

Your Word Is Your Bond: Strategic Communication for Sustainable Bonds Issuance

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Brunswick insights into the alignment of sustainable bonds and corporate ESG strategies

How companies communicate the issuance of sustainable debt matters and has implications for their broader ESG and business strategies. These instruments offer corporates and investors a valuable tool to achieve their ESG objectives.

Sustainable bonds are a relatively recent market that will continue to grow steadily this decade as financial institutions are compelled to redirect capital to help fund the transition to net-zero emissions and the delivery of the UN Sustainable Development Goals (SDGs). Companies may benefit from this form of sustainable finance “at a greenium,” obtaining more advantageous terms than those offered by vanilla bonds, while enjoying the “halo effect” of aligning capital with environmental and societal challenges.

However, these securities require **a specialist communication engagement** from the beginning that highlights the objectives of the issuance, use of proceeds and key milestones. It requires **a tailored approach** that is **consistent with the company’s existing ESG communication strategy** and adapts to the needs of its sector and industry classification.

Poorly designed and managed communication can undermine a bond and bring reputational and financial risks. For example, it can prevent the security from **inclusion in sustainable bond indices**. The main index providers and ESG rating agencies routinely evaluate the credentials of bonds and engage with issuers on their progress. To avoid **greenwashing**, they check that the use of proceeds is appropriately earmarked.

Forthcoming ESG regulations, combined with increased scrutiny from stakeholders, adds another layer of complexity that requires careful planning. **Brunswick Group, as a global critical business issues firm with ample cross sector expertise, is well placed to assist issuers from the early stages of a sustainable bond transaction.**

A changing landscape

The sustainable bond market is growing and shows signs of mainstreaming. Since the first green bond issued by the European Investment Bank (EIB) in 2007, issuance has developed in size and sophistication providing a convenient financial instrument to pursue net-zero and other ESG outcomes.

New segments have been created, beyond the green label: social, sustainability, sustainability-linked and transition bonds. All together, they reached the \$1tn milestone in 2021.

According to the Climate Bonds Initiative (CBI), sustainable-themed debt volumes amounted to \$1.1tn in 2021, a 57% increase compared to 2020. Green bonds reached the half-trillion mark for the first time, ending 2021 at \$522.7bn, a 75% annual growth.

Governments have buoyed up the market with the issuance of sustainable sovereign bonds. The UK has issued its first £10bn 12-year Green Gilt, the world’s largest-ever sovereign green bond, while Chile has launched the world’s first sovereign sustainability-linked bond.

In total, sovereign sustainable bond issuance increased by 103% in 2021 to \$193bn compared to \$95.2bn at the end of 2020, according to CBI data.

Voluntary frameworks and standards have contributed to adding much-needed transparency and credibility for investors – for example the Green Bond Principles of the International Capital Market Association (ICMA) or the CBI’s Climate Bond Standard.

Types of sustainable bonds

Green bonds enable capital raising and investment for new and existing projects with environmental benefits. See ICMA's [Green Bond Principles \(GBP\)](#).

Climate bonds are fixed-income financial instruments linked to climate change solutions. See [CBI's Standard and Certification Scheme](#).

Social bonds are use-of-proceeds bonds that raise funds for new and existing projects with positive social outcomes. See ICMA's [Social Bond Principles \(SBP\)](#).

Sustainability bonds are bonds of which the proceeds will be exclusively applied to finance or refinance a combination of both green and social projects. See ICMA's [Sustainability Bond Guidelines \(SBG\)](#).

Sustainability-linked bonds aim to further develop the key role that debt markets can play in funding and encouraging companies that contribute to sustainability (from an environmental and/or social and/or governance perspective). See ICMA's [Sustainability-Linked Bond Principles \(SLBP\)](#).

