

GREEN BONDS & INDIA



INTRODUCTION TO GREEN BONDS

- Green bond is a fixed-income instrument designed to support specific climate-related or environmental projects
- Green bonds are part of a larger trend in socially responsible and environmental, social, and governance (ESG) investing
- In 2008, The World Bank issued the first so-labeled green bond for institutional investors
- One of the world bank's first green issuances financed the Rampur Hydropower Project, which aimed to provide low-carbon hydroelectric power to northern India's electricity grid
- Common purposes for which green bonds are generally issued include establishing energy efficient projects, renewable energy projects, natural resources and land management projects, etc. to attract more investment.
- Today, more than 50 countries have issued green bonds, with the United States being the largest source of green bond issuances



REASONS BEHIND GREEN BONDS



- In 2007, the Intergovernmental Panel for Climate Change (United Nations agency) published a report that linked human action to global warming
- In late 2007, a group of Swedish pension funds sought to invest in projects that help the climate
- Less than a year later, in November 2008, the World Bank became the first institution to issue a green bond, raising funds from fixed-income investors to support lending for eligible climate-focused projects
- In 2010, IFC issued its inaugural green bonds in response to investors seeking climate-related investments with a fixed income
- In 2013, IFC issued the market's first global U.S. dollar benchmark-sized green bonds, with two USD 1 billion issuances in that year; this set a precedent as the largest green bonds at the time of issuance and helped to solidify the market

INDIA'S VISION

India adopted an ambitious Nationally Determined Contribution (NDC) under the Paris Agreement on a “best effort basis” keeping its developmental imperatives in mind

- The NDC targets announced in 2015 were to reduce emission intensity of GDP by 33-35 % by 2030 as compared to 2005 levels, create an additional carbon sink of 2.5 to 3 billion tonnes of CO2 equivalent through additional forest and tree cover by 2030 and increase the share of non-fossil fuel-based energy resources to 40 percent of installed electric power capacity by 2030
- At COP 26, India underlined the need to start the one-word movement 'LIFE' which means 'Lifestyle For Environment' urging for mindful and deliberate utilization
- The Hon'ble Prime Minister of India, in November 2021, in Glasgow further enhanced the ambition on addressing climate
- Five nectar elements (Panchamrit) of India's climate action:
 - ❑ *Reach 500GW non-fossil energy capacity by 2030*
 - ❑ *50 % of its energy requirements from renewable energy by 2030*
 - ❑ *Reduction of total projected carbon emissions by one billion tonnes from now to 2030*
 - ❑ *Reduction of carbon intensity of the economy by 45% by 2030, over 2005 levels*
 - ❑ *Achieving the target of net zero emissions by 2070*

India now stands committed to reduce Emissions Intensity of its GDP by 45 % by 2030, from 2005 level and achieve about 50 percent cumulative electric power installed capacity from non fossil fuel-based energy resources by 2030

TYPES OF GREEN BONDS IN INDIA

•The credit-worthiness in asset-backed bonds is tied only to the expected revenue from the solar farm and not the other cash flows of the issuer. The solar farm asset is transferred into a separate entity, known as a special purpose entity (SPE) or special purpose vehicle (SPV). This entity holds just this asset. The lenders are repaid only from the earned revenues from the farm.

ASSET - BACKED BONDS*



•It is a dual-recourse bond. It can be a two-way structure – in the first method if there is the condition of payment default, the lender will have the right over the farm. He /she can claim on other assets if the farm value is not enough to pay the lender. The farm is in an SPE in the second method. In the condition of default, the SPE assets are transferred to the lender. If the farm value is not enough to pay the lender, the hybrid bond holder can claim other assets as well.

HYBRID BONDS*



•It is issued for an average tenure of 14 years or more. Sovereign Green Bond is allocated to fund projects associated with climate adaption and climate mitigation. The green bond holders also enjoy tax benefit. Sovereign green bonds are suitable for investors having interest in environment and climate conservation projects. Sovereign green bonds are also a secure source for fixed income.

