

GREEN SECURITISATION IN INDIA

Can securitisation act as a catalyst to the growth of green finance in India?



May 2023



VINOD KOTHARI CONSULTANTS

GREEN SECURITISATION IN INDIA

May 2023



VINOD KOTHARI CONSULTANTS

Abstract

Green Securitisation is securitisation backed by a green collateral, where the receivables pertaining to green loans are assigned to a SPV created for the purpose, or otherwise, the capital of the originator freed up as a result of the assignment of loan pools are earmarked for utilisation towards “green” assets. This Paper aims to create acquaintance to the concept of green securitisation, and studies the existing market for such securitisation in three major territorial boundaries, viz., the US, Europe and China. The first part develops a general understanding of green securitisation and its role in sustainable finance. In the second part of the Paper, the author attempts to build up a case for green securitisation in India, identifying the need as well as prospects for germination of green securitisation in India, the potential structure with different participants etc. The Paper also throws light on the various challenges that green securitisation may suffer from and what may be the way forward to dealing with the same.

Table of Contents

Green securitisation: the concept	8
Types of green securitisation	9
Green collateral securitisation	10
Green capital securitisation	11
Identifying the “green” component	12
State of Green Securitisation world-over.....	14
Green ABS in China	14
The U.S. market is the highest contributor of Green ABS issuances globally	17
Europe’s evolving position in sustainable securitisation market	18
Gaps in sustainable finance and role of green securitisation	21
A case for Green Securitisation in India	22
Financing needs and funding gap	22
Potential structure for Green Securitisation in India	29

Index of Figures

Figure 1: Structure of green collateral securitisation	10
Figure 2: Structure of green capital securitisation	12
Figure 3: Green sectoral matrix	13
Figure 4: Volume of green issuances in Europe, China, and US.....	14
Figure 5: European ESG Securitisation Market.....	19
Figure 6: European Green Securitisation Issuance by Asset Class	19
Figure 7: Green Finance funding gap in India	22
Figure 8: Sources of Green Finance in India	24
Figure 9: Credit deployment in RE segment	25
Figure 10: Green bond issuances, by issuers, in percentage	26
Figure 11: Cost of borrowing of green and non-green securities.....	27
Figure 12: Proposed structure for Green Securitisation in India.....	29
Figure 13: AUM of ESG Funds (in crores).....	35

Green securitisation: the concept

Securitisation can be described as a structured finance device used for refinancing financial assets by converting a pool of loans into tradable capital market instruments. Though there is no universally accepted definition of “green securitisation”, the most logical explanation of the term would be - the process of refinancing financial assets in the “green” sector using securitisation.

Types of green securitisation

An investor, while assessing the presence of “green” factor in a securitisation transaction, may typically consider three criteria, being the securitisation portfolio, the key transaction counterparties and the use of proceeds¹.

Green securitisation notes have been defined as debt instruments with the first source of repayment being cash flows from a pool of assets or projects that are either green themselves or proceeds from this pool are earmarked to finance green projects. They typically include covered bonds, asset-backed securities and other structures².

The International Capital Markets Association (ICMA) has also updated the Green Bond Principles (GBP) to recognise green securitisation instruments in the form of secured green bonds. The GBP further classifies the “secured green bonds” into two categories, being the “secured green collateral bonds”, backed by underlying green assets, and “secured green standard bonds”, being in the nature of use-of-proceeds. Concerns with respect to “double counting” of green assets, eligibility of synthetic securitisation as “green” etc, have also been addressed by ICMA through its FAQs on the subject³.

Therefore, broadly speaking, in a securitisation arrangement, the “green” component may be present in either of the following forms -

¹https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME_ESGSecuritisation_2022_07_final-2.pdf

²<https://c2e2.unepccc.org/wp-content/uploads/sites/3/2021/07/fitch-green-securitization-developments-and-challenges-15-april-2021.pdf>

³https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Sustainable-Securitisation-QAs_CLEAN-and-FINAL_2022-06-24-280622.pdf

Green collateral securitisation

As the name suggests, in case of green collateral securitisation, the securitised notes are backed by a portfolio of underlying “green” assets. That is to say, the pool of loans that are securitised are loans granted to borrowers for deployment in green purposes.

The “green” condition is met by the originator itself at the origination stage itself, as a pre-condition for floating green ABS, and therefore, there is no subsequent requirement for the originator to ringfence the use of proceeds for specific purposes. Such a structure, therefore, does not necessarily result in creation of any new green assets, as the act of securitisation succeeds creation of green assets.

The collateral may be on mortgages on energy-efficient buildings (whether commercial or residential), project finance on renewable energy, vehicle financing on electric vehicles etc to name a few. Depending on the collateral involved, these may be termed as “green ABS”, “green MBS” or “green CLOs”, however, in general usage, these are collectively termed as “green ABS”. While there are no clear guidelines on the same, the collateral may be “predominantly” green, if not “purely”; and one may refer to the green ABS rules in China as well as EU’s EBA report on sustainable securitisation for the same (*refer detailed discussions below*).

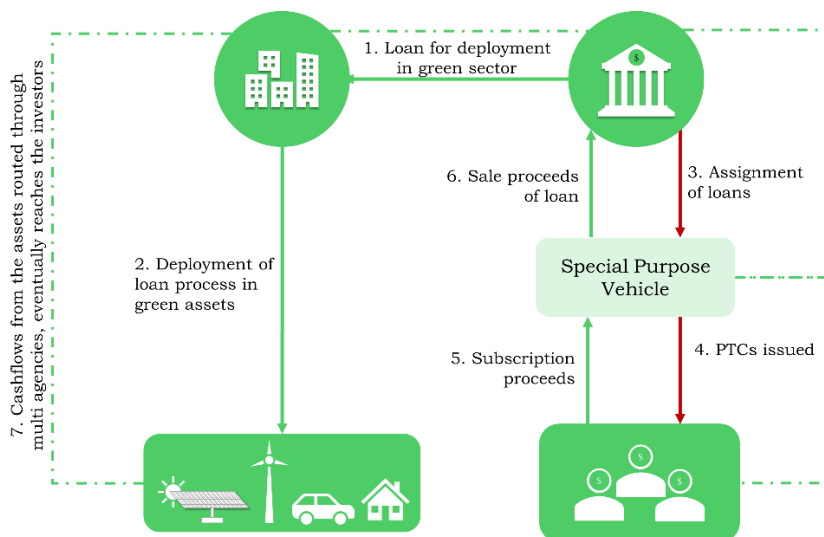


Figure 1: Structure of green collateral securitisation

Green capital securitisation

Green capital securitisation, on the other hand, is the type of securitisation arrangement where the “capital” of the originator is utilized towards “green”. In such a structure, the collateral is created on “brown” assets, and the use of “proceeds” are, in turn, earmarked for “green” financing. This type of securitisation is referred to as green capital securitisation since the capital of the originator, freed up as a result of the securitisation, is utilised towards the green deployment.

The benefit of such a structure is the generation of new “green” assets, as a result of the deployment of proceeds into green assets. This would, in turn, require ring fencing of the proceeds and continuous tracking of the utilisation, including ongoing monitoring and reporting.

One of the most common examples of such structure is the use of high-emission vehicle leases to finance low-emission vehicles. Other examples may include collateral on any existing loan portfolios and deployment of funds towards green assets.

While this structure would result in creation of new green assets, there are various potential concerns attached to the same. For instance, such a structure continues to support financing of carbon-intensive sectors and procedures, and therefore, the effect of decarbonisation will be nullified.

Another concern may be the possibility of “double-counting”. The originator, having committed the proceeds towards green use, will be willing to count the decarbonisation benefits against its own emissions (as a result of borrowing towards carbon-intensive projects). On the other hand, for the investors investing in the PTCs, this would be similar to the green bonds, and they would like to book the reduced emissions to their credit. This will result in "double counting" of the reduced emissions. Therefore, clear guidelines will be required to be framed to avoid such double counting, and the same be made consistent throughout the world; since, in many cases, international investors may also participate in the market.

