Green Bonds – Solution or Labelling?

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Fourth Annual Meeting of the San Giorgio Group: Expanding Green, Low-Emissions Finance
Venice, 17 October 2014
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A long history of long term investments since early civilisation

Acqueduct: Aqua Claudia

Sewers/drains: Cloaca Maxima

Public latrines: Ostia Antica

Today: same needs but higher standards and norms

Water reservoir for security of supply

UV Disinfection for safe, potable water

Wastewater treatment plant
The companies in the portfolio

- Acque Vicentine
- Acque Veronesi
- Acque del Chiampo
- Alto Vicentino Servizi
- Centro Veneto Servizi
- ETRA
- Azienda Servizi Integrati
- BIM Belluno
- Basso Livenza

Region of Veneto
- 437 municipalities
- 3m residents

Problem:
- No access to capital markets
- Difficult to access bank financing for long maturities
- No access to EIB direct lending given the small size and low rating
Credit Risk - highlights

- Local municipality-owned companies, providing regulated water services under concession agreements
- Internal ratings ranging from 4/Baa2 to 6+/B1 (4/Baa2: 1 case; 4-/Baa3: 2 cases; 5+/Ba1: 4 cases; 6+/B1: 1 case)
- EIB underlying documentation to include typical corporate clauses for operations with Italian water companies
**Renewable Energy Platform for Institutional Investors**

**Stimulate RE deal flow and institutional finance**

**Main objective**

Create more RE deal flow

**Key elements**

1. Lower cost of capital to improve RE project bankability: provide commercial lenders with ‘guaranteed exit’ and remove refinancing risk premium from equity.

2. Release capital for commercial lenders, raise their capacity for further RE investments.

3. Enable institutional investors with varying risk/reward profiles to acquire mature long-term RE assets.

**Ultimate goal:** simultaneously stimulate deal flow and engage institutional investors to increase overall RE financing.
Concept: REPIN

**RE debt provider**
- **for example:**
  - Banks
  - Equity provider
  - Other sponsors

- Sell loans/cash flows from operational projects to free-up capital
- Projects need to meet minimum standard

**Institutional Investors**
- **for example:**
  - Pension funds
  - Insurers & re-insurer
  - Other asset managers

**Renewable Energy Platform for Institutional Investors (REPIN)**
- **for example:**
  - Straight pass-through of loans from a project or portfolio
  - Issuance of notes from a loan portfolio (with or without credit enhancement)

- **Securitisation of loan portfolio(s)**

- Sets minimum technical, legal and risk/reward standards
- Aggregates & brokers RE loan portfolios
- Offers transaction vehicles that meet institutional investors’ different risk/reward expectations
- Monitors & manages loan portfolios (potentially with assistance of initial debt provider)

**Institutional Investors**
- **for example:**
  - Pension funds
  - Insurers & re-insurer
  - Other asset managers

- Enter into purchase transactions meeting different risk/reward expectation

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Environmental Performance
Indexed Bonds (e.g. REDD credits) – generic structure

Institutional Investors
(1) Bond Proceeds
(11) Bond Redemption

Bond (or SPV) with Principal Guaranteed (*)
(2) Bond Proceeds
(10) Bond Redemption

AAA-bank account or ad hoc secured utilisation (*)

Management Structure of the Bond Platform

Third-party “Bridge” Lender to the Management Structure

(3) Fixed coupons foregone by investors
(4) If need be, bridge loan to be invested to kick-start projects on demand
(5) Bridge loan reimbursed as and when fixed coupons are foregone by investors
(6) Investment in project on demand
(7) Payments (***): from each project
(8) Pass-through payments of flows (7) to Bond Paying Agent
(9) Periodic Payments to Investors of coupons regrouping flows (8) by Bond Paying Agent

PORTFOLIO of projects (**):
Project 1
Project 2
Project 3
Project 4
Project 5
Project 6
Project 7
Project 8
etc...

(*) : if EIB is the bond issuer, it would invest the proceeds in identified “green” projects
(**) : each project may already be mothered or sponsored or looking for co-financing by (SRI / voluntary) corporations or by foundations
(***) : a project could pay cash the proceeds of carbon credit, clean water certificate, or agricultural commodity / timber sales

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Under PBI, EIB provides Project Bond Credit Enhancement (PBCE) to:

- Ensure debt service for Project Bond Investors up to the total size of the instrument
- Credit enhance project bonds from a typical BBB- rating by up to 3 notches to A-
- As either a funded (subordinated loan) or unfunded (letter of credit) guarantee instrument
### Sample PBCE Transaction – Greater Gabbard OFTO

#### Project Overview

**Project Type**
- Electricity transmission assets connecting the 140 wind turbines of the 504MW Greater Gabbard offshore wind farm to the UK onshore grid

**Status**
- Construction completed and part of the UK regulated transmission system

**Project details**
- PBCE of GBP 45.8m
- 125bps over the benchmark UK Gilt rate or 4.317%, 3x oversubscribed
- Use of EU budget (EUR 10m from TEN-E budget)

**Concession Term**
- 20 years

**Bond**
- GBP 305.1m, publicly listed, long term, amortising senior debt with a tenor of 19 years

**Bond Rating**
- A3 (with the PBCE)

**PBCE Letter of Credit**
- GBP 45.8m initially, amortising with bond
- EUR 10m USE OF TEN-E PBI FUNDS