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Just Finance India: Mobilising investment for a just transition to net zero in India

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About this report

This report contains results of the second phase of the India Just Transition Finance Roadmap (JTFR) project.[1] This project has been developed as a partnership between Environment Management Centre Pvt Ltd (EMC), the Grantham Research Institute on Climate Change and the Environment at the London School of Economics (LSE), and British International Investment (BII).

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Disclaimer

The views expressed in this report represent those of the authors , including opinions, advice, statements, services, offers etc. that are represented in this report.

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The purpose of this study is to mobilise private investment for a just transition in India.

The contents do not constitute views of the UK Government nor professional advice on behalf of BII.

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Foreword

The benefits of transitioning to net zero and resilient economies must be shared by all. This is particularly important in emerging economies, which are often heavily reliant on fossil fuels and therefore need to consider the needs of workers, communities and consumers within their climate and development pathways. It is equally important to ensure that actions which limit global warming to 1.5˚C also support a just transition.

India's Long-Term Low-Carbon Development Strategy considers both these aspects by making clear that, alongside scaling up the flow of net zero investment, the principles of equity and climate justice are central to the country's approach to financing net zero and resilience by 2070. As India starts to integrate climate risks and opportunities within its financial system, the social dimension related to a just transition to net zero emissions also needs to be addressed in a way that creates new and decent jobs, and involves measures to avoid stranded workers and communities.

India has a large, diverse and growing population, which adds to the scale and urgency of skilling of the population for new jobs in green sectors. This can help create sustainable livelihood opportunities and employment in local areas, particularly for low-income workers, rural communities, and women. Taking a place-based approach that maximises opportunities resulting from international public climate finance – to leverage private capital from banks, investors, and capital markets – can support a just transition for workers and communities that are currently reliant on the fossil fuel value chain.

At BII, just transition is a key pillar of our Climate Change Strategy. We invest for clean and inclusive growth and are committed to championing a transition to a low-carbon and resilient economy which is socially inclusive of workers' rights, gender and communities.

In India, we're supporting the development of the green economy through the clean energy sector, such as Ayana Renewable Power, a renewable energy platform we launched in 2018, alongside more recent investments in agriculture such as organic milk brand Akshayakalpa. Through our technical assistance facility BII Plus, we have worked with Ayana to enable the just transition by supporting skills development for rural youth in Andhra Pradesh and Rajasthan. But we know we can't act alone. Beyond the initial phase, Ayana is also exploring opportunities to collaborate with other developers in the region to ensure this initiative has a wider impact.

Just transition requires multi-stakeholder engagement that places social dimensions central within the climate finance and policy agendas. This report gathers perspectives from bankers, investors, regulators, civil society implementors and entrepreneurs to consider how financing India's net zero by 2070 commitment can also deliver a just transition. This report follows the *Just Transition Finance Roadmap* for India published in 2021.

We hope that it helps raise awareness of the opportunities of a just transition and highlights priority areas that the finance community should consider towards financing a just transition in India. There is much to be done!

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We invest for clean and inclusive growth and are committed to championing a transition to a low-carbon and resilient economy which is socially inclusive of workers' rights, gender and communities.

Executive summary

India's 2070 net zero goal represents a multi-trillion, multi-decade investment opportunity. Unprecedented volumes of private investment are required, capital that will need to drive real-world decarbonisation, generate risk-adjusted returns and deliver this in ways that creates decent work, social inclusion and the eradication of poverty. India has the potential to be the green jobs superpower of the 21st century and 2023 has opened with a series of sustainable finance policy announcements (including in the budget), which signal the government's intention to mobilise private investment in ways that deliver both green goals and job creation – in other words achieving net-zero through a just transition.

India has the potential to be the green jobs superpower of the 21st century.

The just transition is part of both the 2015 Paris Agreement on Climate Change and India's 2022 Long-Term Low-Carbon Development Strategy. This Strategy is rooted in the principles of equity and climate justice, and points to the importance of making the energy transition "just, smooth, sustainable and all inclusive".[2] The G20's work on sustainable finance has also underlined the importance of "orderly, just and affordable" transitions. For private investors operating in India, the task is now to identify how they can support net zero in ways that produce positive social outcomes. Building on extensive dialogue with stakeholders in India and internationally, this report sets out a roadmap of practical financial actions.

Just transition finance is a relatively new agenda, but growing numbers of public and private financial institutions are starting to take action. Internationally, Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) are introducing just transition policies and mechanisms. Institutional investors are also incorporating just transition into their shareholder engagement and capital allocation plans. Leading Indian financial institutions are also part of this new phase in climate finance, connecting the environmental and social dimensions of sustainable finance.

Just transition finance is a relatively new agenda, but growing numbers of public and private financial institutions are starting to take action.

To be effective, private investors need clarity on the *why*, *what* and *how* of just transition finance. The **rationale for action** across India's financial system is three-fold:

- First, the just transition is the **right** thing for financial institutions to support as it connects climate action with core labour and human rights standards, as well as sustainable development goals;
- Second, it is the **necessary** thing to do to build public support and overcome livelihood concerns; and
- Third, it is the **smart** thing to do as it builds the human and social capital that is essential for a successful net zero economy.

High-level just transition principles exist from the International Labour Organization (ILO). Translating these into **financial practice** in India means undertaking three key tasks:

1. Private investors should *anticipate, assess and address the social risks of the transition* to livelihoods and communities, acting so that no-one is left behind.
2. Private investors should *identify and enable the social opportunities of the transition*, such as more and better jobs with green skills and decent working conditions, supporting gender equality, and ending energy poverty.
3. Private investors should *ensure meaningful dialogue and participation in net zero financing*, including by empowering groups that have traditionally been under-represented in decision-making, for example, in terms of income or gender.

To make substantive progress, financing the just transition has to be **sector-specific**, for example, tailoring investment to the social challenges of phasing-down coal and phasing-up renewables. The just transition also applies to other sectors such as industry, transport and agriculture. A **place-based** approach will be essential, adjusting financial responses to the needs of different districts and states across India. Jharkhand's new Task Force for a Sustainable Just Transition is a good example of a state-level initiative.

Finally, the scale of job creation, skills uplift and community renewal required will involve harnessing India's considerable **entrepreneurial** potential, prioritising financial innovation that meets the transition needs of India's micro, small and medium-sized enterprises (MSMEs).

Based on feedback from key policy, finance, investment and non-governmental organisations (NGO) stakeholders, this report sets out ten recommendations for action to mobilising private investment for a just transition in India, with a special focus on the upside opportunities of green jobs and skills.

This report sets out ten recommendations for action to mobilising private investment for a just transition in India, with a special focus on the upside opportunities of green jobs and skills.

1. **Strategy:** Incorporate just transition principles into sustainable finance policy to provide the incentives and regulatory signals for private investors, including an operational definition of the just transition.
2. **Business:** Stimulate India's corporate sector to set up a just transition task force to include key social factors in their net zero plans, actions and disclosures.
3. **Corporate social responsibility (CSR):** Integrate just transition priorities into CSR spending programmes by businesses.
4. **Investors:** Investors, banks and capital markets need to factor in just transition principles to their net zero plans, business engagement and capital allocation.
5. **Innovation:** Encourage just transition financial innovation and undertake pilots for place-based investment in coal-dependent regions.
6. **Foreign Investment:** Utilise the International Financial Services Centre at Gujarat International Finance Tec-City (GIFT) to attract foreign just transition investment.
7. **MSMEs:** Develop a dedicated just transition strategy to enhanced access to finance for India's MSMEs.
8. **International public finance:** Deploy capital and expertise from MDBs and DFIs to support the just transition as part of achieving India's long-term climate goals. Of particular importance will be supporting green jobs and skills development.
9. **Blended finance:** Draw on MDBs and DFIs to introduce blended finance solutions to crowd in private capital for the just transition.
10. **International cooperation:** Cooperate with international partners to scale up climate finance for just transition in India as well as within the G20 and United Nations (UN).

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1

Just transition finance in India: the strategic approach

1.1 Closing India's net zero investment gap

Mobilising additional investment lies at the heart of delivering Prime Minister Modi's proposals to make India net zero by 2070.[3] For example, India's Council on Energy, Environment and Water (CEEW) estimated in 2021 that the country will need more than $10 trillion from 2020–2070 for investment in net zero. However, conventional sources cannot provide all of this, resulting in an investment gap of an estimated $3.5 trillion, of which external investment of $1.4 trillion will be required.[4]

India's Long-Term Low-Carbon Development Strategy, published in November 2022, also underscored the importance of "scaling up financial resources internationally as well as mobilising domestic finance", so that the drive for net zero supports India's priorities of poverty eradication, increasing employment and incomes, and reaching a new level of prosperity.[5]

This year India is set to become the world's most populous nation and it has untapped potential for job creation in renewables, electric vehicles, low-cost and efficient housing, natural farming and net zero industrialisation. Indeed, the country is poised to be the green jobs superpower of the 21st century. India's solar and wind energy sectors employed 164,000 workers in the 2022 fiscal year, a 47% increase on the previous year; by 2030, these sectors alone could employ 1 million workers. A Skills Council for Green Jobs has also been established, which has so far trained 500,000 workers across green business. The full scale of India's green jobs opportunity remains to be explored, as does the role that the financial system can play to support this expansion, particularly among India's MSMEs.

This year India is set to become the world's most populous nation and it has untapped potential for job creation in renewables, electric vehicles, low-cost and efficient housing, natural farming and net zero industrialisation.

Just as important as the quantity of green jobs that India could create will be their quality, in terms of core capabilities, inclusion, and decent working conditions. This means connecting the green jobs agenda with the UN's Sustainable Development Goals (SDGs) around skills and education, labour standards and gender equality, not least to attract the best and the brightest into green growth sectors. And it also means anticipating the social risks facing workers and communities in high-carbon sectors, such as coal, oil and gas and the production of internal combustion engine vehicles.

