Stimulus for Near-Term Economic Recovery & Foundation for Long-Term Sustainability in India

Note for media:

The paper is compiled by Climate Trends. It is meant to be used as a briefing document for media interested in the subject of resilient economic recovery. The paper draws largely from the opinions and plans on sectors under focus which have been available in the public domain, and have been proposed by experts as India's pathway to a sustainable economic recovery from COVID-19. It also makes some original suggestions which are listed under the 'Required Actions' section under each focus sector. Journalists are requested to look up the references at the end. For any further inputs or for connecting to expert voices, please reach out to Climate Trends.

CONTEXT

The world had been warned of an impending pandemic just as scientists have been cautioning about the fast-approaching climate crisis. The current pandemic has caught the world unprepared and will impact the foundations of every country's economic prowess and social harmony.

2008 was a financial crisis, and countries such as the USA, South Korea and China had responded in a way to come out globally competitive on energy-efficient and low carbon technologies. 2020 is a humanitarian crisis with severe consequences for the social and human development gains made in India, and needs a well thought-out response.

This paper brings out the pathway India's policy-makers and economic stakeholders could take to not only recover from the lockdown but also use it as a rare opportunity to address issues that have persisted since well before the pandemic.

1. **<u>Building Back Better – Opportunity for a Green Economic Recovery</u>**

a) The low carbon transition is *the* growth story for the coming decades. There is no sustainable, long-term economic growth without addressing our degrading environment. This includes increasing the rate of emissions mitigation, building resilient infrastructure and revitalizing our natural environment
b) Climate action at micro, local and national scale remains critical over the next decade, and will also be the next big driver in job creation for all socio-economic classes
c) Workforces need to be prepared on a large-scale for the sustainable economy transition, ensuring skills training today is targeted at jobs of the future and large-scale retraining programs are available for those in unsustainable sectors.

2. Ways to Usher in Sustainable Development during Recovery

a) Promote green fuels, electrification of transport and zero emission technologies in industries, which is extended to ancillary/allied industries in the supply chain
b) De-prioritize high cost, high risk, long-term ROI fossil fuel energy systems
c) Align grid and new urban development with renewable energy (RE) systems
d) A focus on 'shovel-ready' projects, which can stimulate the economy immediately versus larger infrastructure projects that have long lead-in times. This could include building retrofit programs, expansion of existing RE sites and more energy storage capacity
e) Supply chain reforms to reduce Scope 3 emissions for a wider transformation and benefits
f) Systemic risks such as climate change factored into prices of commodities, assets and services in a differentiated manner for different sectors; also into cost benefit analysis appraisals of projects for government spending
g) Use tax reforms to send market signals on preferential treatment to green alternatives
h) Work-from-home and digital communication promoted as a viable alternative to desk-based jobs.

3. Risks to Sustainable Recovery Stimulus

a) Continued reliance on fossil fuels to energize the economy over a steady build-up of RE and clean mobility (e.g. oil at current prices without adequate carbon taxes will delay the point at which EVs become cost-competitive)
b) Protectionism for unsustainable industrial processes and ageing industries as a response to kick-start economic recovery
c) Overlooking climate action as a component of building a resilient economy, which lowers policy support and investment in clean energy
d) Prolonged disruption to supply chains, for e.g. 3 GW of solar projects indefinitely delayed due to stalled trade with China

4. Budget & Spending Re-purposed for Sustainable Impetus

a) Significantly enhance budget for healthcare, education, sustainable housing, social security schemes for previously not included sections of society, climate-resilient agriculture, MSMEs, clean energy and zero-emissions mobility

   To meet these additional capital needs, mandate entities such as IREDA, NABARD, SIDBI, Indian Railways, NHB, PFC and Higher Education Finance Corporation to raise long-term capital from external funding agencies

b) Invest in industries of all sizes to transition to zero-emissions through support to R&D, demonstration and deployment of emissions control systems and zero-emission processes
c) Prioritize preventive healthcare, which would call for increased spending on vaccination, public sanitation and adequate supplies of protective equipment for medical staff
d) Address migration of farmers by enhancing financial support to local farming in every state, possibly through centrally-administered cooperatives, and explore direct transfer of daily wages, including to very poor and landless farmers

