

SUSTAINABLE BANKING
NETWORK (SBN)

CREATING GREEN BOND MARKETS – INSIGHTS, INNOVATIONS, AND TOOLS FROM EMERGING MARKETS

OCTOBER 2018

#SBNreport



About this report

Research undertaken by IFC and the Climate Bonds Initiative (CBI) on behalf of the Green Bond Working Group of the Sustainable Banking Network (SBN) (www.ifc.org/sbngreenbond)

- **22 country responses (20 SBN countries)** to a survey conducted from Feb-June 2018
- **Extensive consultation** with Working Group members, international experts, and wider SBN community
- **8 country case studies** – Brazil, China, Indonesia, Malaysia, Mexico, Morocco, Nigeria, and South Africa)
- **1 regional case study** – ASEAN (Association of Southeast Asian Nations) region
- A review of **12 national and 1 regional green bond framework (ASEAN)** that have been launched or are in development.

Key findings

- Green Bonds are an effective instrument to help achieve the Paris Climate Agreement and Sustainable Development Goals (SDGs).
- National guidance is proving essential to the creation of green bond markets.
- National and regional case studies demonstrate the need for a combination of policy leadership and market-based action to ensure success.
- Policy makers are promoting harmonization, as indicated by a review of 13 national or regional green bond frameworks, which align with global standards (GBP, CBS)
- More effort is needed to raise awareness and build capacity.
- Country experiences point to a **Toolkit for Developing Green Bond Markets**, which includes common objectives, a planning matrix, a roadmap and capacity building needs assessment.

Green bonds advancing in emerging markets

- Global green bond issuance surpassed US\$160bn in 2017 and is expected to be US\$180bn-US\$210bn in 2018 (up to US\$250bn)
- In the emerging markets, as of June 2018, **China is the largest issuer (US\$57.1bn)**, followed by Mexico (US\$6.7bn) and India (US\$6.6bn)
- **The emergence of green sukuk** was led by Malaysia's Tadau Energy Sdn Bhd in July 2017, raising RM250m (US\$59m). 4 other green sukuk have since been issued in Malaysia, bringing total issuance to RM2.4bn.
- **The first sovereign green bonds** and **sovereign green sukuk** were also issued:
 - Fiji's FJ\$100m (US\$50m) sovereign green bond (Oct 2017)
 - Nigeria's NGN10.69bn (US\$30m) sovereign green bond (Dec 2017), and
 - Indonesia's first sovereign green sukuk (Islamic bond) (US\$1.25bn)(Feb 2018).

Green bond rules in Emerging Markets



13 Frameworks were compared based on

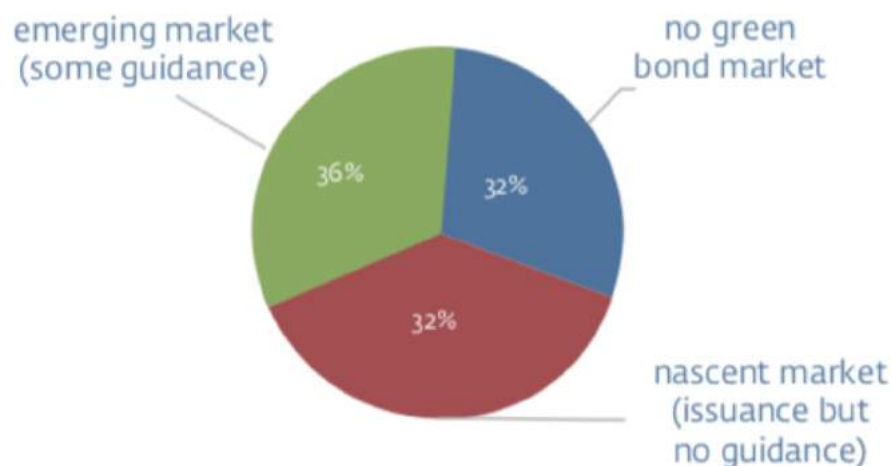
- ✓ Alignment with international guidelines (e.g. GBP, Climate Bonds Standard)
- ✓ Use of proceeds
- ✓ External reviews
- ✓ Requirements for verifiers

