



Bonds For Climate

This editorial is based on [“Going green with sovereign bonds”](#) which was published in The BusinessLine on 28/06/2022. It talks about the Sovereign Green Bond and its importance in tackling climate change.

For Prelims: Type of Bonds, Green Bond, Bond Yields, ESG Fund

For Mains: Significance of Sovereign Green Bonds, Impact on economy and environment, Government’s intervention and related schemes

The Prime Minister of India laid out India’s vision and commitment of a [Net Zero](#) economy by 2070 at the [COP26](#) in November last year. This strategic direction offers India an opportunity to lead the developing world in green transition.

With quick policy support, India has successfully demonstrated the creation of a [solar power](#) market at price points that developing countries can afford. Another timely idea is the issuance of [‘Sovereign Green Bonds \(SGB\)’](#).

The government of India proposes to issue sovereign green bonds for the first time this year. The Finance Minister announced the government’s intention to issue Sovereign Green Bonds (SGBs) in [Budget 2022-23](#) to mobilize resources for green infrastructure.

The proceeds will be deployed in public sector projects which help in reducing the carbon intensity of the economy.

In this context, let’s understand the basics of SGB and its significance.

What do We Mean by Green Bonds?

- **Green bonds** are issued by companies, countries and multilateral organisations to exclusively fund **projects that have positive environmental or climate benefits** and provide investors with fixed income payments.
 - The projects can include [renewable energy](#), [clean transportation](#) and [green buildings](#), among others.
- Proceeds from these bonds are earmarked for green projects. This is unlike standard bonds, the proceeds of which can be utilized for various purposes at the discretion of the issuer.
- By the end of 2020, 24 national governments had issued Sovereign Green, Social and Sustainability bonds totalling a cumulative USD 111 billion dollars, according to the London-based Climate Bonds Initiative.

What are the Benefits of Sovereign Guarantee to Green Bonds?

- Sovereign green issuance sends a powerful signal of intent around [climate action](#) and [sustainable development](#) to governments and regulators.
- It will catalyze domestic market development and provide impetus to institutional investors.
- With the [IEA's World Energy Outlook 2021](#), estimating that 70% of the additional USD 4 trillion spending to reach net-zero is required in emerging/developing economies, sovereign issuance can help kickstart these large inflows of capital.
- Green premium on bonds provides a [yield discount](#) of 10-20 basis points making them attractive.
- Development of a sovereign green benchmark could eventually lead to the creation of a vibrant ecosystem of raising green bonds from international investors.

What do We Mean by Green Bond Principles (GBP)?

- The Zurich-headquartered International Capital Market Association has come up with a set of voluntary guidelines and criteria known as the Green Bond Principles (GBP).
 - The principles cover use of proceeds, project evaluation and selection, management of proceeds and reporting.
 - They provide for use of proceeds for projects in climate change mitigation and adaptation, conservation of natural resources and bio-diversity and pollution prevention and control.
 - The three leading user segments are energy, buildings and transport.

What is the Status of Green Bonds?

- **Global Status:**
 - [The Environmental, Social and Governance \(ESG\)](#) funds are estimated at \$40 trillion with Europe accounting for about half this.
 - It is estimated that by 2025, ESG assets will account for about one-third of the total global assets under management.
 - The ESG debt funds pie is around \$2 trillion, of which over 80% is “environmental” or green bonds, and the rest social and sustainability bonds.
- **National Status:**
 - According to the Climate Bonds Initiative, an international organization working to mobilize global capital for climate action, Indian entities have issued green bonds for over \$18 billion.

What Else are We Doing to Achieve Net Zero?

