
SUSTAINABILITY LINKED BONDS IN INDIA - AN ANALYSIS OF SEBI ESG FRAMEWORK

Sanskriti Chaudhuri, Amity Law School, Amity University Kolkata

INTRODUCTION:

Sustainable Finance is a progressive approach where the financial system and investments are aligned with sustainable development goals and its foundation lies on concepts like ESG integration, impact investing, green financing and social responsibility. ESG integration refers to the inclusion of environment, social governance factors in decisions of investment. Impact investing refers to those investment strategies which results in the creation of significant and beneficial social and environmental impact including financial return. Green financing are those services of financial nature provided for projects which have significant environmental benefits like pollution prevention initiatives. An example of such financial tool is Green bonds. Social responsibility refers to the impact on society at a large due to financial activities and investments.¹ Within this framework of Sustainable finance, ESG debt securities plays a crucial role and includes several types of bonds like green debt securities, social bonds, sustainability bonds, sustainability linked bonds and other types of securities specified by the Board which are issued in accordance with international frameworks suited to Indian requirements and which is specified by the Board from time to time. SEBI, as the primary regulatory of the securities market in India through its circular dated 5th June, 2025 introduced a new framework for Environment, Social and Governance (ESG) Debt Securities thus bringing in new changes pertaining to the Sustainability linked bonds.²

SUSTAINABILITY LINKED BONDS: MEANING AND FEATURES

Sustainability-linked bonds (SLB) is a debt security which the issuer promises to repay, whose financial or structural terms change which is dependent on the issuer meets such objectives

¹ Heinrich Böll Stiftung, *Sustainable Finance Explained: Concepts, Advantages, and Practical Implementations*, <https://il.boell.org/en/2024/03/09/sustainable-finance-explained-concepts-advantages-and-practicalimplementations>.

² Angel One, *What Are Social Bonds? Understand Here*, <https://www.angelone.in/knowledge-center/sharemarket/what-are-social-bonds-understand-here>.

which are measured through Sustainability Key Performance Indicators (KPIs) and assessed against Sustainability Performance Targets (SPTs) which are predefined.³ In simple terms, Sustainability Linked Bonds are generally issued for general corporate purposes and by linking outcomes to financial incentives rather than funding specific projects, Sustainability Linked Bonds offer issuers greater flexibility and encourage broader sustainability performance improvements across the business.⁴

The key features defining the Sustainability linked bonds are as follows:

- SLB's are performance based as the financial or structural characteristics (for instance coupon rates) are adjusted according to the achievement of sustainability targets which can take place in either of the two directions, one where if the targets are not met there will be an increase in coupon rates and other if the targets are met there will be a decrease in coupon rates.⁵
- As the overall outcome of sustainability are measured by key performance indicators (KPI), it becomes one of the key features of sustainability linked bonds. The selection of KPIs must be measurable, material and verifiable, which reflect the underlying core ESG priorities such as board diversity, carbon intensity etc.⁶
- Another important feature of Sustainability linked bonds is Sustainability Performance targets which must be set in good faith and must be ambitious that is they must bring material improvements in the relevant KPIs, align with the sustainable strategy of the issuer and must be benchmarked against external standards or references.⁷

³ Securities & Exchange Board of India, Circular No. SEBI/HO/DDHS/DDHS-POD-1/P/CIR/2025/84, Framework for Environment, Social and Governance (ESG) Debt Securities (other than green debt securities, https://www.sebi.gov.in/legal/circulars/jun-2025/framework-for-environment-social-and-governance-esg-debtsecurities-other-than-green-debt-securities-_94424.html.

⁴ Sustainalytics, *Sustainability-Linked Bonds*, Sustainalytics Corporate ESG Blog, <https://www.sustainalytics.com/esg-research/resource/corporate-esg-blog/sustainability-linked-bonds>.

⁵ Lili Hocke, *Sustainability-Linked Bonds*, Sustainalytics, <https://www.sustainalytics.com/esgresearch/resource/corporate-esg-blog/sustainability-linked-bonds>.

