

## **Climate Bonds Initiative publishes first *Nordic and Baltic Public Sector Green Bonds Study***

### **Local government, local government lending agencies and public entities generate almost half of green issuance in Nordic and Baltic states**

London 14/02/2018 11:00 GMT: The Climate Bonds Initiative has published the first comprehensive study on [Nordic and Baltic Public Sector Green Bonds](#), exploring the contribution of sub-national public sector entities to green finance in selected Northern European countries. The study was conducted with the support of the UK Foreign & Commonwealth Office.

The [report](#) has a specific focus on the role of local governments, municipally owned companies (MOCs), state-owned enterprises (SOEs), and Local Government Funding Agencies (LGFAs) and along with Scandinavian nations includes Estonia, Latvia and Lithuania in its scope.

### **Public sub-national entities account for 48% of green issuance**

The Nordic and Baltic green bond market has experienced steady growth, with 2017 total issuance up 70% compared to 2016 and 11 times higher from market inception in 2013.

The public sector accounts for a large portion of the region's green bond market, with issuance to date amounting to EUR9.4bn, or 48% of the total.

With the region's local governments characterised by a high level of fiscal autonomy and LGFAs dominating public lending, the public sector is well positioned to fund climate action at a sub national level through increased green lending and green bond issuance.

### **Opportunities for further growth**

At a city or municipal level, domestic issuance in local currency is common, due to low funding requirements. However, the use of green bond programs is on the rise and an increasing number of issuers are listing their bonds internationally. Stockholm's Läns Landsting and the cities of Gothenburg and Malmö (Sweden) are all repeat issuers on the London Stock Exchange ([LSE](#)) and are among 28 Nordic issuers quoted on its green bond segment.

Local Government Funding Agencies (LGFAs) play an essential role, especially in the Nordics, acting as aggregators of funding that would be too small to enter the market directly. Their outstanding green bonds are typically benchmark size and listed on the [LSE](#) or Luxembourg Green Exchange ([LGX](#)).

At present green bonds still represent a very small portion of LGFAs issuance. There is a clear opportunity for them to increase green lending to provide further support for sub-national and city based climate action.

## Country Profiles

Given its bond market size, **Sweden** is expected to retain its position the largest issuer within the region even as neighbouring countries increase climate based investment and accompanying green finance activity. There are also growing expectations for the nation to issue a sovereign green bond, following the [recommendations](#) of their green bond enquiry presented to government in January 2018.

In **Norway**, there is significant scope for local government, energy, district heating and rail companies to increasingly transition lending policies from vanilla debt to green bonds issuance. The study also identifies the state export credit agency and development fund Norfund as potential green bond issuers.

Helsinki is a potential candidate for the first municipal green bond issuance from **Finland** and there is also the possibility for Finland's six largest cities (6Aika) to pool their resources and enter the market as joint issuers. Several state-owned companies operate in sectors conducive to green based finance and existing bond issuers such as export credit agency Finnvera and development finance agency Finnfund also represent potential candidates.

**Denmark's** KommuneKredit provides almost all the country's public sector financing, which provides a firm foundation for increased green issuance. There is also conversion potential in the mortgage sector, given that mortgage bonds represent 78% of the country's outstanding bonds. Railway company DSB is also a potential candidate given its near-term investment plans and the suitability of rail as a green bond sector.

A number of cities and municipalities from **Iceland** have accessed the domestic debt capital market. Reykjavik's climate action plans – such as explicit support for electric cars – make it a good candidate for city based green bonds.

The study has identified three other vanilla bond issuers as candidates: Municipal Credit Iceland, the Icelandic LGFA, the Housing Financing Fund and national power company Landsvirkjun, particularly in relation to geothermal power. A further option could see Iceland issuing a sovereign green bond to provide initial market impetus.

All three **Baltic** countries have issued green bonds: an impressive achievement given their relative size. Green bond issuance has come from government-backed energy companies Latvenergo (**Latvia**) and Lietuvos Energija (**Lithuania**), clean energy developer Nelja Energia (**Estonia**) and financial investment company Altum (**Latvia**). The first two deals were closed in June 2015, the next two in 2017.

To date no green bond issuance from cities or municipalities has emerged. Potential local government issuers in Estonia, Latvia and Lithuania are on the small side of the scale. However, the use of an aggregation platforms similar to the LGFAs in the Nordics is a possible solution. This would allow larger deal sizes and possibly increased international access. Eurozone membership is also a credit-risk positive for international investors.

**Sean Kidney, CEO of Climate Bonds Initiative:**

“This scoping study has identified some of the innovative and pioneering actions at sub-national and city levels and the potential for further development. While each nation has some differing characteristics it’s clear that public sector entities can play an increasingly active role in generating green investment that supports national climate and emissions goals.”

“Project pooling, aggregation mechanisms and direct issuance from larger entities are all factors to stimulate market growth. The report shows that in combination with positive policy settings, public sector entities can effectively harness green finance to help fund climate resilient urban infrastructure, green buildings, greener cities and low carbon developments.”

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## Notes for Journalists

**About the Climate Bonds Initiative:** The Climate Bonds Initiative is an investor-focused not-for-profit, promoting large-scale investment in the low-carbon economy. More information on [our website](#) here.

A copy of *Nordic and Baltic Public Sector Green Bonds* is [available here](#).

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