

April 2022



Green Bonds for Cities

Financing a sustainable transition

Overview

1

Who we are

Our work on fixed income / bonds for financing transitions

2

Why green bonds

What makes green or sustainability-linked debt different

3

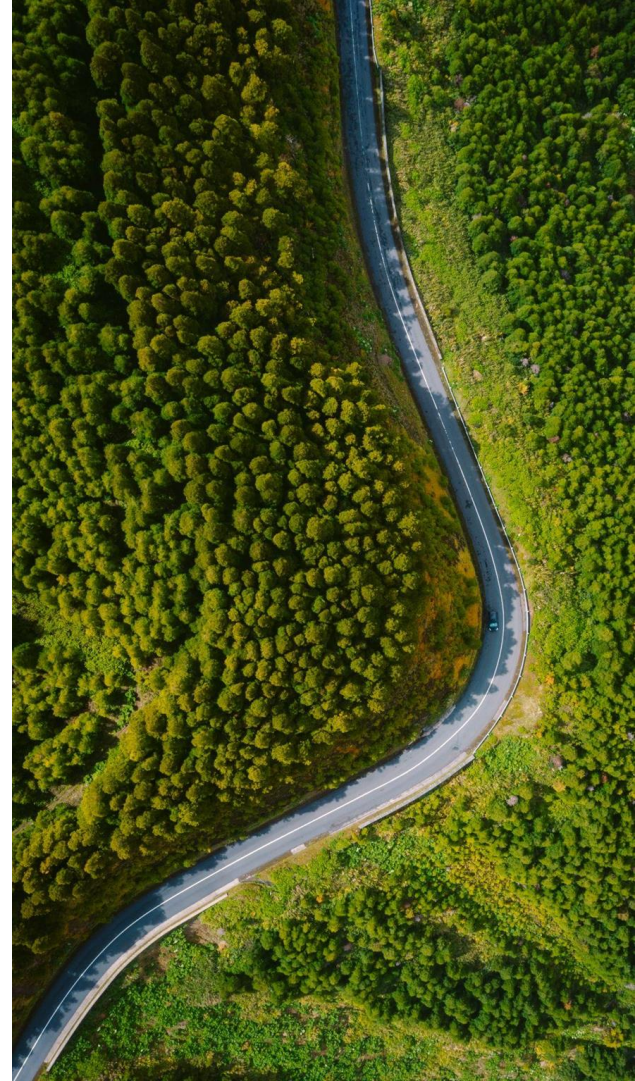
Eligibility for green bond financing

What projects cities can finance

4

Key obstacles

What is preventing greater green bond issuance



Who we are: International Sustainable Finance Centre

How we contribute to the development of sustainable finance practice in CEE.



Knowledge generation:
Research & analysis



Knowledge application:
training & capacity building



Knowledge sharing:
Convening & engagement

Greening finance & financing green | Innovating finance & financing innovation

New debt instruments

New ways of accessing capital

1

Green bonds

Debt financing for environmentally friendly projects (e.g. renewable energy, pollution prevention, habitat conservation).

2

Social bonds

Often used by the public sector to raise capital to develop effective solutions to public-sector problems and create better social outcome (e.g. schools).

3

Sustainability linked bonds

comprise a hybrid set of objectives, bridging both green and social issues (e.g. energy-efficient buildings for disadvantaged people or clean public transport with tramway extensions and bicycle lanes)



Why green bonds

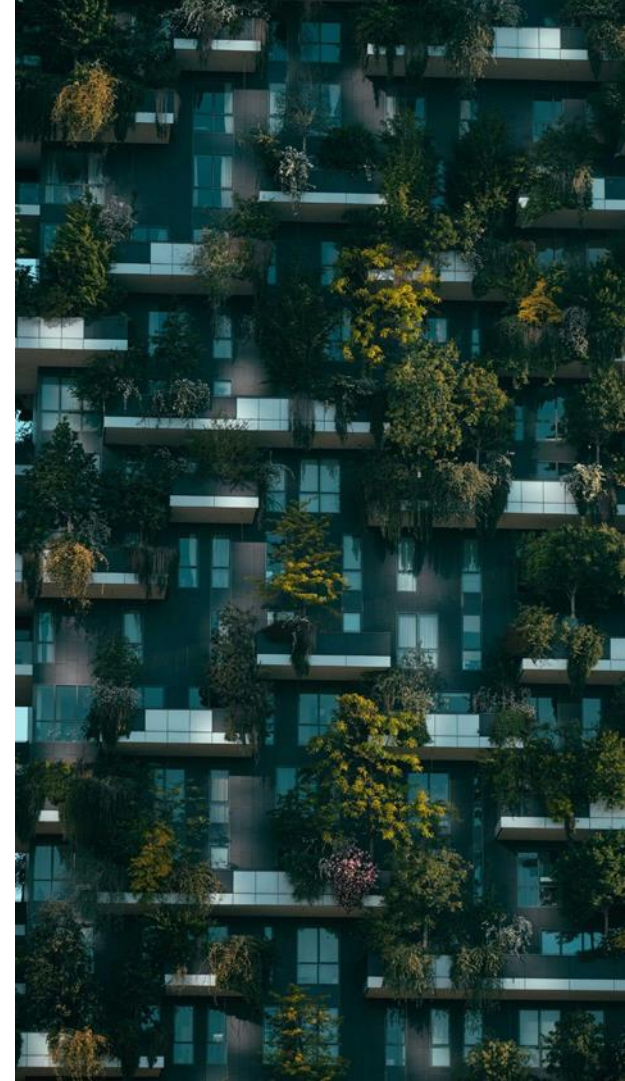
The key advantages for cities & key elements

