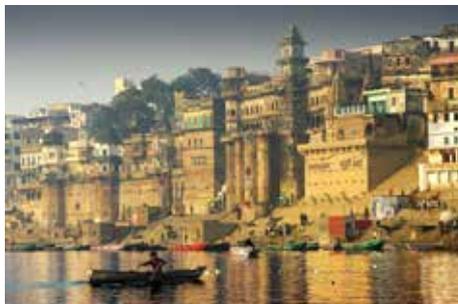
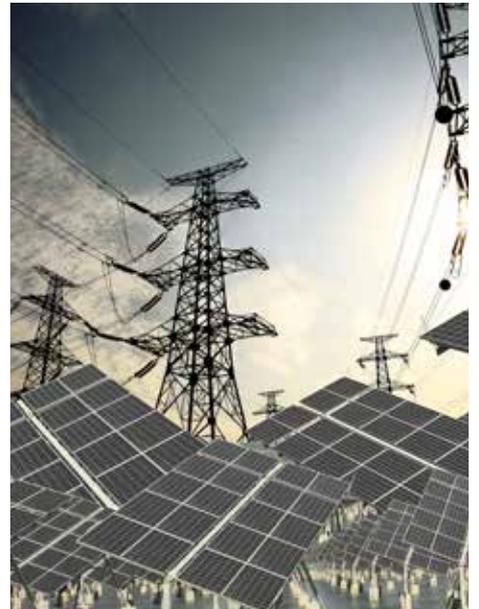


India's climate finance readiness: policymaker's summary



An initiative supported by



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About this project

This policymaker's summary is based on a larger report titled 'Enhancing India's readiness to access and deliver international climate finance'.

The report provides more information on:

- The landscape of international climate finance, summarising the main sources of climate finance and outlining the emerging sources that are likely to play a major role in the period 2015 to 2020.
- India's experience in accessing these funds – providing an overview of India's experience in accessing multilateral and bilateral sources of climate finance.
- The detailed design of a 'Readiness Framework' that can be applied to assess how ready a country is to access and benefit from climate finance.

- India's readiness to access and deliver climate finance based on the application of the 'Readiness Framework'.
- Lessons from peer countries, particularly Brazil, China, Indonesia and Mexico, which can provide guidance on how India can improve its climate finance readiness.
- Main recommendations on how to improve institutional readiness in India by building on the country's strengths, and addressing the gaps and barriers that persist.

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About Shakti

Shakti Sustainable Energy Foundation works to strengthen the energy security of India by aiding the design and implementation of policies that support energy efficiency and renewable energy.

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Context

In 2008, India released its National Action Plan on Climate Change (NAPCC), which outlines eight 'National Missions' that will help the country to achieve development objectives while addressing the threat posed by climate change. India's Expert Group on Low Carbon Strategies for Inclusive Growth has stated in its Final Report that aggressive action on mitigation cannot be achieved without substantial international financial support¹. India already receives a substantial amount of international public climate finance compared with other developing countries. However, there is consensus among government, civil society and the private sector that India could do more to attract international climate finance – from public and private sources.

This policymaker's summary provides guidance on how India can attract further funding for the implementation of the NAPCC through **an analysis of the country's climate finance readiness**. Climate finance readiness has been defined by the UNDP as:

"The capacities of countries to plan for, access, deliver, and monitor and report on climate finance, both international and domestic, in ways that are catalytic and fully integrated with national development priorities and achievement of the Millennium Development Goals."²

Assessing climate finance readiness

One of the main goals of this summary report is to understand how countries can improve their readiness to access and deliver climate finance. But how can a country's 'readiness' be evaluated? As a first step, the project team developed a climate finance Readiness Framework. This is a diagnostic tool that can be used to analyse a country's climate finance readiness. It provides an overview of the key elements of a country's national response to climate change – focusing on the functions, institutions and competencies needed to effectively respond to the challenges posed by climate change. Using the Readiness Framework as a reference point, analysts can assess the degree to which the key readiness functions – political; strategic; financial; and measurement, reporting and verification (MRV) – have been implemented in a country. They can also assess the degree to which a country's institutions have developed the core readiness competencies necessary to plan for, access, deliver, and monitor and report on climate

