

A new dawn for green bonds

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The green bonds market is expected to reach new highs this year after more than \$200bn in green bonds and loans were issued in 2019 – a new global record.

Green bonds – also known as climate bonds – are fixed-income investments issued by governments and corporations as debt capital to fund climate and environmental projects.

“Green bonds are those where the proceeds raised are allocated to environmental projects or uses,” explained Simon Thompson, Chief Executive, Chartered Banker Institute. “They might be used to raise capital for a wide variety of purposes, including renewable energy projects, clean transport infrastructure, sustainable buildings, flood defences, or sustainable forestry and agriculture.”

The **Climate Bonds Initiative** – which promotes and tracks the green bond market internationally – reported in October that **\$202.2bn in green bonds and loans** had been issued in 2019 – an all-time high for the green market.

The US issued the most bonds, followed by France, China, Germany, Netherlands and Sweden. Energy dominates overall use of proceeds at 33%, followed by low carbon buildings on 29%, low carbon transport 20%, water 9%, with waste and land use each at 3%.

Green trillions

In 2020, the initiative forecasts global annual green bond issuances to hit between \$350-400bn. But to make a real impact, ‘green trillions’ is the goal.

“New sovereigns are entering the market and pioneers like France, Poland and Nigeria are now repeat green issuers,” said Sean Kidney, CEO and co-founder of the Climate Bonds Initiative.

“Bond size and diversity of issuers is increasing, and noteworthy is the presence of leading European and Chinese banks amongst the largest issuers.

“But \$200bn or \$400bn a year is not enough to address the climate emergency and provide the capital at the scale urgently required for large scale transition, adaptation and resilience.

“Generating that first \$1tn in annual green investment by 2021/22 is now critical. It’s the benchmark from which to measure year on year growth in climate-based investment towards 2030.”

Critical role

In the UK, there are more than 100 green bonds from 16 countries listed on the London Stock Exchange, with the amount raised more than doubling since 2017 from \$10.5bn to \$26bn.

Globally, green bond issuance has climbed from \$45bn in 2015 and \$168bn in 2018.

The Institute's Simon Thompson predicts that debt capital through green bonds will play an increasingly important role in financing the world's shift to a low carbon economy.

"The scale of investment needed to finance the transition to a sustainable, low-carbon world – \$6tn per year – will exceed both the capabilities of the post- financial crisis banking sector and the constrained balance sheets of utility companies," Thompson said. "This is why the debt capital markets will be significant in facilitating the continued operation of existing projects via refinancing, and the development and construction of a wide range of new projects supporting climate change mitigation and adaptation."

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