Being Green - it's not all about the money

Engaging in green finance requires extra effort, in particular for issuers; far more hoops to jump through relative to vanilla issuance. But there are clear benefits, and it's not just about lower funding costs. It's more about the messaging. Extra hours go in, but what comes out leaves a lasting impression, mostly a good one. We have some survey evidence

The Manhattan skyline from Central Park

Issuing green bonds requires considerable effort. Does that cost really matter?

Going down the Green route requires considerable effort. A long logistical exercise is required all the way from identification of use of proceeds, to project evaluation, to the management of proceeds; all of which require efforts over and above what would be typical for issuance of a vanilla bond.

And even then the job is not done, as a reporting exercise is required in order to ensure compliance with prior project selection, and often external assurance firms are needed to confirm sustainability quality. Having the people and capability on board is clearly a requirement and a cost.

All types of large operations are knee-deep in miscellaneous logictical stuff; sustainable financing is just an add on

The counterargument to the implied cost of engaging in green finance is that corporates are knee-deep with this kind of stuff to begin with. Every corporate will have accounting, legal, logistical, development and finance functions that together are in a constant state of reacting to regulatory requirements and changing circumstances.

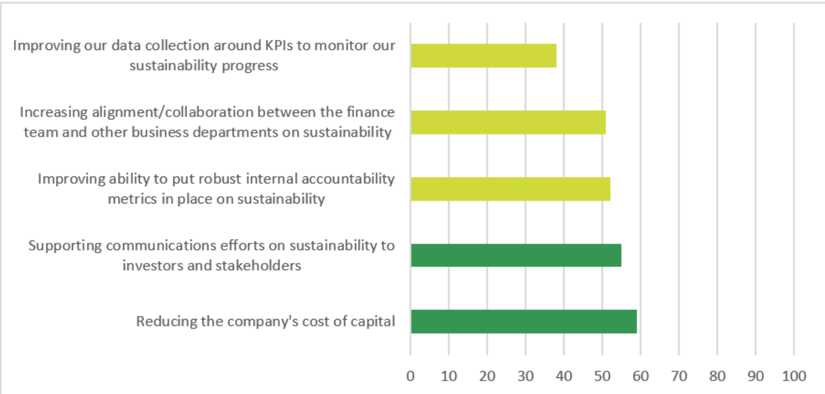
Our survey of corporates suggests that green issuance is a bigger ask of the Treasury team in terms of time and effort, but the implied benefits that come back dominate. Here, we're going to explore the actual costs and benefits through both quantitative and qualitative factors, with a particular focus on the financing aspect of sustainability.

Corporates have quite a holistic view on the benefits of sustainable financing. And the survey says ...

In the recent Longtitude/ING study, 'Now or never, a new bar for sustainability', some key questions were posed to corporates on funding through sustainable finance.

When asked about motivations for engaging in sustainable finance, the reduction in the cost of capital was a factor, but far from the only one.

To what extent did the use of sustainable finance deliver benefits? (out of 100%)



Source: Longitude/ING survey of corporates

Lower costs and positive benefits

Other factors such as sending a positive message to employees, support for sustainability communications to investors and stakeholders and help to improve Environment and Social Governance (ESG) ratings were equally high on the list of desirable outcomes.

59% of corporate respondents see a lower cost of capital from sustainable financing

When it comes to the actual effects of sustainable issuance, some 59% of respondents did see a reduction in the company's cost of capital, and some 55% viewed the exercise as supporting communications on sustainability to investors and other stakeholders.

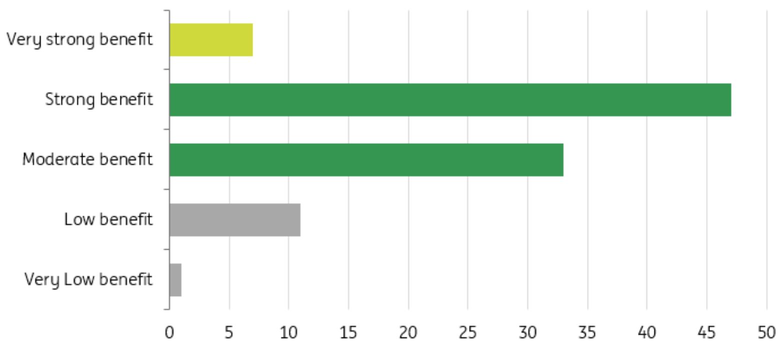
55% of corporate respondents viewed sustainable financing as a positive tilt for both investors and stakeholders.

Benefits were also gleaned from the collaboration between the finance team and other business departments on sustainability issues.

There were also corporates that did not see these as material benefits, but the lesson here is that green financing has ancillary benefits. Lower funding costs are on that list, but even if the funding costs were not lower, there were still other more qualitative benefits to be had.

To what extent did sustainable finance support communications on sustainability to stakeholders?

Sums to 100%



Source: Longitude/ING survey of corporates

Growing awareness across the board

One of the underlying circumstances at play here is the growth of awareness of ESG issues generally, from the stakeholder of all guises, whether that be shareholders, business partners or employees. In terms of the pure financing decision, there is no coercion coming from the official sector. Rather it is a bottom-up choice that has evolved as the right choice under the totality of circumstances.

The fact that there is a cost of funding improvement to boot is an added benefit; but more of a welcome outcome than a driver. The real test would be where the funding advantage disappeared completely or is even inverted. There would likely be a point where issuance plans would revert towards vanilla if the price point were severe enough. But that would likely require near-ubiquity in ESG bonds, and we are quite some way away from that.

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