GREEN FINANCING

Now, Work the Net-Zero Plan

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Budget 2022 proposes to bolster transition to net-zero by transforming the power and transportation sectors responsible for more than 60% emissions by extending support to sunrise sectors like electric vehicles (EVs) and renewable energy (RE). Given that an estimated \$10.1 trillion is needed to meet net-zero targets, current support is not enough. To nudge private finance to cooperate, a broad contour of the transition pathway is necessary. Even as technologies are evolving, the government must prepare.

There are two core elements of the transition: a series of small plans that lead up to the structural transformation of local economies, and the channelling of finance. To direct finance, a detailed policy must chart the future course of instruments that will form a large share of the new economy, of plans of phasing down fossil fuels, and of sectors that will support this transition. Many initiatives are already underway, but remain uncoordinated.

For example, the Hydrogen Corpus Fund (HCF), with an outlay of ₹296 crore, will be deployed by the petroleum and natural gas ministry for finding multiple pathways for hydrogen production. Then there is the National Adaptation Fund for Climate Change (NAFCC) set up with a corpus of ₹350 crore for funding climate resilience in areas identified under it with National Bank for Agriculture and Rural Development (Nabard) as the implementing agency. Despite these initiatives, the average annual flow of green finance has been relatively small at ₹1.41 lakh crore.

Then there are state-level EV and RE plans. To scale up finance would require a broad policy framework and innovative approaches. The budget signals the latter in its thrust on leveraging public finance for greater private participation. Thematic funds with 20% contribution from the state can be used for green projects. Moreover, a dedicated fund for green finance can help tide over a common concern among private finance of credit enhancement.

Now to plant the money

There has been a growing trend of sovereign green bond issuance by countries. In 2021, 22 countries had issued green and sustainability bonds. So, the budget proposal of a green sovereign bond is welcome. But important details need to be ironed out. These include access to finance by states, coupon rate, domestic or foreign issuance, and use of proceeds. With fiscal deficit acting as a constraint, green bonds will be a part of the total borrowing plan. Nevertheless, these bonds add a layer of accountability through clearly specified outcomes while achieving social outcomes through lower carbon emissions.

The budget makes significant headway by introducing low-carbon economy as a core policy. Now, a strategy has to be formulated. For this, a separate agency that replicates the model of the Finance Commission can be constituted with experts from varied fields. The mandate of this group would not just be to plan economic activities that must be phased down or phased up, but to also ascertain the sources of finance. To avoid chaos, inter-state efforts must also be coordinated. In the US, gas-dependent states are using incentives to attract large EV manufacturers and RE projects. It is possible that through a more coordinated policy like the production-linked incentive (PLI) and the special economic zones (SEZs), states can attract these activities.

Today, many PSUs in fossil fuel-dependent industries have losses that are financed by GoI. With disinvestment and closure of mines, more money can be raised for greening the economy. The use of proceeds from disinvestment parked in the National Investment Fund (NIF) can be expanded to include green projects.

With GoI having set its sight on net-zero, more finance will be made available. Now to have a comprehensive plan available. Allocation for net-zero transition should now be made part of the annual budget exercise.

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