

# SUSTAINABLE FINANCE IN FOCUS

## Green Loans—Kickoff Time!

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- The green loan market is still a niche but growing fast: gross issuance hit \$60 billion in 2018—up by 30% from 2017
- At present, over 75% of outstanding green loans is directed to the renewable energy and power generation sectors
- With an average maturity of over 15 years, the green loan market has the potential to become an important source of long-term funding for sustainable infrastructure projects
- Across the mature markets, the U.S., the UK and Spain have the largest green loan markets. Across emerging markets, India stands out.

### RISE OF GREEN LOANS

With [green bonds](#) paving the way, appetite for ESG investments has grown dramatically in recent years. In an effort to meet increasing client demand for ESG-linked securities (see our latest [Survey of Long-term Investors](#)), financial institutions have been actively developing new sustainability-related products to offer their clients, ranging from green mortgage loans to green funds and ETFs. Against this backdrop, one particularly interesting area has been green loans—especially after the launch of the first edition of the [Green Loan Principles](#) in March 2018.

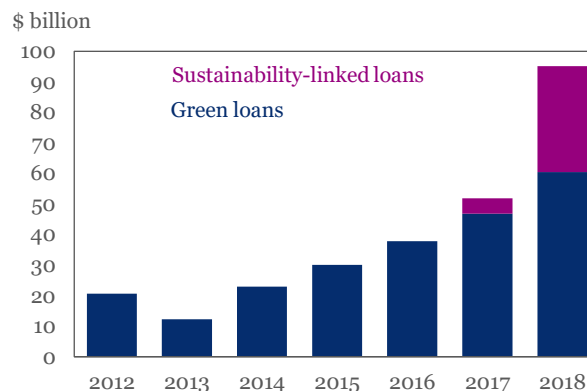
**Record issuance in 2018:** Global green loan issuance amounted to some \$60 billion in 2018, up over 30% from 2017. Issuance activity hit a record high in Q4 2018, exceeding \$20 billion. While early 2019 data look less robust, this looks to be more of a cyclical slowdown related to broad market conditions, given the sharp slowdown in overall global syndicated loan issuance in Q1 2019 (down from \$190 billion in Q4 2018 to \$135 billion). Mature market firms accounted for more than 75% of green loan issuance in 2018

**Largest issuers—the U.S., the UK, Spain and India:** These four countries account for over 40% of the global green loan market, although Australia, Italy, and UAE have seen significant growth since 2017.

**Over 90% of green loan proceeds has been used for project finance since 2017:** With an average maturity of over 15 years, green loans offer an important source of funding for long-term infrastructure projects. Over 75% of outstanding green loans are directed to renewable energy and power generation companies.

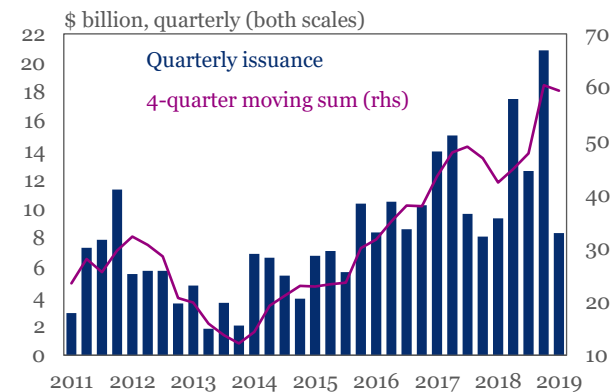
**Less credit risk in green infrastructure:** A [new report](#) by the NGFS suggests that green infrastructure loans exhibit lower default risk (5.7%) compared to their non-green peers (8.5%) and thus often enjoy lower funding costs.

Chart 1: Surge in green loan issuance last year



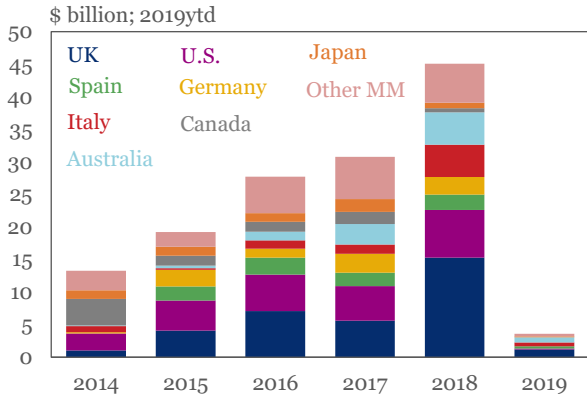
Source: Bloomberg, BloombergNEF, IIF

Chart 2: Slower green loan issuance in Q1 2019, in line with weaker activity in global syndicated loan markets



