

MCQ Question · mcqquestion.com

Green, Social, and Sustainability Bonds

Free · Share

Green, Social, and Sustainability Bonds

A bond is a loan from investors to an issuer. The issuer pays interest and repays the amount due. A green, social or sustainability label tells investors how the borrowed money should be used.





Solar panels on a farm in Tamil Nadu. Projects like this are exactly what Green and Sustainability Bond proceeds fund. Photo: PWRDF, CC BY 2.0, via Wikimedia Commons.

This lesson explains green, social and sustainability bonds and how their labels are protected.

How did the framework become a rulebook?

What is new?

- **2022:** India released its Sovereign Green Bond Framework.
- **January 2023:** The first sovereign green bonds were sold.
- **June 2025:** The Securities and Exchange Board of India (SEBI) set rules for listed social, sustainability and sustainability-linked bonds.

Sovereign means issued by a national government. The word does not say whether the bond is green.

The Reserve Bank of India (RBI) runs government bond auctions. Ministries choose eligible public spending under the green framework.

Sources: pib.gov.in; rbi.org.in; sebi.gov.in

> **Quick check 1.** Did India sell its first sovereign green bonds after it released the 2022 framework? *(True or False?)* See answer ↓

What are the three scopes and four shared rules?

How green bonds work

First, what does a bond promise?

Suppose a city borrows ₹100 crore by selling bonds. It promises interest, called a **coupon**, and later repayment.

The project may help people, but the bond can still default. Repayment risk mainly depends on the issuer's ability to pay.

Where does the money go?

Type	Use of money	Example
Green	Eligible environmental work	Clean transport
Social	Eligible social work	Affordable housing
Sustainability	Both green and social work	Clean buses and low-cost housing
Sustainability-linked	General spending can be allowed	Interest changes if a measured target is missed

The first three are **use-of-proceeds** bonds. This means the issuer sets aside money for named types of work.

A sustainability-linked bond uses a different test. Its financial terms depend on a target, such as lower emissions.

Worked example. A green bond is like a loan with a rule: “this money must go toward solar panels.” A sustainability-linked bond is different: the company can spend the money on anything, but it promises to cut its carbon emissions by, say, 30% in five years.

If it misses that target, its interest rate goes up as a penalty. One controls where the cash goes. The other controls what the company must achieve, no matter where the cash goes.

Sources: icmagroup.org

> **Quick check 2.** Does sovereign mean that a bond must be green? *(True or False?)* See answer ↓

What do India's green bonds actually fund?

Which four steps protect the label?

1. **Use:** Say which projects can get the money.
2. **Choose:** Explain how projects are checked and selected.
3. **Track:** Keep a record of where the proceeds go.
4. **Report:** Publish allocation and, where possible, results.

These are the four main parts of ICMA’s green and social bond principles. An outside review can add trust.

Worked example. Picture a state government issuing a ₹500 crore green bond for solar power. First, it names eligible projects: solar farms only, not roads (use). Next, it explains how it picked three specific solar sites (choose).

Then it keeps a running ledger showing exactly how much of the ₹500 crore has actually been spent on each site (track). Finally, it publishes a yearly report stating how many megawatts of solar capacity the bond money built (report).

Skip any one step, and outside investors have no way to verify the “green” claim.

For example, a metro project may qualify as clean transport. The issuer should report what share of bond money it received.

A claim about avoided emissions needs a clear method. Building a station alone does not prove every climate benefit claimed.

India’s sovereign framework lists eligible areas. It includes clean transport, renewable energy, water work and pollution control.

It generally excludes direct fossil-fuel spending. Read the framework for its narrow public-transport exception on cleaner gas.

Sources: icmagroup.org; pib.gov.in; dea.gov.in

> **Quick check 3.** Does a greenium mean that green bonds always pay a higher yield than similar ordinary bonds? *(True or False?)*
>
> See answer ↓

Why do sovereigns dominate, and what is the RBI's concern?

Costs and risks

What does the bond cost?

A bond's **yield** is the return an investor expects at its price. Price and yield move in opposite directions.

A **greenium** is a lower yield on a green bond than on a similar ordinary bond. It can change between auctions.

A green label does not guarantee cheap borrowing. Investors still judge risk, maturity, supply and market interest rates.

Worked example. Say an ordinary 10-year government bond yields 7.10%. A green bond with the same maturity, sold the same week, might yield only 7.05%, a 5-basis-point greenium.

That gap means the government pays slightly less interest on the green bond, because enough investors want it specifically for its green label.

If demand for green bonds is weak that week, the greenium can shrink to zero or even flip the other way.

The RBI can reject bids at a government auction. Many bids do not mean the government must accept their prices.

What can go wrong?

- **Greenwashing:** A label promises more than the projects deliver.
- **Refinancing:** Money pays for old work, so new benefits may be small.
- **Double counting:** Two claims take credit for the same result.

- **Weak data:** Reports omit the method, baseline or real impact.

External review and honest reporting help, but they cannot remove default risk.

Worked example. Suppose a company issues a green bond, but instead of building a new solar plant, it uses the money to pay off an old loan it took out for that same solar plant five years ago.

Technically the money touched a green project. Practically, no new solar capacity got built because of this bond, that's refinancing risk.

If a second company then also claims credit for those same emission cuts in its own report, that's double counting: two organisations claiming the same environmental win.

