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NOTE ON FRAMEWORK FOR SOVEREIGN GREEN BONDS

The Government of India (GOI) had announced its intention to issue maiden Green Bonds amounting to INR 160 Bn (USD 2 Bn) in Q4 of FY22-23. The proceeds from these bonds will be **used for public sector projects** which will help in reducing the carbon intensity of the economy. With this target in mind, GOI issued **“Framework for Sovereign Green Bond”** on November 9, 2022.

Eligible Projects for Sovereign Green Bonds (SGrB)?

Government of India will use the proceeds raised from SGrB to finance and/or refinance expenditure (in parts or whole) for eligible green projects. A ‘green project’ classification is based on the following principles:

- Encourages energy efficiency in resource utilization
- Reduces carbon emissions and greenhouse gases
- Promotes climate resilience and/or adaptation
- Values and improves natural ecosystems and biodiversity especially in accordance with SDG (Sustainable Development Goals) principles

The eligible projects for SGrB are renewable energy, energy efficiency, clean transportation, climate change adaptation, sustainable water and waste management, pollution prevention and control, green buildings, sustainable management of living natural resources & land use and terrestrial and aquatic biodiversity conservation. The eligibility criteria for each of the projects is provided in Annexure I.

Green Expenditures will include public expenditure undertaken by the Government in the form of investment, subsidies, grants-in-aid, or tax foregone (or a combination of all or some of these) or select operational expenditures, R&D expenditures in public sector projects.

In the event of postponement, or cancellation of an eligible green project, it shall be replaced with another eligible green project. To ensure this, the number of eligible projects, and total value of eligible expenditures associated with SGrB will be greater than the amount of the issue.

Equity is allowed only in the sole case of metro projects under ‘Clean Transportation’ category.

Project Exclusions from SGrB Proceeds?

- Projects involving new or existing extraction, production and distribution of fossil fuels, including improvements and upgrades; or where the core energy source is fossil-fuel based
- Nuclear power generation
- Direct waste incineration

- Alcohol, weapons, tobacco, gaming, or palm oil industries
- Renewable energy projects generating energy from biomass using feedstock originating from protected areas
- Landfill projects
- Hydropower plants larger than 25 MW

Role of Green Finance Working Committee (GFWC)

- Ministry of Finance has constituted a “Green Finance Working Committee” (GFWC) with representation from relevant different ministries and chaired by Chief Economic Adviser, Government of India. GFWC will meet at least twice a year to support Ministry of Finance with selection and evaluation of projects and other relevant work related to the framework.
- The committee will meet at least twice a year and it will comprise members from implementing departments such as the MoEFCC, MNRE, NITI Aayog, Infrastructure Finance Secretariat, DEA and the Budget Division of MoF.
- MoEFCC, MoHUA, MoAFW, MNRE and other ministries will conduct an internal evaluation to formulate a list of eligible projects based on the framework
- The committee will select green projects that fall into one or more of the eligible project categories under this framework on basis of the initial evaluation report by the concerned Ministry/Department submitted to the GFWC, which will then review and approve projects for Green Funding. Detailed process is placed at Annexure – I.
- Members of the GFWC will evaluate the entire list of submitted projects, to the best of their abilities, ensure adherence to the framework, and their alignment with green objectives.
- An annual report on the allocation of proceeds to the eligible projects along with description of projects financed, status of implementation, and unallocated proceeds will be brought out under supervision of GFWC
- Impact of projects in respect of reduction in carbon intensity and environmental benefits will also be assessed and reported separately by GFWC.

Green Bond Framework

- The Green Bonds Framework was released by the Indian Government on November 9, 2022.
- As per this framework, the payments of principal and interest on the Green Bonds will not rely on the eligible projects’ performance. Therefore, the investors will not be adversely affected by any project-related risks.
- The eligible expenditure is limited to government expenditures that occurred within 12 months prior to issuance of the bond. All of the proceedings for the bond will be allocated to projects within 24 months after the issuance.

