



"GIFT IFSC: Shaping the Future of Global Climate Investment"

Background

In an ambitious move to bolster India's position in the global financial landscape, the Government of India established the International Financial Services Centres Authority (IFSCA) on April 27, 2020, as a unified regulator for India's maiden operational international financial centre i.e. GIFT IFSC. Operating under the IFSCA Act, 2019, IFSCA aims to create a world-class financial ecosystem in International Financial Services Centres (IFSCs), designed to facilitate ease of doing business and establish India as a preferred global destination for international financial services.

Among other objectives, one of the priority areas of IFSCA is Sustainable Finance. IFSCA intends to make GIFT IFSC, a global hub of climate finance. This is in line with the vision of the Hon'ble Prime Minister of India i.e. to develop GIFT IFSC, a global hub of climate finance. According to one report by the Council on Energy Environment and Water (CEEW)¹, India would need at least USD 10.1 trillion to achieve its net-zero goals, where a significant amount of investment will have to be financed through global sources. This is where GIFT IFSC, will play a key role as a gateway for global capital flows into India.

On the Path to Progress: IFSCA's Key Milestones (2020-2024)

1. During the last four years, IFSCA has taken significant steps in accelerating global sustainable capital flows by creating a conducive regulatory environment. **IFSCA has undertaken initiatives in three key funding areas: Debt Securities, Loans, and Funds.**
2. As of December 2023, the total bond market reached a remarkable size of USD 140 trillion², with the ESG-labelled bond market accounting for USD 4.4 trillion³. In order to encourage the growth of Green Bonds, Social Bonds, Sustainability Bonds, Sustainability-linked Bonds and other labelled bonds (collectively referred to as "ESG labelled Debt Securities"), IFSCA had

¹ <https://www.ceew.in/press-releases/india-will-require-investments-worth-over-usd-10-trillion-achieve-net-zero-2070-ceew>

² Training material on GSS+ bonds by NSE, CBI and IFC

³ <https://www.climatebonds.net/market/data/>



specified the necessary regulatory framework, in line with globally recognised standards, for the issuance and listing of ESG labelled bonds. This has resulted into listing of around USD 13.9 billion as of September 30, 2024, on IFSC exchanges.

3. In April 2022, IFSCA has issued a Circular on **“Guidance framework on Sustainable and Sustainability linked lending by financial institutions”**. The said framework has mandated IFSC Banking Units (IBUs) to allocate at least 5% of their loans green/social/sustainable/sustainability-linked sectors/facilities. **This has resulted into sustainable lending exceeding USD 1.5 billion in F.Y. 2023-24.**
4. Considering the potential for growth of AUM of ESG labelled funds by 2050, it holds huge potential for GIFT-IFSC based fund to capture large market share. With the intent to promote ESG funds and drive capital flows towards green and sustainable projects in India, IFSCA has issued a circular on January 18, 2023, requiring ESG schemes to make certain initial and periodic disclosures. This has resulted into registration of the first ESG engagement fund with enhanced disclosures, with the targeted corpus, which is one of the highest amongst all registered funds at IFSC. Further, in order to encourage Fund Management Entities (FMEs) to incorporate sustainability-related risks and opportunities in their investment decision making, IFSCA has mandated the large FMEs (AUM above USD 3 billion) to incorporate additional sustainability reporting requirements based on global standards.

IFSCA’s Recent Initiatives

5. Given the global demand for climate finance, which is estimated at USD 6.2 trillion annually through 2030 and USD 7.3 trillion by 2050 to achieve Net Zero, totalling nearly USD 200 trillion⁴, there exists significant potential for mobilizing global capital from GIFT IFSC. In this direction, IFSCA is currently working on following policy and regulatory initiatives.

- i. **Sovereign Green Bonds (SGrBs)**

In keeping with the ambition to significantly reduce the carbon intensity of the economy, the Union Budget 2022-23 announced the issue of SGrBs. Accordingly, a

⁴ <https://www.climatepolicyinitiative.org/wp-content/uploads/2023/09/How-big-is-the-Net-Zero-financing-gap-2023.pdf>



scheme for trading and settlement of SrGBs in IFSC was issued by RBI on August 29, 2024. Following this, a circular was issued by IFSCA on September 24, 2024, to operationalize the RBI scheme for trading and settlement of SrGBs in IFSC.

ii. Greenwashing

The rapid growth of green economy globally is also accompanied by concerns of greenwashing. With the growing issuance of ESG-labelled Debt Securities on the IFSC exchanges, establishing a robust framework to address the issue of greenwashing is imperative. In this direction, on October 4, 2024, IFSCA published a Consultation Paper on “**Principles to Mitigate the Risk of Greenwashing in ESG Labelled Debt Securities in the IFSC**”.

iii. Capacity Building

Capacity building is a pivotal aspect of fostering sustainable finance. IFSCA regularly collaborates with international and domestic organizations to conduct workshops and training programs. In September 2024, National Stock Exchange (NSE) in partnership with Climate Bond Initiative (CBI Training academy) and International Finance Corporation (IFC) under the aegis of IFSCA organized a Green, Social, Sustainability, Sustainability Linked and Transition Bonds (GSS+) training workshop.

Future Endeavours of IFSCA

i. Framework for Transition Bonds

The Expert Committee on Climate Finance set up by IFSCA has submitted its report on “Transition Finance” on July 01, 2024. IFSCA is currently reviewing the recommendation of the committee. The proposed framework would enable the Indian and foreign corporates from hard to abate sectors to raise money for financing their transition journey towards net-zero by 2050/2070.

ii. Voluntary Carbon Market

Though the Voluntary Carbon Market (VCM) had a tough year in 2023, it is expected to play an important role in channelizing cross-border carbon finance. As India is believed to



be the second largest source of carbon offsets globally⁵, GIFT-IFSC is ideally suitable to put in place necessary ecosystem to enable thriving VCM ecosystem at GIFT-IFSC. An Expert Committee on Voluntary Carbon Market has been set up to suggest IFSCA on steps to enable a robust ecosystem of carbon market related services at GIFT-IFSC.

iii. **Blended Finance Instruments**

Blended finance mechanism crowd-in private capital by mitigating specific investment risks and addressing market failures. This financial structuring approach makes strategic use of development finance capital to act as a catalyst to mobilise private capital. IFSCA is currently examining the recommendation of the Expert Committee on Sustainable Finance to facilitate blended finance mechanism by attracting concessional financing from Multilateral Development Banks (MDBs), thereby reducing the financial risks of private and commercial investors.

A Promising Tomorrow

IFSCA is committed to positioning GIFT-IFSC as a model for how financial markets can foster positive global change. By fostering collaboration and a unified vision, GIFT-IFSC aspires to be a key gateway for global climate and sustainable finance, playing a vital role in the battle against climate change and ensuring a sustainable future for generations ahead.

⁵ <https://www.investindia.gov.in/team-india-blogs/indias-carbon-market-revolution-balancing-economic-growth-climate-responsibility>