DRIVERS OF SUSTAINABLE FINANCE FOR INDIA

REPORT OF INDIA-UK SUSTAINABLE FINANCE WORKING GROUP

AUGUST 31, 2021



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Message from Co-Chairs

Even though ESG is an evolving subject, it is important for India, its businesses, policy makers and regulators to align to the extent possible with global definitions and best practices, while considering India centric imperatives. Capital is, by definition, global and will naturally veer towards investment opportunities that meet the most widely accepted norms. We hope this report allows stakeholders to get a good read of the above aspects on the India versus other emerging markets comparative and helps illuminate the often-ignored demand side factors, apart from sharing insights on newer segments with ESG applicability.

Hitendra Dave
Co-Chair, India, India-UK Sustainable Finance Working Group and CEO, HSBC India

There is strong interest internationally in increasing capital flows into sustainable infrastructure and in ESG considerations more broadly. The City of London is at the heart of meeting that demand with increased capital flows and India continues to be a key and growing market. Building on the Working Group's previous detailed work on the regulatory and policy environment, we hope that this report helps highlight some factors that can help increase levels of international and domestic financing for sustainable projects and platforms in India.

Richard Abel
Co-Chair, UK, India-UK Sustainable Finance Working Group and Managing Director, UK, Climate Investments, Macquarie Group

Executive Summary

The private-sector led India-UK Sustainable Finance Working Group (IUKSFWG) was established in 2019 with FICCI and City of London Corporation as anchor partners and supported by FCDO, UK with the objective to identify and facilitate removal of barriers, both in India and the UK, to unlock sustainable finance flows to meet India's ambitious climate change and sustainable development goals.

The Working Group formed three sub-working groups (SWG), namely, on Taxonomy; Attracting International Capital; and Attracting Domestic Capital for Domestic Projects, with each SWG headed by people of eminence in their respective fields.

The Working Group launched the reports **"Untapped Potential: Supercharging Green Finance in India"** in January 2020 and **"Practical Actions to Finance India's Sustainable Recovery"** in January 2021, which provided actionable recommendations on ways to move forward on sustainable finance in India. The Joint statement of the 10th Economic and Financial Dialogue held between the Ministry of Finance and HMT in October 2020 also welcomed the work of the India-UK Sustainable Finance Working Group.

This has been followed by the inclusion of the IUKSFWG Co-Chairs in the Sustainable Finance Forum (SFF), which is the bilateral forum of Governments of India and the UK. In addition, IUKSFWG is represented by some of its members and FICCI in the disclosures working group and the taxonomy working group of the Sustainable Finance Task Force (SFTF) of the Ministry of Finance, Government of India, anchored by UNDP India. Both these engagements are ensuring that private sector inputs into the discourse and development of sustainable finance is dovetailed through the IUKSFWG which remains deeply committed to accelerating green capital flows into India to support a sustainable recovery from the pandemic.

This Report, the third one by the IUKSFWG, provides the insights, perspectives and recommendations on specific factors that would attract sustainable finance for India, starting with a comparative of India with other emerging economies in attracting sustainable finance, the actionable inputs for lowering the cost of finance for investors to increase the sustainable finance flows in the country, the evolution of regulatory environment and development of disclosure and regulatory frameworks, and the challenges faced to attract ESG funding in India and ways to overcome these to improve ESG capital availability in India, and finally the issues and solutions on debt financing from InvITs as a sustainable finance instrument.

Chapter 1 provides an initial assessment of India's policy environment and its success in attracting sustainable finance compared to other emerging economies. The objective was to identify areas where there is scope for India to improve its performance compared to other emerging markets,

and the types of reforms that could help. Similarly, in areas where India performs well, the objective was to assess whether the drivers of success could be scaled-up (e.g., implemented in other sectors). The study interviewed ten investors that have a presence across multiple geographies with a focus on four key areas: macroeconomy, climate change policy, ease of doing business/operating environment, and capital markets. This chapter provides insights on how India performs well compared to other emerging economies according to several independent reports. Global competitiveness rankings give an indication of how India compares to other markets, although results should be interpreted with some caution given the range of methodologies used. These reports generally show that India performs well compared to benchmark countries. India has also made tremendous progress: India moved from 142 in 2014 in the World Bank's Ease of Doing Business rankings to 63 in 2019. India also performs well on innovation, well ahead of most emerging economies and comparable to several advanced economies (WEF, 2019).

India compares well to other developing economies in providing a stable environment for renewable energy investments, but more needs to be done to address emerging challenges. According to Bloomberg New Energy Finance's Climatescope, India was ranked second after Chile in 2020 in terms of the business environment for clean energy investment. Investors are happy with the environment for renewable energy investments in India. India has set ambitious medium-term targets (450 GW by 2030) to provide clarity to investors. These have been backed by a robust set of policies - a well-run auction process, priority grid access for renewable energy, and investment in the transmission & distribution network. However, more needs to be done to address recent challenges. The cancellation of auctions, the threat of renegotiation of PPAs and payment delays are dampening investor sentiment and increasing the cost of capital.

Deeper reforms that improve the regulatory environment and make it easier to do business in the country can have a transformational impact on capital flows. Investors highlighted a few key areas that the Government of India (GOI) may wish to consider:

- Strengthen the institutional architecture to accelerate the pace at which a project moves from conception to close: A big challenge investors face in India is that they have to liaise with multiple agencies to secure the necessary approvals and permits, often across central, state and local governments. Other emerging markets that faced similar challenges introduced a 'one-stop shop' - a single entity that acts as an interface with foreign investors, breaks down silos between ministries/agencies, and helps coordinate activities within government (e.g., Indonesia, Philippines). GOI could consider replicating a similar institutional architecture to fast-track sustainable projects that are key to meeting the country's climate change ambitions.
- A review of existing regulations that place an undue burden on investors with a view to streamlining processes: International Investors argued that the operating environment in India is a lot more burdensome compared to other emerging markets e.g., South Africa. This ranges from the process and time it takes to acquire the relevant permits and authorisations to the regulations to structure equity deals. A more streamlined approach will require a comprehensive review of the capital markets regime and its interaction with tax and company

law requirements.

