



## **GREEN BONDS**

*How Capital Markets may help the  
environmental sustainability*

**Green Finance for Urban Development**

83rd UNECE meeting  
3 October 2022

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## The Capital Market for the environmental sustainability

Capital Markets are key to achieve the challenging environmental and social sustainability objectives as their role is to provide financial resources (coming from private investors) to complement the public ones (which are not sufficient).

In this context, **GREEN AND SUSTAINABLE BONDS** play an important role.



The green bond market recorded a progressive growth in number and volumes, becoming the most used debt security among environmental and sustainability financial instruments.



# Green, Social e Sustainability Bonds



## What is a **GREEN BOND** and how it works

It is a financial instrument issued by an entity (**ISSUER**) to borrow money (**CAPITAL**) from another entity (**LENDER / INVESTOR**) for a certain period (**MATURITY**) with the promise of the repayment of principal as well as a stream of interest payments (**COUPONS**).

A bond, as any other securities, can be sold by the investor during its life (**SECONDARY MARKET**)

Issuer can be a **PRIVATE COMPANY** (corporate or financial institution) or a **PUBLIC ENTITY** (States, Municipalities, Supranational Institutions).

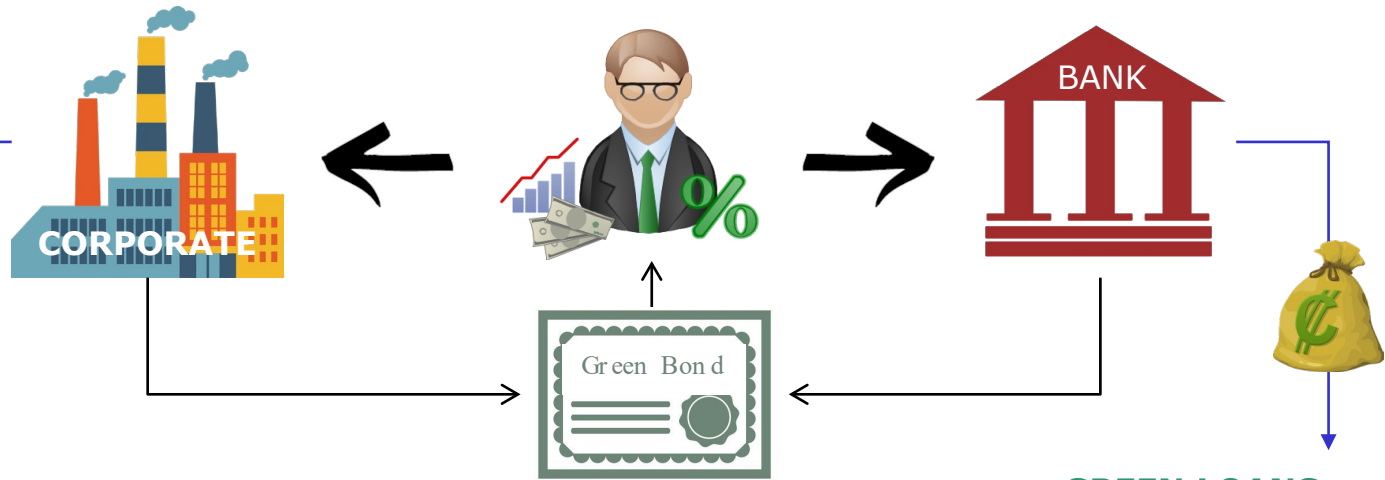


The issuer commits itself to use the funds to environmental or climate change related projects (**USE OF PROCEEDS**).

