

NABARD SUSTAINABLE BOND FRAMEWORK

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**FINANCE DEPARTMENT
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Background

NABARD since its inception with its vision “Development Bank of the Nation for fostering rural prosperity” has been building an empowered and financially inclusive Rural India by touching every aspect of the rural economy. NABARD’s economic, environmental and social interventions and investments through various programmes and schemes strongly align with most of the Sustainable Development Goals (SDGs), viz. alleviating poverty, removal of hunger, climate action, gender equality, reducing economic inequality, health, education, infrastructure, economic growth, etc.

Introduction

Building upon the idea that business and sustainability go hand in hand, NABARD Sustainable Bond Framework has been conceptualised considering the bank’s comprehensive sustainability strategy. The framework is in line with current best market practises and shall be updated regularly to reflect changing financing criteria and market conditions.

This Framework is valid for sustainable bonds which shall be used to finance and/or refinance, in part or in full, new and/or existing eligible Green and Social Projects. The Framework describes the proposed usage of proceeds from Sustainable Bonds for being eligible to be considered as financing towards Green and Social Projects in a manner consistent with its sustainability goals and values. Further, it aims to ensure transparency through disclosures to the investors in order to aid them in making informed investment decisions. The framework is designed in accordance with the guidelines issued by SEBI and the Sovereign Green Bond Framework issued by GoI. The framework adheres to the voluntary guidelines prescribed by the Green Bond Principles 2021, the Social Bond Principles 2021, and the Sustainability Bond Guidelines 2021, developed by the International Capital Markets Association (ICMA). The framework also incorporates principles of Climate Bond Standards / Climate Bond Initiative, wherever applicable.

Eligibility Criteria

The fund mobilized under the Sustainable Bonds shall be utilized to exclusively finance or refinance, in part or in full, for new and/or existing eligible project(s) and/or asset(s) as follows:

Green Projects:

Projects contributing positively to environment such as climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, pollution prevention and control and which are environmentally sustainable and socially responsible. The project(s) or asset(s) finance may fall under any one or more of the following categories, but not limited to:

- Renewable and sustainable energy including wind, solar, bioenergy and other sources of energy which use technology
- Clean transportation including mass/public transportation
- Sustainable water and wastewater management including sustainable infrastructure for clean and/or drinking water

- Climate change adaptation (including efforts to make infrastructure more resilient to impacts of climate change, as well as information support systems, such as climate observation and early warning systems)
- Energy efficiency including efficient and green buildings, energy storage and smart grids
- Sustainable waste management including recycling, waste reduction, waste to energy, efficient disposal of waste
- Environmentally sustainable management of living natural resources and land use including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally sustainable fishery and aquaculture; environmentally sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes
- Terrestrial and aquatic biodiversity conservation
- Pollution prevention and control (including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/emission-efficient waste to energy)

Social Projects:

Projects directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for a target population(s). A social issue threatens, hinders, or damages the well-being of society or a specific target population. The project(s) or asset(s) finance may fall under any one or more of the following categories, but not limited to:

- Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, energy)
- Access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services)
- Affordable housing
- Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance
- Food security and sustainable food systems (e.g. physical, social, and economic access to safe, nutritious, and sufficient food that meets dietary needs and requirements; resilient agricultural practices; reduction of food loss and waste; and improved productivity of small-scale producers)
- Socioeconomic advancement and empowerment (e.g. equitable access to and control over assets, services, resources, and opportunities; equitable participation and integration into the market and society, including reduction of income inequality)”

Selection and Evaluation of Projects

Projects to be financed/refinanced using the sustainable bonds proceeds shall be evaluated by the NABARD's Top Management Business & Grants Sanctioning Committee (TMBGSC), ensuring that the projects funded through the bonds meet rigorous environmental, social, and financial standards.

The project evaluation criteria include:

1. **Environmental impact assessment:** The projects should undergo an environmental impact assessment (EIA), wherever applicable, to evaluate the potential environmental impacts and identify measures to mitigate negative impacts.
2. **Economic Viability Assessment:** The projects should undergo a financial viability assessment to evaluate the project's economic viability
3. **Technical feasibility:** The projects should undergo a technical feasibility assessment to evaluate the project's technical feasibility and ensure that the project can be successfully implemented.
4. **Compliance with eligibility criteria:** The projects should be evaluated to ensure that they comply with the eligibility criteria set out in the Sustainable Bond Framework.
5. **Social Impact Assessment:** The projects to undergo a social impact assessment (SIA) wherever applicable to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project
6. Once an eligible project has been selected for inclusion in the sustainable asset portfolio, it will remain part of the Portfolio unless or until the relevant project is in default, has terminated, has been sold, is otherwise no longer outstanding or no longer meets the eligibility criteria described above.

7. Management of Proceeds

1. NABARD shall establish internal controls and risk management procedures to ensure that the funds raised through the Sustainable Bonds are used in a responsible and prudent manner to the purposes for which the funds have been earmarked for in compliance with the framework
2. **Compliance with eligibility criteria:** NABARD shall report on the compliance of the projects funded through the bonds with the eligibility criteria set out in the Sustainable Bond Framework. This shall include information about the environmental standards, social responsibility, financial viability, and transparency of the projects.
3. Issuer's management of proceeds be supplemented by the use of an external auditor, or other third party, to verify the internal tracking method and the allocation of fund. The unallocated proceeds shall be invested temporarily in cash, cash equivalents and/or other high quality liquid assets. In case of any unallocated proceeds, the fund shall not be allocated to any GHG intensive projects.

Verification & Certification of NABARD Sustainable Bonds

Verification and certification of NABARD Sustainable Bonds is expected to help increase investor confidence and ensure that the funds raised through the bonds are used in a transparent and responsible manner. Towards this end verification and certification measures

that NABARD may consider are given below as per the requirements stipulated by the regulator from time to time.

1. Third-party verification: NABARD may engage an independent third party to verify the impact of the projects funded through the Sustainable Bonds. The third party could conduct site visits and review project documentation to verify compliance with established environmental and social standards as defined in this framework.
2. Certification: NABARD may seek pre-issuance assurance certification for the Sustainable Bonds from an established certification agency. This certification shall ensure that the objective of bond issuance is in accordance with the eligibility criteria as defined under the framework.
3. NABARD may also seek post-issuance assurance from certifying agencies for monitoring of end use of issue proceeds in accordance with the pre-defined purpose of bond issuance.

Reporting

1. NABARD shall establish robust reporting and disclosure procedures to ensure that investors have access to comprehensive and clear information about the environmental and social impact of the projects funded through the Sustainable Bonds. The reporting shall be periodical and would include information on the progress of the projects, and compliance with the eligibility criteria set out in the Sustainable Bond Framework.
2. The information shall use qualitative performance indicators and, where feasible, quantitative performance measures for all projects funded through the Sustainable Bonds.

The monitoring and impact assessment measures may be reviewed regularly to ensure that they remain effective and relevant.



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