Green bonds: mobilising bond markets for a low-carbon transition

Green bonds are an instrument which is used to finance green projects that deliver environmental benefits. These bonds have gained considerable prominence in recent years as one way to finance the transition to a low-carbon economy. With growing market appetite for such bonds, annual issuance rose from just USD 3 billion in 2011 to USD 95 billion in 2016\(^1\), and issuance in 2017 is breaking the record once again.

Green bonds can provide various benefits for both issuers and investors, as discussed in the recent OECD report “Mobilising Bond Markets for a Low-Carbon Transition”. The report also provides quantitative analysis which estimates that low-carbon bonds can potentially reach USD 4.7-5.6 trillion in outstanding securities and USD 620-720 billion in annual issuance by 2035 under the IEA’s 2 degree scenario\(^2\). While these figures may seem large on an absolute basis, they are small (approximately 4%) relative to the scale of debt securities markets in general – in 2014 USD 19 trillion of bonds were issued in the four markets and USD 97 trillion of outstanding debt securities were held globally. In these deep pools of capital, there is plenty of room for the green bond market to grow.

As the green bond market evolves, it faces a range of challenges and barriers. This session will discuss those barriers and policy options to further develop green bond markets. The issues will include:

- Pros and cons of developing common international criteria, or promoting further harmonisation of criteria, relating to the “green-ness” of green bonds, and how and whether this should be pursued. A convergence of approaches may be needed to avoid confusion, inefficiency and the risk of “greenwashing” where bonds are sold as “green bonds” but projects financed by those bonds do not deliver expected green benefits. In addition to existing international guidelines such as the Green Bond Principles (which clarify the approach for the issuance of a green bond), the Climate Bonds Standard (which provides eligibility criteria for assets and projects that can be used for “Climate Bonds” and green bonds), an increasing number of countries are introducing national guidelines relating to eligibility criteria and green definitions. Introducing a taxonomy and a standard at the European level is also on the agenda of the European Union, as evidenced in the interim recommendations of the High-level Expert Group on Sustainable Finance.

Furthermore, third party auditors and providers of “second opinions” on green bonds have

\(^1\) OECD (2017), *Mobilising Bond Markets for a Low-Carbon Transition*

\(^2\) For three sectors: renewable energy, energy efficiency in buildings and low-emission vehicles; and in four markets: China, the European Union, Japan and the United States. The bonds may include both labelled green bonds and unlabelled low-carbon bonds.
differing methodologies for assessing the “green-ness” of a green bond issuance. In this context of differing approaches, policy makers are faced with the challenge of developing green guidelines and standards without imposing overly stringent requirements that could raise issuance costs. Striking a balance between securing market confidence and reducing green transaction costs will be critical.

- Improving transparency of the green bond market. Reporting on the use of proceeds is required by the Green Bond Principles and attached to most green bond issuances but the scope and nature of reporting vary. In particular, there are differing approaches for reporting on the green impact of a green bond, and for how and whether to monitor that impact in the years following issuance.

- More diverse channels and markets for green bonds. These include green securitisation and other innovative channels; further usage of green bonds by cities and municipalities; more sovereign issuance following Poland (December 2016) and France (January 2017); and targeting diverse investors including retail (individual) investors.

- Promoting green bonds in emerging and developing economies is essential to increase the size of the market and bolster green finance in these economies. New initiatives such as the IFC-Amundi green bond fund for emerging markets are coming into play.

Useful links

- Climate Bonds Standard (Climate Bonds Initiative): www.climatebonds.net/standards/about.