CLIENT NOTE

INVESTING TODAY WILL SAVE THE EARTH IN FUTURE

INTRODUCTION

Since its first issuance, the market for Green Bonds has been growing rapidly as investors around the world are prone to diversify their portfolio responsibly and, as practice shows, mainly in environmentally friendly projects. Likewise, green corporations benefit from the Green Bonds as these first-of-its-kind tools are offering a supplementary and innovative means to finance projects that might be helpful to overcome obstacles and to give rise to environmental initiatives.

Nowadays, it is beyond any doubt that human activities and technological achievements are posing a continuous and serious threat to the maintenance of biological safety and diversity and that urgent actions are required on a global scale to mitigate or reverse the processes causing environmental degradation. At the heart of these developments lies the concern that human's intervention is shifting intolerable burden upon the capacity of natural systems. Consequently, the ongoing and uprising negative impact on the ecosystem may become irreparable unless equivalent and proportional remedies and actions are to be undertaken and carried out.

As a solution, the green community widely uses the debt instrument called environmental bonds, also known as "Green Bonds". These types of bonds are intended to encourage sustainability and support climate benefiting projects and generally aim at energy sufficiency, sustainable agriculture, fishery and forestry, pollution prevention, protection of aquatic and terrestrial ecosystems, clean water, and sustainable water management.

"ANGEL" INSTRUMENTS FOR GREEN INDUSTRY

Green Bonds are a type of fixed-income instruments, which proceeds are solely used to finance or refinance new and/or existing eligible environmental and climate projects. The majority of the Green Bonds are asset-linked

backed by the issuer's entire balance sheet and thus carrying a credit rating similar to the issuer's other obligations and other funds[1]. Usually, they are earmarked for climate-related projects entitling some tax privileges.

To be qualified as Green Bond, they should comply with Green Bond Principles ("GBP"), which provides the issuers guidelines on the key components for launching credible bonds. The GBP includes 4 components: **management of proceeds, reporting, use of proceeds, and process for evaluation and selection of projects**. Furthermore, Green Bond issuers are required to provide clear communication of the environmental sustainability objectives, the eligible Green Projects categories, and the related eligibility criteria, including exclusion to investors.

Based on the features and characteristics of debt financing, the main types of Green Bonds are:

- **(i) Use of Proceeds Green Bonds:** a standard debt obligation with the possibility of recourse against the issuer.
- **(ii) Green Revenue Bonds:** a non-recourse-to-the-issuer debt obligation, whose proceeds are aimed at associated or unassociated green projects.
- **(iii) Green Project Bonds:** a project bond for a single or multiple green projects for which the investor has direct exposure to the risk of the projects with or without potential recourse to the issuer.
- **(iv) Green Securitized (Collateralized, ABS) Bonds:** a bond collateralized by single or more specific green projects.

FROM EVOLUTION TO REVOLUTION: REAL-WORLD EXAMPLES OF GREEN BONDS

The idea of issuing Green bonds came when the Intergovernmental Panel for Climate change published a report undeniably linking action to global warming. A Swedish bank, named SEB (Skandinaviska Enskilda Banken AB) was at the origin of the issuance of the first Green Bonds, which at that time was seeking alternative ways of financing green projects, and subsequently called on World Bank's assistance.

Within one year, the World Bank has issued the first Green Bonds in 2009. *"SEB connected the dots between the financing that was seeking to reduce risks for the investors and make a positive impact, and the World Bank with its deep knowledge on investing in environmental projects around the world"* [2] - was described the Green Bond transaction by the World Bank. Its objective was to create a new way to connect climate-benefiting projects to financing.

More than 10 years later, Green bonds have become a revolution. Until today the World Bank has issued more than 150 green bonds in 20 different currencies, worth $13 billion. Other corporations and banks of all countries (both in for-profit and non-profit sectors) and of all sizes have been engaged in the issuance of Green Bond,

[1] https://www.investopedia.com/terms/g/green-bond.asp.
[2] https://www.worldbank.org/en/news/feature/2018/11/27/from-evolution-to-revolution-10-years-of-green-bonds.

