

INTERNATIONAL FINANCE - INTERVIEW

IFC is Powering Green Bonds in The Emerging Markets

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Uptake of Green Bonds in the emerging markets – where they are most required – is low. That’s why the World Bank’s IFC is leading the mobilisation of private capital in the form of Green Bonds to address climate change in the emerging markets. **Jean Marie Masse**, CIO, Financial Institutions, IFC, tells us IFC is promoting Green Bond issuances in the emerging markets while finding solutions to a key challenge that stymies Green Bonds – inconsistent ESG reporting



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Private institutional investor capital in the world amounts to \$147 trillion. Much of this capital is deployed in developed markets and the Organisation for Economic Cooperation and Development (OECD) countries alone account for \$84 trillion. Institutional investors typically have little exposure to emerging markets and long-term infrastructure financing projects, possibly due to the scarcity of appropriate investment opportunities, in spite of the European Union (EU) organising pioneering measures to set up Green Bond standards. Leveraging global private institutional capital for emerging markets Green Bonds remains a challenge.

However, attempts to address this issue has sparked a nascent growth in new and innovative financial solutions addressing climate change and green financing needs. International Finance Corporation (IFC), the investment arm of the World Bank plays a key role in these developments. IFC offers a holistic approach to the development of Green Bonds as an issuer, investor, provider of advisory services, technical assistance, and risk mitigation instruments to create and develop the Green Bond market. **Jean Marie Masse** chief investment officer, financial institutions, IFC, speaks exclusively to **International Finance** about the IFC's active role in creating and promoting markets for Green Bonds and the challenges and solutions for promoting Green Bonds in the emerging markets, including sound ESG reporting.

International Finance: How do Green Bonds fit into IFC's overall investment strategy?

Jean Marie Masse: In accordance with its Climate Implementation Plan, IFC is now helping clients to issue their own Green Bonds. There is also the opportunity to create new aggregation models through IFC's cooperation with financial institutions, including in Green Bond issuances. IFC will also support Green Bond issuances of its manufacturing, agribusiness, and commercial services clients, targeting those who have made public climate-related commitments.

This support can be in the form of direct investments in Green Bonds or through IFC's partial credit guarantees that can accompany a bond, which, among other benefits to the issuer, will guarantee payments to bondholders up to a specified amount. This provides emerging markets clients with access to a wider investor base and paves the way for future issuances without enhancements.

While Green Bonds can support a range of climate-related activities, they are an ideal aggregation tool to finance IFC clients' energy efficiency improvements. As one of the leading issuers of Green Bonds, IFC and the World Bank have helped develop the standards for Green Bonds issuances. IFC works with financial institutions to help them issue their own Green Bonds thereby enabling banks and FIs to further develop and promote green financing investments.

Since launching the Green Bond Programme in 2010, IFC remains one of the world's most prolific issuers of Green Bonds. In 2013, IFC was the first issuer to list a billion-dollar Green Bond in the global market. The largest Green Bond ever issued at the time. This was heralded as a landmark transaction that proved Green Bonds as a mainstream product. To date, IFC has issued around 150 Green Bonds in 16 currencies amounting to almost \$10 billion.

IFC has played a key role in developing the market infrastructure needed to promote the product in a number of ways such as the establishment of the Green Bond Principles (GBP) for which IFC has served as a member of the executive committee since its inception. The GBP include the most widely accepted guidelines for the issuance and reporting of Green Bonds globally. In addition, with regard to impact reporting, IFC was instrumental in co-drafting the initial Harmonised Framework for Impact Reporting, a template for issuers to use as a basis for their impact reporting. This document remains the basis for most public issuer reporting.

IFC channels investments through financial institutions such as commercial banks to support climate-related credit lines. Since 2005, IFC has worked with more than 180 institutions in 61 countries through 219 climate projects, providing \$9.8 billion in long-term financing from its own-account and in-core mobilisation. Over the last two years, IFC has helped nine banks and non-bank financial institutions issue Green Bonds worth \$1 billion – all of which were first-time Green Bond issuances. As a mobiliser of Green Bonds, IFC is taking the lead in deploying innovative ways to mobilise private capital to fill the financing gap required to tackle climate change. For example, the Amundi Planet Emerging Green One (EGO) Fund, the world's largest Green Bond fund in emerging markets, was launched in February 2018.

The fund, managed by Amundi, will ultimately invest in emerging market Green Bonds issued by financial institutions. It was closed at \$1.42 billion, with a \$256 million investments from IFC, and is expected to deploy \$2 billion in Green Bonds over its seven-year investment period. The fund aims to increase the capacity of emerging market banks to fund climate-smart investments and increase the scale and pace of climate finance in emerging markets.

What are the major measures taken by IFC to develop and promote Green Bonds in the emerging markets?

Through the IFC-facilitated Sustainable Banking Network (SBN), IFC shares Green Bond expertise and supports financial sector regulators and industry associations in the emerging markets to develop Green Bond frameworks and catalyse local issuances. Established in 2012, SBN represents 36 countries and over \$43 trillion in banking assets in the emerging markets.