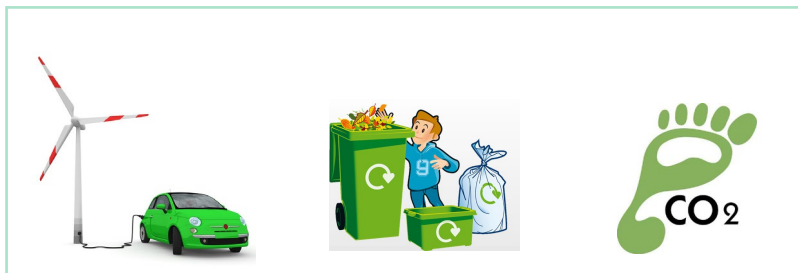
**GREEN BOND**

**BOND**

# GREEN BONDS: corporate vs bank issuance



## COMPANY'S OWN GREEN PROJECTS



## GREEN LOANS



# How Capital Markets may help the environmental sustainability

## Examples of GREEN BONDS (Italy)

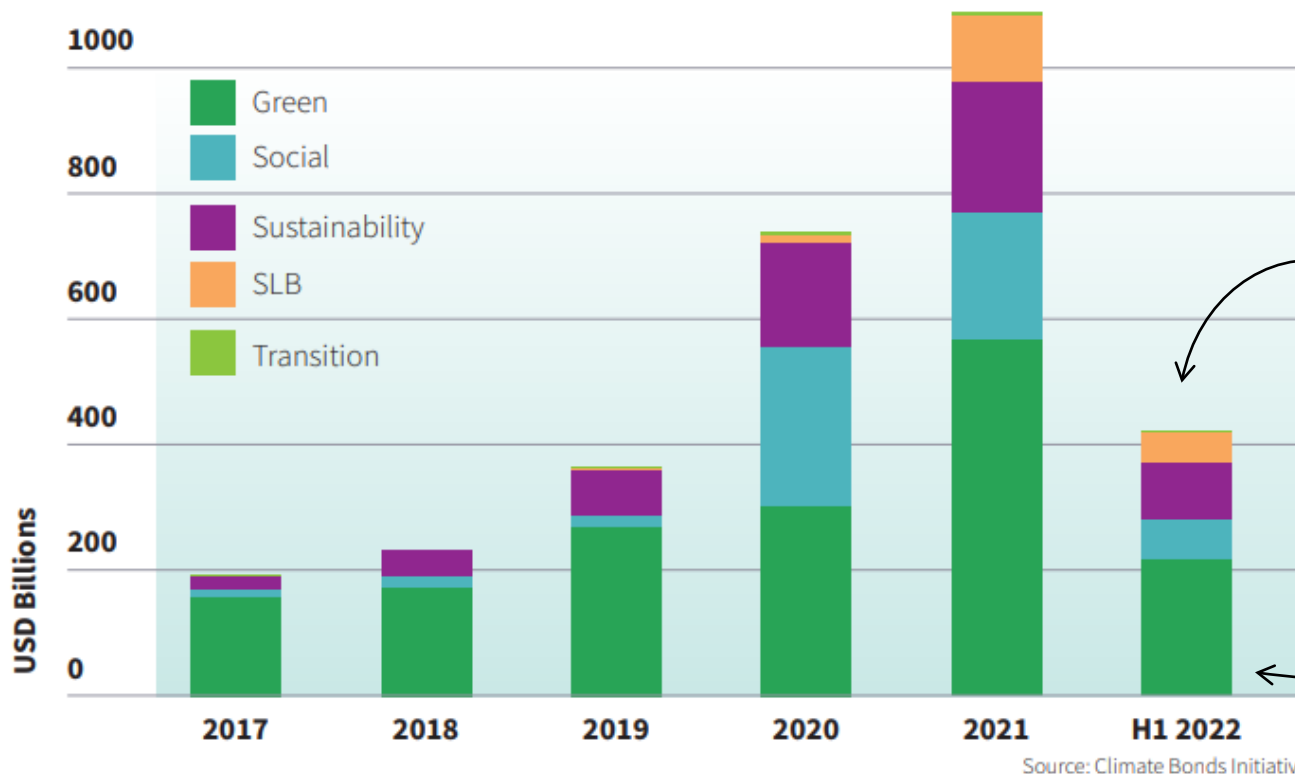
Source: Issuers website

NON FIN. CORPORATE	BANK	NAT. PROMOTION INST.	NATIONAL GOVS
Green Bond	Green Bond (SNP)	Sustainability Bond	Green Government Bond (BTP)
Ferrovie dello Stato Italiane	Intesa Sanpaolo	Cassa Depositi e Prestiti (CDP)	Republic of Italy (MEF)
September 2022	August 2022	Sept. 2022	Sept. 2022
Eur 1,1 billion	Eur 2,3 billion	Eur 750 million	Eur 40 billion
3,75 %	4,75 %	3,5 %	4 %
2027 (5 years)	2027 (5 years)	2027 (5 years)	2035 (13 years)
ESG investors (65%)	Fund managers (74%), banks (15%), pension funds and insurance companies (10%)	70 investors ESG investors (~ 70%)	Fund managers (44%), banks (30,7%), pension funds and insurance companies (13,7%), central banks and governative institution (6,1%)
FS Green Bond Framework (June 2022)	ISP Green, Social and Sustainability Bond Framework (March 2021)	CDP Green, Social and Sustainability Bond Framework	MEF Framework for the Issuance of Sovereign Green Bonds (February 2021)
<ul style="list-style-type: none"> <li>• Purchase of new trains and relevant maintenance expenses</li> <li>• Completion of the Turin-Milan-Naples high-speed train network, managed by RFI.</li> </ul>	<ul style="list-style-type: none"> <li>• Renewable Energy</li> <li>• Energy Efficiency</li> <li>• Green Buildings</li> <li>• Environmentally sustainable management of living natural resources and land-use, Biodiversity</li> <li>• Circular Economy</li> </ul>	<ul style="list-style-type: none"> <li>• Green projects supporting energy transition, energy efficiency, water efficiency and wastewater management</li> <li>• Social initiatives related to healthcare infrastructure and financing of Italian companies</li> </ul>	<ul style="list-style-type: none"> <li>• Climate change mitigation &amp; adaptation;</li> <li>• Sustainable use and protection of water resources and the marine environment;</li> <li>• Transition to a circular economy;</li> <li>• Pollution prevention &amp; control;</li> <li>• Protection and restoration of biodiversity and ecosystems.</li> </ul>