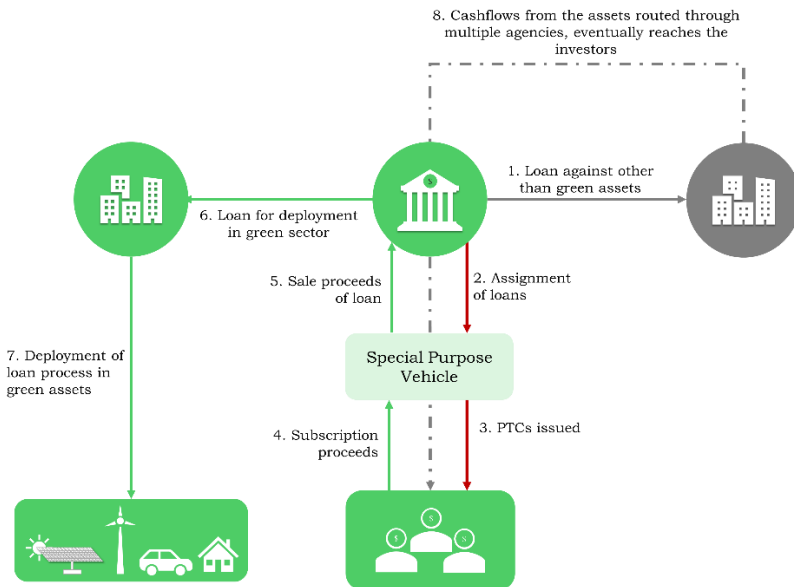


Figure 2: Structure of green capital securitisation

An alternative structure that might help in reaping the benefits of both the structures may be a thought of, where the collateral offered may be predominantly "green", along with a majority proportion of the proceeds earmarked for "green". This will lead to a "multiplier effect", and securitisation may act as a multiplier of total available green finance.

Now another question to be dealt with is, in order to qualify as green securitisation, how much of the cash flows should come from green sources? Most of the jurisdictions across the globe are silent on this matter. China however, is the only jurisdiction which has laid down thresholds for green securitisation, which has been discussed at length subsequently below.

In the other jurisdictions in the absence of any specific prescriptions in this matter, in practice, only where the entire proceeds are deployed in green sectors, the green structure is considered as green securitisation.

Identifying the “green” component

Before delving further into the nitty-gritties of green securitisation, it is relevant to understand what would constitute “green”. Green securitisation is very much a part of

the broader "sustainable finance" framework, and therefore, one may refer to the meaning of "green" in relation to the finance and bonds market. The table below shows the meaning of "green" under various domestic and international regulations and standards including voluntary standards:

Voluntary Standards/Regulations		GBP ICMA	CBI Taxonomy	ASEAN GBS	CHINA GBEPC	EU GBS	RBI Green Deposits	SEBI ILNCS Regs
Renewable Energy		✓	✓	✓	✗	✓	✓	✓
Clean Energy		✓	✓	✓	✓	✓	✓	✓
Pollution prevention		✓	✓	✓	✓	✓	✓	✗
Sustainable land use		✓	✓	✓	✓	✓	✓	✓
Terrestrial and aquatic biodiversity		✓	✓	✓	✗	✓	✓	✓
Clean transportation		✓	✓	✓	✓	✓	✓	✓
Sustainable water management		✓	✓	✓	✓	✓	✓	✓
Climate change adaptation		✓	✗	✓	✗	✓	✓	✓
Circular economy`		✓	✓	✓	✓	✓	✗	✓
Green buildings		✓	✓	✓	✓	✓	✓	✗
Information technology		✗	✓	✗	✗	✓	✗	✗
Green Services		✗	✗	✗	✓	✗	✗	✗

Figure 3: Green sectoral matrix

In the context of green securitisation, the underlying collateral pool typically comprise of financial assets such as mortgages on certified green buildings; electric vehicles (EVs)

and electric vehicle charging stations; solar and wind leasing assets; energy efficiency improvements; loans to green SMEs etc⁴.

State of Green Securitisation world-over

Arguably, the origin of green securitisation can be traced back to the year 2016, when green securitisation debuted in most of the jurisdictions across the globe. The volume of green securitisations has since been on the rise, however, the figures have not been motivating. Green securitisation has been comparatively performing better in the US and China than the European economy. Green securitisation issuance represents only 1.4% of total European green issuance, whereas it stands at 8.1% in China and 32.3% in the US⁵.

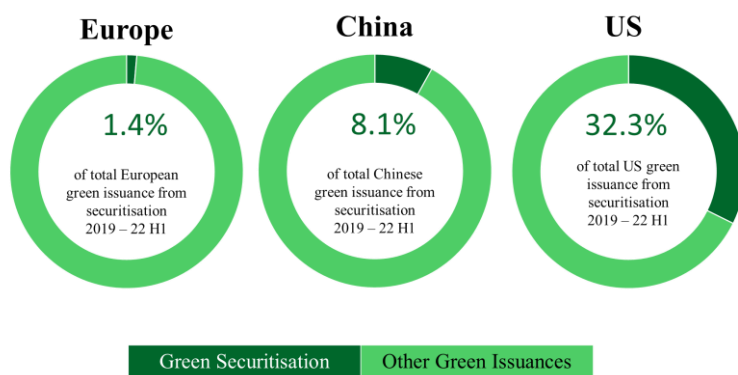


Figure 4: Volume of green issuances in Europe, China, and US
Source: AFME

Green ABS in China

Studies⁶ suggest that the first green ABS model in China dates back to as early as July, 2006 on the base asset of water management projects, however, the same was not labelled

⁴ https://www.climatebonds.net/files/reports/cbi_cn_2020_sotm_04h_1.pdf

⁵ afme.eu/Portals/0/DispatchFeaturedImages/AFME_ESGSecuritisation_2022_07_final-2.pdf

⁶ <https://www.iisd.org/system/files/publications/greening-securitisation-tax-incentives-credit-enhancements-green-bonds-en.pdf>

as “green”. The first labelled green ABS in China was issued by the Industrial Bank of China in the year 2016 on the base asset of a pool of green loans. Since 2016, the green ABS in China has been showing an upward movement both in terms of volume as well as number of such issues, with 2020 being an exception on account of the Covid-19 pandemic.

What is working for China’s “green” ABS market?

One of the major factors driving the development of green finance in China is the active policy support from the regulators. China has been one of the pioneers in coming up with a policy framework on developing a “green” financial system, “green securitisation” being no different. The Central Bank of China along with seven other regulators from China published Guidelines for Establishing the Green Financial System⁷, in September, 2016. One of the various ways in which it aims to promote green finance is through “securitisation of green loans”. In this regard, based on the past pilot programmes on green securitisation, the Guidelines suggested to *“expand the range of participating financial institutions, standardize the selection process of underlying assets, explore efficient and low-cost approaches to collateral registration, improve the market liquidity of securitized assets, enhance information disclosure”*.

China has clear and comprehensive guidelines on what is considered “green”, the quantum of “green” required to label a securitisation as “green ABS”, reporting, disclosure and certification requirements etc.

For an ABS to be labelled as “green” in China, **one or more** of the following thresholds is required to be met:

- a) the **cash flows come from green assets (70% of all pooled assets)**, or
- b) **proceeds are explicitly allocated to green projects or assets (70% of the total funds raised)**, or
- c) the **original asset owner’s main business activity is green (> 50% of total revenue derived from green business, or > 30% of total revenue and profits derived from green business and it’s higher than any other business lines of the asset owner)**.

The issuer is required to disclose on an annual basis, the identification of green ABS, the relevant green projects and its specific category, and the positive environmental impact. What is “green” is indicated through the Green Bond Endorsed Project Catalogue, and

⁷ <http://enrcecf.cufe.edu.cn/info/1002/1171.htm>

projects that are not aligned with the same, require mandatory third-party verification report.

Initiatives that facilitate the development of “green” finance in China

Apart from clear policy frameworks, China has also structured certain “green” related initiatives and programs to facilitate the development of green finance. The country has identified a few green finance pilot zones, to enhance the role of green finance in domestic financial institutions, promote green credit / green insurance / green bonds, explore setting up markets for environmental rights, and developing green finance risk control mechanisms.

The cost of borrowing is lower through green finance including green ABS as compared to other conventional sources, due to policy measures implemented by the People’s Bank of China⁸. These include a carbon-emission reduction facility (CERF) to enable commercial and retail banks to borrow 60% of qualifying green loans from the central bank at an interest rate of 1.75% with a one-year maturity, with an option to rollover twice⁹.

