



The Indian Journal for Research in Law and Management

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Editor-in-Chief – Prof. (Dr.) Muktai Deb Chavan; Publisher – Alden Vas; ISSN: 2583-9896

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Navigating Green: An Examination of India's Regulatory Framework for Green Bond Issuance

Introduction

In India, the confluence of financial innovation and environmental stewardship has given rise to green finance solutions like green bonds. These instruments offer a unique avenue for financing sustainable projects while advancing economic growth. With a growing emphasis on reducing carbon emissions and fostering sustainability, green bonds have gained prominence, bolstered by India's constitutional commitment to environmental preservation as enshrined in **Article 48-A**¹.

Green bonds² are debt instruments specifically designated for financing or refinancing environmental or climate-related projects. While similar to conventional bonds in structure, they differ in their purpose, focusing solely on projects with positive environmental impacts. These projects range from renewable energy initiatives to sustainable water management and the reduction of greenhouse gas emissions. Issued by governments, corporations, or international development banks, green bonds play a crucial role in promoting sustainability and addressing climate change challenges.

Role and Significance of Green Bonds in India's Sustainable Development

Green bonds play a crucial role in India's financial landscape by financing or refinancing projects that address environmental and climate-related challenges. These projects range from renewable energy and clean transportation to eco-friendly farming and other environmental

¹ Government of India, Department of Economic Affairs, Framework for Sovereign Green Bonds (2022), available at <https://dea.gov.in/sites/default/files/Framework%20for%20Sovereign%20Green%20Bonds.pdf>

² Raju, Praveen, Joshi, Janhavi, Nannapaneni, Preethika. (2022). "Green Bonds." Mondaq, September 19, 2022. Available at: <https://www.mondaq.com/india/environmental-law/1231314/green-bonds>.

infrastructure endeavors. Additionally, green bonds encourage **Public-Private Partnerships (PPPs)** and incentivize corporate entities to invest in green initiatives, fostering a structured approach to green finance³.

The establishment of funds like the Green Bond Fund and the Green Infrastructure Fund further supports green projects financially. As India faces vulnerabilities to climate change and aims to expand its renewable energy capacity, green bonds emerge as a critical financing tool to mitigate climate impacts, promote sustainable development, and ensure environmentally responsible infrastructure development.

Investing in green projects not only creates job opportunities in sectors like renewable energy and sustainable transportation but also provides an additional funding source for Indian companies, Municipal Corporations, and Government agencies. Moreover, they attract foreign investment from socially responsible investors interested in environmentally sound projects. Issuing green bonds also signals a country's commitment to sustainable development, potentially improving its credit rating and facilitating access to capital markets.

Overall, green bonds contribute to diversifying the investor base by attracting investors focused on Environmental, Social, and Governance (ESG) criteria. By leveraging the "**green halo effect**," corporations and countries alike can garner support from consumers and investors alike for their environmental CSR activities.

The Green Bond Issuance Framework in India

A significant leap in India's green finance journey is marked by the introduction of the **Sovereign Green Bonds Framework (SGrB Framework)** during the Union Budget 2022–23⁴.

³ Kumar, S., & Kundalia, C. A. (2023). Green Bonds - Role and scope in India's financial and fiscal landscape. The Journal of Indian Institute of Banking & Finance. Retrieved from <https://www.iibf.org.in/documents/BankQuest/6.%20.pdf>

⁴ Government of India. (2022). "Summary of Union Budget 2022-23." Retrieved from <https://static.pib.gov.in/WriteReadData/userfiles/SUMMARY2022.pdf>.

These bonds align with India's commitment to environmental sustainability and the Paris Agreement. The Sovereign Green Bond Framework (SGrB Framework) outlines the government's obligations as an issuer, ensuring transparency and risk mitigation for investors.

Proceeds from these bonds will fund eligible green projects such as renewable energy, clean transportation, and climate adaptation. The Ministry of Finance will manage proceeds, maintaining a '**green register**' for transparency. The framework adheres to key recommendations of the International Capital Market Association (ICMA) Green Bond Principles, ensuring clarity and disclosure⁵.

By providing clarity and transparency in the allocation of proceeds, the framework aims to attract investment for green projects from both domestic and international investors. Importantly, investors in sovereign green bonds do not bear project-related risks, enhancing the attractiveness of these instruments for financing sustainable initiatives.

