

SBN Green Bond Working Group

FINDINGS OF MAPPING RESEARCH

Green bond market developments

in SBN member countries

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Sustainable
Banking
Network

Climate Bonds INITIATIVE



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).

- **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

Proceeds to climate projects

- Vanilla bonds – no complicated structure
- Comparable pricing
- Refinance as well as project
- 90% investment grade

Any entity

- Governments & DFIs
- Corporates
- Asset owners: PPPs, banks, utilities, etc
- Municipalities

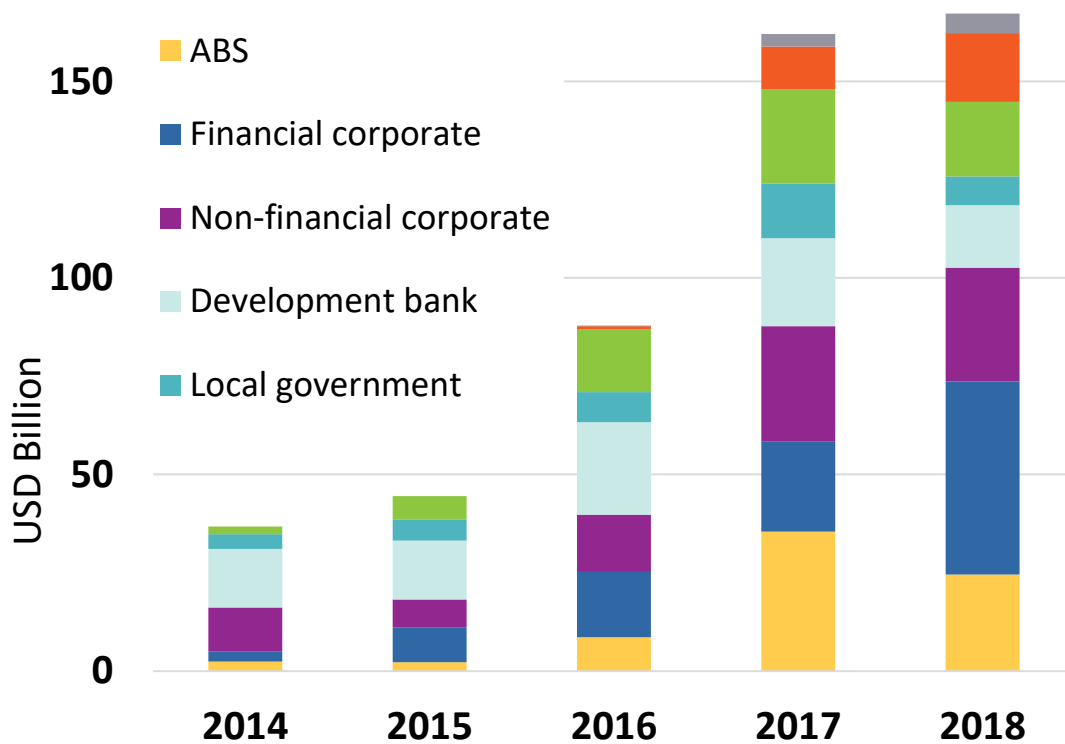
Any structure

- Senior unsecured
- Asset-backed
- Covered bonds
- Other: loans, Sukuk

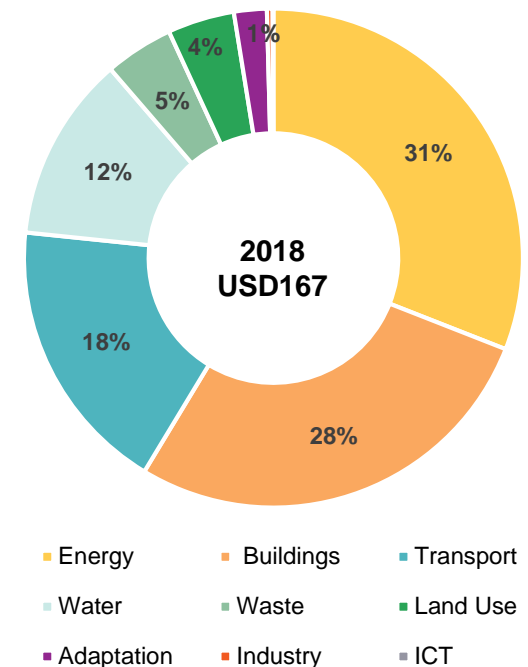
Reporting

- Transparency to climate asset or project
- Independent review
- Reporting on use of proceeds

Green bond issue is growing, driven by investor demand...

