

MARMORE

Cut to the Chase

Green Bonds

WHAT are Green Bonds?

Green bonds are very similar to any other bonds in the market in terms of structure and pay-offs. However, they differ in one important aspect; green bonds are issued to fund projects that have positive environmental effects or climate benefits. Many of the green bonds issued have a use of proceeds/ asset-backed clause and are specifically earmarked for green projects. They are also backed by the full faith of the issuer's balance sheet.

WHAT are the types of green bonds that are available?

Type	Usage	Recourse
Use of proceeds Bond	Earmarked for green projects	Standard/Full-Recourse to the issuer. Credit rating is the same as the issuer
Use of proceeds- Revenue Bond	Earmarked for green projects	Revenue streams serve as the collateral for the debt
Green Project Bond	Ring-fenced for the specific underlying green project	Re-course is only for the project's assets and balance sheet
Green Securitized Bond	Earmarked for green projects/ go directly into underlying green projects	Re-course to a group of projects that have been grouped together

Source: Climate Bonds Initiative

WHY has the green bond issuance shot up suddenly?

- While the green bonds initiatives were first started almost a decade back; corporates became interested in it only by 2013. Corporate entry into the green bond market marked the beginning of the growth trajectory in green bond issuance. Corporates have hitherto been a part of the pollution problem themselves and see the issuances of green bonds as an ideal way to showcase their concern for the environment. Corporates have realized that climate change and pollution would affect their business prospects in the long-run.
- Utilities have started to see the issuance of green bonds as a counter for their long standing pollutant image. Southern power and Georgia Power Company raised USD 1.3Bn among themselves during March 2016, a first instance of green funding by a utility or an affiliate in the U.S. Utilities see a lot of value from green bonds by tapping into an investor base that until now has had its reservation about the sector.
- China's role in spearheading the clean energy campaign has been remarkable. China's USD 36Bn of green bonds issued in 2016 made up about a third of the Chinese market.

- Ever since the Paris climate accord has been signed, China has been at the forefront on climate change and the large-scale issuances have not been unsurprising. In fact, the people's bank of China estimates that China needs to invest anywhere between USD 289Bn – USD 579Bn every year in order to fix its environmental problems; Public sector initiatives and funding is expected to cover only 15% of its needs and China needs more private funding.

In the GCC...

- The National Bank of Abu Dhabi issued its debut green bond and the first ever issued in the Gulf region for USD587m.
- Dubai in 2017 launched the Clean Energy Strategy 2050, which aims to make Dubai a global centre of clean energy and green economy. It includes a USD 27Bn investment in Green Fund and USD 13.5Bn in the second phase of Solar Park by 2030.
- The Islamic Development Bank and the Dubai Electricity and Water Authority have launched numerous climate-related initiatives, including a \$180 million pilot project to fund clean energy by the IDB and a commitment by DEWA to increase its solar power target by 5 per cent to 15 per cent of its total capacity.
- Dubai Supreme Energy Council has said that it has plans to issue Green Sukuk bonds which could be propelled by the Dubai Clean Energy Strategy 2050
- Qatar has been pushing for more greening of the country through its Green Building Initiatives.

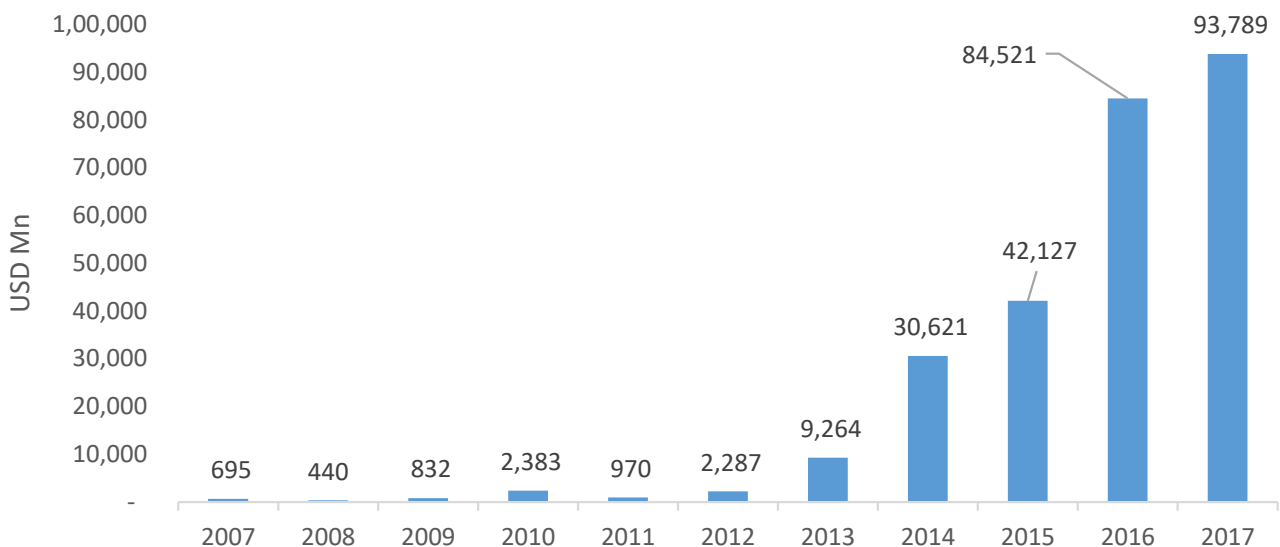
WHO are the key players in this green bond market?

- The World Bank has been instrumental in popularizing the appeal of green bonds through its promotional activities and by regularly issuing green bonds. In 2008, it released the “Strategic Framework for Development and Climate Change” to help stimulate and coordinate public and private sector activity to combat climate change.
- In some ways the EIB (European Investment Bank) was a pioneer in the issuance of green bonds, called as Climate-awareness bond. It has issued more than USD 20Bn worth of bonds since then making them the largest in terms of green bonds outstanding as on date. The funds raised by the institution are clearly earmarked for lending to eligible projects primarily in sectors such as renewable energy and increasing energy efficiency.
- Green finance was incorporated into the G20 agenda for the first time under the Chinese Presidency of 2016 in form of the Green Finance Study Group (GFSG), and was continued under the German Presidency of 2017. The GFSG was specifically tasked to ‘develop options on how to enhance the ability of the financial system to mobilize private capital for green investment’.
- The International Financial Corporation - IFC is one of the world’s largest financiers of climate-smart projects for developing countries. Since 2005, IFC has invested USD 18.3 billion in long-term financing from its own account and mobilized another USD 11 billion through partnerships with investors for climate-related projects.

HOW big is the green bond market?

- From relative obscurity green bonds have slowly gained attention. European investment bank issued a USD 695 Mn (Euro 600Mn) bond in 2007 called climate awareness bond focusing on renewable energy and energy efficiency. However the returns were not fixed and were linked to an equity index making them a structured bond. A proper issue of green bond came out a year later in 2008.
- World Bank's International Bank for Reconstruction and Development issued the first green bond for SKR 3.35 Bn (USD 440 Mn) in 2008 in specific response to Scandinavian pension fund's request for seeking to invest in climate-focused projects.

Green Bonds issued since 2007 (USD Mn)



Source: Climate Bonds Initiative

References

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2. <https://www.climatebonds.net/cbi/pub/data/bonds>
3. <https://cleantechnica.com/2017/09/20/record-56-billion-green-bonds-issuance-witnessed-h1-2017/>

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