Green bond issuance is rising steadily...

The market helps support funding a wide variety of development areas

But a limited number of markets still dominates issuance with scope for further diversification and growth.
Green bonds* offer investors looking for exposure to sustainable investments a chance to invest in the 'E' (environmental element) of their environmental, social and governance (ESG) remit. They allow investors to help aid the transition to a low-carbon world by lending money that will be used for specific green projects.

Historically, exposure to these types of projects was through higher-risk and less-liquid project-finance debt. Standard 'use-of-proceeds' green bonds benefit from being backed by the underlying credit rating of the issuer, thereby lowering the specific project risk and thus overall credit risk. The cash flows funding the coupons and principal can originate from non-green operations, and the bond can still be considered 'green'.

Evidence suggests that green bonds price at a similar spread to non-green bonds, thereby encouraging investors who do not have specific green mandates to consider investing in them, but the market remains relatively niche.

The real boost that the asset class needs will come when companies from a wider range of industries and geographies are encouraged to enter the market, which will increase liquidity. Countries issuing green bonds may help lead by example.

The fact that green bonds are becoming higher profile leads us to expect that the market structure will continue to improve over time. However, if the market is to continue to grow strongly, it will need greater diversification across credit rating, sector and geography in order to improve liquidity, and a globally agreed means of assessing and evaluating individual bonds.

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Investing in foreign denominated and/or domiciled securities involves special risks, including changes in currency exchange rates, political, economic, and social instability, limited company information, differing auditing and legal standards, and less market liquidity. These risks generally are greater with emerging market countries.

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