VI. INDIA'S NEW FRAMEWORK ON SOVEREIGN GREEN BONDS: A HIT-AND-MISS?

- Akshata Modi*

ABSTRACT

The Indian Government recently released a set framework for the issuance and management of sovereign green bonds in order to encourage sustainable finance and environmental protection within the country. These guidelines provide a mechanism for the government to issue green bonds, and are expected to increase investment in environmentally-friendly infrastructure while attempting to offer to investors a trustworthy option for investing in eco-friendly projects. While the framework has the potential to promote investment in environmentally responsible projects and improve transparency in green financing, there are also several loopholes that may impede the success of the system. this article argues that there are loopholes in this framework which may impede its functioning and development of investor trust into the system. the author highlights these loopholes and assesses the potential of these bonds in India, by analysing (a) the shortcomings in the proposed mechanism, (b) the major misses of the framework, which discusses some of the specific areas where the framework failed to deliver, and (c) the potential which India's green bond market carries. Overall, the author has attempted to provide a practical analysis of the framework and its potential for promoting sustainable finance in India.

* The authors is a third-year students of B.A. LL.B. at Gujarat National Law University, Gandhinagar. Views stated in this paper are personal.

I. INTRODUCTION

The Government has released a framework on Sovereign Green Bonds ("**SGBs**") to promote sustainable finance and environmental protection in the country ("**Framework**").[1] SGBs are debt instruments issued by the central or state government to borrow money from investors with the assurance that the mobilised funds are being spent on eco-friendly activities.[2] The Framework outlines the procedures and guidelines for issuance of the green bonds by the Government of India. It addresses various aspects of issuance and management of the funds, ranging from the eligibility criteria for the projects to the reporting and disclosure requirements, and the role of certifying agencies. The Framework is expected to boost investment in the country's green infrastructure, while also providing a transparent and reliable investment option for investors who are interested in environmentally responsible investments.

On the face of it, the establishment of this mechanism appears to be a positive step towards a more sustainable and eco-friendly future in India and is expected to encourage private investment in sustainable projects. However, there seem to be shortfalls in the Framework which may impede its functioning and the development of investor trust in the system. Through this article, the author aims to highlight these limitations and assess the potential of the market in India.

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[1] Government of India, '*Framework of the Sovereign Green Bonds'*, Ministry of Finance, Department of Economic Affairs, Economic Division (16 February 2022) <https://dea.gov.in/sites/default/files/Framework%20of%20Sovereign%20Green%20Bonds%20%28Feb%202022%29.pdf> accessed 20 February 2023.

[2] Ministry of Finance, Government of India, '*Sovereign Gold Bond Scheme - Operational Guidelines'*, (2017) <https://www.financialexpress.com/wp-content/uploads/2015/11/Sovereign-Gold-Bond-Scheme-2015-Operational-Guidelines.pdf> accessed 1 March 2023.

II. OVERVIEW OF THE FRAMEWORK

The framework has been aligned with the International Capital Market Association ("**ICMA**") Green Bond Principles, 2021,[3] which aims to fund projects in nine categories that meet various environmental goals such as resource conservation, biodiversity conservation, climate adaptation, and mitigation. The SGBs framework is a significant step towards achieving a low-carbon and climate-resilient future. However, there is still room for improvement since some of the principles for selecting green projects in certain sectors are too vague and could increase the risk of financing projects that are not entirely green or have adverse climate-related impacts.

A notable feature of the SGBs framework is the formation of a Green Finance Working Committee (**"GFWC"**) that includes representatives from various ministries. This committee is responsible for selecting eligible green projects. Meanwhile, a Public Debt Management Cell (**"PDMC"**) will track the allocation and expenditure of the proceeds. However, the specific details of the tracking process, such as ensuring regular monitoring, transparent reporting, and disclosure of verifiable information across different departments, are yet to be determined.

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[3] International Capital Market Association, 'Green Bond Principles: Voluntary Process Guidelines for Issuing Green Bonds', (2021) <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/> accessed 1 March 2023.

