Climate Bonds Initiative

Media Release

Launch of Australia & New Zealand Green Loans Report
Analysis of Emerging Green Corporate Loan Market

LONDON 13/10/2020 22:00 BST: Climate Bonds has released the inaugural Australia and New Zealand Green Loans report, the first comprehensive analysis of the labelled green corporate loan market in both countries.

The report explores progress to date, best practice labelling, sustainability linked loans (SLL), green consumer loans and provides recommendations to channel loan markets for increased climate change investment. The focus is on loans that are publicly labelled as 'green' or similar, although we note that loans have been used to finance green projects such as renewable energy for several decades without being labelled as such.

To date there have been fourteen (14) labelled green corporate loans in Australia, from nine borrowers, and two green loans from borrowers in New Zealand. Of the combined total ten are Certified under the Climate Bonds Standard indicating a high level of commitment to international best practice.

The first green loan in the region came from New Zealand's power utility Contact Energy, in August 2017 followed by Macquarie Group in mid-2018 and Investa Commercial Property Fund (ICPF) in early 2019. Other green loans have followed involving major banks, property and clean energy developers including a green loan from Australia's superannuation sector, a Climate Bonds Certified transaction agreed in March 2020 by Local Government Property Fund, managed by Local Government Super (LGS).

Findings

The report finds that both nations countries are endowed with favourable factors to significantly grow a climate/green labelled loan market:

- Corporate loan and residential mortgage markets are dominant forms of funding, much larger than corporate bond markets;
- Financial markets are highly sophisticated;
- The corporate sector is actively engaged in climate change and transitioning to a net zero emissions economy;
- Developed and diversified green and sustainable finance sectors; and
- Strongly growing ESG agenda among local asset owners, asset managers, and banks.

Additionally, New Zealand's central government is pushing forward aggressively on decarbonising its economy.

Drivers of Credit Supply

The four major Australian and New Zealand banks have declared targets for green lending portfolios:

These targets will boost credit supply for green loans and are expected to increase overtime. The green lending criteria for some banks is regardless of product type, so can apply to either a green loan or SLL.

Investors and lenders are increasingly including ESG factors in their credit assessments:

This is typically at the corporate level of the borrower. Some banks, particularly in Europe, are risk-adjusting for ESG factors in determining pricing**.** This will increase demand of labelled (and unlabelled) products issued by companies demonstrating their ESG credentials.

Banks globally are keen to tap into strong institutional investor demand for green bonds with their own issuances:

Some banks will prioritise green loans (both labelled and unlabelled) as they seek eligible assets to earmark against the issue of their own green bond. This will lead to increased allocation of credit for green loans. Furthermore, some institutional investors, such as large superannuation funds, are increasingly looking to invest directly into green loans.

Core Recommendations:

- Regulators tilt the playing field towards green
- Tap into strong institutional demand for green products to expand investor base
- More corporate frameworks and ESG strategies required
- Increasing education for market players
- Widening of labels, narrowing of language

Christina Tonkin, Managing Director, Corporate Finance, ANZ:

"Green and sustainability linked loans are the next stage in financing to help companies promote their environmental, social and governance strategies. These emerging loan formats are part of an expanding suite of financing mechanisms to drive investment decision making and capital allocation around building low carbon and sustainable infrastructure, business practices and operating models."

Stuart Green, Group Treasurer, Macquarie Group:

"The progress we've seen to date in the emerging green loan market in Australia and New Zealand can be attributed to transparency between issuers and investors and robust certification, as well as the diversity of issuers and product offering. We look forward to further innovation in sustainability linked loans to help increase investor confidence in the environmental impact issuers are making and to maintain growth in this developing market."

Jason Patrick, Chief Investment Officer, New Zealand Green Investment Finance:

"New Zealand continues to work towards an effective transition to a low carbon economy. We are delighted to support this ambition, and we see the growth of the labelled loan within the green finance market as an important development toward meeting our climate goals."

Didier Van Not, General Manager, Corporate & Institutional Banking, Westpac Institutional Bank:

"Transition pathways are critical for companies from high-emitting sectors if Australia and New Zealand are to meet their international climate obligations. Support from markets and institutional investors, increased adoption of green bonds, loan and sustainability-linked finance can play a significant role in accelerating the decarbonisation of hard-to abate sectors."

Sean Kidney, Chief Executive Officer, Climate Bonds Initiative:

"The green loans market in Australia and New Zealand is following a similar development path to that of the green bond market. Early involvement of major banks, adherence to market best practice and commitment to innovation. Acceleration in the corporate sector can be expected on both sides of the Tasman as net zero targets and transition strategies come to the fore from institutional investors and are increasingly embedded in company business models and capex plans."

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Acknowledgements:
Australia and New Zealand Green Loans report is sponsored by ANZ, Macquarie, Westpac Institutional Bank and NZGIF. Report Partners: CEFC, GBCA, NZGBC.

Australia and New Zealand Green Loans report is available here.

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Notes for journalists:

About the Climate Bonds Initiative: Climate Bonds Initiative is an investor-focused not-for-profit, promoting large-scale investment in the low carbon economy. Climate Bonds undertakes advocacy and outreach to inform and stimulate the market, provides policy models and government advice, market data and analysis, and administers an international Standard & Certification Scheme for best practice in green bonds issuance. For more information, please visit www.climatebonds.net.