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Green Bonds: A Financial Mechanism for Sustainable Future

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Abstract

The introduction of Green Bonds has changed the landscape of investment in green projects. Green Bonds are similar to the conventional debt securities but with specific purpose to utilize the proceed for Green Projects and other sustainable project mitigating the climate risk. The Government in India along with other financial institutions have taken measure to increase the investments in Green Projects via Green Bonds. The study review the existing literature available to emphasize on green bond market growth, future prospects and its limiting factors. The study based on its findings suggests effective. Government participation, active role of Commercial banks to motivate domestic investors to invest in green bonds, better standardize with ease regulation for trading in Green Bond market.

Keywords: Green Bonds, Green Projects, Climate Risk, Bond Market.

1. Introduction

To promote the sustainability in the business, and to adopt eco-friendly financing techniques, the development of Green Bonds as a financial intermediary, are the earmarked for environmentally friendly projects (Ng, 2018). It is the powerful mechanism for sustainable

financial lending. Green Bonds provide avenue for investing and supporting projects in the category of renewable energy, infrastructure, energy efficiency initiatives, green buildings, and clean transportation system.

Green bonds are a financial instrument that channels funds from different sectors towards environmentally friendly projects, assets, and initiatives. These bonds are issued by government, financial institutions, or corporations for implementing environmentally friendly practices. Green bonds attract a specific segment of investors profoundly called as ESG investors who prioritize their investment in Environmental-Social- Governance outbound results.

Green bonds, are the debt securities similar to the conventional bonds with fixed return and fixed tenure, issued to finance a project that have positive environmental benefits, and investments in Green Bonds is aligned with sustainable development measures and COP under climate control actions of UN. Depending the need of the projects, there are different categories of Green Bonds available in the Bond market which are freely tradeable.

2. Research Methodology

The study is exploratory in nature and adopted Secondary research approach to collect the facts for the study. Various research papers, books, websites and blogs about the concern topic has been considered.

3. Review of Literature

Bonds can be used to finance or refinance a variety of projects and activities, such as infrastructure, power plants or maintaining ongoing operations (Weber & Feltmate, 2016). A green bond is a debt security issued by a government entity, a multilateral institution, or a

corporation to raise capital from investors for a project that contributes to a low-carbon, climate-resilient economy (Inderst et al., 2012). Green bonds are fixed-income instruments with proceeds earmarked exclusively for new and existing projects that have environmental benefits (Syzdykov & Masse, 2019). They not only encompass financial obligations but also incorporate environmental benefits claimed by the green bond issuer (Bartels et al., 2016). Given the ESG shortfalls and other considerable factors, investors are offered a reasonable way to positively support sustainability while investing in a relatively low risk / low yield instrument (Kidney et al., 2012).



Figure.1. Mechanism of Green Bonds for funding Sustainable projects

4. Growth of Green Bond Market in India

In India Green market have gain substantial recognition by channelizing the capital towards green projects, besides funding the sustainable projects, Green Bond market has also contributed towards job creation, technological innovation, and infrastructure development. Green bonds encourage Public-Private-Partnerships (PPPs) giving ample of opportunities in the Indian Economy, for green initiatives. In recent years, India is trying to reduce its carbon footprints and for this Green Bonds plays a crucial role in deploying funds in such projects.

In 2015, the Indian Government launched the Green Bond scheme, which provide tax benefits and other incentives for the issuers as well as for the purchasers. Green Bonds Fund is set up by the Government of India, providing the grants for green infrastructure projects. Commercial banks in India have launched many long-term deposits similar to Green Bonds in order to make Green Bonds and similar investments friendly to common people of the country and attracting their interest towards green financing avenues.

5. Opportunities aligned with the issuance of Green Bonds

5.1. Environmental Impact

Green bonds channelize the funds towards those projects which hold significant value for the environment, i.e. those projects are funded which protect and mitigate the climate change risk and facilitating low-carbon emission. The bond also secure funding for critical projects like water conservation and resilience. (Green Bond Framework, 2017).

5.2. ESG investments

Issue of Green Bonds, issuers can attract and engage ESG investors who prioritize their investments have positive environmental, social and governance outcomes. Green Bonds serves as the sword to such Environment protector warriors. Green bonds proved to be socially sponsored investments.

5.3. Financial Performance

The corporates that fund their sustainable projects by green bonds improves its positioning in the market in terms of perceived value. The green funding improves the performance of companies, provide tax benefits and contribute to value creations. Many studies suggested

that, the firm that have optimistic behavior towards environment and allied process, increase their value of the firm and reaps better benefits in the economy.

6. Challenges implicit in Green Bonds

6.1. Standardization and Transparency

The cost of acquiring information for issuing Green Bonds and the requirement to meet the norms of issue, deter the participants from entering in Green Bond Markets. Further there is an ambiguity in green bond standards (Ehlers & Packer, 2017). High transactional cost deters firms to issue green bonds. The buyers of the bonds lack information about the investment plan of the issuers. Greenwashing is a serious issue in green bond market.

6.2. Market liquidity

The invested capital in Green Bond remains inaccessible for the buyers, and it lacks liquidity and leads to complexity in trading of Green Bonds on secondary market. This discourages investors as they already losing their opportunity cost in getting less return as compared to other bonds and again non trading totally deter them to invest.

6.3. Regulatory Environment

There is information gap for green bonds in the market on account of issuer to issue and purchaser to invest. Market lacks technical expertise and access for this market (Casrillrjos et al., 2018). There are not sufficient supplementary schemes to promote green bonds and other green finance tools for financing green projects.

7. Suggestion and Recommendation

Business has the bearing on Environment and Environment has the bearing on Business, for the sustainability of both, it is important to understand and mitigate the negative impact of business operations as well as human intervene in the environmental degradation, and climate change, thus Green Bonds have emerged as powerful financial mechanism to mobilize the capital towards sustainable and green projects and offers better solution for Planet and economy in long run.

India is the fastest growing economies in the world, with largest growing population; both together can lead to exploiting the natural resources and pose threat to climate, for this, environmentally sustainable projects are crucial and green bonds creates a conducive environment for financing such environmentally friendly projects. Government should promote such green finance initiatives amidst Green Bonds has potentials to mobilize the funds from surplus to energy efficient projects. More efficient and transparent platform should be made for easy trading of green bonds in the Bond market. Transparency, active participations of domestic investors, building codes and endorsing Green Bonds and supplementary schemes can promote the mobilization of green bonds in India.

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