Such incentives, coupled with the availability of green assets, particularly, renewable energy as a result of the strong government support¹⁰ at the embryonic stage, is helping to float major green-ABS issuances in China.

Market overview

An overview of the data available on the Shanghai Stock Exchange indicates 305 listed green ABS securities at volume of RMB 46.71 Bn., whereas, the green bonds occupy another RMB 293.95 Bn. RMB with 545 listed securities¹¹. State-owned enterprises are the major originators of green ABS with “renewable energy” receivables being the major collateral types¹².

⁸ <https://greenfdc.org/green-finance-trends-in-china-1-chinas-green-finance-policy-landscape/>

⁹ <https://www.china-briefing.com/news/chinas-green-finance-market-policies-incentives-investment-opportunities/>

¹⁰ <https://www.china-briefing.com/news/chinas-carbon-neutrality-pledge-new-opportunities-for-foreign-investment-in-renewable-energy/>

¹¹ Last accessed on 30.04.2023 - <http://english.sse.com.cn/markets/greensecurities/>

¹² Based on data as of 2020 -

https://www.climatebonds.net/files/reports/cbi_cn_2020_sotm_04h_1.pdf

The U.S. market is the highest contributor of Green ABS issuances globally

The US is the largest securitisation market in the world, and this holds true for the green securitisations as well. In the US, green securitisation is majorly driven by the solar ABS, and has accounted for over 50% of green ABS issuance every year since 2017¹³. Unlike European countries and China, where there are guidelines defining “green”, the meaning of “green” is mostly consumer-driven in the US.

As per the data reported in Refinitiv¹⁴, the volume of private-label dollar ESG securitisation has reached US\$2.08bn during 2022, up from US\$1.47bn over the same period in 2021. Government mortgage agencies Fannie Mae and Freddie Mac have been the leading all-U.S. ESG issues with active programmes to reduce energy use and promote more affordable housing. Meanwhile, securitisations of solar loans and mortgages on properties with local tax breaks to improve energy efficiency have become a small but steady presence in the ABS sector.

Incentives that impact “green” markets in US

The US continues to capture the greenest market share in the world, and the tax incentives offered by the government contributes to the same. The US has offered tax incentives for bonds financing green buildings as well as renewable energy from 2009, in addition to providing tax incentives to more than 80% of the USD 3.7 trillion municipal bond market.

Credit enhancement tools such as green guarantees issued by Overseas Private Investment Corporation (OPIC), the U.S. Government’s development finance institution further adds up to building the “green” potential. These guarantees are aligned with the ICMA’s GBP¹⁵.

¹³<https://www.globalcapital.com/article/2aohxywsw9vhf6zcs13b4/securitization/us-securitization-market-yet-to-find-its-feet-on-esg>

¹⁴<https://www.refinitiv.com/perspectives/market-insights/u-s-esg-securitisation-supply-picks-up/>

¹⁵<https://www.iisd.org/system/files/publications/greening-securitisation-tax-incentives-credit-enhancements-green-bonds-en.pdf>

Europe's evolving position in sustainable securitisation market

The green securitisation market in EU is still in development stage, and on the basis of a regulatory mandate¹⁶, the European Banking Authority had published a report¹⁷ on developing a specific sustainable securitisation framework on 2nd March, 2022. On the basis of the Report, it is currently concluded that a separate Sustainable Securitisation Framework may be too premature at this stage; rather, the same may be imbibed and made a part of the upcoming EU GBS, with certain adjustments.

For instance, it suggests the ring-fencing of “proceeds” for “green” purposes to be limited at the originator's level, rather than requiring “green collateral” for the securitisation to qualify as “green”. This would tackle the problem of the scarcity of available green collateral for securitisation on one hand, and will help in generating more green assets on the other.

A potential drawback of the proposed structure can be the use of “brown” collateral for “green” securitisation. While such non-dual asset-backed nature is an intermediate step to sail through the transitory phase, “greenwashing” concerns may be kept a check on through adequate disclosures at both originators' and (Securitisation Special Purpose Entity) SSPEs' levels.

Where does Europe stand in the sustainable securitisation market?

The statistics offer a somewhat encouraging or rather, recovering picture of these “green” or broader “sustainable” securitisation markets in Europe. Data suggests that after an exponential rise in the volume of such securitisations in 2021, there has been a sharp fall in the year 2022, and the markets in the first quarter of 2023 itself has matched, if not outgrown the total sustainable market size of 2022. (refer figure 5 and 6)¹⁸.

¹⁶ See para 28 here - <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R0557&from=EN>

¹⁷https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2022/1027593/EBA%20report%20on%20sustainable%20securitisation.pdf

¹⁸<https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME%20Sustainable%20Finance%20Report%20-%20Q1%202023.pdf>

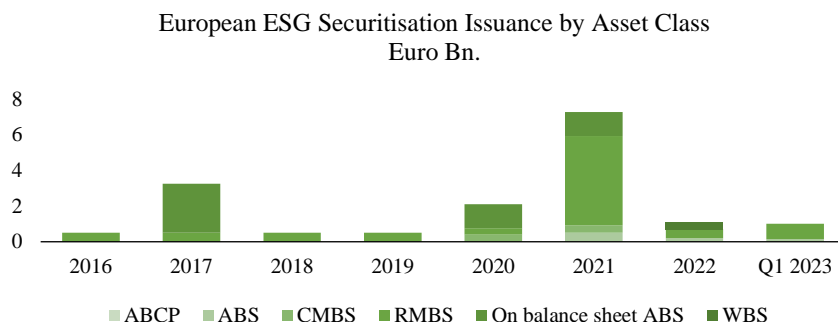


Figure 5: European ESG Securitisation Market
Source: AFME

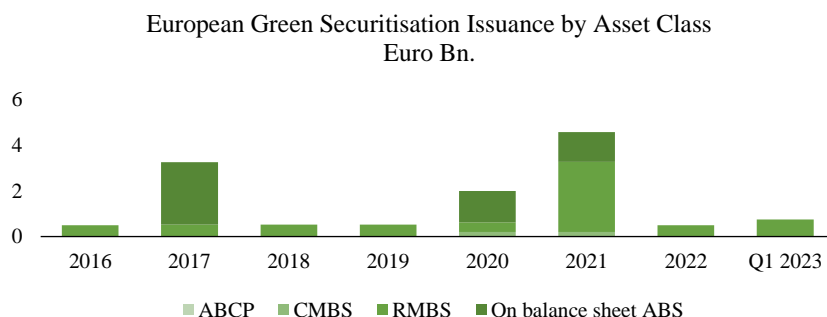


Figure 6: European Green Securitisation Issuance by Asset Class
Source: AFME

Comparing with the total market size of securitisation in Europe in Q1 2023, out of the EUR 35.9 bn of securitised product issuance, 3% of the same consisted of sustainable securitisation. Further, looking at a broader picture of sustainable finance in Europe, while in Q1 2023, ESG Securitisation issuance accumulated €1.1bn in proceeds, the total volume of ESG bonds and sustainable loans aggregated to approximately €116 bn and €29 bn respectively. A report by AFME¹⁹ highlights the potential of green securitisation in Europe to exceed €300 bn annually, focussing on three main sectors, viz., residential

¹⁹<https://www.afme.eu/news/press-releases/details/potential-of-green-securitisation-could-exceed-300-billion-annually-by-2030>

mortgage loans on energy-efficient properties, lending for green home renovation and electric auto financing.

Green covered bonds cover the gap

In Europe, green finance is also supported by another widely-used structure, in the form of “green” covered bonds, largely collateralized against green mortgages that help borrowers buy a sustainable building or renovate an existing one to make it greener²⁰. Data indicates that in the EUR (sub-) benchmark segment, a total of EUR 51.25 bn in sustainable covered bonds were outstanding at the end of the first half of 2022 including EUR 34.55 bn worth green covered bonds²¹.

