Green Bond Market Development and EIB

Eila Kreivi
Director and Head of Capital Markets
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Evolution of the Green Bond market*

In 2007 EIB issues the world’s first Green Bond
- Ring-fencing of proceeds
- Reporting on use of proceeds
- Disbursements to new loans only

The Green Bond market takes off
Green Bonds remained mainly a product for select institutional and retail investors until 2013, when larger deals start coming to market and institutional investor interest increases

*Issuance in USD m
Source: JP Morgan as of 22nd August 2016
EIB’s Green Bonds: Climate Awareness Bonds
The EIB acts as catalyst for the Green Bond market

Climate Awareness Bond Issuance

Contributions via

Setting an example for transparency and accountability

Industry working groups e.g. Green Bond Principles and Impact Reporting
EIB breaking new ground in the Green Bond market

- **2007**: First Green Bond issuance in July
- **2009**: First allocation reporting in the Sustainability Report
- **2015**: The market’s first comprehensive impact report in March
- **2015**: First to link individual Green Bonds and projects in October
- **2016**: First post-completion report on projects in April
- **2016**: Reasonable Assurance Report by KPMG on EIB’s alignment with the GBP & Reporting
EIB CABs: strategy & key features

Financial
✓ Scale of issuance with benchmark-size Green Bonds
✓ Building a Green Bond curve in EUR
✓ Exposure to the EIB credit - not to projects
✓ No premium charged for Green Bonds
✓ No refinancing of projects

Transparency & Accountability
✓ Aligned with the Green Bond Principles
✓ Eligible sectors: Renewable Energy and Energy Efficiency
✓ Quality and transparency
✓ External review / audit of the CAB programme
✓ Reporting project impact & linking bonds to projects

* As of 29 August 2016
Climate Awareness Bond Projects Worldwide

131 projects in 43 countries within and outside of the EU*

<table>
<thead>
<tr>
<th>Country / region</th>
<th>CAB allocation (EUR m)</th>
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<tr>
<td>Chile</td>
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<td>China</td>
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<td>Zambia</td>
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</table>

Non-EU represents EUR 1.1bn (12% of total CAB allocations)

* Project allocations in EUR m as of December 2015
Green Bond Principles
Green Bond Principles (GBP)

- Voluntary coalition of underwriters, issuers and investors of Green Bonds, started in January 2014 by four banks
- As of August 2016: 122 Members and 75 Observers
- Recommendations for best practices in Green Bonds Markets, focus on disclosure and transparency
- Governance: Executive Committee of 24 members, equal numbers of underwriters, investors and issuers.
- Both Europe and US well represented, less of Asia
- The Chair and two Co-Chairs (EIB, Zurich Insurance, JP Morgan) for Steering Committee who prepares meetings and agendas.
The Green Bond Principles have four components

GBP § 1: Use of proceeds
• A description of use of proceeds should be included in the legal documentation of Green Bonds; the GBP contains several categories of eligible Green Projects (non-exhaustive list)

GBP § 2: Project evaluation and selection
• Issuers should outline the decision-making process used in determining project eligibility, including the process, criteria, and environmental sustainability objectives

GBP § 3: Management of proceeds
• Recommends the segregation of funds in a separate portfolio (ring fencing of proceeds) and the disclosure of intended types of temporary investments for unallocated proceeds

GBP § 4: Reporting
• **Use of proceeds reporting:** Information on projects benefitting from Green Bond allocations and amounts disbursed should be published at least annually
• **Impact reporting:** Expectations on the environmentally sustainable impact, incorporating qualitative and quantitative performance indicators, should be provided

External Review is recommended
• Different types of external review possible: Verification (Audit), Consultant review, Certification, Rating
Main updates of the 2016 GBP

- **Information and external review forms**
  Two standardized forms were released, aiming to facilitate information sharing in the market and to promote best practice in external reviews

- **Addressing Pure Play Bonds**
  Reference is made to the wider universe of environmental themes bonds

- **External review**: New definitions and guidance on external review to ensure adherence with GBP recommendations

Green Bond Principles AGM, London June 2016
Green Bond Principles Templates

• **Template 1**: Filled in by issuer, not bond specific, GB framework information

• **Template 2**: To be filled by the External Reviewer

• **Increasing Comparability**: Comparable information on External Reviews, one common section irrespective of Review format and length.

