Enabling the Climate Transition in India

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The much-awaited monsoon has touched Indian coast and we are all rejoicing the pleasant weather today after the spell of hottest summer this year when temperatures soared to newer heights and breaking records across the country. Not just India, the whole world is facing the climate extremities.

Climate change is widespread, rapid and intensifying. It poses a great threat to the long-term growth and prosperity of a country and has the potential to create shocks to economies. We need countries, cities, states and businesses - to move onto a credible path to reach net zero globally in the coming decades. Climate risk is now considered to be among the top global risks currently faced by the society.

India needs a renewed focus to climate-proof its population and growth narrative and any miss now can cost decades of developmental backlog. Climate has changed forever and its curve will not flatten without concerted efforts.

Businesses, banks and investors are facing financial risks. Time has come for banks to include Climate risk and the tangible transition and physical risks, in their financial risk management systems. A global challenge requires global solutions. Policymakers across the globe are increasingly paying attention to the integration of "Environmental, Social and Governance (ESG)" principles into their regulatory frameworks.

The updated Nationally Determined Contributions (NDCs) communicated by India to the UNFCC in August 2022 represents the framework for India's transition to cleaner energy for the period 2021-2030. The Government of India (GoI) has laid out five commitments or "Panchamrit" to mitigate climate change, which are:

1. India will bring its non-fossil energy capacity to 500 GW by 2030.
2. India will bring its economy's carbon intensity down to 45% by 2030.
3. India will fulfil 50% of its energy requirement through Renewable energy by 2030.
4. India will reduce 1 billion tonnes of carbon emissions from the total projected emissions by 2030.
5. India will achieve the target of "Net Zero (NZ)" by 2070, namely, that there would be no net carbon dioxide emitted from energy sources.

India's compliance with international pressure on climate action is hinged on funding from developed nations and it stated in its NDCs that it needs an estimated USD 2.5 trillion between now and 2030 from international sources to meet its targets. Having received a positive sign from UNFCC, the nations now need to establish domestic project pipelines and infrastructure to tap into the existing climate finance

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opportunities as well as those that will be launched.

In October 2022, Mission LiFE (Lifestyle for Environment) a global plan of action was launched by India and UN, aimed at saving the planet from the disastrous consequences of climate change. The Mission focusses to adopt the concept of 'reduce, reuse and recycle' and circular economy. Mission LiFE plans to create and nurture a global network of individuals namely 'Pro Planet People (P3)' who will have a shared commitment to adopt and promote environmentally friendly lifestyles.

In September 2023, under India's G20 Presidency at the G20 Leader's Summit in New Delhi, the G20 nations committed to urgently accelerate their actions to address environmental crises and challenges including climate change.

Developing a climate transition plan is a collaborative process that will require various stakeholders' active engagement, which includes Regulators, Supervisors, statutory bodies, businesses as well. Banks/Financial Institutions (FIs) have a critical role to play in accelerating the transition to a net-zero economy. The type and amount of data collected from Banks/FIs' client, transition plans varies depending on characteristics of the client; in particular, small and mid-size enterprises provide limited and no publicly disclosed data.

Efforts should be made to encourage all firms to cover different aspects of climate change, including adaptation, in their transition plans to ensure Banks/FIs can obtain information about the full suite of risks they are exposed to. Policymakers and standard setting bodies should consider development of public goods like emissions databases to facilitate ease of access. To build capacity to develop high quality transition plans, there should be active promotion of best practices by Governments, standard setters and Banks/FIs alike. Banks face unique challenges in developing a transition plan because the bulk of their emissions are related to lending, underwriting, investment and insurance activities, or what's known as financed, facilitated or insured emissions. Reducing these financed emissions means evaluating portfolios that can include thousands of financial products and clients.

Every Geography has a distinct character with respect to Climate Risk, for example in a country like India having oceans at one side and mountains at other side and within the country there is vast difference in terms of climate and terrains, which needs to be quantified/defined. Given the unprecedented nature of climate change outcomes, the historical data would be unlikely to capture future impacts.

Key challenges being faced in climate action are listed below

1. Taxonomy- There is NO uniform definition of green lending and non-green lending. What is Green? -yet to be defined.
2. Loans have not been tagged making it difficult to assess the exposure to Green House Gas (GHG) emitting sectors.
3. Transition plans have not been made to migrate to low carbon economy.
4. Getting data on Scope 3 emissions is proving to be a challenge. Engagement with clients/supply chains needs to stepped up.
5. Due to lack of standardization on data, sector specific emissions are not quantified.
6. Risk assessment is also a challenge due to lack of geo specific data.
7. Banks are realizing the importance/actively considering inclusion of clauses (example

Covenants, representations, Terms & conditions) related to E&S issues in the Loan documentation. Further, they are actively considering/working on integration of climate risk and sustainability-related matters to include in their internal controls and Audit processes.

