

# Potentials for the introduction of Green Bonds in Croatia

SMAFIN Expanded National Roundtable  
12 June 2024

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# INTRODUCTION

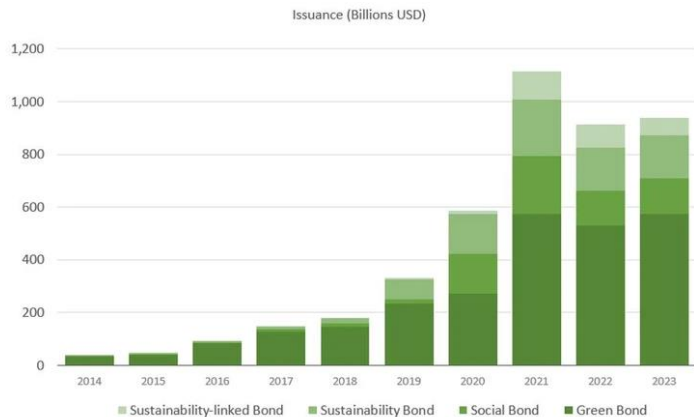
## Green, sustainable, climate.. bonds?

- Bonds are a type of fixed-income debt instrument to raise funds for various purposes which are used by companies, municipalities, states, and sovereign governments
- Main types of bonds used for funding of the „green” investments:
  - Green bonds - any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance existing eligible green projects
  - Sustainability-linked bonds - a forward-looking performance-based instrument: issuers are committing explicitly to future ESG objectives improvements within a predefined timeline (e.g. decarbonization KPIs)
- Different voluntary standards created to prevent greenwashing - EuGBS, GBP

# INTRODUCTION

## Trends

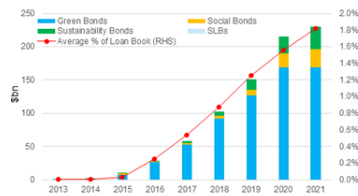
- Large growth of green and sustainability-linked bond issuances until 2022
- Financial institutions must make their investment portfolio greener
- Huge market demand for truly green investments



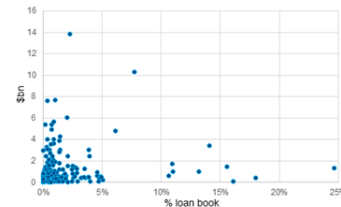
Note: Data shows yearly supply of impact bonds

Source: Bloomberg

**Figure 3:** Increase in sustainable bonds as percentage of bank loan books



**Figure 4:** Sustainable bond issuance outstanding and as a percentage of bank loan books



Source: LGM and Bloomberg, as at 26 April 2021. Data based on Bloomberg fixed income search (SRCH) filtered by corporates, GBP/EUR/USD only, and green, social, sustainable and sustainability linked indicator equal to 'Yes'. For illustrative purposes only.

# INTRODUCTION

## Status quo - financing of green projects in Croatia

- Traditional, bank-centered financial market with grant-dependent investors
- Both the stock and corporate bond markets are underdeveloped and underutilised as a financing option - Municipalities are reluctant to use bonds
- No track record of standard green bonds, only SLB and preferred senior bonds:
  - Mplus Ltd - EUR 40 mil. (interest rate: 3,5%, 5-year maturity)
  - Zagreb Holding Ltd - EUR 305 mil. (interest rate: 4,9%, 5-year maturity)
  - Erste bank - EUR 400 mil. (interest rate: 4,875%, 5-year maturity)
- Positive changes - one short-term sovereign bonds emission and three treasury bills emissions in 2023/2024 have raised awareness and motivated citizens to invest in new financial instruments



# MESTRI-CE PILOT ACTION

## Municipal bond issue

- MESTRI-CE project aims to address key market barriers to the introduction of innovative financing models and instruments
- REGEA and Zagreb Stock Exchange are assisting potential green bond issuers from the public sector with the overall process
- The City of Zagreb has expressed interest in being the first Croatian city to launch green bonds on the domestic market with transparent environmental impact calculation methodology and a tracking system for the use of proceeds
- Public buildings represent the main investment potential - technical assessments and preparation of documentation are being done as part of two EIB ELENA projects (ZA-GREEN and PVMax)

# MESTRI-CE PILOT ACTION

## Municipal bond issue - Pilot concept

- Type of investment: solar powerplants on buildings owned by the city
- 50 powerplants with total 7,5 MW capacity
- Investment size: EUR 6-8 mil.
- Expected interest rate: 5-6%,
- 5-year maturity, six-month interest payment
- Bond size: EUR 1.000
- Citizens as primary investors

# CONCLUSIONS

## Why not (green) bonds?

- Complex and lengthy preparation process - arrangement of prospectus/information document and setup of monitoring and reporting process
- Strict formalized rules (national and EuGBS): financial control by HANFA (National Financial Agency), transparent use of proceeds and reporting to investors
- Cost of capital vs (development) bank loans due to expensive costs (when EuGBS is followed) and higher expected interest rates from investors
- Green standards have not brought more favorable financing conditions (interest rate) vs non-green investments

# CONCLUSIONS

## Why (green) bonds?

- Flexibility of debt structuring (maturity, repayment, targeted investors/markets)
- Energy projects (e.g. renovation of buildings) require a more extended period to deliver financial returns - bonds' maturity can be aligned with expected energy targets
- Bonds are helpful in the development of local financial markets and diversification of investments
- Citizens can be targeted as primary investors
- Exemption of bond interest payments from taxation

**Thank you for your attention!**

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