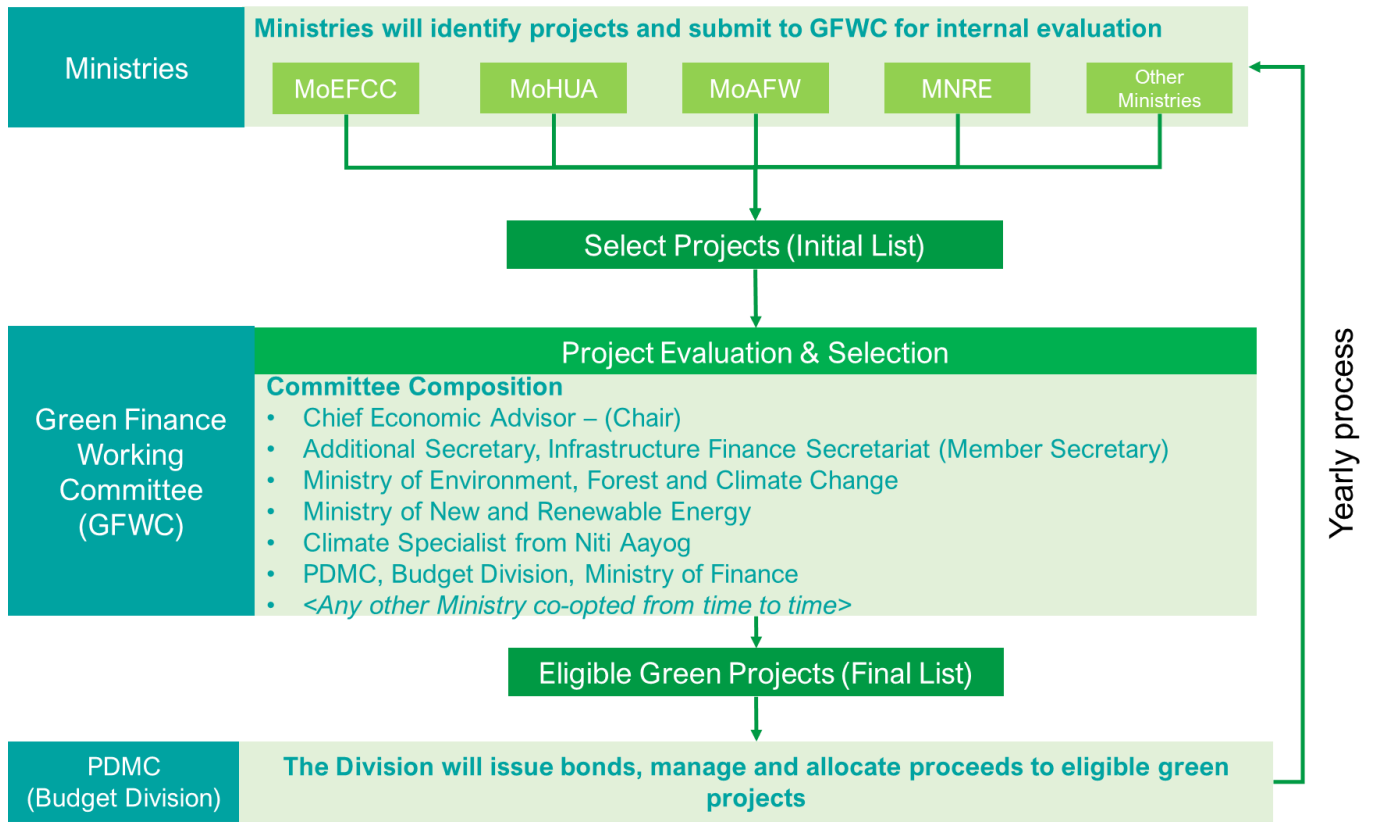
- While the Union Ministry of Finance has the right to make any changes in the Green Bonds Framework, the modifications made will be reviewed by an independent organization. The framework was reviewed by the Norway-based CICERO Shades of Green – a firm that provides second opinions on green bond frameworks.
- The framework has been rated “Medium Green” with a “Good” governance score by CICERO. The medium green rating is provided to projects and solutions that make significant stride towards long-term vision but not quite there yet.
- The framework is designed to comply with four components and key recommendations of the International Capital Market Association (ICMA) Green Bond Principles (2021). These principles recommend delineation of a clear process and disclosure by the issuer to enable the investors and banks and others to understand the characteristics of the green bond. The four core components as outlined by ICMA green bond principles are:
 - Use of proceeds
 - Project evaluation and selection
 - Management of proceeds
 - Reporting
- The proceeds will be deposited to the Consolidated Fund of India (CFI) in line with the regular treasury policy, and then funds from the CFI will be made available for eligible green projects. A separate account will be created and maintained by the Ministry of Finance, Government of India for allocation of the proceeds.
- Public Debt Management Cell (PDMC) will keep a track of proceeds within the existing guidelines regarding debt management and monitor the allocation of funds towards eligible green expenditures. Unallocated proceeds, if any, will be carried forward to successive years for investment in eligible green projects
- Government of India intends to engage a third-party external reviewer to provide an annual assessment on the alignment of the allocation with the framework’s criteria. The external review will be conducted to:
 - Verify that utilization of proceeds is in accordance with stated objectives of use of proceeds as mentioned in the framework
 - Assess the management of proceeds and of unallocated proceeds, if any

