



Sovereign Green Bonds

For Prelims: Features of Sovereign green bonds, Major Announcements in Budget 2022.

For Mains: Net-zero carbon emissions by 2070, Sovereign green bonds.

Why in News?

Recently, the **Finance Minister** in the [Budget 2022](#) announced that the government proposes to issue [sovereign green bonds](#) to mobilise resources for green infrastructure.

- The proceeds will be deployed in public sector projects which help in reducing the **carbon intensity of the economy**.
- The announcement is in sync with India's commitment to achieving [net-zero carbon emissions by 2070](#).

What are 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 utilised for various purposes at the discretion of the issuer.
- The international green bond market has seen cumulative issuance worth more than **USD 1 trillion** since market inception in 2007.
- 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 is the Significance 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 provides impetus to institutional investors.
- It will provide benchmark **pricing, liquidity and a demonstration effect** for local issuers, helping to support the growth of a local market.
- 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.

What are Other Measures on Climate Action announced in the Budget?

- The budget included several measures on climate action such as:

- Battery swapping policy.
- Additional allocation under the [PLI scheme](#) for manufacturing high efficiency solar modules.
- The government is introducing a new bill that aims to provide a regulatory framework for [Carbon Trading in India](#) to encourage penetration of renewables in the energy mix.

Way Forward

- **Following the French Model:** India can follow the example of France which as part of the budgeting process, assigns a green coefficient to each budget line according to how green the expenditure is relative to the **six environmental priorities** of the **European Union** (climate change mitigation, climate change adaptation, water management, circular economy, pollution, and biodiversity).
- **Harmonising Standards:** One of the foremost requirements is to harmonise international and domestic guidelines and standards for green bonds to develop a robust green bond market.
 - Homogeneity is also required in terms of what constitutes green investments, as varied taxonomies would be antithetical to a cross-border green bond market.
- **Leveraging Private Sector:** Appropriate capacity building efforts for issuers in emerging markets to spread knowledge on the benefits and related processes and procedures pertaining to green bonds would help in addressing the institutional barriers to entry into this market.

[Source: TH](#)

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