

# ESG Bonds

Part of the False and Distracting Finance Solutions mini-series ■ Written by the Debt and Climate Working Group

The debt and climate crises are deeply connected - but false 'solutions' risk distracting from, delaying, and ultimately avoiding the deep changes needed to resolve them. This mini-series will give you the evidence, talking points, and tools to push back and promote genuine, lasting solutions to the debt and climate crises.

## THE SALES PITCH

### What are environmental, social and governance bonds (ESG bonds)?

ESG bonds are a broad category of debt instruments issued by governments or companies to support environmental, climate or social goals. They include various types such as green bonds (focused on climate or environmental benefits), blue bonds (supporting ocean and marine economies), and catastrophe bonds (for disaster risk financing). Funds raised may be fully or partially directed to specific projects aligned with the bond's purpose. Some ESG bonds are performance-based, offering variable returns depending on whether the issuer meets set sustainability targets.

### Why they're on the negotiating table

Interest in ESG bonds for Global South countries has surged in recent years. They have been promoted by institutions such as the World Bank, IMF, EU, and OECD as tools to bridge the climate and development finance gap. This reflects a pervasive shift by wealthy countries from public finance toward mobilising private capital, justified by claims that public funds are limited. Within the UNFCCC, ESG bonds are gaining traction, particularly around how to address financing gaps. The emphasis on mobilising private finance to deliver the inadequate New Collective Quantified Goal outcome at COP29 could mean opening the door to mechanisms like ESG bonds in the delivery of official climate finance.

## REALITY CHECK

### Why are ESG bonds a false finance solution

- ▶ **ESG bonds exacerbate debt.** ESG bonds increase a country's debt burden - often compounding already harmful debt levels. While proponents argue that ESG bonds offer lower borrowing costs, evidence shows that their interest rates are typically comparable to commercial loans and are often denominated in foreign currencies. This not only adds to debt levels but also facilitates a transfer of wealth from the Global South to actors in the Global North, effectively extending colonial patterns of extraction under the guise of sustainable finance. ESG bonds can also come with additional costs, such as reporting to lenders, which can make them more expensive. Furthermore, without debt cancellation, any new loans to Global South countries will likely have to be used to repay existing creditors, as opposed to being allocated to climate action.
- ▶ **They are not a sustainable source of finance for many Global South countries.** Despite the promotion of sovereign ESG bonds by Global North and international institutions, few Global South countries have participated, largely due to high borrowing costs and limited capacity to take on more external debt - especially in foreign currencies. This underscores how inaccessible and unsuitable ESG bonds are for countries most in need of climate and development finance.
- ▶ **Not a good use of public resources.** International financial institutions are using a range of mechanisms to "de-risk" ESG bonds and make them more attractive to private investors -

such as providing guarantees, technical assistance, and covering issuance costs. In effect, public money is being used to reduce risks for private sector investors and enable private profit. Is this really the best use of public resources?

- ▶ **Lack of regulation and standards.** There are no regulations for ESG bonds, only voluntary standards. While there are several voluntary standards in existence (such as the 2014 Green Bond Principles), in practice any issuer can declare their bond ESG-labelled if they want to, as there is no oversight or control over what the money borrowed is financing.
- ▶ **Greenwashing.** ESG bonds are widely called out for greenwashing, including by industry insiders, and the systems in place to limit this are inadequate. For example, the proceeds of some green bonds have been used for climate harmful projects, such as the Jirau dam in Brazil which destroyed large amounts of rainforests.
- ▶ **ESG bonds lack transparency.** Access to information on ESG bonds and where the revenue raised from them has been allocated is often hard to access. When information is made available, it is only after a deal has been finalised. This limits the ability of communities to participate in decision making, including on how the proceeds of the bond should be used.
- ▶ **ESG bonds divert attention** from wealthy countries' unfulfilled obligations and from the urgent reforms needed to the global financial system to ensure Global South countries can meet development and climate goals. A focus on ESG bonds and similar mechanisms also reinforces the "private sector first" agenda promoted by rich countries, despite clear evidence that private finance cannot deliver adequate or high-quality climate funding, and that sufficient public resources already exist.

## THE REAL FIX

- ▶ **Private sector mechanisms that further indebt Global South countries while generating profit for wealthy lenders are not a just form of climate finance and must be rejected.** Instead, rich countries must deliver adequate, grant-based, public climate finance, as required under Article 9.1 of the Paris Agreement. This is not charity, but compensation for the climate and ecological debt owed to the Global South. Wealthy countries have the means to provide this through fair taxation and redistributive measures, including phasing out fossil fuel subsidies and redirecting funds from harmful activities such as war and genocide.
- ▶ The current debt crisis and unjust debt architecture are major barriers to Global South countries having the resources needed for development and climate action. **Championing debt cancellation and reform of the debt architecture within UNFCCC processes would send a strong signal to other international institutions.** We call for:
  - Immediate debt cancellation, across all creditors, for all countries that need it, free from economic conditions. This must complement climate finance, not replace it.
  - Support for establishing a UN Framework convention on sovereign debt.

### Learn more

- ▶ "Sovereign ESG bonds in the global south", Andre Standing, EURODAD, November 2023
- ▶ "Debt and Climate Justice: Strategic Engagement in UNFCCC Processes at COP30 and Beyond", Debt and Climate Working Group, October 2025

### About us

The Debt and Climate Working Group is a global coalition of civil society organisations, activists, academics, and movements collectively advancing justice at the intersection of the debt and climate crises. **For more information, contact Tess Woolfenden, [tess@debtjustice.org.uk](mailto:tess@debtjustice.org.uk).**