IFC also supports capital market regulators in the development of national Green Bond frameworks and then socialises these funding instruments with other players – notably issuers, but also investors, second opinion providers, and auditors – to support first Green Bond issuances in regional markets. This work, in turn, facilitates the development of Green Bonds as a new funding instrument for the financing of climate transactions, including renewable energy infrastructure, energy efficiency measures, green buildings and climate-smart agriculture, thus expanding the range of available funding sources for climate projects.

In addition to that, to boost the supply of Green Bonds in emerging markets, IFC has set up the Green Bond Technical Assistance Program (GB-TAP), a crucial addition to Amundi's EGO Fund. GB-TAP, which is financed by Switzerland, Sweden and Luxembourg, and provides advisory services on Green Bond issuances and impact reporting in line with the Green Bond Principles.

The IFC GB-TAP is an innovative approach in supporting the mobilisation of financing for green investments and expanding the capacity for green financing and issuance of Green Bonds to a considerable number of new emerging markets. Over its seven-year time span, the GB-TAP intends to create and accelerate the growth of the Green Bond asset class in emerging markets through broad market creation activities (such as training, research, dissemination of best practices and case studies, development of templates for Green Bond impact reporting and information disclosure) and targeted local capacity building. The objective of the programme is to develop the Green Bond market and build a larger pool of Green Bond issuances. In March 2019, IFC began offering its investment clients the option of structuring loans in accordance with the GBP. The principles specify how loan proceeds should be used and projects selected in order to qualify for green-loan status. This can help businesses attract additional financing and enhance their reputation among shareholders, clients, and communities.

What are the key challenges for increasing Green Bond issuances in the emerging markets?

IFC has identified a gap in the market: the absence of a global standard for the external review of Green Bonds. As a result, Green Bond investors often receive incomplete or incomparable information across their Green Bonds' investments. The harmonisation of external reviews, including second opinions and other related services, will contribute to the development of accountability and quality standards for the Green Bond markets.

One of the key concerns of Green Bond investors is the use of the proceeds. How good and reliable is the reporting on the use of proceeds in emerging markets?

The use of proceeds, as defined by the GBP, should be disclosed in the form of external reviews at the time of Green Bond issuances, and in the annual impact reports released by Green Bond issuers. IFC conducted a study to analyse the scope and quality of environmental, social, and governance (ESG) data collected by leading ESG data providers. A summary of findings on market constraints identified by IFC identifies the fact that ESG data providers use proprietary ESG scoring frameworks that differ with respect to materiality, indicator selection, and weightage. Each provider uses different definitions of materiality and varying methodologies to normalise this materiality across companies, such as a universal sustainability framework versus benchmarking issuers by industry or peer group. ESG data providers also use proprietary methods to aggregate and weight ESG factors for summary scores. These differences result in conflicting ESG analysis and scores.

ESG reporting standards and guidelines differ. Even when companies report on the same topics, the data they report may not be comparable. Without the ability to compare ESG performance, investors find it difficult to meaningfully integrate ESG data into investment decisions.

A key challenge that organisations operating in the Green Bonds space in the emerging markets face is inadequate ESG reporting. How can we overcome this challenge?

Indeed, there is often a capacity issue for emerging markets bond issuers to disclose and manage E&S risks in a way that meets mainstream investors' requirements. But, at times it is just a market perception. To address these constraints, IFC provides holistic solutions to advance emerging market ESG data analysis and reporting. IFC has explored ways to encourage emerging market capital market issuers, including Green Bond issuers, to disclose material ESG performance indicators to drive greater investment in emerging market capital markets. This includes working with an ESG data provider to increase the scope of coverage of emerging market issuers as well as broadening the coverage of the collected ESG indicators. IFC seeks to identify ESG data providers to support the collection and analysis of ESG information for emerging market issuers. IFC will use this information to benchmark emerging market issuers using its risk-weighted methodology.

What role do niche technologies such as AI and ML have in ameliorating the challenges related to inconsistent ESG reporting?

IFC is also exploring ways to use artificial intelligence (AI) and machine learning (ML) to support ESG data collection and analysis. There are opportunities to complement IFC's work with ESG data providers to expand coverage of emerging market issuers and widen real-time information collection. Possible areas for development include encouraging AI-ESG data providers to use existing platforms to analyse data from emerging markets through the lens of IFC's ESG Performance Indicators. Overall these efforts will play a key role in increasing market transparency and catalysing additional opportunities and investments in quality emerging market Green Bonds.

What are the IFC's future plans with regard to the promotion of Green Bonds in the emerging markets?

IFC intends to work on model Green Bond transactions issued by emerging market issuers, release market research reports to disseminate information about the opportunities in green finance in emerging markets, and develop tools to communicate about it. Mobilising public and private institutional investors to deploy billions of dollars in capital for climate investments is essential to alleviate the impact of climate change. To start with, the EGO Fund does just that – as the largest Green Bond fund in the world, the fund is helping scale climate finance in the emerging markets.