INNOVATIVE AND SUSTAINABLE FINANCING INSTRUMENTS FOR SUSTAINABLE DEVELOPMENT

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Chapter 2 of ESCAP’s report
“Financing the SDGs to Build Back Better from the COVID-19 Pandemic in Asia and the Pacific
Climate finance provided by developed countries short of UNFCCC $100 billion commitment
But there is a huge emerging private market for environment, social and governance (ESG) financial products

- Global ESG assets are on track to exceed $53 trillion by 2025 → more than a third of the $140.5 trillion in projected total assets under management (Bloomberg)
- Globally thematic bonds represent less than 2 per cent of the total bond market
- Considerable room for growth and for these types of bonds to be used to meet the financing gap needed to respond to climate change and support SDGs
Thematic bonds offer a solution

Source: ESCAP
The issuance of green, social and sustainability bonds is growing in Asia and the Pacific

Source: ESCAP based on data from Climate Bond Initiative (CBI) and International Capital Market Association (ICMA).
Most green bonds in Asia and the Pacific are issued by East Asian countries.
The issuance of thematic bonds entails various stages:

- **Feasibility** stage includes considering the reasons for issuance, project selection, gathering information for analysis, and beginning of stakeholder coordination.

- **Pre-Issuance** stage includes appointing key advisors, selecting the bond framework, risk management, and investor outreach.

- **Issuance and Close** stage includes the actual launch, marketing and the roadshow, and finally pricing and closing the bond issue.

- **Post-Issuance** stage includes monitoring and reporting the project impact, and preparing for future transactions.

Source: ESCAP.
Frameworks and standards for thematic bond issuance

• As the market for thematic bonds matures, various international and regional standards and frameworks have been developed

• Examples:
• ICMA Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG), and Sustainability-Linked Bond Principles (SLBP)
• Climate Bonds Initiative’s Climate Bond Standards
• EU Taxonomy
• ASEAN Green Bond Standards
• ASEAN Taxonomy
ICMA’s Green Bond Principles

• Four core components:
  • Use of proceeds
  • Evaluation and selection process
  • Management of proceeds
  • Reporting
ICMA’s Sustainability-Linked Bond Principles

• Latest ICMA’s bond framework

• The funds can be used to finance the general business activities of the issuer and do not need to be segregated for specific uses

• The funds must contribute to sustainability, and such contribution should be measurable through key performance indicators (KPI)

• Coupon rate is variable – borrowers pay more if they do not meet targets in their KPIs
Case Study - Thailand’s Sustainability Bonds

- Sustainability bonds combine green and social uses of funds
- In August 2020, Thailand issued a three tranche-bond for a total of THB 50 billion
- Projects to be financed included:
  - Construction of the Orange Line of the Bangkok Mass Rapid Transit (MRT)
  - Health expenditures and a support program for small and medium-sized enterprises affected by the COVID-19 pandemic
Challenges

• Well-functioning bond markets
• Bankable projects, robust project pipelines, and readiness of projects to be implemented
• Alignment with recognized standards
• Ongoing reporting requirements
• Limited local capacity on project monitoring and verification
• Relatively small investment sizes
• Weak local policy and regulatory environments
Recommendations

• Establish green and social project pipelines

• Align with recognized standards, principles and best practice

• Build local capacity

• Strengthen the policy and regulatory environment

• Development of appropriate credit enhancement tools
Thank you for your attention