

Introduction to joint municipal bonds and joint municipal green bonds

Understanding of joint bond system may encourage joint green bond investment

- Joint municipal green bond issuance planned for FY23
- Basic structure same as joint bonds, except for “green” aspect
- Plans for 42 organizations to participate in joint green bond initiative with total issuance of about Y100bn in FY23; 10-year maturity (same as joint bonds)

Credit Memorandum JCRE454
FICC Research Dept.

Senior Fiscal Policy and
Credit Analyst
Koji Hamada
(81) 3 5555-8791
kouji.hamada@daiwa.co.jp



Daiwa Securities Co. Ltd.

There are plans to jointly issue municipal green bonds (hereafter referred to as joint green bonds) in FY23. The basic structure of joint green bonds is essentially the same as that for regular joint bonds, except for the “green” aspect (proceeds used for projects targeting positive environmental and/or climate impacts) and “participating organization” aspect. As such, a better understanding of the regular joint bond system is a gateway to investing in joint green bonds. Joint green bonds are issued on behalf of local public bodies that cannot issue green bonds on their own because the size of their green-related projects is small. In order to realize that desired effect, there are plans for 42 organizations to participate in joint municipal green bond issuance in FY23 with issuance totaling about Y100bn. The maturity for these bonds is 10 years, which is the same as for regular joint bonds. We would like to see increased opportunities to purchase such SDG municipal bonds once more people understand the approaches to joint bond structures and creditworthiness.

Joint bond structures and creditworthiness

Joint-obligation issuance, creditworthiness based on “strong link”

Joint bonds are issued in accordance with Article 5-7 of Japan’s Local Finance Law. The regulations state that individual local public bodies are collectively responsible for the redemption of the debts and the payment of interest. As such, the participating organizations are responsible for the joint obligations.

In the unlikely event that one participating organization is unable to pay the principal and interest via its own financing, the other participating organizations will be obligated to make those payments.

Each participating organization receives a debt obligation resolution for the full payment of principal and interest on the joint bonds to be issued for the relevant fiscal year. The debt obligation is an authorization that does not include expenditures in the current fiscal year, but may include expenditures in future budgets. The payment of joint obligations is guaranteed by the respective councils receiving the debt obligation resolutions.

Joint bonds are not rated. However, just before the first issuance of such bonds in FY03, R&I released its opinion that the creditworthiness of those bonds would be the same as that for top-tier local public bodies. Their reasoning was that since the debt is jointly held, even if participating organizations become unable to repay one after another, the organizations with the highest credit standing will remain and repay the debt. Here, the so-called “strong link” concept applies. This point should be kept in mind. That said, systems are in place to prevent Japan’s municipal bonds from defaulting and situations in which debt cannot be repaid are unthinkable.

Monthly joint issuance by all participating organizations; same creditworthiness regardless of month

Joint bonds are issued every month, but the organizations that actually raise funds differ from month to month (Chart 1). However, all participating organizations, regardless of their fundraising, will be named as joint monthly debtors. Accordingly, in the unlikely event that one organization cannot repay its debts, the others are obligated to pay the principal and interest even for those months when they do not raise funds via bond issuance.

