



## **CIRCULAR**

**F. No 584/ IFSCA/Sustainable Finance- LF/2022-23/001**

**April 26, 2022**

**To,  
All IFSC Banking Units (IBUs) and Finance Company/Finance Units (FC/FUs) in the International Financial Services Centre (IFSC)**

### **Guidance framework on Sustainable and Sustainability linked lending by financial institutions**

The International Financial Services Centres Authority (IFSCA) directs the IBUs and FC/FUs operating in the IFSC, undertaking lending activities from IFSCs, to develop a comprehensive Board approved policy<sup>1</sup> on green/social/sustainable/sustainability-linked lending by March 31, 2023, based on the framework discussed below. From the financial year, beginning April 01, 2023, the IBUs and FC/FUs undertaking lending as one of the permitted activities shall have at least five per cent of their gross loans and advances directed towards green/social/sustainable/sustainability-linked sectors/facilities. The five percent target shall be computed on incremental loans and advances in a financial year i.e. in comparison to the amount as at the end of the previous financial year. The Authority may, as suitable, review and amend the same, from time to time. In case, if the IBU or FC/FU is unable to meet the above targets it shall report to the Authority explaining reasons for non-compliance of the same and shall provide future action plan towards ensuring compliance with this framework.

2. An entity licensed/registered post issuance of this framework shall get a time period of 12 months, from the date of commencing its operations, to put in place a Board approved policy, as mentioned above. The lending target shall be applicable from the beginning of the new financial year, post adoption of the Board approved policy.

3. The framework is divided into four broad areas:

**Part A:** Guidance on green/social/sustainable lending<sup>2</sup>.

**Part B:** Guidance on sustainability linked lending.

**Part C:** Guidance on short term financing/working capital finance (green / social / sustainable).

**Part D:** Reporting framework. (The reporting will begin from half year ending September 30, 2023)

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<sup>1</sup> In case of IBU, policy needs to be developed by 'Governing Body'. The Governing body shall have the same meaning as defined in the module 2 on 'Governance' in the IFSCA Banking Handbook on General Directions as amended from time to time.

<sup>2</sup> The terms green/social/sustainable are used interchangeably in the framework. IBUs and FC/FUs are required to develop the internal policy based on the differentiation as existing in the standards and frameworks referred to in this circular.



## **Part A: Guidance on Green/Social/Sustainable lending**

4. The internal Board approved policy of the lending institution shall duly factor in the principles laid down in at least one of the international standards / principles listed below. The internationally accepted standards are recommended as they are aimed at providing a consistent methodology for use across the loan market, whilst allowing the loan product to retain its flexibility and preserving the integrity of the green/social/sustainable market while it develops. These standards broadly aim at recommending the structuring features, disclosure and reporting associated with lending or issuance of financial product. The frameworks that can act as a guiding tool are:

- a. Green Loans Principles developed by Loan Market Association (LMA)
- b. Social Loan Principles developed by Loan Market Association (LMA)
- c. Bond Principles developed by International Capital Markets Association (ICMA)
- d. Climate Bond Standards by Climate Bonds Initiative
- e. Any other globally recognized standards or any framework or methodology specified by a competent Authority in India.

5. The core components of such policy on lending shall cover aspects such as:

- a. Borrower assessment process,
- b. Assessing the use of proceeds and appropriately describing it in the legal documentation of the loan facility,
- c. Process to be adopted for project evaluation and selection, management of proceeds,
- d. Reporting mechanism,
- e. Monitoring either internally or through external reviewer, and;
- f. De-classification of lending facilities.

6. The IBUs and FC/FUs may establish an in-house process to assess the borrower and the eligibility of loan facility (project/trade/ working capital finance facilities, etc.) in meeting the identified Environmental/Social/Sustainable objectives. Individual facilities may be assessed on a case-to-case basis for whether the level of 'green' is sufficient, whether the borrower and the lenders have mutually agreed to classify such facilities as 'green', 'social' or 'sustainable' and to put measures in place to avoid greenwashing and similar instances.

7. Declassification mechanism shall be pre-agreed upon between the lender and the borrower so as to maintain integrity and compliance of the facility as per the initial classification as green/social/sustainable. Declassification of a facility shall result in an immediate discontinuation on the publicity of the facility as green/social/sustainable in any manner. The Board approved policy shall have a strategy towards meeting the asset- liability



mismatch which may arise due to such declassification. However, at any point in time such lending shall be in compliance with the standards adopted by the IBU or FC/FU.

