R Gandhi: Green finance – early initiatives

Keynote speech by Mr R Gandhi, Deputy Governor of the Reserve Bank of India, at the launch of the Final UNEP India Inquiry Report titled "Delivering a Sustainable Financial System in India", Mumbai, 29 April 2016.

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Friends,

2. Recognition is growing of the pressing challenge of financing sustainable development, and the opportunity it offers for channeling financial capital to productive, profitable and more broadly beneficial uses. The year 2016 is set to be the year of green finance. Across the world, we are seeing a growing number of countries aligning their financial systems with the sustainability imperative. We welcome this new green finance initiative.

3. In this context, it gives me great pleasure to be here this morning to release the final UNEP India Inquiry Report titled "Delivering a Sustainable Financial System in India". The interim report on designing a sustainable financial system for India issued in February 2015 had flagged certain key issues in making the Indian financial system ready to respond to climate change and other sustainable development priorities. I understand that the UNEP India Inquiry led by FICCI has had continuous dialogue and deliberations with various stakeholders. I would like to compliment the India Advisory Council, of UNEP India Inquiry, chaired by Ms Naina Lal Kidwai, FICCI and the UNEP India Inquiry for this initiative. I am sure that the final India Inquiry Report gives a clear overview of the stakeholders' expectations. I suppose it brings out specific recommendations to urge the financial sector towards the sustainable development agenda. We will look forward to be examining any recommendation on policy changes that will help the financial sector to channel finance towards sustainable development.

4. In order to have a meaningful conversation on this topic, let me start with the definition of Sustainable Development:

5. Sustainable development has been defined in many ways, but the most frequently quoted definition is from the Brundtland Report which says that "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts:

- The concept of needs, in particular the essential needs of the world's poor, to which overriding priority should be given; and
- The idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs."

So how does sustainable development work?

6. Sustainable Development is often described as being built on three, equally important foundations or pillars:

Pillar 1: Social development

To have a sustainable future, the needs of people must be met equally. Needs are things like access to food, suitable housing, medical care, and sanitation i.e. basically what is popularly known in India as "roti", "kapda" aur "makan". Additionally, people will want as high a standard of living as possible and this must be achieved in a way that does not harm or exploit others.

Pillar 2: Environmental protection

Planet Earth has a limited amount of resources. We all need clean air, clean water, and land to live on that also is productive enough to provide good quality food for all. Sustainable human activities look to protect the Earth's environment to make sure it is not damaged for future generations.

Pillar 3: Economic development

People throughout the world deserve the best standard of living that is sustainable. Improving medical care, sanitation, education, and enabling people to support themselves with a good standard of living requires the generation of wealth by economic activity. Sustainable economies also need to be competitive in a world market. Products that are too expensive to buy cannot be sustainable, even if they are environmentally friendly.

What are the challenges to sustainable development?

7. The High-level Panel of the UN Secretary-General on Global Sustainability had observed that by 2030, the world will need at least 50% more food, 45% more energy and 30% more water. Only 13% of global energy comes, at present, from renewable sources, but the imperatives of climate changes requires that the contribution of renewable energy must increase. As highlighted by the High–level panel, the challenge is "to eradicate poverty, reduce inequality and make growth inclusive, and production and consumption more sustainable, while combating climate change and respecting other planetary boundaries".

8. One of the important medium of attaining sustainable development is through cleaner production. It enables the manufacturer or service provider to adopt green, energy efficient technologies which helps in lesser waste, positive impact on environment and thus, leading to greater sustainability.

9. However, developing and adopting environment-friendly technology measures require a tremendous amount of capital. UNCTAD estimates that realizing the sustainable development goals (SDGs) will require US $5-7 trillion annually over the next 15 years. Over the coming 15 years, the world will need to invest around US $90 trillion in sustainable infrastructure assets in key areas such as buildings, energy, transport, water and waste – more than twice the current stock of global public capital. Estimates from the International Energy Agency (IEA), Organisation for Economic Co-operation and Development (OECD), World Bank and World Economic Forum confirm these orders of magnitude. Green financing is a potent instrument to accelerate the process of sustainable development.

So what is the position in India?

10. Historically, India has always incorporated sustainable development as a way of doing business. In Vedanta, business is viewed as legitimate and an integral part of society, but essentially it should create wealth for the society through the right means of action. "Sarva loka hitam" in the Vedic literature refers to "wellbeing of stakeholders". This means an ethical and socially responsible system must be fundamental to all business undertakings.

11. More recently, as was the case with other developing economies, the era of globalisation and privatisation of the 1990s witnessed increased capital investment with asset creation through new economically viable projects, production of more goods and services, widening market outreach from local to regional to national and even global levels. The attendant adverse impact of wider industrialisation on environment was also a focus. However, climate change concerns received wider recognition and acceptance with the signing of the Kyoto Protocol. India demonstrated its commitment to combating global warming by ratifying the protocol in August 2002.