The green covered bonds may not provide pricing benefits on account of differences in credit risk, since the same is not affected by the “green” label it carries. However, one of the most important differences pertain to the possibility of having access to a larger investor base, since the “green” covered bonds additionally attracts the attention of “ESG-dedicated” investors, apart from traditional covered bond investors. Issuers may gain a pricing advantage on account of “*greenium*”, and while the rate of *greenium* may be low, it still leads to a calculative funding advantage for issuers. Investors gain from such “green” covered bonds by reaping environmental returns, alongside the usual financial returns.

Policy decisions that support “green” development

While there may not be direct incentives for “green” securitisation, however, there are various policy frameworks either in the form of tax incentives, subsidies or preferential treatment etc that has the effect of incentivising the “green” financing. The 2023 Green Finance Strategy²² sets out the UK's continued efforts towards mobilising the green investments required to meet the climate goals. These include support to infrastructure investment through partnership with UK Infrastructure Bank, tax relief for research & development etc.

Further, various EU Member States provide tax support²³ in the form of enhanced depreciation allowances for companies that invest in energy efficient equipment, or by

²⁰<https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/rule-change-set-to-spur-eu-green-covered-bond-market-64119451>

²¹<https://hypo.org/ecbc/publication-news/green-covered-bonds-an-important-contribution-to-climate-neutrality/>

²²https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1149690/mobilising-green-investment-2023-green-finance-strategy.pdf

²³https://taxation-customs.ec.europa.eu/system/files/2021-06/20210615_sustainable_finance_and_tax.pdf

way of revision in the Energy Tax Directive²⁴, thereby linking tax exemptions with green fuels, and removing incentives for use of fossil fuels.

Gaps in sustainable finance and role of green securitisation

The EBA report on sustainable securitisation²⁵ suggests that securitisation has a primary role to play in ensuring availability of sustainable finance. Sustainable securitisation can help to provide the needed push to sustainable finance through the following:

- a) **Improving funding access to sustainable projects:** Many green loans (e.g., rooftop solar photovoltaic, energy efficiency upgrades, electric/hybrid vehicles) are on a relatively small scale to access the capital market. Securitisation enables these small green assets to be aggregated and to have better access to capital and funding.
- b) **Increasing the ability to originate sustainable loans:** Sustainable securitisation allows institutions to obtain funding and to free up capital, which incentivises them to expand their green lending business. In this regard, credit institutions have a key role to play in increasing the funding allocated to sustainable projects given their unique position in facilitating capital flows through their lending, investment and advisory roles. Credit institutions also have the technical underwriting expertise that is critical for assessing the risks and opportunities attached to sustainable assets, especially during the transition phase;
- c) **Expanding the pool of investors in sustainable projects:** Green securitisation offers an investment opportunity to institutions that cannot originate green exposures directly. In addition, compared to other types of green bonds, through the tranching of the bonds, green securitisation provides a broader spectrum of risk/return profiles, thereby expanding the universe of investors interested in sustainable finance instruments;
- d) **Limiting sector exposures to the green industry and reducing concentration risk:** The growth in credit lending to a single sector, such as renewable power, could cause institutions to reach exposure limits, but the securitisation of parts of these exposures could reduce an institution's exposure to a single sector. For investors, a selection process targeting a diversified pool of underlying loans (e.g. diversified by geography, types of borrowers or types of assets) can limit the concentration risk of the collateral pool;

²⁴ https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3662

²⁵ https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2022/1027593/EBA%20report%20on%20sustainable%20securitisation.pdf

- e) **Helping match investors' liabilities with asset tenors:** Investors in ABS may include pension and insurance companies with long-dated liabilities. An ABS programme can vary maturities according to the existing demand in the market and replenish the collateral pool with new assets during the life of the ABS programme. Securitisation may be well-suited to green financing by allowing institutions to offer lending to longer dated sustainable infrastructure projects.

A case for Green Securitisation in India

Financing needs and funding gap

India is one of the signatories to the ambitious Paris Agreement, has certain Nationally Determined Contributions (NDCs) towards achieving its climate-neutrality goals. Various studies estimate the green financing needs of the country, including the present funding gap. The Climate Policy Initiative estimates that the country requires approximately INR 162.5 lakh crores (USD 2.5 trillion) from 2015 to 2030, or roughly INR 11 lakh crores (USD 170 billion) per year, to meet its stated NDCs²⁶. A CEEW-CEF analysis²⁷ estimates that India would require cumulative investments of US \$10.1 trillion to achieve net-zero emissions by 2070. The study also estimates that there is a high chance that India could face a substantial investment deficit of US \$3.5 trillion.

Figure 7 demonstrates the existing gap in green financing as on FY 17 and FY 18. While the situation may have improved during FY 21 and

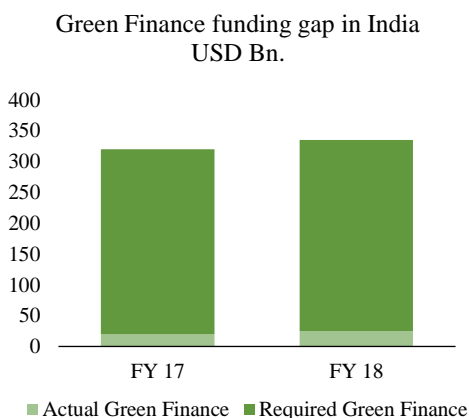


Figure 7: Green Finance funding gap in India
Source: Climate Policy Initiative

²⁶<https://www.climatepolicyinitiative.org/wp-content/uploads/2022/08/Landscape-of-Green-Finance-in-India-2022-Full-Report.pdf>

²⁷<https://www.ceew.in/cef/solutions-factory/publications/investment-sizing-india-s-2070-net-zero-target>

FY 22, due to increased issuance of green bonds, including the sovereign green bonds issued by the GoI; a sizable gap still persists. A press release²⁸ dating back to November, 2022 suggests that the current tracked green finance in India represents less than 25 percent of the total requirement across sectors just to meet the NDCs. Therefore, evidently, there is a deep funding gap, which also suggests the existence of great potential for sustainable finance in India in times to come.

India has a massive need for investment in green infrastructure building, and estimates indicate that USD4.5tn is needed over the next ten years to meet the government's ambitious targets for renewable energy and urban sustainability²⁹. Few of the identified priority sectors include expansion of renewable energy capacity, electrification of road vehicles to improve air quality, need for affordable housing with highest energy efficiency standards, to name a few³⁰.

Recently, RBI has published the Report on Currency and Finance 2022-23³¹, which, on the basis of estimates by various institutions, as also mentioned above, indicates that the total financing requirements by India could be approximately 5 to 6 percent of the annual GDP at the lower end.

Existing sources of sustainable funding

More than 80% of sustainable finance in India is sourced from domestic investments, which rely heavily on the private sector (almost 60%). The share of international sources has marginally increased from 2019 to 2020 from 13% to 17%. Amongst the domestic sources, the commercial financial institutions constitute the largest proportion, followed by the corporations³².

²⁸<https://bfsi.economictimes.indiatimes.com/news/industry/india-needs-rs-162-lakh-crore-green-finance-till-2030-amid-rising-funding-costs/95397962>

²⁹ The estimate pertains to the year 2018 -

<https://www.newindianexpress.com/business/2018/jun/25/infrastructure-investment-for-usd-45-trillion-a-challenge-finance-minister-piyush-goyal-1833414.html>

³⁰<https://www.climatebonds.net/files/reports/securitisation-as-an-enabler-of-green-asset-finance-in-india-report-15052020.pdf>

³¹<https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/RCF03052023395FAF37181E40188BA-D3AFA59BF3907.PDF>

³²<https://www.climatepolicyinitiative.org/wp-content/uploads/2022/08/Landscape-of-Green-Finance-in-India-2022-Full-Report.pdf>

Sources of Green Finance in India

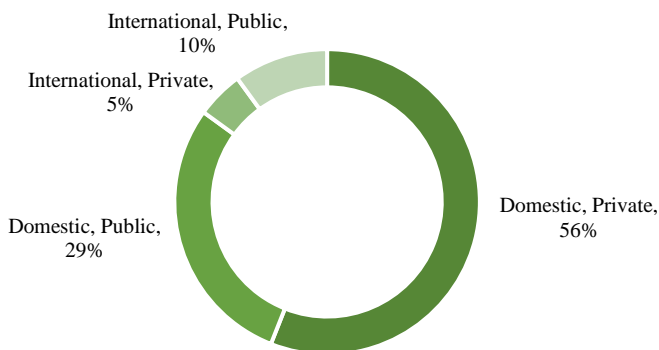


Figure 8: Sources of Green Finance in India
Source: Climate Policy Initiative

A 2018 report³³ on the potential of green securitisation in India suggests the following sources of short-term and long-term green financing in India –

Short-term funds	Long-term funds
<ol style="list-style-type: none"> 1. Regional/ rural banks 2. Commercial banks 3. NBFCs 4. Equipment financiers 5. Indian DFIs 	<ol style="list-style-type: none"> 1. Commercial banks 2. Export-import banks 3. International DFIs 4. Indian DFIs

The funding can be majorly classified into two - (a) green lending, and (b) green bonds. We discuss briefly about each of them below.

