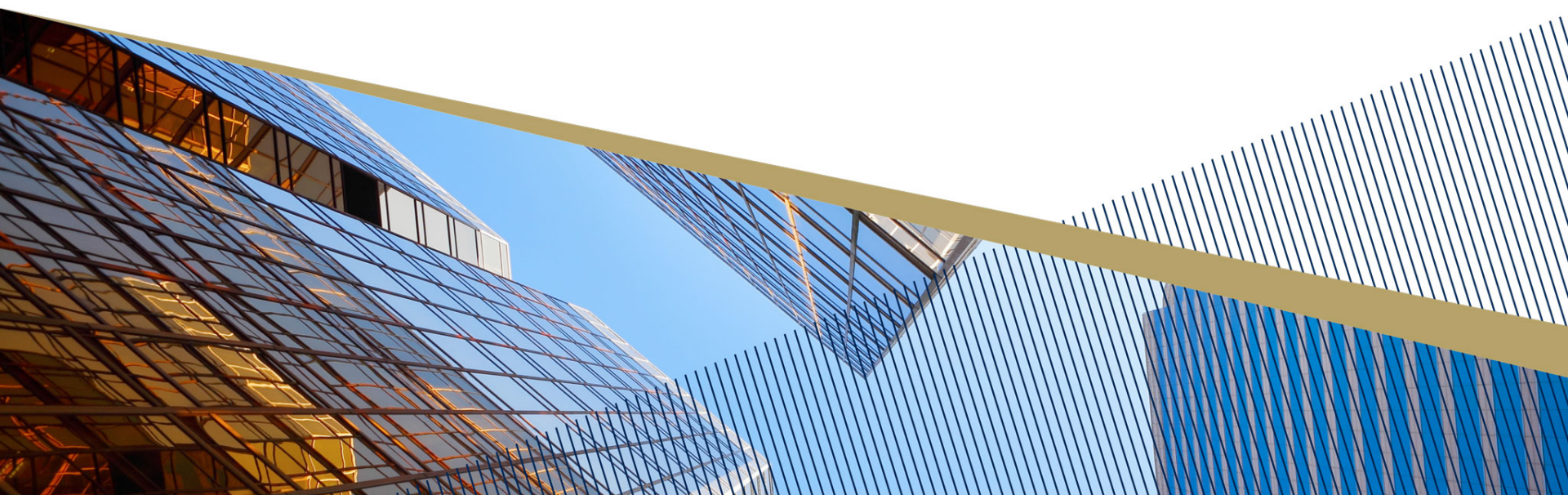


# Recent Developments in International Green Finance Principles

HKQAA Symposium  
May 2018



# The Challenge

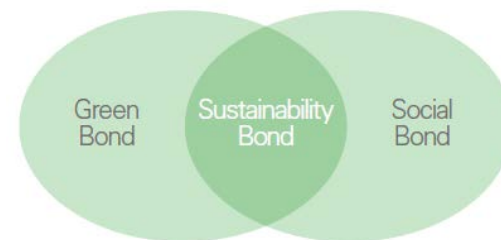
- The **transition to a sustainable global economy** requires scaling up the financing of investments that provide environmental and social benefits which bring about significant opportunity in the capital markets:
  - To reach the goals of the Paris Agreement, \$12.1 trillion will be needed over the next 25 years i.e. \$5.2 trillion above current business-as-usual projections\*
  - Achieving the Sustainable Development Goals (SDGs) will take between \$5 to \$7 trillion $\infty$  by 2030 and could open up \$12 trillion of market opportunities as well as create 380 million new jobs $\diamond$
- Only about 10% of current infrastructure investments come from the private sector $\infty$ . Conversely, almost \$100 trillion of funds are managed by institutional investors in OECD countries, of which only a minor percentage is invested in sustainable assets $\wedge$
- The recognition of this funding gap has led to the advent of bond products that incorporate **Environmental, Social and Governance (ESG)** themes also known as **Socially Responsible Investments (SRI)**. The bond markets through Green, Social and Sustainability Bonds can play an essential role in attracting private capital to finance these global needs



