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MAPPING THE POLITICAL ECONOMY OF THE INDIAN FINANCIAL ECOSYSTEM

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CONTENTS



1. Introduction to E3G's political economy mapping of the global financial ecosystem
2. Mapping the Indian financial system
 - Overview of financial sector & key indicators
 - Opportunities and barriers to a green recovery
 - Assessing the greenness of economic stimulus/response to Covid-19
 - Integration of climate-related risks into the financial system
 - National positions in multilateral institutions

1. INTRODUCTION TO E3G'S POLITICAL ECONOMY MAPPING OF THE GLOBAL FINANCIAL ECOSYSTEM

Aim - E3G's political economy mapping of the global financial ecosystem takes stock of opportunities and challenges for systemic economic and financial reform for climate safety across 14 key countries and institutions (“venues”). It aims to better understand countries and institutions' positions on key aspects of fiscal and monetary policy, and financial regulation, analyse the interactions between these venues, show the main champions and blockers of a progressive sustainable finance agenda, and assess opportunities for green reforms over the next 12-24 months.

Method – E3G is working with a number of in-country partners to develop this research. We have used a mixed-research methodology for each venue – a mixture of desktop research and semi-structured interviews with key stakeholders (policymakers, academics, civil society) following a series of defined research questions, detailed below. E3G compiles the findings into a presentation for each venue, tests the results internally with other E3G colleagues and then presents the results as appropriate to external stakeholders.

Usage – This research will be used as an internal and external resource to inform civil society and financing strategies for specific countries.

2. MAPPING THE INDIAN FINANCIAL SYSTEM: KEY INDICATORS



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GDP	USD 3 Trillion
GDP rank	5 th world economy
GDP growth (2021 projection)	9.5%
Share of public & private debt in GDP	86% of GDP (gross government debt) 56% of GDP (private debt)
Human Development Index (HDI) Rank: (2020)	130/ 189
GHG Emissions: (Mt CO ₂ eq., 2018)	2307 (335% higher than 1990)
Country rating: (2018)	Baa3 (Moody's)



INDIA: OPPORTUNITIES AND BARRIERS TO A GREEN RECOVERY

- **Major barrier to green recovery lies in share of fossil fuel revenue in Indian economy:**
 - Coal, crude and natural gas, petroleum products, constitute an important source of tax revenue. These also generate significant non-tax revenue for the state through royalties and dividends
 - Generated 18% of total government revenue receipts in 2020
 - A national clean energy fund was created in 2010-2011: clean energy levy on every tonne of coal produced to finance clean energy research. Roughly \$12 Bn were collected from 2011 to 2018, of which only 30% was used for original purpose; remaining 70% used to compensate government for revenue loss incurred.
 - Increased fiscal space pressure resulting from COVID-19 has only strengthened this barrier
- **Ministry of Finance takes some initiative but is limited by the focus on economic growth:**
 - Conducted a survey in FY2020 acknowledging that sustainable finance will be key to meeting India's SDGs
 - Implemented some direct budgetary allocations towards climate-positive actions (see next slide)
 - Launched a Sustainable Finance Collaborative to develop a sustainable finance roadmap
 - But financial support to climate-positive priorities limited by focus on growth, especially in pandemic context
- **Reserve Bank of India is a more independent voice:**
 - Regularly sensitizes public and financial actors to need/opportunities/challenges of sustainable finance
 - Has publicly stated that policy action was needed to create a green finance ecosystem, e.g. disclosure requirements, green prudential framework and credit instruments
 - Joined NGFS in April 2021

INDIA: ASSESSING THE GREENNESS OF ECONOMIC STIMULUS / RESPONSE TO COVID-19



- **Significant stimulus & recovery package of \$300 billion announced in May 2020** (mix of fiscal expansion, including drawdown on existing state reserves, and monetary expansion)
 - 36% of this was dedicated to direct relief measures: food grains to public distribution system, direct cash transfers, social sector investments
 - 30% directed to micro, small & medium enterprises (MSMEs): bank guarantees or direct allocations to main economic sectors (agriculture, industry, power).
- **Focus of economic recovery package on reigniting growth** and quick return to pre-pandemic levels rather than on greenness of measures:
 - Sector-agnostic package, no mention of green recovery
 - Climate Policy Initiative estimates: 0.7% of package directed to green measures (renewables, tribal schemes/forest conservation efforts), rest being "colorless or brown"
 - Disruptive measures to green transition include introduction of commercial coal mining, with significant investment in mechanized coal transfers and coal evacuation (approx. \$10 Bn).
- **Union budget for FY2022 also mainly focused on economic growth and reform (agricultural and defense sectors)**, although a more sizeable contribution was directed towards green measures (13% of total budget).

INDIA: INTEGRATION OF CLIMATE-RELATED RISKS INTO THE FINANCIAL SYSTEM



Integration of climate-related risk into the financial system remains limited and basic at this stage.

- **Taxonomy remains at very early/basic stages:**
 - Securities and Exchange Board of India (SEBI) has adopted basic definition criteria for green bonds, along very broad guidelines
 - The Sustainable Finance Collaborative launched by the Ministry of Finance in August 2020 is expected to deliver a sustainable finance roadmap that addresses the need for a full-fledged sustainable finance taxonomy
- **There is more progress on the disclosures front, but efforts are fragmented:**
 - In 2021, SEBI established the **Business Responsibility and Sustainability Report (BRSR)**, a new disclosures standard applying to top 1000 listed entities for voluntary FY2022 reporting. Granular reporting, to become mandatory from FY2023 onwards
 - Bombay Stock Exchange signed a memorandum of understanding with **Climate Disclosure Project (CDP) India** to encourage sustainability reporting in line with recommendations set by the **Taskforce on Climate-related Financial Disclosures**. 220 listed companies voluntarily disclosed, with corporates doing better than financial firms.
- **Prudential framework aligned with existing global guidelines, no initiative from Reserve Bank of India (RBI) to update it to incorporate climate concerns:** RBI waiting on Basel Committee to update its guidelines.



HOW INDIA POSITIONS ITSELF IN MULTILATERAL INSTITUTIONS

- **International climate negotiations and climate finance:**
 - Official position since COP 15 in Copenhagen: Common but Differentiated Responsibility (CBDR)
 - In the context of the COP 21, India committed to a 33-35% reduction of emissions from 2005 levels by 2030
 - According to NDC estimates, India's climate finance requirements amount to \$160 billion annually by 2030. Recent estimates place overall mobilization at \$15-17 billion per annum, with the majority coming from domestic sources
 - India's position on this matter is that availability of adequate climate finance to developing countries for their climate actions is essential
- **G20:**
 - India's position in the G20 confirms commitment to its NDC targets
 - However, it does not support linkages or conditionalities in trade, investment and development finance flows to climate goals
 - India's position in the G20 reflects its position on domestic management of post-pandemic economic recovery, i.e. that prioritizing growth and SDGs is critical for low-income development countries (even though tackling climate change and the SDGs should not be perceived as two contradictory objectives).

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CPI is an analysis and advisory organization with deep expertise in finance and policy. Our mission is to help governments, businesses, and financial institutions drive economic growth while addressing climate change. CPI has six offices around the world in Brazil, India, Indonesia, Kenya, the United Kingdom, and the United States

E3G is an independent climate change think tank accelerating the transition to a climate-safe world. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.



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ANNEX

REFERENCES



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- GDP figures: World Economic Outlook Database 2021
- Debt figures: Reserve Bank of India
- Human Development Index: UNDP Human Dev Report 2020
- GHG figures: Climate Scorecard/IEA

For all other citations, please contact E3G.