

# 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.

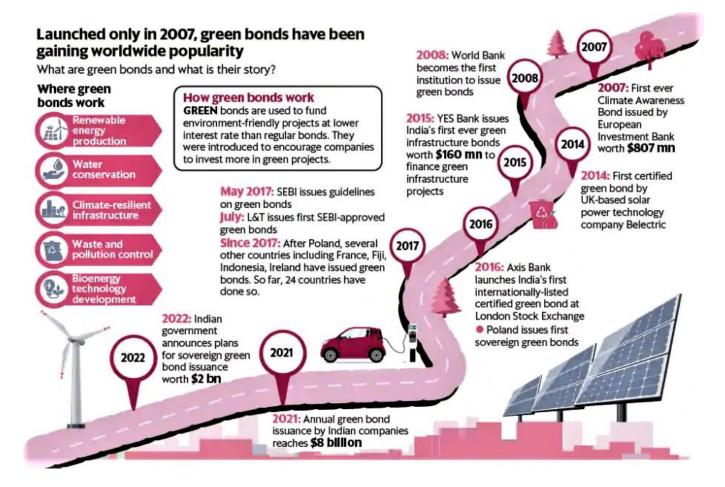
# What are sovereign green bonds (SGrB)?

*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 ecosystem 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

