

Frequently Asked Questions

Green Bonds

- 1. What is a green bond?** Green bonds are debt instruments issued to finance environmental projects. These projects are often focused on climate change initiatives, but not always. When we refer to bonds as green, we typically mean that they have been labeled as such by their issuers at the time of their placement.
- 2. Are there differences between green bonds and conventional bonds?** There are no differences between green bonds and conventional bonds other than that green bond proceeds are used to finance environmental projects. However, this specific feature invites heightened scrutiny with regard to transparency. Investors increasingly demand clarity on how revenues will be used toward green projects. Because of this demand, the bonds have different implied requirements for reporting, auditing, and proceed allocations.
- 3. Who are the issuers of green bonds?** Any organization with bonding authority may issue green bonds. The early issuers of green bonds were principally highly rated multilateral development banks (MDBs or supranational organizations), which have a mandate to channel funds into climate-related and environmental projects. Because the funded environmental projects tended to be small, with the attendant execution risks, they needed the credit capacity of the MDBs' strong balance sheets for raising cost-effective capital. Combining high ratings with the transparency and assurance that proceeds would go solely to the targeted environmental projects, MDBs succeeded in developing a base of investors seeking low-risk instruments that could deliver on an environmental mission. Currently, the green bond market has expanded in size and scope to include diverse issuers, including municipalities, cities, and corporations.
- 4. Are there regulatory guidelines as to what constitutes a green bond?** The identification and labeling of a bond as green is typically based on the Green Bond Principles (GBP), a set of voluntary standards established by industry participants committed to the growth of the green bond market, including major banks and non-profits. According to GBP guidelines, a bond issue qualifies as green if the issuer uses the proceeds solely for capital expenditures associated with green or climate-related environmental benefits, according to certain disclosure and transparent policing standards. The guidelines do not specify the type or the nature of the project, nor do they specify a required level of climate or environmental benefits. Under current GBP criteria, a third-party provider must determine that an issuer has used proceeds the way in which they claim.
- 5. How big is the green bond market?** Green bond issuance has been growing and was at USD 687 billion total outstanding as reported by the Climate Bonds Initiative as of Oct. 31, 2019. This shows a healthy amount of growth when compared with the USD 40 billion in 2014, the launch year for the [S&P Green Bond Index](#). However, it still represents only a small fraction of the global fixed income market. If capital markets were to meet the needs of repairing the

environment and reversing the damages of climate change, the scale of investment capital would have to be exponentially larger.

- 6. What are the issuance sizes for green bonds?** Historically, as recently as 2015, issuance size has varied, ranging from as little as USD 2 million up to USD 1.5 billion. However, with the entry of additional issuers such as sovereigns, government-backed entities, and corporates, the deal sizes continue to increase. Likewise, with the introduction of newer issuers, the maturity terms of securities are broadening across the term structure of interest rates.
- 7. What factors are behind the growth of the green bond market?** Several factors have been driving interest in and the growth of the green bond market. The first contributing factor is the growing awareness of environmental issues, including an increased understanding among investors and the general public about the long-term implications of climate change. There is also growing recognition that developing the infrastructure needed to reduce our carbon footprint, and more broadly addressing climate change and other environmental issues, requires long-term cost-effective capital at a scale that realistically can be provided only by institutional investors via investment-grade fixed income instruments. Finally, the development of voluntary criteria and standards for green bonds has helped to fuel their appeal among investors.
- 8. How does the composition of the green bond market currently compare with that of the conventional bond market?** At its inception date of July 31, 2014, the S&P Green Bond Index had 118 bonds. Since then, the index has grown to a constituent number of 5,498 bonds, as of Oct. 31, 2019. The top three issuing countries are the U.S. (18%), France (14%), and China (9%). Historically, most green bonds were issued by multilaterals with AAA ratings. The ratings of the S&P Green Bond Index have shifted to a more even distribution of AAA (22%), AA (20%), A (22%), and BBB (17%), with the remaining percent being below investment grade as of Oct. 31, 2019. The breakdown among sectors, as of Oct. 31, 2019, was 47% corporate, 11% sovereign, and 24% local government or government-backed entities. The historic leader, supranational, now accounts for 17% and a small amount in asset-backed security structures.
- 9. What resources exist for further research?**
 - The World Bank. IBRD Funding Program. <https://treasury.worldbank.org/en/about/unit/treasury/ibrd/ibrd-green-bonds>
 - CERES. Green Bond Principles 2014. <https://www.ceres.org/resources/reports/green-bond-principles-2014>.
 - Climate Bonds Initiative. <https://www.climatebonds.net/>.
 - Green Cities Coalition. <https://greencitiescoalition.net/>
 - ICLEI – Local Governments for Sustainability. <https://iclei.org/>
 - Municipal Securities Rulemaking Board (MSRB). Electronic Municipal Market Access (EMMA). <https://emma.msrb.org/>.

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