⁶ Sustainability-Linked Bond Principles, INT'L CAP. MKT. ASS'N, <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-BondPrinciples-June-2020-171120.pdf>.

⁷ Sustainability-Linked Bond Principles, INT'L CAP. MKT. ASS'N, <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-BondPrinciples-June-2020-171120.pdf>.

REGULATORY FEATURES INTRODUCED BY THE ESG FRAMEWORK OF SEBI:

The ESG framework introduced by SEBI provides specific frameworks for issuance of social bonds, sustainability bonds and sustainability-linked bonds, which together with green debt securities is termed as ESG debt securities. These regulations apply to all such social bonds, sustainability bonds and sustainability linked bonds which are listed or proposed to be listed on recognized stock exchanges in India. The framework has made it mandatory that the proceeds from these bonds should be exclusively used for eligible social or sustainability projects which are in accordance with recognized international standards like the ICMA Principles, Climate Bonds Standard, ASEAN or EU Standards, or Indian regulatory frameworks. Further, SEBI has defined social bonds as those projects for which financing or refinancing which aims at addressing specific social issues, while sustainability bonds combine financing or refinancing of projects which cover both green and social objectives. SEBI had introduced strict monitoring and disclosure obligations to prevent purpose-washing and ensure bonds are true to label including the possibility of early redemption in case of misuse. The regulations also allow SMEs to issue ESG bonds provided they comply with the specified disclosure requirements. In relation to the Sustainability linked bonds, issuers need to make detailed initial disclosures in the offer documents for private placements or public issues and must also provide rationale for such issuance and justify the alignment with overall sustainability and business strategy, there must be reference to relevant Indian or global taxonomies, standards or certifications which is considered in the issuance. There must be compliance with all those obligations which were decided prior to the issuance and must be consistent with international standards. Other than this, it is necessary that the offer document provides disclosure on details like the integral sustainability and strategy employed by the issuer when conducting the business, detailed information on Key Performance Indicators (KPIs) and SPTs linked to KPIs which includes their definitions, the methods used in calculations, the reason behind selecting those KPIs and their importance towards achieving sustainability and various difficulties pertaining to ESG. The issuer must also include the systems and procedures which is being used to monitoring the progress of these targets, and for this purpose they may constitute a dedicated “Sustainability Committee” or “ESG Committee” and must provide continuous post-listing disclosures with information on the use of proceeds, reports on the impact, and assessments on performances which is verified by a third-party. An independent third-party reviewer must also be appointed to validate the

alignment of ESG, tracking the use of funds and to assess the credibility of KPIs/SPTs.⁸

BENEFITS AND CHALLENGES FACED BY ISSUERS:

Issuers get several benefits from sustainability linked bonds (SLBs). First, they provide access to ESG-focused investors by linking bond terms to sustainability goals which enable companies to raise capital from socially responsible sources.⁹ Second, the framework for SLBs aligns with international standards set by ICMA, the Climate Bonds Standard, and EU/ASEAN guidelines which enhances global credibility and investor confidence and helps to encourage strategic integration of ESG factors into the business of the issuer through defined Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs).¹⁰ Third, through issuing of SLBs, the market reputation of the company can be improved which indicates genuine commitment towards long-term environmental and social goals and helps to build trust and enhance brand value.¹¹ Fourth, SLBs provide greater flexibility as funds raised are not tied to specific projects but rather to the achievement of ESG outcomes which gives issuers more freedom in how the capital is utilized.¹² Lastly, if a company meets the sustainability goals which it has set when it has issued sustainability linked bonds then it gets to pay less interest which is often known as “sustainability premium”. On the other hand, in cases where the company fails to meet those sustainability goals, a clause may be included in the bond which allows to increase the interest rate to protect investors, therefore ensuring that issuers stay committed to environmental and the money of investors are also protected.¹³

However, there are several difficulties which are faced by Issuers. First, issuers often face the difficulty of paying huge amount of money in relation to the process of third-party verification and reporting. When we consider, independent assurance, we understand the term of reasonable assurance and for reasonable assurance, specialised auditors, sustainability softwares and

⁸ Sustainalytics, *Sustainability-Linked Bonds*, Sustainalytics Corporate ESG Blog, <https://www.sustainalytics.com/esg-research/resource/corporate-esg-blog/sustainability-linked-bonds>.