III. LIMITATIONS OF THE PROPOSED STRUCTURE

While the Framework is a commendable initiative, it does not come without limitations. Some of the drawbacks found in the Framework have been identified by the author as under:

- Lack of standardization

The framework does not provide clear definitions for what qualifies as a green project, which could lead to confusion and potential misuse of funds. There is no uniform standard for what constitutes a green bond in India, thereby potentially leading to inconsistencies and a lack of trust in the market.

- No independent verification and disclosure requirements

The framework does not require independent verification of the environmental benefits of the projects funded by green bonds. This means that there is no way to ensure that the projects are effectively delivering the promised environmental benefits. Further, there is also no mandate requiring issuers to disclose information about the projects being funded, hence, making it difficult for investors to make informed decisions.

- Lack of regulatory enforcement

On the surface, it seems that there may be a lack of a proper enforcement mechanism for ensuring that the funds raised through green bonds are indeed used for environmentally friendly projects. Moreover, the framework does not provide for independent third-party audits of the project selection process, management of proceeds, and reporting on allocation and impact of the allocated proceeds.

- No penalty for non-compliance

The framework does not include penalties for non-compliance with the green bond requirements, which may reduce the effectiveness of the framework.

- The limited scope of applicability

The applicability of the framework is restricted to government-issued green bonds, and the need for having a similar structure in place for private-sector green bonds has been overlooked by the system.

The author considers these to be some of the potential shortfalls in the Framework. The government and relevant stakeholders must address these issues to make the framework more effective and successful in promoting sustainable finance and environmental protection.

IV. MAJOR MISSES OF THE FRAMEWORK

The Framework has been criticized for some major lapses. It has been scrutinized for its lack of clarity and vagueness in selection criteria, which has led to concerns about the credibility of green bond issuances in the country. Additionally, there are concerns about the use of unallocated funds and the funding expansion of CNG infrastructure and other bio-energy projects, which could have negative environmental impacts. These concerns, coupled with the uncertainty in regulation, competition from other investment options, political and economic uncertainty, and the likelihood of being rupee-dominated, have raised questions about the future of the Indian green bond market. In this context, it is crucial to explore strategies to address these issues and identify a way forward for the Indian green bond market.

A. Vagueness in selection criteria and lack of quantified thresholds

The project categories have been defined very broadly by the framework, which creates uncertainty about the type of expenditures that can be financed and the broader climate risks associated with the expenditures. The project categories of the framework lack quantified thresholds and specific climate resilience screening criteria which will be used in the selection of green projects under the framework.

Moreover, the framework's project categories lack quantified thresholds.[4] Among other misses, there is no threshold established for energy efficiency improvements, no minimum certification standard required for green buildings and it has also not been defined what an energy and emissions-efficient waste-to-energy plant would constitute.

B. Lack of clarity regarding the use of unallocated funds

The framework provides guidelines for the issuance of SGB, but it is important for the issuing authority to provide clear and transparent information about the allocation and use of funds raised through the sale of these bonds. If the information provided is unclear or incomplete, it may lead to uncertainty and reduced demand for the bonds. The structure should ideally set up a mechanism mapping out how unallocated funds will be utilized. However, there seems to be a lack of clarity regarding the use of unallocated funds and whether the funds would refinance existing projects.

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[4] Department of Economic Affairs, Ministry of Finance, Government of India, '*Second Opinion - CICERO GREEN: India'*, (2018) <https://dea.gov.in/sites/default/files/Second%20Opinion%20CICERO%20GREEN_India_Final.pdf> accessed 1 March 2023.

The government needs to provide clear and transparent information on the allocation and use of funds raised through the sale of SGB. This can help to increase the confidence of investors and support the development of the green bond market in India. Additionally, regular reporting on the use of funds and the progress of green projects can help to enhance transparency and accountability in the use of the funds raised.

