

Green Bonds and Climate Finance: Marketing or Substance

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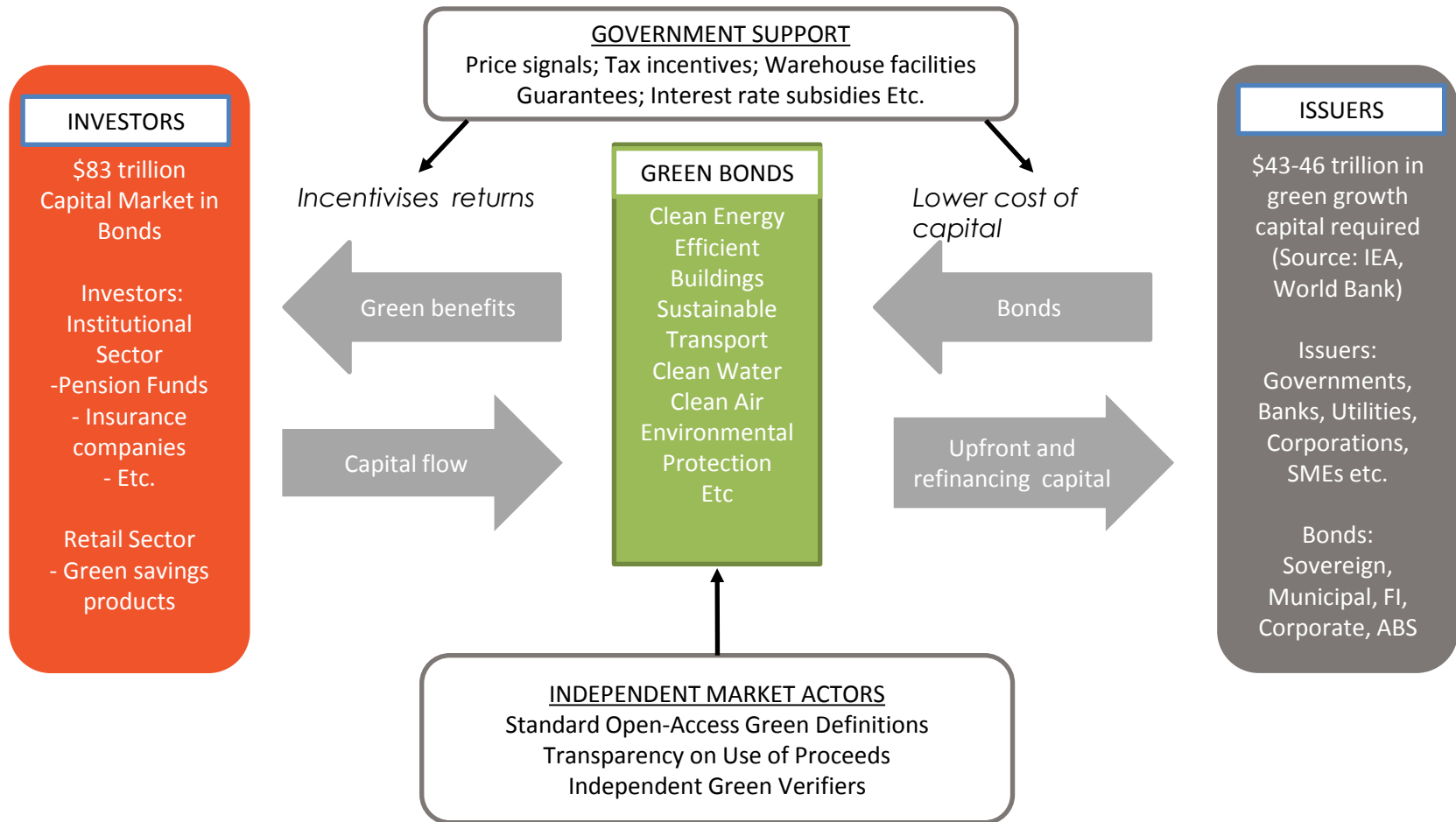
