Green Bonds

Fact Sheet for Investors

Responsible Investment Association

The Problem

Climate change is on of the most pressing issues of our time. The transition to a low carbon economy provides huge challenges and opportunities for us all. Investors, in particular, have the potential to play a critical role in financing green initiatives such as renewable energy, clean tech and transit.

A 2014 Ceres report, *Investing in the Clean Trillion: Closing The Clean Energy Investment Gap,* estimated the need for an additional $1 trillion per year in clean energy investment to limit global temperature rise below 2°C and avoid the worst impacts of climate change. The most recent 2018 Ceres report, *In Sight of the Clean Trillion*, points out that clean energy has gone mainstream and the Clean Trillion goal is feasible. It also points to major opportunities for investors to scale up their clean energy investments while simultaneously meeting their risk-return requirements.

The green bond market is emerging as a promising way to provide large pools of capital to support investment in green initiatives.

What are green bonds?

The World Bank issued the first green bond in 2008. Since then it has issued $13-billion USD equivalent in Green Bonds through 150 transactions in 20 currencies.

Green bonds are broadly defined as fixed-income securities that raise capital for a project with specific environmental benefits. The majority of green bonds issued to date have been "climate bonds", meaning that the money raised is invested in climate change mitigation or adaptation, including renewable energy, energy efficiency, sustainable waste management, sustainable land use, clean transportation and clean water technology.

Most green bonds have been either treasury-style retail bonds, with a fixed rate of interest and redeemable in full on maturity, or asset-backed securities tied to specific green infrastructure projects.

In January 2014, Export Development Canada (EDC) issued its first green bond. The AAA $300-million USD issuance sold out in 15 minutes and was oversubscribed by $200 million. The proceeds were earmarked to help mitigate climate change with clean tech and improved energy efficiency initiatives.

In fall 2014, Ontario became the first government in Canada to issue green bonds. The proceeds were used to provide funding for transit and sustainable infrastructure projects. Early 2018, the Ontario government increased the size of its planned green bond offering from C$500 million to $1 billion after the original offering received C$1.8 billion in investor orders. And Canada Pension Plan Investment Board's (CPPIB) recent record-setting green bond issuance was also oversubscribed, by an estimated 80%.

According to Smart Prosperity Institute, issuance of green bonds are also beginning to diversify. Historically, the green bond market in Canada has been led by sub-national issuers (predominantly Ontario and Quebec) and EDC. However more diverse actors are beginning to seize the opportunity: In 2016, CoPower began offering the first green bond to individual investors across Canada; in late 2017, the City of Ottawa issued its first green bond; in May of 2018, Manulife became the first insurance company to issue a green bond in Canada, with a C$600 million offering. And a month later, CPPIB – the country's largest institutional investor – issued Canada's largest green bond to date, worth C$1.5 billion.

In 2018, USD$167.3-billion in green bonds were issued globally. According to the Climate Bonds Initiative, there is still a long way to go and $90-trillion of investment in climate projects are needed by 2030.

Are they green?

The success of the green bond market will ultimately depend on the ability of issuers to assure investors that the proceeds will be used for projects that are truly green. To that end, a coalition of bankers with guidance from investors, issuers and environmental groups have developed the Green Bond Principles.

The principles are voluntary guidelines that recommend transparency and disclosure of the use of the proceeds of the bonds so that investors can evaluate the environmental impact of their green bond investments. The goal is to move the market towards standard disclosures. The definition of 'green' varies and this disclosure will allow investors to determine whether the investments are aligned with their investment guidelines.

Independent groups, such as Sustainalytics and the Centre for International Climate and Environmental Research in Oslo (CICERO), a group of Norwegian academics, have emerged to give second opinions. As an example, Canada's EDC had its green bond framework vetted by CICERO prior to issuance.

Who are the investors?

Institutions:

Pension funds are big investors in the green bond market. Institutional investors collectively manage more than $79-trillion U.S. globally (Source: BCG). Pension funds alone represent nearly one-third of those assets and many are committing to allocations of green bonds in their investment portfolios.

Individuals:

IFC, a member of the World Bank, has launched a program that for the first time allows U.S. individual investors to buy AAA-rated IFC bonds that support renewable energy and energy efficiency investments in developing countries. The bonds, called Impact Notes, potentially offer higher yields than comparable government treasury securities in the U.S.

In Canada, green bonds are available to individual investors through online platforms such as CoPower and Solar Share. There are also a growing number of investment funds for retail investors to gain exposure to green bonds. For example, Desjardins has launched SocieTerra Environmental Bond Fund, and IA Clarington's Inhance Bond SRI Fund invests in green bonds.

For More Information

Follow these links to learn more about green bonds :

Green Bond Principles document (2018)

A report from Investment Industry Association of Canada on the Opportunities in the Canadian Green bond Market v2.0 (2018)

Resources from the Climate Bonds Initiative

RiA
Responsible Investment Association

About the RIA

The Responsible Investment Association (RIA) is Canada's industry association for responsible investment. RIA members include fund companies, financial institutions, asset management firms, asset owners, advisors, research firms, consultants and others who practice and support the incorporation of environmental, social and governance (ESG) factors into investment decisions.

Learn more at www.riacanada.ca