(a) Green lending

As per a recent RBI report, the inclusion of renewable energy sector under priority sector lending has led to an increase in the credit deployed to the renewable energy sources by banks over years (see figure 9). Given the data, it becomes clear that presently, less than 1% of the total bank credit available in the country is deployed to renewable energy

³³<https://www.climatebonds.net/files/reports/securitisation-as-an-enabler-of-green-asset-finance-in-india-report-15052020.pdf>

generation. Although the share of bank credit deployed to renewable energy out of the total credit to energy sector also remains low, the same is still on an ascending scale over the past few years, with 2020 being an exception.

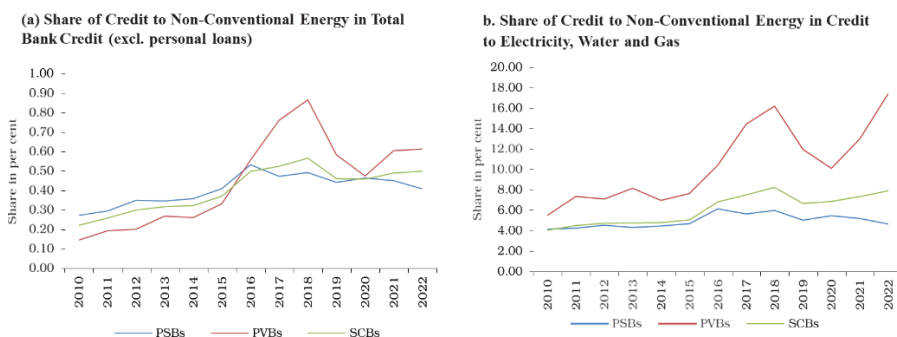


Figure 9: Credit deployment in RE segment

Source: RBI

Here it is imperative to mention that renewable energy is, but only one of the many sectors of green financing. However, the other green sectors do not require reporting separately, and therefore, data pertaining to the same is not available. For instance, total credit deployed to vehicle financing, includes financing of EVs too, portfolio of housing and infrastructure loans includes loans granted for energy-efficient buildings too.

The Union Budget 2023-24³⁴ also has a mention of Green Credit Programme, however, modalities of the same are not yet known, and it is difficult to state as to whether the same would be instrumental in increasing the total green finance available in the country.

(b) Green bonds

As compared to the state of green bank credit in India, the statistics on green bonds appear rather encouraging. As on April 28, 2023, 63 green bonds were issued in India. Issuer-wise break up shows that corporates and PSUs have issued the highest number of these bonds. Another report³⁵ shows that most of the green bonds issued have maturities of five years or above, but less than 10 years, save as few exceptions to this where the maturity ranges to more than 10 years as well. Around 76 per cent of the green bonds issued in India since 2015 were denominated in US\$, and are funded from international sources.

³⁴ https://www.indiabudget.gov.in/doc/Budget_Speech.pdf

³⁵ https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/04AR_2101202185D9B6905ADD465CB7DD280B88266F77.PDF

Green bonds issuances, by issuers

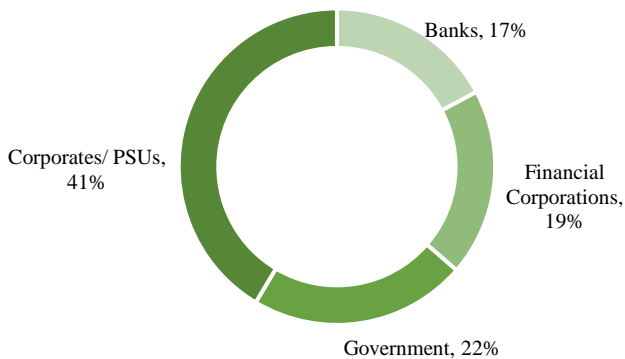


Figure 10: Green bond issuances, by issuers, in percentage³⁶
Source: Bloomberg

Challenges and way forward: Can green securitisation bridge the gap?

From the data and statistics reported above, it is clear that there is a massive funding need and while the bank credits and bonds markets are working towards filling the gap, a sizable funding gap still exists. Therefore, it becomes imperative to understand the challenges faced by the existing funding structure and whether as well as how green securitisation may be implemented towards bridging the gap.

- **High borrowing costs:** Generally speaking, green bonds are expected to have a lower cost of borrowing due to the “*greenium*” associated with the same. However, the Indian green bond issuances have historically been resulting in a higher cost of borrowing as compared to the “brown” counterparts (see figure 11). The reason for such higher costs can be attributed to the higher risk perception of the investor. The higher risk perception is on account of other shortcomings or challenges associated with the green finance market at present, as discussed in the points that follow.

³⁶ Government green bonds includes municipal bonds as well

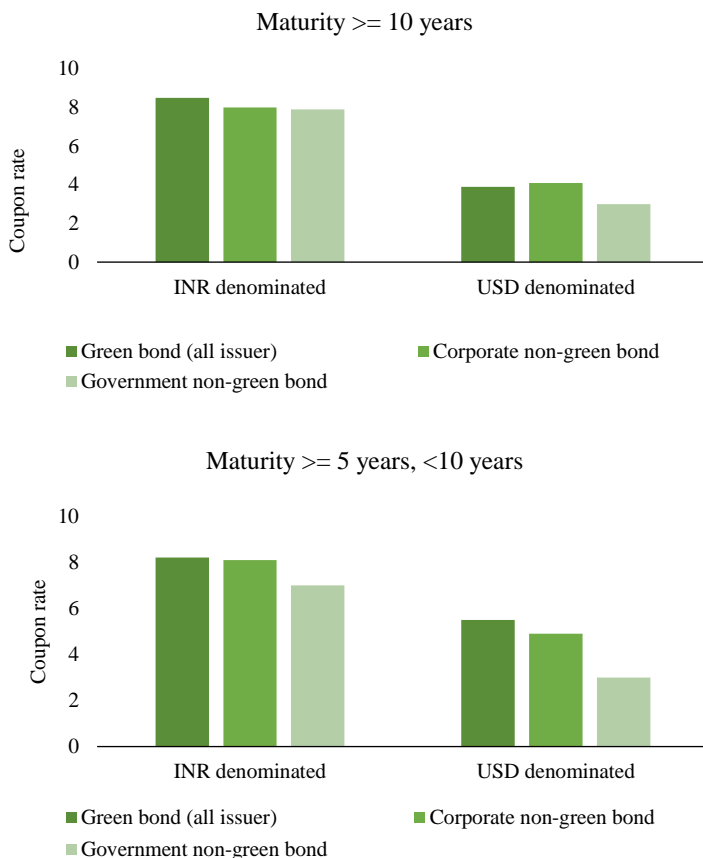


Figure 11: Cost of borrowing of green and non-green securities

Source: RBI

- **Information asymmetry:** The use of “green” label requires reliance on data, and data available on the past ESG-positive practices of an issuer may be relatively scant on account of immature ESG reporting requirements. ESG reports are mostly being adopted by companies on a voluntary basis, and it is only recently that a comprehensive Business Responsibility and Sustainability Report (BRSR) has been made mandatory by SEBI, that too, only on the top 1000 listed entities on the basis of market capitalization. Available data is not enough to provide security to the investors against risks of greenwashing.
- **Maturity mismatches between issuers’ requirements and investors’ interests:** This is yet another significant issue that may act as a roadblock to

the existing green finance market in India. The transition from a carbon-intensive ecosystem to a low-carbon green economy requires long term investments as compared to the investment interests of the investors which may generally be short-term. This may result in mismatch of the maturities of the assets-liabilities profile of issuers.