Five reasons why India should improve its climate finance readiness

- 1. India faces a multi-billion dollar funding gap to implement the NAPCC.** The Economic Survey of India estimates that it will cost USD38 billion to meet the climate goals of the NAPCC. Existing climate finance volumes are insufficient to meet this goal and will need to be supplemented with budget revenue, international climate finance and private investment.
- 2. Green Climate Fund (GCF) is expected to be one of a range of funding channels to deliver on the long-term climate finance goal to mobilise USD100 billion per year in climate finance by 2020 from a range of sources, both public and private.** In May 2014, the GCF Board agreed on the final decisions to operationalise the fund. It is expected that the first USD10 billion will be available by November 2014 to begin project funding. Countries with strong capacity to access and deliver climate finance will be best placed to access this funding.
- 3. Readiness for climate finance goes beyond accessing the GCF.** The United Nations Development Programme (UNDP) estimates that there are more than 50 international public funds, 6,000 private equity funds and 45 carbon markets providing climate finance. Each of these public, private, bilateral and multilateral sources provides India with new opportunities for climate-related investment³.
- 4. Readiness activities can support India to use scarce public funds to attract private climate finance.** The International Energy Agency has estimated that, by 2020, 40% of global climate investment will come from private households, 40% from businesses and 20% from government⁴. Therefore, the ability of countries to leverage private climate finance will become instrumental in delivering major national policies such as the NAPCC.
- 5. Greater climate finance readiness can improve national ownership of climate-related strategies and projects.** With greater institutional capacity, more countries are adopting the role of fund manager and implementing agencies for climate finance (which traditionally were done by multilateral and bilateral actors). This, in turn, is providing countries with ownership over the implementation of their own climate change strategies and policies.

1. Planning Commission of India (2014). Final Report of the Expert Group on Low Carbon Strategies for Inclusive Growth.

2. UNDP (2012) Readiness for Transformative Climate Finance

3. UNDP (2011) Blending Climate Finance Through National Climate Funds

4. Catalyzing Climate Finance: A Guidebook on Policy and Financing Options to Support Green, Low-Emission and Climate-Resilient Development.

finance. Together, this analysis can provide a snapshot of a country's overall climate finance readiness.

The Readiness Framework builds on a number of frameworks that have been developed in recent years – most notably the work of UNDP, Overseas Development Institute and The Nature Conservancy – borrowing the strongest elements of each and amalgamating them into a cohesive whole. Importantly, it also adds the next step that has been missing in readiness analysis – the evaluation criteria used to analyse functional and institutional readiness in a specific country. Working with experts who designed the GIZ Clif Reflect tool, the study team developed a series of headline indicators for each of the Readiness Framework's readiness

functions. Each of these headline indicators are backed by a detailed list of Tier 2 indicators, which take the form of questions that can be used to assess a country's performance in that category. The questions have been designed to highlight the extent to which the key readiness competencies – planning, management and implementation – are present in a country's main agencies and institutions. These questions can be applied by researchers and analysts (through stakeholder consultations, expert interviews, literature reviews and so on) to identify the strengths and weaknesses of a country's readiness to access and deliver climate finance for each of the main readiness functions.

The climate finance Readiness Framework is a combination of key functions and the competencies required to deliver these functions by key agents and actors.

Readiness functions	Readiness actors	Readiness competencies
Political and strategic – design national policies, mainstream climate in development plans, provide policy guidance, allocate resources, overall coordination.	Executive/legislative branch of government, national committees on climate change, sectoral ministries and departments, and planning agencies.	
Financial – coordinate access, manage funds, develop new instruments, deliver finance.	Development finance institutions, national implementing agencies, ministry of finance, and so on.	
MRV – track and report, build capacity for M&E of programmes.	Ministry of finance, executing agency, fund managers, project partners, and so on.	
Principles: Relative to national circumstances, Responsive to country needs, Reasonable in identifying priority responses.		

