Agri Articles
(e-Magazine for Agricultural Articles)
Volume: 06, Issue: 01 (JAN-FEB, 2026)
Available online at http://www.agriarticles.com

India's Green Credit Financing: Monetizing Nature Beyond Carbon

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In the global race to monetize climate action, the world has largely spoken one language: Carbon. For decades, the metric of salvation has been the ton of CO2 equivalent (tCO_{2e}) However, as of early 2026, India is pioneering a divergent path. With the operationalization of its Green Credit Programme (GCP) India is attempting to create a parallel ecological economy, one that values the act of restoration itself, distinct from the invisible gas it sequesters. As the program enters its implementation phase following a critical regulatory overhaul in late 2025, it presents a "sui generis" model for the Global South: a state-backed mechanism that turns ecological restoration into a compliance asset for heavy industry. Yet, as pilot projects break ground on 4,000 hectares of degraded land, the initiative faces a defining tension between administrative efficiency and ecological integrity.

The Great Decoupling: Green vs. Carbon

To understand the Indian landscape in 2026, one must first distinguish between its two parallel markets. On one track lies the Carbon Credit Trading Scheme (CCTS). Governed by the Ministry of Power, this is a classic cap-and-trade market designed for energy-intensive sectors like steel, cement, and petrochemicals. As of January 2026, roughly 490 "obligated entities" are mandated to meet strict emission intensity targets, trading carbon certificates to cover their deficits. This is India's shield against the European Union's Carbon Border Adjustment Mechanism (CBAM). On the other track lies the Green Credit Programme (GCP). Governed by the Ministry of Environment, Forest and Climate Change (MoEFCC), this mechanism is unique. It does not trade in emissions. Instead, it incentivizes "pro-planet" actions, primarily tree plantation and water conservation on degraded lands. Crucially, under the revised rules notified in August 2025, these credits have been deliberately decoupled from carbon markets. They cannot be double-counted; a tree planted for a Green Credit cannot simultaneously be sold as a Carbon Credit.

The 2025 Course Correction: From Quantity to Quality

The GCP had a rocky start. The initial 2024 methodology was heavily criticized for incentivizing a "numbers game" that is awarding credits simply for planting trees, regardless of survival. Ecologists warned this would lead to the mass planting of fast-growing invasive species (like Eucalyptus) in ecologically fragile zones just to harvest credits.
In response, the government issued a sweeping corrective notification in August 2025. The new regime, currently in force, fundamentally alters the valuation metric:

- The 5-Year Rule: Credits are no longer issued upon planting. They are awarded only after a minimum gestation period of five years.
- The 40% Threshold: To qualify, a plantation must achieve a minimum canopy density of 40%, classified as "Moderately Dense Forest" by the Forest Survey of India.
- Ban on Trading: Perhaps the most significant shift was the removal of open-market tradability. Green Credits are now non-tradable assets. They can be exchanged exactly

once, surrendered to the government to meet compliance obligations after which they are extinguished.

This shift has dampened speculative fervor but solidified the program's primary use case: acting as a ‘Land Bank’ for industry.

The Compliance Land Bank

For Indian corporations, particularly in mining and infrastructure, the biggest bottleneck is often not capital, but land. When forest land is diverted for industrial projects, the law requires Compensatory Afforestation (CA) which states that industry must find equivalent non-forest land and pay for afforestation. Finding large, contiguous parcels of non-disputed land is a bureaucratic nightmare that stalls projects for years. The GCP solves this by creating an inventory of "ready-to-restore" degraded lands under state control. Public Sector Undertakings (PSUs) and large corporations can now fund restoration on these pre-identified plots. In return, they earn Green Credits which can be exchanged to offset future Compensatory Afforestation obligations. As per the data presented to the Lok Sabha in February 2026, Out of land inventory availability of ~48,000 hectares, eco- restoration started for 4,258 hectares with active corporate participants being only 17. It will take a gestation period of 5 years (Minimum) for credits. While this is a fraction of the 26 million hectare restoration target for 2030, it signals that heavy industry views the GCP as a strategic tool to de-risk future regulatory hurdles.

The Ecological Fault Line: The Grassland Crisis

Despite the regulatory tightening, the GCP faces severe scientific scrutiny regarding where it plants trees. The central criticism is Biome Awareness Disparity (BAD). India possesses vast tracts of Open Natural Ecosystems (ONEs)—savannahs, scrublands, and grasslands—that are often misclassified as wastelands or degraded forests in government records. These ecosystems are vital habitats for endangered species like the Great Indian Bustard and the Lesser Florican. Under the current GCP metrics, a healthy grassland (with 0% canopy) is considered "degraded." To earn credits, a developer must force a 40% tree canopy upon this landscape. Ecologists argue this is not restoration, but ecological destruction. Replacing a functional grassland with a water-guzzling woodlot destroys biodiversity and can sever local hydrological cycles, particularly in water-stressed districts where 64 of the current plantation sites are located.

The Financial Superstructure

Supporting this ecosystem is a tightening financial net woven by the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI).

- RBI’s Green Deposits: Since late 2025, the RBI has enforced strict end-use monitoring for "Green Deposits." Banks can no longer vaguely promise eco-friendly lending; they must conduct third-party impact assessments. However, the absence of a "greenium" (lower interest rates for green projects) remains a hurdle for mass adoption.
- SEBI’s ESG Mandate: For listed companies, Green Credits have become a badge of honor. SEBI’s Business Responsibility and Sustainability Reporting (BRSR) Core now includes a "Green Credit Leadership Indicator," pressuring top companies to disclose their credit generation. While value-chain reporting has been made voluntary for FY 2025-26 to ease the compliance burden, the direction of travel is clear: environmental performance is becoming a non-negotiable metric of corporate governance.

Conclusion

As India moves through 2026, the Green Credit Programme stands at a crossroads. Its "compliance land bank" model offers a pragmatic solution to the industrial land conflict, allowing development and afforestation to proceed in parallel. However, without urgent scientific safeguards to protect non-forest biomes, the program risks greening the map while browning the ecology.

For the global observer, India's experiment offers a critical lesson: creating a market for nature is possible, but without precise ecological definitions, the market will optimize for the metric (trees), not the outcome (biodiversity). The success of the GCP will depend not on how many credits are generated, but on whether the 40% canopy rule can be flexible enough to respect the diversity of India's landscape.