# Green, Social e Sustainability Bonds: volumes

Cumulative GSS+ volumes reached USD3.3tn in H1 2022

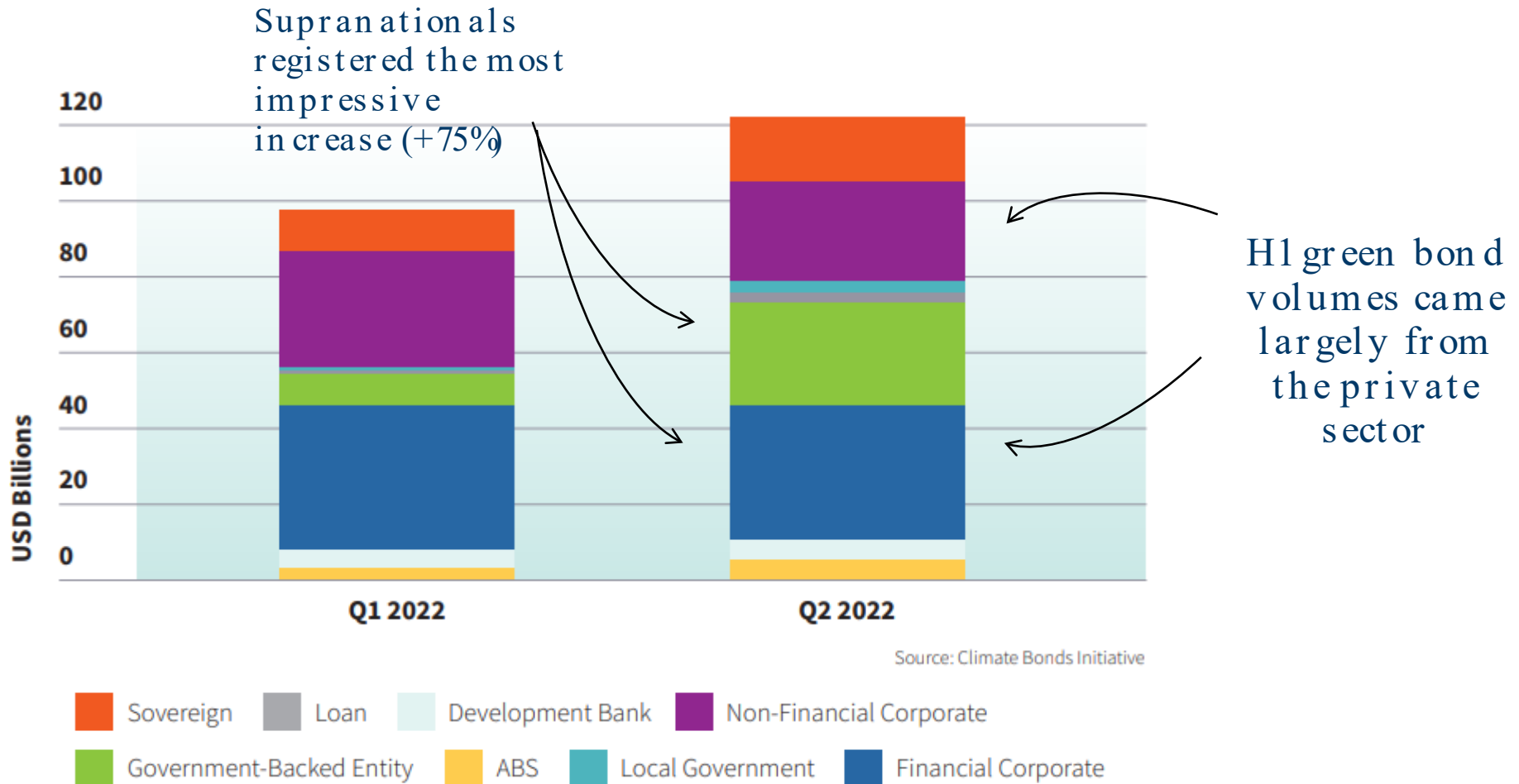
Record high in GSS+ volume in 2021



2022 H1 Year-on-year decrease of 27% against H1 2021

In 2022 H1, green-themed issuance accounted for 52% of the H1 GSS+labelled debt

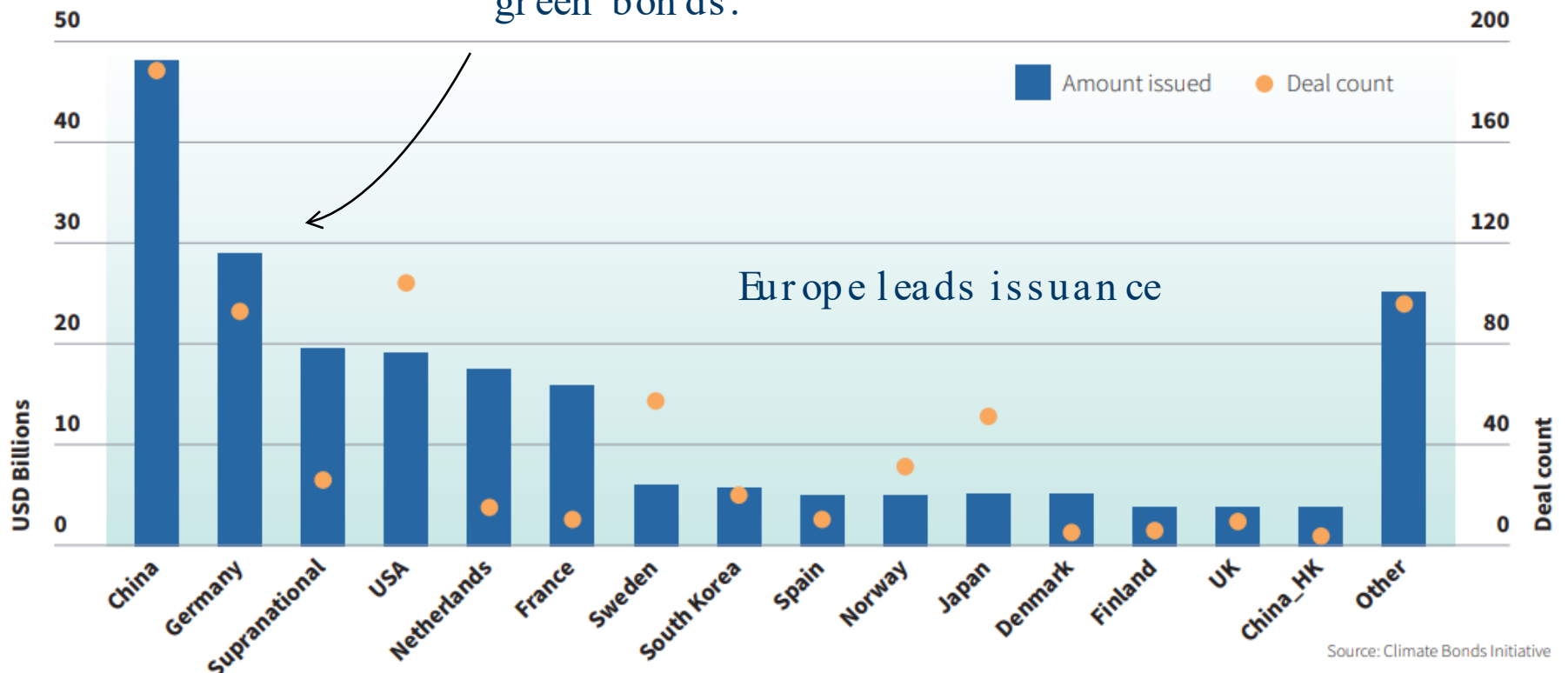
## GREEN BOND: types of issuers





# GREEN BONDS: issuance by countries (H1 2022)

China, Germany, and the USA were the largest sources of green bonds.



## GREENWASHING: how to fix it

Greenwashing – making false or misleading claims about the green credentials of a company or financial product – is a major challenge for the market in green bonds and other sustainable investments.

Regulators and the industry itself are working hard to address this issue, promoting **MARKET STANDARDS**

### ICMA Green Bond Principles



### EU Green Bond Standard



## ICMA GBP: 4 core components



### 1 Use of proceeds

The cornerstone of a Green Bond is the use of the proceeds for the financing of green projects. All designated projects should provide clear environmental benefits, which will be assessed and, where possible, quantified by the issuer.

The GBP also provide a non-exhaustive list of categories for eligible projects which contribute to environmental objectives, such as: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control.

