

Green Bond: Things You Must Know



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Introduction

A green bond is a debt instrument issued by an entity like any other bond (with subtle differences) to raise funds from investors

About Green Bonds

- Initially, green bonds were issued by World Bank, multilateral organizations and few nations from 2007
- Green bonds are pioneered by development banks in few nations
- Green bonds is a niche product till 2012
- Green bonds are focused to Environment, Social and Governance (ESG) projects
- There is the double scope of environment benefit and development in green bonds

- Green bond concept is open to corporate from 2016 in India
- It is a new concept with regulations and guidelines still in the initial stages

Nodal Agency

- Securities and Exchange Board of India (SEBI) is the nodal agency
- SEBI released the green bond concept paper on December 2015
- SEBI frames the guidelines regarding issuance of green bonds

Difference between Regular bond and Green bond

- Green bond is issued to finance only green projects
- Green bond issuer explicitly states that the fund raised will be used for environmental benefit activities like renewable energy, solar projects etc
- Green bonds are being used based on market practices
- Issuer can price Green bonds at a far better rate than the regular bonds due to the environmental benefit feature

Benefits of Green bonds

- Green bonds help to increase the reputation of the issuer
- Issuer will get positive publicity
- Green bonds develop a commitment among the corporate about sustainability and development of the environment
- Green bonds will give an international experience
- Positive public relations will be enhanced
- New set of investors will come in to the fray with the introduction of green bonds
- Issuer can get access to a diversified set of investors other than business oriented clients or investors
- Issuer will get a pricing advantage in case of green bonds
- The current scenario of global warming and climate change will attract global investors to invest in green bonds in large numbers
- The cost of funding for the green projects will be lowered with the expected increasing number of investors in the green bonds

Conclusion

- Green bonds is relatively a new concept to Indian market
- SEBI must frame guidelines for issuing green bonds to prevent the misuse of funds raised through green bonds
- SEBI must establish a monitoring mechanism to check the usage of the green bonds
- World nations are responding in a positive manner to the climate change scenario with the signing of the Conference of Parties (COP) in Rio by majority of the nations
- GOI has placed special emphasis on renewable energy projects especially on solar power generation making it conducive for green projects
- The reception of green bonds in India is on the positive side
- Overall, Green projects and green bonds offer huge opportunities in future for corporate for the overall development of the nation and the world as a whole

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