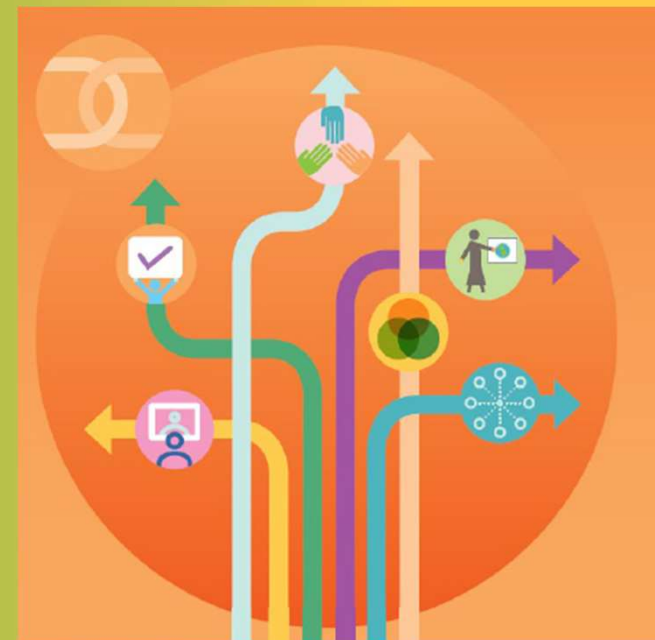


# Climate Bonds INITIATIVE

## Financing Credible Transitions

Marina Strovolidou

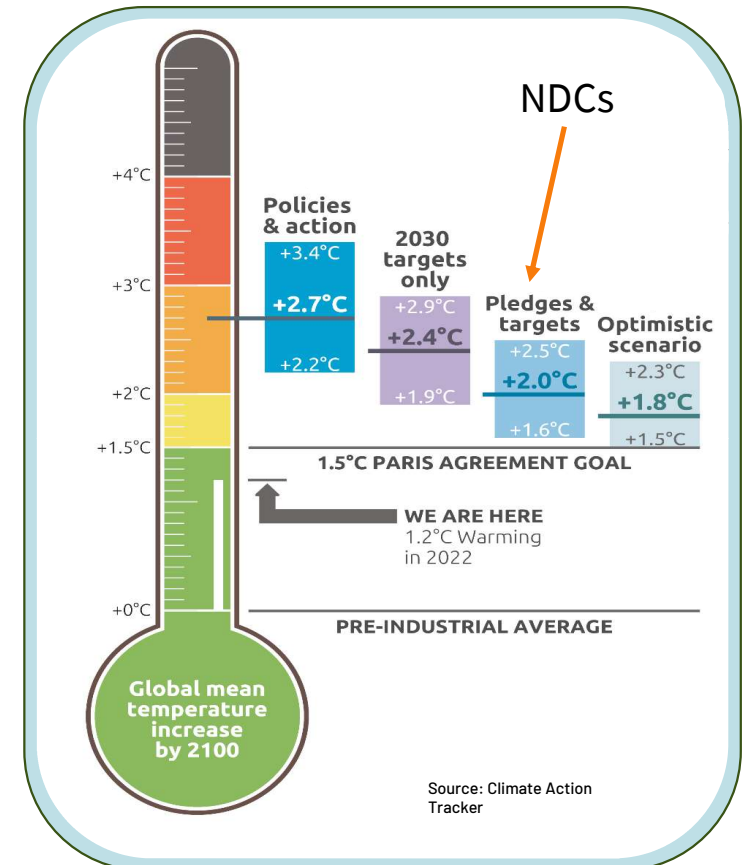
**Head of Certification, the Climate Bonds Initiative**



