

# How green bonds accelerate the shift to sustainability



For many green bond issuers, the only future lies in the sustainable economy. They are setting their sights on achieving the global net zero target for 2050 by 2040 or even earlier.

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Surprisingly for many, Poland became the first country to issue a green bond in December 2016, winning the race ahead of France, which had already announced in April 2016 that it would launch a green-linked instrument in the capital markets.

In the capital markets, states, local authorities and companies raise billions every year to finance projects, mainly through institutional investors.

Poland is not your normal green crusader. The EU member state is known for coal mining and poor air quality. It also regularly reaches Earth Overshoot Day<sup>1</sup> in May. As Mathis Wackernagel, inventor of the concept of the carbon footprint, says - post-May Poland is living on credit. Translated to finances, from May it runs a budget deficit.

## Likewise, Switzerland and many other countries have already used up their entire annual ecological budget by May.

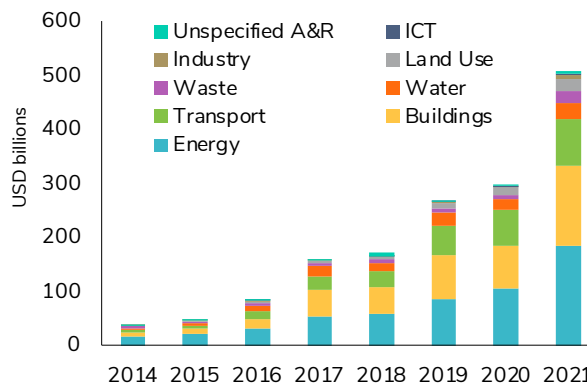
Switzerland is still in the preparatory phase and plans to issue its first green bonds only at the end of 2022<sup>2</sup>. France has issued over 54 billion in green bonds since 2017, financing green projects. Meanwhile, Germany issued an innovative green bond in 2020 that has exactly the same maturity as its non-green counterpart.

This shows how big an interest rate difference the two different bonds have. In fact, the difference in terms of yield is only 0.05 percent, which is very small. Other countries have already advanced their transition to sustainability by issuing green bonds: Fiji (first Green Bond as of 2017), Nigeria (2017), Indonesia (2017), Belgium (2018), Lithuania, (2018), Ireland, (2018), Chile (2019), the Netherlands (2019), Hong Kong (2019), Hungary (2020), Sweden (2020), Egypt (2020), Italy (2021), Spain (2021), Serbia (2021), Colombia (2021), South Korea (2021) United Kingdom (2021), Canada (2021) and Austria (2021).

### What is financed with the money?

Around two thirds of the funds raised are used for the energy and construction sectors. The energy sector mainly includes measures for electricity and heat. Companies from the private sector seem to be taking very specific measures to reduce the energy they consume. Apple, for example, has invested around USD 1.1 billion from a total of USD 2.5 billion in green bonds in the development park in Cupertino and other sustainable buildings. This alone enables the company to save 1.2 million tonnes of CO2 emissions annually. At the same time, renewable energy production facilities with a capacity of 571 megawatts were installed, 91,000 tonnes of waste were avoided, 360 million litres of water were saved, and several other measures were achieved thanks to the issuance of the green bond.

### Use of Proceeds



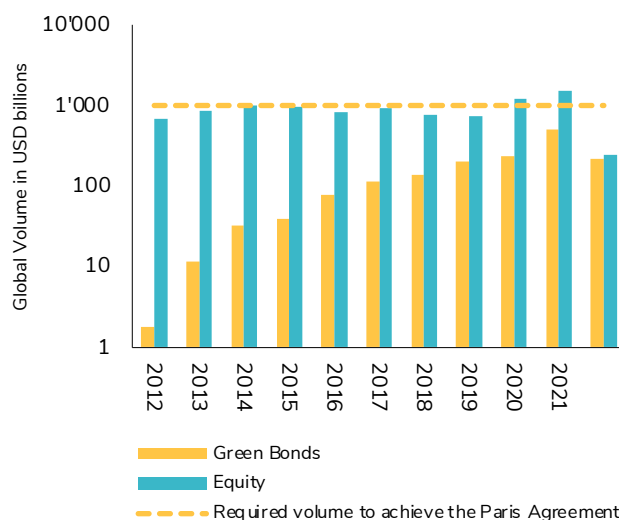
Source: Climate Bonds Initiative, London

### Why are so many issuers are racing to issue green bonds?

- Since mid-2014, the International Capital Market Association (ICMA) has acted as secretary of the Green Bond Principles (GBP).
- GBP are voluntary guidelines for the issuance of green bonds that were jointly drawn up by market participants with the aim of promoting transparency and integrity in the green bond market.
- Novelty: Green bonds are purpose-built investments, but essentially, they built on the tried and tested format of bonds.

What sounds unspectacular, with formal language such as "secretary" and "voluntary guidelines", has led to a quiet and silent revolution. For who would have thought 10 years ago that one day the fresh money for green projects would be the same or even more than that for all the freshly subscribed shares worldwide? This turning point seems to have come as early as 2022. The chart below shows how rapidly the green bond market has developed since 2012.

### Fresh money in Equity and Green Bond markets, globally



Source: Bloomberg LEAG tables

1. According to the Global Footprint Network, Earth Overshoot Day is the day in the current year when human demand for renewable resources exceeds the Earth's supply and capacity to reproduce those resources in that year.
2. On behalf of the Federal Council, the Federal Finance Administration (FFA), in collaboration with the Department of the Environment, Transport, Energy and Communications (DETEC), will develop a framework for the emission of "Green Confederates" and submit it to the Federal Council for decision by the end of 2022

## Are the volumes sufficient?

The International Energy Agency estimates that an investment volume of USD 1 000 billion per year is necessary to achieve the energy transition. The Climate Bonds Initiative from London has also set itself the goal of achieving an annual volume of over USD 1 000 billion for green bonds as quickly as possible. The non-profit organisation acts as an intermediary and advises countries and companies on how to issue green bonds.

While the UN Climate Council and the Climate Youth are justifiably making massive demands to combat climate change quickly and consistently, the international political will is geared towards achieving net zero by 2050 at the earliest. Fortunately, many issuers of green bonds see a future only in a sustainable economy and are aiming for net zero by 2040 or earlier. With this voluntary and, in terms of volume, massive but silent transformation, the hope remains that a transition to more a more sustainable economy with the help of the financial markets will be easier than many thought.

## For further information

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