



INNOVATIVE AND SUSTAINABLE FINANCING INSTRUMENTS FOR SUSTAINABLE DEVELOPMENT

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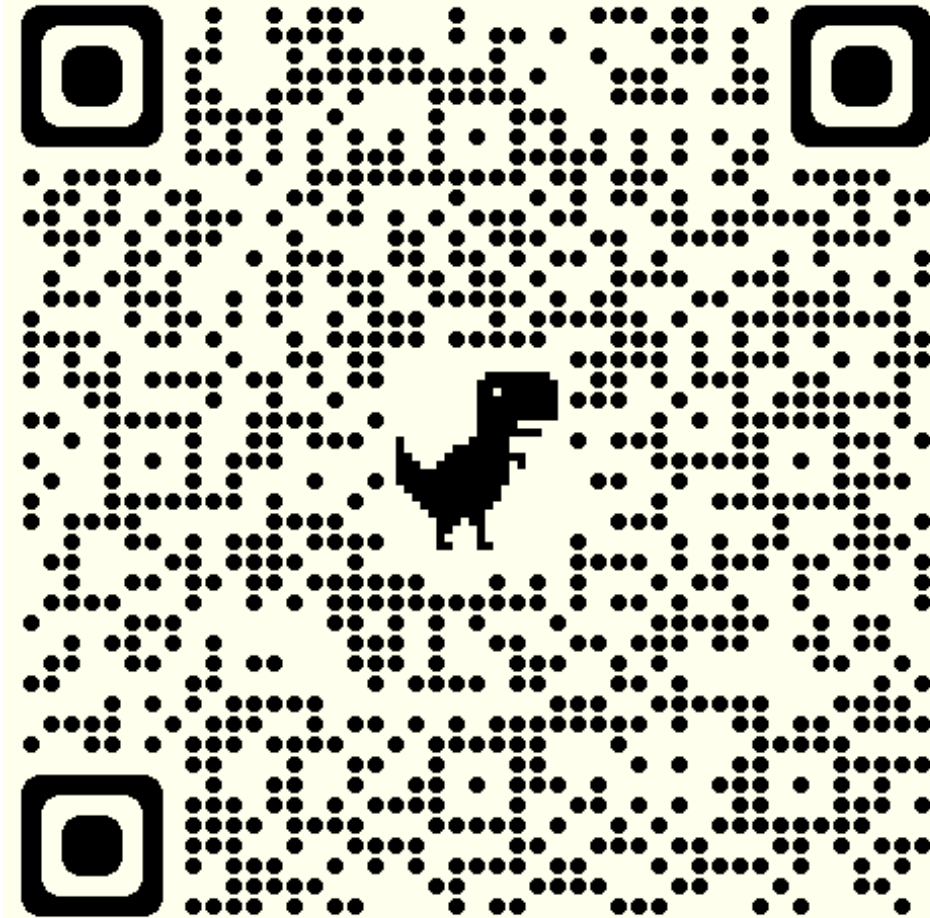
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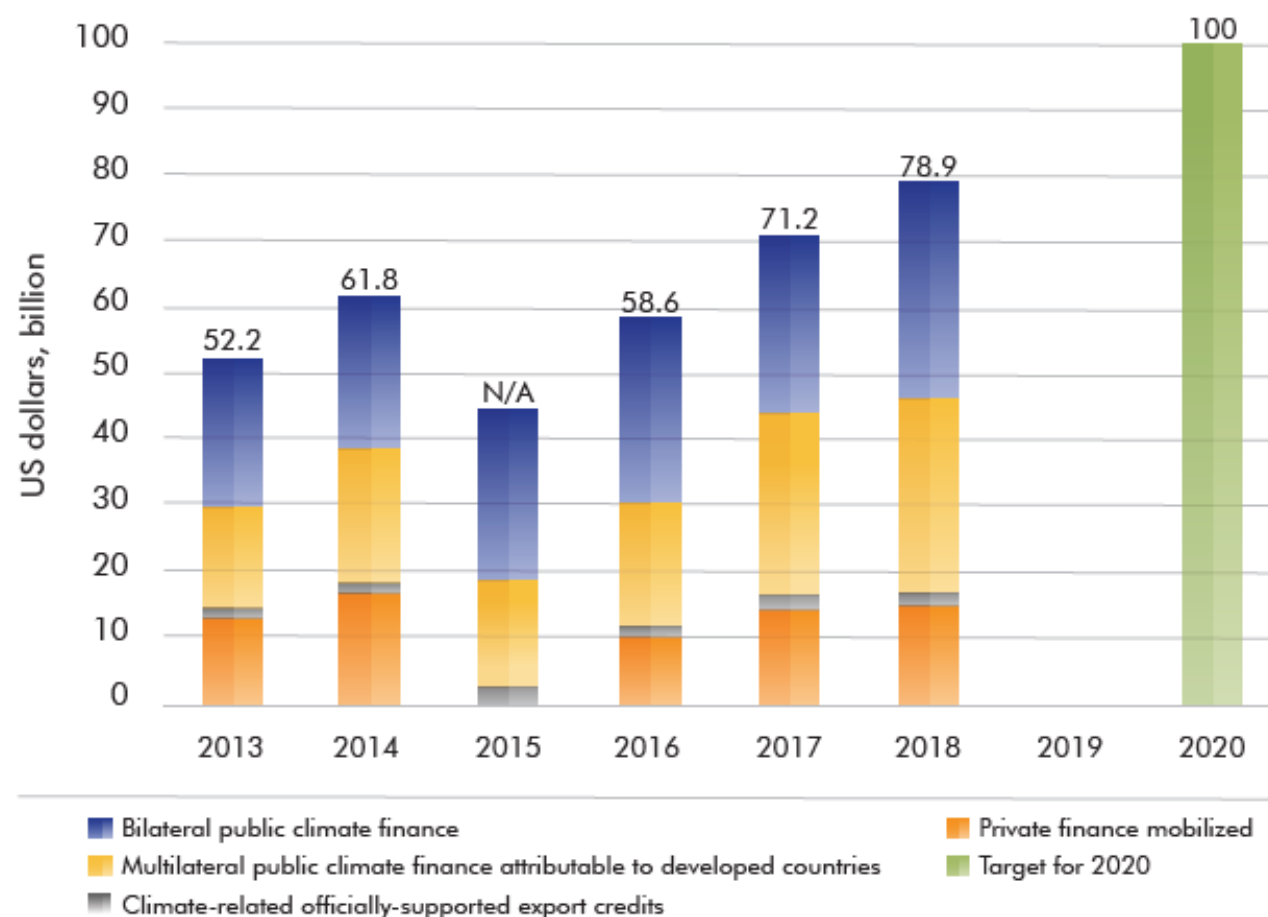
Leveraging Innovative Financing Instruments, Mechanisms, and Policies to Support Climate Action and the SDGs



