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EU4Environment
Green Economy in Eastern Partner Countries

Expert Meeting on
Greening Debt Capital Markets in the EU's Eastern Partner Countries and Kazakhstan: The Role for Green Bonds
9-10 June 2022

Summary Record

The meeting was part of the EU-funded "European Union for Environment" Programme (EU4Environment), implemented by the OECD in co-operation with UNECE, UNEP, UNIDO and the World Bank. This work has been also financially supported by Germany's Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection (BMU).

Action implemented by:

Expert Meeting on Greening Debt Capital Markets in the EU's Eastern Partner Countries and Kazakhstan: The Role for Green Bonds

9-10 June 2022, On-line event

Summary Record

Background and main outcomes of the meeting

The current report presents a synthesis of the main issues that were discussed during an expert meeting on greening debt capital markets in the European Union's Eastern Partner (EaP) countries and Kazakhstan and the role green bonds could potentially play to finance the low-carbon transition in this region. This event took place on 9-10 June 2022, on-line, and gathered about 100 participants representing several sectors and stakeholder groups. These included officials from ministries of environment and economy, experts from domestic commercial banks and lending institutions as well as capital market regulators and participants in the region. Representatives of IFIs (ADB, EBRD, IFC, World Bank) and EU-supported financial vehicles also took part in the meeting. This event was also attended by the European Commission, UNEP, UNIDO, as well as the private sector, academics and non-governmental organisations.

The major objective of this meeting was to discuss and calibrate the main findings and conclusions that have emerged from the analysis of the role that debt capital markets in the EaP countries and Kazakhstan could play in financing long-term green investments. The draft report prepared by the OECD provided a background for the discussion.

The main conclusion from the discussions can be summarized as follow:

- Green bonds can be an additional and impactful source of climate mitigation finance in the region, notwithstanding the currently adverse context for bond finance in emerging markets.
- Apart from the possibly improved funding terms, green bond benefits also extend to better transparency and sustainability practices within issuers.
- The region has already mobilised some funding through this instrument, though it is less well established than in other emerging markets.
- Establishing a supportive investment environment for renewables / green investments is a key precondition to access international bond markets. Issuers need to adopt corporate governance practices that are required for a bond market presence.
- There are significant needs for capacity building among local stakeholders, and multiple areas in which international organisations, the EU and donor agencies could be catalytic.

All presentations and the video-recording of the two days of the meeting are available electronically and can be accessed on the meeting website: https://www.eu4environment.org/events/expert-meeting-on-greening-debt-capital-markets-in-the-eus-eastern-partner-countries-and-kazakhstan-the-role-for-green-bonds/. The meeting was co-organised by the European Commission and the OECD. It was financed by the European Union

(EU) through the "European Union for Environment" Programme (EU4Environment). This meeting was also financially supported by Germany's Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection (BMU) through its International Climate Initiative.

9 June 2022
Moderator: Ms. Michaela Hauf, DG NEAR, European Commission

Session One: Opening remarks

This session was opened by Mr. **Krzysztof Michalak** (OECD), who welcomed participants and introduced the project and the agenda for the meeting.

Mr. **Nicholas Cendrowicz** (DG NEAR, European Commission) emphasised the urgency of the low-carbon transition. The European Union (EU) Green Deal has already put the EU on a path to climate neutrality and environment and resilience to climate change will also need to be at the core of the Eastern Partnership (EaP) policies. The war of aggression against Ukraine have disrupted global energy and food markets and further raises the urgency of this transition, including in the countries of Eastern Europe, Caucasus and Central Asia (EECCA). Given EECCA economies' high energy and carbon intensity, green finance represents both an opportunity as well as a challenge as there is a need to make the business case for mobilising green finance. Green bonds can be a useful addition in the financing mix of emerging markets. The EU has been a front-runner in using this instrument, including through the EU's own issuance, and wants to be an enabler of the instrument internationally, leading by example. In October 2021, the EU issued a green bond worth Euro 12 billion to finance sustainable investments across its member states, which represents the world's largest green bond issuance so far.

Mr. **Jürgen Keinhorst** (Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection, Germany) underlined the support from the German government for this project and more generally for the work of the GREEN Action Task Force over the years. The EECCA countries have been lagging behind other emerging markets in low-carbon investments. The war in Ukraine and the preceding pandemic have had massive impact on financing options as the public debt burden has increased, supply chains have been disrupted, interest rates have risen. While green financing options offer opportunities there also needs to be a business case for individual projects. This case will depend in good measure on national energy policies, in particular the pricing of carbon emissions, and the phasing out of fossil-fuel subsidies.

