

Sustainable Banking Network (SBN) Creating Green Bond Markets

DONORS



Talking Points

“Creating Green Bond Markets: Insights, Innovations, and Tools from Emerging Markets”

New report prepared by IFC and the Climate Bonds Initiative on behalf of the Sustainable Banking Network (SBN) Green Bond Working Group

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About the SBN Green Bond Working Group

- The Working Group was established in October 2017 in response to SBN member interest in the global green bond trend as a way to achieve national sustainable finance objectives and roadmaps.
- The SBN Green Bond Working Group set out to map existing global trends and country initiatives in green bond market development, with the goal of designing technical support for SBN members interested in this trend.
- Working Group members and observers represent 21 countries and 30 organizations¹, including the International Capital Market Association (ICMA).
- The Working Group is co-chaired by the Latin American Banking Federation (FELABAN), the Moroccan Capital Markets Authority (AMMC) and the Financial Services Authority of Indonesia (Otoritas Jasa Keuangan) (OJK).

About the research process

- The research was undertaken by IFC and the Climate Bonds Initiative (CBI) on behalf of the SBN Green Bond Working Group. It was carried out between February and September 2018.
- Extensive consultation was carried out with Working Group members, international experts and leading organizations, and with the wider SBN community.
- The report draws on

¹ SBN's Green Bond Working Group members include Indonesia Financial Services Authority (OJK)(Co-Chair), Latin American Banking Federation (FELABAN)(Co-Chair), Morocco Capital Markets Authority (AMMC) (Co-Chair), Bangladesh Bank, Brazil Banking Association (Febraban), China Banking Regulatory Commission, Colombia Banking Association (Asobancaria), Ecuador Banking Association (Asobanca), Egypt Financial Regulatory Authority, Federation of Egyptian Banks, Johannesburg Stock Exchange, Kenya Bankers Association, Mexico Stock Exchange representing the Mexican Green Bond Working Group, Mongolia Bankers Association, National Bank of Georgia, Nigeria Central Bank, Reserve Bank of Fiji, Reserve Bank of India, South Africa Financial Sector Conduct Authority, Union of Banks of Kyrgyzstan, Vietnam Ministry of Finance, Vietnam State Securities Commission, Abu Dhabi Global Market (ADGM) (Observer), Astana International Financial Centre (AIFC) (Observer), Central Bank of Egypt (Observer), CIFAL Argentina y Fundación EcoConciencia (Observer), Green Climate Fund (Observer), Egypt Central Bank (Observer), International Capital Market Association (ICMA) (Observer), Quito Stock Exchange (Observer), and the Swiss State Secretariat for Economic Affairs (SECO) (Observer).

- **A survey of over 22 emerging markets² (of which 20 are SBN member countries)**
 - **9 case studies** – from Brazil, China, Indonesia, Malaysia, Mexico, Morocco, Nigeria, South Africa, and the ASEAN (Association of Southeast Asian Nations) region
 - **A review of 13 country and regional green bond frameworks³** that have been launched or are in development
- Guidelines are also under development in Egypt, Jordan, Lebanon, and Tunisia, with support from IFC and World Bank teams. However, these were not reviewed for this report.
 - The different frameworks reviewed fall into three broad categories:
 - Regulations by financial services authorities
 - Green bond listing instructions by stock exchanges
 - Voluntary initiatives by the industry associations.

About the report

- The report builds on a rich body of knowledge in the SBN community, which was collected through the **SBN Global Progress Report** (www.ifc.org/sbnreport) published earlier this year.
- It captures SBN members' diverse experiences and the latest insights into the drivers, challenges, and innovations involved in the creation of green bond markets in emerging markets.
- Responding to requests from SBN members, and based on member experiences, it offers the **first ever Green Bond Market Development Toolkit** (www.ifc.org/sbngreenbond), including
 - A set of Common Objectives⁴
 - A Self-assessment and Planning Matrix, which enables policymakers to evaluate their plan of action on 4 pillars of capital market development (Market infrastructure, Guidance, Issuance, Capacity building)
 - A Roadmap with Common Milestones
 - A Capacity Building Needs Assessment with a mapping of existing international resources.
- The Toolkit will assist SBN members to more effectively plan their national green bond development strategies and collaborate with other market actors.

²Argentina, Bangladesh, Brazil, China, Colombia, Ecuador, Egypt, Fiji, Georgia, Indonesia, Kenya, Mexico, Mongolia, Morocco, Nigeria, Paraguay, Philippines, South Africa, Tunisia (not an SBN member), Turkey, United Arab Emirates (not an SBN member), and Vietnam.

³ASEAN region, Brazil, Chile, China, India, Indonesia, Kenya, Malaysia, Mexico, Morocco, Nigeria, Peru, and South Africa.

