

# Mobilising Resources for Green Infrastructure Projects: Green Bonds

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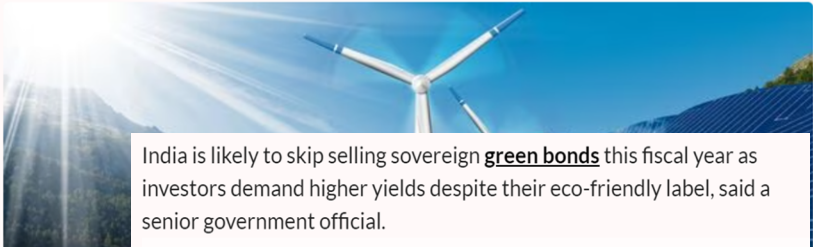
## India has raised \$43 billion in the hidden universe of Green Bonds since 2014: Report

India incorporates green bonds into its climate finance strategy

FARAH IMRANA HUSSAIN & HELENA DILL | JUNE 12, 2023  
This page in: English | Hindi

### India to hold off on green bonds sale

Rhik Kundu, Subhash Narayan | 2 min read | 24 Aug 2023, 11:36 PM IST



India is likely to skip selling sovereign **green bonds** this fiscal year as investors demand higher yields despite their eco-friendly label, said a senior government official.

Michael Thöne

## India's first green bond issue pulls local bidders, foreigners aloof - traders

By Dharamraj Dhutia

January 26, 2023 11:04 AM GMT+1 · Updated a month ago



India's Cleanest City Indore's Green Bond Issue Subscribed 5.42 Times On Day 1

The green bond was oversubscribed by 5.42 times against 1

### Green Bonds in India face unresolved challenges

25 May 2023



Green bonds are a type of



Ait Goswami  
Innovation Manager  
Capgemini

News > Markets > Bonds > Unlocking full potential of green bonds in India

### Unlocking full potential of green bonds in India

RIBUTORS · Last Updated: Jul 06, 2023, 03:16 PM IST



'Global green bonds at over \$2.7 trillion, India's cumulative issuance of thematic debt now at \$30 billion'

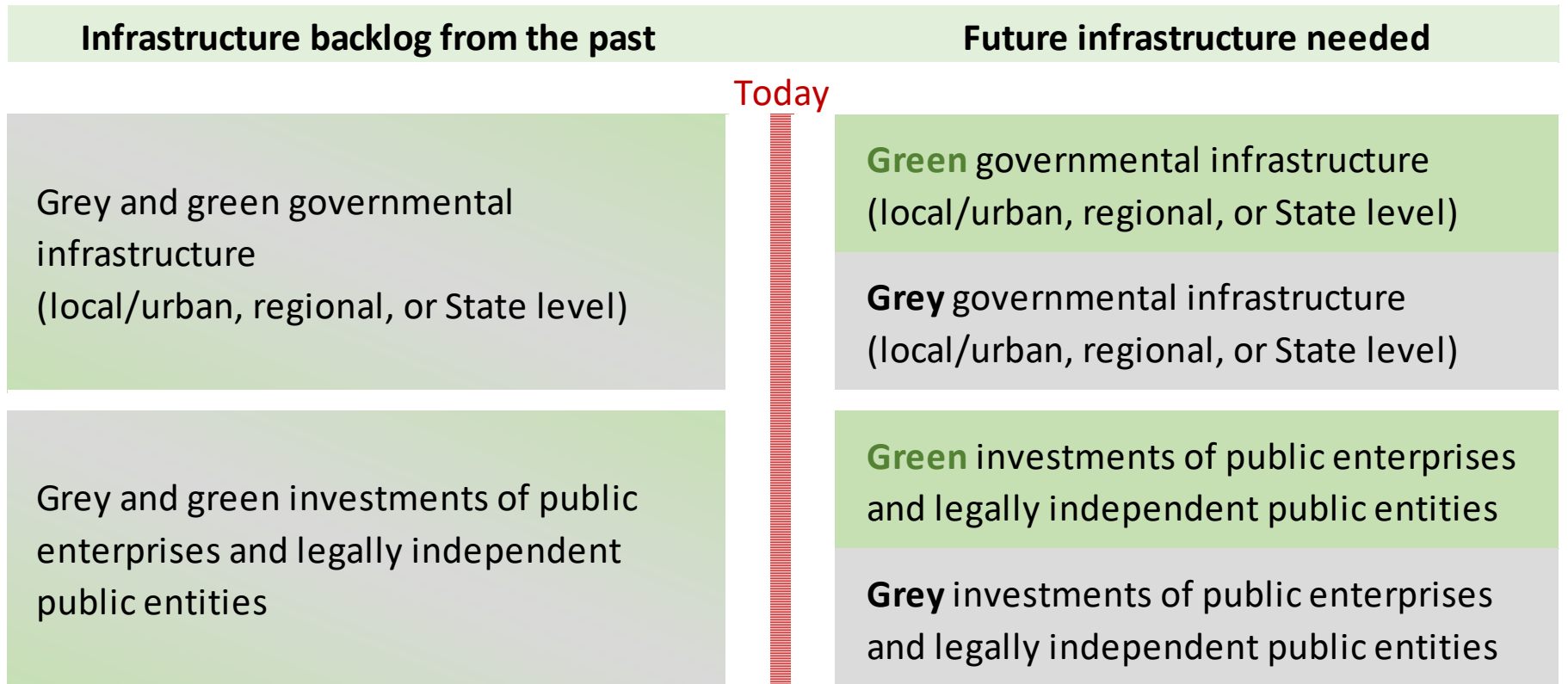
# Identifying Investment Gaps and Infrastructure Needs