India has long placed the principles of equity, climate justice and sustainable development at the heart of its approach to net zero. The Strategy went further by highlighting the need to make "the transition just, smooth, sustainable and all inclusive." In the energy sector, for example, "financing a just transition will require supporting social and physical infrastructure, ecological restoration of affected areas, building capabilities of communities, and to seed new livelihood generating activities".[6]

India has long placed the principles of equity, climate justice and sustainable development at the heart of its approach to net zero.

In the words of Jamshyd Godrej and the International Energy Agency's Fatih Birol: "To achieve the trifecta of jobs, growth and sustainability, India must strive to put people at the centre of its energy transformation".[7] An initial set of implications of the just transition for India's financial system was set out in our first report in 2021.[8] Since then, the domestic and international momentum for financing a just transition has grown significantly.

In the words of Jamshyd Godrej and the International Energy Agency's Fatih Birol: "To achieve the trifecta of jobs, growth and sustainability, India must strive to put people at the centre of its energy transformation".

1.2 The growing momentum for investing in a just transition

The just transition was contained within the 2015 Paris Agreement to focus government attention on aligning climate action with employment and social inclusion goals. Eight years on, there is now significant momentum to develop and deploy investment solutions.

The twin priorities of financial reform and the just transition were key aspects of the COP27 Sharm el-Sheikh Implementation Plan in 2022.[9] The Plan pointed to the need for investment of at least $4–6 trillion per year to build a low-carbon economy and highlighted that this will require "a transformation of the financial system". Alongside this, the Plan emphasised that the transition poses both opportunities and challenges for sustainable development and poverty eradication. A "just and equitable transition" is needed, founded on meaningful and effective social dialogue and protection. For the first time within the UN Framework Convention on Climate Change (UNFCCC), a dedicated just transition work programme has been established along with an annual high-level ministerial roundtable.

The G20 is also stepping up its focus on supporting an "orderly, just, and affordable" transition in its work on sustainable finance, and India holds the presidency of the G20 in 2023.[10] Several G20 countries are developing plans and partnerships for the just transition. The European Union (EU) Green Deal Investment Plan includes a Just Transition Mechanism to support regions most vulnerable to decarbonisation. The Mechanism comprises a Just Transition Fund, a public sector loan facility implemented by the European Investment Bank (EIB) and the Just Transition Scheme under Invest EU.[11]

In South Africa, a just energy transition partnership (JET-P) was announced in 2021 with several international partners.[12] In 2022 at COP27, South Africa released a concrete just energy transition investment plan to ensure those most directly affected by the transition away from coal are not left behind, and that people also benefit from the growth of new green sectors in energy, industry and transport.[13] The plan identifies $98 billion in financial requirements over the next five years from the public and private sectors, of which an initial $8.5 billion will come from international partners including the EU, UK and US. Indonesia, which held the G20 Presidency in 2022, has also launched a JET-P to mobilise $20 billion over the next three to five years to accelerate a just energy transition, with funding split 50:50 between public and private sources. These partnerships show one possible approach to taking forward international cooperation on financing the just transition.

Public financial institutions have often been at the forefront of financial system activity to support a just transition to net zero, not least because it brings together their role as policy-driven institutions, providing advice to policymakers as well as access to capital from the public and private sectors. At COP26, nine MDBs adopted a shared set of just transition high-level principles, including the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) (see Box 6 on ADB's approach in Chapter 2).[14] These principles include delivering climate objectives while enabling socio-economic outcomes, supporting a just transition away from greenhouse gas (GHG)-intensive activities, taking a long-term approach to support a structural economic transformation, mitigating negative socio-economic impacts and supporting affected workers and communities, as well as encouraging transparent and inclusive planning.

DFIs such as BII have made support for the just transition a core part of their climate strategy (see Box 8 in Chapter 2).

For the private financial sector, the just transition provides a way of connecting the environmental and social pillars of environmental, social and governance (ESG) policies, and therefore delivering a more efficient and effective deployment of capital for climate action. To accelerate this process, the ILO together with the LSE launched a Just Transition Finance Tool[15] for banking and investing activities in 2022 (See Box 1).

For the private financial sector, the just transition provides a way of connecting the environmental and social pillars of environmental, social and governance (ESG) policies, and therefore delivering a more efficient and effective deployment of capital for climate action.

Box 1: The ILO/LSE Just Transition Finance Tool[16]

The ILO has led on defining the parameters of a just transition and in driving its adoption globally. In 2015, it released a core set of guiding principles for just transition (see Appendix 1). To help financial institutions implement these high-level principles, the ILO and the LSE released their Just Transition Finance Tool in 2022.

Acknowledging that financial institutions can be at different stages of their uptake of just transition, the Tool suggests action areas to start the journey as well as to make further progress. The Tool focuses on both banking and institutional investors and provides financial sector actors with entry points for the structural integration of social considerations into their approach to the climate transition (i.e., how to make the transition just). It does not, however, intend to provide guidance on how to prioritise or develop transition strategies. The Tool also includes some real-world cases and examples. As financial institutions are only starting to implement these concepts, best practice does not yet exist. The cases are therefore presented as emerging practices, with the purpose of facilitating learning and stimulating further innovation.

Growing numbers of private financial institutions are also committing to ensure that their net zero efforts are delivered through a just transition, including leading commercial banks and major institutional investors. Through the Glasgow Financial Alliance for Net-Zero (GFANZ), more than 500 financial institutions have pledged to support the transition to net zero by 2050 and they will be designing transition plans to implement these commitments over the short, medium and long-term.[17] A crucial factor for the success of these plans will be incorporating just transition principles in these plans, notably within capital allocation and corporate engagement. The LSE's Grantham Research Institute has published Making Transition Plans Just, which provides guidance to financial institutions on how they can incorporate the social dimension into their net zero plans.[18]

Domestic investors such as SBI Mutual Funds, along with foreign institutions, are using shareholder engagement to encourage Indian corporates to adopt a strong social dimension to their net zero plans (see Box 4 in Chapter 2). International banks, such as Standard Chartered, have also highlighted the centrality of the just transition (Box 2).

Box 2: Standard Chartered: net zero without a just transition is not an option

Standard Chartered is one of the leading banks supporting a just transition – a transition where emerging markets can reach net zero without sacrificing growth and prosperity. In a recent report titled *Just in Time*, the bank estimates that by 2050 emerging markets will require an additional $94.8 trillion from developed countries to deliver net zero. Of this amount, $83 trillion could be contributed by the private sector if the right policy frameworks are in place. Banks and other financial institutions will need to keep developing and growing offerings like sustainable deposits products, ESG derivatives, repurchase agreement transactions (repos) based on ESG principles, and sustainable trade products. Financial institutions can play a significant role, providing incentives for performance against sustainability targets and helping direct capital to where it is needed most.

Source: Standard Chartered[19]

1.3 Priority actions for just transition finance

In practice, the just transition is a way for private investors to join up the environmental and social pillars of ESG. On a strategic level, the just transition connects the socio-economic and environmental dimensions of the SDGs– for example, SDG13 on climate, SDG1 on poverty eradication, SDG8 on decent work and SDG10 on reduced inequalities. The just transition focuses on making sure that the social pillar of ESG is incorporated into the climate activities of financial institutions. This means applying and respecting well-established social, labour and human rights standards to the net zero transition. These include the UN guiding principles on business and human rights, the ILO core labour standards as well as the guidelines for multinational enterprises as outlined by the Organisation for Economic Co-operation and Development (OECD). From a conceptual standpoint, this means making sure that distributive, participative and restorative justice are fully factored in.

Within financial institutions operating in India, these high-level goals have to be turned into operational practice, with three priority actions as set out in Figure 1.