⁴The Common Objectives include (abbreviated explanations provided below):

- **Alignment:** Aligning with international good practices, learning from peers, and developing common approaches, such as through regional collaboration, are ways that SBN members are leapfrogging and accelerating local green bond market development.
- **Quality:** Market integrity and credibility are key components of green bond markets. Guidance should therefore include mechanisms for ensuring quality. For instance, external reviews from experienced and credible entities limit the risk of “greenwashing”.
- **Flexibility:** Local market conditions must be accounted for and local market players should be involved in the design of appropriate national guidance.
- **Harmonization:** SBN members have noted the value of harmonizing where possible with global definitions of “green”, “social” and “sustainability” bonds and assets.

Key findings

- New regulations and market-level guidance is enabling rapid growth and innovation in green bond issuance in emerging markets, helping to achieve the global climate change and Sustainable Development Goals (SDGs).
- 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 the 13 national or regional green bond frameworks reviewed for this report, which all substantially align to or directly reference international standards, including the [Green Bond Principles \(GBP\)](#) and the [Climate Bonds Standard](#) to varying extents.
- Most countries report carrying out careful studies of international best practice and extensive consultation within their institutions and with market participants to develop national green bond guidance. External advice has been sought to benefit from other countries' experiences.
- Many interviewees cited the need and challenge of achieving the right balance between delivering quality products and allowing flexibility for issuers.
- Respondents highlighted the need to establish and maintain credibility within local green bond markets in order to build investor confidence and ensure that positive impacts are achieved. The risk of "greenwashing" was mentioned by a number of interviewees.
- The research highlights environmental, social and governance (ESG) practices as a critical foundation of integrity and value creation in the financial sector.
- Eligibility of assets and projects are mostly indicated through broad categories, signalling a gap of adoption of consistent and tight green definitions.
- More effort is needed to raise awareness and build capacity – with strong emphasis on the need for capacity building for issuers (especially banks), investors, verifiers, and policymakers.
- Green bonds are just one form of sustainable investment that can support capital flows to sustainable activities. All sustainable investment asset classes should consider good ESG standards.
- SBN members have shown once again that it is possible to unite a wide array of countries in support of sustainable finance, in this case to accelerate green bond market development with a collective ambition and a consistent approach.

Green bond trends worth noting

- Global green bond issuance surpassed US\$160 billion in 2017 and is expected to be US\$180- US\$210 billion in 2018 (with optimistic projections of up to US\$250 billion)
- In the emerging markets, as of June 2018, China is the largest issuer with US\$57.1 billion issuance, followed by Mexico with US\$6.7 billion and India with US\$6.6 billion.
- There is increased market share of corporate issuance of green bonds; and increased bonds issued by financial institutions relative to issuances from development banks and government-backed entities.

- There has been slower growth in green bond markets in emerging countries than developed ones, largely due to lack of market awareness and knowledge with regard to green bond issuance.
- A growing variety of assets and projects financed through the green, social, and sustainability bond market is emerging. And new instruments such as asset-backed securities (ABS) and loans are also being attributed the green label.
- The emergence of green sukuk was led by Malaysia's Tadau Energy Sdn Bhd in July 2017, raising RM250 million (US\$59 million) to finance a 50MW solar photovoltaic power plant in Sabah, Malaysia. Four other green sukuk have since been issued in Malaysia, bringing the total issuance size to RM2.4 billion to date.
- Several countries have also started the issuance of sovereign green bonds and sovereign green sukuk: represented by
 - Fiji's FJ\$100 million (US\$50 million) sovereign bond (Oct 2017) to support climate change mitigation and adaptation,
 - Nigeria's NGN10.69 billion (US\$30 million) sovereign green bond (Dec 2017), and
 - Indonesia's first sovereign green sukuk (Islamic bond) for US\$1.25 billion (Feb 2018).

About Green Bonds

- Green bonds are fixed-income instruments for which proceeds are earmarked exclusively for new and existing projects with environmental benefits. These relate to climate change mitigation or adaptation/resilience and other environmental issues, such as natural resources depletion, loss of biodiversity, and air, water or soil.

About the Sustainable Banking Network (SBN) - www.ifc.org/sbn

- Established in 2012, SBN now represents 35 countries and over US\$43 trillion in banking assets in emerging markets.
- SBN is the leading global knowledge and capacity building platform comprised of financial regulators and banking associations committed to collectively advancing sustainable finance.
- The Network supports members in in policy development and related initiatives to create drivers for sustainable finance in their home countries.
- IFC serves as Secretariat and technical advisor to the Network.

About Climate Bonds Initiative (CBI) - www.climatebonds.net.

- CBI is an investor-focused not-for-profit, mobilising debt capital markets for climate change solutions.
- CBI undertakes advocacy and outreach to inform and stimulate green finance markets, provides policy models and government advice, market data and analysis, and administers the Climate Bonds Standards & Certification Scheme.