Stimulating Climate Resilient Growth in India- Exploring the role of Climate Finance

June 16, 2020 | 1500-1700 hours
Summary of Discussions

Agenda

Stimulating Climate Resilient Growth in India - Exploring the role of Climate Finance **June 16, 2020 | 1500- 1700 hours**	
Needs and Challenges in Financing a Green Transition	
1500-1510	***Welcome Remarks*** **Context Setting** by *Ms Tamiksha Singh, Associate Fellow, TERI*
1510-1550	**Panel Discussion** moderated by *Dr Ajay Mathur, Director General, TERI*
	• *Dr Ashok Kumar, Director, BEE*
	• *Mr Pankaj Sindwani, Chief Business Officer, Tata Cleantech (TBC)*
	• *Mr Prabodh Acharya, Chief Sustainability Officer, JSW Steel Ltd (TBC)*
	• *Mr. Peter Vis, Senior Advisor, Rud Pedersen Public Affairs*
	• *Mr Dipankar Ghosh, Partner and Leader Sustainability & Climate Change, Thinkthrough Consulting*
1550- 1600	Discussion and questions from participants
Measures for Preparing for Future Carbon Markets	
1600-1610	**Context Setting** by *Ms Ritu Ahuja, Research Associate, TERI*
1610-1650	**Panel Discussion** moderated by *Mr R R Rashmi, Distinguished Fellow, TERI*
	• *Dr Karsten Neuhoff, Head, Department of Climate Policy, DIW Berlin*
	• *Mr. Damandeep Singh, Director, CDP India*
	• *Prof. Jos Delbeke, Professor, The European University Institute*
	• *Dr C.S. Sinha, Advisor, Climate Change Group, World Bank (TBC)*
1650- 1700	Discussion and questions from participants

Introduction

2020 has been viewed as the year that would allow climate change to be at the centre of the global debate. Climate finance, which includes the future carbon markets and trading mechanisms, finance instruments like green bonds and concessional loans, public budgetary support, etc., play a central role in the revision of the climate commitments. However, with COVID-19 there has been large restructuring of the economic and public expenditure across the world. Thus, re-stimulating climate finance has become one of utmost urgency.

Stimulus package for India focuses on five pillars which included infrastructure and technology to make the country self-reliant. There is a need to keep the momentum for energy transition and climate actions across all levels, from industries to states to national policies, where international and domestic climate finance can play a catalytic role for this green transition. There are major investment gaps in critical areas such as off-grid renewable energy for the agriculture sector, energy efficiency for MSMEs, resilient infrastructure for rural development, and technology uptake and implementation for high-emitting industries. Carbon finance can play an important role in enabling these developments.

There is a need to mobilize additional climate finance from public and private sector. There is a need to design and demonstrate finance mechanisms that are able to address the concerns of the producers, be able to achieve accelerated emission reduction, while also contributing to the economic recovery.

First Panel Session: Needs and Challenges in Financing a Green Transition

The session began with **Ms Tamiksha Singh, Associate Fellow, The Energy and Resources Institute (TERI)** setting the context for the discussions. She shared insights pertaining to the study on barriers to finance in transition for hard to abate sectors, carried out under the on-going IKI funded multi-country collaboration. The project assesses barriers faced by two hard to abate sectors namely steel and cement sector in transitioning to low carbon pathways. She brought into limelight the challenges faced by these sectors in accessing the finance required for the green transition. These challenges can be classified into those on the supply and demand sides, inconsistent and insufficient policies, and lack of availability of finance. Key supply side issue has been lack of carbon pricing signals and lack of standards and certifications process for green framework. Whereas the demand side issue has been limited willingness to pay for green products. Existing policy framework exists but is insufficient to drive large scale change. This lack of effective policy also limits the accessibility to finance.

The session was moderated by **Dr. Ajay Mathur, Director General, TERI**. He stressed upon the need to look at the issue of climate finance and COVID-19 recovery packages together to ensure green growth which envelop sustainable livelihood, jobs, and economic growth. He shared his insights on the likely impact of renewable electricity promotion on the green transition within other areas and sectors too. As move forward, key challenge is to build green capabilities of all actors in the economy. Lastly, the language of recovery must be cooperative and inclusive.

