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Climate funding

Existing climate funding avenues in India seem inadequate amid rising carbon emissions and steady economic growth

JUNE 2024

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Overview

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While developed nations met the target set at COP for the annual funding of $100 billion for developing countries in 2022, this looks inadequate, going forward. As a result, the NCQG fund was set up to fulfil a portion of the future requirement.

GCF projects, once executed, can offset 25% of current carbon emissions. However, major projects will be completed beyond 2030, by when carbon emissions will have increased.

Climate finance is important as significant financial resources are needed for reducing emissions, adapting to the adverse effects and reducing the impacts of climate change. There are multiple avenues for climate finance – namely funds established at the Conference of Parties (COP), global climate funds, Green Bonds, Green Deposits and other debt and equity instruments. ICRA has analysed the availability of major climate finances for green projects in India.

Annual funds from developed countries:

- In 2022, developed nations met the target of channelising $100 billion a year to developing nations for the first time. These funds are to help the latter adapt to climate change and mitigate further rises in temperature. Concessional loans and grants are common ways of extending funds to developing countries. India is one of the recipient countries of these funds.

New Collective Quantified Goal (NCQG):

- Adaptation costs in developing countries are set to increase, driven by the accelerating pace of climate change, making the annual fund from developed countries insufficient to meet the climate targets. The NCDQ fund was, hence, introduced in 2021, which is a new annual financial target that developed countries must meet from 2025 to provide climate finance to developing countries.

Green Climate Fund (GCF):

- GCF is the world's largest climate fund, mandated to support developing countries raise and realise their Nationally Determined Contribution (NDC) ambitions. Projects funded by the GCF will offset more than 600 million tonnes of carbon emissions, which is approximately 25% of India's carbon emissions in 2022. However, major projects will be completed beyond 2030, when carbon emissions will have increased.

Source: ICRA Research

Overview

The GoI is taking steps to support climate funding; however, the avenues available may not be enough to combat the potential rise in India's carbon emissions amid steady economic growth

Measures towards mandatory climate funding by FIs may help to hasten achievement of climate goals.

Sovereign Green Bonds:

- The GoI began issuing Sovereign Green Bonds (SGrBs) from FY2023, while certain developed nations had already started as early as 2012. Cumulative issuances of Indian SGrBs stand at Rs. 0.36 trillion, which is less than 1% of the global issuances, while the yields are marginally lower than the Government Securities (G-Secs).
- Some of India's municipal corporations (Indore, Ghaziabad, Ahmadabad) have also issued Green Bonds, although their quantum is low.

Corporate Green Bonds:

- Corporates in India started issuing Green Bonds in 2015; ~70% of these bonds were issued after 2021, when India set its climate goals at COP26. Five Indian corporates (Adani Group, Indian Railway Finance Corp Ltd, JSW Hydro Energy Ltd, ReNew Group) hold 80% of the Green Bond issuances in India.

Green Deposits:

- The Reserve Bank of India (RBI) has notified a framework for accepting Green Deposits in India. Few banks in India have launched green fixed deposits; however, the rates offered on green deposits are similar to or marginally better than the normal FD rates, providing minimal incentives for investors.

Other debt/equity avenues:

- Non-banking Financial Companies (NBFC) serving the infrastructure space (NBFC IFC) have more exposure to climate finance, especially in the Renewable Energy (RE) space. Share of RE in the total NBFC IFC funding has increased by 300 bps over the past two years, indicating the rising interest of such financiers for this sector.
- FDI inflow into RE has been on an increasing trend since FY2021 and increased by a sharp 51% YoY in FY2024.

The GoI has been taking steps to incentivise funding by creating a dedicated financial institution like the Indian Renewable Energy Development Agency Limited (IREDA), providing Viability Gap Funding (VGF), including RE financing under the ambit of Priority Sector Lending (PSL). However, more efforts are needed, considering the current level of carbon emissions and their potential rise fueled by India's expected economic growth.

Source: ICRA Research

Analytical Contact Details

Name	Designation	Email	Contact Number
Aditi Nayar	Chief Economist, Head – Research and Outreach	aditin@icraindia.com	0124 - 4545 385
Madhura Nejjur	Assistant Vice-President	madhura.nejjur@icraindia.com	022 - 6114 3417

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

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Thank You!