

# Future of Sustainability and ESG in Emerging Markets

Global sustainable investing has surged. Sustainable fund assets doubled from \$1.4trillion in 2018 to ~\$3.6trillion by 2024, and emerging-market clean energy investment grew ~70% over 2018–2024. Corporations in developing economies are embedding ESG into strategy: for example, IFC reports over 5,000 professionals in 10 emerging economies completed training on the new IFRS sustainability disclosure standards by early 2024. Bond and loan markets are also innovating – ESG bond issuance hit record highs (global GSSS\* bonds exceeded \$1 trillion in 2024), though only ~16% of that came from EM issuers. Key trends include:

- **Investor demand and asset growth:** ESG funds and green bonds are growing fast. In 2023–2024 EM sustainable bond issuance soared (ESG bond sales above \$1 trillion globally, 3% higher than 2022). Clean-energy projects are a focus (e.g. IFC reports EM clean energy financing up 70% since 2018).
- **Standards and disclosures:** New global rules and taxonomies are spreading in EM. Major frameworks (IFRS/ISSB standards, EU's CSRD) and voluntary guidelines are being adopted. For example, Brazil's market regulator now requires all listed firms to follow the IFRS S1/S2 ESG reporting standards by 2026 <sup>1</sup>. Similarly, India's regulator mandates sustainability reports from its top 1,000 companies (starting 2022–23) <sup>2</sup>. Regional taxonomies (ASEAN, Singapore, South Africa, LAC) are being launched <sup>3</sup> to align green definitions.
- **Financing innovation:** New instruments are emerging. Green and “sustainability-linked” bonds dominate, but social and blue bonds are growing. Asia has pioneered Islamic green finance – Malaysia issued the world's first **green sukuk** (2017) and Indonesia its first sovereign green sukuk (2018). IFC/World Bank programs helped issue novel bonds (e.g. a “blue bond” for Seychelles ocean projects and Vietnam's first blue bond in 2024 <sup>4</sup>). Blended finance is expanding – for example, an Asia Climate Partnership (IFC, MAS, Temasek, etc.) mobilized \$130M of public capital to leverage ~\$540M private investment for renewables. Emerging fintech and AI (e.g. IFC's MALENA platform) are also enabling ESG analytics.

## Challenges in Emerging Markets

Emerging economies face distinct hurdles. **Data and transparency gaps:** Reliable ESG data are scarce. Surveys find ~88% of EM financial institutions cite information gaps and high data costs as key constraints. Without mandatory reporting, corporate ESG disclosure is often inconsistent. **Regulatory gaps:** Until recently most EM jurisdictions lacked strict ESG rules. For example, Brazil only moved from voluntary “comply-or-explain” to mandatory ESG reporting in 2023 <sup>1</sup>, and India is still refining its disclosure requirements <sup>2</sup>. **Market and currency risks:** Macroeconomic volatility discourages investment. Developing regions receive <15% of global clean-energy capital despite housing half the population. This reflects perceived risks (political, FX, policy) even though actual default rates in EM infrastructure have been comparable to developed-market credit risk. **Project pipeline shortages:** There are few “bankable” green projects without concessional support. EM countries often need blended instruments (guarantees,

concessional loans) to attract private finance <sup>5</sup>. **Infrastructure and capacity gaps:** Developing economies need massive investment (the Asia-Pacific region alone needs ~\$1.7 trillion/year in climate-smart infrastructure <sup>5</sup>). Weak institutions, limited technical expertise, and competing development priorities (poverty, health, etc.) further complicate scaling ESG solutions.

## Sustainable Finance and Investment Opportunities

Despite challenges, many opportunities are emerging:

