Initially driven by issuers, in particular multilateral development banks (MDBs), the Green Bond market has now reached a new level of maturity where investors and policy-makers have a key role to play—investors by driving further improvements in quality and accountability of green bond issuance via scrutiny and active engagement, and policy-makers by adopting policies acknowledging the value of green bonds and further promoting this market segment.

The European Investment Bank (EIB), the EU Bank, pioneered the green bond market in 2007 by issuing the first bond with a transparent allocation of proceeds to climate action. To date, EIB is the largest green bond issuer, with EUR 10bn raised. EIB’s Climate Awareness Bonds (CABs) have their proceeds earmarked for allocation to eligible renewable energy and energy efficiency disbursements. The project evaluation and selection involves a thorough process of environmental and social due diligence, an audited tracking, allocation and reporting system ensuring the delivery of relevant and reliable information on the flow of eligible disbursements, as well as the expected impact of the recipient projects.

EIB’s activity in the area of green bonds has been linked to key policy developments:

- EIB’s first green bond issue came in response to EU’s Energy Action Plan;
- Other important pieces of EU-guidance and legislation historically influencing EIB’s green bond issuance include the Financial Services Action Plan 2005-2010, the Prospectus Directive (the first CAB tested the passporting mechanism in the whole EU for the first time) and the Luxembourg Law on Dematerialised Securities;
- In response to investors’ demand for liquidity in the Green Bond market, in 2013 EIB adopted a benchmarking approach, which helped to raise the profile of the market. In EUR, EIB’s curve sports three benchmarks (11/2019, 11/2023, and 11/2026). Reference issues have also been established in USD (10/2024), GBP (03/2020) and, in smaller size, in 8 additional currencies.

In 2014 green bonds gain traction: the Green Bond Principles emerge as voluntary guidelines and backbone of governance structure for the green bond market; several MDBs commit to promoting the sustainable growth of the green bond market through a joint statement on climate finance, and the role of ‘climate bonds’ is explicitly recognised at the 2014 UN Climate Summit.

In March 2015 EIB publishes its 2014 Climate Awareness Bond (CAB) Newsletter in concomitance with the presentation of the 2015 Green Bond Principles (GBP) and the proposal of a harmonised framework for green bond impact reporting initially developed by ADBF, EIB, IBRD and IFC. The Newsletter discloses the details of EIB’s Green Bond practice, outlining its alignment with the Green Bond Principles, and includes detailed impact reporting, applying the proposed harmonised framework for the first time. The three documents together highlight the motors of progress in the green bond market: minimum requirements, open market discussion on best practice, and leadership by example:

- [http://www.eib.org/attachments/ifi/informationonimpactreporting.pdf](http://www.eib.org/attachments/ifi/informationonimpactreporting.pdf)

In October 2015 the EIB CAB Newsletter becomes semiannual and links for the first time project allocations to individual bonds. This is an important development in green bond best practice by the EIB, as transparency and accountability are key topics in the run-up to COP21. The first semiannual CAB Newsletter is available [here](http://www.eib.org/attachments/ifi/2014-cab-newsletter.pdf).

Lack of commonly accepted climate finance tracking definitions, project assessment methodologies and reporting formats still limits comparability and compatibility of climate action data from different issuers even when transparent tracking and allocation procedures exist. There is a need for a higher degree of clarification and harmonisation, and green bond issuance is creating a framework within which bond markets can become the instrument of a broader collective action to increase the accountability of environmental finance. Investors have a large role to play in this framework.

Harmonisation efforts and impact reporting work are set to continue in 2015. EIB remains committed to the sustainable growth of the green bond market, as per the 2014 joint statement by MDBs on climate finance, and together with other financial institutions is actively engaged in these areas. These workstreams, in dialogue with the complementary work of other market-related communities of knowledge (e.g. the Executive Committee of the GBPs, proponents of standards, ESG research and rating agencies, external auditors, policy-makers) are susceptible to provide substantial contributions to the transparency and accountability that the European Council has requested for the rules-based regime to be established by COP21.