Mr. Abhay Bakre, Director General, Bureau of Energy Efficiency (BEE) shared insight on the PAT Scheme. With the PAT cycle working as a regular feature, changes are expected to come up for both sides- people achieving energy efficiency and other actors involved. The changes in DCs are being done. The non-DCs and new actors giving green targets will be given flexibility. Talking about the finance side, he emphasized that we have a long way to go to address the challenges facing easy and affordable procurement of funds to finance climate resilient growth.

Dr Ashok Kumar, Director, BEE shared his insights on the critical role played by climate finance to stimulate innovation and build capacities. To meet the commitments laid down to tackle climate change, there is a need of a robust system to monetize the impact being expected. He emphasized that initiatives aimed at storing of carbon credits and building up of necessary infrastructure are very important. The linkage for energy savings kind of mechanism that we already have in PAT system with a carbon space can give a leverage of linking national as well as international markets.

Mr Pankaj Sindwani, Chief Business Officer, Tata Cleantech shared with the attendees that there are many gaps in the understanding among various stakeholders and industries regarding availability of climate finance. On one hand, the industries have been facing issue of lack of finance and on the other hand, green banks are facing issues in deploying the funds they possess. Hence, there is a need to come together on a same table and address these gaps. The industries can be made climate resilient as there are a lot of low hanging fruits. It is a question about awareness and more than that it is a question of how industries can transition from the state of inertia.

Mr Prabodh Acharya, Chief Sustainability Officer, JSW Steel Ltd emphasized on the role played by steel and cement sector in building a modern climate resilient society. He stressed that efforts aimed at creating a climate resilient future should be prioritised. He talked about the challenges faced to finance energy efficiency aimed projects. Developing an accepted taxonomy of what comprises 'green' will be useful for hard to abate sectors to get investments for green projects. He also emphasised that establishing linkages between green bond mechanism and sustainable development goals can be beneficial.

Mr. Peter Vis, Senior Advisor, Rud Pedersen Public Affairs provided insights on the European Union's (EU) outlook towards the green transition. Green finance has played an instrumental role in energy transition within EU. The EU has tried to develop a series of instruments to stimulate the leaders to be technology leaders. In response to the COVID-19 crisis, the EU has created a Just Transition Fund for green transition and economic recovery. The fund is trying to compensate decommissioning of old plans in steel and cement sectors. So, the companies already having old plans will have a significant impact of the same. This fund will also help in rebuilding of area in terms of infrastructure provision like broadband, transport link, infrastructure link. This helps these types of industries to engage in energy transition. This fund is also for the interest of socio-economic transition and will be consistent with Europe's goal of being climate neutral by 2050. Lastly, EU is worried about the ambition of Climate Agenda that there are industries vulnerable to carbon leakages and competitive distorting with states that might be free riding or ignoring environment constraints. To address this, the idea of border adjustment mechanism on tax has been raised.

Mr Dipankar Ghosh, Partner and Leader Sustainability & Climate Change, Thinkthrough Consulting shared that with the COVID-19 pandemic, the focus has been shifted to survival and economic revival needed to overcome from the economic slowdown. In undergoing such economic revival, there is a need to have a balance between economic growth options and wellbeing. To ensure climate resilient growth, easy and affordable provision of finance is critical. He stressed that the private sector has a crucial role to play in ensuring availability of green finance. He shared his insights on the Green Brown Matrix developed by WRI and UNEP which measure the lending contribution to the climate progress. It can be instrumental to increase the investment awareness and to evaluate the green quotient for investment.

Second Panel Session: Preparing for Future Carbon Markets and Finance Mechanisms

The session began with **Ms Ritu Ahuja, Research Associate, TERI** setting the context for the discussions. She emphasised that for a green transition, major industries had already capitalised on the low hanging fruits and needed a larger scale of transition. This needed newer means of financing. Blended finance, innovative results-based finance, transition bonds could help mobilise finance for a larger scaled transition. She highlighted the necessity of looking beyond conventional sectors of transition and look at means of financing nature-based solutions and other adaptive solutions via innovative financing.

The session was moderated by **Mr R R Rashmi, Distinguished Fellow, TERI**. He shared his insights on how carbon markets are important in developing countries like India to mobilize climate finance, especially when two broad challenges can be recognized as barriers to this-financial barriers and barriers posed by ramifications of the pandemic on ability of the governments to mobilize finance. There is need to discuss whether carbon related finance should be developed as a tool of statutory initiative or voluntary measure adopted by industry, as an implicit tax or explicit tax. This question is especially important for many developing countries like India, where the markets for such are still in the basic stage of formation.

