

SUSTAINABLE FINANCE –PERSPECTIVE FROM INDIA

Abstract

The concept of sustainable development is not only limited to operational aspect but is spread over to all other business areas like marketing, finance, supply chain etc. In rapidly changing world all the imensions is being thought from sustainable angle. Some of the sustainable initiatives are due to change in regulatory framework, some as a strategic initiative to earn future benefits. As a result the conventional activities have been altered to reflect the environmental aspect, like green marketing, green finance, green GDP. This chapter explores green finance with perspective from India. Green finance refers to all the financial investments that goes into creating environmental friendly sustainable development projects and initiatives. The chapter highlights the green investing Principles and then talks about the major initiative taken by regulatory authority to bring sustainable finance in the main domain. The chapter also brings out different types sustainable financial products along with their advantages and disadvantages. It concludes by highlighting the roadblocks to sustainable investing in India.

Keywords: Sustainable Finance, Green Marketing, Green Bonds, Green Equity, UNFCCC, NDC

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I. INTRODUCTION

The rapid degradation of environment and the abrupt changes in the atmosphere are signal that the social cost of environment loss is way more dreadful than initially thought. The devastating floods in Pakistan in 2022 and the flood in Himachal Pradesh in 2023 should serve as a warning. All macro and micro level stakeholders must work towards holistic sustainable development as a matter of urgency. UN has designed the sustainable development goals. The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity. Eradication of poverty is critical to creating a safer environment. As, People choose to live when given the option between protecting the environment and earning a livelihood. Hence its utmost important to create a green infrastructure and green ecosystem , where any means of livelihood will not cause a serious damage to the environment.The SDG goals can only be achieved by integrating firm level governance with country level governance and implementation them in the firm’s strategy & operations.

The concept of sustainable development is not only limited to operational aspect but is spread over to all other business areas like marketing, finance, supply chain etc. The conventional terms have been altered to reflect the environmental aspect, like green marketing, green finance, green GDP are entering business space mainly on account of changing regulation and in some cases CSR activities. This chapter focuses on green finance.

II. DEFINITION OF GREEN FINANCE

Höhne / Khosla / Fekete / Gilbert (2012) : ‘Green finance is a broad term that can refer to financial investments flowing into sustainable development projects and initiatives, environmental products, and policies that encourage the development of a more sustainable economy.’

World Bank: ‘Sustainable Finance is the process of taking due account of environmental, social and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects.’

III.MEANING

Green finance refers to all the financial investments that goes into creating environmental friendly, sustainable development projects and initiatives. It is often synonymous to green investments, however green finance has a much broader scope as it includes Policy framework that encourages green investments.

IV. GREEN INVESTING PRINCIPLES

- Sustainable development is the need of the hour and to bring change in the micro level following principles has been designed

- Embedding sustainability into corporate governance- It encourages organisations to adopt best practices in sustainability. The goal is to bring about change by incorporating sustainability into organisational culture and business strategies.
- Understanding Environmental, Social and Governance Risks (ESG).- This framework helps in understanding how a company handles the risks and opportunities associated with environmental, social, and governance standards also called ESG factors.
- Disclosing environmental information- Mandatory disclosures will allow firms to focus on sustainable operational practices and will also help investors to choose and decide on ESG framework.
- Enhancing communication with stakeholders.- Regular communication with all the stakeholders and developing a positive attitude will help bring a paradigm shift and ESG mindset on the forefront.
- Utilizing green financial instruments.- Using green financial instruments such as green bonds, green banks, green investment funds will help firms to create an infrastructure which supports sustainable development.
- Adopting green supply chain management.- Setting up of green supply chain ecosystem which includes green purchasing, green manufacturing, green distribution.
- Building capacity through collective action.- SDGs can only be achieved if there is a collective effort and cooperation. It implies developing an ecosystem where in skills, attitude and management capacity are developed.

V. INITIATIVE TAKEN BY REGULATORY AUTHORITY TO BRING SUSTAINABLE FINANCE IN THE MAIN DOMAIN.

Globally, financial institutions and business firms have started transitioning towards sustainable finance.(Cheng et.al.,2023) However from Indian perspective lot of things are yet to be achieved. Even though government, central bank RBI have brought in a number of initiatives in the banking sector and financial markets.

Table1: Landmark initiatives by Indian Institutions in the sustainable finance:

Initiative	Regulatory Agency	Impact
Encouraging best practices related to sustainable development.	RBI (2007)	One of early ESG related reform measures towards creating awareness and focus towards sustainable growth.
Inclusion of Business Responsibility reports in Annual reports for all listed entities has been made mandatory.	SEBI (2012)	Will force firms to take up responsible investing.

Launch of S&P BSE CARBONEX Launch of the MSCI ESG India Index	S&P and BSE, Collaborative initiative (2012)	composed of the constituents of the S&P BSE 100 based on carbon performance scores. Will provide investors a portfolio of green stocks.
Companies Act 2013, mandated 2% of profit for CSR	GOI (2014)	Will force firms to take up responsible investing, Investing for social causes.
Inclusion of renewable energy under Priority Sector Lending	RBI (2015)	Beneficial for small scale investments in the renewable energy.
Miniratna status granted to IREDA	Ministry of New and Renewable Energy (2015)	Status gives more power in delegating and financial autonomy. Resulting into rapid execution.
IBA's guidelines on responsible banking	IBA (2015)	The guidelines included 'Five pillars of responsible finance strategy' & 'Principle wise Implementation Guidance'
Exim Bank of India issued a five-year US\$500 million green bond	EXIM (2015)	Issuing Euro Bond helped in robust subscription for green infra projects.
YES Bank issued the first INR-denominated green bond	Yes bank(2015)	First ever green bonds in the emerging economies.
Launch of Nifty ESG Index	National Stock Exchange (2018)	Provides investors a portfolio of stocks with ESG scores amongst Nifty 100 stocks.
Push for green Data Centres	RBI (2022)	Will reduce carbon emissions.

