

Article



India plans to tap Green Bonds

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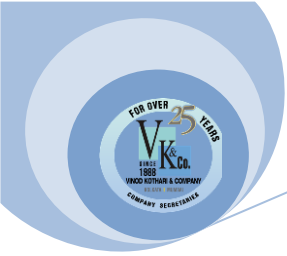
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India plans to tap Green Bonds

Introduction

Issuing bonds to raise funds from investors is not an unheard concept. A bond, in common parlance, is an instrument evidencing indebtedness of the bond issuer to the bond holders. Here, a debt instrument is issued by the issuer to the investor, under which the issuer owe the investors a debt and obliging on the terms of the bond, pay them interest (the coupon) and/or repay the principal at maturity date.

A novel concept in this genre is that of “Green bonds”. These bonds are akin to other bonds with the difference in the fact that the proceeds out of issuance of Green bonds are used towards financing of ‘green’ projects. The Green Bonds operate with two participants, one being the issuers and the other being the investors.

What are “Green Bonds”

As of now there is no internationally acknowledged definition with regard to Green Bonds. But, a paper released by PACE-D¹ (Partnership to Advance Clean Energy- Development) in December, 2014 defined Green Bonds as – *“Green Bonds are standard, fixed-income financial instruments (bonds) where the proceeds are exclusively utilized for financing climate change mitigation or adaptation related projects or programmes.”*

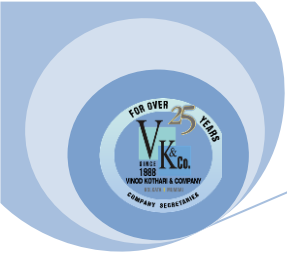
Principles to be adhered to

There exists no specific guideline with regard to principles of issuing Green Bonds. However Green Bond Principles (GBP), a document brought up by the International Capital market association (ICMA) sets forth certain guiding principles on the same which are followed as a standard industrial practice. The four components are depicted in the diagram below:-



The components can be briefly explained as:-

¹ <http://www.pace-d.com/wp-content/uploads/2015/02/Issue-paper-Green-Bonds-Report-Reprinted-Feb-2015.pdf>



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1. Use of proceeds -

Issuer shall define and disclose in their offer document, the criteria for identification as 'green'. It will also state the amount of funds to be spent on the projects/assets/activities.

For assigning bonds with the tag "Green", the following indicative areas of investments may be considered-

- i. Renewable and sustainable energy (wind, solar etc.)
- ii. Clean transportation (mass transportation)
- iii. Sustainable water management (clean and/or drinking water, water recycling)
- iv. Climate change adaptation
- v. Energy efficiency (efficient and green buildings)
- vi. Sustainable waste management (recycling, waste to energy etc.)
- vii. Sustainable land use (including sustainable forestry and agriculture, afforestation etc.)
- viii. Biodiversity conservation

The proceeds may also be used for financing of existing green assets but only if it is clearly stated in the offer document.

2. Project evaluation and selection-

The issuer shall provide the details of the decision-making process on the basis of which it selects to utilize the proceeds from issue of Green Bonds. Some indicative guiding factors could be -

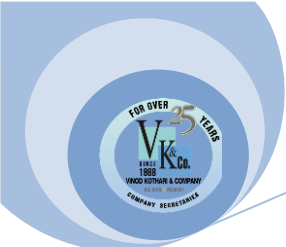
- Process followed/ to be followed for determining how the project(s) fit within the eligible Green Projects categories;
- The criteria, making the projects eligible for using the Green Bond proceeds; and
- Environmental sustainability objectives.

3. Management of proceeds -

The proceeds from issuing bonds shall be only towards the purposes stated in the offer document. The proceeds shall be kept in an escrow account and the use of the proceeds shall be tracked as per an approved internal policy of issuer and such policy shall be disclosed in the offer document/placement memorandum. Report of an external auditor or a third party to verify the internal tracking method and the allocation of funds towards the projects may be used.

