

**I4CE**

INSTITUTE FOR  
CLIMATE  
ECONOMICS

Une initiative de la Caisse des Dépôts et  
de l'Agence Française de Développement

# Beyond transparency: unlocking the full potential of green bonds

18 November  
2016

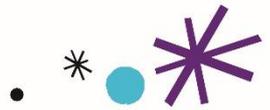
Ian COCHRAN

Program Director – Finance, Investment and Climate

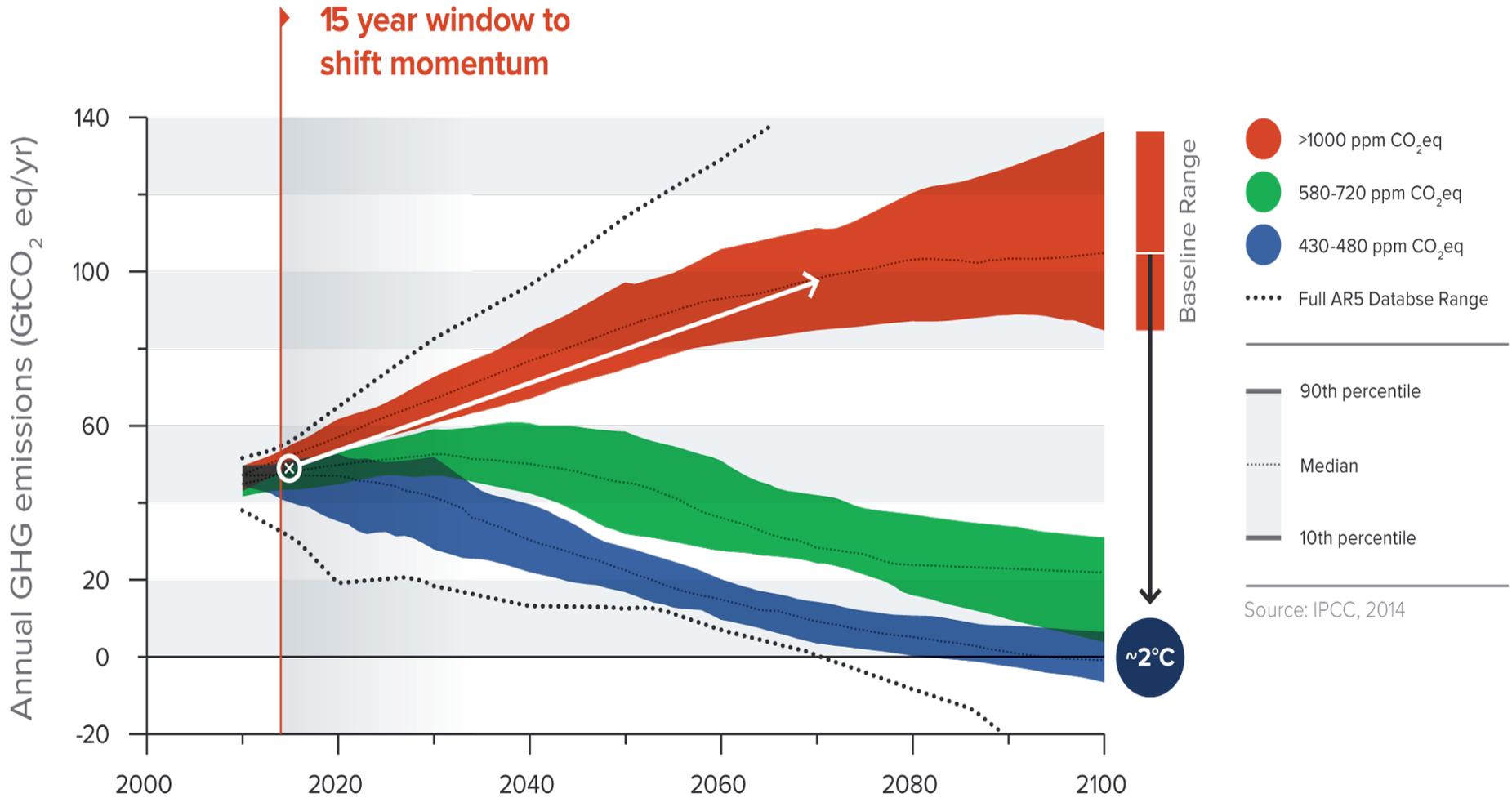
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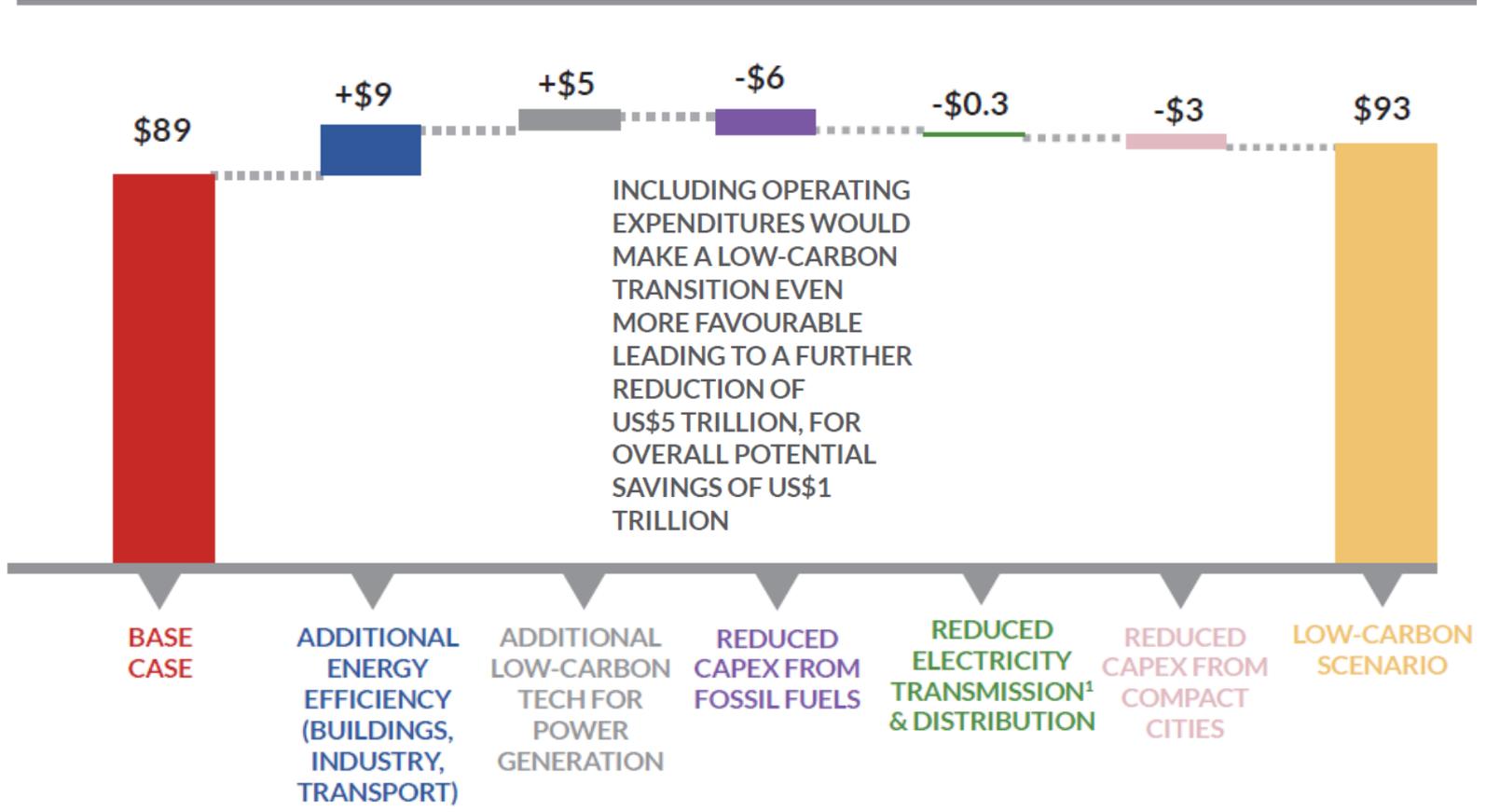
The Mirova logo features a stylized purple asterisk-like symbol with a blue dot above it, followed by the word "mirova" in a lowercase serif font, and "Responsible Investing" in a smaller, purple, sans-serif font below it.  
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# Emission pathways



