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Expand ERC-Backed Debt Issuance

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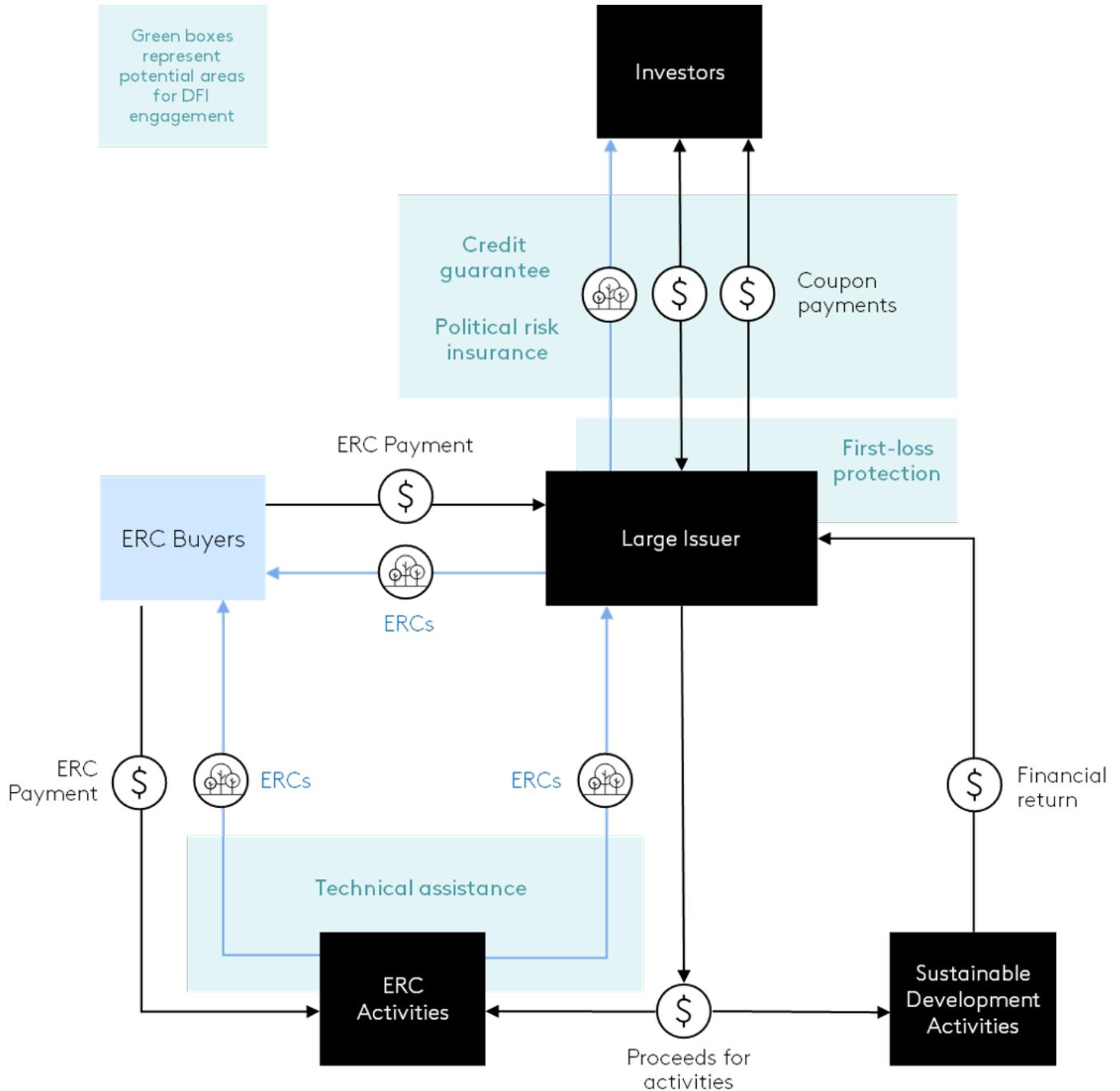
***On this page:** The ERC market exposure that investors face could be optimized through the ERC linkage and attracting a diversified investor base with different preferences. Read more below, or visit [Strategic Guidance for Country System Assessments](#), [Guidance for Countries in Assessing ERC Projects](#), or [Mobilizing ERC Finance](#).*

With targeted DFI support, entities in EMDEs could issue ERC debt instruments to mobilize more private sector finance for ERC activities. Multilaterals have demonstrated the potential for ERC bonds to raise debt funding from non-specialist investors for ERC activities in EMDEs. The prominent examples—IFC Forests Bond and WB ERLB—only used the value of the coupon to finance ERC activities while the principal was used for general financing by the issuing multilateral. To truly scale ERC financing, more of the bond or debt raise could be used to finance ERC activities.

