



## BACKGROUND NOTE

# Green, Social, and Sustainability Bonds: Market Overview and ADB's Participation

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# **Green, Social, and Sustainability Bonds: Market Overview and ADB's Participation**

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Climate change, environmental degradation, and social inequalities are arguably three of the most confronting challenges facing the world, now overlain by a lens of coronavirus disease (COVID-19). It is becoming increasingly evident that conventional financing mechanisms alone may be insufficient to address these challenges at the scale and pace required. Considering the large and growing role of capital markets in financing investments in Asia and beyond, one emerging area with potential for impact is the green, social, and sustainability bonds universe.

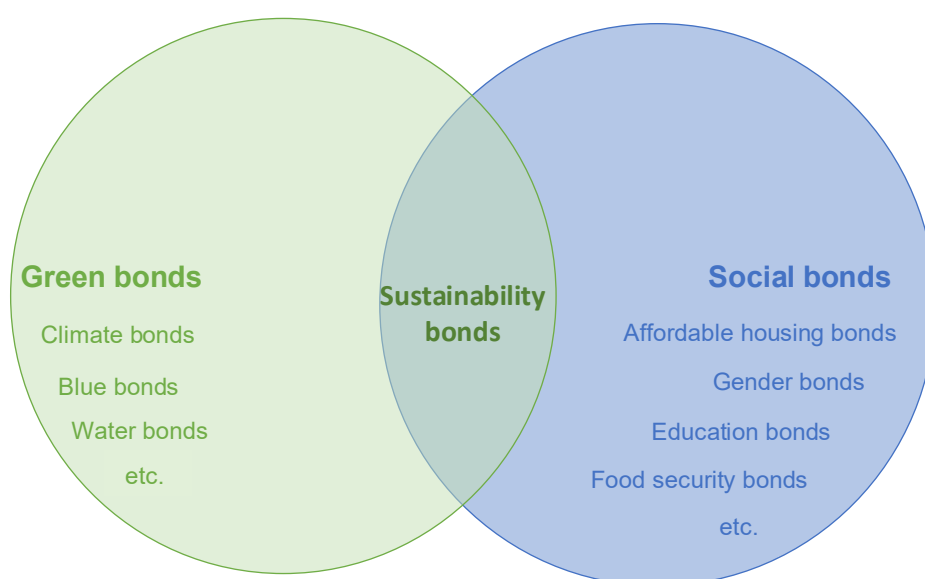
## **The Green, Social, and Sustainability Bonds Universe**

Green, social, and sustainability bonds are fixed-income debt instruments where the proceeds are used for eligible projects with positive environmental and/or social outcomes. As outlined in Figure 1, sustainability bonds intentionally mix green and social projects, while subsets of green bonds include climate bonds, water bonds, and blue bonds; and subsets of social bonds include affordable housing bonds, food security bonds and gender bonds. A full taxonomy of eligible bonds is outlined by the International Capital Market Association (ICMA), which has developed Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines to improve consistency and integrity for policymakers, issuers, and investors.<sup>1</sup>

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<sup>1</sup> ICMA. Green, Social, and Sustainability Bonds Resource Centre. <https://www.icmagroup.org/green-social-and-sustainability-bonds/resource-centre/>.

**Figure 1: The Green, Social, and Sustainability Bond Universe**



Source: Created by authors. Adapted from ADB, 2020, Green, Social, and Sustainability Bonds for Asia and the Pacific.

While the markets for these instruments are in their relative infancy, the United Nations recognizes green bonds as “one of the most significant developments in the financing of low-carbon, climate-resilient investment opportunities”<sup>2</sup> and social bonds are increasingly “stepping into the spotlight as .... an innovative solution to addressing (COVID-19) pandemic-related issues”.<sup>3</sup> While the bond market is the largest asset class in global financial markets with an annual issuance of almost US\$7 trillion,<sup>4</sup> the 2019 global market in green, social, and sustainability bonds was just \$300 billion,<sup>5</sup> driven primarily by markets in North America and Europe. Hence, there is enormous market potential to be realized.