BENEFITS

- Achievement of multiple goals
- Increased and diversified investor base
- Better economic terms
- Improved branding media attention/PR
- Enhanced citizen engagement
- More data created and gathered - improved measurement

KEY ELEMENTS

- Cost of finance will depend on the structure of the bond and the creditworthiness of the project or the issuer
- More reporting and data involved
- Limitations on what is green - the universe of projects that can be financed



Eligibility for green bond financing

What projects cities can finance

Sustainability integration for cities

- Contextual (geography, sectors, and local needs)
- Strategy and analysis of most appropriate roadmap
- Creation of KPIs and pathways
- Measuring the impact



Types of bonds

The universe of different green or sustainability-linked bonds

TYPE	PROCEEDS RAISED BY BOND SALE	DEBT RECOURSE	EXAMPLE
General Obligation Bond	Earmarked for green projects	Full recourse to the issuer; therefore, same credit rating applies as to the issuer's other bonds.	State of California issued \$300 million in Aa3/A green bonds with final maturities in 2037. The September 2014 issuance was backed by the State's General Fund, 90 percent of which is derived from personal income tax, sales and use tax, and corporation tax). Proceeds went to fund a variety of projects across several categories, including air pollution, clean water and drinking water, and flood prevention.
Revenue Bond	Earmarked for green projects	Revenue streams from the issuer, such as taxes or user fees, provide repayment for the bond.	Iowa Finance Authority issued \$321.5 million of State Revolving Fund revenue bonds in February 2015, with 1- to 2-year tenors, 1 to 5 percent coupon, rated AAA. The green bonds were backed by water-related fees and taxes. Proceeds were earmarked for water and wastewater projects.
Project Bond	Ring-fenced for the specific underlying green project(s)	Recourse is only to the project's assets and revenue.	No issuance seen in the market yet
Securitized Bond	Either (1) earmarked for green project or (2) go directly into the underlying green projects.	Recourse is to a group of financial assets that have been grouped together as collateral.	Hawaii State Government issued \$150 million, AAA-rated of green asset-backed securities in November 2014. The securities were issued in two tranches: \$50 million, 8-year, 1.467 percent coupon and \$100 million, 17-year, 3.242 percent coupon. The bonds were backed by a Green Infrastructure Fee applied to the bills of the State Utility's electricity customers. Proceeds went to loans to install distributed solar panels, connectors, and storage.

How issuing a green bond works

The steps of the process for cities

- 2 Identify qualifying green projects and assets
- 3 Arrange independent review
- 4 Set up tracking and reporting
- 5 Issue your green city bond
- 6 Monitor use of proceeds and report annually