\*"Mapping the Gap: The Road From Paris", Bloomberg New Energy Finance, Ceres , 2016  
 $\infty$  The United Nations Conference on Trade and Development (UNCTAD)  
 $\diamond$  The Business & Sustainable Development Commission  
 $\wedge$  Institutional Investors: The Unfulfilled \$100 Trillion Promise – The World Bank

# Green, Social and Sustainability Bonds

- Green, Social and Sustainability Bonds are **any type of bond instrument where the proceeds will be exclusively applied to eligible environmental and social projects or a combination of both**
- The **Green Bond Principles (GBP)**, **Social Bond Principles (SBP)**, and the **Sustainability Bond Guidelines (SBG)**, referred to as the **“Principles”** have become the leading framework globally for issuance of green, social and sustainability bonds
- Green, Social and Sustainability Bonds are regulated instruments subject to the same capital market and financial regulation as other listed fixed income securities



Bond Type	Use of Proceeds
<b>Green Bond</b>	Finance projects with a clear environmental benefits (e.g. renewable energy, energy efficiency, climate change adaptation)
<b>Social Bond</b>	Finance projects that address social issues and/or seek to achieve positive social outcomes especially for a target population (e.g. poor, vulnerable, unemployed, uneducated etc.)
<b>Sustainability Bond</b>	Finance a mix of green and social projects



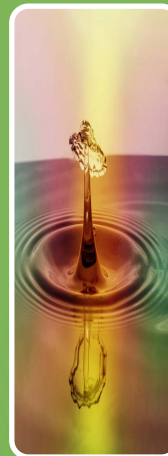
# Market Potential

- **Socially responsible, and ESG (environmental, social and governance)** investing is becoming a mainstream approach in financial markets
- Historically, sustainable investing has been largely more applicable in equity markets: 45% of fixed income investors integrate ESG analysis compared to 76% for listed equities\* but this is changing
- Over the last two years, **sustainable investments grew 25% to \$23 trillion** making up about a quarter of 'professionally managed' assets globally
- A combination of regulatory promotion and the trend of investors putting more emphasis on ESG values have driven the demand for scalable ESG bond products



Annual green bond issuance has multiplied 13x since 2013 to over \$155 billion in 2017

- The green bond label is being applied to a wider range of financial instruments:
- Fannie Mae's Green MBS and green tranches in REMICs
- First Green Sukuk (Tadau Energy – Malaysia)
- First labelled and Certified green loan (MEP Werke – Germany)
- First green tranches in a US CMBS deal (CSAIL 2017-C8)



Social and sustainability bond issuance has grown 17x since 2013

The launch of the Social Bond Principles and the Sustainability Bond guidelines in 2017 have correlated with increased issuance to a total \$38 billion

- 2017 social bond issuance volume almost 400% growth on 2016, 180% growth for sustainability bonds YoY
- Over 25 issuers have now issued Social and Sustainability Bonds including corporates and commercial banks

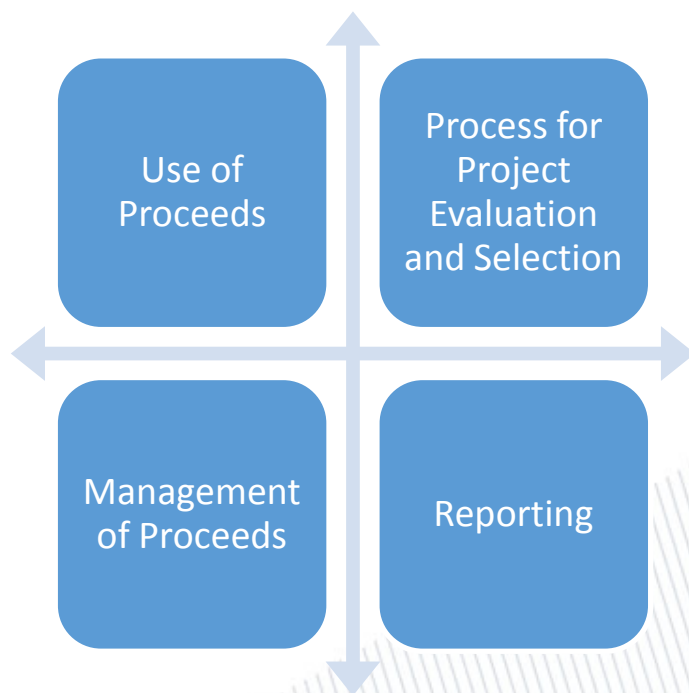
∅Global Sustainable Investment Alliance (GSIA) 2017

