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Second Green Bond Workshop in India Organized by GIZ & SEB with Support from IBA and FIMMDA

17 May 2017, Mumbai

After the launch of the Green Bond workshop series in India this January, the Strategic Alliance (STA) between GIZ and SEB on [Green Bond Market Development in G20 Emerging Economies](#) returned to Mumbai and conducted a second workshop with support of its local partner, the [Indian Banks' Association](#) (IBA), as well as the [Fixed Income Money Markets and Derivatives Association of India](#) (FIMMDA) and the [United Nations Environment Programme – Finance Initiative](#) (UNEP FI). The workshop, which was held at the Grand Hyatt Mumbai on 17 May 2017, focused on the topics of **Monitoring, Reporting & Market Aspects** and attracted about 60 participants from a wide range of Indian private and public sector institutions including regulatory bodies, financial institutions, companies, consultancies and academia.

The workshop was moderated by Ms. Christine Majowski, Project Manager at GIZ of the Strategic Alliance, who introduced the STA's objective and approach and provided a brief recap of the **first workshop on Definition, Selection & Verification**. The opening remarks were given by representatives from the German and Swedish Consulate as well as IBA and FIMMDA, who all showed consensus on the need for taking joint responsibility to accelerate the efforts towards a green transition of our societies and economic systems. Mr. Jan Campbell-Westlind, Consul at the Consulate General of Sweden in Mumbai talked about Sweden's impressive, exemplary goal to become the world's first fossil free country by 2040. Mr. Alexander Sattler, Representative of the Consulate General of Germany in Mumbai highlighted the 175 GW renewable energy and 33-35% emissions reductions target by the Indian government, which necessitates investments of approx. USD 264 billion – requiring the mobilization of both domestic and international capital sources. Mr. M. K. Datar, Senior Advisor at IBA, stated that initiatives such as this workshop, as well as the Guidelines for Responsible Financing developed for the Indian banking sector in a former collaboration with GIZ, enable the systematic establishment of sustainability measures relevant in the domestic context. Mr. D.V.S.S.V. Prasad, CEO of FIMMDA, reminded the audience that economic growth was important for India but could, in the long-run, not continue at the expense of the environment and, hence, re-emphasized the need for taking joint action.

Session 1 was opened by Mrs. Richa G. Agarwal, Deputy General Manager of Investment Management at the **Securities & Exchange Board of India** (SEBI), who elaborated on **green bond market development in India** in the context of fostering the domestic corporate bond market, explaining the challenges and measures SEBI has taken to tackle these. Mrs. Agarwal also updated the audience on the process of developing the **Disclosure Requirements for Issuance and Listing of Green Debt Securities** in India, which were [published](#) a few days after the event and had involved intense discussions of what constitutes green – one of the fundamental questions when laying the foundation for the long-term development of the domestic market. She also mentioned several options that are being considered to foster the market development, such as norms for covered bonds and securitization to help expand the market for new

issuers such as municipalities and SMEs as well as priority sector classification by RBI, credit enhancement programs, and tax incentives.

An update on the **latest market development at a global level** was given by Mr. Christopher Kaminker, Head of Research, Climate & Sustainable Financial Solutions at SEB, who highlighted, inter alia, the continued strong growth in early 2017 – currently standing at roughly USD 40 billion in issuance volume – which is accompanied by increasing diversification with respect to issuer types (e.g. several sovereigns tapping the market), sectoral allocation of the use of proceeds (particularly increasing in the water sector) and new regional hotspots (e.g. Australia and China). He expects continued strong growth, with SEB's views being that there is potential for USD 125 to 150 billion of issuance in 2017. The Indian green bond market continues to be the 7th largest worldwide, with 17 issuers, 44 green bonds issued and an outstanding volume of USD 5.2 billion. Moreover, Chris elaborated on the fundamentals of green infrastructure investment (and green bond financing) that is underpinned by an increasingly broad complement of enablers and drivers including economic, technology, security, policy, social and green bond-specific forces, alongside increasing appetite from institutional investors.

