

Investing in emerging markets sustainable bonds in the wake of Covid-19: a unique combination of attractive yields and additionality

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The COVID-19 crisis has exacerbated existing challenges in Emerging Markets and Developing Economies (EMDEs), concerning healthcare systems, social inequalities and the economy in general. It has also demonstrated that social and environmental issues are intertwined, demonstrating how fundamental the economy is in rebuilding developing economies towards a green, resilient and inclusive development. A consequence of COVID-19 is the widening gap between the funding needed to meet the UN Sustainable Development Goals and what is readily available. The issuance of EM sustainable bonds can potentially make up for this deficit. Currently, EM green bonds represent a growing market size of US\$239 billion, while the combined market size of EM social, sustainability, and sustainability-linked bonds is US\$84,6 billion.

Addressing the dual challenges of social inequalities and climate change, Amundi has developed two innovative partnerships to develop EM sustainable bond markets with the International Finance Corporation (IFC).

In 2018, the Amundi Planet Emerging Green One (AP EGO) fund was created to support the development of EM green bond markets. It was the largest green bond fund at launch (\$1.42bn) and the first focused on specifically on EMDEs. It has now invested into 30 green bonds from 13 emerging countries, equivalent to 54% of the portfolio.⁸² These results were also made possible by the Technical Assistance Program (TAP), which aims to stimulate the volume of green bond issuances by providing training to financial institutions in emerging countries.

In November 2021, another initiative in partnership with the IFC was launched. The Build-Back-Better Emerging Markets Sustainable Transaction (BEST) Bond strategy aims to mobilize up to US\$2bn of private investment into EM sustainable bonds that support COVID-19 relief efforts and promote a sustainable recovery from the pandemic. This new program is designed to help expand EM sustainable bond supply and demand for further segments of the sustainable bond market in emerging markets beyond green bonds.

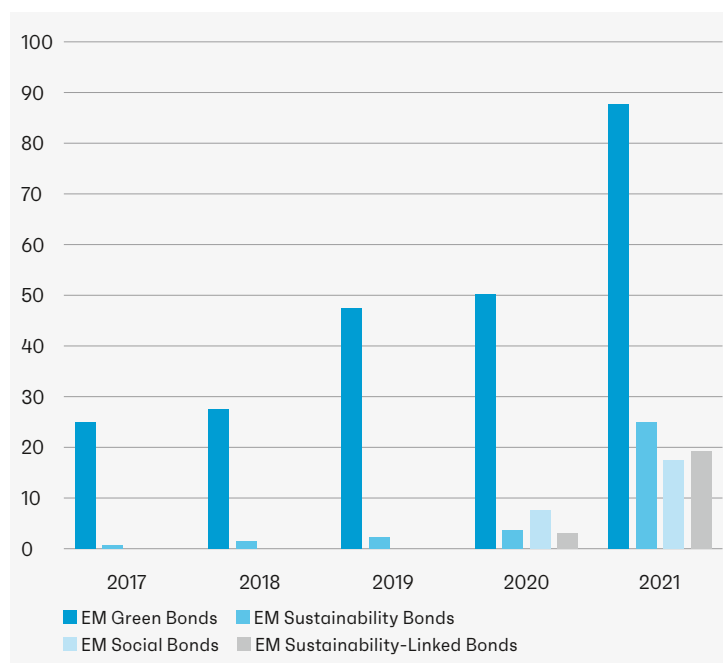
Both the AP EGO and BEST initiatives are examples of Amundi's commitment to support sustainable capital market development in EMDEs.

Investors should consider sustainable bonds not only as an investment strategy to have access to the EM yield pick-up but also as an opportunity to support these countries in their

sustainable recovery paths. Providing long-term financing to sustainable development projects has, by definition, more positive impact spillovers in emerging markets than in developed economies.

COVID-19 has inflicted a high cost on EM and developing economies. At the same time, the EM sustainable bond market has developed remarkably in the last years. Growth in private sector issuance of sustainable bonds, alongside increased investment activity, has the potential to help address financing gaps in EM.

New Issuance: sustainable bonds in EM (USD bn)
Sources (as of end December 2021): IFC, Bloomberg, Environmental Finance, Climate Bonds Initiative



⁸² As of end December 2021.