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LEGAL BRIEFING – Banking & Finance

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Sustainable Finance & Green Bonds

Over the last decade, the regulators, both in EU and globally, have focused on enhancing the sustainability of corporations by giving them incentives to engage with environmental objectives, such as the mitigation of climate change and the prevention of air pollution. Moreover, the EU has set an ambitious goal: to be the first climate neutral continent by 2050.

As part of that trend, over the past years the market's growing appetite for green, social and sustainability bonds has enabled and mobilized investors and major financial institutions to fund projects that contribute to environmental sustainability .

"Green Bonds," "Green Loans" and performance-specific sustainability-linked debt instruments are just some of the instruments falling under the umbrella of sustainable finance. Green bonds are fixed-income instruments, issued for financing climate-related and environmental-friendly projects, for instance the use of renewable energy or the promotion of sustainable agriculture and water management. They are issued by corporations, banks, even governments, and the projects that they finance should comply with certain criteria, in order for them to qualify as green investments. These criteria are mainly set out in the Green Bond Principles, published by the International Capital Markets Association. Other organizations, such as Moody's and the Green Bond Initiative, have published their own guidelines for ensuring the sustainability of an investment.

In addition, the development of special market indices has been essential for benchmarking the effectiveness of these bonds, based on environmental, social and governance criteria. Some of these are the Bloomberg Barclays MSCI Global Green Bond Index, the Bloomberg Barclays MSCI US Corporate ESG Focus Index, the S&P ESG Pan-Europe Developed Sovereign Bond Index (used for state issued bonds) and the MSCI Low Carbon and Climate Change Index.

Evidence from the Green Bond Initiative show that in Europe the cumulative green issuance has reached 362.7 billion US dollars, while, during the first six months of 2020, the worldwide investment in green bonds hit 91.6 billion US dollars. In Greece, the first company to issue a green bond loan, in October 2019, was TERNA Energy, which was supported by the European Bank of Restructuring and Development. Further, in December 2019, Ellaktor Value Plc issued green notes for investing in solar and wind energy.

The Greek banks are, also, embracing the principles of sustainable finance, funding or refinancing specific projects, assets or business activities with defined environmental benefits. Some examples of eligible green projects funded by the banks include renewable energy, pollution prevention and control, clean transportation projects and green production technologies and processes.

It is worth mentioning that on October 2020, National Bank completed successfully the placement of the first green senior bond in the Greek market, totaling €500 million. The transaction attracted the interest of a large part of the investor community, raising funds of circa €1.2 billion, with the participation of 80 – in their majority international – institutional investors.

It is clear that all market players including banks, companies and states are increasingly concerned about the impact of their actions to the environment.It remains to be seen whether the green bond market will continue its upward trajectory and move towards considering the sustainability label as a must-have for both companies and investors.