# Next 15 years will be critical to 'shifting the trillions'

GLOBAL INVESTMENT REQUIREMENTS, 2015 TO 2030,  
 US\$ TRILLION, CONSTANT 2010 DOLLARS



Source: New Climate Economy Report (2014)

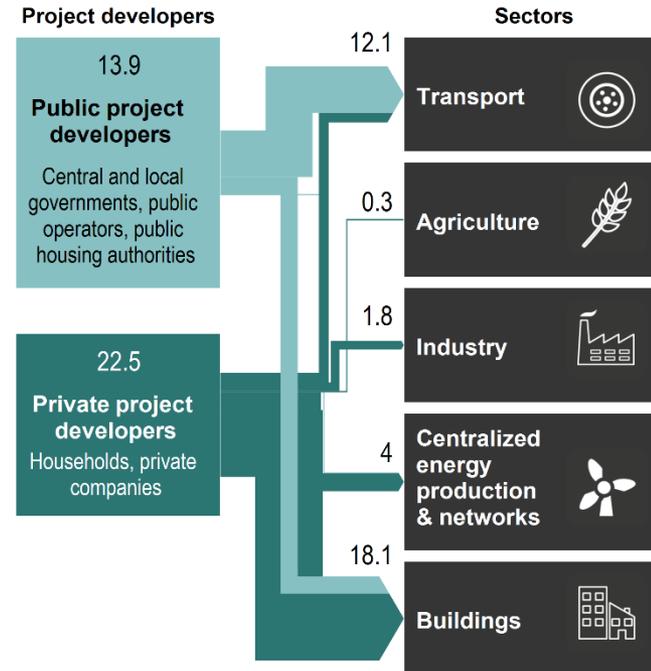
# A domestic financial value chain from sources to projects

