

BUDGET

On a green drive, budget stops short of spelling out a clear road map on financing decarbonisation



Synopsis

The budget doesn't fully answer the questions around the transition path to a net-zero economy and how to fund climate-change mitigation programmes. The budget announced a green credit programme but didn't give specifics. It has made a start, but a lot more needs to be done outside of the budget, too.

This year's **Union budget** seems to have a thing for the number 23, painted in green (no pun intended). A careful rewind of finance minister Nirmala Sitharaman's budget speech will tell you why. For, she mentioned the word green 23 times while presenting the budget on February 1.

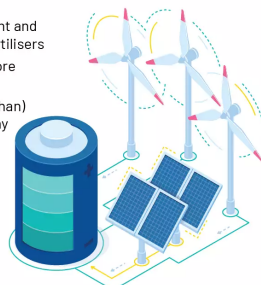
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(guiding stars) that set out the government's priorities in the budget.

Green growth budget FY24: Hits

- Priority capital investments of INR35,000 crore towards energy transition and net-zero objectives
- Viability gap funding for battery energy storage systems with a capacity of 4,000 MWH
- Inter-state transmission system at INR20,700 core for grid integration of 13GW renewable energy from Ladakh
- Green Credit Programme to incentivise environmentally sustainable and responsive actions by companies and other players
- PM Programme for Restoration, Awareness, Nourishment and Amelioration of Mother Earth to incentivise alternative fertilisers
- Green Hydrogen Mission with allocation of INR19,700 crore for low-carbon transition
- GOBARdhan (Galvanising Organic Bio-Agro Resources Dhan) scheme will be established for promoting circular economy
- MISHTI (Mangrove Initiative for Shoreline Habitats & Tangible Incomes) for mangrove plantation
- Amrit Dharohar for wetland conservation
- 10,000 Bio-Input Resource Centres to facilitate 1 crore farmers to adopt natural farming
- Coastal shipping will be promoted as the energy efficient and lower cost mode of transport



Source: Union Budget

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An impressive list, one would say. However, the budget stopped short of laying out a clear road map for the transition to a 'green' low-carbon economy by 2070, the year by when the country aims to turn net-zero with several pitstops, notable ones being 2030 and 2047 (when India aims to be energy independent).

While the intention to drive sustainable development was visible, the budget was silent on some of the key building blocks of the green growth agenda.

Green growth budget FY24: Misses

- Fails to lay down a glide path for corporate decarbonisation plan, especially for hard-to-abate sectors, such as cement, steel, oil & gas
- Greater focus on nudging corporates and the financial sector towards sustainability-linked target setting
- Silent on the provision of any tax relief to certain green and renewable technologies with high capex, opex and unpredictable efficiency
- Financial support to consumers opting for cleaner energy solutions
- Not much focus and allocation for climate-change adaptation and resilience measures
- Lacks schemes for the re-skilling workforce engaged in transition sectors
- MSME segment needs financial and technical help for capacity development for mitigating the environmental and social liabilities arising from the ESG mandates of investors and business partners
- India has the potential to meet the growing demand globally for sustainability related human resources. The budget could have made provision for introduction of sustainability based academic courses in various universities



Source: ET Prime research

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Is India Inc ready to go green?

For both the government and industry, raising finance for funding **decarbonisation** measures and climate-change mitigation programmes continues to remain a challenge. And there's no quick-fix solution for this. A recent study by consulting firm McKinsey pegged India's requirement for decarbonisation at USD7.2