4. Reporting -

In addition to reporting on the use of proceeds, issuers shall also provide, at least on



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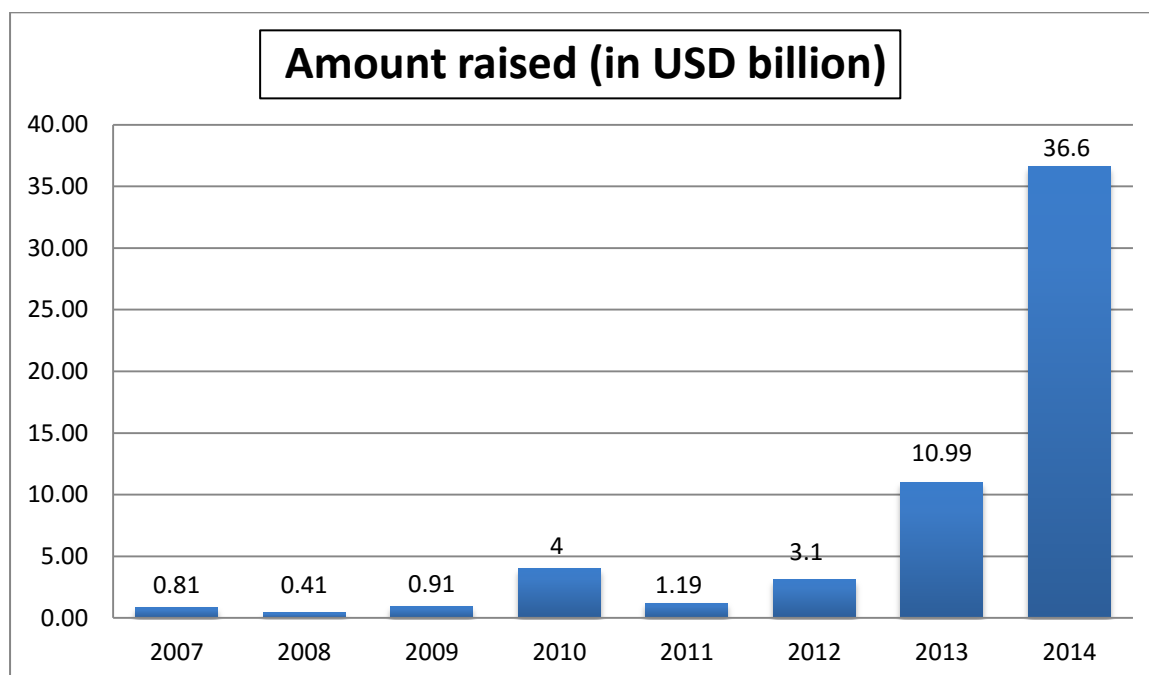
an annual basis, a list of projects to which Green Bond proceeds have been allocated. This may also include the details of the expected environmental impact of such projects. However, where confidentiality agreements or competition issues limit the amount of detail that can be made available, information can be presented in generic terms.

Evolution of Green Bonds and global scenario

The dawn of Green Bond markets occurred in June 2007, when the European Investment Bank (EIB) issued the first “Climate Awareness Bond”, following which the term “Green Bond” was attached to these instruments. On Earth Day in May 2012, International Finance Corporation (IFC) issued the first \$500 million benchmark Green Bond. By March 2013, the Green Bond market had its grip over the investors – IFC’s first \$1 billion Green Bond was sold within an hour of issue. This was the extent of enthusiasm of the investors in Green Bonds.

A growing market appetite may be seen from the fact that the market has almost tripled in size between 2013 and 2014, with around US\$37 billion issued in 2014.

The following graph depicts the amounts raised over the years through issue of Green Bonds, which can be seen to have increased over the years:-



The Green Bonds are divided into certain types on the basis of use of proceeds and debt recourse. They are shown below:-²

²<https://www.climatebonds.net/market/explaining-green-bonds>



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Type	Use of proceeds towards	Debt re-course
Green “Use of proceeds” Bonds	Green Projects	Standard/ full re-course to issuer
Green “Use of proceeds” Revenue Bonds	Green Projects	Revenue streams from issuers though fees, taxes etc are the collateral for the debt
Green Project Bond	Ring-fenced for specific underlying Green Projects	Re-course is only to the project’s assets and balance sheet
Green Securitized Bond	Either :- <ul style="list-style-type: none"> • Green Projects, or • Go directly into underlying Green Projects 	Re-course is to a group of projects that have been grouped together

Indian scenario on Green Bonds

There are humungous developmental tasks at hand in the form of infrastructural projects. The finance for these projects have been traditionally been supported by banks, NBFCs and Financial Institutions but are not sufficient to meet the needs and do capacity addition. Thus there is a need to explore new opportunities of getting finance. Corporate bonds have been aiding in bridging the needs.

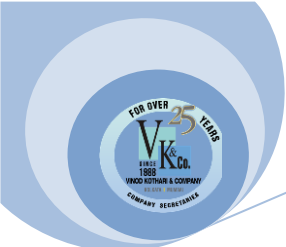
India’s Intended Nationally Determined Contribution (INDC) document puts forth the stated targets for India's contribution towards climate improvement and following a low carbon path to progress. A preliminary estimate suggests that at least USD 2.5 trillion (at 2014-15 prices) will be required for meeting India's climate change actions between now and 2030. In this regard the document talks about the introduction of Tax Free Infrastructure Bonds of INR 50 billion (USD 794 million) for funding of renewable energy projects during the year 2015-16.

