

Sustainable Financing for Indian Banks

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The Context

- As India grows, emissions grow in importance
- 3 major drivers of emissions
 - Coal power and electricity
 - Transport
 - Agriculture (livestock and paddy)
- Distributed energy is one solution
- Insufficient activism
 - Too few constructive dialogues and too many charges and defamatory activism

Changing Face of Banking: The Indian Scenario

The Business Side:

- Renewable energy financing
- Indian Renewable Energy Enterprise and Development Fund (IREED) (2005)
- Bank of Baroda - Energy efficiency financing for SMEs (2006)
- Financing CDM projects: SBI+MITCON+EcoSecurities (2007)
- ICICI Bank finance to HMX Sumaya (2007)
- ABN Amro MF's Sustainable Development Fund (2007)
- Deutsche Bank – wind turbines, energy efficiency
- IFC+Aloe Equity – private equity fund (2008)

Changing Face of Banking: The Indian Scenario

Policy/Management Side:

- RBI circular for banks to go green – Dec 2007
- At present banks' focus is to meet minimum compliance standards
- Absence of environment cell/team, policy and systems
- No signatories to Equator Principles

RBI circular and CII paper on the “Low Carbon Economy” force us to think, without giving direction on how to proceed.

Sustainable Banking

- Project Finance in India : Centered on power, steel, base metals and cement—all major polluting industries
- Dilemma of Banks: fear of unlevel playing field. None will sign Equator Principles if all do not.
- Fear that EP early movers risk losing business, but if environmental risks are not managed, banks face risk of project suspension or closure

ESPF Guidelines for Indian Banks

- Each project requires environmental clearance
- Promoters are responsible for obtaining clearance, but banks should be more actively involved
- Indian standards are not on par with international standards
- Monitoring and ensuring compliance is biggest challenge in Indian context

ICICI Bank Initiatives

- Funding projects that contribute to mitigation of GHG emissions
- Promoting clean technologies
- Promoting research projects in energy sector
- ICICI Bank Go Green Initiative
- ICICI Foundation for Inclusive Growth partners with Environmentally Sustainable Project Finance practice at Centre for Development Finance, IFMR

Environmentally Sustainable Project Finance Centre for Development Finance, IFMR

- Mission: to foster markets and promote policies that firmly orient India on a path toward sustainable growth
- Core strategies:
 - Strategic guidance to target and prioritize investment and implement effective policy
 - Research to set standards and measure quality
 - Thought leadership to contribute to sectoral knowledge and build public awareness on key sustainability issues.
- ESPF guided by four themes:
 - Poverty and the environment
 - India's low carbon growth
 - Environmental sustainability beyond carbon
 - Setting standards for markets

ESPF: Carbon Finance

- Developing New Standards:
 - An investigation into the Paradox of Mitigation and Development
 - Trade-Offs within the CDM: What can be done?
- Carbon Finance across Sectors:
 - How can FIs expand the use of carbon finance as a mechanism for development?
- Future Projects:
 - Priority Sector Lending: Can Carbon Finance lower risks?
 - Financial Institutions: Investor's Manual—Carbon Finance Opportunities
 - Pilot Projects: Programme of Activities—Will it facilitate new investment opportunities for MFIs?

ESPF: Developing a New Social Standard: *Pastoral Carbon*[®]: *a Face on Every Emissions Reduction*

- Pastoral Carbon[®] is the name for carbon offsets which possess and embody the spirit and traditions of a community. It is specifically aimed at monitoring the social aspects of emissions reductions.
- Pastoral Carbon[®] addresses the three missing components in the current CDM/VER standards
 - Social Accountability
 - Flexibility
 - Monitoring
- By—
 - Emphasizing the link between Poverty and Environmental Degradation
 - Community Ownership
 - Capacity building
 - Ensuring replication potential across regions

Conclusions

- Risk management/sustainable investment guidelines for Indian banks – what's needed? A mandatory regulatory mechanism or allow banks to adapt to changing trends and design their own systems?
- Opportunities in financing renewable energy, energy efficiency, low-income housing, waste recycling, cleaner technology, eco-patents
- Emission trading and clean technologies to reduce GHG emissions
- Role of carbon finance in reducing environmental risks

Thank you

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