

# IFSCA and the Ambition to Make the GIFT-IFSC as a Gateway to Global Climate Finance — Innovating Today for a Sustainable Tomorrow

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## INTRODUCTION

In an ambitious move to bolster India's position in the global financial landscape, the Government of India established the International Financial Services Centres Authority (IFSCA) on April 27, 2020. Operating under the IFSCA Act, 2019, this unified financial regulator aims to create a world-class financial ecosystem in International Financial Services Centres (IFSCs), designed to facilitate ease of doing business and establish India as a preferred global destination for international financial services.

## A NEW HORIZON FOR INDIA'S FINANCIAL ECOSYSTEM

The Gujarat International Finance-Tech City (GIFT-IFSC), India's first operational international financial center, exemplifies this vision and is a major step *towards 'onshoring the offshore'*. Located in Gujarat, it operates as a foreign territory under the Foreign Exchange Management Act, where the medium of exchange includes 11 freely convertible foreign currencies, excluding the Indian Rupee. The income tax benefits, and regulatory framework provided for entities in GIFT-IFSC further enhance its attractiveness.

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## SNAPSHOT OF THE GIFT-IFSC ECOSYSTEM<sup>1</sup>

- **Registered Entities:** Approximately 628+
- **Banking Asset Size:** Over USD 60+ billion
- **Monthly Turnover on IFSC Exchange:** Over USD 83 billion
- **Debt Listing on IFSC Exchanges:** USD 56+ billion
- **Target Corpus of Funds in GIFT-IFSC:** Around USD 35+ billion

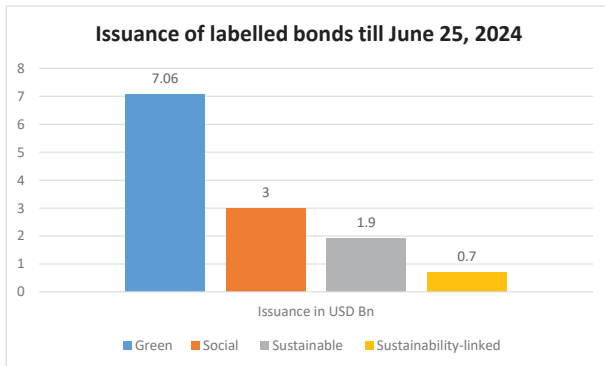
## A VISION FOR SUSTAINABLE FINANCE

The Hon'ble Finance Minister, in her 2021-22 budget speech, emphasized role of GIFT-IFSC in facilitating global capital for sustainable and climate finance.

<sup>1</sup> As on March 31, 2024

This vision of Government for GIFT-IFSC was further emphasized by Hon'ble Prime Minister Narendra Modi during the 2<sup>nd</sup> edition of the InInfinity Forum in December 2023. India's path to achieving its net zero target by 2070 will require significant investment—at least \$10 trillion according to a Council on Energy Environment and Water report<sup>2</sup>. Recognizing this, the IFSCA has implemented several regulatory initiatives to promote sustainable finance.

- a) IFSCA (Issuance and Listing of Securities) Regulations, 2021 ("Listing Regulations") provides the regulatory framework for issuance and listing of Green Bonds, Social Bonds, Sustainability Bonds and Sustainability linked Bonds. The Listing Regulations recognized various internationally accepted principles/standards/guidelines such as of International Capital Market Associations (ICMA), Climate Bond Initiative (CBI), ASEAN, European Union (EU) etc. for labelling of ESG labelled debt securities. Thus, the regulations provide enough flexibility for issuers to raise labelled debt securities while mandating pre-issuance and annual disclosures, along with external review for ensuring integrity. The listing of more than USD 12.5 billion ESG-labelled debt securities on IFSC exchanges indicates that GIFT-IFSC has emerged as a preferred destination for Indian corporates to raise sustainable capital.



- b) Transparent and standardized sustainability reporting is the backbone of sustainable finance. It enables investors, to make informed decisions, while ensuring that capital flows towards truly sustainable projects. At GIFT-IFSC, IFSCA is committed to promote integration of sustainability in decision making and encourage robust sustainability reporting. IFSCA Listing regulations mandate listed companies with market capitalization of USD 50 million or more for sustainability-related disclosure. With the recent decision of allowing direct listing of Indian companies at the IFSC, sustainability reporting will be an integral part of entities listed at IFSC. In addition, The Fund Management Regulations mandate large Fund Management Entities (AUM above USD 3 billion) to have sustainability integrated into their governance, risk management and investment strategy.

