

# Green Bonds for Cities

## Three Tools to Unlock the Potential

The green bond market can offer much needed access to low-cost capital for cities in emerging countries to finance climate friendly infrastructure. However, cities often lack the know-how to access the bond market. The Green Bonds for Cities project fills this gap by providing Green Bond Strategy Guidelines, Green Bond Toolkits and Training Sessions. Moreover, Mexico City will be supported to issue its first green bond.

## The Potential

Green bond markets offer local governments access to low-cost capital to meet their infrastructure and climate investment needs.

“With increasing focus of the Indian government on ‘smart cities’, it is imperative that public entities also look at strategic issuance of green bonds.”

**Namita Vikas**

Group President & Country Head,  
Responsible Banking,  
YES BANK

### New funding and visibility

Green bonds allow local governments to diversify their sources of funding and to expand their investor base. Moreover, they can give cities national and international visibility with their projects and allow them to fund small low-carbon projects by bundling them.

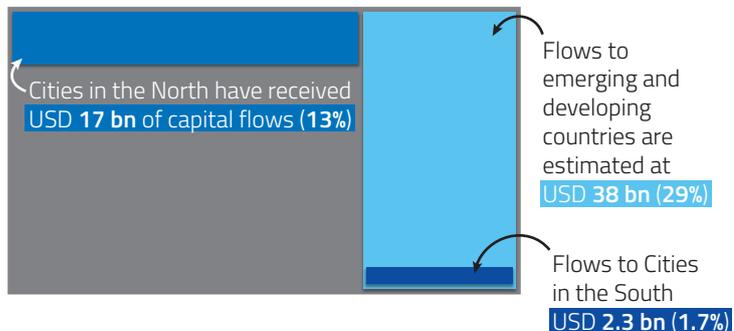
### Strong potential for market growth

Since the emergence of the green bond market in 2008, \$131 billion USD of capital has been raised. Of this, 13% (\$17 billion USD) has gone to cities in developed countries, but only 1.7% to urban infrastructure projects in emerging and developing countries.

## Access to low-cost capital

Local governments have executive and regulatory power over sectors crucial for emission reductions. At the same time, cities' share of CO<sub>2</sub> emissions from energy<sup>1</sup> is above 70%.<sup>2</sup> However, their huge low-carbon infrastructure investment needs cannot be funded by tax money alone. The green bond market can offer the necessary access to low-cost capital.

Green Bond Market **USD 131 bn issued**



Source: CBI, Bloomberg, CPI Analysis

# The Challenges

Accessing the green bond market requires cities to make a number of important decisions, including identifying appropriate issuers, selecting assets fit for the bond, obtaining a second party opinion or a third-party certification and finding an underwriter.

## There is high demand for investment-grade green bonds.

20% of cities in developing and emerging economies are creditworthy enough to raise capital in the local financial market through directly issuing green bonds. The other 80% of cities can only access the green bond market through credit enhancements, third-party guarantees or on-lending by more creditworthy entities, like public utilities, commercial and development banks. Also city-affiliated entities such as local utilities can be better placed to issue bonds than the city itself. Apart from the selection of the right entity, cities also have to find an underwriter to issue a bond.

“Cities are not asking why they should issue green bonds anymore, but how.”

### Magnus Borelius

Head of Group Treasury, City of Gothenburg

## Green bonds require low-carbon and resilient project pipelines, monitoring and reporting of bond proceeds.

Issuing a green bond requires a local government to make a number of important decisions including the identification of suitable underlying green projects and the set up of monitoring and reporting systems that reliably inform investors about the use of the bond's proceeds and the environmental impact. This can be challenging.

## The role of green bonds in urban infrastructure financing is not well understood in emerging economies.

Cities in emerging and developing countries often lack knowledge of potential financing mechanisms<sup>3</sup>, including green bonds and their specific benefits, to finance urban infrastructure. While various capacity building initiatives exist, none at this point are geared specifically towards green bonds.

## A roadmap to overcome challenges and unlock potential

The Green Bonds for Cities project supports local governments in emerging and developing countries to tap into the green bond opportunity with the following tools:



### Green Bond Strategy Guidelines

The guidelines will identify the prerequisites and processes for local governments to develop their tailored strategy on how to raise capital through the green bond market, and the additional requirements for issuing bonds that are green.



### Green Bond Toolkit

These ready-to-use tools for local governments will include a screening instrument to identify green projects, pre-feasibility assessment tools and tools for the set-up of measurement and reporting mechanisms for green projects.



### Training Sessions

Training sessions will support potential issuers of Green Bonds. These sessions will use the material from the green bond guidelines and the toolkit and will be geared towards cities in emerging and developing countries.

**Mexico City will be supported to issue its first green bond as part of the Green Bonds for Cities project.**

For further information on this aspect, please contact: Diletta Giuliani, [diletta.giuliani@climatebonds.net](mailto:diletta.giuliani@climatebonds.net)

**The project Green Bonds for Cities is realized as part of the Low-Carbon City Lab (LoCaL).**

For further information, please visit: [LoCaL.Climate-KIC.org](http://LoCaL.Climate-KIC.org)

The project is led by South Pole Group in collaboration with Climate Policy Initiative, ICLEI – Local governments for Sustainability and Climate Bonds Initiative. If you are interested in further information, please contact:

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<sup>1</sup> Referring to both Scope 1 and 2 emissions

<sup>2</sup> Human Settlements, Infrastructure and Spatial Planning. In: Climate Change 2014: Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report of the IPCC

<sup>3</sup> See inter alia WWF (2015): “Financing the Transition: Sustainable Infrastructure in Cities”