

Austrian Climate Bond

Proposal for an Austrian Green Bond

Starting-point

To achieve Austria's climate goals, more investment is needed in energy efficiency and renewable sources of energy – the European Commission estimates that across Europe an additional 180 billion EUR of investment will be required to accomplish the energy transition and meet the Paris Climate Conference's 2-degree target. This will involve mobilizing private capital. One approach pursued as part of SEFIPA is to implement a government climate bond – an Austrian Green Bond. Green Bonds differ from ordinary bonds in that the money borrowed is ring-fenced for ecological or climate-protection activities, hence the label "green". They provide an interesting new way of mobilizing capital for green investments/investments in climate protection, addressing new (groups of) investors and thus making liquidity available for climate-protection projects.

Background

The first Green Bond issued by the European Investment Bank in 2007, the "Climate Awareness Bond" – CAB – was the first step to a booming green bond market. All in all, Europe has developed into a major player in the global market for green bonds. With bond issues since 2017 adding up to 122 billion EUR, Europe accounts for one-third of world volume and is the largest regional market. The issuers are to be found in diverse sectors: energy, finance, real estate, but also local authorities and governments issue Green Bonds.¹

When governments issue Green Bonds, this not only serves to finance sustainable projects but also clearly signals that climate/environmental protection is important in the country concerned. Four EU member states have already implemented a government climate bond: Poland, France, Belgium and most recently Ireland. Experience shows that Green Bonds are in considerable demand from investors; as the example of the Irish Green Bond makes clear. The Republic of Ireland issued a 3 billion Euro Green Bond with a 12-year maturity at a coupon of around 1.4 %.² The offers received came to more than 11 billion EUR. The Irish Government's Green Bond is intended to help finance the transition to a low-carbon, environmentally sound economy and achieve Ireland's climate protection goals. Green Bonds are also issued by local authorities; France and Sweden are pioneers here.

¹ Cf. CBI (2018): The Green Bond Market in Europe 2018.
<https://www.climatebonds.net/resources/reports/green-bond-market-europe> (December 2018)

² Sustainalytics (2018) Second Party Opinion Irish Sovereign Green Bond.
<https://www.sustainalytics.com/wp-content/uploads/2018/09/Ireland-Green-Bond-SPO.pdf> (October 2018)

The quality of a Green Bond is revealed by the projects it is used to finance, and also by its transparency. In 2014 issuers, issuing banks and investors developed the Green Bond Principles (GBP) at international level as voluntary process guidelines. The key element in the GBP is the list of project categories which the proceeds of Green Bonds may be used for. The GBP provide a valuable framework for issuing Green Bonds. However, the categories listed are fuzzy, and voluntary guidelines cannot ensure that all issuers abide by them. With the Climate Bonds Standard (CBS) the NGO Climate Bonds Initiative (CBI) introduced a standard for assessing projects financed by Green Bonds in detail.³ As part of an Action Plan for Sustainable Growth, the EU also plans an EU Ecolabel for Green Bonds, and in Austria the Federal Ministry for Sustainability and Tourism would like to include Green Bonds in the guideline for sustainable financial products (UZ 49). These are all steps in the right direction to prevent greenwashing.

Proposals for an Austrian climate bond

Within the project the SEFIPA team has pursued the idea of an Austrian Green Bond as a pioneering financial instrument, and recommend implementing this idea; it has been discussed several times with various stakeholders (e.g. the Federal Ministries BMF and BMNT, etc.).

Federal bonds are underwritten by the Republic of Austria, which makes them one of the safest ways of investing money. The fact that climate bonds are ring-fenced creates a win-win situation for investors and the Republic of Austria: investors can be certain of putting their money into measures of concrete ecological and social value (green/sustainable investment), such as diminishing carbon-dioxide emissions, while a new bond allows public bodies to implement projects which would otherwise be starved of funds. Here is a summary of the aims that can be pursued when a climate bond is issued:

- Contributing to achieving climate and energy-policy aims
- Tapping additional sources of finance to fund sustainable projects
- Green Bonds make the long-term green financing needed for infrastructure projects possible.
- Pressure is taken off public-sector budgets, e.g. when thermal renovation of public buildings reduces expenditure on energy.
- An interesting investment option is created for private and institutional investors seeking ecological/sustainable openings.

The Austrian Treasury can handle issuing a climate bond.

The SEFIPA team has offered project facilitation for the Austrian climate bond to the relevant stakeholders. The project can be implemented with the following participants and sequence of steps:

- BMF defines the framework for issuing the bond by
 - specifying the issuing volume and the terms of the bond

³ Vgl. Climate Bonds Initiative (2015): Climate Bond Standard, Version 2.1.
URL: https://www.climatebonds.net/files/files/Climate%20Bonds%20Standard%20v2_1%20-%20January_2017.pdf, last accessed on 14.3.2018

- specifying the target and the impact as regards climate protection
- specifying the sectors which could be financed via a climate bond (jointly with other ministries)
- instructing the Austrian Treasury to handle the climate bond
- The Austrian Treasury makes the necessary preparations and handles issuing the bond by
 - obtaining an expert assessment
 - possibly commissioning an issuing bank
 - organizing road-shows to sound out how interested potential investors might be
 - handling issuing.

An Austrian climate bond is also recommended in the [SEFIPA statement](#) on Austria's climate and energy strategy.

Political implementation

2019 is the earliest date when implementing an Austrian climate bond could be expected. However, the Government indicated its interest in this instrument in 2017 by including it in the government programme for 2017-2022 and in #mission2030 – Austria's climate and energy strategy.

Government programme for 2017-2022

In the section "Ausbau der erneuerbaren Energien und der Energieeffizienz" (pp. 176- 177) the Austrian Government's programme for 2017-2022 includes a proposal to "*expand alternative financial instruments and crowdfunding, e.g. by means of an energy transition bond for renewable and efficiency projects.*"

Austrian Green Bonds in Flagship Project 8, Green Finance, of #mission2030 – Austria's climate and energy strategy

One of the measures included in Flagship Project 8, Green Finance (p. 73), is testing "*... a pilot project (Austrian Green Bonds) for the expansion of renewable energies and increasing energy efficiency to consider both the introduction of a sovereign green bond and measures to encourage the private market and the interfaces with projects at regional and local levels*".

Two ministries are responsible for implementing this flagship project: the Federal Ministry for Finance (BMF) and the Federal Ministry for Sustainability and Tourism (BMNT). The launch date given is 2019, and implementation is to involve a dialogue between stakeholders and the public sector (in the Green Finance Focal Group). The project consortium aims to play an active part here even after the SEFIPA project has been completed.

The Platform will be glad to provide further information on this subject:

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Responsibility for the Platform lies with ÖGUT (Austrian Society for Environment and Technology) and Energy Changes Projektentwicklung GmbH, who share the goal of developing pioneering facilities (financial instruments, regulatory measures and information campaigns) together with policymakers, so as to stimulate additional investment in sustainable energy systems in Austria. As part of this project a special crowd-investing platform for sustainable energy systems (www.crowd4energy.com) has been set up.



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