What is Greenium?

July 25, 2024 • vajiramandravi.com

About Greenium:

- Greenium, or **green-premium,** refers to the **savings an issuer of a green bondrealiseson** the associated **coupon payment** because the bond is green.
- It is the **amount by which** the **yield on the green bond is lower**, **compared with** the **conventional bond.**
- **Green bonds** are debt instruments that **fund specific projects**/activities **categorised as 'green'** under national or international green taxonomies.
  - Such activities may include **renewable energy projects,** electric buses, and energy efficiency initiatives.
- Each bond has an issuer, i.e., those who want to raise money with a promise of a regular fixed payment and investors, i.e. those who provide that money with a promise of a regular fixed income.
- The **logic behind a greenium** is that because of the appeal of sustainability, **green bondsattract investors** who are **ready to forego some** of their **returns and accept lowerpayments** (called a lower yield).

Further, **long-term green projects** are **associated with** a **reduction in both physical and financial risk.** Thus, **investors settle for lower returns**, making green projects financially attractive for the issuers of these debt instruments.

Q1: What is Bond Yield?

A bond is a fixed-income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental) for a set period of time in return for regular interest payments. Bond Yield is the return an investor expects to receive each year over its term to maturity. It partially depends on coupon payments, which refer to the periodic interest income obtained as a reward for holding bonds.

Source: CEA on low green bonds ‘greenium’: Pvt investors need to walk the talk on sustainable investment