Today's Indian urban **population** of 500 million is expected to grow by another 400 million by 2050.

Today, of the world's 100 **most vulnerable cities** to environmental and climate related events, 40 are Indian cities.

Urban local bodies are faced with a **rapidly growing demand** for investment transport in systems, housing, basic services and utilities, public amenities, etc., which should help reduce **environmental hazards** and **meet green targets**.

## Types of infrastructure needs of fast growing urban local bodies



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- ➔ Green and grey investment may be complimentary. A full overview ist needed.
- ➔ Green finance is not so much an "alternative" as a new element of urban finance.

# Financing Green Infrastructure

## Taxes and fees

Established taxes and levies

New Instruments (e.g. Tax-Increment financing)

Environmental taxes / levies

## Transfers

Grey investments transfers from State or central government and/or international donors

Green investments transfers from State or central government and/or international donors

## Debt finance

Traditional bilateral bank credit

Grey Bonds

Green Bonds

Other green debt instruments (sustainability bonds, green credit, green asset-backed securities etc.)

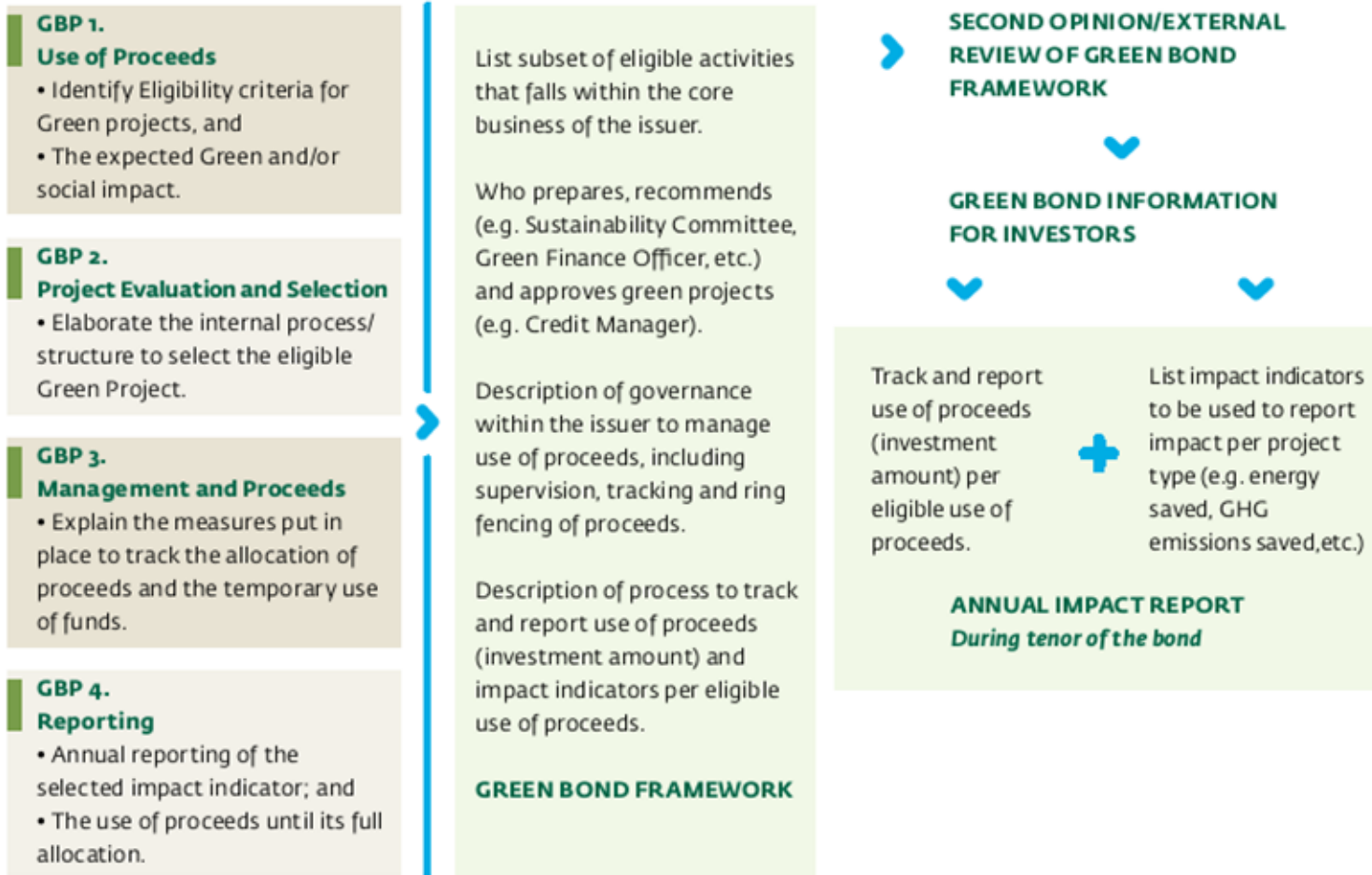
## Equity finance

Public enterprises/PPP.

Grey (minority) stock, profit participation certificates, silent participation etc.

Green (minority) stock, profit participation certificates, silent participation etc.

# Green Bonds: Excellent “How to”-Guides and their central takeaway



Main takeaway:

- 95% of global Green Bonds issuers comply with with the **International Capital Market Association (ICMA) Green Bond Principles**.
- Like it or not, **adopt it *without the slightest reservation***, if you decide to issue Green Bonds yourself
  - (At least when targeting international investors.)

# Green Bonds: Benefits and Challenges

## Benefits

- **Additional finance** for urban investment
- Possibly (slightly) **lower interest payments** (i.e. a “greenium”)
