



Italian Sovereign and Private Green Bond Emissions Rules, Facts and Figures

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The Italian GB Market

Data: Borsa Italiana + SustainAdvisory (December 2021)

Source: <https://www.sustainadvisory.it/>

Italian issuers:

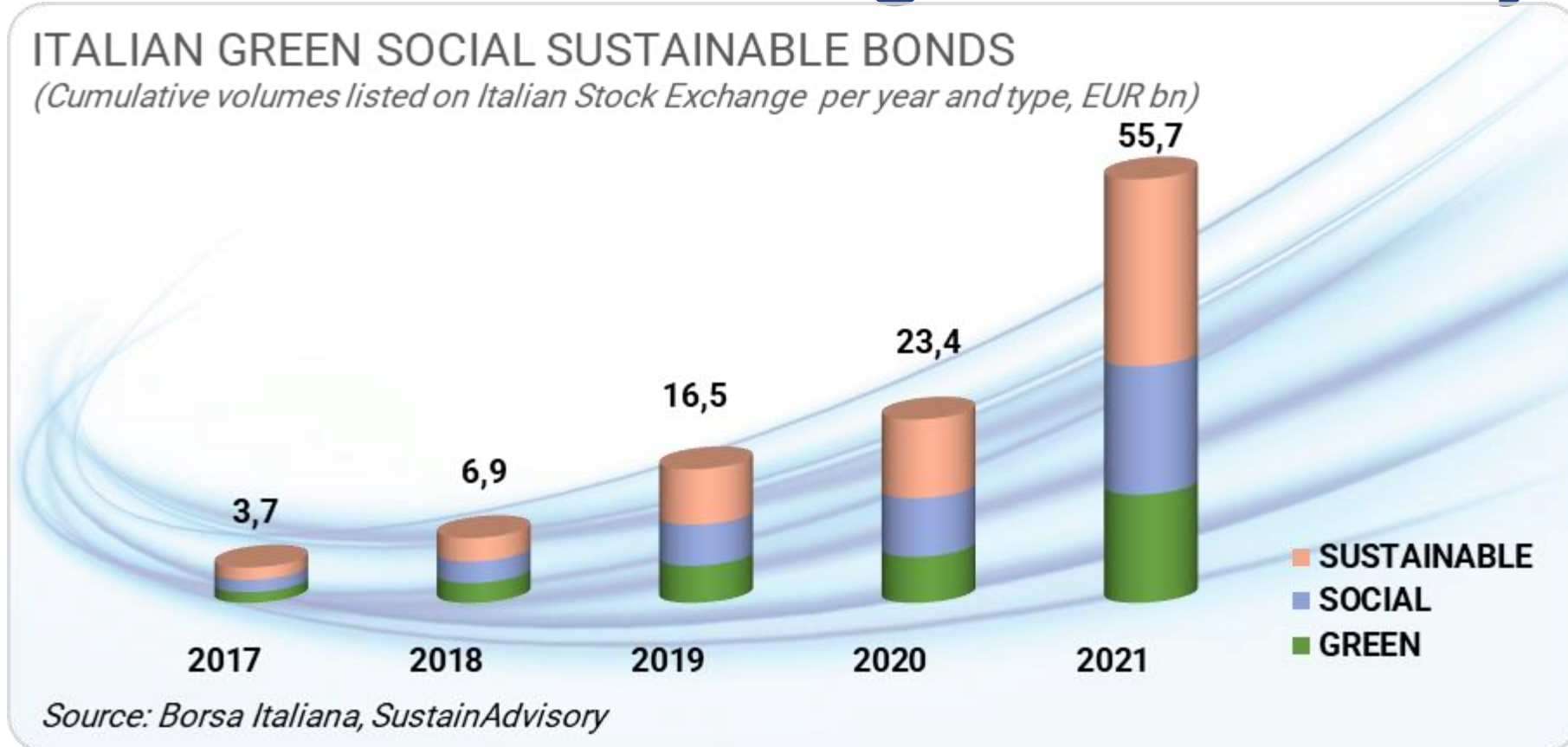
79 outstanding bonds (GB, SB, SLB)