- **Green and sustainability bonds:** EM governments and firms are increasingly issuing green, social and sustainability bonds. IFC/Amundi data show EM issuers accounted for 24% of global EM green bonds by 2024 (Latin America alone ~24% of EM green issuance) and have led EM sustainability bond volumes. Notable examples include Fiji and Nigeria sovereign green bonds (with World Bank support) and numerous corporate green bonds in Asia and LAC. New variants like sustainability-linked bonds are also used, though design issues have prompted scrutiny.
- **Islamic and blue finance:** In Islamic finance hubs, **green sukuk** and **green T-bills** are growing. Malaysia, Indonesia and Pakistan issued green sovereign sukuk, tapping a \$2.4 trillion global sukuk market for climate finance. “Blue bonds” (ocean-focused) and blue loans have been launched (e.g. Seychelles, Vietnam <sup>4</sup>), targeting fisheries, coastal protection, and marine conservation.
- **Climate and transition funds:** Specialized funds and platforms are mobilizing private capital. For instance, blended climate funds in SE Asia, Latin America and Africa have drawn international co-investment. A World Bank/Climate Fund partnership (with \$130M catalytic capital) leveraged an additional \$540M for ASEAN renewable projects. Green fintech (carbon-trading platforms, green lending apps) is nascent but expanding, and development banks (ADB, AfDB, IDB) are raising their own sustainable bond funds.
- **Emerging-market ESG funds and equity:** Asset managers are launching EM-focused ESG and climate funds to tap local equity and credit markets. Pension funds and insurers in markets like India, Brazil and South Africa are revising investment policies to target low-carbon assets. Venture and growth capital flows into EM climate tech (renewable energy, clean transport, resilient agriculture) are growing, buoyed by global decarbonization trends.

## Regional Perspectives

### Southeast Asia and Asia-Pacific

Emerging Asia is a major driver of global green finance. From 2020–2024, corporate sustainable bond issuance in Asia grew roughly 4x–7x compared to 2015–2019. In 2024 Asia-Pacific accounted for ~28% of global corporate sustainable bonds. Regional initiatives are accelerating this trend. ASEAN’s updated Sustainable Finance Taxonomy (2024) adopts EU-aligned criteria <sup>3</sup>, and Singapore rolled out a national “Asia taxonomy” mapped to international standards <sup>6</sup>. Multilateral partnerships are targeting infrastructure gaps: in late 2023, IFC joined MAS, Temasek and others to form an Asia Green Infrastructure Partnership, aiming to blend concessional and private capital <sup>7</sup>. Banks are pioneering new products – for example, Vietnam’s Southeast Asia Commercial Bank (SeABank) issued the country’s first private-sector green bond and first-ever blue bond in 2024 <sup>4</sup>. Nonetheless, vast finance needs remain – estimates suggest developing Asia needs ~\$1.7 trillion/year in climate infrastructure to meet growth and Paris targets

<sup>5</sup> .

## Africa

Africa's sustainable finance market is still nascent. Roughly \$9.6 billion of green bonds have been issued on the continent to date, a far smaller scale than Asia or Latin America. Growth is steady (~20% CAGR) but from a low base. South Africa and Nigeria are the largest issuers, with Egypt, Morocco, Kenya and the African Development Bank also active. Regulatory frameworks are emerging: South Africa launched a Green Finance Taxonomy in 2022, and in 2023 AfDB introduced a unified Sustainable Bond Program (green/social) aligned with ICMA principles. By late 2024, over a dozen African countries had social or green bond guidelines in development.

Challenges in Africa include high perceived risk (currency volatility, policy uncertainty) and limited capital markets. The pipeline for projects is constrained by capacity and financing costs. To overcome this, donors and DFIs emphasize blended finance and technical assistance (e.g. IFC's Green Bond Technical Assistance Program has trained 12+ countries including Ghana, Kenya, Morocco on green finance). With increasing urbanization and climate vulnerability, opportunities abound in renewable energy, agriculture resilience, and sustainable infrastructure – but mobilizing private investment will likely depend on guarantees and concessional funding.

## Latin America and the Caribbean

Latin America has become a leading emerging-market region for ESG finance. By 2024 LAC issuers supplied about 24% of all EM green bonds, and the region historically led EM issuance of social and sustainability bonds. Major markets (Chile, Mexico, Colombia, Brazil) have strong track records: Mexico, for instance, has issued sovereign green and social bonds. In 2022–2023 regional governments formed a Sustainable Finance Taxonomy Working Group and published a **Common Taxonomy Framework** for LAC. The Inter-American Development Bank also launched a Green Bond Transparency Platform to harmonize definitions and reporting. Regulatory action is rising: Brazil's securities regulator (CVM) now requires IFRS-aligned ESG disclosure from listed companies (effective 2026) <sup>1</sup>. Many stock exchanges in LAC (São Paulo, Santiago, Mexico City) have ESG reporting mandates or guidance.

