

# **Rural Electrification Corporation Limited**

## **Green Bond Framework**

### **Introduction:**

Rural Electrification Corporation Limited (REC) is committed to finance across the value chain of power infrastructure sector viz. generation, transmission and distribution including renewable energy projects. REC plays a key role in achieving Government of India's goal of providing reliable and quality 24x7 power to all at competitive prices in sustainable manner. REC has been sanctioning loan assistance to grid-connected and off-grid Renewable Energy projects including solar photo-voltaic projects, biomass, biofuels, biogas projects and wind projects.

REC has been promoting and financing power projects that are optimizing the use of multiple energy resources with innovative eco-friendly technologies, thereby contributing to the economic development of the nation, social upliftment of the society and promoting a healthy environment.

REC has formulated and implemented a 'Corporate Social Responsibility & Sustainability Policy'. The Corporate Social Responsibility and Sustainable Development (CSR & SD) initiatives of the Company were continued with a view to integrate REC's business operations with social processes while recognizing the interests of its stakeholders. While identifying such initiatives the Company has adopted an integrated approach to address the community, societal and environmental concerns measured in terms of triple bottom line approach. REC has been undertaking various initiatives in the fields of sustainability and development programmes including environmental sustainability, drinking water facilities, solar smart micro grid lights in select un-electrified/ poorly electrified villages, etc.

### **Framework Overview:**

The Green Bond Framework is established in accordance with the Climate Bonds Standard version 2.1 (for more details visit [https://www.climatebonds.net/standards/standard\\_download](https://www.climatebonds.net/standards/standard_download)) and also adheres to the Green Bond Principles, 2016 issued by the International Capital Markets Association (ICMA).

This Green Bond Framework (framework) broadly lays down REC's mechanism of fund raising from Green Bonds and to use the proceeds of those issuance(s) to invest in renewable energy and energy efficiency in a manner that is consistent with REC's sustainable values

### **Use of proceeds:**

The proceeds from the issuance of Green Bonds by REC will be applied for on-lending to renewable energy (RE) projects ("Eligible Green Projects"). The Eligible Green Projects will broadly cover the following, subject to availability of sector-specific technical criteria under Climate Bonds Standard:

- a) Solar projects or assets in one or more of the following activities:
  - Solar electricity generation facilities where a minimum of 85% of electricity generated from the facility is derived from solar energy resources

- Wholly dedicated transmission infrastructure for solar electricity generation facilities.
- b) Wind projects or assets in one or more of the following activities
- The development, construction and operation of wind farms.
  - Wholly dedicated transmission infrastructure for wind farms.
- c) Biomass energy projects or assets in one or more of the following activities
- The development, construction and operation of projects that generate electricity using the organic material viz. living or recently living plant and animal material as source of fuel.
  - Wholly dedicated transmission infrastructure for Biomass energy projects.
- d) Hydropower projects in one or more of the following activities
- financing of, or investments in, small storage hydroelectric projects (less than 25 megawatts) and run-of-river (a type of hydroelectric generation plant whereby little or no water storage is provided) hydroelectric projects of all sizes.
  - Wholly dedicated transmission infrastructure for such Hydropower projects.
- e) Financing of or investment in technology and/or equipment that improves energy efficiency in industrial, buildings and other sectors. Financing of Energy storage units such as smart systems and meters that support improved energy management, communal heating systems (excluding coal-fired sources), thermal heat storage (excluding coal-fired sources), hydro-energy storage systems and heat pumps.
- f) Sustainable water management: investment in water collection, treatment, recycling, re-use, technologies and infrastructure and sewage treatment facilities using recycled water
- g) Sustainable waste management projects that include financing of, or investments in, waste minimization, collection, management, transportation, disposal, re-use and recycling, including waste-to-energy power plants.
- h) Combination of the above two or more technologies known as hybrids, where the projects are being set up after due regulatory approvals.

**Selection and Evaluation of Eligible Green Projects:**

REC appraises the projects on the basis of defined set of guidelines which focuses on the Project Appraisal and Entity (Promoter) Appraisal. Against the backdrop of India's heavy reliance on fossil fuel and climate change considerations, a dedicated Renewable Energy (RE) Division was set up in 2010 to finance RE deployment. RE division checks the Project's Techno Financial Viability and Entity division checks the strength of the promoter and borrower. Parameters for project grading are categorized in two sets i.e. Quantitative and Qualitative. Quantitative parameter covers cost of generation, debt service coverage ratio (DSCR) and Qualitative parameters covers engineering, procurement and construction (EPC) contractor's strength, offtaker's risk, resource assessment, operations & maintenance (O&M) contractor's strength etc. Entity grading is obtained by rating the entity based on upfront equity, pro-rata equity, existing business, capacity to raise equity, financial

strength etc. Integrated rating is arrived through a defined matrix of project grading and entity grading.

All Renewable Energy projects sanctioned by the RE Division as above, shall be considered as Eligible Green Projects and the disbursements thereof shall be allocated towards the Green bond issuance.

Post issuance, KPMG will provide assurance that the nominated projects are in alignment with the Green Bond Framework for the inaugural Green Bond issue.

In respect of subsequent issuance of green bonds or changes to the initial list of projects, similar assessment and approval process would be carried out by REC.

### **Management of Proceeds:**

The proceeds will be allocated for the financing of existing projects including re-financing and new Eligible Green Projects.

The net proceeds from the issue of Green Bonds will be utilized for financing of Eligible Green Projects, to be termed as 'Green Portfolio'. REC has a well laid internal tracking system through ERP system in place which shall be used to monitor, establish and account for the allocation of the proceeds for such Green Portfolio, which will be regularly updated to reflect loans refinanced or repaid and new loans allocated from the proceeds.

Pending the full allocation to Eligible Green Projects, balance of issuance proceeds will be invested or allocated, as appropriate, in current account, Corporate term deposits/ term deposits with commercial banks, units of debt mutual funds or government securities permitted as per the company's investment policy, applicable guidelines of Reserve Bank of India or any statutory body in this regard.

### **Reporting:**

REC will report the use of the proceeds by way of sector-wise information of the projects financed under each of REC's Green Bond issuance through a separate section in the Annual Report. The report will also be published on REC website at (<http://www.recindia.nic.in/>).

### **Assurance:**

REC Green Bond framework will be published on its website (<http://www.recindia.nic.in/>). REC's Green Bond Framework will be reviewed by KPMG and certified by Climate Bonds Initiative for the Green Bond issue(s).

REC will also get post issuance reviewed by KPMG, on the basis of which certification will be obtained from the Climate Bonds Initiative to assure that the use of proceeds allocation, ongoing eligibility of the projects and assets, adequacy and output of the Issuer's internal control and systems and use of funds not yet allocated are as per the framework established. Post issuance Certification will be completed within one year from the date of issue of bonds.