Impact Insight

WHAT'S WITH THE UNSTOPPABLE RISE OF GREEN BONDS?

In August 2016, an article on this website tried to explain the main drivers behind the surprising increase of green bonds in the capital market. One year later, and things haven't slowed down: as climate change has risen up the global agenda, the growth of green bonds has been unstoppable. Interest in sustainable investing is everywhere, from issuers, underwriters, verifiers, as well as the wider business community and its stakeholders.

What is the green bond market?

Perhaps the best thing about green bonds is how they simultaneously achieve financial returns and have a positive impact on society. In fact, these environmental bonds are ordinary fixed income instruments whose proceeds are predominantly allocated to financing projects such as renewable energy, pollution prevention and conservation, among other things.

Enrico Lo Giudice
Research Associate

Launched by multilateral institutions such as the World Bank and EIB, the green bond market was originally viewed as niche. Not so now: it's been less than a decade and green bonds are proliferating. In the first half of 2017, around $55 billion of labelled green notes were issued, an increase of 38% year-on-year from the $40 billion issued in the first six months of 2016. The Climate Bond Initiative estimates that the total amount of green bonds issued in 2017 could reach $150 billion. Compare this to 2016, when green bond issuances touched $82 billion. Green bonds are finally going mainstream.

Amount of green bonds issued since 2010

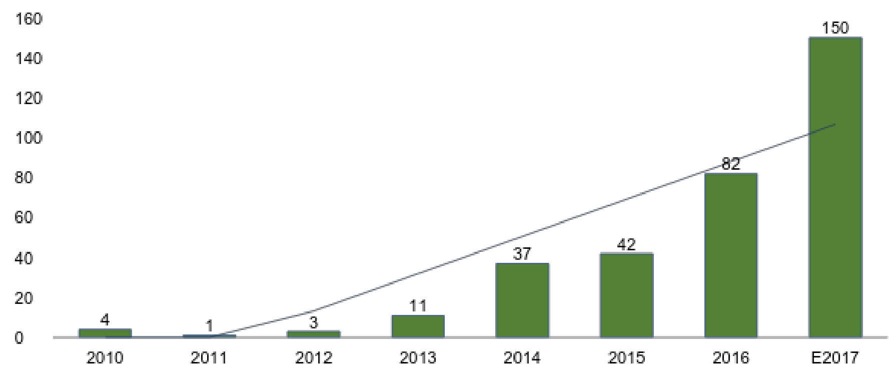

Image: Climate Bond Initiative, Moody's, Environmental Finance

What's so good about green bonds?

These bonds represent an opportunity to actively manage the environmental footprint of investors' portfolios, as two of the main characteristics of green bonds are transparency and reporting. They are also accountable financial instruments. In fact more than 100 issuers, investors and underwriters have signed the Green Bond Principles, a broad guideline that provides definitions and standards for these fixed income instruments. Furthermore, green bonds' positive impact is generally certificated by NGOs, such as the Climate Bond Initiative, or second-party verifiers.

Who are the main market players?

Global green bond issuance will reach another record as new players join this peculiar and fertile market. Investors and underwriters, such as Bank of America Merrill Lynch, Credit Agricole and HSBC, have seen a tremendous growth of issuers and issues, as numerous public and private entities joined or issued green bonds again in 2017.

The market rapidly became global, dynamic and well-known, because of the number of financial players involved. Sovereign states like Poland and France hit the market with the first sovereign green bonds, principally for the financing of renewable energy and sustainable infrastructure projects. In the US, municipal green bonds were issued to help cities and local communities with the aim of reinforcing the fight against climate change and promoting a transition to renewable energy transition in line with international practices and standards.

Municipal green bonds finance sustainable water management, pollution prevention, the diffusion of green buildings and aquatic biodiversity conservation at a local level. Looking globally, public and international institutions such as development banks reinforced their commitments to green finance by issuing multiple green bond programmes to support local and international projects. Furthermore, large corporations have issued green bonds in the past 12 months, including Apple, Iberdrola, Intesa SanPaolo, QBE Insurance Group and TenneT. The number and variety of issuers has progressed further, with numerous issuances from emerging countries. Chinese and Indian players issued billions of green bonds to finance renewable energy, energy efficiency and sustainable projects in their territories. By doing that, emerging markets have shown their determination to finance a low-carbon future.

Can these bonds make a difference?

Developed and developing countries face rising financial challenges from climate change. Green bonds are the perfect tools to finance railways, roads, airports, buildings, energy and water infrastructure, while at the same time achieving positive returns for the environment and society. All the projects financed by green bonds have positive, climate-friendly spillovers, mitigating the downside risks of traditional fixed income instruments. As green bonds have a high degree of transparency, investors can also quantify the benefits of investing in them using accessible metrics (reduced CO_2, for instance, or gigawatt hours (GWh) of clean energy produced).

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