

# Time ripe for green bonds

This will help in ushering in a net zero economy

SUJOYBOSE

**A**part from the its thrust on infrastructure, the Budget's other timely idea is the issuance of sovereign green bonds.

Prime Minister Narendra Modi's vision of a Net Zero economy by 2070 laid out at the COP26 offers India an opportunity to lead the developing world in green transition. Such a transition will position India at the forefront of new industries and job opportunities. With deft policy support, India has successfully demonstrated the creation of a solar power market at price points that developing countries can afford. Similar possibilities exist in many transition industries like hydrogen, electric vehicles (especially two- and three-wheelers, battery storage systems, etc.)

This green transition will require significant financing. The financing needs to have three key aspects: (a) it needs to have a long-term orientation, (b) it should be willing to take risks, especially on new or costly technologies, and (c) it needs to have a clear definition of what is 'green'.

Though the developed world has promised funds, the onus now is for various economies to find resources to fund the green transition.

The Finance Minister announced the government's intention to issue Sovereign Green Bonds (SGBs) to mobilise resources for green infrastructure. The proceeds will be deployed in public sector projects.

With these words, a new financing instrument has been created. The government will now raise monies from investors who care about the green transition of the economy. Global experience suggests that such bonds may not materially lower the cost of borrowing – the yield on a green bond is not significantly different from a regular bond. But they create an ecosystem which fosters a greater flow of capital into the green sector.

To issue a green bond, a clear, taxonomy of what is "green" is required. This offers clarity to other participants (investors, companies, etc.). While there are global measures afoot to define a common taxonomy, every country will

likely have to adapt the taxonomy depending on its context and requirements. Other aspects that gain due to a clearer taxonomy are measurement, reporting and disclosures. Once measurement of the green impact is clear and is recognised via reports and disclosures, mandates can be implemented for a measured transition to Net Zero. There is a large opportunity for India to develop skills in measurement, assurance, and ratings for the world.

The proceeds from issuance of SGBs are to be deployed in "public sector projects". Many jobs and significant investments in fossil fuel and internal combustion engine related value chains could face challenges as policies tilt more towards greener sources of power and mobility. Informing and educating the communities that are expected to be impacted by such changes and offering them opportunities to reskill will be needed to make the transition more socially acceptable.

Such transition investments are best addressed via public capital.

Over time, the government may issue green bonds of various maturities. This will help in creating a green yield curve, which in turn will help other companies raising green finance to benchmark their issu-

ances to varying maturities along the government's yield curve to suit projects of different time horizons. To encourage *jan-bhagidari* (participation of all citizens), green 'fixed deposits' can be aggregated via commercial banks.

Development of a sovereign green benchmark could eventually lead to the creation of a vibrant ecosystem of raising green bonds from international investors. Such pooling together of foreign currency capital can be done in the International Financial Service Centre (IFSC) at GIFT City.

Large pools of global capital with ESG mandates are looking for opportunities to invest in climate mitigation, adaptation, and resilience projects. India, as the fastest growing economy with stable macroeconomic environment and a strong Net Zero commitment, is a natural destination for such capital.



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Views expressed are personal