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What are green bonds?

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WHAT DOES IT MEAN?

Green bonds are designated bonds issued to fund projects that are expected to generate positive environmental impact and/or climate benefits. According to the Green Bond Principles (GBP), eligible categories for green projects include renewable energy, pollution prevention and control, and environmentally sustainable management of living natural resources and land use.

There are four types of green bonds in the market: standard green use of proceeds bond; green revenue bond; green project bond and green securitised bond.

WHY IS IT IMPORTANT?

The issuance of green bonds is increasing at a rapid speed. At present, the issuers of green bonds include international bodies such as the World Bank and European Investment Bank, sovereign governments, municipals, and corporates. Moody's Climate Bonds Initiatives (CBI) found that the issuance of green bonds reached a record high of US$155.2 billion (S$213 billion) last year with 239 issuers from 37 countries.

In Singapore, the Monetary Authority of Singapore launched a Green Bond Grant Scheme on June 1 last year, to support the issuance of green bonds. Under the scheme, issuers that obtain an external review will be able to offset 100 per cent of their external review expenses, subject to a funding cap of $100,000 per issuance.

In April last year, City Developments Limited issued Singapore's first green bond of $100 million at 1.98 per cent fixed rate due next year to finance its investments in energy saving and efficient infrastructures.

Green bonds provide an ideal opportunity for investors to engage in sustainable investment with positive financial returns and environmental impact.

They are usually accompanied by second- or third-party verification, carried out by non-governmental organisations such as CBI. Issuers of green bonds may voluntarily disclose the use of proceeds, project evaluation, selection criteria, management of proceeds, and material development according to GBP. Some criticise that the definition of "green" is unclear.

The risk involved in green bonds includes liquidity risk and default risk. Given that there are very limited secondary-market trading and a lack of adequate history of actual defaults, the investor shall evaluate the issuers' and the underlying project's risk carefully. More research still needs to be done to understand this growing sector fully.

IF YOU WANT TO USE THE TERM, JUST SAY:

"A green bond is a sustainable investment vehicle that provides investors with financial returns and an opportunity to be environmentally responsible."

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