Dr. Karsten Neuhof, Head, Department of Climate Policy, DIW Berlin, talked about the growing clarity of international cooperation and financial instruments to facilitate investments towards climate neutrality. He shared his insights on an interview conducted in Europe for 20 companies to understand what kind of investments can be pursued as part of recovery spending support. It was found that they proposed more investments towards climate neutrality in basic materials. Further, when asked to recognize challenges for implementation, 90% of the respondents pointed out the need for climate friendly process and materials to be cost competitive with conventional materials. There is also a need for developing strategy from public policy for carbon cost internalization. Technology readiness was also seen as challenge in relation to incremental costs. He also pointed out how bankability, in terms of carbon prices, can be used as a hedging instrument. He also highlighted the example of European taxonomy that looks at the share of activities companies have on green area, which can further be developed as a starting point.

Mr. Damandeep Singh, Director, CDP India, started his discussion, by giving an Indian perspective, on how money is available but isn't being tapped into, which may be because of lack of clarity with the international markets. He further stressed on the how transparency and climate related financial disclosure are the foundations for climate action. In addition, integration of reporting of climate risk into financial reporting is also required. There is a need for a greater move towards disclosures, to drive action as a non-disclosure campaign. He gave examples of movement and hope of Indian industries, where 41 companies have adopted science-based targets and 50 companies either have carbon price or aim to do it. There is still a need of signal from government as well as greater involvement to make this movement faster.

Prof. Jos Delbeke, Professor, The European University Institute, discussed how carbon market are a standard element of policy mix. He shared his insights relating to three major points on carbon markets in European Union (EU). Firstly, he spoke about the explicit carbon pricing in EU. The EU-ETS (EU-Emissions trading Scheme) has been developed as a part of policy package and is a major driver of emission reduction. He then moved on to cover focus on how revenue is being raised for finance, with higher carbon prices and more sectors covered under EU-ETS. Further, he talked how low-income member countries get more revenue out of ETS, showing a redistribution mechanism to support transition. His third point discussed taxonomy for green finance. From an international climate finance perspective, EU is mainstreaming climate change into its development agenda, with the important element of taxonomy of green finance. Taxonomy for green finance will be a promising avenue to avoid green washing and for future co-operation.

As the last panelist, **Dr C.S. Sinha, Advisor, Climate Change Group, World Bank**, summarized nature of carbon markets, especially from context of developing countries like India. He pointed out how developing countries associate carbon markets with carbon offset markets, where the demand has shifted to voluntary sector. While the view of carbon markets in developing countries has been seen as a mechanism for international financial markets, in

Europe however, carbon pricing has been an effort to channel financing for transition through domestic carbon pricing. It is important to understand what the implication of this will be for a large country like India, where scale of requirements for transitioning into a low carbon future cannot be finance from International sources alone. Domestic finance should also be directed towards low carbon futures like it has been doing in renewable sectors. He also laid out the choice between use of carbon markets to channel finance for transition at domestic level or attracting international finance through carbon markets.

<u>Discussion</u>

Questions were posed to the panelists. **Mr. Damandeep Singh** answered the question on "*Whether we have sense to what extent are Indian companies and investors looking at new market mechanisms that will be set up under Paris agreement for low carbon investment*".
He responded to this by explaining how companies are aware of the climate risks, and the ones who disclose it are working on it by understanding what is needed and why there doing it. He gave example of five companies that have taken the target RE100, i.e. 100% renewable by 2030. Further, 30 companies have set renewable energy targets (25%-60%). However, he mentioned how there are still bottlenecks that are preventing the companies from adopting the renewable energy targets. He further went on to share his remarks on the second question which was "Are Indian companies looking at offset markets?". He discussed how Indian companies are willing and have programs and CSR schemes. However, it is important to keep in mind that carbon finance or carbon credits can contribute to climate mitigation and sustainability goals, but they have to be used in addition to science based decarbonisation and not instead them.

Prof. Jos Delbeke, gave his viewpoint, from European perspective, on the final question on "*Additionality in market mechanism that has to be adopted*". Europe doesn't have good experience with additionality in the past. There is a need of more environmental credibility and governance system to manage the process, and without these guarantees, Europe may not be open to CDM or the discussion on additionality.