Continuing in session 2 with the workshop's focal topics, Chris explained the essential features and requirements for the **monitoring** and **reporting** of the use of proceeds and their environmental impact, which should be in alignment with the [Green Bond Principles](#) (GBP), the voluntary but internationally recognized process guidelines. While the monitoring and reporting of the use of proceeds is quite straightforward under the GBP – requiring issuers to earmark or otherwise track proceeds, disclose the amount/share of allocated proceeds as well as the temporary use of unallocated proceeds, and ideally provide assurance through external verifiers – the reporting of the environmental impact is more complex and challenging. Emphasizing to keep an impact report simple but prudent and transparent, Chris explained the different features of reporting best practices to be considered including the frequency (at least annually) and channels (e.g. investor letter, dedicated impact report and/or integrated into the annual report), level (project-by-project vs. on portfolio basis), indicators (ideally comprising both qualitative and quantitative information), as well as transparency on assumptions and methodology. For reference, he pointed to the [Harmonized Framework for Impact Reporting](#), which has been developed for guidance by the major development banks.

As **examples**, he presented in session 3 the [World Bank's Green Bond Impact Report](#), but emphasized that investors would not expect this richness of detail of the 29 page report from every green bond issuer, as the well-received green bond reports of 3 to 4 pages by the Swedish company [Vasakronan](#) or [Export Development Canada \(EDC\)](#) showed. Investors understood the diversity of issuers (e.g. regarding human resource capabilities, sector, size, green bond history, capacity, regulatory and confidentiality frameworks) and respective implications for their impact reporting capacity. While he stressed the observation that most issuers typically already have the required information for an impact report, the solution was often related to the process of collating this information. Impact reporting reflected a journey, he concluded, which should follow the principles of transparency, prudence and a clear commitment towards best efforts.

Two **practical examples** on monitoring and reporting **from Indian green bond issuers** were presented by Mr. Srinath Komarina, President of Responsible Banking at **Yes Bank**, and Mr. Yousuf Syed, Head of International DCM & Fixed Income Investor Relations at **Axis Bank**. While the reporting on the use of proceeds is quite clear, both described their experience regarding the reporting of the environmental impact as an evolutionary process, in which they are committed to disclose as much information as possible and continuously work to enhance the level of detail reported. Sharing insights into their discussions with investors, they urged fellow green bond issuers to produce impact reports on best effort basis in order to meet investor

expectations, which may extend beyond environmental impacts to also consider the social impact.

In session 3, the experience and **perspective from an assurance provider** on monitoring and reporting was presented by Mr. Manpreet Singh, Director of Climate Change & Sustainability Services Advisory at KPMG. He described the challenges but also the high relevance of impact assessment in the green bond market by giving insights into their work with several domestic green bond issuers and emphasized the efforts to further enhance available assessment methodologies.

The last part of the workshop, session 4, focused on several **market aspects**. Christopher Kaminker from SEB provided technical details and data on questions related to typically **better market access** (investor diversification in number and regional outreach, longer maturities, currency diversification, often larger volumes realized, format), **liquidity** (typically lower in secondary markets due to buy-and-hold strategy), **investor allocation** (ranging from dedicated green to mainstream investors) and **marketing** strategies (with many investors explicitly advertising their green bond investments). Regarding the question of **pricing** advantages, he explained the two rationales of equal pricing based on the bond's risk-return profile vs. better pricing due to a surplus demand from investors. Despite the lack of robust data on pricing advantages, there has repeatedly been observed a better execution due to the high oversubscription, which was also attested by a domestic underwriter. Additionally, there was strong evidence for significantly lower volatility of green bonds.

In a **panel discussion** moderated by Per Engström, SEB Representative in India, Ms. Ishita Vora, Head of Listing-Equity & Debt at the **National Stock Exchange**, Mrs. Sangeeta Bhatia, General Manager of Finance at **NTPC**, and Mr. Jayen Shah, Head of Debt Capital Markets at **IDFC Bank** discussed both the opportunities and challenges of the development of the Indian green bond market. Corresponding broadly with the barriers faced in the local currency corporate bond market, some of the most relevant issues discussed comprised the lack of a domestic (green) investor base, partly related to limited investment mandates, a shallow secondary market for corporate bonds, short-termism and a lack of awareness and knowledge among market participants.

The workshop was wrapped up by Carl Christensson, Head of SEB International, who recognized the efforts undertaken by the various market participants present at the workshop in fostering the Indian green bond market through their engagement and encouraged participants to continue the emerging dialogue in the green bond space, jointly with the STA and its partners.

All presentations are available on emergingmarketsdialogue.org.