Green Bonds [UPSC Notes]

Recently, the Securities and Exchange Board of India (SEBI) came out with a circular outlining the criteria that issuers of green debt securities should follow to avoid greenwashing. Know more about **Green Bonds and concerns over Greenwashing** for the IAS exam.

What are Green Bonds?

- According to SEBI, green debt security is one that is issued with the intention of raising money for causes like sustainable development or increased energy efficiency.
- To support "green" projects, which often include those linked to renewable energy, pollution reductions, and other such initiatives, green bonds proclaim the reason for raising funds.
- Since they are linked to the insurer rather than the projects' successful completion, green bonds often have lower interest rates than the loans provided by commercial banks and are also less risky.
- Owing to the aforementioned, businesses attempt to collect money under the guise of green bonds and do so by engaging in greenwashing.
- Green bonds are debt instruments similar to normal bonds and the capital raised from green bonds is invested in projects that will have a positive effect on climate and environment.
- Green bonds can be issued by governments and private companies such as multinational corporations.
- While capital raised from normal bonds can be used to fund any projects, the capital raised through green bonds must be earmarked for green projects only.
- When issuing green bonds the issuers must provide information about a project which needs green financing and the overall environmental benefits that arise from it.
- The Indian government also issued sovereign green bonds as a part of its borrowing programme. The framework for the sovereign green bond was issued by the government in November 2022.
    - The government will use the proceeds from sovereign green bonds to finance or refinance green projects such as renewable energy, clean transportation, energy efficiency, climate change adaptation, sustainable water and waste management, pollution and prevention control and green buildings.

Green Bonds Latest News

Government-owned PSU REC Limited, which is a Maharatna power finance company, has exclusively listed its green bonds in GIFT IFSC stock exchanges in Gandhinagar (Gujarat).

- Green bonds issued by REC are worth $750 million and it is raised under its $7-billion global medium-term programme.

- The green bonds issued by REC are the first issuance of green bonds by an Indian company after India took over the presidency of G20 and is also the largest USD tranche issued by an Indian non-banking financial company (NBFC).

Benefits of Green Bonds

- Green bonds and green finance will make it unattractive or disincentivise high carbon-emitting projects and also influence the business community to engage in good practices.
- Green bonds also act as a hedge against risk emerging from environmental deterioration and climate change risks while also offering a return on investments.
- Sovereign green bonds also help India to raise funds for taking measures to adapt and tackle challenges emerging from climate change and also reach targets set in Intended Nationally Determined Contributions (INDC).

What is Greenwashing?

- Falsely representing that a company's goods, services, or business practices are more environmentally friendly than they actually are is known as "greenwashing."
- By "greenwashing," businesses deceive market participants who purchase these securities or bonds.
- Additionally, it influences or misleads environmentally conscious consumers in their purchasing decisions.

SEBI guidelines to tackle the issue:

- An issuer of green bonds is not permitted to showcase advantageous green activities while hiding unfavourable ones by using misleading labelling, hiding trade-offs, or selective facts from research.
- Also, it urged issuers to keep a close eye on the shift to a more sustainable mode of operation.
- The circular also stated that issuers of green debt securities must make sure that money collected through green bonds isn't utilized for things that wouldn't qualify as "green debt securities" under the non-convertible securities (NCS) regulations.
- The issuer must adhere to the grade given to the green debt product while upholding the highest requirements related to its issuance.
- The harmful externalities connected to using the money produced through green debt securities will be quantified.
- It is prohibited to make misleading representations that give the appearance of certification by a third party.

Conclusion: Green bonds opened the opportunity for financing the sustainable project. However, it has also become a dual-edged sword as being misused as Greenwashing. So, regulatory bodies need to be aware of such practices and should take proactive actions.