



Green bonds offer a sustainable alternative for Asian development funding

Green bonds, which first appeared in 2007, finance projects that deliver environmental or climate benefits such as climate change mitigation and adaptation investments.

The global green bond market is rapidly growing, from \$3 billion in 2012 to more than \$100 billion in 2017.

The Nordic region, particularly Sweden, Norway, and Finland, has pioneered the issuance of green bonds and used specific mechanisms to access debt markets to issue green bonds.

These bonds could be used by developing countries in Asia.

The increase in recent years of the use of green bonds is a consequence of a wider awareness among investors of sustainability and climate change following the Paris Agreement on climate change in 2015 and the United Nations' adoption of the Sustainable Development Goals.

A significant issue in relation to green bonds has been building consensus on what green means and how to measure shades of green in proposed projects to determine their contribution to building a low-carbon and climate-resilient society.

The Climate Bonds Initiative's Standard and Certification Scheme has established a set of criteria based on the Green Bond Principles, which represent a set of voluntary management guidelines.

The scheme defines eligibility criteria for projects in various sectors, including solar and wind energy, low-carbon buildings, low-carbon transport, geothermal power, and water.

Cicero, a Norwegian climate research institute, developed in 2015 a "Shades of Green" approach to review green bonds, and rating agencies Moody's and Standard & Poor's introduced a standardized approach to evaluate them.

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One of the mechanisms widely used by Nordic countries to mobilize capital for both large and small projects is the subnational pooled financing mechanism or SPFM.

It works by aggregating the financial needs of its members, for example cities or local entities, into what is called a pooled financing agency.

This agency can issue debt and distribute proceeds of borrowing or bond offerings to members.

An important condition for SPFMs is a legal system that allows local entities to jointly borrow, cooperate, and assume financial commitments.

Such pooled financing agencies exist in Sweden, Norway, Denmark, and Finland.

Besides reducing the fiscal burden on national governments, they also help finance small entities by reducing the perceived risk.

Gothenburg, Sweden was the first city to issue green bonds in 2013, and has since been very active in this field, reissuing bonds every year. They were used to fund climate change mitigation, adaptation, and sustainability projects.

In Asia, the estimated green bond potential is some \$425 billion a year, or about four times the current annual level of global green bonds issued.

Studies show that the People's Republic of China puts a significant emphasis on green finance and green bonds. It is a strong signal of the government's commitment to aligning its economic and financial system with environmental sustainability goals. In 2016, the PRC issued 7 of the 10 largest green bonds of the year and raised \$33.7 billion, more than one-third of the year's issues.

India, too, is among the top-10 green issuers in the world. In early 2017, the Security and Exchange Board of India released guidelines on green bonds issuance and impact reporting.

The PRC's rapid ascent to a leadership position in the global green bond market, the recent launch of green bond guidelines by Japan's Ministry of Environment, the continued progress in India, and the ASEAN Capital Markets Forum's adoption of the green bond standards of ASEAN, underscore the potential for growth in green bond markets in Asia.

Approaches from northern Europe offer the potential to bring developing Asia closer to meeting its significant needs for investment in low-carbon, sustainable infrastructure.

This episode was based on [research](#) done for ADBI by Darius Nassiry, a senior research associate at the Climate and Energy Programme, Overseas Development Institute, London, United Kingdom.

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