12. Since Sustainable development goals demand immense capital contribution which cannot be provided by Governments and public sector institutions alone, a framework has been put in place to involve a number of stakeholders. As part of the *Legislative framework*, The Companies Act, 2013 mandates that larger companies should contribute atleast 2% of their average net profits annually towards Corporate Social Responsibility (CSR) activities which includes, inter-alia, the following:

a. promoting preventive health care and sanitation and making available safe drinking water;

b. ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water;

c. contributions or funds provided to technology incubators located within academic institutions; and

d. rural development projects

13. The Government of India has, in turn, launched a number of niche specialised funds / schemes such as Textile Upgradation Fund, Credit Linked Capital Subsidy Scheme, and Tannery Modernisation Scheme with a desire to move Indian enterprises towards cleaner production.

14. India is among the few countries in the world to have introduced a carbon tax. The clean energy cess imposed on coal mined in India or imported into India is collected into the "National Clean Energy Fund" set up for funding research and innovative projects in clean energy technologies.

15. The Government of India has also kept a plan outlay of Rs. 10,192.83 crore in the annual budget plan for the year 2016–17 towards utilizing new and renewable energy resources of energy for supplementing energy requirements of the country in an eco-friendly and sustainable manner. Government is proposing to set up new missions on Wind Energy, Health, Waste to Energy, Coastal Areas and redesigning the National Water Mission & National Mission on Sustainable Agriculture. These steps indicate the Government of India's commitment towards energy efficiency and will help to meet our national mission to reduce emission intensity by about 30%–35% between 2005 and 2030. India is looking forward to enhance its renewable energy capacity in line with our vision of providing 24×7 electricity to all households. Accordingly, the Ministry of New and Renewable Energy (MNRE) is looking forward to install 1,00,000 MW of renewable capacity in the country in the next five years. In order to fulfil the ambitious renewable energy targets, the country would require huge investments.

Role of financial entities in sustainable development

16. Since no development is possible without a sound financial system supporting it, the spotlight is now on aligning the financial system with sustainable development. We, in the RBI, have been conscious of the role of banks in providing finance for sustainable development. As early as in December 2007, banks in India were sensitized to the various international initiatives including the Equator principles and were asked to keep abreast of the developments in the field of sustainable development and corporate social responsibility and dovetail / modify their lending strategies / plans in the light of such developments.

17. India's focus on harnessing the financial system to provide to socially important segments actually dates back to even pre-nationalisation days and got great impetus after bank nationalisation. A core of the financial policy in India is the Priority Sector Lending requirement for banks to allocate 40% of lending to key socially important sectors such as agriculture and small and medium-sized enterprises. In 2015, the Reserve Bank of India (RBI) included lending to social infrastructure and small renewable energy projects within the

targets, thereby, giving a further fillip to green financing. In the renewable energy segment, bank loans of up to Rs.15 crore for solar-based power generators, biomass-based power generators, wind mills, micro-hydel plants, etc. will be considered part of PSL. For individual households, the loan limit will be Rs 10,00,000 a borrower. The RBI has also recently introduced market for trading priority sector lending obligations, incentivizing lower cost delivery.

18. The External Commercial Borrowing (ECB) norms have been further liberalized so that green projects can tap this window for raising finance across the borders. Extant guidelines permit use of ECB proceeds to retire outstanding Rupee loans provided minimum average maturity of ECB is 10 years or ECB is denominated in Rupees. ECB can also be raised to refinance existing ECB provided all-in-cost is lower than that of existing one and residual maturity is not reduced.

19. The Securities and Exchange Board of India (SEBI) has, in January this year, put in place the framework for issuance of green bonds and the listing requirements for such bonds. 2015 was the year India entered the green bond market, with a total of US $1.1 bn of green bonds issued from a handful of pioneer issuers (Yes Bank, Export-Import Bank of India, CLP Wind Farms and IDBI).

Sustainability reporting

20. In 2012, the Securities and Exchange Board of India (SEBI), mandated the Annual Business Responsibility Reporting (ABRR), a reporting framework based on the National Voluntary guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs) released by the Ministry of Corporate Affairs. These guidelines serve as a driver to pursue sustainable management practices as a means to reaching sustainable development goals.

Way forward

21. The challenge, before developing economies like us is to mainstream green finance so as to incorporate the environmental impact into commercial lending decisions while simultaneously balancing the needs of economic growth and social development. This will necessarily mean setting out on the journey of integrating financial system and sustainable development which has numerous goal-posts. These goal-posts could include:

a. Developing awareness about environmental vulnerabilities and risks among the stakeholders especially market intermediaries.

b. Develop a commonly accepted set of green finance definitions and indicators that can be used to make cross-country or cross-market comparisons.

c. Identify and develop green financial products and services which can be introduced in the market.

d. Develop a framework of metrics for measuring progress.

e. Develop innovative financial solutions for supporting the needs of long gestation environment-friendly projects.

f. Enhance capabilities for assessing the risks including environment risks in order to dovetail them into lending decisions.

22. While the time taken to achieve these milestones could vary in view of the balanced emphasis on economic development and environment, it would go a long way in aligning the Indian financial system with sustainable agenda.

23. I wish FICCI and UNEP the very best for all the future endeavors in this area.