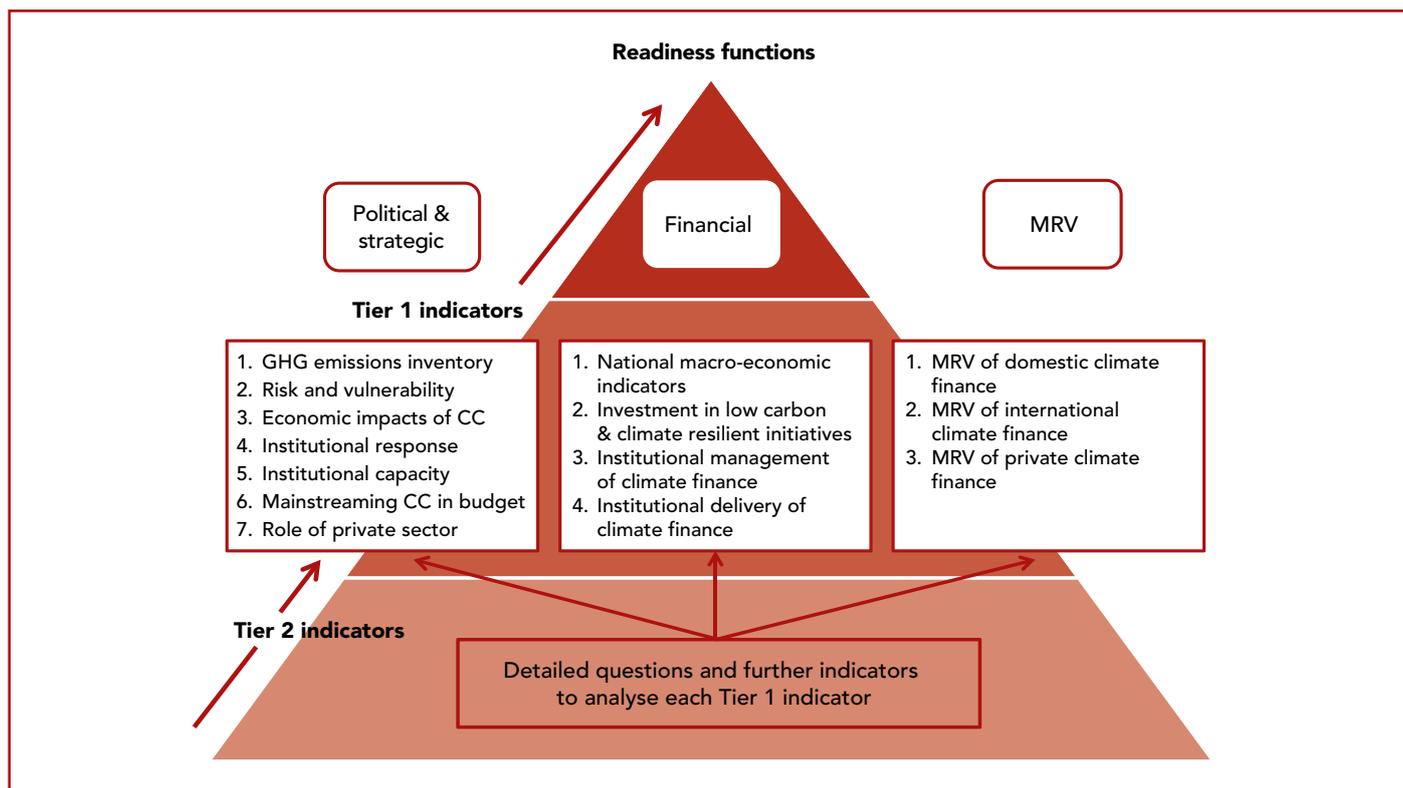
Source: Modified from Nakhooda, S., & Watson, C. (2013) and The Nature Conservancy (2012)

India's climate finance readiness performance

Over the past decade, India has successfully accessed climate finance from a number of sources – most notably the Clean Technology Fund, the Global Environmental Facility, bilateral donors like Germany and Japan, and private sector finance channelled through the Clean Development Mechanism (CDM). Yet, as the GCF prepares to open its doors for funding proposals and as the private sector becomes increasingly engaged in investing in climate-related activities, how ready is India to access and deliver these funds?

This study analysed India's climate finance readiness, based on the application of the Readiness Framework to the Indian context. It is clear from this analysis that India has taken important steps in recent years to improve its national response to climate change. For example, there is high-level political commitment to the NAPCC from the Prime Minister's Office (PMO). However, there is still no coherent national financing strategy to raise the necessary finance (from the national budget, private investors or international donors) and use this funding to deliver priority actions under the NAPCC's eight National Missions and the state action plans on climate change (SAPCC). As such, climate finance in India has been delivered unevenly across sectors, themes and regions – which has affected the overall effectiveness of the climate change response in the country.

A series of Tier 1 and Tier 2 indicators were developed to analyse national climate finance readiness under each of the main readiness functions⁵.