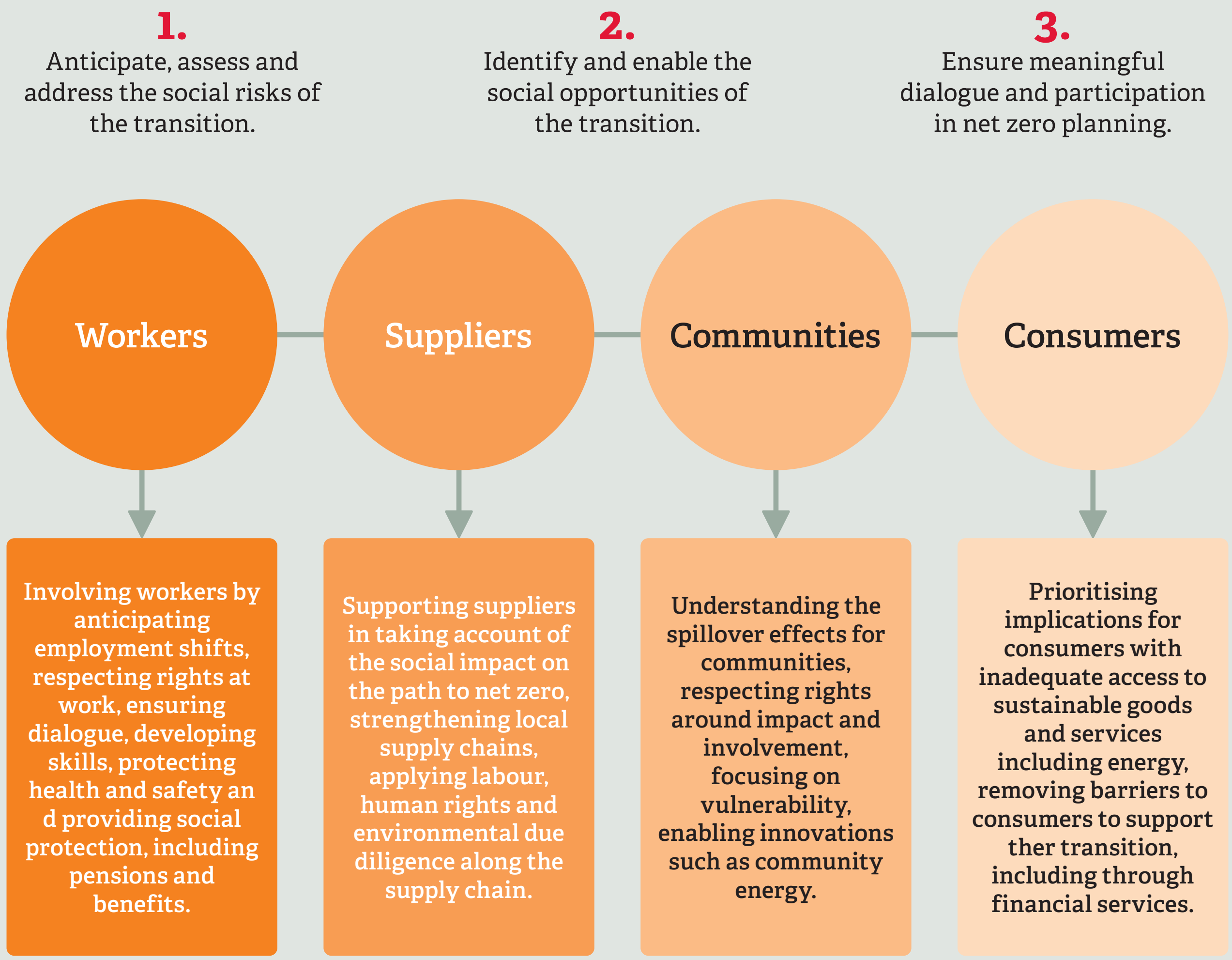

Figure 1: Just transition finance: three priority actions

Priority 1: Anticipate, assess and address the social risks of the transition
Financial institutions need to understand and act on the distributional risks of net zero for people. Net zero transition approaches should be designed to ensure costs and benefits are allocated fairly, particularly so that vulnerable and marginalised communities do not bear the burden of change. The potential negative social risks of transition finance need to be assessed and addressed by financial institutions so that no one is left behind. It is critically important that the transition does not make social conditions worse and does not undermine core human rights and labour standards. Where problems arise, these need to be remedied.

Priority 2: Identify and enable the social opportunities of the transition
Financial institutions also need to look proactively at how net zero can be shaped to address long-standing social priorities. The transition can be actively shaped to deliver positive social impacts for workers, communities and consumers across India. Financial institutions should explore how they can seize the social opportunities of net zero, for example, to create green jobs with decent work, to eradicate energy and fuel poverty, and to reduce longstanding inequalities related to income and gender. This focus on social opportunities points to the transformational potential of the just transition, and the ways in which financial institutions can contribute to resolving systemic social challenges in ways that contribute to long-term returns and financial stability, as well as meeting priority socioeconomic goals.

Priority 3: Ensure meaningful dialogue and participation of the transition
Financial institutions also need to focus on being inclusive in the design and delivery of their net zero strategies. The just transition has to be participative: those affected by change are included in decision-making that affects them. This means supporting social dialogue between employers and workers as well as wider stakeholder engagement. This will often require proactive efforts to empower excluded groups that have traditionally been under-represented in decision-making, for example in terms of income or gender.

Overall, special attention needs to be placed on the marginalised and vulnerable to ensure that they do not get left behind in the transition and that they are able to take up the opportunities provided by net zero. For India, this means, for example, focusing on the exposure of India's informal workforce to the net zero transition. The imperative of gender equality and women's empowerment is also a critical aspect. Both workforce restructuring and the wider physical effects of climate change exacerbate the vulnerabilities and barriers women face in participating in decent work. To ensure that women benefit from the low-carbon transition through inclusive education and reskilling initiatives, workforce planning, and social and workplace protections, there must be appropriate feedback mechanisms and representation in decision-making to support a gender-just transition. These three priority actions will need to be tailored by financial institutions according to the specific sectoral and regional factors: these are set out in Appendix 2.

There must be appropriate feedback mechanisms and representation in decision-making to support a gender-just transition.

Chapter 2 examines how this strategic approach can be applied to mobilise additional private investment in India for the just transition to net zero.

2

Translating the strategic approach into financial actions

Mobilising public and private finance for a just transition to net zero in India will be essential to win public trust and build up the vital human and social capital required to build a sustainable, inclusive and resilient economy. If net zero is the *what*, just transition is the *how*. For India, this means bringing together the full resources of the domestic financial system, notably public finances at the centre and state levels, business investment (including by state-owned enterprises) as well as the banking and institutional investment sectors. Financial policies and regulations need to be aligned not just to confront climate risks and scale up green investment flows, but also to ensure they contribute to positive social outcomes.

Finance is a key lever to make the just transition priorities around decent work, social inclusion and mitigating poverty come to life, and this chapter looks at the actions that can scale up private investment flows in India. It focuses on seven areas for investment mobilisation:

1. India's sustainable policy agenda and integrating the just transition.
2. Boosting business efforts to make climate action inclusive.
3. Scaling up investor action through business engagement and capital allocation.
4. Promoting sustainable financial innovation for the just transition.
5. Attracting foreign investment through the International Financial Services Centre.
6. Expanding Finance for India's entrepreneurs to deliver a just transition.
7. Harnessing MDBs and DFIs to expand just transition investments.

Finance is a key lever to make the just transition priorities around decent work, social inclusion and mitigating poverty come to life.

2.1 India's sustainable finance policy agenda and integrating the just transition

Investors are increasingly seeking to deploy capital to those countries with credible net zero plans. More and more, the incorporation of just transition factors in sustainable finance policy will become an important way of attracting long-term flows of foreign capital.[20]

The just transition is an integral part of sustainable finance, making it an important element to include in a range of policy measures, such as sustainable finance taxonomies. The Indian Task Force on Sustainable Finance worked towards developing a Taxonomy of Sustainable Activities, tailored to the Indian context. A growing number of such taxonomies have been established globally. The EU taxonomy includes social factors in the form of minimum safeguards to green activities and a specific EU social taxonomy is being discussed. The Indian model is looking to integrate both environmental and social considerations from the outset, including an approach to addressing the just transition. Such an inclusion will help in operationalising financial flows for supporting the just transition. The Impact Task Force recommendations set out in the report *Time to deliver: mobilising private capital at scale for people and planet* are relevant in this context.[21]

The just transition is an integral part of sustainable finance, making it an important element to include in a range of policy measures, such as sustainable finance taxonomies.

India's Task Force on Sustainable Finance is anchored in the Ministry of Finance and consists of the Securities Exchange Board of India (SEBI), the Reserve Bank of India (RBI), the Ministry of Environment Forest and Climate Change, and the International Financial Services Centre. It is expected that with the finalisation and implementation of this work, the just transition will be embedded in economic policy. This will provide an important basis for channelling financial flows both from the public and private sector, as infrastructure investments by the Government of India will be evaluated on the basis of this framework. Further, such a taxonomy can act as an enabler for the just transition by setting clear boundaries and presenting a common ground of understanding between companies and investors, not least in terms of disclosure.

For capital markets to respond to the financing needs for the just transition, it is important there are clear metrics to evaluate the activities undertaken and the outcomes achieved. Therefore, disclosures are an important element. However, the adoption of – and progress on – just transition considerations by companies is nascent. To mainstream such an approach, the current disclosures need to be suitably adapted where the 'S' of ESG is assigned the same level of significance as the 'E'. In 2021, the Business Responsibility and Sustainability Reporting (BRSR) requirements prescribed by SEBI were made broader in scope and more quantifiable. The BRSR incorporates several social aspects of high relevance to the just transition, such as employee wellbeing, labour rights and work conditions, human rights, the community, and consumers. This provides a framework for Indian companies to disclose how they are implementing the just transition.

For capital markets to respond to the financing needs for the just transition, it is important there are clear metrics to evaluate the activities undertaken and the outcomes achieved.

Not only does the regulation allow SEBI to enforce compliance, but investors can also use the framework for assessing performance, engaging with corporate management to improve performance, and allocating capital according to just transition factors. Further, the work on the taxonomy can be aligned to the disclosures under BRSR.

The RBI is also upgrading its efforts to respond to the climate risks facing India's financial system, and its *Discussion Paper on Climate Risk and Sustainable Finance*[22] seeks to understand the preparedness of the Indian banking system on climate disclosures. It would make sense for India's central bank to look beyond the carbon dimension of transition risks to understand the implications for employment, incomes and regional distribution. This could also stimulate thinking about how the priority sector lending tool could be deployed to support an orderly and inclusive transition.

India's new sovereign green bond will play an important market shaping role by setting out both green and possible social co-benefits (see Box 3).

Box 3: India's sovereign green bond: seeking social co-benefits where possible

Issued in January 2023, India's inaugural sovereign green bond raised $1 billion, and importantly achieved this at a lower cost of capital for the Indian government. The ten-year bond was priced at a coupon of 7.29 per cent, which was 0.06 per cent lower than the comparable conventional sovereign debt.

International experience suggests that the issuance of a sovereign green bond can catalyse broader action across a country's capital markets.[23] The framework developed for the sovereign green bond is set to do this in the way it has defined green finance priorities, linking these to relevant SDGs.

The framework also lays out how potential projects will be evaluated for their environmental and social impact, stating that all will meet minimum social safeguards.

In addition, the Indian government has committed to providing investors with transparent reporting, including factors such as reduction in carbon intensity, other environmental benefits and, where possible, social co-benefits. This could include the number of households that benefit from renewable energy as well as the number of jobs created.