EUR 56bn

35 issuers

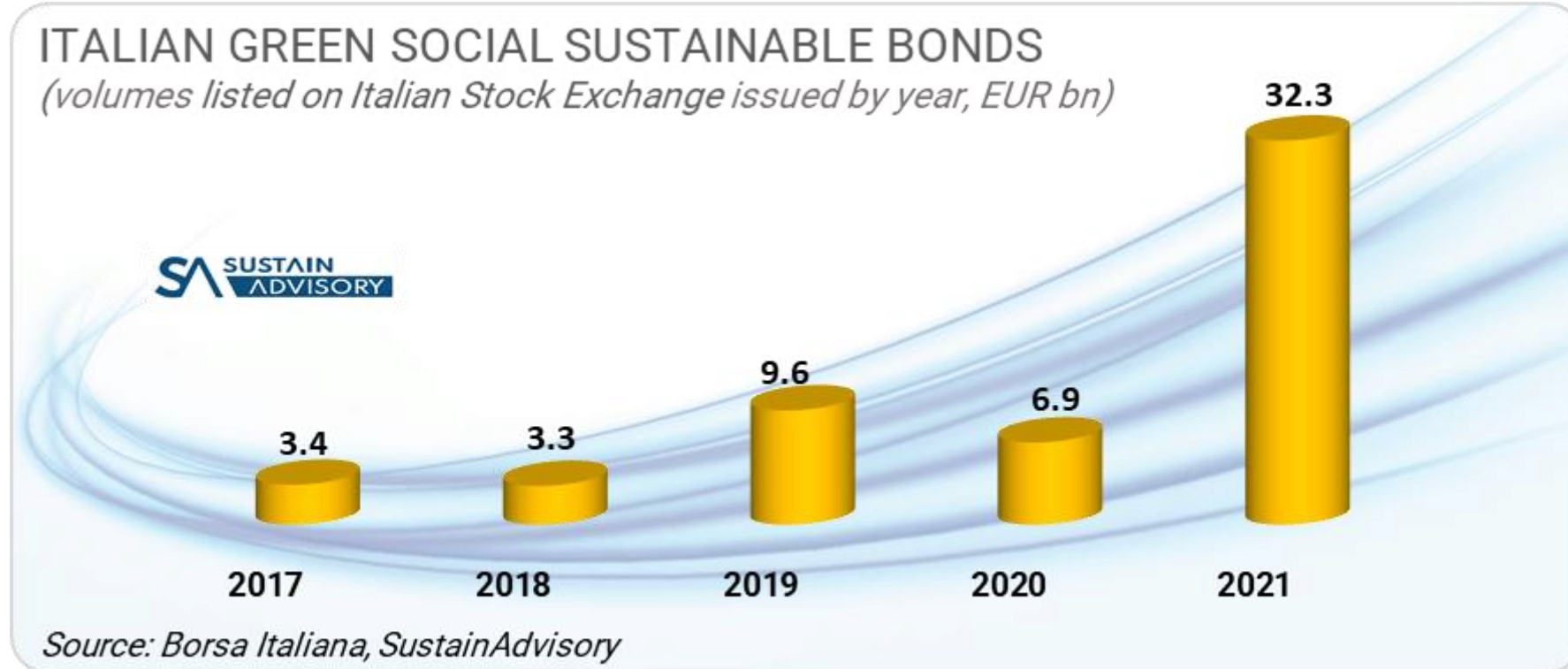


Cumulative outstanding bonds in Italy





Issued bonds per year





But in comparison...