# What does 1.5°C mean?

<b>At 3 degrees...</b>	
• Extra extreme heat days: 35	• Marine heat waves: 41x
• Coral reefs: extinct	• Crop yields: all crops are severely affected
• Melting of ice sheets	• Impact generally 4x greater
• Amazon rainforest dries out	
<b>At 2 degrees...</b>	
• Extra extreme heat days: 29	• Marine heat waves: 23 x
• Coral reefs: 98% at risk	• Wheat crop yields: ▼ 16 %
	• Sea level rise: 50cm
<b>At 1.5 degrees...</b>	
• Extra extreme heat days: 19	• Marine heat waves: 16 x
• Coral reefs: 90% at risk	• Wheat crop yields: ▼ 9 %
	• Sea level rise: 40cm

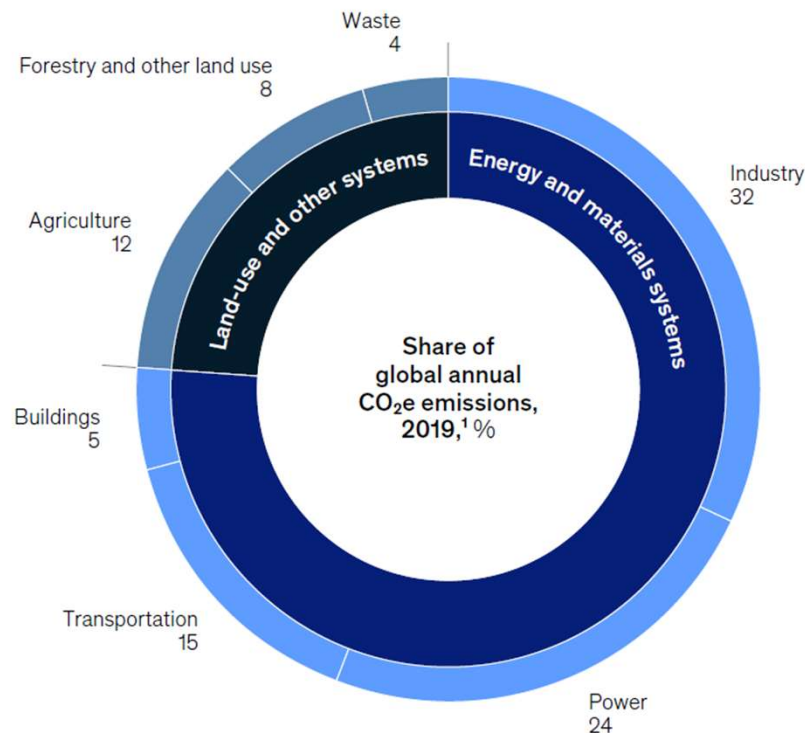
*“Some future changes are unavoidable and/or irreversible but can be limited by deep, rapid, and sustained global greenhouse gas emissions reduction. The likelihood of abrupt and/or irreversible changes increases with higher global warming levels. Similarly, the probability of low-likelihood outcomes associated with potentially very large adverse impacts increases with higher global warming levels.” (IPCC 2023 report)*



At the end of 2023 Global Warming is estimated at around 1.48°C

# How does the world transition to a low emissions future ?

The transition calls for transforming the energy, materials, land-use, and other systems that emit greenhouse gases.