For clean transportation, possible social co-benefits include employment generation, the number of MSMEs supported, and improvements in access to mobility. Highlighting these social co-benefits is a good way to start signalling the importance of the just transition in green sectors.[24] Furthermore, infrastructure in regions vulnerable to the transition could be developed via the use of proceeds from the sovereign green bond. This can, in turn, spur activity in new sectors in these places. As the market for green, social and sustainable bonds matures, dedicated 'just transition bonds' may be developed both at the sovereign and corporate levels.

One area that financial stakeholders highlighted as an important next step would be to develop a common definition of just transition suited to India's circumstances, needs and priorities.

One area that financial stakeholders highlighted as an important next step would be to develop a common definition of just transition suited to India's circumstances, needs and priorities.

Recommendation 1: Incorporate just transition principles into sustainable finance policy to provide the incentives and regulatory signals for private investors, including an operational definition of the just transition.

2.2 Boosting business efforts to make climate action inclusive

Incorporating just transition in corporate India's net zero plans

Internationally, the corporate sector is starting to set out commitments to the just transition as an essential part of the net zero pathway. The Council for Inclusive Capitalism, working with chief executives from ACEN, Anglo-American, BP, ENI, Reliance, Repsol and SSE, has produced a just energy framework for business with four pillars:

- universal net zero energy access;
- evolving the energy workforce;
- community resilience; and
- collaboration and transparency.[25]

Reliance has so far highlighted two dimensions of the just transition framework: first, the commitment to universal net zero energy access through its New Energy initiative at Jamnagar; and second, the commitment to workforce evolution through the job creation it will deliver to achieve its net carbon zero by 2035 goal.[26]

As recognition of the business imperative of just transition grows, so the focus is turning towards setting expectations and measuring performance. The World Benchmarking Alliance (WBA) has issued its first assessment of how companies are performing on the just transition alongside their progress to net zero. The WBA framework covers issues such as human rights, social dialogue, just transition planning, job creation, retaining and retraining, social protection, and policy advocacy. The WBA applied this to 100 oil and gas companies, 50 electric utilities and 30 automotive manufacturers, including eight Indian companies.

Across the world, the findings indicate that the vast majority of companies have yet to demonstrate action on the just transition.[27] In India, the WBA's assessment showed that some companies such as Bharat Petroleum, IOC and GAIL did have explicit policies to engage with stakeholders and have adopted measures to reskill employees and provide access to green jobs.

The vast majority of companies have yet to demonstrate action on the just transition.

In India, private investors as well as DFIs and MDBs can use these frameworks as a basis for shareholder engagement to support business adoption of the just transition considerations in their plans and operations (see section 2.3). As stakeholder and investor expectations of both net zero and just transition rise, it makes sense to establish a dedicated working group of high-profile firms in India to create alignment and share best practices.

Recommendation 2: Stimulate India's corporate sector to set up a just transition task force to include key social factors in their net zero plans, actions and disclosures.

Mobilising CSR funds

The just transition will increasingly need to be part of core business for India's corporates as they navigate the road to net zero. Another way to scale up finance is to tap the CSR funds that are already utilised for health, education and skilling. For small and hyper-localised projects, it may be possible to use the proceeds from CSR to provide funds necessary as credit guarantee or enhancement. For these, suitable amendments need to be made to the CSR provision in the Companies Act 2013. A particular emphasis needs to be on section 135 (5) and in the eligible categories for Schedule VII.[28] Many corporates are sponsoring skilling programmes through their CSRs. Many impact and venture funds are providing support in setting social enterprises that in turn create quality jobs in the local context. There have been innovative schemes from commercial banks on informal lending to ease borrowing restrictions impacting vulnerable groups, including women.

Much like the flow of banking finance, CSR spend is concentrated in Maharashtra, followed by Rajasthan and Gujarat. A large fraction of CSR spend is on poverty alleviation, healthcare, education and skills. The scaling up of CSR finance, especially in transition prone regions, can help in meeting the needs of affected stakeholders. It is a promising trend that among the top 16 companies for CSR spending are fossil fuel-dependent firm NTPC, Power Grid Corporation, Coal India Limited, IOCL and ONGC. They could take a lead in connecting this precious philanthropic funding to the non-commercial funding requirements around poverty alleviation, education and skills linked to net zero.

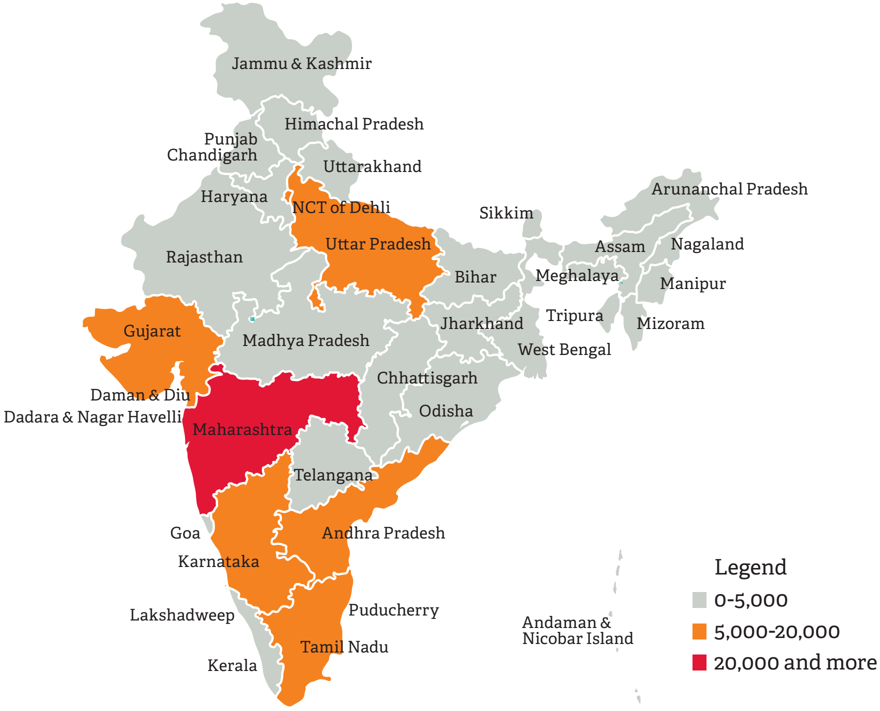

Figure 2: State-wise CSR spending for year 2020-21 (in Million Rupees)
Source: State Wise CSR Report

Recommendation 3: Integrate just transition priorities into CSR spending programmes by businesses.

2.3 Scaling up investor action through business investment and capital allocation

For institutional investors operating in India, the just transition means applying the three just transition priorities set out in Chapter 1 – social risks, opportunities, and enabling participation – throughout their core activities, including:

Investor action area 1: Strategy and Leadership: Investors need to embed the just transition into their net zero plans and governance frameworks for India, and then signal the importance of the just transition internally and externally.

Investor action area 2: Business engagement: Investors need to integrate the just transition into their business engagement, in terms of both equity and debt holdings. Engagement is a way of learning about corporate practice as well as signalling expectations.

Investor action area 3: Capital allocation: Investors should also actively seek to finance those companies and assets committed to making positive social impact for workers, communities and consumers on the road to net zero.

Investor action area 4: Policy dialogue: Investors can also conduct dialogue with local and national policymakers to put in place the policy frameworks that can scale up financing for the just transition, covering real economy as well as public finance and financial policies.

Investor action area 5: Measuring impact and disclosing contribution: Investors also need to start evaluating and disclosing their just transition impacts. This will become ever more important as key frameworks such as the International Sustainability Standards Board (ISSB) examines just transition reporting.

Action so far is furthest advanced on two of these priorities: business engagement and capital allocation.

Investor engagement on the just transition

Investor engagement is a key mechanism to stimulate corporate action on the just transition both for owners of equity and holders of debt. Globally, a key mechanism for this is the Climate Action 100+ (CA100+) coalition. This brings together over 700 investors with more than $68 trillion in assets under management to coordinate investor engagement with 166 companies that account for over 80 per cent of corporate industrial GHG emissions. Six Indian companies are covered by CA100+: Coal India, NTPC, ONGC, Reliance Industries, Ultratech Cement and Vedanta.

In March 2022, CA100+ released its Net-Zero Company Benchmark including a 'beta' indicator for corporate action on the just transition. This indicator covers four key areas of business behaviour: whether the company has acknowledged the just transition, the commitments it has made, the stakeholder engagement it has undertaken and the concrete actions it has taken to support the just transition.[29] In its latest assessment, CA100+ noted the numbers of its focus companies with a 'partial' response to the just transition had risen to 33 per cent, but, in its view, still no company had a fully developed approach.[30]

To be effective, investor engagement needs to have clear and credible expectations; an assessment of corporate performance; and then the ability to deploy investor voice to improve performance, with escalation measures as necessary. Drawing from established policy and stakeholder guidelines, the LSE's Grantham Research Institute has developed a consolidated set of seven just transition expectations. These combine the governance dimension (in terms of strategy, policy dialogue and transparency) with a stakeholder component, including workers, communities, supply chains and consumers. The framework can be used in investment assessment and due diligence, shareholder engagement and stewardship, as well as capital allocation decisions for portfolio companies.[31]

In India, both domestic and foreign institutional investors are already starting to engage with companies to encourage adoption of the just transition. SBI Mutual Funds has been among the leaders in initiating this agenda (see Box 4), along with HSBC Asset Management more generally in the Asia-Pacific region (Box 5).

To be effective, investor engagement needs to have clear and credible expectations; an assessment of corporate performance; and then the ability to deploy investor voice to improve performance, with escalation measures as necessary.

Box 4: SBI Mutual Funds: investor engagement on the just transition

SBI Mutual Funds recognises that the low carbon transition is the need of the hour. With the Indian government's announcement of the net zero target for the economy, and more ambitious 2030 targets, we see the transition in the energy sector accelerating. However, we also anticipate that the entire eastern coal-rich belt of India may end up seeing adverse social impacts of this transition, due to job losses and outward movement of companies to explore renewable energy opportunities mainly concentrated around the western and south-western part of the country.

