



BNG Bank Sustainability bonds method report 2023

July 2023

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Colophon

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1 Scopes and objectives

This document describes the principle of a Framework for the BNG Bank Sustainability Bonds (SB) for the top class of sustainable municipalities in the Netherlands. For SBs the international Sustainability Bond Guidelines (SBG) of June 2018 apply.

“Sustainability Bonds are bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both Green and Social Projects. The Sustainability Bond Guidelines as of June 2018 have been published to confirm the relevance of the Principles in this context and facilitate the application of their guidance on transparency and disclosure to the Sustainability Bond market. The common four core components of the Principles and their recommendations on the use of external reviews and impact reporting therefore also apply to Sustainability Bonds.”

ICMA: <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>.

Sustainability Bond Guidelines provide transparency and disclosure to the market. A Sustainability Bond is a normal bond with specific use-of-proceeds requirements, namely for sustainable projects or borrowers, resulting in improved sustainability performance.

The first principle of SBs is that there must be a clear definition of the relevant criteria. Het PON & Telos issues since 2014 annually a National monitor for sustainable municipalities, originally at the request of the Dutch Ministry of Infrastructure and Environment. This National monitor is based on a scientific framework for measuring sustainable development at municipal level.

The framework and the data used in the monitor to measure the performance of all Dutch municipalities provide together a sound base for the fulfillment of the requirements of BNG Bank in defining its criteria for the SB. The results of the national monitor are made publicly available on an annual basis at <http://www.sustainablecitiesbenchmark.eu/>. The National monitor covers all 344 Dutch municipalities and uses 135 indicators for measuring the economic, ecological and social-cultural aspects of sustainability. Furthermore, to make a fair comparison in performance, 14 types of municipalities are distinguished based on size (small, medium-sized and large) and more qualitative characteristics (agricultural, industrial, historical, tourist, etc.)

Telos (1999) and Het PON (1947) merged in January 2020 and go further as Het PON & Telos. Het PON & Telos is an independent research institute with a highly qualified academic staff, official partner of Tilburg University. It's specialized a.o. in operationalizing and monitoring sustainable development at local and regional level and takes an integrated and broad view on sustainability. This means that not only the environmental aspects of sustainability are looked at but also at the economic and social aspects. Sustainability monitoring, as carried out by Telos, can be seen as a form of 'public accounting'. The data used come from a great number (around 25) official and publicly available sources, such as Statistics Netherlands (CBS), the Netherlands Environmental

Assessment Agency (PBL), the National Institute for Public Health and the Environment (RIVM) and the Netherlands Institute for Social Research (SCP), and many others. BNG Bank asked Het PON & Telos to make yearly impact reporting for the active sustainability bonds. The basis for the methods should be the same as in 2019 (Zoeteman, Mulder & Dagevos, 2019), meaning that it also was requested to include an assessment of the performance of Dutch municipalities from the point of view of the UN Sustainable Development Goals (SDGs). The present framework provides in the first place an overview of elected municipalities based on their performance according to the triple P-sustainability method as used in earlier bonds of BNG Bank. In addition, the contribution of municipalities to the realization of the SDGs is also to be shown. Since this year, a separate SDG framework has been developed in which all municipalities achieve an SDG score in addition to a 3P score.

2 Monitoring of municipal sustainability

2.1 The triple P approach and the SDGs

The concept of sustainable development, launched in 1987 by the UN Brundtland Commission in its report *Our Common Future*, gained further momentum when the United Nations (2015) adopted September 2015 new 2030 Global Sustainable Development Goals (SDGs). These international agreements envisage a move towards responsible environmental performance on the part of nations, businesses and cities as well as towards an economic and social performance that results in greater prosperity for all (Zoeteman, 2012). ICLEI (Local Governments for Sustainability, 2017) has defined sustainable municipalities as:

‘Cities (that) work towards an environmentally, socially, and economically healthy and resilient habitat for existing populations, without compromising the ability of future generations to experience the same’.

Its essence is characterized as the ‘triple P’ (People, Planet and Profit) approach, which integrates these three elements in all initiatives on the territory of a municipality or nation by generating ‘inclusive green growth’ (OECD, 2015). Although the emphasis is still on activities that affect our climate and environment, cities are gradually moving to investment projects and policy initiatives where reducing environmental pressure is coupled with improving long-term economic prosperity and social performance. In a Sustainable City, all three P’s of people, planet and profit are in balance and benefit of initiatives at the same time.



