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Renewable Energy Covered Bonds - how to adapt the covered bond market to bring capital into the low-carbon economy

Climate Bonds Initiative suggests covered bonds as a means to get bank lending flowing again

LONDON, 23 May, 2012 – A proposal to create Renewable Energy Covered Bonds to leverage private-sector investment into the low-carbon economy was today released by the Climate Bonds Initiative. The €2.5 trillion covered bonds market provides for a unique dual recourse structure that offers investors a high degree of security.

"The current financial crisis has forced banks to cut back on lending as a result of severe losses of capital and the forthcoming Basel III regulation represents a further restraint on bank lending", says Sean Kidney, Chair of the Climate Bonds Initiative and a co-author of the proposal. "Governments, on the other hand, which have been the main supporters of clean energy are unlikely to increase investment given tightened fiscal conditions".

Proposal co-author Frank Damerow of LBBW Bank, notes that: "Covered bonds have proven to be a reliable source of term-dated funds for banks to on-lend in specific sectors targeted by policy makers. Covered bonds are highly regulated and enjoy superior ratings and lower funding costs. Banks would benefit from issuing 'Renewable Energy Covered Bonds' as it would give them access to a wider pool of term-dated funds with which they could increase their lending activities".

"Renewable energy projects don't have the long-term financial track records that bond investors need. However, covered bonds have a unique feature: the cover pool of assets is visible and open to analysis", says Stuart Clenaghan, Principal of Eco System Services and the third co-author. "Disclosure standards are increasingly defined by law, and issuers frequently provide additional information above the minimum requirements. Once specific reporting standards are established, investors could improve their understanding of how renewable energy assets perform, without having to take a direct credit exposure".

"The transition to a low-carbon economy is possible by mobilizing private and institutional investments. The world's largest pool of capital - $95 trillion bond market – has largely been untapped for renewable energy finance", says Sean Kidney. "Existing covered bonds legislation that investors are familiar with can easily be adapted to accommodate loans for renewable energy. Renewable Energy Covered Bonds would be made up of ring-fenced, highly regulated and secure assets”.

According to the International Agency Authority (IEA) an additional $1 trillion global investment each year is required to reduce emissions of greenhouse gases to a safe level.

In 2010, the G8 committed to work to limit global temperature increases to a maximum of 2 degrees centigrade.

“Investments in renewable energy projects are necessary before a climate tipping-point is reached. Achieving the scale of investment required is not an easy task especially given the urgency required. However, whilst bespoke climate covered bonds legislation is being developed, a renewable energy covered bond market could be kick-started with the use of guarantee by agencies such as the European Investment Bank”, says Sean Kidney.

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About Climate Bonds Initiative:
The Climate Bonds Initiative is an investor-focused not-for-profit, promoting large-scale investment in the low-carbon economy. The Climate Bonds Initiative is developing:

· Proposals for governance architecture — regulatory mechanisms, standards, tax policies, green banks — that will support a rapid scaling up of investment.

· Models for engineering investments in projects and assets necessary for attracting bond financing such as renewable energy, energy efficiency and forestry.

For more information or interviews:
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Useful links:
Climate Bonds Initiative’s discussion paper is accessible through www.climatebonds.net