## Sources & Intermediaries



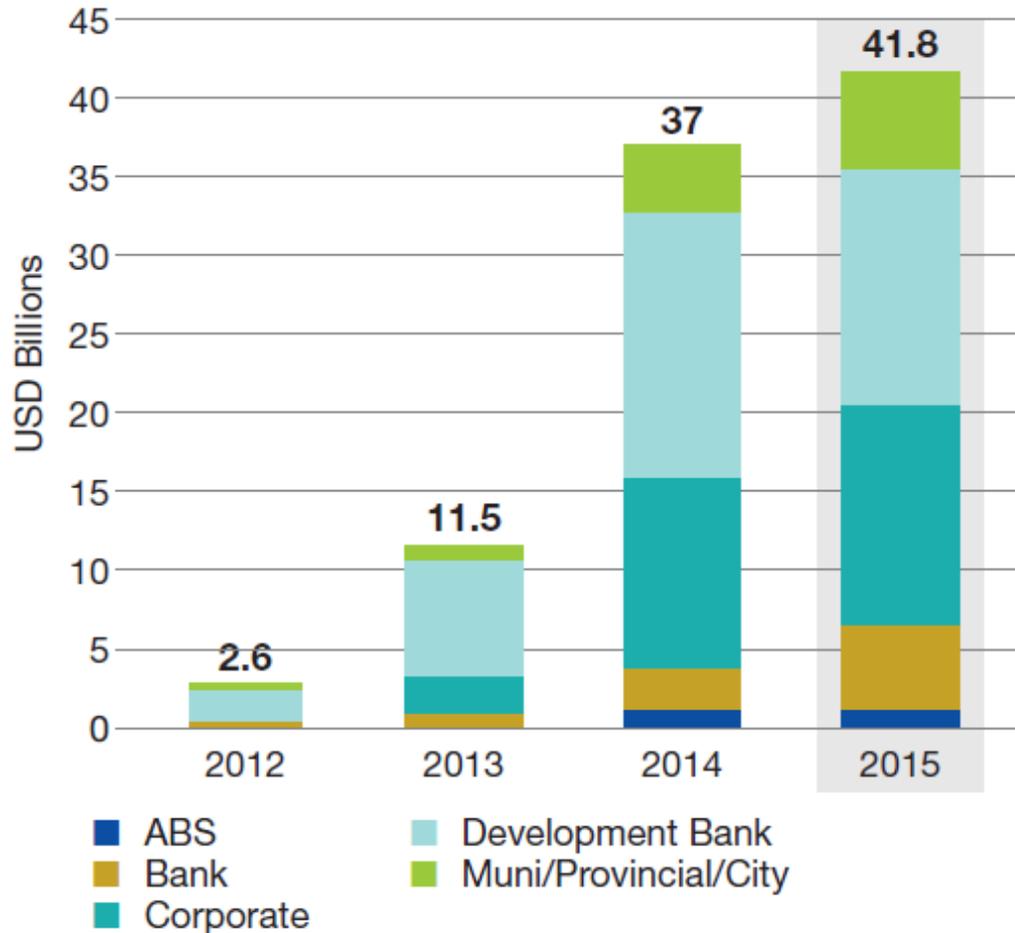
## Landscape of Climate Finance in France, in 2013

In billion current euros



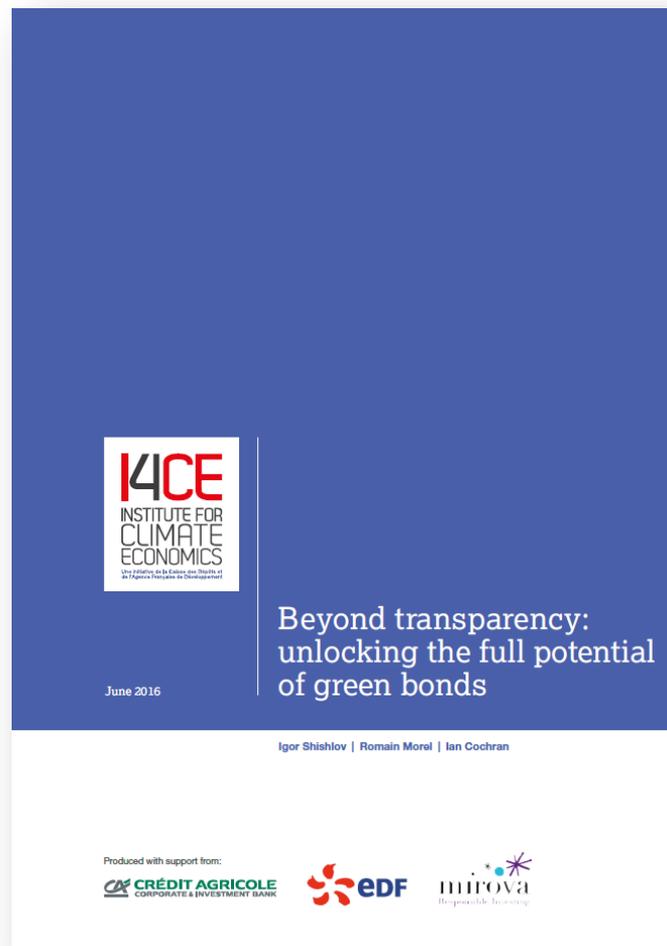
I4CE - Institute for Climate Economics, Landscape of Climate Finance in France, 2015 edition