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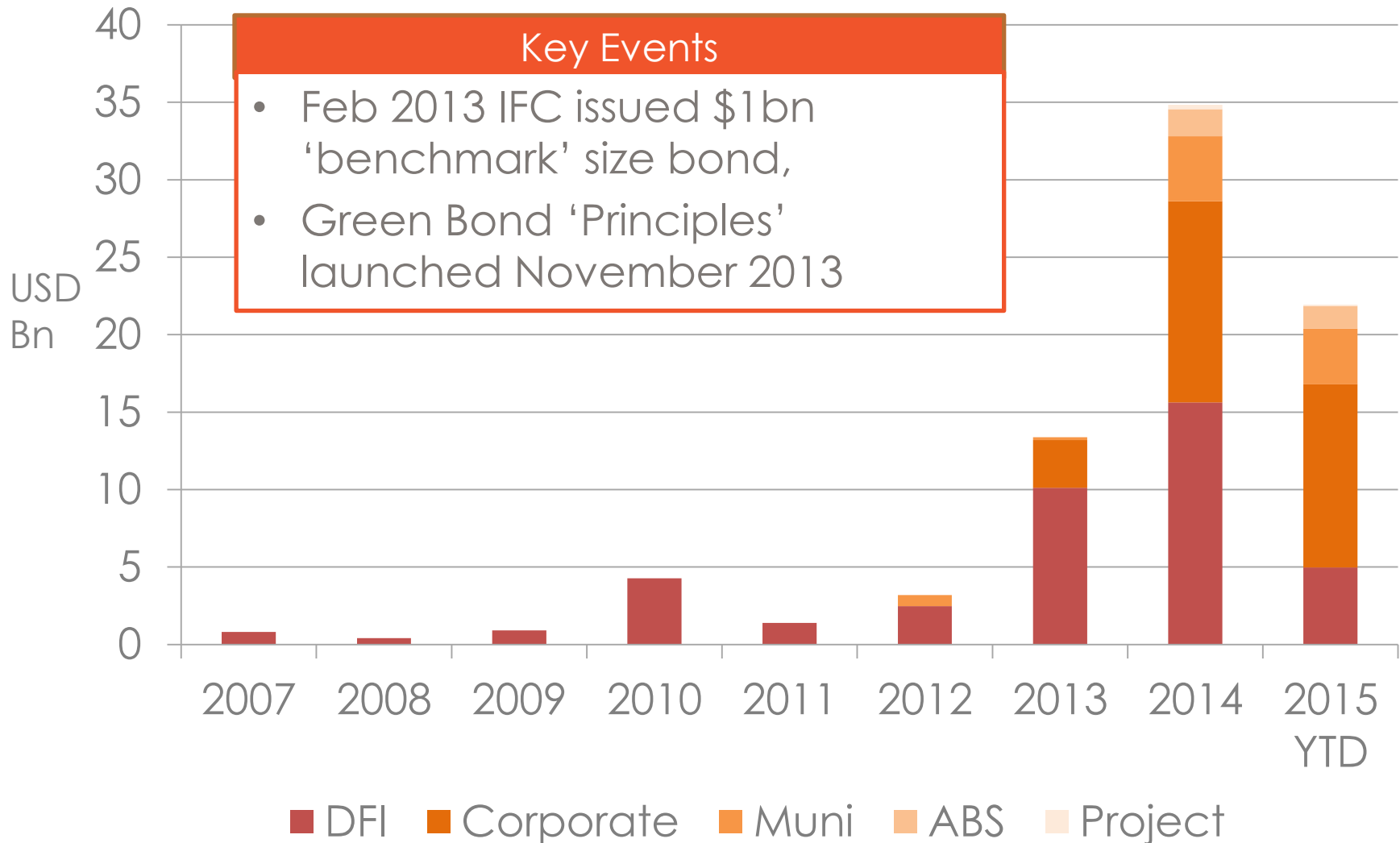
Introduction to Green Bond Market

