Konrad Adenauer Stiftung

# CLIMATE REPORT 2017

## PRIVATE SECTOR AND CLIMATE FINANCE IN THE G20 COUNTRIES

## ABOUT THE REPORT

The G20 countries comprise two thirds of the global population as well as more than three quarters of the world's economic output, trade and $CO_2$ emissions. Climate change is on the G20 agenda as a central future issue, also as an economic and fiscal challenge because corresponding investments from the private sector are a prerequisite for the fulfilment of the Paris climate protection goals. Our latest Climate Report, which continues the series from 2007, 2011 and 2014, provides answers to the question of how far the private sector plays a role in climate financing in the G20 countries.

## INDIA

India wants to fight climate change by using more market-based mechanisms. Therefore, the government is actively devising strategies to support projects for renewable energy. Funds have been set up to mobilise private sector finance, and Indian corporates support initiatives which integrate sustainability into their core operations. As regards labelled green bond issuance, India now ranks seventh in the world. But comprehensive data, specifically for analysing the economic impact of green technologies and projects, is still lacking.

*Wind turbines in the Indian lowlands. Source: © Nikita Podobulkin, iStockPhoto*

## THE IMPORTANCE OF PRIVATE SECTOR CLIMATE FINANCE IN THE INDIAN DEBATE

Within the Indian political debate, the respective roles of public and private climate finance are well articulated in their respective domains and could work in tandem to address the mitigation and adaptation-related imperatives in the country. In order to increase finance up to 2.5 trillion US dollars, estimated to be required by India to meet its INDC goals, innovative large scale solutions would need to be implemented in the country. Thus, in India, mobilising private sector finance is an important policy choice. The country is therefore providing impetus to technology and business models for innovative, reliable solutions to address climate change mitigation and adaptation challenges. The example of a bulk aggregation model for LEDs, an energy efficiency market in the framework of the "Perform, Achieve and Trade" (PAT)-scheme, and renewable energy related programmes and policies are some notable efforts in this direction. Yet in the area of adaptation, more support from public climate finance is called for to leverage the private sector finance flows into adaptation activities. While one part of the debate in India is on how the country will gain a significant and fair share of the promised external financing (public finance), including private capital flows, the other part concerns how to track public climate finance separately from private climate finance.

## CONCRETE INITIATIVES

The government of India is actively devising strategies to promote private finance in the country in areas encompassing both mitigation as well as adaptation. One of the most significant moves in this area is India's switch from effective carbon subsidization to taxation, done by imposing a de facto carbon tax on petroleum products at about 150 US dollars per ton, which is about six times greater than the level recommended by the Stern Review on Climate Change, and charging a Coal Cess (special tax), the rate of which has been steadily increasing and is currently at six US dollars per tonne of coal. Combined with the public commitment to add 175 gigawatts of renewable installed power in the country, this provided a clear signal to the private sector to ramp up its investments in this area. There has been a 23 percent increase in overall investments within the renewable energy sector in the country reaching 10.2 billion US dollars in 2015 which could be attributed to some of the above factors.

The government of India is also assisting private investors through several means of project-level support, in terms of generation based incentives, feed-in tariffs, tax holidays, concessional allotment of public land, hedging costs of borrowings, etc. To increase the funding available for renewable energy and encourage participation from amongst the SME's, the Reserve Bank of India (RBI) has designated renewable energy as a priority lending sector, which enables banks to lend up to 2.3 million US dollars for renewable energy projects and also raise infrastructure bonds to do so.

The government has also set up two national funds, the National Clean Environment Fund, funded through the Cess on Coal and the National Adaptation Fund on Climate Change, funded through budgetary allocation. These two funds envisage mobilising private sector finance by supporting project developers by providing risk guarantees, venture capital funding, seed funding, etc. National development banks, commercial banks, and other private financial institutions also have a unique role in the context of both implementing and catalysing private sector players because they have a privileged position in their local markets, strong knowledge of and long-standing relationships with the local private sector, and a good understanding of local barriers to investment.

