

Sustainability Outlook

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Sustainability Reporting

Extended Producer Responsibility

Financing Sustainable Infrastructure

Green Leap needed to shape global leadership



Moving from operating defensively,
to capturing advantage

FINANCING SUSTAINABLE INFRASTRUCTURE: THE NEED AND CHALLENGES



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The challenges of achieving rapid and continuously high levels of economic growth as a means to poverty reduction include the need to balance development aspirations with minimal environmental impact. Given the global impetus to peg carbon emissions to 2005 levels over the next two to three decades, it is clear that infrastructure creation on a low-carbon trajectory is the only sustainable way forward for India. Infrastructure, due to its capital-intensive and long-gestation nature, would require significantly high levels of long-term financing. With the exception of airports, ports and power projects set up for cross border sales of the power generated, the earnings of most infrastructure projects are denominated entirely in local currencies. The ability of infrastructure to absorb cross-border financing in significant volumes is, therefore, limited, more so, given the lack of standard long term hedging products and little market depth for long-term swaps. Availability of domestic financing of the required magnitude is therefore critical to the development of infrastructure in any location.

Over the last decade and a half, private investment in infrastructure has emerged as a significant component of the total investment in infrastructure in India. The 12th Plan estimates that 50% of the targeted gross capital formation in infrastructure (US\$ 500 billion) would be from private sources. Since around 70% of such financing would be through debt sources, the bulk of it in rupee term loans, commercial banks and financial institutions would continue to have a dominant role to play in the financing of infrastructure. Given the enormous influence that they wield, it is, therefore, critical that banks and financial institutions are appropriately sensitized and alive to the need for creation of sustainable infrastructure, going forward. This would require, first and foremost, attitudinal changes in the leadership and senior management of these entities – recognizing the need for infrastructure development to shift to a low carbon and optimal resource utilization path.

Only then would this translate into appropriate appraisal standards and procedures in the credit delivery processes of these lenders. Signing up to the UN Principles for Responsible Investment and the Carbon Disclosure Project, as organizations like IDFC have done, would send the right signals to the market. Gradually, all large infrastructure financiers could adopt Equator principles or appropriate Indian equivalent standards that would clearly reflect this commitment to financing sustainable infrastructure. Responsible Investment Research Association (RIRA), an initiative set up recently in partnership with IDFC Foundation, could be a useful platform to bring together lenders and financial investors in this effort.

While financing has influence in determining the process of development, it is not the only tool through which sustainable infrastructure could be delivered. In fact, it is through the formulation of appropriate development policies and regulatory frameworks, programme design and the project development process that the course of sustainable infrastructure development can be assured. This calls for greater engagement of lenders, investors, policy makers and other stakeholders in the process of policy formulation and development keeping sustainability in mind, as was done while developing concession frameworks for various infrastructure sectors. It would be useful and perhaps, necessary, to develop a clear hierarchy of preferences for development of infrastructure. This would need to be done both sectorally and cross-sectorally, and sometimes at the cost of short-term profitability or value frameworks of the stakeholders concerned.

For instance, in the transport sector, the order of preference could be non-motorized transport over motorized forms wherever possible. It would be in using coastal shipping and inland waterways, in preference to railways and in turn railways in preference to road transport for the long haul of bulk cargo. For passenger transport, the choice would be public transport

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over personal forms of transport and within this preference - buses, bus rapid transit systems and urban rail systems in that order. For power generation, it would be using renewable energy from wind, solar and hydel sources and biomass over carbon fuel based projects. Even within thermal generation the preference for gas, liquid fuels and cleaner coal – in that order cannot be over stated. To conserve energy sources intensive plans to improve efficiencies and reduce losses in electricity distribution and active demand side management – in lighting, for instance, would need to be aggressively pursued. In telecom, sharing of both active and passive infrastructure could be the way forward, both from an economic and resource conservation standpoint. Of course, all these choices should be based on credible research undertaken as to the environmental and low-carbon efficacy of each of the options.

For water supply services, the preference could be for decentralized water harvesting and recycling systems and regeneration/ creation of existing/ new tanks and lakes, more so since a bulk of the costs of water supply in most large cities are energy costs incurred for pumping the water over long distances and to substantial heights. It may be necessary to put in place intensive water treatment, recycling and common effluent treatment installations and manage these efficiently through private sector participation to aid water conservation and recycling. Generation of power from solid waste through appropriate technological choices and incentives could make projects viable for commercial financing and deal with the twin challenges of electricity generation and waste treatment. As the country rapidly urbanizes over

the next two decades - local laws for rain water harvesting, waste segregation, solar powered installations, facilitating pedestrian traffic, congestion period pricing, personal vehicle ownership charges and cesses on fuels like diesel could help achieve the vision of creating smart cities.

This would need concerted action - credible research, formulation of appropriate policies and regulations, putting in place transparent frameworks of incentives and penalties and intensive implementation and monitoring regimes. And for all this, we need to see vastly improved standards of governance at the Central, state and local levels – which would require a visible demonstration of political will across the political spectrum. Much advocacy and consultations would therefore be needed for moving quickly on the low-carbon trajectory in a non-confrontational manner. This would be the biggest challenge and necessary to take sustainable infrastructure from the level of inspirational statements to goals and targets that can be achieved and celebrated. Financing is the lesser challenge – it would always chase well-structured projects.

Note: Views expressed are personal and may not reflect the official position of IDFC/ IDFC Foundation

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