

Kalin Anev Janse in interview with Börsen-Zeitung

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Interview with Kalin Anev Janse, ESM Chief Financial Officer

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Börsen-Zeitung: What are your personal lessons learned from the Covid-19-pandemic?

Kalin Anev Janse: The pandemic has showed us the fragility of life. It was a health crisis as well as an economic one. As a father of two toddlers, I look through my kids eyes into their future. We need to learn how to fight such emergencies faster and more globally together in the future. And we should focus on the big crises ahead of us: climate change, loss of biodiversity and negative effects of inequality.

As a CFO, I see how our financial systems can help us to invest in companies, projects and institutions, addressing these big societal and economic topics shaping coming decades. We have seen this with the rise of social bonds to fight the Covid-19 crisis and an ever growing green bonds market.

And what are the lessons learned from the perspective of the ESM/EFSF?

We have seen Europe act fast in this crisis: the rapid monetary response from the €1.85 trillion ECB PEPP programme, €540 billion first European fiscal response by ESM/EC/EIB and €750 billion Next Generation EU. We have shown that as Europeans we are the strongest when we act together.

But it goes beyond our own continent. While vaccination rates were off to a slower start, Europe is now among the top group globally. In March 2021, via Covax, Europe shipped as many vaccines to Laos as to member state Luxembourg. By May, Europe had produced more than 400 million vaccines, of which half were shipped globally.

As ESM, we play our own role in Europe's architecture. We setup the €240 billion Pandemic Crisis Support for euro area countries and we have boosted our ESG investments.

The ESM is one of the first EU Institutions, which is sustainable. What is your aim in the field of sustainability, what do you want to show to the public?

We made ESG one of our top priorities, as it has always been part of our DNA, before it was popularized. In 2011, during the euro financial crisis, we issued bonds that contributed to economic and social stability, well before the Social Bonds framework was designed.

As an institution for 19 European countries and 340 million citizens, we wanted to commit to the highest standards of public service and Environmental Social Governance (ESG).

The ESM has significantly increased its ESG presence, could you please elaborate on the steps taken by the ESM?

ESM became a signatory to the United Nations Principles for Responsible Investment (UN-PRI) in 2020. It is recognised as the leading global network for ESG investors. ESM includes ESG criteria within its investment processes to further push responsible investment practices. We are committed to responsible investment

while still pursuing core objectives, namely creditworthiness, liquidity, and return.

We have boosted our investments in labelled bonds such as green, social and sustainability bonds: €475 million in 2018, more than € 1 billion in 2019 and we increased it to €4.5 billion in 2020. While the ESG market grew from €171 billion in 2018 to €484 billion in 2020, a 2.8 times increase. We invested 10 times more in the same period. Not only did the entire pie grow, we took a bigger piece of the pie. This is a significant commitment.

The ESM's investments in labelled bonds have been diversified targeting various environmental and social objectives. Our green bond investments have ranged from funding sustainable transportation systems (with the aim of greenhouse gas emission reductions and sustainable urban transformation) to the ones targeting biodiversity (through water treatment, cleaning of wastewater) or energy recovery (from wastewater).

What are your next steps in sustainability?

We want to go further and become better at integrating ESG criteria into our investment process. We are implementing a monitoring and scoring process for our investments, taking into account the UN Sustainable Development Goals (SDGs) as well as the ESM's own ESG priorities. We are building an in-house framework and analysis, working with specialist rating agencies who monitor ESG factors.

Then, we consider the EU Taxonomy as a critical step in sustainable finance, placing Europe as the leading economy in green initiatives and investments. We joined European Commission's Platform on Sustainable Finance to help shape the future. As the Taxonomy is closely related to climate change initiatives, it could potentially be reflected in the environmental side of our ESG approach.

The ESM has embraced sustainable finance very seriously, and thus stepped up engagement as investor and issuer on ESG matters.

In 2020 the ESM established a framework for the issuance of social bonds. How does this system work?