Guidelines also under development in Egypt, Jordan, Lebanon and Tunisia

| FINANCIAL SERVICES AUTHORITY REGULATIONS | GREEN BOND LISTING REQUIREMENTS | PRIVATE SECTOR VOLUNTARY INITIATIVES |
|--|---------------------------------|--------------------------------------|
| Association of Southeast Asian Nations (ASEAN) | Chile | Brazil |
| China | Kenya (in development) | |
| India | Mexico | |
| Indonesia | Peru | |
| Malaysia | South Africa | |
| Morocco | | |
| Nigeria (in development) | | |

Practical tools needed for market development

BREAKDOWN OF SURVEY RESPONDENTS



| Drivers of green bond market development | |
|--|---|
| 1 | Opportunities identified by policymaker/regulators |
| 2 | Initiative taken by local financial institutions |
| 3 | Major environmental concerns requiring urgent financing solutions |
| 4 | Initiatives taken by stock exchanges |
| 5 | Initiative taken by local municipality, province or city |

TRAINING NEEDED

1. How to create pipelines of green bond projects and prepare issuers
2. Guidance and case studies to develop regulatory frameworks
3. How to integrate ESG risk and impact assessment at all stages of issuance

CHALLENGES

1. Lack of capacity within regulatory agencies
2. Insufficient demand for green bonds among local investors
3. Lack of supporting regulation
4. Lack of qualified verifiers
5. Insufficient pipeline of eligible assets

A Toolkit for Green Bond Market Development in Emerging Markets

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Common Objectives for Developing Green Bond Markets

alignment Aligning with international good practices, learning from peers, and developing common approaches are ways that SBN members are leapfrogging and accelerating local green bond market development. Alignment with other jurisdictions also enables cross-border issuance and investment.

flexibility Local market conditions must be accounted for and local market players should be involved in the design of appropriate national guidance. Countries may choose to adopt either a principles-based approach or more stringent regulation. A phased approach may be suitable for many.



quality Market integrity and credibility are key components of green bond markets. Guidance should therefore include mechanisms for ensuring quality.

harmonization SBN members have noted the value of harmonizing where possible with global definitions of “green”, “social” and “sustainability” bonds and assets. Global definitions and common categories of what qualify as impact projects and sectors will build the credibility of bonds among international investors.

Self-Assessment and Planning Matrix

| Self-Assessment and Planning Matrix | | | |
|-------------------------------------|---|--|---|
| | Phase 1 | Phase 2 | Phase 3 |
| Market infrastructure | Review current debt capital market structure for bonds and its readiness/suitability for green bond growth | Develop supporting market infrastructure (index, dedicated exchange segment) | Organise an international investor roadshow to present the domestic green bond pipeline |
| Guidance | Initiate dialogue with domestic market players to consider and, if appropriate, develop national guidelines, aligned with international practices | Convene a Market Development Council with relevant capital market institutions to propose and consult on policy recommendations | Consider incentives as appropriate (grants for external reviews, tax exemptions) |
| Issuance | Assess readiness and opportunities for green bond issuance | Build demand side through engagement with local investors. Potentially deliver a Green Bond Statement from domestic investors and convene forums with selected potential issuers | Engineer demonstration issuances: such as sovereign, municipal, financial institution, and/or corporate bonds |
| Capacity building | Set up a promotional campaign to engage market professionals | Set up, partner and deliver training programs for issuers, investors, verifiers and regulators | Consider accreditation schemes for training programs, as well as dedicated training incentives for industry professionals |

Roadmap with Common Milestones



Capacity Building Needs Assessment and Mapping of Existing International Resources



The research assessed the different types of capacity building needed by SBN members and other market players. The findings help to prioritize the topics to be covered, the best channels for delivering support, and the institutions that need assistance.

An overview is also provided of the different types of capacity building already being provided by IFC, the World Bank Group, the International Capital Market Association (ICMA), the Climate Bonds Initiative (CBI), the UN and others.

THANK YOU

Access SBN knowledge resources



SBN Website: www.ifc.org/sbn | CBI Website: <https://www.climatebonds.net> | IFC Website: www.ifc.org

Contact: **Ms. Louise Gardiner** (lgardiner@ifc.org), SBN Green Bond Working Group Coordinator