

## Sovereign Green Bonds (SGrB)

### Why in news?

The Government and the RBI decided to issue sovereign green bonds during 4<sup>th</sup> 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

## Launched only in 2007, green bonds have been gaining worldwide popularity

What are green bonds and what is their story?

### Where green bonds work



### How green bonds work

**GREEN** bonds are used to fund environment-friendly projects at lower interest rate than regular bonds. They were introduced to encourage companies to invest more in green projects.

**May 2017:** SEBI issues guidelines on green bonds

**July:** L&T issues first SEBI-approved green bonds

**Since 2017:** After Poland, several other countries including France, Fiji, Indonesia, Ireland have issued green bonds. So far, 24 countries have done so.

**2022:** Indian government announces plans for sovereign green bond issuance worth **\$2 bn**

**2021**

**2021:** Annual green bond issuance by Indian companies reaches **\$8 billion**

**2008:** World Bank becomes the first institution to issue green bonds

**2015:** YES Bank issues India's first ever green infrastructure bonds worth **\$160 mn** to finance green infrastructure projects

**2016**

**2016:** Axis Bank launches India's first internationally-listed certified green bond at London Stock Exchange

● Poland issues first sovereign green bonds

**2007:** First ever Climate Awareness Bond issued by European Investment Bank worth **\$807 mn**

**2014:** First certified green bond by UK-based solar power technology company Belectric

## 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.
- SGrB 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](#)