- Long-term climate strategy for decarbonisation: Infrastructure investments are long-term in nature, with assets in operation for 20-30 years. A long-term climate strategy will help signal the Government's ambition and create an opportunity for India to incorporate climate-friendly designs into its infrastructure pipeline from the outset. This will save money over the long run by avoiding expensive retrofits in the future. This should be backed by a strategy that recognises the interlinkages between sectors (e.g., the links between electric mobility and power generation), and sets out interim milestones (e.g., 2030, 2040 and 2050) and transitional pathways at a sector level. The GOI can draw upon the experiences of other emerging markets that have made good progress in these areas (e.g., Chile, Columbia, Costa Rica). The IUKSFWG is keen to share its expertise as the GOI sets out its long-term vision in the run-up to COP26.
- Strengthen the enabling environment for climate change investments: The IUKSFWG recognises that the GOI has started work on a green taxonomy and is strengthening the sustainability disclosure regime (as part of SEBI's Business Responsibility and Sustainability Reporting). This should be a consultative and iterative process, with markers in place to revisit frameworks if they do not deliver the desired outcomes. It is still early days and the way these frameworks will eventually influence the flow of capital into sustainable infrastructure is still in question. The Working Group is particularly well placed to play two roles. First, share its expertise - both domestic and international - in designing a green taxonomy and sustainability disclosure regime that accelerates sustainable capital flows. Second, as these frameworks are implemented, the Working Group is well placed to share insights into how they influence capital flows and identify areas where frameworks can be tightened to accelerate progress towards closing India's infrastructure funding deficit.

In Chapter 2, we look at demand side factors in more depth, as we had flagged in our last report. We set out specific actions to increase sustainable finance flows in the country by making the cost of finance lower for investors. This would require interventions from the government and the regulators on sector exposure, entity/group exposure, reducing minimum average maturity (MAM) for external commercial borrowing (ECB), increasing participation from Infrastructure Debt Funds (IDFs), pension funds and insurance funds, linkage of interest rates to external benchmarks, deepening Indian bond markets, and asset-light and lease financing models for sustainability projects.

Chapter 3 discusses the evolution of regulatory environment and development of disclosure and regulatory frameworks, financial sector codes and guidelines, globally and in India towards sustainable and ESG finance, and analyses increasing trends of financial flows into ESG, positive impact of ESG on company valuations, while also highlighting the challenges faced to attract ESG funding in India and ways to overcome these to improve ESG capital availability in India.

The GOI has embarked on an aggressive initiative to improve the ease of doing business (EODB) by engaging industry with central and state governments to identify the ground level operational challenges faced by project proponents with respect to compliance towards regulations. FICCI is

working with the DPIIT to identify the challenges and suggest solutions on sector-specific and over-arching regulations that impede the EODB. The issues are uploaded on the DPIIT's EODB portal and sent to central and state government departments for resolution, with follow-up meetings between industry members and the relevant government department from the centre or a particular state.

We provide our initial insight on the potential for greater use of green InvITs in India, focusing on the issues faced by operators of InvITs in India, in particular ability to access debt financing, and make recommendations accordingly. Chapter 4 provides details on issues faced by investors in India to access debt financing by InvITs and provides recommendations to alleviate these issues. Development of InvITs is highlighted to attract the required capital from foreign and domestic investors and enable growth of sustainability-linked sectors. An overview of comparison of some UK and Indian InvITs has also been provided. The IUKSFWG will take further deep dive into the performance of UK InvITs and the lessons they hold for development of green InvITs in India in the next stage of its work.

Chapter 1

How does India compare to other emerging economies in attracting sustainable finance?

Introduction

Sustainable finance is gaining global momentum. Covid-19 has accelerated financial flows into ESG products. According to Morningstar research, ESG funds received a record USD 51 billion in net new money in 2020, more than double the previous year (CNBC, February 2021). This trend is likely to accelerate. PwC forecast that ESG funds will outnumber conventional funds by 2025 (PwC, 2020). Mutual fund assets held by investors in Europe that consider ESG factors is forecasted to increase from 15% today to 57% in 2025, amounting to EUR 7.6 trillion (c. USD 8.9 trillion).

Covid-19 is accelerating the shift to ESG investing in India as well. Following the outbreak of the pandemic, several new ESG funds have been launched in the second half of 2020. These include Aditya Birla Sun Life, ICICI Prudential, Kotak ESG Opportunities, Quant ESG Equity, two funds by Mirae AMC, and Invesco India ESG Equity. Seven out of ten ESG funds currently operating in India were launched in 2020 (Live Mint, April 2021). Inflows into Indian ESG mutual funds reached INR 3,686 crore (c. USD 495m) in the financial year ending March 2021 (Hindu Business Line, April 2021).

Developing countries are currently driving the clean energy transition, both in terms of investment and new capacity additions. According to Bloomberg New Energy Finance (BNEF, 2020a), developed countries accounted for the bulk of clean energy investment at the start of the 2010s. However, in 2019, emerging markets accounted for 58% of global clean energy asset finance, and nearly two-thirds of globally installed wind and solar capacity. In 2019, USD 143 billion was invested in clean energy in developing economies and USD 106 billion in developed markets.

However, current clean energy asset finance is heavily skewed towards China. India ranks second among emerging economies, and fourth in global markets for clean energy asset finance, although current financial flows are dwarfed by China.

All countries will need to ramp-up clean energy investment over the period to 2050. According to IRENA (2018), cumulative investment in energy systems between 2015 and 2050 will need to increase from USD 93 trillion (based on current and planned policies) to USD 120 trillion to enable a clean energy transition. This translates into the global economy investing 2% of average global GDP per year in decarbonisation solutions. This is likely to vary across countries, and some emerging economies will need to spend more than the global average to close their infrastructure gaps. The World Bank analysed infrastructure gaps in low- and middle-income countries covering the period 2015 to 2030. Under the 'preferred scenario', it was estimated that countries in East Asia and the Pacific, and South Asia, would need to spend 3% of annual GDP over the period to 2030 to both build new energy infrastructure and maintain existing infrastructure. Under alternative scenarios that assume higher spending requirements, investment could increase to over 4% of GDP.

