

## **Research Announcement: Moody's: Project finance bank loans for green use-of-proceeds projects demonstrate lower default risk**

London, September 18, 2018 -- Project finance bank loans for green use-of-proceeds projects demonstrate a lower risk of default compared to project finance bank loans for non-green use-of-proceeds projects, particularly in advanced economies, according to a new report from Moody's Investors Service.

"Our analysis of thousands of project finance bank loans examined various industry sectors that align with our definition of infrastructure," says Kathrin Heitmann, a vice president and senior analyst at Moody's. "We further split the data into green and non-green projects and found significant distinctions related to default and recovery rates."

The analysis of the project finance bank loans identifies a 10-year cumulative default rate of 5.7% for green use-of-proceeds projects and 8.5% for non-green use-of-proceeds projects. As a comparison, corresponding default rates for Baa3-rated and Ba1-rated corporates are 5.4% and 10.4% respectively. Average ultimate recovery rates vary by green/non-green use-of-proceeds but remain overall consistent with the study average of 83.5%, although there are variations across regional subsets.

"The 10-year cumulative default rate for project loans whose use-of-proceeds could not be determined was 2.9%, somewhat lower than corresponding default rates for both green and non-green projects," according to Andrew Davison, a senior vice president at Moody's. "This suggests that the difference is likely due to subsample characteristics other than greenness."

Overall, green use-of-proceeds projects had lower default rates than non-green use-of-proceeds projects in both the power and infrastructure industry sectors.

The study further segments the data by advanced economy and emerging market and developing economy (EMDE) regions. The study finds that green use-of-proceeds projects exhibit lower default risk than non-green use-of-proceeds projects in advanced economies, and both exhibit similar default risk on average in EMDEs.

The report is an addendum to Moody's annual study of default and recovery rates for unrated project finance bank loans published in March 2018. The broader study accounts for 7,052 project finance transactions originated globally between 1983 and 2016, and is based on a data set from a consortium of project finance lenders and investors. The addendum focuses on 5,859 projects that align with Moody's definition of infrastructure.

Subject to data limitations, Moody's categorized the projects within the study data set based on the use of proceeds eligibility criteria under the Green Bond Principles published by the International Capital Markets Association. Eligible uses of proceeds under the Green Bond Principles include, but are not limited to, renewable energy, energy efficiency, pollution prevention, clean transportation, climate change adaptation and environmental conservation.

The report, "Default research - Global: Default and recovery rates for project finance bank loans, 1983-2016: Green projects demonstrate lower default risk," is available to subscribers at: [http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1138618](http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1138618)

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