

# Greening debt capital markets in the EECCA region

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# ‘Greening debt capital markets in the EECCA countries’: a EU4 Environment/OECD project

- Covers six Eastern Partnership (EaP) countries plus Kazakhstan
- Ca. 45 meetings in total with private, public sector and IFIs between Aug and Dec. 2021.
- To assess the potential role of green bond markets in financing:
  - i. Capital market development in light of introduction of green bonds
  - ii. Barriers to scaling up green bonds
  - iii. The potential role for governments and regulators
- Seven in-depth country assessments and one summary report were prepared

# International green bond issues

- Substantial green bond fund mobilized by two entities in Ukraine and two in Georgia
- Oversubscription underlined international investor appetite
- Established bond issuers
- EBRD/ADB support in 3 issues (to state enterprises)

	Amount	Maturity	Coupon	Public/private placement	Use of proceeds	IFI initial purchase
<b>Georgia</b>						
Georgian Railways JSC, 2021	USD 500 m.	7 yrs.	4%	London	Refinance existing debt and fund rail infrastructure	EBRD and ADB
Georgia Global Utilities, 2020	USD 250 m	2 yrs.	7.75%	Ireland	Refinancing of a number of assets	ADB

<b>Ukraine</b>						
DTEK Renewables, 2019	EUR 325 m.	5 yrs.	8.5%	Ireland	RE projects	
Ukrenergo, 2021	USD 825 m.	5 yrs.	6.875% Variable for a sustainability-linked portion	Several European exchanges		EBRD: USD 75 m.

## Green bond issues on local exchanges

- Issues on local markets much more limited
- Ameriabank: a solid green bond framework, despite the absence of local green finance legislation
- Kazakhstan: one small issue on AIX, one transaction of 2 bonds by ADB on KASE

	Amount	Maturity	Coupon	Public/private placement	Use of proceeds	IFI initial purchase
<b>Armenia</b>						
Ameriabank I, 2020	EUR 42 m.	5 yrs	3.05%	Private	RE and various other activities	FMO
Ameriabank II, 2022	USD 8m AMD 3 bn.	27 months	USD 3.5% AMD 9.5%	Yerevan Exchange	As before	
<b>Kazakhstan</b>						
DAMU Entrepreneurship Fund, 2020	USD 0.5 million	3 yrs		Listed on Astana exchange, though only one investor	Solar power	
Asian Development Bank, 2020	USD 32 m.	2 yrs	10.1%	KASE	ADB climate-related projects	

# Three out of seven countries have also defined elements of a green finance regulatory framework

## Georgia:

- 2019 roadmap for sustainable finance
- ESG disclosure and reporting principles. First stock take published in 2021.
- SF taxonomy being implemented
- ESG risk management tools under preparation

## Kazakhstan/AIX

- Full set of green bond rules and core taxonomy within the int. financial center (AIFC)
- technical support and some incentives for potential issuers through the Green Finance Center.

## Kazakhstan/KASE

- Taxonomy under preparation
- Limited ESG disclosure

## Ukraine

- NBU roadmap contains plans for disclosure rules and sustainable financing.
- Green bonds recognised in capital markets law (July 2021),
- Recommendations by the supervisory agency on green bond issuance; more detailed rules on use of proceeds were under preparation
- Taxonomy and rules for green finance projects of state entities were under preparation

# Obstacles to green bond market development I: the investment environment for renewables and corporate governance

- The 7 EECCA countries lack a sufficient pipeline of projects that are sufficiently transparent, of high quality and sizable.
- We found a key obstacle in the erratic investment environment for renewables, specifically, unclear or unreliable feed-in-tariff regimes, grid connection, and persistent use of incentives for fossil-fuel consumption
- Also, there is a lack of sufficiently sizable potential issuers whose corporate governance is adequate for a bond market presence and a local rating – a key problem for green bond investors looking for greater transparency of use of proceeds and impact