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



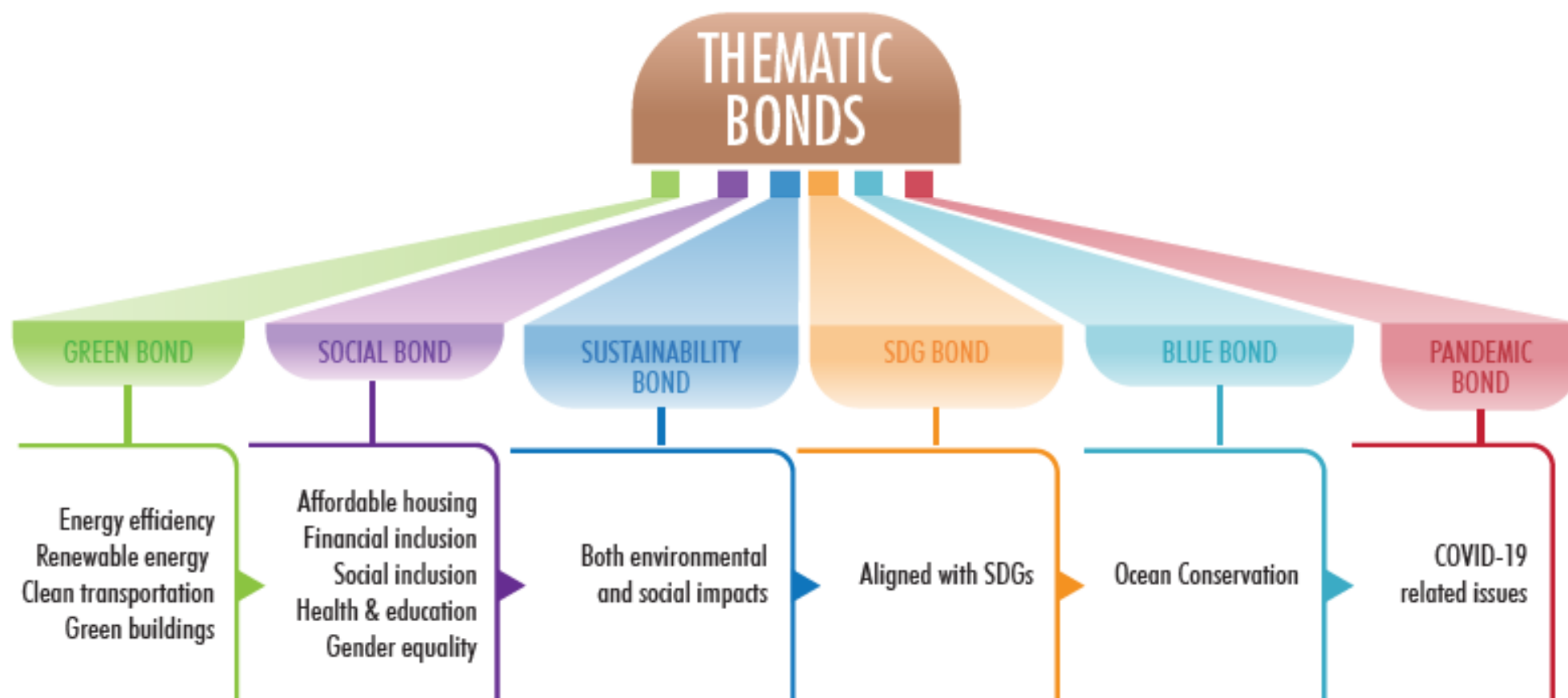
Source: ESCAP based on data from OECD (2020). Climate Finance Provided and Mobilized in Developed Countries.