Source: RBI,SEBI, MoF.

VI. DIFFERENT TYPES SUSTAINABLE FINANCIAL PRODUCTS

- 1. Sustainable Debt Instruments: Green Bonds & sovereign green bonds:** The capital raised from issuing green bonds will be used for investing in green and sustainable capital projects. The investors get fixed income in the form of Interests.

These are very similar to any other conventional bonds barring one difference that the proceeds must be used in green projects. However, to issue green bonds the issuer needs to conform to the following criterion, as per ICMA (International Capital Market Association).

- The entire proceeds must be used to fund green projects.
- The process adopted for project evaluation and selection should be disclosed by the issuer.
- There has to be transparency in the management of proceeds.
- Issuer must report the progress and the impact about the proceeds of green bonds.

2. Advantages of Green Bonds

- Successful issuance of green bonds will help create sustainable capital stock which will have less social cost¹ compared to other capital investments.
- Building green infrastructure will help society to protect environment without compromising growth & development.
- It is expected that government in near future may announce tax benefits for investing in green bonds, thus positively impacting effective returns for the investors.
- RBI's inclusion of renewable energy sector as a priority lending sector will ensure better credit flow and mobilization of resources.
- Researcher claims that corporate green bonds help attract an investor clientele that values the long term and the environment. (Flammer, Cheng et al., 2014; El Ghouli et al., 2011)
- It is a giant step towards attainment of SDGs.
- It is particularly useful for the investors who are looking at creating a green funds, consisting of equity & debt.

3. Disadvantages of Green Bonds

- For issuing green bonds the project selection and evaluation has to be done, which is time dependent and hence may cause delays.
- The inclusion of business responsibility report in the annual reports of all listed companies by force (SEBI's mandate) and not by choice may give rise to green washing.
- Investors with the intension to generate _{profit} may be looking at the investment profile only. Thus, if the green bonds do not give additional impetus like tax benefits on gains or better coupon rates compared to conventional bonds then it won't be attractive.

4. Green Equity: Green equity is, by definition, the stock of a company that strives to preserve the environment. Purchasing these companies' stocks is referred to as investing in green equity. In India such stocks are rare. However, both the leading equity exchanges of India BSE & NSE have designed green equity Index. These Indices includes stocks of the firms that have a ESG (Environment, social and governance) score.

Table: ESG Indices

Name of the Index	Highlights
Nifty 100 ESG, Nifty 100 Enhanced ESG, NIFTY100 ESG Sector Leaders Index	<ul style="list-style-type: none"> • Stocks from Nifty 100 are considered. • Companies with good ESG Scores are selected. • Companies in the severe risk category will be excluded. • Companies with a controversy score of 4 and 5 on 5 point scales are not included. • Sin stocks aren't included. That is companies engaged in the business of tobacco, alcohol, controversial weapons and gambling operations.
S&P BSE 100 ESG Index, S&P BSE CARBONEX, S& P BSE GREENEX	<ul style="list-style-type: none"> • Limited Carbon Emission of the companies listed are considered. • Mandatory disclosures on energy usages are being assessed

Source: NSE, BSE

5. Advantages of Investing in Green Equities

- ESG index stocks have better ESG (Environment, Social and Governance) scores and hence investing in them will be safer compared to other equity investments.
- There is a proof from the literature that there is a preference for green investable instruments and it increases investor confidence. (Ilhan et al., 2020; Krueger et al., 2020; Starks et al., 2018).
- ESG Index stocks are taken from Nifty 100 & S&P BSE ESG Index, hence liquidity isn't a concern for investors.
- Investments in these stocks will lead to better price efficiency due to timely dissemination of information and thus the firms will continue to increase their ESG scores.

6. Disadvantages of Investing in Green Equities

- Sustainable green equity funds have a restriction of investing in ESG Index funds only, thus many other return opportunities may be lost.
- In India there aren't any company raising equity capital for green business only. Thus, pureplay sustainable equity investments is extremely limited.
- There aren't much tax benefits given to the investors at this level.

VII. INDIA'S ROADBLOCKS TO SUSTAINABLE INVESTING

- Challenges to integrate environmental goal with economical goals. India being a vast country and having a diverse socio-economic stratum, it is difficult to attain environmental goals along with economic goals.

- Building green capital investments takes time, but it is possible to do so by leveraging stakeholder theory² and connecting macro and local environmental goals. However, it may take longer than expected. For e.g. Automobile sector to switch to electric vehicles completely depends on the all stakeholders involved in automobile business. From manufacturer to supplier, to financier to the service centers. Process can be made easier by bringing all the stakeholder together
- Impact investing³ is at a nascent stage in India and may need government's financial incentives like tax benefits as an impetus.
- Monitoring for green washing⁴ is a key challenge, as it is expensive and complex process

VIII. CONCLUSION

Sustainable development and building sustainable ecosystem are the dire need of the hour. India has committed to the Paris Accord and has reaffirmed its commitment by submitting the updated Nationally Determined Contribution (NDC) to United Nations Framework Convention on Climate Change (UNFCCC) on Aug 2022. Coming to Sustainable Finance more awareness is needed for successful investments green bonds, ESG Index equity stocks and Green equity. Impact Investing needs to be more popularised. Budding entrepreneurs should be encouraged to create start-ups in sustainable businesses.

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