

Green bonds - Municipal bodies think change, climate change

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By

Kiran Kabtta Somvanshi

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Synopsis

Brihanmumbai's ₹10,224 crore FY25 climate budget signifies Indian municipal bodies' shift to sustainability. With Solapur, Vadodara, Bhopal, Indore, and Pimpri-Chinchwad leading green initiatives, CEO Masood Mallick highlights Swachh Bharat Mission, regulatory evolution, and public-private partnerships. NGT's environmental compensation emphasizes compliance, increasing the need for green financing.

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ET Intelligence Group: Last month, the country's richest municipal body Brihanmumbai Municipal Corporation became the first urban local body in India and fourth in the world to unveil a climate budget for FY25 and earmarked ₹10,224 crore to fight climate change.



In January this year, the Solapur Municipal Corporation prepared its own climate change action plan that included a detailed vulnerability assessment and greenhouse gas emissions inventory as well as causes and mitigation. Later in February, Vadodara Municipal Corporation raised ₹100 crore by issuing Asia's first certified green municipal bond for sustainable water infrastructure.

Last year, Bhopal became the first city in India to adopt the UN Sustainable Development Goals and track its progress in meeting them. Indore Municipal Corporation rolled out the country's first public issue of green bonds. Pimpri-Chinchwad Municipal Corporation launched its sustainability cell to focus on sustainable development initiatives.

It is not just companies; municipal corporations are now taking up the sustainability agenda. "We must recognise that the entire municipalities sector is going through a gradual, but fairly significant transformation," said Masood Mallick, CEO of Re Sustainability, India's largest waste management company that works with over 20 municipal corporations.

Slow & Steady...

Green Bond Issuances by Municipal Corporations

Corporations	Issued in	Amount (₹ cr)	Tenure (years)	Coupon %
Vadodara	Mar-24	100 	5	7.9
Ahmedabad	Feb-24	200 	5	7.9
Indore	Feb-23	244 	3 to 9	8.25
Ghaziabad	Mar-21	150 	4 to 10	8.10

Source: SBI Capital Markets

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"There are multiple changes that have happened over the years - from municipal corporations attempting to reduce dependence on state exchequer, to on-ground change brought on by Swachh Bharat Mission and other government schemes, to regulatory evolution and strict enforcement by National Green Tribunal, to greater partnership with the private sector," Mallick said.

"The agenda has changed from sanitation to Swachhata Abhiyan to now urban sustainability in a broad way. Availability of land for new projects has become a significant concern, and existing dumpsites have become a huge liability. This has led to the need for a shift towards technology-based solutions such as 'Waste to Energy'... The regulatory evolution in terms of water supply; recycling has also prompted change. There is a regulatory policy push towards circularity and resource recovery," Mallick said.

"The ministry of housing & urban affairs and some of the Development Financial Institutions have done credible work in capacity and capability development at municipal corporations. The emergence of public private partnership to provide infrastructure as a service has also proved to be a big lever of change," he added.

Incidentally, the clampdown by NGT has increased in recent years. In March last year, the tribunal levied ₹100 crore environmental compensation on Kochi Municipal Corporation for its failure to handle solid waste.

In April, the tribunal imposed ₹65 crore environment compensation on the municipal corporations of Agra and Mathura-Vrindavan for discharging pollutants into the Yamuna. Last September, the NGT fined Bhopal Municipal Corporation Rs 121 crore for discharging sewage into water bodies.

To fund the sustainability initiatives, the local bodies are now turning to green financing.

“There is traction in the case of green financing through rolling of green bonds or through green funding from multilateral organizations,” said Arnab Choudhury, head of debt capital markets at SBI Capital Markets.

“However, it is a gradual process. The gestation period for rolling out a green bond can be 9 to 12 months. There are multiple stakeholders involved. Besides, rolling out a green bond does not get a big premium in terms of pricing in comparison to other instruments. In contrast, green bonds come with additional costs in terms of green audit and for monitoring the key performance indicators,” Choudhury said.

Climate change is making it imperative for the municipal corporations to adopt sustainability in their operations. “There is growing awareness about the implications of climate change and its relevance to the corporation's mandate. But it is still early days. The efforts have increased but they are largely tactical and not very planned or strategic yet,” Mallick said.

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