



Green Bond financing of private investment and R&I

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GLORIA Workshop

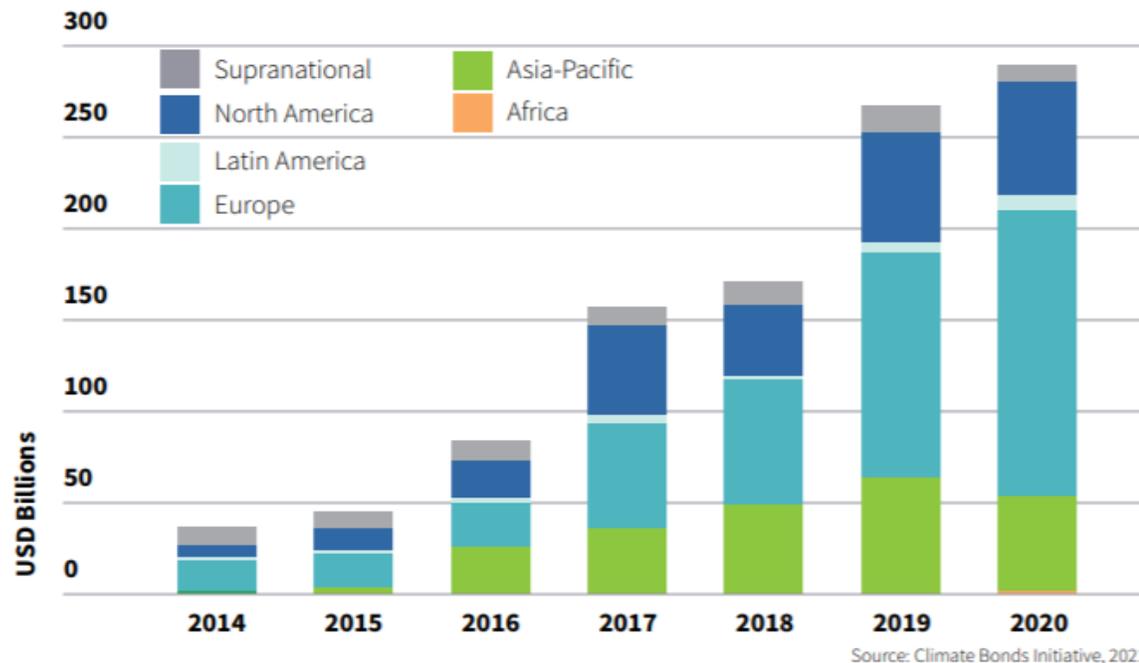
28th April 2021

The green bond market

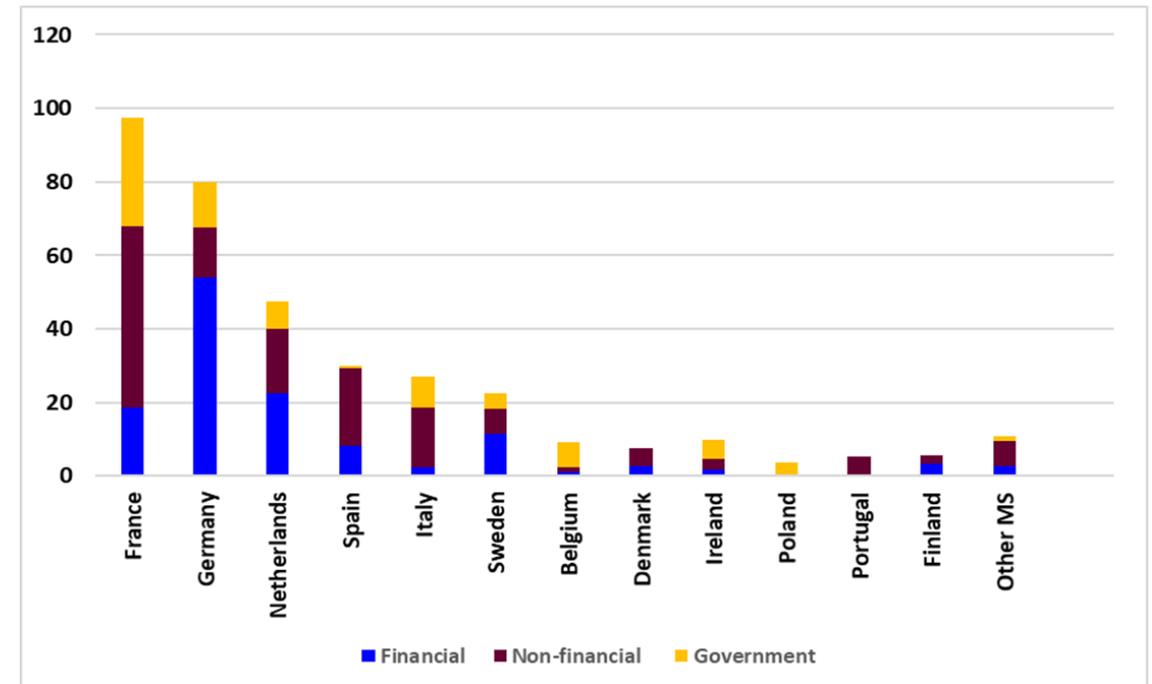
Green bonds are **debt instruments issued to finance investment projects** that are meant to have **positive environmental or climate effects**.

