GREENIUM

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Context:

Chief Economic Advisor V. Anantha Nageswaran recently said that private investors need to “walk the talk” on prioritising sustainable investments citing the low “greenium” from them on India’s sovereign green bond offerings.

Background:

Chief Economic Advisor’s statement highlights an important challenge faced by India and other countries: encouraging private investors to actively support sustainable projects.

About GREENIUM :

1. The term greenium, also known as the green premium, refers to a pricing benefit associated with green bonds.
2. The greenium represents the difference in yield between a green bond and a conventional bond issued by the same entity.
3. Green bonds typically offer lower interest rates (yields) compared to traditional government securities (like regular government bonds).
4. Investors are willing to accept these lower yields because of the appeal of sustainability. They prioritize supporting environmentally friendly projects.
5. Long-term green projects are associated with reduced physical and financial risk. Investors are willing to settle for lower returns due to this reduced risk.
6. As a result, issuers benefit from the cost savings (the greenium) on coupon payments for green bonds.

Green Bonds:

1. Green bonds are debt instruments issued by governments, corporations, or other entities to fund specific projects or activities that have positive environmental impacts.
2. These projects are categorized as “green” based on national or international green taxonomies.
3. Examples include renewable energy projects, electric buses, and energy-efficient initiatives.