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India's Sustainable Financing Leap: Decoding Social, Sustainability, and Sustainability-Linked Bonds

India is rapidly maturing as a global sustainable finance leader, ranking fourth among emerging markets with USD 55.9 billion in cumulative GSS+ debt issuance by end-2024. SEBI's June 2025 ESG Debt Securities Framework brings regulatory clarity to three distinct instruments: Social Bonds, Sustainability Bonds, and Sustainability-Linked Bonds. Each serves a defined

purpose- from funding social projects to linking coupon rates with ESG performance. Anchored in ICMA's global principles, the framework drives transparency and investor confidence. India is now well-positioned to channel capital toward inclusive growth and climate transition. This article examines the framework's structure, instruments, and India's ascent in sustainable finance.

The world of finance is undergoing a seismic shift. Traditional priorities of profit and immediate returns are giving way to a broader vision that integrates environmental, social, and governance (ESG) principles, emphasizing sustainability, fairness, and enduring stability. Within this evolving landscape, instruments like social bonds, sustainability bonds, and sustainability-linked bonds (SLBs) have become essential for channelling capital toward impactful, purpose-driven initiatives.

India, as a dynamic global economic player, is embracing this transformation with ambition and foresight. On June 5, 2025, the Securities and Exchange Board of India (SEBI) launched its groundbreaking Framework for

Environment, Social and Governance (ESG) Debt Securities (other than green debt securities)¹ (hereinafter referred to as "The Framework"), setting a new standard for the issuance and oversight of social, sustainability, and sustainability-linked bonds. This landmark regulation represents a decisive shift in India's sustainable finance landscape, transforming it from broadly articulated ESG aspirations to a clearly defined, transparent, and globally aligned framework.

SEBI's newly introduced framework establishes a robust regulatory foundation for social, sustainability, and sustainability-linked bonds, marking their first dedicated oversight distinct from the Green Bonds, which are already covered under a separate SEBI Framework². By introducing

these precise guidelines, SEBI ensures that India's ESG bond market aligns with the highest global standards, enhancing market credibility, comparability, and investor confidence.

Mapping the Current Landscape of Sustainable Finance in India

The Climate Bonds Initiative, in partnership with the MUFG Bank and under the umbrella of the India Initiative on Climate Risk and Sustainable Finance (IICRSF), released the *India Sustainable Debt State of the Market 2024* report, offering an in-depth exploration of India's green, social, sustainability, and sustainability-linked (GSS+) debt ecosystem. This comprehensive analysis highlights the dynamic growth of India's sustainable finance market, detailing key trends, emerging

¹ Securities and Exchange Board of India, Framework for Environment, Social and Governance (ESG) Debt Securities (other than green debt securities), Circular No. SEBI/HO/DDHS/DDHS-POD-1/P/CIR/2025/84 (June 5, 2025)

² Regulation 2(1)(q) of the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 ('NCS Regulations'), defines "green debt security" and Chapter IX of the Operational Circular for issue and listing of Non-Convertible Securities (NCS), Securitised Debt Instruments (SDI), Security Receipts (SR), Municipal Debt Securities and Commercial Paper (CP) dated August 10, 2021 as amended from time to time ('Operational Circular'), inter alia provides the initial and continuous disclosure requirements for entities issuing/ proposing to issue green debt securities. The extant framework of 'green debt security' was reviewed recently and consequential changes were brought in the NCS Regulations vide Gazette notification dated February 02, 2023.

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opportunities, and actionable steps to drive the nation's low-carbon, inclusive development agenda.

India has solidified its position as the fourth-largest emerging market for aligned GSS+ debt worldwide, trailing only China, South Korea, and Chile. By December 2024, the cumulative GSS+ issuance soared to USD 55.9 billion, marking a remarkable 186% increase from USD 21.4 billion in 2021. Green bonds continue to dominate, representing 83% of total aligned issuance, yet the market is diversifying rapidly across themes, instruments, and issuer profiles, signalling a maturing and versatile sustainable finance landscape.

In 2024, the issuance of seven aligned social bonds added USD 5.5 billion, boosting the cumulative social bond volume to USD 6.6 billion.

Non-Banking Financial Companies (NBFCs) further contributed by arranging USD 1.8 billion in social loans during the year. Meanwhile, banks and NBFCs are pioneering innovative financing structures, bundling assets such as rooftop solar, e-mobility, and waste management into portfolio financings, which are subsequently refinanced through labelled bonds and loans, further expanding the scope and impact of sustainable finance in India.