\*CFA, 2017

# Green Bond and Social Bond Principles

The common feature of green bonds, social bonds and sustainability bonds is their predetermined use of proceeds and voluntary alignment with four core components of the GBP and SBP.\*

**The GBP and SBP are based on four pillars and external review recommendations:**

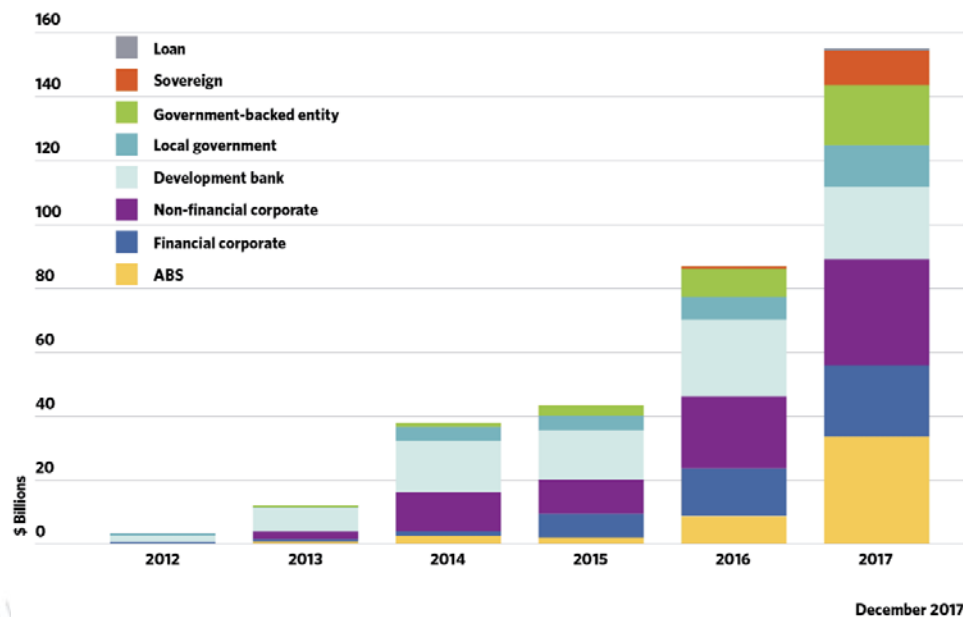
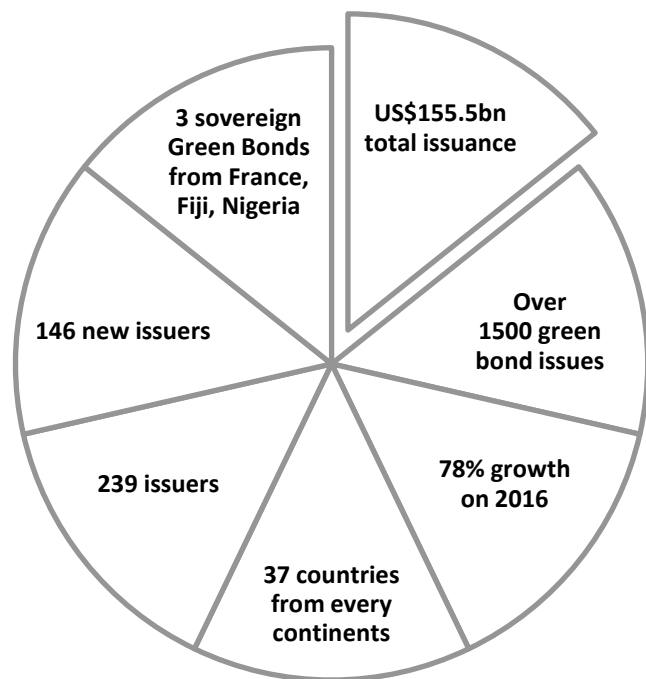


