

ASSESSMENT

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TABLE OF CONTENTS

Summary	1
Profile	1
Recent Developments	2
Reporting	3
Methodology scorecard	4

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Cape Town, City Of

Update to Green Bond Assessment

Update to Green Bond Assessment for the 1 billion rand green notes issued by the City of Cape Town in July 2017

Summary



We are maintaining the GB1 (Excellent) Green Bond Assessment (GBA) on the senior unsecured amortizing green notes (in the amount of 1 billion rand) issued by [Cape Town](#) (Baa3 stable), the second largest city in [South Africa](#) (Baa3 stable) in July 2017.

Following our review of the use of proceeds, updated budget information and third party assurance reports, we are maintaining the transaction's overall weighted score at 1.00. We are not changing any factor scores at this time, given that all aspects of the transaction remain consistent with our initial expectations.

Factor	Factor Weights	Score	Weighted Score
Organization	15%	1	0.15
Use of Proceeds	40%	1	0.40
Disclosure on the Use of Proceeds	10%	1	0.10
Management of Proceeds	15%	1	0.15
Ongoing Reporting and Disclosure	20%	1	0.20
Weighted Score			1.00

The weighted score for the transaction, using the GBA scorecard, is 1.00, which corresponds to a GB1 grade. For a full summary of the transaction's scoring under the GBA scorecard, please see "Methodology scorecard" below. For our full analysis of the transaction, please see the original in-depth report [here](#).

Profile

Cape Town (the City) is the second-largest city in South Africa in terms of budget size after Johannesburg. It is the capital city of the Western Cape Province and the second-wealthiest province in South Africa after Gauteng, as reflected in the higher-than-average levels of income per capita. With around 4 million inhabitants, Cape Town makes up roughly 64% of the total provincial population and is the main driver of the Western Cape Province's

economic activity. The local economy is relatively diversified, with manufacturing and various business activities in the tertiary sector (such as finance, insurance, tourism and retail) contributing significantly to regional GDP. Cape Town drives the provincial economy because it contributes 70% of the provincial economy and consequently its contribution to national economic output is significant. In addition to financial services, port activities and tourism contribute meaningfully to the local output. Situated on one of the world's busiest trade routes, the port of Cape Town is one of the largest deepwater harbors in Africa. Commercial services is the largest economic sector as far as investments, employment and the diversification of services are concerned.

Recent Developments

The City's 1 billion rand green bond, issued in July 2017, was designated to refinance Cape Town's climate projects listed in Exhibit below, which form part of the City's larger climate change mitigation and adaptation program.

As of the end of 2018, the green bond proceeds were fully utilized to finance and refinance nine projects largely intended to adapt to, but also mitigate, climate change through investments in water and sanitation projects (see Exhibit below). These programs are intended to save water through reduced usage, leakage and wastage, upgrading of sewage pipes and infrastructure to avoid storm-related damage, protection against future flooding, rehabilitation and restoration of Sir Lowry's Pass River, and upgrading of various seawalls.

Water related projects are especially critical given Cape Town's drought-induced water crisis. As discussed in our 20 March 2019 Issuer In Depth , the City of Cape Town in 2018 narrowly avoided running out of water after a three-year drought caused its dam system to run dry. In response, the city recently launched a new strategy to build an integrated water management system, more resilient to climate change-related risks.

Exhibit 1

Cape Town green bond proceeds fully allocated to water projects As of December 31, 2018

Project	Type	Category	Proceeds allocated (Rand, millions)	Actual amounts spent, Fiscal 2014-18 (Rand, millions)	Future Budgeted Amounts, Fiscal 2018 19 (Rand, millions)
Upgrade of Reservoirs Citywide	Adaptation	Water	4.6	8.9	-
Pressure Management: Zone Metering and Valves	Adaptation	Water	14.7	31.2	32.9
Treated Effluent: Reuse and Infrastructure Upgrades	Adaptation	Water	44.4	64.4	20
Meter Replacement Program and Conservation Programme	Adaptation	Water	830.8	834.25	270
Replacement and Upgrade of Sewer Pump Station	Adaptation and Mitigation	Water	4.4	4.8	-
Sir Lowry's Pass River Upgrade Scheme	Adaptation	Water	22.1	22.9	-
Coastal Structures Rehabilitation	Adaptation	Water	19.0	19	-
Replacement and Upgrade of Sewer and Water Supply Network Citywide	Adaptation	Water	60.0	212.3	-
Totals			1,000.0	1,197.8	322.9

