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Green Project Financing: Analyzing the Role of Green Bonds in Supporting Renewable Energy Development

[1] Akomolehin FO, [2] Oluwaremi JB, [3] Aluko OR

[1, 2, 3] Department of Finance, Afe Babalola University, Ado - Ekiti, Ekiti - State, Nigeria

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Corresponding Author: **Akomolehin FO**

Abstract

Green bonds – which are used to finance projects that have environmental benefits – are key instruments in the green finance landscape. Their ascent is testament to increasing investor demand for sustainable investing products and urgent efforts around the world to ramp up climate-finance mobilisation to scale. Of all the sectors frequently funded by green bonds, renewables are a standout for the major role they play in cutting greenhouse gas emissions and advancing the Sustainable Development Goals (SDGs), specifically SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action).

Notwithstanding their extraordinary growth, there are questions about the extent to which green bonds actually translate into real renewable energy development, especially in a variety of different economic and institutional settings. This article fills this gap by systematically reviewing the literature (narrative review) by peer-reviewed publications and institutional reports between 2020 and 2025. It aims to answer three questions: (1) What are the effects of green bonds on financing and delivery of renewable energy projects? (2) What are the critical success factors enabling green bonds to deliver results? and (3) How could green bond markets be scaled to finance the transition to green energy in emerging economies?

The study concludes that green bonds help deliver long-term capital, reduce the cost of project financing and promote transparency, but their effectiveness is linked to strong taxonomies, regulations convergence and verification arrangements. Emerging economies have unique constraints but also opportunities from sovereign issuances, blended finance and multilateral assistance. Policy recommendations to improve scalability, quality and alignment of green bonds with national and international climate need are provided.

Keywords: Green Bonds, Renewable Energy, Sustainable Finance, Climate Risk, SDG 7, SDG 13

1. Introduction

1.1 Background and Rationale

The international effort to combat climate change has gained considerable momentum in the last decade, again increasing the urgency of high-level finance spending that will facilitate the low carbon transition, especially in the energy sector. Renewable energy has become a key pilar for global climate action, providing answers to reducing GHG emissions, diversifying energy sources and improving energy security. However, moving from fossil fuel to cleaner energy systems is an investment need of trillions of dollars per year—amounts that vastly exceed the reach of public finance alone (International Energy Agency [IEA], 2023 [10]; World Bank, 2021). According to the World Bank (2024) [26], developing countries will need to mobilize in excess of $1 trillion on an annual basis by 2030 if they are to achieve the Paris goals in the deployment of renewable energy. This financial chasm has driven the rise of novel climate finance mechanisms, with green bonds among the most exciting responses.

Green bonds are debt securities issued to fund only environmentally positive projects that contribute to environmental benefit, such as renewable energy, energy efficiency, clean transportation and sustainable infrastructure (Climate Bonds Initiative [CBI], 2023) [5]. Following the launch of EIB's first green bond in 2007, the market has expanded massively and by the end of 2023 cumulated issuance had exceeded $2.5 trillion (CBI, 2024). In 2023, more than $575 billion were issued as green bonds globally, and the most common use of proceeds category was renewable energy (CBI, 2023; International Finance Corporation [IFC], 2023) [5, 11]. Green bonds hold appeal because they combine capital for climate-aligned projects with transparent and traceable use of funds, which resonates with the increasing focus of investors on environmental, social, and governance (ESG)

performance (Kartal *et al*., 2025; IMF, 2022) [15, 12]. For governments as well as companies, green bonds offer a chance to broaden their sources of finance and to bolster climate pledges.

Despite the rapid growth of the market, important issues about the real impacts of green bonds in funding and implementation of RE projects across different countries remain unclear. Although certain empirical work suggests a positive relationship between green bond issuance and addition of renewable capacity (Tsipas *et al*., 2024; Zhao *et al*., 2023) [22, 27], mixed results have also been found, depending on project model, market stage, or regulatory context (Kartal *et al*., 2025) [15]. Furthermore, the green bond market is still unevenly distributed, with issuances mainly in advanced and certain emerging countries (e.g., China, Chile, India), while the majority of low-income countries trail behind as a result of relatively low institutional capability and under-developed capital markets (World Bank, 2024 [26]; APRI 2024). Repartition inegalite Cette repartition inegale pose des questions essentielles sur l'inclusivite, l'accessibilité et la capacite a prise d'echelle des green bonds comme instrument de financement du climat a l'echelle mondiale.

The research is driven by the fact represented by the demand for a better understanding of the importance of green bonds for renewable energy development, on a worldwide integration level. It is informed by three main research questions:

1. How do green bonds impact the financing and execution of renewable energy projects?
2. What are the key factors influencing the success of green bond-funded projects?
3. What are the challenges and opportunities in scaling green bond markets in emerging economies?

To answer these questions, the paper uses a literature-driven approach consisting of a synthesis of peer-reviewed academic publications and high-quality institutional reports (published from 2020 to 2025). Using international overview and national examples, this paper compares the application of green bonds in developed and developing countries.

The objectives include:

1. Assessing the contribution of green bonds in raising capital for renewable energy;
2. Identifying the factors in institutions, regulations and markets that deliver successful project outcomes; and
3. Identifying the structural bottlenecks and possible solutions for the enlargement of the green bond market in emerging countries.

This study is important for its contribution to the developing literature on green finance by offering an integrated evidence based analysis on how green bond initiatives help to accelerate renewable energy transitions. Though there are many papers that investigate the green bond phenomenon more broadly, there are only a few that systematically examine it with respect to renewable energy implementation in a range of different economies around the world. Filling this void, the project will be an important input to the formulation of policy, investor positioning and green finance architecture going forward.

The rest of the paper is structured as follows. The background theory and framework for green bond financing are described in Section 2. In Section 3, we describe the methodology and data sources of the literature review. Section 4: Literature synthesis around three main research questions, focussing on literature The section links to the sub-sections of empirical findings and global case studies. In Section 5, we draw the conclusion on finding by considering climate change finance target and market movement. Section 6 concludes with policy recommendations to better leverage the potential impact and scale of green bond instruments, notably in developing countries. Section 7 finally wraps up with main insights and directions for future work.

2. Conceptual and Theoretical Framework

2.1 Conceptual Review

This work is at the nexus of climate finance and renewable energy, and the conceptual framing is based on three framing constructs: green bonds, renewable energy, and climate risk. These ideas are deeply inter-connected and strike at the heart of how novel financing can enable global shifts to sustainable energy systems amidst rising climate perils. Better defining these concepts and the operational connections among them could provide for a more a systematic and theory-based explanation of green project financing as the mechanisms behind sustainable development impacts.

2.1.1 Green Bond

Green bonds are debt securities issued to finance projects that are environmentally friendly, particularly in renewable energy, energy efficiency, sustainable transport, and biodiversity conservation (Climate Bonds Initiative [CBI] 2023) [5]. It is this "green" earmarking requirement that sets them apart, usually evidenced in the form of a green bond framework and a confirmation of adherence to this by external verification/certification bodies (ICMA, 2022) [8]. Debuted in 2007 by multilateral agencies, such as the European Investment Bank, global green bond markets have grown substantially with approximately$ 2.5 trillion of cumulative issuance by 2024 (CBI, 2024; IFC, 2023 [11]).

Green bonds exist within the wider sustainable finance ecosystem, with frameworks such as the ICMA Green Bond Principles, the EU Taxonomy for Sustainable Activities and the Climate Bonds Standard. The objective of these standards is to lower information asymmetry, limit greenwashing, and improve market transparency and investor confidence (ICMA, 2022; European Commission, 2023) [8, 6]. The empirical literature underscores the potential of green bonds to channel long-term funds into climate-aligned projects, particularly into the renewable energy segments, by reducing cost of capital, broadening investor base and demonstrating environmental commitment (Kartal *et al*., 2025; Zhao *et al*., 2023; MacAskill & Roca, 2023) [15, 27, 16]. Further green bonds are usually linked to better ESG performance and a better reputation for issuer, which can help in aligning financial incentives to sustainability targets (Wang *et al*., 2022) [25].

