



India and the World

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New Delhi's views on international and domestic climate finance

This year's UNFCCC Conference of the Parties (COP), held in Baku, Azerbaijan, was focusing on climate finance, a critical issue for emerging and developing economies. Climate change adaptation and mitigation, and the green transitions of the economies and energy systems in India and other countries of the Global South, require investments in the trillions of USD in coming years. The COP, however, concluded with a pledge of \$300 billion yearly by 2035, much to the frustration of developing economies. India's representative, Chandni Raina, called the agreement an "optical illusion".

India's Prime Minister Narendra Modi, while announcing a net zero target for India in a previous iteration of the COP, had made it explicit that this promise was contingent on the availability of finance and technology. New Delhi has argued that previous commitments on public finance made by developed economies are far from enough, but also difficult to evaluate. As India looks for ways to get climate finance flowing for its own needs, but also for amplifying sentiments of the global south, it was a priority for New Delhi to move forward on a workable, equitable, architecture for climate finance in Baku.

Simultaneously, governments across the developed world show reduced enthusiasm for committing to increased spending on financial solutions unless large emitters like China, Saudi Arabia, and India, also contribute. The pre-COP debate surrounding the New Collective Quantified Goals (NCQG) clearly

indicated diverging positions in this regard. India's focus has been on not expanding the contributor base, but to keep the language of the Paris agreement intact, which stressed developing economies' particular needs according to the "common but differentiated responsibilities" formula. India is currently classified as a lower-middle income country, while China is considered to be an upper-middle income country, with a nominal GDP almost five times that of India's.

While international climate finance is a friction point, global climate governance, and national and collective action on climate change, has been prioritised by New Delhi. The leadership of consecutive Indian governments, representing both the BJP, and the Congress party, have been invested — within the limitations imposed by the country's development needs — in climate change issues.

India's population and domestic economic activity will be increasingly exposed to the consequences of climate change. Parts of the country's food production as well as access to fresh water are already impacted by the consequences of global warming and changing weather patterns, resulting from CO2 emissions building up since modern industrialization began. The most recent general election shows that the impact of environmental degradation and climate change is beginning to mobilise electorates in India, although the framing of those debates is more connected to local livelihood challenges than global climate action. In addition to managing food and water security risks, a successful transition towards a robust domestic green energy architecture will reduce insecurities for India associated with energy imports. Green energy has been prioritised by the Indian government and given sizable allocation by the Finance Ministry in consecutive budgets, in competition with many other pressing issues. India's current renewable energy-based electricity generation capacity stands at about 200 GW, or 46% of the country's total installed capacity. Having said that, India's continued reliance on and investment in domestic coal remains a drag on its green ambitions.

Climate action, climate finance and green technologies, are integral parts of a wide range of bilateral partnerships that India has with advanced economies. Indeed, India became more pro-active in global climate politics once it began to recognise that green finance was a potentially vast source of additional investment. In interactions with the owners and managers of long-term capital, officials in New Delhi have frequently stressed the various ways in which climate finance is given special regulatory treatment within India, and the degree to which India provides a particularly good location for green finance to achieve the co-benefits of a reasonable return and active carbon mitigation. New Delhi's focus on private finance is also a pragmatic response to its evaluation that more public finance will not be made available by the West for climate action in India. Whatever additional public finance emerges in the coming years will likely be used in the least developed countries or to capitalise multilateral agencies working in the green finance domain.

India has even issued green sovereign bonds, attempting to test whether a "green premium" exists that would lower its cost of borrowing. These were sold out, but mostly to domestic investors. The finance ministry was somewhat disappointed by the response of global capital markets. It has since shifted focus to wooing specific large investors, including pension and sovereign wealth funds. India's partners in the Gulf have been particular targets for this effort. This is an ongoing effort, although some major investments — including one over half a billion dollars into Tata Power Renewables — have already been made.

India's regulators are also working to determine a mechanism that enables the trading of carbon credits domestically. They recognise the need to allow interoperability between this mechanism and those being designed elsewhere, as that would facilitate the purchase of domestic carbon credits by offshore investors. But there are significant ideological and procedural hurdles to making this a reality. Further action on this front is expected in 2025.

New Delhi also brings climate-oriented themes to a range of multilateral and minilateral coalitions. Working through the G20, the Quad, BIMSTEC, BRICS or other such groupings, help India to shape norm setting, and amplify diplomatic messaging, but also to unlock potential investments for its green transition and co-development of green technologies outside of the traditional UN-centered architecture. Having a high profile in climate diplomacy also serves New Delhi's status ambitions as a rising power, as it provides an opportunity for India to be perceived as a constructive power in international politics, bringing initiatives and solution-oriented proposals to the table.

Prime Minister Narendra Modi's announcement last year that India is prepared to host the COP in 2028, the year before India's next general election, which signals a willingness to connect climate action to Modi's legacy, and also to domestic politics, in tangible ways. In some ways this offer parallels his decision to host the G20 in 2023. Then discussions about global governance and India's global leadership were used as evidence of how Modi had raised India's profile in the world. If COP is to play a similar role, then Modi would like to see tangible progress on climate goals, both domestically and globally.



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