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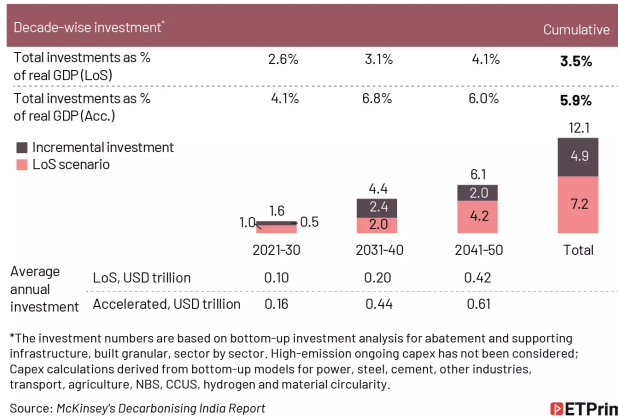
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India's green transition conundrum: Funding decarbonisation


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“We need a whole slew of incentives — fiscal, non-fiscal. The budget has made a start, but a whole lot more needs to be done perhaps outside of the budget too,” says Neha Kumar, head, South Asia Programme, Climate Bond Initiative, an international organisation working to mobilise global capital for climate action.


India Inc is still reading the signals from the government’s net-zero and green growth drive. While corporates in general have welcomed the direction of change towards green growth in the budget proposals, they appear guarded in their view when it comes to how it will shape up for them. The transition, they realise, may not be an easy one, as it includes a fresh look at every aspect of the business. And they know they just can’t do it on their own.

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






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“The new direction through the budget will foster more corporates to take up net-zero goals. The

transition and storage will aid better development of technology, and hence access for Indian companies. These allow companies to formalise their plans and hence, the focus should be on an enabling ecosystem at present,” says Santosh Jayaram, global head – sustainability, HCL Tech. Jayaram’s views may appear guarded, but it well echoes the dominant sentiment of the India Inc.

In the current financial year (2022-23), 1,000 top listed companies are mandated by the capital market regulator, Securities and Exchange Board of India (Sebi), to publicly disclose their ESG (Environment, Society, Governance) performance parameters through the Business Responsibility and Sustainability Reporting (BRSR) framework. Their performance on sustainability parameters would be up for public scrutiny. Mapping carbon footprints and emissions would be among the first steps to the long-haul decarbonisation journey.

A window of opportunity

COP-26	Union budget 2023	Opportunities identified by India Inc
 Non-fossil energy capacity to be 500 GW by 2030	 Emphasis on green growth	 Energy source INR9,300 crore
 50% energy from renewable energy by 2030	 INR35,000 crore towards energy transition and net-zero	 Markets INR90,900 crore
 Reduce total projected carbon emissions by 1 BT	 Annual production of 5 MMT by 2030 under green H2 mission	 Products and services INR28.8 lakh crore
 Reduce carbon intensity of the economy by less than 45%	 Green credit programme to incentivise sustainable and responsible actions by companies	 Resilience INR1,14 lakh crore
 Achieve net-zero target by 2070		 Resource efficiency INR12,800 crore

Source: Carbon Disclosure Project (CDP) India



The full transition path to net-zero and how to fund it is something that the budget does not yet answer fully. “A green credit programme, to be notified under the Environment (Protection) Act, is likely to be instrumental in integrating ESG in key business strategies, as it seeks to incentivise environmentally sustainable and response actions by companies, individuals, and local bodies,” points out Umang Pathak, managing partner at consultancy firm ESG Advisory Services.

According to Rahul Prithiani, senior director at Crisil Market Intelligence and Analytics, what is needed is a greater focus on nudging corporates and the financial sector towards sustainability-linked target setting and

details and the specifics of the green credit programme were not spelt out in the budget proposals.

Sankar Chakraborti, chairman ESGrisk.ai and group CEO, Acuite, a top Sebi-approved rating agency, is, however, gung-ho about the potential of the programme to make the economy more sustainable. "It will undoubtedly bring in a behavioural shift among individuals and big corporations to invest in greener products and services," he says. As a result, corporations, startups, and local bodies will be encouraged to carry out sustainable practices to attract investors and green loans, he adds.

"What is needed is a greater focus on nudging corporates and the financial sector towards sustainability-linked target setting and ensuring credit availability to accelerate the shift."

