The Green Bond Market: A Potential Source of Climate Finance for Developing Countries

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“Climate change is an unprecedented opportunity for governments, investors, firms and citizens to work together to develop and deploy low-carbon technologies, which can sustain growth within our planetary boundaries. Shifting towards low-carbon energy systems can avert climate catastrophe while creating new opportunities for investment, growth and employment”

Kofi Annan
Win- Win- Win strategy
Win- Win- Win strategy

- WHO: 4.6m dead/year ➔ air pollution.
- Zhang et al. (2018): air pollution ➔ low cognitive capabilities
- UN: 1 billion environmental migrants by 2050.
LOW-CARBON TRANSITION

Fossil fuels → Clean energy
Green bonds
1. Definition
2. Driving factors
3. Barriers
4. Recommendations
Could developing countries seize this opportunity to finance their adaptation and mitigation projects?
KEY MESSAGES

USD 155.5 billion in 2017 (CBI, 2018).

USD 1 trillion by 2020.

1.4% of the global fixed-income market
Moody’s (2017).
< 5% of GB issuance in 2007-2016
Development banks
Local governments
Investors
1. What is a GB?
Definition:

• No commonly agreed standards;

• Green bond principles: Voluntary Process Guidelines for Issuing Green Bonds since 2014;

• Green bonds = fixed-income financial instruments for raising capital to finance or refinance eligible green projects (OECD 2017; ICMA 2017).
Categories of green bonds

- Certified Green bonds ➔ < 25% in 2017

- Self-labelled green bonds ➔ > 75% in 2017
Top 10 green bond country issuers

Year 2017

Source: Climate Bonds Initiative (2017)
How does a certified green bond work?

Source: Author’s elaboration
Green bonds principles

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
2. Driving factors of the green bond market
Strong similarity between green and conventional bonds

Source: Bloomberg as of 1/31/2017
Paris climate agreement
Adoption of the Paris climate agreement

S&P 500 renewable energy index

STOWE Global coal index

Source: DNB (2017)
• Increased climate-awareness
  (Carney, 2016)

Transition risk: risk of stranded assets

Physical risks: $3.8 trillion from 1980 to 2012 according to Munich Re.

Liability risk: claims from NGOs, Civil Society, Employees...

TCFD: Task force on climate-related disclosure
• Low interest rate environment

$9$ trillion

How much money have central banks printed?

- United States: $3.9$ trillion
- Japan: $2.9$ trillion
- ECB: $2$ trillion
- United Kingdom: $580$ billion
• “The failure of monetary authorities to achieve economic recovery through accommodative monetary policies has resulted in low-interest rates and hungry for yield, especially in advanced economies” (King 2017).

• Consequently, pension funds and insurance companies are coming under pressure to find ways of making their savings products more attractive.

• Sustainable investing can preserve wealth and provide reliable streams of revenue, while reducing volatility in the equity markets ➔ Diversification
3. The barriers of the green bond market in developing countries
Developing countries are far behind developed countries

Figure 3: Global green bonds issued by region 2007-2016 (USD billion)

< 5% of total green bond issuance

Source: Statista, 2017
Barriers

• Market barriers

• Non-market barriers
Market barriers

• The issue of minimum size (IMS)

Bond investors like to see at least USD 200 million equivalent in liquidity before lending their money (Franklin, 2016)
The issue of minimum size

Author’s elaboration
This result is also confirmed by CBI (2016)

- In 2016, ‘Over 68% of bonds issued are between $100m and $500m in size. Over 44% of the bonds issued were greater than $200m in size’
• High transaction costs (HTC) could range from USD 10 to 100 thousands ➔ Green labelling (Kaminker et al. 2016)

• Currency of issue “original sin”
  (Eichengreen and Hausman, 1999)
Non-market barriers

• Lack of technical skills;
• Lack of appropriate institutional arrangement;
• Lack of voters’ support for climate change policies;

(Obradovich and Zimmerman, 2016)

“Climate change is not a winning electoral strategy”
4. Policy recommendations

- Green stripping system (Franklin, 2016)

- ...but it may give rise to greenwashing behaviors
Policy recommendations

• Development banks as intermediary institutions: pooling strategy;
Policy recommendations

• Guarantees from local governments

• Coordination between the Ministry of finance and the Ministry of environment for sovereign green bond issuance.
Conclusion
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References

• Here is the point and you may not agree with me. But I strongly believe that without finance, sustainable development goals mean nothing for developing countries.
• Since I am talking to policy makers and UN bodies officers, let me conclude by saying this: today we have a great opportunity with green bonds to created a green and positive society that actually works the environments and human beings, a society in which no one is let behind, a society of green structural transformation. So let’s make not only the United States of America but also the Rest of the world “Green and Great Again”. Thank you
• There is a president I don’t like to see this figure, otherwise he may be tempted to withdraw twice his country from the Paris climate conference.