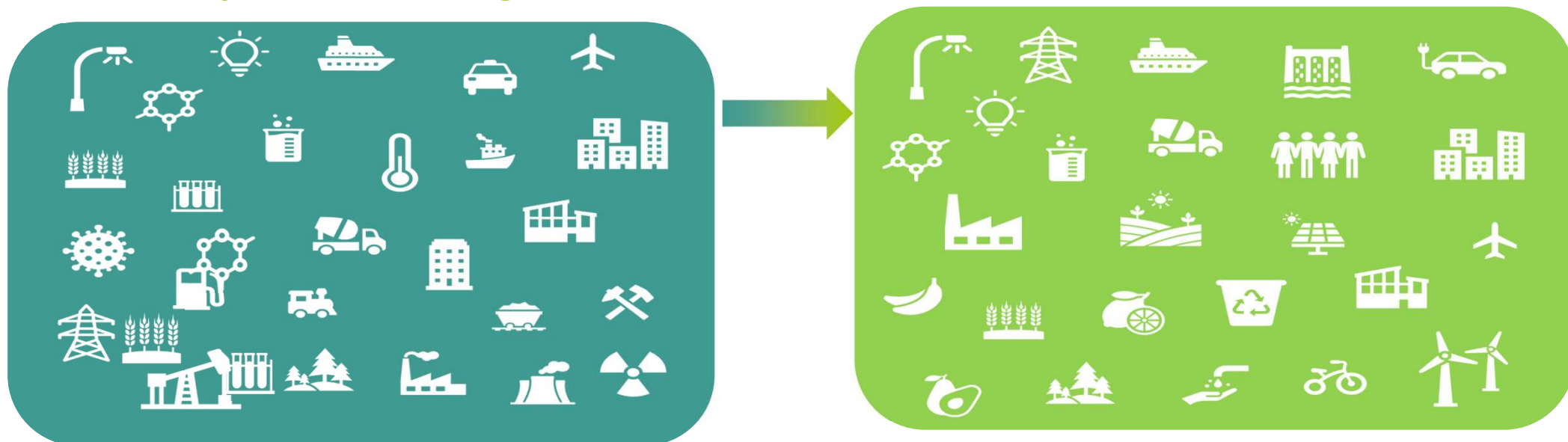


## Key conclusions:

- There has been meaningful momentum toward net zero
- Nevertheless, the world is not on track to reach net zero by 2050
- To successfully meet the Paris Agreement goals, total capital spent on low- and high-emissions technologies must increase from \$5.7 tn to \$9.2 tn annually by 2030
- A successful net-zero transition will require achieving four interdependent objectives: Emissions reduction, Affordability, Reliability and Industrial Competitiveness

Source: *An affordable, reliable, competitive path to net zero*, McKinsey, November 2023

# Transition must include all aspects of the economy and all regions and institutions



Some sectors have already mature and cost-effective low-carbon technology available to substitute carbon-intensive technologies. E.g., power sector



Some sectors don't have feasible or economically available low-carbon technologies now. Investment needs to be rapidly increased and strategies scaled-up and adopted to support the decarbonisation of these "hard-to-abate" sectors E.g., cement sector

# Transition for different stakeholders

## BANKS

Transition requires that banks ensure their lending and investment portfolios are aligned with net-zero pathways.

## ASSET MANAGERS

Transition requires partnerships between asset managers and clients on the decarbonisation of those assets to reach net zero emissions.

## ASSET OWNERS

Transition requires investment portfolios to move to net-zero GHG emissions.

## INSURERS

Transition requires insurers must individually transition their underwriting portfolios to net-zero GHG emissions.

## FINANCIAL SERVICE PROVIDERS

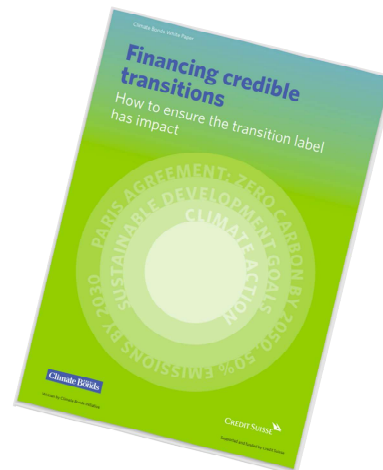
Transition requires all relevant services and products are aligned with net-zero GHG emissions.

## JURISDICTIONS & REGULATORS

Transition requires all aspects of the economy to transition. This requires a top-down drive to decarbonisation by ensuring rigorous plans to achieve net zero are prepared and implemented.