But the impact of green bonds is greatly shaped by institutional quality, regulatory supervision and monitoring mechanisms. In jurisdictions with developed green finance taxonomies and mandatory disclosure requirements, the alignment of green bonds with real environmental outcomes was found to be higher (Banga, 2023; UNEP FI, 2023) [2, 23]. On the other hand, in less regulated environments, there is the potential for mislabeling and lack of monitoring of the impact of green bond financed projects to undermine the credibility and effectiveness of the projects (Ehlers *et al*.,

2020). Therefore, within this research, green bonds are framed as governance mechanisms aimed at industry improving environmental accountability and using capital financing effectively for renewable energy regimes, not just as market instruments.

2.1.2 Renewable Energy

Renewable energy is electricity generated from sources such as sunlight, wind, water, geothermal and biomass. It is a part of decarbonization plans worldwide and a requirement to reach a net-zero emissions economy by 2050 (Birol or Harding 2024) as agreed in the Paris Agreement and specific national pledges thereunder (International Energy Agency [IEA], 2023) [10]. Transition towards the use of renewable-based energy systems is motivated by a combination of environmental mandates, commercial viability and technological advances (IRENA, 2022) [14]. Yet a shift towards renewables on this scale demands levels of capital investment that are without precedent – about $4 trillion year by 2030 if we are to stay on a 1.5C trajectory (IEA, 2023) [10].

The long-term environmental advantages, scalability, and investors' preference for low carbon assets (Bolton & Kacperczyk, 2021; Pätäri *et al*., 2022) [4, 18] make renewable energy systems a difficult item not to fund through green bonds. A growing body of literature shows a positive association between green bond issuance and larger deployment of renewable energy. For instance, Tsipas *et al*. (2024) [22] Green bond flows are strongly associated to the growth in wind and solar capacity and this is particularly the case for countries with clear climate policies and strong green finance ecosystems. Likewise, Wang and Zhi (2023) [24] show that green bonds relax financing constraints for renewable energy companies leading to shorter project completion periods and technological advances.

However, there are infrastructure and regulatory issues related to the integration of renewables to national grids, especially in emerging countries. The availability of long-term, low-cost financing is a major impediment to the expansion of renewable technologies in most regions (World Bank, 2024) [26]. Green bonds present a strategic solution in this regard by pooling investor demand and aligning it with renewable infrastructure pipelines, often spurred by sovereign, municipal or development bank-led efforts (IFC, 2023; EIB, 2022) [11, 7]. Consequently, renewable energy is not simply treated as a technology applied to deal with climate change amid controversy, but a shifting investment frontier created by financial innovation, institutional capability, and policy orientation in this study.

2.1.3 Climate Risk

WhaClimate risk is the financial and economic risk from climate change and responses to it. These risks are generally split between physical risks (arising from acute and chronic climate events such as floods, droughts, or extreme weather) and transition risks (resulting from policy changes, technological shifts, or preference changes as economies adjust to a low-carbon economy transition) (Network for Greening the Financial System [NGFS], 2022; IMF, 2023) [17, 13]. For financial institutions and investors, climate risk is increasingly acknowledged as a material risk for both the valuation of assets, the creditworthiness of exposures and for the stability of the financial system (Task Force on Climate-related Financial Disclosures [TCFD], 2021) [21].

The idea of climate risk is central to the rationale for green bonds, and the emphasis on renewable energy projects. By transferring capital to green investments, green bonds sector-credit transition risks Feel free, in addition to other types of climaterelated risks. For example, investment in solar and wind energy, to the extent it displaces other carbon intensive assets which are then faced with the risk of becoming stranded by, say, regulatory change, or the introduction of a carbon price (Bolton & Kacperczyk, 2021) [4]. Green bonds can also be designed to finance climate resilience (e.g. financing grid infrastructure that is resilient to extreme weather) and hence to address physical climate risk (UNEP FI, 2023) [23].

Increasing incorporation of climate risk into financial decision-making is providing impetus for the use of green finance products in international markets. European regulators are increasingly requiring climate risk disclosure and stress testing at the European Central Bank and corresponding national supervisory authorities, thereby increasing the visibility and importance of transparent climate-aligned investment vehicles like green bonds (NGFS, 2022 [17]; ECB, 2023). Empirical evidence also supports that financial markets are starting to integrate the price of climate risk into asset prices, fostering investments that reallocate portfolios toward lower-risk, sustainable instruments (Alessi *et al*., 2021; IMF, 2022) [1, 12]. Climate risk is modeled in this research as (a) a driver for green bond issuance and (b) a contextual condition that shapes the risk-return calculus of renewable energy investments.

2.1.4 Development Financing and Policy Alignment

The process of introducing SDG principles into national development strategies will require considerable and prolonged financial commitment. However, development financing is constrained in many low economies by little ability to mobilize domestic revenues and high debt burdens accompanied by volatile aid flows (UNDP, 2021). Accordingly, to ensure that financing for development is SDG-centric budget tagging or earmarking, strategic coordination among donors as well as explorations with innovative instruments including green bonds and social impact bond are a few suggestions.

In addition, Weitz *et al*. (2022) agrees, aligning financing with inclusive development demands equity-based allocation ensuring that public resources are attuned to underserved regions and populations, alongside the issue of spending predictability and transparency. This supports the inter-linkages and durability of SDG policy implementation, and fosters public confidence in state institutions.

2.2 Theoretical Review

The role of green bonds in the financing of renewable energies is best understood when we use the full range of theory which links together financial innovation, building with sustainability aims in mind and institutional change. This study is based on the cross cutting theories of green finance theory, sustainable investment theory and institutional theory. Taken together, these models offer an analytic underpinning for understanding how capital markets can be activated to further environmental goals and the influence of salience on the efficacy of green financial tools.

Green finance theory: Justification for the design and evolution of environmental finance instruments At the macroeconomic level, green finance theory provides explanation for the development of instruments that internalize environmental externalities. In this context, green

bonds are also seen in terms of instruments targeted at overcoming the long-standing underinvestment in infrastructure with low carbon footprint since they allocate resources to projects that have a beneficial environmental impact, like the installation of facilities that focus on renewable energy (OECD, 2021; UNEP FI, 2023 [23]). The theory focuses on the role of market-mediated drivers of sustainability, and is based on the idea that specific financial tools—underpinned with transparency, standards and certification—can help redirect capital towards climate-aligned development (IEA, 2023) [10]. Green bonds are right at the heart of this paradigm, functioning both as a means of funding and mechanisms of accountability that connect investment with environmental performance (CBI, 2023) [5]. In addition to this larger picture, attention has been given in the sustainable investment literature to the evolving preferences and behaviours of investors wishing to adjust their portfolios in response to environmental, social and governance (ESG) considerations. This theory posits that investors with a focus on sustainability can be driven by ethical reasons while also pursuing risk reduction and long-term value creation (Boffo & Patalano, 2020) [3]. With the rising salience of climate-related risks to asset prices, investors are embracing such tools as green bonds to hedge against transition risks as well as to exploit nascent opportunities in the renewable energy domain (IMF, 2022) [12]. This ever-increasing demand for these bonds—frequently more than the supply— and the pricing benefits it induces (commonly referred to as the "greenium") indicate the increased institutional enthusiasm for ESG-conforming assets (ICMA, 2023; Kartal, Pata, & Alola, 2025) [9, 15]. In this respect, the theory of sustainable investment accounts for market dynamics driving issuance of green bonds and the growing role played by investor expectations in the development of green finance architectures.

In addition, institutional theory extends analysis by highlighting the impact of regulatory norms, governance systems and organizational legitimacy on the financial system. From this point of view, the development and success of green bond markets is not only a matter of supply and demand forces, but it is also conditioned by a broader institutional context where they are embedded (Scott, 2020) [20]. This includes standardized taxonomies, disclosure requirements, certification schemes and policy support mechanisms which provide clarity, and reduce information asymmetry (European Commission, 2023; ICMA, 2022) [6, 8]. In developing and frontier markets where green finance ecosystems are not yet fully developed, institutional theory underscores the need for state and multilateral actors to shape enabling environments and build issuer credibility (World Bank, 2024) [26]. It also may help explain why countries and companies are issuing green bonds for more than just cheap capital: They are using it to send a signal about their environmental commitment and to fit in with global best practices.