In short, green bonds should be seen more as a process than as a product. The growth of the green bond market has increased external scrutiny (in particular from investors), and thus issuer accountability, fostering the public discussion on common metrics and the transparency of accounting and reporting frameworks. More engagement by external stakeholders is incentivising better and more comparable reporting, which in turn creates peer pressure on issuers to improve practices, contributing to the establishment of assessment standards and the convergence of assessment rules. All these developments have increased the public visibility of the green bond market, and should help its recognition in the policy arena. Inter alia, the official recognition by policy-makers would help to develop this market by increasing the opportunity costs for non-issuers (i.e. the cost linked to the negative public perception associated with not issuing green bonds).

Panel discussion 1: What are the current trends affecting the European Green Bond market?

- **Aldo Romani**, Deputy Head of Funding, Euro Capital Markets Department, EIB
- **Joop Hessels**, Head of Green Bond origination, ABN AMRO Bank
- **Laurie Chesné**, Sustainability Consultant, Vigeo
- **Ulrik Ross**, Managing Director, Global Head of Public Sector & Sustainable Financing, Capital Financing, Global Banking and Markets, HSBC Bank Plc

**Key green bond market trends:** recent governance improvements (GBPs) have increased investors’ trust in the value of green bonds and helped the development of ad hoc investment policies which are increasingly driving the market; corporates and municipalities have become key market players; there is increasing attention to sustainable transport and infrastructure, increasing issuance in emerging markets (China, India), an increasing number of standard proposals (e.g. CBI), increasing diversity of market players and products (e.g. covered bonds, green project bonds, municipality bonds), and a lot of room for growth.

EU policy-makers need to create incentive mechanisms to facilitate scale in the green bond market with a view to helping to bridge the current gap in sustainability financing. A key question is how to crowd-in private issuers into this market. Europe ought to be a thought leader in this area, based on the experience gathered in this market thus far.

**Main motivations to invest in green bonds:** More and more investors try to get their mandates changed in order to include more green bonds in their investable universe. While green bonds imply more work, however, investors usually do not receive a financial advantage as compared to conventional bonds. Similar considerations apply to issuers. Investors’ ambitions on sustainability, their quest for engagement and portfolio diversification have therefore been the main drivers thus far.

**Recent developments in China:** one participant insisted on the need for an “incentivised green bond market” and mentioned that China, the largest green bond issuing country, plans to support the growth of the corporate green bonds market there, which could prove a game-changer globally.

**Support policies require the definition of market standards.** There are two types of approaches to harmonisation: top-down via regulation (China) and bottom-up, market-driven approach (Europe).
Tension between achieving scale and defining standards: Policies which are too strict and bring insufficient incentives could kill the market. Green bond stakeholders should engage to reach a sustainable level of harmonisation autonomously, gain policy recognition on this basis and feed material results into the existing climate policy agenda, thus aligning narratives.

Incentives and standards should go hand in hand: Accessible standards would help promote transparency and quality in the green bond market, which are conditions for the delivery of a common good. This, in turn, could justify incentives targeted to both demand and supply of green bonds.

Second party opinions already help to increase green bond quality by providing guarantees on the financed project, the issuer and the expected reporting. Currently 60% of green bonds have a second party opinion. However, opinions should be based on the same (harmonised) international standards if they are to be comparable.

The coordinated dialogue of second party opinion providers with leading issuers of proven technical expertise is bound to facilitate the definition of a common reference basis in the areas of due diligence, impact assessment, and reporting, with positive spillovers to a broader range of potential issuers. While these standards are being developed, a key priority is the establishment of transparent and accountable tracking, allocation and reporting systems for the delivery of relevant and reliable information on the status quo. All sustainability aspects need to be considered when developing the green bond market, not just environmental impacts.

Additionality of green bonds: does green bond issuance actually increase the amount of capital allocated to green projects?

It is difficult to define additionality in the absence of a commonly accepted definition of green finance, as it is not clear what exactly should be added to.

Green bond issuance may therefore translate into a larger volume of green projects financed only over time, once a clearer link is established between official policy goals and different areas of intervention (“what is green?”) based on a shared standard set of climate tracking definitions. Green bonds are fostering progress in this area.

The sooner this challenge is addressed, the more effectively supply and demand side can be mobilised to tackle the gap in sustainability financing.

Recent green bond issuances have demonstrated their ability to direct capital towards green projects.