<sup>2</sup> Renewables Now. 2015. The United Nations report confirms the key role of green bonds in climate investment. <https://renewablesnow.com/news/unreport-confirms-key-role-of-green-bonds-in-climate-investment-497005/>.

<sup>3</sup> Norton Rose Fulbright. 2020. *Social bonds – A sustainable response to the current difficulties*. April. <https://www.nortonrosefulbright.com/-/media/files/nrf/nrfweb/knowledge-pdfs/social-bonds-a-sustainable-response-to-the-current-difficulties.pdf?la=en&revision=0ee86a04-0183-461f-a99a-9079aeffe4da>; and ICMA. 2020. *Q&A for Social Bonds related to Covid-19*. <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Social-Bonds-Covid-QA310320.pdf>.

<sup>4</sup> UN Global Compact and UNEP Finance Initiative. 2019. *SDG Bonds – Leveraging Capital Markets for the SDGs*. , <https://www.unglobalcompact.org/library/5713>.

<sup>5</sup> Sustainalytics 2019 statistics report US\$257 billion in green bond issuance, US\$13 billion in social bond issuance, and US\$40 billion in sustainability bond issuance.

## The Market in Asia and the Pacific

The Asia and Pacific region represents the largest emerging economies market for the issuance of green, social, and sustainability bonds.<sup>6</sup> The region leads on regulation and guidance, notably via the ASEAN Green Bond Standards, Social Bond Standards, and Sustainability Bond Standards.<sup>7</sup> At the national level, countries such as the People's Republic of China have developed national green bond guidelines and an eligible project catalogue.<sup>8</sup> With developing Asia requiring an estimated \$26 trillion of climate-adjusted infrastructure investments by 2030<sup>9</sup> and more than 250 million people still living below the poverty line,<sup>10</sup> green, social, and sustainability bonds could help address these challenges.

## ADB's Role in Green, Social, and Sustainability Bond Markets

The Asian Development Bank (ADB) has been a reliable development partner in Asia and the Pacific for more than 50 years, and today is at the forefront of sustainable development and new market advancement. ADB's Strategy 2030 supports a prosperous, inclusive, resilient, and sustainable region by combining finance, knowledge, and partnerships. Along with ambitious targets, such as \$80 billion in climate financing up to 2030 and at least 75% of the number of ADB's committed operations to promote gender equality, ADB's Strategy 2030 promotes the use of innovative financing instruments, including green, social, and sustainability bonds<sup>11</sup>.

ADB's role in supporting the development of the green, social, and sustainability bond market is broad (Figure 2), including acting as an anchor or cornerstone investor for issuances and facilitating compliance with relevant bond frameworks. ADB's

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<sup>6</sup> Climate Bonds Initiative (CBI). 2019. *2018 Green Bond Market Summary*.  
<https://www.climatebonds.net/resources/reports/2018-green-bond-market-highlights>.

<sup>7</sup> <https://www.theacmf.org/initiatives/sustainable-finance/asean-green-bond-standards#:~:text=The%20ASEAN%20Green%20Bonds%20Standards,green%20finance%20for%20the%20region,https://www.theacmf.org/initiatives/sustainable-finance/asean-social-bond-standards,https://www.sc.com.my/api/documentms/download.ashx?id=3c4f768f-a290-4722-b9d1-ef55942fbfde#:~:text=The%20ASEAN%20Sustainability%20Bond%20Standards,issuance%20of%20ASEAN%20Sustainability%20Bonds.&text=The%20classification%20of%20a%20use,objectives%20for%20the%20underlying%20projects>.

<sup>8</sup> ADB. 2020. Catalyzing Climate Finance with the Shandong Green Development Fund. *ADB Briefs*, No. 144. Manila (July).  
<https://www.adb.org/sites/default/files/publication/615076/climate-finance-shandong-green-development-fund.pdf>; and CBI. 2019. Growing Green Bond Markets: The development of taxonomies to identify green assets.