However, data problem may get resolved over a period of time, considering that many of the companies/organizations have now started capturing emissions after the announcement of our country's NZ plan in COP26 and G20 forums. The Government, Regulators, Banks/FIs and MSMEs will have to come together to carve out their path for Low carbon Transition (LCT) and create a mechanism so as to bring down its carbon emissions in a phased manner in order to become a net-zero emitter of greenhouse gases by 2070.

In India, our banks have started their ESG journey already and we at Indian Banks' Association (IBA) are actively involved with them while collaborating with various domestic and international organizations for capacity creation/trainings for Banks at all level of functionaries on this important topic.

I must say, our Regulators are indeed doing a great job and working at right direction in this regard. They are providing the much-needed guidance to Banks/FIs and various stakeholders by bringing the needed products, regulations/norms from time to time related to climate risk and sustainable finance. The consultative approach adopted by them in the form of Draft guidelines, inviting public comments for suggestions/feedback is proving very beneficial for all of us. We are happy to share that in the recent times when these draft guidelines were released, we had extensive deliberations with our member banks and submitted our feedback to them, which is well-appreciated and noted and we are called for discussions to present our banking side concerns.

(e.g. Discussion papers- Climate risk & Sustainable finance, ECL framework, Green Deposit framework, Disclosure framework for climate-related risk, BRSR Core, etc)

RBI's recent Draft framework on Disclosures: With climate change as one of the biggest emerging risks, RBI has released a draft standard disclosure framework on climate-related financial risks for Regulated Entities (REs) on 28th February 2024. The Draft framework highlights the need for REs to detail the governance processes, controls and procedure used to identify, assess, manage, mitigate and monitor climate-related financial risks and opportunities. The disclosure requirements are structured using the four pillars namely Governance, Strategy, Risk Management, Metric & targets, aligning with the global framework of Task Force on Climate-related Financial Disclosures (TCFD).

The RBI's requirements are aligned with the Network for Greening the Financial System (NGFS's) guidelines and those of European and other Asia-Pacific jurisdictions like Hong Kong, Singapore, and Australia, encompassing measurement and disclosures for Scope 1, Scope 2, as well as Scope 3 GHG risks. These disclosures apply in addition to the disclosures that are already required by the SEBI's Business Responsibility and Sustainability Reporting (BRSR) Framework.

Integrating climate risk into credit risk assessment processes is crucial, as is establishing a governance framework for managing Environmental, Social, and Governance (ESG) risks. Additionally, scenario analysis plays a pivotal role in evaluating financial risks stemming from climate change.

While certain banks have formulated strategies based on NGFS scenarios the recent requirements set forth by regulatory bodies necessitate significant efforts to train staff, operationalize strategies and transition from planning to execution phases. This transition phase demands comprehensive solutions that can seamlessly integrate into existing banking operations and help banks navigate the complexities of ESG risk management.

At IBA, in our Standing Committee on ESG (19 member banks and FIs) various ESG related issues are discussed from time to time and action plan is charted out. These members share their inputs which are deliberated, recommended to higher level of discussion at Managing Committee where MD & CEOs of all public sector, leading private sector, foreign banks and All India Financial Institutions (AIFIs) are members. These inputs are then finalized for sharing with various Regulators and Supervisors from time to time. We are happy to share that our inputs/suggestions are noted by them and we are called upon for further discussions during our one-to one meeting with them, which paves way for creation of necessary enablers for the ecosystem.

IBA is actively working with our member banks and collaborating with various agencies/firms for sharing their expertise on the matter. Recently, in January 2024 we had organized a full day session on “Unlocking Climate finance in India” where senior executives of banks actively participated and Top officials from RBI and Ministry of Finance (MoF) emphasized on the growing need of Banks/FIs to move towards Climate risk assessment and accelerate their efforts on green finance.

Decarbonization of Steel Sector (MoSteel): IBA is actively working with MoF, MoSteel and Ministry of New and Renewable Energy (MNRE) on decarbonization journey of banking sector. I am glad to share that I am heading one of the Task forces on Finance, with members drawn from various expert bodies, organization and banks, where we are deliberating extensively on identifying financing solutions for the green steel and we are at advanced stage of submitting our report to MoSteel.

Just to share, last week IBA had organized the IBFed Board meeting in Mumbai, where a daylong conference was held, with 4 panel discussions on various topics of Climate finance, customer protection, risk scenarios, Digital payments. These Chief Executives from various international banking associations while appreciating our digital progress also expressed to share their ongoing work on ESG related areas-specially on climate risk and sustainable finance.

The limited point to make here is that such Joint venture of Government, Industry bodies - their Associations and International banking associations, global-domestic Experts/consultants, Banks/FIs, Industry etc. for the united approach of sectoral study on other hard-to-abate sectors like Iron & Steel sector, Cement, Power, Transportation, Refineries, Agriculture & Allied Sector, Chemicals, Pharma etc. will help to arrive on definite solutions. This will help in framing a definite roadmap with action plan for creating the necessary enablers in the ecosystem so as to reduce the carbon emissions in targeted manner and achieve the desired net zero target towards our action on Climate change.

