Nick Robins February 17th, 2023

India: becoming a sustainable finance maker

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In the year of India's presidency of the G20, ***Nick Robins*** *shows how key pieces of the country's sustainable finance framework are falling into place and how an ambitious approach connecting net zero with the human dimension could help to mobilise the trillions the country needs.*

Across New Delhi huge posters proclaim the importance India's government attaches to hosting this year's G20. India's G20 slogan 'One Earth, One Family, One Future' signals a clear sustainability thread that runs through its presidency. It is also a message that connects with the country's strategic aim of attracting trillions of dollars of investment into India's infrastructure, and its technological and human development. For this investment surge to succeed, ensuring clean water, air and energy, building real resilience to mounting climate shocks and accelerating the delivery of net zero will need to be at its heart. But beyond these and other classic green priorities, sustainable finance in India is shaping up to be an imperative profoundly focused on people.

A flurry of announcements

The first weeks of 2023 opened with a flurry of sustainable finance announcements in India. This year's budget identified green growth as a priority, with spending earmarked for hydrogen, energy storage, and renewables, and for making agriculture more nature-friendly. The government also issued its first green sovereign bond, raising $1 billion at a lower cost of capital than conventional debt. The country's central bank, the Reserve Bank of India, announced that it will be issuing new guidelines on climate stress testing, climate disclosure and green deposits at banks. In the capital markets, the securities regulator, SEBI, has been pursuing green bonds and corporate disclosure for quite a while. It has now updated its approach and released new frameworks for blue (ocean) and yellow (solar) bonds, as well as its own 'dos and don'ts' to prevent greenwashing. 2023 will also be the first year that India's 1,000 biggest corporates will have to disclose a Business Responsibility and Sustainability Report (BRSR), an important step for accountability on environmental and social performance.

These moves suggest that some of the key pieces of the sustainable finance puzzle are falling into place. But questions still remain about the practical integration of environmental, social and governance (ESG) factors into routine financial decision-making. Concerns about integrity in corporate India have been thrown into the spotlight by the recent furore over the governance of the Adani group, prompting some international investors to divest their holdings. As yet, overall issuance of green, social and sustainability bonds has disappointed, resting far below what is needed to enable India's energy and nature transitions. And recent analysis of India's largest banks and financial institutions suggests that "there have been limited efforts to identify, measure or manage low-carbon transition risks".

Defining what sustainable finance means in terms of India's own needs and priorities is yet to happen, making the publication of the country's taxonomy an early priority. What is striking about the forthcoming taxonomy recommendations drawn up by India's Task Force on Sustainable Finance is the incorporation of social and just transition guidelines from the outset alongside familiar environmental financing goals. This points to the fundamental human dimension that could well become India's signature contribution to global sustainable finance efforts.

Financing the green jobs superpower of the 21st century

Many governments, not least the current US administration, are realising that the climate agenda is best seen through a *jobs* rather than an *emissions* lens. This year India is set to become the world's most populous nation and it has untapped potential for job creation in renewables, electric scooters, buses, trains (and cars), low-cost and efficient housing, natural farming and net zero industrialisation. The country is poised to be the green jobs superpower of the 21st century – that's the hope and some early signs of promise are coming through. India's solar and wind energy sectors employed 164,000 workers in the 2022 fiscal year, a 47% increase on the previous year; by 2030, these sectors alone could employ 1 million workers. A Skills Council for Green Jobs has also been established, which has so far trained 500,000 workers across green business. The full scale of India's green jobs opportunity remains to be explored, as does the role that the financial system can play to support this expansion, particularly among India's micro, small and medium sized enterprises (MSMEs).

Just as important as the number of green jobs that India could create will be their quality, in terms of core capabilities, inclusion, and decent working conditions. This means connecting the green jobs agenda with the Sustainable Development Goals (SDGs) around skills and education, labour standards and gender equality, not least to attract the best and the brightest into green growth sectors. And it also means anticipating the social risks facing workers and communities in high-carbon sectors, such as coal, oil and gas and the production of internal combustion engine vehicles. There have been pioneering efforts to set out how sustainable finance could support a just and inclusive transition but action is still at an early stage. And while other emerging economies, such as Indonesia and South Africa, have recently signed Just Energy Transition Partnerships with OECD countries, the sheer breadth of India's transition and the size of its investment requirements mean international financing has to be conceived in the trillions rather than the tens of billions.

Doing trillion-dollar deals

India's top two priorities for the G20's sustainable finance talks are closing the long-standing climate finance gap and expanding investment to meet the SDGs by 2030, including social priorities around ending poverty, cutting inequality and achieving gender equality. A full prospectus of how much investment India needs to drive its own energy and nature transitions in a sustainable way does not yet exist. But initial estimates from the Council on Energy, Environment and Water (CEEW), suggest that more than $10 trillion is needed from 2020 for power, green hydrogen and electric vehicles alone to meet India's net zero target year of 2070. Capital will be needed too for building resilience to climate impacts and the regeneration of India's soils, forests and freshwater and other SDGs. India's current financial system simply does not have the capacity to generate this quantum of capital, a gap experienced by all Global South countries to a greater or lesser degree.

One way of bridging this gulf could be through the establishment of a Global Climate Alliance, as proposed by a group of experts which include Jayant Sinha, a member of India's parliament and chair of its standing committee on finance. Bringing together a leadership group of industrialised and developing countries around a common agenda, the Alliance could deploy a package of financing initiatives for net zero delivery in key sectors and for just transition and resilience. Upfront public finance would be key, with a focus on new instruments to overcome the flaws in the global financial system that prevent long-term institutional money from shifting to the Global South. These could include currency swaps to shrink the cost of capital and credit guarantees to provide comfort to cautious investors.

To unblock the logjam, India could also strike bilateral sustainable finance deals that come with the right level of ambition and technical rigour. For example, an India–UK sustainable finance deal could commit the UK to channelling $1 trillion in finance for India's transition through to 2050 and beyond, with a mix of grant, concessional and private capital, the latter forming the vast bulk of such a collaboration. As part of the deal, the best brains of the City of London and Mumbai's Dalal Street could be tasked, for instance, to work out how the UK's lower cost of capital could be passed on to Indian sustainable investments, and how to bust the bottlenecks in both countries that hold back banks and investors from making strategic allocations to India's transition. A granular approach on sectors, projects, structures and places would be vital. And obviously, rigorous oversight would be needed to regularly measure the success of such a deal, to carry out course correction and take advantage of breakthroughs as they emerge.

To be successful, both sides would need to have skin in the game. This could be achieved by building on models such as India's National Infrastructure Investment Fund, which has worked successfully with the UK across a number of renewable and green growth transactions. Such a deal would, of course, not be exclusive in nature. But it might help to raise the international community out of the low-ambition rut it too often inhabits when it comes to sustainable finance for pivotal countries such as India.

Making its mark

The key to sustainable finance is frequently said to be mainstreaming ESG factors into each and every asset and institution. But this fine sounding goal assumes that today's financial mainstream is fit for purpose. The reality is that serious system failures exist, which mean that capital is structurally misallocated into investments that may undermine both environmental security and social justice, and also starve the Global South of the finance it needs. Far better is to aim for the transformation of the financial system, an objective that governments pinpointed as vital at last year's climate summit in Egypt.

In the past, India has often been a taker of sustainable finance standards designed elsewhere, from investment safeguards to reporting regimes. This G20 year is the moment when India is becoming a sustainable finance maker on two fronts: getting its domestic system aligned with the country's climate and sustainable development goals and also, stimulating the transformations at the global level that are now so urgently needed.

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Notes:

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