Unlocking Climate Action in Indian Federalism

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POLICY BRIEF

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Executive Summary

India has a highly centralized federal structure that sits uneasily with the nature of the climate problem. While financial and bureaucratic capacities are concentrated in the centre, the locus of climate decisions lies largely in the states because they steer energy choices and respond to climate impacts.

For this reason, states must be enabled, and incentivized, to do more. Federations carry the promise of lively subnational experimentation and cross-state learning that advance the national climate response. India's top-heavy federal institutions must be reimagined in the age of the climate crisis to unlock this promise. We attempt to strike a delicate balance between flexibility, essential to innovative and opportunistic state actions, and the structure necessary for a coherent national policy trajectory. We call this model 'structured opportunism'.

We recommend changes across multiple layers of Indian federalism, from the centre to the states and the relationship between them. Specifically, we argue for a focus on three objectives:

- Augmented capacities to design and implement policies.
- Improved coordination mechanisms for the smooth flow of information between and within levels.
- Sharper financial incentives to motivate the states.

These objectives call for the following institutional changes (Table 1).

Table 1: Institutional actions to unlock climate action in Indian federalism

Level / Objective	Within states	Vertical links between centre and states	Horizontal links across states
Augmented capacity	• Create climate nodal agencies and departmental cells with dedicated staff. • Expand capacity through regular and open links with non-state actors (CSOs, Universities). • Use nodal units to access international finance for experimentation and to establish transnational learning linkages.	• Provide central support to states through frameworks and knowledge, operating through a national Low Carbon Development Commission (LCDC), central scientific agencies, and central universities. • Establish a common framework and resources for decentralized risk maps and emissions inventories.	• Build learning networks between states.
Improved coordination	• Open channels for intra-state coordination and learning by linking state nodal departments with urban bodies and zila parishads.	• Mandate frequent updates of State Action Plans on Climate Change (SAPCCs), drawing on analytical inputs from the LCDC. • Create credible mechanisms for consultation with the states on national emission trajectories. • Harness existing sectoral coordination mechanisms for climate ends rather than creating a single federal climate coordination body.	• Create sector and geography-specific coordination forums to encourage inter-state learning and collaborations.
Sharpened incentives		• Establish credible and flexible funding lines for SAPCCS. • Deploy Centrally Sponsored Schemes (CSSs) and Finance Commission transfers to incentivize innovation in climate mitigation and adaptation.	• Incentivize collaborative multi-state projects with central funding.

Introduction

India's unusually centralized form of federalism presents unique challenges to climate action. Powers and capacities substantially concentrated in the central government are uneasily juxtaposed against the nature of the climate problem, whose solutions often turn on the outcomes of localised politics in mitigation and adaptation.

The central government holds fiscal powers and bureaucratic capabilities more potent than the states, and the ability to set the agenda in many realms of climate policy (including those under state jurisdiction such as water and agriculture). But the states are solely responsible for many sectors crucial to climate governance (see Box 1), play an indispensable role in crafting appropriate political conditions for implementation and, crucially, in innovating to set policy examples for national emulation. Any effective model of Indian climate governance would therefore require each level of government to compensate for the jurisdictional, capacity, and informational constraints of other levels (Pillai and Dubash 2021). Building a compensatory relationship of this sort between the centre and states will require modifications to India's federal institutions.

Moreover, climate mitigation and adaptation challenges often spill over jurisdictional borders and change over time, calling for coordination and the circulation of new solutions within the federal structure. Addressing climate impacts and engaging in sustainability transformations across states with different capacities and levels of development underscores the need for an equalizing centre. Not least, a central government making pledges in the international arena must work with the states to develop and implement policy if these are to be effectively implemented across Indian states.

Attempts to create climate linkages between the centre and states have thus far failed to yield enduring results. This brief is built around lessons from federal interactions in periods of heightened climate policy activity. India's experiences with the State Action Plans on Climate Change (SAPCCs), now a decade distant, revealed significant institutional shortcomings. First, the federal system failed to carry the momentum of an initial burst of policy enthusiasm into the present period. Second, the strategic space for states to build bespoke plans was constrained by a lack of capacity and the normative influence of the National Action Plan on Climate Change (NAPCC) that immediately preceded the SAPCCs (Dubash and Jogesh 2014). Third, vagueness about financing diminished states' enthusiasm over time (Kumar 2018).

