Euronext ESG Bond Barometer Q1 2024

Every quarter, the ESG Barometer brings you fresh sustainable finance news, with a specific focus on the ESG debt market. It features a long and exclusive interview with a sustainable leader, who shares its views on the market and explain its sustainable strategy.

SLBs will be back... in due course

Sustainability-linked bonds (SLBs) still represent a major tool for issuers to support and showcase transition plans. However, the market did not grow as expected in 2023 and may even diminish in 2024 before bouncing back. There are several reasons for this.

First, corporate issuers often rely on their Science-Based Targets initiative (SBTi) targets to structure their SLB indicators and objectives. However, the SBTi has recently received criticism about the revision of its methodology, with some expressing concerns over the use of carbon credits in the calculation of Scope 3 emissions reduction. Therefore, some issuers have opted to wait for a decision to be made about the Scope 3 calculations, before finalising their SLB objectives.

Secondly, it is clear that the transition label debate has reopened following Japan's issue of large and oversubscribed transition bonds. Several actors have advocated for the creation of a transition bond standard. The SLB classification has been considered a best-in-class transition label, but more and more experts now acknowledge that many actors, especially in developing countries or industrial regions, need something more flexible.

Finally, there is a worst-case explanation. As SLB targets are assessed against common ambitions and global standards, perhaps most companies do not have transition plans ambitious enough to set targets that are aligned with these larger goals. Facing a potential controversy, issuers then choose not to issue under the SLB format.

However, we can see the horizon clearing for the SLB label. Again, several considerations come into account here.

In Europe, the CSRD and the EU Taxonomy will force companies to define clear transition strategies and report on a list of ESG indicators, which can then be retrofitted into SLB targets.

Investors looking for best-in-class assets often combine sustainable targets and green proceeds in order to avoid greenwashing. The emergence of "green SLBs" could be the answer to achieving this ambition. Following pioneer SLB issuer Enel missing its targets recently, investors may also recognise that this instrument represents a real commitment from those companies.

To conclude, it would be beneficial to support the growth of this financial tool, as it may be one of very few instruments capable of materialising a firm's transition efforts. By providing transparency and flexibility, as well as exposing the materiality and ambition of an ESG plan to investors, SLBs may be the ultimate option for companies that are serious about their sustainable transition.

Sustainability-linked bonds should already be the norm for all economic actors having a material impact on the environment.

Sustainable Finance 2024: ESG bond issuance set to soar

In the dynamic landscape of sustainable finance, 2024 is poised to be a landmark year for ESG bond issuance, with forecasts suggesting a return to trillion-dollar annual volumes. Recent data from Environmental Finance Data (EF Data) highlights a strong start to the year, with sustainable bond issuance reaching US $293 billion in the first quarter. Green bonds led the charge at $163 billion, comprising 56% of total issuance, followed by significant contributions from social bonds at $52 billion and sustainability bonds at $58 billion. Notably, transition bonds surpassed $10 billion for the first time, driven by Japan's sovereign initiative. This surge in issuance reflects increasing regulatory focus, climate policy commitments, and investor demand, underpinned by geopolitical shifts reshaping the global investment landscape.

The green bond market passed another threshold, with a cumulative issuance of $3.01 trillion. Corporates traditionally represent 35% of this total, with utility firms such as Engie and TenneT remaining prominent in this space. In 2024, the share of corporate bonds in green bonds amounted to 43%; a sign that the market is flourishing.

