OPINION

Green credits for planting trees

PREMIUM

Revamped green credit scheme has both pluses and minuses

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The 2025 notification requires at least five years of restoration on degraded forest land and achievement of a minimum 40 per cent canopy density before any credits can be claimed | Photo Credit: SPL

Agriculture contributes to climate change and is also among the sectors most severely impacted by its effects. Adoption of sustainable practices at scale remains limited due to lack of adequate incentives for voluntary adoption. Green credit aims to provide additional incentive for farmers to adopt sustainable practices through market mechanism. The green credit programme (GCP) was initially introduced in 2023, for the eight activities that generate green credits; however, detailed methodology was notified only for tree plantation activities on February 22, 2024, and the same was modified again on August 29, 2025.

The programme is designed to encourage large-scale plantations on degraded forest lands, wastelands, and open scrub areas. It required a minimum density of 1,100 trees per hectare, and participants could earn one green credit per tree planted. Credits were to be issued within two years of plantation, based primarily on the number of saplings planted rather than their survival or ecological performance. The system allowed these credits to be traded or used for meeting CSR, ESG, or compensatory afforestation obligations.

The new framework

The August 29 notification replaces the earlier tree-plantation methodology under the Green Credit Rules with a performance- and survival-based approach that ties the issuance of green credit to the ecosystem outcomes rather than mere planting counts, and it also tightens fungibility and trading scope of credits pursuant to Rule 5(1) of the 2023 Rules.

The 2025 notification now requires at least five years of restoration on degraded forest land and achievement of a minimum 40 per cent canopy density before any claim. The credits will be calculated based on vegetation status (change in canopy density and surviving trees) and award one credit per new tree older than five years only after the 40 per cent threshold is met. However, these credits are non-tradable and non-transferable except intra-group (holding-subsidiary) transfers.

Although the new proposed methodology is a much-refined version and outcome-oriented, some concerns still remain. First, the financial model constraint. By delaying the issuance of credit by five years, the cost of such afforestation projects will rise substantially and would require a lot more upfront financing. Further, since there is a 40 per cent canopy requirement, failing to achieve would result in no credit being issued, increasing the risk for private financing. A possible solution is to introduce phased credit issuance to ease financial pressures and lower investment risks.

Second, perverse incentive again, but of a different kind. The projects could target survival and canopy over everything else, and might start planting species, ignoring the local ecology. This could lead to serious ecological trade-offs such as depletion of water tables, wildfires, etc.

Third, stifle innovation. One of the key incentives of GCP was providing market-based financial incentives. However, making the green credits non-tradable and potentially single use will limit the role of the market.

Fourth, communities, ignored again. All the outcomes and targets listed in the new methodologies exclusively focus on bio-physical targets — survival, area, canopy cover, etc. However, the rights of communities which depend on these wastelands and whose lives are interwoven with forests are completely ignored.

Developing regulatory framework for market mechanisms to promote voluntary climate action is a balancing act — enough to ensure integrity of the traded instrument, not too much that would stifle innovation. Green credit is an idea worth pursuing, and the government and stakeholders need to come together to ensure that it is implemented in the right spirit and will result in desirable outcomes across levels.

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