India is continuing to strengthen and expand market-based mechanisms to fight climate change. At present, there are two prominent mechanisms: the renewable energy certificates

(RECs), with which power utilities are mandated to buy a portion of their power from renewable energy producers, and the PAT scheme, which aims to enhance energy efficiency in large scale industries through a market-based mechanism. These have the potential to mobilise significant levels of private finance in the renewable and energy efficiency sectors. Additionally, large corporates integrating sustainability in their core businesses are included in the Bombay Stock Exchange's green index, the GREENEX, which was introduced in 2012 and comprises 25 of India's biggest companies.

Furthermore, the Companies Act 2013, which obliges companies having a certain level of profits to spend two percent of their annual profit on Corporate Social Responsibility (CSR) activities, is also being leveraged by corporates for climate change and clean energy initiatives. Estimates indicate that a fair share of the available CSR funding of about 3.5 billion US dollars annually will be invested in environment initiatives. Indian corporates are starting to take ambitious initiatives to integrate sustainability into their core operations through various measures such as establishing internal carbon prices, announcing GHG emission reduction commitments, transitioning to clean manufacturing methods, etc. According to the Carbon Disclosure Project (CDP), in 2016, 44 Indian companies were using or planning to use an internal price on carbon within two years, a 63 percent increase from 2015.

## EXPERIENCES AND OBSTACLES

India now ranks seventh in the world for labelled green bond issuance, with bonds worth 2.7 billion US dollars and an estimated 15.7 billion US dollars unlabelled climate-aligned bonds. In 2016, several private financial institutions, national and private banks, public finance corporations, and public authorities from the energy and infrastructure sectors, successfully issued large green bonds. Most noteworthy is the National Thermal Power Corporation's (NTPC) issuance of a 300 million US dollars green bond to add more wind and solar power projects to its portfolio. This is a significant example of a fossil-fuel balance sheet being used to raise private climate finance. At COP21, a lot of movement was witnessed from the large scale investors and private banks from India who called for a specific commitment to lending, investing and raising capital for renewable energy and energy efficiency, with some noteworthy deals and commitments made in 2016. For example, IDFC Alternatives and Ostro Energy inked significant deals to buy renewable energy projects, while a joint venture between SoftBank, Bharti Enterprises Ltd. and Taiwan's Foxconn Technology Group announced plans to invest 20 billion US dollars in India's solar power sector.