# The green bond market is soaring



# Beyond transparency: *unlocking the full potential of green bonds*

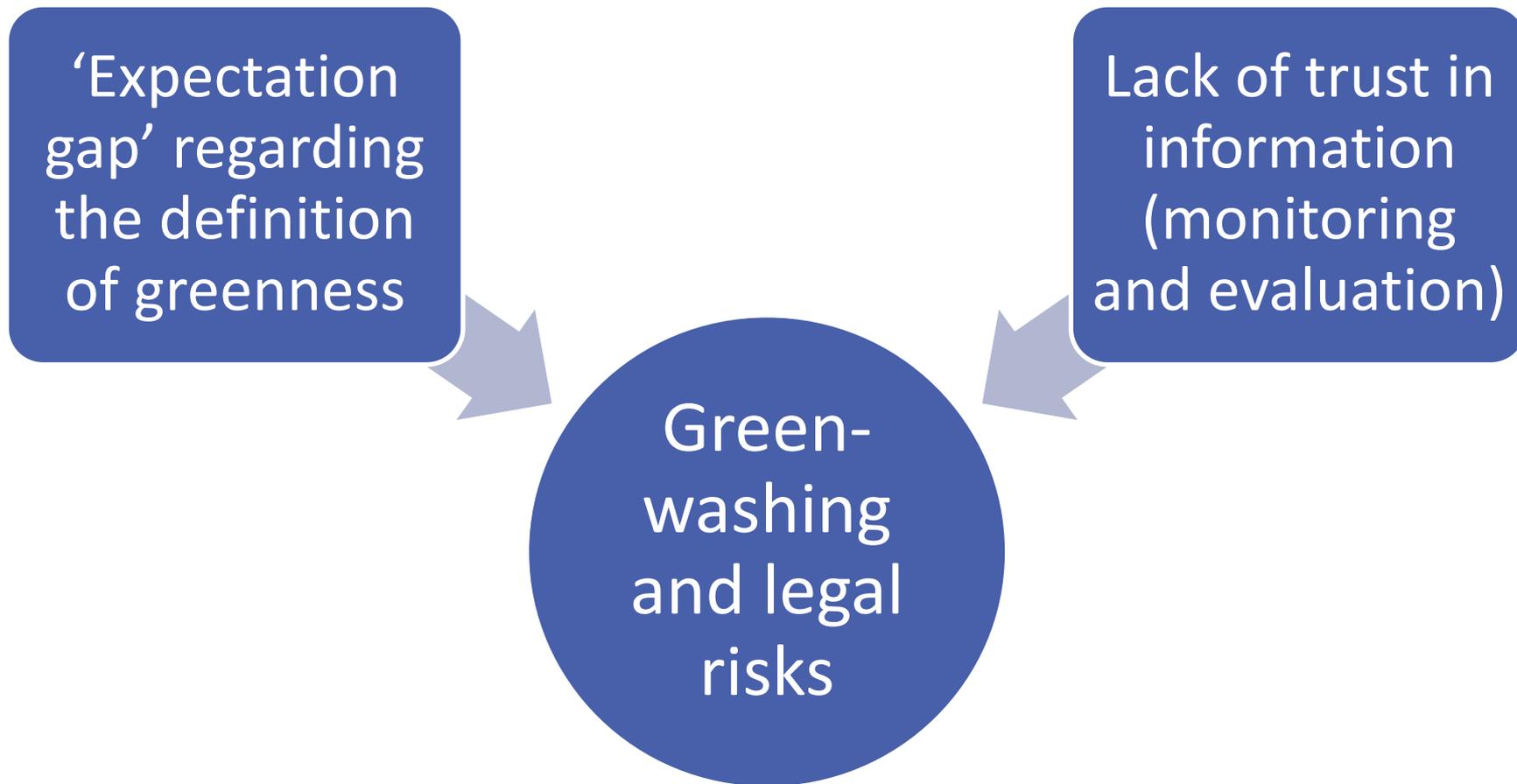
- **What is the current contribution of this 'soaring' market?**
- **How to ensure environmental integrity and safeguard transparency benefits?**
- **Can green bonds go 'beyond transparency' and provide net environmental impacts?**
- **Additional financing for the low-carbon transition?**
- **What needs to happen next?**