# Context: Tenets of Transition

1. Ambition (Transition Principles – see Sept 2020 paper)
2. Inclusivity (Transition Framework – see Sept 2020 paper)
3. Action not just promises (Hallmarks for a Credible Transition – see Sept 2022 paper)



[Financing Credible Transitions - A framework for identifying credible transitions | Climate Bonds Initiative](#)



[Transition-Finance-for-Transforming-Companies-6092022\(1\).pdf \(climatebonds.net\)](#)

# Tenet 1: Transition is ambitious

## A starting point – 5 principles to protect from greenwash

5 principles for a



### 1. In line with 1.5 degree trajectory

All goals and pathways need to align with zero carbon by 2050 and nearly halving emissions by 2030.



### 2. Established by science

All goals and pathways must be led by scientific experts and be harmonised across countries.



### 3. Offsets don't count

Credible transition goals and pathways don't count offsets, but should count upstream scope 3 emissions.



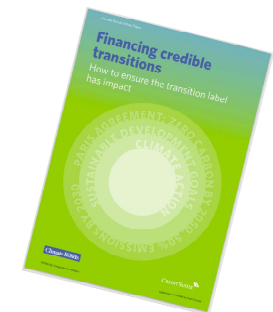
### 4. Technological viability trumps economic competitiveness

Pathways must include an assessment of current and expected technologies. Where a viable technology exists, even if relatively expensive, it should be used to determine the decarbonisation pathway for that economic activity.



### 5. Action not pledges

A credible transition is backed by operating metrics rather than a commitment/pledge to follow a transition pathway at some point in the future. In other words, this is NOT a transition to a transition.





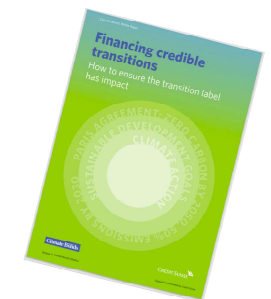
## Tenet 2: Transition is inclusive



‘Transition within’ includes hard-to-abate sectors

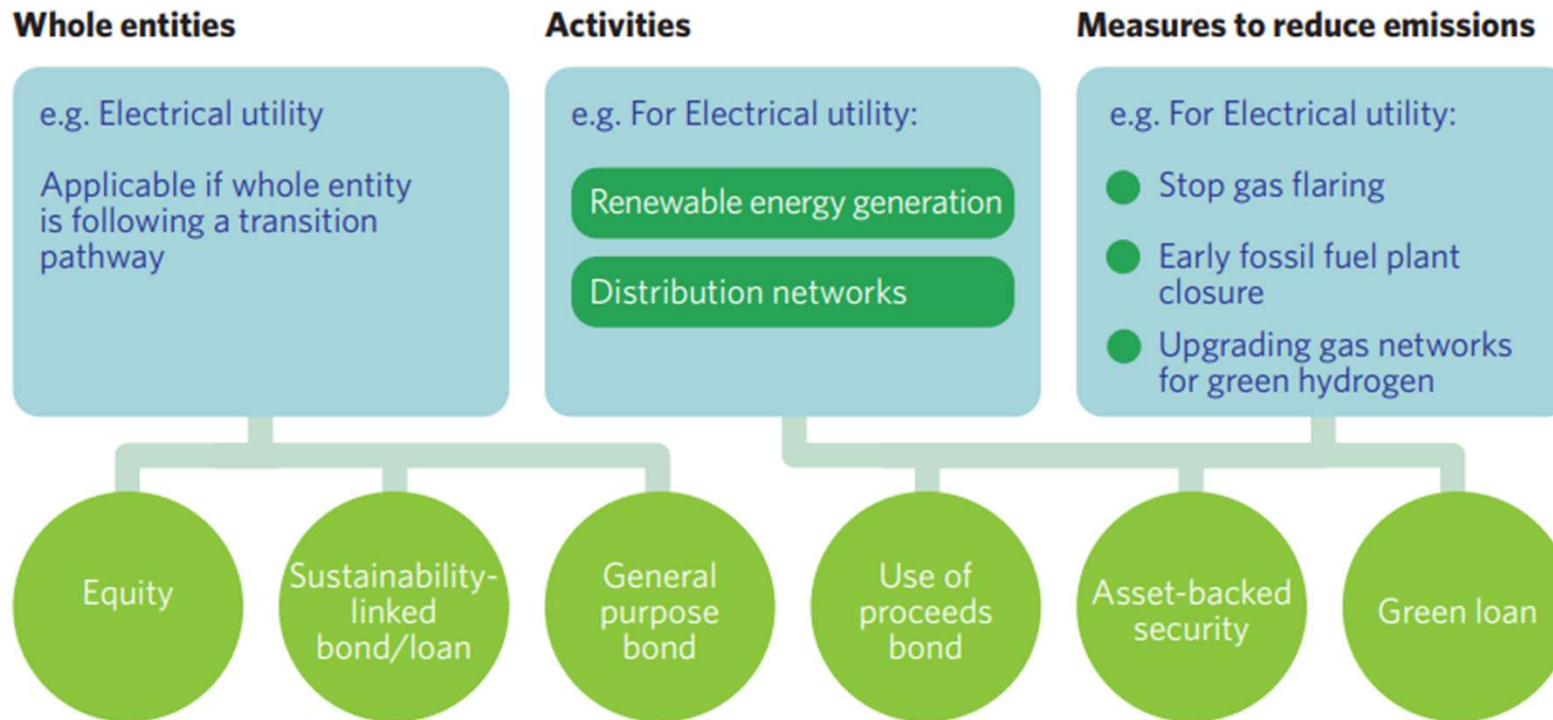
‘Transition away’

