issuers – Comunidad Autonoma de Madrid (Baa1 stable) and The Basque Country (A3 stable) – issued a total of EUR1.5 billion worth of sustainability bonds, while a further eight individual Swedish RLGs and three French RLGs have issued a combined total of around EUR0.8 billion each (see Exhibit 4).

Exhibit 4
Among European regional and local governments, NRW is the leading issuer of sustainability bonds in Europe (NRW versus aggregated figures for selected European countries’ RLGs)

![Exhibit 4](image)

Bond proceeds are closely related to NRW’s sustainability strategy

The proceeds of NRW’s sustainability bonds are closely related to the regional government’s sustainability strategy, adopted in June 2016. This strategy is, in turn, closely linked to the United Nations’ 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals (SDGs, see highlight box), which were adopted by the United Nations Sustainable Development Summit in September 2015. NRW is ahead of other Länder in terms of the implementation of the SDGs into its reporting practices.

The regional government uses the bond proceeds for sustainability-related projects in cooperation with other stakeholders, including regional administrative units, citizens, businesses, municipalities and academia. All bonds are certified with a second party opinion by an independent provider, a fact which provides comfort to investors. Projects fall into seven broad categories:

- Education and sustainability research
- Inclusion and social cohesion
- Public transport and local mobility
- Climate protection and energy transition
- Protection of natural resources
- Sustainable urban development
- Modernization of education and public health facilities
Exhibit 5 shows how the proceeds of NRW’s latest sustainability bond have been used across these seven categories. With these proceeds, NRW has funded a total of 52 individual projects. This includes a new project in 2019, which is focused on the provision of free tuition for the last year of kindergarten, as well as incentives for young academic researchers.

Exhibit 5
NRW’s latest sustainability bond proceeds, project categories related to UN SDGs

NRW is aiming to increase the number of municipalities that strategically pursue sustainability goals. In addition, it is aiming to increase the number of employees in the environmentally related businesses by 2025.

NRW is also active in discussions on sustainable development on both the EU and federal level. The Land initiated a German Bundesrat decision on EU sustainability in February 2017. NRW was also the first Land to implement a Climate Protection Law (Klimaschutzgesetz), including statutory climate protection targets and a Climate Protection Plan (Klimaschutzplan) in 2013.
NRW is aiming to produce more than 30% of its electricity through renewable sources by 2025 and aiming for further considerable steps towards greener energy production. In this context, NRW is steadily reducing greenhouse gas emissions. According to NRW’s environmental law, the reduction should reach at least 80% by 2050 compared to emission figures as of 1990. This means that in 2050 only around 74 million tons of CO₂ equivalents would be allowed, compared to current emissions of slightly above 250 million tons of CO₂ equivalents (see Exhibit 6).

Exhibit 6
NRW’s greenhouse gas emissions have been decreasing since 1990

2018 data is preliminary (2018p)
UN Sustainable Development Goals
In 2015, more than 190 countries agreed to incorporate 17 UN-backed goals as national targets, to be achieved by 2030. The 17 goals align with 169 sustainable development targets, which are mainly focused on alleviating poverty, clean energy and water, and climate action. The goals are intended to help both public and private stakeholders align their investment priorities with larger societal goals.

The sustainable development goals build on the Millennium Development Goals, while including new areas such as climate change, innovation and sustainable consumption. The SDGs are also broader in scope, applying to all countries, rather than just those that are developing.

Exhibit 7
17 UN Sustainable Development Goals

Source: United Nations Development Programme
Moody’s related publications

Issuer research

» Land of Nordrhein-Westfalen (Germany): Update to credit analysis, May 2019
» Nordrhein-Westfalen, Land of: Nordrhein-Westfalen’s green policy delivers credit positive economic boost, September 2015

Sector research

» Regional & Local Governments – Europe: Borrowing requirements in big five EU economies will decline in 2019, then stabilise in 2020-21, July 2019
» ESG Focus: July 2019, July 2019
» Regional Governments (Länder) – Germany: 2019 outlook positive on favourable economic growth, December 2018
» Green Bonds – Global: Adoption of UN Sustainable Development Goals to drive demand, November 2018
» Green Bonds - Global: Global municipal green bond issuance will continue to rise, March 2018

Rating methodology

» General Principles for Assessing Environmental, Social and Governance Risks, January 2019

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

1 Sustainability Bonds are bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both Green and Social Projects. Sustainability Bonds are aligned with the four core components of both the Green Bond Principles and Social Bond Principles with the former being especially relevant to underlying Green Projects and the latter to underlying Social Projects. see: The Sustainability Bond Guidelines, published June 2018; https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/
3 ISS-oekom (formerly oekom research AG); all five NRW’s sustainability bonds (2015-2019)
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