

What are sustainability bonds?

In 2020, Orange issued a €500 million sustainability bond. How do these bonds work and how do they differ from other financial instruments?

A bond is a loan made from an investor to an issuer (a company, government, etc.) for a set period of time in return for an agreed rate of interest. Sustainability bonds are debt instruments where the proceeds are used exclusively to finance one or multiple projects that positively contribute to sustainable development. The market for sustainability bonds is booming, growing twentyfold between 2015 and 2021 to stand at €1,000 billion.

Sustainability bonds versus green bonds

A number of sustainable financial instruments exist in financial markets, including “sustainability bonds” (to finance social and environmental projects), “social bonds” (to finance innovative social projects) and “green bonds” (to finance environmentally friendly projects). The proceeds are primarily used to finance projects that help bring about the environmental transition. The European Union raised €12 billion in the world’s largest green bond issuance to date.

Benefits of issuing sustainability bonds

Companies can use sustainability bond proceeds to finance projects in line with their purpose and/or environmental and social commitments, thereby reconciling their financial and CSR strategies. Orange invested around 40% of the proceeds from its first bond issuance in September 2020 in digital and social inclusion projects and about 60% in projects relating to energy efficiency and the circular economy. Sustainability bonds offer investors attractive yields compared with traditional bonds.

Sustainability bond issuances
totaled

\$1,000 bn

in 2021, 20 times more than in 2015

Source: Refinitiv