*Financing Credible Transitions - A framework for identifying credible transitions | Climate Bonds Initiative*

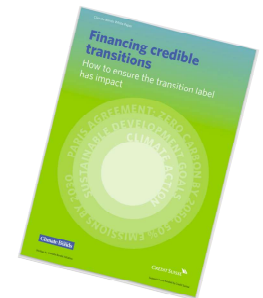




# Tenet 3: Transition finance comes in various complementary forms



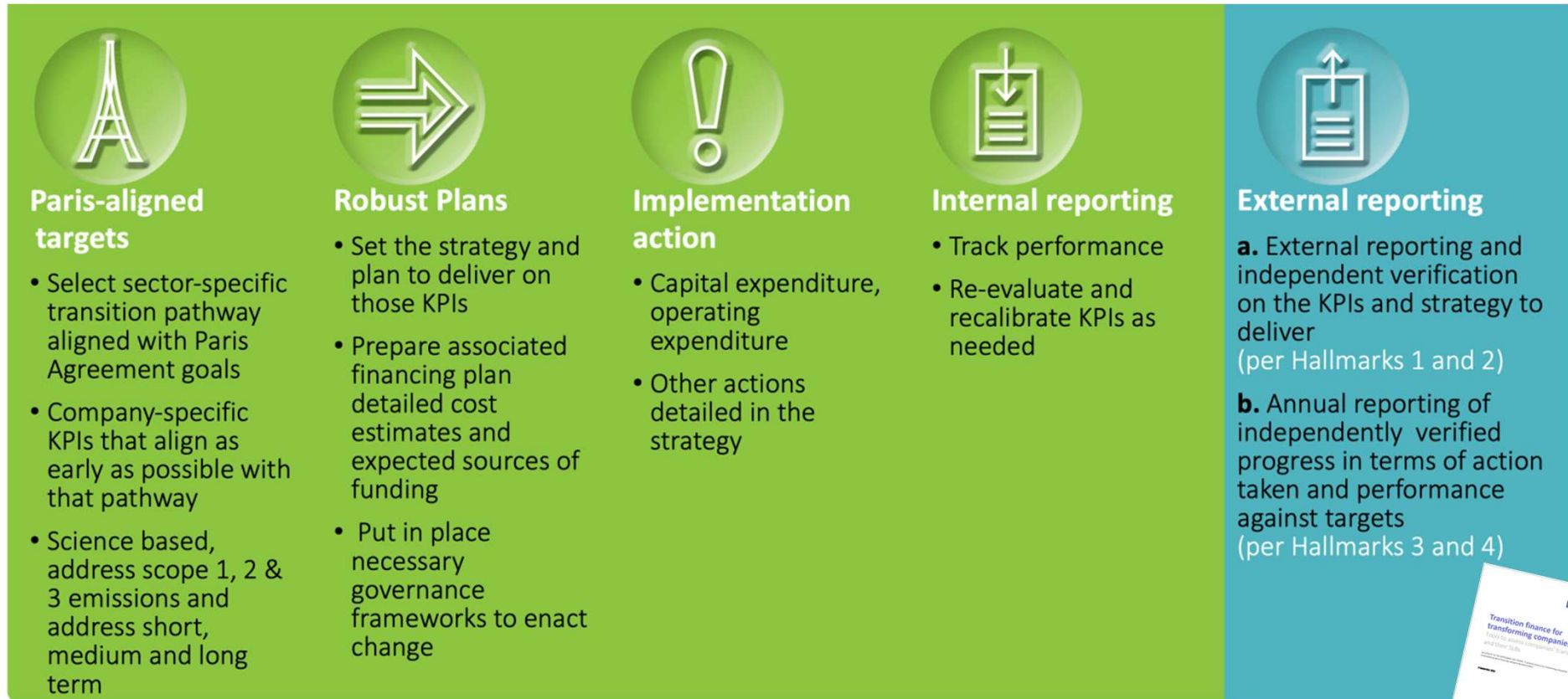
*Financing Credible Transitions - A framework for identifying credible transitions | Climate Bonds Initiative*