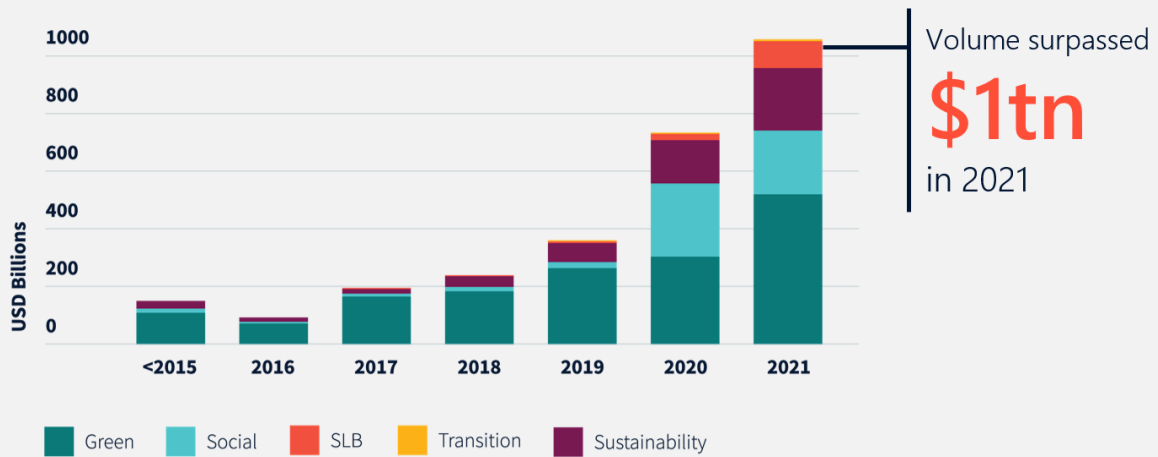
Transition bonds raise funds in debt markets for climate and/or just transition-related purposes. They can take the form of use of proceeds instruments (aligned to the GBP or SBG) and general purpose instruments (aligned to the SLBP). See the London Stock Exchange's [Transition Bond Segment](#).

Source: ICMA, CBI, LSE

Legislators have also turned their attention to the market. The European Commission has proposed an EU Green Bond Standard, a labelling system aimed at providing clarity among the existing market-led initiatives and at linking the allocation of funds to the EU Taxonomy for sustainable activities.

The landscape has evolved dramatically, adding complexity and new challenges for issuers to navigate. Companies that opt to issue sustainable debt will find new **hurdles to communicating and engaging effectively with a range of increasingly demanding stakeholders**, including investors, rating agencies, media and NGOs.

Figure 1:
Sustainable bonds volume <2015, 2016 - 2021



Source: Climate Bonds Initiative, Sustainable Debt, Global State of the Market 2021; report based on a record of 16,000 bonds with a cumulative volume of USD2.8tn

Challenges and opportunities

In conversation with Brunswick Group, CBI CEO Sean Kidney says sustainable bonds represent the marriage of capital and purpose. He says investors have discovered they can get better returns while addressing long-term ESG risks in their portfolios. (Watch the full interview with Sean Kidney [here](#).)

Kidney says: "Bond investors are defensive and every time there's a downturn, green bonds hold their value relative to vanilla bonds. That makes them very valuable and drives down primary pricing – the 'greenium' issuers receive."



Sustainable bonds represent the marriage of capital and purpose

He argues that **the issuance of sustainable bonds is an “exciting story for a company to tell,”** one that gets investors’ attention as it can influence the broader company-investor engagement.

The demand for sustainable and green bonds continues to exceed supply. This trend shows no sign of abatement. However, this success story has a flipside.

As more issuers enter the market, investors and other stakeholders are demanding more integrity, transparency and accountability. In turn, **issuers will need to refine their communication strategies around the use of proceeds and ultimate ESG purpose of the bond.**

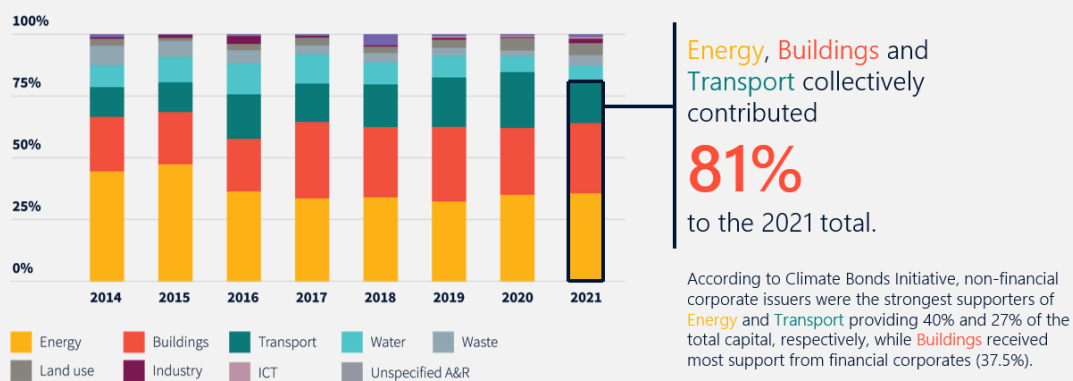
Investors will also demand that companies issue more robust and impactful sustainable notes,

backed by ambitious and credible targets. Other stakeholders are increasingly challenging the so-called halo effect associated with the reputational benefits of issuing sustainable bonds.