This policy brief outlines what it might take to unlock climate action while working with the grain of Indian federalism. We propose changes to the system that, when taken together, potentially harmonize actions across governments in the federation while preserving states' political autonomy to experiment and innovate. We call this model one of 'structured opportunism'.

We aim to reform institutions to the benefit of both the national energy transition and climate resilience in the states. Proposals flow from, and are compatible with, suggestions for institutional reform at the national level laid out in an accompanying brief (Dubash, Pillai, and Bhatia 2021).

BOX 1

States' centrality in climate governance

The Constitutional division of powers gives the states sole control of several vital areas of energy and natural resource governance: agriculture; water; land; mines and minerals (with conditions); gas; and local government (itself responsible for natural resource management). The centre is responsible for fewer, though crucially important, areas: atomic energy and mineral resources; oil and petroleum, and aspects of mines and minerals. The concurrent list, jointly governed by both levels, contains forests and electricity, the latter the largest source of emissions at 42% (Government of India 2018), which demand close centre-state coordination. Numerous other areas relevant to mitigation (industry, transport etc.) and adaptation (health, fisheries, insurance etc.) are fragmented across the lists.

A framework for structured opportunism

A productive relationship between the centre and states in climate governance, one with enough structure for national coherence but also encouraging of state-level experimentation, could be built by layering new institutions—bodies, rules, and routines — upon the existing edifice of Indian federalism. These reforms should deliver three objectives: augmenting institutional capacities to design and implement climate policy; creating coordination platforms; and establishing incentives for state action.

These objectives can be met through concurrent changes at three levels of Indian federalism:

1. **Within states,** by introducing or expanding climate-specialized departments and personnel in government; increasing engagement with civil society; and creating systems for coordination across government departments and with local bodies.

2. By creating **vertical links between the centre and states,** where the centre encourages state actions through the provision of frameworks and pathways, knowledge resources, procedural nudges, coordination platforms, and funds.

3. By creating **horizontal links across states,** in the form of conduits of learning, policy diffusion and collective action (where states have common interests).

Even in the context of a top-heavy federation, a motivated centre can accelerate state action without unsettling the Constitutional division of powers. Broadly, this framework would task the centre with providing institutional 'public goods' such as a strategic framework for a nationally coherent response (built on states' inputs), knowledge resources and information flows that enable state policymaking, and a level playing field in mitigation policy (e.g., orchestrating a just transition for Indian coal states) and transboundary problems (e.g., governing cross-border natural resources). With expanded capacity, states could harness these goods at the frontlines of climate policymaking and implementation.

This framework attempts to tap into the latent promise of federal systems in climate policymaking. The climate governance literature suggests that federations can, in some circumstances, provide a favourable context for innovative decentralized policies and channels of diffusion for successful experiments (Jodoin and Setzer forthcoming).

In the sections that follow, we flesh out recommendations intended to realise the potential of Indian climate federalism (also see Table 1).

Augmenting capacity

Bureaucratic capacity for climate governance in Indian states varies considerably. While a few states have established nodal climate departments, state-level line departments in charge of day-to-day policymaking and implementation generally lack specialized staff and procedures. This deficit is exacerbated by the thin and uneven presence of climate-focused civil society in the states, which often serve as a source of frontline information and policy ideas. Capacity could be bolstered through efforts in three areas.

First, all states should create climate nodal units and introduce climate specialists within line departments where possible, with a priority focus on departments that have a bearing on mitigation and adaptation such as power, water, agriculture, and transport. Climate policy is better implemented when integrated into routine governance than when urged by a third party, such as a peer ministry. Nodal units should manage climate-related planning and monitoring processes, as well as coordination with local governments. Well-equipped nodal climate units are also more likely to tap into international finance and transnational learning opportunities.

Second, capacity growth within the state should be supplemented with capacity growth in civil society. The technical nature of climate policy and its unpredictable social effects demand this. Coordinated donor funding from philanthropies, bilateral/multilateral sources and state/central governments will be required to create new state-specific organizations with technical expertise and deliberative capacity – NGOs, think-tanks, and universities. State governments are more likely to build relationships with credible local organizations familiar with the governance context and history.

