General Studies – 3; Topic: Resource mobilization; Conservation

Green Bonds

1) Introduction
   • A green bond is a debt instrument with which capital is being raised to fund ‘green’ projects, which typically include those relating to renewable energy, emission reductions and so on.
   • Green bonds are issued by multilateral agencies such as the World Bank, corporations, government agencies and municipalities.
   • Today Green bonds have emerged as one of the key financing mechanisms driving the global economy’s transition to a greener future.
   • With the rapid growth in green bond issuance in India and China, the Asian market has emerged as a frontrunner in the green bonds space.

2) What are its benefits?
   • Green bonds enhance an issuer's reputation, as it helps in showcasing their commitment towards sustainable development.
   • It also provides issuers access to specific set of global investors who invest only in green ventures.
   • With an increasing focus of foreign investors towards green investments, it could also help in reducing the cost of capital.
   • Green bonds typically carry a lower interest rate than the loans offered by the commercial banks.
   • An important feature of green bonds is that the responsibility of repayment is with the issuer and not with the firm that is utilizing the funds in green projects.
   • Green bonds expand the quantum of clean energy finance and broaden investor base
   • Ability to meet commitments, for signatories to climate agreements and other green commitments.
   • Green bonds could support India aims to install 175 GW of renewable energy by 2022, which will require an estimated $264 billion of investments.

3) Contributing to sustainable growth
   • A growing number of corporates and financial institutions have leveraged this innovative mechanism to raise capital, attracting foreign investments
   • India also witnessed its award-winning first green masala bond (rupee-denominated bond), with the International Financial Corporation raising an off-shore rupee bond on London Stock Exchange
   • These green bonds have been crucial in increasing financing to sunrise sectors like renewable energy, thus contributing to India’s sustainable growth.
   • Green bond proceeds have also been allocated to low carbon transport sector, low carbon buildings, water management and waste management
   • Green bonds is a key tool towards financing the nation’s climate change targets

4) Risks and challenges
   • There have been serious debates about whether the projects targeted by green bond issuers are green enough because the proceeds of green bond were being used to fund a dam project that hurts the Amazon rainforest in Brazil.
   • Lack of Credit rating or rating guidelines for green projects and bonds
   • Lack of historical trends on the bond performance
   • Green bonds in India have a shorter tenor period of about 10 years in India whereas a typical loan would be for minimum 13 years.
• Buyers of Indian green bonds may not invest in any bonds that are rated lower than the AAA-
• Lack of green bond standards, low credit rating of potential issuers, and higher cost of issuance.
• Limited to large, creditworthy investors
• Limited set of green investors, limiting demand for green bonds to infuse new capital to scale the renewable energy market

5) **Way Forward**
• There is a need for developing a formal definition of ‘green’ to ensure understanding across sectors.
• Smart cities project may be suitable to attract private investment and may soon culminate into India’s first green municipal bond.
• Green bonds act as an effective tool to tap climate funds from developed countries under Paris accord
• Collective participation of regulators, policymakers, corporate and financial institutions is going to be crucial in pushing frontiers of green bonds further
• Leverage a wider investor base such as pension funds, sovereign wealth funds and insurance companies
• International Solar Alliance could provide needed support mechanisms to grow the green bonds market in India and internationally.
• The Ministry of Finance play an active role in attracting both issuers and investors to green bonds by providing tax-free bonds
• Stimulate demand from institutional and retail investors
• Organize workshops, training content, and webinars on green bonds to increase familiarity and bring in new investors
• Simplify issuance and compliance process to increase transparency and reach new investors