Forthcoming regulation, particularly from the EU, is also a factor that issuers need to consider in their communication strategy. The EU Taxonomy regulation, which helps to clarify what is considered a sustainable economic activity and what is not, will make investors report on their alignment accordingly.

The proposed EU Green Bond Standard, while voluntary, is conceived as the “gold standard” for how companies should use green bonds. Therefore, issuers will have to check how this affects their green bond frameworks and adapt if necessary. That should also cover their strategic communication

Figure 2:
Use of Proceeds 2014 – 2021



Source: Climate Bonds Initiative, Sustainable Debt, Global State of the Market 2021; report based on a record of 16,000 bonds with a cumulative volume of USD2.8tn

In focus: media scrutiny

More and more outlets are holding companies accountable for their issuance, keeping an eye on any claims that might denote greenwashing.

Dominic Webb, a reporter at Responsible Investor who specializes in fixed income, tells Brunswick that from a media standpoint **“the best story is always the worst bond.”** Webb’s comments are telling: companies need to **plan their media engagement as part of the bond issuance strategy.**

When analyzing pitched stories, Webb says he looks at the company’s sustainability profile more widely – how sustainable the company is overall.

He recalls a story where a company issued a sustainability-linked bond with sustainability targets attached, which were better than many in

the market. However, having had a closer look, one of the guarantors of the issuer was a subsidiary that ran a large coal export operation. Effectively the bond was secured against an interest in coal, he says.

Webb adds that investors tend to be wary about investing in the bond of an emissions-intensive company. It makes investors wonder whether the issuer is committed to the energy transition or whether companies “are just looking to get a cheaper interest rate on some of their green expenditures.” Buying a green bond frees up capital to be spent in other parts of the business, he adds, therefore investors might be indirectly enabling “further polluting expenditures” at an emissions-intensive company.

Figure 3:
Bonds aligned with the UN SDGs in 2021



According to Environmental Finance, the top 3 most funded UN SDGs in 2021 are all associated with green projects, collectively contributing 46% to the 2021 total:

- **SDG 7**, 17.34% : Affordable and Clean Energy
- **SDG 11**, 16.71%: Sustainable Cities and Communities
- **SDG 13**, 11.97%: Climate Action.

Number 4 is SDG3, Good Health and Well-Being (9.55%), associated with social projects.

Source: Environmental Finance, Sustainable Bonds Insight 2022 report

Conclusions: six recommendations for an effective sustainable bond strategy

1. Make the issuance of sustainable bonds part of your broader ESG and communication strategies. Coherence between your overall messaging and strategy will shape the future of the bond.
2. Stress-test the fitness of your ESG narrative in search of perceived signs of greenwashing from the outset. Identify the use of proceeds and back the projects that best align with your ESG narrative. The market is becoming a crowded space where it is hard to stand out, but at the same time, it is easy to be singled out when things go wrong.
3. Design a strategy that addresses the needs and concerns of all the stakeholders involved in the bond issuance: from investors to third-party opinion providers and rating agencies. Bond investors at the roadshow stage would have specific technical questions about the project; different from those of the media and NGOs that would often target the ESG narrative of the bond itself.
4. Get your internal communication right. The issuance will require coordination between different departments within the company. From treasurers to sustainability and communication professionals to investor relations. Keep your internal communication lines open and well oiled.
5. Design a defence strategy for the entire lifespan of the bond. The narrative of your issuance could be challenged at any time as information is disseminated in the market through assurance and third-party opinion reports.
6. Do not neglect communicating the impact of the bond. This information is key to show the success or failure of the bond, yet it tends to remain underreported.

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From financial situations through to capital markets, regulatory and public affairs, climate and environmental action, social issues, crisis, cyber, litigation and employee engagement, clients rely on Brunswick for ESG insight, advice, preparedness and campaigns.

Covering all regions, our ESG experts are based in major offices across the globe.

The Authors

Dan Lambeth

Partner, London

dlambeth@brunswickgroup.com



Carlos Martin Tornero

Associate, London

cmtornero@brunswickgroup.com



Emmanuella Ibrahim

Account director, London

eibrahim@brunswickgroup.com



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