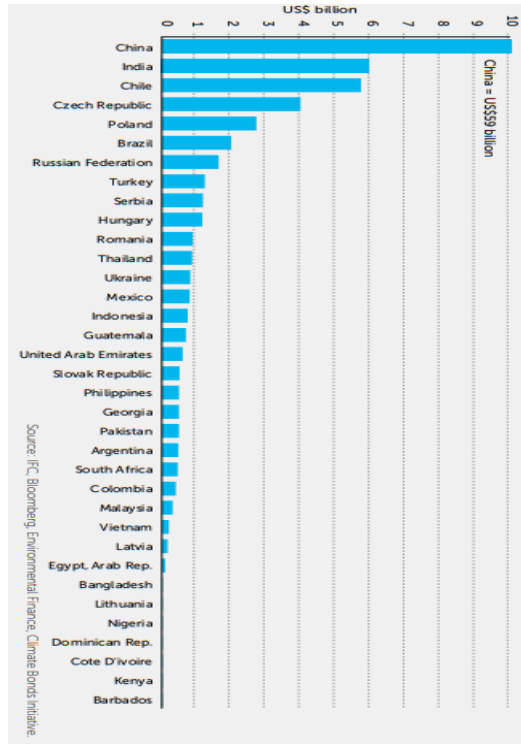
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EVALUATION AND REPORTING OF GREEN PROJECTS

- The Ministry of Finance has constituted a Green Finance Working Committee (GFWC) composed of relevant ministries and chaired by the Chief Economic Adviser
- The ministries will submit their projects to GFWC, which will meet at least twice a year to evaluate the proposals
- Once the projects are evaluated, the final list will be given to the budget division of the finance ministry
- The division will then issue the bonds through the Reserve Bank of India and use proceeds to finance selected projects
- The government will release an annual report on the selection of green projects, funds deployed, and their impact on the greening of the economy
- Government will also maintain a Green Register with details of the green bond issuance, the proceeds generated, allocations made, and information about the eligible projects
- Apart from green bonds, the government will finance green projects from its tax receipts as well

GREEN BONDS AND INDIA



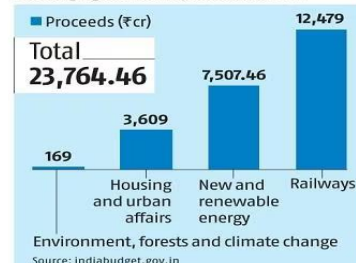
Source: IFC Data 2022

- The government’s framework is based on the International Capital Market Association’s listed principles for issuing green bonds, which has four components: Use of proceeds, project evaluation and selection, management of proceeds, and reporting
- In 2015, India stepped into the green bond market with YES Bank issuing first green bond for financing the renewable and clean energy projects
- In 2021, India was the second-largest emerging green bond market after China
- India issued USD 6.11 billion of green bonds in 11 months of 2021, the strongest issue since the first issue in 2015
- In 2022, Union Finance Minister approved India’s First Sovereign Green Bonds Framework
- GFWC has been established with clear lines of authority to oversee and validate key decisions on issuance of Sovereign green bonds

Source: Framework for Sovereign Green Bond by DEA and MoF

SHARE IN THE PIE

Sovereign green bond proceeds for FY24



Source: indiabudget.gov.in

The Centre is expected to issue Rs 23,764.46 crore (USD 2.9 Billion approx.) worth of sovereign green bonds in the coming financial year (FY24), as per the Expenditure Profile documents of the 2023 Union Budget. This compares to Rs 16,000 crore (USD 1.9 Billion approx.) worth of maiden green bonds issued by the sovereign in FY23

ADVANTAGES OF GREEN BONDS

- Investment in green bonds ensures the fulfillment of the green initiatives that are the dire need of the world
- Investors get many tax benefits by investing in green bonds
- Focus on green initiatives is quite high in the current market scenario and is also quite beneficial in attracting foreign investments. This will reduce the cost of capital for the companies and benefit the nation as a whole
- Funds invested are used for the projects under green bonds financing and are for the betterment of the environment or improvement in the quality of life in general

CHALLENGES FOR GREEN BONDS

- Market for green bonds is quite new in the Indian stock market and lacks investor awareness
- Projects up for investment through green bonds are capital-intensive and require an extensive amount of time to generate returns
- Tenure of green bonds is usually around 10 years and may not seem attractive for investors with short term or medium-term investment horizons
- General lack of credit ratings or guidelines for credit ratings in the Indian markets which may be a deterrent for investment

India- Way Forward

Green bonds are in demand today and a reliable source of funding for initiatives that are essential for lessening our global carbon footprint. Although the pace of global governments' collective initiative is still quite slow, results are unavoidably on the horizon. To become carbon neutral, India in particular needs enormous amounts of investment in green bonds roughly around USD 10 trillion. Green bonds, however, are a step in the right direction with advantages for both investors and the environment

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