Third, the centre should play a major role in supplementing capacity gaps, specifically in strategy. It should do so by providing customisable policy frameworks (like an updated

national strategy) and other knowledge resources. In a related brief on national climate governance, we proposed an independent, expert national Low Carbon Development Commission (LCDC) that would recommend analytically grounded low-carbon development pathways to the central government; this body could supplement state analytical capacity and generate policy choices in line with the long-term national trajectory (See Box 2). Further, central universities, already embedded in policy processes, must be equipped with the reach and faculty capacity to advise state governments, including in small sates.

Central capacity fillips could be crucial across mitigation and adaptation. Central resources and standards should push states to create, and frequently update, credible emissions inventories and much needed decentralized risk maps to reduce vulnerability.

BOX 2

Aligning states with national strategy

The proposed Low-Carbon Development Commission (LCDC), an independent, non-executive body could help generate centre-state alignment on low-carbon development pathways. It fills the need for an expert advisory body positioned to provide states with policy ideas that cohere with an agreed-upon national carbon trajectory. It could support states in translating national programs into state-appropriate policies and serve as a reservoir of technical expertise that states draw on as they formulate their own initiatives. Its exposure to the states would allow it to identify successful experiments and aid their diffusion. It is meant to be a deliberative and consultative body by design, thus allowing states to be heard in national mitigation strategy debates.

The LCDC would be led by technical commissioners drawn from industry, labour, civil society, and media. They would be supported by a permanent technical secretariat, the analytical backbone of the organization. We envision it being independent by law and accountable to Parliament.

Improving coordination

Coordination is crucial to a coherent national response in both mitigation (by aligning state actions and resources with national goals and preventing leakage across boundaries) and adaptation (by facilitating cross-state learning and solving transboundary issues). The lack of a federal coordination body is only partially redeemed by the presence of assorted sectoral forums that could take up climate policy implementation functions. Coordination forums between and within states are nearly entirely absent. We propose a more deliberate structure for coordinated strategy development; regular centre-state consultations; coordination between states; and coordination within states.

1. **Coordinated strategy development:** The SAPCCs would have been more useful as a process with multiple updates than a standalone event. To revive its promise, the centre could mandate SAPCC updates at fixed intervals, which over time would allow for iteration and refinement. The plans might be aligned with the cycle of Nationally Determined Contributions (NDCs) under the Paris Agreement to allow states to respond to national priorities. These SAPCCs can and should draw on the low-carbon development pathways and sectoral transition trajectories recommended by the LCDC, and on the latter's experts to establish feasible emission pathways (See Box 2). On aggregate, and over time, this could lead to better coordination across state policies.

2. **Centre-state consultation:** National deliberative bodies, such as the proposed LCDC, could serve as a point for engagement with state inputs. The NAPCC process did not involve prior state consultation, which likely played a role in poor uptake. As laid out in the accompanying brief, the LCDC is designed to be open to stakeholders and, explicitly, state opinions; it would be the appropriate venue for strategic consultations on national emissions trajectories and sectoral transitions, particularly in areas under state jurisdiction such as transport and urban governance. The Finance Commission, an independent expert body at the centre of India's fiscal federalism, has played a similar centre-state coordination role successfully for decades by virtue of its extensive consultations, rigour, and apolitical nature.

   The LCDC would operate alongside several functioning sectoral coordination mechanisms of climate relevance

such as inter-state river bodies, the Forum of Regulators (electricity), and the annual meeting of energy ministers among others, all of which will need to engage with climate demands with greater regularity in a system of polycentric coordination. The Inter-State Council, a Constitutional centre-state coordination body - though currently and frequently moribund - could be revived as a forum for discussions on adaptation and mitigation.

3. **Inter and intra-state coordination:** Because state governments exercise exclusive jurisdiction over so many areas of the climate policy portfolio, they are potential 'laboratories of experimentation' (Jörgensen, Mishra, and Sarangi 2015); given support, cities could be engines of innovation for the states (See Box 3). To facilitate the horizontal movement of policy innovations, we propose forums of like-minded states united by a common challenge or opportunity. Such groups could collaborate on regional issues like the management of Himalayan vulnerabilities, coastal effects and flooding, and advocate for central policies when necessary. Mitigation-related groupings built around abundant wind and sunshine or a just coal transition for coal producing states could be effective in shaping national planning processes. The centre should incentivize such forums by funding climate initiatives that involve multiple states.

