

Green bonds as a bridge to the SDGs

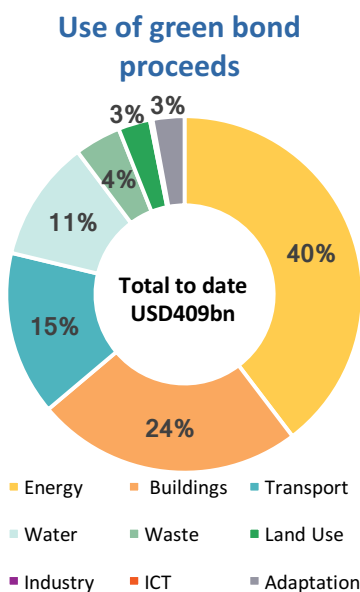
Climate mitigation and adaptation underpin meeting the UN Sustainable Development Goals (SDGs). Green bonds can serve as a bridge to achieving the SDGs. This is the first instalment in a briefing series that explores the synergies between green bonds and SDGs.

Proliferation of thematic labels

Alongside the rapid growth of green bonds, new thematic bonds are appearing in the market. These include social bonds, sustainability bonds, ESG bonds and the latest addition, Sustainable Development Goal (SDG) bonds. All replicate the green bond model in requiring disclosure and reporting on the use of proceeds from the issuer to connect investors with assets that are expected to deliver a positive sustainability impact.

The UN [SDGs](#) exemplify the global sustainability goals that are critical for our future societies and economies. Core to the [2030 Agenda](#), the SDGs are a list of 17 goals that cover green and social themes.

The SDGs are gaining widespread support across a [broad market base](#), including [investor groups](#), [investors](#), corporates and international [development](#) bodies. The International Capital Markets Association (ICMA) released [a high-level mapping of SDGs](#) against thematic bonds.



Interplay between green and social goals

The [17 SDGs are interdependent](#): for example, food production (SDG2) is an individual goal, but food production relies on life in the sea (SDG14) and on land (SDG15), as well as water (SDG6) and climate action (SDG13). Similarly, climate mitigation and adaptation is presented as a stand-alone goal (SDG13), but it is also a crosscutting action.

Climate underpins the SDGs

Achieving the climate goal is reliant on approaching the other SDGs with a climate lens, especially water (SDG6), energy (SDG7), buildings and transport (SDG9), city infrastructure (SDG11) and agriculture (SDG15).

In turn, the level of climate action achieved will impact on whether other SDGs can be achieved. Reducing exposure and vulnerability to climate-related extreme events is a sub-goal of the overarching goal of No poverty (SDG1). Food security (SDG2) overall is expected [to worsen with climate change](#).

Health (SDG3) is another example where climate change is estimated to have severe [negative impact](#).

The list goes on: all the SDGs bear some relation to climate action, since climate change is a global force that hits all countries and sectors. The [latest climate science](#) makes it clear that rapid, comprehensive action at scale is required to limit severe physical, economic and social impacts globally.

Climate is a crosscutting theme relevant to all the SDGs.

Climate change presents the single biggest threat to development [...] Urgent action to combat climate change and minimize its disruptions is integral to the successful implementation of the Sustainable Development Goals.

[UN: Sustainable Development Goals](#)

Green bonds as a bridge to the Sustainable Development Goals



Climate Action (SDG13)

The rapidly growing green finance sphere is already providing capital for assets that simultaneously contribute to climate action (SDG13) and many of the other SDGs.

In the green bond market the vast majority of proceeds to date were earmarked for climate mitigation and adaptation / resilience, with only a small share allocated to other green assets, such as parks.



Clean water and sanitation (SDG6)

Clean water and sanitation accounts for 11% of green bond issuance to date. An example is [Cape Town's green bond](#), which financed clean water and sanitation assets (SDG6). Both are low-carbon and climate resilient.



Clean energy (SDG7)

Clean energy (SDG7) remains the largest share of the green bond market (40%). Its share has fallen as the market has diversified over the last few years. [Nigeria's sovereign green bond](#) for example allocated the majority of proceeds to renewable energy expansion (SDG7).



Sustainable industry, innovation and infrastructure (SDG9)

Low-carbon buildings are the second largest segment of the green bond market to date (24%), followed by low-carbon transport (15%). Low-carbon building and transport infrastructure contribute to sustainable industry, innovation and infrastructure (SDG9).

[India Railways Finance Corporation](#) offers a best-practice example of a green bond from the transport sector with proceeds allocated to rail, a low-emission transport solution on a per passenger and per tonne basis for freight. [Lithuania's](#) sovereign green bond financed energy efficient multifamily housing.