In alignment with these advancements, India's sustainable finance ecosystem is being reshaped by robust policy and regulatory frameworks. The Reserve Bank of India's (RBI) Green Deposit Framework and the International Financial Services Centres Authority's (IFSCA) sustainable finance guidelines are strengthening market integrity and encouraging global participation. Additionally, the Securities and Exchange Board of India (SEBI) has implemented enhanced disclosure requirements and a comprehensive ESG Debt Framework, in order to promote transparency and market trust.

Exploring the Basics: Social, Sustainability, and Sustainability-Linked Bonds

Social Bonds

At its essence, a Social Bond is a financial instrument designed to channel capital into projects that tackle

pressing social issues or foster positive societal outcomes. Unlike traditional bonds, where proceeds may be used for general corporate purposes, social bonds are tied to specific, impact-driven projects. These projects focus on improving the quality of life, reducing inequalities, or addressing systemic social challenges, often with a particular emphasis on underserved or vulnerable populations, though not exclusively limited to them.

The Framework defines Social Bonds as under:

“‘Social Bonds’ means a debt security issued for raising funds, subject to the conditions as may be specified by the Board from time to time, to be utilised for social project(s) that 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, falling under any of the following categories:

- Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, energy)*
- Access to essential services (e.g. health, education and vocational training, healthcare,)*
- Affordable housing*
- Employment generation and programmes designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, climate transition projects and/or other considerations for a “just transition” (such provision and/or promotion could include 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)*
- Socio-economic advancement and empowerment (e.g. equitable access to and control over assets, services, resources, and opportunities; equitable*

India GSS+ Scorecard

Theme	2024			Cumulative since 2006		
	Number of aligned deals	USDbn	%total	Number of aligned deals	USDbn	%total
Green	22	6.4	51	163	46.6	83
Social	7	5.5	44	11	6.6	12
Sustainability	2	0.6	5	4	2.2	4
SLB	0	0	0	1	.5	1
Grand Total	31	12.5	100	179	55.9	100

Source: India Sustainable Debt State of the Market 2024 (Published by Climate Bonds led India Initiative on Climate Risk and Sustainable Finance (IICRSF) and MUFG)

participation and integration into the market and society, including reduction of income inequality)

g) any other category, as may be specified by the Board from time to time"

The definition of social bonds outlined by the Securities and Exchange Board of India (SEBI) aligns seamlessly with the Social Bond Principles (SBP) issued by the International Capital Market Association (ICMA). The SBP serves as a global benchmark, promoting transparency, robust disclosure, and integrity in the social bond market by providing a clear framework for issuing social bonds. These principles ensure that social bonds deliver measurable social impact while maintaining market credibility. The alignment with SBP is structured around four core components:

1. Use of Proceeds

Ensures Social Bonds fund projects with clear social benefits, described in legal documentation. Proceeds must target specific social issues or outcomes, with transparency on financing vs. refinancing. Issuers should identify the relevant target population(s) of the Social Projects; however, it is acknowledged that the definition of target population can vary depending on local contexts

and that, in some cases, such target population(s) may also be served by addressing the general public.

2. Process for Project Evaluation and Selection

Social Bond issuers must transparently communicate social objectives, project eligibility processes, and benefits to target populations. They should provide complementary information on processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s).

3. Management of Proceeds

Social Bond proceeds must be tracked via a sub-account or portfolio, with periodic adjustments to match allocations to eligible Social Projects made during that period. The issuer should make known to investors the intended types of temporary placement for the balance of unallocated net proceeds. The proceeds of Social Bonds can be managed per bond (bond-by-bond approach) or on an aggregated basis for multiple Social Bonds (portfolio approach). The SBP advocates for robust transparency, urging issuers to

