

SUSTAINABLE BANKING  
NETWORK (SBN)

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

OCTOBER 2018

## Executive Summary

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The emergence of green bonds has been recognized by the United Nations as “one of the most significant developments in the financing of low-carbon, climate-resilient investment opportunities”<sup>2</sup>. The global green bond market has been growing exponentially over the past 5 years and is demonstrating a formidable potential to scale. Global issuance in 2017 surpassed US\$160 billion, while estimates for issuance in 2018 range from US\$180 billion to US\$210 billion – with the most optimistic projection being US\$250 billion.

In emerging economies, issuances from Latin America, Africa and South East Asia have been on the steady increase. However, with the exception of China, green bond markets in emerging economies have been growing at a slower pace than developed ones, due to a mixture of factors including relatively small and early stage capital markets, limited investor demand for green offerings, and lack of awareness and knowledge.

Members of the Sustainable Banking Network (SBN), representing 35 countries and approximately US\$43 trillion in banking assets in emerging markets, are united by a shared objective to transform their national financial systems toward sustainability. To date, 17 SBN countries have released national sustainable finance policies and principles that address two key themes, namely (i) integrating environmental, social and governance (ESG) factors into financial sector investment, lending and insurance operations; and (ii) increasing capital flows to green projects and assets.<sup>3</sup> Market-based sustainable finance initiatives led by SBN members have made significant progress in directing the financial sector towards sustainability.

The SBN Green Bond Working Group was established in 2017 in response to growing member interest in the green bond trend and its associated market opportunities. The Working Group consists of SBN member country representatives and observers from 21 countries<sup>4</sup> and 30 organizations active or with a strong interest in creating green bond markets. This report is the

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<sup>2</sup> UN report confirms key role of green bonds in climate investment, (October 13, 2015), <https://renewablesnow.com/news/un-report-confirms-key-role-of-green-bonds-in-climate-investment-497005/> (Accessed 4 September 2018).

<sup>3</sup> Sustainable Banking Network Global Progress Report, February 2018. [www.ifc.org/sbnreport](http://www.ifc.org/sbnreport)

<sup>4</sup> Argentina, Bangladesh, Brazil, China, Colombia, Ecuador, Egypt, Georgia, Fiji, India, Indonesia, Kazakhstan, Kenya, Kyrgyzstan, Mexico, Mongolia, Morocco, Nigeria, South Africa, United Arab Emirates, and Vietnam.

product of the group's first phase of work, to map the current status and lessons learned from national, regional and global developments, with a particular focus on innovations in emerging markets.

Drawing on a survey of over 22 emerging markets and supported by 9 case studies – from Brazil, China, Indonesia, Malaysia, Mexico, Morocco, Nigeria, South Africa, and the ASEAN (Association of Southeast Asian Nations) region – this report provides

- **The latest insights into the drivers, challenges, and innovations** of regulators, stock exchanges, banking associations, and other actors in emerging markets as they look to develop vibrant green bond markets.
- **Recommendations, based on extensive consultation, that form a Green Bond Market Development Toolkit for SBN members**, including (1) a set of Common Objectives; (2) a Self-Assessment and Planning Matrix; (3) a Roadmap with Common Milestones; and (4) a Capacity Building Needs Assessment with a mapping of existing international resources. Together, these will enable SBN members to more effectively plan their national green bond development strategies and collaborate with other market actors.

## Summary of findings

- **Green Bonds are an effective instrument to help achieve the climate and sustainable development goals (SDGs), and, in emerging markets, national guidance is proving essential to the creation of green bond markets.**

The green bond market is currently the most developed segment of thematic, impact-oriented bonds. It carries strong recognition by the international investor community as one of the emerging portfolio of sustainable investment products and strategies, and is the most advanced in terms of policy guidance and support.

Green bonds enable investors to direct funding towards environmentally-friendly activities with a comparable risk-return profile to traditional bonds. They also carry an additional element of transparency to provide assurance to investors. For issuers, green bonds attract a diverse range of investors, enhance reputation, and support stronger ESG risk management.

Clear country-level guidance is proving essential for enabling local green bond market development. It performs the following functions: i) aligning local green bond issuance with national climate and infrastructure targets, thus contributing to the country's sustainable development agenda; ii) maintaining market integrity by ensuring high standards of transparency, independent review, ESG risk management, and ongoing monitoring and reporting; iii) enabling targeted policy support for low-carbon and green bond issuance by clarifying what categories and types of projects qualify as "green"; and iv) enabling green finance markets to scale by reducing transaction costs.

- **National and regional case studies demonstrate the need for a combination of policy leadership and market-based action to ensure success.**

China was the first emerging market to issue mandatory guidelines and a catalogue for green bond issuance in 2015, published by the People’s Bank of China (PBOC). Since then, nine other emerging markets have introduced regulations, guidance or listing instructions for green bonds (Brazil, Chile, India, Indonesia, Malaysia, Mexico, Morocco, Peru and South Africa); at least four more SBN countries are in the process of developing green bond guidance (Egypt, Jordan, Kenya, and Nigeria); and the Association of Southeast Asian Nations (ASEAN) has adopted a regional standard. Out of these examples, nine case studies have been developed to analyse the drivers, processes of development, market impact, and future expectations from the perspective of the institutions that are leading the initiatives.

