Bond Case Briefs

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The State of Socially Responsible Investing.

In 2007, the European Investment Bank issued its first green bond, a EUR 600 million equity index-linked security, whose proceeds were used to fund renewable energy and energy efficiency projects. A year later, the World Bank followed suit, and by 2017, over $155 billion worth of public and corporate green bonds had been issued, paving the way for the Seychelles government to issue the first ever “blue bond” last year— a $15 million bond to fund marine protection and sustainable fisheries.

The success of these instruments reflects the fact that investors are increasingly conscious of the social and environmental consequences of the decisions that governments and companies make. They can be quick to punish companies for child labor practices, human rights abuses, negative environmental impact, poor governance, and a lack of gender equality. Pair this with an increase in regulatory drivers post-2008 crisis, and a deepening understanding of the impacts of climate change and associated risk to performance, and we begin to see more clearly the need for investment models that will better address investors’ concerns.

The result has been an increasing demand for integrating Environmental, Social, and Governance (ESG) criteria into investment decisions. In the beginning of 2018, $11.6 trillion of all professionally managed assets—one $1 of every $4 invested in the United States—were under ESG investment strategies, a sharp increase from 2010, when the amount was close to just $3 trillion overall.

Inevitably, the financial services sector has responded with a host of innovative financial instruments, some like those mentioned above, others quite different. The through-line that ties together these new investing models and strategies is quite simple: While they have generated competitive returns, it so happens that they all positively benefit society as well. Essentially what investors want is the performance promise of financial engineering combined with the assurance of a better tomorrow.

Many of the innovations have been driven by a collaboration between public, private, and philanthropic institutions. At The Rockefeller Foundation, we recognize the value of engaging private capital markets for societal good and have stepped in to fund the research and development of new instruments that can bring capital to cause. We have increasingly seen, firsthand, how readily these instruments meet not just investor needs but also values, and how interrelated the two can be.

Let’s look at some particularly interesting examples.

Risk-sharing Impact Bonds

Continue reading.

Harvard Business Review

by Adam Connaker and Saadia Madsbjerg

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