Partner:

Strategic Alliance on Green Bond Market Development in G20 Emerging Economies

Roundtable Discussion: India's green bond market – safeguarding integrity & regulatory requirements

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The Strategic Alliance (STA) between GIZ and the Swedish bank SEB – pioneer in green bonds – in partnership with Axis Bank, invited regulators, financial institutions, bonds & money market associations and stock exchanges to a roundtable discussion focusing on how to enhance the Indian green bond market in the light of regulatory developments and environmental integrity.

Klas Eklund, Senior Sustainability Economist at SEB, gave an **overview** on the **global green bond market**, which reached new records in 2017. Gaurav Bhagat, Executive Director at Standard Chartered, complemented the overview with a concise analysis of the **Indian green bond market**. Key developments include:

- The global market is growing rapidly – with China, Mexico and India being among the top 10 issuers in 2017 and a shift towards increasing participation from corporates and financials.
- India showed a slightly different picture where government-owned financial institutions like Exim Bank and IDBI Bank, followed by private sector banks initially drove the market. After initial inertia, renewable energy companies and other companies engaged in the power sector picked up the market.
- Growth is – on a global level – demand-driven, with a large diversity of investor types.
- The big question of pricing advantages is still inconclusive, despite mounting evidence, e.g. in China.

Although India is currently the number ten green bond issuer in 2017 (with an aggregated issuance volume of USD 2.8 billion), **market growth remains below its potential** as it is, inter alia, restrained by structural weaknesses in the rather small and illiquid corporate bond market.

The following **core barriers** for the domestic green bond market to take off were discussed:

- lack of clear pricing advantages against the burden of additional costs for verification and impact reporting,
- indifference of Indian institutional investors towards green assets,
- limitations of international investors to invest in sub-investment grade assets in India.

Indian regulators have taken various supportive measures to enhance the domestic green bond market, including the introduction of the *Disclosure Requirements for the Issuance and Listing of Green Debt Securities* by the *Securities and Exchange Board of India* (SEBI) in May

2017. The decision to keep the requirements flexible with respect to eligibility criteria was taken with the objective to encourage, not impede, early market growth, Richa Agarwal from SEBI explained. In line with this, verification is encouraged – as overall transparency – but not required. Further incentives are currently not intended.

The Bombay Stock Exchange (BSE) supports the market by advising issuers on the selection and evaluation of eligible assets and by listing green bonds. Following SEBI's approach, BSE does not require any criteria.

Despite growing issuances, mostly offshore, roundtable participants expressed their accord for the critical need to lower supply-side constraints and increase domestic demand for green bonds. Potential **key areas for action** include:

On the demand-side: Establishing an investor ecosystem interested in green assets through:

- **Education and capacity building** among both society and investors with respect to the link of financial decision making and environmental risks and outcomes;
- **Green investment mandates** (similar to the obligation to invest 2% of revenues in corporate social responsibility projects, this could be expanded to green assets);
- Launch of a **green bond fund** akin to infrastructure funds launched by various government entities to facilitate green investments; such a fund will also motivate mutual funds, insurance companies and other participants to follow suit;
- Stock exchanges to explore opportunities for strengthening incentives for international or domestic funds to invest in green bonds, through the creation of a **green bond index** specific to Indian green bonds.[1]

On the supply-side: Incentivizing green bond issuances by:

- Supporting issuers with respect to the additional **costs** for verification and reporting;
- Providing more **guidance** for (standardized) impact reporting;
- Providing dedicated support for **capacity building at municipality level** (tackling bottlenecks related to staff capacity, internal account structures, etc.) and explore concepts for local government joint funding schemes (such as the Swedish Kommuninvest example);
- **Aligning** national and international (Paris Agreement, SDGs) climate/environmental targets and processes with existing **standards** (e.g. GRI) in a more systematic and consistent way.

Yousuf Syed, Head of International Debt Capital Markets at Axis Bank, highlighted incentives for green bond issuances and respective benefits from the issuer perspective: diversifying the investor base, a deeper dialogue with investors, as well as overall reputational gains.

Bridging the discussion towards the second focus theme of the roundtable – **safeguarding environmental integrity** – Yousuf Syed shared Axis' experience on **impact reporting.** To facilitate impact reporting, the **standardization** of processes including a **guide and templates** were suggested.

[1] For reference, see the Sustainable Stock Exchange Initiative's *Green Finance Action Plan*.

Sharing the observation that investors are increasingly sensitive towards the financial risks of environmental impacts, Kristina Alnes from the Norwegian climate research institute CICERO, the leading second opinion provider globally, stressed the large investor demand for green bonds as a tool that helps them reduce their exposure to climate risk. To safeguard environmental integrity and hence build investor trust, independent external assessments *pre-issuance* were explicitly highlighted. She emphasized the importance of providing a review, e.g. in the form of second opinion, that is based on climate science and independent from the green bond framework developed by the issuer. Regarding impact reporting, she recommended to start simple and advance as environmental capabilities grow, and to be as transparent as possible with respect to the applied methodology.

Presentations are available on emergingmarketsdialogue.org.