

An aerial photograph of a mountain range with a body of water in the foreground. The mountains are rugged and have a light brownish-grey color. The water is a calm, light blue-grey. The sky is a pale, hazy blue. The image is split into four quadrants by a teal horizontal band and a white vertical band on the left.

Green Bonds in Emerging Markets: Opportunities & Challenges for Regulators



THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

Cindy E. Paladines
cpaladines@worldbank.org

GREEN & THEMATIC/LABELLED BONDS: WHAT ARE THEY?

- **Thematic bonds** are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing eligible green, social, sustainable projects.
- **Sustainability-linked bonds** do not fund projects, instead the coupon or principal steps up if the issuer fails to meet pre-agreed environmental or social targets.
- Regulators often issue **guidance** to define thematic bonds in their jurisdiction; often aligned with ICMA GBP and sovereign frameworks; listing requirements issued by exchanges (eg Peru, Chile)

The **International Capital Market Association Green Social Sustainability Bond Principles** are the most common standards in use by market participants (US FRB).

Four elements:

- (1) Use of Proceeds
- (2) Process for Project Evaluation and Selection
- (3) Management of Proceeds
- (4) Reporting: allocation (required); Impact (voluntary) (often required by investors or by regulators)

EU Green Bond Standard: Requires bonds be vetted by a pre-issuance and post-issuance review by a **certified external reviewer; Impact reports will be required;** currently voluntary

GLOBAL GROWTH IN GREEN BONDS - RISING INTEREST FROM EM ISSUERS

Total labelled bond issuances, by type

(Amount issued, US\$ Billions)

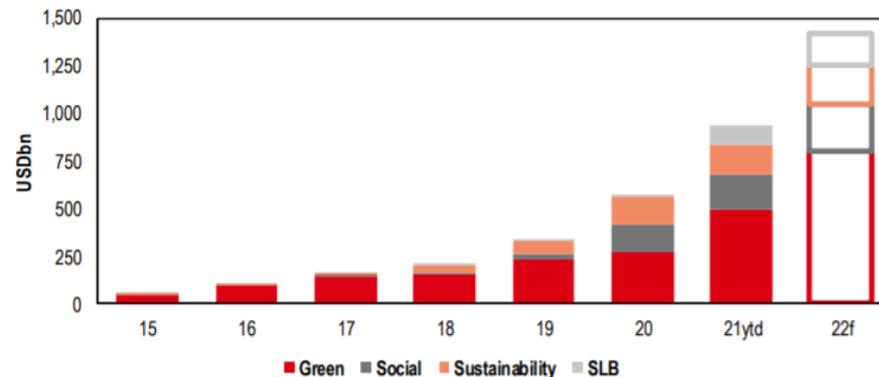
	2021 YTD (\$B)	% of '21 YTD total
Green	525.65	52%
Social	207.98	21%
Sustainable	169.54	17%
Sustainability-Linked	104.86	10%

Average EM labelled bond issuance as share of total

(Amount issued, US\$ Billions)

	2021 YTD	2020	▲ 21/ 20	
Green	26%	20%	↑	6%
Social	24%	28%	↓	4%
Sustainable	28%	22%	↑	6%
Sustainability-Linked	34%	22%	↑	12%

