

# Greening Fixed Income markets: a challenge of today and tomorrow

Policymakers around the world continue to implement comprehensive strategies to foster sustainable finance.

Most notably, in March 2018, the European Commission adopted its action plan resting on three pillars: (i) re-orienting capital flows towards sustainable investments; (ii) managing financial risks stemming from climate change; and (iii) fostering transparency and long-termism in financial activities.

## Carbon pricing at the roots of the debate

In a 2016 paper, William Nordhaus, the 2018 Nobel Prize recipient, wrote that while there is uncertainty on the path of climate change and its impact in the future, this does not reduce the urgency of taking strong climate-change policies today.<sup>1</sup> In a recent speech<sup>2</sup>, he mentioned three key actions that organizations, companies and financial institutions can undertake for an efficient fight against climate change:

- Carbon pricing: today, the price of CO<sub>2</sub> emissions is zero almost everywhere in the world, and when it has a price, it is not an accurate one. Without high prices on carbon emissions, no policy nor action will be effective. It is certainly the largest issue to solve.
- Environmental science: to understand climate change, governments and institutions need to promote environmental science and innovation in the field.
- Long-term investing: companies need to assess their carbon footprint and risks associated in a forward-looking business scheme. They need to lengthen their time horizon.

The financial industry has a clear role to play in channeling capital to the relevant sectors, actors and projects. They can direct them in such a way that each player follows good practices. In particu-

lar, 'greening' fixed income markets, the largest source of financing, will be critical if the financial sector successfully embraces the Paris climate agreement goals.

## Institutional issuers: the question of yield and additionality

However, there are two major obstacles for fixed income investors seeking to invest in green and sustainable solutions: yield, and additionality.

Indeed, the green bond market is concentrated on supranationals, sovereigns or large utilities. Therefore, two problems may occur:

- Problem of yield: these issuers are mostly investment grade, and in developed markets.
- Problem of additionality: these actors already have access to markets to finance their green activities. Whether they finance these projects via a normal bond or a green bond yields little for investors seeking to have a real 'additional' impact.

## New frontiers to set in the green bond market

To address these obstacles, new frontiers of green finance need to be explored:

- A geographic frontier: in emerging markets, more yield and additionality can be found. In 2018, [Amundi and the International Finance Corporation \(IFC\)](#) announced the successful launch of the world's largest targeted green bond fund focused on emerging markets.
- An issuer frontier: new issuers at the forefront of the fight against climate change, both public (sub-sovereign entities such as cities) and private (new economic sectors: energy efficiency), need to be given a wider access to capital. In 2019, [Amundi and the Asian Infrastructure Investment Bank \(AIIB\)](#) unveil a new project to develop the climate bond market through the establishment of a fixed income portfolio focusing on climate champions.

- An instrument frontier: high yield bonds, private debt, and unlabeled green instruments have to be designed. In 2019, [Amundi and the European Investment Bank \(EIB\)](#) launched the « Partnership to expand Green Finance in Europe ». The Green Credit Continuum Project aims to foster the development of the green debt market beyond the existing green bonds, supporting small-scale green projects, and financing SMEs and mid-caps.

Amundi partners with key players to answer these issues, employing a holistic approach. First, stoking the demand side of green markets by launching dedicated debt funds. Second, supporting the supply side of these new fixed income instruments via the definition and dissemination of best practices and standards for these nascent segments. These can be done via Scientific Committees incorporated within these programs, the publication of research pieces, technical support to issuers etc. And third, working hand-in-hand with leading institutions, to boost the depth and breadth of the innovations.

### FOOTNOTE

1 William D. Nordhaus, "Projections and uncertainties about climate change in an era of minimal climate policies", NBER Working Paper Series, 2016.

2 Amundi World Investment Forum, William D. Nordhaus [keynote speech available on YouTube](#).

Find out more here.



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