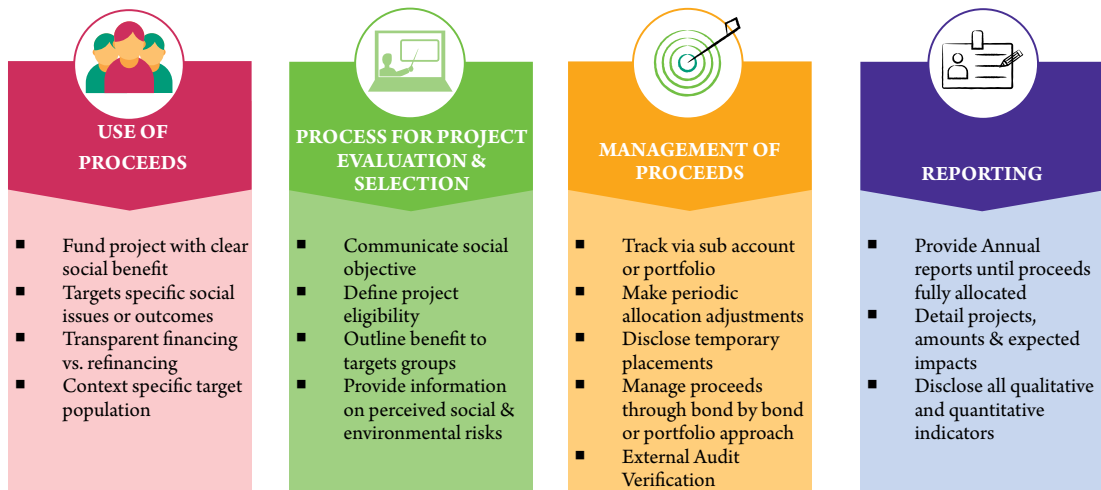
enhance proceeds management with external audits or third-party verification to ensure accurate tracking and allocation of Social Bond funds.

4. Reporting

Issuers must provide and update annual reports on Social Bond proceeds until fully allocated, detailing projects, amounts, and expected impacts. In cases of confidentiality or numerous projects, generic or aggregated data is recommended. Transparency is key, with qualitative and quantitative performance indicators (e.g. no. of beneficiaries) for Social Bonds to ensure robust impact disclosure.

In March 2025, Standard Chartered issued its first-ever Social Bond, a EUR 1 billion, 8-year Non-Call 7 issuance, aimed at supporting sustainable development across emerging markets. The bond's proceeds will be deployed primarily toward financing small and medium-sized enterprises (SMEs), including women-owned businesses, as well as improving access to essential services such as healthcare, education, affordable infrastructure, and food security. With 99 per cent of the bank's social asset base located in Asia, Africa, and the Middle East,

Four Core Components of Social Bonds



Social Bond Principles as issued by ICMA

“The calibration of sustainability performance targets (SPTs) for each key performance indicator (KPI) is fundamental to the structuring of SLBs, as it defines the issuer’s commitment to ambitious and achievable sustainability goals.”

particularly in countries such as India, Malaysia, and Bangladesh, the issuance channels capital to regions where financing needs are most acute. Anchored in the bank’s Sustainability Bond Framework, the transaction highlights the growing role of social bonds in mobilising private capital for inclusive growth, resilience, and long-term development in high-growth emerging economies.

Sustainability Bonds

The Framework outlines Sustainability Bonds as under:

“‘Sustainability bonds’ means a debt security issued for raising funds, subject to the conditions as may be specified by the Board from time to time, to be utilised for finance or re-finance of a combination of eligible green project(s) and social project(s) as specified under the definition of green bonds and social bonds respectively.”

Sustainability Bonds are debt instruments issued to fund or refinance a combination of eligible green and social projects, seamlessly blending environmental and social goals. They provide a dynamic tool for issuers to advance India’s sustainable finance agenda. As highlighted in the India Sustainable Debt State of the Market 2024 report, sustainability bonds, due to green and social objectives, can address the social costs of decarbonization, particularly in India, where transitioning to a low-carbon economy may disrupt

livelihoods in high-emission sectors like coal and thermal power due to evolving skill demands.

To strengthen its commitment to ESG objectives, India Exim Bank listed its inaugural 10-year USD 1 billion Sustainability Bond in 2023 on the London Stock Exchange’s Sustainable Bond Market (SBM) platform, under its Environmental, Social, and Governance (ESG) Framework. Additionally, the bond was listed on India’s first international exchange, the India International Exchange (India INX), at the International Financial Services Centre (IFSC) in GIFT City, Gujarat. Furthering its efforts, the bank issued two Sustainable Bonds totalling USD 150 million in February 2025, reinforcing its leadership in sustainable finance.

