Unlocking Climate Finance in India

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As one of the world's fastest-growing large economies, the actions India takes to align its economic development with climate goals is of huge impor-tance to the global economy. Like other carbon-intensive eco-nomies, decarbonisation and reducing emissions will be critical domestic goals. But at the same time, India's transition must be accompanied by a resilient and inclusive growth trajectory. The risks that come with world warming of and beyond 1.5°C are significant, ranging from heat stress, food, water and energy insecurity, and the displacement of its population because of unmanaged climate change (as suggested by Amar Bhattacharya and Prof. Lord Nicholas Stern in a recent Op-ed article 'Our last, best chance on climate'). The transition should also be just and inclusive, supporting the communities impacted by the changes coming with a warmer climate and the transition to a low-carbon economy.

Policy and governance frame-works play an important role in creating a favourable environment to pursue such deve-lopment trajectories. India has a robust set of ministries and legal frameworks supporting such a vision. Its ability to mobilise domestic capital and benefit from international climate finance flows will form the foundation for developing the foundations for a low carbon economy and moving towards Net-Zero emissions. The 2020s will be a decisive decade to scale up climate investments and redesign India's financial system. Its strategy should integrate public finance, private finance and financial regulation in a forward-leading approach that focuses on long-term economic and social transfor-mation. A determined effort is required to reduce the associated cost of capital, risks and transaction costs that impede the necessary scaling up of financial flows. This story is not one only of costs but also one of benefits. The green transition will improve India's economy and society by creating jobs, improving the environment and air quality and strengthening public health, as recognised by RBI Deputy Governor Mr. M. Rajeshwar Rao, in his recent speech, 'Heed to Heal - Climate Change is the Emerging Financial Risk'.

To deliver, finance needs to flow towards climate action capacity building. A priority should be facilitating efficient transition pathways for MSMEs (Micro, Small and Medium Enterprises), both established businesses and start-ups. Other such green investments can be made by leveraging 'Invest in India' or 'Make in India' routes (as stated in UNEP & FICCI's joint interim report on *'Designing a Sustainable Financial System for India')* and combining this with a focus on the environmental and social dimensions of sustainability. Climate finance can also support the transition of high-emission sectors, like coal, that are critical for India's energy requirements. As the world's second largest consumer of coal, dependent communities in India are vulnerable to unmanaged shifts to non-coal energy asset futures. India could be a pioneer in the development of coal retirement mechanisms that support the acceleration of clean energy and a just transition for workers and communities. At COP26, India could pursue coal transition financing commitments for high emitters.

India faces a real opportunity to expand its share of the growing momentum in international sustainable finance, notably as global investors seek to align their portfolios with net-zero. This will need domestic convergence on taxonomies, disclosure, and key market norms to create bankable projects tailored to India's needs. Such a just transition would be integral for India as it invests in its infrastructure over the next decades as noted in a report by CDC Group Plc. in July this year *('Towards a Just Transition Finance Roadmap for India')*. Other potential considerations include a push for cooperation on green/ sustainable finance taxonomies and reinforcing climate disclosures (For e.g., via TCFD- Task Force on Climate-Related Financial Disclosures and SEBI reporting requirements). Building on the IFRS Foundation proposals for a 'Sustainability Standards Board' and the work towards the global interoperability of green taxonomies, Indian central banks should collaborate to create regulatory frameworks that are internationally consistent and coherent; these should encourage financial commitment and innovation while balancing potential prudential risks to the financial system.

Another equally important task is deepening the domestic bond markets. In contrast to the international bond markets, the domestic counterpart appears to still be out of reach of most Indian renewable developers and private capital market. The primary reason is extremely credit conscious nature of investors which dominate domestic bond markets. The expense involved in unlocking domestic bond markets may not be onerous. Creating regulatory frameworks that are internationally consistent and coherent can encourage financial commitment and innovation while balancing potential prudential risks to the financial system. The RBI recently setting up a Sustainable Finance Group (SFG) working alongside the Department of Regulation is one such step forward that is worthy of note.

Here, it is critical to cover both national and subnational solutions. This recognises the important role of green public finance at the state/ regional level, city/ municipal and local, village and panchayat levels. Incentivising these multiple tiers of the government to make more sustainable choices based on their local contexts is critical both to deliver national goals and also to empower subnational actors with advanced climate ambitions. This could include local tax schemes and municipal or city green bonds to improve financial stability via better green hypothecation of taxes fed into the Consolidated Fund of India.

Within international climate finance, building on the unrealised \$100bn commitment will be central to the work at COP26, as noted and addressed by the Independent Expert Group on Climate Finance's most recent report *('Delivering on the \$100 Billion Climate Finance Commitment and Transforming Climate Finance',* December 2020). With ambitious NDCs of its, India's push for wealthier countries to uphold their bilateral financial commitments is very timely. Specifically, rich countries that are a part of the G7 and G20 can come together to double their commitments to public climate finance from 2018 levels by 2025. Additionally, India can urge multilateral development banks (MDB) to consider proactive capital increases, especially given the unprecedented demands in the aftermath of the pandemic as well as to improve access to this capital (as suggested by Amar Bhattacharya, Jeremy Oppenheim, Prof. Lord Nicholas Stern in their report *'Driving Sustainable Development through better Infrastructure: Key elements of a Transformation Program')*. Special guarantees or other means will be needed to tackle the arbitrary single borrower limit at the World Bank Group which is now a binding constraint for support to India's uptake of green technology and sustainable investment projects.

A range of available networks can help enhance private sector and public finance mobilisation, in some cases, even engaging with MDBs. Such mobilisation can assist India to further de-risk at scale and leverage climate finance for private capital investment in sustainable assets. These include the Glasgow Finance Alliance for Net-Zero - GFANZ, the Climate Finance Leadership Initiative (CFLI), Central Banks and Supervisors Network for Greening of the Financial System (NGFS), the FAST-Infra Initiative, the Basel Committee on Banking Supervision's Task Force on Climate-related Financial Risks (TFCR) and the Global Investors for Sustainable Development (GISD) Alliance.

For example, the Indian government can identify sustainable infrastructure projects to pursue as entrants for the FAST-Infra label framework. This label clearly defines what qualifies as a sustainable asset class for interested institutional investors and allows the necessary financial flows from MDBs and the private sector. It further provides the option to draw on public-private blended finance to mitigate risk. It is valuable to earmark potential projects for this initiative ahead of COP26 where a call for test projects will be made. Such a conducive finance and policy environment will ensure investing in sustainability and long-term viability of infrastructure is sustained through the necessary international financial flows. *('Designing a Sustainable Financial System for India')*.

India is currently charting a new and better path on development, 80% of its infrastructure is yet to be built ahead of the mid-century goal post, and the next three decades will be crucial. The country holds a vital leadership role, demonstrated through the policies and targets it pursues and this will be visible both at COP26, and through its work in its upcoming G20 Presidency.

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