Mainstreaming Energy Productivity Lending Practices among Indian Financial Institutions (FIs)

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• **Objective**
  - To scale-up Energy Efficiency (EE) efforts through mainstreaming energy productivity lending practices among Indian financial institutions.

• **Methodology**
  - Five voluntary principles approach

• **Research Gap**
  - A very few studies addressed scaling up EE efforts, the present approach of EE financing is fragmented and lack holistic approach to access finance from financial institutions.
• Advantage and usefulness of this study

• The approach plays an important role in raising awareness of EE financing among FIs, particularly among Local Financial Institutions (LFIs)
• It helps to initiate dialogue within FIs about financing EE projects
• It is effective enough to build suitable products and services for consumers and investors
• Helps to develop financial risk mitigation instruments to eliminate risk perceptions from various stakeholders about the EE projects
• Literature Review

• USAID, 2011
• ADB, 2013
• USAID, 2013
• Lee C.T., Hashim H., Ho C S., Klemes J.J., 2016
• Subash Dhar, Minal Pathak, P R Shukla 2018
• Garg, A., Dhar, S., Kankal, B., & Mohan, P. (Eds.) 2017
• IIP, 2012
• Alexis Bonnel and Stacy Swann (n.d.)
Overview EE financing

- As per IPCC estimates, 67% of global GHG emissions are now covered by some form of legislation or national strategy, but these policies are under early stages of implementation.
- There is a need of investment USD 190 - 900 billion per year through to 2050 in the energy sector alone.
- There is need for different economic actors and climate friendly models.
- Financial Institutions (FIs) like ADB, CIF, GEF are biased towards supply-side investment compared to demand-side efficiency projects.
- In general, at country level, public sector banks play key role in providing EE financing, but scale of efforts varies across the institutions.
- Private-sector FIs found little evidence of dedicated activities and commercial finance is in early stage to mainstream EE initiatives in its lending practices.
- There is a missing component of institutional strategy and policies across the FIs board is not systematically mainstreamed within institutional operations.
EE financing in India

- As per ADB India needs cost-effective investments in EE about 4.5 billion USD required per year through 2020 in order to meet its established national energy-saving targets.
- Rapid urbanization and increase in per capita income has increased the demand for various energy products and services among Households (HHs).
- There is a huge potential for investment at national and state level but rate of investment in EE technologies and projects is lagging behind its potential.
- Learning experience from EE financing at country levels suggests that there is a need for financing for EE technologies and projects at scale.
- New or innovative mechanisms are needed to help realize the country's full potential for EE.
• **EE financing policy and strategies**

• At present, EE financing is inline with *Energy Conservation Act 2001* and it complements supply side measures of Renewable Energy Technologies (RETs).

• It is one of the important strategies to achieve low emissions targets.

• In long-term EE coupled with RETs will shift towards cleaner and sustainable electricity.

• Thus, *greater implications* on sectors like *residential, industry and transport sectors*. 
• **EE financing instruments**

• The approaches like market based mechanism, standards / codes and labeling have yielded positive results and succeed in market penetration but lacks in achieving its full potential.

• It is recognized that there is a need to overcome barriers like market imperfections and institutional barriers

• There is need for change in perceptions about EE financing among corporates / government / executives / managers / bankers and other members of the financial community
Five voluntary principles approach

**Commit**
- Meeting with stakeholders

**Manage**
- Assess institutional commitment
- Assess need of EE in new investment, pipeline or in existing portfolio

**Promote**
- Mainstreaming EE into activities and investments
- Improve the climate performance activities

**Improve**
- Link the EE considerations in financial reporting for improving transparency

**Account**
- Strategy that promotes EE relevant strategic priorities, policy commitments at institutional level
- Identify linkages with approaches to screen new investments
- Promote approaches to generate instrument tools and knowledge
- Develop appropriate MRV for incorporating EE considerations into day to day operations
- Improve overall institutional governance

Energy Efficiency Financing
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<tr>
<td><strong>Commit to climate strategies</strong></td>
<td>Assess institutional commitments</td>
<td>Assess senior management leadership, explicit strategies, policies, commitments and targets</td>
<td>Asses’ plan that integrate a systematic mainstreaming of EE into business and strategic plans.</td>
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<td>Positions that are built in institutional structure that promotes and are accountable for meeting EE objectives.</td>
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<td>Incentives structure, performance management systems or other systems that track the delivery of systems at all levels.</td>
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<td>A EE strategy to promote -relevant strategic priorities, policy commitments, plans and/or targets at institutional level</td>
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<td><strong>Manage climate risks</strong></td>
<td>Education on non-financial risk mitigation</td>
<td>Asses EE risk of new investment, pipeline or an existing portfolio</td>
<td>Assessing EE risk of existing portfolio of projects. Developing approaches to assess and manage project risks.</td>
<td>Identify the linkages with approaches for screening the new investments.</td>
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<td><strong>Promote climate smart objectives</strong></td>
<td>Identify EE considerations in routine business development</td>
<td>Share learning lessons and experience to help further mainstream EE considerations into activities and investments</td>
<td>Identify dedicated mechanisms that provide financing for projects, specific strategies to increase lending related EE.</td>
<td>Promote approaches to generate instruments, tools and knowledge. Encourage knowledge sharing and dissemination for creative and smart partnership between departments, thereby, mainstreaming and implementation of investment at scale.</td>
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<td><strong>Improve climate performance</strong></td>
<td>Identify operational tools that improve the climate performance of activities</td>
<td>Identify operational tools and result framework.</td>
<td>Assess the GHG impact of investments, EE finance flows. Screen risk and opportunity for the same.</td>
<td>Develop appropriate operational tools for tracking, monitoring and incorporate EE considerations into day-to-day operations.</td>
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<td><strong>Account for your climate action</strong></td>
<td>Transparency and reporting</td>
<td>Link EE considerations in financial reporting</td>
<td>Identification of institutional reporting of EE of investments and related policies and potential reporting on additional funds leveraged or mobilized.</td>
<td>Improve overall institutional governance</td>
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Source: Alexis Bonnel and Stacy Swann (n.d.)
Conclusions

- In short and medium term EE financing is a cost-effective option to reduce energy demand, increase productivity, competitiveness and mitigate greenhouse gases (GHG) emissions
- However, there is a need to eliminate barriers like institutional, policy and financial, which limits the adoption of EE measures and technologies.
- Current mechanisms developed and deployed by the national, state governments and donor agencies but lacks to realize the full potential to scale-up EE.
- The proposed framework is in line with India’s National Mission on Enhanced EE (NMEEE) as a part of the National Action Plan on Climate Change (NAPCC).
- The outcome of this study will provide a boost to the country’s efforts on enhancing EE efforts by strengthening national action plans, strategies and policies.
THANK YOU.