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
- 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
ESP: 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?
  - 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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