Headline messages on India’s readiness performance

- Overall, India’s performance on the political and strategic readiness functions is relatively stronger than that for the financial and MRV functions.
- There is a high-level political commitment to the NAPCC in India, although the implementation of the NAPCC has been slow due to a lack of coordination and regular communication.
- The NAPCC is not backed by a coherent national climate finance strategy, which means there is limited coordination in accessing climate finance and delivering it to priority interventions.
- There has been limited engagement with the private sector to develop funding mechanisms or regulatory policies that could see greater private investment in climate-related activities in India.
- India has experience in accessing, managing and delivering finance for renewable energy – mostly wind and solar – and to some extent for energy efficiency.
- Development finance institutions (DFIs) have experience delivering climate finance, but they face capacity constraints to scale-up existing programmes and broaden their sectoral and geographic coverage.

- DFIs have limited experience to blend finance from different sources and use innovative financing instruments to target this finance to priority sectors, themes and regions.
- There are no systematic MRV systems to measure, track and report the quantity of climate finance being delivered in India or the impact of finance on mitigation and adaptation actions.

Methodology

The first step in analysing India’s climate finance readiness consisted of a series of consultations with experts from government, public sector agencies, civil society, donors, the private sector, research institutions, think tanks and so on that operate in India and internationally. These one-on-one consultations were guided by the Readiness Framework’s Tier 2 indicators, with the project team asking questions and probing experts on issues relevant to their particular field of expertise. The answers from these interviews were then processed to generate key findings for each Tier 1 indicator of the Readiness Framework. These findings have been aggregated below to highlight the strengths, challenges and weaknesses of each of the main readiness functions in India.

5. A full list of the Tier 2 indicators can be found in the main report

Findings: India's readiness performance, by readiness function

Political and strategic functions	
STRENGTHS	<ul style="list-style-type: none"> India has appropriate systems in place to estimate greenhouse gas emissions. Climate change awareness has improved in India; National plans, such as the 12th five-year plan, have given attention to the impacts of climate change. There is strong knowledge of international climate finance opportunities from traditional sources.
CHALLENGES	<ul style="list-style-type: none"> Key vulnerabilities have been identified, but the link between environmental damage and socio-economic impact needs to be made clearer. The Government of India has provided regulatory mechanisms and economic incentives (such as PAT, FITs, RECS⁶) for engaging the private sector, but actual deployment of programmes has been slow due to enforcement and early stage implementation issues.
WEAKNESSES	<ul style="list-style-type: none"> Climate change planning and financing at the state level is at a very early stage of development. It is difficult to mainstream climate due to limited capacity and coordination within ministries. Investment requirements have been assessed for major climate change programmes though the quality of the assessment can be improved. Furthermore, a full-scale cost-benefit analysis between business as usual (BAU) and climate change plans has not been undertaken. Government initiatives to engage with the private sector on climate finance have been limited. There is a limited understanding of climate risk in private sector investments.
Financial function	
STRENGTHS	<ul style="list-style-type: none"> Indian institutions have clear structures in place to access and manage international climate finance. Bilateral and multilateral access is very streamlined and consultative. There is clear alignment of donor plans and Government of India priorities and targets as priority areas for funding are jointly decided by Department of Economic Affairs (DEA) and line ministries.
CHALLENGES	<ul style="list-style-type: none"> There has been less investment in forms of renewable energy beyond wind and solar, as well as in energy efficiency and sustainable transport. DFIs (such as SIDBI, NABARD) have experience in accessing climate finance, but they face challenges in scaling-up existing programmes and broadening their sectoral and geographic coverage. Efforts to identify bankable projects have been initiated, but significant scale-up of capacity and removal of barriers are still required to create a strong pipeline of investible projects. DFIs have some capacity to meet international accreditation requirements, fiduciary, environmental and social standards to be accredited as national implementing entities (NIEs), but additional capacity-building is required.
WEAKNESSES	<ul style="list-style-type: none"> The climate-related management experience of DFIs is limited to small and medium size projects. There has been limited use of innovative financing mechanisms and blending of finance instruments for low carbon projects in India. DFIs have delivered some climate-related programmes that have leveraged private finance, but capacity to deliver complex projects involving multiple financing instruments and institutions is limited.
MRV Function	
STRENGTHS	<ul style="list-style-type: none"> The Ministry of Environment, Forestry and Climate Change (MOEFCC) is well versed with MRV norms under the United Nations Framework Convention on Climate Change (UNFCCC) for Nationally Appropriate Mitigation Actions (NAMAs). International climate finance is tracked by DFIs on a project basis as per donor requirements.
WEAKNESSES	<ul style="list-style-type: none"> There is no systematic tracking of domestic budget allocations for the NAPCC's national missions. Tracking the impact of domestic revenues on climate change outcomes is limited to specific programmes or projects, covering emission reductions, but not vulnerability reduction. There is no systematic, publicly available, national MRV system for international climate finance. There has been no systematic effort to track and quantify private sector climate finance in India. Estimates of the climate-related impact of private investment have been limited to CDM projects.

