Virtual Launch - SADC Guidelines for Sustainability Bonds

Held on 27 April 2022
10:00 – 11:30 (CAT)

On 27 April 2022, the Committee of SADC Stock Exchanges (CoSSE) and FSD Africa facilitated a virtual launch of the SADC Guidelines for Sustainability Bonds under the SADC Green Bond Programme kickstarted in February 2021.

Over 90 professionals from the SADC region capital market ecosystem were present, with representation from Stock Exchanges, Central Banks, Regulators and Development Finance Institutions. In addition to keynote speakers such as Vimal Parmar from FSD Africa and consultant Cecilia Bjerborn Murai, the event offered an opportunity for discussions around the regional guidelines and priority areas for development. Discussions focused on the international regulatory framework concerning sustainability bond issuances and how SADC capital market institutions can establish or incorporate best practice sustainable bond requirements into pre-existing fixed-income rules.

The first leg of the event highlighted the increasing relevance of the sustainability bond market. The global growth of the Green, Social and Sustainability (GSS) Bond market has been exponential over the past ten years. USD700bn worth of GSS instruments was issued in 2020, almost double the prior year which stood at USD358bn. At the end of 2020, the year of the Covid-19 pandemic, the sustainable debt market had reached USD1.7tn, and almost 10,000 instruments had been issued under GSS labels since 2006.

Shifting the spotlight to Africa, available studies show that there is currently a vast funding gap between the financial needs of Africa to meet the UN Sustainable Development Goals and the availability of sustainability-related financial flows directed toward Africa. According to Climate Bonds Initiative, the African market had a cumulative issuance of less than 1% of global green bond issuance volumes in the last decade. Nevertheless, the GSS bond markets in Africa indicate a promising outlook as market participants continue to demonstrate an interest in issuing green and other sustainability bonds to fund assets and projects that can deliver robust risk-adjusted returns while addressing environmental and social challenges.

The benefits of sustainability bonds to issuers, investors and governments include but are not limited to:

- Environmentally green/low carbon integrity of the bond enables issuers to raise capital from a much broader base of investors.

- Lower cost of capital.
- Reputational benefits.
- Typically, green bond investors invest for the long term, which is a major benefit for infrastructure projects seeking longer term investments.
- Addressing climate risk.
- Alignment with National Development Agenda.

When discussing the aspect of regulation, it was underlined that using frameworks in line with international best practice, as provided by the Green Bond Principles and Climate Bonds Standard, can help attract more investors with an environmental or socially responsible mandate who have familiarity and confidence in these frameworks. The two main international guidelines and standards related to Sustainable Bond issuance are the Green Bond Principles and the Climate Bonds Standard.

The Green Bond Principles are a set of underlying global principles for green and other sustainable bond issuance and disclosure process. They are an industry-led initiative convened by the International Capital Market Association (ICMA), promoting the use of proceeds for green and social projects. They are based on four pillars:

1. **Use of Proceeds**
2. **Process for project evaluation and selection**
3. **Management of Proceeds**
4. **Reporting**

The International Climate Bonds Standard is a standard for Green Bonds that is consistent with the Green Bond Principles with a set of sector-based criteria that layout clear definitions (thresholds and requirements) used in the certification of green assets and projects. Certification under the Climate Bond Standard confirms that the bond, loan or debt instrument used to finance a project that is:

- **fully aligned with the Green Bond and/or Green Loan Principles;**
- **uses best practices for internal controls, tracking, reporting and verification and;**
- **financed assets are consistent with achieving the goals of the Paris Climate Agreement.**

In the process of incorporating sustainable bond requirements into existing fixed income rules of SADC exchanges, sustainable bond guidelines should be read in conjunction with the standard fixed-income regulations or guidelines of the Exchange and the Regulatory Authority, and all standard requirements related to fixed income instruments would typically apply. However, some specific requirements pertaining to the issuance of Sustainable Bonds, including definitions, would be added. Once structured, Sustainable Bonds may be issued like regular bonds, either by making an offer to the public or through a preferential offer. The typical listing process for a regular bond or a sustainable bond on an Exchange can be summarised as the below:

1. **Submission of Listing**
2. **Approval by the Exchange and the Regulatory as applicable**
3. **Admission to listing and trading on the Exchange's platform**
4. **Post-listing requirements**

Commenting on the event, CoSSE Chairperson Mr Thapelo Tsheole said, ***"The launch of these regional sustainability bond guidelines is a key step toward fostering green finance guidelines frameworks in the SADC region that are aligned to global best practice, whilst allowing for customisation to the context of individual SADC markets."***

These guidelines are an crucial pillar for the SADC Green Bond Programme and its overall objective to develop the SADC green bond market. The SADC Guidelines for Sustainability Bonds are available on the CoSSE website.

EVENT PARTNERS:

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