Session Two: Scaling up green bond markets: Experience and challenges in the EaP countries and Kazakhstan

Mr. **Paul Horrocks** (OECD) presented key results from a recent OECD report on "Scaling up Green, Social, Sustainability and Sustainability-linked Bond Issuances in Developing Countries". He explained that the global growth in the issuance of green, social, sustainable and sustainability-linked (GSSS) bonds has only slowly been reflected in the emerging markets. This has been largely a question of a lack of bankable projects and of demand for bond funding for projects. Emerging markets suffer, in particular, from weak macroeconomic fundamentals and underdeveloped local capital markets. Yet, local policies and projects addressing Sustainable Development Goals (SDGs) create investable opportunities. The post-war reconstruction effort in Ukraine will have a significant component of green projects which will need to be financed by the private sector. Donors and IFIs can support green finance through technical assistance, and also act as anchor investors.

Mr. **Alexandre Lehmann** (Frankfurt School of Finance and Team Leader) then presented the main conclusions from the OECD project on green debt capital markets in the EaP countries and Kazakhstan. There has been only limited issuance in four of the seven countries covered in the study. Four large transactions were done in international bond markets, while four smaller issues underlined the potential also in local markets, in particular for local banks. The reform of green finance regulation in at least three of the seven countries was also encouraging and over time will provide a more conducive environment for local green assets.

This introductory overview was the followed by two presentations by successful issuers in the region. Mr. **Ara Sargsyan** (Ameriabank, Armenia) underlined how a green bond issue that is initially supported by a development agency can subsequently garner demand on the open market through a public listing. There have been tangible benefits through the diversification of the investor base, and the bank-internal expertise on generating and tracking green loans. Mr. **Levan Iobashvili** (Georgian Railways, Georgia) similarly observed very strong demand and reduced debt servicing costs for the company's green bond issued in 2021. The bond financed an ongoing electrification programme of the rail operator and a first impact and allocation report is to be released soon.

Session Three: Current challenges and possible future developments in the EaP and Central Asia capital markets

Ms. **Collette Wheeler** (World Bank) presented the latest World Bank economic outlook report and the analysis on the impacts from the War in the Region on the countries in Europe and Central Asia. Weak global growth is likely to depress investor interest in emerging markets. The further setback to growth in emerging markets is likely to result in a permanent output loss, as a long period of negative real interest rates has led to multiple vulnerabilities from excess debt. There are significant investment opportunities in the low-carbon transition, though higher prices for fossil fuels may well mute incentives for renewables.

Notwithstanding this challenging global backdrop, Mr. **Sean Kidney** (Climate Bonds Initiative) underlined the significant potential of green bonds in emerging markets. Given the new policy commitments, including by governments in the EECCA region, the direction of travel for global bond markets is clear. Recent experience in emerging markets confirmed the benefit of the instrument, for instance with tangible funding cost benefits in bond issues in Egypt. The local context is also more supportive of green bond issuance, for instance given the numerous taxonomies that have now been designed. There are large asset classes that could benefit from green bond issue – a focus should be on cities and in particular buildings. Any Ukraine reconstruction programme will likely be based on "build back better" principles. Alternative instruments, such as sustainability-linked bonds, should also be considered and may be especially relevant in the EECCA region.

Session Four: Investor perspectives

The first day of the conference concluded with perspectives from an investor and a private provider of verifications services. Mr. **Alexandre Cary** (Green Credit Funds of Glennmont Partners) outlined the very focused investment strategy of his Fund in terms of asset types and geographies. For future investments in the EECCA region market maturity and stability of investment conditions would be key. For instance, support mechanisms for renewables would need to be seen as sustainable with the country's fiscal framework. Often, there is a need to set up a special purpose vehicle to hold assets in a country, which would be a disincentive. Green bonds are, in principle, an attractive asset class for the Fund, also given their wider investor base and yield benefits for the issuer.

Last but not least, Mr. **Enrico Tessadro** (Sustainalytics) explained the key role of providers of "second party opinions" (SPO) in giving credibility to an issuer's green bond framework. Nearly all green bond issues have such verification. In their role as "gatekeepers" they can judge what is sustainable and what is not. In the EECCA region, providers could also help issuers define such credible frameworks.

10 June 2022
Moderator: Ms. Nelly Petkova, OECD

Session Five: The agenda for governments and regulators

This session underlined the key role regulators have in defining a reliable framework for green finance. Ms. **Salome Tvalodze** (National Bank of Georgia (NBG), Georgia) explained the work the Bank has been doing in this regard. The NBG issued a sustainable finance roadmap already in 2019 and defined four broad objectives, including capacity building and awareness of environmental, social and governance (ESG) risks, stimulating sustainable finance flows, better disclosure and market discipline. Since then, most actions have been implemented or are to be implemented in the near future. ESG principles have been integrated into the Corporate Governance Code for banks, a local taxonomy has been developed, and ESG risk management guidelines and a green bond framework are due soon. Lack of capacity and understanding of green finance issues is a key constraint, though training of local finance professionals is ongoing.