The combination of these theories provides a multi-level account of how and why green bonds have come to play a central role in the financing of renewable energy. Green finance theory stresses their systemic role in reshaping sources of capital; sustainable investment theory considers investor interests and behavior, while institutional theory highlights the regulatory and governance environments that frame how they are adopted and manifest. Of which, green finance theory and institutional theory are more applicable for this study. Green finance theory lays the foundation of an explanation for why financially innovative mechanisms should be connected to environment objectives, and institutional theory explains cross-country and intra-sectoral differences for the effectiveness of green bond, examining institutional and normative forces. If used together, these two approaches provide a solid foundation for understanding the impact of green bonds on the development of renewable energy worldwide, including different institutional and market environments.

2.3 Conceptual Framework

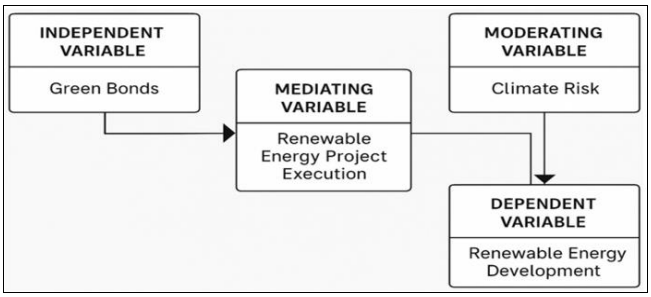

Fig 1: Conceptual Framework

Explanatory Note to the Conceptual Framework

The hypothesized interrelated relationships among the key variables of the study green bonds (IV), renewable energy project execution/production (MV), climate risk (MOD) and renewable energy development (DV) are depicted in the conceptual framework of the study (see Figure 1). This framework offers an organised perspective from which to assess the efficacy and situational dynamics of green bond finance for renewable energy transitions around the world.

At the heart of the model, green bonds are conceived of as a catalyst financial vehicle able to directly affect the implementation of renewable energy initiatives. This intermediary reflects the actual use of the funds in infrastructure, adoption of technology, and quality of implementation. The literature assumes that green bonds can lead to swifter, cheaper and more transparent implementation of renewable energy projects when they are structured and allocated correctly (Kartal *et al*., 2025; Zhao *et al*., 2023) [15, 27].

The dependant variable 'renewable energy development' is defined as a measurable improvement which includes expanded solar, wind, hydro power capacity, expanded energy access, and improved electricity connectivity from renewable resources on the grid. These results are directly consistent with one of the Sustainable Development Goals, Goal number 7 (affordable and clean energy) and capture the long-term sustainability effects of climate finance instruments.

Climate risk—comprising physical and transition risks—is incorporated as a moderating variable. It moderates the degree to which green bond-financed project implementation is related to the development of RE. For example, in high-f fatality-risk settings, even well-capitalized projects will be at risk of being delayed, overbudgeted or underperforming as a result of climate-driven shocks or volatile policy transitions (IMF, 2023; NGFS, 2022) [13, 17]. Conversely, in low-risk regulated environments the relationship is likely to be reinforced by

superior risk-adjusted returns and increased investor confidence.

There are three theoretical underpinnings of this framework: green finance theory, which supports the view on the role of directed capital in addressing environmental externalities, sustainable investment theory, which motivates the behavior of ESG investors, and institution theory, which justifies the facilitating role of the regulatory and governance environment. Overall, these connections present the framework as a multi-dimensional device for identifying how green bonds can contribute to climate and energy transition outcomes across differing economic environments.

3. Methodology

The narrative literature review method is used in this research, which is appropriate for synthesising knowledge across various fields of knowledge and across geographies on a complex, multidimensional phenomenon like green project financing via green bonds. UnlikMAe systematic reviews, which strictly follow strict collaborations and follow their procedures, narrative reviews can provide space for critical reflection and synthesis of both conceptual and empirical contributions in peer-reviewed academic reviewIngs and institutional studies. Adopting this method enables to obtain a comprehensive view of how green bonds can help the development of renewable energy, the factors that affect their effectiveness, the barriers and opportunities that exist to expand their use, particularly in emerging economies.

In this review, the narrative is framed by three research questions:

a) What are the effects of green bonds on financing and implementation of renewable energy projects?

b) What determines the success of the green Bonded-back projects?

c) What are the opportunities and barriers to scaling of green bond markets in developing countries?

3.1 Inclusion Criteria

In order to guarantee the relevance, strength, and consistency of evidence, the following inclusion criteria steered the review:

Temporal Scope: Only 2020–2025 literature was used to capture the literature developments, recent theoretical advances, policy changes and market trends in green bond financing for renewable energy investment.

Topical Relevance: For contributions to be included, the selected articles were required to develop one or more of the central dimensions of investigation of this study—such as green bonds, renewable energy, or climate-related financial risk—and more stringently, to explicitly connect these topics to project finance, sustainability outcomes, or market activities.

Geographical reach of the review: It was international in perspective for which studies and reports in both developed and emerging markets were included. There was a specific focus on comparing perspectives from the EU, China, Sub-Saharan Africa, Southeast Asia, and Latin America.

Types of documents: Peer reviewed journal articles, working papers from top research institutions, and institutional reports (World Bank, International Finance Corporation, IMF, Climate Bonds Initiative, IEA, UNEP Finance Initiative, etc.) were prioritised.

Articles were excluded if they were published before 2020, were not in English (secondary to resource limitations), were from blog posts, and were opinion pieces without empirical or conceptual rigour.

3.2 Sources and Databases

A multi-source approach was taken to provide a wide and deep view of the topic. In order to obtain academic articles, the most prominent international databases (Scopus, Web of Science, ScienceDirect, SpringerLink, etc.) were searched using the following words: “green bonds” AND “renewable energy financing” AND “climate finance” AND “green infrastructure” AND “climate risk” AND “sustainable finance”. We conducted a search with Boolean operators and advanced searching filters excluding non-high-impact, non-peer-reviewed publications from 2020 to 2025.

In addition to academic evidence, high-quality institutional reports and policy papers from multilateral development banks, financial regulators and sustainable finance consortia were included in the review. This was present in flagship publications, including the Sustainable Debt Market Overview by the Climate Bonds Initiative (CBI, 2023) [5], World Energy Investment by the IEA (2023) [10] and Climate and Development Report by the World Bank (2024) [26]. These were sourced from institutional websites, open-access repositories, and government platforms.

All sources were reviewed for credibility, relevance, and methodological quality. We preferred empirical studies that clearly defined the aim, data source and analytical approaches, as well as concept papers that contributed to theoretical underpinnings of green finance.

3.3 Thematic Synthesis Method

The interpretation was guided by a thematic synthesis approach, an acknowledged strategy for synthesizing complex qualitative and conceptual material across disciplines. This approach was chosen due to its capacity to detect, analyse and synthesise cross cutting themes, patterns and contradictions in the reviewed studies, in spite of the range of the studies included in relation to setting and context.

The three stages were also iterative:

Data Sources: Information was extracted from all selected sources with regards to year of publication, authorship, geographic focus, major variables considered, method, and main findings. A matrix was constructed to classify these elements for analysis.

Thematic coding: using inductive and deductive coding, the data extracted was classified under broader thematic categories related to the three research questions. Subcodes were developed to identify themes emerging in: project success factors (the bomb), investor behaviour (the investor), regulation (the box), climate risk mitigation (the water wings), and institutional capacity (the lifeboat).

Synthesis and Interpretation Themes were synthesized into a coherent narrative which indicates similarities and differences between studies. Particular emphasis was placed on evidence relating green bonds to renewable energy capacity, the impact of verification mechanisms, and the role of macroeconomic and policy contexts in determining outcomes. Experiences with emerging markets were considered as a separate analytical "container," to pull more region-specific insights.