SBI Mutual Funds has incrementally included just transition dialogue in its engagements with companies that have a predominant coal footprint. Most of these dialogues have started with Indian companies recognised as high carbon emitters under CA100+, but SBI Mutual Funds' efforts are not limited to the set of these companies.

While still in the early days of generating awareness, SBI Mutual Funds finds that Indian companies are cognisant of the potential impacts. However, these companies see the re-skilling and small-scale employment generation aspects of their work as falling under their existing CSR initiatives. Moreover, state-owned entities generally do not have a culture of laying-off employees when mines/thermal power plants close, since government jobs in India are considered safe till an employee reaches retirement age. In such cases, employees are re-skilled and re-absorbed into other functions. SBI Mutual Funds is now helping companies to integrate the social aspect of transition with the climate dialogue, so that just transition aspects may be built within the long-term transition strategy of these companies.

Source: SBI Mutual Funds[32]

Box 5: HSBC Asset Management: a just and inclusive climate transition

HSBC believes that for the climate transition to succeed, it must leave no one behind and investors will play a critical role in realising a just transition through engagement. Its 2022 White Paper: *A Just and Inclusive Climate Transition*, sets out a holistic engagement strategy that reaches key stakeholders involved in the transition, including corporates, multilateral institutions, regulators and policymakers. Holistic engagement such as this will allow for the creation of new opportunities, including directing capital to businesses that will be at the forefront of an inclusive transition.

Companies: By engaging directly with companies, investors raise expectations on companies to manage the social risks and opportunities arising from the transition, uplifting expertise and sharing good practice across borders, as well as between small and medium-sized enterprises (SMEs) and large businesses. Engagements should discern the company's approach to stakeholder consultation, value chain engagement and remediation. This is with the aim of reducing systemic risks, improving portfolio resilience and creating long-term sustainable value. Companies must identify and address affected stakeholders, including workers, consumers, communities and rights holders, women and girls, and supply chains, as well as migrants and future generations. Investors should consider just transition objectives in their stewardship plans and climate strategies.

Multilateral institutions: Through engagement with multilateral institutions (such as development banks), investors will be an instrumental force in mobilising and directing capital to businesses at the forefront of an inclusive transition. Multilateral institutions also help in mitigating perceived risks associated with investments, bringing in local expertise while mobilising private capital through new sources of commercial financing, and opening up avenues for private sector investment and engagement.

Regulators and policymakers: Investor engagement is also needed with regulators and policymakers to establish market standards for an inclusive and just transition. A clear social taxonomy will help to drive social investment and contribute to inclusive aspects of the transition, while also allowing investors to clearly assess and draw comparisons on the social outcomes attached to their financing. With jurisdictions increasingly producing their own environmental taxonomies – some with social objectives – investor views on aligning these frameworks will be crucial in securing the private sector funding required to achieve development aims. ESG disclosure allows for improved comparability and transparency on the impacts and opportunities from climate change and the transition. By engaging directly with both companies and regulators, investors have a role to play in promoting the measurement and management of positive transitional outcomes and externalities, while aligning on metrics. Investors should also engage with government in encouraging a greater focus on inclusion in relation to the transition. They should encourage consideration of just transition aspects in national roadmaps, in climate strategies at state-owned enterprise, and in providing a view on the shaping of inclusive transition energy policies. Investors can outline the importance of an inclusive transition, along with associated risks and opportunities for these state actors.

Source: HSBC Asset Management[33]

Incorporating the just transition into capital allocation

Ultimately, just transition principles need to be mainstreamed across all investment and lending portfolios. One avenue through which this can be enacted is investment due diligence, which will need to consider the social implications of climate action. Capital allocation decisions will also need to factor in the just transition, ensuring that financial flows are channelled into sectors and regions where they are needed most. The social implications of climate action will need to be considered regarding both listed and private equity, as well as fixed income instruments. Two areas stand out for particular attention:

1. **Sustainable infrastructure:** Growing allocations to sustainable infrastructure provide an opportunity not just to ensure that social safeguards are applied, but also that net zero investment can be a driver of enhanced social performance. There is real scope in India to make infrastructure investment a catalyst for just transition outcomes in terms of more and better-quality jobs as well as gender equality and community gains (see Box 8 on how BII and India's National Infrastructure Investment Fund (NIIF) are approaching this).
2. **Just transition bonds:** India already has a successful green and social bond market, and there is potential for the just transition imperative to be included in future issuance by corporates and other issuers.[34] This would fit squarely in the growing corporate, bank and investor interest in 'transition finance' for net zero.[35]

So far, just transition has been a leadership agenda for investors operating at the cutting edge: it now needs to become a priority for mainstream institutions and markets. Furthermore, just transition bonds are part of a wider programme of financial innovation that needs to be encouraged.

So far, just transition has been a leadership agenda for investors operating at the cutting edge: it now needs to become a priority for mainstream institutions and markets.

Recommendation 4: Investors, banks and capital markets need to factor in just transition principles to their net zero plans, business engagement and capital allocation.

2.4 Promoting sustainable financial innovation for the just transition

Financial innovation is essential for scaling up private finance to the levels needed to achieve a just transition. Social financial instruments lend themselves particularly well to supporting the just transition. The COVID-19 pandemic resulted in a substantial uptick in social debt instruments in 2020 and 2021. The recent issuance of impact bonds by the National Skills Development Corporation (NSDC) in collaboration with philanthropies demonstrates that impact bonds can be tapped for just transition-aligned priorities in India. Similarly, impact bonds can be employed to finance social outcomes. The India sustainable debt market continued to grow in 2021 with issuance of green, social, and sustainability (GSS) debt totalling $7.5 billion, a six-fold (+585 per cent) increase compared to 2020 figures.[36]

According to the Brookings Institution's Global Impact Bond database, up until January 2022 75 impact bonds were launched globally for social welfare, 68 for employment, 28 for education, 32 for health and four for environment.

The Skill Impact Bond was launched by NSDC in collaboration with the British Asian Trust, the Michael & Susan Dell Foundation, the Children's Investment Fund Foundation, HSBC India, JSW Foundation and Dubai Cares, and with the UK's Foreign, Commonwealth and Development Office (FCDO) and the US Agency for international Development (USAID) as technical partners. It has raised $14.4 million which will be used to train 50,000 individuals over a four-year period.[37] The skills taught will ensure employment opportunities can be accessed in COVID-19 recovery sectors.

These examples point to the potential for India to be a hub for further innovation around just transition finance. A key area for experimentation and piloting is place-based just transition finance, particularly in coal-dependent regions (see Appendix 2).

Recommendation 5: Encourage just transition financial innovation, and undertake pilots for place-based private investment in coal-dependent regions.

2.5 Attracting foreign investment through the International Financial Services Centre

India has set up an International Financial Services Centre at the Gujarat International Finance Tec-City (GIFT). The centre is regulated by the International Financial Services Authority (IFSCA). Building a strong sustainable finance portfolio at GIFT presents a major opportunity to attract the additional private capital India needs to close the net zero investment gap, with just transition priorities incorporated. The centre offers fiscal incentives that can augment returns for issuers of high-risk capital which in turn can help scale up finance. With the availability of tax and other regulatory incentives, there has been an uptick in green financing activity in the centre. For example, SBI listed $650 million worth of green bonds simultaneously in India International Exchange (India INX) and the Luxembourg Stock Exchange.[38] Large green bond issuances will help to pave the way for smaller issuances of impact, sustainability-linked and just transition bonds.

The IFSCA has already taken the initiative to foster the growth of sustainable finance. In its report on sustainable finance,[39] it recommended transition bonds as products that can "pace up the process of decarbonisation" and it will issue specific guidelines for transition bonds.[40] For this, the IFSCA has invited public comments on the framework for sustainability-linked lending by financial institutions.[41] It has also set up a committee to examine disclosure standards, product innovations, and the regulation of sustainable finance. This provides a good platform for further exploration of just transition financing.

Recommendation 6: Utilise the International Financial Services Centre at GIFT to attract foreign just transition financing.

2.6 Expanding finance for entrepreneurs to deliver a just transition

Delivering the scale of job creation, skills uplift and community renewal to deliver a just transition to net zero will need to deploy India's full entrepreneurial potential, particularly among its MSMEs. This means a focus on creating a vibrant environment for the growth of sustainable enterprises, enhancing the resilience of MSMEs and their capacity to provide decent work in the growing green sectors. Around 50 per cent of the total MSMEs operate in rural areas and provide 45 per cent of the total employment. About 97 per cent of the total employment in the MSME sector comes from the micro segment. Under the Atmanirbhar Bharat scheme, the government has taken many initiatives within the COVID-19 relief package to promote this sector.[42] Looking ahead to the long-term growth opportunity of net zero, innovative business models and inclusive access to finance will be essential to a just transition.

A key area for experimentation and piloting is place-based just transition finance, particularly in coal-dependent regions.

Delivering the scale of job creation, skills uplift and community renewal to deliver a just transition to net zero will need to deploy India's full entrepreneurial potential, particularly among its MSMEs.

The just transition is an increasingly attractive area for impact investors, particularly those seeking to support social enterprises. There are several such funds set up with social objectives that address the creation of sustainable livelihoods. These funds range from early-stage venture capital funds investing in startups with transformative technologies for "the next billion Indians" to funds that invest in enterprises addressing the problems of access and efficiency in business ecosystems that have a positive social or environmental impact. One such fund is the first Indian Impact Investing firm to be granted B-Corp certification. There are also financial advisory firms specialising in arranging capital for microfinance institutions (MFIs) and other social impact enterprises benefiting those at the bottom of the economic pyramid. These firms also provide housing loans and finance solutions to families with informal incomes through new age credit programmes which do not require individuals to provide any income proof on paper. One fund's investment model is to invest as equity or debt in enterprises (either for-profit or non-profit organisations), that are serving 'bottom-of-pyramid' markets. In choosing these enterprises, the fund focuses on companies working on one or more of the five portfolio areas, namely water, healthcare, housing, energy, and agriculture. It invests not only in the form of financial capital but also in human and knowledge capital through assistance in areas including business strategy, planning, and performance management.

