

Strategic Alliance on *Green Bond Market Development in G20 Emerging Economies*

## Roundtable Discussion: Green Financial Solutions in Mexico – How to Move from Niche to Mainstream?

18 October 2017, Mexico City

After a series of two consecutive workshops on Green Bonds in Mexico, the [Strategic Alliance](#) (STA) between GIZ & SEB and its local partner, the Mexican Banking Association (ABM) organized a roundtable discussion focusing on *Green Financial Solutions in Mexico – How to Move from Niche to Mainstream?* At the roundtable, held at the premises of ABM on 18 October 2017, leading experts from banks, pension funds, the stock exchange, regulatory bodies, as well as rating agencies and climate finance institutions discussed how to enhance robust and profitable green financial solutions in Mexico. Key topics focused on promoting national green bond underwriter champions, ensuring transparency and environmental integrity, as well as incubating domestic green institutional investors. Yannick Motz, Lead of the Emerging Market Sustainability Dialogues – Finance at GIZ, moderated the event.

Juan Carlos Jiménez Rojas, Director General of ABM, opened the roundtable by emphasizing that climate change may appear like a slowly moving crisis but managing it required taking determined action now – including in particular the financial sector. Despite having seen progress in recent years, there a lot of work remained to do to increase awareness and set effective incentives.

In a keynote, Lauren Smart, Global Head of the Financial Institutions Business at S&P Trucost, concisely outlined the considerable **risks and opportunities** resulting from the *resource revolution* we are facing. Albeit imposing massive risks – foremost liability, physical and transition risks – the long-term horizon of climate change impacts led to a substantial misevaluation of assets, she analyzed. Taking adjustment measures now will not only improve the resilience and long-term profitability of business models but also create access to the estimated \$93 trillion investment opportunities towards a low-carbon future.

An instrument increasingly used across the globe to effectively channel capital towards such investments are green bonds. Mats Olausson, Senior Advisor of Climate & Sustainable Financial Solutions at SEB, the Swedish bank, which had developed the green bond concept jointly with the World Bank in 2007/08, gave an **update on the global green bond market**, which reached new records in 2017. Humberto Alarcón Torre, Head of Risk Management at ABM complemented the overview on the **Mexican green bond market**, which has the fifth highest issuance volume in 2017, by relating to the initiatives and further action to be taken with respect to education on the benefits and opportunities of green bonds.

In the following discussion, the Mexican exchange, *Bolsa Mexicana de Valores* (BMV), elaborated on the measures taken to support the domestic market growth, including the launch of a **dedicated green bond segment** and the related requirements for second opinions and impact reporting, with the latter being introduced soon.

Mats Olausson from SEB pointed out that, despite the movement seen in the Mexican market, the role of a Mexican bank to lead the green business in the domestic market has yet to be taken. Such a **national green champion** would not only strengthen its long-term position in anticipation of future regulatory changes in support of climate action. It would also tap enormous opportunities in doing business and deepening its relationships with corporate and public sector clients that engage in green business activities. In order to build the necessary capacity to provide adequate and needed green advisory services for clients, Mats argued that going through the process of issuing a green bond in the own name represented a key opportunity.

A crucial issue in building the green bond market relates to transparency and environmental integrity. As no single authority regulates and enforces the environmental claims made by green bond issuers, robust **external reviews** by independent environmental experts and sound **impact reporting** are key to ensure investor trust, as Harald Lund, Senior Climate Finance Specialist at the climate research institute CICERO, the leading second opinion provider, elaborated. He highlighted the importance of the external review (i.e. second opinion) being truly independent from the consultancy work in setting up the green bond framework (i.e. first opinion). Moreover, he explained CICERO's *Shades of Green* methodology that aims to provide information that is useful for all investor groups ranging from dedicated green funds to large pension funds that intend to reduce their climate risk exposure.

John Flannery, Senior Advisor of the Financial Institutions Group at the World Bank's International Finance Corporation (IFC), reinforced that the demand by institutional investors for long-term, high quality investments that green bonds typically offer is there and driven by their need to hedge against long-term climate risks and match asset liabilities. He described green bonds as immensely important instrument, specifically when looking at the main sectors in this transition: renewable energies, energy efficiency and transportation, sectors that produce long-term, income generating assets. To reach scale, he pointed towards the need to simultaneously create supply and demand, as supported by IFC's newly launched Green Cornerstone Bond Fund.

The closing discussion centered around the potential of green bonds and green finance in general to trigger higher transparency and better information disclosure at a broader scale in Mexico's financial sector and economy. Rafael Noel Del Villar Alrich from the central bank Banxico pointed out the strong ties to a respective institutional design that needed to be strengthened, relating it specifically to verification and reporting practices – a statement that received strong support from roundtable participants from the market side, while the need for respective capacity building and financial support was re-emphasized.

All presentations are available on [emergingmarketsdialogue.org](https://emergingmarketsdialogue.org).