PRI RESPONSE

DRAFT FRAMEWORK OF INDIA'S CLIMATE FINANCE TAXONOMY

June 2025

To inform this paper, the following group has been consulted: PRI signatories that participated in a dedicated policy briefing with the Indian Ministry of Finance

While the policy recommendations herein have been developed to be globally applicable, the PRI recognises that the way in which policy reforms are implemented may vary by jurisdiction and according to local circumstances. Similarly, the PRI recognises that there may be circumstances where there are merits to allowing market-led initiatives to precede regulatory requirements.

PRI Association

Registered office: 25 Camperdown Street
London, UK, E1 8DZ Company no. 7207947
T: +44 (0) 20 3714 3220 W: www.unpri.org E:info@unpri.org

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI develops policy analysis and recommendations based on signatory views and evidence-based policy research. The PRI welcomes the opportunity to respond to the Ministry of Finance’s call for feedback on Framework of India’s Climate Finance Taxonomy

ABOUT THIS CONSULTATION

In pursuance of the Union Budget 2024-25 announcement to develop India’s Climate Finance Taxonomy, the Department of Economic Affairs, Ministry of Finance, has invited expert/public comments on the Draft framework of India’s Climate Finance Taxonomy.

This framework outlines the approach, objectives, and principles that will guide the taxonomy. It also details the methodology for classifying activities, projects, and measures that contribute to India's climate commitments, while also taking into account the goal to be a developed economy (Viksit Bharat) by 2047.

For more information, contact:

Jan Vandermosten

Senior Policy Specialist, Transition & Taxonomy

jan.vandermosten@unpri.org

Anusha Seshadri

Head of India and MENA

anusha.seshadri@unpri.org

KEY RECOMMENDATIONS

Sustainable finance taxonomies are crucial to ensure well-functioning financial markets that collectively contribute to climate and broader environmental goals. They help investors assess whether investments meet robust sustainability standards and align with policy commitments such as the Paris Agreement on Climate Change, the Sustainable Development Goals (SDGs) and national sustainability and climate change goals. They are also a cornerstone instrument of sustainable finance policy frameworks through their ability to provide a science- and evidence-based foundation for disclosure, stewardship and duty-based policies.

The PRI welcomes the development by Climate Finance Taxonomy by the Indian Ministry of Finance. Our key notes are that the framework:

- Remains rooted in the goal to facilitate resource flows to climate friendly technologies. India's economic development goals are crucially important, and the principle of common but differentiated responsibilities is relevant across policy instruments. But international investors understand taxonomies as identifying economic activities with *high environmental performance*, informed by science. Taxonomies that go beyond sustainable economic activities to include economic activities that are needed to *enable a transition* (such as in Australia, ASEAN or Singapore) should allow investors to clearly distinguish the degree to which their investments are (not yet) contributing to the objectives defined by the taxonomy. The Climate Finance Taxonomy will be most effective if it follows that logic, and is accompanied by further economic policy interventions that provide the necessary investment opportunities.
- Clarifies how comprehensive performance metrics for significant contribution and do no significant harm will be developed and applied over time to support clear definitions for aligned economic activities. This will also facilitate interoperability of the Climate Finance Taxonomy with other sustainable taxonomy frameworks.

DETAILED RESPONSE

Name of organisation/person	Principles for Responsible Investment (PRI)		
Contact details			
Category/Description of person giving comments:			
S. No.	**Para/Sub Para no**	**Comments**	**Rationale**
	2.1	India's economic development goals are crucially important, and the principle of common but differentiated responsibilities is relevant across policy instruments. PRI notes, however, that international investors understand Taxonomies as identifying economic activities with *high environmental performance*, informed by science. Taxonomies that go beyond sustainable economic activities to include economic activities that are needed to *enable a transition* (such as in Australia, ASEAN or Singapore) should allow investors to clearly distinguish the degree to which investments are (not yet) contributing to the objectives defined by the taxonomy.	PRI's policy toolkit for sustainable taxonomies highlights that taxonomy objectives should be "science-based, in line with environmental boundaries and societal needs, and linked to national and international policy goals and standards". This includes principles such as technology-neutrality, lifecycle emissions and permanence; as well as incentivising the development and roll-out of solutions (e.g. nature-based solutions). The G20 sustainable finance working group's principles on alignment approaches also established the consensus that such approaches should "be science-based for environmental goals and science- or evidence-based for other sustainability issues". Some taxonomies go beyond sustainable economic activities and include, for instance, economic activities that are needed to enable a transition towards achieving social or environmental goals: such 'extended' taxonomies should always make clear that they are not only identifying sustainable economic activities, and maintain a clear distinction between the different types of economic activities (i.e. sustainable, transition) so that investors can clearly distinguish the