In this context, today’s IIBF-UNEP-FI and GIZ's Banking conclave on “Enabling the climate transition in India” is very important where the Board members and Top executives of Banks, the decision makers of the Indian banking industry are present to delve upon this very important aspect of Climate transition. They have a big role to play in coming days when India is navigating through the challenges and opportunities in climate transition, which will impact the businesses and the economy as well. I am glad to note that the day is lined up for very interesting panel discussions on climate risks, sustainable financing, emissions, ESG reporting regime, data disclosures and reporting.

Transition planning is effectively business strategy and require robust board oversight and governance, financial planning, risk management and importantly-culture alignment for it to be a success. As climate-related regulatory and investor expectations continue to evolve and heighten, the Board must ensure they are climate-risk aware and well-versed with public disclosures. This means building the necessary skills, culture, knowledge and governance structures at Board level. The board should be able to articulate a clear strategic business case for climate action.

Ultimately, organizations that embrace that the world has to transition to net zero and find the opportunities to transform their business model, accordingly, will reap the benefits.

These types of conclaves and conferences are the need of the day when we exchange best of Industry practices among each other.

Thank you for inviting me to this Inaugural session and my Best wishes for the enriching day ahead!

Annexure

Some of the key enablers required for achieving NZ target: India is on a cusp of change. In the midst of myriad global challenges, it has the opportunity to script an inclusive green transition with a cohesive roadmap to back it up.

1. **Need for National Taxonomy:** Policy-led Sustainability Classifications in the form of a common Taxonomy (like EU Taxonomy) should be prepared which clearly defines, from the top down, what counts as a sustainable or climate-friendly lending/ investment. The taxonomy should also set performance thresholds (screening criteria) for economic activities, by steel sector and its subsector. Transition taxonomies are prime tools to enhance data collection regarding decarbonization options and characteristics in hard to abate sectors like Steel sector.

2. **Framing Climate Policy:** Climate policies and finance are complementary—climate policies are a pre-requisite for enabling private finance, which in turn, contributes to the achievement of climate policy goals. Carbon pricing is an effective tool to make high emitters pay for the climate costs they cause and thereby, channel investment toward projects that emit less.

3. **Investments in low carbon technologies:** In the hard to abate steel sector and allied MSME sector is critical for ensuring an inclusive and just green transition. India's NDC estimates the need for USD 2.5 trillion by 2030 to achieve its NDC and an additional USD 1 trillion for its enhanced NDC targets.

4. **Scaling up capacity building and awareness on green transition for Corporate as well as MSME players:** Creating awareness amongst all the stakeholders is the first and foremost priority in our journey to net zero target. At IBA, we are actively working on the awareness and capacity building measures for banking fraternity. We are conducting series of webinars with experts and international bodies to impart knowledge sharing sessions on ESG aspects, for our member banks. On similar lines, we have to create awareness in the Businesses - Corporate and MSME sectors as well. Industry bodies-

FICCI and Confederation of Indian Industry (CII) are also working on this.

Capacity building and awareness activities need to be further intensified at both the central and state levels in order to address the lack of awareness regarding new technological solutions, industry standards, best practices and how to access commercial finance opportunities.

5. **Grant component:** of international climate finance architecture will be key for addressing the transition risk bearing capacity of hard to abate sectors and associated MSMEs. The timely, predictable and scaled up finance and technology transfer support from developed countries will be critical for enabling accelerated transition of businesses.

6. **Blending of various financial instruments:** such as grants, concessional loans, lines of credit, credit guarantee facilities, risk sharing facilities and other financial instruments need to be scaled up. International finance flow towards green transition should leverage the existing domestic financial institutions and build synergy of the expertise in the domain.

7. **Creation of Climate Fund:** States must establish an Infrastructure-Climate Fund (ICF) to support sustained investment into climate-resilient critical infrastructure and foster locally-led climate actions. Such a fund will expand the market's capacity to respond to climate catastrophes and negate risks from public and private Balance sheets. Moreover, ICF can be geared towards enhancing the market's capacity to absorb increased risk at optimal return periods. ICF should aim to pave the way for a future where traditional markets can confidently absorb and navigate risks, contributing to greater economic stability across climate-sensitive sectors.

8. **Mobilizing international climate finance:** The public sector, including Multilateral Development Banks (MDBs), Development Finance Institutions (DFIs) and other international financial institutions (like World Bank, ADB, AFD-France etc) — are crucial to help set up climate projects in low-income countries and can play a key role in crowding in private climate financing in emerging market and developing economies, including by placing more emphasis on equity rather than debt financing. They can also help design and implement innovative financial instruments to leverage private investment and provide risk absorption capacity. International climate finance sources will need to be mobilized in order to meet the additional financial needs of adopting cleaner and energy-efficient technologies.

9. **Awareness & Capacity building:** The G20 report has very well suggested that public authorities in collaboration with private sector actors and academic institutions, NGOs and industrial associations should coordinate amongst themselves to strengthen and synergize the delivery of capacity building for ESG matters including climate risk and sustainable finance in a manner consistent with national sustainable development plans and priorities.