Structuring the next generation of ERC-backed debt instruments can draw on recent experience with ERC financing—across debt, equity, and financial intermediation—that has demonstrated different structuring options to draw in a mixed base of financiers and align ERC risk with different financiers' preferences. The

ERC market exposure that investors face could be optimized through the ERC linkage (e.g., variable coupon linked to ERC-related metric; option of in-kind ERC coupon) and attracting a diversified investor base with different preferences (e.g., financial vs. in-kind ERC return). DFIs could provide credit enhancement through a credit guarantee or by providing concessional finance (e.g., investing in a subordinate note or blending capital into an SPV), which can be done broadly for the entire instrument or provided to only a tranche of the instrument.

Figure 13. Conceptual model of an ERC-backed debt structure.



A public sector ERC bond or public-sponsored ERC SPV (Figure 13) could leverage growing capital markets interest and EMDE capacity to issue sovereign thematic debt to finance emission reduction activities in line with national priorities. EMDE thematic bond issuance and global sovereign thematic bond issuance surged in 2021/2022.¹ Sovereign EM issuance remains a small, but also fast-growing portion of the thematic bond market, with 18 EMs having issued a cumulative \$70 billion in thematic bonds since as of September 2022, including six EAP countries (Table 3). Most have been hard currency, but a growing number are local currency; most are benchmark size; and most were issued internationally. At least two EM sovereign

thematic bonds received an MDB guarantee. There is also growing interest in EM subnational thematic debt. Several EAP countries have thematic bond frameworks, thematic lending frameworks, or green taxonomies in place that could support leveraging the growing thematic debt segment of global capital markets to issue debt for climate action nationally or subnationally, via sovereigns, other government entities, or state-owned entities like utilities or development banks. Proceeds could be used to support emission reduction activities, at least some of which would generate ERCs that would be used to partially meet the debt service, and the rest could be NDC priorities that would not issue ERCs.²

Table 3. Cumulative sovereign thematic bond (and sukuk) issuance in EAP region.³

EAP Country	Issuance	Date	Market
Fiji	Initial: Fijian dollar 40 million (\$28.9 million) green bond Reopening(s): Fijian dollar 60 million (\$28.8 million)	Initial: November 2017 Reopening: December 2017 – July 2018	Tranches both in the domestic and international markets.
Indonesia	\$1.25 billion green sukuk	March 2018	International market
	\$750 million green sukuk	June 2021	International market
	\$584 million sustainability bond	September 2021	International market
	\$1.5 billion green sukuk	May 2022	International market
Malaysia	\$800 million sustainability sukuk	April 2021	International market
	Malaysian ringgit 4.5 billion (\$970 million) sustainability sukuk	September 2022	Domestic market
Philippines	\$1 billion sustainability bond	March 2022	International market
	Japanese yen 70.1 billion (\$559 million) sustainability bond	April 2022	International market
Seychelles	\$15 million blue bond	October 2018	Private placement with international investors

EAP Country	Issuance	Date	Market
Thailand	Initial: Thai baht 30 billion (\$964 million) sustainability bond	Initial: August 2020	Domestic market
	Reopening(s): Thai baht 20 billion (\$660 million)	Reopening: November 2020	
	Thai baht 35 billion (\$956 million)	September 2022	Domestic market

Footnote 1: World Bank, [Sovereign Green, Social and Sustainability Bonds: Unlocking the Potential for Emerging Markets and Developing Economies](#), 2022.

