Green Bonds & Sovereign Green Bonds

Why in news?

The demand for the Sovereign Green Bonds is reducing in the recent times, which impacts funding for schemes eligible under it and increases pressure on general revenue to meet the shortfall.

- **Green bonds** – Are *debt instruments* issued by governments, corporations, and multilateral banks to *raise funds for projects that reduce emissions or enhance climate resilience*.
- **Lower yields** – Issuers typically offer green bonds at lower yields than conventional bonds, assuring investors that the proceeds will be used exclusively for green investments.
- **Greenium** – The difference in yield is known as the green premium, or greenium that determines the cost advantage of green bonds.
- A *higher greenium allows issuers to raise funds at lower costs*, making green investments more attractive.
- **Sovereign green bonds (SGrBs)** – Are those that are *issued by sovereign entities*, like the Government of India.
- **India's first Sovereign Green Bonds framework** – Was formulated in 2022 to issue SGrBs.
- The framework defines "green projects" as those that *encourage energy efficiency in resource utilisation, reduce carbon emissions, promote climate resilience, and improve natural ecosystems*.
- It was formulated and as per the provisions of the framework, *Green Finance Working Committee (GFWC)* that was constituted to validate key decisions on issuance of Sovereign Green Bonds.
- **Department of Economic Affairs** – Oversees allocation of proceeds of the Sovereign Green Bonds.
- **Reasons that led to the reduced demand**
- **Muted investor demand** – India's SGrB issues have struggled to gain traction due to muted investor demand, making it difficult for the government to secure a greenium.
- **Liquidity** – Small issue sizes and investors holding bonds until maturity have stifled secondary market trading, reducing their appeal.
- **Lack of social impact funds** – India lacks a strong ecosystem of social impact funds and responsible investing mandates, which in other markets drive green bond demand.
- **Way forward** – Bonds for projects that *combine green and social projects, also known as **sustainability bonds***, could boost investor interest and increase proceeds from issues.
- To increase investor confidence, *India can also partner with multilateral development banks* to back its green bonds strategy with their credit ratings given that it does not

have a very high rating itself.

References

1. The Indian Express - Sovereign Green Bonds
2. PIB - Sovereign Green Bonds

