Sovereign Green Bonds (SGrB)

Why in news?

The Government and the RBI decided to issue sovereign green bonds during 4th quarter (Q4) of FY23.

What are sovereign green bonds (SGrB)?

In 2016, Poland government issued the first sovereign green bond.

- **Sovereign green bond** - A sovereign green bond is a debt instrument issued by the central or state government to borrow money from investors.
- It is based on the commitment that the mobilised fund will be spent on climate or eco-system related activities.
- **Classification** - A project is classified "green" on the basis of four key principles which include
  - Encouraging energy efficiency in resource utilisation
  - Reducing carbon emissions and greenhouse gases
  - Promoting climate resilience
  - Improving natural ecosystems and biodiversity
- **Need**
  - To reduce the carbon intensity of the economy
  - To mobilise resources for green infrastructure
  - To achieve objectives, such as climate change mitigation, net-zero, climate change adaptation, environment protection, and natural resource conservation
  - To target global financial resources for financing climate actions

How are they different from conventional government bonds?

- **Conventional government bonds** - Government bonds or government securities (G-Secs) are normally categorised into two types.
- **Treasury Bills** - Treasury Bills have a maturity of less than one year and they do not carry coupon rates.
- These are issued at a discount, while redeemed at face value.
- **Dated or long-term securities** - They are issued for a period above 1 year and up to 40 years.
- These bonds carry coupon rates and are tradable in the securities market.
- **Sovereign green bond** - SGrB is one form of dated security.
- It will have a tenor and interest rate.

- Money raised through SGrB is part of overall government borrowing.
- SRgB may carry **lower interest rate** than that for regular government borrowings.

What are the key features of the SGrB framework?

- **Proceeds** - The proceeds from the Sovereign Green bonds will be deposited to the **Consolidated Fund of India (CFI)** in line with the regular treasury policy.
- **Buyers**- Both domestic and international investors are expected to be interested in SGrB.
- **Green projects** - It includes renewable energy, energy efficiency, clean transportation, climate change adaptation, green building, sustainable water and waste management, pollution prevention and control, terrestrial and aquatic biodiversity conservation projects, etc.
- **No go areas** - The framework also lists no-go areas for SGrb such as nuclear power generation, direct waste incineration, alcohol, weapons, tobacco, gaming, palm oil industries etc.
- **Green Finance Working Committee** - For evaluating and selecting a particular project, the framework talks about a Green Finance Working Committee (GFWC).
- **Allocation** - The allocation and utilisation of green bonds will be under the purview of the Comptroller and Auditor General.
- **SOP** - A second opinion provider (SOP) of green bond frameworks, has reviewed India's green bond framework and approved its alignment with the ICMA Green Bond Principles.

Quick facts

International Capital Market Association (ICMA)

- ICMA is a not-for-profit association under the Swiss Civil Code.
- The association is headquartered in **Zurich**, Switzerland.
- ICMA brings together members through regional and sectoral committees focusing on a comprehensive range of market practice and regulatory issues, prioritising sustainable finance.

References

1. The Hindu Businessline| What's different about SGrBs?
2. Mongabay| A framework for sovereign green bonds
3. ICMA| International Capital Market Association

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