Figure 1: Top 10 emerging markets for clean energy asset finance (2019)

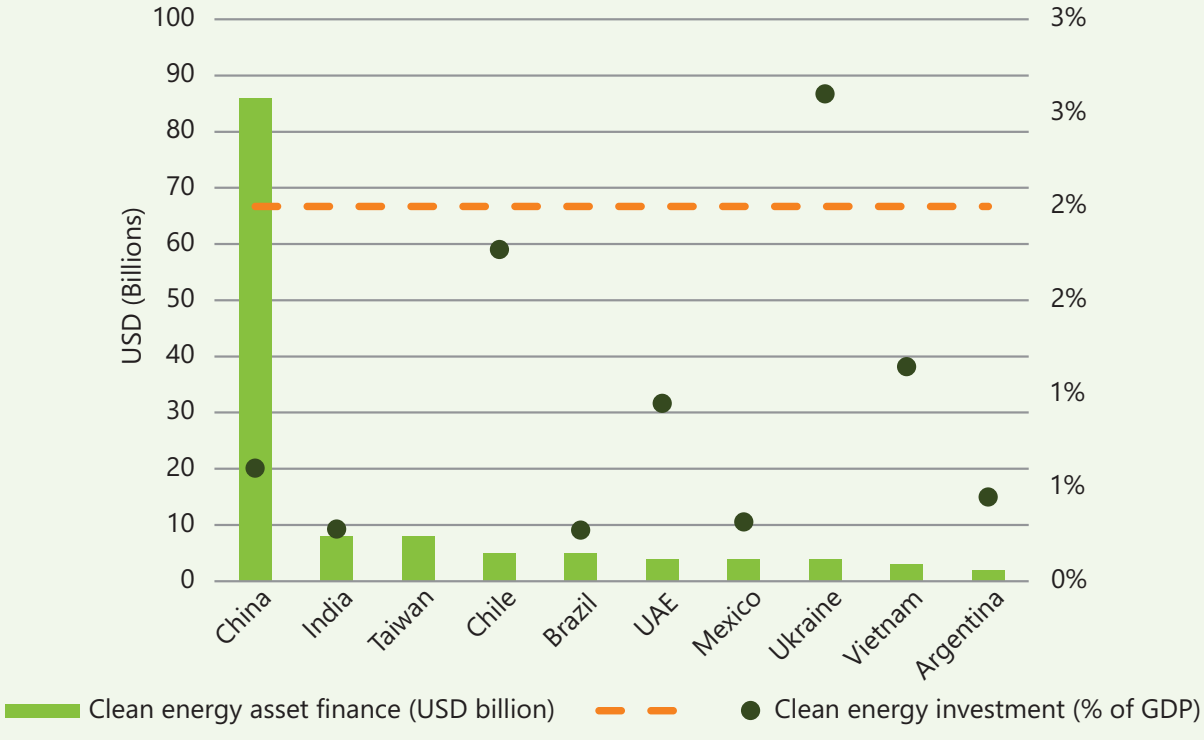
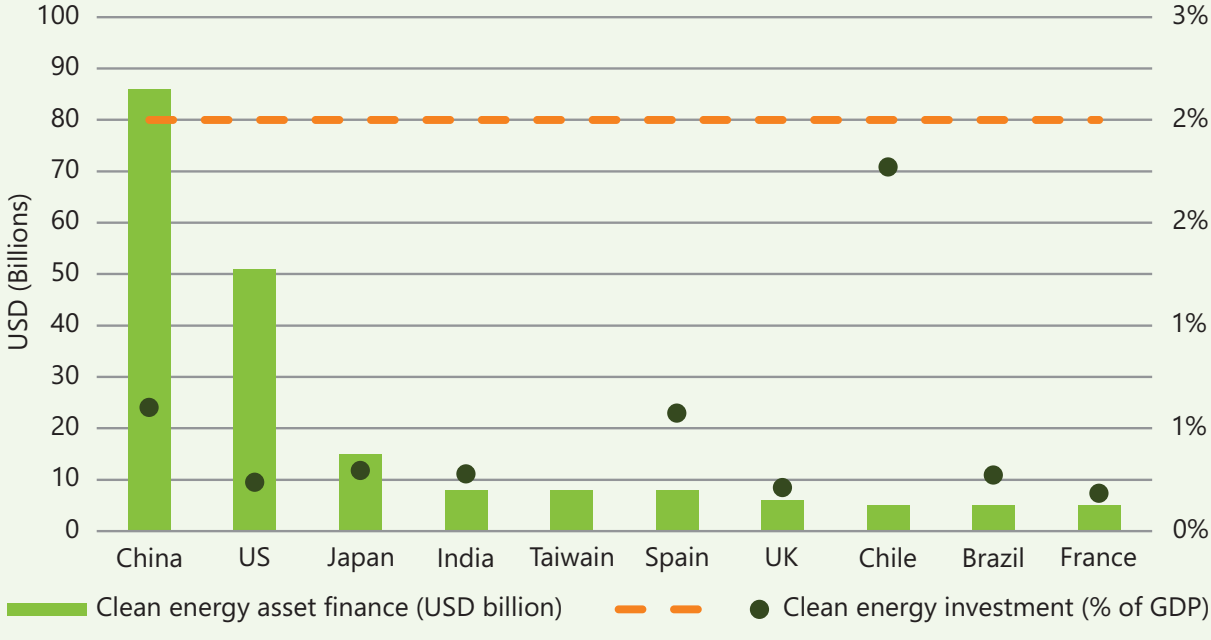


Figure 2: Top 10 global markets for clean energy asset finance (2019)