Sustainability-Linked Bonds

Sustainability-linked Bonds (SLBs) represent an innovative financing mechanism that ties the terms of debt issuance to measurable environmental or social goals, distinguishing them from traditional “use-of-proceeds” instruments like green bonds or debt-for-nature swaps, which allocate funds exclusively to designated projects and may impose restrictions on spending decisions. With SLBs, issuers retain full discretion over how the borrowed capital is deployed, often for general business needs, while the bond’s financial features, such as interest rates or coupon adjustments, fluctuate based on the achievement of predefined sustainability Key Performance Indicators (KPIs) evaluated against Specific Performance Targets (SPTs). This structure incentivizes issuers to deliver tangible progress in sustainability within set timelines, fostering a forward-thinking, results-oriented approach that extends improvements across the entire organization rather than isolated initiatives. Ultimately, like broader conservation financing tools, SLBs attract private investment by aligning profitability with positive outcomes, enabling capital mobilization for global

sustainability challenges without compromising issuer autonomy.

The Framework defines SLBs as under:

“‘Sustainability-linked bonds’ means a debt security which has its financial and/or structural characteristics linked to predefined sustainability objectives of the Issuer, subject to the condition that such objectives are measured through predefined Sustainability KPIs and assessed against predefined Sustainability Performance Targets (SPTs).”

To promote integrity and transparency in the issuance of sustainability-linked bonds (SLBs), the ICMA has outlined the Sustainability-Linked Bond Principles. These principles specify that SLBs should adhere to five core components to ensure their credibility and effectiveness in driving sustainable outcomes:

1. Selection of KPIs

The integrity of SLBs depends on selecting robust KPIs to measure an issuer’s sustainability performance. These KPIs, whether internal or external, must meet the following criteria to ensure credibility and alignment with sustainability goals:

- **Materiality and Relevance:** KPIs must be central to the issuer’s business and sustainability strategy, addressing key ESG challenges relevant to their industry. For corporate issuers, KPIs should reflect high strategic importance to current or future operations, while sovereign issuers should align KPIs with economic, social, or governance policies.
- **Strategic Alignment:** KPIs should integrate seamlessly with the issuer’s overarching sustainability strategy or transition plans. They may be supported by existing strategy disclosures or policy frameworks.
- **Measurability and Consistency:** KPIs must be quantifiable using consistent

methodologies, ensuring reliable tracking over time.

■ **External Verifiability:**

KPIs should be subject to independent third-party verification to validate performance and enhance investor trust.

- **Benchmarking:** Wherever possible, KPIs should be benchmarked against external references, such as industry standards or science-based targets, to demonstrate ambition and facilitate comparison.

To assist issuers in selecting credible and consistent KPIs for SLBs, ICMA provides a KPI Registry with sector-specific guidance tailored to various industries. For example, a consumer lending/leasing company in the financing sector might adopt a KPI such as the percentage of auto loans allocated to electric vehicles, reflecting a commitment to low-carbon transportation. Similarly, an Asset Management company could select KPIs like the percentage of investments in companies with operations in or near biodiversity-sensitive areas that negatively impact those regions, benchmarked against the Sustainable Finance Disclosure Regulation (SFDR), or the Green Asset Ratio, which measures the proportion of assets financing environmentally sustainable activities as defined by the EU Taxonomy for Sustainable Activities. These targeted KPIs ensure alignment with industry-specific sustainability priorities while maintaining measurability and external verifiability.

2. Calibration of Sustainability Performance Targets (SPTs)

The calibration of sustainability performance targets (SPTs) for each key performance indicator (KPI) is fundamental to the structuring of SLBs, as it defines the issuer's commitment to ambitious and achievable sustainability goals. The SPTs must be set in good faith,

should be realistic & the issuer must disclose all strategic information that may impact the achievement of SPTs.

The SPTs should be ambitious, i.e.:

- represent a material improvement in the respective KPIs and be beyond a "Business as Usual" trajectory;
- where possible, be compared to a benchmark or an external reference;
- be consistent with the issuer's overall strategic sustainability and business strategy in the case of corporate issuers, or sustainable development policies in the case of sovereign issuers; and
- be determined on a predefined timeline, set before (or concurrently with) the issuance of the bond.

The target setting exercise should be based on a combination of benchmarking approaches:

- *the issuer's own performance over time for which a minimum of 3 years, where feasible, of measurement track record on the selected KPI(s) is recommended, and when possible, forward-looking guidance on the KPI;*
- *the issuers' peers, i.e. the SPT's relative positioning versus its peers' where available (average performance, best-in class performance) and comparable, or versus current industry or sector standards, and/or*
- *reference to the science, i.e. systematic reference to science-based scenarios, or absolute levels (e.g. carbon budgets), or to official country/regional/international targets (Paris Agreement on Climate Change and net zero goals, Sustainable Development Goals (SDGs), Kunming-Montreal Global biodiversity framework, etc.) or to recognised Best Available-Technologies or other proxies to determine relevant targets across environmental and social themes.*

3. Bond Characteristics

The core feature of SLBs is the potential adjustment of their financial or structural terms, such as interest rates, based on whether the issuer achieves predefined sustainability performance targets (SPTs) tied to selected key performance indicators (KPIs), i.e. the SLB will need to include a financial and/or structural impact involving trigger event(s).