The release and implementation of national green bond frameworks has been received positively by market participants, as they have helped raise visibility and awareness of this new debt instrument and have supported issuers to come to market.

Survey responses from 22 emerging markets<sup>5</sup>, mainly from the SBN community, reveal that action by policy makers and regulators, and initiative taken by local financial institutions, are cited as the top two drivers for local green bond market development. For countries with no issuance, the lack of frameworks and guidance is seen as the most pressing matter to address. In nascent and emerging markets, training and capacity building for regulators, issuers, investors, and verifiers seem to be the greatest challenge. Respondents see a strong role for SBN in terms of sharing country experiences, developing practical tools, and building capacity through peer-to-peer knowledge exchange.

- **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 and the Climate Bond Standards to varying extent.**

A total of 13 country and regional green bond frameworks were reviewed for this research. They include 11 national frameworks developed by SBN member countries<sup>6</sup>; one regional framework, the ASEAN Green Bond Standards, which has implications for multiple SBN members<sup>7</sup>; and Malaysia’s guidelines. Malaysia is not an SBN member, but was included in this study given Malaysia’s regional influence, its leadership in issuing green sukuk, and link with the ASEAN Guidelines. The different frameworks fall into three broad categories: i) regulations by financial services authorities; ii) green bond listing instructions by stock exchanges; and iii) voluntary initiatives by financial sector industry associations.

<sup>5</sup> Argentina, Bangladesh, Brazil, China, Colombia, Ecuador, Egypt, Fiji, Georgia, Indonesia, Kenya, Mexico, Mongolia, Morocco, Nigeria, Paraguay, Philippines, South Africa, Tunisia, Turkey, United Arab Emirates, and Vietnam.

<sup>6</sup> Brazil, Chile, China, India, Indonesia, Kenya, Mexico, Morocco, Nigeria, Peru, and South Africa.

<sup>7</sup> Cambodia, Indonesia, Lao PDR, Philippines, Thailand and Vietnam.

Most interviewees 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.

All the guidance reviewed has some level of substantive consistency with, or direct reference to, international guidelines provided by the Green Bond Principles (GBPs) and the Climate Bond Standard.

Many interviewees mentioned that a key challenge is to achieve 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 environmental and social impacts are achieved. The risk of “greenwashing”<sup>8</sup> was mentioned by a number of interviewees. 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.**

Most respondents to the SBN survey and interviewees for the case studies are regulatory institutions that are actively helping to raise visibility and awareness of green bonds and have supported issuers to come to market. Barriers to growth are identified in all the countries interviewed, with strong emphasis on the need for capacity building for issuers (especially banks), investors, verifiers, and policymakers.

Clear and consistent communication from senior level executives in the government – such as ministers, and central bank governors – about the importance of sustainability and the role that green bonds can play are viewed as key to kick-start the market. A sustained campaign is also necessary to bring financial intermediaries and investors on board. Capacity building is necessary to help institutional investors in emerging markets to think through the benefits of integrating ESG indicators in their investment decisions. For issuers, training is needed in areas such as developing green bond pipelines, incorporating external reviews, and reporting on impacts.

- **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 as well as defining the activities supported.**

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<sup>8</sup> “Greenwashing” is the use of green marketing to promote the perception that a product or activity has positive environmental impacts without sufficient evidence or transparency to substantiate such a claim.

Sustainability-focused investing is gaining traction across all asset classes, with an increasing range of strategies and products within equity and debt markets seeking positive environmental and social impact as well as financial returns. As regulators consider how best to influence their markets and which impact products to support, they should leverage and support the strength of current market activity, be it private equity, bank lending, or capital markets, to encourage impact products. In all cases, the application of good international ESG practices is seen as a fundamental requirement prior to defining the impacts to be targeted.

## **Working Group recommendations: a green bond market development toolkit for SBN members**

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.

### **Conclusion**

It is expected that the next 5 years will see continued market-based actions with policy leadership among emerging markets in the development of national guidance and enabling frameworks for green bond issuance.



The challenges identified in this research and consultation with SBN members has led to the design of a Green Bond Market Development Toolkit to help countries take actions and monitor progress with a consistent approach and milestones.

The SBN Green Bond Working Group will consider the findings of this research in defining additional tools and guidance to be developed in the next phase of work. Country progress will be systematically tracked and assessed through the annual SBN Global and Country Progress Reports ([www.ifc.org/sbnreport](http://www.ifc.org/sbnreport)).

SBN member institutions are sharing and building on their collective experience in leading sustainable finance policy reform. They have shown 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.

Access SBN knowledge resources at:  
**[www.ifc.org/sbn](http://www.ifc.org/sbn)**

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