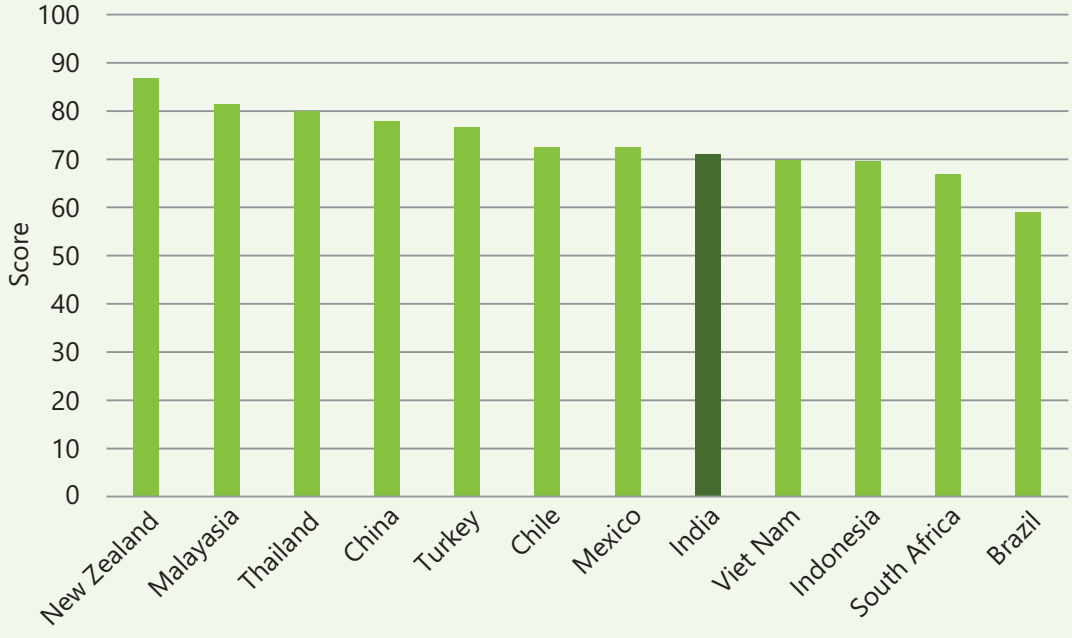
Source: BNEF (2020); World Bank; IRENA (2018)

India performs well compared to other emerging economies according to several independent reports. Global competitiveness rankings give an indication of how India compares to other markets. While the range of methodologies used and the differences in relative rankings suggest some caution in drawing firm conclusions, these reports generally show that India performs

well compared to benchmark countries. There is a huge opportunity for India to build on the excellent progress it has made to date to accelerate improvements in areas where there is scope to catch-up with leading emerging economies. This could have a transformational impact on broadening the pool of available capital.

- **World Bank's Ease of Doing Business:** The World Bank rankings capture the ease of doing business across the economy in 190 markets. India has improved its ranking from 142 in 2014 to 63 in 2019. There are three areas in which India can improve its performance. India ranks 136 in starting a business, 115 in paying taxes, and 163 in enforcing contracts. Figure 3 shows India's score compared to a group of emerging economies, and the top performer (New Zealand).

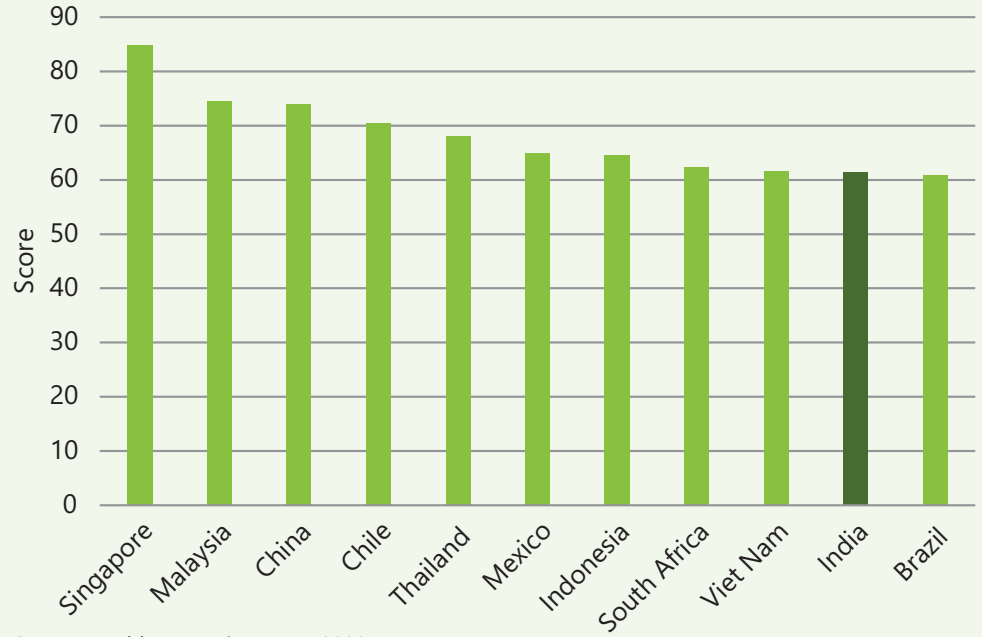
Figure 3: World Bank Ease of Doing Business Rankings (2020)



Source: World Bank

- **World Economic Forum's Global Competitiveness Index:** In 2019, India was ranked 68 out of 141 countries. India dropped 10 places compared to 2018, mostly because other countries made quicker progress rather than a big change in India's overall score. All emerging markets, including India, perform poorly on institutional capabilities. India performs strongly on macroeconomic stability, renewable energy regulation and market size where India's score is above 85. India also performs well when it comes to innovation, well ahead of most emerging economies and comparable to several advanced economies. There is substantial scope for India to improve its performance compared to other emerging economies in cross-cutting areas such as human capital, product and labour markets, and ICT adoption. India's score with regards to infrastructure and the financial system are broadly in line with other emerging economies but needs to improve further to close the gap with better performing markets such as China and Chile. Figure 4 shows India's score compared to a group of emerging economies, and the top performer (Singapore).