C. Funding expansion of CNG infrastructure and other bio-energy projects

Compressed natural gas ("**CNG**") is a fossil fuel, which may not be considered 'green' by most. One of the major misses of the Framework is the consideration of funding the expansion of CNG infrastructure, which puts into risk the Framework's credibility. Funding the expansion of CNG infrastructure may not be the best use of green bond funds, as CNG is still a fossil fuel and does contribute to greenhouse gas emissions. There are also concerns regarding the framework supporting expenditures related to biofuels, bioenergy plants, and solid biomass with inherently wider climate risks.[5]

As per the Framework, the expenditures envisaged to be funded may also be associated with wider climate risks and impacts that the selection process does not address. The inclusion of funding for the expansion of CNG infrastructure is a policy choice made by the government and relevant stakeholders. However, SGBs should have preferably been utilised for

[5] ibid.

projects that have a greater positive impact on the environment, such as renewable energy projects

D. Poor rating in some categories

The Framework has been reviewed externally by a second-party opinion (**"SPO"**) provider, CICERO, which has categorised the Framework as 'medium green', raising several questions. As per its *'Shades of Green'* method of categorisation, CICERO assigns the classification of 'medium green' to projects and solutions which indicate a significant step towards long-term objectives but need improvement.

In its evaluation, CICERO has categorised energy efficiency, renewable energy, clean transportation, and adaptation categories as dark or medium-to-dark green. However, categories like waste management and sustainable water, pollution prevention and control, and others have received light or light to medium green, which represents transition activities that do not lock in emissions.[6] Moreover, CICERO has also brought into light several pitfalls of the Framework which highlight some of the reasoned concerns that critics of the Framework hold as well.

E. Limited potential for off-shore investing

The potential for offshore investment in SGBs may be limited. These factors identified by the author demonstrate the rationale behind the same:

- Uncertainty in regulation

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[6] ibid.

Offshore investors may be apprehensive about investing in green bonds issued by the Indian government due to uncertainty in regulations and a lack of clarity around the framework, which further diminishes the potential for offshore investment.

- Competition from other investment options

There may be more attractive investment options available for offshore investors, such as bonds issued by other governments, stocks, and other fixed-income securities. This could limit the demand for India's green bonds by offshore investors.

- Political and economic uncertainty

The political and economic instability in India may discourage offshore investors from investing in the country's green bonds. The government's ability to attract foreign investment will also be affected by this uncertainty.

- Likelihood of being rupee-dominated

It may be difficult to attract offshore investors to invest in SGBs because, in all probability, SGBs will be rupee-denominated. The Indian government has, however, taken certain measures to make it easier for offshore investors to invest in SGBs. One of the measures taken by the government is to allow foreign investors to buy SGBs through the fully automated bidding process on the National Stock Exchange of India (**"NSE"**) and the Bombay Stock Exchange (**"BSE"**).[7] This may make it easier for foreign investors to participate in the bidding process and invest in SGBs.

These factors indicate how the potential for offshore investment in SGBs may be limited. However, it is important to note that the green bond market in India is still in its early stages of development and with time, increased awareness, and improved market conditions, offshore investment prospects may improve.

F. Challenging to get a favourable outcome

In all likelihood, SGBs would be rupee-denominated and be issued in onshore markets, which could pose a challenge in obtaining a favourable premium. This is because investors who are aligned with environmental, social, and governance (**"ESG"**) principles and are willing to pay a premium for sustainable bond instruments are primarily from developed markets. Indian investors, however, have yet to distinguish the pricing difference between a green bond and a regular rupee bond making it challenging to get a favourable premium. This is because most environmental, social and governance (**"ESG"**) aligned investors are ready to pay a premium for sustainable bond instruments from developed markets. Indian investors are yet to differentiate pricing between a green bond and the normal rupee bond.

The limited market size and the absence of a uniform standard may make it difficult for SGBs to achieve a favourable premium. Additionally, investors may have other investment options offering higher returns and greater security, which could reduce demand for green bonds, further making

[7] National Stock Exchange of India, '*Sovereign Gold Bond (SGB)*', n.d. https://www.nseindia.com/products-services/about-sgb accessed 20 February 2023.

it tough to get a favourable premium. The green bond market in India is still in its early stages of development, and with time and increased awareness, it is possible that the demand for green bonds will increase and the challenges to getting a favourable premium will reduce.

G. Concerns of greenwashing

While the government has prescribed, however vaguely, the reporting on the allocation of funds and the environmental impact of projects funded by SGBs, there is no clear guidance on how this reporting will be done, what metrics will be used, or how frequently it will be done. This lack of transparency could make it difficult for investors to assess whether the projects funded by SGBs are truly green and raises concerns about greenwashing.[8] Moreover, there is a risk that SGBs could be used to finance projects that are only marginally green or those which do not have a significant impact on the environment. While the framework requires that projects funded by SGBs have a positive environmental impact, it is not clear how this impact will be measured or verified. This could potentially allow for projects which have only a small environmental impact to be classified as green projects, leading to accusations of greenwashing.