Total global labelled bond markets, by type



Source: HSBC calculations and estimates, Dealogic, Bloomberg

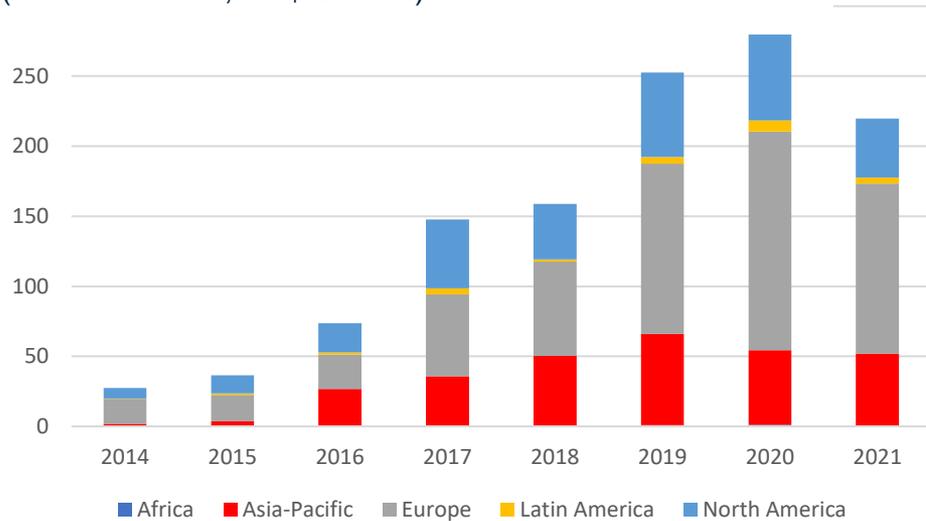
- Having reached \$2.2tn outstanding, the labelled debt market continues to grow globally.
- Sustainability-linked bonds posted the most impressive growth rate from 2020.
 - Due to flexible nature, SLBs are attractive for corporate with non-ESG industrial assets.
 - Corporates responsible for largest share of growth in market.
 - ECB accept SLBs as CB collateral as of 2021.
- Analysts project USD 1.4trn+ labelled bond supply in 2022. green bond issuance to rise by 60%; greenium to remain negative

Source: Bloomberg; HSBC; staff calculations

GLOBAL GROWTH IN GREEN BONDS - RISING INTEREST FROM EM ISSUERS

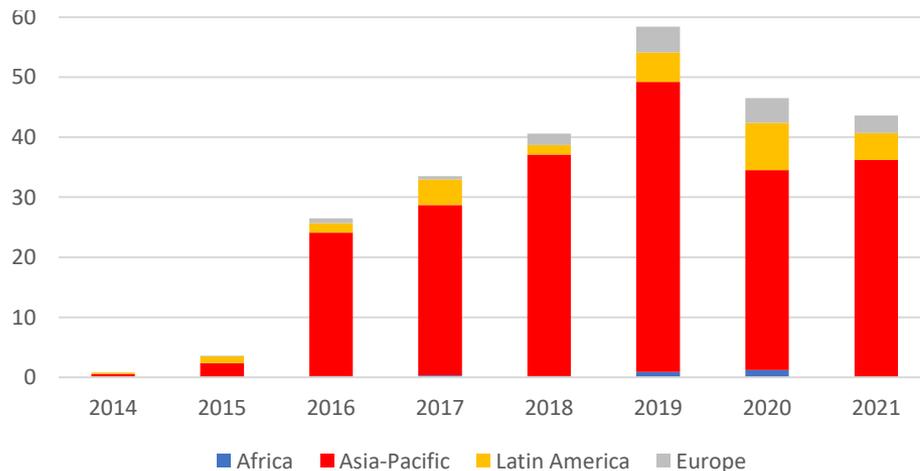
Total green bond issuances, by region

(Amount issued, US\$ Billions)



Total green bond issuances, by emerging region

(Amount issued, US\$ Billions)



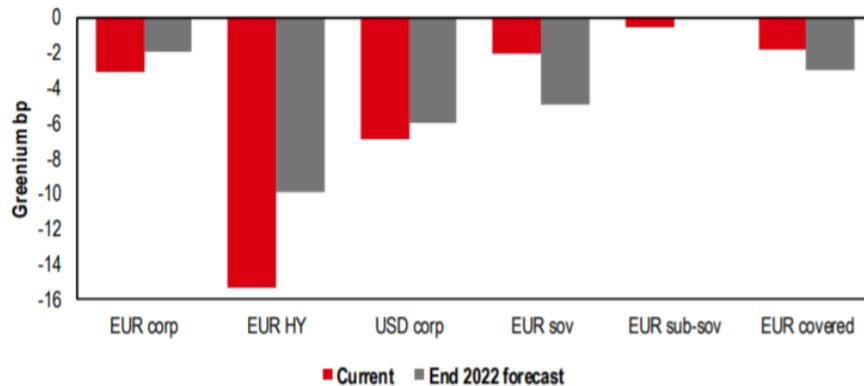
Market structure (so far):

- **Sales of labelled debt reached 44% of Europe's marketwide bond deals in Nov. '21** - the highest monthly share this year. (Bloomberg)
- **SLB issuance:** No sovereigns/sub-sovereigns have issued SLBs; issuances driven by HY corporates (84% of issuance in USD HY); analysis suggests instruments suited to corporates from hard to abate sectors.
- **Sovereign issuers:** Almost all sovereign issuance has been in green bond format (EM exceptions include Mexico, Chile, Peru); sub-sovereigns have preferred social and sustainability bonds.
- **NB-Transition bonds:** Use of proceeds bonds that fund projects to help issuers transition, but do not invest in fully green technology. Only 24 bonds issued to date. No ICMA standards.

