

Presentation
on
Introducing Green Bond in Bangladesh

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What is a green bond?

Green bonds are any type of debt instrument with same underlying mechanism as regular bonds where the proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible green projects and which are aligned with the four core components of the green bond principles.

Green bond principles

ICMA green bond principles are considered best practice guidelines for a green bond framework.

Voluntary process guidelines for issuing green bonds:

- ▶ **Use of proceeds: Definition of eligible projects.**
- ▶ **Process for project evaluation and selection: Key to obtain sufficient knowledge.**
- ▶ **Management of proceeds: Traceability and monitoring.**
- ▶ **Reporting: Transparency and impact reporting.**
- ▶ **External review: Evaluation through an independent external assessment.**

What are basic difference between green bond and regular bonds?

- ▶ **Same underlying mechanisms as regular bonds.**
- ▶ **Main difference is that only pre-defined green projects can be financed.**
- ▶ **Green bond frameworks ensure that green projects are defined and that the issuers deliver on their promise.**
- ▶ **Green bonds require additional verification process and standards to be in place compared to a regular bonds.**
- ▶ **Moreover, additional transaction cost of green bond occurs for certification compared to regular bonds.**

Where green bonds finance can be in Bangladesh?

- ▶ Renewable energy
- ▶ Energy efficiency and inclusive green buildings
- ▶ Environmentally sustainable management of living natural and land use
- ▶ Clean transport
- ▶ Sustainable water and wastewater management
- ▶ Eco-efficient products, production, technologies and process
- ▶ Climate change adaptation

Why issue and invest in green bonds?

To achieve sustainable development goals including economic, social and environmental:

- ▶ Clean Water and Sanitation
- ▶ Affordable and Clean Energy for All
- ▶ Resilient Infrastructure and Sustainable Industrialization
- ▶ Sustainable Cities and Communities
- ▶ Climate Action

Who defines green?

- ▶ **Voluntary principles for issuing a green bond that the vast majority of issuers align with across all markets;**
- ▶ **Country level guidelines in some markets;**
- ▶ **Stock Exchanges with criteria for listing;**
- ▶ **Green bond indices and funds criteria for inclusion;**

Prospect and challenges of green bonds

Prospects:

- Positive impact on life and environment;
- Diversification of investors and markets for green bonds which help to build a market that helps mobilize private sector financing for climate-focused and environmentally friendly activities.

Challenges:

- Difficult to ensure utilization of green bond proceeds in eco-friendly projects;
- Absence of guidelines for green bonds;
- High cost of green project and low coupon rate;
- Lack of awareness of issuers and investors regarding social and environmental benefits of green bond;

Prospect and challenges of Municipal green Bonds

Prospects:

➤ A strong need for local infrastructure finance in Bangladesh, including for investments related to climate change adaptation. Financing through municipal bonds can be used to finance specific projects or investment plans.

Challenges:

- Restriction on borrowing;
- Improper preparation of financial statements;
- Lack of good governance and expert manpower;

IFC Green Bond Market Assessment in Bangladesh

IFC estimates a total climate-smart investment opportunity of \$172 billion in Bangladesh from 2018 to 2030:

- ▶ **\$3 . 2 BILLION IN RENEWABLE ENERGY**, created by the government's pledge to generate 10 percent of its energy from renewable sources by 2020, going up to 3,800 MW by 2041, and 100 percent by 2050
- ▶ **\$118 BILLION IN GREEN BUILDINGS** arising from its emphasis on energy efficiency in buildings and annual addition of 500,000 urban and 3.5 million rural houses to bridge an annual shortfall of 5 million homes
- ▶ **\$23 . 7 BILLION IN TRANSPORT INFRASTRUCTURE** to help achieve its goals of a multimodal public transport-oriented sector, with a focus on developing its inland waterways network
- ▶ **\$13 BILLION IN CLIMATE-SMART URBAN WASTE WATER**, in line with the government's interest in seeking investment in water-related infrastructure and water management
- ▶ **\$4 BILLION IN MUNICIPAL SOLID WASTE MANAGEMENT**, to bring collection up to 80 percent in 2030 and manage the increasing amounts of waste generated by a rapidly urbanizing population

IFC Green Bond Market Assessment in Bangladesh (cont.)

Market barriers hindering the green bond market development in Bangladesh:

A. Domestic Investors:

- ▶ Competition with other fixed income products.
- ▶ Competition with non-green projects.
- ▶ Poor credit rating and management capacity.
- ▶ Regulatory restrictions.

B. International investors:

- ▶ Excessive currency and country risk.
- ▶ Unclear green impact and little verification.
- ▶ Evidence of alignment with NDC.
- ▶ Small project / instrument size.