The Basics

- Green Bonds are **same as any bond** or debt security, except **use of proceeds** are for green/climate/sustainable purposes



Green Bonds market grew 3X in 2013/2014



Green bond principles - Market goes mainstream

ISSUERS

UNDERWRITERS

INVESTORS

Pre-GBP
(Nov 2013)
Market
“Leaders”

EIB; World Bank
EBRD, ADB, AfDB,
IFC
French regions
sustainability
bonds

SEB
Credit Agricole
Daiwa

Japanese Retail
(Uridashi)
AAA SSA
investors

Post-GBP
Market
“Early
adopters”

EDF, GDF Suez,
Iberdrola
REITs
Toyota
Unilever
SolarCity
Massachusetts
Etc,

BAML
JPM
Morgan Stanley
Citi
+20 more
Organise GBP
ICMA governance

Five Investors
with \$1bn
commitment
Oversubscriptions
above the norm

Who are the Police?

VERIFIERS/AUDITORS

SERVICE PROVIDERS

Pre-GBP
(Nov 2013)
Market
“Leaders”

CICERO (Oslo)
CBI Climate Bond
Standard on auditing use
of proceeds and green
definition



CBI Market Sizing
Reports
BNEF Green Bonds
outlook



Post-GBP
Market
“Early
adopters”

ICMA: GBP
Vigeo (ESG rating
agency)
DNV GL
Sustainalytics
Oekom
Big 4

Solactive Index
MSCI ESG Fixed Income
SSGA

No standardised definitions and methodologies

Climate Finance Market Test

Testing effective climate finance markets

1. Environmental Integrity

- What is the financing being used for?
- Is it a new source of finance?
- Is the financing resulting in mitigation/adaptation outcomes?

2. Market effectiveness

- What is traded?
- Who sets the rules?
- What are the drivers of demand and supply?

Example: Emissions trading/CDM

Environmental Integrity

- Programmatic/Project based methodologies
- Additionality Test ensuring the finance would not have flowed otherwise (is new)
- Verification Test ex-ante measurement of reduced emissions

Market Effectiveness

- Emission reduction units, a new commodity
- High-level centralised governance through UNFCCC or ETS body
- Supply and Demand dynamics driven by policy-set caps/targets

Applying the tests to the Green Bonds market

Environmental Integrity

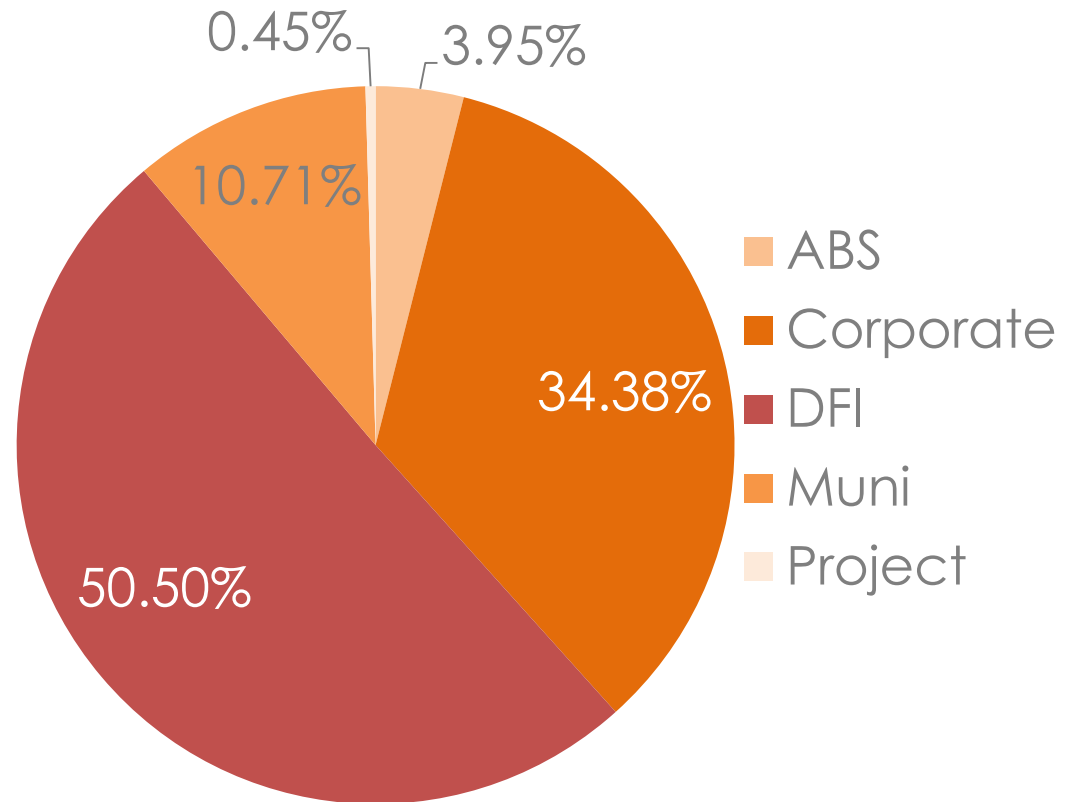
- Use of proceeds linkage without standard methodology
- Not a new source of finance
- Voluntary measurement of impacts by various metrics:
 - Emission reductions
 - Energy installed, energy saved
 - Etc.