## The five hallmarks of a credible company transition



# Diving deeper: The framework is our Five Hallmarks of a Credible Transition



[Transition-Finance-for-Transforming-Companies-6092022\(1\).pdf \(climatebonds.net\)](#)



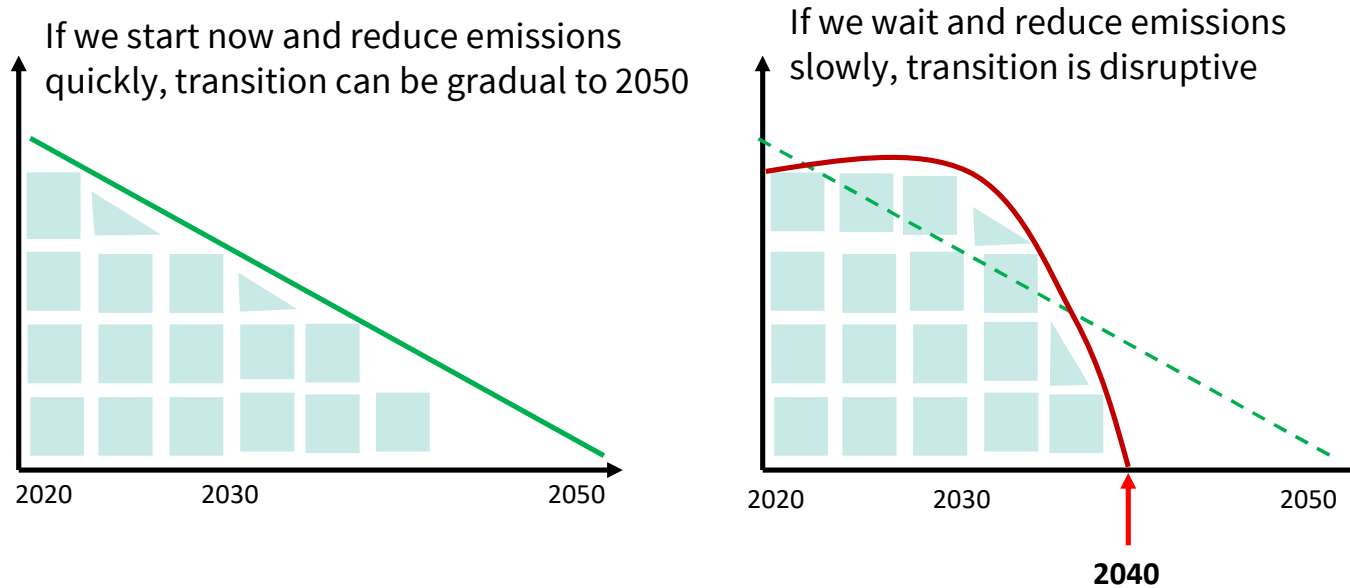
# Climate Bonds Standard and Sector Criteria