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



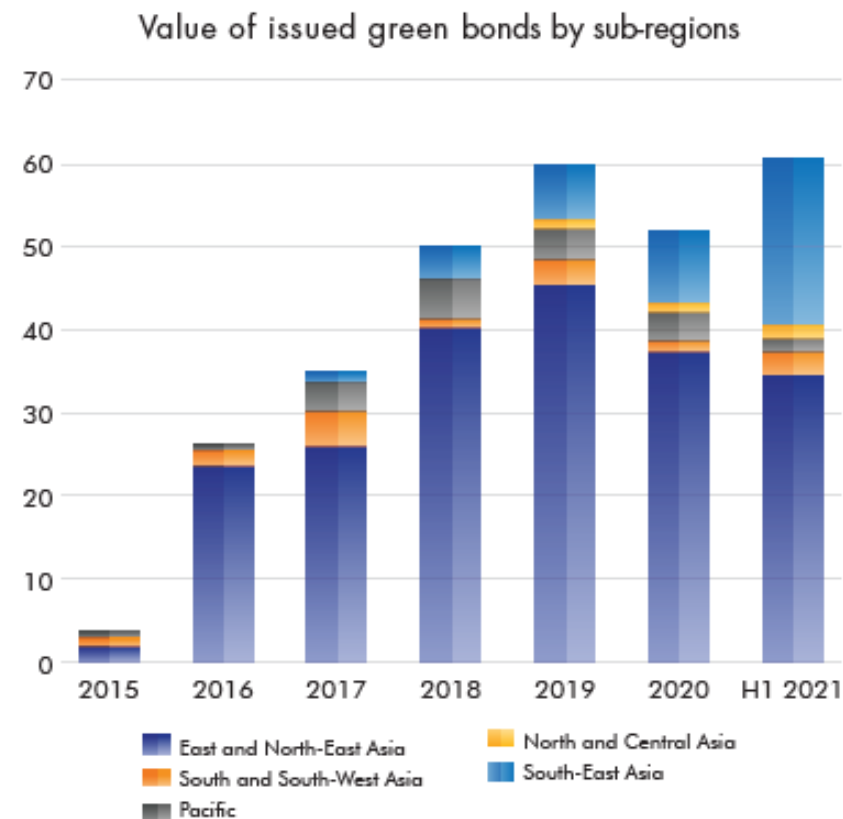
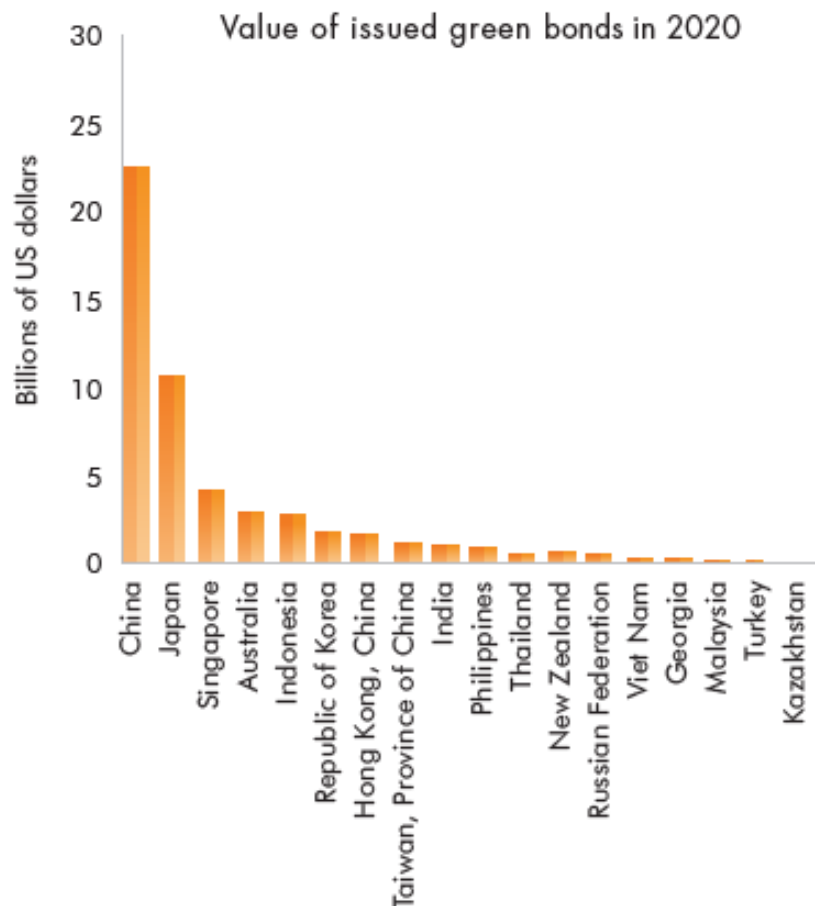
Source: ESCAP.