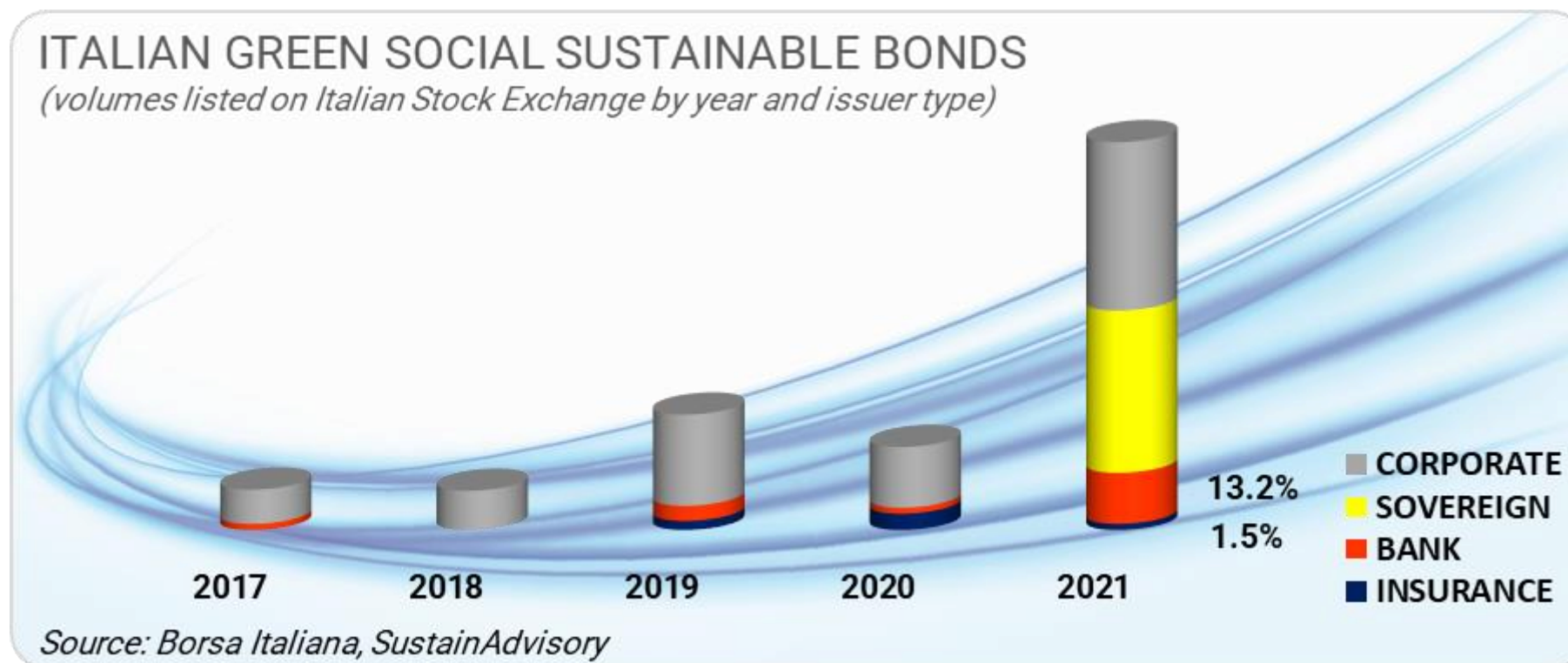
Italy, December 2021: EUR 32.3bn

France 2020: EUR 94bn

Germany 2020: EUR 46.5bn



The issuers





The issuers

Soverign: entire public sector

Corporate:

- Non financial (mainly utilities and infrastructure)
- Financial (banks, in particular)

Largest issuer:

1. Enel: around EUR 10bn overall
 2. Italian Government: Green BTP EUR 8.5bn (March 2021, re-opened October 2021)
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Sovereign bonds

Green bonds are not just for private issuers (business organisations), but also for public ones, in order to finance public expenditures and investments in the field of sustainability

- e.g. social housing, green transportation

Around 40% of the green bonds market, large majority corporates



The Sovereign Green Bonds: Why?

Because promoting a climate-friendly transition by means of fiscal tools only is not efficient

The best idea is to combine the tools, using the SGB as well, for a strategy towards a reduction of the dependence on carbon and climate mitigation

The SGBs finance the transition, increase the welfare, and promote intergenerational equity

- As they are with a long tenor, their subscribers are real money investors (e.g.: pension funds), by this means expanding the investor base

In addition, they are advertisements for a stronger green policy in the private sector



The Sovereign Green Bonds: Why?

Reputational advantages for the sovereign issuer as well

- But also disadvantages in case of a green default

Downsides:

- Costs are higher than conventional bonds
 - preparation, tracking, monitoring, reporting...
 - In many cases, the interaction across the interested administration might be not optimal
 - Sovereign issuers' budget might make it difficult to actually segregate the proceeds...
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Italian Sovereign Green Bonds

Italian **Buoni del Tesoro Pluriennali Green** (Green Bonds)

Sovereign GB, issued on March 3, 2021

Duration: **24 Years** (Maturation April 30, 2045)

Annual coupon: 1.547%

Total amount: EUR 8.5bn

Demand: ~10x offer...