# The added value of transparency on environmental integrity of underlying assets

Actor	Benefits of green bonds
<b>Issuers</b>	<ul style="list-style-type: none"> <li>✓ Communicating the sustainability strategy</li> <li>✓ Improving and broadening relationship with debt providers</li> <li>✓ Internal synergies (finance and sustainability)</li> </ul>
<b>Investors</b>	<ul style="list-style-type: none"> <li>✓ Developing better-informed investment strategies</li> <li>✓ Smooth implementation of long-term climate strategies</li> <li>✓ Helping responsible investors broaden their portfolios</li> </ul>
<b>Public</b>	<ul style="list-style-type: none"> <li>✓ Indirectly supporting the low-carbon transition (better match green issuers and investors)</li> <li>✓ Potentially 'lock in' climate policies (French sovereign bonds)</li> </ul>

# Existing transparency benefits at risk



Aggravated by the ongoing diversification...

# How to safeguard existing transparency benefits?

Challenge	Market / Governments	Governments
The 'expectation gap' regarding the definition of 'greenness'	<ul style="list-style-type: none"> <li>Clearly <b>lay out the objectives of different standards</b> to define 'greenness'</li> </ul>	<ul style="list-style-type: none"> <li>Clarify <b>investment areas compatible</b> with long-term low-carbon strategies</li> <li>Publicly <b>endorse or create standards</b> that are aligned with these strategies</li> </ul>
Transparency risk related to monitoring and reporting procedures	<ul style="list-style-type: none"> <li>Further market convergence around the <b>enhanced transparency frameworks</b></li> <li>Reinforce the <b>standardized practices</b> (e.g. through GBP) keeping costs in check</li> </ul>	<ul style="list-style-type: none"> <li>Support the <b>issuance of green bonds by public institutions</b> driving best practices</li> <li>Mandate similar <b>disclosure requirements</b> for all asset-linked bonds</li> </ul>

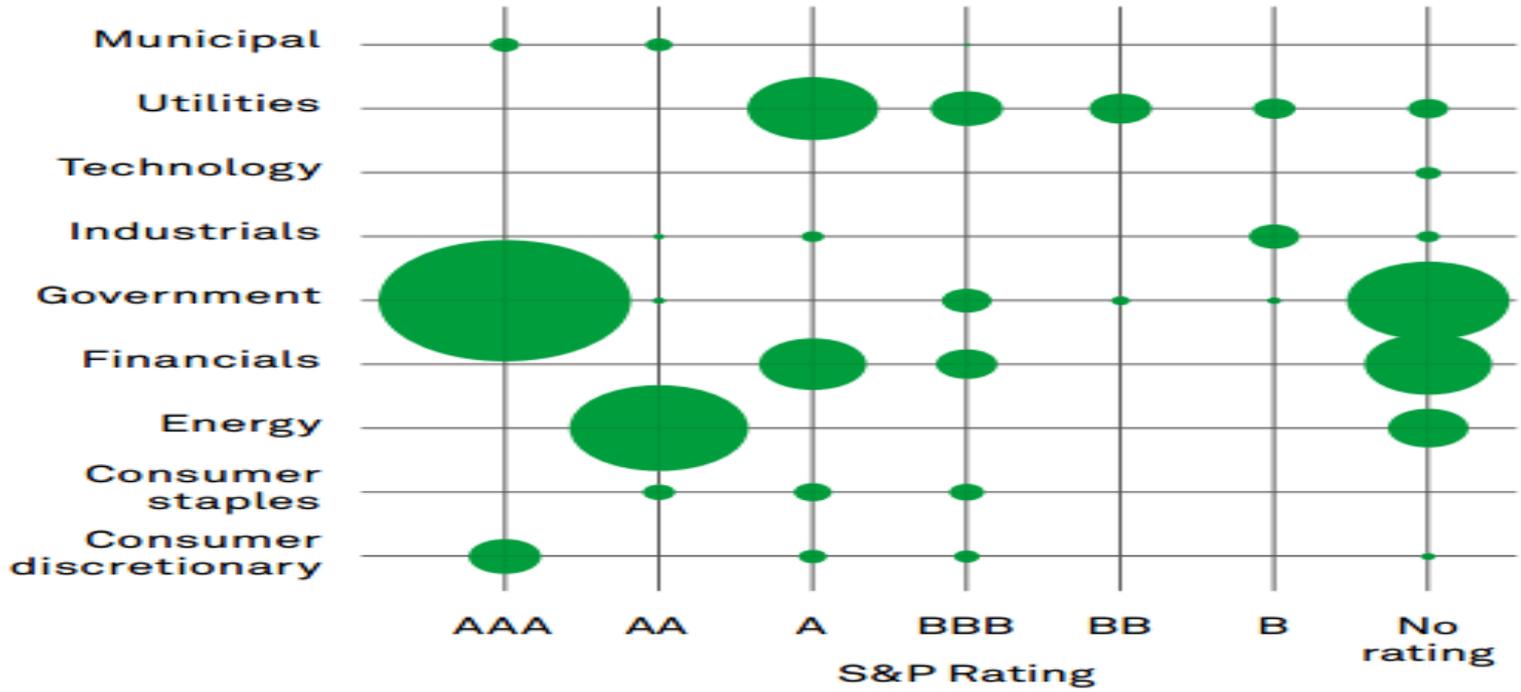
# But can green bonds be more than a 'snapshot' of the 'state of transition'?

