Green Labels and their current Lack of Impact

Green bonds projects have not necessarily translated into comparatively low or falling carbon emissions at the company level, according to the Bank for International Settlements (BIS) in its latest quarterly report. Most private institutions that have developed green bond certificates grant issuers a ‘green label‘ for individual projects that adhere to the Green Bond Principles (GBPs) of the International Capital Market Association (ICMA). However, a key issue with these green labels is that they do not necessarily guarantee that the companies and/or projects bearing them are actually achieving the desired results regarding their environmental impact.

So, whilst these certificates are accelerating the shift towards a sustainably conscious industry, they don‘t encourage actual sustainable development. Investors are looking to adhere to the standards of the Paris climate goals, or benchmarks set by their superiors, and green labels allow them to do so without guaranteeing a positive impact. The BIS quarterly report of September 2020 focuses on the particular aim of low and decreasing carbon emissions; a quantifiable value, and found that overall, there is no strong evidence that green bond issuance is associated with any reduction in carbon intensities over time at the company level.

A quantitative SDG-based rating at company level would ensure that companies are actually contributing to the fulfillment of climate goals, and would reassure investors that their investments have an impact. However, a rating of this level would require immense transparency from companies, which would instantly deter some, if not most, from requesting these ratings. Therefore, green labels would be harder to attain and the resulting scarcity would make them more valueable.

An example for this level of transparency is Europe’s largest electric scooter rental company TIER Mobility GmbH. The shared micro-mobility service provider has vowed to be climate neutral as of January 2020. To achieve this, all carbon emissions caused have been calculated and clear guidelines have been established for all areas of the company to reduce emissions. From travel guidelines, the entire supply and production chain up to daily operations in the individual cities where TIER scooters are available. The remaining, unavoidable, emissions are offset by investing in a rainforest conservation project in the Peruvian Amazon region and in regional forest protection projects in Germany.

BIS introduces three guidelines for a standardized rating system:

The incentives of firms should be aligned with the climate goals

A green rating should help investors make their investment decisions

Investors and other stakeholders should be able to verify firms‘ improvements

Therefore, in summary, green labels should be awarded to firms that are honest, informative, and transparent. Sustainable investments should not be made to fulfill obligations, but to have an impact, and it is the duty of all industry participants to highlight and support those that truly want to make that impact.

The full BIS report can be found via the following link, the discussed chapter starting on page 31: https://www.bis.org/publ/qtrpdf/r_qt2009.pdf