The United Nations SDGs include a set of 17 Global Goals which cover, more defined and categorized from a policy than from a scientific point of view, urgent tasks to be addressed by national governments, local authorities and private actors. A detailed analysis of the differences and overlaps between the triple P approach, used in this framework, and the 17 Goals of the SDGs shows that a large part of the indicators are the same but for some goals clear differences occur. Goal 14 on seas and oceans is for example not included because this is not relevant for municipalities. Governance issues, as implemented by partnerships, have explicitly not yet been included in the triple P approach, amongst others because of the different nature of this domain and because comparable data are difficult to collect.

2.2 The position of Dutch municipalities in the wider EU context

The Netherlands is a densely populated and wealthy region within the EU. The Dutch population contributes 3.3% to the total EU population, while the surface area of the country is only 0.9% of the total EU surface. Its GDP contributes 4.3% to the total GDP of the EU. The high population density and high economic output, in combination with its location in a delta of several larger European rivers, defines to a large extent the specific sustainability challenges of municipalities in the Netherlands. During its history the Dutch have struggled to gain land from the sea; spatial planning and water safety therefore have been a high policy priority for centuries. An additional characteristic of Dutch municipalities is their relative large number and small size.

Most municipalities in the Netherlands are rather small to very small. So metropolis type of sustainability problems, as can be found in Paris, London, Rome, Hamburg, Vienna and Barcelona, which are all above 1 million inhabitants, are less intense in the cities of the Netherlands as the largest, Amsterdam and Rotterdam, still have less than 1 million inhabitants.

Yet, other factors than municipality size, such as GDP/capita, high density of economic activities (including intensive cattle raising) per km², a locally diminishing population size, sea harbor activities, industrial history, tourism, etc. are also important from a sustainability point of view. Dutch villages and cities are characterized by high specialization in an environment of close neighbors and the need to offer their population a high potential of environmental, social and economic qualities.

3 Measuring sustainability at municipal level: the 3P approach

Using the present framework we annually can provide an overview of the (development of) municipal sustainability. A "photo" is made of the "state of sustainability" of all Dutch municipalities at a point in time (in this case 2023) and gives information whether municipalities are successful in achieving important long-term sustainability goals. By doing this over several years, insight is also gained into trends and whether there are differences in developments between (different types of) municipalities.

The road to achieving the long term sustainability goals is a different one for each municipality, often paved with many bumps. That is why the photo shows the results of all 344 Dutch municipalities. On the one hand to provide a clear picture of what individual municipalities could focus on, and on the other hand to learn from each other's developments and strengths / weaknesses.

In order to make sustainability measurable, a clear definition is required to begin with. Het PON & Telos defines sustainability broadly: "Sustainable development is a development that meets the needs of the current generation, without compromising the ability of future generations to meet their own needs". In our view, sustainability is much more than environmental issues or energy. It is about developing the three components (capitals) of sustainability in balance: ecological capital, socio-cultural capital and economic capital. In balance, because the three capitals are allowed to grow, preferably together, but in any case not at the expense of another capital. In our monitoring in general and so in this present framework, we draw up that balance.

We do this, in a scientifically responsible and transparent manner, across the full width of the three capitals. In total, divided over the three capitals, we review 22 overarching so-called stocks. Stocks such as nature and landscape, social participation and competitiveness. For each of these stocks long-term goals have been identified based on scientific theories, longtime experience and in consultation with various municipalities in the Netherlands. This year, based on new (societal) developments and (scientific) insights, the goals have been examined more closely and partly reformulated. With the aid of 135 indicators, which have been carefully selected using scientific criteria, the realization of the long-term goals linked to the stocks is mapped.

3.1 Sustainable development and the coronavirus

Sustainable development is not always in our hands. Sometimes there are autonomous developments or major system shocks over which we have little or no influence, but which do appeal to the resilience of and have an effect on the living environment of communities in society. The origin and development of the coronavirus is an example of such a system shock. A shock that has made even the most ingrained habits no longer self-evident. The world is (for a moment) turned upside down. From a sustainability perspective, it is

important that we respond sensibly to developments and learn from our vulnerabilities and strengths. And that we do not lose sight of the long-term sustainability goals.

Every year we reflect upon the framework we use for mapping sustainable development to new (scientific) insights in the field of sustainability. This year, too, we looked into this mirror and made a number of necessary changes. In doing so, we immediately put our words from above into action: what can we learn from the Corona crisis about our society so far, and what does this mean for the way we look upon and measure sustainable development? Reflecting on these questions, we concluded that two major changes to our measurement system were necessary.

