



# Green Bonds: Challenges and opportunities

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CLIMATE  
ECONOMICS  
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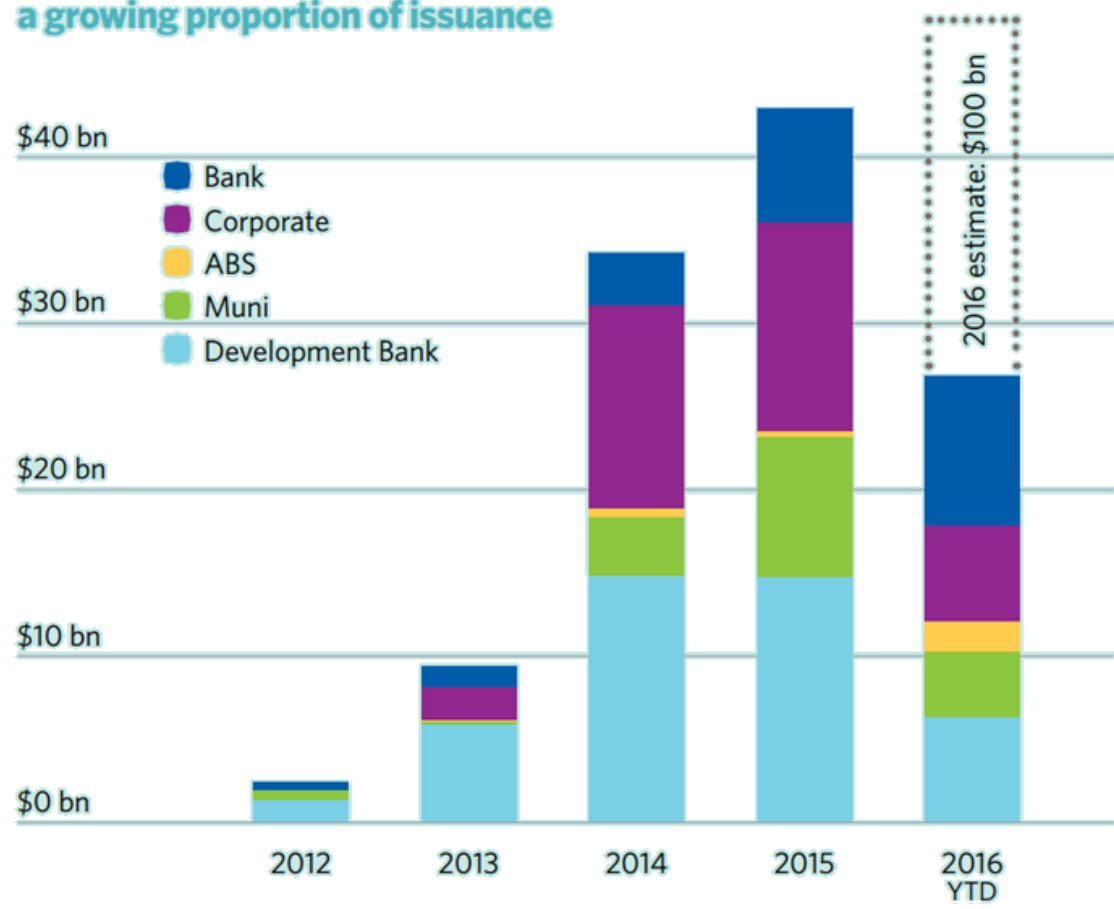


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# The green bond market is soaring

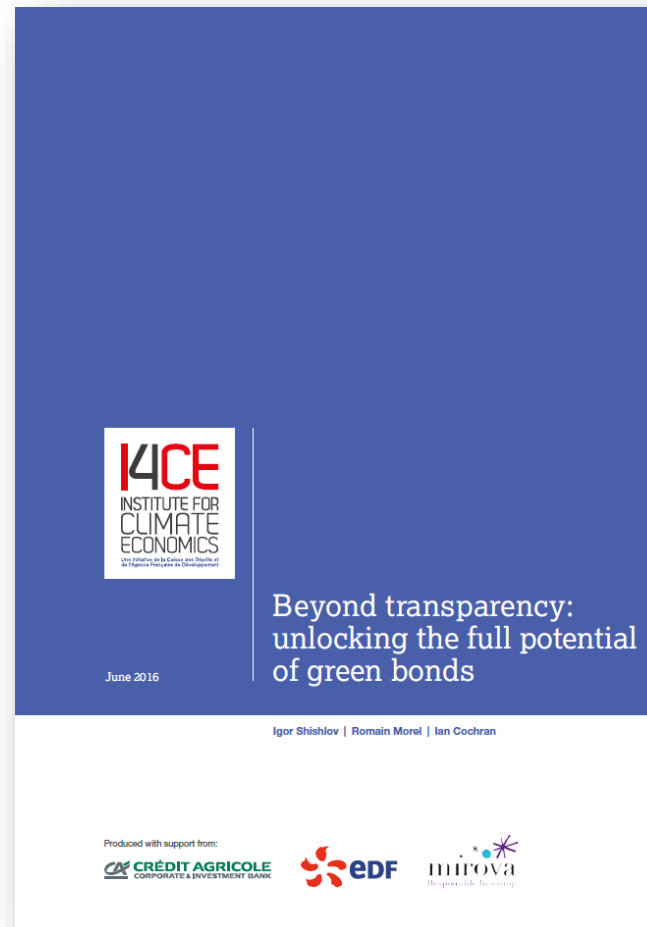
Corporate and muni bonds make up a growing proportion of issuance



