

India's Climate Finance Taxonomy – Draft Framework

June 2025



Launched by the **Department of Economic Affairs**, the draft Climate Finance Taxonomy aims to guide India's transition to a low-carbon economy, aligning with its net-zero target by 2070



First announced in the **Union Budget 2024–25**, the taxonomy defines climate-aligned sectors and activities that qualify for green finance



Designed to boost **investor confidence**, it will help financial institutions, including banks, identify projects eligible for climate-related funding



Open for public and stakeholder **feedback until June 25, 2025**, the taxonomy is intended to be a dynamic, evolving framework tailored to India's climate finance priorities



Critical for developing **a common language on 'green' finance**, the taxonomy will help distinguish truly climate-consistent investments from greenwashing, supporting transparency and accountability in India's climate action

Principles of the Taxonomy

Principle 1

Consistency with stated position on Climate Action and development priorities

Principle 2

Focusing on pathways and trajectories in country context

Principle 3

Interoperability and consistency with other taxonomies

Principle 4

Support transition activities

Principle 5

Promoting the use of Indigenous technologies

Principle 6

Be science-based and transparent

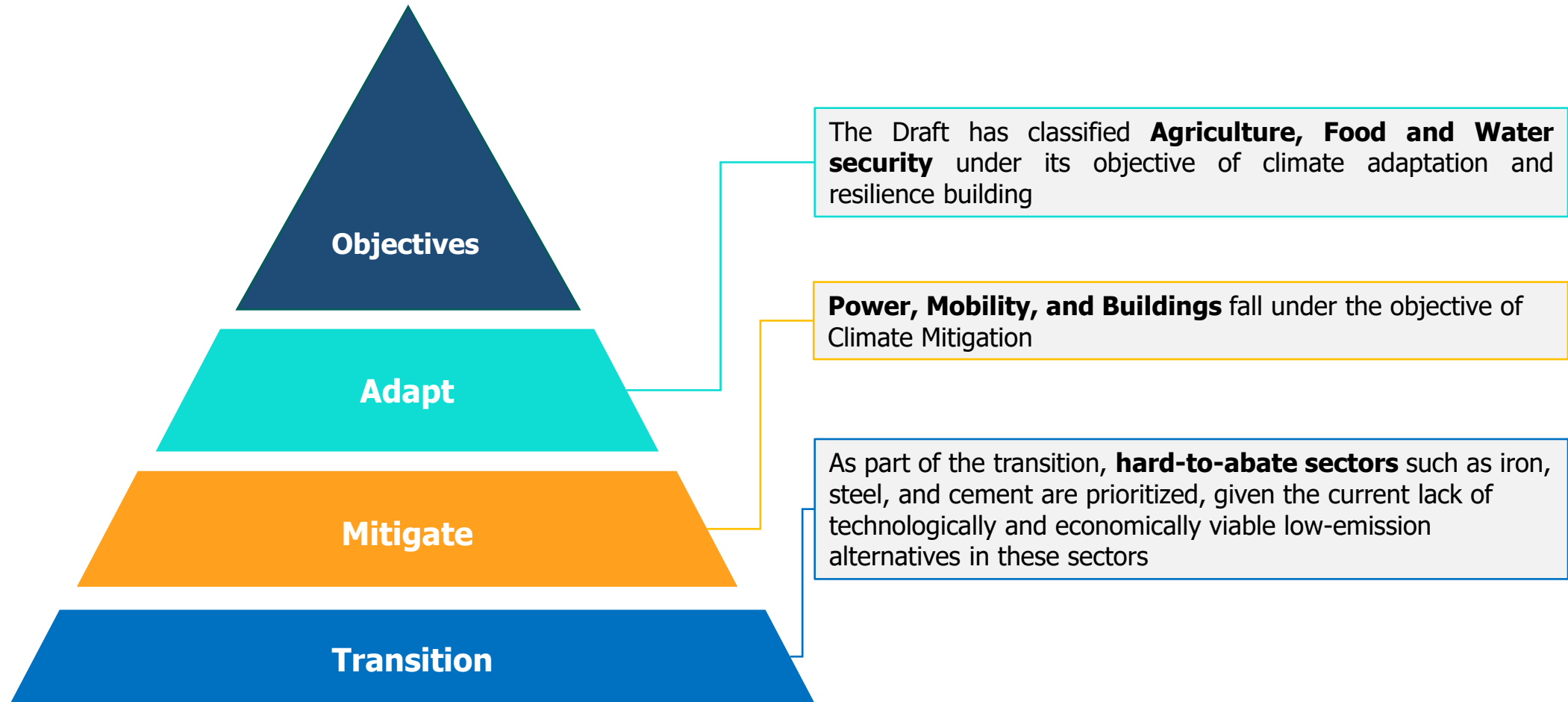
Principle 7

Proportionality-support for MSMEs

Principle 8

Do no significant harm to other objectives of the climate finance taxonomy

Objectives of the Taxonomy



The draft Indian climate finance taxonomy is built upon two foundational framing aspects:

Qualitative: Outlines the objectives and guiding principles used to assess whether an activity qualifies as 'climate relevant'.

Quantitative: Includes measurable performance thresholds (such as expected extent of GHG savings and improvements in emission intensity), offering clear targets to ensure transparency and accountability.

Currently, the draft taxonomy encompasses of the qualitative aspects and classifies activities into two kinds:

Two-fold division of activities and projects

Climate Supportive Activities

- Tier I: Includes activities and projects that help avoid emissions, contribute to emission intensity reduction, as well as enhance climate resilience.
- Tier II: Includes activities that help reduce emissions in sectors lacking viable emission-free alternatives and projects which support climate resilience, even when certain emissions remain unavoidable due to technological constraints

Transition Activities

- Activities and projects that enhance energy efficiency or reduce emissions in sectors where absolute emission avoidance is currently unfeasible due to the absence of viable alternative technologies

As climate finance serves as a key driver of climate action, the draft Indian climate finance taxonomy marks a pivotal advancement toward building a low-carbon economy and meeting the Net Zero target by 2070. Envisaged as a living document, the taxonomy is intended to evolve over time, with updates reflecting changing priorities, sectoral shifts, and the broader landscape of climate investments. The current iteration presents a detailed, qualitative framework, providing the foundational rationale and methodology. Future versions are expected to integrate sector-specific annexes and quantitative metrics, such as measurable indicators and performance benchmarks, to enhance precision and usability, including clearer categorisation of Tier 2 climate-supportive activities and transition activities.

Importantly, the taxonomy recognises India's developmental imperatives by prioritising sectors like agriculture and MSMEs. While it draws on international best practices, its strength lies in its contextual grounding and relevance to India's unique socio-economic landscape. Through its structured and inclusive design, the taxonomy is well-positioned to boost the visibility of sustainable finance and guide capital flows towards climate-compatible investments. The draft taxonomy is set to play a transformative role in supporting India's shift toward a more resilient, inclusive, and climate-aligned economic future.

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