Market still in its infancy but growing steadfastly, with Europe having a clear leadership

Green bond issuances worldwide, breakdown by year and geographic (USD bn)



Green bond issuances in the EU, breakdown by MS and type of issuer (€ bn)



Green bonds and transparency

- **Transparency and disclosure** as important determinants of the success of the market.
- No clear and harmonized definition of green bonds and green projects → potential **risks of market disruptions from greenwashing.**

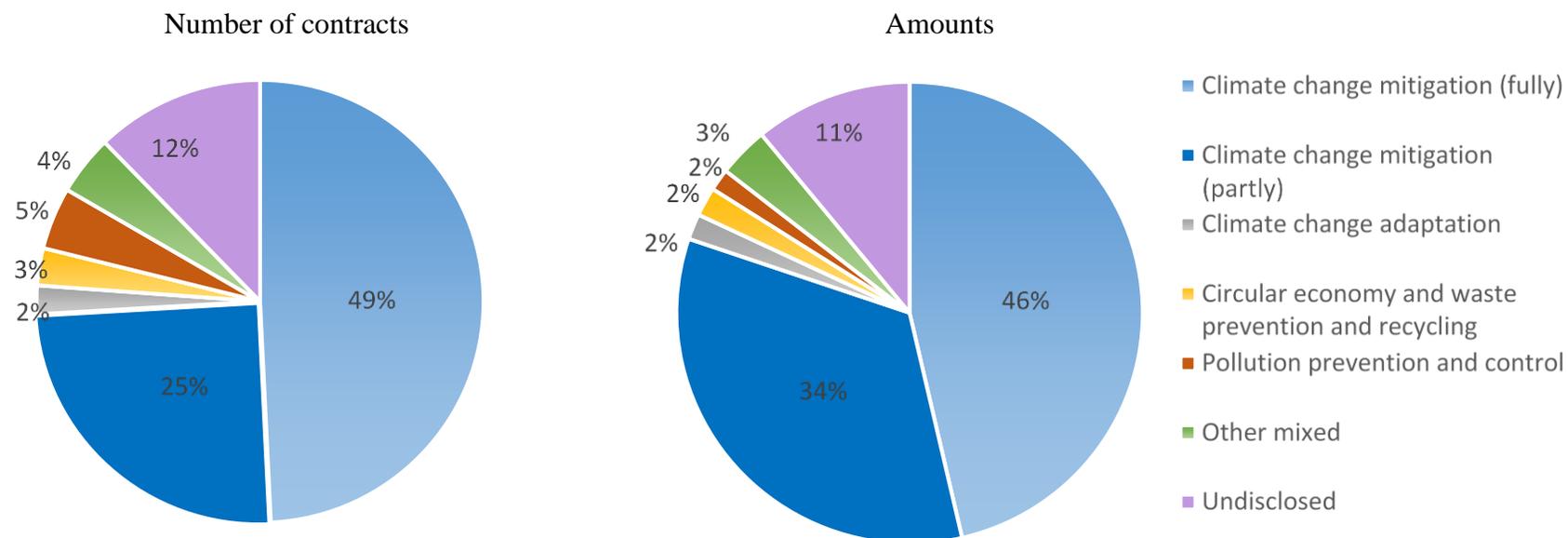
| | Green Bond Principles | Climate Bonds Standard |
|---------------------------------------|---|---|
| Owner | International Capital Markets Association | Climate Bonds Initiative |
| Reach | The dominant international standard (used by most of the international green bond market) | 24% of all green bonds issued in 2020 |
| Environmental objectives | Climate mitigation and adaptation, natural resources, biodiversity, and pollution prevention and control. | Low-carbon and climate resilience |
| → Main requirement on use of proceeds | 100% green | 100% aligned with climate bonds Taxonomy and certified by external reviewer. |
| Definition of green | High level categories for eligible projects | Climate Bonds Taxonomy covering eight sectors. |
| Screening criteria | N/A | Screening criteria available for some sectors, including power generation, transport, buildings, and other sectors. |
| External review requirements | Recommended | Dedicated certification scheme – certification is required both pre-issuance and post-issuance (2 years after) |
| Requirements for external reviewers | High level guidelines for external review | External reviewers must be pre-approved by CBI. High-level requirements. |
| → Allocation reporting | Not required | Required |
| → Impact reporting | Recommended | Recommended |

Green bonds and green projects

- The emphasis on the **'use of proceeds'** uniquely characterizes green bonds, which are otherwise legally and financially similar to conventional fixed income securities.