The exchange of information and ideas might be sped up through personnel exchanges. Cross-jurisdictional policy communities are known to have stimulated knowledge diffusion and emulation in environmental policy (Hoberg 1991). This allows leader states to influence policy development in laggards and in national government.

Finally, a clear mandate for state climate nodal units to link with urban bodies and zila parishads (apex district bodies in the panchayat system tasked within linking state and local governments) could improve state-level monitoring, facilitate SAPCC implementation, and allow for the transplant of ideas across the state.

BOX 3

Cities as engines of state innovation

Evidence from Rajkot and Coimbatore shows that Indian cities sometimes creatively integrate climate with their existing developmental objectives by focusing on visible, "quick win", bankable projects (Bhardwaj and Khosla 2020). However, such efforts are uncommon and rarely built on firm institutional scaffolding that allows for sustained climate policymaking and refinement. Weak and overburdened bureaucracies, a lack of funds and expertise, and limited autonomy impede experimentation. Our proposals for augmented and networked in-state climate expertise, new funding channels and institutions for intra-state coordination could help. But unshackling cities will require additional city-level institutional innovations. Global experiences offer models. In Shanghai, for example, a special fund was designed specifically to nurture policy experiments and contribute to a national policy-learning scheme. The fund's design stimulated an ever-growing web of cross-departmental collaborations. An empowered urban body coordinated implementation across departments (Peng and Bai 2018, 2021).

Sharpening incentives for state action

The third piece of the institutional puzzle is incentives for states to engage in climate policymaking. Indian fiscal federalism leaves the states substantially reliant on the centre. The fiscal entanglements of the two levels give the centre a role in defining state priorities through Centrally Sponsored Schemes (CSSs) and conditions on the quantum of tax devolution, among other instruments. In our proposals, existing downward flows are made climate-sensitive and new ones are created; it is only with these incentives that the augmented capacities and coordination mechanisms detailed above will come to life.

1. **Funding SAPCCs:** The quantum of central support must be made clear at the inception of the planning process and feature as a key variable in state planning. A lack of clarity on funding in the last round of SAPCC development diminished state enthusiasm over time (Kumar 2018) and might have contributed to unrealistically sprawling plans. The centre should support unfunded state initiatives, prioritising national climate priorities and projects that involve two or more states (thus incentivising cross-border actions) through flexible grants that give states room to experiment.

2. **Redesigning Centrally Sponsored Schemes:** An immediate national climate stocktake of CSSs might reveal low-hanging emission savings and resilience gains. Redesigning them to be climate sensitive could yield significant co-benefits in promoting nascent technologies or manufacturing capacities in mitigation, and better target central funds to local vulnerabilities. In keeping with the localized nature of climate policymaking, prescriptive central schemes should eventually yield to less structured grant support that encourages locally-appropriate innovation. The proposed national analytical body, the LCDC, would be best placed to advise the central government on the task of institutional redesign for mitigation.

3. **Harnessing the Finance Commission (FC):** The FC's constitutional mandate of dividing taxes between the centre and states and objective of improving the public value of state expenditure make it a crucial node in India's fiscal federalism and climate response. It has, in recent commissions, displayed a growing sensitivity to climate concerns by promoting forest conservation (and explicitly linking it to India's international pledges), increasing support for disaster preparedness in vulnerable areas, and incentivising air quality improvements (which could have mitigation co- benefits). Recent terms of reference to the FC, authored by the central government, list climate change as a national priority. Though an independent body, a continued emphasis on climate change by the centre (through its terms) and states (through consultations) could help recast the commission as a crucial lever in climate governance. The FC could rely on the LCDC's analytical heft to understand how best to approach mitigation incentives.

Conclusion

Many of the changes suggested here might be particularly hard to execute in present circumstances, not least because of the limited fiscal space in which both the centre and states operate due to the Covid-19 pandemic. Yet, the themes highlighted here – capacity, federal coordination, incentives for state action, experimentation, and learning and diffusion, among others – provide a set of guidelines toward the long-term creation of a climate-ready federal system.

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