Figure 4: World Economic Forum Global Competitiveness Index (2020)



Source: World Economic Forum (2020)

- **Bloomberg New Energy Finance Climatescope:** India performs much better in BNEF's Climatescope ranking of countries based on the business environment for clean energy investments. India was ranked second in 2020. India slipped one place mostly because clean energy investment has fallen by a third from its peak of USD 12.7 billion in 2017 (and declined 12% to USD 8.5 billion between 2018/19 and 2019/20). The fall in investment could partly be attributed to a switch from feed-in-tariffs to reverse auctions for wind energy. China's lower ranking (ranked five) is because of limited opportunities for foreign firms to break into the market.

Climate change policy

Renewable energy

India is ahead of many other emerging economies in climate policy, particularly for renewable energy. Investors look for a strong commitment from governments to decarbonise their economies. In addition to offering investors scale, India has set ambitious renewable energy targets backed by a robust policy framework. This provides the right signals to investors to undertake long-term investments, making India an attractive destination for renewable energy investment.

- **Ambitious targets:** India has set a target of 175 GW of installed renewable energy capacity by 2022 and 450 GW by 2030.
- **Strong policies:** Investors were sanguine about the overall policy direction. India has a well-run and transparent auction process; repeat auctions help bolster investor confidence;

long-term power purchase agreements; and a good track record of investing in the transmission network and connecting renewable energy projects to the grid.

- **Scale:** The scale of opportunity in India is unmatched by other emerging economies except for China. Although India's per capita emissions are low compared to the global average, India's absolute emissions account for 7% of global emissions (The Wire, January 2021). Therefore, India is key to meeting the ambitions of the Paris Agreement and offers a huge opportunity for domestic and international investors. India needs to invest at least USD 95-250 billion per year over the period to 2030, and currently faces a financing gap of between USD 75-200 billion per year (City of London and FICCI Report of the IUKSFWG on Practical Actions to Finance a Sustainable Recovery in India, January 2021).

However, investors highlighted payment delays and the poor finances of many electricity distribution companies (discoms) as an impediment to investment. In March 2020, discoms owed power generators USD 11 billion, an increase of more than 50% over the last 15 months (BNEF, 2020a). The problem is particularly acute in Andhra Pradesh, Tamil Nadu and Telangana. Investors do not face the same length of payment delay in other markets. Payment delays have a direct impact on the cost of capital and could be one of the biggest factors that stymie capital flows into India's power sector. Anecdotal evidence suggests that regulatory issues could increase the cost of equity capital by 100-150 bps. It can also have an indirect impact on capital flows as it affects how global investors perceive the Indian market.

The government is taking steps to address this issue. In Budget 2019/20, GOI set out its commitment to work with State Governments to remove barriers like cross-subsidies, and undesirable duties on open access or captive generation by industrial and bulk power consumers. In Budget 2021/22, the Government went further and announced a result-linked package of INR 3 lakh crore over 5 years to support discoms to improve their finances and invest in infrastructure. The Government is also taking steps to increase competition among discoms and provide consumers with greater choice.

The challenges facing discoms are a contributing factor to the increased appetite among Indian corporates to directly procure clean energy. At present, discoms levy high charges on commercial and industrial consumers to cross-subsidise residential and agricultural consumers. According to BNEF (2020), Indian corporates have signed 5GW of clean energy procurement deals so far, making it the largest market in Asia. This shift is likely to continue as more corporates see the financial benefits of switching to renewables, and fiscally strained discoms continue with their current business model. The GOI could support clean energy procurement by industry by setting out a 5-10-year roadmap that provides clarity on levies for corporate procurement and the removal of retrospective changes that threaten investor confidence; timely clearance of applications; and aggregating demand from smaller companies to create sufficient scale. FICCI launched a series of discussions on open access for renewable energy by consumers in commercial and industrial (C&I) segment in January 2021, the first one with the Ministry of New and Renewable Energy (MNRE), GOI to explore the potential for open access among the C&I consumers, showing the willingness of the

government to widen this opportunity for larger offtake of renewable energy in the country and address the barriers for open access by C&I consumers. Since then, FICCI has held awareness and policy advocacy webinars, with MNRE in attendance, on open access for renewable energy for pharma and healthcare sector, and for the IT and data centres, all energy intensive sectors that could gain tremendously by opting for a greater share of renewable energy in their energy consumption basket.

Index-linked power purchase agreements could save discoms money, accelerate the shift towards renewables, and provide a partial hedge against changes in nominal exchange rates. At present, projects in India sign fixed-price power purchase agreements (PPAs) with the off-taker, usually for 25 years. CEEW and IEEFA (2020) have proposed a partially indexed tariff structure. This would involve a lower tariff, say INR 2/kWh for the first year, rising at a pre-determined index rate for the next 15 years, and then staying flat at the year 15 rate for the remaining 10 years of a 25-year PPA contract. Lower upfront tariffs can help renewables reach cost parity with the variable cost of coal-fired plants, providing an additional incentive for discoms to accelerate the switch from coal to renewable energy. In addition, lower upfront tariffs give more time for recent government schemes to begin to have an impact. According to the CEEW and IEEFA analysis, INR 21,880 crore (USD 3 billion) of savings over a five-year period could be brought forward. An inflation or index linked tariff can also provide some protection against changes in nominal exchange rates (CPI, 2014). There are some early signs that indexing is beginning to happen in India. ReNew Power's bid for 400 MW round-the-clock renewable power was a semi-fixed wholesale tariff of INR 2.90/kWh with an annual increase of 3% for the first 15 years of a 25-year PPA contract, and with a fixed tariff of INR 4.90/kWh for the remaining term of the contract.

Indexed-linked PPAs have been widely deployed in other countries. There are two main reasons for indexing contracted prices. First, for countries that have persistent and volatile inflation, it helps product developers protect the real value of their cash flow. This allows project developers to undertake feasibility and risk analysis to secure funding without having to make long-term assumptions on inflation rates. Second, companies must rely on imported equipment in countries that do not have sufficient domestic manufacturing capacity. This exposes developers to currency risk and indexed pricing could offer partial protection. Indexed-linked tariffs, either linked to consumer or producer prices, are widely deployed in Latin America e.g. Chile, Brazil, Columbia, Mexico (IDB), and in South Africa.