Source: Climate Bonds Initiative (2016)

# I4CE study “Beyond transparency”

- 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?

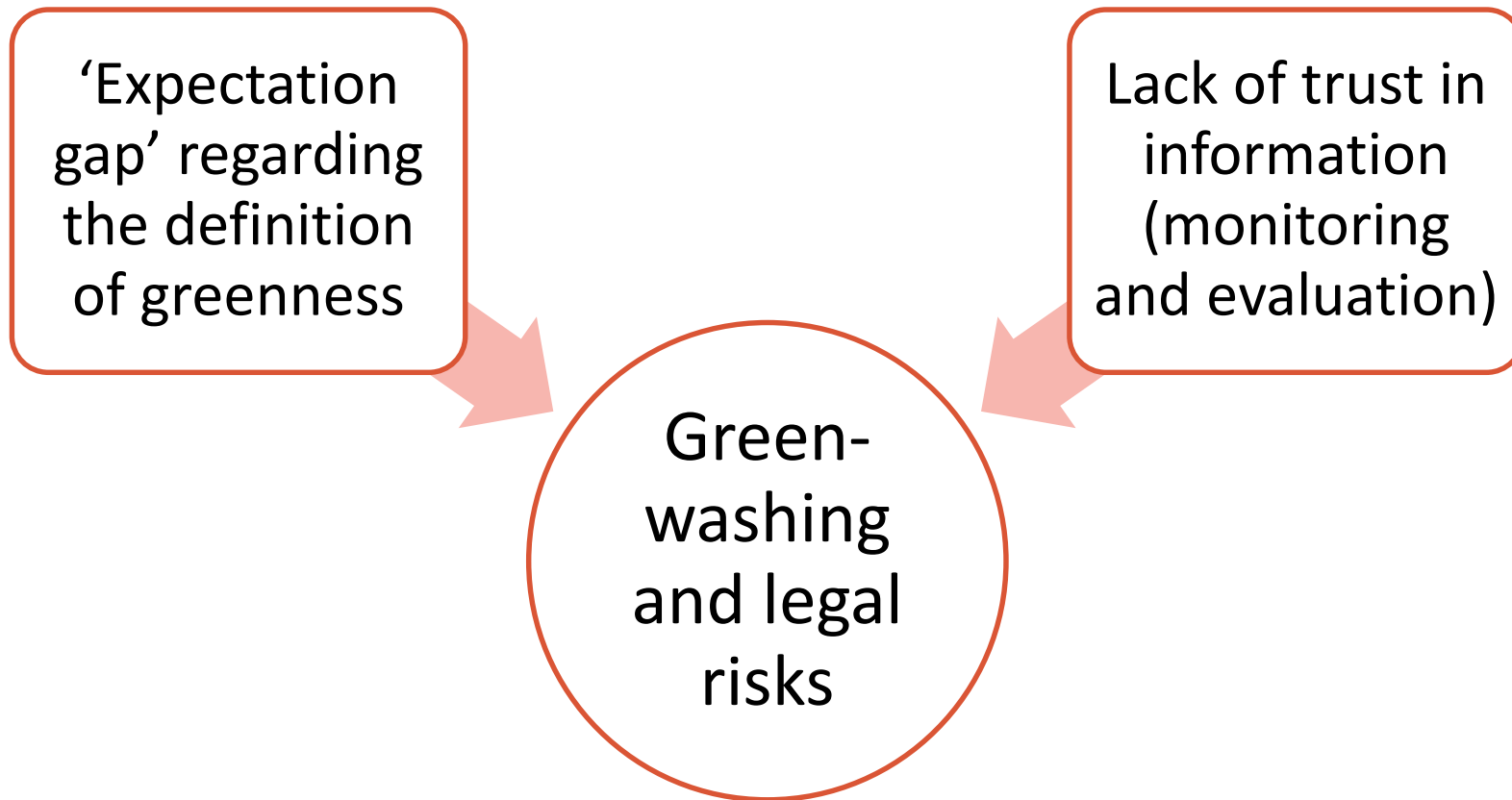


# The added value of transparency on environmental integrity of underlying assets

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 policy</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 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 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

## 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?





To learn more:

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