### 2 Process for project evaluation and selection

The issuer of a Green Bond should clearly communicate to investors:

- The environmental sustainability objectives of the eligible Green Projects;
- The process by which the issuer determines how the projects fit within the eligible Green Projects categories
- Complementary information on processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)

### 3 Management of proceeds

The net proceeds of the Green Bond, or an amount equal to these net proceeds, should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner, and attested to by the issuer in a formal internal process linked to the issuer's lending and investment operations for eligible Green Projects.

### 4 Reporting

Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and on a timely basis in case of material developments.

The annual report should include a list of the projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects, the amounts allocated, and their expected impact

## EU Green Bond Standard Regulation: key features



**Inclusive:** It will be open to all EU and non-EU issuers (specific, limited, flexibility will be provided for sovereign issuers).

**Voluntary:** It will be a voluntary standard setting out uniform requirements for any bond issuers that wish to call their bond a “European green bond” or “EUGBS”.

**Aligned with the EU Taxonomy:** The standard requires that issuers must allocate 100% of the funds (proceeds) raised by their bond to economic activities that meet the EU Taxonomy requirements, by the time the bond matures.

**Supporting issuers in transition:** European green bonds can be used to fund long-term projects (duration up to 10 years) that make an economic activity aligned with the EU Taxonomy.

**External review:** European green bonds will be checked by an external reviewer to ensure that the bonds are compliant with the EUGBS Regulation. External reviewers will be registered with ESMA and will need to meet the conditions for registration on an ongoing basis.

**Grandfathering:** In the event of a change in the EU Taxonomy Technical Screening Criteria (TSCs) after bond issuance, issuers can make use of pre-existing criteria for five more years.

European  
Commission  
proposal dated  
July 2021



Final approval by  
EU Council and  
Parliament  
expected by **end  
of the year**

## Green bond: challenges

- ✓ Complex and costly process / need of internal capacity to manage the process for the entire life of the bonds
- ✓ Searching for green project to finance meeting the requirements (for issuing banks)
- ✓ Change of standards / taxonomy during bond's life
- ✓ External Review of the «use of proceeds» (for EUGBS)
- ✓ Disclosure requirements to the public
- ✓ Risk of 'greenwash' (public opinion)
- ✓ ecc.

