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SUMMARY

- Green bonds are well suited for large-scale sustainability projects such as wind and solar development, which often require capital investment ahead of revenues, and which generate modest revenue over a longer investment horizon
- Those looking to purchase green bonds should be looking for a clear goal from the issuer of what they are hoping to achieve and a timetable for reporting back on progress.

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OPINION & ANALYSIS

Why green bonds must deliver on environment goals

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MARINE LIFE. GREEN, SUSTAINABILITY AND BLUE (RELATED TO OCEAN AND WATER IMPACTS) BONDS ARE RELATIVELY NEW FINANCIAL VEHICLES. FILE PHOTO | NMG

Green bonds are an excellent way to secure large amounts of capital to support environmental investments that may not otherwise be available, or that may be uneconomic using more expensive capital.

They also allow fixed-income investors to both fulfil their investment objectives and make a positive impact on the environment.

Green bonds are well suited for large-scale sustainability projects such as wind and solar development, which often require capital investment ahead of revenues, and which generate modest revenue over a longer investment horizon.

Back in 2011, when the green bond market was tiny, development banks such as the World Bank were the only issuers on the scene so it was relatively easy for investors to assess the credibility of the bond, as the market has grown, attempts have been made to set standards and help investors be sure their money really is helping to tackle climate change.

Green Bonds are similar or the same as traditional bonds in terms of deal structure, but they have different requirements for reporting, auditing and proceed allocations.

Aligning with the principles can help companies tailor their sustainability strategy to the investor audience, as well as provide an opportunity to create performance indicators to ensure the use of green bond proceeds.

Many investors also prefer if a green bond has a second party opinion, which requires issuers to define the sustainability initiatives that will be financed by the green bond and how they will measure that performance.

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Green Bonds enable capital-raising and investment for new and existing projects with environmental benefits. The Green Bond Principles (GBP), updated as of June 2017, are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond.

The GBP are intended for broad use by the market: they provide issuers guidance on the key components involved in launching a credible Green Bond; they aid investors by ensuring availability of information necessary to evaluate the environmental impact of their Green Bond investments; and they assist underwriters by moving the market towards standard disclosures which will facilitate transactions.

Investors are increasingly demanding socially responsible investment (SRI) opportunities and have expressed a strong appetite for green bonds by repeatedly oversubscribing issuances.

While retail investors demand sustainable investments from their brokers and fund managers, institutional investors are using green bonds to address ESG (Environment, Social, Governance) mandates that, before Green Bonds, had been a struggle to address with fixed-income tools.

As a result, green bond issuances have attracted new types of investors, providing a potential market for future issuances.

Issuing this emerging security type sends a strong, pro-active message to stakeholders while attracting a new investor base in the fixed-income market with a low-risk vehicle.

While green, sustainability and blue (related to ocean and water impacts) bonds are relatively new financial vehicles, it is unlikely their growth will slow down.

Green Bonds also provide county governments with an ideal opportunity to develop Public-Private-Partnerships (PPPs) to accelerate the advancement of new technologies and energy efficiency.

For those who recognise the potentially significant effects that climate change may have on companies and governments in the future, the idea that adding exposure to green bonds may have minimal immediate impact to a portfolio's risk and return profile may represent a free option to hedge climate-related risks.

Green bond issuers are addressing these risk factors, and in the case of project or revenue bonds, bond payments are directly tied to a green project.

In a world where investors start to place a significant price on environmental risks, green bonds may provide protection versus a bond portfolio that does not take these factors into account.

READ: [Banks set for first bond to fund green investments](#)

Many investors are aware of the problem of climate change, but translating that awareness into investment decisions is usually seen as a major challenge.

However, many investors say that given the same conditions in terms of time and investment, they would choose green bonds over brown ones due to the climate change solution opportunities they offer. So transparency remains a key concern.

Investors should look for a clear and measurable mandate from the issuer on how it plans to invest their money, and then find out how often the issuer plans to report back.

READ: [Kenya must fully tap potential of green bonds](#)

As well as ensuring the money went where the issuer promised, you should also seek to find out if the bond had the desired climate impact. In short, did it deliver on the greenhouse gas reductions that it promised?

Again, those looking to purchase green bonds should be looking for a clear goal from the issuer of what they are hoping to achieve and a timetable for reporting back on progress.

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