- Currently the main role of green bonds is to **provide information to stakeholders**
- There is **no direct financial benefit** to underlying projects compared to traditional bonds
- Green bonds **do not shift the investment flows** by themselves
- Rather, **green bonds reflect the existing green investment** supply-demand structure

# But financial additionality is not that simple....

## Green bonds

Outstanding green bonds by sector and rating, 2015



Sources: BlackRock Investment Institute and Bank of America Merrill Lynch, November 2015.

# What roles 'beyond transparency' on environmental integrity of investments?

- **Improving the financial conditions for transition-coherent investments and entities:**
  - **Reducing the 'cost' and improving 'terms' of capital provision** for projects often perceived as **'risky'**
  - **Ensuring full subscription** for entities that are unable to do so today
  - **Increasing access** to the bond market for **smaller projects** and/or entities with **lower credit ratings**
- **How could this occur in practice?**
  - Increasing **'committed demand'** from institutional investors
  - Tools: **securitization** and asset aggregation; **credit enhancement**
  - Direct **public support** schemes?

# The 'AAA' of rationales for public intervention

Desired contribution of the green bond market	Eligibility and monitoring requirements
<p><b>Alignment:</b> investment with national LCCR development strategy</p>	<p><i>Coherence check through a positive list of eligible activities or a black-list of excluded activities</i></p>
<p><b>Access:</b> Financing eligible underrepresented or underfunded activities</p>	<p><i>'Average additionality' through identification of sectors that require public support and ex-post reporting on mitigation outcomes</i></p>
<p><b>Additionality:</b> Maximizing the 'environmental leverage' of green bonds and ensuring individual additionality</p>	<p><i>Project-by-project additionality demonstration and ex-post quantification of mitigation outcomes</i></p>

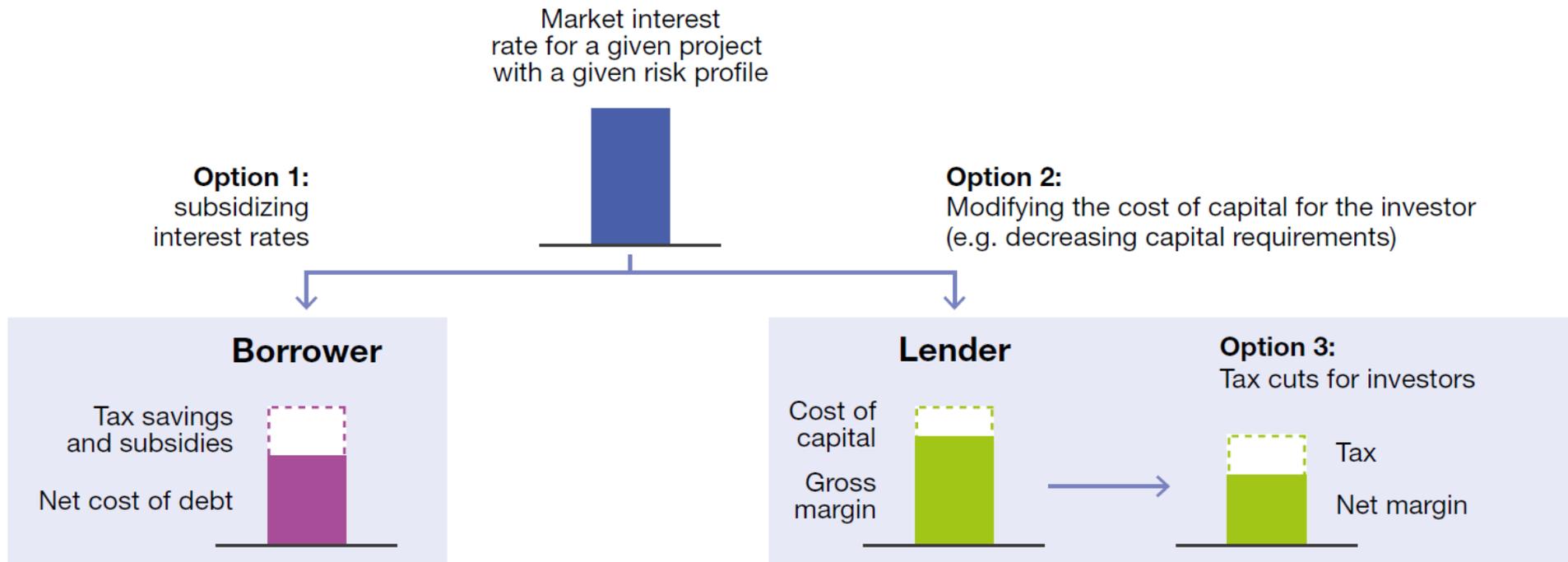
# Questions moving forward:

- How to build on current practice to drive **market convergence on enhanced definition and transparency framework?**
- How to strike a **balance between stringency and transaction costs** with regards to the evaluation of mitigation outcomes and ex-post reporting?
- **What role for governments to align the green bond market** with investment projects coherent with **long-term low-carbon and climate resilient strategies?**
- How can green bonds go **beyond a 'snapshot of the state of the transition' to directly stimulated green investments**, e.g. by lowering the cost of capital and improving financial conditions?
- What are the **benefits and risks from the use of public support schemes?**
- What issues need to be key when thinking about the **stringency of selection of green bonds eligible for public support?**

# APPENDIX

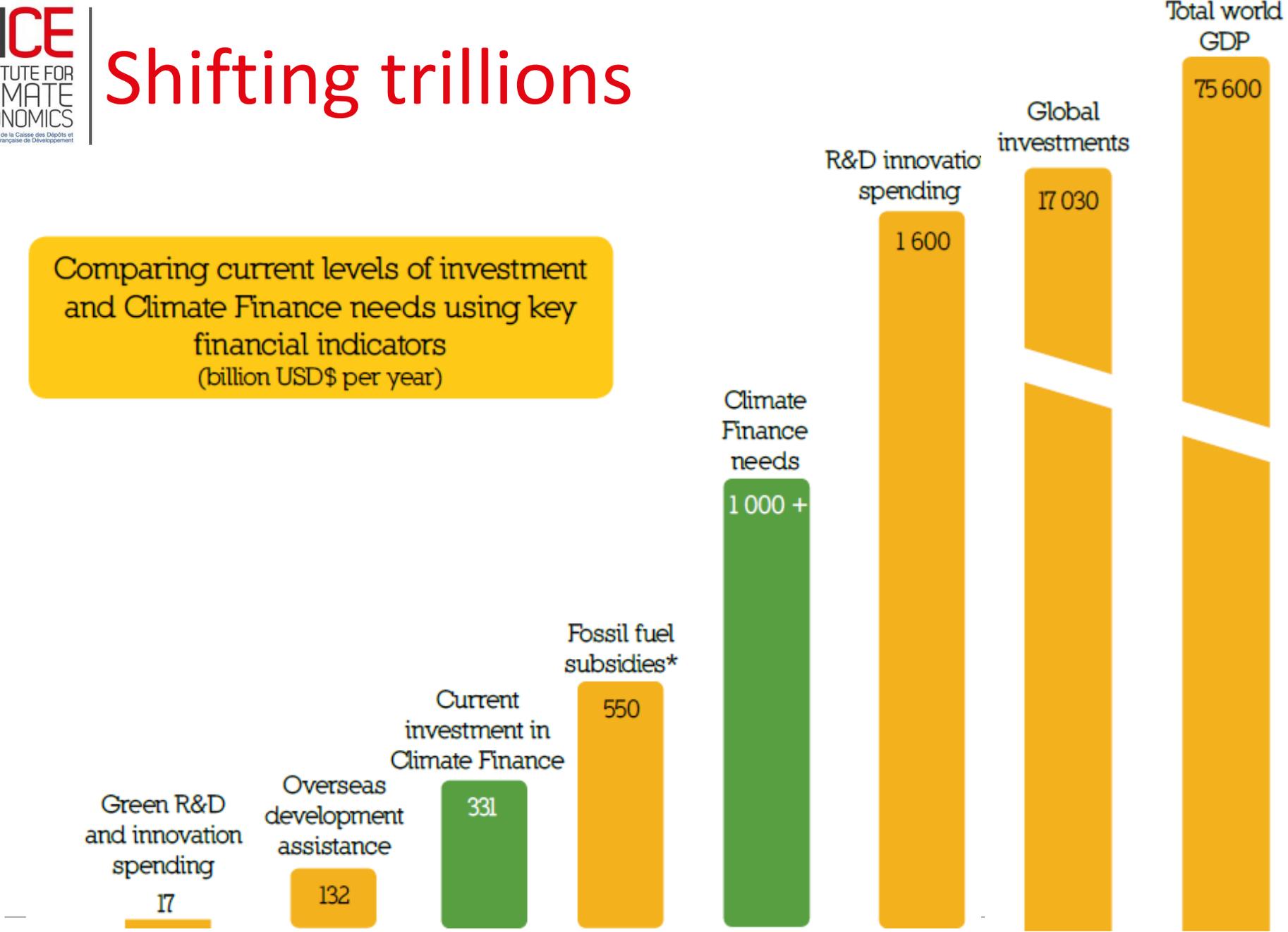
# Direct public support options

**FIGURE 2. POLICY OPTIONS TO DECREASE THE NET COST OF CAPITAL FOR THE BORROWER OF A GIVEN PROJECT WITH A GIVEN RISK PROFILE**