SEBI has taken proactive steps to promote investments in green bonds beyond the Sovereign Green Bond (SGrB) Framework. The **SEBI (Issue and Listing of Non-Convertible Securities) Regulations 2021**⁶ mandates additional disclosures for issuers planning to issue green debt securities. These regulations require issuers to disclose environmental objectives, decision-making processes for project selection, and systems for tracking proceeds utilization.

Additionally, issuers must disclose⁷ details of projects or assets where proceeds will be deployed, along with appointing independent reviewers if desired. Continuous disclosure requirements mandate reporting on utilization of proceeds, unutilized funds, and details of projects funded. Issuers must maintain processes to ensure ongoing project eligibility and alignment with green objectives, utilizing proceeds only for stated purposes.

⁵ Kanvinde, A., Gala, M., Goyal, R. (2023). "Indian Green Bond Market: A Step towards Green Financing in a Growing Taxonomy." Retrieved from <https://www.ibanet.org/indian-green-bond-market-step-towards-green-financing-in-a-growing-taxonomy>.

⁶ SEBI. Securities and Exchange Board of India (Issue and Listing of Non-Convertible Securities) Regulations 2021. August 2021. Retrieved from https://www.sebi.gov.in/legal/regulations/aug-2021/securities-and-exchange-board-of-india-issue-and-listing-of-non-convertible-securities-regulations-2021_51764.html.

⁷ SEBI. "Operational Circular for Issue and Listing of Non-Convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities, and Commercial Paper: Modifications." April 2022. Retrieved from <https://www.sebi.gov.in/legal/circulars/apr-2022/updated-operational-circular-for-issue-and-listing-of-non-convertible-securities-securitised-debt-instruments-security-receipts-municipal-debt-securities-and-commercial-paper-modifications-in-cha-58060.html>

Greenwashing Risk: Can SEBI's Rules Stop It in Transition Bonds?

Greenwashing, a deceptive tactic used by companies to portray their products or services as environmentally friendly, has become increasingly prevalent in India amid rising awareness of Environmental, Social, and Governance (ESG) factors⁸. To address this issue, the Securities and Exchange Board of India (SEBI) has introduced enhanced disclosure requirements for Green Debt Securities (GDS) issuers.

On May 4, 2023, SEBI issued a circular to lay down additional compliance measures for transition bonds⁹. These bonds are designed to finance projects facilitating the transition to a greener and more sustainable economy. The circular mandates denoting transition bonds with the title 'GB-T' and disclosing a transition plan outlining emission reduction targets, implementation strategy, and fund usage mechanism.

Transition finance, particularly transition bonds, has faced hesitancy internationally due to a lack of clear definition and structure. The International Capital Markets Association (ICMA) has been hesitant to endorse transition bonds, considering them inferior to green or sustainability bonds.

SEBI's definition of transition bonds under the Regulations suffers from inconsistencies, leading to semantic challenges. The lack of clarity on mechanisms to meet sustainability goals and the dynamic nature of Intended Nationally Determined Contributions (INDCs) pose further challenges. Additionally, the Circular aims to legitimize transition bonds but neglects to address greenwashing effectively.

To enhance the credibility and effectiveness of transition bonds, SEBI should consider adopting suggestions from international frameworks. Establishing clear evaluation criteria, differentiating between genuine and greenwashed products, and introducing dedicated oversight mechanisms could strengthen the acceptance of transition bonds and combat greenwashing effectively.

Conclusion

⁸ AMLEGALS, 'Greenwashing in India Under the Guise of Green Debt Securities'. April 2023. Retrieved from <https://amlegals.com/greenwashing-in-india-under-the-guise-of-green-debt-securities/#>.

⁹ IndiaCorpLaw, "SEBI's Circular on Transition Bonds: Can it Combat Greenwashing. May 2023. Retrieved from <https://indiacorplaw.in/2023/05/sebis-circular-on-transition-bonds-can-it-combat-greenwashing.html>.

Green bonds have demonstrably become a key tool for financing India's sustainable development. They channel capital towards environmentally friendly projects, promoting clean energy and emissions reduction. Regulatory frameworks like the Sovereign Green Bond Framework are crucial steps. Addressing greenwashing and ensuring clear project criteria remain priorities. By strengthening its green bond market, India can bridge the gap between environmental needs and financial resources.