

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