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# Power Finance Corporation Ltd. Green Bond Framework

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**Dated: 16<sup>th</sup> August 2021**

## **1) Introduction**

PFC is a leading Government owned NBFC in India exclusively dedicated to Indian power sector. PFC has been playing a crucial role in development of power sector for more than 35 yrs. Also, PFC has been a strategic partner in taking forward various Indian government's policy objectives in the power space.

In view of environmental considerations, under the Paris Agreement for the Period 2021- 2030, the Government of India has made international commitment - Nationally Determined Contribution (NDC) to have about 40% cumulative electric power installed capacity from non-fossil fuel-based energy resources by the year 2030 and to reduce the emissions intensity of its GDP by 33% to 35% by the year 2030 from the level in the year 2005.

In this direction, the Indian Government has formulated various plans / incentives to increase the share of renewable energy sources through ambitious plan of meeting 175 GW by the year 2022, which expands to 450GW by 2030. Further, in order to facilitate achieving this ambitious target, state regulators have set Renewable Purchase Obligations (RPOs) for both solar and non-solar category, which will increase each year.

Over span of few years, the renewable energy sector has witnessed a transformational growth in terms of both installed capacity and increasing share of renewable energy in total power generation of the country. India has now become the fastest-growing energy market in the world. India has achieved renewable power capacity of 94.3GW as on 31.03.2021, which is around 22% of the total installed capacity. The resource-wise contribution is 39.44GW of Wind Power; 41.09GW of Solar Power; 4.79GW of Small Hydro; 10.34GW of Biomass & Co-gen and 114 MW of Waste to Energy.

Also, India is becoming a preferred destination for global investors for investing Power Sector. In the renewable sector, large investors are considering investments in operating assets that are relatively stress free and are able to repatriate surplus cash flows to the investors in tax efficient manner. Considering low gestation period, revenues in Green Energy Projects start getting generated within first year of operation. Further there is no dependency on fuel and lots of incentives are being provided by the Government for renewable sector.

Accordingly, in line with Indian Government vision to accord a pivotal role to clean energy in the economic growth of a nation, Power Finance Corporation is committed to promote Renewable Energy Projects. The share of renewable energy in PFC loan Portfolio has increased significantly in the last 5 years. In a span of 5 years, renewable energy loan book (excluding large Hydro i.e.>25MW) has grown at a CAGR of 35%.

## **2) Green Bond Framework Overview**

As a part of sustainable financing initiative, PFC has established this Green Bond Framework (the "Framework") for all future financial instruments including bonds, loans and any other financial instruments ("Green Financing Instruments") which are used to finance and/or refinance Eligible Green Projects. PFC Green Bond framework will be published on its website (<http://www.pfcindia.com>).

The purpose of this Framework is to have a single methodology in place for all future Green Financing Instruments, ensuring that for each instrument issued the principles of this Framework apply and the proceeds are invested in renewable energy and energy efficiency in a manner that is consistent with PFC's

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sustainable values.

The Framework is aligned with Climate Bonds Standard version 3.0<sup>1</sup>, the Green Bond Principles (GBP), 2021 issued by the International Capital Markets Association (ICMA)<sup>2</sup> and the Green Loan Principles (GLP) [published by the Loan Markets Association (“LMA”), Asia Pacific Loan Market Association (“APLMA”) and Loan Syndications and Trading Association (“LSTA”) in 2021]. These are a set of voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the sustainable finance market.

In aligning with the above principles and guidelines, the Green Bond Framework is presented through the GBP’s/GLP’s four core components:

- (a) Use of Proceeds
- (b) Process for Project Evaluation and Selection
- (c) Management of Proceeds
- (d) Reporting

In addition to this, all the Green Financing Instruments issued under this Framework will be reviewed by an external independent third party.

Further, with the aim of adhering to best practices in the market, the Green Bond Framework will be reviewed by PFC from time to time, including its alignment to updated versions of the various guidelines.

### **3) Use of proceeds:**

#### ➤ **Eligible Green Projects**

The proceeds from the issuance of Green Financing Instruments by PFC will be applied for re-financing/on-lending to renewable energy (RE) projects ("Eligible Green Projects").