- Finance is **earmarked for green purposes**

## Challenges

- **Additional reporting** requirements for green results
- **Uniform accounting standards** are very helpful (e.g. National Municipal Accounts Manual NMAM)
- Green bonds are **debt in the first place**. **Debt sustainability is more important** than green sustainability. **Creditworthiness** is key:
  - Urban local bodies: Reliable and **constantly growing revenues** from state and central **transfers** and from **own taxes** and levies
  - Municipal corporations: **Stable leverage ratios** necessitate **asset growth** as bond financing expands
  - **Bail-out** guarantees are helpful (and dangerous)

## Summing up: Simple truths & key messages

- Green bonds alone **do not reduce green house gases by a single ton**. Alone, they do not make the world greener by a bit.
  - **What you do**, makes a difference for the environment, **not how you pay for it**.
  -
- Having that said, green bonds can provide an **easier access to international capital**.
- They may even provide a (slightly) **cheaper way of financing the green transformation**.
  - But do not count on that, given the **additional reporting and monitoring costs**.
  - Much of the "green bond hype" is lender-driven. As this bond type proliferates, the interest rate premium will diminish. So **don't rely on a significant "greenium"** either.
- But green bonds certainly **improve the transparency** of borrowing and the associated actions. In doing so, they enhance the credibility of issuers by **making them more accountable**, which can improve their overall standing in the financial markets.
  - This includes **improving the credit ratings**.
- Green bonds may provide the **blueprint for future financial markets**. (The exemption to the rule becomes the rule.)
  - **Early adopters will benefit**.
  - **If not, never mind**. Changing back to non-earmarked financing does not produce significant costs.

Thank you!

Continue the dialogue: [thoene@fifo-koeln.de](mailto:thoene@fifo-koeln.de)



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