



## Impact Insight

### UNDERSTANDING THE GROWING THEMATIC BOND MARKET

Thematic bonds are traditional fixed income instruments which allow investors to finance specific investment themes such as climate change, health, food, education, access to financial services and social housing. By linking this traditional financial instrument with the ability to target specific Sustainable Development Goals (SDGs), these financial products have proven to be a winning combination. Illustrating the consistent growth of this market is the fact that the aggregate amount of thematic bonds issued in 2017 reached approximately USD 700 billion<sup>[1]</sup>. Within this category of “thematic” fixed income instruments, the most common types are “Green Bonds”, “Social Bonds” and “Sustainability Bonds”. Other types of bonds under this “thematic” umbrella are being developed.

#### Green Bonds

The most common instrument within the thematic bond framework are Green Bonds. Green Bonds are fixed income instruments whose use of proceed finance or re-finance environmental and climate projects, such as renewable energy, energy efficiency, pollution prevention and land conservation. According to data from the Climate Bond Initiative, global green bond emissions have grown exponentially since 2015, rising from \$ 43.2 billion in 2015 to \$ 155.4 billion in 2017 and are expected to reach \$ 250 billion by the end of 2018. US, China and France account for 56% of 2017 issuance and the main issuers are International development banks, local public authorities and corporates. The International Capital Market Association ([ICMA](#)) has developed and published voluntary guidance to bond market participants for the issuance of most types of these thematic bonds.

Among the companies that have recently issued Green Bonds are Iberdrola, HSBC, Orsted, Barcalays and Engie. In the Swiss market, Helvetia Environmental and the Canton of Geneva were the first corporate and governmental issuers to successfully issued Green bonds. The European Investment Bank (EIB), KfW Group and World Bank are in the top three positions among the main development banks that have issued green bonds. Other public issuers are the European Bank for Reconstruction and Development, the International Finance

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Corporation, the African and the Asian Development Bank. Poland, France and Fiji entered the market with the first green sovereign bonds, while the United States has issued numerous green bonds through local authorities to help cities and local communities strengthen their fight against climate change and promote the transition to renewable energy.

### **Social Bonds**

Social Bonds are bonds issued with the aim of carrying out social development projects and currently represent a small segment of the market with enormous potential. Up to now, only \$5 billion dollars in Social Bonds have been issued. In June of 2017, ICMA provide guidance for this category through the publication of the '[Social Bonds Principles](#)', providing a careful process of evaluation and selection of projects, revenue management, reporting and external review activities. In general, this type of obligation covers: basic infrastructure, access to essential services, affordable housing, job creation through funding and micro financing to SMEs, food security and hygiene, and finally socio-economic progress and strengthening. Again, these areas match the SDGS, including "No Poverty", "Reduce Inequality", "Decent Work" and "Gender Equality".

Among the main issuers of Social Bonds are the international organization IFFIm, the Dutch BNG, the Mexican bank, Nacional Financiera and the Spanish Kutxabank. These bonds have financed access to vaccines and primary cares (IFFIm) and social housing projects (BNG, NF, Kutxa) respectively. Italy has become a leading player in the Social Bonds market through the social bond recently issued by Cassa Depositi e Prestiti, which through its liquidity platform, finances banks members of the Italian Banking Association, which in turn will finance SMEs operating in depressed and / or areas affected by natural disasters.

### **Sustainability Bonds**

In addition to green and social bonds, there are Sustainability Bonds. These bonds finance both green and social projects. To date, they are the newest version of these types of bonds and have been well received by investors as was demonstrated by the recent issues by the City of Paris and Development Bank of Japan.

At MainStreet Partner, we have been active in this market since 2010 and strongly believe that it will continue to grow as more issuers see the benefits of this type of financing and investors increasingly want to allocate capital to sustainable investments.

[\[1\] Climate Bond Initiative](#)



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