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



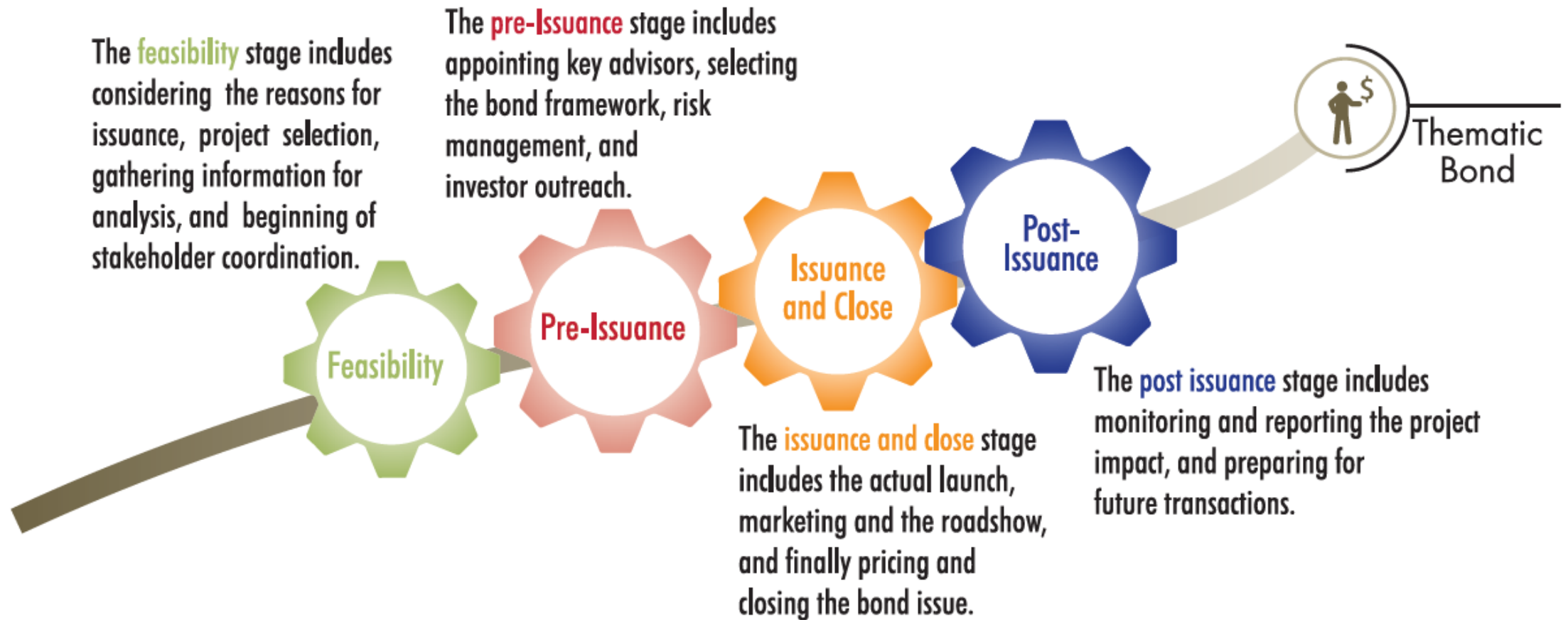
Source: ESCAP based on data from Climate Bond Initiative (CBI) and International Capital Market Association (ICMA).

Most green bonds in Asia and the Pacific are issued by East Asian countries



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

The issuance of thematic bonds entails various stages



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