As part of Europe's first corona crisis response in Spring 2020, we created a new instrument, the Pandemic Crisis Support ("PCS") worth up to 2% of euro area member states' GDP and a potential size of €240 billion. Because the target is Covid-

19 related healthcare costs, it lends itself to issuance of social bonds.

How does that work in practice?

Should a country apply for Pandemic Crisis Support, it will need to complete a Pandemic Response Plan, specifying healthcare, cure and prevention costs directly related to the Covid-19 pandemic.

The money can be broadly used: hospitals; cure and rehabilitative, ambulatory and rehabilitative care, diagnostics, pharmaceuticals, preventive care, health administrations, and health-related long-term care. And vaccination programmes of course.

We developed a social bond framework compliant with ICMA's core social bond principles. It was reviewed by ESG rating agency Sustainalytics. We will publish the use of proceeds, so investors know the money is used for social purposes, justifying a social bond.

Will the ESM become one of the biggest issuers of social bonds in the future?

The PCS is available until end 2022. For now, it has not been used and serves as a protection for euro area countries. The European Commission with the SURE programme has become the biggest social bond issuer. We need to see how this develops in the next 18 months. If spreads widen countries might opt to take the Pandemic Crisis Support.

What do investors ask you as a sustainable institution and more importantly as a significant bond issuer?

That depends on the demand for our instruments. Almost every investor meeting is about ESG these days. Whether we speak with investors from Japan or Norway. We have seen the discussion broaden from "Environment" to "Social" and "Governance". The pandemic was a catalyst for "S," some of the Covid-19 responses were financed by social bonds.

The ESM has experienced this first hand, in our interactions with our own investors, which increasingly take our ESG approach into consideration in their decision-making process.

Investors request information on our internal practices, policies, and governance that ensure a high standard of ESG best practices. Our Carbon Footprint report draws a lot of attention. The report monitors and measures the carbon footprint arising from the ESM's internal operations, and guides the design of measures to enhance its environmental practices.

And numbers speak for themselves. Our ESG webpages are among the most visited parts of the ESM website.

Where do you want to stand as a sustainable institution in two and five years' time? What is on your agenda in this respect?

It is good to set goals, and even better to surpass them. The ESM's paid-in capital is becoming greener each year. We have €80 billion paid in capital, one part is deposited with Euro area central banks and another is invested in the market. The invested part went up from €34 billion in 2019 to €45 billion in 2020. Indeed, our ESG investments have increased considerably in the past year.

Going forward, the ESM intends to further integrate ESG criteria into its investment process and support European initiatives in this area.

The ESM invests the paid-in capital in green and sustainable investments: What are the biggest challenges as a sustainable investor in financial markets, especially the transition phase?

Being able to invest in quality ESG assets is always a challenge. Thanks to the work on an EU Taxonomy we have an opportunity to find agreement on what is quality and what is not. We are keen to ensure that we avoid so-called green-washing or social-washing assets when we construct our investment portfolios. By signing up to the UN-PRI we are demonstrating how important this issue is for us.

Is Europe ahead of everyone else?

Yes. There are currently more than €1.5 trillion in ESG assets trading in the market, and 50% are denominated in euro. Only 27% in dollar. The main issuers come from Europe as do the main investors. European countries, from Germany to Italy, have issued green bonds.

In April, this was reinforced with the European Union climate deal, committing the EU to more than halve greenhouse gas emissions by 2030 and reach zero net

emissions by 2050 and the announcement of the EU Taxonomy.

The same month, in my blog with Columbia law professor Anu Bradford, author of “The Brussels Effect: How the European Union Rules the World”, we explained why the EU Green regulation and EU Taxonomy could become a gold standard, why global businesses could both adhere to these new regulations in Europe and help export them worldwide.

Conversely, the US Treasury has issued no green bonds, and the US dollar lags the euro as currency of choice to issue, or invest, in ESG finance.

The reason for that?

Under former President Donald Trump, the US sought to actively limit ESG investing. Now under Joe Biden the US is playing catch-up. Thus, in the global efforts to rebuild a sustainable, post-pandemic economy, the EU is leading the way.

Solving the pandemic and climate change crises needs a global effort, and Europe can serve as catalyst for such a transformation.

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