Fannie Mae being the largest one and succeeded by KfW (German state-owned bank) and Dutch State Treasury Agency (DSTA) (overall, the biggest three issuers in the world) [3].

The USA, China, and France are the top 3 issuers in 2019. All of the top three non-financial corporates operate in the energy sector, such as SCNF, Société du Grand Paris, and the Republic of China[4].

In 2019 Crédit Agricole was the largest green bond underwriter in the global market with $10.6 billion worth, winning a close race between BNP Paribas ($10.5 billion) and HSBC ($10.1 billion). These 3 together account for 17% of the total amount. Around $157 billion worth of Green Bonds were issued in 2019 worldwide. Until then, it can be clearly stated that 2019 has marked a turning point in Green Bond growth[5].

Currently, "going green" has become a popular trend allowing governments around the world to adopt a favorable regulation and help green projects be released. Green bonds are becoming one of the top investment platforms. For example, Tesla Motors issued a $600 million convertible Green Bonds. Toyota Motor Corp financed hybrid vehicle loans by issuing asset-backed securities. To this end, the World Economic Forum suggests that $700 billion per year needs to be invested in clean energy, transportation, and forestry[6].

As of 2021/2022 period issuers seek to reach $1 trillion in annual green issuance.

BENEFITS OF GOING GREEN

While exploring the convenience of issuing Green Bonds, the following advantages and initiatives show up:

- **(i)** **Environmentally Friendly and Supportive.** As detailed above, the Green Bonds allow the international community to raise funds in extensive eco fields with the benefit of knowing that the proceeds of their investment are being used in a socially responsible and positive manner.
- **(ii)** **Diversification.** The increasing demand for socially responsible investment (SRI) insatiable appetite for green bonds by continuously oversubscribing issuances. This emerges the situation wherein the institutional or angel investors use the green bonds to address ESG mandates (Environmental, Social, and Governance). Consequently, going green is repeatedly attracting new investors and a new subset of younger investors allowing the latter to diversify their portfolio and investments and therefore, creating a new potential platform for the Green Bonds market.
- **(iii)** **Green Is the "New Black": Tax Exemptions.** Tax incentives applicable to Green Bonds can provide a big boost to investment with a relatively low impact on public finances. The wide range of incentives available makes such bonds even attractive and advantageous including tax incentive policies for supporting green bond issuances, such as tax credit bonds (providing the bond investors with tax credits instead of interest payments, which exempt issuers from paying interest on bond issuance), direct subsidy bonds (net interest payments of these bonds issuers are subsidized by the governments.) and tax-exempt bonds (relieving the investors from paying income tax on interest of green bonds).
- **(iv)** **Cost-Efficiency.** Overall, the Green Bonds enable the project at a low cost of capital surviving with reduced expenditures since they are well suited for large-scale and innovative sustainability projects (such as renewable energy, solar developments, etc.), which ensure modest dividends over a longer investment timeframe.

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[3] Green Bond Highlights 2019: Behind the Headline Numbers: Climate Bonds Market Analysis of a record year, February 6, 2020.
[4] *Ibid*
[5] *Ibid*
[6] World Economic Forum, "Securing green growth".

At this moment in time, the Earth faces a lot of devastating and hazardous challenges, and given this, the primary reason why the volume of Green Bonds is expected to be rapidly expanded since the public awareness is growing, and more investors are becoming concerned with climate change and similar environmental dilemmas.

HOW WE CAN HELP?

Here at TK & Partners, we have proven experience in reviewing and recommending international best practices in the field of enabling legal frameworks towards the achievement of "going green" projects and mapping legal and financial structures suitable for the successful issuance of green instruments.

NOTE: This material is for general information only and is not intended to provide legal advice

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