Market Effectiveness

- Bonds (Trust)
- Self-governed, loose guidance from Green Bond Principles
- Supply and Demand dynamics driven by investors through ?
 - Profit? **X**
 - Risks? **X**
 - Values **Y** (Marketing?)

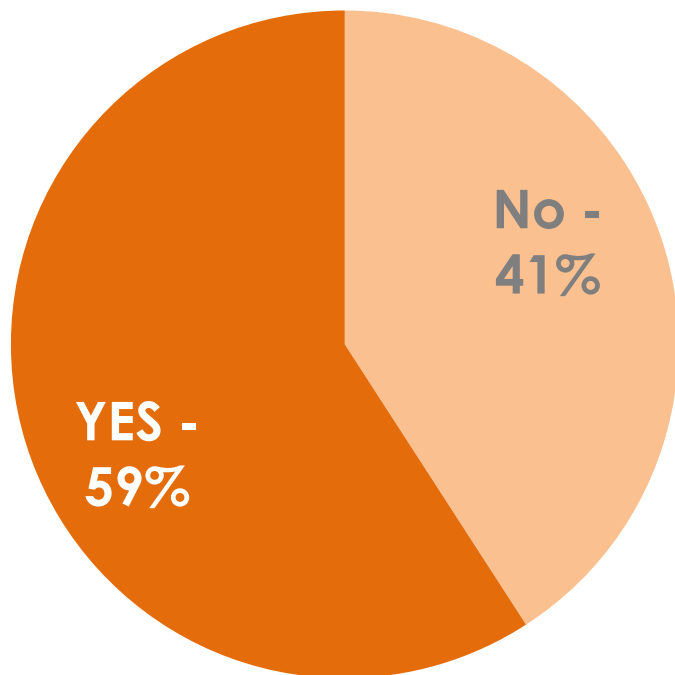
Going deeper into substance: Additionality

- Question mark over whether 90% of Green Bonds are new money
- Municipalities raise debt for new builds

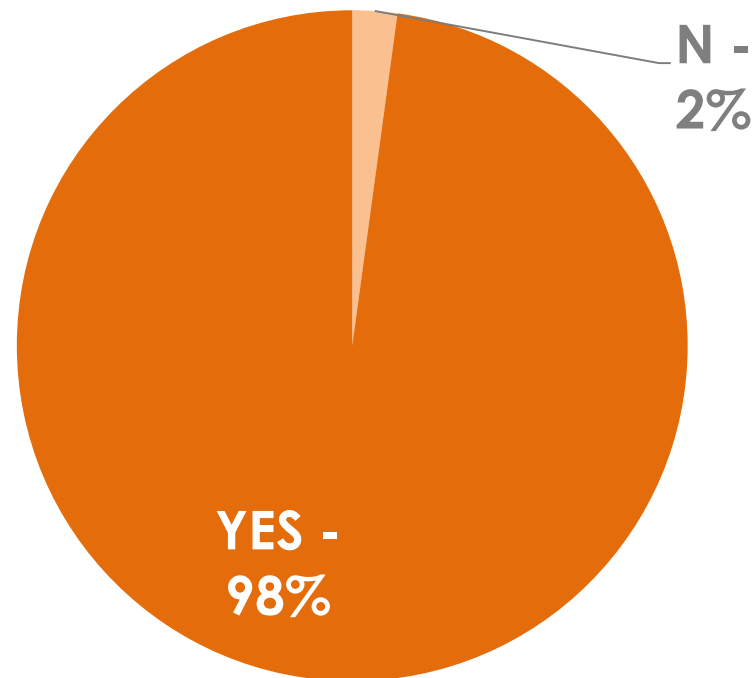


Going deeper into substance: Verification

Amount issued with
Second Opinions
(Pre-issuance of bond)



Amount issued with
reporting
(Annual or periodical)



Questions

- Can the market drive new flows of financing?
OR
- Are we looking at it the wrong way?
 - New finance for climate projects
VS
 - Greening existing financial system

Many Thanks!

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