Cooperation Frameworks in India's Climate Finance Strategy

Event Summary Friday October 20, 2023

- The Centre for Social and Economic Progress (CSEP) hosted a roundtable on **Cooperation Frameworks in India's Climate Finance Strategy** on October 20, 2023.
- The lead speakers on the panel included **Anjali Viswamohanan,** Director (Policy), Asia Investors Group on Climate Change (AIGCC), **Dhruba Purkayastha,** India Director, Climate Policy Initiative (CPI) and Director, US-India Clean Energy Finance, **Nina Fenton,** Head of Regional Representation (South Asia), European Investment Bank (EIB) and **Rajat Nag,** former Managing Director-General, Asian Development Bank (ADB) and Distinguished Fellow, Emerging Markets Forum.
- The discussion focused on India's need for a robust climate finance strategy to mobilise capital through a growing and increasingly diverse range of international actors. It discussed the role of both Multilateral Development Banks (MDBs) as well as the private sector-led climate cooperation frameworks in rallying finance for India's green transition, given its 2030 and 2070 energy transition targets. It also referred to the panel discussion held at the launch of CSEP's edited report, "Tracks to Transition: India's Global Climate Strategy" held on October 19, 2023. The event proceedings can be accessed here.
- The discussion was moderated by **Constantino Xavier,** Fellow, CSEP and **Karthik Nachiappan,** Research Fellow, Institute of South Asian Studies, National University of Singapore (ISAS-NUS) and Non-Resident Fellow, CSEP. Participants included officials from various embassies and missions, scholars from leading think tanks and universities from India and abroad.

Understanding climate finance

Participants highlighted that mobilising international finance is at the core of the challenge of climate change and despite the urgency, the 2015 commitment of mobilising $100 billion annually has not been met. They discussed how various reports including the Triple Agenda Report of the G20 and the NK Singh-Larry Summers Report on multilateral development banks pin global climate finance needs at $3 trillion annually. A participant noted that according to the Singh-Summers report, $2 trillion is mandated to come from domestic sources, while of the remaining $1 trillion, $500 billion will come from MDBs and the rest, $500 billion, from the private sector. There exists a huge gap in the required capital for global mitigation and adaptation needs to facilitate the ongoing climate transition. A participant highlighted that the world, and India as well, is investing 25% of the real requirement. The crux of the issue, one participant stated, is that "global capital is comfortable … in OECD countries" despite Global South countries having lower mitigation costs and more potential for development of renewable energy. Various participants attributed this to policy inconsistency, regulatory risks, and lack of bankable projects in countries like India.

Role of the Multilateral Development Banks

The debate on generating adequate climate finance to meet COP21 and COP26 targets has long hinged on reforming multilateral development banks. As participants noted, there is a need to reorganise the MDBs and bring about a cultural and institutional shift from being purely public sector banks to mechanisms that catalyse private sector capital.

Discussions highlighted that as climate becomes increasingly central to the mandate and operations of key MDBs, these institutions are witnessing various cultural and competence shifts. A participant highlighted that these shifts are crucial because most MDBs are concenred with maintaitning their AAA rating, making them conservative. This shift allows MDBs to focus more on 'development' and move beyond their role as just 'banks'. While the EIB became the first Paris aligned bank, the ADB has recently rebranded itself as the Asia-Pacific's Climate Bank. A participant mentioned that the ADB as well as the World Bank have undertaken financial engineering to help leverage capital for financing the energy transition. Additionally, the International Monetary Fund's (IMF) Resilience and Sustainability Trust has done significant work in capturing excess Special Drawing Rights (SDRs), which as one participant suggested, can be monetised to function as a crucial climate finance instrument. A participant also suggested expanding the mandate of the Multilateral Investment Guarantee Agency (MIGA) to work on de-risking financial flows from the Global North to the Global South. Yet, despite these various initiatives and propositions, the gap between the capital invested by the MDBs and global requirements need to be met by private capital.

Role of the private sector

The private sector's role in generating and deploying climate finance is instrumental in driving the climate transition. Private sector-led climate mechanisms such as the AIGCC manage vast pools of investor capital, including sovereign wealth funds, government pension funds, and other institutional investors, etc. A participant noted that most investors and companies articulate their own net-zero commitments and are held accountable to both their stakeholders and the public. The major reason for the lack of private sector investment in climate mitigation in India is due to the lack of bankable projects and absence of a policy framework that allows for these investments, as one participant pointed out. Another participant mentioned the lack of consistency in government policy having hindered this investment.

A participant highlighted that the AIGCC has been working in Japan, South Korea, China and other ASEAN countries to facilitate forums of discussion and engagement between governments and investors. Various networks like the AIGCC are active in different regions globally. These forums allow for investors, companies, and governments to align their interests thus helping bridge that financing gap.

Participants mentioned that investing in climate adaptation is difficult for private capital and hence has to be a government supported endevour. Additionally, governments need to engage *ex-ante* with the private sector while undertaking projects.

A Strategy for India

India has been a frontrunner on climate and, as a participant mentioned, it should continue to hold that line internationally because "climate is geopolitics and geopolitics is climate". Through the discussion, multiple recommendations were made by participants to help secure climate finance for India.

- The need for a nodal, apex body which has significant convening power to help direct climate finance and develop a strategy for cooperation and engagement.
- Developing a strategy for climate finance while also having more concrete policy and regulatory statutes in place regarding implementation to help de-risk capital flows.
- Developing a pipeline of bankable projects that can be auctioned to the private sector investors. These projects should be part of a long-term program for transition.
- Providing space and assistance for project preparation. This can be through a project preparation facility or by working with institutional agencies that are specialised and have sector specific knowledge.
- Ensuring environmental, social and governance standards are met for projects undertaken for adaptation and mitigation.
- Ensuring knowledge and technology transfer between players as innovation is crucial for climate transition and finance. The establishment of the India-EU Trade and Technology Council is one such development.
- Need for more engagement and collaboration between investors, companies, and governments to secure private sector capital.
- Enforcing mandatory climate disclosure to make data more available to investors to understand the ways in which companies operate while also monitoring their progress to continue engagement.
- Incentivising domestic investors to commit to climate targets, which could spur collaboration with international investors to meet said targets and secure capital flow for climate finance.

This event summary was prepared by ***Anindita Sinh,*** *Research Analyst, CSEP.*
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