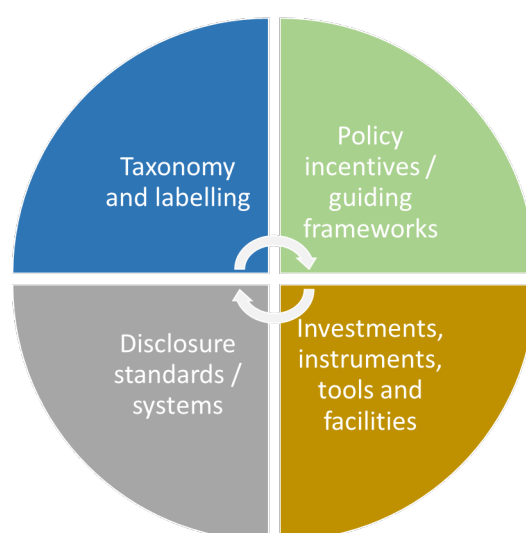
<sup>9</sup> ADB. 2017. *Meeting Asia's Infrastructure Needs*. Manila. © ADB.  
<https://www.adb.org/sites/default/files/publication/227496/special-report-infrastructure.pdf>.

<sup>10</sup> 2015 figures. Key Indicators for Asia and the Pacific 2020, 51<sup>st</sup> Edition, September 2020,  
<https://www.adb.org/sites/default/files/publication/632971/ki2020.pdf>.

<sup>11</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila (July). <https://www.adb.org/sites/default/files/institutional-document/435391/strategy-2030-main-document.pdf>.

participation can also enhance the perceived credibility of issuers among other investors, and demonstrate best practices for bond issuance within the region. In addition to direct investment, ADB can also design guarantees and mobilize investment funds to support market development. ADB has experience in supporting issuers to ensure that bonds comply with relevant frameworks, such as the ICMA Green Bond Principles, the ASEAN Green Bond Standards, and the Climate Bond Initiative's Climate Bonds Standard and Certification Scheme.<sup>12</sup> There are also ongoing roles for ADB to help grow the green, social, and sustainability bond markets that may include defining asset classes, setting standards, structuring transactions, and attracting investors.

**Figure 2: Potential Roles for ADB to Help Build the Green, Social, and Sustainability Universe**



Source: Created by the authors. Adapted from Wang, B., 2019, National Ecosystem and Source of Green Finance in China, Research Center for Green Finance Development, Tsinghua University, Beijing.

ADB's green, social, and sustainability bond market achievements include issuing its first corporate green bond in 2015 and a total of \$7.9 billion equivalent in green bonds since then,<sup>13</sup> supporting the first publicly listed Certified Climate Bond in Asia and the

<sup>12</sup> CBI. 2019. *Growing Green Bond Markets: The development of taxonomies to identify green assets*. <https://www.climatebonds.net/resources/reports/growing-green-bond-markets-development-taxonomies-identify-green-assets>.

<sup>13</sup> ADB. 2020. *Green, Social and Sustainability Bonds for Asia and the Pacific*. Manila (July). <https://www.adb.org/sites/default/files/publication/619561/green-social-sustainability-bond-asia-pacific.pdf>.

Pacific, and issuing its first gender bond in 2017.<sup>14</sup> ADB's Private Sector Operations Department, which is responsible for catalyzing, structuring, and providing financing to privately held and state-sponsored companies, is ADB's key actor in supporting the issuance of green, social, and sustainability bonds. ADB's Private Sector Operations Department is supported by its Economic Research and Regional Cooperation Department, Sustainable Development and Climate Change Department, and five regional departments.