- **Lack of demand due to lower ratings:** Issuers with poor financial health and holding lower credit ratings suffer from a lack of demand for their instruments by the local investors, thereby making it difficult for them to raise green finance through markets. Therefore, credit enhancement measures are one important requirement for the growth of sustainable finance in India.

Therefore, the major challenges that sustainable finance in India is currently exposed to may be summarised as high borrowing costs, concerns on greenwashing due to information symmetry, plurality of green finance definitions, maturity mismatches between long-term green investment and relatively short-term interests of investors.

A Report³⁷ released by the Expert Committee on Sustainable Finance in 2022 suggests various alternative and innovative models for building a sustainable economy, including green securitisation. A 2018 report by Climate Bonds Initiative titled ‘Securitisation as an enabler of green asset finance in India’³⁸ also discusses how green securitisation may be instrumental in catering to the need of sustainable finance in India. Below we discuss the potential model for green securitisation in the context of India, on the basis of the current market scenario.

³⁷ <https://ifsc.gov.in/Viewer/ReportandPublication/33>

³⁸ <https://www.climatebonds.net/files/reports/securitisation-as-an-enabler-of-green-asset-finance-in-india-report-15052020.pdf>

Potential structure for Green Securitisation in India

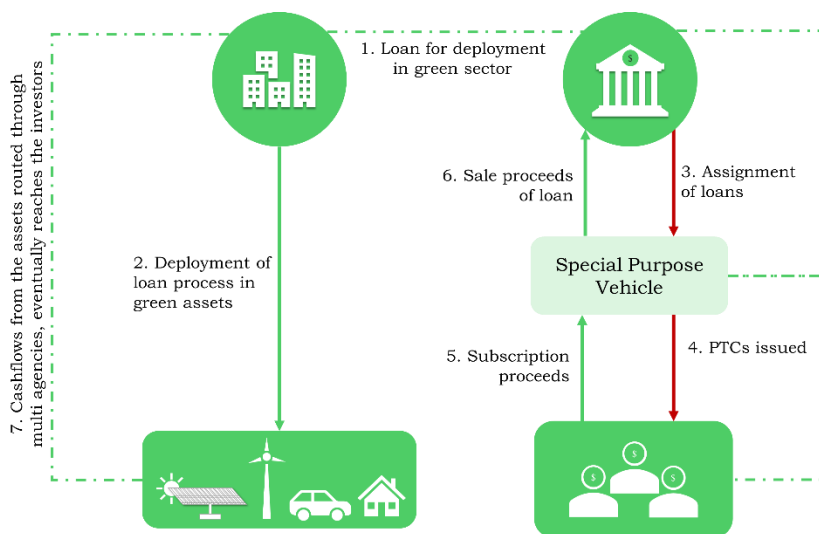


Figure 12: Proposed structure for Green Securitisation in India

Source: RBI

A typical green securitisation structure may include a financier providing loans for the purpose of deployment of the same into the green assets. These “green loans” in turn, may be assigned to a special purpose vehicle (SPV) created for the purpose. These SPVs may issue PTCs to an identified group of investors and the issue proceeds, in turn, will be used for the payment of sale proceeds of the loans assigned by the originator.

During the transition period, in the absence of adequate “green” collateral, a structure providing collateral on “brown” assets, while using the assets for “green” purposes may be designed, as also recommended by the EBA in the context of the EU. Here, the freed-up capital of the originator, in turn, may be ring-fenced for deployment into green assets.

Below we discuss the structure along with the nature of participants involved in detail.

Potential originator classes

Banks:

Glancing through the figures provided in the foregoing part of the study, it is noticeable that banks are one of the major contributors to the green financing needs of the country; therefore, may act as the originator for green financial assets. Reasons for the same may be attributed to the easy access of capital availability with the banks, coupled with the

regulatory mandate³⁹ on priority-sector lending that includes renewable energy as one of the eligible sectors.

That said, the participation of banks as originators in the context of green securitisation may not materialise in great volumes given that the demand for capital is easily met by banks having access to the cheapest modes of financing, being the savings and current deposits from customers. On the other hand, one may like to explore the opportunities of growth in green securitisation with banks being one of the major originators, considering the possibility of asset-liability mismatch. Such mismatches may arise due to the short-term liquid nature of these deposits as against the long tenure of the green loans, which may require the banks to take support of the securitisation structures.

Non-banking financial companies (NBFCs) including Housing Finance Companies (HFCs):

These may be major originators of the green securitisation. Securitisation in India is largely originated by NBFCs and HFCs due to the increase in credit demand⁴⁰. Unlike banks, that have a cheap and readily available source of financing, NBFCs and HFCs are more dependent on assignment of loan exposures in order to free up their capital for further expansion.

Given the asset classes that may be eligible for green ABS in India (*refer detailed discussion below*), it offers a great opportunity for NBFCs and HFCs to deploy their funds to the cause of “green” on one hand, while also availing the benefits of capital relief through securitisation arrangements.

Infrastructure Finance Companies (IFCs):

These are one of the sub-types of NBFCs, based on the asset class involved. By definition⁴¹, IFCs are required to deploy a minimum of 75% of its total assets in infrastructure loans. In the transition phase, the country requires voluminous deployment of funds towards building of green infrastructure, and therefore, IFCs may come to a rescue. Infrastructure loans will generally be given for a long tenure, and therefore, there may be risks of mismatches in the maturities of the assets and liabilities. Here, securitisation may act as a device to free up necessary resources in order to fill the gap.

³⁹ https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11959

⁴⁰ <https://www.icra.in/Media/OpenMedia?Key=1e921b53-c62f-46dd-9321-a1414b29d30e>

⁴¹ <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/45MD01092016B52D6E12D49F411DB63F67F2344A4E09.PDF>

Potential asset classes

For a pure green collateral securitisation, the nature of assets involved would be green. In the absence of an existing taxonomy for green in India, we take the meaning of “green” from the reference material available in the Indian context, such as, the SEBI (ILNCS) Regulations, 2021 or RBI’s Green Deposit Framework, to name a few (*see discussion in the first part of the Paper*). For the purpose of the present discussion, we may classify the assets broadly as wholesale assets and retail assets.

Wholesale assets:

These would generally involve large infrastructure projects, such as loans deployed for the purpose of installation of solar energy systems (solar ABS) or building clean transportation infrastructure etc. Such ABS would generally be floated by IFCs or other financial institutions providing infrastructure-related loans. The number of assets involved in a pool of wholesale assets being less, there is a high concentration risk involved with the same.

Retail assets:

Retail assets will generally have smaller ticket size as compared to the wholesale assets, and therefore, this would require aggregation of a number of green assets to create a pool of receivables for securitisation. These are generally expected to gain more investors due to a lower level of concentration risk involved, consequent to access to a diversified pool of assets.

Going by the current market trends, in the context of green securitisation, this may include the green buildings, including renovation of the existing buildings to make them more energy-efficient, electric vehicles (EVs) and rooftop solar catering to the needs of households, to name a few.

The performance of India has been quite encouraging in green buildings, and the position of India has been uplifted from the third position with 146 projects in 2021⁴² to second position with 323 projects in 2022⁴³ as per the US Green Building Council (USGBC). As the demand for green buildings continues to increase, so will be the need for finance for the same. Such loans would mostly be generated by housing finance companies, and therefore, they may act as potential originators of MBS on green buildings.

⁴² <https://www.usgbc.org/articles/usgbc-announces-top-10-countries-and-regions-leed-2021>

⁴³ <https://www.usgbc.org/articles/top-10-countries-leed-demonstrate-green-building-truly-global-movement>

EVs are another green asset class, demand for which is growing at a fast pace. While the government provides incentives for EV manufacturing, through its FAME scheme, access to capital may be considered as yet another hurdle for India's electric mobility transition. A Niti Aayog Report⁴⁴ estimates that between 2020 and 2030, the estimated cumulative capital cost of the country's EV transition will be INR19.7 lakh crore (USD266 billion)—across vehicles, electric vehicle supply equipment (EVSE), and batteries (including replacements). The estimated size of the annual EV finance market will be INR 3.7 lakh crores (USD50 billion) in 2030.

