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Developing a Sustainable Financing Policy for Banks and Financial Institutions

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Defining Sustainable Financing

Risk Driven

“Provision of financial capital and **financial risk management** services in a manner that provides for **economic growth, social justice and stewardship of the natural environment”**

Product & Market Driven

“The practice of **creating economic, environmental and social value** through **financial models, products and markets** that are sustainable over time”

Strategy Driven

“ Integration of sustainability into a **bank’s core businesses** through the incorporation of **environmental and social considerations** into the **bank’s strategy and product design”**

Business Case for Sustainable Finance

The business case for environmental and social risk management and sustainable finance for financial institutions is clear:

- **Reputation:**
  - ✓Reduce reputational risks
  - ✓Positive image and market differentiation
  - ✓Enhanced brand value
- **Reduced risk profile of portfolio:**
  - ✓Lower credit risk
  - ✓Mitigation of environmental risks
  - ✓Lower liability risk
- **Expanded market share through new business lines:**
  - ✓Innovative product/first mover advantage
  - ✓Sell on value to customer, not pricing
  - ✓Monetize existing client base, attract quality new clients
  - ✓New marketing channels through vendor partnerships
- **Improved access to international financing:**
  - ✓International financial organizations increasingly provide financial resources to financial institutions for targeted lending/investing in energy efficiency and renewable energy projects

Source: http://firstforsustainability.org/

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Stakeholders – Sustainable Financing Policy

- Banks: PSU Banks, Private Banks, and Domestic DFIs
- NBFCs
- Insurance Firms
- Equity Funds
- Regulators: RBI, IRDA, MoF, MoEF&CC, MNRE, MCA
- Indian Bank's Association
- Multilateral Institutions: IFC, World Bank, ADB, DFID, GIZ
- Civil Society Organisations

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First Steps

- Realization and acceptance of ESG issues as clear and present risks that manifest differently as compared to systemic risks or reputational risks that may lead to cash flow issues for the project.
- Banks/FIs need to acknowledge that Climate Change is going to significantly influence national policies and regulatory frameworks pertaining to environmental protection, social and economic equity and probity in governance
- ESG risks need to be understood as critical risk parameters and also as new business opportunities in the non-conventional energy, energy efficiency, cleaner production processes and technologies, carbon finance, sustainable supply chains and sustainable infrastructure development space that include Health and tourism
- Banks/FIs need to come together and formulate a uniform Sustainable Finance Policy that forms the template for individual institutions to integrate ESG in their banking strategy and product design
- IBA to facilitate the development of the policy and its framework
- Multilaterals like IFC, World Bank and GIZ can guide and assist in framing of the policy and its operational guidelines
- Regulators and Government to review, endorse and issue the Sustainable Finance Policy to be followed by Banks and FIs

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Sustainable Finance Policy- Scope and Adoption

- Overarching Sustainable Finance policy as endorsed by RBI/MoF
- Broad Guidelines on ESG risk assessment framework explained as part of policy
- Banks/FIs to adopt/formulate product specific Implementation Guidelines in alignment with ESG risk assessment framework
- Green Financing/Clean-tech/Climate change products also to be aligned to the ESG risk assessment framework of the Bank/FIs.

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Principles of Sustainable Finance Policy

The Principles/framework of Sustainable Finance Policy should include and not be limited to the following:

- Robust E&S Governance in Banks/FIs
- Integration of E&S Risk Management in Business Activities
- Financial Inclusion
- Human Rights
- Partnership and Knowledge sharing among banks for effective Risk management and innovative product development
- Capacity Building on integrating ESG in Banking activities
- Reporting & Disclosure on ESG practices

Product specific Implementation Guidelines

- Corporate finance
- Project finance
- Small and medium enterprise lending
- Agri-financing
- Investment banking
- Equity Investments
- Other direct lending / products

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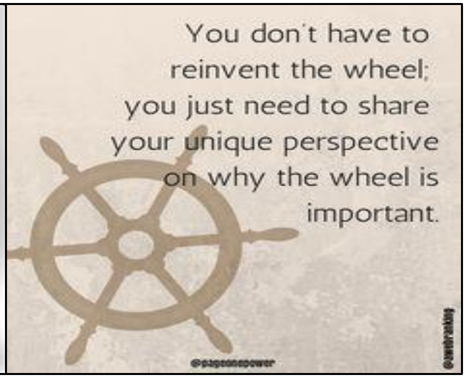
Sector Specific E&S Guidelines

- **Infrastructure**
  - ✓ Energy
  - ✓ Transportation,
  - ✓ Commercial & Industrial
  - ✓ Urban & Rural Infrastructure
  - ✓ Telecom
- **Industry**
  - ✓ Oil & Gas
  - ✓ Chemical
  - ✓ Manufacturing
  - ✓ Mining etc.
- **Forestry & Plantations**
- **SME**
- **Agri-financing**
  - ✓ Dairy Sector
  - ✓ Food processing
  - ✓ Warehousing etc.

Resources and Guidance for framing the Sustainable Finance Policy

1) IFC Sustainability Framework
2) Equator Principles
3) World Bank’s Operational and safeguard policies
4) ADB Safeguard policy
5) UNEPFI
6) National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business
7) GIZ
8) **IDFC, IL&FS, SIDBI, YES Bank** – practitioners of some of the above policies



IDFC and Sustainability

- IDFC became an Equator Principles Signatory in June 2013.

- IDFC is also a signatory to:

  - ✓The United Nations Global Compact (UNGC)
  - ✓Carbon Disclosure Project

- IDFC equity funds are signatories to the “United Nations Principles for Responsible Investments (UNPRI)”

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The Equator Principles (EP)

- Credit risk management framework for determining, assessing and managing environment and social risk in project finance (PF)
- Voluntary guidelines, adopted by financial institutions, applicable for following products:
  - ✓ **Project Finance –** capital costs exceeding US$10 million
  - ✓ **Project related Corporate Loan –** single project; 2 year tenor; minimum loan amount of US$100 million, EPFI contribution US$ 50 million
  - ✓ **Bridge Loan –** tenor of less than 2 years to be refinanced by a project finance or project related corporate loan
  - ✓ **Project Finance Advisory Services –** capital costs exceeding US$10 million
- EP is not applicable to refinanced cases and equity transactions
- Currently 80 FIs (including IDFC) across 35 countries are EP signatories
- EP is based on IFC Performance Standards and sectoral EHS Guidelines

THANK YOU