— *Rahul Prithiani, senior director at CRISIL Market Intelligence and Analytics*

Missing: a clear road map for green financing

The domestic carbon-credit market was expecting a more structured and robust policy

facilitating transparent pricing and monetising of carbon credits generated. But the budget is silent on the issue. Experts point out that more clarity is needed on freedom for developers to sell carbon credits through linkages to meet the country's Nationally Determined Contributions (NDC) goals as committed to the United Nations.

The successful debut of India's maiden sovereign green bond has already shown that there is a need to chart a comprehensive sustainable finance road map. Experts feel that the budget stopped short of making more announcements, given the success of the recent green bond issue.

Shantanu Srivastava, an energy finance analyst with the Institute for Energy Economics and Financial Analysis (IEEFA), says that green bonds or any kind of ESG issuance from a sovereign entity provides one with dedicated green capital which is obtained at competitive rates.

"The six basis point (bps) premium (green bonds sale)

on the issuance. A good strategy from the government would have been more allocation to the green hydrogen and battery storage kind of things that should also have been done from the sovereign green bonds,” he says.

India’s net-zero journey would require concentrated effort in climate financing. Kumar of Climate Bond Initiative flags three steps that need to come together, sooner than later:

- Put in place supportive regulations to create a local pool of green capital spurring a demand for green products domestically.
- Show and grow the pipeline for investable and credible green projects and expenditures, and intensify the engagement with both the domestic and international investors.
- Release clear definitions/taxonomy that covers mitigation, resilience and transition criteria to screen sustainable projects and expenditures, as that is the basis for market integrity and growth.

A major share of around INR35,000 crore of the green growth budget has gone for the energy transition. But concerns are being raised that the money has been allocated to oil marketing companies (OMCs).

“The higher capital expenditure to OMCs is for retrofitting of refineries to meet emission and pollution standards as well as for augmenting strategic reserves. This in the short to medium term is crucial from the energy security point of view for a growing economy like India,” says Dhruva Purkayastha, director, Climate Policy Initiative, a non-profit research group.

The transition challenges

Experts point out that a key issue impacting access and faster adoption of **green energy** is renewable-energy integration and grid stability.

The budget proposes a solution but is restricted to one region — the creation of an inter-state transmission system for evacuation and grid integration of 13GW **renewable energy** from Ladakh with an investment of INR20,700 crore.

“It would have been ideal if an additional allocation was made for grid strengthening and expansion across

and a true must-run status for renewable plants," says Tanya Singhal, founder, SolarArise, a clean energy company.

Bharath Jairaj, executive director-energy, WRI India, an independent charity, feels that there are many ways to shape the energy transition, and looking for all these steps in one budget is not feasible.

"India has talked about carbon markets, but some things have been prioritised ahead. What additional support renewable energy sectors need would depend upon how they are maturing," he adds.

Sustainability experts say Indian micro, small and medium enterprises (MSMEs), which account for around 45% of the country's exports, will increasingly face the heat arising from ESG mandates of investors and business partners in the developed economies.

"There is no mention of a financial package for capacity development, or for neutralising the environmental and social liabilities," says Rajib Debnath, partner-sustainability, Nangia Andersen LLP, a leading business consultancy.

The bottom line

The budget may have missed out on mentioning how India could be a key source market for sustainability professionals. Also, lack of finance and technical know-how may give the upper hand to businesses in other emerging economies that are more sensitive to globally emerging ESG mandates.

To meet the growing demand of sustainability resources across the world and in India, it is important to focus on capacity development in sustainability-based matters. "To cater to the current demand-supply gap (in sustainability professionals), the budget could have made provision for introduction of sustainability-based academic courses in various universities at both undergraduate and postgraduate levels," says Debnath.

To bridge these gaps, the finance minister may have to reiterate the 'green' word in several more budgets to come, and outside it too.

(Graphics by Mohammad Arshad)

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