1. The most frequent adjustment is a change in the bond's coupon rate, but other financial or structural features may also vary depending on SPT achievement.
2. Any changes to the bond's terms should be significant and proportionate to its original financial structure to ensure the variation is impactful.
3. The bond documentation must explicitly define the KPIs, SPTs, and their calculation methodologies, along with the specific financial or structural changes triggered by meeting or missing SPTs.
4. Provisions should be included to address situations where SPTs cannot be reliably measured or observed, ensuring transparency and accountability.
5. The documentation should account for extraordinary circumstances, such as major corporate mergers or acquisitions, or significant regulatory or technical changes, which may necessitate adjustments to KPI calculations, SPT restatements, or baseline recalibrations.

4. Reporting

Issuers of SLBs are obligated to maintain transparency by regularly publishing accessible, up-to-date information on their performance against chosen KPIs, incorporating relevant baseline data where applicable. They must also provide a verification assurance report

assessing performance relative to SPTs, specifying any impact on the bond's financial or structural terms and the timing of such changes. Additionally, issuers should disclose information that enables investors to evaluate the ambition of SPTs, including updates to the issuer's sustainability strategy, KPI or ESG governance, or, for sovereign issuers, changes to national development plans or policies, as well as any other pertinent data for analysing KPIs and SPTs. These reports should be issued at least annually and at any critical juncture relevant to evaluating SPT performance that may lead to adjustments in the bond's terms.

5. Verification

Issuers of SLBs must secure independent external verification, such as limited or reasonable assurance, to evaluate their performance against each sustainability performance target linked to KPIs. This verification should be performed annually by a qualified external reviewer, such as an auditor or sustainability consultant with relevant expertise, and at any key date or period tied to assessing SPT performance that may lead to changes in the bond's financial or structural characteristics. The process should continue until the last SPT trigger event for the bond is reached. The results of these verifications must be publicly disclosed to maintain transparency. In contrast to the optional pre-issuance external review, such as a Second Party Opinion, post-issuance verification is an essential requirement of the SLBP.

On June 23, 2025, Larsen & Toubro, a leading infrastructure firm, issued ₹750 million in three-year sustainability-linked bonds under SEBI's ESG debt framework, with a coupon rate of 6.35%, 10–15 basis points below a comparable vanilla non-convertible debenture,

yielding annual interest savings of about ₹1.1 crore. The bond's innovative structure is tied to two key performance indicators set against a fiscal-2022 baseline: a 30% reduction in Scope 1 and 2 greenhouse gas intensity and an increase to 15% women leaders among the top 500 managers by FY 2027. Meeting both sustainability performance targets reduces the coupon to 6.10%, offering a 40-basis-point advantage over standard debt, while failure to achieve either raises it to 6.60%, eliminating the “greenium” and increasing costs. This performance-driven approach demonstrates how SLBs incentivize measurable environmental and social outcomes while aligning financial benefits with sustainability goals.

Conclusion

A profound shift is sweeping the global finance landscape, prioritizing purpose alongside profit. India's sustainable finance ecosystem is entering a decisive phase of maturity, marked by clearer rules, stronger accountability, and growing market sophistication. SEBI's ESG Debt Securities Framework provides the much-needed regulatory clarity to scale social bonds, sustainability bonds, and sustainability-linked bonds beyond niche instruments and into mainstream capital markets. By aligning closely with globally accepted principles while remaining sensitive to domestic development priorities, the framework strengthens transparency, comparability, and investor confidence.

As issuance volumes grow and structures become more innovative, these instruments have the potential to channel capital efficiently into priority areas such as inclusive growth, climate transition, infrastructure, and social equity. Going forward, sustained success will depend on credible disclosures, robust impact measurement, and the ability of issuers, particularly first-time and mid-sized entities, to navigate costs and compliance

requirements. If supported by continued regulatory refinement, market capacity-building, and deeper investor engagement, India is well positioned to emerge as a global benchmark in sustainable debt markets, demonstrating how financial performance and measurable social and environmental outcomes can progress in tandem.

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