

## ASSET CLASS PROFILE

## Public Bonds



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## Asset class trends in emerging markets

There has been an increased issuance of green bonds and social bonds globally and across emerging markets.

- **Green bonds:** In 2019, green bonds in emerging markets saw a record issuance of USD 52 billion, up 21% from the previous year
  - The largest emerging markets issues were China (USD 34 billion), India (USD 3 billion), and in Sub-Saharan Africa, South Africa (USD 724 million), followed by Nigeria (USD 106 million)
  - Financial institutions like development finance institutions (DFIs) were the largest issuer (59% of green bonds in emerging markets), followed by corporates and governments
  - The majority of green bond proceeds focused on energy (39%), transport (23%), water (13%) and buildings (11%)
- **Social bonds:** Social bonds (targeting positive social outcomes) and sustainability bonds (incorporating both green and social outcomes) have emerged following the success of green bonds. Social bonds saw record growth in 2020, jumping nine-fold to USD 165 billion, while sustainability bond issuance reached USD 140 billion. This has also led to higher diversification within the asset class.

Sources: i) Amundi & IFC, "Emerging Markets Green Bonds Report" 2019, ii) Environmental Finance, Sustainable Bonds Insight 2021



## Key features

- ✓ **Fixed income:** Green and social bonds operate like traditional bond issuances, and are income generating assets for investors
- ✓ **Liquidity:** Publicly traded bonds, particularly those traded in developed stock markets, offer a high degree of liquidity
- ✓ **Familiarity:** Bonds are highly familiar instruments to institutional investors, similar to treasury bonds in developed countries
- ✓ **Proceeds target impact:** Relatively lower risk mechanism for allocating capital towards social and green objectives

## Historical challenges

- **Absence of trusted conduits for capital:** Limited bond issuances from credible, low risk businesses
  - **Solutions include:** Experienced DFI are a direct issuers of bonds in emerging markets, working with governments to structure bonds. DFIs are often rated AAA based on their balance sheets
- **Limited transparency on use of funds:** Green bonds have been criticised for lack of accountability on the use of investments
  - **Solutions include:** Several accountability frameworks have been developed, including the EU Taxonomy and Green Bond Standards and the Green Bond Principles (GBP)

## Why invest?

- **Similar option to traditional fixed-income tools:** These bonds have a similar low-risk and high liquidity profile to general obligation bonds, and therefore can sit well in more traditional low-risk fixed income portfolios
- **Availability and proven track record:** There is a wide range of investment-grade green and social bonds currently listed on markets



### Examples of public bonds in emerging markets include:

- Masala Green Bond (IFC & YES Bank)
- EUR 7-year Social Bond (African Development Bank Group)