Under the Governance, it is the Executive Committee that decides on updates of the GBP and the SBP with the input of members and observers through annual consultations organised by the Secretariat

*\*Environmental Social and Governance (ESG) bonds also integrate governance criteria which are not featured in the GBP, SBP or SBG; and may refer to an issuers overall sustainability credentials rather than a specific use of proceeds.*

# Green Bonds – 2017 Market Review

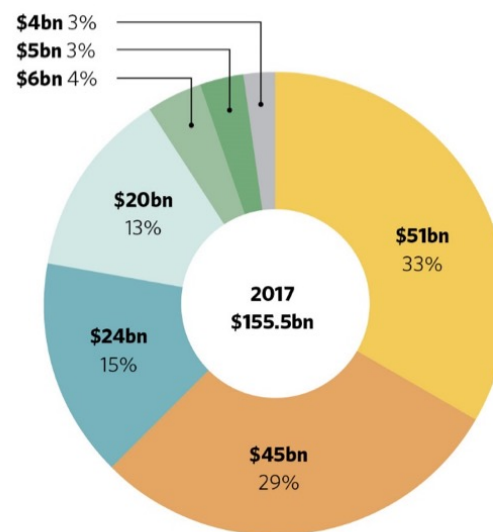
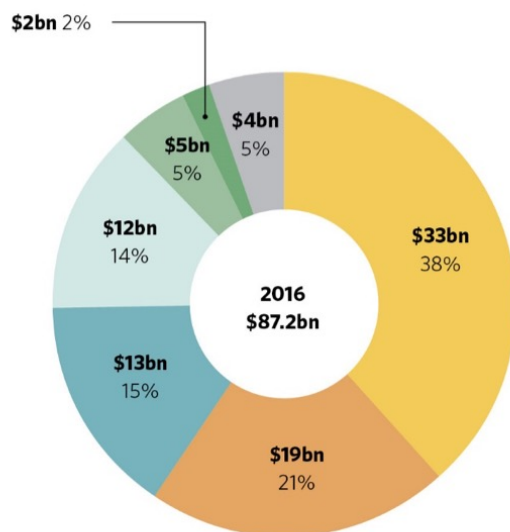
- **Largest bond issued** France's €7bn inaugural green OAT (US\$10.7bn)
- 3 regions account for over half (56%) of issuance: United States (US\$ 37.8bn, China (US\$ 30.7bn), France (US\$ 19.4bn)



Source: CBI/ SEB

# Green Bonds – Use of Proceeds in 2017

- Investments in **Renewable Energy** continue to be the most common use of proceeds
- Allocations to **Low Carbon buildings and Energy Efficiency** rose 2.4 times year-on-year
- **Waste, Land Use & Adaptation** themes continue to be smallest, partly because of ongoing debate on what qualifies