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- c) The Banking Channel is critical for the whole of economy to transition towards a low-carbon and climate resilient future. IFSCA has also issued a guidance framework to promote sustainable lending by IFSC Banking Units (IBUs). The framework mandates IBUs to develop a comprehensive Board approved framework on sustainable financing and such entities shall have at least 5 per cent of their loan assets in the form of green/sustainability- focused lending to green/social/sustainable/sustainability-linked sectors/facilities. During the first year (F.Y. 2023-24) of its implementation, more than USD 1.5 Bn worth of sustainable finance has been lent by IBUs. Out of this USD 1.5 Bn, around USD 577 million went into social lending and USD 280 Million went to sustainability-linked lending.
- d) Moreover, in order to promote consistency, comparability and reliability in disclosures concerning ESG schemes, IFSCA has issued the framework for ESG schemes *inter-alia* covering requirements relating to initial and periodic disclosures, ongoing monitoring, and performance evaluation. Considering the transition needs of India, the framework issued by IFSCA enables strategies such as Transition Funds and Engagement Funds. It is to be noted that the first ESG engagement fund registered with IFSCA with enhanced disclosures under the framework is focusing on SMEs of India and has targeted a corpus, which is highest amongst all registered funds in IFSC.

## THE ROAD AHEAD

To realize the vision of developing GIFT-IFSC a vibrant ecosystem of financial services and products, IFSCA is focused on the following initiatives

- a) **Framework for Transition Finance**

Since mobilization of funds towards Climate actions has been restricted to certain sectors of the economy,

<sup>2</sup> <https://www.ceew.in/press-releases/india-will-require-investments-worth-over-usd-10-trillion-achieve-net-zero-2070-ceew>



Transition Finance has emerged as an alternative concept to fill the gap. The ‘*transition bond*’ and ‘*transition loan*’ have emerged as instruments for financing hard-to-abate sectors that generally do not meet the criteria and standards for ESG labelled debt securities, but are critical for economy-wide transition to a ‘*low carbon*’ future. The Expert Committee on Climate Finance set up by the IFSCA is recommending IFSCA on the framework for enabling such innovative products focusing on financing transition.

#### b) Voluntary Carbon Market

Though the Voluntary Carbon Market (VCM) had a tough year in 2023, it is expected to play an important role in channelizing cross-border carbon finance. As India is the second largest supplier of the carbon credits in the voluntary market and potential market size of the VCM (USD 50Bn by 2030<sup>3</sup>), GIFT-IFSC is ideally suitable to put in place necessary ecosystem to enable thriving VCM ecosystem at GIFT-IFSC. An Expert Committee on Voluntary Carbon Market has been set up to suggest IFSCA on steps to enable a robust ecosystem of carbon market related services at GIFT-IFSC.

#### c) Sovereign Green Bonds<sup>4</sup>

Based on an announcement in the Union Budget for FY 2022-23, the Government of India issued Sovereign Green Bonds (SGrBs) in January 2023. SGrBs were

<sup>3</sup> <https://www.mckinsey.com/capabilities/sustainability/our-insights/a-blueprint-for-scaling-voluntary-carbon-markets-to-meet-the-climate-challenge>

<sup>4</sup> [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=57639](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=57639)

also issued as part of the Government borrowing calendar in FY 2023-24. At present, foreign portfolio investors (FPIs) registered with SEBI are permitted to invest in SGrBs under the different routes available for investment by FPIs in government securities. With a view to facilitating wider non-resident participation in SGrBs, RBI has decided to permit eligible foreign investors in the International Financial Services Centre (IFSC) to also invest in such bonds. A scheme for investment and trading in SGrBs by eligible foreign investors in IFSC is being notified by RBI separately in consultation with the Government and the IFSCA.

#### d) Blended Finance Mechanism

Blended finance structures pool concessional public and philanthropic capital which crowd-in the private capital for the projects which are commercially not attractive. Pooling of concessional capital would help in reducing the overall cost of capital and associated risks with projects for larger pool of investors. IFSCA is evaluating various structures of blended finance to promote catalytic capital for investment into next generation of technologies for a sustainable future.

## A BRIGHT FUTURE

IFSCA’s efforts are geared towards making GIFT-IFSC a beacon of how financial markets can drive positive global change. Through collaboration and a shared vision, GIFT-IFSC aims to become a gateway for global climate and sustainable finance, contributing significantly to the fight against climate change and ensuring a sustainable future for generations to come. 