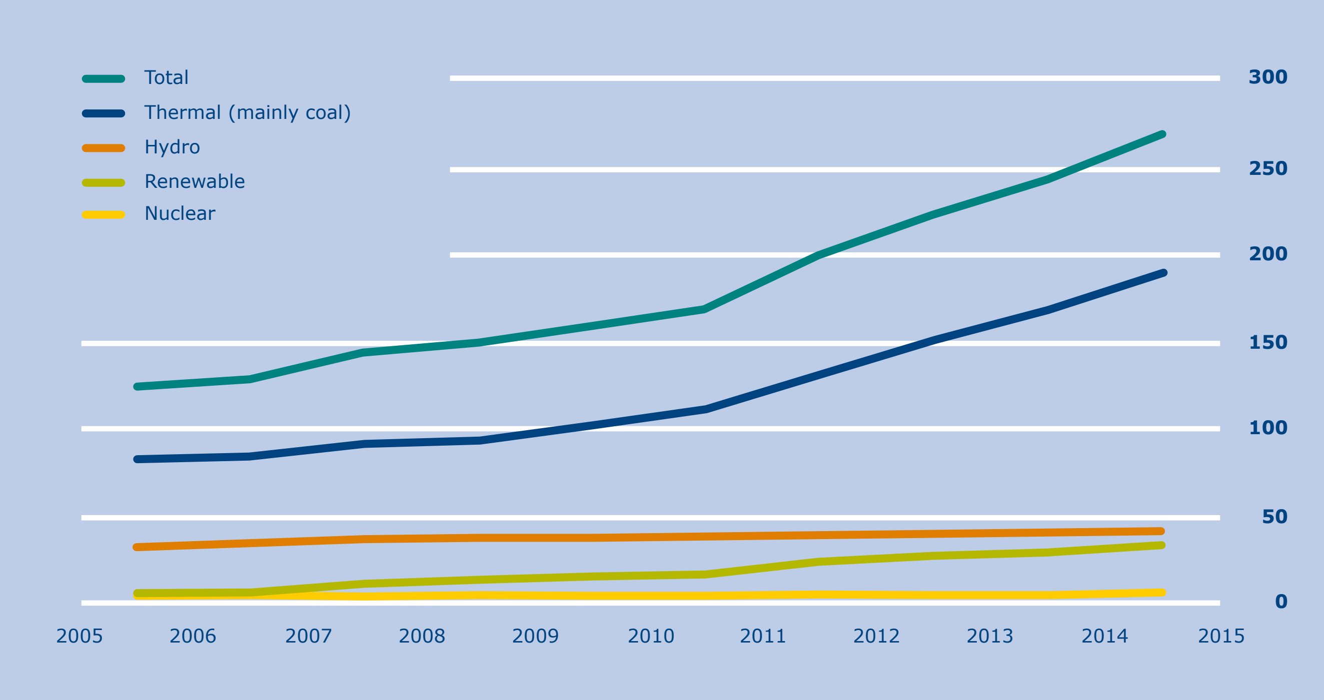
While India is relatively strong in terms of policy adequacy, consistency and predictability in low-carbon energy infrastructure, increased focus is required from private players in adaptation financing. While the government of India has made a notable start towards adaptation through its budgetary allocation of over 50 million US dollars to the National Adaptation Fund on Climate Change for the financial years 2015/2016 and 2016/2017, a conservative estimate of around 1.8 percent of India's GDP would be required for adaptation by 2050. Both public and private finance would be essential to make any significant progress in this area.

While India's Intended Nationally Determined Contributions (INDC) is in itself a huge market signal to technology developers to start investing seriously in clean technology in India, there is major uncertainty surrounding the availability of finance for research and development (R&D) and the potential cushion against investment failures. In this light, de-risking climate projects becomes a key need for the industry. The government's "Make in India" initiative can also be seen as an opportunity to provide adequate impetus to the climate change sector. Although the financial sector and financial intermediaries have now started focusing on the renewable sector due to policy push and greater awareness, they still lack the understanding and capabilities to analyse clean tech and energy efficiency projects, resulting in a lack of accessibility to finance for these sectors. This is due to a lack of comprehensive data specifically for analysing the impact of green technologies and projects. Besides, due to a lack of availability of public funding flows to developing countries under the UNFCCC financial mechanism, there is a lack of predictability in available finance to leverage the private sector within the country beyond mitigation actions.

## THE G20 AS A FRAMEWORK TO PROMOTE PRIVATE SECTOR CLIMATE FINANCE

The G20 is seen as a potentially strong driver for establishing frameworks and aggregating commitments for climate finance and international partnerships. The G20's focus on a variety of sectors and issues, particularly in respect to businesses and global trade, makes this platform uniquely placed to be able to understand and advocate for private climate finance, from the viewpoints of global sustainable development as well as of private industries and businesses. Although the

### INDIA'S ENERGY MIX: INSTALLED CAPACITY (IN GIGAWATT)




*Source: IndiaSpend*

private sector is increasingly aware of the need to mitigate the adverse impact of climate change, there is a perceived need for policies and frameworks to de-risk climate projects and provide opportunities to the private sector to take part in them. With the momentum gained within the G20 study group on Green Finance since 2016 – including the promotion of progress within countries on financial instruments – India is open and sees a huge opportunity to discuss and deliberate on successful frameworks for promoting PCF in the country through this forum.

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## FURTHER READING


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