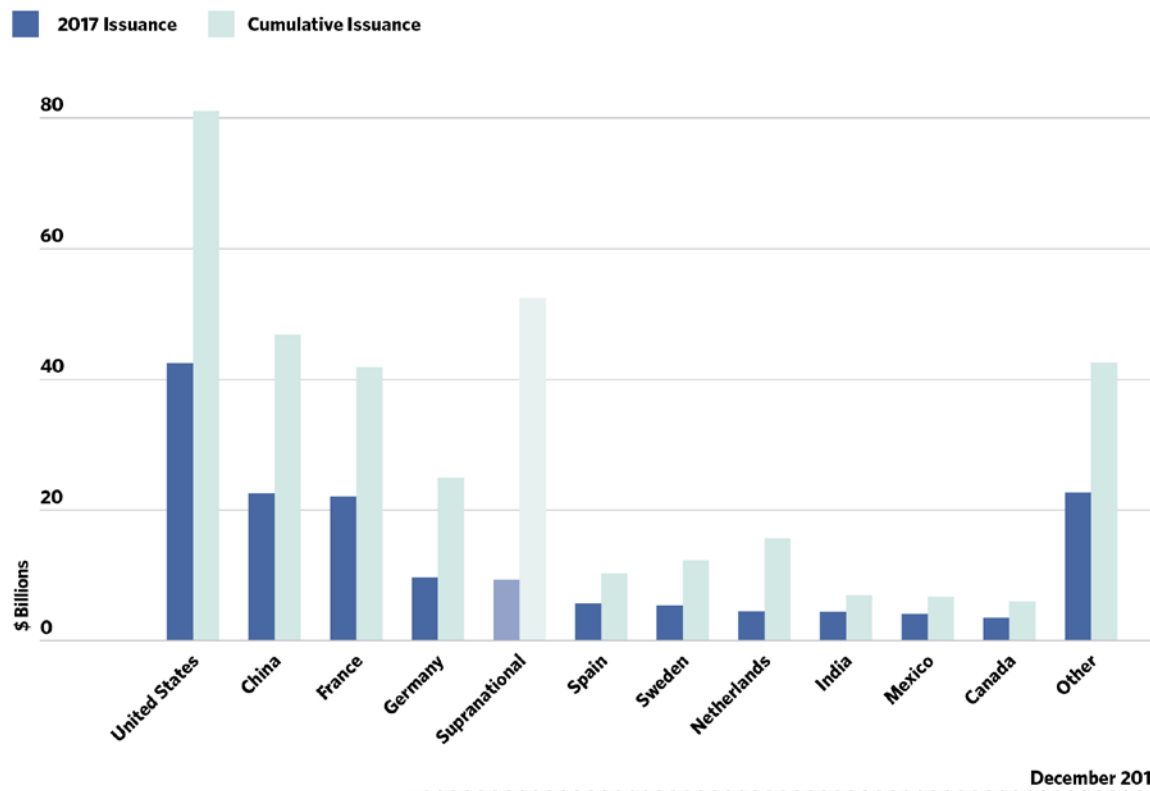


December 2017



# Green Bonds – Geographic Diversity

- The **US, China** and **France** led the way accounting for **56%** of global issuance
- Largest overall issuer was **Fannie Mae** with US\$24.9bn from their **Green MBS** programme





