#FINANCING

GETTING STARTED WITH GREEN FINANCE

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Green finance defined

At its core, green finance is about allocating capital for a sustainable purpose. Examples of green finance include green bonds, green lending and green equity investment. Also known as environmental finance, green finance refers to any structured financial activity that raises money for eco-friendly purposes. The outcome either benefits or reduces harm to the planet.

On the flipside, green finance is also defined as an initiative or process designed to manage how the environment impacts finance.

It's a two-way relationship. Green finance and investment can help or harm the environment. Likewise, the environment can also positively or negatively impact investment performance.

A green finance strategy focuses on increasing financial flows from the public, private and not-for-profit sectors to sustainable development projects, stemming from banking, micro-credit and investment.

Green finance principles can be applied at a product or an individual process level. Equally, they can be the focal point of an entire organization. For instance, the Ecology Building Society, Naturesave Insurance and Banca Etica all have environmental sustainability at the heart of their ethos.

Whatever the level, incorporating green thinking into financial activities has gathered pace. That's been particularly noticeable since the signing of the Paris Climate Change Agreement in 2015.

The history of green finance

Rewind to 2007: The green bond market emerged with the AAA-rated issuance from the European Investment Bank (EIB). Things gained momentum in March 2013, when the first $1 billion green bond sold within an hour of issue.

What followed was a flurry of activity. Massachusetts issued a green municipal bond in June 2013, and in October of that year, Gothenburg issued a green city bond. Come November, SolarCity (now Tesla Energy) announced a solar asset-backed security (ABS). And that same month, Swedish property company Vasakronan released a green corporate bond. All of these were green finance firsts.

These days, the green finance sector is thriving, with corporate issuers such as ICBC, Credit Agricole, Apple and SNCF. The US is the dominant green bond issuer, with China and France coming in at second and third respectively. Also, the Green Finance Institute was created in 2019, to help industries unlock green investment policies.

To advance the green finance agenda further, enhanced collective action is needed. That includes action between countries, as well as the public and private sectors.

Why is there a need for green finance?

With the environment an ever-pressing issue, consumers are more eco-conscious in all facets of life, including their financial lives. Not only that, governments and corporations are increasingly aware of the need to protect the world we live in.

Environmental issues center around greenhouse gas emissions, biodiversity, renewable energy and energy efficiency. Other considerations are waste management and the depletion of natural resources. These are the areas green finance tends to concentrate on.

To facilitate change, financial institutions and regulators have devised innovative solutions. They recognize the need to invest in sustainability and have acted accordingly. To that end, the European Commission (EC) is considering issuing green bonds for the first time.

How financial institutions benefit from going green finance

As well as helping to meet sustainability goals, financial institutions reap additional benefits from green finance.
These include:

- **Knowledge of market signals**

By regulating the green bond market with rules such as the Green Bond Standard, the EC indicates the strategic priorities of the regulators. For example, 30 percent of the Next Generation EU (NGEU) recovery fund will be financed via green bonds, equating to €225 billion.

- **Risk reduction**

Business-as-usual investments, such as financing oil and gas, perpetuate unsustainable growth patterns. A green finance strategy ensures green investments take precedence over these. Furthermore, with evolving regulations and rising customer awareness, environmentally friendly initiatives are less risky.

In line with that, Deutsche Bank adopted a new fossil fuel investment policy in 2020, kicking off a review into limiting oil and gas financing.

- **Attracting young investors**

Millennials are influencing financial markets with their ethical values. As a group, they're plowing money into sustainable investments at a rate that's twice the average. What's more, green bonds offer younger investors a way of earning tax-exempt income.

At the same time, they're safe in the knowledge that the proceeds are used responsibly. In that way, both financial institutions and bond issuers benefit.

- **Greater profits**

Green bond issuance is expanding. For example, companies such as Pepsi, Bank of America and Unilever have issued green bonds. With that, the financial institutions that underwrite these bonds make money.

Green bonds may represent a small proportion of financial institution borrowings at the moment, but S&P Global Ratings expects that to increase. As key providers of funding, financial institutions have a significant role to play in the global transition to a low-carbon economy.

- **Marketing device**

Many investors care about the world they live in. Financial institutions and bond issuers can use that to their advantage. Green bonds carry similar risks to conventional bonds. The difference is, however, there's a positive environmental impact with the former, making it the more attractive proposition for many.

- **Relationship building**

Financial institutions have seen customers request more green bonds. That offers financial institutions an opportunity to develop deeper relationships with investors. Both sides share a common purpose: addressing environmental issues.

Green finance and its importance

Green finance is here to stay. Not only that, the market is fizzing with activity and growth. At its core, green finance is about earmarking capital for sustainable purposes. Moreover, organizations should consider both the financial and environmental implications of a decision.

With increased awareness, green finance has moved higher up the agenda. To keep up with that, financial institutions have created green tools, products and services. As a result, the green bond market has skyrocketed to over $100 billion issued annually.

Green finance benefits financial institutions in many ways, not least helping them meet their sustainability goals. Younger investors are attracted, profits increase and risk reduces – all positives for financial institutions.

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Sopra Banking Software is a subsidiary of the Sopra Steria Group, a European leader in consulting, digital services and software development. With more than 46,000 employees, the Sopra Steria Group generated a turnover of €4.43 billion in 2019.
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