

# Green Bonds Policy: Highlights from 2016

Public sector action around green bonds over the past year from all corners of the globe, and major developments we look forward to seeing in 2017.

## Top five green bond policy developments 2016

### 1. Green bonds seen as a key tool to implement national climate change targets (NDCs)

2016 was the year that saw the Paris climate agreement enter into force, pressing governments to lay out implementation plans for achieving their pledged climate change targets (Nationally Determined Contributions - NDCs). Green bonds gained traction as a key tool to include in capital raising plans for NDC financing.

### 2. Sovereign green bond programmes established

In December 2016, Poland won the race to become the first sovereign green bond issuer. France followed shortly after, as part of its broader climate agenda. Sweden and Kenya launched inquiries to develop local markets. Sovereign green bonds are an important complement to other types of public sector issuance, in particular from development banks and municipalities.

### 3. Country-level action taking off

A growing range of countries saw the public sector step in to help kick-start local green bond markets.

Key actions included issuing official guidelines and providing public sector green bond issuance and investment. We also now have high-level collaborative committees up and running in several countries, which will spur the development of further policy support (see page 2).

### 4. Innovative green bond policy tools are on the table

Given the extreme urgency and scale of the climate challenge, it is necessary to consider the whole toolkit available to grow the market, including the more innovative options.

- People's Bank of China, the central bank and key driver of China's green finance shift, referenced to option to provide **preferential lending rates** to green investments

- Kenya's Capital Markets Authority proposed green bond **tax incentives** as part of their green bond policy, to be implemented in early 2017
- OPIC and USAID offer green bond **credit enhancement** instruments
- The IFC and Brazil's BNDES announced green bond **cornerstone funds**
- The French Banking Association proposed implementing **preferential risk weightings** for green investments by adding a "green support factor"

### 5. Increased international collaboration on green finance and green bonds: G20, FSB and EC

Via the G20 Green Finance Study Group, the FSB's Task Force on Climate-related Financial Disclosures and the European Commission's High Level Expert Group on sustainable finance, green bonds are high on the global agenda.

We expect to see further mainstreaming of green finance in 2017 from the G20 and the European Commission.

## Green Bonds Policy 101

### Urgency of climate change requires USD 1tn green bonds by 2020

The green bond market has grown at record levels in 2016, but to meet global needs for climate-aligned infrastructure it needs to grow faster. We need to see USD1 trillion of annual issuance by 2020. The public sector is central to enabling and scaling up green bond issuance and investment at the rapid rate the climate change challenge requires.

### Applying well-proven tools to enable private capital to flow

Public sector support for green bonds is all about enabling private capital to flow to climate investments and using public capital as a leverage tool, rather than for direct funding. Existing and well-proven tools that governments have used in the past to successfully steer private capital towards policy priority areas can now be applied to channel capital to climate investments through green bonds.

## Green bond policy toolkit

### Fundamental Actions

- Establish green project pipeline
- Strengthen local bond markets
- Strategic public GB issuance
- Develop green standards



### Proven Support Tools

- Strategic public GB investment
- Credit enhancement
- Tax incentives
- Instruments to aggregate assets and structure risks



### Innovative Additions

- Adjust risk weightings for green investments
- Preference green investments in central bank operations



## Three key developments to look forward to in 2017

### The year of the sovereign

The first sovereign green bond of 2017 is already out, with France coming to market in January with an impressive USD 7.5bn bond. Nigeria is expected to be next, given the intensive work of the Advisory Group and the commitments to issue in Q1. Bangladesh and Morocco have also made statements of intent and we expect to see more sovereign green bonds to follow throughout the year.

### Progress on capital-raising plans for country-level climate commitments (NDCs)

2016 was the year green bonds gained mainstream traction as a tool for accessing the capital needed to implement country climate plans (NDCs). In 2017, we expect to see specific capital-raising plans in place for NDCs from several countries.

### Country-level guidelines and policies kick-start local markets

Clear guidelines and definitions are crucial to enable further policy support for qualifying investments. We look forward to seeing more countries publishing green bond guidelines for their domestic markets in 2017.

Japan, the EU, Sweden and Nigeria are amongst the countries that have initiated consultations to establish green bond guidelines.

### Investment in NDCs: we are talking trillions annually

A conservative estimate for 21 emerging nations alone finds that their NDC investments tick in at a whopping USD23 trillion from 2016 to 2030 – and that is for mitigation investments only. This includes USD 2.1tn of green investments in India, USD 1.3tn in Brazil and USD 104bn in Nigeria.

All three of those countries – and many more – have started on their green bond journeys, and see green bonds as a central mechanism for raising capital to implement their climate mitigation and adaptation plans.

## 2016 highlights of public sector support for green bonds

Action area	Country	Description
Official green bond guidelines	China	People's Bank of China published green bond guidelines and definitions <sup>1</sup> , driving issuance from almost zero to RMB 238bn (USD 36.2bn). <i>Guidelines for Green Finance System</i> were also released.
	India	The Securities and Exchange Board of India (SEBI) released a first draft of green bond guidelines.
	Morocco	The Moroccan Capital Markets Authority (AMMC) released a green bond guide, prepared with the support of the IFC.
Public sector green bond issuance	Sovereign	Poland issued the world's first sovereign green bond (USD 784m).
	Sub-sovereign	Demonstration issuance from Province of Ontario, Canada and State of Victoria, Australia. Kommuninvest and MuniFin – leading Nordic municipal lenders – issued their inaugural green bonds.
	Development banks	The Mexican development bank Nacional Financiera issued the first green bond in local currency (MXP).
Public sector green bond investment	Green Bond Cornerstone Fund	The IFC and BNDES, Brazil's giant national development bank, have announced dedicated funds for investing in green bonds.
	Central banks	A number of central banks have started purchasing green bonds as part of their reserve management programme, such as Morocco's Bank Al-Maghrib.
Collaboration: Market development committees	India	The India Green Bonds Council was convened by the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Climate Bonds Initiative to support domestic market development.
	Brazil	The Sustainable Market Development Council was convened by the Climate Bonds Initiative and the Brazilian Business Council for Sustainable Development (CEBDS) to develop a national strategic plan for Brazil's new economy.
	Nigeria	The Green Bond Private Public Sector Advisory Group (GB-PPSAG), is set to advise and guide the first tranche of sovereign green bonds.
	Mexico	Bolsa Mexicana de Valores and the Climate Bonds Initiative convened the Climate Finance Council (CCFC), a diverse group of local market actors to support policy, market standards and market education in Mexico.

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**Notes:** 1. PBoC regulates the interbank bond market which accounts for 97% of bond market in China. The National Development & Reform Commission (NDRC), who regulates the corporate bond market, also published a separate set of (less comprehensive) green bond guidelines. The Shanghai and Shenzhen Stock Exchanges have published the Notice on Green Bonds Pilot Programme, with guidance for green bond listings.

Written by the Climate Bonds Initiative Policy Team, © February 2017.

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