

BREATHE BETTER BOND INITIATIVE

TYPE: MITIGATION

STREAM: SUSTAINABLE CITIES

GEOGRAPHY: AFRICA, ASIA, BRAZIL, CENTRAL/SOUTH AMERICA, INDIA

LAB CYCLE: 2019

PROPONENT: IFC

Globally, four out of every five people living in cities are exposed to polluted and unsafe air. In addition, cities are a major contributor to climate change, responsible for around 70% of global CO₂ emissions.

And cities are growing. An estimated 2.5 to 3 billion people will shift from rural to urban areas by 2050, with over 90% of this increase in urban populations taking place in Africa and Asia. This anticipated growth in urban populations will require significant investment in urban infrastructure, including electricity generation, transport, and waste management.

There is an opportunity to tackle both air pollution and greenhouse gas emissions in cities by investing in climate-friendly infrastructure projects, but these projects face several barriers. City governments often face competing demand for capital and lack access to sufficient finance. In addition, they often lack capacity to identify bankable projects, and to monitor the results.

The Breathe Better Bond Initiative is an innovative bond issued by local governments in developing countries, which is paired with technical assistance. Proceeds are used to invest in projects that reduce both air pollution and greenhouse gas emissions.

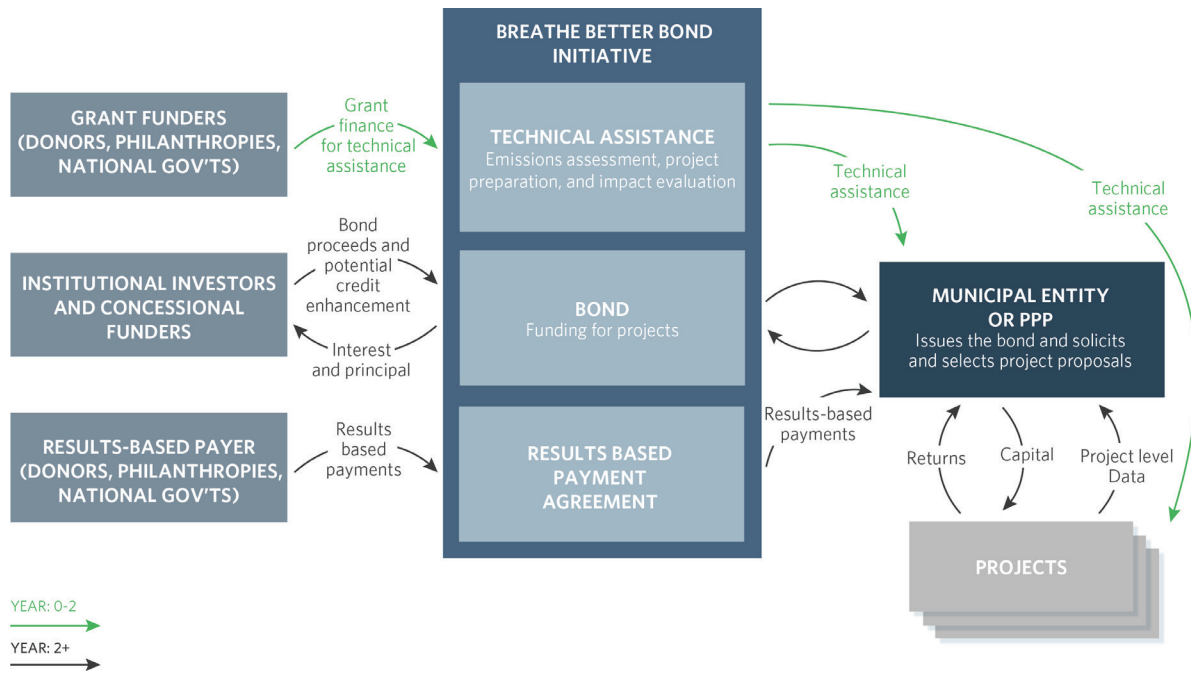
INNOVATION

The Breathe Better Bond is a bond issued by a city, state, or special purpose vehicle that will raise financing for projects that reduce both air pollution and greenhouse gas emissions. The Breathe Better Bond Initiative complements the funds raised by the bond issuance with a technical assistance package that includes capacity building for cities focused on identifying sources of air pollution, project pipeline preparation, and strengthening or improving enabling conditions. Specifically, the bond proceeds will fund projects across different sectors such as waste, solar generation, and electrification of transit. The Initiative may also include a results-based payment mechanism which would reduce the city's effective cost of borrowing.

If implemented in the ten emerging market cities with the most potential, the Breathe Better Bond Initiative could mobilize US\$ 4 billion for climate-friendly urban infrastructure projects.

IMPACT

The Initiative is under development by International Finance Corporation who will bring together the actors within each city, while concurrently participating directly in an investor or credit enhancement role. IFC aims to pilot the Initiative in one to three developing country cities in the next 12 months, where reducing air pollution and addressing climate change is a priority. Each Initiative is envisioned to feature a bond issue between US\$ 50 million and US\$ 500 million. If implemented in ten cities, the Initiative could mobilize an estimated US\$ 4 billion in sustainable infrastructure investment that can reduce health impacts associated with air pollution, and mitigate greenhouse gas emissions.



DESIGN

The Initiative is kicked off by grant financing for technical assistance to identify air pollution and emissions sources in local contexts. This funding will work with local authorities to conduct an emissions inventory that will effectively identify and assess both air pollution and greenhouse gas emissions sources. Building on this work, parallel technical assistance workstreams will be undertaken that may include (1) support for related institutions and stakeholders in strengthening enabling conditions, (2) a project preparation and structuring component and (3) bond structuring advisory services.

Identified projects will be funded (in part) with proceeds from a bond issuance. Investments can be structured as either equity or debt depending on the local context and need.

The issuer may decrease the cost of financing by entering into a results-based payment agreement with a donor, philanthropic institution, a development finance institution (DFI), or the issuing body's national government, which is intended to lower the effective interest cost if specific milestones are met. Concessional funding may also be used to lower financing cost.

TEAM



STEVEN BAILLIE
 PRINCIPAL FINANCIAL OFFICER, CLIMATE BUSINESS DEPARTMENT, IFC



MAXWELL KLOTZ
 FINANCIAL ANALYST, IFC

INVESTMENT OPPORTUNITIES

TYPE	ROLE OF CAPITAL	AMOUNT
GRANT FUNDERS <i>Donors, philanthropies</i>	To fund technical assistance	US\$ 500K - 2MN
INSTITUTIONAL INVESTORS AND CONCESSIONAL FUNDERS	To purchase bond issue tranches	US\$ 10MN - 100MN
RESULTS-BASED PAYER <i>Donors, philanthropies</i>	Commitments to provide incentive payments to bond issuer if goals are met	US\$ 2.5MN - 10MN

The Global Innovation Lab for Climate Finance identifies, develops, and launches innovative finance instruments that can drive billions in private investment to action on climate change and sustainable development. The Lab is funded by the Australian Department of Foreign Affairs and Trade, Bloomberg Philanthropies, the German Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety (BMU), GIZ, the International Fund for Agricultural Development (IFAD), the Netherlands Ministry for Foreign Affairs, The Rockefeller Foundation, Shakti Sustainable Energy Foundation, and the UK Department for Business, Energy & Industrial Strategy. Climate Policy Initiative serves as Secretariat.