Greening the capital market

*How green bonds support a greener recovery in ASEAN*

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Sustainability Bonds: the growth is just starting
Green Bond Principles have four core components:

1. Use of proceeds
2. Process for Project Selection
3. Management of Proceeds
4. Reporting
Plus various options for External Review
The Climate Bonds Taxonomy identifies the assets and projects needed to deliver a low carbon economy and gives GHG emissions screening criteria consistent with the 2-degree global warming target set by the COP 21 Paris Agreement. More information is available at [https://standard.climatebonds.net/taxonomy](https://standard.climatebonds.net/taxonomy).

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<thead>
<tr>
<th>ENERGY</th>
<th>TRANSPORT</th>
<th>WATER</th>
<th>BUILDINGS</th>
<th>LAND USE &amp; MARINE RESOURCES</th>
<th>INDUSTRY</th>
<th>WASTE</th>
<th>ICT</th>
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<tr>
<td>Solar</td>
<td>Private transport</td>
<td>Water monitoring</td>
<td>Residential</td>
<td>Agriculture</td>
<td>Cement production</td>
<td>Preparation</td>
<td>Broadband networks</td>
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<td>Wind</td>
<td>Public passenger transport</td>
<td>Water storage</td>
<td>Commercial</td>
<td>Commercial Forestry</td>
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<td>Reuse</td>
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<td>Geothermal</td>
<td>Freight rail</td>
<td>Water treatment</td>
<td>Products &amp; systems for efficiency</td>
<td>Ecosystem conservation &amp; restoration</td>
<td>Glass production</td>
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<td>Bioenergy</td>
<td>Aviation</td>
<td>Water distribution</td>
<td>Urban development</td>
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<td>Biological treatment</td>
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<td>Water-borne</td>
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<td>Supply chain management</td>
<td>Fuel production</td>
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<td>Nature-based solutions</td>
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<td>Transmission &amp; distribution</td>
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- Certification Criteria approved
- Criteria under development
- Due to commence
How to finance “Credible Transitions”

5 principles for an ambitious transition

1. In line with 1.5 degree trajectory
   All goals and pathways need to align with zero carbon by 2050 and nearly halving emissions by 2030.

2. Established by science
   All goals and pathways must be led by scientific experts and be harmonised across countries.

3. Offsets don’t count
   Credible transition goals and pathways don’t count offsets, but should count upstream scope 3 emissions.

4. Technological viability trumps economic competitiveness
   Pathways must include an assessment of current and expected technologies. Where a viable technology exists, even if relatively expensive, it should be used to determine the decarbonisation pathway for that economic activity.

5. Action not pledges
   A credible transition is backed by operating metrics rather than a commitment/pledge to follow a transition pathway at some point in the future. In other words, this is NOT a transition to a transition.
Global corporate and sovereign issuance is growing

Diversifying use of proceeds: Transport, Industry, ICT rise in 2019

Green Bonds are growing everywhere in Asia

Source: Climate Bonds Initiative
The process of issuance for a bond

#### Generalised process for issuing a regular bond

- **Get a credit rating:** S&P, Moodys, etc..
- **Get market intelligence on currency, tenor, size**
- **Decide on underwriters:** Lead arranger (JP Morgan, Citibank...)
- **Register with local regulator:** FCA, SEC...
- **Issue prospectus:** EMMA website for Municipal bonds, Investor pages..
- **Comfort letter / due diligence**
- **Outreach through roadshows (sales)**
The extra steps for green bond issuance

Extra steps for issuing a green labelled bond

- Define Green/Social/Sustainable Bond Framework
- Identify projects and assets to be associated with the bond
- Put in place project selection process and select eligible projects
- Set up accounts and process to earmark and allocate proceeds
- Get pre-issuance external review
- Prepare roadshow materials and bond documents for green label
Key players in the green bond issuance process

- **The issuer, its clients and its suppliers**
  - Greening the supply chain
  - Using green as a differentiating marketing tool to increase available market

- **The issuer and its advisors**
  - Auditors
  - Third Party advisor: CBI-approved verifiers
  - Board & Regulator approval
  - Rating Agency

- **The investment bank as arranger and underwriter**
  - Access to investors
  - Rating advice
  - Book-building and Pricing
  - Secondary Trading

- **The investors**
  - Non-deal roadshow: an opportunity to gauge investment appetite
  - Multilateral (ADB, IFC, AIIB, etc.) can be anchor investors
The steps to issuance

1. Prepare the bond
   - Identify assets that meet the relevant sector criteria and compile supporting information
   - Create Green Bond Framework setting out how proceeds of the bond will be used

2. Engage a verifier
   - Engage an Approved Verifier for pre- and post-issuance Certification
   - Provide them with relevant information
   - Receive a Verifier’s Report giving assurance that Climate Bonds Standard requirements are met

3. Get Certified & issue a Certified Climate Bond
   - Submit the Verifier’s Report and Information Form to the Climate Bonds Initiative
   - Receive a decision on pre-issuance Certification
   - Issue your bond, using the Certified Climate Bond mark

4. Confirm the Certification post-issuance
   - Within 12 months of issuance, submit the Verifiers post-issuance report
   - Receive notification of post-issuance certification

5. Report annually
   - Prepare a simple report each year for term of the bond
   - Provide it to bond holders and Climate Bonds Initiative
Why use green bonds for a green recovery?

1. They marry environmental concerns with economic growth and global finance: feature on mainstream investment manager agendas.

2. Green bonds are about ‘grey-to-green’ business adaptation and TRANSITION, i.e. about strategy. This moves the discussion from CSR to CEO/CFO.

3. They are a conduit into national debates about countries’ sustainable development pathways and similarly for companies.

4. They allow future value to be translated into present capital for investments.

5. Green bonds involve an unprecedented global collaboration across interest groups: buy-side, sell-side, politics, academics, civil society.

6. Bonds are well understood instruments, so this is a way to build the market quickly, before moving on to more challenging areas: EM, decarbonizing banks’ loan books etc.
Benefits for the issuer

- **Investor diversification** – low-carbon integrity of the bond attracts a much broader base of investors

- **Lower cost of capital** – green bonds enable issuers to raise large amounts of capital to support environmental investments that may not otherwise be available or may have been funded using expensive capital

- **High oversubscription** – strong demand for green bonds generally outstrip supply

- **Stickier Pool of Investors** – Green Bond Investors invest to the long term, matching maturity with project life

- **Tighter yields** – there is a view that stronger pricing will be achieved for future green bond issuance

- **Green flavor** – enhances issuer reputation
Reach Out!

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