FOCUS SECTORS

1. Automobiles

- Expected to happen:

a) Sales of conventional automobiles were already weak and are likely to drop further due to sluggish economic growth, keeping investments delayed both for new and existing plans. Supply chain disruption will lead to delays in manufacturing and lost sales opportunities. This has already led to demand for tax holiday and tax reduction on auto loans in order to boost demand and cut losses
b) BS6 vehicles could be sold at discount or close to BS4 prices due to low buyer confidence
c) If states increase taxes on new cars to fund e-mobility, sales for second-hand vehicles may rise unless EVs are a practical alternative, despite low oil prices
d) CNG vehicles might be pushed ahead of EVs as a cleaner alternative to petrol/diesel vehicles while saving the effort of transition to EVs
e) Delivery fleet services will experience an increase in demand due to safety and the preference to work from home

- Required action:

a) Conditional long-term support could be tied to mandatory fleet-wide fuel-efficiency norms, and time-bound transition to EVs
b) Delay in rolling out BSVI engines could be allowed to a maximum of 3 months, instead of letting the market decide
c) Prioritize electric public transport and last mile connectivity as well as mandate zero emission zones
d) Promote local manufacturing of components for shared mobility and last mile connectivity vehicles
e) The central and state governments to play a proactive role in working with the industry to design incentives, define uniform standards, prioritize mass transit vehicles and designate funds for R&D into India-specific solutions

2. Power

- <u>Measures taken</u>:

a) Power producers to get moratorium on payments to banks for loans until June 2020
b) Credit for offtake of coal supply to power generators from Coal India Ltd
c) Power generation including RE granted status of 'essential service'
d) Moratorium to DISCOMs on payments to non-RE generators for 3 months for only payments due since the start of the lockdown
e) Amendment to Electricity Act 2003 with a draft National RE Policy including renewable purchase and generation obligations for all states, and penalties for non-compliance
f) Construction of RE projects permitted during lockdown and domestic manufacturing promoted through easier access to land for factories

- <u>Expected to happen</u>:

a) Coal production on track to meet annual target over expectation of high power demand in summer, as well as to supply to cement and sponge iron sectors
b) Power producers urged to stock-up coal supplies (domestic over imported) to avoid supply disruptions during monsoon and railway route congestion after lockdown
c) Incoming 66GW coal pipeline will imply 23% of country's coal capacity has negative cash-flow
d) Delays in commissioning projects, as workers have left RE construction sites and supply chains have been impacted
e) Financial distress in decentralized RE service providers with most companies expecting to sustain business for not more than 2-4 months
f) 'Must-run' status not adhered to by DISCOMs in the absence of stringent measures, such as transparency of curtailment data, accurate forecasting of RE power, investments in storage and curtailment compensation
g) Demand for waiver of electricity charges from MSMEs across the country; *Saubhagya* scheme connections may be surrendered due to inability to pay bills, though some states have offered relief for a few months
h) Reduced electricity demand from industrial and commercial consumers who cross-subsidize residential and agriculture consumers, leading to reduced revenue of DISCOMs already stressed for liquidity, and still having to make full payments of fixed costs to thermal power plants as per PPAs
i) Cash-strapped DISCOMs invoke force majeure to escape their obligation to offtake power at PPA prices and instead procure cheaper electricity from power exchanges.

- Required action:

a) Redirect fossil fuel subsidies to pillars of new economy - RE with storage, EVs, clean and energy efficient industrial production, as well target subsidies efficiently to customers who need them the most
b) Central and state governments demarcate specific budgets to commission studies on grid balancing with increased share of renewables and energy storage
c) MNRE to appoint CERC for oversight of measures such as postponement of taxes, cushion against INR depreciation vs USD for RE projects
d) Invest in boosting domestic solar module and wind turbine component manufacturing to minimize dependence on imports, and relax import duties to bridge the time frame to achieving adequate local capacity
e) DISCOMs be instructed to ensure steady payments to RE generators even after lockdown is lifted
f) Support to decentralized RE companies through extension of loan moratorium periods, access to low-cost capital and incentives for focussing on priority sectors – healthcare, agriculture & low-income households
g) Pumped hydro energy storage be explored as a solution to power backup in regions of moderate-heavy rainfall, and as a solution to water wasted in runoffs.