First, we divided the original "health" stock into two stocks: "health care" and "health and lifestyle". This crisis shows in a very confronting way that both these themes are important for sustainable development in their own distinctive way. The present crisis shows once and again how important but also how vulnerable the health care sector in the broad meaning of the word is. The health care sector was hit in the first half of 2020 in the Netherlands and is being hit again when writing this method report. The demand for care increased exponentially, and the care system initially proved not or hardly not to be flexible enough to deal with this crisis. Care personnel was overcharged due to the overload of patients infected with the corona virus, and regular care was postponed due to an imminent shortage of beds and materials. Where the care system describes how we organize our demand for health care, healthy lifestyle rather describes the prevention side in the context of sustainable development. Worldwide, there is an increasing focus on preventive health (care) and the effects of lifestyle on good health. In addition, scientific studies regarding the impact of the corona virus show that people with an unhealthy lifestyle are more susceptible to the virus, and also experience a more problematic sickness.

A second change we made in our measurement system regards the original stock "housing and living environment". This stock has been split into two separate stocks, "housing" and "living environment". Recent literature underlines the importance of having a pleasant, healthy and affordable home as an important condition for people's well-being. Due to the corona virus, we're forced to stay more in and around our own house. The availability and accessibility of good housing is even more than in the past an increasingly important condition for being able to function as a citizen. The living environment has also come to be seen in a slightly different light due to the crisis. The living environment is about having the right facilities at hand but is also about an environment that is healthy and safe too. So having the right facilities for basic necessities of life in the neighborhood has gained in importance. But at the same time the first results of research on the relation between the corona crisis and the quality of the living environment indicate that people living in poorer living conditions (e.g. bad air quality) are more at risk. A description of the methodology can be found in annex A.

4 Eligibility/Sustainability criteria

Municipalities have quite different sustainability challenges. From the beginning, Het PON & Telos recognized disadvantages of ranking municipalities using a standard set of sustainability goals, without taking into account e.g. different historical and geographical backgrounds. Therefore Het PON & Telos designed an approach that compensates to a certain extent for the limitations of simply ranking municipalities using only their sustainability score and not considering the differences in background.

This ‘compensation’ approach is operationalized by using city typologies. A city type embodies a set of typical characteristics or features of a group of cities. These characteristics have far-reaching consequences for the sustainability performance of these cities and therefore have impact on a number of sustainability indicators used in the measurement system. Some cities have to deal given their industrial history with a high environmental pollution level, others with a relative high proportion of the population working in low wage jobs, some have to deal with a shrinking population others with a housing stock that is relatively new. The level of education of the population plays a role, the diversity of economic sectors, and so on. Like in 2022 and previous years, 14 types of municipalities are distinguished. Three are based on city size: small, middle-sized and large municipalities, and 11 are based on more qualitative characteristics: ‘Agricultural’, ‘Center’, ‘Former industrial’, ‘Green’, ‘Growth’, ‘Historic’, ‘New Town’, ‘Residential’, ‘Shrink’, ‘Tourist’ and ‘Work’ cities.

Table 4.1 Characteristics and definitions for the typologies

Characteristic	Typology	Definition
Size	Small municipalities	Municipalities with less than 50,000 inhabitants
	Medium size municipalities	Municipalities with between 50,000 and 100,000 inhabitants
	Large municipalities	Municipalities with over 100,000 inhabitants
Demographic development	Growth municipalities	Municipalities with a growth rate of inhabitants larger than 5% over the last 10 years
	Shrinking municipalities	Municipalities with a growth rate of inhabitants smaller than -2% over the last 10 years
Housing stock	New towns	>35% of the housing stock was built after 1990
	Historic municipalities	>8% of the housing stock was built before 1905, and the municipality has at least one protected historical area
Employment opportunities	Residential municipalities	Municipalities with an employment function

	Work municipalities	Municipalities with an employment function >100, and with more than 14,000 jobs
Soil use	Green municipalities	Over 30% of the municipal surface is forest or natural area
	Agricultural municipalities	Over 75% of the municipal surface is for agricultural purposes
Others	Centre municipalities	Municipality contains over 15% of the inhabitants of the Nuts3 area, and has an above average level of facilities and services
	Former industrial municipalities	In 1960, more than 55% of the inhabitants worked in the industrial sector
	Touristic municipalities	Over 10% of the companies based in the municipality is related to tourism, or over 14% of the jobs in the municipality is in the touristic sector

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Annex A. The Telos Method of measuring sustainability

The methodology developed by Het PON & Telos, to measure sustainable development, is based on the triple P approach (people, planet, profit). This method has been developed and refined by Het PON & Telos since 2000. It is based on a detailed comparison of municipalities using in 2023 147 scientific indicators for which quantitative data are available from reliable public sources.