<https://www.climatebonds.net/standard/the-standard>

<https://www.climatebonds.net/standard/available>

## 2030 is what counts - 2050 is too late



This means that transition needs to be:

- Steep decarbonisation
- Frontloaded
- Nature positive
- Just transition
- Beyond 2050

# BENEFITS OF LABELLED BONDS

## Book cover

Higher average oversubscription

Higher spread compression

## Pricing

Better pricing at issuance

## Reputation

Green label supported deal placement in volatile markets

Issuers can rely on a strong appetite from dedicated investors



Collaboration between issuers and investors promotes capital raising for climate change solutions





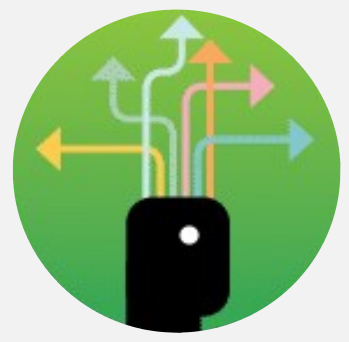
# Green vs Sustainability-Linked Bonds

	Opportunities	Challenges
<b>Green bonds</b>	<ul style="list-style-type: none"><li>• Well established asset class with strong demand from dedicated investors</li><li>• Well established format and frameworks</li><li>• Excellent reputation benefits</li><li>• Enhances dialogue with investor base</li><li>• Potential for greenium</li></ul>	<ul style="list-style-type: none"><li>• Requires qualifying green projects with critical mass.</li><li>• May require long lead time to prepare framework and structure. From idea to raising capital.</li><li>• Constraints in terms of cashflow allocation of proceeds</li></ul>
<b>Sustainability-linked bonds</b>	<ul style="list-style-type: none"><li>• Strong demand for climate-aligned assets</li><li>• As a general-purpose finance instrument, relatively easy to issue on a framework has been defined</li></ul>	<ul style="list-style-type: none"><li>• Credibility of the climate benefits of the instrument currently being challenged</li><li>• Requires significant internal work to align all parts of the business</li></ul>

# The Climate Bonds Initiative beyond Standard Setting

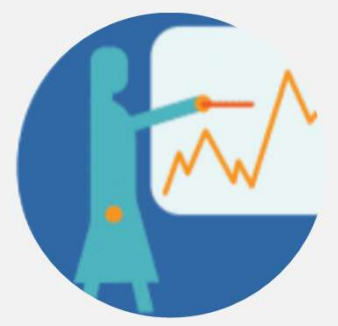
## MARKET INTELLIGENCE

Maintaining credibility in a fast-growing bond market.



## CAPACITY BUILDING & TRAINING

Building future leaders.



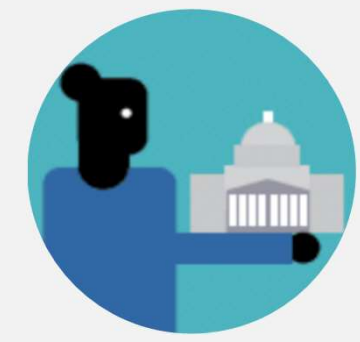
## INVESTOR ENGAGEMENT

Empowering investors to drive positive change.



## POLICY ENGAGEMENT

Raising climate ambition in public policy.



Climate Bonds INITIATIVE

THANK YOU!