The value of green bonds therefore goes beyond the immediate quantitative impact – green bonds have raised the awareness of investors on climate change and other environmental issues, and have focused their attention on green projects (e.g. more and more investors now have green bond strategies and dedicated teams in place, while just 18 months ago they did not). Thus, developments in the green bond market have mobilised thought leadership, which in turn has created broader support for the sustainability agenda on the policy side.

‘Unleash’ bottom-up CSR forces in corporations: Experience shows that middle management can use green bonds as an opportunity to take environmentally and socially responsible initiative in individual organisations, becoming a motor of corporate change from within. Policy-makers should foster this phenomenon by providing such forces with adequate reasons to act.

Panel discussion 2: Which role could policy-makers and public actors play to further unlock the growth of the European green bonds market?

Stanislas Dupré, Founder and Director, 2° Investing
Julien Bras, SRI Fixed Income Portfolio Manager, Allianz Global Investor Europe
Manuel Adamini, Director Advisory & Research Services, Climate Bonds Initiative
Tanguy Claquin, Managing Director, Sustainable Banking, Crédit Agricole CIB

Climate pledges put forward by countries at COP21 will translate into projects on the ground, which need
The green bond market remains very small compared to the overall bond market. The small size and lack of additionality mean that direct market impact is still limited. One participant reckons that most of the growth of the green bond market is due to “relabelling” of existing projects and regretted that the current plans of the EU are not really developed in terms of “theory of change” to redeploy capital towards climate objectives (e.g. Capital Markets Union).

Reaching a relevant green bond market (liquid, ~700bn EUR in size) would create a virtuous circle; there would be ‘trapped investors’: investors who commit to increase green bond share in their portfolios will do so, which in turn will increase green bond issuance.

Policy-makers should facilitate the needed market size via the right incentives. There are hurdles to overcome:

- Need for a definition of what is incentivised, in particular for tax or capital treatment incentives. But a smart regulator should avoid setting clearcut definitions: incentive schemes where policy-makers defined very clearly what is green were often failures (e.g. EU ETS).
- An effective policy would be an output-based regulation, where incentives are linked directly to GHG emission reductions (e.g. making investors measure GHG emissions of green bond portfolios), but measurement is problematic due to lack of harmonisation.
- Policy-makers still need to develop an in-depth understanding of the rationale of supporting green bonds.

Policy-makers could ‘green’ many existing instruments, e.g. EU fund for strategic investment, EIB’s project bond initiative, covered bonds in the context of CMU.

There are green bond standards and metrics that policy-makers could build on: Green Bond Principles; CBI Climate Bonds Standard; CBI Climate Bonds Taxonomy; Sustainable Energy Investment (SEI) Metrics project led by 2° Investing.

One participant reminded that it is difficult to incentivise something (e.g. a market) if you cannot define it. Therefore, it is important to define what is a green bond. For example, the French government is currently looking at the standards defined by the Climate Bond Initiative (CBI).

Forecasted supply & demand of green bonds

- In the run-up to COP21 mainly public players will issue;
- Currently the market is driven by public and corporate issuers and by investors;
- If governments don’t show commitment at COP21, investor interest in green bonds might decrease;

Positive developments: in anticipation of new regulation, investors have started looking into the quantification and disclosure of the impact of their investments. In France, a law mandating asset owners to disclose the carbon footprint of their portfolios has been recently passed: such a law can be an interesting tool to drive the green bond market forward.

Tension between incentivisation and scaling up the market may prove to be a challenge for policy-makers.
The note has been updated on October 2nd to reflect latest developments at the EIB best practice standards on Green Bonds

About Eurosif

Eurosif is the leading pan-European sustainable and responsible investment (SRI) membership organisation whose mission is to promote sustainability through European financial markets. Eurosif works as a partnership of Europe-based national Sustainable Investment Forums (SIFs) with the direct support of their network which spans across over 400 Europe-based organisations drawn from the sustainable investment industry value chain. These organisations include institutional investors, asset managers, financial services, index providers and ESG research and analysis firms totalling over €8 trillion in total assets. Eurosif is also a founding member of the Global Sustainable Investment Alliance, the alliance of the largest SIFs around the world. The main activities of Eurosif are public policy, research and creating platforms for nurturing sustainable investing best practices.

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