



Climate Finance: From Green Bonds to Green Loans – Recent Market Developments

July 2018 Update on BEC's Ongoing Work

It is estimated that US\$90 trillion in investments is needed between 2016-2030 to deliver on the maximum 2°C temperature rise goal of the Paris Agreement. This means raising finance to fund environmental projects e.g. public transport, renewable energy and energy efficient buildings. It also means making investment decisions taking on board climate risk, emphasized by the Task Force on Climate-related Financial Disclosures. Making finance “climate-smart” can drive climate mitigation and economic resilience.

With this in mind, BEC is running a programme of engagement supported by [BEC's Climate Change Business Forum Advisory Group](#) for investors and corporates:

- The *Responsible Investment Workshop* on 14 March 2018 focused on the buy side of the green finance ecosystem. Highlights of the workshop are captured in the [workshop report](#).
- The *Climate Finance: From Green Bonds to Green Loans – Recent Market Developments* seminar, on 13 June 2018, took forward the dialogue focused on the sell side. We explored recent market developments: the evolving ecosystem of evaluation frameworks and standards for green finance products, and how climate action affects credit ratings. The event featured expert speakers from International Capital Market Association, Climate Bonds Initiative, S&P Global Ratings, Link Asset Management Limited, BNP Paribas, and New World Development Company Limited.

This Topical Digest presents the key points that emerged from the 13 June 2018 discussion.

Market Developments

- The global green finance market has seen rapid growth in recent years, in both total issuance and issuer diversification. Between 2013-2017, green bonds/loans issuance grew 16-fold.
- The majority of green finance is dedicated to climate action. In 2017, the single largest use of green bonds and green loans proceeds globally were for renewable energy, followed by low carbon buildings and energy efficiency, and third was for clean transportation.
- China is increasingly active in the market. In terms of issuance, in 2017 China was the 2nd largest issuer of green bonds after USA, representing 15% of global new issuances at US\$23 billion.
- Renewable energy is the largest green finance area followed by low carbon transport in China.
- The green finance scene in Hong Kong is growing as well. A number of green bonds and a green loan have been issued in recent years by corporates. The Government has launched an incentive scheme to support issuances, and also intends to issue a sovereign green bond of up to HK\$100 billion.

Frameworks & Evaluation

- Frameworks exist to develop consistency across the green finance market, and to help green bonds and loans align with the evolving expectations of investors and the community.
- The Green Bond Principles has become a widely recognized standard for green bonds. It covers four key elements: identifying projects, the process of project evaluation and selection, management of proceeds, and report the impact of proceeds.
- The Climate Bonds Standards supplement the Green Bonds Principles approach helping corporates and investors understand if the use of proceeds are aligned with the maximum 2°C temperature rise goal of the Paris Agreement.
- Methods of external review have been developed to ensure the robustness of green finance products. The S&P Green Evaluation, for example, is an assessment that ranks financial products based on their contribution to the green transition. Three areas are assessed: transparency, governance, and contribution towards mitigation or adaptation.

Climate-Related Performance & Credit Ratings

- Climate-related risks and opportunities can affect the capacity of entities to meet their financial commitments – their creditworthiness. Hence, environmental considerations are increasingly considered in mainstream ratings and analytics even for conventional financial products.
- From S&P Global Ratings' analytics, in 2013-15, there were 299 global corporate ratings where environmental and climate risk were factored in. In 2015-17, the number rose to 717.

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Business Environment Council Limited ("BEC") is an independent, charitable membership organisation, established by the business sector in Hong Kong. Since its establishment in 1992, BEC has been at the forefront of promoting environmental excellence by advocating the uptake of clean technologies and practices which reduce waste, conserve resources, prevent pollution and improve corporate environmental and social responsibility. BEC offers sustainable solutions and professional services covering advisory, research, assessment, training and award programs for government, business and the community, thus enabling environmental protection and contributing to the transition to a low carbon economy.