A concept paper on the issuance of Green Bonds³ had been issued by SEBI on the 3rd of December, 2015, for soliciting comments from public by the 18th of December, 2015. It is expected that the existing regulations for issuance of corporate bonds, SEBI (Issue and Listing of Debt Securities) Regulations, 2008 along with disclosure in the offer document the additional information about the Green Bonds on the basis of the Green bond Principles, 2015, is apt to regulate the bonds effectively. This was approved by SEBI on the 11th of January, 2016.

The following issues of Green Bonds have been made in India so far:-

Issuer	Tenure	Purpose	Amount
Yes Bank	10 year	To fund solar, wind and biomass projects	Rs. 1000 crore
Yes Bank	10 year	To fund solar, wind	Rs. 315 crore

³http://www.sebi.gov.in/cms/sebi_data/attachdocs/1449143298693.pdf



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		and biomass projects	
CLP India	In three series of equal amounts and will mature every April in 2018, 2019 and 2020	-	Rs. 600 Crore
Exim bank	5 years	To fund eligible green projects in countries including Bangladesh and Sri Lanka	\$500 million
IDBI Bank	5 years	-	US\$350million priced at Treasuries plus 255bp

Among the above mentioned names, CLP India was the first corporate issuer to come up with such bonds. Further, the issue of Yes Bank of Rs. 315 crore was fully subscribed by International Finance Corporation.

Green Bonds in China

With much hype about Green Bonds universally, China has become the first country to issue official rules on monitoring Green Bonds⁴. The Green Bond Guidelines and the Green Bond Endorsed Project Catalogue were published by the People’s Bank of China and the Green Finance Committee of China Society of Finance and Banking on 22nd December 2015.

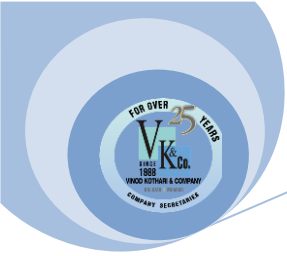
Challenges from climate change, which China has been facing and in an attempt to develop a green financial system to help contain the cost of pollution, had led to the preparation of Green Bond Endorsed Project Catalogue⁵ in September 2015. This in turn paved way for identifying the 5-steps for issuing Green Bonds⁶ namely:-

1. **Identify green assets and projects-** Guidance about what qualifies as Green can be found at the China Banking Regulatory Commission or the International Climate Bond Standards Scheme
2. **Arrange independent review-** Credible independent review and verification provides reputation insurance. Verifiers can also help identify green assets.
3. **Set up tracking and reporting-** The nominal value of the pool of assets or projects must stay equal or greater than the amount of the bond
4. **Issue the Bond**
5. **Report regularly-** Confirm each year that the funds are still properly allocated to green projects. This can be done by an auditor or in a letter signed by an authorized officer of the company

⁴ <http://www.environmentalleader.com/2016/01/11/from-green-bonds-to-green-boom-what-chinas-new-green-bond-rules-mean-for-sustainable-investment/>

⁵ [Preparation-Instructions-on-Green-Bond-Endorsed-Project-Catalogue-2015-Edition-by-EY.pdf](#)

⁶ <https://www.iisd.org/sites/default/files/publications/how-to-issue-green-bond-china-en.pdf>



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China has framed the rules in line with the Green Bond Principles⁷. It is expected that implementation of the rules will aid in achieving the motive of development of a green stock market index and securitization of green credit products. The issuance of the official rules can be construed as a step forth in the path of the transition of China to a green economy.

Why Green Bonds?

Raising finance through issuance of Green Bonds has a host of advantages. These range from development of positive public relations due to display of commitment towards development and sustainability of the environment to having cost benefits by attracting a strong mass as consumers. Also some investors tend to invest simply because the host of environmental benefits associated with it. Normal bonds fail to tap these investors. A wide investor base may also act as a pricing advantage and in turn lowering project costs. With increasing concern for the environment, issuance of Green Bonds is a notion which is likely to appeal to investors due to the positive environmental implications.

Conclusion

Though framed wholly on the basis of the Green Bond Principles, the initiation to regulate issuance of Green Bonds is a welcome step. This will be a move towards aiding India to develop and yet be on a low carbon emitting path. The developed countries have already begun acting on this path and achieving success at desired rate, as depicted in the chart above.

To read our articles [click here](#)

⁷ <http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/green-bond-principles/>