ADB has established/co-established multiple financing facilities and funds to support future issuances across Asia and the Pacific, including the:

- **ASEAN Catalytic Green Finance Facility (ACGF).** An innovative finance facility that supports member governments of the Association of Southeast Asian Nations (ASEAN) to prepare and source public and private financing for infrastructure projects that promote environmental sustainability and contribute to climate change goals. The ACGF uses a de-risking approach to create bankable green infrastructure projects that can catalyze private capital, technologies, and management efficiencies.<sup>15</sup> ACGF is supporting green, social, and sustainability bond issuance as part of Thailand's COVID-19 recovery.<sup>16</sup>
- **Asia Pacific Climate Finance Fund.** This fund supports the development and implementation of financial risk management products that can help unlock capital for climate investments and improve resilience.<sup>17</sup> It includes financial risk management products to mobilize new sources of private sector climate financing, such as climate bonds.
- **Shandong Green Development Fund.** This fund introduces an innovative mechanism to catalyze private, institutional, and commercial capital for the development of climate-friendly infrastructure and business in Shandong, People's Republic of China.<sup>18</sup> The fund utilizes

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<sup>14</sup> <https://www.adb.org/publications/adb-gender-investor-brief>.

<sup>15</sup> <https://www.adb.org/what-we-do/funds/asean-catalytic-green-finance-facility/overview>.

<sup>16</sup> <https://www.adb.org/news/adb-supports-thailand-green-social-and-sustainability-bonds-covid-19-recovery>.

<sup>17</sup> <https://www.adb.org/what-we-do/funds/asia-pacific-climate-finance-fund>.

<sup>18</sup> ADB. 2020. Catalyzing Climate Finance with the Shandong Green Development Fund. *ADB Briefs*, No. 144 (July). <https://www.adb.org/sites/default/files/publication/615076/climate-finance-shandong-green-development-fund.df>.

the Green Climate Fund investment framework and includes scope for bond issuance.

- **SDG One Indonesia-Green Financing Facility.** Designed as a de-risking facility, this financing facility aims to leverage ADB and government funds to catalyze green funds (including bonds) from private, institutional, and commercial sources. Its innovative transition financing mechanism links funds provision to subprojects with clear green, Sustainable Development Goal (SDG), and financial bankability targets.
- **Urban Climate Change Resilience Trust Fund.** This trust fund aims to scale up investments in urban climate change resilience in Asia, including leveraging about \$1 billion in investments from public, private, and municipal sources, with scope to utilize a range of financial instruments, including bonds.<sup>19</sup>

Importantly, many of these facilities and funds play a catalytic role via blended finance, facilitating the use of different sources of financing as risk profiles change and mobilizing private capital where it may not otherwise be directed.

Additionally, ADB provides ongoing knowledge development and technical assistance to support green, social, and sustainability bonds via bespoke platforms and knowledge products, such as:

- **NDC Advance Platform** is helping to boost the capacity of ADB's developing member countries to meet their climate objectives, as outlined in their Nationally Determined Contributions (NDCs). NDC Advance Platform includes support for the development of financing mechanisms such as green, climate, and project bonds.
- **Urban Platform for Climate Finance** aims to assist cities in Asia and the Pacific in implementing climate-resilient and low-carbon investment plans, including improving knowledge on access to finance, such as green finance.

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<sup>19</sup> <https://www.adb.org/what-we-do/funds/urban-climate-change-resilience-trust-fund>.



- **Key knowledge outputs**, in 2020 alone, included (i) a “Green, Social and Sustainability Bonds in Asia and the Pacific” brochure (July); (ii) “Green Finance Strategies for Post–COVID-19 Economic Recovery in Southeast Asia: Greening Recoveries for Planet and People<sup>20</sup>” knowledge product (October), which includes green and sustainability bonds, transition bonds: brown to green, COVID-19 recovery transition bonds, and sustainable impact bonds; (iii) a “COVID-19 Recovery – A Pathway to a Low-Carbon and Resilient Future” knowledge product (September), which includes green and climate bonds as potential finance sources; and (iv) “Financing Disaster Risk Reduction in Asia and the Pacific: A Guide for Policy Makers” knowledge product (December), which includes environmental impact bonds, green and resilience bonds, SDG bonds, and catastrophe bonds.

## Looking Forward

ADB will continue supporting the development of green, social, and sustainability bond markets and assisting its developing member countries to access to those markets.

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<sup>20</sup> Green finance strategies for post–COVID-19 economic recovery in Southeast Asia – Greening recoveries for people and plant. October 2020. <https://www.adb.org/sites/default/files/publication/639141/green-finance-post-covid-19-southeast-asia.pdf>.