ANNEXURE

Annexure I – Eligibility Criteria for Each Category

Eligible Categories	Eligibility Criteria
Renewable Energy	<ul style="list-style-type: none"> ▪ Investments in solar/wind/biomass /hydropower energy projects that integrate energy generation and storage. ▪ Incentivizing adoption of renewable energy.
Energy Efficiency	<ul style="list-style-type: none"> ▪ Design and construction of energy-efficient and energy-saving systems and installations in government buildings and properties. ▪ Supporting public lighting improvements (e.g. replacement with LEDs). ▪ Supporting construction of new low-carbon buildings as well as energy-efficiency retrofits to existing buildings. ▪ Projects to reduce electricity grid losses.
Clean Transportation	<ul style="list-style-type: none"> ▪ Promote public transportation including its electrification and transport safety. ▪ Subsidies to adopt clean fuels like electric vehicles including building charging infrastructure.
Climate Change Adaptation	<ul style="list-style-type: none"> ▪ Projects aimed at making infrastructure more resilient to impacts of climate change, as well as investments in information support systems, such as climate observation and early warning systems.
Sustainable Water and Waste Management	<ul style="list-style-type: none"> ▪ Promoting water efficient irrigation systems. ▪ Installation/upgradation of wastewater infrastructure including transport, treatment and disposal systems. ▪ Water resources conservation. ▪ Flood defence systems.
Pollution Prevention and Control	<ul style="list-style-type: none"> ▪ Projects targeting reduction of air emissions, greenhouse gas control, soil remediation, waste management, waste prevention, waste recycling, waste reduction and energy/emission-efficient waste-to-energy
Green Buildings	<ul style="list-style-type: none"> ▪ Projects related to buildings that meet regional, national or internationally recognized standards or certifications for environmental performance.
Sustainable Mgt. of Living Natural Resources & Land Use	<ul style="list-style-type: none"> ▪ Environmentally sustainable management of agriculture, animal husbandry, fishery and aquaculture. ▪ Sustainable forestry management including afforestation / reforestation. ▪ Support to certified organic farming. ▪ Research on living resources and biodiversity protection.
Terrestrial and Aquatic Biodiversity Conservation	<ul style="list-style-type: none"> ▪ Projects relating to coastal and marine environments. ▪ Projects related to biodiversity preservation, including conservation of endangered species, habitats and ecosystems

Annexure II: Procedure for Selection of Eligible Green Expenditures



Annexure III: Examples of Potential Impact Reporting Metrics

Category	Examples of Potential Metrics
Renewable Energy	<ul style="list-style-type: none"> ● Installed renewable energy capacity (in MW). ● Annual renewable energy generation (in MWh). ● Annual GHG emissions avoided in tons of CO₂e <p>Social Co-Benefits (<i>wherever possible to quantify</i>)</p> <ul style="list-style-type: none"> ● Number of households benefitted ● Number of under-privileged households benefitted ● Number of jobs created
Energy Efficiency	<ul style="list-style-type: none"> ● Number of energy efficiency equipment and appliances installed ● Annual energy savings (in MWh). ● Annual GHG emissions avoided in tons of CO₂ emission
Sustainable Management of Natural Resources	<ul style="list-style-type: none"> ● Area of land or ocean conserved/recovered (km²). ● Area (km²) of marine/forest reserves under active monitoring.
Clean Transportation	<ul style="list-style-type: none"> ● Number of people who use new ecological public transport ● Number of km of new electric train/road lines created/maintained ● Annual GHG emissions avoided in tons of CO₂ emission. ● Air Quality improvement (PPM) <p>Social co-benefits (<i>wherever possible to quantify</i>)</p> <ul style="list-style-type: none"> ● Employment generated – number of jobs created/supported ● Number of MSMEs supported ● Number of people with access to sustainable public transport systems
Sustainable Water	<ul style="list-style-type: none"> ● Volume of water collected and/or treated (m³) ● Increased water efficiency of systems (% reduction in water consumption/loss) ● Number of households that have access to new potable water supply
Green Building	<ul style="list-style-type: none"> ● Level of certification by property ● Annual energy savings (in MWh) ● Annual GHG emissions avoided in tons of CO₂e

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