The concerns about greenwashing greatly impact the credibility of India's SGB market. Greenwashing could potentially undermine investor confidence in the SGB market and make it more difficult for governments to raise funds through SGBs in the future. This could have negative

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[8] Centre for Financial Accountability, *'Greenwashing in the Indian Finance* Sector' (report, Centre for Financial Accountability, 2021) <https://www.cenfa.org/publications/reports-and-briefings/greenwashing-in-the-indian-finance-sector/> accessed 18 April 2023.

consequences for the environment if it reduces the availability of funding for genuine green projects.

V. ASSESSING THE POTENTIAL OF THE SGBS MARKET IN INDIA

Apart from helping a country to finance its commitments made under the Paris Agreement, SGBs also serve as market indicators of a nation's dedication towards transitioning to sustainable energy.[9] Sovereign guarantees offer investors protection from the credit risk or possibility of default by the issuer and offer greater transparency when compared to private issuances that are similar in nature. If a government issues an SGB, especially when it is the first one, the overall standard of green issuance across the nation improves, as per the Bank for International Settlements.[10]

A. Performance of SGBs in Other Economies

Sovereign green bonds have been issued by several countries around the world to finance climate and environmental-friendly projects. In 2016, Poland became the first country to issue a sovereign green bond raising € 750 million to finance renewable energy projects. Their market has grown fast, with 11 issuers raising a total of USD 78 billion in 2021 alone.[11] France too

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[9] Shailaja Rathi, '*Sovereign Green Bonds: A Path to Financing the Energy Transition and Addressing Climate Change*', (2021) 12 Journal of Energy and Natural Resources Law 431, 432.

[10] Bank for International Settlements, '*The Green Bond Market: Developments in 2020*', BIS Quarterly Review (March 2021) 25, 26 <https://www.bis.org/publ/qtrpdf/r_qt2103e.htm> accessed 24 February 2023.

[11] Benchmark Mineral Intelligence, '*The Global Green Bond Market: An Overview'*, (3 February 2022) https://www.benchmarkminerals.com/the-global-green-bond-market-an-overview/ accessed 24 February 2023.

issued the first of its SGBs in 2017, raising € 7 billion.[12] The bond was oversubscribed, indicating a high level of investor interest. Fiji's issuance of the bond in 2017 created the first-ever issuance by a developing country, and it was oversubscribed, raising USD 50 million.[13]

While there have been some success stories, there have also been failures and challenges in the issuance and implementation of these bonds. China has issued several green bonds, but there have been concerns about the lack of transparency and verification of the projects being financed. In some cases, funds raised from green bonds have been used to finance projects that have questionable environmental benefits.[14] In Indonesia, the issuance of green sukuk (an Islamic bond) in 2018 to finance sustainable development projects, failed to attract a significant level of investor interest. Investors were hesitant to invest in the bond due to concerns about the lack of transparency and governance in Indonesia.[15]

Overall, the success of sovereign green bonds depends on several factors, including the level of investor interest, the transparency and

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[12] UNEP Inquiry, '*Sovereign Green Bonds: A Catalyst for a Sustainable Bond Marke*t', (April 2018) 16 https://unepinquiry.org/wp-content/uploads/2018/04/Sovereign-Green-Bonds-A-Catalyst-for-a-Sustainable-Bond-Market-Full-Report.pdf accessed 24 February 2023.

[13] International Finance Corporation, '*Sovereign Green Bonds and* Infrastructure', (2019) 19 https://www.ifc.org/wps/wcm/connect/4629c31b-6f47-4ce7-85fa-75e70339ab99/2019+SGIS+report_Final+MAY+2019.pdf?MOD=AJPERES&CVID=ng1woDU accessed 24 February 2023.

[14] Yi Zhang and Wei Li, '*Green Bonds in China: Characteristics, Issues and Prospects'*, (2020) 19 Journal of Cleaner Production 355 <https://www.sciencedirect.com/science/article/pii/S0959652620310785> accessed 24 February 2023.

