

Canada announces first federal green bonds as part of its 2021 budget

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Team North

As part of its 2021 budget, the federal government announced its plan to issue \$5 billion in green bonds to support environmental infrastructure development in Canada. These bonds will be the first federal green bonds to enter the market.

What are green bonds?

Bonds are a fixed-income financing instrument, used to either borrow money or raise funds. **Green bonds are a specific type of bond in which the proceeds are used** exclusively to fund projects with environmental and climate benefits. Through such bonds, funds can be raised for green infrastructure and climate change adaptation and mitigation projects. Green bonds provide investors with an opportunity to support the transition to environmentally sound, low carbon economies while ensuring a steady return on investment. Conversely, projects that support such a transition can obtain the funding they need for their development.

First issued by the World Bank in 2008, green bonds have since seen steady and rapid growth in the financial market. In 2014, the International Capital Market Association published its Green Bond Principles (GBP), guidelines for issuing green bonds and promoting the integrity of the market. The GBP have four core components: (1) use of proceeds, (2) process for project evaluation and selection, (3) management of proceeds and (4) reporting. **These principles provide issuers with guidance on the key** components involved in launching credible green bonds and ensure transparency in the use of funds.

Categories specifically recognized by the GBP include, but are not limited to: renewable energy, energy efficiency, pollution prevention, natural resources management, biodiversity conservation, water management, circular economy adapted products and green buildings. In issuing green bonds, institutions must provide information on their projects and describe the environmental benefits they provide.

Any institution that has the capacity to issue bonds can also issue green bonds. The federal government plans to follow this rule, as announced in the 2021 budget.

The federal green bond

One of the several climate initiatives announced by the federal government in the 2021 budget is the establishment of a green bond. The issuance target is \$5 billion, subject to market conditions. This represents 2 per cent of the total \$286 billion in bond issuance planned by the Canadian federal government for the year. These investments will be used for projects such as green infrastructure, clean tech innovations and nature conservation.

The Department of Finance Canada and Environment and Climate Change Canada will lead the development, in cooperation with Natural Resources Canada; Infrastructure Canada; Innovation, Science and Economic Development Canada; Transport Canada; Agriculture and Agri-Food Canada; Public Safety Canada; and other related Crown corporations.

In the coming months, a more detailed framework will be published to provide information on how green bonds will be structured and offer any opportunities to finance work to fight climate change and protect the environment in Canada. The framework will serve as the baseline for the “first of many green bond issuances.”

BLG will provide updates on any further developments and investment opportunities as they emerge.

By

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