• **ICMA Resource Center**: ICMA will publish both Templates, to create over time a repository of comparable information.
External Reviews

• **External Reviews of four types:**
  - Consultant review («second opinion»)
  - Verification (against own standards)
  - Certification (against third party standards)
  - Rating

• **Recommended:**
  - public disclosure of Review, at least summary, scope of review
  - disclose credentials and expertise
FAQ: What is Green?

Use of proceeds: What is green?

Approach

• Taxonomy vs. Standards / Criteria. Time is not on our side.

Geographic reach of standards

• Different needs in different regions?

Keeping-up with technology

• Challenging as green technologies are rapidly evolving

Green Bond Principles stance

• To create a repository of existing standards rather than to set an authoritative standard
FAQ: Additionality

• Do GB finance anything that would not be financed anyway?

• Is this the correct measurement?

• New financing vs. re-financing?

• Prioritization – prioritize climate investments
FAQ: Why should issuers bother?

• *Cost of funding is the same*

**YES, BUT:**

• Reputational merits: example Gothenburg, EDF
• Longer maturities, wider investor base, better access: example California
• Workload manageable – recommendations exist and largely one-off.
FAQ: Reporting

1. **Use of proceeds** – established practice

2. **Impact reporting** – since 2015, IFI WG proposed formats, some sectors only
   - based on assumptions which are not harmonized, not comparable data

3. **Ex-post reporting** – only starting, EIB publishes completion data (ESCS)
   - were the windmills switched on – and repetition?

Example of ESCS

Environmental and Social Completion Sheet (ESCS)

Overview

Project Name: EESTI ENERGIA WINDPARKS
Project Number: 2011-0108
Country: Estonia
Project Description: This project consists of the construction and operation of two onshore wind farms Narva (39.1 MW) and Paldiski (22.5 MW) in Estonia.

Summary of Environmental and Social Assessment at Completion

EIB notes the following key Environmental and Social outcomes at Project Completion. The total capacity of the proposed project is about 62 MW as initially planned. The generated electricity is supplied to the public grid. The project contributes to achieving the country's and EU's 2030 targets on energy production from renewable energy.

The projects fall under Annex II of the EIA Directive 85/337/EC (as amended) and have been screened in by the national competent authorities which have required a full EIA including public consultation. All wind farm projects, including their connection to the national grid system, have successfully gone through this procedure and obtained their environmental approvals.

All environmental permits were issued by the Competent Authorities prior to appraisal. The Paldiski wind farm authorisation concluded that there are minor potential risks for birds and bat habitats and put in place dedicated monitoring and mitigation measures. Furthermore, the risk of exceeding noise levels in individual farms and villages close to the wind farms were identified and reflected by permit conditions.

No significant environmental or social issues were reported during the implementation of the project.

With regard to the wind farm Paldiski, a confirmation about the satisfactory implementation of the required monitoring programme has been requested by the Bank, but has not been received so far. The promoter has started with required ecological monitoring in the beginning of March 2014 and the final report is expected in the first half of 2015.

Summary opinion of Environmental and Social aspects at completion:
EIB is of the opinion, based on reports from the promoter, that the Project has been implemented in line with EIB Environmental and Social requirements applicable at appraisal. However, continued environmental monitoring is required during operations.

EIB notes the following key Environmental and Social aspects to be monitored during operations:
There is one undertaking in place related to ecological monitoring reports sent to the Competent Authorities and all corresponding confirmations of acceptance by the Competent Authorities which have not been completed yet. Therefore the Bank’s services will continue its monitoring of these aspects.

1. The promoter shall submit to the Bank the results of the ecological monitoring related to the birds and bats for the wind farm Paldiski (the final report approved by the Competent Authority), and where applicable a written confirmation that proposed mitigation measures have been satisfactorily implemented.

This undertaking has not been fulfilled yet. The Bank’s services will continue its monitoring of the above aspects.
Contact

Eila Kreivi
Director, Head of Capital Markets Department
Tel. +352 4379 83160
e.kreivi@eib.org

European Investment Bank
100, bd. Konrad Adenauer L-2950 Luxembourg
www.eib.org

General enquiries on EIB bonds:
investor.relations@eib.org
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