Retail investors participation in secondary market (but minimum par value around 100k EUR)



Italian Sovereign Green Bonds

Investors:

Fund managers: 53,1%

Banks: 18,5%

Long-term investors: (pension funds and insurances) 24,3%

Hedge funds: 3,6%

Non-financial investors: 0,5%



Italian Sovereign Green Bonds

Geographically:

26,3% Italian investors

73,7% non-Italian investors (UK 22,1, Ger-Aut-CH 19,9...; Extra-UE: USA 1,9%; Asia 0,5%)

Second issuance October 20, 2021 + EUR 5bn

Demand: 10x + offer...

As for investors: similar to the March issuance



The Italian Framework for the Issuance of Sovereign Green Bonds

Issued in February, 2021

Environmental objectives aligned with both the EU Taxonomy and the Agenda 2030 SDGs

- Goal 6: Clean Water and Sanitation;
 - Goal 7: Affordable and Clean Energy;
 - Goal 11: Sustainable Cities and Communities;
 - Goal 12: Responsible Consumption and Production;
 - Goal 13: Climate Action;
 - Goal 14: Life below Water; and,
 - Goal 15: Life on Land.
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Selection of eligible expenses

Inter-ministerial committee (Environment, Economic Development, Economy and Finance, Infrastructure and Transportation, University and Research, Tourism, Agriculture, plus representatives of the Prime Minister)

- As in France, Belgium and The Netherlands

Selection and evaluation by the Committee

- Traceability of allocation, and monitoring of the maintenance of eligibility criteria
 - Replacement of non-compliant projects
 - Analysis in case of legal controversy, together with the relevant Ministry
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Criteria of selection

Do no harm principle:

1. Present of positive significant contribution in one or more of the objectives
2. Lack of hindrance towards the same objectives
3. Conformity with minimum social protection criteria

Some **sectors are excluded as a principle:**

- Fossil fuels, nuclear power, military contracts, gambling, arms manufacturing, tobacco, mining...



Sectors

1. Renewable electricity and heat

- Example of eligible expenses:
 - Expenses for supporting the production and distribution of energy from renewable sources
 - Tax expenses (e.g. deduction of investments or ancillary charges)
 - Non-repayable capital or interest subsidies

2. Energy efficiency

- Example of eligible expenses:
 - Tax expenses (e.g. deduction of investments or ancillary charges)
 - Tax allowances for energy efficiency measures
 - Non-repayable capital or interest subsidies
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Sectors

3. Transport

- Example of eligible expenses:
 - Contributions or non-refundable transfers to the operating account, capital account or interest account
 - Tax expenses (e.g., deduction of investments or ancillary charges)
 - Shore-to- ship power (SSP) port infrastructure to develop the cold ironing process

4. Pollution prevention and control and circular economy

- Example of eligible expenses:
 - Expenses for supporting water purification, sanitation, recycling, treatment
 - Expenses for collecting, treating and recycling waste
 - Expenses for reducing packaging or for reducing the related environmental impact, recycling goods and raw materials
 - Tax credit to incentivize an increased use of recyclable packaging
 - Tax credit for enterprises buying recycled and reused products
 - Tax expenses (e.g., deduction of investments or ancillary charges)
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Sectors

5. Protection of the environment and biological diversity

- Example of eligible expenses:
 - Tax credit for certified organic agriculture (EU or Organic)
 - Expenses for reforestation or protection interventions of forest and forestry, wildlife and fish heritage (e.g., Natura 2000)
 - Expenses for the conservation and restoration of threatened marine, river and swamp ecosystems
 - Expenses for protection interventions of the environmental heritage against fire, drought, floods
 - Non-repayable capital or interest subsidies
 - Tax expenses (e.g., deduction of investments or ancillary charges)
 - Payments for ecosystem services
 - Expenses for water collection and for supporting water-saving interventions;
 - Expenses for monitoring water quality
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Sectors

6. Research

- Example of eligible expenses:
 - Contributions or non-refundable transfers to the operating account, capital account or interest account
 - Tax expenses (e.g., deduction of investments or ancillary charges)
 - Expenses for financing research projects in the above eligible categories
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Timing

Maximum **6 months after the issuance to select the expenditures**
(eligible portfolio: for prudential reasons, bigger than the amount of the bond issuance)

Maximum **24 months to allocate the net proceeds**



Reporting

Report issued **annually** and published on the Ministry of Economy and Finance website

The report includes:

- A description of the allocation
 - Information on the progress of disbursement
 - Summary sheet of implementation
 - Environmental impact of green expenditure, also with a view to the Taxonomy
 - Description of the green projects
 - Environmental objectives pursued
 - Details on the project (breakdown, share of financing...)
 - Methodology used to evaluate the impact
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Use of proceeds

**TABLE OF GREEN ELIGIBLE PUBLIC EXPENSES SELECTED FOR THE BTP
2045 FIRST ISSUANCE AS OF MARCH 3rd, 2021**

Sectors	Reference year				TOT
	2018	2019	2020	2021	
1 Tax incentives for energy from renewable sources	59,600,000	59,600,000	-	-	119,200,000
2 Tax incentives for energy efficiency of buildings	1,634,200,000	1,828,900,000	-	-	3,463,100,000
3 Transport	1,565,497,090	1,277,594,814	178,619,110	111,739,090	3,133,450,104
4 Pollution prevention and control and circular economy	90,293,309	60,426,804	116,127,070	69,333,862	336,181,045
5 Protection of the environment and biological diversity	348,126,163	187,213,672	195,259,888	235,488,774	966,088,497
6 Research	127,121,249	62,438,343	141,180,591	140,955,853	471,696,036
TOTAL	3,824,837,811	3,476,173,633	631,186,659	557,517,579	8,489,715,682



A couple of corporate examples

1. **Non-financial company:** utility sector (energy), ENEL, source Green Bond report, 2020
 2. **Financial company:** bank, Intesa San Paolo, source Green Bond Report, June 2020
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ENEL

Green bonds in

- 2017 (EUR 1,25bn)
- 2018 (EUR 1,25bn)
- 2019 (EUR 1bn)

Target: institutional investors

Use of proceeds:

- new projects for the development, construction and repowering of generation plants from renewable sources (green bond emission in 2017 and 2019);
 - new projects for the development, construction, repowering and refinancing of generation plants from renewable sources as well as projects for transmission, networks and smart grids (green bond emission in 2018).
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ENEL

Green bond framework per each year of emission, confirmed by an external verifier (Vigeo Eiris – second opinion)

Aligned with SDGs 7, 9, 11, 13 (SDG 7 “Affordable and clean energy”; SDG 9 “Industry, innovation and infrastructure”; SDG 11 “Sustainable cities and communities”; SDG 13 “Climate action”)

Specific **internal committee** (Green Bond Committee) to select projects and monitor the developments.



ENEL

Specific projects:

2017: renewable plants

2018: renewable plants, refinancing, investment activities in infrastructure and networks

2019: renewable plants (continued)

Projects to be realized also outside the EU (USA, Australia, Brasil, Chile, Peru, Canada, Mexico, Panama, Zambia – Solar, Wind, Geothermal)

Impact: overall Co2 avoided: 13,333,921 tons



Intesa San Paolo

Green bonds in

- 2017 (EUR 2bn overall; impact for 500mln - 2017)

Target: mainly institutional investors (Fund managers 73%; Insurance 14%; Banks 13%); by jurisdiction: 25% France, 23% UK and IE, 16% GER and AUT

Use of proceeds:

- Renewable energy (Solar, wind, biomass, hydro)
 - Energy efficiency (maintenance of infrastructure, new building developments or renovation of existing buildings)
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Intesa San Paolo

Green bond framework, confirmed by an external verifier (Vigeo Eiris – second opinion: “robust ESG performance)

Moody's rating: GB1 (excellent)

Project evaluation and selection by the internal Green Bond Working Group that approves proposed loans (green bond register)



Intesa San Paolo

Impact

2017: EUR 500 mln

- 41,6% refinancing
- 58,4% new green loans

76 loans € 500 mln invested

1,378,650 MWh of renewable energy production

81,084 MWh of energy savings

459,123 metric tons of CO₂ greenhouse gas emissions avoided



Intesa San Paolo

Furthermore, in **2020 Green Bond focused on Circular Economy Report**

2019: EUR 750mln senior unsecured bond, on 2024 deal

Use of proceeds: circular economy eligible loans categories

- Solutions that extend the product-life or cycles of use of goods and/or materials
 - Production processes fuelled by and/or products made of renewable or recycled resources
 - Products and/or services that significantly increase effectiveness and efficiency of the resources consumption, within the company or along its supply chain
 - Design and/or manufacture products that can be fully recycled or composted within an efficient framework of collection, separation and recycling after use
 - Innovative technologies to enable circular business model
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