		The Climate Finance Taxonomy will be most effective if it follows that logic, and is accompanied by further economic policy interventions that provide the necessary investment opportunities.	degree to which their investments are (not yet) contributing to the objectives defined by the taxonomy. India's Climate Finance Taxonomy will be most effective in facilitating investments from (international) investors if it follows the established consensus that its objectives focus on sustainability objectives and be science-based. The Paris Agreement goal of limiting the increase in global average temperature to 1.5°C requires global emissions to decline 43% by 2030 and net-zero worldwide by 2050. The Intergovernmental Panel on Climate Change (IPCC) indicates that limiting warming to 1.5C is crucial to avoid the most severe impacts of climate change, and any delay in reducing global greenhouse gas emissions makes it significantly more difficult to achieve this goal. India's sustainability goals will need to be achieved alongside its economic development objectives, with respect to the principle of common but differentiated responsibilities. This will require a combination of economic and sustainable finance policy instruments guided by a whole-of-government approach to the economic transition. In that respect, India's Climate Finance Taxonomy can serve as the tool that sets the scientific benchmark for sustainable or transitional economies activities, while other instruments can establish the enabling environment for creating an investable universe of such activities in light of economic development goals.
	3.2	PRI notes that there is some uncertainty in the hybrid approach (that combines qualitative with quantitative metrics) that reduces the objectivity and standardisation of the proposal.	PRI's policy toolkit for sustainable taxonomies establishes that such frameworks generally comprise three elements: objectives, activity lists and performance criteria (for significant contribution and do no significant harm). Implementing a taxonomy in stages – starting with objectives and then moving to activity lists and performance criteria – can help ensure the

			tool is suited to the context in which the taxonomy is being developed. The specificity and detail of these objectives, activity lists and performance criteria can be made more detailed and demanding over time, as capacity and familiarity with the taxonomy is built. To align with international best practice and ensure interoperability with other taxonomies, performance criteria (or 'technical screening criteria') should be introduced that define how economic activities can significantly contribute to the objectives of the sustainable finance taxonomy, as well as for ensuring that economic activities do no significant harm to any of the objectives. To be aligned, an economic activity must then significantly contribute to one of its objectives, while doing no significant harm to any of the other objectives. Entities should also be expected to respect minimum social safeguards. Considering the above, the Climate Finance Taxonomy would benefit from further clarity on whether: ■ Metrics for both significant contribution and do no significant harm will, if needed over time, be developed at the level of economic activities. ■ Entities' economic activities will need to meet both significant contribution and do no significant harm criteria to be considered in line with the framework.
	5.2	PRI notes that Climate Finance Taxonomy's Tier 1 and 2 activities will need to be supported by transparent and robust sectoral transition pathways to ensure their contribution to climate goals.	The comments and rationale provided above for paragraph 2.1 have established the value of sustainable taxonomies to be aligned with science-based objectives. PRI also refers to the comment and rationale outlined in relation to paragraph 3.2. Further clarifying how comprehensive performance metrics will be developed and applied over time will support clear definitions for aligned economic activities.

			PRI's policy toolkit for sustainable taxonomies has formulated that "the extent to which specific activities align with the objectives of the taxonomy needs to be determined. This can be done by specifying technical screening criteria, which are specific **performance-based criteria** to determine if an activity is aligned with the taxonomy (e.g. only energy produced below a certain carbon intensity level would be eligible). Tier 1 climate supportive activities in the Climate Finance Taxonomy will need to "contribute to a reduction in emissions intensity (**beyond a certain factor**)". While this implies the formulation of technical screening criteria, further clarity should be provided based on transparent and robust sectoral transition pathway that ensure performance thresholds can be set in a progressively tightening manner for the sectors under consideration. Tier 2 climate supportive activities will not be subject to performance-based criteria. PRI recommends to only include such activities if they are accompanied by transparent and robust sectoral transition pathway, facilitating an approach that converges with Tier 1 activities. We are open to continue a dialogue on how sectoral transition pathways can support the formulation of technical screening criteria for climate supportive economic activities.

The PRI has experience of contributing to public policy on sustainable finance and responsible investment across multiple markets and stands ready to support the work of the Department of Economic Affairs, Ministry of Finance further to the development of the Climate Finance Taxonomy in India.

Please send any questions or comments to policy@unpri.org.

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