3. Sustainable Urbanisation & Construction

- Opportunity:

a) Improve urban infrastructure in smaller towns and research avenues for local job creation to relieve pressure on India's 10 largest cities for resources, such as groundwater, and to reduce risks of disease outbreaks
b) Focus on low-cost housing projects to revive the construction sector while enforcing urban planning and construction guidelines in order to enhance energy efficiency and reduce pollution

- Required action:

a) New program to promote public and private sector low-cost housing projects designed as per India's Cooling Action Plan in order to enhance thermal comfort and reduce cooling-related costs
b) Categorize all of India's commercial buildings per relevant standards, such as LEEDS and GRIHA, and launch an aggressive building retrofit program with government support and private partnership to facilitate the growth of a new retrofit industry
c) Introduce climate resilience taxes on infrastructure and buildings with provision of refund upon certification of meeting the resilience standards, & levy carbon prices, similar to air pollution surcharge for ICE vehicles, on high carbon intensity projects.

4. Steel and Cement

- <u>Expected to happen:</u>

a) These sectors are well consolidated and could survive a relatively long slump in demand
b) Reductions in demand will result in a narrowing of profit margins, restricting the availability of capital for new, lower carbon facilities or R&D investment
c) There is a potential for increased international competition as steel demand slumps globally. Significant overcapacity in China could result in a threat to domestic producers and/or a glut of global supplies at cheap rates

- <u>Required action:</u>

a) Any financial assistance must come with mandatory targets to adopt clean alternatives, such as green hydrogen & captive RE power systems, or procuring a greater percentage of RE from the grid
b) Promote fast-track transition to green cement and steel and collaborate with international engineering firms on resource efficiency and waste management
c) Support the demand for green products through large-scale public procurement or tax exemptions
d) Engage with international financial institutions to finance new industry facilities, e.g. IMF or World Bank to fund a green steel plant.

5. Oil and Gas

- <u>Expected to happen:</u>

a) Dampened domestic demand despite low prices
b) Lower exports of refined petroleum products
c) Fall in domestic production while building strategic reserves
d) Oil companies posting losses and fall in ratings with high cost investments, over-capacity and rising taxation.

- <u>Required action:</u>

a) Divert savings from low oil prices to funding build-up of EV ecosystem
b) Encourage investors to move away from fossil fuels to more secure RE
c) Re-skilling programs for personnel employed in fossil fuel companies to work for RE and EV sectors

6. Agriculture and Food Supply

- Expected to happen:

a) Risk to supply and prices over labour, packaging and input materials shortage, lack of transportation and limited functioning of wholesale markets
b) More locust attacks and prolonged droughts may affect global food production, and the issues may also affect India. Yields will decrease with increase in temperatures as per IPCC projections, and may exacerbate water stress
c) Allied agriculture industries such as farm equipment and fertilizer manufacturers seek relief in taxes due to reduced demand

- Required action:

a) Build climate resilience in agriculture through cost effective, nature-based solutions (such as promoting tanks at every village) to drought management, extreme heat and rainfall, and enhancing productivity with income along with stronger insurance cover for farmers
b) Adaptive safety nets with annual budget based on risks and shocks anticipated with a fixed component of minimum income per month per family of farmers
c) Consumer-farmer collectives (consumer-supported agriculture) to be promoted as an alternative to APMCs to enhance farmers' income
d) Procurement and budgetary support to perishable produce - fruits, vegetables, dairy, etc. - which are high income generators and their supply chains were most disrupted
e) Promote farmer-owned, community-level agro-processing small industries, micro-irrigation network, cold storage and warehousing, watershed management enabled by decentralized RE systems
f) Explore mandatory targets for solar agriculture pumps in each state (according to feasibility) to lower farmers' expenses on diesel and to initiate a rural ecosystem of solar panel service and repair
g) Deploy MGNREGA for irrigation, afforestation, soil conservation, watershed development, creation of community assets, etc. that create immediate jobs, enhance local income in long-term and increase community resilience.

7. Enhancing Liquidity with Public and Private sector

a) Reduce cost of sovereign-backed issuances for green bonds to support green transition for liquidity-strapped sectors
b) Moratorium on financial institution dividend payments to enable them to build capital reserves and extend secured credit to well-managed NBFCs
c) Tax breaks and relaxation in capital adequacy norms for NBFCs along with other measures from government, such as change in NPA norms to enable 3-month moratorium on loan repayments.

