"FINANCING THE ENERGY TRANSITION AND SUSTAINABLE DEVELOPMENT"

THEME LEADS

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INTRODUCTION

The realization of India's essential yet formidable sustainable development agenda hinges crucially on successfully mobilizing and channelling capital to where it is needed most-providing clean, affordable, reliable energy, building the infrastructure for smart cities, and creating enterprises that will generate livelihoods for an additional 10 million jobseekers each year.

Estimates in this regard are a clear pointer to that which needs to be addressed. According to the International Energy Agency, at least an additional $1 trillion per year is required into clean energy by 2050 if there can be any hope of limiting global warming to 2 °C. Yet global investment in clean energy was just $254 billion in 2013.[1]

In India, the infrastructure investment required during the Twelfth Five Year Plan period (2012–17) has been pegged at <Insert rupee symbol here>65 lakh crore (roughly $1 trillion), of which only half, it is expected, can be met from public budgetary resources.[2] India has also voluntarily committed to reducing the emissions intensity of its Gross Domestic Product (GDP) by 20–25 per cent, over the 2005 levels, by 2020. A low emissions path will entail significant improvements in energy efficiency (EE) across sectors, increased use of renewable energy (RE) for power production, sustainable waste management, and conservation of forests. The expert group on Low Carbon Strategies for Inclusive Growth set up by the Planning Commission has estimated the cost of specific low carbon strategies between 2011 and 2030 at about $834 billion at 2011 prices. More recently, the government has set a target of 100 GW of solar power capacity by 2022.

Private sector contribution will be indispensable in meeting these challenges but will crucially depend on some serious rethinking on the 'rules of the game' that govern financial markets—behavioural norms, institutional frameworks and regulatory requirements that guide the allocation of capital.

Some efforts are underway at both the global and national levels in this direction. In 2014, UNEP set up an inquiry to identify, develop, and recommend policy and regulatory reforms that would deliver a step change in the effectiveness of financial markets in channelling capital to the green economy.[3] At the national level, notable initiatives include the China Banking Regulatory Commission's Green Credit Guidelines and South Africa's adjustment to pension-related legislation to encourage trustees to integrate sustainability issues. In parallel, a growing number of investors internationally are taking initiatives in the form of direct low

1 International Energy Agency (IEA), Energy Technology Perspectives 2012: Pathways to a Clean Energy System

2 Planning Commission: Working Sub-Group on Infrastructure for the Twelfth Five Year Plan (2012– 17)

3 UNEP (2014) "Inquiry into the Design of a Sustainable for Financial System: Policy Innovations for a Green Economy"

KEY QUESTIONS

The mobilization of capital into a green and more sustainable economy will crucially depend on a coherent policy and regulatory framework and some innovative thinking at the national and international levels. Key challenges relevant to financing the sustainable energy transition in India may be seen through the following questions:

- What are the major policies and regulatory incentives required to reduce risks and provide competitive investment opportunities to upscale EE and RE technologies, both, grid and off-grid?
  - Whether priority sector lending within the Reserve Bank of India (RBI) mandate could include credit extensions to RE/EE enterprises
  - How can currency risks in foreign currency loans (FCL) be reduced and integrated with project financing
  - Examining the possibility of lower payback interest rates, longer term tenure, re-financing, etc.
  - Enabling commercial banks in extending credit to RE/EE projects
- How can we tap into the debt market for enhancing credit?
  - What lessons can be learnt from international experience in green bonds for the overall expansion of capital markets to bring new liquidity into this space?
- How can India better access Green Funds from around the world? How can the BRICS bank enable financing for this sector?
- How can Venture Capital Funds and Private Equity entities be encouraged to play a bigger role in the domestic energy transition market?
- What regulatory and policy changes are required to enable large institutional investors such as pension and insurance funds to contribute to mid-term financing for EE and RE in India?
- What role can be played by Corporate Social Responsibility (CSR) funds in financing RE transitions? Is it possible to set up a Green Fund through CSR funding?
- How can environmental and sustainability reporting be better integrated into aiding valuations of RE/EE companies, in order to attract investors? In general, how can the Environment Sustainability Governance information flowing from corporates be benchmarked and evaluated?

carbon investments, creation of low carbon funds, company engagement, and reducing exposure to fossil fuel and carbon intensive companies.[4] Closer home, recent initiatives such as Green bonds offered by IREDA, the BEE risk guarantee fund for energy projects and the uptake of the Equator Principle by IDFC suggest that the Indian credit market is willing to respond to the challenge of financing sustainability.

4 Some examples of these initiatives are discussed in UNEP (2014), "Financial Institutions taking Action on Climate Change"