Sustainable cities and communities (SDG11)

Many of the assets financed by green bonds are located in cities, addressing the SDG of sustainable cities and communities (SDG11). Local governments and related entities, such as utilities and transport companies, are a significant issuer of green bonds.

Cape Town's green bond for water would tick this box. It supports sustainable cities (SDG9) as well as contributing to the goal of clean water access (SDG6) – and climate action (SDG13). This illustrates how a single deal can contribute to many of the SDGs simultaneously.



Life on land (SDG15)

A smaller share of green bonds (3%) finances sustainable forestry and agriculture, contributing to life on land (SDG15). [Poland's sovereign green bond](#) included sustainable agriculture, afforestation and conservation and restoration of natural habitat. Landshypotek bank issued the first [green covered bond](#) from Sweden in 2018, backed by forestry loans.

Issuers disclosing alignment

Several green bond issuers have started including the alignment of their green bonds with the SDGs. An example is National Australia Bank (NAB) who put in place an integrated [SDG green bond framework](#), where eligible categories are those that meet eligibility requirements for certification under the Climate Bonds Standard, while also contributing towards specific SDGs.

Applying a climate risk lens to all thematic bonds

While many SDGs have a social primary focus, a climate-resilient lens needs to be applied in order for the social goals to be achieved. Several of the SDGs can be ticked off in an unsustainable manner that hits social goals in the short term, but risk failing to deliver positive social outcomes in the medium- to long-term.

For example, clean water infrastructure built without taking into account changing weather patterns, will be unable to serve the intended population during more intense droughts or floods. Hospitals may fail to operate during extreme events without resilience measures, such as [installing renewable energy on-site](#) to provide power during storms.

Climate risk disclosure is crucial

Disclosure of how climate adaptation is addressed in all social assets will enable investors to analyse the green credentials also of SDG, sustainability and social bonds. Disclosure allows investors to make informed decisions about investing in assets designed to remain operative in a future climate.

Achieving social goals in a low-carbon way

High-carbon infrastructure will further exacerbate climate change and raise the requirements for climate adaptation. Investment in infrastructure assets, whether through green, social or SDG bonds, need to align with climate targets, since failing to act on climate change will compromise the SDGs as a whole.

For example, affordable housing built to address social aims (SDG9) must be ambitiously energy efficient. Whether the housing assets are financed by bonds labelled as green, SDG or social, disclosure of energy performance is crucial to assure investors that the assets are climate aligned.

Different levels of disclosure

To date, there is varying level of disclosure on climate performance of assets financed by SDG, ESG, sustainability and green bonds.

The [ESG-labelled covered bonds from Münchener Hypothekenbank](#) with proceeds for cooperative housing lack disclosure on the energy performance of the buildings. The social benefits were clear but the climate profile of the assets financed was not disclosed. The housing could have been sufficiently energy efficient to be considered aligned with climate-targets, but disclosure is necessary to determine this.

The sustainability bond from [Indonesia's Tropical Landscapes Finance Facility \(TLFF\)](#) finances sustainable agriculture, conservation of nature corridors for endangered species and restoration of degraded land. Despite the bond being labelled a sustainability bond and not a green bond, the disclosure allowed an analysis of the deal's climate profile.

Scaling investment to meet SDGs

Integrating climate across sectors and SDGs

The green bond market illustrates how climate can be integrated into the SDGs of clean water (SDG6), clean energy (SDG7), sustainable industry, innovation and infrastructure (SDG9), sustainable cities and communities (SDG11), climate action (SDG13) and life on land (SDG15) to attract capital from institutional investors.

Ramping up the integration of climate change solutions across all sectors is crucial. At present, the world remains far behind on the level of climate-aligned investment required to meet the Paris climate target of keeping global warming well below 2-degrees Celsius, let alone reaching a 1.5°C target.

Expanding use of green definitions

The definitions of what is green that have been developed for the green bond market should be applied and disclosed across thematic bonds to ensure alignment with global climate targets.

The investment shortfall in climate-aligned assets will have huge social implications, as [made clear by the UN](#):

“Achieving the SDGs will be almost impossible if average global temperatures are allowed to rise above the 2°C limit.”

US\$1 trillion of green bonds by 2020

Issuance of bonds aligned with global climate targets needs to continue to grow from millions to trillions to meet the full set of SDGs.

[Mission2020](#) calls for [US\\$1 trillion of annual green bond issuance by 2020](#).

To reach climate targets, it's the assets that matter – the label is a communication tool to drive disclosure and connect with investors. Whether bonds carry the ESG, SDG, social, sustainability, social or green bond label, a climate risk lens must be applied to ensure the broader sustainable development agenda can be achieved.

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