Skopje – successful green bond issuance.
Warsaw, Pécs, Liberec - interested



International Government
National
Cities/Regions

Financial
Regulators

Pensions
Regulator

Banking & Securities
Regulators

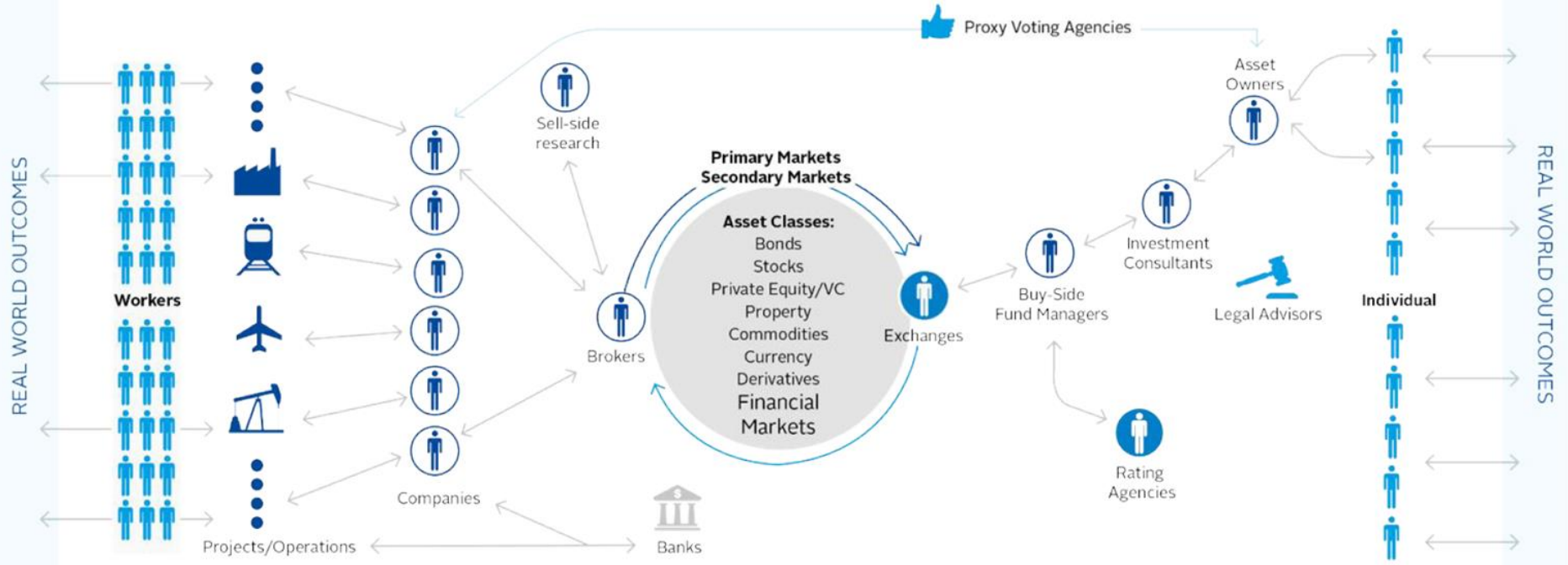
Central
Banks

IMF

OECD

Financial
Stability Board

G20



Education Research
Science & Tech

Thought
leaders

Think
Thanks

Academic
Scientists

Business
Schools

Key obstacles

What is preventing greater green bond issuance

1

Legal and administrative limitations

Cities unable to issue debt or lack of technical capacity

2

Lack of appropriately structured green project pipeline

Issues with project creation that meet the criteria

3

Mindset issues

In some regions, dislike of debt and debt instruments & belief it is more suitable to developed, rich countries

4

Underdeveloped capital markets and support systems

Lack of mechanisms and fora for creating an environment for green bond issuance + ticket size issues



The Green City Bonds Coalition | C40 Cities | Climate KIC



The direction of travel

What will or needs to change

2

Financial industry abandoning fossil-based industries

Race to shift the capital – in CEE, dominance of private finance

3

Building back better with the recovery funds

(green focus) + War on Ukraine

4

The EU Green Deal policies adoption (CSRD; Taxonomy) =>
tackling greenwashing

5

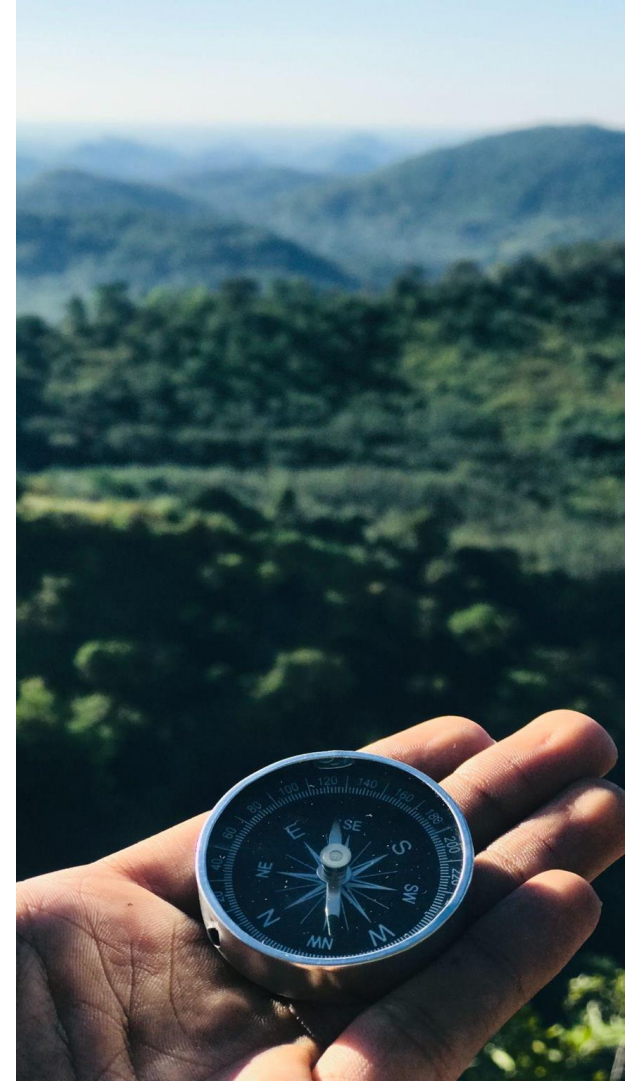
Global alignment of standards in financial reporting – EU Green Bond Standards

6

Greater push towards public-private partnerships
Looking for a place to shift the capital

7

Cities becoming key strategic player for decarbonisation
Cities and governments as impact investors





Thank you.



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Sustainable Finance
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