

MINISTRY OF FINANCE'S DRAFT FRAMEWORK ON INDIA'S CLIMATE FINANCE TAXONOMY

ICRA ESG COMMENTS



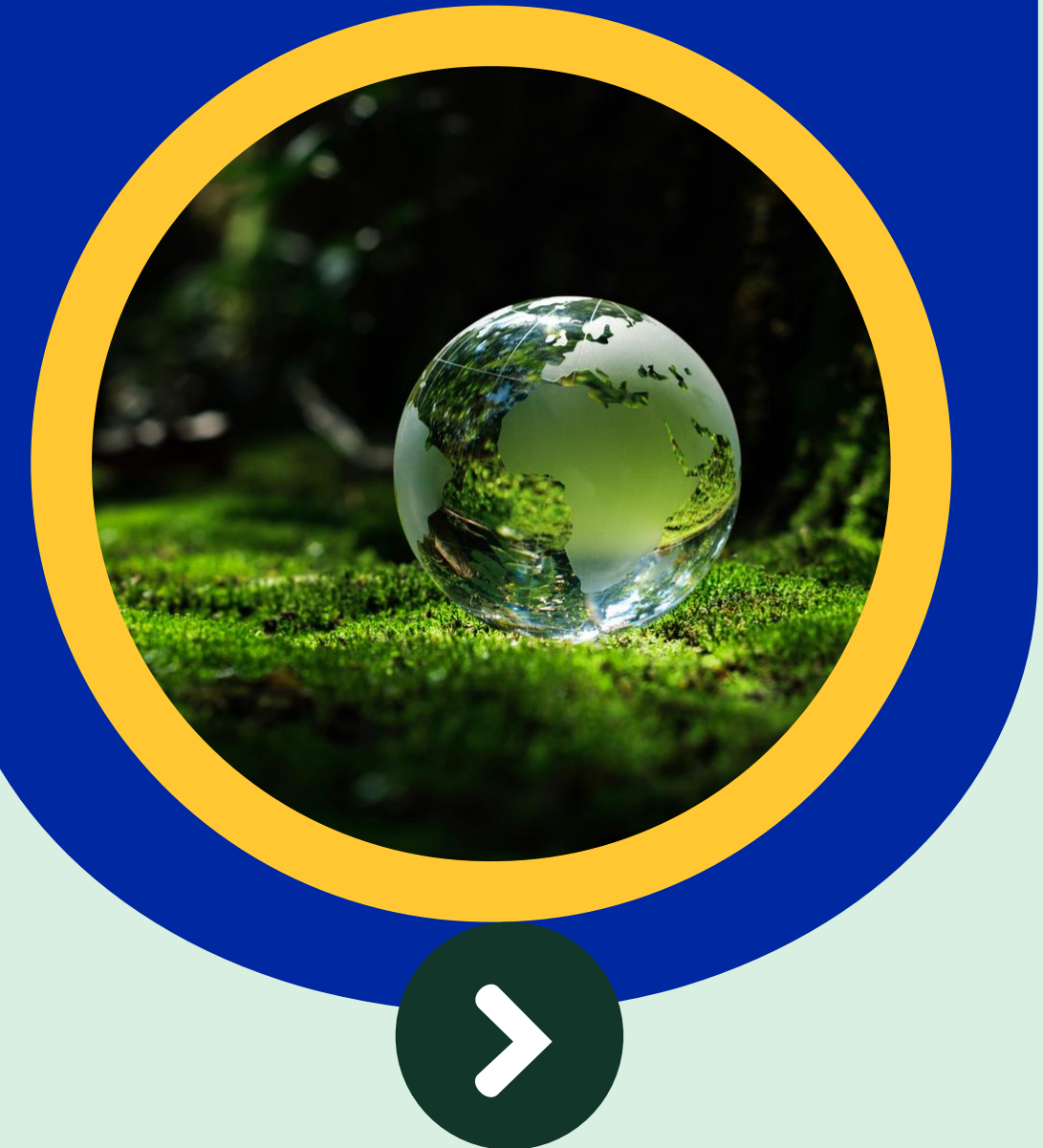
MAY 2025

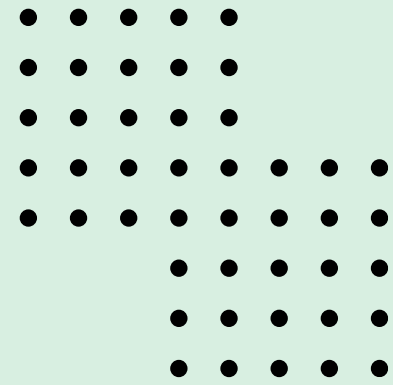


OBJECTIVES & KEY FEATURES



- **Draft Climate Finance Taxonomy:** India's Ministry of Finance released the draft framework of the Climate Finance Taxonomy in May 2025, outlining the approach, objectives, and principles guiding the taxonomy and seeking public consultation before releasing the final framework.
- **India's Climate Ambitions:** It aims for Net-zero emissions by 2070 and requires around USD 2.5 trillion to meet its NDC targets by 2030*.
- **Objectives:**
 - Facilitating resource flow by improving funding to mitigate (reduce GHG emissions), adapt climate resilient infrastructure, support transition in hard-to-abate sectors, prevent greenwashing and aligning the taxonomy with the strategic vision of *Viksit Bharat by 2047*.
- **Key Features of taxonomy:**
 - The taxonomy follows a hybrid approach combining qualitative, and quantitative metrics in a phased manner, ensuring inclusion of MSME and diverse sectors.





● ● ● ● ● KEY TAKEAWAYS OF TAXONOMY PRINCIPLES



- **Consistency with Climate Action:** This principle is focused on aligning with national goals by developing transition pathways. To be achieved by setting national climate targets
- **Focusing on Pathways:** Tailoring pathways for reducing carbon intensity
- **Interoperability and Consistency:** Aligning internationally with national flexibility
- **Prioritising Transition:** Facilitating investments in transition critical sectors
- **Science-Based and Transparent:** Using clear metrics by ensuring robust methodologies to identify opportunities
- **Proportionality for MSMEs:** Simplifying the criteria for MSMEs; supporting MSMEs towards a low-carbon transition
- **Do No Significant Harm:** Implementing safeguards while minimising the adverse impacts
- **Promote Indigenous Technologies:** Incentivising local tech and boosting the R&D investments in such areas

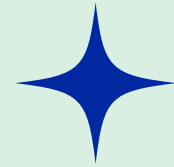
WHAT IT MEANS FOR THE FOCUS SECTORS

- **Power Sector:**
 - Drive efficiency improvements in thermal power plants
 - Continue to expand renewable capacity
 - Adopt nuclear, hydrogen, and storage technologies
- **Mobility Sector:**
 - Continued transition through GNHCP, FAME, and ethanol-blended fuel
- **Building Sector:**
 - Investments in sustainable construction practices.

ICRA ESG Comments:

- *The taxonomy aims to categorise activities by emissions.*
- *Players to focus on greener value chain activities*
- *High investment focus on the power sector will support targeted transitioning in power and the larger ecosystem to reduce Scope 2 emissions*





AGRICULTURE, FOOD & WATER SECURITY



The taxonomy emphasises on the need for following initiatives aimed at agriculture, food and water security:

- Source adaptation finance for climate-resilient agriculture and R&D.
- Enhance Private Sector Participation in resilient farming and related technologies.
- Modernize Infrastructure: Improve post-harvest facilities to reduce waste.
- Promote Sustainable Practices: Support organic and regenerative farming methods.

ICRA ESG Comments:

Growing focus on climate resilient farming methods would require MSME sector to upskill itself and participate in capacity building for sustainable practices

HARD-TO-ABATE SECTOR

Taxonomy focuses on the need for following initiatives in the hard-to-abate sector:

- Invest in low-emission technologies for greener production and prioritise indigenous solutions
- Modernise facilities to improve efficiencies and reduce relative impact

ICRA ESG Comments: Climate finance for underlying mitigation technology to be incentivised and channelised. Policy support is to be a crucial actor.





CLASSIFICATION In the draft taxonomy

- **Climate-Supportive Activities:**

Activities that avoid GHG emissions, reduce emission intensity, or enhance resilience.

- **Transition Activities:**

For sectors where low-emission alternatives are not yet viable.

Way forward for India Inc.:

- **Transition Assessment:** Need to assess their current emissions impact profile and develop credible transition plans to align with the taxonomy.
- **Enhanced Reporting and Transparency:** Need to enhance their reporting on climate-related activities, ensuring transparency and accountability in their transition efforts.



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The Draft Climate Finance Taxonomy is a structured and forward-looking framework that can significantly contribute to India's climate goals when finalised. Its success will hinge on positive adaptation by identified sectors and corporates, effective execution, stakeholder engagement, and continuous evolution to emerging challenges and opportunities. Here are some key analytical insights:

- 1. Strategic Alignment:** The taxonomy aligns well with India's broader climate and development goals, including the NDCs and the vision for a developed India by 2047, with a view to connecting climate finance with national priorities effectively.
- 2. Phased and Inclusive Approach:** The phased implementation, starting with qualitative criteria and moving towards quantitative metrics, is pragmatic, allowing for flexibility as data availability and technological capabilities improve. The emphasis on MSMEs ensures broad-based participation in climate action but also necessitates capacity building across value chains.
- 3. Sectoral Focus:** The targeted sectors—power, mobility, buildings, agriculture, and hard-to-abate industries—are critical for India's climate transition. The draft focuses on these crucial sectors as priorities for investment and policy support, which is the need of the hour.





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- 4. Support for Indigenous Technologies:** Promoting local technologies and R&D is a strategic move to build domestic capabilities and reduce dependence on foreign technologies. This can drive innovation and create economic opportunities within the country.
- 5. Transparency and Accountability:** The emphasis on science-based and transparent methodologies is crucial for maintaining credibility and preventing greenwashing. Clear metrics and thresholds will help in tracking progress and ensuring accountability.
- 6. Current Scenario:** India's climate finance space is in nascent development, requiring substantial flows to meet its net-zero goals. Enhanced public-private partnerships and strategic regulatory support remain crucial to channelise funds appropriately to ensure energy security and sustainable development.
- 7. Challenges and Opportunities:** The draft taxonomy aspires to set a robust framework for the identification and classification of climate-supportive projects; its success will depend on effective implementation and continuous updation to reflect evolving circumstances. Ensuring adequate financial flows amid the global dynamics and addressing technological and infrastructural gaps will be critical.



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