- **India's Renewable Energy Targets:**
 - India's [renewable energy targets](#) have steadily become more ambitious, from the 175 GW by 2022 declared at Paris, to 450 GW by 2030 at the UN Climate Summit, and now 500 GW by 2030, announced at COP26.
 - India has also announced the target of 50% installed power generation capacity from non-fossil energy sources by 2030, raising the existing target of 40%, which has already been almost achieved.
 - India has also announced a [Hydrogen Energy Mission](#) for grey and green hydrogen.
 - In energy efficiency, the market-based scheme of [Perform, Achieve and Trade \(PAT\)](#) has avoided 92 million tonnes of CO₂ equivalent emissions during its first and second cycles.
- **Reforms in Transport Sector:**
 - India is accelerating its e-mobility transition with the [Faster Adoption and Manufacturing of \(Hybrid &\) Electric Vehicles Scheme](#).
 - India leapfrogged from Bharat Stage-IV (BS-IV) to [Bharat Stage-VI \(BS-VI\) emission norms](#) by April 1, 2020, the latter being originally scheduled for adoption in 2024.
 - A voluntary [vehicle scrapping policy](#) to phase out old and unfit vehicles complements the existing schemes.
 - The Indian Railways is also charging ahead, targeting the [full electrification of all broad-gauge](#) routes by 2023.

▪ India's Support to EVs:

- India is among a handful of countries that support the global [EV30@30](#) campaign, which aims for at least 30% new vehicle sales to be electric by 2030.
- India's advocacy of five elements for climate change — “**Panchamrit**” — at the COP26 in Glasgow is a commitment to the same.
- India has taken various measures to develop and promote the EV ecosystem:
 - The remodeled [Faster Adoption and Manufacturing of Electric Vehicles \(FAME II\)](#) scheme
 - [Production-Linked Incentive \(PLI\)](#) scheme for Advanced Chemistry Cell (ACC) for the supplier side
 - The recently launched PLI scheme for Auto and Automotive Components for manufacturers of electric vehicles.

▪ Role of Government Schemes:

- [The Pradhan Mantri Ujjwala Yojana](#) has helped 88 million households to shift from coal based cooking fuels to LPG connections.
- More than 367 million LED bulbs have been distributed under the [UJALA](#) scheme, leading to a reduction of 38.6 million tonnes of CO2 per year.
- These two and other similar initiatives have helped India achieve a reduction of 24% in the emission intensity of its GDP between 2005 and 2016.

▪ Role of Industries in Low-Carbon Transition:

- The public and private sectors in India are already playing a key role in meeting the climate challenge, helped by growing customer and investor awareness, as well as increasing regulatory and disclosure requirements.
- For instance, the Indian cement industry has taken pioneering measures and achieved one of the biggest sectoral low carbon milestones worldwide.
- There is greater synergy of India's climate policy with the actions and commitments of its private sector.

What should be Our Approach Moving Forward?

▪ Masala Bonds:

- [Masala Bonds](#) (MB) are rupee-denominated bonds, i.e., the funds would be raised from overseas markets in Indian rupees.
 - MB issued in Foreign Markets would address the [currency risk](#) problem of the issuer and would also attract a large pool of capital.
 - It helps strengthen the foreign investments in the country as it facilitates foreign investors' confidence in Indian currency.
- The government should take several policy, regulatory and developmental steps to improve the opportunities for green and sustainable investing.
- The government should have a policy on sovereign green bonds covering considerations for the choice of currency and markets, guarantees and credit enhancements, priorities on use of proceeds etc.
- To deepen the reach of [green finance](#) there is a need to develop capacity in smaller firms and the unorganized sector to be eligible users, for which a programme should be launched, ideally in association with international stakeholders under the Paris Agreement.

Drishti Mains Question

Green bonds hold the key to India's climate resilience. Comment

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. Indian Government Bond Yields are influenced by which of the following?

1. Actions of the United States Federal Reserve
2. Actions of the Reserve Bank of India
3. Inflation and short-term interest rates

Select the correct answer using the code given below.

- (a)** 1 and 2 only
- (b)** 2 only
- (c)** 3 only
- (d)** 1, 2 and 3

Ans: (d)

Q. With reference to 'IFC Masala Bonds', sometimes seen in the news, which of the statements given below is/ are correct? (2016)

1. The International Finance Corporation, which offers these bonds, is an arm of the World Bank.
2. They are the rupee-denominated bonds and are a source of debt financing for the public and private sector.

Select the correct answer using the code given below:

- (a)** 1 only
- (b)** 2 only
- (c)** Both 1 and 2
- (d)** Neither 1 nor 2

Ans: (c)

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