6. PAT – Perform and Trade, FITs – Feed-in Tariffs, RECs – Renewable Energy Certificates

These consultations were followed by a round-table workshop in May 2014. At the workshop, experts gave their views on the study's initial results and helped generate a list of key gaps that India must address to improve its climate finance readiness. One of the most important messages to come out of this workshop is that India has room for improvement in all elements of the national climate change response and the role of climate finance in that response. Thus, despite the fact that India's political and strategic readiness functions are more developed than the financial or MRV functions, there are critical gaps for all functions that India must address.

In total, there are seven readiness gaps that India must address to improve its ability to access and deliver climate finance in the future. In the section that follows, each of the seven readiness gaps are outlined, along with recommendations and practical actions that India can take to address these gaps. Each of these recommendations are underpinned by evidence and learning from a number of peer developing countries that have developed innovative solutions to overcome similar challenges in the past.

Recommendations

1 **Readiness gap: India does not have a coherent national climate finance strategy or a central institution with a mandate to coordinate the access and delivery of climate finance in the country.**

Recommendation 1:

India should designate or create an independent coordinating agency with the mandate to strategically plan, access, mobilise, disburse and track climate finance at the national level.

Actions:

- Explore options to create an independent climate finance agency (for example, through an act of Parliament, executive order on the recommendation of the Prime Minister's Council on Climate Change or under the Environmental Protection Act of 1986).
- Ensure agency is empowered with executive, advisory, and governance and secretariat functions to strategically align climate finance actions with development plans and priority policy actions.
- Incorporate key design features such as guiding principles and mandates; the coordination of climate finance access (including leveraging capital from the private sector); a streamlined delivery structure (especially scaling-up the role of DFIs); and implementing MRV standards.
- Provide appropriate technical, administrative, and financial training and capacity building to various executing agencies, particularly development finance institutions.
- The Ministry of Environment, Forests and Climate Change (MoEFCC) has been nominated as the national designated agency (NDA) for the GCF. However, it does not fulfil the above design features and functions of an independent climate finance agency. Therefore, India should explore the option of delegating MoEFCC's NDA role to the independent coordinating agency once it has been established.

India can learn from the experiences in Indonesia, where legal mandates to implement national climate change plans have led to greater accountability in planning, financing, coordination and implementation structures. Indonesia's National Council on Climate Change (NCCC) is legally mandated to formulate strategies, programmes and activities on climate change. In parallel with the NCCC, the Indonesian Climate Change Trust Fund (ICCTF) aligns international financial resources and domestic budgets with Indonesia's climate change and development priorities.

2 Readiness gap: There have been limited efforts to assess the impact of climate change on the national economy, and to prioritise climate-related investment within national and/or sectoral budgets, based on a detailed needs assessment.

Recommendation 2:

India should undertake detailed quantitative needs assessment and cost-benefit studies to prioritise mitigation and adaptation actions, and provide detailed cost estimates for their implementation.

Actions:

- MoEFCC, PMO, Ministry of Finance (MoF) and NAPCC missions should undertake needs assessment and cost-benefit analysis to develop a detailed list of priority climate-related interventions.
- Undertake Climate Public Expenditure and Institutional Review (CPEIR) analysis to estimate national financing of climate-related activities.
- Develop sectoral roadmaps for low carbon development and climate resilience.

Brazil has mainstreamed climate actions into sectoral plans, which has helped to prioritise policy actions and investment to meet funding gaps. A Federal Decree has mandated that mitigation plans for Brazil's main sectors are included in the national action plan on climate change. Each of these plans include emission reduction targets to 2020, implementation activities, monitoring and evaluation (M&E) indicators, proposed regulatory tools and incentives for implementation, and a cost-benefit analyses of the mitigation plans' impact on sectoral competitiveness.