The three P's are conceptualized as the socio-cultural capital (people), the ecological capital (planet) and the economic capital (profit). The different aspects of which a capital is composed, are described by stocks (themes). For example, the socio-cultural capital is composed of stocks such as 'Social and Economic Participation', 'Arts and Culture' and 'Healthcare'. The ecological capital consists of stocks such as 'Soil', 'Water' and 'Air', and the economic capital consists of stocks such as 'Labor', 'Competitiveness' and 'Infrastructure and Mobility'. In total, there are 21 stocks divided over the three capitals. Every stock in the monitoring method, has one or more sustainability requirements. Examples of these requirements are 'The air is clean' (air stock), 'Everybody has access to education facilities' (education stock) or 'All energy should come from renewable energy sources' (energy stock).

The next step is to measure for each municipality separately, to what extent they live up to these requirements. For that purpose, the 135 indicators are used. Every stock with its requirements can consist of multiple indicators. For example, the requirement 'All energy should come from renewable energy sources' in the energy stock, can be measured by the indicators 'Energy generated by solar panels, and 'Total amount of power generated from windmills'.

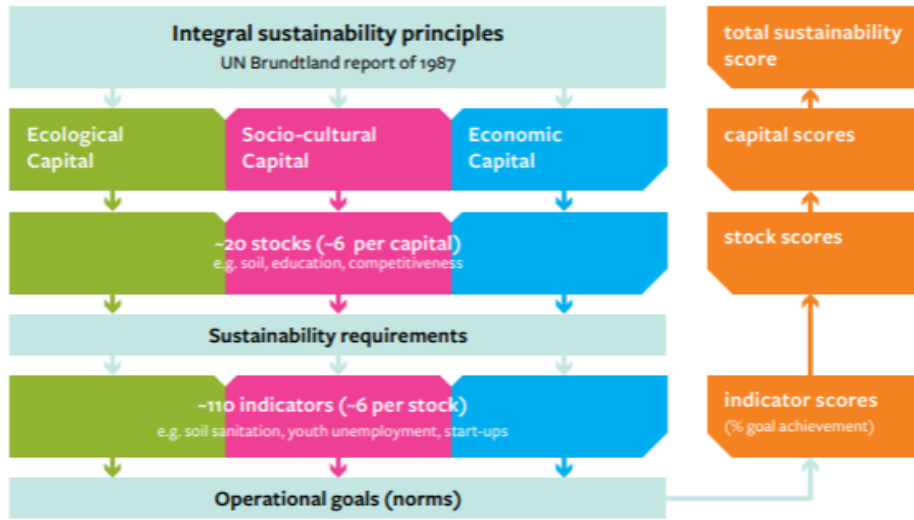
By means of norms, indicator values are calculated to indicator scores. The scores are basically percentages, ranging from 0 to 100, which stand for the extent to which the requirements are met. They represent in other words the % goal achievement. After these indicator scores are calculated, they can be aggregated to stock scores. All indicators within a stock weigh equally amongst each other. Subsequently, stock scores are merged into capital scores, in which all stocks within a capital have the same weight. In the end, the capital scores are added up with equal weight to the total sustainability score of a municipality. This 'total sustainability score' gives the average percentage of goal achievements of all the included sustainability requirements.

The recalculation of the indicator values into indicator scores through norms, makes it possible to compare municipalities of different size, density, composition, etc. among each other on sustainability. An overview of this method is shown in figure 3.1. An overview of all the stocks and indicators used in this framework report is shown in table 3.1.

The final result is that for all 344 Dutch municipalities an overall sustainability score has been calculated, varying theoretically between 0-100% achievement of the integrated sustainability goals.

Overview of the Telos Sustainability Monitor Method

TELOS SUSTAINABILITY MONITOR METHOD



Quantitative data for the 147 indicators used, have been collected from public official sources.

Capital and stocks	
Socio-cultural capital	Social participation Political participation Economic participation Arts and culture Healthcare Lifestyle and health Education Safety Residential environment Housing
Ecological capital	Soil Water Air Annoyance and external safety Nature and landscape Energy Resources and waste
Economic capital	Labour Competitiveness Knowledge Spatial conditions for businesses Infrastructure and mobility

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About Het PON & Telos

Improving social decision-making

Het PON & Telos is a social knowledge organisation at the heart of society. We consider it our mission to improve social decision-making. We do this by linking scientific knowledge to practical knowledge. In this process every voice counts! We collect, investigate, analyse, and interpret opinions and facts using stimulating approaches and innovative methods. In doing so, we are always focused on sustainable development: the harmonious connection between social, environmental and economic objectives. In this way we contribute to the quality of society at large, now and in the future.

With a multidisciplinary and creative team of nearly 30 research consultants, we work mainly for local and regional authorities in the Netherlands, but also for corporate bodies, banks, care and welfare institutions, funds, and social organisations. We work closely with civic organisations and other knowledge institutions and are an official partner of Tilburg University. We use our knowledge and insights to advise initiators, policy-makers and managers. This enables them to make informed choices and give a positive impulse to the society of tomorrow.

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