The thematic synthesis facilitated the in-depth interpretation of the literature and exploration of boys, both across contexts and within particular contexts. This is consistent with narrative review best practices within policy-relevant research, and strengthens the study's potential applicability in guiding regulator, financier, investor strategies for green project finance around the world.

4. Review of Literature

This part of the paper integrates academic research with evidence from industry players on the role of green bonds in advancing renewable energy. Making use of literature written between 2020 and 2025, this review is centered on three related research questions: (1) how green bonds affect renewable energy project financing and implementation, (2) what determinants are responsible for the success of green bond-funded projects, and (3) the barriers and opportunities in scaling the green bond market, with a focus on emerging markets.

4.1 Effect of the Green Bonds on Renewables projects

The green bond market has emerged as a key source of financing for renewable energy projects, especially as ambitious global decarbonisation plans drive demand for climate-aligned infrastructure investment at scale. There is ample evidence that empirically supports the existence of a positive correlation between the green bond issuance and renewable energy deployment. Tsipas *et al*. (2024) [22], in a panel study of 55 countries, showed that the flows of green bonds are highly connected to the rapid expansion of new capacity in renewable energies, especially as relates to wind and solar and this occurs in the context of clear climate policy. Also for China, Kartal, Pata, and Alola (2025) [15] conclude based on their analysis, green bonds have generated new capital for renewable energy generation in that the country while in the US, effects were modest because of limited use-of-proceeds allocation and varying regulatory settings.

These results are confirmed by institutional sources. (2023), renewable energy is still the biggest sector funded by the use of green bond proceeds and represents 31% of the total allocation worldwide. Similarly, the IEA (2023) [10] adds that green bonds were the main source of finance for utility-scale solar and wind projects in the EU, India as well as in some countries in Latin America. For instance, in 2020 Chile raised sovereign green bonds to fund solar projects in its Atacama Desert and support the country's ambitious target to produce 70% of the country's electricity from renewable sources by 2030 (World Bank, 2024) [26]. In India, the Government of India (the Ministry of New and Renewable Energy) was successful in providing a favorable framework for sovereign green bonds and corporate green bonds that financed solar parks and wind farms, in Gujarat, Rajasthan and Tamil Nadu.

Nigeria is a major case study at there in Africa. Following its lead as the first country in Africa to issue a sovereign green bond in 2017 (₦10.7 billion), Nigeria allocated 80% of the proceeds towards off-grid solar and hybrid power projects for the Energizing Education Programme (PDF Nigeria & FSD Africa, 2020) [19]. The second issue in 2019 was 220% oversubscribed, demonstrating strong market demand and institutional confidence. These bonds not only supported investment, but also demonstrated the country's commitment to low-carbon development, mobilising more funding from the country's pension funds and international investors (World Bank, 2024) [26].

The green bond cost advantage, or "greenium," further increases the bankability of renewable energy projects via lowering the cost of capital. Alessi *et al*. (2021) [1] found that investors were accepting slightly better interest rates for bonds tagged as "green" because of their ESG considerations, making renewable projects more financially feasible. In developing countries, the effect is stronger yet, with an average greenium of 6.4 basis points across major developing country issuers in 2022 (CBI, 2023) [5].

Overall, the literature suggests that green bonds enable cost-effective access to long-term finance for renewable energy infrastructure, set aside and track funding to support project implementation and contribute to climate-compatible investment strategies entering mainstream investor portfolios.

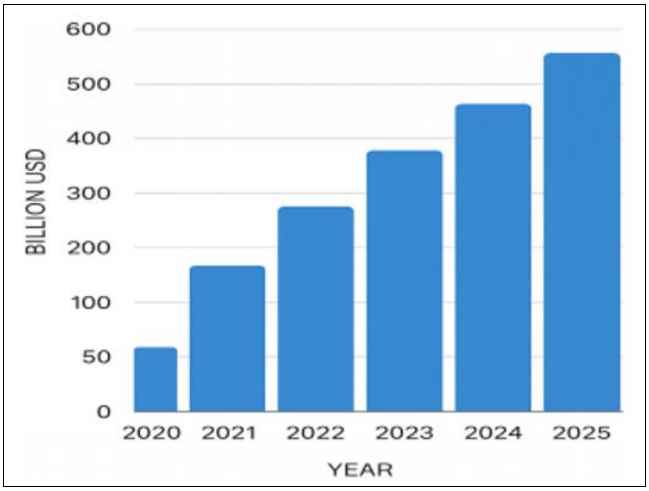

Fig 2: Global Green Bond Market Trends (2020–2025)

The figure illustrates the global growth trajectory of the green bond market between 2020 and 2025, as measured by annual issuance volumes in billions of U.S. dollars. The bar chart shows a consistent upward trend, highlighting a sharp increase in the issuance of green bonds from approximately $60 billion in 2020 to an estimated $570 billion by 2025 (Climate Bonds Initiative [CBI], 2023) [5]. This exponential growth reflects the rising investor demand for sustainable fixed-income assets and the mainstreaming of environmental, social, and governance (ESG) considerations in capital markets.

The figure also indicates a notable acceleration in green bond adoption after 2021, driven by post-pandemic recovery strategies emphasizing green infrastructure, the implementation of climate disclosure mandates, and the introduction of regionally harmonized green taxonomies—especially in the EU and Asia (ICMA, 2022; IMF, 2022) [8, 12]. Multilateral development institutions, sovereigns, and corporates have all contributed to this expansion.

This sustained growth trajectory underscores the increasing relevance of green bonds as a strategic tool for financing renewable energy infrastructure, mitigating climate risk, and achieving the investment benchmarks necessary to meet the Paris Agreement and Sustainable Development Goals (SDGs), particularly SDG 7 and SDG 13 (IEA, 2023; World Bank, 2024) [10, 26].

4.2 Drivers of success for green bond-financed projects

The performance of green bond financed space-based RRP programmes is shaped by a range of institutional, regulatory, financial, and operational factors. One consistent patterning in the literature has been the emphasis on a meaningful green bond framework, such as defined use of proceeds, project eligibility criteria, and an impact reporting system (ICMA, 2022) [8]. Banga (2023) [2] contends that the transparency and accountability processes—third party verification, compliance with ICMA Green Bond Principles, and post-issuance impact reporting—are what keep the projects effective and investors reassured.

Institutional theory can offer additional guidance regarding the factors that enable these conditions. There's a correlation between countries with strong green finance rules and sound climate governance and better project results. For example, the Green Taxonomy and Sustainable Finance Disclosure Regulation adopted by the EU has harmonized the classification of green assets and has increased investor confidence in the green bond market (European Commission, 2023) [6]. Such standards have been used to monitor the fact that the benefits stemming from green bond issuance are going towards projects that are beneficial to the environment, such as solar PVs, wind farms and smart grid improvements (Ehlers *et al*., 2020).

However, the absence of normative taxonomies or the ineffective coverage of some regions can be subjected to be questioned by the greenwashing threat, which is funding into projects with low environmental effectiveness (Wang, Ren, & Liu, 2022) [25]. For instance, in China, Zhao *et al*. (2023) [27] reported that although green bonds greatly enhance the efficiency of renewable investment, their dual role—encouraging innovation in some cases, but not all because of the bad governance—showed that issuer credibility and state control were the key messages.

The form of the issuer (and also the issuer's kind) also counts. Sovereign green bonds typically have higher credit ratings and receive greater investor confidence, which may translate to favourable financing conditions and more successful project delivery. For instance, Nigeria's green bond issuance was facilitated by a multi-stakeholder Green Bond Advisory Group, assisted by the World Bank and CBI which encouraged strong project selection and effective deal execution (PDF Nigeria & FSD Africa, 2020) [19]. Market demand for corporate green bonds depends on issuer's ESG performance, financial stability and project risk management (MacAskill & Roca, 2023) [16].