3 Readiness gap: The private sector has had limited engagement with the Government of India in climate change decision-making and coordinating a national financing strategy that encourages private sector investment in climate-related activities.

Recommendation 3:

India should step up private sector engagement in national climate change policies, strategies, coordinating committees and national financing bodies (for example, Partial Risk Guarantee Fund (PRGF), Venture Capital Fund (VCF) and National Clean Energy Fund (NCEF)).

Actions:

- Promote greater public-private dialogue on climate finance through regular forums and institutions (such as sectoral associations, investor platforms and public consultations).
- Involve the private sector in the design and implementation of schemes such as PAT and PRGF.
- Develop public-private financing structures and launch pilot projects to showcase viable business models and attract further climate investment.

India can learn from China, where experience shows that actively engaging the private sector has boosted investment in climate-related activities. China's CDM Fund – the main climate finance coordinating body – provides advisory and financial services for the private sector, which has successfully attracted private sector investment into low carbon initiatives such as feed-in tariffs and emission trading scheme pilots. While India has attempted to implement similar initiatives, it has suffered from weak uptake and lower compliance – mainly due to a lower level of engagement with the private sector when designing these schemes than in China.

4

Readiness gap: DFIs in India have limited capacity to implement climate-related projects beyond a narrow range of themes, sectors and geographies. Therefore, India faces challenges in developing a pipeline of bankable projects, which could help remove barriers for project financiers and increase climate-related investment in the country.

Recommendation 4:

India should strengthen the capacity of DFIs to design, select, coordinate and fund national and state-level climate change projects and programmes to increase the coverage of climate-related activities and develop bankable projects to attract further investment.

Actions:

- Provide DFIs with formal mandates to allocate funds for climate-related activities under the NAPCC and SAPCCs
- Create new DFIs to promote low carbon development actions in carbon-intensive sectors, such as transport, energy intensive industries, forestry, waste and water management.
- Create a climate finance group within each DFI with a clear mandate to develop investment criteria to deploy climate finance.
- Promote greater collaboration between DFIs, research institutions and the private sector to develop bankable projects.

- Explore how other financial institutions, such as the State Bank of India (SBI), Infrastructure Development Finance Company (IDFC), Infrastructure Leasing & Financial Services Limited (IL&FS), can also allocate climate finance.
- Design capacity building programmes at the sub-national level to assist DFIs, national banks, project developers, local government and so on to develop bankable projects.
- Apply for GCF Readiness support for DFIs to improve climate finance access and delivery.

Experience from China shows that focusing on capacity building at sub-national levels can help improve project development, design and implementation that are the necessary first steps to developing a pipeline of bankable projects. The Chinese CDM Fund provides capacity building and training for the private sector, which has helped to remove market and technical barriers for project developers to design good quality projects.

In Mexico, the central role of DFIs in delivering the national climate change strategy has led to the development of programmes and projects across a broader range of sectors, themes and regions. This has led to increased investment by the private sector in climate-related projects.

The GCF has received requests from 14 countries⁷ for readiness support and has already started to review them. Requests range from support to create strategic frameworks for engagement with the fund, programme and pipeline development, identification of implementation arrangements as well as requirements for accreditation of national implementing entities.

7. Antigua and Barbuda, Belize, Cook Islands, Dominica, Eritrea, Ethiopia, Indonesia, Mali, Mauritius, Mongolia, Namibia, Palau, São Tomé and Príncipe, Rwanda (Source: Green Climate Fund. Readiness and Preparatory Support Programme Update July 2014 www.gcfund.org/fileadmin/00_customer/documents/Readiness/Readiness_Newsletter_July_2014_FINAL.pdf)

5 Readiness gap: Climate finance delivery institutions (e.g. DFIs) have limited ability to match finance needs with a blend of climate finance sources and instruments.

Recommendation 5:

DFIs should develop the capacity to blend different sources and instruments (grant, loan, equity and debt) of finance when allocating funds to implementing entities. This should include the use of public funds to leverage private finance for climate-related activities.

Actions:

- Undertake research on new financing instruments in an effort to increase project implementation capacity across a wider range of themes, sectors and geographies.
- Pilot new approaches based on innovative financing models to develop capacity in DFIs.
- Improve existing procedural requirements in DFIs, such as financial procedures and risk mitigation strategies to safeguard investments, project investment criteria and standard M&E indicators.
- Create sector specific focal points in DFIs to provide support for project developers working with different types of private investors and different instruments.

