



India's First Sovereign Green Bonds Framework

For Prelims: Features of Sovereign green bonds, Sovereign Green Bonds Framework

For Mains: Sovereign Green Bonds, Announcement under Budget, Status of Green Bonds

Why in News?

Recently, the **Union Minister for Finance & Corporate Affairs** has approved the final [Sovereign Green Bonds Framework of India](#).

- **Sovereign Green Bonds will be issued** for mobilising resources for **green projects**.

What is Sovereign Green Bonds Framework?

- The Framework comes close on the footsteps of India's commitments under "**Panchamrit**" as elucidated by the Prime Minister at [Conference of Parties \(COP\) 26](#) at Glasgow in November 2021.
- It will further strengthen India's commitment towards its [Nationally Determined Contribution \(NDCs\)](#) targets, adopted under the [Paris Agreement](#).
- **Green Finance Working Committee (GFWC)** was constituted to validate key decisions on issuance of Sovereign Green Bonds.
- The framework has been rated '**Medium Green**', with a "**Good**" governance score by a Norway-based independent second opinion provider **CICERO**.
 - The '**Medium Green**' rating is assigned 'to projects and solutions that represent **significant steps towards the long-term vision**, but are not quite there yet.
- All **fossil fuel-related projects** have been kept **out of the framework**, along with **biomass-based renewable energy projects** that rely on feedstock from '**protected areas**'.

What are Sovereign Green Bonds?

- **About:**
 - **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.
- **Benefits of Sovereign Green Bonds:**
 - **Sovereign green issuance** sends a powerful signal of **intent around climate action**

and [sustainable development](#) to governments and regulators.

- With the [International Energy Agency's \(IEA\)](#) 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.
- Development of a sovereign green benchmark could eventually **lead to the creation of a vibrant ecosystem** of raising green bonds from **international investors**.

▪ **Status:**

◦ **Global Status:**

- [The Environmental, Social and Governance \(ESG\)](#) funds are estimated at USD 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 USD 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 USD 18 billion**.

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 [Performance Linked Incentive \(PLI\)](#) 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.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. Indian Government Bond Yields are influenced by which of the following? (2021)

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)

Exp:

- Bond is an instrument to borrow money. A bond could be issued by a country's government or by a company to raise funds.
- Bond yield is the return an investor realizes on a bond.
- The mathematical formula for calculating yield is the annual coupon rate divided by the current market price of the bond.
- Movements in yields depend on trends in interest rates, it can result in capital gains or losses for investors.

- A rise in bond yields in the market will bring the price of the bond down.
- A drop in bond yield would benefit the investor as the price of the bond will rise, generating capital gains.
- Fed tapering is the gradual reduction in the bond buying program of the US Federal Reserve. So, any actions of the United States Federal Reserve impact the bond yield in India. Hence, 1 is correct.
- The actions of the RBI plays a crucial role in determining the yield of government bonds. The sovereign yield curve has a special significance for monetary policy in influencing a wide array of interest rates in the economy. Hence, 2 is correct.
- Inflation and short-term interest rates also influence the yield of government bonds. Hence, 3 is correct.
- Therefore, option (d) is the correct answer.

Q2. 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)

Exp:

- The World Bank Group, which is a vital source of financial and technical assistance to developing countries, consists of five distinct yet complementary organizations, viz.,
 - International Bank for Reconstruction and Development (IBRD);
 - International Development Association (IDA);
 - International Finance Corporation (IFC); hence, statement 1 is correct.
 - Multilateral Investment Guarantee Agency (MIGA);
 - International Centre for Settlement of Investmen Disputes (ICSID).
- Membership in IFC is open only to member countries of the World Bank. Its board was established in 1956. IFC is owned by 184 member countries, a group that collectively determines the policies. Through a Board of Governors and a Board of Directors, the member countries guide IFC's programs and activities.
- Masala Bonds are rupee-denominated borrowings issued by Indian entities in overseas markets. Masala means 'spices' and the term was used by International Finance Corporation (IFC) to popularise the culture and cuisine of India on foreign platforms. The objective of Masala Bonds is to fund infrastructure projects in India, fuel internal growth via borrowings and internationalize the Indian currency. Hence, statement 2 is correct.
- Therefore, option (c) is the correct answer.

Source: PIB