Sustainable Finance 2024: ESG bond issuances set to rise

	2021	2022	2023	Forecast 2024
Green	569	523	575	600
Social	213	171	177	190
Sustainability	198	150	160	190
Sustainability-linked	97	77	66	70
Transition	4.3	3.5	3.1	3
Total	1,077	921	978	1,023

Transition Bonds are back on the table: Inspired by Japan, Hungary and Saudi Arabia explore new frontiers

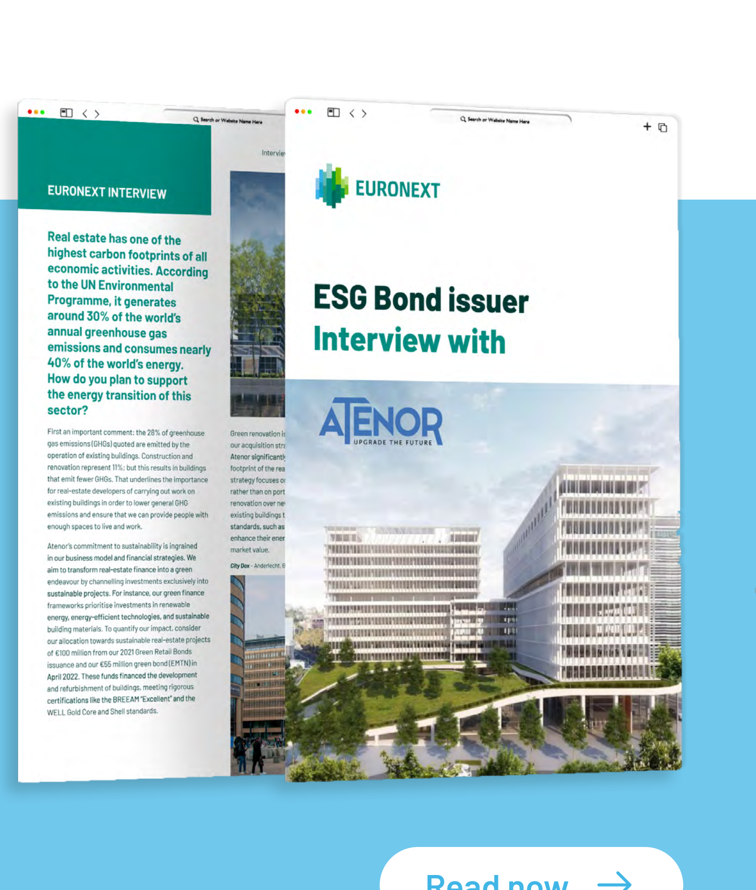
Japan has emerged as a trailblazer in climate transition finance, with significant initiatives and achievements in sustainable bond issuance. In February 2024, Japan raised JPY1.6 trillion ($10.6 billion) through its groundbreaking sovereign 'climate transition' bond programme, marking a pivotal moment in the evolution of transition bonds globally. This sovereign issuance represents a major contribution to the transition bonds market, demonstrating Japan's commitment to financing initiatives aimed at reducing carbon emissions and fostering sustainable economic development.

The Japanese government's climate transition bond framework encompasses various project categories, including nuclear energy, carbon capture, and alternative fuels for the manufacturing industry. Japan's success with climate transition bonds has inspired other nations to explore similar initiatives including the recent unveiling of Saudi Arabia's green finance framework and Hungary's exploration of transition bonds.

In Hungary, (András Bebes), Head of Strategy, Research, and Sustainable Finance at the AKK Hungarian Debt Management Agency, disclosed serious considerations for issuing transition bonds, citing the limitations of green bonds in achieving longer-term objectives such as those for 2030 or 2050.

Additionally, Saudi Arabia published its own green finance framework, opening the door to sovereign green bonds and sukuk issuance. The Saudi framework identifies eight eligible green project categories, including renewable energy, energy efficiency, clean transport, and sustainable water and waste management. However, this initiative is not without controversy, given the country's environmental track record, including rising emissions and limited renewable energy commitments.

Advocates for a transition bond label could argue that green bonds have not triggered any action from high-emitting companies as they focus strictly on pure green projects, overlooking the reality of our carbon-dependent economy. The word transition is no longer taboo, and the market needs to ensure that it will be used to spur effective decarbonation strategies, when green alternatives are not available. Clear guidance from public authorities on our future energy mix will undoubtedly help private actors in defining their strategic initiatives.



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