Then there is the all important element of investor behavior. The existence of ESG funds, pension plans being required to meet sustainability and international development banks have increased the liquidity and success for green bonds. Kartal *et al*. (2025) [15] showed in that the green bonds issued by the companies with strong ESG disclosure and third-party certification got more attention from investors with lower yields, which means the better capital funded and smoothly developed the renewable energy projects.

In summary, for a project to be successful, among the crucial determinants are the quality of green bond governance structures, the regulatory setting, the credibility of the issuer, and the sophistication of the investor community. These are together what will make green bonds deliver real, high-impact renewable energy projects.

4.3 Barriers and Potential for Scaling Green Bond Markets in EMDEs

Green bonds are becoming increasingly popular worldwide, but there are specific challenges for the scalability of the market in emerging markets. Underdeveloped capital markets, domestic investor bases and currency volatility are also factors, as are risk premiums and insufficient regulation (UNEP FI, 2023; CBI, 2023) [23, 5].

A big constraint is that many low-income countries do not have deep, liquid bond markets. In the absence of active secondary markets, and long-term institutional investors, the market for green bonds is at an early stage and fragmented (World Bank, 2024) [26]. For instance, despite Nigeria's good start, the larger green bond story in Sub Saharan Africa is a slumber. Africa represented under 1% of global green bond issuance as at 2023 (APRI, 2024). Other Latin American states, other than Chile and Brazil, also struggle to attract investment for greening because of sovereign risk and macroeconomic turbulence.

The currency mismatch itself is also a big worry. Green bonds are usually issued in hard currency (i.e., USD or EUR) and renewable energy projects generate revenues in local currency, thereby exposing issuers to exchange-rate risk (IMF, 2023) [13]. This makes it unattractive for subnational entities to issue green bonds and for foreign investors to enter into the market of local-currency green bonds, unless credit enhancement mechanisms are provided.

In addition, high transaction costs --such as the cost for certification, verification and reporting etc.-- disproportionately impact smaller issuers and deals, restricting the involvement of municipal governments and small enterprises (IFC, 2023) [11]. Wang and Zhi (2023) [24] claim that public support (subsidy or technical assistance programs) can address such barriers, but support level still varies between regions.

Notwithstanding structural and operational impediments in many emerging economies, the scaling up of green bond markets can still be achieved through smart policy interventions and institutional cooperation. So-called sovereign green bonds have played a key role in setting market standards and driving private sector participation, and have been used to lower the cost of borrowing and to inspire investor confidence in countries like Nigeria, Chile and India (CBI, 2023; World Bank, 2024) [5, 26]. In addition, multilateral development agencies, such as the International Finance Corporation (IFC), the African Development Bank and others have been instrumental in de-risking green bond issuance in the frontier markets, through providing technical assistance, partial guarantees and, anchor investments (IFC, 2023; UNEP FI, 2023) [11, 23].

For transparency and alignment many developing economies are also leaning towards green taxonomies inspired by the EU example. These regulatory instruments make project eligibility more precise, bring local markets into line with international benchmarks and limit the risk of greenwashing (European Commission, 2023) [6]. Furthermore, the emergence of new financial instruments, that is, sustainability-linked bonds and blended finance platforms, has strengthened the inflow of capital into green projects especially in low fiscal space countries (MacAskill & Roca, 2023) [16].

India represents these possibilities, as it has come out with green finance principles in 2021 in the form of guidelines issued by its Reserve Bank and managed to issue sovereign green bonds in 2023. They backed renewables grid infrastructure and hydrogen infrastructure, attracted strong interest from investors, and have been cost competitive, suggesting that sound regulation, institutional support, and project pipelines can mobilise serious capital (International Energy Agency [IEA], 2023) [10]. In conclusion, despite challenges, a mix of well-sequenced policy reforms, strategic multilateral support, and market development create a viable and replicable progression for scaling green bond markets in emerging economies.

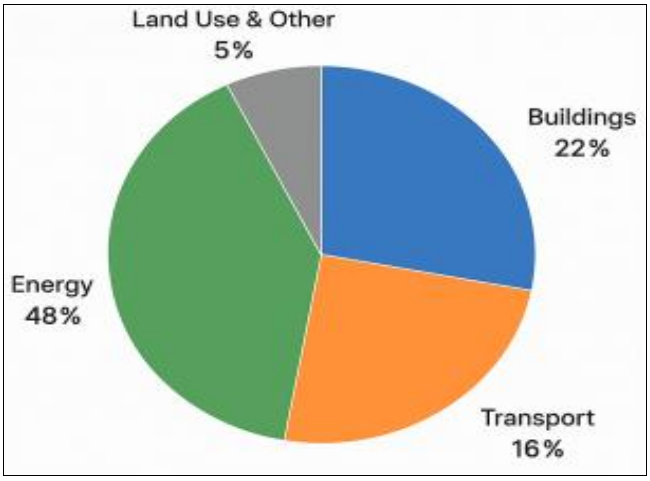

Fig 3: Sectoral Distribution of global green bond Proceeds

The figure illustrates the sectoral distribution of global green bond proceeds, highlighting the priorities of climate-aligned investment over the past five years. The largest share—48%—is directed toward the energy sector, specifically renewable energy infrastructure including solar, wind, hydro, and related grid enhancements. This allocation underscores the centrality of green bonds in accelerating the global energy transition and aligns directly with SDG 7 (Affordable and Clean Energy).

The buildings sector accounts for 22%, primarily targeting energy-efficient construction and retrofitting of public and commercial infrastructure to reduce emissions. Transport projects, including electric mobility and mass transit systems, capture 16% of the proceeds, reflecting their growing role in decarbonizing urban environments. Meanwhile, water infrastructure and land use/other environmental services make up 9% and 5%, respectively, covering flood resilience, water sanitation, and sustainable agriculture.

This distribution demonstrates that while green bonds support a wide range of environmental projects, energy remains the dominant focus. The data reflects findings from the Climate Bonds Initiative (2023) [5] and the International Finance Corporation (2023) [11], which confirm renewable energy as the top sectoral recipient of green bond financing.

4.4 Challenges and Opportunities in Scaling Green Bond Markets in Emerging Economies

Green bonds are becoming increasingly popular worldwide, but there are specific challenges for the scalability of the market in emerging markets. Underdeveloped capital markets, domestic investor bases and currency volatility are also factors, as are risk premiums and insufficient regulation (UNEP FI, 2023; CBI, 2023) [23, 5].

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challenges, a mix of well-sequenced policy reforms, strategic multilateral support, and market development create a viable and replicable progression for scaling green bond markets in emerging economies.

5. Discussion

Our results tell a positive story about the rising importance of green bonds as an instrumental tool of international climate finance, in addition to enhancing the development of renewable energy sources. Based on empirical evidence from both literature and information from a range of institutions in different geographies, this review finds tangible evidence of the transformational impact of green bonds in the mobilization of capital, reduced financing cost, and investor behaviour towards sustainability. However, these advantages are not shared equally, and significant gaps in the theory and practice of green bond issuance remain—particularly in emerging markets.

5.1 Synthesis of Themes from Primary Studies at Global Level

The review concludes that green bonds are now a cornerstone of climate-friendly financing systems. In both developed and emerging market countries, issuance of green bonds has a positive and in most cases statistically significant effect on renewable energy additions, with wind and solar infrastructure often mentioned (Tsipas *et al*., 2024; Kartal *et al*., 2025) [22, 15]. Cases of countries like China, India, Chile also provide empirical evidence that with strong policy framework and investor confidence, Green Bonds are not just symbolic pledges but drivers of actual infrastructural and energy transition in the country.

The effectiveness of projects financed by green bonds is directly related to a number of institutional and market factors. These are standardised taxonomies (such as the EU Green Taxonomy), regulatory consistency, third-party verification and monitoring and disclosure processes in place and active (European Commission, 2013; ICMA, 2013). Sovereign issuances, for example in Nigeria and Chile, demonstrate the catalytic role of government involvement for the creation of market confidence in this area and the development of reliable benchmarks (PDF Nigeria & FSD Africa, 2020; World Bank, 2024) [19, 26]. Related to this, the "greenium" that is present in many markets is evidence of investors' willingness to finance climate-positive instruments at discounted prices, which can translate directly in better project economics and a broader base of available capital (Alessi *et al*., 2021) [1].