Source: HSBC Green Bond Outlook 2021; Data from Climate Bonds Initiative, staff calculations

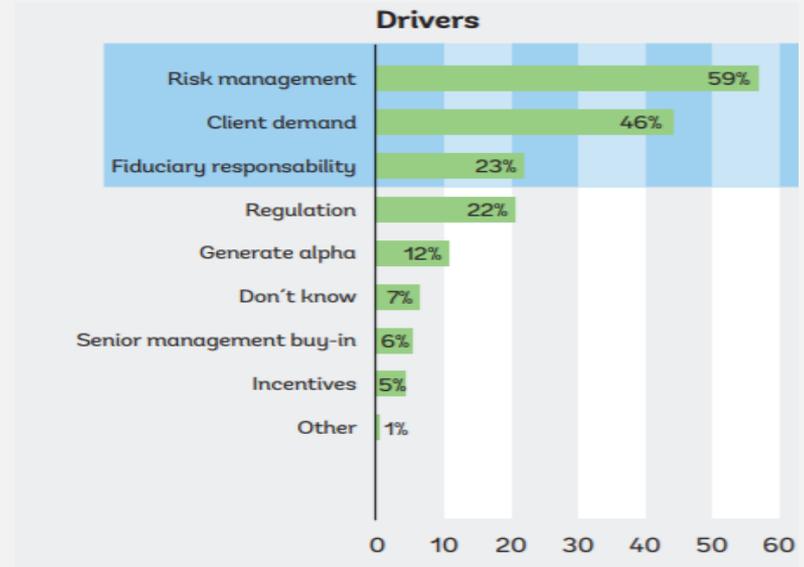
DEMAND FOR GREEN REMAINS HIGH; DEMAND DRIVEN BY RISK MANAGEMENT, CLIENT DEMAND, REGULATION

Current estimated greenium (Amount issued, US\$ Billions)



Source: HSBC based on HIS Markit, Dealogic, Bloomberg

- Greenium:** Labelled bonds should price close to non-labelled bonds, as the underlying credit risk is the same. In practice, we term the spread that often exists between labelled bond curve and same issuer's non-labelled curve as the 'greenium'.
- HSBC: Greenium driven by strong demand and sometimes limited supply. Asia sees less evidence of a greenium.



- Investor surveys find strong demand for labelled products given a mix of factors.
- As Europe's suite of Green New Deal regulations are in effect, regulatory drivers may become more prominent.

Source: CFA Institute and PRI, 2018

Note: Percentages represent those who thought each item was a main driver/barrier; survey respondents could choose more than one answer

50 SHADES OF GREEN?: CERTIFYING/OVERSIGHT OF EXTERNAL REVIEWERS

Addressing greenwashing: Certification and verification of green bond issuances

- There has been limited experience with the certification of private entities that provide external review (Second party opinions, 3rd party verification); EU's Green Bond Standard will require compliant bonds to receive external certification from registered entities
- Climate Bonds Initiative: 55 verifiers; no independent/regulatory oversight
- Impact reporting is still rare among issuers from certain regions (eg emerging Asia, according to HSBC)
- IOSCO published [report](#) on 'ESG Ratings and Data Products Providers'

Global experiences

China: The People's Bank of China (PBC) and China Securities Regulatory Commission (CSRC) introduced Guidelines for the Conduct of Assessment and Certification of Green Bonds in 2017, which define the qualifications for institutions carrying out assessments and certification of green bonds. In 2021, the PBC and CSRC updated these Guidelines for the market-based assessment of green bond assessment and certification institutions.