[15] Dini Siti Anggraeni, 'Green Sukuk and Green Bond: A Comparative Analysis for Indonesia', (2021) 6(1) Journal of Islamic Monetary Economics and Finance 103 https://www.researchgate.net/publication/350753505_Green_Sukuk_and_Green_Bond_A_Comparative_Analysis_for_Indonesia accessed 24 February 2023.

verification of the projects being financed, and the alignment with international standards for green bonds.

B. Current Landscape of Green Bond Issuance in India

Yes Bank issued the country's first green bond in 2015 to finance clean energy and renewable energy projects, particularly those involving wind and solar power.[16] Since then, the market for green bonds in India has expanded to encompass a range of government agencies, businesses, state-owned banks and financial institutions, and the banking industry. In its 2017 "Brown to Green" Report, Climate Transparency compared the issuance of green bonds across the G20 nations as a percentage of each nation's total debt market.[17] India is ranked fifth among the G20 nations in their estimation.[18] This demonstrates the potential for the country to create and expand green bonds as a tool to hasten the adoption of green technologies.

The issuance of green bonds will foster India's commitment towards its Nationally Determined Contributions (**"NDC"**) targets and build credibility in the global green finance ecosystem.[19] However, to fully realize the potential of the sovereign green bonds market in India, there is a need for greater transparency and standardization in the green bond market, as well as

[16] CSE (Centre for Science and Environment), '*Yes Bank issues India's first green infrastructure bond to finance clean energy projects*' (2015) <https://www.downtoearth.org.in/news/yes-bank-issues-india-s-first-green-infrastructure-bond-to-finance-clean-energy-projects-50491> accessed 30 March 2023.

[17] Climate Transparency, '*Brown to Green Report 2017: G20 climate performance of the world's largest economies*' (2017) <https://www.climate-transparency.org/wp-content/uploads/2017/11/Brown-to-Green-Report-2017.pdf> accessed 30 March 2023.

[18] ibid.

[19] Prateek Garg and Ritika Verma, '*Sovereign Green Bonds in India: The Way Forward*', (2021) 20(1) Journal of Sustainable Finance and Investment 37 <https://www.tandfonline.com/doi/full/10.1080/20430795.2020.1860339> accessed 24 February 2023.

increased awareness among investors about the environmental and social benefits of sustainable investments.

The Government went ahead with the first issuance of SGBs on January 25, 2023, whereby the Ministry of Finance priced INR 80 billion (USD 1 billion two-tranche deal split equally between five and ten-year tenors).[20] The deal was oversubscribed by more than four times, enabling primary market spread compression of two basis points on the 10-year tranche, and three basis points on the 5-year tranche. Both the tranches were priced inside the yield curve, thereby obtaining a *greenium*, i.e., cheaper financing costs. The five-year bond was allocated to 32 investors and the 10-year bond was allocated to 57 investors.[21] On February 9, 2023, each tranche was opened again for INR 40 billion (USD 500 million), increasing India's total green liabilities to INR 160 billion (USD 2 billion).[22] Since the bonds remained inside the yield curve in this round of funding too, the ministry achieved cheaper financing again.

C. Way forward for the Indian Green Bonds Market

According to a study conducted by the Council for Energy, Environment and Water (**"CEEW"**), India needs USD 10 trillion worth of investments to reach its "net zero by 2070" goal. Sovereign green bonds may

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[20] Climate Bonds Initiative, '*India's Debut Sovereign Green Bond Market: First Deal Landed With Greenium*', (23 February 2023) <https://www.climatebonds.net/2023/03/india%E2%80%99s-debut-sovereign-green-bond-market-first-deal-landed-greenium> accessed 5 March 2023.

[21] *Ibid*.

[22] Press Trust of India, '*India Raises Rs 40,000 Cr through Third Tranche of Sovereign Green Bond Sale*' (9 February 2023) <https://www.india.com/business/india-raises-rs-40000-cr-through-third-tranche-of-sovereign-green-bond-sale-5088251/> accessed 1 March 2023.

prove to be an effective policy tool for tackling the funding difficulties associated with the low-carbon transition and promoting green growth, the two priorities outlined in Budget FY24.[23]

While the Framework by the government provides a strong foundation for the growth of the Indian green bond market, there is still significant scope for further growth. By taking targeted actions to increase awareness, streamline issuance, develop a green projects pipeline, expand the investor base, standardize reporting, and encourage secondary market trading, the Indian green bond market can effectively contribute to India's sustainable development goals.

