India’s Green bond market

Background:

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- Green bonds, which **finance environmentally friendly businesses and assets,** have emerged as one of the key financing mechanisms driving the global economy’s transition to a greener future.
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- Since the issuance of the first green bond in 2007 by two multilateral development banks (World Bank and European Investment Bank), the green bond market has grown exponentially and is currently pegged at over $180 billion in cumulative issuance.
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Growth of the Green bond market:

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- A groundbreaking year for green bonds was 2015.
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- Global markets witnessed currency green bonds and innovative structuring along with maiden green bond issuance in a number of countries.
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- The green bond market was further strengthened with issuance doubling to $81 billion in 2016 from $42 billion in 2015.
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- Supported by market-driven state policies and marked by a rapid growth in green bond issuance in India and China, **the Asian market has emerged as a frontrunner in the green bonds space.**
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India’s Contribution to Green bond market:

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- India’s green bond market has witnessed a number of critical milestones following India’s first green infrastructure bonds issued in February 2015.
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- A growing number of corporates and financial institutions have leveraged this innovative mechanism to raise capital, attracting foreign investments and inducing momentum in the market.
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- India also witnessed its award-winning first green masala bond (rupee-denominated bond), with the International Financial Corporation.
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- Green bond issuance in the country witnessed a 30 per cent year-on-year increase in 2016 and making India **the seventh largest green bond market globally.**
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- These green bonds have been **crucial in increasing financing to sunrise sectors** like renewable energy, thus contributing to India’s sustainable growth.
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- The Climate Bond Initiative, in its India update, indicated that about 62 per cent of the green bond proceeds have been allocated to renewable energy projects, followed by the low carbon transport sector and low carbon buildings accounting for 17.5 per cent and 14 per cent of the proceeds, respectively.
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Role of the Regulators:

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- Indian regulators have shown exemplary foresight in recognising green bonds as a key tool towards financing the nation’s climate change targets and in guiding the development of the green bond market through necessary policies and reforms.
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- In January 2016, the Securities and Exchange Board (SEBI) of India published its **official green bond guidelines and requirements** for Indian issuers, placing India amongst a select set of pioneering countries who have developed national level guidelines.
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- In addition to SEBI’s guidance on green bonds, the Reserve Bank of India passed regulatory reforms aimed at strengthening and expanding India’s corporate bond market.

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- The extent of partial credit enhancement provided by banks has been increased to 50 per cent from 20 per cent of the bond issue size, while also permitting banks to issue masala bonds — key moves that will bolster the Indian green bond market.
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Suggestions:

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- The full potential of India's green bond market remains untapped, with only a limited number of issuers so far.
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- With increasing interest from the government and market regulators, 2017 is expected to see further developments in terms of innovations and supporting policy and regulatory frameworks aimed at bringing more clarity and impetus to the space.
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- SEBI's green bond guidelines on what classifies as 'green', there is a need for developing a formal definition of 'green' to ensure understanding across sectors.
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- A more descriptive and exhaustive classification from Indian regulators and policymakers in the coming years would be crucial in expanding the green bond market further.
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- **The upcoming year is poised to witness the first 'blue bond' issuance** (bonds used to specifically finance water infrastructure) in India. Globally blue bond issuances have crossed $10 billion, with India yet to enter the market.
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- Given the rising financing gap in India's water sector, it is imperative to utilise such innovative mechanisms for water infrastructure augmentation as well.
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- While credit enhancement has given an impetus to green bonds and will remain crucial, there is a scope for other innovative mechanisms such as securitisation.
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- Many standalone green projects such as roof top solar, energy efficiency and rural water supply **still remain unattractive to institutional investors**

owing to the smaller scale and vast geographical spread.
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- Aggregation and securitisation of such projects could be a welcome move in providing mainstream debt to small-scale green projects.
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- The recent drive to resuscitate the municipal bond market for water supply projects in cities such as Pune and Hyderabad is highly commendable.
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- The Indian government’s ambitious push for smart cities has opened emerging points that may be suitable for private sector participation and may soon culminate into India’s first green muni bond.
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Conclusion:

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- With developed countries reaffirming their $100 billion mobilisation goal per year by 2020 to support climate action in emerging nations, utilisation of green bonds as an effective vehicle to tap into climate funds is anticipated to grow.
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- **Collective participation of regulators, policymakers, corporate and financial institutions** is going to be crucial in pushing frontiers of green bonds further, unleashing new opportunities in addressing climate change.Top of Form
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