Russia: Green verifiers should comply with "Requirements for the verification of sustainable development projects". The methodological centre (VEB.RF, a Russian national economic development institution) is responsible for selecting verifiers; controlling the list of verifiers and the list of verified sustainable development projects.

European Union: The Technical Expert Group on sustainable finance (TEG) contemplates an accreditation regime for verifiers of the EU Green Bond Standard.

THE CLIMATE INFORMATION ARCHITECTURE: TAXONOMY, DISCLOSURES

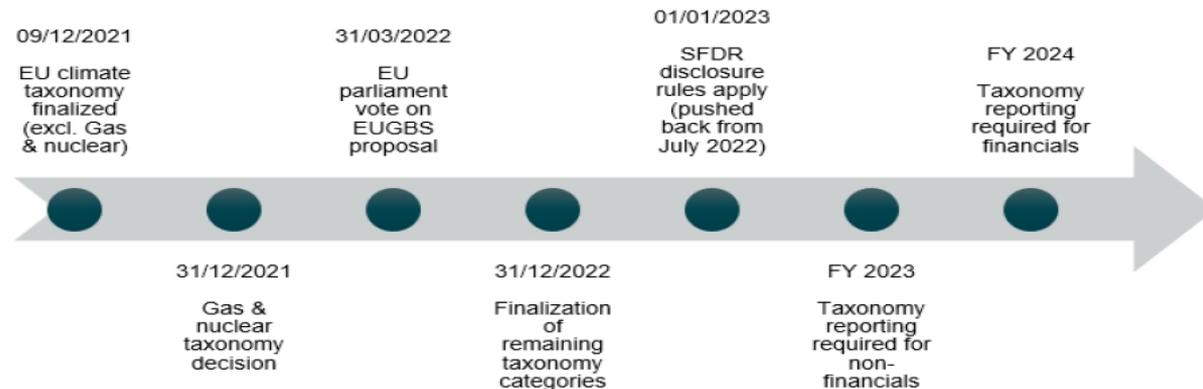
EU Taxonomy

What is it? A classification system establishing a list of environmentally sustainable economic activities.

For whom? Provides companies, investors and policymakers definitions for economic activities that make a substantial contribution to climate change mitigation and adaptation, while avoiding significant harm to the other environmental objectives.

The EU's 6 environmental objectives are:

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems



THE CLIMATE INFORMATION ARCHITECTURE IN EMDE

The World Bank recommends a common approach across jurisdictions for taxonomy development:

- (1) Identify which environmental goals should be used to organize the taxonomy, prioritizing sectors with the highest contribution to the identified environmental goals,
- (2) Select eligible activities based on how they meet either a national target or a standard or accepted threshold.

Other consideration for EM issuers and regulators:

- The **EU's Sustainable Finance Disclosure Regulation (SFDR)** was designed to help institutional asset owners and retail clients understand, compare, and monitor the sustainability characteristics of investments by standardizing sustainability disclosures
- The **International Sustainability Standards Board** has been constituted and will, “deliver a comprehensive global baseline of sustainability-related disclosure standards”
- Analysis by Commerzbank suggests that, across all issuer groups, **significantly less than half** of the €-ESG bonds issued in 2021 would currently be even in contention for alignment with the EU Green Bond Standard.
- Once SFDR is fully implemented, **EUGBS-compliant bonds will have a significant advantage over other ESG assets**, as they then will be automatically included in the taxonomy-aligned quota that fund managers have to disclose regularly.

THE WORLD BANK SUPPORTS EMDE REGULATORS IN OVER 50+ COUNTRIES TO GREEN THE FINANCIAL SECTOR



Disclosure & Reporting

- Taxonomies (eg Colombia, Mexico, the Philippines, Peru)
- Disclosure and reporting standards (eg Egypt, Chile)



Risk Management

- Climate and disaster risk finance instruments
- Climate and disaster risk analysis and financial regulations (eg 1st EM stress test in Colombia)



Green Finance

- Support to sovereign debt management offices
- Advisory and lending for supervisors and regulators
- Green investors and public financial institutions

Analytical & Advisory Services (e.g., FSAPs, Country Climate Development Report)

Global Discussions (e.g., FSB, TCFD, NGFS, G7, G20, Coalition of Finance Ministers)

Lending



Thank you!