

## ICRA's CLIMATE SERIES Green Bond Framework

Step in right direction for climate goals; close monitoring needed to ensure smooth and timely funding January 2023

## **CLIMATE CHANGE**

The biggest crisis of our time

## **Overview**



Unlike developed nations that had started their climate infrastructure early in the last decade, India is a late entrant with plans to issue Sovereign Green Bonds in Q4 FY2023.

The Government needs to closely monitor the progress to address potential delays in implementation and ensure timely execution to achieve climate goals.



The issuance of Sovereign Green Bonds will help the Government of India (GoI) in tapping the requisite finance from potential investors. The proceeds from the bond will be used for deployment in public sector projects aimed at reducing the carbon intensity.



Ministry of Finance (MoF) plans to form a committee, which will meet at least twice a year, to select projects and ensure that funds are allocated within 24 months from the date of issuance, according to the framework.

MoF to focus on sectors, which have the highest carbon emissions i.e. power, transport and industry. This is visible from the selection of eligible projects for Green Bonds, which include projects from renewable energy, projects for electrification of transport and supporting infrastructure, projects for pollution control and prevention etc.

The Government is expected to issue small tranches of Green Bonds in Q4 FY2023 to test the appetite, the first such tranche is expected at ~Rs. 0.16 trillion. These bonds are expected to form ~1-2% of the total Indian bond market for the current fiscal and are likely to go up to 2-3% for the next financial year.

Developing nations are late entrants to the Sovereign Green Bond market with issuances in the last two years. China, which started issuing Sovereign Green Bonds from 2021, now holds ~15% of the yearly global issuances. However, other countries like Thailand and Indonesia have a negligible share. India, which may issue Sovereign Green Bonds in Q4FY23, may have ~3-5% share in yearly global issuances in near to medium term.

Sovereign Green Bonds may have a longer tenure and lower coupon rate than corporate Green Bonds, similar to the trend seen in China.

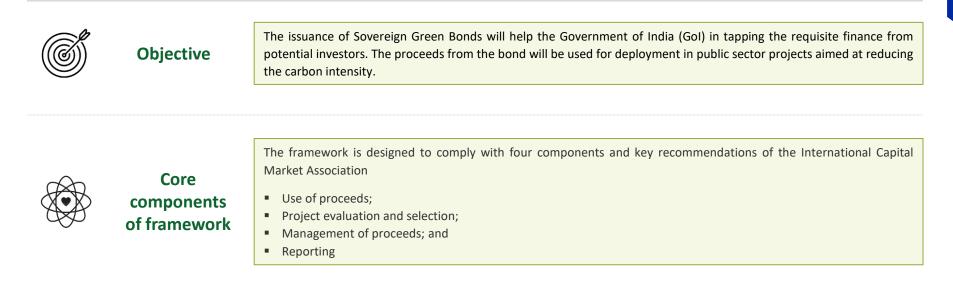
Though the Government has taken steps in the right direction with issuing framework, there are some concerns, which need to be addressed while selecting projects. Close monitoring will be needed to ensure smooth and timely funding considering timeframe of one year for issuances.





### Sovereign Green Bonds; a step to tap debt market to finance green projects





- Ministry of Finance (MoF) has constituted a Green Finance Working Committee (GFWC) to validate key decisions on issuance of Sovereign Green Bonds.
- The Committee has representation from relevant line ministries and is chaired by the Chief Economic Adviser of the Gol.
- The Committee plans to meet at least twice a year to select projects and ensure that funds are allocated within 24 months from the date of issuance, according to the framework.



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