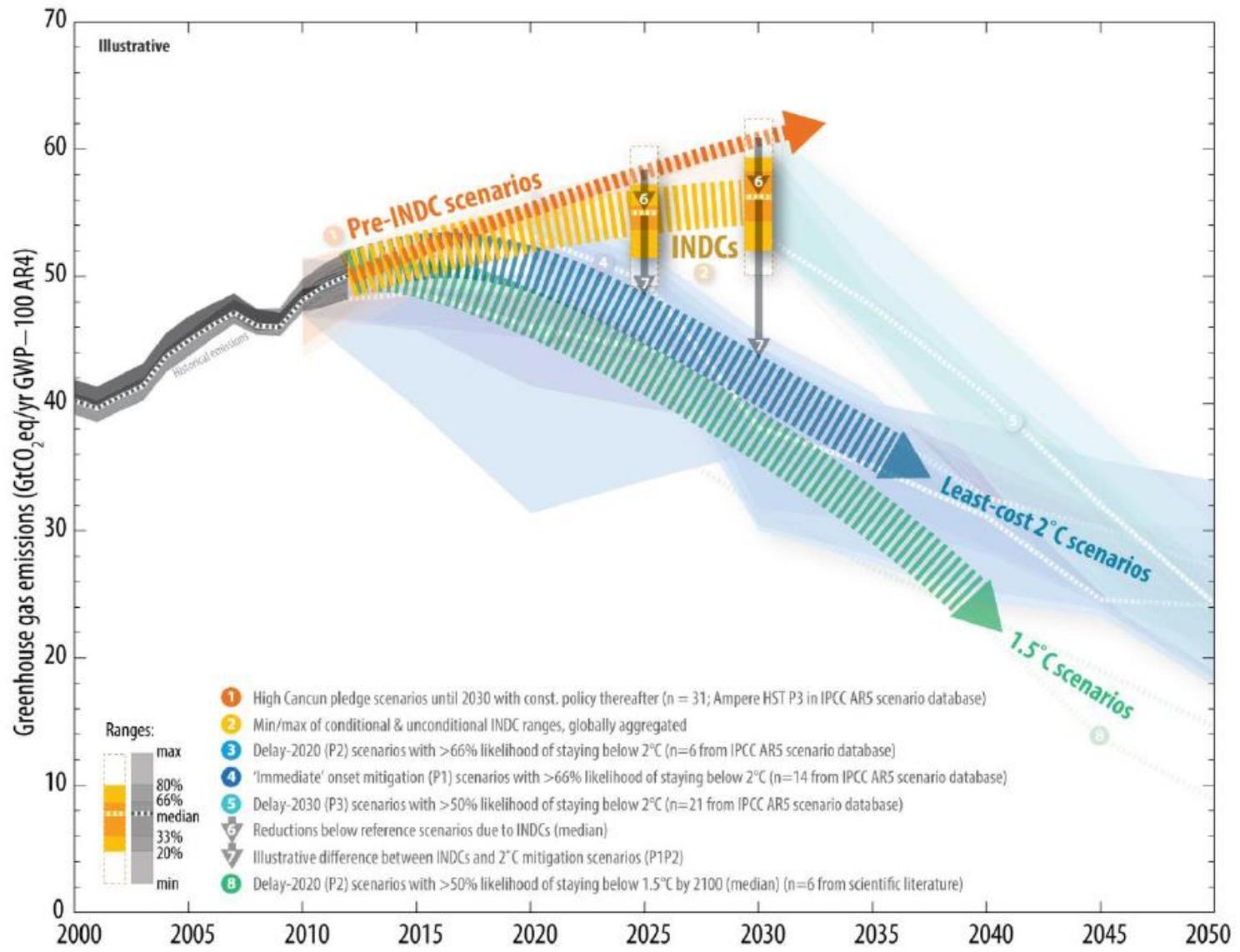
# Shifting trillions

Comparing current levels of investment and Climate Finance needs using key financial indicators (billion USD\$ per year)



Source: I4CE (2015)

# NDCs will need to be ratcheted up



Sources: Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report scenario database, 1.5 °C scenarios from scientific literature (see footnote 18), IPCC historical emission database and intended nationally determined contribution quantification.

Abbreviations: AR4 = Fourth Assessment Report of the Intergovernmental Panel on Climate Change, GWP = global warming potential, INDC = intended nationally determined contribution, IPCC AR5 = Fifth Assessment Report of the Intergovernmental Panel on Climate Change, n = number of scenarios, yr = year.

# Paris Climate Bond Concept

