Climate and Sustainability Initiative

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Accessing Institutional Capital For India's Green Transition

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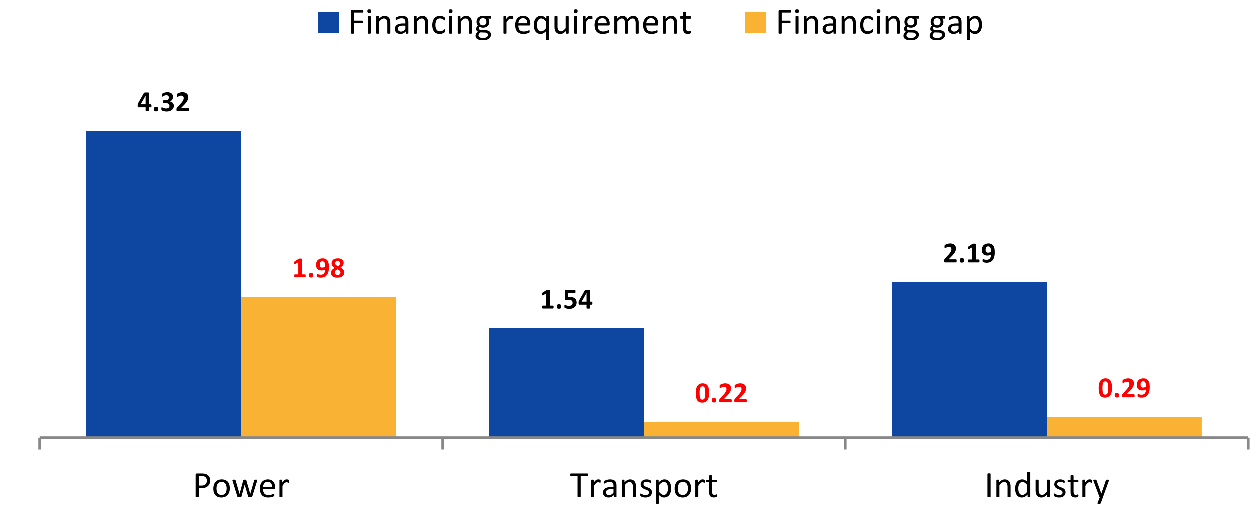
India's Green Financing Gap: A $2.5 Trillion Shortfall till 2050

Green investments are becoming more attractive— but financing needs continue to outpace available capital

$22.7T	$6.5T	$8T	$2.5T
Cumulative financing needs till 2070	Financing shortfall till 2070	Cumulative financing needs till 2050	Gap 2026–2050

Sector Financing requirement vs. Financing gap (2026–2050) in USD trillion



Power 54% of net-zero capex
Transmission & Distribution, RE Generation , Storage

Transport 19% of net-zero capex
Clean transport – EV, FCEV, higher blends, hydrogen

Industry 27% of net-zero capex
Iron and steel, cement and chemicals

Debt financing is relying on banks and NBFCs, while equity relies heavily on corporate balance sheets and foreign investors.

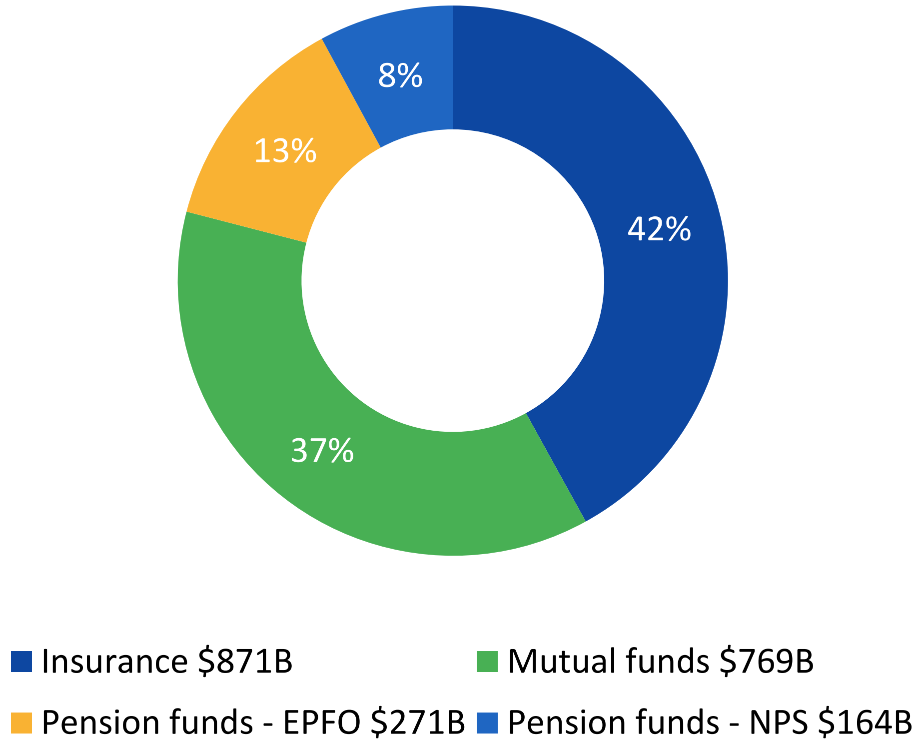
Bridging the gap will therefore require mobilising long-term capital from domestic institutional investors.

