

INDIA'S GREEN BOND MARKET: A PATHWAY TOWARDS SUSTAINABLE INVESTMENT

Abstract

India's green bond market is fast becoming a crucial mechanism to fund projects that protect the environment and enable the country's transition toward a low-carbon economy. Green bonds allow organizations to raise funds exclusively for eco-friendly projects, encouraging sustainable investment while delivering financial returns. This article explores the growth, structure, benefits, challenges, and future directions of India's green bond market in an easy-to-understand manner for students and beginners.

Introduction:

As India pursues economic progress, it must balance growth with environmental responsibility. Climate change, pollution, and resource scarcity demand urgent action. To finance the vast infrastructure and technology needed for clean energy, sustainable transport, and water conservation, innovative financial products have emerged. Among these, green bonds stand out as a vital tool. They enable investors to support projects with clear environmental benefits while offering predictable returns.

What Are Green Bonds?

A bond is a financial instrument where an issuer (government or company) borrows money from investors for a fixed time and pays interest. A green bond is a bond where the funds are used only for projects that contribute positively to the environment, such as solar parks, wind farms, electric vehicles, or water treatment plants.

By investing in green bonds, people and



CMA Meet Jogatar

Corporate Professional
Bhayander
cma@meetjogatar.com

institutions promote sustainability goals while also earning income. The green bond market helps channel capital into projects that reduce pollution and combat climate change.

The Emergence and Growth of Green Bonds in India:

India issued its first green bond in 2015, and since then, the market has grown rapidly. By end of 2024, cumulative green, social, and sustainability-linked bond issuance in India crossed USD 55.9 billion, with green bonds contributing 83% of this amount.

The Government of India also issued sovereign green bonds worth approximately USD 5.7 billion to create a reliable market for green debt. This domestic yield curve supports private companies seeking to raise funds for green projects.

India's targets include installing 500 GW of renewable energy by 2030 and reaching net zero emissions by 2070, driving the demand for sustainable financing.

The Indian green bond market is the fourth-largest emerging market source of green finance globally, after China, South Korea, and Chile.

Municipal green bonds are emerging, with Vadodara Municipal Corporation issuing Asia's

first certified municipal green bond valued at INR 1 billion.

By the first half of 2025 (Jan-June), green bond issuances in India's domestic market crossed approximately Rs 131.42 billion (~USD 1.6 billion) according to Renewable Watch Research.

However, several sovereign green bond auctions by RBI were cancelled in 2024 and 2025 due to lack of investor yield acceptance, highlighting pricing tensions and lack of the expected "greenium" (premium for green bonds).

Regulatory Framework Supporting Green Bonds in India:

The Securities and Exchange Board of India (SEBI) introduced guidelines in 2017 to regulate green bond issuance, ensuring transparency. Issuers must disclose how proceeds will be used and report regularly on environmental outcomes, often verified by third parties.

Other bodies like Reserve Bank of India and the International Financial Services Centre Authority (IFSCA) have implemented frameworks promoting green finance. The forthcoming Indian national climate taxonomy aims to standardize green definitions, reducing greenwashing risks.

New SEBI disclosure norms introduced in June 2025 require stricter verification and reporting for ESG-labelled debt to improve transparency and reduce greenwashing risk.

Key Players in India's Green Bond Market:

- ⦿ Issuers: Public sector units, renewable energy companies, non-banking finance companies, and private sector firms.
- ⦿ Investors: Banks, insurance companies, pension funds, mutual funds, global asset managers, and individual investors focused on environmental, social, and governance (ESG) criteria.
- ⦿ Certifiers and Auditors: Independent organizations verify that proceeds fund genuine green projects, maintaining market integrity.

Benefits of Green Bonds:

- ⦿ For Issuers: Access to a broader investor base interested in sustainability, potential cost advantages due to strong demand, and enhanced corporate reputation.
- ⦿ For Investors: Opportunities to achieve both financial returns and social impact, portfolio diversification, and alignment with global ESG trends.
- ⦿ For India: Mobilization of large-scale capital for climate-resilient infrastructure, sustainable urban development, and achievement of climate commitments.

Challenges in India's Green Bond Market:

Despite its promise, the market faces:

- ⦿ Awareness and Understanding: Many potential issuers and investors still lack clarity on green bonds.
- ⦿ Verification and Reporting Costs: Stringent standards require resources, posing barriers to smaller firms.
- ⦿ Market Depth and Liquidity: The market size is relatively smaller than traditional bonds, affecting trade volumes.
- ⦿ Definition and Taxonomy Gaps: Inconsistent understanding of 'green' leads to uncertainties.

Addressing these challenges involves educational efforts, technological innovation in impact reporting, and policy support.

Comparison with Global Green Bond Markets

The global market share of India in climate-aligned bond issuance is significant among emerging markets but represents only a small fraction of global issuance.

Advanced markets like the US and European Union have more mature frameworks and larger volumes of green bond issuance backed by robust verification and clear taxonomies.

India still lags behind in terms of market depth, liquidity, and rupee-denominated green bonds,

with a substantial share of issuance in US dollar green bonds limiting widening local investor base participation.

Challenges and Issues: Greenwashing and Verification

Greenwashing: There is a critical risk of issuers exaggerating environmental benefits or misusing funds raised through green bonds. Investors may face misleading claims, undermining market credibility.

SEBI has issued Do's and Don'ts guidelines (Feb 2023) mandating issuers to monitor fund utilization, avoid exaggerated green claims, report transparently, and repay funds used for non-green purposes.

Verification costs and lack of uniform certification standards remain barriers, especially for smaller issuers, making credible, reliable third-party audits crucial but expensive.

Varied definitions and taxonomies globally and inconsistencies in project classification create uncertainties and increase greenwashing risks. The Indian Government's ongoing effort to develop a national climate taxonomy aims to address this.

Market size and liquidity are still limited compared to traditional bonds, affecting investor confidence and trade volumes.

The Future Outlook:

India's green bond market is poised for expansion, supported by government policies, increasing global ESG investment flows,

and domestic climate ambitions. Innovative instruments like green masala bonds (rupee-denominated bonds sold to investors abroad) and credit-enhanced bonds are emerging.

The continuing integration of green finance into mainstream financial products and stronger standards will boost investor confidence. As more sectors, including transportation, real estate, and industrial decarbonization, tap green financing, the market is expected to diversify and deepen.

Conclusion:

India's green bond market plays an essential role in financing its sustainability goals. By linking capital markets with climate action, green bonds help mobilize resources for building a cleaner, greener future. Awareness, robust regulation, and stakeholder collaboration will be key to unleashing the full potential of green bonds in India's journey towards sustainability. **MA**

References:

1. *Securities and Exchange Board of India (SEBI) Green Bond Guidelines, 2017.*
2. *Climate Bonds Initiative: Green Bond Market Summary, 2025.*
3. *Ministry of Finance, Government of India: Union Budget 2024-25 Sustainable Finance Section.*
4. *Indian Renewable Energy Development Agency Annual Report, 2025.*
5. *EY India: Bridging India's Sustainable Finance Gap, 2025.*
6. *SEBI ESG Debt Securities Statistics (August 2025)*
7. *Renewable Watch Research, July 2025*
8. *RBI cancellations of sovereign green bond auctions 2024-2025*

Obituary



CMA George
Samuel

The Institute and its members deeply mourn the demise CMA George Samuel, our Beloved Member of the Institute on October 28, 2025.

May God bless the family to have the courage and strength to overcome the irreparable loss.