From an investors' point of view, this overlap between sustainable finance and ESG integration has been critical in the growth of the green bond market. In line with the SAAM, this hypothesis implies that investors are displaying a stronger reliance on a long-term oriented R&V, which is increasingly becoming guided by the perspective of long-term risk management and value alignment as per whether investors are risk-averse or value proponents, respectively—a trend that is in fact mirrored in the increasing portion of institutional portfolios which are placed in green and sustainable fixed-income products (MacAskill, & Roca, 2023; IMF, 2022) [16, 12]. In developed markets, this demand has contributed to the normalisation of green bonds; in developing markets, though, scaling initiatives in many instances continue to depend on international de- velopment finance and concessional support (IFC, 2023; UNEP FI, 2023) [11, 23].

5.2 Addressing Research Gaps

There are, however, important gaps in the fast growing literature on green bonds. First, there are limited latest research promoting the rigorous evaluation of the post-issuance performance of green bond-financed renewable projects. There are frequently ex-ante evaluations and allocation reports available, but empirical information on long-run environmental, financial, and social consequences are sometimes less available, especially in a low-income setting (Banga, 2023) [2]. Lastly, more research is required on institutional and political economy factors that condition a green bond's successful or unsuccessful use, particularly in weak regulatory environments. Third, although interest in transition risk and climate alignment is mounting, the treatment of physical climate risk—and the role that green bonds play in enhancing infrastructure resilience—is relatively underdeveloped in the literature.

Another gap is that the role of local capital market and domestic investor ecosystem to maintain green bond momentum remains less developed. Studies concentrate on sovereign or transnational corporate borrowers, often disregarding the role local or regional governments or small/medium-sized business ventures (SMEs) may play in taking advantage of green finance through the proper form of instrument or collective vehicle (UNEP FI, 2023) [23]. To fill such gaps would require more detailed country-level analysis and mixed-methods analysis that combines financial, environmental, and socio-political information.

5.3 Developed vs Emerging Economies: A Cross-Cutting Look

The contribution of green bonds to renewable energy is unequally distributed between advanced and emerging markets. Green bonds appear to be most applicable in advanced economies – such as those of the EU, the US and Japan – due to deep capital markets, sophisticated investor bases, well-developed regulatory taxonomies and relatively stringent disclosure requirements (European Commission, 2023; CBI, 2023) [6, 5]. Under such conditions, larger issuances, increased secondary market liquidity and stronger post-issuance reporting can be realized. As a result, green bonds in these instances are frequently well absorbed by national decarbonization agendas and institutional investor restrictions.

In comparison, emerging economies confront a relatively fragmented and resource-constrained environment. Challenges include constrained issuer capacity, currency mismatch, risk of political interference, underdeveloped bond markets, and low credit rating, all of which lead to weak investor confidence and market participation (World Bank, 2024; IMF, 2023) [26, 13]. But emerging markets are also full of opportunity. Sovereign green bond programmes in countries such as Nigeria, India and Indonesia have revealed that well-structured issuances -particularly with support from multilaterals - can crowd in capital and improve the viability of projects (PDF Nigeria & FSD Africa, 2020; IFC, 2023) [19, 11]. Furthermore, the advent of blended finance, sustainability-linked bonds and region-specific green taxonomies is helping to tackle these limitations.

The analysis implies that contextual strengths such as institutional maturity, regulatory consistency and investors' knowledge are drivers to the bond instrument. As such, efforts for the green bond to be most effective should not be limited to copy-pasting developed country models but would also benefit from capacity-building, risk-mitigation instruments and bespoke policy frameworks.

5.4 Consistency with The SDG 7 and SDG 13

The alignment of green bonds with global development objectives—in particular SDG 7: Affordable and Clean Energy and SDG 13: Climate Action—is both tangible and significant. Green bonds act as a financing tool which connects private financiers to public climate targets by filling the investment gap on RE infrastructure (IEA, 2003). Empirical evidence verifies that the proceeds of green bonds are mainly channeled into the financing of projects for clean energy access, energy efficiency and emissions reduction—key foci of the SDG 7 (IRENA, 2022) [14].

And by helping green projects access cheaper sources of capital and pushing the integration of ESG into financial decision-making, as green bonds become mainstream, they can form part of systemic change in the financial sector, which is part of SDG 13's call to take urgent action to combat climate change. The formation of green bond markets has been very important in allowing countries to align their national development plans with their NDCs under the Paris Agreement, as pointed out by both the IMF (2022) [12] and UNEP FI (2023) [23].

Broader still, green bonds are a vehicle for building climate risk into the financial markets to enhance resilience and enable the financing of climate at scale. The harmonization of environmental credibility and financial engineering has turned green bonds into a practical financing instrument as well as a regulatory policy instrument for sustainable development.

Green Bond Activities	SDG 7 Affordable and Clean Energy		SDG 13 Climate Action	
	7.1	7.2	13.1	13.2
Solar Energy	✓	✓	✓	✓
Wind Energy	✓	✓	✓	✓
Mini-Grids	✓	✓		✓
Energy Storage	✓	✓	✓	✓
	✓	✓		

Fig 4: SDG Alignment Matrix – Green Bonds and Sustainable Development Goals

The figure shows an SDG alignment matrix of how minimal and essential green bond financed activities contribute to SDGs 7 and 13. That is, the matrix takes green bond-eligible energy projects – solar, wind, mini-grids and storage – and maps them to four SDG targets: 7.1 (universal energy access), 7.2 (share of renewables in the energy mix), 13.1 (resilience to climate-related hazards), and 13.2 (integration of climate change measures into policies).

Each green check represents a match of a particular greenb ond activity with a particular SDG target. For instance, solar and wind power make a considerable contribution to increasing access to renewable energy (targets 7.1 and 7.2), while also serve to reduce green house gas emissions and promote climate resilience (targets 13.1 and 13.2). Mini-grids – especially in neglected, rural locations – contribute directly to energy access and decentralization objectives and are thus relevant for strategies for inclusive energy transition. Energy storage technologies, which bolster grid resilience and capacity for further deployment of renewables, receive growing endorsement in green bond frameworks and are necessary for mitigational as well as adaptational efforts related to SDG 13.

This chart further supports the concept of development co-benefits of green bond financed-projects and illustrates its strategic relevance in aligning private finance flows with national and global sustainability goals. It also acknowledges green bonds as a critical mechanism to embed SDG-aligned impact reporting in the financial markets (UNEP FI, 2023; IEA, 2023) [23, 10].

Table 1: Comparative Case Matrix – Developed vs. Emerging Economies

	Developed Economies	Emerging Economies
Case Studies	EU	China Chile
Regulatory Framework	EU Green Bond Standard	PBoC Green Bond Endorseol Project Catalogue
Investment Trends	Large-scale renewable projects	Large-scale renewable projects
Challenges & Opportunities	• Maturing market • Regulation harmonization	• Market nascent • Currency risk

The figure shows a comparative case matrix, which integrates important features of green bond markets from developed countries and emerging regions. The matrix directly compares cases, regulatory regimes, investment patterns, and key challenges and opportunities to illuminate shared features as well as country-specific variations.

In advanced economies, as illustrated by the EU on this occasion, green bonds markets are more advanced and there is more regulatory consistency and investor knowledge. The standardisation of the EU Green Bond Standard and the fact that it relies on the EU Taxonomy for a harmonised regulatory regime which increases transparency while reducing greenwashing (European Commission 2023) [6]. 5 And the investment trends in these contexts favour big renewable projects, such as offshore wind and utility-scale solar, with long-term institutional investors providing the finance.

Emerging markets like China and Chile are also seeing a rising supply of green versus "more immature" markets, they note. The national green finance framework in China is guided by the PBoC Green Bond Endorsed Project Catalogue and two of Chile's sovereign green bond issues have been used to fund solar deployment in the Atacama region (CBI, 2023; IFC, 2023) [5, 11]. Some investment has

been directed towards large-scale renewable projects, but the immaturity of the market, including currency risk and limited local investor depth, remains an ongoing challenge. However, these markets are large and with high growth potential, especially if multilateral development banks and blended finance schemes are behind them.

