

Principal ESG Academy - What is Green bond?



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When you invest in a normal bond, you lend money to an issuer (e.g., company or government entity) for an “unspecified” purpose and the issuer pays a coupon in return. Green bonds work like regular bonds with one key difference: the money raised is used exclusively for climate and environmental projects, such as sustainable energy and environmentally friendly technologies.

Take the recently launched Green Bond by the Hong Kong Government as an example. Issued under the Government Green Bond Programme, these bonds allow local residents to participate in the green and sustainable finance market. They are used to fund nine types of projects that fight climate change and help transition Hong Kong to a low-carbon economy. Examples include energy-efficiency upgrades, waste reduction and recycling, clean transport and green buildings.

According to Hong Kong’s latest green bond report, US\$3.5 billion raised from the two green bonds issued in May 2019 and February 2020 were allocated to 14 projects. Those include two plants in North Lantau and northern New Territories that use anaerobic digestion technology to turn food waste into biogas to produce electricity and compost. That can reduce an estimated 109,000 tonnes of greenhouse gases emission annually¹.

Globally, the green debt market demonstrated a rapid growth during 2020 to 2021, with market volumes increased by 75%². The average size of individual green bond rose from \$165 million USD in 2020 to \$250 million USD in 2021. The sustainable theme continued to attract new issuers, with the number of issuers rising by 32%².

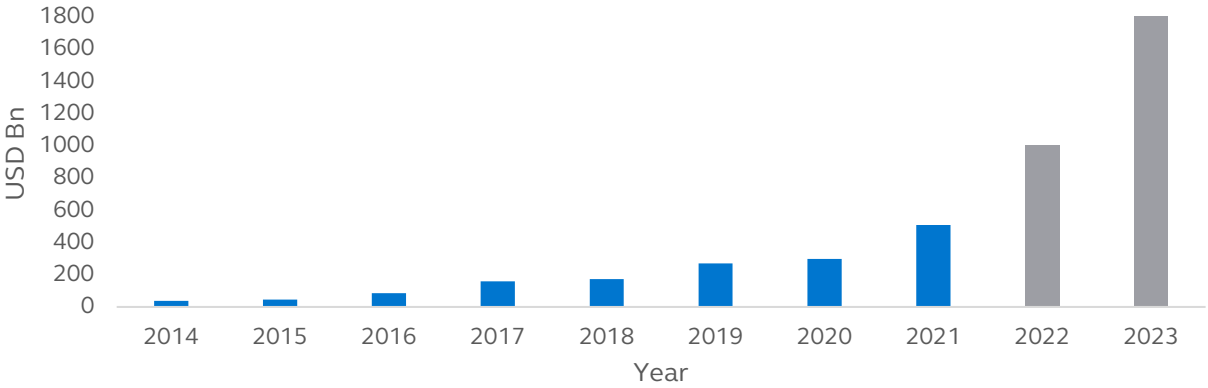
Green bonds are growing in popularity²

	2020	2021	% Change YOY
Size of Market (USD Bn)	298.1	522.7	75%
Number of issuers	636	839	32%
Number of instruments	1,794	2,089	19%
Average size of instrument (USD Mn)	165	250	51%
Number of countries	56	58	4%
Number of currencies	34	33	-3%

Three quarters (73%) of the 2021 green bond volume originated from developed markets (DM). However, green bond issuance in the Asia-Pacific region (129%) experienced the strongest growth. China, Japan, and Singapore were the top three largest country sources within the region².

Green bonds are still a small part of the massive global bond market, but they are expected to continue to grow exponentially. Global green bond market is set to reach USD 1 trillion by the end of 2022, as predicted by Climate Bonds Initiative³.

Green Bond Issuance (USD Bn)



In fact, more than 130 countries have set or are considering a goal of net-zero emissions by 2050. Achieving net-zero on a global scale, however, requires US\$125 trillion in climate investment by 2050, according to research commissioned by the United Nations Framework Convention on Climate Change (UNFCCC). In 2021, the world spent US\$755 billion on deploying low-carbon energy technologies, up 27% from the year prior. Sustainable finance is expected to continue to grow and there will be more investment opportunities in the future³.

¹ Source: Green Bond Report 2021, HKSAR. For details, please refer to:
https://www.hkgeb.gov.hk/en/others/documents/Green_Bond_Report_2021.pdf

² Source: Sustainable Debt Global State of the Market 2021, Climate Bonds Initiative. For details, please refer to:
https://www.climatebonds.net/files/reports/cbi_global_sotm_2021_02h_0.pdf

³ Source: Sustainable Debt Market Summary Q1 2022, Climate Bonds Initiative. For details, please refer to:
https://www.climatebonds.net/files/reports/cbi_susdebtsm_q12022_01f.pdf

Disclosures:

All figures shown in this document are in U.S. dollars unless otherwise noted.

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