

<https://blog.en.erste-am.com/green-bonds-for-clean-energy/>

## Green bonds for clean energy

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Green bonds are bonds whose issue proceeds are exclusively used to finance existing or new projects with environmental benefits.

### Long tradition

In 2007, the European Investment Bank (EIB) issued the first green bond and called it "Climate Awareness Bond".

While during the first years this young market segment was largely driven by supranational issuers and development banks, the first corporate bonds were issued as green bonds in 2012. From 2014/15 onwards, the category was becoming gradually more popular with other categories of issuers, with volumes rising thereafter.

Utilities account for the lion's share of the corporate bond segment, which issued almost EUR 32bn worth of bonds on the euro-denominated market in 2019. They make up a bit more than a third of the outstanding green bond universe.

The utilities sector accounts for slightly above 20% of global green bond indices. European companies are the heavyweights of these indices, as are numerous utilities from North America and Asia.

### The Austrian pioneer

The Austrian electricity provider and utility company Verbund AG was among the pioneers as early as 2014. The company issued a EUR 500mn 10Y bond after about 18 months of preparation, where they developed a framework, selected suitable ecological projects to fund, evaluated them, and obtained a second-party opinion from oekom Research.

The demand for this issue that paid a 1.5% coupon was massive. The underlying projects are wind power projects in the district of Bruck/Leitha and in Germany, the increase of efficiency in the hydroelectric plant of Ybbs-Persenbeug, and a new water pump storage facility in Reifßeck II/Carinthia.

### The international picture

Internationally, the big players in the utilities sector are driving the production of renewable energy by issuing green bonds. A beneficial side effect is the good reputation they can garner through this prominently green stance.

Power grid and infrastructure operators with strong sustainability ratings such as TenneT, Alliander, Terna, and SNAM have repeatedly issued green bonds. At the same time, issuers like Iberdrola, Electricité de France, and ENEL have also tapped that segment. This has allowed them to steer their energy mix slightly towards renewable energies, but the risks associated with nuclear energy still apply to green bonds.

Therefore, Erste AM checks not only the projects and the implementation of the four bond principles, which are:

1. The use of the issue proceeds
2. The process of project evaluation and selection
3. The management of the proceeds
4. The reporting

... but also the ESG rating of the company as such. If one or more criteria of exclusion are flagged up or the issuer is not best-in-class within its sector in terms of ESG criteria, its green bonds are also not investable for our sustainable mandates.

### CONCLUSION:

In spite of the expansion of the green bond market, we expect the utilities sector to retain a commanding role due to the issue proceeds being earmarked for green projects. Energy transition is the key concept that will be underpinning this development.

You can find our dossier on rethinking energy production and consumption at: <https://blog.en.erste-am.com/dossier/strom-energie/>

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