Hindustan Times
Tuesday, June 05, 2014 Mumbai

Invest now to reduce our carbon footprint

Nations must address climate change in their security agenda and businesses must review their risk management methodologies

greensteps

Rana Kapoor

The recently released IPCC Working Group II report titled 'Climate Change 2014: Impacts, Adaptation and Vulnerability', highlighted how rampant and unequivocal climate change is, thus exacerbating the vulnerability of agriculture and rural livelihoods through water distress and temperature fluctuations. It clearly indicates that Asian countries are at high risk in the coming years and will witness extreme weather events like floods, cyclones, cloudbursts, unseasonal excessive rains and drought.

Such a forecast has created an urgent need for countries and corporates to take a hard look at their policies; otherwise we are heading towards an armed conflict in the region by the middle of the 21st century. This calls for nations to address climate change in their national security agenda and businesses to review their risk management methodologies to include environment and social factors.

The findings make it amply clear that the new government would need to prioritise on challenges of food-energy-water (FEW) security and reduce the high dependence on thermal power and oil imports.

This demands holistic climate-friendly policies, besides sensitising the people towards these high environmental and social risks. India would have to mainstream collective mitigation and adaptation strategies towards climate change like incentives for low-carbon technologies, cleaner fuels, phasing out old polluting technologies, limiting the subsidy on fossil fuels and real time weather data for farmers among others.

It is not the government alone, but also the corporate sector that would be adversely impacted by climate change. The banking sector is the most vulnerable to climate change risk. With this report, climate change has emerged as perhaps the single-largest threat to a bank's long-term performance. Amid environmental, social and governance (ESG) issues, climate change has the highest material threat to all aspects of a lending portfolio. Financing carbon-intensive sectors like oil and gas, steel, cement and transportation form a large part of the banks' balance sheet. This and the increasing frequency and intensity of climate incidences, like the 2013 Uttarakhand floods and the hailstorms in Maharashtra and Andhra Pradesh, have put pressure on the financial sector to realign and develop sustainability strategies to better predict and prevent losses from extreme weather events.

Most Indian banks are yet to adopt systematic processes that combine fundamental quantitative analysis with carbon-risk research, which would optimise the risk-return profile of their portfolio. This compromises the 'level playing field' for those who have adopted such mechanisms.

While a non-performing asset of a bank is linked to many factors, a climate-resilient funding and lending mechanism decreases the probability of a bad asset. Managing ESG risks also opens the door to a wide range of global funds that emphasise scrutinising non-financial risks. This really brings out the need for a fundamental shift in the mindset of financial institutions to re-balance the focus from commercial growth only, to include environmental and social issues.

On the other hand, businesses that seek debt have to realise that their operations and supply chains are vulnerable, given that extreme climate events are predicted in the years to come. Balancing short-term gains and returns on investment with climate-friendly technologies, greening supply chains and innovations for the bottom of the pyramid would ensure robust long-term gains and brand equity.

The IPCC report perhaps is a 'knock' on the government and industry, where the new government needs to take an integrated approach to energy and climate policy; and keep GHG emissions stabilised at prescribed safe levels. Corporates need to evolve and manage carbon and climate risks, thus transitioning to a low-carbon economy. We as individuals need to assume responsibility by changing our behaviour and purchasing decisions to reduce our personal carbon footprint.

Rana Kapoor is managing director & CEO of YES BANK

The views expressed by the author are personal