Sources: icmagroup.org; rbi.org.in; dea.gov.in

Think it through. Why would the RBI cancel a green bond auction in June 2025 even though bids came in at more than double the amount on offer?

Strong demand in quantity doesn't mean the price was right. The bid yields were higher than the RBI wanted to accept, so it walked away rather than borrow at a worse rate than intended.

What exactly is a green bond?

A green bond is a loan raised from investors. The money must go to projects that help the environment.

Examples include solar power, clean transport and water saving.

The issuer promises to repay with interest, like any bond.

What is greenwashing?

Greenwashing means claiming a project is green when it is not.

Rules and outside reviews help prevent it. They check where the money goes.

A strong label builds investor trust.

What are sovereign green bonds?

These are green bonds issued by the government. India issued its first in the 2022-23 financial year.

The money funds public projects that cut carbon emissions.

Governments can borrow at a good rate if investors trust the label.

What role does SEBI play?

SEBI is the market regulator. It sets disclosure rules for green debt securities.

Issuers must say how they will use the money and report on it later.

This keeps the label meaningful.

What is a greenium?

A greenium is a small price premium that investors may pay for green bonds. It lowers the issuer's cost.

It is not guaranteed. The size of the gap changes with the market.

The term is often asked as a one-line definition.

Why do green bonds need an outside review?

An independent reviewer checks the project against green standards before issue.

After issue, the issuer reports how the money was used.

This second check shows the impact of the project.

Why does India need green finance?

India has set big goals for clean power and net zero. These need huge investment.

Green bonds bring in money from investors who want to fund the transition.

They sit alongside other tools such as taxes and subsidies.

Previous Year Question

What do the exams ask?

A Central Armed Police Forces (CAPF) 2025 question asked which Union Budget announced sovereign green bonds.

Answer: 2022–23. The framework came in November 2022. The first auction followed in January 2023.

View question 23 in the full paper →

> **Quick check 4.** Did the 2022–23 Union Budget announce sovereign green bonds? *(True or False?)* See answer ↓

Current Affairs

What is new

Do India's rules now cover more labels?

SEBI issued its 2025 framework for listed social, sustainability and sustainability-linked debt. Green debt already had separate rules.

The central government issues sovereign green bonds under its own framework. A company must follow the rules for its listed debt.

India publishes allocation reports for its sovereign bonds. Check the report year before quoting a project or a total.

Market prices also change. The Institute for Energy Economics and Financial Analysis and Business Standard describe different auctions.

Those reports are dated examples, not a fixed greenium for every bond.

Sources: sebi.gov.in; dea.gov.in

> **Quick check 5.** Do ICMA use-of-proceeds principles include reporting on the use of bond money? *(True or False?)* See answer ↓

> **Quick check 6.** Does a green label remove the issuer's repayment risk? *(True or False?)* See answer ↓

Practice MCQs

1. In a green bond, where must the borrowed money go?

A. Only to pay old loans

B. Eligible environmental projects

C. Anywhere the issuer chooses

D. Into government salaries

See answer ↓

2. What makes a sustainability-linked bond different from a green bond?

A. It can only be sold abroad

B. It pays no interest

C. It is always issued by a government

D. Its interest changes if a measured target is missed

See answer ↓

3. What does "sovereign" mean in a sovereign green bond?

A. The bond is green

B. The bond is issued by a national government

C. The bond is sold only to banks

D. The bond is risk-free

See answer ↓

4. When were India's first sovereign green bonds sold?

A. November 2022

B. June 2025

C. January 2023

D. April 2026

See answer ↓

5. Which is NOT one of the four core parts of the ICMA green bond principles?

A. Use of proceeds

B. Reporting

C. Process for project selection

D. Guaranteed profit

See answer ↓

6. What is a "greenium"?

A. A lower yield on a green bond than on a similar ordinary bond

B. A bond rating for emissions

C. A penalty for missed targets

D. A tax on green projects

See answer ↓

7. What is refinancing risk in a green bond?

A. The issuer pays too much tax

B. The bond matures early

C. The money pays for old work, so new benefits are small

D. The bond is sold twice

See answer ↓

Answer Key

1. **B.** A green bond is a use-of-proceeds bond. The money is set aside for named environmental work. ↑ Q1
2. **D.** It controls what the issuer must achieve, not where the cash goes. Missing the target raises interest. ↑ Q2
3. **B.** Sovereign names the issuer, a national government. It says nothing about how the money is used. ↑ Q3
4. **C.** The framework came in November 2022. The first auction followed in January 2023. ↑ Q4
5. **D.** The four parts are use of proceeds, project selection, managing proceeds and reporting. No profit is guaranteed. ↑ Q5
6. **A.** A greenium is a lower yield for a green bond. It can shrink or vanish between auctions. ↑ Q6
7. **C.** If proceeds repay an old loan for an existing project, little new green capacity is built. ↑ Q7

Quick-check answers

1. **True.** ↑ 1
2. **False.** ↑ 2
3. **False.** ↑ 3
4. **True.** ↑ 4
5. **True.** ↑ 5
6. **False.** ↑ 6

Curated by Arsalan Zuberi · mcqquestion.com

Scan to read online

https://mcqquestion.com/articles/economy0025-green-social-sustainability-bonds/