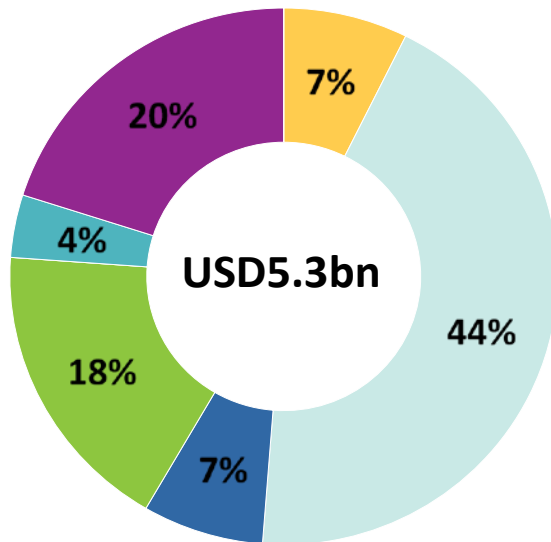


Use of green bond proceeds - 2018

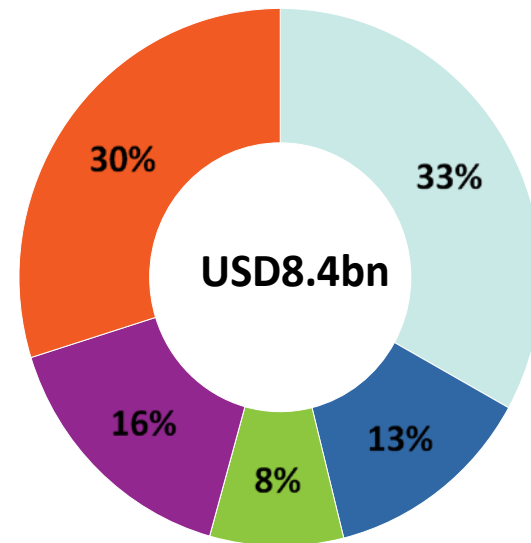


... and supply is diversifying

Emerging Markets
Q1 2017



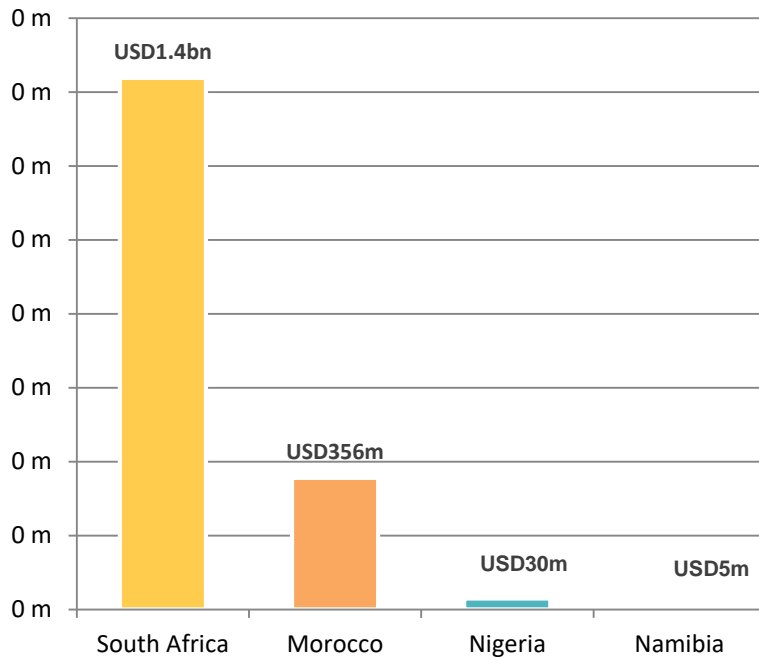
Emerging Markets
Q1 2018



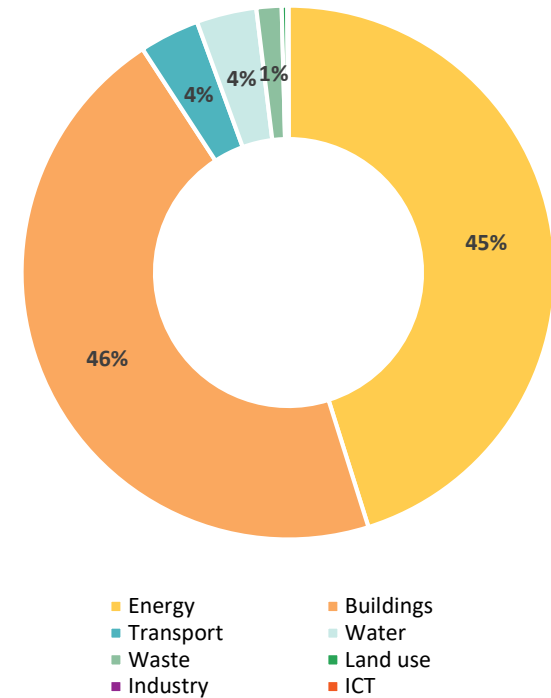
- ABS
- Development Bank
- Financial Corporate
- Government-Backed Entity
- Loan
- Local Government
- Non-Financial Corporate
- Sovereign

African developments

Green bond issuance by country



Green bond use of proceeds



Markets thrive on rules

Voluntary rules drove early market growth, allowed global consistency



Transparency
Reporting protocols
Green definitions
Independent review

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

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)		

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, led 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

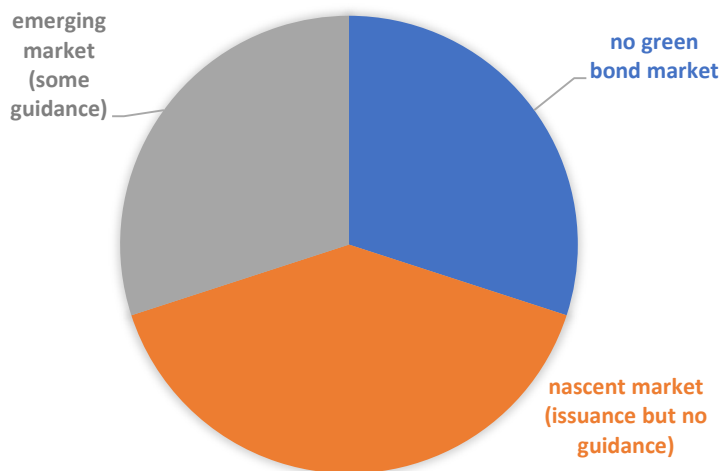
Key driver: 1) JSE's sustainability goal of promoting responsible investment; 2) the need to finance South Africa's energy transition

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



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

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.

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

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.