This matrix emphasises the need to customise policy, regulatory and financial interventions according to the market maturity, and surface transferable best practices that can contribute to scaling of green bonds in regions.

6. Policy and Practice Implications

The rise of green bonds as an instrument to finance renewable energy represents more than a financial innovation; it is a strategic instrument for climate sensitive development. The previous sections have shown that, although green bonds are an effective tool to mobilize climate aligned-capital, a lot of their efficacy and scalability depends on existing policy frameworks, regulatory coherence, institutional capacity and market development. The following are some of the key policy and practical implications to enhance the potential impact of green bonds on a global scale, but with a focus on enhancing their potential role within emerging economies.

6.1 Evolving and Harmonizing Green Taxonomies

Clear, evidence-based green taxonomies are one of the most important enablers for a green bond market that can scale credibly. These taxonomies offer a shared way of identifying what's "green" or climate-aligned, minimizing confusion and guarding against greenwashing. The EU Green Taxonomy, China's Green Bond Endorsed Projects Catalogue and the ASEAN Taxonomy are among the early examples that have increased investor confidence and issuer transparency (European Commission, 2023; CBI, 2023) [6, 5].

The creation of national or regional taxonomies is crucial for emerging markets and they should be compliant with international standards that should be geared to local context. This also involves setting out eligibility criteria, thresholds for emissions and sectoral benchmarks of sustainability for the project. It also enables cross-border investment because inter-national investors can compare 'green' assets across jurisdictions. Policymakers should work together with financial standard setters, multilateral organizations, and evidence-oriented groups to build and improve these taxonomies, so that they maintain inclusiveness, consistency, and credibility.

6.2 Compulsory Reporting and Verification Standard.

In order to improve transparency and protect environmental integrity, regulators and exchanges are encouraged to consider mandatory disclosure requirements on green bond issuers. These should cover pre-issuance frameworks, post-issuance allocation reports, and annual impact reports that measure environmental results (for example, megawatts of renewable capacity installed, GHG emissions avoided, households electrified).

Use of independent verification tools –second-party opinions, third-party certifications (e.g., the Climate Bonds Standard) and external auditing – should be encouraged, if not mandated. Regulations, such as those imposed by securities commissions, have an important role to play in formalising these practices into listing rules or sustainability guidelines (ICMA, 2022; IMF, 2022) [8, 12]. For resource-strapped issuers (especially, in emerging economies) free access to verification services may be offered on subsidized fashion with the support of international donors or undergreen finance facilities.

6.3 Developing deep local capital markets and investor ecosystems

The success of green bonds is directly related to the depth and development of domestic capital markets. Governments and central banks can adopt policies aimed at expanding the local institutional investor base including pension funds and insurance companies and promoting the inclusion of ESG factors in portfolio management (UNEP FI, 2023; IMF, 2023) [23, 13]. Longer-term saving incentives, elimination of caps on investments in green, and the ability to have credit enhancements (like, sovereign guarantees, or partial risk insurance) will all go a long way to scale domestic demand for green bonds.

Concurrently, technical assistance must be provided to subnational governments, development banks and private companies, particularly SMEs, to enable them design, issue and manage green bonds. The knowledge and cost barriers for new entrants can be further reduced by initiating dedicated green finance accelerators, training programs and incubators – ideally led by multilateral entities.

6.4 Mobilization of blended finance and de-risking instruments

One of the major challenges in developing countries is the perceived risk premium that is being added to green investments. To overcome this, blended finance instruments (i.e. the use of concessional capital to leverage commercial investment) should be used in a targeted way to de-risk the making of green bond deals. Anchor investors, Guarantee schemes A development financial institutions (DFIs) and Multilateral Development Banks can provide anchor investments, partial credit guarantees to improve the credit rating and attract Institution investors (IFC, 2023 [11]; Word Bank 2024).

Instruments like green bond insurance, first-loss tranches, currency hedging facilities and liquidity windows must be built into national and local green finance strategies. MDBs can also play a role by providing policy-based guarantees that are tied to sovereign green bond issuance, which could lower the cost of borrowing for the sovereign and create demonstration effects for private sector emulation.

6.5 Sovereign and Subnational Level Leadership

Governments are acting as a market-creation catalyst through issuing sovereign green bonds to not only raise public finance for renewable energy investments, but to set market standards. "Countries have demonstrated effectively that this instrument has established trust of investors, catalyzed domestic issuance and acted as a vehicle to deliver on national climate goals, such as Chile, Nigeria, and India have done." PDF Nigeria & FSD Africa, 2020 [19], World Bank, 2024 [26].

To further amplify this effect, governments could design medium-term green bond issuance plans that are aligned with national development plans, energy transition roadmaps and NDCs under the Paris Agreement. Subnational governments and SOEs should be encouraged to issue green bonds via targeted regulatory assistance, co-

finance tools, and fiscal incentives including tax deductibility for green investment.

6.6 Incorporation into National Climate and Energy Policy Frameworks

We need to not see green bonds as isolated financial products, but as part of national climate finance strategies. Indeed, departments of finance, energy and environment should work closely together if green bond pipelines are to be aligned with national renewable energy intentions, infrastructure priorities and climate adaptation requirements (IEA, 2023; UNEP FI, 2023) [10, 23].

Crosssectoral coordination can be institutionalized in the form of inter-ministerial green finance task forces, or public private platforms to align green bond issuance with such broader sustainable development objectives. In addition, the incorporation of green bonds into national budget frameworks, climate resilience strategies, and investment plans for the SDGs will improve policy coherence and accountability.

6.7 Encouraging Regional Collaboration and Sharing of Experiences

Last but not least, developing the green bond market on a regional basis, particularly in emerging economies, depends on regional cooperation on standards, capacity building, and market infrastructure. Mechanisms such as the ASEAN Capital Markets Forum, the African Green Finance Coalition and the Latin American Green Bond Observatory can perform a bridging function by way of which taxonomies can be harmonised, risk-mitigation instruments pooled, and best practice disseminated.

Multilateral cooperation should concentrate on the establishment of green bond innovation hubs, south-south knowledge exchanges, and joint technical assistance programs in order to build the capacity of regulators, issuers, and investors to maneuver through changing market complexities. Aside from providing a potential source of project finance, cross-border green bonds, originating from regional infrastructure banks or multilateral facilities, could help to tackle scale and liquidity issues faced by some smaller economies

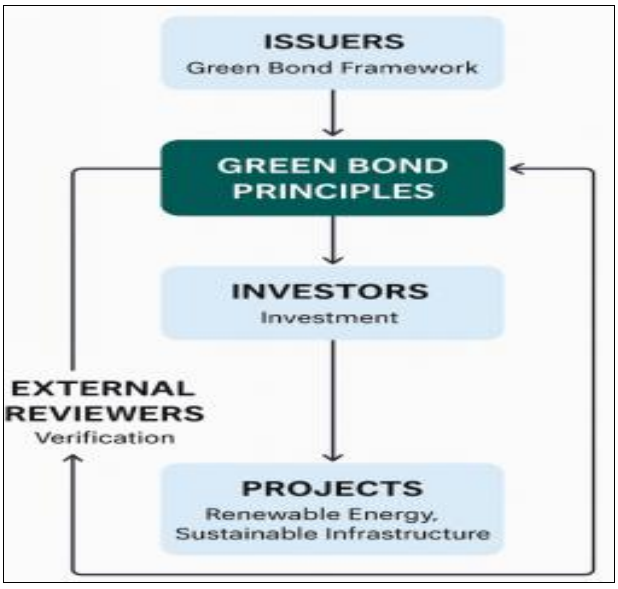

Fig 5: Green Bond Ecosystem Map

The figure offers a system view of the overall Green Bond Ecosystem, identifying the relationships among the main players and the mechanisms facilitating the issuance and implementation of green bonds. This system is anchored by such venerable standards as the Green Bond Principles (GBPs), a set of internationally recognized guidelines, formulated by the International Capital Market Association (ICMA, 2022) [8], that address transparency, disclosure, and proceeds.

