



Green bonds: A new financing tool to foster a more sustainable agriculture

December 21, 2017. By Roberto Vitón, Managing Director – Valoral Advisors.

The global food and agriculture sector starts the new year on a high note as investors look to deploy more capital into the many themes available in the sector. Today, there are over 440 investment funds specialized in this sector, with assets under management over US\$73 Billion across a growing number of asset strategies, according to Valoral Advisors' global fund analysis. And yet there is so little talk about the role of green bonds in this important sector of the global economy.

Green bonds - a relatively new instrument in the global debt capital market – are standard bonds created to fund projects that have positive environmental and/or climate benefits. While there are different types of green bonds, all of them share a specific sustainability profile, investing in projects or activities that have a direct or indirect benefit on the environment. Green bonds which are verified to conform with the Climate Bonds Standard are Certified Climate Bonds, a mark that assures their contribution to the delivery of a low carbon economy.

Green bonds have been the subject of increasing government, corporate and investor interest, driven by the mainstream acceptance of sustainable investing and the prospect of matching large low-carbon investment requirements with the trillions of dollars in global bond markets held by institutional investors.

Today, there are over US\$ 250 Billion in green bonds outstanding, with total issuance expected to reach US\$ 130 Billion in 2017, according to the Climate Bonds Initiative, a nonprofit organization mobilizing the bond market for climate change solutions. Among the major markets, the Luxembourg Green Exchange (LGX) is ranking number one based on global share of listed green bonds. China, Europe and the U.S. are the major issuers worldwide, with financial institutions, companies, DFIs and governments among the main issuers.

On the other side, demand for green finance has surged on the back of the COP 21 agreement in Paris as efforts to tackle climate change become a top global priority. Investors in green bonds include mainstream institutional investors but also specialist ESG and responsible investors and impact investors.

So far, most funds raised have been directed towards renewables and energy efficiency projects, sustainable transportation, water and development projects. However, green bonds can be an effective instrument to channel capital into the sustainable agriculture and forestry space, one of the industries most exposed to weather and climate change and also a major contributor to global greenhouse gas emissions.

Among the major agricultural hubs in the world, Latin America is a promising market for green bonds earmarked for forestry and agriculture-related projects, as the region is making efforts to mitigate and respond to climate change and deforestation by restoring degraded soils, protecting biodiverse species and ecosystems, and promoting bio solutions for renewable energy based on biomass and food and ag waste. The large animal protein sector in the region also presents some significant environmental challenges.

Zooming into the region, Brazil emerges as the leading green bond issuer across all industries and with growing relevance of agriculture and forestry which represented 24% of the issues, second to renewable energy projects, according to the "State of the Market 2017 Brazil Edition report" published by Climate Bonds Initiative.

Of the nine green bonds issued to date in Brazil, five have an agriculture or forestry component to them, including the following cases:

- Fibria Celulose S.A., a Brazilian forest products company and the world's largest eucalyptus pulp producer, issued its first-ever green bond in January 2017 in the international market, which raised US\$700 Million and was five times oversubscribed.
- Suzano Papel e Celulose, one of the world's largest players in the pulp and paper, completed its first issuance of green bonds in the Brazilian in November 2016, to fund sustainable forest development following up on their successful US\$ 500 Million green issuance earlier in July 2016. The company has a forest base of approximately 1.2 million hectares, roughly half planted and half as conservation areas.

Going forward, the region offers an expanding spectrum of projects for green bond finance:

- Development and management of sustainable and certified forestry plantations.
- Establishment of carbon finance projects to protect existing forests.
- Restoration of native forests and conservation of biodiversity.
- Development of sustainable agricultural farms with certified practices and certified products.
- Conservation schemes to establish sustainable practices in agricultural land use.
- Conversion of land holdings into grassland conservation.
- Development of biomass energy projects.
- Development and management of sustainable water infrastructure projects.

For these opportunities to materialize and get funding through green bonds, it will be critical to develop a relevant flow of projects that are attractive to investors, with scale being one of the key challenges. While forestry-related opportunities are more readily available and more scalable, across the agriculture sector there is still a lack of awareness of green bonds, too much fragmentation and difficulties to embrace ESG standards and appraise environmental benefits with a rigorous, science-based approach.

Since green bonds represent a debt instrument which requires scheduled repayment of interest and capital, project managers also need to provide a consistent view on how projects can generate consistent cash flows to back the green bonds' repayment.

Despite these challenges, the global opportunity looks bright because of the industry's scale, the size of the global green bond market and the starting point: According to the Climate Bond Initiative's "2017 State of the Market" report, forestry and agriculture account for just 1% of the climate-aligned bond universe with the majority coming from certified timber, paper and packaging companies.

As the industry moves towards a more sustainable and efficient food and agriculture system, green bonds are in the right path to play a major role in this transition.

The original article can be found on: <http://www.globalaginvesting.com/contributed-content-green-bonds-new-financing-tool-foster-sustainable-agriculture>