On the securitisation front, while there does not seem to be any precedents on EV securitisation in India, vehicle financing constitutes a generous portion of the retail market, and agencies⁴⁵ report around 63% of the PTC issuance constituting vehicle financing only. Such dearth of data on EV financing specifically may also be due to the absence of EV loans as a specific loan category for reporting.

Though in low volumes, green assets are not entirely non-existent in the country. Further, there may be cases where an asset, though not labelled as “green”, would actually qualify the test for green. Such assets should also be identified as “green”; and to start with, such assets may be utilized as collateral for green securitisation.

A transition model may also be considered, where the collateral offered for green securitisation may be loans on existing carbon-intensive “brown” sectors, while the use of proceeds/ capital freed up from such securitisation may be linked with “green” purposes.

Potential investor classes

One of the primary motivations behind the securitisation is the asset-liability mismatches and the need to free up capital. Therefore, the investors in the primary market should majorly comprise long-term investors, and mobilization of funds from institutional investors may fill the long-term funding requirements. These may include pension funds, insurance companies and wealth funds. On top of these, the “green” labelling attached to these notes may open additional sources of financing through impact investors.

Let us assess the regulatory permissibility of investment in securitised notes along with the motivations for the various categories of investors.

⁴⁴https://e-amrit.niti.gov.in/assets/admin/dist/img/new-fronend-img/report-pdf/mobilising_finance_for_evs_in_india_compressed-1-10.pdf

⁴⁵https://www.careratings.com/uploads/newsfiles/12012023070611_Retail_Asset_Securitisation-53_per_cent_growth_in_9MFY23.pdf

Pension funds:

Pension funds are permitted⁴⁶ to invest in certain types of assets backed, structured investments, upto 5% of total investment funds. The investment is subject to minimum credit rating of AA or equivalent and above from at least two credit rating agencies registered with SEBI. Additionally, for SEBI-regulated ABS, a minimum rating of AAA is required.

The category of eligible structure” Investments includes the following--

- a) Commercial mortgage-backed securities or Residential mortgage-backed securities
- b) Asset backed securities regulated by SEBI
- c) Units issued by REITs and InvITs regulated by SEBI

The conditions restrict, if not completely rule away the possibility of accessing funds available with pension funds for the purpose of green securitisation.

Insurance companies:

Permissible investments for insurance companies in India is specified under the IRDAI (Investment) Regulations, 2016⁴⁷ read with the Investments - Master Circular⁴⁸. As per the applicable regulations, insurance companies are permitted to invest in Asset-Backed Securities (ABS) with underlying Housing and/ or Infrastructure assets⁴⁹ subject to certain thresholds and specified conditions pertaining to the performance of such assets⁵⁰. Therefore, while insurance companies may not be the target investor class for retail assets, these may be important investors when it comes to financing securitisation of large wholesale assets.

ESG Mutual Funds:

Green securitised notes may also attract investments from mutual funds, particularly ESG mutual funds. Mutual funds in India are regulated by the SEBI (Mutual Fund)

⁴⁶<https://www.pfrda.org.in/myauth/admin/showimg.cshhtml?ID=1972>

⁴⁷ <https://irdai.gov.in/document-detail?documentId=383055>

⁴⁸ <https://irdai.gov.in/document-detail?documentId=1457059>

⁴⁹ as defined under Regulation 2(h) of IRDAI (Investment) Regulations, 2016, as amended from time to time

⁵⁰ Refer to the detailed discussion under Infrastructure Securitisation

Regulations, 1996⁵¹ read with the Master Circular for Mutual Funds⁵². The Regulations permits mutual funds to invest in securitised debt instruments, which are either ABS or MBS.

The investments are further subject to the restrictions specified under Seventh Schedule to the Regulations. Single-issuer exposure shall be restricted to 10% of the NAV of the mutual fund in debt instruments, and can be made in MBS debt, rated investment grade or above by a SEBI registered CRA. The Master Circular clarifies that such limits are not applicable at the originator's level.

Apart from the guidelines applicable to mutual funds in general, for ESG mutual funds, SEBI has approved certain additional investment conditions in the board meeting held on 23rd March, 2023⁵³. These are not applicable yet, pending notification of the same. However, once the same becomes applicable, at least 65% of the total AUM will be required to be invested in such listed entities, where assurance on BRSR Core is taken. BRSR is a sustainability reporting framework mandated by SEBI for top 1000 listed entities on the basis of market capitalization, and BRSR Core is a limited set of Key Performance Indicators (KPIs) in connection with BRSR for external assurance. The same is proposed to be made applicable to top 150 listed entities starting FY 23-24, to be gradually extended to top 1000 listed entities.

The mutual fund industry has shown a 5x growth over a period of 10 years, and as on 31st March, 2023, the total AUM of the Indian mutual fund industry stands at Rs. 39.42 trillion, as per AMFI⁵⁴. The ESG funds in India constituted approximately Rs. 119.81 billion worth of AUM as on August, 2022⁵⁵.

⁵¹<https://www.sebi.gov.in/legal/regulations/feb-2023/securities-and-exchange-board-of-india-mutual-funds-regulations-1996-last-amended-on-february-07-2023-69213.html>

⁵²https://www.sebi.gov.in/web/?file=/sebi_data/attachdocs/aug-2020/1598290319809.pdf#page=1&zoom=page-width,-17,792

⁵³https://www.sebi.gov.in/media/press-releases/mar-2023/sebi-board-meeting_69552.html

⁵⁴<https://www.amfiindia.com/indian-mutual>

⁵⁵<https://www.bqprime.com/business/esg-mutual-funds-in-india-are-having-a-reality-check>

AUM of ESG funds (Rs. crores)

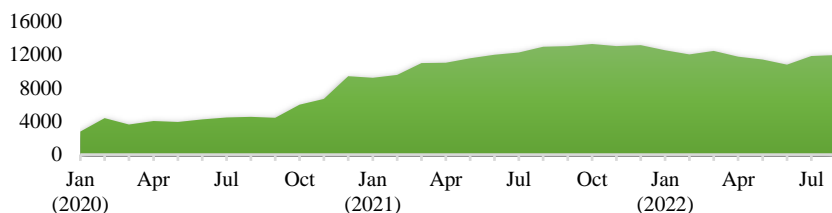


Figure 13: AUM of ESG Funds (in crores)

Source: Morningstar India

Sovereign Wealth Funds (SWFs):

Sovereign wealth funds are also one of the major investor classes in India, and statistics⁵⁶ indicate that global SWFs have increased their direct investments in India to US\$ 6.712 billion in 2022 versus US\$ 3.797 billion in 2021. Popular industries by size for direct investments by SWFs into India include healthcare facilities and hospitals, movies and film, asset management, and renewables such as solar and wind power. SWFs are traditionally passive, long-term investors and therefore, perfectly suited for investment in securitised notes.

SWFs are required to register themselves as a Category I Foreign Portfolio Investor with SEBI under the SEBI (Foreign Portfolio Investors) Regulations, 2019⁵⁷ in order to hold investments in India. A working paper of the World Bank of December 2017⁵⁸ discusses the role of SWFs in green investment, and includes references to existing cases of such investments all around the world including in India. Examples of such SWFs include Abu Dhabi Investment Authority, GIC, Future Fund etc to name a few, that have invested primarily in the green infrastructure and renewable energy sector in India. These SWFs may also be instrumental in procuring funds for the green securitisation issuances.

⁵⁶<https://www.swfinstitute.org/news/95321/direct-investments-sovereign-wealth-funds-double-down-in-india-in-2022>

⁵⁷<https://www.sebi.gov.in/legal/regulations/mar-2023/securities-and-exchange-board-of-india-foreign-portfolio-investors-regulations-2019-last-amended-on-march-15-2023-69570.html>

⁵⁸<https://greenfiscalspolicy.org/wp-content/uploads/2020/08/SWF-Final-Study-28.5.2018-1.pdf>

Impact investors:

Impact investors, as the name suggests, are investors that make investments for achievement of desired impact. These are investors that seek certain environmental or social impacts, alongside earning financial returns. These impact investors are primarily institutional investors (refer discussions above), although they may also include retail individual investors. IIC's Report from 2021⁵⁹ shows that out of a total of \$6.8 billion mobilised through impact investing, the climate tech sector gained a spotlight with as much as \$ 590 million worth of funds invested there. Within the climate tech sector, sustainable mobility through EVs remained a star performer, covering almost 80% of the total investments in the sector.