- Incentivizing issuers and investors of green bonds

For the same, the government should provide incentives to issuers and investors of green bonds. For issuers, this could include tax exemptions, lower borrowing costs, or other financial incentives. For investors, this could include tax credits, lower transaction costs, or other financial incentives. Such incentives would encourage issuers and investors to participate in the green bond market and would help to build momentum for the market.

- Increasing awareness and expanding the investor base

The government should also promote awareness of the benefits of green bonds among the general public. This could include public education campaigns, conferences, and workshops. Such initiatives would help to build a broader understanding of the importance of sustainable finance and

[23] Arjun Dutt and Gagan Sidhu, '*An Impetus to Green Growth*' (Financial Express, 7 July 2021) https://www.financialexpress.com/opinion/an-impetus-to-green-growth/2974538/ accessed 27 February 2023.

environmental protection, which would in turn create more demand for green bonds.

- Standardizing reporting requirement

The government should work closely with the certifying agencies to ensure the integrity and transparency of the green bond market. This could include monitoring the certification process, ensuring that the certification standards are rigorous and consistent, and ensuring that the certifying agencies are independent and free from conflicts of interest. Standardized reporting on the use of proceeds, project selection, and impact reporting should be mandated. The government should consider adopting the guidelines outlined in ICMA's Green Bond Principles and Sustainability Bond Guidelines to ensure consistency and comparability of reporting across issuers.

- Addressing greenwashing concerns through external certification and penalisation

The government should consider obtaining certification from recognized global organizations such as the Climate Bond Initiative (**"CBI"**)[24] to verify that its green bond framework and projects financed meet international standards. This will increase investor confidence and reduce the risk of greenwashing. There should also be established an ongoing monitoring and reporting system to track the performance of the projects financed by the SGBs. The system should be subject to external audit and should be designed

[24] Climate Bonds Initiative, '*Certification*', accessed April 18, 2023, <https://www.climatebonds.net/certification>.

to ensure that the projects financed are delivering the expected environmental benefits.

The Securities and Exchange Board of India (**"SEBI"**) requires companies to disclose their environmental impact and imposes penalties for misleading investors through greenwashing. Similar measures to the SGB framework ensure that SGB-funded projects are genuinely green and that investors are not misled by false claims of environmental benefits.

- Recommendations regarding external audits

The framework provides for "post-issuance external verification", however, the particulars of the same remain to be vague. Hence, a criterion should be established for the selection of external agencies and it should be mandated for them to have the necessary expertise to accurately assess the environmental impact of projects. External agencies may also be made to report their findings directly to investors and make this information publicly available, which could help to increase transparency and reduce the risk of greenwashing.

- Leveraging the potential of the International Financial Services Centre

Here, the International Financial Services Centre ("**IFSC**") has immense potential to play a significant role in the issuance and trading of green bonds. As a global financial centre, the IFSC can attract international investors and issuers to finance green projects in India. The IFSC can provide a competitive platform for green bond issuers, as it offers various tax incentives and regulatory exemptions and catalyses the process of tapping into the growing demand for green investments worldwide.

D. IFSC: A Gateway to the Global Green Bond Market

According to a report by the Climate Bonds Initiative, the global green bond market reached $257.7 billion in 2019, and it is expected to continue to grow in the coming years.[25] By leveraging the IFSC's capabilities, India can become a major player in the green bond market. The way ahead for India is to create a conducive environment for green investments. The Indian government has taken several initiatives to promote green investments, such as the National Action Plan on Climate Change and the Green Energy Corridor Project. However, more needs to be done to create a robust ecosystem for green investments. This includes strengthening the regulatory framework, creating awareness among investors, and developing innovative financial instruments to finance green projects.

- Building a favourable regulatory and tax-efficient climate for SGBs

IFSC provides a favourable regulatory environment, it has a separate regulatory regime that is designed to attract foreign investors and offer them a more business-friendly environment. The regulatory framework is designed to promote transparency, investor protection, and market integrity, which can enhance the credibility of green bonds issued through the IFSC.