### **Part B: Guidance on Sustainability linked lending**

8. Sustainability linked lending incentivizes the borrowers' sustainability performance by linking the interest margin to the improvement of the companies' ESG score or to the improvement on tailored/predefined sustainability Key Performance Indicators (KPI) as measured by predefined Sustainability Performance Targets (SPTs). The sustainability linked policy so developed shall be adopted on a case specific transaction based on underlying characteristics of the transaction. The loan facility may be labelled as sustainability linked provided that it factors in the principles laid down in the international standards listed below:

- a. Sustainability Linked Bond principles developed by ICMA, or,
  - b. Sustainability Linked Loan Principles jointly developed by Asia Pacific Loan Market Association, LMA and Loan Syndications and Trading Association, or,
  - c. Any other globally recognized standards or any framework or methodology specified by a competent Authority in India.
9. Broadly, the lending policy on sustainability linked lending may cover aspects such as:
- a. Borrower assessment,
  - b. Manner of selection of Key Performance Indicators (KPI),
  - c. Calibration of Sustainability Performance Targets (SPT), to be set in mutual agreement between borrower and lender,
  - d. Financial and/or structural characteristics to incentivize the achievement of the SPTs and /or involve a penalty if the SPTs are not met,
  - e. Suitable provisions for reporting and
  - f. Mechanism for verification of performance.

It may be noted that the penal mechanisms may be as mutually agreed between the borrower and the lender while finalizing the terms of loan agreement.

### **Part C: Guidance on short term financing/working capital finance (green / social / sustainable).**

10. There has been an increase in the instances of classifying or labelling trade finance transactions as sustainable. Recently, there has been a positioning paper on the subject rolled out by International Chamber of Commerce<sup>3</sup>. Considering the shift towards the labeling

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<sup>3</sup> <https://iccwbo.org/publication/icc-standards-for-sustainable-trade-and-sustainable-trade-finance/>



and classification of short term finances into green/social/sustainable it may be prudent that the Board approved framework on sustainable lending also enables such classification wherever possible. While drafting internal policies, reference can also be drawn for evidencing the greenness of the associated projects or activities by associating to the Industry Green Standards wherever applicable. The borrower may report to the lender such information (including relevant certifications) which ascertains that the proceeds of the facility availed by the borrower (as part of sustainable trade finance, working capital finance etc.) are used for financing green/social/sustainable activities. This information may also include the positive environmental/social impact resulting from such activities.

**Part D Reporting to the Authority (Bi-annual basis)**

Classification	Reporting Period				Cumulative in FY (USD mn)
	Medium/ Long term (USD mn)	Short term loans (USD mn)			
		Trade Finance	Working Capital / Supply Chain Finance	Others	
Green					
Social					
Sustainable					
Sustainability-linked					
Other, pls specify					
Total Amount					
Total as a percentage of Loan assets					

**Table 1: Reporting on overall sustainable financing**



<b>Sector (list is indicative)</b>	<b>Amount (USD mn)</b>	<b>Type of Financing</b>	<b>Total No. of transactions</b>
Renewable Energy			
Energy Efficiency			
Pollution Prevention and Control			
Sustainable Water and Wastewater Management			
Clean Transportation			
Climate Change Adaptation			
Green Buildings			
Affordable Basic Infrastructure			
Affordable Housing			
Food Security and Sustainable Food Systems			
Any others (please specify)			
Total			

**Table 2: Sector-wise classification of ESG Financing**

**Yours faithfully,**

**Sd/-**

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## Appendix I

### Indicative List (examples only) of Eligible Green and Social categories<sup>4</sup>

#### (I) Examples of eligible green categories:

No.	Eligible Green Categories	Illustrative Eligible Green Projects <sup>5</sup>
1.	<b>Renewable Energy</b>	<ul style="list-style-type: none"> <li>• Generation of electricity from Renewable Energy (RE) sources such as wind (onshore &amp; offshore), solar, waste to energy, geothermal energy or production of biofuels from waste sources.</li> <li>• Development and/or manufacture of renewable energy technologies, including equipment for renewable energy generation and energy storage.</li> <li>• Construction/ maintenance/ expansion of RE- associated distribution networks.</li> </ul>
2.	<b>Energy Efficiency</b>	<ul style="list-style-type: none"> <li>• Promotion of energy efficiency in industrial and commercial sectors through development, manufacture and/or installation of technologies for increasing operational energy efficiency of utilities and reducing GHG emissions.</li> <li>• Energy efficiency in residential building, agricultural equipment and transportation.</li> </ul>
3.	<b>Pollution Prevention and Control</b>	<ul style="list-style-type: none"> <li>• Projects addressing reduction of pollution and waste (e.g. air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/ emission-efficient, waste to energy etc.)</li> </ul>
4.	<b>Sustainable Water and Wastewater Management</b>	<ul style="list-style-type: none"> <li>• Activities that provide access to adequate sanitation facilities.</li> <li>• Activities that improve water quality (e.g. water treatment facilities and upgrades to waste water treatment plants to remove excess nutrients).</li> <li>• Activities that increase water-use efficiency (e.g. water recycling and reuse, water saving systems, technologies and water metering).</li> <li>• Water management/ treatment projects, distribution, desalination and other projects that ensure accessibility, drinkability and security of water</li> <li>• Sanitation infrastructure projects</li> <li>• Projects, products and services to provide basic sanitation and safe drinking water to society.</li> </ul>

<sup>4</sup> The projects are only for indicative purposes, they may depend upon the country targets and classification that may evolve over the course of time.