Startup India is India's largest programme established under the Department of Promotion of Industry and Internal Trade, which operates within the Ministry of Commerce and Industry. Its five-year achievement report shows the following successes and positive outcomes.

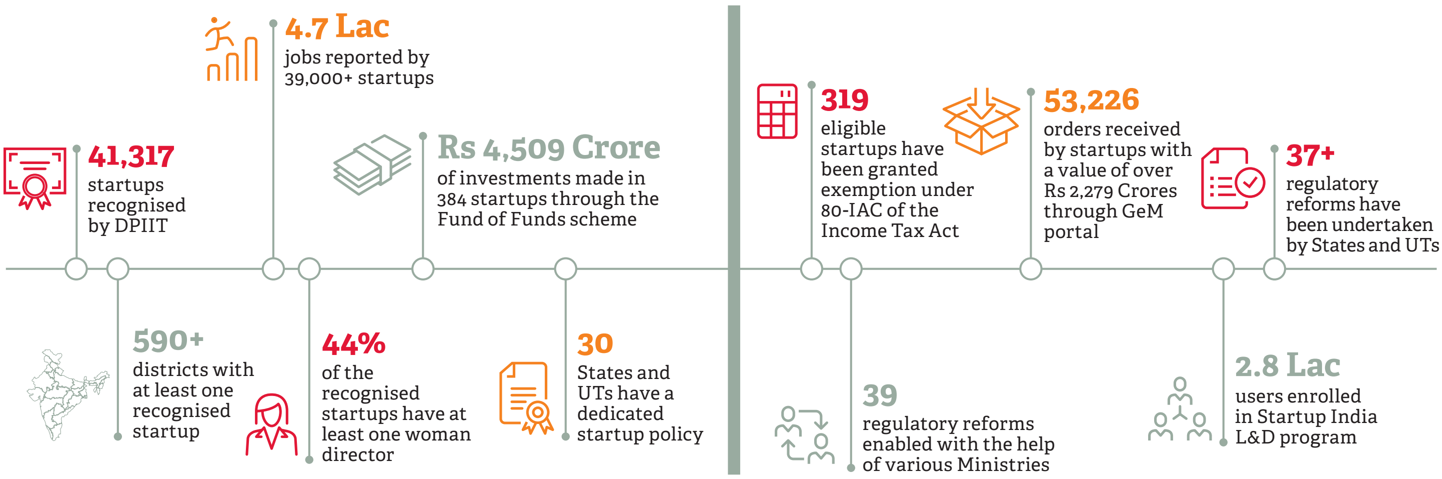

Figure 3: Startup India in numbers (January 2016 – December 2020)
Source: Evolution of StartUp India – Capturing the 5-Year Story[43]

Despite these achievements, the programme has faced setbacks[44] and some of these are relevant in the context of just transition. The difficulty in getting access to funding is the biggest hurdle faced by startups. Around 50 per cent of Indian entrepreneurs said the lack of financial support was a major strategic constraint, with more than 38 per cent citing it as a key reason for the closure of their ventures. Though late-stage funding in the Indian startup ecosystem has surged in recent years, seed-stage funding has declined. To cater to the financial needs of the ecosystem, a fund of funds for startups was created at the Small Industries Development Bank of India (SIDBI) under the Startup India initiative. However, as per the latest update by the Ministry of Commerce and Industry on 24 September, 2022, this fund has only committed ₹7,385.00 crores ($892.3 million) to 49 Alternative Investment Funds (AIFs), out of which merely ₹483.46 crores ($68 million) has been disbursed so far.[45] In an ecosystem where the seed-stage funding has registered a downfall, the funding compound annual growth rate (CAGR) figures stand at 27% (2019-22) – far below the desired rate.

Another barrier to date has been the over-emphasis on technology. The focus of Startup India on high-tech enterprises can be ascertained from the fact that "innovation" and "technology" are mentioned 46 and 31 times respectively in the 40-page Startup India action plan. Although the high-technology sector may seem like an obvious place to look for employment-generating high-growth firms, such overemphasis fails to acknowledge opportunities in the other sectors. This gap may be of concern in the context of states and regional hubs that will be impacted during transition.

Ensuring entrepreneurs and MSMEs have access to capital and capacity-building initiatives is crucial to achieving an economy-wide just transition. By developing a dedicated financing strategy, India can ensure these businesses are brought along and given the opportunity to prosper in the shift to net zero. Furthermore, entrepreneurial financing models for net zero could also be applied to the related opportunity of building India's circular economy.

Ensuring entrepreneurs and MSMEs have access to capital and capacity-building initiatives is crucial to achieving an economy-wide just transition.

Recommendation 7: Develop a dedicated just transition strategy for enhancing access to finance for India's MSMEs.

2.7 Harnessing MDBs and DFIs to expand just transition investments

MDBs and DFIs have often been at the forefront of financial sector activity to support a just transition to net zero, not least because it brings together their role as policy-driven institutions, providing advice to policymakers as well as access to capital for the public and private sectors. MDBs and DFIs will be at the heart of helping to design and deliver any international public finance, especially as convenors of private capital at scale and as first-movers building credibility around new financial structures and industry taxonomies.

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For India, the task is to draw on this commitment, expertise and financial firepower of MDBs and the wider DFI community to support its nationally-driven just transition objectives. A further challenge will be to harness MDBs and DFIs to co-invest as like-minded investors alongside private finance to scale just transition solutions.

Many of India's leading MDB and DFI partners not only have explicit just transition policies, but are also turning these into real flows of finance. MDBs can play a strategic role at the policy and economic levels, while DFIs are suited to mobilising just transition finance for private businesses (see Box 6 on ADB and Box 8 on BII).

Box 6: The ADB's approach to financing the just transition

In 2021, the ADB upgraded its energy policy with its top priority being to "support efforts to bring affordable, reliable, sustainable, and modern energy to all, so as to eradicate extreme poverty and reduce social inequalities". As part of this, it recognised that "planning for a just transition will be critical in managing this process: the aim is to mitigate negative socioeconomic impacts and increase opportunities associated with the transition; support affected workers and communities; and enhance access to sustainable, inclusive, and resilient livelihoods for all".[46] Although the ADB's work on just transition has started in the energy sector, it makes it clear that this is a whole economy challenge.[47]

One tool the ADB is considering to support rapid and inclusive decarbonisation is the Energy Transition Mechanism (ETM), which aims to replace coal-fired power plants and unlock investment towards renewable energy sources. ETM is a collaborative initiative developed in partnership with Developing Member Countries (DMCs) and leverages a market-based blended finance approach to accelerate the transition from fossil fuels to clean energy. ETM functions through two funds; one aims for carbon reduction while the other aims to expand clean energy. The carbon reduction fund purchases coal-fired plants and the clean energy fund invests in the growth and expansion of renewable power. The ADB is working with DMCs and key partners to ensure the ETM is a replicable and scalable model that can be adjusted and adopted in various regions and context.[48]

At COP27, ADB launched a Just Transition Support Platform. This provides technical assistance to build the capacity of ADB's DMCs to strategically plan, implement, and finance just transition, to manage any negative impacts, and increase benefits from the transition to net zero. The Platform is expected to help to build inclusive and equitable action toward achieving net zero in Asia and the Pacific, while maximising the gender, social, and economic outcomes of climate action.[49]

Strategic areas for MDB and DFI investment

As the ADB example illustrates, there are a range of actions MDBs in particular could take to support just transition finance in India. Key strategic priorities include:

Addressing just transition in the safeguarding process
There is significant potential to address just transition in the safeguarding processes at MDBs and DFIs to guide investments and signal to financing intermediaries. Application of safeguards typically follow steps such as exclusion, identification of impacts/risks, stakeholder consultation, preparation of environmental and social management plans, monitoring, disclosure, and a grievance address mechanism.

ADB's safeguard policy is due for an update and therefore presents an opportunity to introduce appropriate diagnostic, assessment and management mechanisms in these steps. The World Bank's recent Environment and Social Framework (ESF)[50] has the potential to address the just transition. It allows for expansive and upfront social analysis (for example, in terms of labour and resettlement), thereby facilitating place-based efforts. Similar opportunities exist in the AIIB's own ESF.

It may be difficult, however, to find ways to integrate just transition into existing operations and projects that have been sanctioned and to allocate financial resources in the project costs. So, institutions may need to revisit safeguards for future sector loans, conditionalities in tranche funding and a requirement related to just transition in channelling funds through financing intermediaries. Essentially, MDBs and DFIs need to signal to private investors and the business community that climate action should do 'no harm' in the social dimension and that it also contributes to improved social standards for workers and communities. Here, coordination and cooperation between the climate and safeguard units at MDBs and DFIs will be crucial.

Using development policy finance for the just transition
Recent focus among the MDBs on Development Policy Financing (DPF) provides another channel to direct finance with the aim of achieving sustainable, shared growth and poverty reduction through a programme of policy and institutional actions. These actions could include, for example, strengthening public financial management, improving the investment climate, addressing bottlenecks to improve service delivery, and diversifying the economy.[51] DPF is also being used for climate action. For example, the World Bank extended a Climate Change DPF along with the Japan International Cooperation Agency (JICA) and the French Development Agency (AFD) to Indonesia, to support its government's efforts to develop a low carbon, climate-resilient growth path.[52] In 2021, AIIB and the World Bank approved $500 million of funding for Creating a Coordinated and Responsive Indian Social Protection System (CCRISP). The objective of the funding was to strengthen state and national-level capacity to respond to needs of informal workers through resilient and co-ordinated social protection.[53] These examples provide a template for development financing of activities that are aligned with the just transition. In the last ten years, 14 DPFs have been signed with India, covering states such as Orissa, Andhra Pradesh, Himachal Pradesh, Bihar and Rajasthan, as well as for extending pan-Indian support. Box 7 describes CCRISP in more detail. This recently launched programme is an opportunity to engage with the government of India in supporting the just transition by expanding the focus beyond COVID-19. Leveraging existing projects could therefore become the strategy.