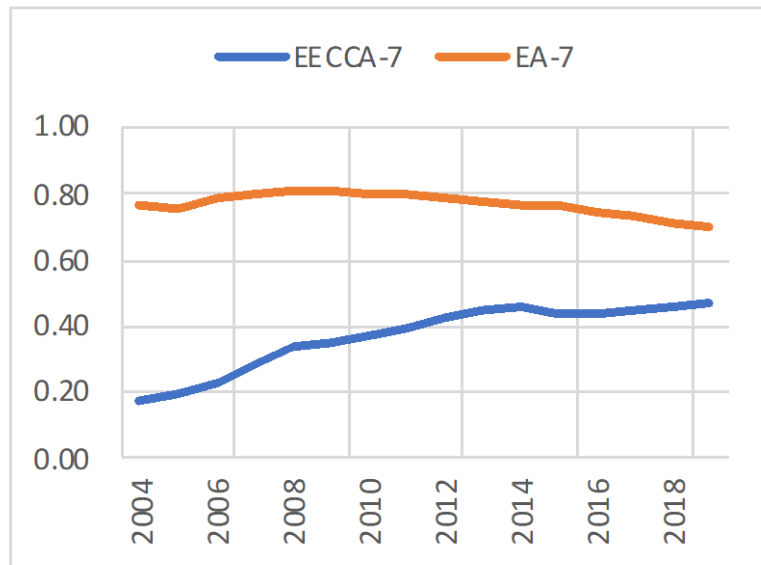
## Obstacles to green bond market development II: underdevelopment of local bond markets

If the ultimate objective is a liquid local green bond market, broader problems in capital market development need to be addressed:

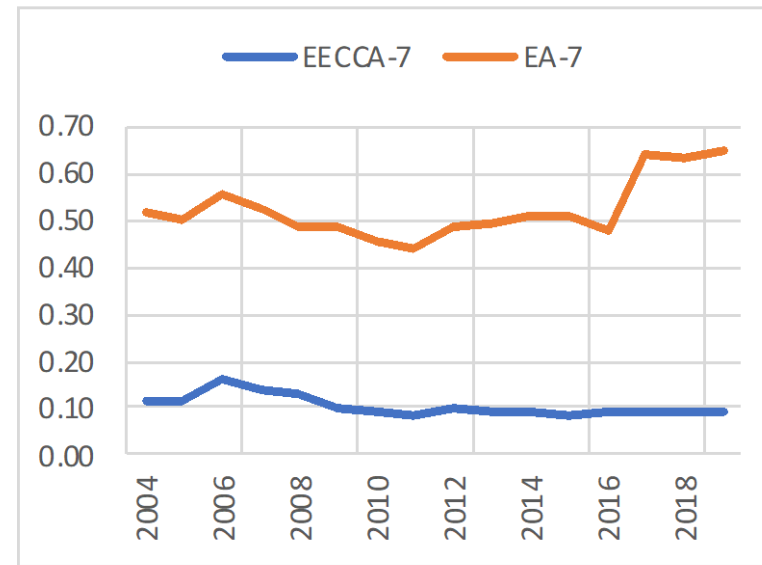
- Lack of institutional capital, e.g. pensions or insurance, or access for international investors through good clearing and settlement
- Bond market illiquidity and other barriers to primary issuance by the private sector
- Bond market infrastructure, e.g. domestic clearing and settlement, central bank repo facilities, trading system etc.

