Funding the Green Transition


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At COP26 in Glasgow, Scotland, in November 2021, Narendra Modi announced India's net-zero 2070 emissions target along with the other 'panchamrit' commitments by 2030:

▶ Achieving 500 GW of non-fossil energy capacity.

▶ 50% of energy requirement to be met by renewable energy.

▶ Reduction of 1 billion tonnes of India's projected carbon emissions.

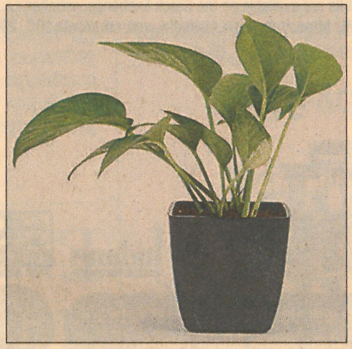
▶ 45% reduction in the carbon intensity of the economy from 2005 levels.

There are various and widely varying estimates for the financing needs of achieving these. As per India's first Nationally Determined Contribution (NDC) submission in 2015, it would require investments worth almost $170 billion a year between 2015 and 2030—a total of $2.5 trillion. An assessment by the International Energy Agency (IEA) puts the investment needs at an average of $160 billion a year between 2022 and 2030 in the energy sector. The International Finance Corporation (IFC) estimates these at $3.1 trillion between 2018 and 2030.

A look at the broad estimates of climate financing requirements and annual inflows indicate that financing has to be increased by almost a factor of 5 to meet the 'panchamrit' targets. Reallocation of investments towards net-zero transitions would be a factor of magnitude lower than net-zero transition investment requirements. Domestic public finances will be grossly inadequate. Large private capital, especially from international investors, needs to be mobilised.

So, there is a need for creating an ecosystem through alternative mechanisms that support in attracting foreign capital for climate finance to India. GoI established the International Financial Services Centres Authority (IFSCA) in 2019. IFSCA is looking into making it a reinsurance hub, hosting alternative investment funds (AIFs) for pooled investments, supporting the new India International Bullion Exchange (IIBX), and initiatives to strengthen access to sustainable finance. It has to gyrate towards India's net-zero financial needs through various instruments such as sustainable/green bonds and loans, transition bonds for NDC and net-zero transitions, and pooling of capital for impact funds.

IFSCA needs to define disclosure standards and reporting requirements, sustainable finance taxonomy, link NDC with financial flows through low-cost capital flows, and establish strict norms against greenwashing. About 450 large Indian corporates are listed on global environmental, social and governance (ESG) platforms. Those contributing to India's NDC and net-zero commitments could be encouraged to attract international sustainable finance. IFSCA can demonstrate India's attractiveness for such investments.



Planting the money

A lack of a consistent and comparable classification system that helps in identifying activities that could be considered 'sustainable' is a key gap in attracting foreign investments. A 'Taxonomy of Sustainable Activities for India' is being prepared by GoI to establish clear definitions and criteria for eligibility of sustainable activities. India needs to link its taxonomy with its NDC and net-zero targets.

Bioenergy, green hydrogen, energy storage, nuclear power and coal phase-down must be included to attract faster sustainable finance investments at lower rates. The EU has also recently voted to include nuclear and natural gas in their green taxonomy. Indian taxonomy needs to go hand in hand with the need for transparency in reporting and avoiding greenwashing.

In 2021, the Securities and Exchange Board of India (Sebi) mandated 1,000 top listed companies on any Indian bourse to provide a business responsibility and sustainability report (BRSR) for non-financial ESG disclosures. Companies following international disclosure-reporting frameworks like Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) and Taskforce on Climate-Related Financial Disclosures (TCFD) are allowed to cross-refer. Training these listed companies for ESG compliance is a task financial and management institutions have to take on.

The second big gap is financing the transition activities of the informal sector. MSMEs—contributing almost 30% of India's GDP, 45% of exports, employing 110 million workers and emitting about 5% of India's carbon emissions—are faced with severe physical and transitional climate risks and lurching for urgent financial needs.

Almost 90% of MSMEs have very little access to formal banking systems. The concerns on lack of awareness, lower acceptance in formal financial structures and high procedural requirements enhance the issues on access to capital. However, a change is possible. A look at about 5,000 medium enterprises (individual annual turnover of ₹50-250 crore) shows a possibility of transiting them to large enterprises, thus leading clean and green transitions at the grassroots level.

An ESG platform could be created for their facilitation to attract international ESG investments. This could create a domino effect and become a game-changer for sustainable and green development in India.

Beyond the financial needs for transition to a net-zero 2070, investing in adaptation and resilience-building is also crucial for India. Climate change could shave off 2.5-4.5% of India's GDP annually if not tackled in time. India currently puts in about $110 billion each year for ring-fencing its natural and man-made systems against climate change impacts. This is likely to increase to $360 billion by 2030.

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The Economic Times, 30 July, 2022