Textual analysis of the tranche notes of 1,105 green bond contract issued worldwide by the corporate sector over the period 2007-2019 documents:

- strong focus on climate change mitigation, with projects on *energy efficiency, renewable energy and clean transportation*;
- increasing reporting propensity over time;
- that roughly 16% of contracts issued for *refinancing* of existing projects



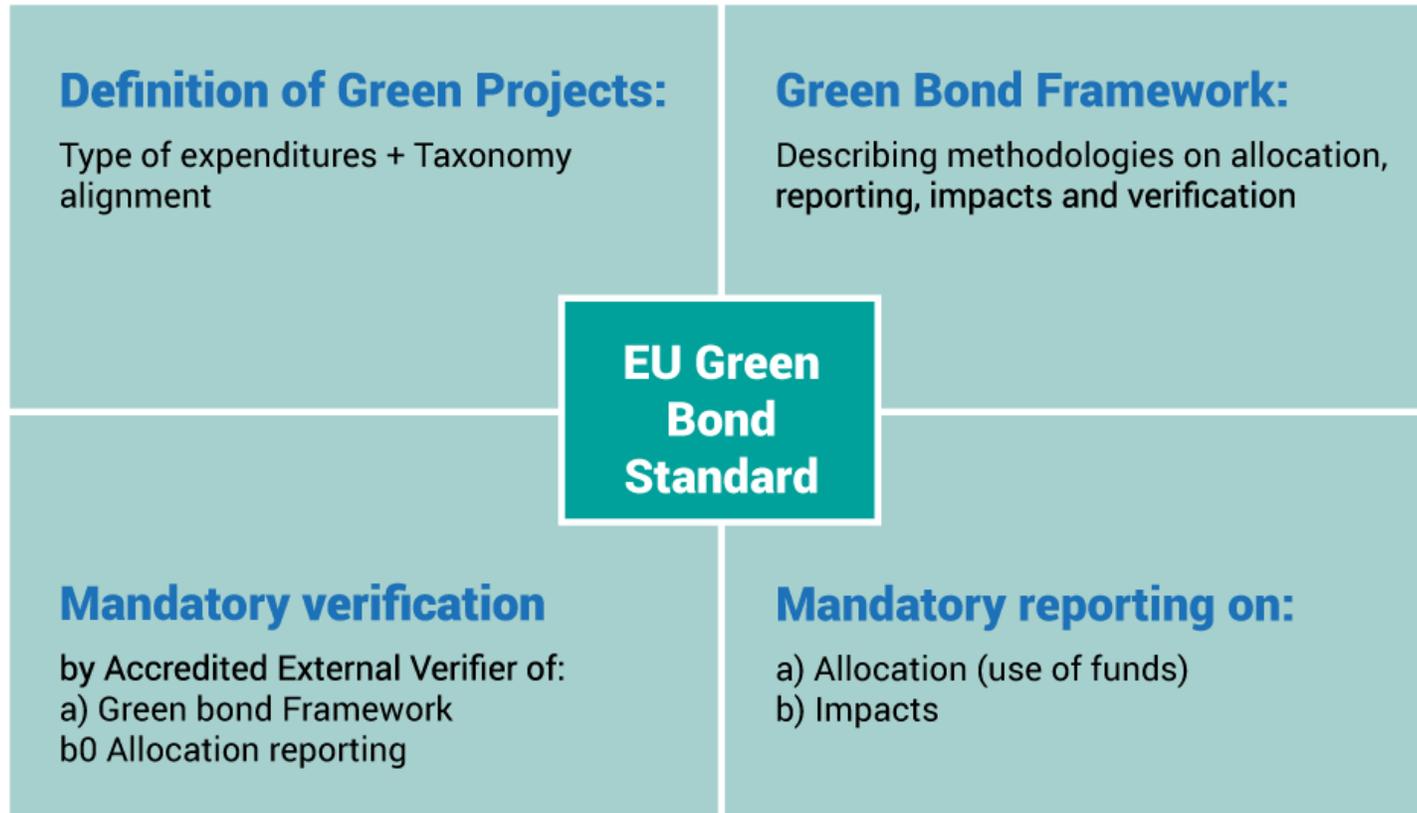
Source: Fatica and Panzica, Green Bonds as a tool against climate change?, *Business Strategy & the Environment*, 2021.

Green bond financing for NFCs

- Around 40% of global green bond amounts are issued by NFCs
- Green bonds issued by NFCs account for 3.6% of the overall bond market in EU27
- JRC analyses show that green bonds issued by NFCs:
 - are a **cheaper source of finance than conventional bonds**, all other things being equal (Fatica et al., 2021, JFS);
 - are a **credible signal for issuer climate engagement**, as they are associated with lower (total and Scope 1) carbon emissions at the company level (Fatica & Panzica, 2021, BSE)
- Important **data gaps at the project level** remain to assess the effectiveness of green bonds

Proposed EU Green Bond standard

Regulation expected in June 2021



- EU GBS: “Green Projects can include: (...) any capital expenditure and selected operating expenditures (...) and research and development costs.”
- While R&I essential for green transition, inclusion in GB frameworks not without issues.
- Intangible assets, such as research and innovation, also appear more frequently in sovereign bonds than corporates.

Thank you for your attention