# underdevelopment of local bond markets

## Financial institutions access

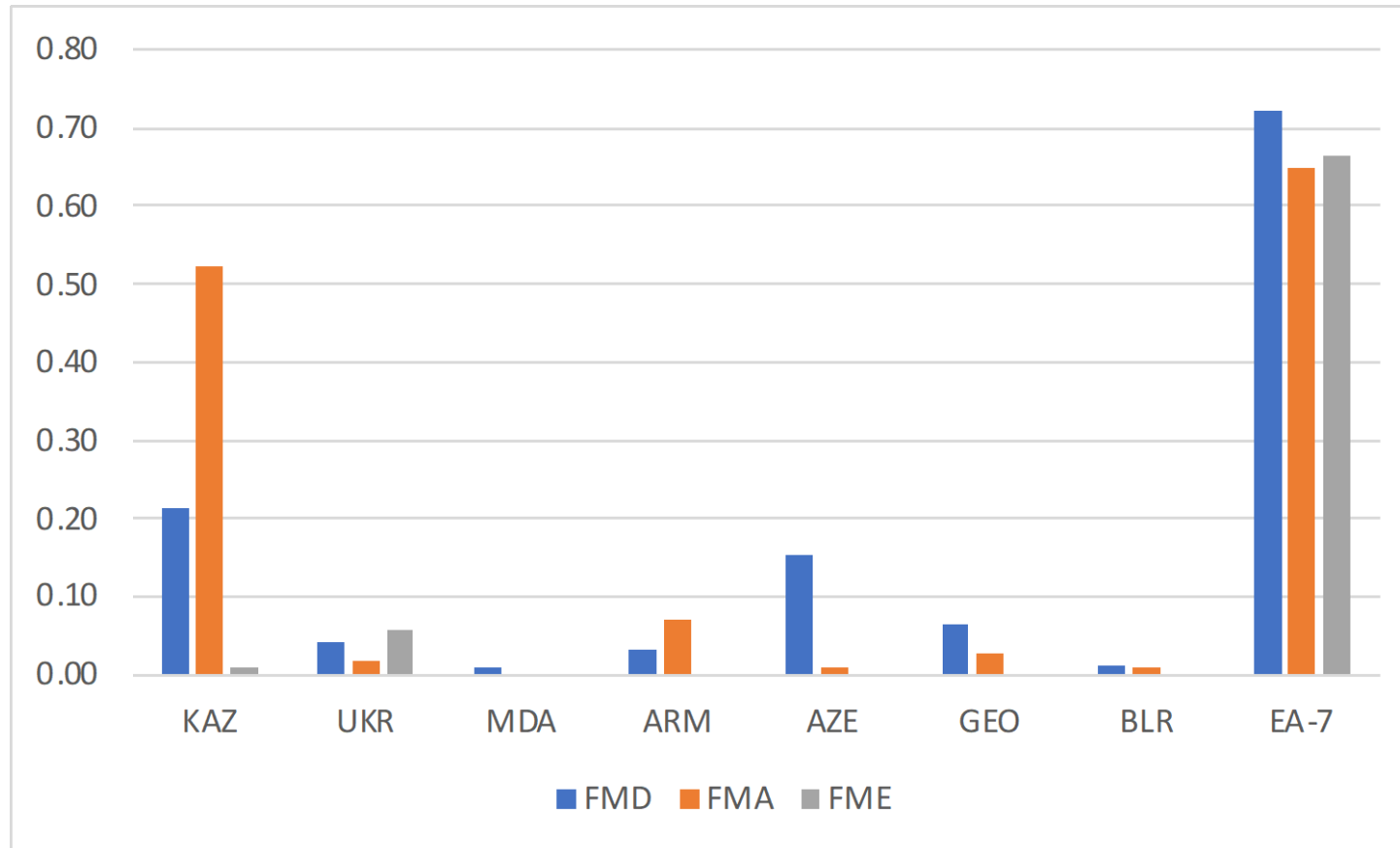


## Financial market access





# Financial market development in 2019: 7 EECCA countries and 7 euro area countries



## Obstacles to green bond market development III: lack of green finance regulation and high bond standards

Green finance regulation is still in its infancy, or completely lacking:

- ESG disclosure and risk management guidelines;
- a local taxonomy;
- green bond definition in local regulation;

Crucially, many banks lack experience in generating high quality green loan portfolios (which could be refinanced on the bond market)

## Policy options: supply side

- Sovereign issuers, agencies and state enterprises could be early green bond issuers, within existing debt management guidelines
- Bank supervision and ESG principles could encourage emergence of green loan portfolios – ultimately for the refinancing through green bonds on local markets
- Green bonds on international exchanges the main option for larger and highly rated corporates or banks with an established bond market presence and credit history – with limited spill-overs to local markets through cross-listings.
- Sustainability-linked instruments for well-governed enterprises with credible targets.
- Development of the local bond market remains a precondition for a wider set of issuers to come forward - private placement with IFIs or development agencies not does not define a new funding tool

## Policy options: demand side and the local 'ecosystem'

- In the current environment of emerging market risk aversion little chance of local currency bond issues, international issuance more realistic
- Role of IFIs and development agencies as 'anchor investors' remains crucial in local markets
- There should be full access to central bank refinancing facilities, though not necessarily a case for preferences
- Upgrade of local green finance frameworks: clear and locally specific taxonomies should be compatible with EU and Climate Bonds standards
- Access to verification providers and tracking of impact