GOI should undertake a feasibility study to assess the benefits of moving to index-linked tariffs. Initial analysis by think tanks and other organisations suggest there could be case for moving to index-linked tariffs. The GOI should undertake a feasibility study to assess the costs and benefits of such a move, including the wider impacts on investor sentiment.

Creating a supportive policy environment

A sustainable finance taxonomy will provide greater clarity and could further bolster the attractiveness of India and expand investment into new sectors. The GOI is committed to developing a sustainable finance taxonomy and has set up a Working Group to study the issues. The

IUKSFWG welcomes the Government's collaborative approach and is ready to share its expertise, including the work of the Green Finance Institute that helped the UK Government develop a green taxonomy. In some areas, the current absence of green definitions risk opening up international investors to accusations of greenwashing (e.g., biomass, some investments in the water sector, the role of natural gas). This makes it more difficult for investors to identify viable investment opportunities, particularly outside the renewable energy sector, and can limit the opportunity to support India's climate change ambitions. There is potential for India to learn from the experiences of other emerging economies, and the UK and the EU, as it develops its own taxonomy. The adoption of a sustainable finance taxonomy that is recognised by international investors will provide much needed clarity and strengthen the environment for climate-related investments. In addition, it will open the way for Indian companies to be included in global equity/debt ESG funds/indices, broadening the pool of available capital.

The scope and quality of climate-related disclosures across developed and developing economies is mixed. As mentioned earlier, global interest in ESG is growing. At present, negative screening - the process of excluding companies that do not meet pre-approved ESG criteria - is the most widely adopted approach for ESG investors. Examples of excluded sectors include alcohol, tobacco, gambling, weapons manufacturing. However, asset managers have highlighted that the lack of data is the principal barrier to adopting more sophisticated approaches that systematically incorporate ESG factors into financial analysis. The quality of climate-related disclosures varies considerably across countries The UK and EU are considered leaders. There are some countries in Asia that have good systems in place, for example, Hong Kong, Japan and to some extent Thailand; while others like South Korea, China and Indonesia are lagging. India perhaps sits somewhere in the middle. Expanding the number of companies covered by disclosures, and standardising the way data is disclosed, could provide a boost to ESG investing.

Indian businesses are recognising the need to consider ESG factors, both to mitigate risks to their business and to attract long-term capital. 60 of the top 200 companies listed on the Bombay Stock Exchange were among the 220 Indian companies that disclosed data through the Climate Disclosure Project (CDP). Indian companies are also signing up to global initiatives such as Climate Action 100+, the Principles for Responsible Investment, and Climate Group's RE100 initiative. More integrated frameworks for measurement, verification and reporting will help scale-up green finance.

Domestic regulation is playing an important role in accelerating this shift. Current disclosures in India are governed by the SEBI's (Securities and Exchange Board of India) Business Reporting and Sustainability Reports (BRSR) that apply to the top 1,000 companies (by market capitalisation). These disclosures are going to be mandatory from FY 2022/23, which could improve India's global standing on disclosures. BRSR focuses on metrics covering climate and social issues (employees, consumers, and communities) that allow comparisons to be made between companies, sectors and time periods. The updated disclosure requirements are expected to bring greater transparency and make it easier for ESG investors to identify and assess investment opportunities.

Investors were also optimistic about the Government's signals on wider climate policy. Investors were broadly optimistic about emerging policies to support electric mobility, and the government's plan to produce hydrogen from green sources announced in the recent Budget.

However, there is a need for further granularity, particularly in sectors beyond renewable energy. There is a need for long-term clarity both at a macro and micro/sector level. At a macro level, the GOI should set out its long-term climate ambitions covering the period to 2050. Translating these into sectoral transition pathways with interim milestones will bolster investor confidence by signalling government intent, particularly in emerging sectors that face higher risks. Some emerging economies have successfully translated their long-term climate targets into interim milestones to help guide investors e.g., Chile, Columbia, Costa Rica. The UK has experience in establishing robust institutional frameworks to guide its low-carbon transition based on the latest scientific and economic evidence. The Committee on Climate Change, an independent advisory body, advises the UK Government on its long-term climate target (e.g., net-zero). The Committee also translates these targets into five-year carbon budgets (the latest covering the period to 2035) and publishes annual progress reports to hold government to account. The India-UK Sustainable Finance Working Group recognise that these areas are likely to be addressed in the run-up to COP26 and look forward to engaging with the Government as part of its collaborative process.

Investors seek reinforcement across different areas of government policy. Some of the policy changes recently introduced by the GOI appear inconsistent. For example, as part of India's aim to expand domestic manufacturing under the Make in India policy, the country increased tariffs on solar panels and modules. However, investors felt it is possible that the recent tariff changes may make it more expensive for India to meet its ambitious renewable energy targets in the short term, given the time it takes to invest in new capacity. However, the Government has partially redressed this by introducing the production-linked incentive scheme, to promote domestic manufacturing for solar PV, battery storage, and hydrogen. Investors were also keen to see greater uniformity and adoption of consistent standards across states to help reduce transaction costs and increase investment. However, investors recognise that this might be more challenging given India's federal structure.

India has a huge opportunity to address its future infrastructure needs in a sustainable way. Many advanced economies face the challenge of adapting existing infrastructure (e.g., the housing stock) to address climate change and sustainability. This tends to be more expensive. Emerging economies, including India, have an opportunity to ensure new infrastructure incorporates sustainability principles at the design stage to prevent expensive retrofits in the future. This will also help reduce the risk of stranded assets in the future. For example, new social infrastructure like hospitals and schools can be built incorporating green design principles, including the use of building design to minimise heat and improve ventilation, adoption of renewable energy, and waste management systems. This could help India achieve its social and climate change goals simultaneously. GOI has a key role to play in setting out a long-term sustainable infrastructure strategy and exploring how current rules and regulations can be redesigned to nudge investors and project developers to adopt sustainability principles in the design of new infrastructure projects.

