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Green Bonds

This article covers "Daily current events "and the topic is about 'Green bonds' which are in news, it covers the "Indian Economy" In GS-3, and the following content has relevance for UPSC.

For prelims: Sovereign Green bonds

For mains: GS-3, the impact of sovereign Green bonds

Why in news:

- The first Sovereign Green Bonds (SGrBs) will be issued in two tranches, each worth 8,000 crores, on January 25 and February 9, according to a statement from the RBI.
- The Reserve Bank of India (RBI) stated in a statement that the funds will be used for public sector projects that aid in lowering the economy's carbon intensity.
- The government of India would issue Sovereign Green Bonds (SGrBs) to raise money for green infrastructure, as stated in the Union Budget 2022–2023, as part of its overall market borrowings.

About:

- A green bond is a type of debt instrument used to raise money for "green" projects, which are often those including renewable energy, environmentally friendly transportation, sustainable water management, etc.
- A bond is a fixed-income instrument that simulates a loan from an investor to a borrower (typically corporate or governmental).
- Investors received a fixed interest rate (coupon) on bonds in the past.
- Green bonds are fixed-income securities that are issued by businesses, nations, and multilateral organizations to finance only initiatives that improve the environment or the climate.
- The initiatives could involve, among other things, green buildings, sustainable transportation, and renewable energy.

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- These bonds' earnings are designated for environmental projects. This is different from regular bonds, which allow the issuer to use the proceeds for a variety of things.
- According to the London-based Climate Bonds Initiative, by the end of 2020, 24 national governments would have issued sovereign green, social, and sustainability bonds worth a total of USD 111 billion.

ABOUT: SOVEREIGNS GREEN BONDS FRAMEWORK

- It would further solidify India's commitment to meeting its Nationally Determined Contribution (NDC) goals, which were set in accordance with the Paris Agreement.
- The Green Finance Working Committee (GFWC) was established to approve significant choices for the issuing of Sovereign Green Bonds.
- The Framework closely follows India's "Panchamrit" pledges, which were described by the Prime Minister during the Conference of Parties (COP) 26 in Glasgow in November 2021.
- A Norway-based independent second opinion source, CICERO, gave the framework a "Good" governance score and a "Medium Green" rating.
- The rating of "Medium Green" is given to initiatives and fixes that "represent important steps towards the long-term aim, but are not quite there."

BENEFITS

Observance of Commitments:

- Possibility of keeping pledges made by those who have signed on to climate agreements and other green commitments.
- India's Intended Nationally Determined Contribution (INDC) document lays out the declared goals for India's contribution to improving the environment and moving forward on a low-carbon trajectory.

Raised at a lower cost of money:

- In comparison to commercial bank loans, green bonds often have lower interest rates.
- It might be easier to raise funds with an increased focus on green investments from overseas investors.

Sunrise Sectors:

- These green bonds have played a critical role in expanding funding to emerging industries like renewable energy, supporting India's sustainable economic growth.

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Improves Reputation:

- Green bonds improve an issuer's reputation by demonstrating their dedication to sustainable development.
- **Sovereign green issuance**: To governments and regulators, sovereign green issuance conveys a strong message of purpose about climate change and sustainable development.
- According to **the International Energy Agency's (IEA) World Energy Outlook 2021,** emerging and developing nations will need to spend an additional USD 4 trillion to attain net-zero, therefore sovereign issuance can help jumpstart these significant capital inflows.
- The formation of a sovereign green benchmark could eventually result in the emergence of a thriving market for the issuance of green bonds by foreign investors.

Concerns:

Misuse of Funds:

Due to the fact that the proceeds from green bonds are being used to finance environmentally harmful projects, there has been considerable discussion on whether the projects that the issuers of green bonds are targeting are truly green.

Lack of Credit Ratings:

The absence of credit ratings or rating standards for green bonds and projects.

Shorter Tenor:

Green bonds in India have a tenor of roughly 10 years, compared to a standard loan's tenor of at least 13 years. More time is needed for future green projects to pay off.

High Coupon Rate:

Since 2015, green bonds have been issued with maturities ranging from 5 to 10 years. On average, these bonds have higher coupon rates than corporate government bonds of comparable duration.

High Borrowing Cost:

Because of the asymmetric information, this has been the biggest challenge. One of the causes of the high borrowing cost is the high coupon rate.

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Asymmetric information,
commonly referred to as "information failure," is when one party to an economic transaction has more in-depth knowledge of the relevant subject matter than the other party.

Way Ahead:

- Harmonizing national and international regulations and standards for green bonds is one of the most important needs for the growth of a healthy green bond market. As different taxonomies would be incompatible with a global market for green bonds, homogeneity is also necessary in terms of what qualifies as green investments.
- In order to address the institutional hurdles to entry into this market, issuers in emerging markets should engage in appropriate capacity-building initiatives to disseminate information about the advantages and associated processes and procedures applicable to green bonds.
- Strategic public sector investment within the context of green bonds may aid in luring private investment as well as bolster investor confidence in the market for green bonds as a whole.

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