FINDINGS OF MAPPING RESEARCH

Green bond market developments

in SBN member countries

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

- **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.
What are Green Bonds?

- Green bonds are debt securities issued by financial, non-financial or public entities where the proceeds are used to finance 100% green projects and assets.

- Just like regular vanilla bonds. “green” is a bonus feature to the bond.

- It’s about the projects and assets, not the issuer.

- The *green* label is a tool for investors.
Green bond issue is growing, driven by investor demand...

Use of green bond proceeds - 2018

- Energy: 31%
- Buildings: 28%
- Transport: 12%
- Water: 18%
- Waste: 5%
- Land Use: 4%
- Adaptation: 1%
- Industry: 1%
- ICT: 1%

USD 167 billion
... and supply is diversifying

Emerging Markets Q1 2017

- USD5.3bn
- 20% ABS
- 18% Development Bank
- 7% Financial Corporate
- 7% Government-Backed Entity
- 4% Loan
- 7% Local Government
- 1% Non-Financial Corporate
- 1% Sovereign

Emerging Markets Q1 2018

- USD8.4bn
- 30% ABS
- 16% Development Bank
- 8% Financial Corporate
- 13% Government-Backed Entity
- 33% Loan
- 1% Local Government
- 1% Non-Financial Corporate
- 1% Sovereign
African developments

Green bond issuance by country

<table>
<thead>
<tr>
<th>Country</th>
<th>USDm</th>
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<tbody>
<tr>
<td>South Africa</td>
<td>1.4bn</td>
</tr>
<tr>
<td>Morocco</td>
<td>356m</td>
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<tr>
<td>Nigeria</td>
<td>30m</td>
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<tr>
<td>Namibia</td>
<td>5m</td>
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Green bond use of proceeds

- **Energy**: 45%
- **Buildings**: 46%
- **Transport**: 4%
- **Water**: 1%
- **Waste**: 4%
- **Industry**: 4%
- **Land use**: 4%
- **ICT**: 1%
Markets thrive on rules

Voluntary rules drove early market growth, allowed global consistency

EM markets + targeted incentives require regulation

China’s regulations & definitions fast tracked a market

Other SBN members

France and now EU taxonomy & green labels regulation

Verifiers supervision: China, EU, Hong Kong, Mexico
# Green bond rules in Emerging Markets

**13 Frameworks were compared based on**
- Alignment with international guidelines (e.g. GBP, Climate Bonds Standard - CBS)
- Use of proceeds
- External reviews
- Requirements for verifiers

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

<table>
<thead>
<tr>
<th>FINANCIAL SERVICES AUTHORITY REGULATIONS</th>
<th>GREEN BOND LISTING REQUIREMENTS</th>
<th>PRIVATE SECTOR VOLUNTARY INITIATIVES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Association of Southeast Asian Nations (ASEAN)</td>
<td>Chile</td>
<td>Brazil</td>
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<tr>
<td>China</td>
<td>Kenya (in development)</td>
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<tr>
<td>India</td>
<td>Mexico</td>
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<tr>
<td>Indonesia</td>
<td>Peru</td>
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<td>Malaysia</td>
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Green bonds rules in Africa – Case studies

Who: Moroccan Capital Market Authority (AMMC)
Type of guidance: Green, Social and Sustainability Bond Guide
Key driver: 1) Morocco’s national ambition for renewable energy development; 2) making Morocco a green financial hub to bridge the gap between investors in the North and projects in the South
Highlights: Aligned with GBP with a mandatory external review and minimum requirements for verifiers
Process of Development: The COP22, hosted in Marrakech, let to a series of initiatives including the Marrakech Pledge – a commitment by African regulators to foster Green Capital Markets. The Guidelines were developed in partnership with IFC.

Who: Securities and Exchange Commission (SEC) of Nigeria
Type of guidance: Green Bond Regulation
Key driver: the development of a tool to finance Nigeria’s infrastructure gap and deliver sustainable and climate-resilient infrastructure for the country’s next development phase
Highlights: Aligned with international practice (GBP and CBS) with, additionally, the need to operate a segregated account for proceeds and a mandatory external review
Process of Development: The Capital Markets Committee and Ministry of Finance carried out consultation with internal experts such as from Climate Bonds, IFC and UNEP, before opening to consultation from domestic stakeholders.

Who: Johannesburg Stock Exchange (JSE)
Type of guidance: Green Bond Segment listing requirements
Key driver: 1) JSE’s sustainability goal of promoting responsible investment; 2) the need to finance South Africa’s energy transition
Highlights: Aligned with GBP with the addition of a mandatory external review
Process of Development: Strategy and Sustainability teams in JSE worked closely and carried out research on international practice, following which consultative workshops were held with domestic issuers and investors.
Practical tools needed for market development

BREAKDOWN OF SURVEY RESPONDENTS

emerging market (some guidance)

no green bond market

nascent market (issuance but no guidance)

TRAINING

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
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.

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

**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.

**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

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

- Policy maker and/or other market champion(s) initiate dialogue on green bond opportunity
- Capital market readiness is assessed for green bond issuance and/or other green finance instruments
- National green bond guidance released by the regulator or exchange
- First green bond(s) issued in domestic markets
- Market champions carry out green bond/ green finance promotional campaign
- Training provided for issuers, investors, regulators and verifiers

- The domestic green bond pipeline is presented to international investors
- Regulator introduces policy support and/or incentives
- Domestic investors issue a Green Bond Statement/ attend meetings with issuers
- A green bond segment and index are developed by the exchange
- A Market Development Council is launched with a work plan
- Capacity building is provided to develop a pool of local, credible, external review providers
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.