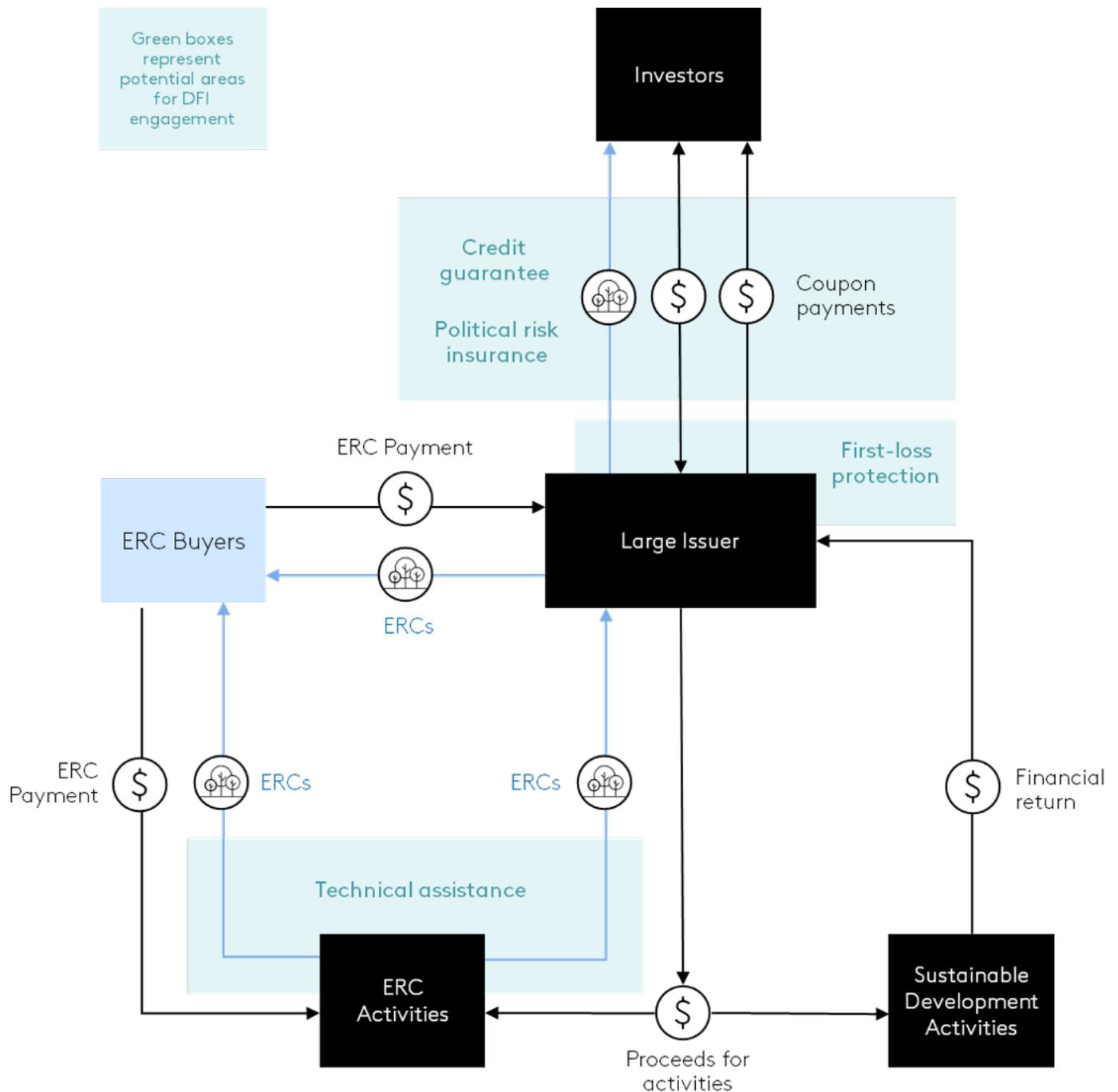
Footnote 2: For a specific example of how such an approach could work for a sovereign-sponsored SPV for energy transition in India, see: Climate Policy Initiative, [Recovery Bonds: Innovative Sovereign Bond Structures for Financing a Sustainable Recovery](#), 2021.

Footnote 3: World Bank, [Sovereign Green, Social and Sustainability Bonds: Unlocking the Potential for Emerging Markets and Developing Economies](#), 2022, using Bloomberg data.

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Structuring the next generation of ERC-backed debt instruments can draw on recent experience with ERC financing—across debt, equity, and financial intermediation—that has demonstrated different structuring options to draw in a mixed base of financiers and align ERC risk with different financiers’ preferences. The ERC market exposure that investors face could be optimized through the ERC linkage (e.g., variable coupon linked to ERC-related metric; option of in-kind ERC coupon) and attracting a diversified investor base with different preferences (e.g., financial vs. in-kind ERC return). DFIs could provide credit enhancement through a credit guarantee or by providing concessional finance (e.g., investing in a subordinate note or blending capital into an SPV), which can be done broadly for the entire instrument or provided to only a tranche of the instrument.

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Additional Resources

- [UNCITRAL Legislative Guide on Public-Private Partnerships](#)
- [Financial Intermediaries](#)
- [Introduction to Commercial Value Capture \(CVC\)](#)

This section is intended to be a living document and will be reviewed at regular intervals. The Guidelines have not been prepared with any specific transaction in mind and are meant to serve only as general guidance. It is therefore critical that the Guidelines be reviewed and adapted for specific transactions. Unless expressly stated otherwise, the findings, interpretations, and conclusions expressed in the Materials in this Site are those of the various authors of the Materials and are not necessarily those of The World Bank Group, its member institutions, or their respective Boards of Executive Directors or member countries. For [feedback](#) on the content of this section of the website or suggestions for links or materials that could be included, please contact the Public-Private Partnership Resource Center at ppp@worldbank.org.