Source: NITI Aayog (2026),CSI analysis

A $2.1 Trillion Base — Set to Grow to 34 trillion till 2050

The capital exists and is multiplying — but hardly used today for green transition

Institutional AUM, FY25 — $2.1T



PORTFOLIO ALLOCATION

- 58%—69% of the AUM of is allocated to government securities for pension funds and insurers, while their allocation to private fixed income securities is limited
- Moreover ~75% issuance is by Banks and NBFCs.
- Allocation to public equity is 11%-25%, which remains passive and benchmark driven.
- Alternative asset allocations (~0.2%) remain well below regulatory limits (5%) for pension funds.

Note: The allocation is based on pension funds and insurers, whereas mutual funds invest on a scheme-by-scheme basis.

Source: NITI Aayog, EPFO, PFRDA, IRDAI, AMFI, CSI analysis

Climate: Risk as well as an Investment Opportunity

Institutional investors could mobilise USD 1.2 trillion by 2050 meeting ~15% of India's transition financing needs.

EQUITY

New Growth Themes

$812B 68% of flows

- Shift from high-carbon to low-carbon economy
- Change in energy mix and Electrification of energy system is creating massive investment opportunities

BOND

Long-Duration Capital

$269B 22% of flows

- Debt: mainly by banks & NBFCs
- Asset-liability mismatch, sector exposure limits
- Room to rotate from G-Secs into bonds

ALTERNATIVES

An Underused Opportunity

$124B 10% of flows

- Small base and fastest growing asset class
- InvITs, securitisation (ABS) and AIFs

✓ Pension funds and insurers have long term liability driven mandates and prefer investing in businesses offering predictable cash flows which matches long-life green assets.

✓ Mutual funds have flexible investment regulations and hence can provide various type of capital for green technologies at various stages of development

Source: CSI analysis

Barriers to Investment

Institutional capital faces structural, market, and regulatory barriers that limit investment in green sectors.

01

Sovereign-Debt Concentration

68–81% of pension & insurance debt sits in G-Secs

02

Credit-Rating Thresholds

Regulations require investing in projects rated AA or above

03

Lack of depth in Bond Market

Secondary bond market less liquidity

04

Limited Use of Innovative funds

GSSS bonds and pure play ESG funds remain limited. Transition and SLBs are not issued in India yet

05

Governance & Greenwashing

Corporate governance issues, absence of taxonomy, BRSR disclosure is not decision useful yet

06

Indifference to Climate Risk

Climate considerations remain secondary in investment decision-making.

Source: CSI analysis

Risks Stalling Green Investment

Each risk concentrates in specific green assets

01
Credit / Default Risk
Issuer misses scheduled debt-service or repayment.

02
Policy / Regulatory Risk
Adverse shifts in tariffs, duties or approvals, Singing of PPA

03
Off-taker / Counterparty Risk
Buyer fails to honour contract.

04
Technology Risk
Risk of low performance

05
Merchant / Market-Price Risk
Uncontracted prices swing; cash flows turn volatile.

06
Construction Risk
Delays, cost overruns or damage during build-out.

07
Low Carbon-Pricing
Doesn’t incentivize companies to invest in low-carbon tech.

Source: CSI analysis

Mitigating risks – mobilizing institutional capital

Guarantees, blended finance and insurance move green assets into institutional portfolios.

Feasibility · Scalability
● High ● Moderate

		Feasibility	Scalability
Partial Credit Guarantee	Credit, rating & refinancing risk	High	High
Partial Risk Guarantee	Off-taker, policy & contractual risk	Moderate	High
Loan Loss Reserve	Portfolio default in early-stage sectors	Moderate	Moderate
Blended Finance	Technology & viability-gap risk	Moderate	High
Performance Insurance	Output & technology-yield risk	High	Moderate

Scaling risk mitigation instruments requires action

- ✓ Requires simpler structures, clearer regulations, stronger data infrastructure, and standardised frameworks
- ✓ A National Green Guarantee Corporation (NGGC), backed by the Government of India and multilateral development banks, could provide a unified guarantee platform to de-risk green assets
- ✓ This will reduce transaction costs and improve investor confidence.

Source: CSI analysis

Scaling Mobilisation: From Passive to Purposeful

A sequenced mix of mandates, incentives and market design can shift allocation this decade.

Regulatory Mandates

- 1–2% green allocation mandate for pension & insurance funds
- Expand IRDAI infra class to all green assets
- Introduce green ETFs for investment by EPFO

Market Structure

- Dedicated green-bond trading segment on BSE/NSE with lower costs and better liquidity
- Create dedicated green categories for ESG, AIFs, InvITs and securitisation to enable targeted incentives
- Encourage market-making for bonds issued by green companies

Fiscal Incentives

- Tax-free interest on bonds where proceeds are invested in low-carbon technologies (i.e. Green bonds, Transition bonds, SLBs)
- Time-bound tax deductions for climate funds

Data, Taxonomy & Governance

- Finalise the India Green Taxonomy (MoF)
- Climate change stewardship in investment with stringent regulations
- Disclosure by institutional investors how they are integrating climate change in their investment strategies

Source: CSI analysis

The Way Forward — Collaborative response

Reorienting institutional capital requires regulatory and policy action, market reform — and a carefully sequenced rollout.

NEAR TERM

Deepen Instruments

Lift liquidity, standardisation & scale; build green-suited instruments.

NEXT

Define & Label 'Green'

Earmark and standardise instruments within a clear framework.

THEN

Introduce Mandates

Modest green allocation for pension, insurance & PF — tied to instrument supply.

OVER TIME

Market-Led Allocation

Green assets reach scale & benchmark status; allocation turns market-driven.

Investors

- A fiduciary duty to act on climate risk
- Redefine investment strategy, fund manager roles and mandates

Regulators

Design regulations to make the financial system resilient to climate risk while enabling institutional capital allocated to India's green transition

Source: CSI Analysis

THANK YOU