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Impact bonds are here to stay

Martin Cech



It started with the first climate awareness bonds of the European Investment Bank. Even back then, the issue proceeds were earmarked for explicitly sustainable projects of the supranational bank.

In recent years, the volume of such bonds has increased rapidly. The issue volume rose from USD 300bn in 2019 to USD 500bn in 2020. The capital markets have been inundated by green bonds, social bonds, sustainability bonds (i.e. projects that contain both environmental and socially sustainable aspects), and sustainability-linked bonds (i.e. the issue terms are linked to defined goals such as CO2 reduction, reduction of waste, or the maintenance of high ESG ratings from rating agencies). The umbrella term for all of these bonds is impact bonds – as they are meant to have an impact.

Impact bonds funnel capital in a targeted fashion towards the sustainable projects of companies or states, regions, or municipalities. The idea is to effect change within their activities.

In terms of rating, impact bonds have the same status as traditional bonds of the same issuer. The added advantage is the fact that prior to the bond issue, the issuer specifies clearly what the proceeds will be used for.

The range of activities of the issuers that qualify for such assets is wide, with hardly any area of private or public life being off limits.

The following are examples of projects funded by impact bonds:

- **Energy and energy efficiency**

Renewable energy accounts for 20% of total energy production worldwide, with the pressure to resort to sustainable forms of energy production rising gradually. New technologies will become ever more relevant and transform the economy – e.g. e-motors, hydrogen, and biofuels. In Europe, about 1 million public charging stations are to be installed by 2025 in order to promote the use of electric vehicles. At the same time, the energy efficiency of appliances has to be improved.

- **Sustainable building and living**

The construction of sustainable real estate that conserves resources, and the restoration of existing buildings.

- **Infrastructure and urban development**

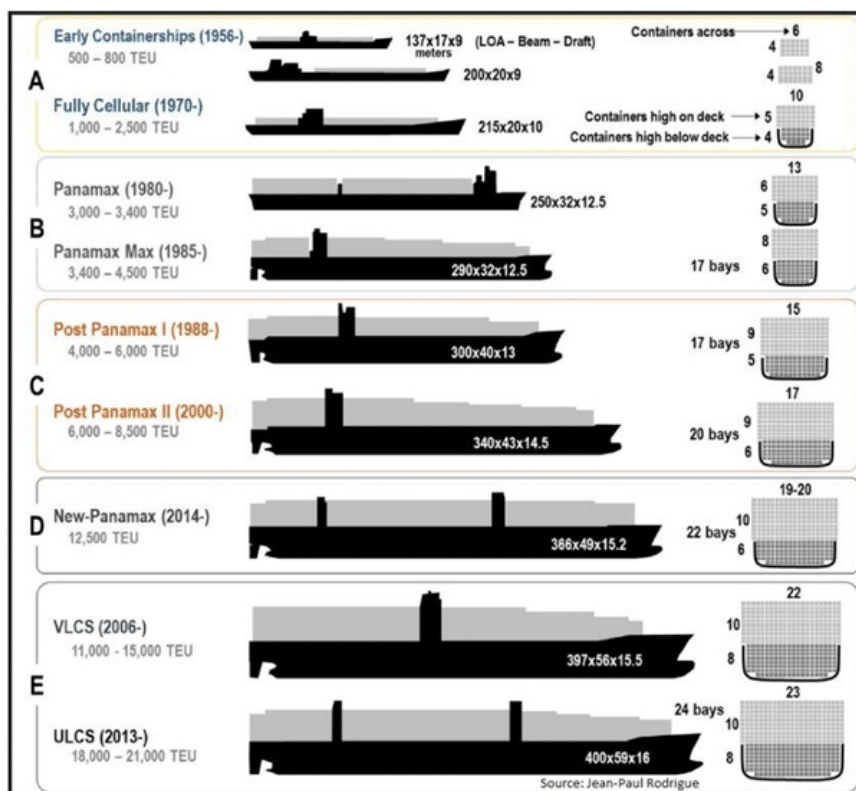
Today, 55% of all people live in cities. By 2050, this number will have increased to 70% due to rural exodus. Public infrastructure and mobility in the urban areas have to be upgraded significantly.

Other areas of importance are water supply and wastewater treatment, recycling and waste treatment, and agriculture, ecological systems, and biodiversity.

In addition, so-called Covid-19 Response Bonds (social bonds) have been issued from 2020 onwards. Their focus is the containment of the current pandemic, or on an operational level projects in the healthcare sector such as research, job creation, and reintegration/resocialisation.

Greenwashing is to be avoided at all costs. This means projects that don a green coat in order to just create an environmentally friendly and responsible image. Erste Asset Management operates credibly in the field of impact bonds. Our sustainability team scrutinises potential issuers thoroughly in order to guarantee they comply with the strict requirements of the sustainability approach and do not violate any criteria of exclusion.

The positive change created by impact bonds is measurable. We have the entire portfolio of our ERSTE RESPONSIBLE BOND GLOBAL IMPACT fund analysed on an annual basis. The breakdown of the projects into the 17 sustainable development goals (SDGs) yields crucial insights.



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