# Social Bond Landscape

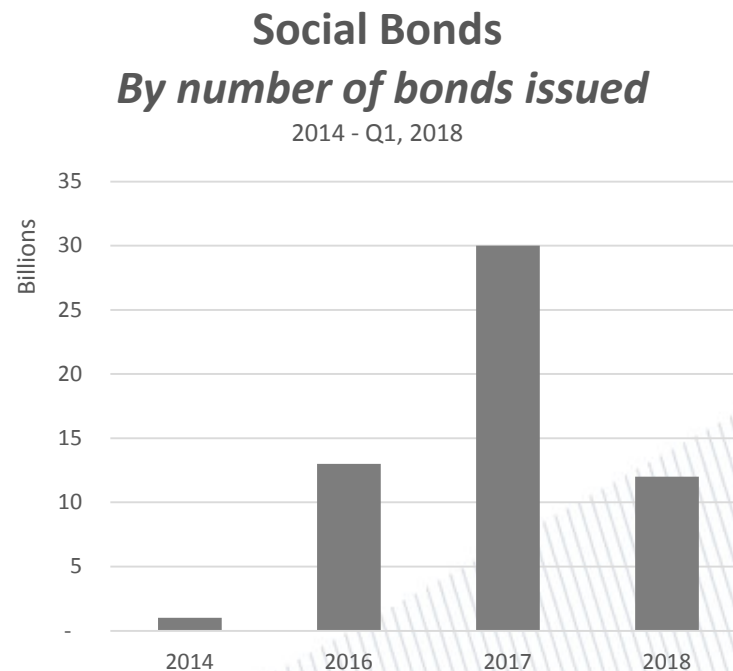
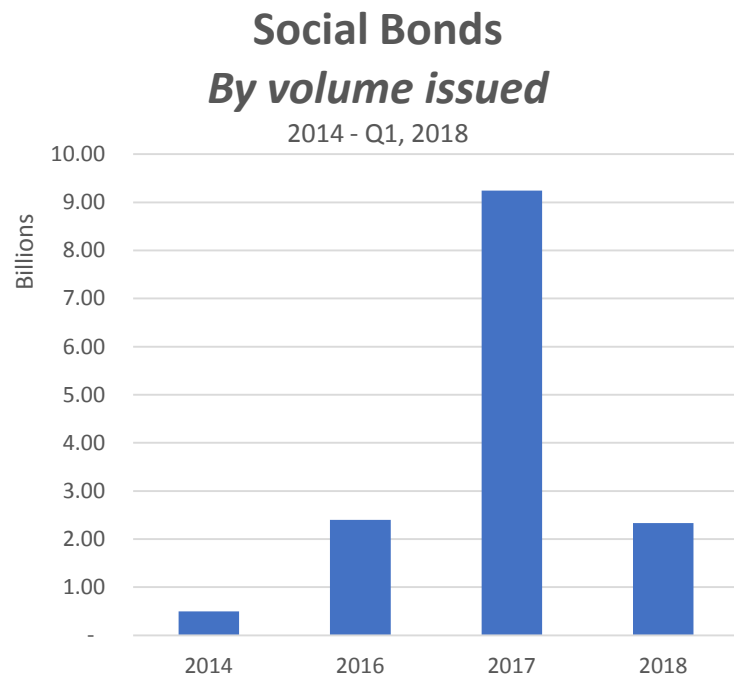
Proceeds from recent social bonds have financed diverse projects and investments with positive social objectives, including:

- Access to essential services such as utilities, water, transport etc. for those at the base of the economic pyramid
- Affordable housing
- Access to finance for women
- Education
- Employment / job creation
- Fair trade for small scale farmers
- Health care
- Microfinance
- Loans to small and medium enterprises

