

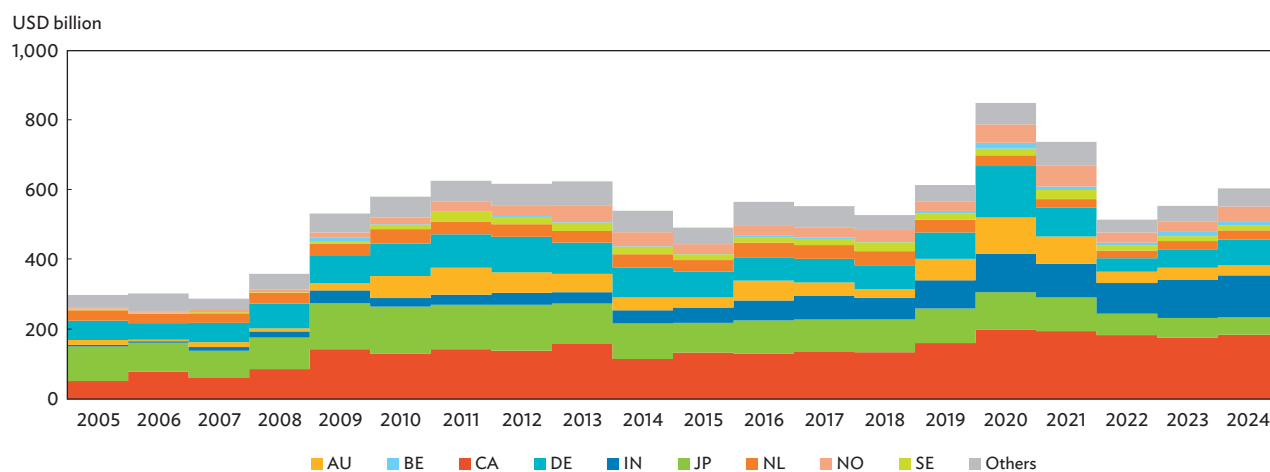
Mobilizing Capital for Local Government Finance in Asia and the Pacific Through GSS+ Bond Markets

Urgent Need for Alternative Financing for Local Governments

Cities are central to economic activity and population growth, and they account for a large share of global energy use and greenhouse gas emissions. They comprise 56% of the world's population, generate over 80% of global gross domestic product, account for 70% of all energy use, and produce 75% of total greenhouse gas emissions.¹⁷ They also face rising climate-related risks, creating substantial need for investments in mitigation, adaptation, and resilience.

Addressing these needs requires financing beyond central government budget allocations, making alternative capital sources essential for local governments to achieve their infrastructure and social development goals. In recent years, more local governments worldwide have tapped capital markets through the issuance of green, social, sustainability, and other labeled (GSS+) bonds to fund municipal infrastructure and meet their service delivery requirements. Economies such as Australia, Canada, Germany, India, Japan, the Netherlands, Norway, South Africa, Sweden, and Türkiye have effectively used these instruments and tapped into capital markets to deliver high-impact infrastructure projects and municipal services (Figure 21).

Figure 21: Annual Issuance of Local Government Bonds Globally



AU = Australia, BE = Belgium, CA = Canada, DE = Germany, IN = India, JP = Japan, NL = Netherlands, NO = Norway, SE = Sweden, USD = United States dollar.

Notes: Data as of 31 March 2025. Issuance amounts are based on USD equivalent values at the time of issuance. Municipal bond market issuance tends to increase during times of crisis such as the global financial crisis and the coronavirus disease (COVID-19) pandemic.

Source: Authors' calculations based on Bloomberg LP data

This special section was written by Kosintr Puongsophol (senior financial sector specialist) and Pitchaya Sirivunnabood (consultant) at the Asian Development Bank. For more information on this topic, please visit <https://www.adb.org/publications/capital-local-government-finance-asia-pacific>.

¹⁷ World Bank. 2023. Development Topics—Urban Development Overview. <https://www.worldbank.org/en/topic/urbandevelopment/overview>; International Energy Agency. 2024. Executive Summary to *Empowering Urban Energy Transitions*. <https://www.iea.org/reports/empowering-urban-energy-transitions/executive-summary>.

