Climate Bonds Initiative

Green Bonds – A Bridge to the SDGs

Climate mitigation and adaptation underpin meeting the UN Sustainable Development Goals

This is the first instalment in a briefing series exploring the synergies between green bonds and acheiving the SDGs

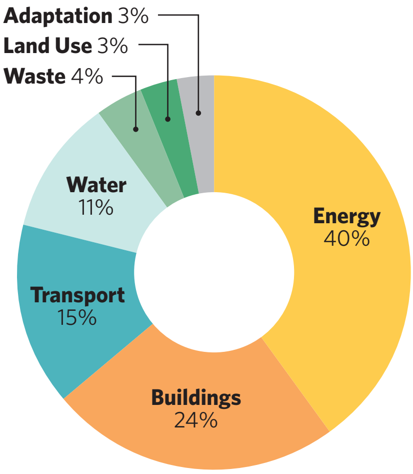
Proliferation of thematic labels

Alongside the rapid growth of green bonds, new thematic bonds are appearing in the market. These include social bonds, sustainability bonds, Environmental Social and Governance (ESG)-bonds and the latest addition, Sustainable Development Goal (SDG)-bonds.

All of these replicate the green bond model by introducing disclosure and reporting requirements for the issuer to connect investors with assets that deliver a positive sustainability impact.

The UN SDGs specify the global sustainability targets that are critical for our future societies and economies. Core to the 2030 Agenda, the SDGs is a list of 17 goals that cover both green and social themes.

Use of green bond proceeds 2007 to June 2018



Finance sector support

The SDGs are gaining widespread support across a broad market base, including stakeholder groups, investors, corporates and international development bodies. A group of over 20 UNEP-FI banking members have foreshadowed a new alignment of business models against both SDGs and the Paris Agreement.

Australia based NAB have gone a step further, with its recently released NAB SDG Green Bond Framework, which advises that it will seek Climate Bonds Certification for future issuances to ensure alignment and best practice. The International Capital Markets Association (ICMA) at their GBP AGM in Hong Kong last week released a new tool; a mapping of SDGs against thematic-labelled bonds.

In the IISD Knowledge Hub, climate finance, resilience and adaptation stories have the relevant SDGs listed next to each of them. It's a graphic illustration of how green finance, climate action and SDG agendas are intertwining.

Interplay between green and social goals

The 17 SDGs are interdependent: for example, food production (SDG2) is an individual goal, but food production is connected to lifeon land (SDG15), in the sea (SDG14), 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.

Achieving the climate goal is reliant on approaching the other SDGs with a climate lens, especially Clean Water & Sanitation (SDG6), Affordable and Clean Energy (SDG7) Industry Innovation & Infrastructure (SDG9), Sustainable Cities (SDG11) and Life on Land (SDG15).

In turn, the level of climate action achieved will impact all the other SDGs and if and how they will 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) is expected to worsen with climate change. Health (SDG3) is another example where climate change is estimated to have severe negative impact. Meeting the Goals will involve investment in climate resilience, as well as mitigation. Our briefing paper expands on these points.

All SDGs are impacted by climate action

The list goes on: all SDGs bear some relation to climate action since climate change is a global issue that impacts all countries and sectors. Climate is a crosscutting theme relevant to 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 SDGs."

UN SDGs

Six SDGs that get the biggest boost from green bonds: 6, 7, 9, 11, 13 & 15

All the goals are underpinned by a series of targets, some financial and some outcome based out to 2030. Our ongoing analysis of green bond investment led Climate Bonds to identify in our January Seven Super Trends the following six out of the seventeen SDGs where increased green investment and growth in green bond markets provides direct benefits, particularly in emerging economies.

Clean water and sanitation (SDG6)

Clean water and sanitation (SDG6) accounts for 11% of green bond issuance to date. The complex links between climate change and water security are increasingly evident. As is the need to address water efficiency, reuse and waste water practices in a carbon constrained manner. A recent example of green bond investment in this are is Cape Town's Certified green bond, which financed clean water and sanitation assets (SDG6) that are both low carbon and climate resilient.

Clean energy (SDG7)

Clean energy (SDG7) remains the largest share of the green bond market (40%), though the share has fallen as the market has diversified over the last few years. Acceleration of investment in both renewable energy systems, energy efficiency initiatives and associated infrastructure has a dual climate and SDG benefit. National leadership is vital.

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 up a best-practice example of a green bond from the transport sector with proceeds allocated to electrified rail, a low emission transport solution. 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 and they address the Goal of sustainable cities and communities (SDG11). Municipalities and city-linked entities, such as utilities and transport companies, are a significant issuer of green bonds. More cities issuing green bonds as a core part of their climate strategies boosts this & other SDGs.

Cape Town's green bond for water would ticks this box on supporting sustainable cities (SDG11) as well as climate action (SDG13) - illustrating how a single asset contributes to several SDGs at once.

Climate Action (SDG 13)

The rapidly growing green finance sphere is already providing capital for assets that simultaneously contribute to climate action (SDG13) and many other SDGs. In the green bond market the vast majority of proceeds to date is allocated to climate mitigation and adaptation & resilience, with only a small share allocated to other green assets. Mission 2020 and Climate Bonds share a common milestone of $1trillion in green finance by end 2020. Achievement of this goal by the global finance sector would provide a tremendous boost to climate action the SDGs & 2030 Agenda.

Life on land (SDG15)

A smaller share of green bonds (3%) is also financing sustainable forestry and agriculture, contributing to life on land (SDG15). Almost half the green bonds issued in Brazil (a global agriculture exporter) have a sustainable forestry or land use component. Poland's sovereign green bond included sustainable agriculture, afforestation, conservation and restoration of natural habitat.

Applying a climate risk lens to all thematic bonds

While many of the SDGs have a social primary focus, a climate-resilient and mitigation 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 (not supporting a low carbon future), by hitting social goals in the short term, but failing to deliver positive impact in the medium- to long-term.

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-bonds and sustainability bonds. Disclosure allows investors to make informed decisions about investing in assets designed to remain operative in more extreme weather conditions.

Variable levels of low carbon disclosure

To date, there are varying levels of disclosure on the climate performance of assets financed by SDG-bonds, ESG-bonds and sustainability bonds.

The ESG-labelled covered bonds from Münchener Hypothekenbank with proceeds for cooperative housing lack disclosure on the energy efficiency performance of the buildings, which meant its climate profile could not be assessed.

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

Green bond investment can be increasingly integrated into at least the 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) Goals. This diversity will attract additional capital from institutional investors. However, capital is yet to be mobilised on the scale required.

> 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."*

The very latest IPCC report leak on the 1.5 degree target puts an even more dire position.

The Last Word: More green bonds = More progress on SDGs

The definitions of '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.

Issuance of bonds aligned with global climate targets needs to continue growing from millions to trillions to meet the full set of SDGs. Mission 2020 calls for USD1 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 goal of 'sustainable development' can be achieved.

In future instalments of this briefing series, we'll explore other aspects of the synergies between green bonds and SDGs. Meantime you can read more in our briefing paper.

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