Essentially, MDBs and DFIs need to signal to private investors and the business community that climate action should do 'no harm' in the social dimension and that it also contributes to improved social standards for workers and communities.

Box 7: The India Responsive Social Protection DPF: a possible model for just transition?[54]

The India Responsive Social Protection DPF was launched in August 2021 with a budget of $500 million contributed by the World Bank and AIIB. Its objective is to strengthen the capability of the state and the national governments in India to respond to the needs of informal workers in response to COVID-19 through a resilient and coordinated social protection system. It provides budget support to mitigate the severe social and economic impact of COVID-19. Specifically, the programme supports India's efforts to modernise its social protection system to serve the risks and needs emerging from the pandemic, rapid urbanisation, structural transformations in the labour market, and climate change.

Relieving the social and economic distress among the most vulnerable groups affected by the COVID-19 pandemic – informal workers, migrant workers and returnee migrant workers – is at the core of the operation. The programme focuses on directly transferring social protection benefits to women and provides extra weightage to the tribal households in targeting of benefits (due to the constitutional protection accorded to these groups). It will also provide fast and flexible cash support to address ecological and climate-based vulnerabilities. The programme demonstrates how strategic funding could be mobilised for the social protection dimension of just transition in the future.

Financing long-term regional and sector development to address social impacts
MDBs and DFIs may have to go beyond the conventional boundaries of project finance by supporting sectoral and regional economies, and by investing in measures that can diversify these economies and build resilience. Apart from fossil fuels or the energy sector, sectors such as transportation and agriculture need to be looked into where impacts of the transition are complex and there are spill over effects (see Appendix 2 for more details).

Channelling MDB and DFI just transition finance into private business
As well as these strategic efforts, MDBs and DFIs can also make sure that just transition principles are integrated throughout their private investment portfolios, specifically helping to catalyse wider market take-up. Potential areas for action include:

Providing anchor investments
DFIs can play a key role in providing anchor investments in private businesses and supporting them to achieve net zero goals through a just transition (see Box 8 on BII). DFIs could take this further by exploring the issuance of just transition bonds from investee companies. In addition, DFIs could step in and bolster microfinance institutions and institutions financing transitions in particularly volatile sectors and markets.

Box 8: BII: supporting the just transition at Ayana in India

Financing private sector action on climate change is one of BII's priorities its portfolio, including in India. BII's focus is on "helping the countries where we invest to progress towards net zero emissions by 2050, in a way that is socially just and meets people's needs for prosperity and improved living standards".[55] Climate change as well as gender, diversity and inclusion are key pillars of the way it manages the development impact of its investments.

In India, Ayana Renewable Power is an independent solar and wind generation company with investments from BII along with India's National Infrastructure Investment Fund (NIIF). Ayana's Community Development Framework for renewable development is a key tool to deliver a just transition.[56] It aims to provide access to clean energy to excluded group as well as develop skills, employment and entrepreneurship opportunities, with a special focus on women, youth and marginalised groups.

To spur action on the just transition, BII worked in partnership with Ayana, the UK's Department for International Development (DFID) and the Self-Employed Women's Association (SEWA) on a pilot skills development programme for communities living near Ayana's new solar powerplant.[57] The programme provides training for potential employment in the solar park – including operations and maintenance skills, as well as digital literacy and job readiness. Recognising the challenges women face in entering employment at the solar plant – due to perceptions about their capability in that environment – the programme was specifically targeted to women.

Apart from fossil fuels or the energy sector, sectors such as transportation and agriculture need to be looked into where impacts of the transition are complex and there are spill over effects.

MDBs and DFIs can also make sure that just transition principles are integrated throughout their private investment portfolios, specifically helping to catalyse wider market take-up.

Addressing just transition in the Environmental and Social Management Systems of financial sector intermediaries

DFIs can significantly influence wider adoption by pressing for the incorporation of just transition principles into the Environmental and Social Management Systems (ESMS) of financial sector intermediaries. There is often an overemphasis in ESMS simply on compliance and risk mitigation rather than on the positive opportunities to support the net zero transition. This could also prompt capital market just transition innovations such as bond issuances.

Developing blended finance solutions for the just transition
MDBs and DFIs are also well-placed to develop specific blended finance solutions that can attract private investment through grants, technical assistance, and concessional financing, as well as credit guarantees.[58]

Banks and private investors may fear credit risks in contributing to on-ground participation in the just transition. DFIs could bolster microfinance institutions in particularly volatile sectors and markets.

MDBs and DFIs are also well-placed to develop specific blended finance solutions that can attract private investment through grants, technical assistance, and concessional financing, as well as credit guarantees.

Recommendation 8: Deploy capital and expertise from MDBs and DFIs to support the just transition as part of achieving India's long-term climate goals. Of particular importance will be supporting green jobs and skills development.

Recommendation 9: Draw on MDBs and DFIs to introduce blended finance solutions to crowd in private capital for the just transition.

The need for scaled up international cooperation
At COP27, the increasing importance of cooperation on just transition was evidenced by the agreement by all governments in the Sharm el-Sheikh Implementation Plan of a new work programme under the UN Framework Convention on Climate Change.[59] This highlighted the importance of social dialogue. In addition, the five-year action plans on Action for Climate Empowerment[60] and the intermediate review of the Gender Action Plan[61] reemphasized the critical importance of empowering all stakeholders to engage in climate action. In 2023, both within the UNFCCC as well as the G20, there is a real opportunity to deepen international cooperation, particularly on how to mobilise climate finance in ways that contributes to wider sustainable development goals.

There is a real opportunity to deepen international cooperation, particularly on how to mobilise climate finance in ways that contributes to wider sustainable development goals.

Recommendation 10: Cooperate with international partners to scale up climate finance for just transition in India as well as within the G20 and United Nations.

3

Conclusions and recommendations

Ultimately, the net zero transition in India is for the benefit of its people. Therefore, people need to be included in the way the country's 2070 target is made real through a just transition. Making the just transition a reality in India is certainly a tough task, with many uncertainties and challenges to overcome, as well as opportunities to seize. Without it, however, the path to a net zero economy in India is unlikely to be successful.

This report has set out both why and how private investment can be mobilised for just transition financing in India. Beyond the realm of private investment, there are clearly many other actions needed to ensure the drive to a net zero India by 2070 not only leaves no-one behind, but is also a stimulus for achieving core development goals around poverty eradication, increasing employment and incomes, as well as reaching a new level of prosperity.

At this early stage in the just transition agenda, this report has focused on bringing together early-stage practices as well as pointing to the foundational steps to be taken next. India can also look beyond net zero to other dimensions of building a sustainable economy and consider, for example, implementing India's mission of an inclusive circular economy through a just transition.

Based on feedback from key policy, finance, investment and NGO stakeholders, this report sets out ten recommendations for action to **mobilising private Investment for a just transition in India**, with a special focus on the upside opportunities for green jobs and skills.

People need to be included in the way the country's 2070 target is made real through a just transition.

The full list of recommendations are set out below.

1. **Strategy:** Incorporate just transition principles into sustainable finance policy to provide the incentives and regulatory signals for private investors, including an operational definition of the just transition.
2. **Business:** Stimulate India's corporate sector to set up a just transition task force to include key social factors in their net zero plans, actions and disclosures.
3. **CSR:** Integrate just transition priorities into CSR spending programmes by businesses.
4. **Investors:** Investors, banks and capital markets need to factor in just transition principles to their net zero plans, business engagement and capital allocation.
5. **Innovation:** Encourage just transition financial innovation and undertake pilots for place-based investment in coal-dependent regions.
6. **Foreign investment:** Utilise the International Financial Services Centre at GIFT to attract foreign just transition investment.
7. **MSMEs:** Develop a dedicated just transition strategy to enhanced access to finance for India's MSMEs.
8. **International public finance:** Deploy capital and expertise from MDBs and DFIs to support the just transition as part of achieving India's long-term climate goals. Of particular importance will be supporting green jobs and skills development.
9. **Blended finance:** Draw on MDBs and DFIs to introduce blended finance solutions to crowd in private capital for the just transition.
10. **International cooperation:** Cooperate with international partners to scale up climate finance for just transition in India as well as within the G20 and UN.

We hope this report helps to build a base of knowledge for the next wave of action to finance India's net zero delivery through a just and inclusive process of transformation.

Appendix 1

The ILO's Just Transition Principles[62]

Released in 2015, the ILO's Just Transition Guidelines outline the following principles to guide the transition to environmentally sustainable economies and societies:

(a) Social consensus and dialogue: "Strong social consensus on the goal and pathways to sustainability is fundamental. Social dialogue has to be an integral part of the institutional framework for policy-making and implementation at all levels. Adequate, informed and ongoing consultation should take place with all relevant stakeholders."

(b) Rights at Work: "Policies must respect, promote and realize fundamental principles and rights at work."

(c) Gender: "Policies and programmes need to take into account the strong gender dimension of many environmental challenges and opportunities. Specific gender policies should be considered in order to promote equitable outcomes."

(d) Policy: "Coherent policies across the economic, environmental, social, education/training and labour portfolios need to provide an enabling environment for enterprises, workers, investors and consumers to embrace and drive the transition towards environmentally sustainable and inclusive economies and societies."