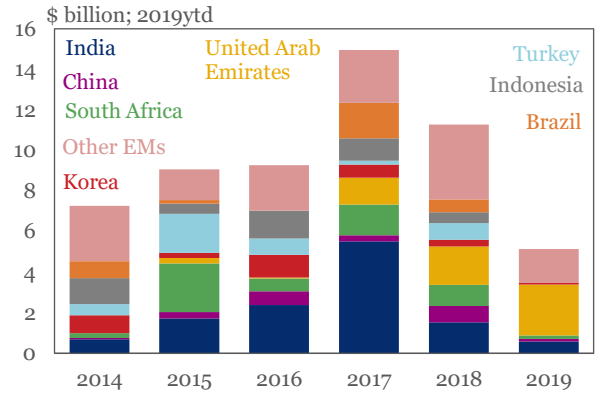
Source: Bloomberg, IIF

**Chart 3: Green loan issuance in mature markets**



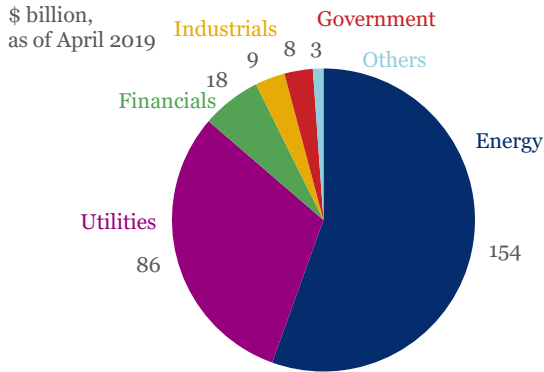
Source: Bloomberg, IIF.

**Chart 4: Green loan issuance in emerging markets**



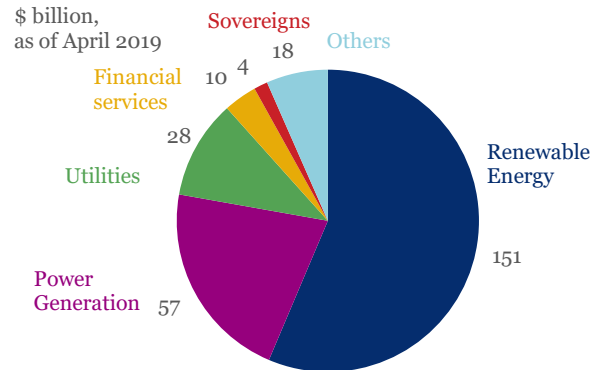
Source: Bloomberg, IIF.

**Chart 5: Outstanding green loans by sector (BCIS 1)**



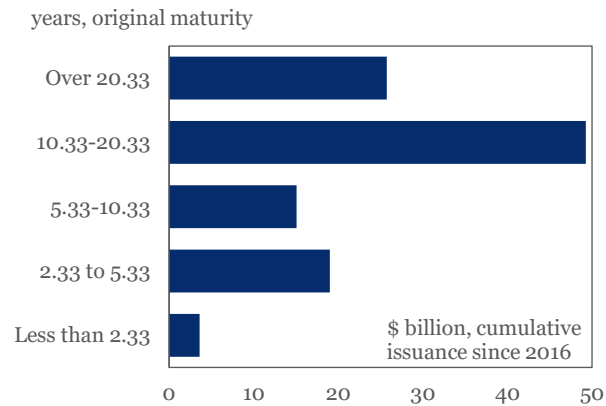
Source: Bloomberg, IIF.

**Chart 6: Outstanding green loans by sector (BCIS 2)**



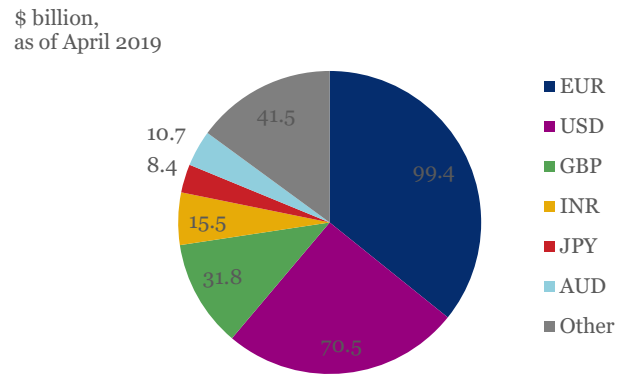
Source: Bloomberg, IIF.

**Chart 7: Green loans by original maturity**



Source: Bloomberg, IIF;

**Chart 8: Outstanding green loans by currency**



Source: Bloomberg, IIF.