Operational environment and the ease of doing business

There is a broad consensus among investors that the administrative burden associated with investing in India is more onerous compared to other emerging markets. While India performs better compared to many countries in Sub-Saharan Africa and the South Asian region, India's performance lags many East Asian countries where the process of structuring and proceeding with a deal is quicker and more streamlined. For example, India imposes a larger and more complex burden of legal, tax and foreign exchange regulatory compliance requiring multiple third-party independent certifications, or lengthy court processes, prior to implementing relatively simple equity transactions e.g., mergers, capital reductions.

A big challenge investors face in India is that they have to liaise with multiple agencies to secure the necessary approvals and permits. This is more cumbersome compared to the processes in place in many East Asian countries. Several emerging economies have introduced a 'one-stop-shop' - a single entity that acts as an interface with foreign investors. BKPM or the Indonesian Investment Coordinating Board has a mandate to expand domestic and international investment and serves as a single point of contact for investors. Similarly, Philippines has a Public Private Partnership Centre that breaks down silos between ministries/agencies to coordinate and deliver PPP projects in the country. The UK also recently adopted a similar structure. The Office for Investment, led by Lord Grimstone, the Minister for Investment, will work across Government departments to remove barriers to landing 'top tier' investment opportunities.

The broader operating environment in India is also more onerous. Domestic and cross-border transactions require independent valuations for tax purposes and sign-off from statutory auditors as per RBI regulations. Investors highlighted that they do not face similarly burdensome requirements for domestic transactions in other jurisdictions provided companies comply with local accounting rules (GAAP). Investors looking to undertake a capital restructure of an Indian sustainable investment entity are also required to secure 'wet' signatures on a range of documents to meet regulatory requirements. This needs documents to be couriered around the globe, and in some cases lengthy court processes, that could take up to six months compared to a few weeks for a similar transaction in the UK. This is because there's a limited acceptance, by banks and other third parties of electronic signatures for foreign resident directors.

The current regulatory environment can make it more challenging for foreign investors to structure equity deals in India compared to some other emerging economies. Existing regulations restrict the sorts of equity instruments that can be used depending on the regulatory route a foreign investor takes to invest in India. For example, an investor going via the External Commercial Borrowing (ECB) route faces a number of restrictions that inhibit structured equity participation. Similar restrictions in place covering the Non-Convertible Debentures and Optionally Convertible Debentures market also complicate the way equity deals can be structured. This complexity is typically greater in India compared to other countries like South Africa, which also has capital controls. The Indian capital control regime is considered more complex and restrictive, given its interactions with local tax and company law requirements.

Restrictions placed by senior lenders can also increase the cost of equity for certain types of infrastructure projects. Senior lenders should not be concerned about how the equity above senior debt is structured as long as leverage/covenants are appropriate. However, unlike in many other emerging economies, senior lenders in India do intervene in such matters in a way that could make it more difficult to structure cross border equity deals efficiently. Senior lenders often insist on consenting rights before distributions are made to equity investors, even if loan covenants and repayments have been met due to rigid internal policy requirements rather than due to an evaluation of the underlying credit risk of their investment. The Indian regulators should consider ways to encourage lenders to assess the underlying risks of the borrower and structure loans accordingly. In particular, greater effort is needed to shift from the current box-ticking and relationship-based lending culture towards lending based on robust risk assessments. This will help reduce the cost of capital.

Land acquisition in India is a big challenge. Land is a state-level responsibility in India, meaning that approvals are needed from state government departments and village-level administrations. According to the Solar Energy Corporation of India (SECI) the minimum land requirement for solar projects is 1.5 hectares per GW. The average farm holding in India is 1 hectare (IEA, 2021). Therefore, acquiring land in India involves dealing with multiple owners, securing the relevant documentation, and then seeking approvals. The lack of digital land records makes it more challenging to identify land coordinates and track down the correct owners to begin commercial negotiations. In addition, the land registration process for the title for energy and infrastructure projects, that are often in remote areas, need to happen in person. This results in a lengthy process and has an impact on legal due diligence and commercial refinancing of projects that have completed development. It can take 6-9 months to procure land for renewable energy projects and can extend up to 18-24 months in some states (e.g., Karnataka). Project developers/investors can spend up to 60%-70% of their time on procurement of land and securing the necessary approvals[1].

The GOI is taking steps to remove barriers and should consider incorporating this into a new 'one stop shop' to mobilise sustainable capital to deliver the Government's ambitions. The Government has taken over land acquisition in cases where SECI is developing solar parks in partnership with state governments. Single-window clearances have also been set up in some states to expedite the approval process (IEA, 2021). The Central Government approved the set-up of Project Development Cells (PDC), headed by the Joint Secretary at the Ministry of New and Renewable Energy (MNRE), to speed up the process of investment and project development. There is scope for the Government to go further to create a 'one stop shop' to mobilise investment for sustainable infrastructure. Such an institution could play a crucial role in creating a seamless process for both foreign and domestic investors that breaks down silos between ministries/agencies; different licensing authorities; regulators; and central, state and local governments. Further work is needed to assess how such an institution can fit within India's federal structure of governance. However, a new institution along these lines can send a powerful signal to investors.

[1]JMK Research (2019).

Capital markets

Covid-19 is likely to exacerbate existing problems in the Indian banking system. In July 2020, the RBI stated that gross non-performing asset (GNPA) ratio of scheduled commercial banks could increase from 8.5% in March 2020 to 12.5% by March 2021 under a baseline scenario, and 14.7% under a scenario where economic conditions continue to worsen. The situation is worse for public sector banks. The RBI forecasts the GNPA ratio to increase from 11.3% to 15.2% over the same period (Money Control, 2020). It is currently unclear whether and to what extent India's second wave might affect these forecasts.

As India recovers from the pandemic, it will be important to consider ways to address challenges in the banking sector whilst expanding bank finance to green infrastructure projects. In 2017, commercial banks account for 62% of debt finance for utility-scale renewable energy projects, whereas non-bank financial institutions (NBFC) accounted for 36% of lending (CBI & CEEW, 2019). Private sector banks account for a majority of project finance extended to renewable energy projects; although state-owned banks are becoming more active in the sector, and their share of lending has increased from 9% in 2018 to 25% in 2019 (CFA, 2020). There is currently a demand for long tenor debt finance that is not being met. There is scope for NBFCs to fill some of this gap (reference the de-risking paper). However, investors have argued that there is a case for an expansion of bank credit to renewable energy projects. This could be a game-changer in unlocking new forms of capital. They pointed to the experience of Taiwan, where strong commitment from government, robust policies, and the availability of local currency debt finance from banks helped the country significantly expand offshore wind capacity. Greater availability of local debt finance also helps insulate projects from currency risks associated with international investment.