C. Issuers:

- ▶ High taxes and regulatory barriers.
- ▶ Unclear project pipeline and lack of understanding.
- ▶ Poor access to investors.
- ▶ High transaction cost for issuers

IFC Green Bond Market Assessment in Bangladesh (cont.)

Market solutions and policy tools:

- ▶ Credit enhancement;
- ▶ Strategic public issuance;
- ▶ Strategic public investment;
- ▶ Re-adjust risk weighting;
- ▶ Tax incentives;
- ▶ Guideline and standards
- ▶ Priority list of strategic projects;
- ▶ Ensure pipeline transparency;
- ▶ Establish a collaboration platform;
- ▶ Capacity building for assurance services;
- ▶ Adjust FX regulation
- ▶ Develop hedging products;
- ▶ Develop standard contracts;

IFC Green Bond Market Assessment in Bangladesh

International case studies and lessons for Bangladesh

India:

- ▶ Demanding Renewable Energy (RE) targets, supported through power purchase agreements (PPAs) and strong institutional framework.
- ▶ Independent power producer (IPPs) developed RE project.
- ▶ Many Government backed entities issued, creating market understanding.
- ▶ MDBs played an important role in developing the market by sole subscribing.

Indonesia:

- ▶ The Indonesian government released a national green bond and green Sukuk framework.
- ▶ The government stimulated the market with a USD 1.25 bn Sukuk issuance.
- ▶ The proceeds from the issuance were used for resilience projects, sustainable land use and others.

What Principles or Rules are used for issuing green bonds in Bangladesh

- ▶ **There is no specific principle or standard or rule for issuance of green bond. However, green bond may be issued under the existing rules of the Commission.**
- ▶ **For issuance of debt securities through private placement, an issuer shall submit application under Securities and Exchange Commission (Private Placement of Debt Securities) Rules, 2012.**
- ▶ **On the other hand, for issuance of debt securities through public offer, an issuer shall submit application under Bangladesh Securities and Exchange Commission (Public Issue) Rules, 2015 upon compliance of relevant requirements of the securities and Exchange Commission (private Placement of Debt Securities) Rules, 2012.**
- ▶ **ABS and Sukuk Rules.**

Procedure and fees to issue Bonds in Dematerialization

- ▶ Agreement to be signed between Central Depository Bangladesh Limited (CDBL) and the Bond Issuer Company.
- ▶ The Bond Issuer Company starts subscription process.
- ▶ CDBL to create ISIN (International Securities Identification Number) and Issuer ID (Identification Number) for the Bond Issuer Company.
- ▶ The Bond Issuer Company provides BO (Beneficiary Owner) Account numbers collected through the subscription process to CDBL for checking valid/invalid.
- ▶ In case of Public Issue, the Bond Issuer Company conduct lottery, collect entitled BO Account numbers and provide to CDBL.
- ▶ CDBL to credit the Bond units to the entitled BO Accounts. However, in case of any Bond to be listed in any Stock Exchange then credit will take place subject to listing approval from the respective Stock Exchange.

Procedure and fees to issue Bonds in Dematerialization (cont.)

Example of CDBL fees for issuing a Bond Amount Tk. 1,000,000,000/- in CDS

CDBL Fees & Deposit on credit of Bond	Amount in Taka
Distribution Bonds of Tk. 1,000,000,000/- X 0.00015 CDBL Fee Rate	150,000
Documentation Fee	2,500
Depository Connection Fee for the year from the date of allotment @ Tk. 500/- per month	6,000
Annual Fee for the year from the date of allotment	<u>20,000</u>
Sub- Total	<u>178,500</u>
Issuer Refundable Security Deposit	<u>500,000</u>
Total	<u>678,500</u>
Note: This amount is payable upon signing of the agreement with CDBL.	

Electronic Trading Board

In order to provide liquidity of non-listed equity and debt securities including green bond, BSEC and exchanges are working to develop Alternative Trading Board (ATB);

Criteria for Availing ATB Facilities:

- **Issuer shall apply to the exchange or through Merchant banker to avail the ATB facilities.**
- **After receiving application and examining documents, the exchange shall accept or reject the application within 30 working days of receipt of such application.**
- **Applicable for all securities (equity and Debt) those are not listed with main board or SME board.**

Trading in ATB

- 1) **Buy and sell in ATB shall be conducted through the Automated Trading system of the Exchanges which will be mentioned in Operational Handbook.**
- 2) **The exchanges have accommodated Alternative Trading Board in its IT system according to the ATB Rules.**
- 3) **Existing settlement practices will be followed to conduct the clearing & settlement of trades in ATB.**
- 4) **All the securities listed under ATB shall be called listed securities (not listed company);**
- 5) **Since the securities are listed securities, stamp duty is not applicable here (same as main board and SME Board);**
- 6) **Transaction tax at 0.05% is applicable in ATB (as the main board & SME Board);**

Thanks to All