Looking forward to a recovery with ‘green collar’ jobs

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- Supranationals and government agencies were among the leading issuers of Covid-19 response bonds in 2020. The volume of newly issued debt based on environmental, social and governance principles reached $520 billion for 2020, up by more than $215 billion from 2019.
- More countries look likely to commit themselves to zero carbon emissions targets, as well as frameworks for achieving this and new regulations. A competitive tension is building as countries want to make sure they do not get left behind.
- Both governments and the bond market will channel funds into a green recovery in 2021. Notably, the EU is raising €100 billion to aid countries hit hard by Covid-19, with much of the issuance conducted in 2021.
- We are looking to improve the market – in terms of the opportunities for issuance, the quality of the bonds and the rigour of reporting – and are again working with the International Capital Markets Association (ICMA) to achieve this.

2021 promises to be a seminal year. Following the Democrat win in November’s US presidential election, the world’s biggest polluter looks set to reverse its decision to leave the Paris Agreement. Further, more countries look likely to commit themselves to zero carbon emissions targets, as well as frameworks for achieving this and new regulations.

A competitive tension is building as countries want to make sure they do not get left behind. For instance, the UK looks likely to try to get ahead of Europe in its emerging green agenda.

When UK Chancellor, Rishi Sunak, announced in November his plans to issue the UK’s first green gilts in 2021[1] it was a significant step. The announcement not only signalled the government’s intent, but also set an example that is likely to spur further issuance of green bonds and galvanise the development of green and social finance in the UK.

For Columbia Threadneedle Investments, this is especially welcome as we have been campaigning for a green gilt, notably through our membership of the Impact Investing Institute. The Institute’s October 2020 joint proposal for a Green+ Gilt was supported publicly by 400 asset owners and investors, representing assets under management of more than £10 trillion, showing the substantial support in the market.[2]

We see part of our role as engaging to help improve the green and social bond markets. The UK’s green gilt will bring a promising start to 2021, a year in which the UK hosts the COP-26 UN Climate Change Conference. Even more impactful, though, is the announcement that the government will launch a national infrastructure bank,[3] which could issue green or social bonds itself.

Supranationals and government agencies were among the leading issuers of Covid-19 response bonds in 2020. The volume of newly issued debt based on environmental, social and governance principles reached $520 billion for 2020, up by more than $215 billion from 2019.[4] Notably, $160 billion of this were social bonds, which equates to a 788% increase in issuance versus 2019, which itself was a record year for social issuance, and more than half were specific bonds targeting Covid-19 alleviation.[5]

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We are proud of not just the size of the bond market’s response to the crisis, but also the speed. These Covid-19 response bonds were being issued by the end of March, just a few short weeks after the pandemic reached Europe.

Issuers like these could respond quickly because they already had green, sustainability or even social bond frameworks in place, setting out what types of projects they could finance, how to report on use of proceeds and so on. That allowed them to react very fast. In 2021, I would hope to see not just more issuance, but also more agencies, companies and financial institutions putting in place similar frameworks – this would offer greater opportunities for us as we continue to invest in these areas.

[1] FTadviser.com, UK to launch first green gilt in 2021, 10 November 2020.
[2] https://www.impactinvest.org.uk/wp-content/uploads/2020/10/Green-Plus-Gilt-Proposal.pdf, October 2020.
[3] The Construction Index, National Infrastructure Strategy: UK infrastructure bank, 26 November 2020.
[4] Data from Bloomberg and International Bank for Reconstruction & Development, 31 December 2020.
[5] Columbia Threadneedle analysis, January 2021.

Both governments and the bond market will channel funds into a green recovery in 2021. Notably, the EU is raising €100 billion to aid countries hit hard by Covid-19, with much of the issuance conducted in 2021.[6] While this money will focus on environmental projects, it should have social co-benefits too in the form of "green collar" jobs created in sectors such as green infrastructure.

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By working with the Impact Investing Institute and the International Capital Markets Association (ICMA), we are looking to improve the market – in terms of the opportunities for issuance, the quality of the bonds and the rigour of reporting. We have previously contributed to the design of the ICMA's social bond principles and have committed to work with the association for another year.

A final word on new environmental and social legislation expected in 2021. Such legislation is likely to impose substantial costs on some businesses. In that situation, would you rather be invested in a conventional fund where regulation may introduce headwinds for its holdings or in a responsible investment fund that could benefit?

[6] European Parliament, Covid-19: 10 things the EU is doing for economic recovery, 29 October 2020.

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