Source: City of Cape Town

As part of its broader climate change mitigation and adaptation effort, the City is working to reduce its carbon footprint and it currently measures its carbon footprint every year, with in-depth updates carried out every five years, and high-level updates every year in between. Emissions are reported according to the Global Protocol for Community-Scale Greenhouse Gas Emissions Inventories (GPC), with key data sourced from National Government. Based on the most recent available information, the City's emissions were 21 233 880 tCO₂e in 2015, which represented a 3.1% decline compared to the 2012 figure of 21 914 762 tCO₂e, largely attributable to energy efficiency in the residential and commercial sectors. Looking ahead, the City signed up for the C40 Deadline 2020 Climate Action Planning and the C40 South Africa Buildings programmes, which were launched in 2018 and provide support in the form of expert technical assistance, capacity-building and an embedded technical officer for three years. As part of these programmes, Cape Town, along with Johannesburg, Tshwane and eThekweni, are committed to developing a pathway to deliver carbon neutrality by 2050, and carbon-neutral new builds by 2030.

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Reporting

Early in 2019, the July 2017 green bond received a post-issuance review report from KPMG, the purpose of which was to independent limited assurance conclusion regarding whether the funding raised from the green bond has been received and has been allocated correctly, whether there was an appropriate process in place to manage allocated and unallocated funds related to the Green Bond, whether there was an appropriate process in place and evidence of tracking nominated project performance, monitoring continued conformance of Green Bond to Climate Bonds Standard V2.1, reporting to bond holders and reporting to the Climate Bonds Initiative; and whether there are suitable internal processes to track and report on the use of proceeds from the Green Bond. The report noted no exceptions.

The environmental benefit reporting will be phased in as the City of Cape Town matures in its evaluation and reporting processes, as follows: initial reporting will focus on technical project implementation (1 - 3 year focus); then reporting will be progressed to be able to identify and report on outcomes and impacts, in terms of short-, medium- and long-term results, effects and changes (3 - 5 year and 5 - 10 year focus respectively). As such, the specific project-relevant outcome/impact-orientated KPIs will be developed progressively.

Methodology scorecard

	Yes	No
Factor 1: Organization (15%)		
Environmental governance and organization structure appear to be effective	●	
Policies and procedures enable rigorous review and decision making process	●	
Qualified and experienced personnel and/or reliance on qualified third parties	●	
Explicit and comprehensive criteria for investment selection, including measurable impact results	●	
External evaluations for decision making in line with project characteristics	●	
Factor Score	1	
Factor 2: Use of Proceeds (40%)		
>95% - 100% of proceeds allocated to eligible project categories that are determined based on the issuer's adopted policies and the categories established under the Green Bond Principles that will be further informed by one or more robust and widely recognized green bond frameworks or taxonomies that qualify eligible projects, including any applicable regulatory guidelines.	●	
Factor Score	1	
Factor 3: Disclosure on the Use of Proceeds (10%)		
Description of green projects, including portfolio level descriptions, actual or intended	●	
Adequacy of funding and/or strategies to complete projects	●	
Quantitative and/or qualitative descriptions for targeted environmental results	●	
Methods and criteria, both quantitative and qualitative, for calculating performance against targeted environmental results	●	
Issuer relies on external assurances: Second Party reviews, audits and/or third party certifications	●	
Factor Score	1	
Factor 4: Management of Proceeds (15%)		
Bond proceeds are segregated and separately tracked on an accounting basis or via a method by which proceeds are earmarked	●	
Application of proceeds is tracked by environmental category and project type	●	
Robust process for reconciling planned investments against actual allocations	●	
Clear eligibility rules for investment of cash balances	●	
Audit by external organization or independent internal audit unit	●	
Factor Score	1	
Factor 5: Ongoing Reporting and Disclosure (20%)		
Reporting and disclosure post issuance provides/to be provided detailed and timely status updates on projects	●	
Ongoing annual reporting is expected over the life of the bond	●	
Disclosures provide granular detail on the nature of the investments and their expected environmental impacts	●	
Reporting provides/to be provided a quantitative and/or qualitative assessment of the environmental impacts actually realized to-date	●	
Reporting includes/to include quantitative and/or qualitative explanation of how the realized environmental impacts compare to projections at the time the bonds were sold	●	
Factor Score	1	
Overall Weighted Score	1.00	

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