



Engaging corporates to boost market growth

Corporate green bond interest is growing, but a number of barriers need to be addressed to bring more companies to the market explains Stephanie Sfakianos at BNP Paribas

Environmental Finance: You've had great success in the corporate space and won our 'Lead Manager of the Year – Corporates' award, as well as being bookrunner for five of our green bond deals of the year. But corporates still make up a small part of the overall market. Will this change in the near-term?

Stephanie: I think there's very broad agreement that for the market to grow we really do need to engage the corporate sector. One of the big challenges for corporates is reporting – even for those with exceptionally strong sustainability credentials, long-standing sustainability reporting and a comprehensive approach to managing the supply chain. They're doing all the right things from a sustainability perspective, but actually when you look at the literal interpretation of the Green Bond Principles – which clearly works as market guidance – it's not obvious to a lot of corporates that they're doing something which enables them to issue a green bond. They are very daunted by reporting requirements and by the concept of 'impact', and are struggling to find the right projects.

EF: Are there any examples of corporates not issuing green bonds despite strong sustainability credentials? And what are they doing instead of tapping into the green bond market?

Stephanie: If you look at the Danone transaction, for example, it was done with a social slant. (EF note: French food group Danone issued in March a €300 million bond to finance projects aligned with ICMA's Social Bond Principles). Danone is a company with outstanding sustainability credentials but they certainly didn't issue a huge benchmark green bond to finance environmental projects with a CO2-saving benefits. There isn't necessarily the quantum of actual investment in projects with clear environmental benefits if you are a general corporate. So I don't think we're



Stephanie Sfakianos, Head of sustainable capital markets, BNP Paribas

under any illusion that for the time being, most corporate green bonds will come from the energy sector and energy efficiency, such as green buildings, rather than generic corporates.

For example, we talk to issuers who are involved in making products or processes used in renewables and energy efficiency, and they might say: "Although we look like a green company making wind farm components, the people actually reporting on the impact of our products are the customers, not us. So how are we going to satisfy the investors with our green bond impact report?"

EF: How can those types of issues be addressed to get more corporates involved?

Stephanie: We're encouraged by the prospect for market growth despite the challenges. Sustainability bonds are starting to gain traction and we'd expect to see a lot more of that from corporates. They probably are going to find it slightly easier to raise sustainability bonds than purely green.

We're also talking to a lot of corporates in

other jurisdictions outside Europe. What's particularly interesting is that we're starting to see a lot of engagement in the US. Municipalities are already very engaged but we're picking up on a lot more corporate appetite too. Since the US has some very large corporates this is encouraging and can help boost the global green market.

On the investor side in the US, we're encouraged by the very strong recognition of the whole idea of the transition story. It's an area where we're expecting to see very strong growth in the coming months and years, and in Europe we're also seeing interesting transition initiatives.

Corporates are very conscious of the fact that if the banking sector starts coming under a lot more pressure on their climate change exposure – driven by initiatives such as the Taskforce for Climate Related Financial Disclosure (TCFD) – they will clearly also want their corporate clients to demonstrate a transition story. So, most corporates with a need to transition from fossil fuels are starting to engage – I'm not suggesting they will all change overnight but at least everyone is discussing the topic. Also, the Sustainable Development Goals (SDGs) have been very helpful in triggering more discussions around an energy transition in countries where there's still a very strong development agenda.

EF: Finally, how are corporates responding to initiatives such as the EU's plan to roll out green bond standards and taxonomies?

Stephanie: I think the Commission is doing something really helpful in coming up with taxonomies. It will give more clarity and give corporates more confidence that they can actually look at their operations and find projects suitable for a green bond. The EU is working to an extremely ambitious timetable so we'll have more clarity soon – a lot more work needs to be done until corporates and others are entirely comforted by it. •