India can learn from Indonesia, where a dedicated National Climate Fund provides overall financial management of the climate change response. The Indonesian Climate Change Trust Fund (ICCTF) was created with a mandate to pool resources from a variety of international funds, national sources and domestic budgetary allocations, for the implementation of national climate change plans. The ICCTF is made up of two funding windows – the ‘Innovation Fund’, which

directs bilateral and multilateral grant funding to climate activities, and the ‘Transformation Fund’, which will blend domestic funds, loans, equity and other types of investment to deliver project-level investment in low carbon and climate resilient economic development.

6 Readiness gap: Indian DFIs have capacity constraints in meeting international fiduciary standards (sound financial management, transparency, independence and professional standards), and social and environmental safeguards.

Recommendation 6:

Indian DFIs should develop minimum accreditation standards for accessing and delivering climate finance from international funding streams.

Actions:

- Apply for GCF readiness funding to support DFIs to meet GCF accreditation standards.
- Build project management capacity in DFIs that will play a major role in climate finance delivery.
- Improve credit ratings in DFIs by improving governance, and operational and risk control systems.

International experience shows that an important first step is for NIEs (such as, DFIs or National Climate Funds) to build fiduciary standards to meet international requirements. For example, the Brazilian Development Bank (BNDES) has been instrumental in managing the Amazon Fund, providing financial management with strong fiduciary standards, low administration fees and a transparent management process for the dispersal of funds to the project level.

7 Readiness gap: India has limited experience in measuring, reporting and verifying domestic, private and international climate finance. Systems for tracking volumes of climate finance have not been systematically applied and estimates on the impact of climate finance spend are even more limited.

Recommendation 7:

India should set up a central system for monitoring all climate flows – coordinated by the main climate finance agency/ institution outlined in Recommendation 1. This system can be used to determine the total volume of climate finance in India and, more importantly, the effectiveness of that finance in supporting the goals of India's NAPCC and SAPCCs.

Actions:

- Designate a team or working group within the central climate finance agency to develop and manage the climate finance MRV system, and to provide capacity building support.
- Develop standard methodologies and key performance indicators (KPIs) for the MRV system.
- Introduce regular reporting on climate activities for DFIs, NIEs, national missions, line ministries and so on, using standard KPIs to ensure data comparability.
- Develop a central tracking system that allows users to input data in standard templates.
- Process and analyse data on an annual basis, delivering findings in a report that can be used to guide the strategic thinking of the central climate finance agency.

Experience from South Africa shows that countries are beginning to develop systematic MRV systems to track climate finance. South Africa has designed a national MRV system that will track all actions (mitigation, adaptation and financing) under the country's National Climate Change Response Strategy. These data will feed into a central decision-making body that can process and analyse the data to determine the effectiveness of climate finance in meeting national climate priorities.

The future climate finance delivery structure in India

If India follows the recommendations of this report to address its seven readiness gaps, the institutional structure for accessing and delivering climate finance would look different than it does today. The Figure below provides an overview of how the new institutional structure would look if India followed the recommendations above. In particular, it highlights how the new climate finance coordinating agency would manage the overall national climate finance response – providing overall direction to accessing climate finance; coordinating a needs assessment and cost-benefit analysis to prioritise interventions; and directing the delivery of climate finance in line with the NAPCC, SAPCCs and other national development plans (**Recommendations 1 and 2**).

The Figure also highlights a number of other points from the recommendations section. It outlines how climate finance delivery bodies (particularly DFIs) will have increased capacity to deliver climate finance in a coordinated way under the NAPCC Missions and SAPCCs, and to develop bankable projects with implementing and executing bodies (**Recommendations 4 and 5**). At all levels of the delivery and implementation process, there will be an important role for the private sector to play (**Recommendation 3**). An underlying feature of this new coordinated delivery structure is that DFIs will have greater ability to access funds directly from international sources. This would start with capacity building support to improve fiduciary standards, project management, and environmental and social safeguards (**Recommendation 6**). Finally, the Figure highlights the importance of conducting MRV of climate finance, at national and project levels (**Recommendation 7**). These data can be collected by the central coordinating agency, and then analysed and processed to help guide the agency in improving future climate finance strategy in India.

Overview of proposed climate finance delivery structure in India.

