

## Sovereign Green Bonds - ECONOMY

NEWS: Sovereign Green Bonds have struggled to gain traction due to muted investor demand.

### WHAT'S IN THE NEWS?

#### Muted Investor Response:

- The demand for **Sovereign Green Bonds (SGrBs)** in India has been lukewarm despite efforts to attract investors.
- The **Reserve Bank of India (RBI)** conducted auctions for two new SGrBs worth **₹10,000 crore** in **November and January**.
- However, **₹7,443 crore worth of bonds remained unsold**, indicating a lack of strong investor interest.
- The weak response occurred even after a rule change that allowed **Non-Resident Indians (NRIs) and Foreign Portfolio Investors (FPIs)** to participate in SGrB auctions without restrictions.

## Understanding Bonds and Their Yield Mechanism

### Definition of Bonds:

- A **bond** is a financial instrument used to **borrow money**, either by a government or a corporation, to raise funds.
- Government-issued bonds are referred to as:
  - **G-secs (Government Securities) in India**
  - **Treasury Bonds in the U.S.**
  - **Gilts in the U.K.**
- These bonds come with a **sovereign guarantee**, making them one of the safest investment options.
- However, due to their low risk, they generally offer **lower returns on investment** (or yield).

### Understanding Bond Yield and Return on Investment:

- The **yield of a bond** refers to the **effective rate of return** it provides to investors.

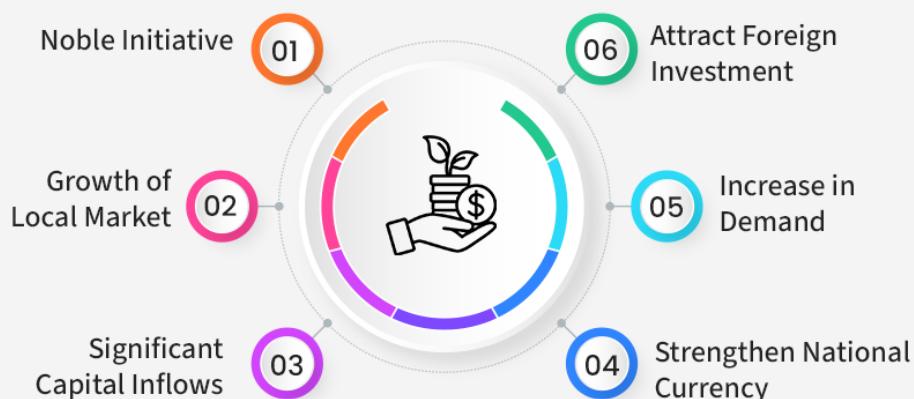
- However, the rate of return is not fixed and changes based on the bond's **market price**.
- **Example:**
  - Suppose the **face value** of a **10-year government security (G-sec)** is ₹100, and it has a **coupon payment** (interest) of ₹5 per year.
  - When an investor buys the bond, they pay **₹100** upfront and receive ₹5 annually for **10 years**, plus their initial ₹100 investment at maturity.
  - The **yield** (effective rate of interest) in this case is **5%** per year.

## **Sovereign Green Bonds (SGrBs): Features and Objectives**

### **Definition and Purpose of SGrBs:**

- **Sovereign Green Bonds (SGrBs)** are government-issued bonds specifically designed to fund **environment-friendly projects**.
- The **Government of India** introduced a framework for issuing these bonds in **2022**.
- The framework defines **“green projects”** as initiatives that:
  - Encourage **energy efficiency** and responsible resource utilization.
  - **Reduce carbon emissions** and promote climate resilience.
  - Support **the conservation of natural ecosystems** and biodiversity.

# Benefits of Sovereign Green Bonds



## SEBI's Proposal for Blue Bonds and the Blue Economy

### Concept of Blue Bonds:

- The **Securities and Exchange Board of India (SEBI)** introduced the concept of **Blue Bonds** in its paper titled "*Consultation Paper on Green and Blue Bonds as a Mode of Sustainable Finance.*"
- These bonds aim to finance projects related to **ocean conservation, sustainable fisheries, and marine biodiversity protection.**

### Definition of the Blue Economy:

- The **World Bank** defines the **Blue Economy** as the **sustainable use of ocean resources** to drive economic growth, improve livelihoods, and generate jobs while ensuring ocean health.
- The **European Commission** defines it as **all economic activities linked to oceans, seas, and coastal regions.**
- India has **significant potential** to utilize **Blue Bonds** in areas such as:
  - **Sustainable fisheries management**
  - **Coastal and marine ecosystem conservation**
  - **Development of offshore renewable energy**

## Other Bond Categories in Sustainable Finance

### Masala Bonds:

- **Masala Bonds** are **rupee-denominated bonds**, meaning funds are raised **from international investors** in **Indian Rupees** rather than foreign currency.
- According to RBI guidelines, the following entities can issue **Masala Bonds**:
  - Any **corporate entity**
  - **Body corporates**
  - **Indian banks**
- These bonds help protect Indian companies from **currency fluctuations**, as the repayment remains in rupees.

### Social Impact Bonds:

- Defined by the **Organisation for Economic Co-operation and Development (OECD)**, **Social Impact Bonds (SIBs)** are a “**pay-for-success**” financial instrument.
- The return on investment depends on the **measurable success of a social program** that is being funded.
- This allows for **greater transparency and accountability** in tracking project outcomes.

### 8. Sustainability-Linked Bonds (SLBs):

- As per the **OECD**, **Sustainability-Linked Bonds (SLBs)** are unique because:
  - Their **financial and structural features** change **based on the issuer’s performance** in achieving sustainability goals.
  - They serve as a **performance-based financing tool**, where the issuer commits to improving sustainability indicators within a defined timeframe.

## Sustainable Development Goals (SDGs) and Their Relevance

### Linking Bonds to SDG Targets:

- The **Government of India** aims to utilize **Sovereign Green Bonds, Blue Bonds, Social Impact Bonds, and other sustainability-linked financial instruments** to meet the **Sustainable Development Goals (SDGs)**.
- The **Union Cabinet** has reaffirmed its commitment to achieving these goals **well before the 2030 deadline**.

#### 11. Important SDGs Related to Green & Blue Bonds:

- **Goal 7:** Ensure **affordable, reliable, and sustainable energy** for all.
- **Goal 11:** Develop **inclusive, safe, resilient, and sustainable cities** and human settlements.
- **Goal 13:** Take urgent actions to **combat climate change** and mitigate its impacts.
- **Goal 14:** Conserve and sustainably use **oceans, seas, and marine resources** for economic and environmental sustainability.
- **Goal 17:** Strengthen **global partnerships** for sustainable development and ensure effective implementation strategies.

#### Conclusion

- Despite the potential benefits of **Sovereign Green Bonds (SGRBs)**, **investor interest has remained subdued**, highlighting challenges in India's green finance sector.
- The introduction of **Blue Bonds and Sustainability-Linked Bonds** represents India's commitment to a more **sustainable financial ecosystem**.
- Aligning bond frameworks with **global sustainability standards** will enhance India's position as a key player in **green and blue finance** while supporting its SDG commitments.

Source: <https://indianexpress.com/article/upsc-current-affairs/upsc-essentials/knowledge-nugget-green-bonds-blue-masala-bonds-upsc-9886677/>