

WORLD SUSTAINABLE DEVELOPMENT SUMMIT 2023

MAINSTREAMING SUSTAINABLE DEVELOPMENT AND CLIMATE RESILIENCE FOR COLLECTIVE ACTION

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Role of Carbon Markets in India's Developmental Transition

February 23, 2023, 4:00- 5:30 pm (IST) | Jacaranda I, India Habitat Centre, New Delhi

Background

India's continued commitment and leadership on climate action is evident in its climate ambition. Recently updated Nationally Determined Contributions (NDCs) setting higher targets along the 2030 trajectory, the announcement to meet net-zero emissions by 2070 made at COP26 and the call for sustainable production, consumption, and ethos of circular economy through *L.I.F.E- Lifestyle for Environment* are notable commitments. Achieving these climate goals and targets would require significant investment both from public and private sectors – domestically and globally- which can be extensively enabled by market-based mechanisms.

Financing this transition to decarbonization is a critical challenge. Preliminary studies estimate an additional economic cost of USD 10 – USD 15 trillion for India's transition to net zero emissions by 2070. As per some estimates, there is a significant financing gap in the economy with the current scale of green investments at only USD 44 billion per annum (in FY 2019-20)¹. As per the same report on India's long-term low-carbon development strategy, this investment cost can vary significantly across sectors based on the existing scale of technological enhancement, policy scenario and market ecosystem.²

Carbon markets can play a significant role in financing India's low-carbon trajectory by mobilizing private capital not only for development of low-carbon technologies but also encouraging investments in carbon removal projects like forestry, agriculture, land restoration etc. which can enhance the carbon sink of the economy. This is crucial in India's trajectory to achieve a low-carbon, inclusive and climate-resilient development pathway. With the rulebook on Article 6 finalised and the recent Amendment to the Energy Conservation Act widening the ambit of India's domestic market-based mechanisms, the current policy environment is conducive for channelling greater climate finance flows through well-structured and internationally linked carbon markets.

There is a need to establish a dedicated initiatives to drive carbon market development in India. While there is a significant opportunity for India to benefit from both compliance and voluntary marketsdomestically and internationally- the prevailing ecosystem, awareness levels about carbon market

¹ <u>Decarbonising India: Charting a pathway for sustainable growth</u>, McKinsey Sustainability, Oct 2022

² India's Long-Term Low-Carbon Development Strategy, MoEFCC, Nov 2022

trends and policies, and the capability of the relevant actors to participate in these markets and exploit their full potential, will have to be strengthened.

To further support and accelerate carbon markets, strengthening cooperation across a diverse set of actors (i.e., policy makers, project developers, investors, buyers etc.) to develop a robust framework for carbon markets in India is critical. This could entail developing effective rule-based frameworks for carbon markets, supporting carbon market infrastructure development, enabling knowledge creation and sharing on carbon market trends and policies, and defining innovative financing instruments to enable India's transition to a low-carbon economy.

This session engages with cross-sectoral experts to seek inputs on critical next steps to operationalize India's carbon markets, means to strengthen the domestic carbon framework, and more importantly increasing the role and participation of the private sector in these markets.

Key areas for discussion include:

- Role of markets in supporting sectoral decarbonization towards meeting India's climate ambition
- Essential design elements for an internationally linkable domestic carbon market
- How can markets include non- energy sectors in the subsequent phases?
- Role of voluntary carbon markets in this decarbonization story
- How can markets enable greater RE beyond solar and help scale the clean energy transition?