A further deepening of capital markets can strengthen the post-pandemic recovery. This will require a broadening of the pool of available capital so that projects are less dependent on bank finance. Banks face an asset-liability mismatch, which make them ill-suited to fund long-term infrastructure projects. A better refinancing market that provides a route for banks to exit current investments and reinvest capital; a possible expansion of the role of NBFCs (subject to the implementation of robust governance frameworks); and bringing in new investors whose risk-return profile better align with the characteristics of operational infrastructure assets (e.g., pension funds) could help.

Chapter 2

Demand-side factors influencing the cost of finance

In our last report, we noted the importance of demand-side factors in improving the flows of sustainable capital. This chapter highlights suggested measures to improve the availability and cost of financing which would in turn increase the financial attractiveness of clean energy and sustainable infrastructure related projects in India to investors.

External Factors

i) RBI norms on sector exposure/ limits on lending: Sustainability projects encompasses many industries viz. renewable power, super-critical conventional energy, green buildings, pollution reduction equipment, water projects, rural upgradation, transportation, other public infrastructure, etc. As per current RBI regulations, these would get categorized into sectors such as Power, Real Estate, Public Transport, etc. and the banks would be required to follow sector exposure limits as per the prudential banking norms, thus limiting the amount of funds that can be lent to such projects.

RBI could issue guidelines to relax sector exposure limits for sustainability projects and allow combined limits for multi-sector limits for exposure purposes. RBI to categorize these projects to be eligible for Priority Sector Lending with a higher Cap Limit as well as single borrower limit and at a lower coupon.

ii) RBI Regulations on entity exposure / group exposure: RBI has stipulated norms for maximum amount of lending / sanctioned limits that all the banks in India put together can sanction to each entity / aggregate of all entities in a group. Also, banks prefer to take only a part exposure of the total debt requirement for a particular sustainability project, resulting in the borrower having to tie-up funds with multiple borrowers. This also forces borrowers with larger projects to borrow more from the debt capital / bond markets, which has its own limitations.

RBI could consider additional limits for entity exposure / group exposure for sustainability projects.

iii) FEMA requirement on Minimum Average Maturity (MAM) for ECBs / other external borrowings: When the project proponent borrows money through the ECB route, there is a requirement for an infrastructure project (covering most of the sustainability projects) to have a MAM of at least 7 years, and refinancing of loans if clubbed with part of the other debt may even entail a MAM of 10 years. The overseas ECB / foreign currency bond market is shallow towards the longer end of maturity and their preference is to generally finance with 3-5 years MAM. Further to hedge / swap such foreign currency borrowings pose a challenge due to limited availability of hedging lines, hedging products with longer tenures, thus increasing costs / risks.

RBI can consider reducing the Minimum Average Maturity for Sustainability projects to 2 years.

iv) Infrastructure Development Funds (IDFs) have lower lending thresholds: IDFs have a comparatively lower capital base and hence they can finance only projects with smaller ticket sizes or only partially. Further, IDFs typically only participate in refinancing projects having post one year of commissioning.

IDFs can be permitted to participate in greenfield sustainability projects. Higher capitalization will help them to finance full projects.

v) Sector specific financial institutions / Development financial institutions (DFIs) have long lead time for financing: Currently, majority of sector specific financial institutions such as PFC, REC, IREDA and NABARD have a long and detailed credit appraisal, both at the entity level and at the project SPV level, thus increasing the time for sanctioning process, often delaying availability of debt for sustainability projects, and leading to delays in commissioning.

Also, if there is a combined project such as a water filtration plant powered by renewable sources, it may often require approaching two lenders as some of the specialized institutions may be able to lend for only part of the project. IIFCL, for example, is one of the DFIs operating which has a limitation of being a Co-lender i.e., only being able to take up part of the project funding together with a Lead lender, whether the project is big or a small project.

Government of India (GOI) has recently incorporated a large DFI for Infrastructure, within which an allocation should be made for only sustainability financing.

vi) Interest rates should be linked to external benchmarks: Most banks / financial institutions in India provide loans which are linked to their MCLRs / base rates plus a credit spread. These MCLRs / base rates are derived on the lenders' own cost of funds, which is not very transparently known. This leads to different lenders charging different rates of interest for the same project, and often onerous conditions on the borrower, forcing them to pay the highest interest rate to all the lenders.

Hence it is better if all sustainability project loans are linked to an external benchmark rate such as the G-Sec rate of equivalent tenure, Repo rates, MIFOR, etc. which can be efficient for both the lender and borrower and can also bring transparency in the lending process and bring down the overall cost of such projects and for the end user. RBI should make it mandatory for linking interest rates of all borrowers to external benchmarks, like what it has done for retail/MSME loans.

vii) Non-standard taxonomy for Sustainability projects: Currently, each lender follows its own guidelines and definitions for assessing different sustainability projects. Also, the factors and methods used for evaluating credit as well as covenants differ from lender to lender. Standardized taxonomy and definitions if adopted for all sustainability projects would help expedite the credit appraisal and sanctioning process. Even if multiple institutions are participating in financing of a single project, there would be convergence on the process, definitions, harmonized term sheets followed by harmonized documentation and importantly on the time taken.

The IUKSFWG classification for taxonomy can be looked by RBI for sustainability lending. Credit norms and process for sustainability financing can be further worked out, but RBI needs to ensure standardization amongst Indian lenders.

viii) Lack of depth of Indian Bond Market: INR bond market participants are mostly Mutual Funds, whose appetite is small ticket and approach is different compared to project finance lenders. MFs also prefer to invest most of their funds in PSU Bonds or highly rated large Indian companies. