

# Analysing India's Draft Green Taxonomy Framework

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## List of Abbreviations

|               |                                                     |
|---------------|-----------------------------------------------------|
| AFCs          | Asset Financing Companies                           |
| BRSR Business | Responsibility and Sustainability Reporting         |
| CCTS          | Carbon Credit Trading Scheme                        |
| CPI           | Climate Policy Initiative                           |
| DMEDL         | DME Development Limited                             |
| DNSH          | Do No Significant Harm                              |
| EV            | Electronic Vehicle                                  |
| ESG           | Environment, Social and Governance                  |
| INR           | Indian Rupee                                        |
| ISSB          | International Sustainability Standards Board        |
| MSME          | Micro, Small and Medium Enterprises                 |
| NDCs          | Nationally Determined Contributions                 |
| NBFCs         | Non-Banking Financial Companies                     |
| PLI           | Production Linked Incentive                         |
| RBI           | Reserve Bank of India                               |
| SEBI          | Securities Exchange Board of India                  |
| TCFD          | Task Force on Climate-related Financial Disclosures |
| UN SDGs       | United Nation's Sustainable Development Goals       |
| USD           | United States Dollar                                |

## 1. Background

India recently unveiled a draft Climate Finance Taxonomy, marking an important step in her efforts to guide green capital flows and meet her climate commitments. India's climate ambitions under the Paris Agreement and updated Nationally Determined Contributions (NDCs) aim for net-zero by 2070, a 45 per cent reduction in emissions intensity by 2030, and achieving 50 per cent cumulative electric power capacity from non-fossil fuel sources. These goals demand a rapid shift in investment and policy. The Economic Survey 2023–24 estimated that India requires approximately USD 2.5 trillion for mitigation efforts alone by 2030. Adaptation financing adds further pressure, with preliminary estimates suggesting USD 206 billion is needed by 2030 to strengthen resilience in critical sectors such as agriculture, forestry, fisheries, ecosystem, and water resources.<sup>1</sup>

India's current climate finance landscape shows growing momentum, though substantial gaps persist. In FY22, tracked green finance reached INR 3,71,200 crore (USD 50 billion) per annum, up by 20 per cent from INR 3,09,300 crore (USD 44 billion) in FY20.<sup>2</sup> The total need for green finance for achieving the Nationally Determined Contributions (NDCs), as determined by the Government of India is INR 1,62,50,000 crore (USD 2.5 trillion) or INR 11,00,000 crore (USD 170 billion). Climate Policy Initiative (CPI) estimated that the current tracked green finance covers approximately 30 per cent of the total finance needed to meet India's NDC (2015) by 2030. Adaptation finance, though growing, remains underfunded.<sup>3</sup> India witnessed a steady uptick in green bond issuances since 2015. A major milestone for the Indian green debt market was the launch of Sovereign Green Bonds, with the Government of India issuing INR 16,000 crore (USD 1.94 billion) to fund public sector green infrastructure in FY 2022–23. In FY 2023–24, the Government further issued Sovereign Green Bonds worth INR 20,000 crores in four tranches.<sup>4</sup> The DME Development Limited (DMEDL), a fully owned subsidiary of National Highways Authority of India has also announced issuance of green bonds worth INR 1000 crore for implementation of environment friendly measures on Delhi-

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<sup>1</sup> Draft Framework of India's Climate Finance Taxonomy, Government of India, Ministry of Finance, Department of Economic Affairs

<sup>2</sup> CPI 2024. Landscape of Green Finance in India. Available online: [climatepolicyinitiative.org/publication/landscape-of-green-finance-in-india-2024/](https://climatepolicyinitiative.org/publication/landscape-of-green-finance-in-india-2024/)

<sup>3</sup> IBID

<sup>4</sup> <https://timesofindia.indiatimes.com/business/india-business/central-govt-to-issue-rs-20000-crore-sovereign-green-bonds-in-four-tranches-in-fy25/articleshow/113746712.cms>

Mumbai Expressway project.<sup>5</sup> The current outstanding green debt securities (excluding Sovereign Green Bonds) amounts to INR 6,953 crores (approx. USD 809.33 million).<sup>6</sup>

Despite this remarkable growth in green investment, there still exists a large gap in India's green finance requirement. One of the most significant barriers to attracting funds for sustainable development in India has been the lack of a cohesive green policy in the Indian financial sector. Notwithstanding, over this period time, independent regulators and line ministries have issued several policies such as the Securities Exchange Board of India (SEBI) Business Responsibility and Sustainability Reporting (BRSR), RBI Green Deposit Framework, SEBI Environment, Social and Governance (ESG) Bond Framework, to name a few. However, these frameworks and regulations cannot and should not operate in isolation. Thus, India needed a comprehensive climate finance taxonomy to align all definitions and regulations of existing frameworks for mobilising both domestic and international capital at scale and effective utilisation of these funds.

## 2. Key Points of the Draft Climate Finance Taxonomy

The Indian Climate Finance Taxonomy proposes a sectoral approach covering energy, transport, industry, forestry and water sectors. It sets out technical screening criteria to ensure activities deliver a substantial contribution to climate mitigation or adaptation, do no significant harm (DNSH) to environmental and social objectives, and meet minimum safeguards. It aims to align with India's development priorities including energy security and job creation, keeping in mind just transition principles, while ensuring interoperability with leading taxonomies such as the European Union and ASEAN climate taxonomy frameworks.

In the energy sector, the taxonomy recognises renewables, energy storage and transmission, clean peaks, and clean hydrogen. In transport, it includes Electronic Vehicle (EV) infrastructure, model shift to railways and inland waterways, and low-carbon fuels. In forestry, it promotes afforestation, restoration, forest carbon, soil carbon, and conservation. Each measure must pass technical thresholds and DNSH tests to qualify as taxonomy aligned. Social safeguards cover labour rights, community engagement, and just transition principles. The framework highlights interoperability

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<sup>5</sup> PIB Release ID: 2082472, 9 December 2024,

[https://www.pib.gov.in/PressReleasePage.aspx?PRID=2082472#:~:text=NHAI%20Chairman%20Hails%20Green%20Bonds%20as%20a%20Benchmark%20Initiative%20for%20Sustainable%20Infrastructure%20Development&text=DME%20Development%20Limited%20\(DMEDL\)%2C,in%20roads%20and%20highways%20sector.](https://www.pib.gov.in/PressReleasePage.aspx?PRID=2082472#:~:text=NHAI%20Chairman%20Hails%20Green%20Bonds%20as%20a%20Benchmark%20Initiative%20for%20Sustainable%20Infrastructure%20Development&text=DME%20Development%20Limited%20(DMEDL)%2C,in%20roads%20and%20highways%20sector.)

<sup>6</sup> SEBI <https://www.sebi.gov.in/statistics/greenbonds.html>

by mapping its technical criteria to those of international taxonomies. This enables alignment of climate risk disclosures, facilitates global capital flows, and simplifies scorecards for cross-border investors. Alignment supports Task Force on Climate-related Financial Disclosures (TCFD) and International Sustainability Standards Board (ISSB) disclosure regimes and integrates transitions in hard-to-abate sectors like steel, cement and petrochemicals into decarbonisation pathways.

### **3. Critical Evaluation of the Draft Taxonomy**

This purpose of this discussion is to evaluate the current framework and come up with implementable policy recommendations that would be sent to the Ministry of Finance to be considered for inclusion in the Indian Climate Finance Taxonomy. The current draft provides an opportunity for open discussion to refine its design and prepare for practical implementation. The draft taxonomy must be viewed from the point of a circular economy, India's own development objectives and sustainability targets, and with the intention of laying down the guiding principles that would not only help attract funds for investment, but also guide the investment utilisation choices and process. By its own admission, this draft taxonomy has been stated to be a "living document" that will be amended to keep up with the changing landscape.

The Policy Consensus Centre has analysed the draft taxonomy and has put together a few suggestions for its improvement. Some of these that are presented for this discussion are as follows.

#### **3.1 Monitoring, Evaluation, and Impact Assessment**

A sound taxonomy must be supported by a framework that can assess the real impact of projects classified as green. Clear methodologies are needed to evaluate environmental outcomes while ensuring that projects deliver genuine climate benefits. Developing robust monitoring and evaluation systems will help ensure ongoing integrity. While the scope of taxonomy may not directly include the framework for monitoring and evaluation, it must be supported by one so that the assessment criteria and methodologies are also standardised for measuring full impact.

#### **3.2 Data Infrastructure and Transparency**

Data systems form the backbone of taxonomy implementation. India requires a central repository to track projects against taxonomy definitions in real time. Emerging digital tools such as blockchain registries can improve traceability and verification of green claims. Interoperability across regulators and ministries will be key to avoid fragmented



and/or duplicate reporting. Such real time data repositories can add significant value to policymaking.

### **3.3 Defining Boundaries: Green, Transition and Hard-to-Abate Sectors**

The taxonomy must draw strong boundaries to classify projects correctly. While purely green activities are relatively straightforward, transition activities, such as retrofitting existing assets, must have clear entry thresholds. For sectors like steel, cement and chemicals, technology pathways towards lower emissions must be embedded into classification criteria. International practices and India's own climate targets offer useful benchmarks to help shape these definitions.

### **3.4 Incentivisation and Financial Instruments**

To mobilise private capital at scale, suitable risk-sharing and incentive structures are essential. Tax incentives, concessional finance, viability gap funding, and credit enhancement measures such as first-loss capital or green guarantees can help attract investment into sectors that currently face financing barriers. The proposal for a dedicated Green Guarantor entity may serve as an institutional anchor. A Green Guarantor will be a significant incentive for lending agencies.

### **3.5 Governance, Disclosure, and Assurance Standards**

Consistent, verifiable, and frequent disclosures will build market trust. The taxonomy's reporting framework should draw upon SEBI's ESG Debt Securities framework, including its governance norms for non-green ESG bonds. SEBI's BRSR Core standards, RBI's Green Deposit Framework, and the Carbon Credit Trading Scheme (CCTS) provide important references. Third-party assurance mechanisms must be carefully designed to avoid conflicts of interest. Furthermore, all existing disclosures must be consolidated to avoid overlaps and duplication to reduce compliance burden.

### **3.6 Social Inclusion and Safeguards**

Environmental gains should not come at the cost of social equity. Taxonomy-aligned projects must embed safeguards for vulnerable communities, uphold labour rights, promote gender equality, and secure livelihoods. These aspects are central to a just transition and require clear guidance within the taxonomy. Moreover, the taxonomy must be in line with the United Nation's Sustainable Development Goals (UN SDGs). The approach must be holistic.

### **3.7 Evolution, Feedback Loops, and Reclassification**

The taxonomy must evolve with technology shifts and new evidence. A periodic review mechanism, with defined triggers for updates, will keep the taxonomy relevant. In addition, a system to capture and address grey areas or misclassifications will ensure ongoing credibility. While this principle is espoused by the document, in that it is a “living document,” the process for this review must ideally be codified. If not, it risks becoming ad hoc and siloed.

## **4. Outcome of the Discussion**

India’s draft Climate Finance Taxonomy presents a unique chance to shape a forward-looking, credible framework that balances environmental ambition with development imperatives. PCC’s discussion on “Analysing India’s Draft Climate Finance Taxonomy Framework” held on 19<sup>th</sup> June 2025 intended to build collective understanding and practical pathways for turning this vision into reality. The discussion further suggested pragmatic policy recommendations to refine technical screening, minimum safeguards and help in proposing mechanisms for dynamic updates, robust monitoring, creating digital disclosure platforms and market instruments, including incentives and credit guarantees. The overall goal was to transform the draft taxonomy from a technical exercise into a living instrument that channels capital to climate-smart action, supports economic growth and reflects India’s global climate commitments. The recommendations and suggestions from the discussion are presented below.

### **4.1 Dedicated Agencies for Monitoring and Evaluation**

The Indian Climate Finance Taxonomy must designate and codify a dedicated agency for climate finance initiatives, tracking compliance, releasing outcome statements among other activities. A sub nodal agency may be designated to monitor progress of green projects at the grassroot level while a central agency should be designated to review and publish the progress of such projects on a periodic basis preferably, annual or biannual basis. There should be an institutional mechanism comprising of experts from line ministries and stakeholders for providing technical inputs on the various sectors covered under the climate finance taxonomy. This institutional mechanism will help in determining the actual change and the scope of furthering sustainability with technological innovation.



## **4.2 Compliance Tracking and Periodic Review**

The Indian Climate Finance Taxonomy must clearly outline and codify compliance disclosure rules for financial and non-financial companies in the main document. This must distinctly outline rules for insurance against unforeseen circumstances. It must clearly state how frequently projects financed through climate finance initiatives are reviews central and ground level. This would ensure transparency and a level of accountability for such projects. Moreover, appropriate guidelines must also be created for assigning compliance level and rating for such projects.

## **4.3 Alignment with Global Climate Finance Taxonomies**

The language of the Indian Climate Finance Taxonomy must be aligned with global climate finance taxonomies so that foreign investors find it easy to invest in climate-friendly technologies and activities, supporting the India's transition to a low-carbon economy and its goal of net-zero emissions by 2070. This would prevent any conflict arising from legal or ethical decision making due to a difference in climate backed and sustainable investment standards between the investor's home country and India.

## **4.4 Sub-stratification of Categories of Economic Activities, Projects and Measures**

Under its current form, the draft Indian Climate Finance Taxonomy has proposed to categorise economic activities, projects and measures under three types i.e., Climate Supportive I, Climate Supportive II and Transition Category. Projects, activities or measures that would contribute to one or more objectives in the proposed framework through by one of the following methods i.e., by avoiding GHG emissions, reducing emission intensity, deploying adaptation solutions that reduce the risk of adverse impacts of climate change, and/or research and development will be designated as climate supportive activity I or II, depending on their qualifying criteria. On the other hand, transition activities would include activities, projects and measures for which there is no technologically and economically feasible low-emission alternative in India. It has been suggested in the proposed taxonomy further subclassification is done within the current categories. To demonstrate, the ASEAN Climate Finance Taxonomy classifies economic activities into three categories i.e., Green, Amber, and Red, using a "traffic light" system to indicate their alignment with environmental objectives, where Amber is further categorised into tier 2 and Amber tier 3. The Indian Climate Finance Taxonomy should similarly subclassify, tier I and tier II add further spectrums (similar to light green and dark green or tier 2 or 3 of amber) based on absolute environment friendly projects with net zero impact on the environment, certain activities which may have net positive

impact in terms of an activity for example water conservation or afforestation by adopting non-conventional farming and agricultural activity.

#### **4.5 Screening Criteria**

The proposed taxonomy must develop a scientific and data-backed technical screening criterion for tier I and tier II climate supportive activities and transition supportive approaches in the defined timeline. This would mandate collecting and analysing socio economic data at geographic, ecological, and commercial micro level for effective policymaking.

Apart from suggestions on the proposed climate finance framework, the discussion also heard general suggestions for creating a long-term plan for and climate finance and developing further sustainable and green finance initiatives. Some of these suggestions are also mentioned below.

#### **4.6 Impact of the Proposed Climate Finance Taxonomy at Micro Level**

The Indian Climate Finance Taxonomy must be committed to improving condition of the vulnerable communities, small and micro businesses, and the ecology. This document must ensure that the end utilisation of climate friendly finances must have a positive impact on vulnerable communities and businesses, as well as on maintaining an ecological and environmental harmony. To better integrate climate financing measures at micro level, States might consider developing state specific climate finance taxonomy modelling on the national Climate Finance Taxonomy. This would further help States in developing climate specific budget to support vulnerable communities and secure lives and livelihoods from natural disasters. This would help in aligning financing public activities at micro level (district, city and village level) to create sustainable and impactful outcomes. The Ghaziabad Municipal Green Bond can be treated as a model case.

#### **4.7 Development of a Risk Weighed Assessment Metric**

To determine the capital and reserve requirements of climate friendly project, financial policy makers may consider developing a climate stress testing (risk weighed assessment) mechanism in alignment with the proposed framework. Higher credit score will be assigned to climate resilient or ecofriendly project to accommodate for the lower environmental risk associated with these projects.

#### **4.8 Need for Developing More Climate Friendly Initiatives**

The Climate Finance Taxonomy must create a distinction for financing climate friendly and sustainable infrastructure projects and acquiring/building green assets. Additionally, the concept of leasing for climate friendly initiatives and acquiring low carbon emitting assets must be also considered under the proposed taxonomy. The proposed taxonomy must also reflect its impact the insurance sector especially in the disaster insurance sector.

#### **4.9 Developing Non-Banking Climate Financing Mechanism**

The Reserve Bank of India might consider setting up green financing non-banking financial companies (NBFCs) as a separate category similar to asset financing companies (AFCs). Such NBFCs may be provided regulatory relaxation and operational benefits similar to AFCs.

#### **4.10 Understanding the Cost of Greening**

Policymakers need to realise that the merely terming an investment or funding mechanism as “climate friendly” would not attract investors to invest in climate friendly projects. To an investor, unless there is an opportunity cost to it, investing in a climate friendly project is the same as investing in an otherwise non-climate friendly project. Hence, policymakers need to provide an incentive either directly to an investor in climate friendly project or provide a benefit to the project which can be further be passed down by the project to the investor as a premium over the usual return which effectively should be at par if not more than the return from a non-climate friendly investment of the same category.

#### **4.11 Emphasis on Needs of MSMEs**

The climate finance technology also must emphasise on how MSMEs can benefit from climate friendly investments especially ones which are trying to adopt sustainable practices. It is suggested that a self-assessment questionnaire with qualifying parameters be developed for MSMEs to make green finance accessible to them through which MSMEs can undertake a preliminary check to understand if they qualify for funding under climate friendly projects.

#### **4.12 Green Guarantee Fund**

Creating a Green Guarantee Fund to take care of the first loss guarantee for MSMEs manufacturing through climate friendly techniques and adopting carbon neutral measures. Similarly, a setting up a dedicated refinancing fund may be considered for financing buying low carbon emitting assets.

#### **4.13 Incentivising Climate Friendly Manufacturing Practices**

Production Linked Incentive (PLI) Schemes for climate friendly production initiatives similar to PLI scheme for designing and manufacturing of high-efficiency solar PV modules can be extended to incentivise manufacturing units using climate friendly methods. Climate aligned projects often face unique risks including longer gestation period, lengthier payback time, regulatory and political uncertainty in policymaking, rapid technological advancement among other challenges. To overcome these challenges in climate aligned projects, the Government might consider providing subsidies and tax breaks for green label projects. For example, subsidies can be provided to long-term capital-intensive sectors in green label projects whereas, tax deductions may be provided for sectors transitioning towards greener production such as iron and steel, cement, fertilizer and non-ferrous metal.

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## About Policy Consensus Centre (PCC)

The Policy Consensus Centre (PCC), founded by Ms. Nirupama Soundararajan and Mr. Arindam Goswami, emerges with a distinct mission: to conduct impactful policy research and drive policy transformations. Our focus encompasses pivotal sectors crucial for India's advancement, along with those that have been underexplored. In the intricate landscape of India, divergent opinions often hinder consensus-building for policymakers amidst diverse stakeholders.

PCC stands dedicated to comprehensive, evidence-driven research, promoting inclusivity and rigor. Our objective resides in cultivating accord among stakeholders through independent, data-centric analysis, a catalyst for meaningful policy shifts. In a climate where some research entities avoid unconventional subjects, PCC remains resolute in advocating thorough exploration across all sectors. Our belief underscores the necessity to scrutinize seemingly unconventional domains, an approach vital for identifying accurate risks and formulating sound policies.

PCC champions the synergy of economic rationale and empirical data, pivotal in fostering consensus and enabling effective policymaker engagement. In essence, PCC embodies a pioneering spirit committed to navigating uncharted territories, propelling well-informed policy decisions for India's holistic growth.

**Ms. Nirupama Soundararajan**

Co-founder & CEO

Mobile: +91 9971100996

Email: [nirupama@policyconsensuscentre.org](mailto:nirupama@policyconsensuscentre.org)

**Mr. Arindam Goswami**

Co-founder & Partner

Mobile: +91 9811095423

Email: [arindam@policyconsensuscentre.org](mailto:arindam@policyconsensuscentre.org)