Climate Bonds Initiative

# FIVE STEPS TO FIVE TRILLION

The green bond market has quickly expanded to pass USD2tn by the end of Q3 2022. However, to make a substantive contribution to addressing the stark risks of climate change we need to see at least USD5tn a year of annual issuance from 2025. We have adequate global capital available, and the rapid market growth to date has demonstrated the appetite for capital to move. Climate Bonds sees five collective actions to reach the annual USD5tn per annum. We need to expand, step-up, implement and move rapidly on the below requirements.

## 1. LABEL GREEN

Green labelling of bonds is now well established. We must green the capital markets ecosystem by expanding this labelling to include all types of financial instruments from equities to short term borrowing, sectors, entities, and everything that comes beneath that including transition, resilience, nature-based solutions, and water. Liquidity and scale enable investors to commit to climate friendly investment mandates. At present, only a small fraction of the activities and participants contributing to green finance are being recognised. We need to identify what could qualify and include and celebrate all participants. Achieving this will enable the prioritisation of green activities and identification of green investment opportunities across all portfolios. We've already got lots more than we think!

## 2. DEFINE TRANSFORMATION

We must expand our definitions to include areas beyond climate change mitigation which is now well covered. New areas requiring financing include transition, biodiversity, and adaptation and resilience including healthcare. We must accelerate action throughout our society and develop ambitious and robust green definitions for all our activities. Taxonomies that can be used by global investors seamlessly and with minimum transaction costs will facilitate global recognition of different green financial instruments.

## 3. ACCELERATE POLICY

Governments must signal clear support for net-zero by initiating a supportive policy environment for transition. They must endorse clear transition pathways, establish certainty of future demand for financeable climate solutions, and address risks in areas where the private sector is unable to act. Issuing sovereign green bonds indicates strong government leadership catalysing market creation and development through scale and issuers often obtain cheaper funding to boot. Climate Bonds *101 Sustainable Finance Policies for 1.5˚C* is full of suggestions to get policy moving.

## 4. GROW PIPELINE

Creating a large, predictable and climate friendly pipeline of expenditures and projects is the key to achieving net zero. Capital may be keen to move, but it can only do so when there are projects to allocate to. That requires ambitious planning, supportive policy, and leadership from the public sector through actions such as investment in research and development, and incorporating climate considerations into planning. Pipeline prioritisation, a pain point for all economies, can be bolstered by stronger definitions.

## 5. BOOST EMERGING MARKETS

We must act to bring the required scale to climate investment in those markets that are in the greatest need of low carbon energy supply, water access, climate -friendly transportation and other economically critical infrastructure. While we have a global surfeit of capital, it's sitting idle seeking returns in all too familiar investment destinations. We need to channel this capital to the right places to address climate change. Mechanisms to get capital flowing from richer to poorer such as blended finance to absorb junior capital tranches, de-risking guarantees, and larger sized deals, must all be multiplied. Economic development must build in mitigation from the start, and large projects should be financed through the capital markets to encourage dedicated investment.