Chart 1: Planned Joint Bond Fundraising Amounts in FY23 by Organization, Month (Y bn)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Planned issuance amount	128.0	112.0	101.0	78.0	95.0	97.0	77.0	71.5	76.0	81.0	96.5	70.0	1,083.0
Hokkaido Prefecture	10.0	10.0	10.0	10.0	5.0	10.0	5.0	5.0					65.0
Miyagi Prefecture		10.0				10.0				10.0			30.0
Fukushima Prefecture	2.0	2.0		2.0	3.0		3.0	3.0		3.0			18.0
Ibaraki Prefecture	5.0	5.0		5.0	4.0		3.0			3.0			25.0
Saitama Prefecture	5.0	5.0	10.0		10.0					10.0			40.0
Chiba Prefecture			10.0		5.0			5.0				10.0	30.0
Kanagawa Prefecture	10.0			10.0			10.0						30.0
Niigata Prefecture	5.0	5.0	6.0	5.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	53.0
Fukui Prefecture	7.0					8.0							15.0
Nagano Prefecture			10.0				10.0		10.0				30.0
Gifu Prefecture		2.0		3.0		5.0		5.0		5.0		5.0	25.0
Shizuoka Prefecture	3.0					3.0			8.0	8.0	8.0		30.0
Aichi Prefecture	5.0	5.0			5.0		10.0			5.0			30.0
Mie Prefecture			1.0			6.0	1.0	7.0	3.0			5.0	23.0
Kyoto Prefecture	5.0	10.0	5.0	5.0	5.0		5.0	5.0	6.0	5.0	5.0		56.0
Osaka Prefecture	10.0	10.0			10.0	10.0	10.0	10.0	-	10.0	9.0		79.0
Hyogo Prefecture	10.0	10.0		10.0		10.0			10.0		10.0		60.0
Nara Prefecture		1.0				4.0	1.0			4.0	-		10.0
Okayama Prefecture			1.0			3.0			3.0		3.0		10.0
Hiroshima Prefecture	10.0		10.0		10.0				10.0		-		40.0
Tokushima Prefecture	-	5.0		5.0					5.0		5.0		20.0
Kumamoto Prefecture	5.0		5.0	5.0		5.0			5.0		5.0		30.0
Oita Prefecture			5.0	5.0					-		1.5		11.5
Kagoshima Prefecture	5.0	4.0	4.0	5.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	50.0
Sapporo City	10.0					2.0		2.0				6.0	20.0
Sendai City	3.0	3.0		3.0		3.0		3.0	3.0		3.0	3.0	24.0
Chiba City												10.0	10.0
Kawasaki City	9.0				1.0			1.5				3.0	14.5
Niigata City			3.0			3.0		4.0		5.0			15.0
Shizuoka City			3.0		3.0	-	5.0				4.0		15.0
Hamamatsu City									5.0		5.0		10.0
Kyoto City		5.0	5.0	5.0	8.0	5.0	6.0						34.0
Osaka City		5.0								5.0	10.0	10.0	30.0
Kobe City		10.0										10.0	20.0
Hiroshima City			3.0			2.0		3.0			2.0		10.0
Kitakyushu City	9.0	5.0			8.0						8.0		30.0
Fukuoka City			10.0		10.0			10.0			10.0		40.0
No. of organizations	19	19	17	14	16	18	14	15	13	14	17	11	37

Source: Japan Local Government Bond Association; compiled by Daiwa Securities.

From the investor's point of view, there is no need for selective considerations such as "We want to buy this month as there are many organizations that seem to have good creditworthiness" or "We can't buy this month because organizations that are not included in our investment list are raising funds this month." This is because the creditworthiness is the same regardless of the month that joint bonds are purchased.

Can purchase at any time, highly liquid due to large issuance of about Y100bn each month

Each month, individual 10-year municipal bonds are issued by some organizations, but very few organizations issue monthly bonds on their own. As joint bonds are continuously issued each month in amounts of around Y100bn, they are always available whenever investors want to buy. Since the amount per issuance is also larger than that for individual bonds, there is little concern that the desired amount cannot be purchased due to a large number of buyers.

Since the issuance amount is large, secondary market liquidity is also high. While individually issued municipal bonds are highly liquid, joint bonds are easier for dealers to consolidate their inventories into larger amounts. As such, trading by investors who prefer to buy and sell large lots seems easier.

No regional characteristics as municipal bonds selected from across Japan

Some regional investors are reluctant to purchase municipal bonds issued by organizations that are not local nor nearby, but remote and with no real local connection.

In that regard, this joint bond is a product that can be viewed as a Japan-wide selected municipal bond, as 37 of the 61 organizations making public offerings on the market, from the north to the south of Japan, are participating in the joint bond issuance. One reason that these joint bonds are attractive is that they can be purchased without any concerns about regional characteristics.

Joint green bond structure and creditworthiness

Plans to issue about Y100bn in 10-year bonds in FY23

Even if the organizations making public offerings on the market want to issue regional SDG bonds, many are struggling to issue such bonds because the issue size is not large as the projects set to receive the funds are small. For that reason, the Ministry of Internal Affairs and Communication (MIC) decided to issue a 10-year joint green bond in FY23.