<sup>5</sup> In case of companies having diversified business, products and services a qualifying criteria need to be set by lenders to identify the projects as eligible based on their Board approved policy.



5.	<b>Environmentally Sustainable Management of Living Natural Resources and Land use</b>	<ul style="list-style-type: none"> <li>• Programs encouraging sustainable land use and sustainable agriculture, including climate-smart agriculture which take into account climate mitigation and adaptation measures.</li> <li>• Projects that promote a low carbon economy around sustainable agriculture and food security;</li> <li>• Rehabilitation of sensitive and degraded ecosystems through sound management practices and land use planning.</li> <li>• Projects that promote climate smart animal husbandry, sustainable aquaculture and fisheries, sustainable management of natural resources and land use - products, services and technologies.</li> </ul>
6.	<b>Terrestrial and Aquatic Biodiversity Conservation</b>	<ul style="list-style-type: none"> <li>• Conservation and enrichment of carbon pools in natural ecosystems.</li> <li>• Programs that encourage environmental conservation and sustainable use of natural resources.</li> </ul>
7.	<b>Clean Transportation</b>	<ul style="list-style-type: none"> <li>• Technology to replace or reduce the direct use of fossil fuels, which generate GHG.</li> <li>• Development of an effective, efficient, integrated affordable and eco-friendly public transportation system.</li> <li>• Programs encouraging land use planning which allows movement by cycling, walking and public transport.</li> <li>• R&amp;D programs focusing alternative green fuel.</li> <li>• Incorporating green technology in transportation infrastructure.</li> </ul>
8.	<b>Climate Change Adaptation</b>	<ul style="list-style-type: none"> <li>• Activities that increase resilience of ecosystems such as integrated watershed management.</li> <li>• Climate change adaptation infrastructure such as flood defense systems.</li> </ul>
9.	<b>Eco-efficient and/or circular economy adapted products, production technologies and processes</b>	<ul style="list-style-type: none"> <li>• Projects which focus on development of environmentally sustainable products, with an eco- label or environmental certification and/or resource-efficient packaging and distribution.</li> <li>• Production technologies and processes may relate to design and introduction of reusable, recyclable and refurbished materials, components, circular tools and services.</li> </ul>
10.	<b>Green Buildings</b>	<ul style="list-style-type: none"> <li>• Construction of green buildings or retrofit of existing buildings which meet regional, national or internationally recognized standards or certifications (e.g. EDGE, BREEAM, LEED, Green Mark, GRIHA).</li> </ul>



**(II) Examples of eligible social categories:**

<b>No.</b>	<b><u>Eligible Social Categories</u></b>	<b><u>Illustrative Eligible Social Projects</u></b>
1.	<b>Employment generation, and programs designed to prevent and/or alleviate Unemployment stemming from socio-economic crises, including through the potential effect of SME financing and Microfinance</b>	<ul style="list-style-type: none"> <li>• Financing microfinance institutions and financing of SMEs that are often unable to gain access to financial products and services, e.g.:               <ul style="list-style-type: none"> <li>• Rural populations focusing on agricultural production and agricultural value chains.</li> <li>• Small businesses that demonstrate gender equality at the board and/or ownership level.</li> <li>• Provision of financing to businesses run by economically excluded individuals.</li> </ul> </li> <li>• Financial inclusion through ease of access to financial services and promoting financial literacy</li> </ul>
2.	<b>Affordable Basic Social Infrastructure</b>	<ul style="list-style-type: none"> <li>• Clean drinking water, sanitation, transport and energy among others.</li> <li>• Construction, maintenance and equipment for water supply infrastructure.</li> <li>• Development of roads (including road infrastructure with a goal to improve rural/ remote connectivity).</li> </ul>
3.	<b>Access to Essential Services</b>	<ul style="list-style-type: none"> <li>• Access to health, education, vocational training, healthcare, financing and financial services (e.g. ramping up of health and wellness centers in rural and urban areas)</li> <li>• Infrastructure for the provision of emergency medical response and disease control services.</li> <li>• Supporting health-care related products and services such as provision/ distribution of healthcare equipment and R&amp;D and manufacturing for equipment for the provision of emergency medical response and disease control services.</li> <li>• Construction of public schools</li> <li>• Training for educational professionals that is accessible to the public/ low-income individuals.</li> </ul>
4.	<b>Affordable Housing</b>	<ul style="list-style-type: none"> <li>• Access to adequate, safe and affordable housing for excluded and/or marginalized populations.</li> </ul>
5.	<b>Food Security and Sustainable Food Systems</b>	<ul style="list-style-type: none"> <li>• Physical social and economic access to safe, nutritious and sufficient food, that meets the dietary needs and requirements;</li> <li>• Resilient agricultural practices</li> <li>• Reduction of food loss and waste</li> <li>• Improved productivity of small scale producers</li> </ul>