



# The Indian green bond market: a step towards 'green financing' in a growing taxonomy

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## Overview

Over the last few years, the Indian government has taken measures towards environmental sustainability along with economic growth. As enumerated in Article 48-A of the Indian Constitution, preservation of the environment is enshrined in the Indian Constitution itself. The Finance Minister, while tabling the Union Budget 2023–24, specified green growth as one of the seven priorities of the Indian government and in doing so, the aim of achieving net-zero carbon emission by 2070 was highlighted. Over the last year, the Indian government has introduced significant regulatory updates in the green bonds space. Whether it be the introduction of the **Sovereign Green Bonds Framework** ('the SGrB Framework') or the amendment by the Securities and Exchange Board of India (SEBI) to the SEBI (Issue and Listing of Non-Convertible Securities) Regulations 2021,<sup>[1]</sup> which widened the definition of green bonds and highlighted the issue of greenwashing (greenwashing is where an issuer makes false, misleading, unsubstantiated or otherwise incomplete claims about the sustainability of a product, service or business operation.<sup>[2]</sup> Greenwashing, as a concept, is still under development as there are no universally accepted taxonomies on it but only a generally accepted definition) the regulatory framework for green bond financing has seen considerable development.

The Union Budget 2022–23 introduced the SGrB Framework, thereby marking a significant step forward in India's journey towards green financing. The adoption and introduction of the SGrB Framework will aid India in fulfilling its commitments under *Panchamrit* (the so-called 'five nectar elements' of India's climate action) and achieving its Nationally Determined Contribution (NDC) as adopted under the Paris Agreement. The primary aim of the SGrB Framework is to mobilise resources for green infrastructure projects in a bid to reduce the economy's carbon

intensity and further regulate the issuance of sovereign green bonds in India. The SGrB Framework creates a blueprint for investments in the green sector, including ways to ensure transparency in picking green projects.

## What are green bonds?

Green bonds are debt instruments designated to finance environmentally sustainable and climate-friendly projects, also known as 'green projects'. With the introduction of the SGrB Framework, the Indian government is currently attempting to employ international financial resources in addition to its domestic resources, which are the main focus of its climate initiatives.

## The SGrB Framework

The SGrB Framework has been designed and aligned with the four key components and recommendations specified by the International Capital Market Association (ICMA).

### *Use of proceeds*

Proceeds raised from sovereign green bonds will finance and/or refinance expenditure for eligible green projects in categories such as:

- renewable energy;
- energy efficiency;
- clean transportation;
- adaptation to the climate crisis;
- sustainable water and waste management;
- pollution prevention and control;
- green buildings;
- sustainable management of living natural resources and land use; and
- terrestrial aquatic biodiversity conservation.

The eligible green expenditures shall include, among other things, investment, subsidies, grants-in-aid, operational expenditures or tax foregone. The green expenditures are subject to certain eligibility criteria such as:

- Government expenditures are limited to: (1) maximum 12 months prior to the issuance; and (2) allocation within 24 months following issuance.
- Projects involving nuclear power generation, alcohol, weapons, tobacco, gaming, existing financed and/or refinanced by any government source shall be excluded from green expenditure.
- Equity investment is not envisaged in any project other than metro transportation projects.

### *Process for project evaluation and selection*

The process for project evaluation and selection will be as follows:

- the SGrB Framework shall be applicable to all sovereign green bonds issued by the government and governed by the Department of Economic Affairs and the Ministry of Finance;

- the SGrB Framework also establishes a Green Finance Working Committee (GFWC) to oversee and validate key decisions and undertake the process of selection and evaluation of the proposed green project via the issuance of sovereign green bonds;
- the GFWC will assess the list of proposed green projects for compliance with the SGrB Framework and compatibility with green goals; and
- the Ministry of Finance will further advise the Reserve Bank of India on the amount of qualifying green expenditures for which the proceeds from green bonds may be used once the Finance Bill has been passed.

## *Management of proceeds*

The Ministry of Finance:

- shall maintain a complete 'green register' including the details of the green bond issuance, proceeds generated and allocations made to eligible projects by establishing an information system; and
- will establish a separate account to ensure transparency in accounting and allocation of proceeds.

The Public Debt Management Cell will also be responsible for monitoring the allocation of funds for green expenditures.

## *Reporting*

Finally, to ensure transparency in terms of allocation of proceeds, an allocation report shall be prepared and updated annually until the full allocation of proceeds is completed. The Comptroller and Auditor General will have the authority to audit this allocation report.

## **Key takeaways**

With 'green growth' being one of the seven priorities of the Indian government, the SGrB Framework will be a welcome step that will facilitate sustainable development and enable India to achieve its goals as set out under the Paris Agreement.

The SGrB Framework indeed embarks on a new journey for India towards a greener and more sustainable future and will play a crucial role in attracting investment for green projects from both domestic and international investors. The focus on transparency and clarity in the allocation of proceeds will also provide a sense of security to investors, further increasing the potential for green financing and reducing the risk of 'greenwashing'. Furthermore, the performance of the qualified green projects is not a requirement for payment of the principal or interest on these bonds and therefore, investors in these bonds do not carry any project-related risks, thereby reducing the overall risk.

Beyond the SGrB Framework, SEBI has repeatedly made conscious efforts to promote investments in green bonds by introducing several guidelines, circulars and disclosure mechanisms for issuers proposing to issue green bonds. Some of the disclosure regimes have been highlighted in:

- the [SEBI \(Issue and Listing of Non-Convertible Securities\) Regulations 2021](#) ('NCS Regulations')<sup>[3]</sup>;
- SEBI (Listing Obligations and Disclosures Requirements) Regulations 2015<sup>[4]</sup>;
- Chapter IX of the SEBI Operational Circular for Issue and Listing of Non-Convertible Securities<sup>[5]</sup>;
- SEBI (Issue and Listing of Municipal Debt Securities) Regulations 2015<sup>[6]</sup>; and
- a circular dated 24 November 2022<sup>[7]</sup> regarding the issue of green debt securities by municipalities.

In a quest to make the Indian capital markets more sustainable, SEBI has recently amended and widened the definition of 'green debt securities' to include:

- yellow bonds (funds raised for solar energy generation and industries associated with it);
- blue bonds (funds raised for sustainable water management and industries associated with it); and
- transition bonds (funds raised for transitioning to a more sustainable form of operations).<sup>[8]</sup>

Issuers of green debt securities are also directed to appoint third party reviewers to verify the issuance process and conduct project evaluations. Issuers must also quantify all negative externalities that may be associated with the utilisation of the funds raised by green debt securities in order to curb greenwashing.

Further, with a view to aligning the framework for green debt securities with the updated green bond principles recognised by the International Organisation of Securities Commissions, SEBI has revised and specified additional disclosure requirements for the issue and listing of green debt securities.

The blueprint so provided may be developed further and enhanced into a comprehensive regulatory framework whereby the eligibility criteria may be redefined by way of introduction of more threshold limits in terms of specifying minimum/maximum limits on infusion of investments in such green projects.

Overall, the SGrB Framework and the amendments to the NCS Regulation appear to be a step in the right direction for promoting sustainable development in the country and aligning with international efforts to tackle the climate crisis.

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