The planned annual issuance amount is about Y100bn and the first issue is slated for November 2023. One more issuance is expected during FY23 (which ends in Mar 2024). In FY22, the issuance of individual municipal green bonds with 10-year maturities each came to about Y5.0~10.0bn. By grouping these individual municipal green bonds together as joint bonds, larger amounts can be issued.

Moreover, monthly issuance of regular joint bonds will remain the same. As such, during those months in which joint green bonds are issued, two types of joint bonds will be available (regular and green).

There are 42 participating organizations. Looking at the list of organizations, many of them have not issued individual green bonds in FY22 and have no plans to do so in FY23 (as of April MIC announcement; we may see additional issuance). Sixteen organizations issued individual green bonds in FY22 and 21 plan to do so in FY23 (as of April MIC announcement; we may see additional issuance). Organizations participating in the joint green bonds include some that also issue individual green bonds on their own. Still, as the number of organizations has reached 42, we can assume that the issuance potential of the local public bodies was realized as intended.

Chart 2: Municipal Green Bond Issuance for FY22, Planned Issuance for FY23

		FY23 (planned)		FY22 (actual)
		Joint / regular	Joint / green	
Hokkaido	Prefecture	○	●	
Iwate	Prefecture		●	●
Miyagi	Prefecture	○	●	
Akita	Prefecture			●
Fukushima	Prefecture	○	●	
Ibaraki	Prefecture	○	●	
Tochigi	Prefecture		●	
Gunma	Prefecture			●
Saitama	Prefecture	○	●	
Chiba	Prefecture	○	●	
Tokyo	Prefecture			●
Kanagawa	Prefecture	○		●
Niigata	Prefecture	○	●	
Toyama	Prefecture		●	
Ishikawa	Prefecture			●
Fukui	Prefecture	○	●	
Nagano	Prefecture	○	●	●
Gifu	Prefecture	○	●	
Shizuoka	Prefecture	○	●	●
Aichi	Prefecture	○	●	●
Mie	Prefecture	○		●
Shiga	Prefecture			
Kyoto	Prefecture	○	●	
Osaka	Prefecture	○	●	●
Hyogo	Prefecture	○	●	●
Nara	Prefecture	○	●	
Wakayama	Prefecture		●	
Shimane	Prefecture		●	
Okayama	Prefecture	○	●	
Hiroshima	Prefecture	○	●	●
Tokushima	Prefecture	○		
Kochi	Prefecture			●
Saga	Prefecture		●	
Nagasaki	Prefecture		●	
Kumamoto	Prefecture	○	●	
Oita	Prefecture	○	●	
Kagoshima	Prefecture	○	●	
Sapporo	City	○	●	
Sendai	City	○	●	●
Saitama	City		●	
Chiba	City	○	●	●
Kawasaki	City	○	●	●
Sagamihara	City			●
Niigata	City	○	●	
Shizuoka	City	○	●	
Hamamatsu	City	○	●	
Kyoto	City	○	●	●
Osaka	City	○		●
Sakai	City		●	
Kobe	City	○		
Okayama	City		●	
Hiroshima	City	○	●	
Kitakyushu	City	○	●	
Fukuoka	City	○	●	●
Kumamoto	City			●
No. of organizations		37	42	21

Source: Ministry of Internal Affairs and Communications (MIC), Japan Local Government Bond Association; compiled by Daiwa Securities.

Note: Planned individual green bond issuance for FY23 as of April MIC announcement.

Basic structure same as that for regular joint bonds

The structure for joint green bonds is basically the same as that for regular joint bonds. However, joint obligations are shouldered only among the participating organizations in the case of joint green bonds, which differs from the structure regular joint bonds. The organizations that will procure funds in November have not yet been announced. Investors may prefer to buy joint green bonds when their regional organizations raise funds. However, all participating organizations issue each bond jointly, as is the case with regular joint bonds.

Framework conforms to ICMA's Green Bond Principles 2021

The joint green bond framework has received external evaluations from R&I and JCR regarding its compliance with the four elements set forth in ICMA's Green Bond Principles 2021.

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