## Recent Social Bond Issuers (as at April 2018)



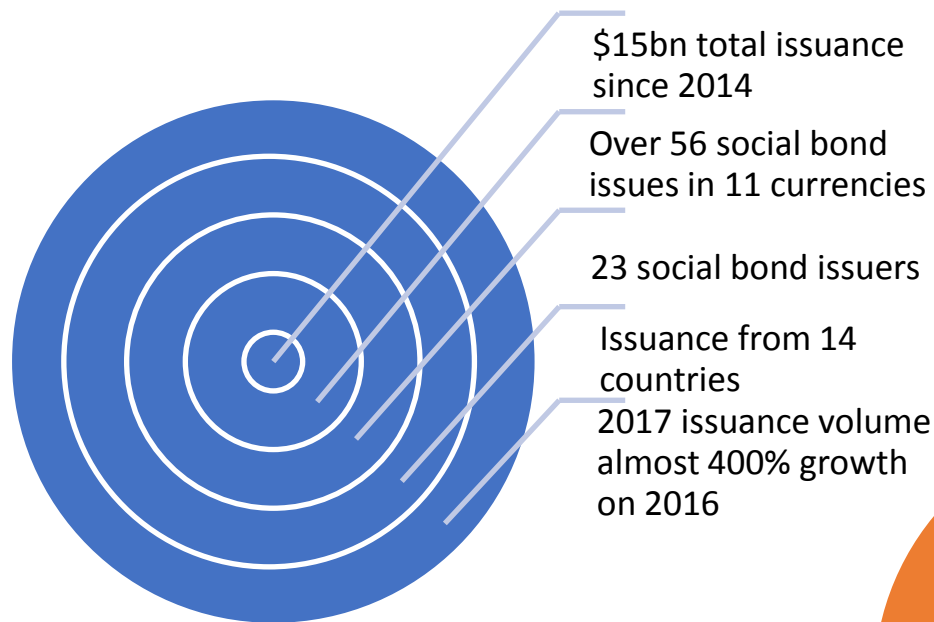
# Social Bonds – Market Review



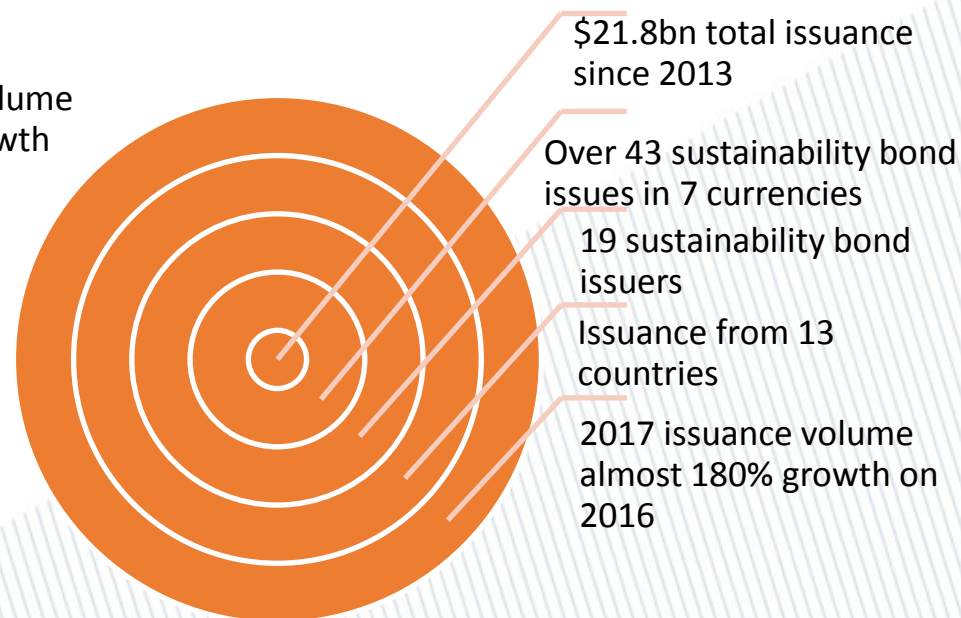
- In Q1 2018, social bond issuance amounted to \$2.3bn from 12 trades in 5 currencies, i.e. 130% increase from volume issued in Q1 2017