Climate-tech	2019		2020		2021	
	\$ Value (Mn)	# of Deals	\$ Value (Mn)	# of Deals	\$ Value (Mn)	# of Deals
Energy	82	9	45	11	44	10
Sustainable Mobility	398	30	84	24	468	39
Environment and Natural Resources	7	7	1	2	18	10
Waste Management & Circular Economy	6	6	54	9	8	4
Climate-smart Agriculture & Food	18	9	6	6	12	6
Others	25	3	5	5	40	10

Re-adjustment of existing incentives to support green securitisation

There are various fiscal and financial incentives in place in India that promote the generation of green assets. A list of such incentives may also be referred from an article

⁵⁹http://iiic.in/wp-content/uploads/IIC_2021_in_retrospect.pdf

titled Green Finance in India: Progress and Challenges⁶⁰ reported in the RBI Bulletin of January 2021. Few of these incentives are listed below -

- The Government of India (GoI) offers 30 percent of the installation cost of the rooftop solar panels as a subsidy to the institutional, residential and social sectors in most states. In some of the special category states¹², the subsidy is up to 70 per cent of the installation cost. In addition, beneficiaries can avail a generation-based incentive wherein they can receive Rs. 2 per unit of generation, if the generation exceeds 1100kWh-1500kWh per year. Further, the excess power can be sold at a tariff set by the government.
- The GoI launched two phases of Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME) scheme in 2015 and 2019, to enhance the flow of credit, reducing the up-front purchase price of all vehicles and developing the infrastructures (such as charging stations) to encourage green vehicle production and sales.
- In order to counter the high up-front cost of such vehicles, the State Bank of India has introduced a 'green car loans' scheme for electric vehicles with 20 basis points lower interest rate and longer repayment window, compared to the existing car loans
- The Government has also brought in a Production Linked Incentive (PLI) Scheme for manufacturing of high efficiency modules in the arena of renewable energy.
- The addition of renewable energy sector under priority sector lending by RBI, under which firms in renewable energy sector are eligible for loans upto Rs. 30 crore, and households upto Rs. 10 crores.

These incentives may further be re-designed to provide for inclusion of green securitisation within the beneficiaries of the green framing.

Roadblocks to green securitisation

A report⁶¹ on the global structured finance published in Jan, 2022 indicates that while the annual issuance in sustainable debt bonds witnessed an increase, however, growth in sustainable structured finance issuance has been limited. Green securitisation is still in an evolving phase and is exposed to a couple of challenges presently. These include -

- **Determining what constitutes green securitisation:** Except for China, there are no clear guidelines on the factors that contribute to labelling a securitisation

⁶⁰https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/04AR_2101202185D9B6905ADD465CB7DD280B88266F77.PDF

⁶¹ https://www.spglobal.com/_assets/documents/ratings/research/100993747.pdf

arrangement as “green”. This creates a confusion in the minds of the investors with respect to achievement of investment goals.

Recommendation: Having a set of consistent standards on what would constitute as “green securitisation” is expected to support market growth by allowing investors to identify and analyse transactions. To this end, various countries are already thinking about and working towards framing their own green taxonomies. Further, the taxonomies should be made consistent across jurisdictions, for an ease of understanding and mobilising international finance.

- **Incentivising the “green” growth:** While green augmentation may be a costly affair, the absence of any incentives as compared to the carbon-intensive activities make it appear more-dull.

Recommendation: The growth of “green securitisation” can be accelerated through use of incentives in the form of favourable tax or capital relief for investors. Regulatory framework and incentives may also be designed in a manner to improve and increase the demand for green assets. For example, countries like China, India, USA, European Union etc have adopted various fiscal and other incentives to support the market for EVs⁶². Further, India may consider addition of other “green” sectors within the priority-sector lending mandates. For institutional investors, their scope of permissible investments may be increased to make commitments in green finance.

- **Absence of standardised ESG reporting framework:** The limited availability of necessary data in respect of the “green” component of an asset class or loan etc adds up to one of the barriers towards green securitisation. Insufficient reporting leads to greenwashing concerns, and therefore, influences the decision making of the investors in investing in any green-labelled product. The gap is created due to the inconsistent and non-mandatory nature of non-financial reporting around the world⁶³.

Recommendation: A standardised ESG reporting framework needs to be put in place. Presently, there are various voluntary sustainability reporting frameworks around the world. Further, the capital market regulators as well as stock exchanges also provide ESG reporting mandate for listed entities across few jurisdictions. A streamlined reporting framework providing consistent and comparable data (both qualitative and quantitative) may help put up a better ESG resilient system in place.

⁶²<https://www.iea.org/reports/global-ev-outlook-2021/policies-to-promote-electric-vehicle-deployment>

⁶³ <https://www.pggm.nl/en/blogs/green-securitisation-it-s-all-about-the-data/>

- **Limited availability of ESG-compliant collateral:** Majority of countries are inching towards the transitory phase from a “brown” economy to a “green” economy. That said, the availability of green assets is very limited so as to constitute collateral for green securitisation. An approach to take care of the same would be to permit transition finance (using brown collateral to free up capital for investment in green assets) or sustainability-linked structure as an eligible structure in green securitisation.

Recommendation: This, again, would first of all require a clear definition of “green” to ensure better identification, followed by motivations leading to creation of more such green assets. That will help in increasing the volume of green collateral over coming years.

- **Concerns on the legitimacy and credibility of instruments with a green label:** The market participants otherwise willing to participate in green securitisation markets, as a part of adherence to their responsible investment principles, may find it difficult to rely on the green/ sustainable labels of the instrument being offered in the market, due to increasing greenwashing concerns.

Recommendations: Disclosures coupled with assurance through third-party verifications and reviews may help in limiting the greenwashing practices; thereby creating a more reliable and healthy market for green financing instruments. Various jurisdictions are already working towards the same, including in India, where SEBI has extended such assurance frameworks to green bonds, as well as sustainability reports of large listed entities, to start with.

- **Unfavourable risk-return profile:** Green-labelled instruments may be perceived to be more risky, as compared to its brown counterparts, due to the lack of financial track record and technological risks.

Recommendations: While the risk-return profile may turn out to be favourable over time, policy interventions⁶⁴ may accelerate the process by reducing associated risks or otherwise increasing the potential of generating returns out of such instruments. Therefore, at the embryonic stage, support needs to come from the government and policymakers in the form of incentives, credit enhancement etc.

⁶⁴ <https://www.climatebonds.net/policy/policy-areas/improving-risk-return-profile>

This is a property of Vinod Kothari Consultants P. Ltd.

No part of it can be copied, reproduced or distributed in any manner, without explicit prior permission. In case of linking, please do give credit and full link.

This is only for academic purposes; this is not intended to be a professional advice or opinion.

Anyone relying on this does so at one's own discretion.

Please do consult your professional consultant for any matter covered by this presentation.

No circulation, publication, or unauthorised use of the presentation in any form is allowed, except with our prior written permission.

No part of this is intended to be solicitation of professional assignment.

For queries/ comments, please reach out to:

Payal Agarwal

Manager

payal@vinodkothari.com

Financial Services Division: finserv@vinodkothari.com

Vinod Kothari Consultants P. Ltd.

Kolkata	Mumbai
1006-1009, Krishna Building, 224, AJC Bose Road, Kolkata – 700 017 Telephone: 033- 2281 3742/ 4001 0157 Email: info@vinodkothari.com	403-406, 175 Shreyas Chambers, D.N. Road, Fort, Mumbai – 400 001 Telephone: 022 2261 4021/ 022 6237 0959 Email: bombay@vinodkothari.com
New Delhi	Bengaluru
Nukleus, 501 & 501A, 5th Floor, Salcon Rasvilas, District Centre, Saket, New Delhi, Delhi 110017 Telephone: 011-4131 5340 Email: delhi@vinodkothari.com	4, Union Street, Infantry Rd, Shivaji Nagar, Bengaluru, Karnataka 560001 Telephone: 022 2261 4021/ 022 6237 0959 Email: info@vinodkothari.com