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A European drive to develop emerging green bond markets

April marked a major landmark in European multi-lateral cooperation with the launch of the Global Green Bond Initiative (GGBI)². With a goal of mobilizing public and private capital to finance climate transition in emerging markets, the fund will become one of the world's largest global blended finance enterprises. We sat down with Eric Dussoubs, Managing Director of Public Sector, at Amundi, to discover why this is such an important milestone for climate finance, and the role Amundi will play in making it a success.

How did the Global Green Bond Initiative come together, and what is Amundi's role within it?

GGBI is a Global Gateway initiative launched by the European Union with the ambition to channel private capital into green bond markets in low- and middle-income countries, where the climate financing gap is most acute. The EU brought together a consortium of nine development finance institutions (DFI) and public sector institutions, including the EIB, EBRD, KfW, Proparco, CDP, FMO, LuxDev, the Government of Spain and the Green Climate Fund, who collectively provide an equity backbone for the fund. Amundi is the sole manager for this fund. As such, our role was to structure the strategy and next it will be to deploy the capital in target instruments. We also bring our expertise in green bond markets to the GGBI Technical Assistance programme, managed by the European Commission, which supports issuers on the ground in building credible green bond frameworks, aligned with European Commission standards. In short, the DFIs I mentioned provide the capital and the policy mandate and Amundi provides the structuring and investment management.

GGBI is structurally different from a traditional blended finance fund. Can you explain why?

Most blended finance vehicles use a classic tranching structure where first-loss equity absorbs downside, mezzanine sits in the middle, and senior investors sit on top. That works, but it can create complexity in several ways. Indeed, this type of structure can be requalified as a securitized transaction, which immediately triggers penalising regulatory and allocation requirements for some institutional investors, hence refraining them from investing in such structures. Considering the peculiarities of the GGBI and its scale, we deliberately chose to update that model. The

GGBI fund is not tranching but rather leveraged, combining two layers. As I mentioned earlier, the equity provided by the DFI consortium (which, by the way, is backed by an 80% EU guarantee), and secondly the notes issued by the fund and marketed to private investors. These notes are not subordinated instruments. Note holders are positioned as senior creditors, with repayment taking priority over any equity distributions. The structure is designed to be as close to a standard bond as possible, so that institutional investors can slot it into their fixed income allocations without special treatment, and the returns offered to private noteholders are designed to correspond to market levels.

How does a fund investing in frontier market green bonds deliver investment-grade notes to private investors?

This is the right question to ask. This is achieved greatly thanks to the capital structure we are using. The equity layer of nearly €1 billion is provided by A or above-rated development banks, and itself partially guaranteed by the European Commission's budget. Essentially, it acts as a substantial buffer absorbing first losses before any noteholder is affected. That buffer effectively grants the notes with an IG credit rating equivalent, despite the underlying portfolio being exposed to emerging and frontier market issuers. Add to that the diversification of assets across geographies, issuers, sectors and currencies and you have a portfolio where individual credit events are unlikely to threaten noteholder repayment. The fund also operates with strict concentration limits and a minimum weighted average credit rating floor for the portfolio. So while the underlying exposure is genuinely emerging market, the structure is engineered to deliver a very different risk profile to the investor holding the note.

2. GGBI is a European-led coalition flagship initiative under EU's Global Gateway strategy. See press release for full information: <https://int.media.amundi.com/article/amundi-contributes-launch-one-largest-global-blended-finance-funds>

For pension funds already active in EM fixed income or green bonds, how does GGBI fit alongside existing allocations?

For those funds, GGBI will fill a gap that is hard to access through conventional instruments. Most emerging market fixed income allocations are concentrated in the larger, more liquid markets, the major government bond index names or investment-grade EM corporates. Frontier markets, first-time issuers, local currency green bonds in Sub-Saharan Africa or the Pacific, are practically inaccessible at scale without a dedicated vehicle and on-the-ground expertise. GGBI gives savvy emerging markets investors a managed, diversified route into that universe. Another consideration, for funds with existing green bond allocations, is that it will also offer pure-play green exposure in the markets where green capital is most needed and most scarce, with issuances compliant with the ICMA's Green Bond Principles³ and annual impact reporting, ensuring additionality.

For funds newer to this space but with strong responsible investment mandates, what is the entry argument for GGBI?

The entry argument is straightforward: GGBI is designed precisely for investors who want meaningful climate impact but cannot or do not want to take on the complexity of direct frontier market exposure. The notes are structured to be bond-like, euro-denominated, with an annual coupon, to fit naturally within a

fixed income allocation. The impact credentials we are working with are demanding. The fund will invest exclusively in regions officially classified as Low- and Middle-Income countries, targets at least 20% in the least developed countries, supports local currency issuances, gender and biodiversity targets, and will annually publish in-depth annual impact reporting.

For a pension fund wanting to demonstrate that its responsible investment commitments translate into real-economy outcomes, the type of opportunity offered by GGBI is worth consideration.

When GGBI succeeds at scale, what does it change for the countries receiving the capital and for global green finance?

The underlying goal of the GGBI is to build markets. When a fund invests in a sovereign green bond issued by a country that has never issued one before, it validates the credit and is a sign of confidence to other investors, as well as helping to establish a track record. Over time, that creates the conditions for repeat issuance, local investor participation, and the development of domestic green bond frameworks.

It is our joint hope with the European Commission that the Technical Assistance Facility accelerates this process by supporting issuers on framework design, second-party opinions, impact reporting, and investor engagement. At scale, GGBI can change the perception that emerging markets are too risky, too illiquid, or too complex for institutional capital.

3.ICMA GBP: International Capital Market Association's Green Bond Principles, available [here](#).

To go further: The Amundi Research Center



Amundi Investment Institute, our story

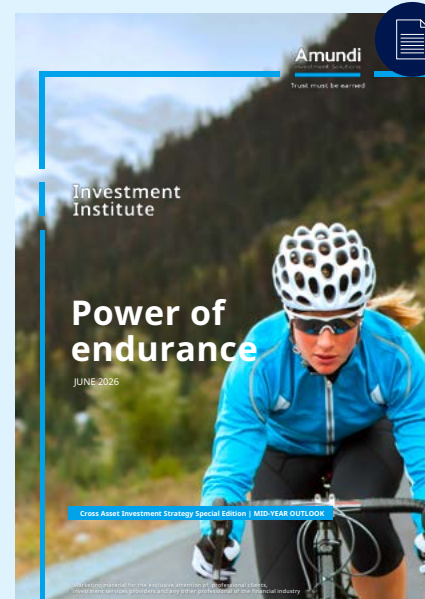
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