Why GSS+ Bonds Matter and What They Can Finance

GSS+ bonds are not only an alternative financing source for local governments but also a strategic tool that can encourage local governments to develop climate-resilient infrastructure, strengthen their ability to manage and withstand climate-related risks, and provide essential social services to local communities. These instruments help create investment opportunities that deepen citizen engagement by fostering a sense of ownership in local development initiatives. In addition, GSS+ bonds contribute to the development of local capital markets by providing long-term, competitively priced instruments for local investors and by attracting a broad base of investors seeking sustainable finance opportunities.

In principle, GSS+ bonds are designed to finance green and social projects—including those focused on mitigation, adaptation, and resilience—which aligns with local government’s responsibilities in delivering infrastructure and meeting social needs. Examples of eligible bond-financed projects—based on their use-of-proceeds requirements—that are most relevant to local governments are shown in **Table 2**.

Table 2: Examples of Eligible Projects

Mitigation	Adaptation and Resilience
<ul style="list-style-type: none"> Sustainable water and sewer infrastructure Clean mass transit Clean energy installation and generation promotion Green public buildings Energy efficiency retrofitting for municipal facilities Local environmental preservation (e.g., parks and green space development) 	<ul style="list-style-type: none"> Infrastructure for flood and stormwater management (e.g., levees, seawalls, and permeable pavements) Measures for drought and water stress resilience (e.g., waterworks efficiency, and leak detection and management) Measures for heat-resilience (e.g., urban cooling centers and green corridors) Climate-smart public buildings (e.g., flood-proofing and elevated public buildings) Nature-based solutions (e.g., wetland and mangrove restoration and shoreline stabilization)
Social	
<ul style="list-style-type: none"> Access to essential services (e.g., education, health, and social inclusion) Affordable housing, healthcare, and education Affordable basic infrastructure (e.g., development of transport, energy, and green spaces) Employment creation and SME financing 	

SME = small and medium-sized enterprise.

Source: ADB. 2025. *Mobilizing Capital for Local Government Finance in Asia and the Pacific through Green, Social, and Sustainability Bond Markets*. <https://www.adb.org/sites/default/files/publication/1108181/capital-local-government-finance-asia-pacific.pdf>.

To issue GSS+ municipal bonds, local governments need to develop sustainable financing frameworks that can be tailored for their strategic priorities and unique municipal or regional situations. It also requires local governments to establish effective impact data tracking and reporting systems to enhance their ability to develop and identify a pipeline of eligible investment projects with clear repayment sources—all of which can help build investor confidence.

Key Recommendations

Mobilizing capital through GSS+ bond issuance can be an effective instrument for local governments to mobilize sustainable finance for projects that deliver positive economic, environmental, and social benefits. Several practical, market-based steps can support this approach:

- Align local government project financing with sovereign sustainability financing frameworks.** Central governments can advance domestic development priorities by enabling responsible municipal borrowing that addresses sustainability challenges at the local level. Local governments can align their sustainability financing frameworks with those of the central government to ensure policy coherence; enhance credibility with investors; and facilitate access to capital markets by leveraging established domestic standards, taxonomies, and reporting systems.
- Strengthen fiscal oversight, disclosure, and governance frameworks for sustainable local government financing.** This includes frameworks based on green and social taxonomies. Demonstrating institutional integrity and capacity for responsible fundraising through robust financial and sustainability disclosure and high-quality governance frameworks boosts investor confidence and supports sustainable access to capital markets, in addition to fostering a secure and reliable repayment structure of local-government-financed projects.
- Establish pooled local government financing vehicles to scale up local government bond markets, with a focus on green and social finance.** Pooled financing vehicles aggregate local issuance needs and consolidate resources into a single well-capitalized entity. While this model offers the advantages of lower borrowing

costs, improved operational efficiency, enhanced market credibility, and increased transparency and functionality of municipal finance markets, it comes with more legal and institutional complexity. It also requires robust governance frameworks and clear institutional arrangements among participating local governments.

- **Leverage multinational development bank resources and guarantees to kickstart local government bond markets.** Development finance organizations can play a catalytic role in developing municipal finance markets through both financial support and technical assistance. Examples of such support include initial capital contributions, partial credit guarantees, and technical assistance for developing subnational borrowing frameworks and preparing project pipelines. For example, Asian Development Bank's GSS+ Bonds Initiative offers advisory support to catalyze signature GSS+ bond issuance and create environments for growth across Southeast Asia.