⁹ Reuters, *India's Larsen & Toubro Mulls Another ESG Bond Issue After Debut Attracts Premium*, Reuters, <https://www.reuters.com/sustainability/indias-larsen-toubro-mulls-another-esg-bond-issue-after-debut-attractspremium-2025-06-19>.

¹⁰ *Sustainability Bonds: Financing a Greener and Fairer Future*, India CSR (n.d.), <https://indiacs.in/sustainability-bonds-financing-a-greener-and-fairer-future/>.

¹¹ *Sustainability Bonds: Financing a Greener and Fairer Future*, India CSR (n.d.), <https://indiacs.in/sustainability-bonds-financing-a-greener-and-fairer-future/>.

¹² *What Are the Main Benefits of Sustainability-Linked Bonds?*, NEN Power (n.d.), <https://nenpower.com/blog/what-are-the-main-benefits-of-sustainability-linked-bonds/>.

¹³ *What Are the Main Benefits of Sustainability-Linked Bonds?*, NEN Power (n.d.), <https://nenpower.com/blog/what-are-the-main-benefits-of-sustainability-linked-bonds/>.

structured reporting systems are necessary and which can be expensive for smaller issuers or companies.¹⁴ Second, setting ambitious and achievable Sustainability Performance Targets may be difficult.¹⁵ This in turn increases regulatory scrutiny, as stakeholders and regulators scrutinize disclosures more closely which raises risks pertaining to reputation and litigation.¹⁶ Third, when considering ESG debt securities in general, we have to understand that there is always a high risk of purpose-washing remains high, especially when the data is self-reported or inadequately audited and this may lead to credibility concerns if issuers selectively report metrics.¹⁷ Finally, SMEs face constraints pertaining to capacity as they lack financial resources, technical expertise, and data collection systems which are required to comply with complex disclosure norms particularly relating to value-chain reporting and verification.¹⁸

CONCLUSION:

The ESG framework introduced by SEBI is a practical approach which helps to make the finance market in India more sustainable, reliable and trustworthy through measures like higher interest rates in case of failure to meet sustainability goals, review by independent experts, and strict action against false claims about ESG efforts. On the other hand, SEBI has recognised the difficulties faced by small businesses in ensuring compliance so it has allowed certain leniency by reducing disclosure requirements and simplifying bi-annual compliance for issuers on SME exchanges. Further, the framework has also allowed for flexibility in presentations such as aggregated reporting, allowing ESG or sustainability committees, and reviewer-based verification rather than full audits. Thus, the framework by SEBI provides a supportive approach for smaller entities therefore making it as less resource-intensive structures.

¹⁴ Transparency Overload? How SEBI's ESG Shake-Up Could Redefine CSR in India, *Legal Tea*, <https://www.legaltea.in/transparency-overload-how-sebis-esg-shake-up-could-redefine-csr-in-india>.

¹⁵ Greengovern Advisors, SEBI ESG Debt Framework: Social & Sustainability-Linked Bonds, *Green govern Advisors*, <https://greengovernadvisors.com/sebi-esg-debt-framework-social-sustainability-linked-bonds/>.

¹⁶ Mandatory ESG Disclosures under SEBI and Menace of Greenwashing in India, *The Daily Guardian*, <https://thedailyguardian.com/opinion/mandatory-esg-disclosures-under-sebi-and-menace-of-greenwashing-inindia/>.

¹⁷ Mandatory ESG Disclosures under SEBI and Menace of Greenwashing in India, *The Daily Guardian*, <https://thedailyguardian.com/opinion/mandatory-esg-disclosures-under-sebi-and-menace-of-greenwashing-inindia/>.

¹⁸ Gladys Tejura, Navigating ESG Reporting Challenges for Indian SMEs, *Tinubu: Surety Blog*, <https://www.tinubu.com/blog/navigating-esg-reporting-challenges-for-indian-smes>.