# Social and Sustainability Bond Market Highlights

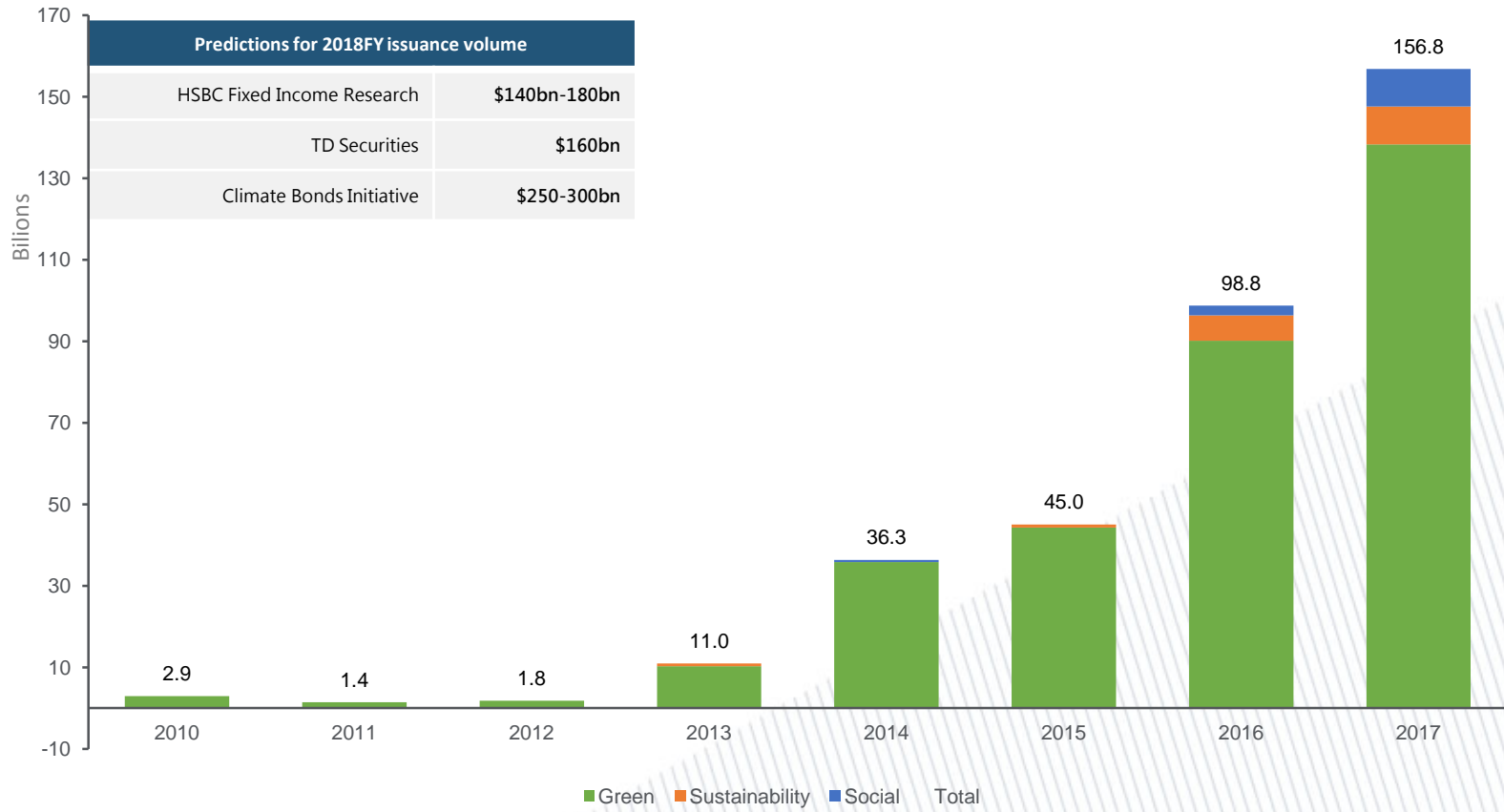
## Social Bonds Market



## Sustainability Bonds Market



# Green, Social & Sustainability Bond Issuances





# Challenges

Despite the impressive growth of the labelled Green, Social and Sustainability bond markets, there are a few market challenges:

- The creation of agreed **sustainability classifications and taxonomies** would aid definition of eligible projects
- Instituting **standards and labels** for sustainable assets would enhance identification of for investments, financing or securitisation
- Harmonising quantitative and qualitative sustainability metrics for **impact reporting** would improve the quality of investment impact information to investors
- **Diversifying the risk profile of bonds issued** beyond use-of-proceeds green and social bonds through financial innovation, credit enhancements etc could result in more liquidity and product range



# Market Developments – Taxonomies / Standards

- The **development and tracking of green finance activities** is gaining momentum while that for social is emerging
  - Several issued green bond guidelines and regulations have now built on the framework of the GBP
  - The GBP/SBP working groups focus efforts on understanding taxonomies across different initiatives and developing reporting and impact assessment models




## Green and Social Bond Principles Secretariat

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