

SUSTAINABLE BANKING  
NETWORK (SBN)

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

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## Green Bond Market Development Toolkit

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Extensive consultation was carried out between February and July 2018 to gather feedback from Working Group members, the broader SBN community, and experts in green bond market development, both globally and in emerging markets. Participants indicated strong interest in, and provided input to, the development of tools to assist SBN members in designing and supporting the growth of green bond markets.

## *Common Objectives for Developing Green Bond Markets:*

SBN country experiences point to a set of Common Objectives that can help countries avoid pitfalls and navigate the development of green bond guidance and other market components. These objectives support a move towards cross-border harmonization of green bond definitions and approaches, while respecting local market conditions.

- 1) **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. Alignment with other jurisdictions also enables cross-border issuance and investment.
- 2) **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” and provide investors with assurance around the green credentials of the bonds and the governance around the management of proceeds. Likewise, the need for issuers to apply good international industry practice in managing broader ESG risks of all assets is seen as essential.
- 3) **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 depending on market maturity and local interest in green bond issuance. A phased approach may be suitable for many. Similarly, different markets may focus on different types of issuers, investors and projects to help drive the market initially, and some jurisdictions may choose to offer incentives where appropriate.

- 4) **Harmonization:** SBN members have noted the value of harmonizing where possible with global definitions of “green”, “social” and “sustainability” bonds and assets. The variety of green and social assets and projects may continue to differ at national level due to local market conditions, industries, and national sustainable development strategies. However, use of global definitions and common categories, as well as reference to global standards for what qualifies as green projects and sectors will build the credibility of bonds among international investors.

### ***Self-Assessment and Planning Matrix for Developing Green Bond Markets:***

The country experiences captured in this report also point to typical phases in the development of green bond markets, with specific interventions identified at each stage. The table below captures these commonalities and can be used by regulators to self-assess their country’s stage of green bond market development and to plan the next steps needed. The actions in each phase do not necessarily need to occur simultaneously through the four market development components.

<b>Self-Assessment and Planning Matrix</b>			
	<b>Phase 1</b>	<b>Phase 2</b>	<b>Phase 3</b>
<b>Market infrastructure</b>	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
<b>Guidance</b>	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)
<b>Issuance</b>	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
<b>Capacity building</b>	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 for Developing Green Bond Markets:**

The diagram below sets out a typical roadmap with milestones and a possible sequence. The roadmap gives countries starting the journey a sense of what lies ahead and lessons that can be drawn from the experiences of others. The milestones can be achieved in a different order depending on the drivers and market development strategy in place.

**Figure 1: Roadmap with common milestones for developing green bond markets**



**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.