The issuers (sovereigns, municipalities, corporates and financial institutions) are the starting point in the process, designing a green bond framework following the GBPs. Such frameworks will need to specify project types, environmental results and impact measures.

Upon the framework's issuance, third-party verifiers (Second Party Opinion providers, environmental consultants, or other verification agencies) review the bond's alignment with international green finance standards. They are crucial to ensure credibility and to prevent greenwashing (Banga, 2023; UNEP FI, 2023) [2, 23].

Investors -such as ESG focused asset managers, pension funds, and development finance institutions- scrutinise the verified bond structure and allocate the related pool of capital, typically at concessionary price levels (greeni-um), because of the bond's „green" creden-tials (Kartal *et al*., 2025; IMF, 2022) [15, 12].

The assets funded, mostly renewable energy and infrastructure projects, must meet the eligible categories described in a bond framework. These initiatives deliver verifiable climate impacts resulting from reduced greenhouse gas emissions, increased access to clean energy, and more efficient use of resources.

This is an ecosystem modelled after a system of loops where funding, verification, execution, and impact reporting are interconnected, driving transparency and accountability along the bond lifecycle. The map highlights the critical role of strong governance, dedicated oversight and the confidence of investors in expanding the green bond markets around the world.

Table 2: Summary of Policy and Practical Recommendations

Focus Area	Key Recommendations
Green Taxonomies	Develop localized, science-based, internationally aligned taxonomies for project eligibility.
Impact Reporting & Verification	Mandate pre- and post-issuance disclosure, promote third-party verification, subsidize certification.
Capital Market Development	Strengthen domestic bond markets, incentivize ESG investing, support SME participation.
Blended Finance & Risk Mitigation	Leverage DFI support for guarantees, hedging tools, and concessional capital for de-risking.
Sovereign and Subnational Action	Expand sovereign green bonds, empower local governments and SOEs to issue green instruments.
Policy Integration	Embed green bonds into national energy and climate finance frameworks and development plans.
Regional & International Cooperation	Promote harmonization, technical exchanges, and joint issuance platforms through regional coalitions.

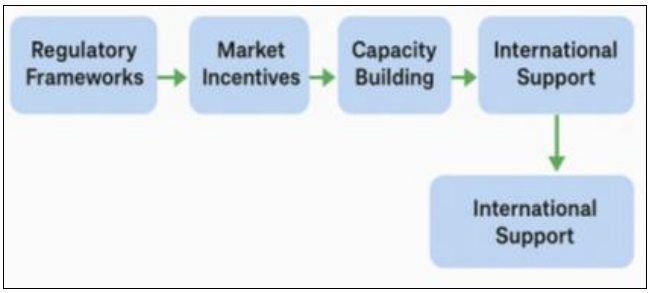

Fig 6: Green Bond Policy Action Roadmap for Emerging Markets

The sequenced policy roadmap above presents a set of steps for emerging markets to follow on their journey to developing impactful and scalable green bond markets. The roadmap has four progressive sections—Regulatory Frameworks, Market Incentives, Capacity Building, and International Support— which together tackle the institutional and market (barriers) that LDCs often face.

Five act: Building Regulatory Frameworks; Designing national green finance taxonomies, standards on disclosure, and listing rules. Such a foundation is essential in addressing the lack of clarity, reducing green-washing and corresponding with international best practice (European Commission, 2024; ICMA, 2023 [9]).

After regulatory arrangements have been established, Market Incentives (tax breaks, interest subsidies, credit enhancements) are needed to motivate private investors to invest and to correct for exaggerated risks in developing regions. Governments and central banks can also underpin demand creation by issuing sovereign green bonds as a reference (IMF, 2023; CBI, 2023) [13, 5].

Capacity Building – The third phase focuses on technical readiness of the local issuers, verifiers and regulators. This includes capacity building, tool kits, exchange of best practices, facilitated by development finance institutions (IFC, 2023) [11]. Without capacity building in this area, many local players may be technically unprepared to tap into green capital markets.

Lastly, International Support, multilateral development banks, donor agencies, and global green finance platforms, offers needed de-risking mechanisms -- including guarantees, blended finance, and anchor investments -- to mobilize private capital into emerging market economies (UNEP FI, 2023; World Bank, 2024) [23, 26].

This roadmap provides a strategic guide in sequence, to decision-makers on how to unleash flows of green capital and to facilitate climate-aligned investment in under-developed and frontier markets.

7. Conclusion

This paper aimed at investigating the function of green bonds to aid the renewable energy industry under the concept of broader green project finance. Leveraging a comprehensive literature type that spans from 2020 to 2025, a deep literature base composed of peer reviewed academic studies, high-quality institutional reports, and top-notch sources, this review has introduced the ways green bonds work, but also represent a new financial instrument and policy tool for climate change action. The focus of addressing three key research questions—how green bonds contribute to the development of renewable energy, the key drivers shaping the success of projects, and the obstacles and opportunities to scaling green bond markets in emerging economies—makes it one of the most encompassing and internationally relevant analyses of the green bond space.

The evidence surveyed suggests that green bond issuances have achieved great progress in channeling capital towards renewable energy projects across developed and developing countries. They have opened up access to longer-term, lower-cost financing, demonstrated the use of funds through dedicated use-of-proceeds frameworks and brought in non-traditional investor segments that have an eye to ESG performance. In places as diverse as China, Chile, India and Nigeria, green bond issues have delivered not just the solar and wind infrastructure projects for which they were raised, but wider ones in which market and institutional reforms were kick started as a result.

At the same time, the study raises concerns that the success of green bond-financed renewables hinges on multiple factors—such as robust regulatory environments, credible impact measurement frameworks, investor confidence and institutional capacity for governance and monitoring. In places where these catalysts are absent or inadequate, the relevance of green bonds is either not maximized, or susceptible to greenwashing threats.

Comparative analysis The analysis of developed- and developing-markets identified a large asymmetry, in terms of market maturity, institutional capacity and the availability of de-risking instruments. Whereas mature markets have enjoyed well-established taxonomies, deeper capital markets and regulatory harmony, less developed markets have faced hurdles in the form of currency fluctuation, inadequate proof infrastructure and narrow investor pools. Yet sovereign green bond programs, blended finance solutions and multilateral partnerships have started to narrow that gap, providing replicable success stories.

There is clear alignment between both SDG 7 Affordable and Clean Energy and SDG 13 Climate Action and green bonds. Through the direct financing of sustainable energy projects and the integration of climate risks into financial decision-making, green bonds have become a key tool in the effort to align financial markets with global climate and development goals. This is what they bring." Its added value is not limited to raising capital, but involves systemic changes in the way the market operates, institutional innovation, and integration of sustainability.

This paper is in line with the existing literature and provides a synthesis of previous empirical and conceptual knowledge, and connects academic analysis with policy-relevance. It underscores the importance of continued development of green finance frameworks—particularly with respect to post-issuance impact tracking, verification standards, and mechanisms to help first-time and frontier-market issuers. It also highlights the need to harmonize national climate and financial innovation strategies in order to achieve consistency, credibility and scale.

Further research should elaborate on post-issuance impact metrics, assess the long-run performance of GB-funded projects and analyse the potential for digital technologies (e.g. blockchain, AI) to enable greater transparency and efficiency in GB markets. Furthermore, a more disaggregated country-level analysis to grasp local challenges and stimulate custom solutions for market development for green bonds in poorer countries is required.

In summary, being a transformational financing vehicle, green bonds can help promote the development of RE and facilitate the global move towards a low carbon economy.

Their full potential will have to be actualised through continued policy innovation, institutional enhancement and cross-sectoral cooperation. As the climate crisis intensifies and investment requirements grow, green bonds are likely to continue to be a key instrument in sustainable finance and an essential way to support a just and inclusive transition to a more sustainable energy system.

8. References

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