In sync with India’s objective of climate change mitigation by adding renewables in the grid and offsetting CO2 emissions from the grid which will help in reducing the emission intensity of the grid, the Eligible Green Projects will broadly cover the following, subject to availability of sector-specific technical criteria under Climate Bonds Standard:

#### **(A) Renewable Energy**

- ✓ Onshore solar electricity generation facilities (with ≥85% of electricity generated to be derived from solar energy), dedicated transmission and other supporting infrastructure
- ✓ Onshore wind energy generation facilities (at least 85% of electricity generated from wind energy), dedicated transmission and other supporting infrastructure

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<sup>1</sup> for more details visit [https://www.climatebonds.net/standards/standard\\_download](https://www.climatebonds.net/standards/standard_download))

<sup>2</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>

## **4) Selection and Evaluation of Eligible Green Projects**

The process for financing/refinancing Eligible Green Projects is as under:

- a) Project financing proposals for private sector are received from borrowers and as per existing procedure a two-stage process is followed as under:
  - PFC's Project & Entity Team:
    - Assess and determine project eligibility and promoter's capability as per PFC policies and
    - Shortlist the project for detailed appraisal
  - PFC's Task Force which consist of appraisal officers and other inter-functional team of executives considers:
    - the overall viability of the project and entity (promoter) based on the defined set of guidelines which focuses on the Project Appraisal and Entity (Promoter) Appraisal.
    - Terms and conditions for lending
    - Internal/external Rating assigned to the projectand recommend to the approving authority for approval.
  - Approving authority sanction/rejects the proposal.

In addition to above, PFC also provides financial assistance to various State Sector RE projects based on utility rating and project viability.

- b) All Renewable Energy projects sanctioned by the PFC as above and which are shortlisted as per the "Eligible Green Projects" criteria mentioned in this Framework shall be approved by the Director (Finance) and the disbursements thereof under such Eligible Green Projects shall be allocated towards the Green Financing Instrument.
- c) Before issuance of a Green Financing Instrument, a list of nominated Eligible Green Projects as required will be prepared. Both pre & post issuance, an independent third party verifier will provide assurance that the nominated projects are in alignment with the Green Bond Framework.
- d) In respect of subsequent issuance of Green Financing Instruments or changes to the initial list of projects, similar assessment and approval process would be carried out by PFC.

## **5) Management of Proceeds**

The net proceeds from the issue of Green Financing Instrument will be allocated for the financing of Eligible Green Projects including re-financing of existing Eligible Green Projects, to be termed as 'Green Project Portfolio'.

It is PFC's intention to maintain a level of allocation to Eligible Green Projects which matches or exceeds the total net proceeds of all Green Financing instrument outstanding. PFC on a best effort basis will strive to fully allocate the net proceeds of any Green Financing Instrument immediately/ within 24 months after issuance. Prior to full allocation, balance proceeds will be held in line with our general

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liquidity/investment guidelines as appropriate in cash, cash equivalents, and/or other liquid marketable instruments that do not include greenhouse gas intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy.

Our Green Project Portfolio will be regularly monitored to detect any potential shortfall in a reasonably short time frame.

PFC has a well laid internal system namely Integrated Power Financing System / Enterprise Resource Planning system (IPFS / ERP) in place which shall be used to monitor the changes in Green Project Portfolio, which will be regularly updated to reflect the loans repaid and new loans financed.

**Note:-** Eligible Green Projects financed by net proceeds of any Green Financing Instrument will not be affected by ex-ante changes to the Green Bond Framework and will remain in the Green Portfolio for as long as they meet the Eligibility Criteria prevailing at the time of the Green Bond issuance and remain internally/virtually allocated to an outstanding Green Bond.

## **6) Reporting**

As long as any PFC's Green Financing Instrument remain outstanding PFC will report annually the use of the proceeds on an aggregated outstanding renewable portfolio along with the total capacity (MW) of such outstanding renewable portfolio through a separate section in the Annual Report. The report will also be published on PFC website at (<http://www.pfcindia.com> ).

## **7) Assurance**

All PFC'S Green Financing Instruments issued under the Framework will be assured by an independent third party reviewer and as required certified both pre & post issuance by the applicable certifying body like Climate Bonds Initiative.

**Note:** The proposed PFC Green Bond Issue by PFC will be assured by KPMG and certified by Climate Bonds Initiative. Further, in line with requirement of Climate Bond Initiative, PFC will also get post issuance certification from the Climate Bonds Initiative. Post issuance Certification will be completed within the time lines prescribed by Climate Bonds Initiative (currently 24 months) from the date of issue of such Bond.

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