CLIMATE FINANCE TAXONAMY: ENVIRONMENT

NEWS: Why the draft framework of India's climate finance taxonomy needs a complete overhaul

WHAT'S IN THE NEWS?

India's draft Climate Finance Taxonomy aims to classify and guide green investments but has been criticised for lacking alignment with India's specific climate challenges, omitting high-emission sectors and scientific metrics.The framework is largely borrowed from global models like the EU's and fails to incorporate indigenous practices, equity, and local governance mechanisms.

What is Climate Finance Taxonomy?

- A **climate finance taxonomy** is a **classification framework** that defines what types of economic activities are considered **environmentally sustainable** or **climate-aligned**.
- It helps **governments, investors, and companies** identify sectors and projects that support climate goals such as **mitigation, adaptation**, and **transition**.
- The taxonomy ensures **standardisation**, prevents **greenwashing**, and channels **investments** towards **genuine climate-resilient activities**.
- Countries like the **EU, South Africa, Colombia, South Korea, Thailand, Singapore, Canada**, and **Mexico** have already adopted such frameworks.

India's Draft Climate Finance Taxonomy (2024)

Released By:

- **Department of Economic Affairs**, Ministry of Finance

Objective:

- To define and standardise **climate-aligned economic activities**.
- To guide **financial institutions, policymakers**, and **investors** in channelling climate finance towards India's **Net Zero and climate resilience** goals.
- To **mobilise private and public finance** and avoid **greenwashing**.

Nature of the Document:

- It is designed as a **"living document"** – open to periodic updates aligned with national climate strategies.

Key Features of the Draft Framework

1. Climate Action Pillars

Divides climate action into three major categories:

- **Mitigation**: Activities aimed at reducing GHG emissions.

- **Adaptation**: Activities enhancing resilience to climate change impacts.
- **Transition**: Focused on "**hard-to-abate**" sectors that cannot immediately become emission-free.

2. Sectoral Focus Areas

The draft identifies the following key sectors:

- **Energy and power**
- **Mobility and transport**
- **Buildings**
- **Agriculture, food, and water security**
- **Hard-to-abate industries** like cement, steel, and iron

3. Activity Classification

- **Climate Supportive Activities**:
    - **Tier 1**: Absolute emission avoidance or deep emission reductions.
    - **Tier 2**: Relative emission reduction or efficiency improvements.
- **Transition Supportive Activities**:
    - Applied to sectors where **complete decarbonisation** isn't immediately viable, but improvement pathways exist.

Major Concerns with the Draft Framework

1. Lack of Indigenous Relevance

- The draft heavily borrows from **international models** (e.g., EU Taxonomy) and lacks **contextual adaptation** to India's socio-economic and environmental realities.

2. Sectoral Prioritisation Flaws

- **Overemphasis** on **low-emission sectors** like agriculture and water security.
- **Underrepresentation** of **high-emission sectors** such as:
    - Fossil fuel-based energy
    - Transport
    - Chemicals
    - Manufacturing
    - Real estate

- No scientific justification provided for sectoral inclusion or exclusion.

3. Absence of Measurable Criteria

- No **clear emission thresholds**, **scientific metrics**, or **third-party verifiability** mechanisms provided.
- Key terms like "**climate-friendly technologies**" remain undefined.

4. Weak Institutional Mechanisms

- No mention of an **implementation or monitoring authority**.
- Ignores India's **federal governance structure** – states are not given a role in execution.

5. Lack of Cross-Sectoral Integration

- No acknowledgement of **interlinkages** between sectors or **consumer behavior impact** on emissions.

6. Methodological Limitations

- Inconsistent use of **qualitative and quantitative methods** without appropriate indicators.

7. Social and Equity Blind Spots

- Framework does not integrate:
  - **Labour rights**
  - **Human rights**
  - **Impacts on vulnerable communities**
- No reference to **Equity**, **Just Transition**, or **Environmental Justice** principles.

8. Misplaced Technological Emphasis

- Focuses on **high-tech resilience measures** in agriculture without considering:

Traditional practices

Local seed varieties

Indigenous ecological knowledge

Recommendations for Improvement

- **Re-orient focus** on high-emission, high-impact sectors.
- **Avoid burdening vulnerable sectors** like agriculture with transition costs.
- Define a **clear, transparent, and scientific methodology** for classifying activities.

- Establish a **governance framework** with state and local government participation.
- Incorporate **ESG principles**, **social equity**, and **justice frameworks**.
- Recognise the role of **behavioural change** and **cross-sectoral linkages** in emission mitigation.
- Ensure all climate investments have **impact assessment**, **metrics**, and **independent verification** systems.

Reference: EU Sustainable Finance Taxonomy (for comparison)

- **Purpose**: To guide investors toward economic activities aligned with the **EU Green Deal** and net-zero goals by 2050.
- **Investment Categories**:
    - **Substantial Contribution** (e.g., wind farms, solar plants)
    - **Enabling Activities** (e.g., energy storage systems)
    - **Transitional Activities** (e.g., cleaner fossil-based energy under strict limits)
- Designed to prevent **greenwashing** by setting **uniform standards**.

Source: https://www.downtoearth.org.in/climate-change/why-the-draft-framework-of-indias-climate-finance-taxonomy-needs-a-complete-overhaul