Another benefit of leveraging the IFSC system is that of tax incentivisation. The IFSC provides various tax benefits such as a lower tax rate, tax holidays, and exemptions from certain taxes.[26] These incentives can

[25] Climate Bonds Initiative, '*Green Bond Market Summary 2019*' (2020) https://www.climatebonds.net/resources/reports/green-bonds-market-summary-2019 accessed 30 March 2023.

[26] GIFT Gujarat, '*Tax Incentives*' https://www.giftgujarat.in/business/ifsc?tab=Tax%20Incentives accessed 18 April 2023.

make it more attractive for investors to invest in green bonds issued through the IFSC. Moreover, the IFSC can provide access to a wide range of investors, including institutional investors, private equity firms, and high-net-worth individuals. These investors may be more willing to invest in green projects and green bonds issued through the IFSC, as they are increasingly interested in sustainable finance.

- Creating a conducive environment for green investments

In October 2022, the International Financial Services Centres Authority ("**IFSCA**") established a committee of specialists on sustainable finance, and a few among its proposals were, new sustainable finance products, enabling derisking techniques, and sustainable green products.[27] The group was looking into methods to improve capital flows through IFSC and aid in the creation of novel financial products for the green and sustainable finance sectors. By issuing sovereign green bonds via IFSC, the market for green bonds would be increasingly validated, leading to stronger offers, bigger order books, more price leverage, and a more reputable investor base.[28]

- Setting up of Sovereign Masala Green Bonds at GIFT IFSC

In addition, to increase the investor pool for India's sustainability transition without assuming currency risk, the Ministry of Finance should take into account allowing sovereign masala bond issuances to be listed at IFSC. Using sovereign green bonds to raise money at a cheap cost can be quite successful. The greenium, or pricing advantage, that several sovereign green,

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[27] SME Futures, '*Issuance of sovereign green bonds via IFSC, experts suggest*' (14 September 2021) https://smefutures.com/issuance-of-sovereign-green-bonds-via-ifsc-experts-suggest/ accessed 30 March 2023.

[28] Mayank Mishra, "*India's green bond market needs to take off to meet ambitious renewable energy targets*," The Financial Express (30 August 2021) <https://www.financialexpress.com/opinion/indias-green-bond-market-needs-to-take-off-to-meet-ambitious-renewable-energy-targets/2318119/> accessed 30 March 2023.

social, and sustainability (**"GSS"**) issuances worldwide command serves as proof of this.[29] Additionally, it may also be beneficial for the government to explore the option of issuing sovereign masala green bonds through GIFT IFSC as an alternative avenue.

By leveraging the IFSC's capabilities, India can attract international investors and issuers to finance sustainable infrastructure projects. However, creating a conducive environment for green investments requires a multi-stakeholder approach, and the government, regulators, investors, and financial institutions need to work together to achieve this goal.

VI. CONCLUSION

The SGBs mechanism set up by the Government has several limitations and shortfalls which could hinder its effectiveness. The mechanism lacks standardization, disclosure requirements, and regulatory enforcement. Critics argue that green bonds may not necessarily lead to an increase in funding for green projects, but may lead to the diversion of funds from other sources, such as regular bonds or loans.[30] Additionally, there may be challenges in measuring and verifying the environmental impact of the projects funded by green bonds, which can lead to concerns around greenwashing, or exaggeration of the environmental benefits of projects.

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[29] Satyendra Jain and Jyoti Prasad Mukhopadhyay, '*Sovereign green bond issuance: perspectives from the Indian sub-continent*' (2019) 11(2) Journal of Financial Economic Policy 271, 274.

[30] R Wesselink et al, '*Sustainability and Environmental Bonds: Conceptualisations Beyond the Green Bond Label*' (2021) 8(1) Journal of Environmental Investing 9, 14.

Ultimately, the effectiveness of SGBs in promoting sustainability and mitigating climate change will depend on how well they are implemented and whether they are accompanied by other policies and initiatives that support green finance and sustainability. To improve the effectiveness of green bond investment in India, there is a need for greater clarity, standardization, and transparency in the selection process, as well as a more robust regulatory framework that ensures compliance and accountability.