INTERNATIONAL BAILOUT PACKAGES

1. USA - CARES Act, $2.2 trillion for wages of workers and laid off personnel, payroll loans to small businesses, bankruptcy cushion for corporations (conditions on executive salaries and employment rates)
    1. $112bn for vaccine research
    2. $300bn for loans to businesses and consumers
    3. $60bn for airline industry
    4. Solar and wind companies did not get tax relief
2. Europe - 500 bn euro ($774bn) emergency fund; 180 EU businesses, policymakers, etc. asking for the recovery package to be aligned with Green Deal
    1. Germany - 750bn euros for loans and shares in businesses
    2. France - 45bn euros relief for small businesses and unemployed workers; 300bn euros for corporate borrowing
    3. Italy 25bn euros for workers and health system
    4. Spain - 200bn euros for workers and health system
    5. ECB - 750bn euros for government debt and private securities
2. UK - 330bn pounds ($397bn) in loan guarantees and suspended local business taxes for retail and hospitality sectors; 80% of workers' salaries for 3 months up to 2500 pounds/month; cash grant of 80% monthly profit for self-employed up to 2500 pounds/month
3. China - $16.4bn in financial relief, $112bn for tax reductions, $162bn credit easing for businesses
4. Japan - $274bn cash handouts and loans to small businesses.

Expert Speak

Expert voices on clean transition (in published news reports):

1. "The provision of fiscal and non-fiscal incentives can be made, so as to increase the viability of EVs in the long run. Norms for battery recycling procedures and incentives for companies setting up recycling facilities, need to be fast-tracked. Employment opportunities in the EV sector need to be emphasized significantly considering it is a rising sector." - *Jeetender Sharma, Managing Director of Okinawa Autotech Pvt. Ltd (link to article)*
2. "This pandemic and lockdown has also shown many positive aspects as working from home was not normal in RE Industry however this "New Normal" working from offsite location has now become the norm. Developers who have invested in technology and digitization are reaping the benefits from remote monitoring and operations. In project execution too we will witness more technology and mechanization to reduce dependence on large labour work forces. Shift from International to local supply chain will reduce dependence on Imports and will encourage setting up of new manufacturing facilities." - *Ashish Khanna, MD & CEO, Tata Power Solar, President, Tata Power Renewables (link to article)*

3. "When an economic downturn hits, focusing resources on the poor (thereby increasing their demand) and driving growth that is benign to the environment can pay rich dividends on public spending. Energy subsidy reform is a good starting point. We must direct subsidies at fuels and sectors that are likely to be drivers of the new economy: renewable energy, energy storage, clean mobility solutions (including electric vehicles), and research and development in new industrial production. These sectors provide an opportunity for the domestic industry to cater to clean energy technology demand globally and generate domestic employment." - *Karthik Ganesan, Research Fellow, Council on Energy, Environment and Water (CEEW), Balasubramanian Viswanathan and Vibhuti Garg (IISD) (link to article)*
4. "The role of financing entities such as Power Finance Corporation and REC Limited becomes critical. The institution can provide financial assistance in the form of soft loans to either directly to Discoms or to generators or to both in an appropriate proportion. This will provide temporary relief and keep the ball rolling at the times of liquidity crisis and increasing accounts receivables." - *Ashish Kr Sharma, Chetan Gusain, and Ashish Rawat, TERI (link to article)*
5. "Let us take this health emergency as an opportunity to rethink our built environment. It is time to seriously operationalize thermal comfort standards in buildings that India's Cooling Action Plan has asked for. It includes a broader comprehensive combination of urban planning, architectural design and technology to enhance the hours and days of thermal comfort in a year to reduce dependence on mechanical cooling. India's diverse climatic conditions allow that flexibility and opportunity." - *Anumita Roychowdhury, CSE (link to article)*
6. "A regenerating agriculture alone has the ability to reboot the economy, protect nature, bring back birds and butterflies, and save the planet from the catastrophic effects of climate change that awaits us. Reversing the policy direction of the past four decades, as the Financial Times had said, is an urgent necessity. - *Devinder Sharma, Food & Agriculture Specialist (link to article)*
7. "Even in the middle of the Corona crisis and a very volatile market, State Bank of India raised $100 million in green bonds, its third iteration of such bonds. This transaction reinforces the fact that investors still bet on sovereign backed issuances. Perhaps now is a good time to commit to raising green bonds wherever possible – to fuel sectors that need liquidity, but by indirectly requiring them to move towards greener assets. We could use stimulus funds for both, creating demand and also reducing the cost of issuing green bonds." - *Mahua Acharya, Asia Director, Climate Policy Initiative (link to article)*

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