In **Kazakhstan,** the Green Finance Center at the Astana International Financial Center (AIFC) has defined a very comprehensive framework for green finance. Ms. **Aigul Kussaliyeva** (AIFC Green Finance Centre) underlined that as an off-shore financial center rules at the AIFC are distinct from those that apply on the country's main exchange in Almaty. The Green Finance Center also offers assistance to prospective issuers and a number of incentives for those assets complying with the new national taxonomy. To date, five green bonds have been issued on the exchange. In addition, Ms. Kussaliyeva discussed the work the government of Kazakhstan has done to facilitate access to finance and the subsidy programme it has put in place to support companies when borrowing from commercial banks. The link to the government decree on the subsidy programme in Kazakhstan (available in Kazakh and Russian) is: https://adilet.zan.kz/rus/docs/P2200000043. More information on this subsidy programme in English can be obtained through this link: https://www.greenfinanceplatform.org/sites/default/files/2022-05/Gov%20Subsidy%20Scheme%20for%20Green%20Loans%20and%20Bond%20Kazakhstan.pdf.

Prior to the war, **Ukraine** similarly developed its green finance framework. Mr. **Stanislav Dubko** (Independent Expert, Ukraine) explained that green bonds were defined as a distinct asset class in capital market regulation in Ukraine, and a taxonomy for public sector projects was adopted. At the same time, the erratic framework for renewables generation and a history of government arrears to generators in the sector suggest factors outside capital market regulation are equally fundamental.

The experience in **Hungary**, presented by Mr. **Gabor Gyura** (Sustainable Finance Consultant, Hungary), suggests that the state can play a key role in catalysing a green bond market. The government defined its own green bond framework and to date about EUR 2 billion have been raised in four different currencies. Allocation has been mainly towards past investment in the modernisation of the railway system. This has been a strong signal to the financial sector and since then a number of private green bonds emerged. Incentives in prudential regulation and the central bank's asset purchase programme further underpinned demand.

Colleagues from Lithuania participating in the meeting pointed to the fact that Lithuania was the first from the Baltic States and among the countries of Central and Eastern Europe to issue green bonds in 2018. For those interested in Lithuanian experience, more information can be obtained from this link: https://www.nasdaqbaltic.com/statistics/en/instrument/LT0000610305/company?date=2020-07-09.

Session Six: Support by IFIs and the European institutions

Ms. **Lisa Klinger** (DG International Partnerships, European Commission) underlined the substantial gap in financing the SDGs in emerging markets and developing countries, and hence the key role cross-border flows in sustainable finance will need to play. The EU has been a leader developing a local ecosystem for green finance. These include, among others, the EU Taxonomy and the proposed Green Bond Standard that has also defined a template that aims to bring greater clarity to markets and may also prevent greenwashing. A key will be to secure the "inter-operability" of national standards. The European Commission is in the process of adopting a strategy to scale up green finance flows to low and middle-income countries. This may include, among others, technical assistance and certain financial instruments that de-risk green investments.

Ms. **Maya Hennerkes** (EBRD) then pointed out the key role green bonds play in the EBRD's strategy for greening financial systems. The Bank's involvement extends from the support to individual issuers, to technical assistance to regulatory agencies, and also to its role as "anchor investor" in inaugural issues (its portfolio comprises about EUR 1 billion in 30 issues). A key concern is that markets in the region develop credibly and transparently and that greenwashing is being prevented. More information on EBRD work can be found through the two links below: https://www.ebrd.com/news/2021/ebrd-backs-ukrenergos-eurobond-to-resolve-payment-crisis-in-ukraines-renewables-sector.html and https://www.ebrd.com/news/2022/ebrd-invests-in-scatec-green-bond-.html.

Finally, Ms. **Berit Lindholdt** (IFC) explained the IFC's green bond funds and also IFC's engagement in providing technical assistance and issuing green bonds under its own name. The first Emerging Market Green Bond Fund, which is run by French asset manager Amundi, now manages a portfolio of EUR 2 billion in green bonds that are aligned with the International Capital Market Association (ICMA) principles. This also includes exposures to two countries in the region (Ukraine and Georgia).

Session Seven: Closure of the meeting

In briefly summarising the meeting discussion, Mr. **Alexandre Lehmann** pointed to the many benefits of green bond finance in light of the significant financing requirements in the EECCA region and notwithstanding the currently adverse context for bond finance in these countries. Jurisdictions that have established a supportive investment environment and where issuers adopt corporate governance practices that are required for a bond market presence should benefit from the clear investor interest. The EECCA region already showed some promise in terms of funding mobilised and in attracting new investors to the region. Apart from the possibly improved funding terms, green bond benefits also extend to better transparency and sustainability practices within issuers.

Mr. **Krzysztof Michalak** thanked speakers and participants for their participation and fruitful discussion which will be further reflected in the analysis as well as the OECD team who prepared the meeting. Ms. **Nelly Petkova** explained the next steps in finalising the work and pointed to the need to keep up a discussion between policy communities, IFIs and capital market participants, such as it had been developed in this project.