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Green Bonds Market Could Grow to $100bn by Next Year – Industry Group

"A classic bond market growth story"

Daniel Brooksbank | Feb. 19, 2014

The international green bonds market could grow to $100bn by the time of next year's United Nations conference on climate change in Paris, according to the Climate Bonds Initiative, the not-for-profit group that champions the development of the sector.

The initiative's chief executive Sean Kidney believes the market, which saw a surge at the end of last year that has continued into the first part of this year, could be worth up to £40bn in 2014.

The remarks came on a webinar organised by advocacy group As You Sow. Moderator Amelia Timbers introduced the event saying it's expected the market will double this year from 2013's $11bn volume.

"Doubling? We now think it'll be tripling!" said Kidney in response, saying there has already been £2.5bn of issuance in 2014 so far. It was a "classic bond market growth story".

As if to illustrate the point, the initiative reports today (February 19) that the European Investment Bank (EIB) is making a further €500m 'tap' of its Climate Awareness Bond that matures in November 2019.

The market last year saw innovations such as the first$100m issuance of a series of asset-backed 'Sustainable Yield Bonds' (the term is trademarked) from New York-listed Hannon Armstrong Sustainable Infrastructure Capital.

Burgeoning corporate issuance was exemplified by an oversubscribed €1.4bn issue from French state-controlled utility Électricité de France. Kidney said: "There's going to be a lot of these this year."

In addition, last month a set of green bond voluntary guidelines were launched by a group of investment banks.

Also on the call was Massachusetts' Assistant State Treasurer Colin MacNaught, who described how it became the first US state to issue green bonds last year, with a $100m issue that was 30% oversubscribed. He said the state closely studied the World Bank and IFCmodel before taking the plunge, examining their offering documents and post-issuance material.

He said: "We need to borrow efficiently at the lowest possible cost. What does that mean? We need to find new investors." The issue attracted both local SRIinvestors and major players such as TIAA-CREF and was a "totally rational investment" MacNaught said.

In total there were around seven new institutional investors, MacNaught said. There were 154 distinct retail orders, including 45 for a single $5,000 bond.

"We've never seen that many single orders for bonds. A lot of the residents in the state wanted to invest; we've opened Massachusetts up to a whole new realm of investors."

The Treasurer's office was not able to find third-party certification for the issue, which supports the state's Accelerated Energy Program (AEP) and other projects including water, energy efficiency, land acquisition/protection and remediation projects and river revitalization/habitat restoration. The office will then report back to investors on specifics.

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