INVESTMENT PERSPECTIVES

Attracting Investment or Securing Outcomes: Lessons From India's Data Center Boom and the Emerging-Market Test

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Introduction

A global gold rush in data center construction has found one of its hottest frontiers in India. International hyperscalers are pouring tens of billions of dollars into new capacity, drawn by an aggressive slate of incentives. Chief among them is the 2026–27 Union Budget's tax holiday stretching to 2047 for foreign cloud providers serving global customers from India. In the absence of a national legal framework, several states have devised their own data center policies, each competing for investment by offering incentives such as electricity duty waivers, tariff rebates, and fast-track approvals. A handful go further, offering incentives for renewable energy sourcing and "green" data center design, thereby attempting to solve climate risks through financial incentives.

These incentives are working to attract investment. This piece, however, asks whether incentives dressed in the language of sustainability actually yield sustainable results. Using India as an example, this piece considers why sustainable outcomes matter, and how to secure them, as data center capital has started rushing into lightly regulated, foreign investment–hungry emerging economies across the globe.

Commercial Logic, Policy Gaps

The factors that executives and investors consider when siting a data center are typically focused on profitability and take sustainability into account to the extent it results in profitability, rather than on climate and social risks, which sit outside commercial advantages. This commercial logic is particularly evident in two areas where data centers place significant demands on local resources: water consumption and electricity use.

(a) Water

Given a data center's heavy water use, one might expect operators to avoid water-scarce regions out of self-interest, since scarcity might threaten their own supply, letting the market site responsibly. The reality, however, is different: 43% of data centers worldwide already sit in areas of high water stress, and 60% to 80% of those in India are projected to face high water stress this decade.

The reason for a contrary reality lies in the same commercial logic. Water is cheap relative to a facility's other costs, so its scarcity barely registers on the balance sheet or in the siting decision. Therefore, a facility may secure the water it needs while the wider costs fall on communities and other users.

As the market cannot close this gap, policy should step in. In the absence of mandates, siting decisions will continue to be governed by profitability. Yet, with the notable exception of Rajasthan's 2025 policy, state policies say little about water-use efficiency, wastewater recycling, groundwater limits, cooling technology, or disclosure. The little water language that exists, such as Tamil Nadu's commitment to uninterrupted supply, assures supply to operators rather than protecting it in a country with 18% of the world's population and 4% of its freshwater.

The problem is not that investors respond to commercial incentives; it is that policy may reward investment without adequately protecting the systems on which it depends.

(b) Power

The same might be expected of power. Several states reward renewable sourcing, so one might assume these incentives would ease the strain a facility places on the grid. However, a data center runs around the clock while solar and wind do not, so when renewable output is low it draws from the local grid, still largely coal-powered in India. That draw is large and

concentrated: data center demand is projected to rise nearly fivefold by 2030, nearing 3% of national electricity.

As with water, state policies say little about power. Their provisions on power assure operators cheap, uninterrupted supply through tariff subsidies, duty waivers and dual-grid connectivity, while their renewable provisions reward sourcing green power rather than any measured easing of grid stress. No state sets performance standards such as power usage effectiveness or conditions on how a facility fits the grid.

The mechanism differs from water. A renewable claim can be met cheaply on paper, through annual certificates that need not reflect the coal a facility draws hour to hour. The burden falls elsewhere: the distribution company must reserve full firm capacity, and when it sits idle the fixed costs pass to other consumers. Because the operator satisfies the incentive without relieving the grid, and the cost sits outside its balance sheet, the risk to the local system goes unaddressed.

Conditioning the Incentive

If these costs sit outside the operator's balance sheet, the market will not price them in on its own, and it falls on policy to do so. The incentive is a strong instrument government holds, yet it asks for almost nothing in return. In doing so, policy misses not only a safeguard but an opportunity. A data center, while drawing heavily on water and power, can also give back to the systems it relies on: its long-term commitments can underwrite new renewable and storage capacity, its flexible demand can help balance a strained grid, and its wastewater can be treated and returned for local use. Considering none of this carries a commercial reward of its own, it is up to policy to supply one.

The way forward is for the policies to link the benefit to what a facility delivers: efficiency standards for energy and water, reusing treated water, participation in grid balancing, and renewable sourcing that is real and round-the-clock, not matched yearly on paper. For example, a Mumbai operator already matches its power to clean generation hour by hour, showing the standard is within reach. Operators could report energy, water, and carbon at each site, where most fall outside the disclosure rules that bind listed firms, and siting could be weighed against local water and grid headroom, which regulators are moving to factor into power planning.

The building blocks of such an approach are now emerging in India. On October 14, 2026, against a backdrop of rapid data center inflows and fragmented state policies, National Institution for Transforming India (NITI) Aayog released its non-binding guidance framework, *Data Center Evaluation Framework to Help States Plan for Sustainable Growth*. The framework provides a range of suggestions, including linking incentive payments to verified milestones on renewable supply, efficiency, and local jobs, with a trigger to suspend them; to mark out

"red zones" where water stress should restrict development; to require community impact assessments with grievance processes; and to allocate the cost of grid upgrades a facility drives to that facility, rather than to other consumers. Yet the framework is only voluntary guidance. These conditions should be made binding, and set as a common regulatory floor that no state can undercut, so that states compete above it rather than beneath it.

The capital is coming either way. The question is whether emerging economies use their leverage to align these projects with the systems their people depend on, or let a green label stand in for a green result. Attracting sustainable investment and securing sustainable outcomes are not the same thing, and for now, only the first is written into the law. For countries with overburdened resources and rising ambition, ensuring sustainable outcomes is what will sustain the data center boom.

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