Nonetheless, Latin America faces political and economic ups-and-downs that can affect long-term ESG planning. Currency risk and commodity market swings can deter some investors. Climate risks (floods, droughts, hurricanes) are acute, creating both urgency and opportunity for finance. Overall, strong pension funds and growing local ESG funds suggest appetite, but success depends on stable policies and credible enforcement.

Region	Trends / Scale	Key Initiatives	Challenges
<b>Asia-Pacific (SE Asia)</b>	Rapid issuance growth: Asia saw ~28% of global sustainable bonds in 2024. Several countries (China, India, ASEAN) now major borrowers.	ASEAN Sustainable Finance Taxonomy v3 (2024) aligned with EU rules <sup>3</sup> ; Singapore–Asia Taxonomy (2024) <sup>6</sup> ; blended-finance partnership (IFC/MAS/Temasek, 2023) to mobilize green infrastructure <sup>7</sup> ; Vietnam's SeABank issued first blue and private green bonds (2024) <sup>4</sup> .	Huge infrastructure gap (~\$1.7T/yr) <sup>5</sup> ; high perceived risk (FX, policy) deters some capital; ESG reporting quality still uneven across markets.

Region	Trends / Scale	Key Initiatives	Challenges
<b>Africa</b>	Small but growing market: ~US\$9.6B of green bonds issued to date (20% CAGR). Social/sustainable bonds emerging (~12 countries developing frameworks).	South Africa launched Green Finance Taxonomy (April 2022); AfDB Sustainable Bond Program (2023); IFC's Green Bond TA program (since 2018) has assisted 12 countries (e.g. Ghana, Kenya, Morocco); carbon tax proposals in S. Africa.	High macro/FX risk, weak financial markets; limited pipelines of investable projects; data and technical capacity gaps.
<b>Latin America &amp; Caribbean</b>	Robust issuance: LAC countries issued ~24% of EM green bonds (2024) and dominated EM sustainability bond markets. Sovereign ESG bonds (green/social) increasingly common.	LAC Sustainable Finance Working Group (2023) published common taxonomy guide; IDB Green Bond Transparency Platform for harmonized reporting; Brazil mandated ESG reporting for listed firms from 2026 <sup>1</sup> ; many stock exchanges require ESG disclosures.	Political/economic volatility (e.g. inflation, elections); exchange-rate risks; climate vulnerability (floods, droughts); and varying enforcement of ESG rules across countries.

## Corporate Strategies and Policy Frameworks

Emerging-market companies and governments are increasingly aligning with global ESG standards. Many large EM firms now publish annual sustainability reports and set climate targets. Stock exchanges across Asia, Africa and Latin America often require or encourage ESG disclosures (e.g. India's SEBI mandates a Business Responsibility and Sustainability Report for the top 1,000 companies <sup>2</sup> ). Institutional investors (pension funds, insurers) are under pressure to consider ESG in asset allocation – for example, Indonesia's state pension fund is exploring a green investment mandate. International standards are driving consistency: besides IFRS/ISSB adoption (as in Brazil) <sup>1</sup> , the IFC has developed platforms (e.g. the ESG360 rating tool and “Beyond the Balance Sheet” portal) to help small and mid-sized firms improve ESG performance.

On the policy side, governments in emerging markets have launched numerous initiatives. Climate policies and NDCs are being updated (several Asian and African nations now have net-zero goals by mid-century). National taxonomies or green finance strategies have been issued in ASEAN, Latin America and Africa (as above), and central banks are increasingly regulating environmental risk. For instance, Nigeria's central bank issued climate risk guidelines for banks, and South Africa is integrating carbon budgeting into economic planning. COP29 in late 2024 further committed to tripling climate finance for developing countries (to US\$300 billion/year by 2035), which, if met, will increase financial flows to EM ESG projects.

**Sources:** Authoritative reports and analyses from IFC/World Bank, OECD, WEF, and UNFCCC, as cited above, informed this summary. Notable references include IFC/Amundi's *Emerging Market Green Bonds 2024* report, World Bank sustainable finance programs, and regional policy news <sup>3</sup> <sup>1</sup> . These sources provide up-to-date data and case studies of sustainable finance in Southeast Asia, Africa, and Latin America.

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