(e) Creation of more decent jobs: "These coherent policies also need to provide a just transition framework for all to promote the creation of more decent jobs, including as appropriate: anticipating impacts on employment, adequate and sustainable social protection for job losses and displacement, skills development and social dialogue, including the effective exercise of the right to organize and bargain collectively."

(f) Context: "There is no 'one size fits all'. Policies and programmes need to be designed in line with the specific conditions of countries, including their stage of development, economic sectors and types and sizes of enterprises."

(g) International cooperation: "In implementing sustainable development strategies, it is important to foster international cooperation among countries. In this context, we recall the outcome document of the United Nations Conference on Sustainable Development (Rio +20), including section VI on means of implementation."

Appendix 2

Tailoring just transition finance for sectors and regions

Taking a whole economy, sector-specific approach

While a just transition to net zero is needed across all sectors of India's economy, the energy sector is clearly the priority. This means addressing the social dimensions of the 'transition in' to clean energy through India's ambitious renewable expansion plans. To achieve the 500 gigawatt (GW) non-fossil capacity goal by 2030, India could boost its solar and wind workforce from 111,400 in fiscal year 2021 to about 3.4 million jobs (short and long term) by installing 238 GW of new solar power and 101 GW of new wind.[63] This presents a major opportunity to deliver broader development outcomes through the application of decent work priorities (including increasing female participation in the energy sector). Community value will also need to be secured, particularly in terms of access to land and generating benefits from clean energy expansion. It is critical that land acquisition to enable the growth in renewable energy does not result in lost livelihoods and displacement for affected rural populations. Solar power plants require significantly larger land areas compared to conventional power plants. For example, a 100 megawatt (MW) thermal power plant requires less than 10 per cent of the total area that a 100 MW solar photovoltaic (PV) power plant would.[64]

In parallel, the just transition also means focusing on the risks facing workers, suppliers, communities and consumers that are dependent on high-carbon sectors. This is the 'transition out' agenda and in India attention has focused on the phase-down in fossil fuel energy that net zero requires, not least in the coal sector. In terms of formal employment, over 13 million people are employed in the coal mining, transport, power, sponge iron, steel, and bricks sectors. Adding informal coal workers would take this dependency to over 20 million.[65] For example, Indian Railways is not only one of the largest employers in India and a critical national infrastructure, but also one of the most dependent on the coal sector. As it relies on the high profits from coal transport and freight to subsidise fares for passengers, the transition away from coal threatens to reduce the affordability of rail travel for all. This circularity demands an inclusive approach to accelerating the just transition. The Ministry of Coal is now finalising a robust mine closure framework that includes three major aspects of institutional governance: people and communities; environmental reclamation; and land repurposing based on just transition principles.[66]

The process of repurposing all of the closed mine sites has already been set in motion by the Sustainable Development Cell of the Ministry of Coal, and inter-ministerial consultations have been undertaken. The Ministry of Coal will be working closely with the World Bank on the closure framework that covers past and prospective mine closure. It is hoped that this collaboration between the Ministry of Coal and the World Bank to identify the regional aspect of energy transition will support sub-national strategies for a just transition in India.

As a primary source of livelihood for 58 per cent of India's population, agriculture is another anchor sector. It is also exposed both to the net zero transition and is increasingly at risk from extreme climate impacts.[67] Approximately 61 per cent of India's farmers rely on rain-fed agriculture, and shifts in weather patterns are expected to severely undermine the country's food security in the long term. The transformation to climate-smart agriculture is needed, specifically one that is delivered through a just transition approach that prioritises the needs of the vulnerable. The World Bank-supported Maharashtra Project on Climate-Resilient Agriculture, and the Odisha Integrated Irrigation Project for Climate Resilient Agriculture, are

While a just transition to net zero is needed across all sectors of India's economy, the energy sector is clearly the priority.

examples where impacts of transition are addressed through environmental and social impact assessment (ESIA). Such designs need to be replicated and a pilot could be considered with the support of India's National Bank for Agriculture and Rural Development (NABARD) on how to introduce just transition considerations. High-exposure sectors such as agriculture in particular are severely underfunded and have next to no institutional and financial support, besides being especially vulnerable to the ramifications of the decarbonisation of the economy. There could be opportunities by supporting existing national programs like KUSUM,[68] where solarisation of the agriculture is being funded to build a resilient and sustainable agricultural economy.

India's wider industrial base will also need to develop just transition strategies. The automobile sector has a large ecosystem representing major manufacturers as well as small businesses, and also informal workers who earn their livelihoods through component supply, repairs and refurbishing of conventional automobiles running on diesel, petrol and compressed natural gas (CNG). As the vehicle mix in the future is expected to shift to electric vehicles (EV), the value chain will be impacted, leading to new jobs in parts of the value chain and risks of job loss in others, requiring re-skilling and finance. Added to this are the issues related to building a circular automotive economy. This could disrupt conventional recycling value chains, impacting the regional development and economic wellbeing of recycling hubs, which are operated predominantly by members of minority and vulnerable communities.[69] Key industrial sectors such as steel and cement will also require just transitions as part of their sectoral pathways to net zero. From a financing perspective, this means incorporating the social dimension into the development of sectoral pathways and expectations for net zero.

Taking a place-based approach to just transition finance

One of the core principles of an effective just transition is the need for a place-based approach. Here, India can build on and extend existing policy frameworks to make net zero inclusive at the state and district levels. Key sectors are regionally concentrated and climate exposure varies spatially. This requires a national approach to understand and manage the shifts in production, consumption and employment that could be involved, as well as sub-national plans at the state, sector and district levels. For example, there is a clear mismatch between job creation from renewable energy (primarily in the western part of India) and job losses through the closure/phasing out of coal mines and thermal power plants (primarily in the eastern part of India). Here the just transition could be incorporated into NITI Aayog's existing Aspirational Districts programme.

One of the core principles of an effective just transition is the need for a place-based approach.

For public and private finance, this means incorporating a spatial approach to supporting people through the net zero transition, whether in terms of existing public instruments (such as the District Minerals Fund), private financing vehicles (such as local impact bonds) as well as CSR funds. Companies located in the impacted regions can further support efforts to transition through dialogue and internal strategies that are effectively communicated. Here the credits made available by commercial banks and the allocation of mandated CSR funds will need to be well positioned for addressing just transition 'hot spots'. The philanthropic capital from CSR funds can be directed towards just transition activities which do not yield a financial return.

The State Action Plans on Climate Change (SAPCC) were intended to serve as the primary policy document at the sub-national level to address vulnerabilities and increase resilience. To implement the plans and targets laid out under SAPCCs, several pilots and demonstration projects are conducted, with funds from designated agencies and by the national government under the National Adaptation Fund on Climate Change. If updated, strengthened and restructured, these SAPCCs could provide a sub-national strategy for addressing the just transition. Some of the areas of improvement in the revision could include sensitising them on just transition, pooling in financial flows (especially from the private sector) and increasing the focus on institutional and human capacities.[70] Operationalising these plans becomes critical and this may need capacity building at the state government machinery level, not least for economic diversification and support for MSMEs.[71] In its report on Jharkhand, the Climate Investment Fund pointed to potential priorities for sector diversification away from coal, including agriculture, tourism, critical minerals, and sustainable forestry.[72]

A major focus on state-level access to finance will be needed to deliver the just transition in all parts of India. Currently, the RBI includes loans to renewable energy as priority sector lending. Their share in total credit offtake is less than a percentage, however. Looking at the overall regional exposure of scheduled commercial banks, finance is concentrated heavily in industrial regions: coal-dependent regions such as Jharkhand and Chhattisgarh receive less than 1 per cent of all loans. Local urban bodies (ULBs) could make greater use of municipal bonds to support climate investments for a just transition. Yet so far, only 1 per cent of the total financing needs of ULBs is met through the issuance of these bonds, which continue to be dependent on transfers from state and centre.[73]

District-level action for the just transition will also be needed, as well as a state-level approach. The just transition is well-aligned with NITI Aayog's existing Aspirational Districts programme, which aims to quickly and effectively transform 112 of the most under-developed districts across the country.[74] Many of these under-developed districts are also exposed to transition risk. At the local level, existing tools can also be adapted to support a just transition to net zero. One of these is the District Mineral Fund (DMF) that a state is required to set up and use for those exposed to mining operations. These funds are spent on health and education of local communities. The top six DMF-collecting states, cumulative until September 2021, include Odisha, Chhattisgarh, Jharkhand, Rajasthan, Madhya Pradesh and Telangana, accounting for 80 per cent of DMF collections.[75] Interesting examples of DMF promoting an inclusive green economy include a project launched at the Angola district in Orissa with the support of UN PAGE India. IFOREST's recent Korba district study sets out the policy and financing for district-level action on the just transition (see Box 9).

Box 9: Korba: planning a just transition for India's biggest coal and power district

Achieving India's net zero target will require a systematic phase-down in fossil fuel production and consumption. Delivering this necessitate a district-specific approach as well as coordinated efforts regionally and nationally. The Korba district of Chhattisgarh is currently India's top coal-producing district with 16 per cent of India's output. One in five workers in the district depend on coal, but this coal-centric economy has hindered wider growth and employment. IFOREST's assessment shows it is possible to plan and implement a just transition. Indeed, if planned well, the energy transition will not only realise climate goals, but will also help to achieve equitable development outcomes. Importantly, planning must start early to provide sufficient time for the just transition. Eight key factors will be needed to deliver a just transition in Korba: an inclusive mechanism for just transition planning; aligning timeframes with net zero; securing social protection and skilling of the workforce; economic diversification measures; the repurposing of land and infrastructure; responsible social and environmental investments; substituting public revenues from coal; and packaging funding sources including DMF funds and CSR funds as well as the coal cess.

Source: IFOREST, 2022[76]

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