5th NCA Subregional SDG Forum

Session 7: Financing the SDGs: Closing Financing Gaps through Applying New Sustainable Financing Instruments

7 October 2021, 12:00 – 14:00, (UTC+6)

Sustainability and SDG Bonds

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Financing the SDG’s in the COVID-19 Era

UNESCAP, Economic and Social Survey of Asia and the Pacific 2021.
Financing the SDG’s in the COVID-19 Era

• Deteriorating fiscal balance (as a share of GDP) in Asia and the Pacific

• The adverse effects of COVID-19 were affecting the government debt

• To ensure that the recovery is sustained over time need to invest substantial amounts to support the SDGs
Sustainable Finance and the SDG’s

Source: Adapted from UN Environment Inquiry 2016b.
Financing the SDG’s in the COVID-19 Era

- To accelerate the progress in achieving the SDGs public funding alone is not enough.
- There is a need to mobilize capital markets to leverage private investments.
- Green, Social, Sustainability (GSS) and SDG-linked bonds (thematic bonds) can act as a conduit, enabling bond markets to become a powerful force in addressing the SDG’s and to build better in response to the COVID-19 pandemic.
Types of Thematic Bonds

- **Green Bond**: Energy efficiency; renewable energy; clean transportation; green buildings
- **Social Bond**: Affordable housing; social inclusion; health & education; gender equality
- **Sustainability Bond**: Both environmental and social impacts
- **SDG-linked Bond**: Aligned with SDG’s
- **Blue Bond**: Ocean conservation
- **Pandemic Bond**: COVID-19 related issues
# Global Thematic Bond Market

<table>
<thead>
<tr>
<th></th>
<th>Green Bonds</th>
<th>Sustainability Bonds</th>
<th>Social Bonds</th>
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</thead>
<tbody>
<tr>
<td>Total Size</td>
<td>USD 1,100bn</td>
<td>USD 317bn</td>
<td>USD 316bn</td>
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<tr>
<td>Number of Issuers</td>
<td>1,428</td>
<td>178</td>
<td>601</td>
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<tr>
<td>Number of Instruments</td>
<td>7,716</td>
<td>885</td>
<td>1,230</td>
</tr>
<tr>
<td>Number of Countries</td>
<td>71</td>
<td>30</td>
<td>36</td>
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<tr>
<td>Number of Currencies</td>
<td>42</td>
<td>33</td>
<td>25</td>
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</table>

Thematic Bond Market

- Global ESG assets are on track to exceed $53 trillion by 2025, representing more than a third of the $140.5 trillion in projected total assets under management (Bloomberg).
- The growth in ESG Assets under Management (AUM) has been further enhanced by the way ESG has helped to assess new financial risks during the pandemic and harness capital markets as part of the green recovery.
- 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 issuance in Asia and the Pacific

Source: ESCAP based on data from Climate Bond Initiative (CBI) and International Capital Market Association (ICMA).
Green Bonds in Asia-Pacific of Sub-Regions from 2015 to 2020

Source: ESCAP based on data from Climate Bond Initiative (CBI) and International Capital Market Association (ICMA).
Frameworks and Standards

• In the past, the definition of different thematic bonds was subjective and open to interpretation.

• Development of standards and frameworks for the various thematic initiatives on the international stage.

• For example ICMA:
  • ICMA Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG) and; Sustainability-Linked Bond Principles (SLBP)
  • Climate Bonds Initiative Climate Bond Standards
  • EU Taxonomy
  • ASEAN Green Bond Standards
The four core components of the ICMA principles are:

i. Use of proceeds;

ii. Evaluation and selection process;

iii. Management of proceeds; and

iv. Reporting.
Sustainability-Linked Bond Principles

• Under GBP and SBP, the funds must be segregated and cannot fund other types of activities.

• Sustainability-Linked Bond Principles fund can be used to finance the general business activities of the issuer and do not need to segregate the funds for specific uses.

• However, they must demonstrate a commitment to sustainability and propose to achieve some sustainability performance targets.

• Although the ICMA doesn’t have an explicitly link with the SDGs, the selection of projects can easily be mapped to the SDGs by issuers within the green and social bond principles.
## Eligible Categories and the SDG’s

<table>
<thead>
<tr>
<th>Sustainable Development Goal</th>
<th>Eligible Categories for Funded Projects</th>
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<tbody>
<tr>
<td></td>
<td>ICMA Green Bond Principle</td>
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<tr>
<td>SDG 1: No Poverty</td>
<td>Climate change adaptation</td>
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<td>SDG 2: Zero Hunger</td>
<td>Eco-efficient and/or circular economy adapted products, production technologies and processes</td>
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<td>SDG 3: Good Health &amp; Well-Being</td>
<td>Access to essential services</td>
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<tr>
<td>SDG 4: Quality Education</td>
<td>Access to essential services</td>
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<td>SDG 5: cleaner Water &amp; Sanitation</td>
<td>Sustainable water and wastewater management</td>
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<td>SDG 6: Affordable &amp; Clean Energy</td>
<td>Renewable energy</td>
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<td>SDG 7: Sustainable Cities &amp; Communities</td>
<td>Clean transportation</td>
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<td>SDG 8: Responsible Production &amp; Consumption</td>
<td>Pollution prevention and control</td>
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<td>SDG 9: Climate Action</td>
<td>Climate change adaptation</td>
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<td>SDG 10: Life Below Water</td>
<td>Climate change adaptation</td>
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<td></td>
<td>Environmentally sustainable management of living natural resources and land use</td>
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<tr>
<td>SDG 11: Life on Land</td>
<td>Climate change adaptation</td>
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Climate Bonds Initiative (CBI) Taxonomy

- Climate Bonds Initiative - NGO in the green bond market
- CBI Taxonomy provides an overview of green investment opportunities across the major economic sectors.
- Used to determine eligibility of instruments in its green bond list.
- Together with the detailed Sector Criteria, the CBI Taxonomy is the cornerstone of the CBI’s Certification Scheme for Climate Bonds
Stages in Issuing Green, Social, Sustainability, and SDG-linked Bonds

The feasibility stage includes considering the reasons for issuance, project selection, gathering information for analysis, and beginning of stakeholder coordination.

The pre-launch stage includes appointing key advisors, selecting the bond framework, risk management, and investor outreach.

The launch stage includes the actual launch, marketing, and the roadshow, and finally pricing and closing the bond issue.

The post issuance stage includes monitoring and reporting the project impact, and preparing for future transactions.
Case Study - Thailand’s Sustainability Bonds

• August 2020, the Kingdom of Thailand issued a three tranche-bond for a total of THB50bn.

• 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.

Source: https://www.bourse.lu/pr-thailand-brings-its-sovereign-sustainability-bond-to-luxse
Case Study - Thailand’s Sustainability Bonds

Source: Sustainable Finance Recovery: Innovating Finance for the 2030 Agenda, Mrs. Patricia Mongkhonvanit, Director General, Public Debt Management Office, Ministry of Finance, Thailand, September 30, 2021
Challenges

- Well-functioning bond markets
- Bankable projects and robust project pipelines
- Readiness of projects to be financed with proceeds
- Alignment with recognised standards
- Limited local capacity to analyse these types of investments
- Relatively small investment size
- Emerging local policy and regulatory environment
- Ongoing reporting requirements
Recommendations

• Establish green and social project pipelines
• Align with recognised standards, principles and best practice
• Build local capacity
• Strengthen policy and regulatory environment
• Strategic bond issuance by governments and agencies
• Development of appropriate credit enhancement tools
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