Climate and Green Bonds

Climate and green bonds are fixed-income financial instruments that are issued in order to raise capital for the implementation of environmental projects, often climate change mitigation- or adaptation-related activities or renewable or energy efficiency projects, and therefore allow investors to report to their members on how their secure investments are also contributing to addressing environmental challenges. Most climate or green bonds are asset backed, or ring fenced, where investors are promised that all funds raised will go only to specified programs or assets to achieve a set environment or energy goal. Climate or green bond issuance could be structured in several ways, the structure itself being a function of the target market/asset being financed. To this end, it can be structured as zero-coupon bonds-where the full amount owed plus interest is due at the end of the life of the bond, standard bonds, or bonds with a bonus payout indexed to carbon prices (paying a low guaranteed return with a bonus coupon linked to the price of carbon).

How to Apply this Program

Climate or green bonds do not differ significantly from traditional issuances of debt except that their primary purpose is to attract funds that support real and verifiable projects intended to achieve a specific environment or energy outcome. Projects can range from greenhouse gas emission reduction efforts to clean energy and energy efficiency projects to climate change adaptation projects, including building flood defenses and efforts to ensure that the Great Barrier Reef can adapt to warming waters. Like other bonds, climate and green bonds can be issued by governments or multi-national banks or corporations, but, regardless of origin, the issuing entity guarantees to repay not only the value of the bond over a certain period of time but also either a fixed or variable rate of return. These bonds appeal to investors interested in supporting triple bottom-line investment.

Examples

Since the inaugural issue in 2008, the World Bank has issued approximately USD 3 billion in Green Bonds through 46 transactions and 17 currencies. (Full list of issuances available at: http://treasury.worldbank.org/cmd/htm/GreenBondIssuancesToDate.html.)

The Clean Renewable Energy Bonds (CREB) program is a form of bond where the investor receives a tax credit from the U.S. Department of the Treasury rather than an interest payment from the issuer. In 2009, the American Recovery and Reinvestment Act increased the CREBs allocation by $1.6 billion, bringing the new CREBs total to $2.4 billion.

Qualified Energy Conservation Bonds (QECBs) are qualified tax credit bonds that may be used by state, local, and tribal governments in the United States to finance certain types of energy projects. The definition of projects is fairly broad and includes energy efficiency capital expenditures; green community programs; renewable energy production; various research and development applications; mass commuting facilities that reduce energy consumption; several types of energy-related demonstration projects; and public energy efficiency education campaigns.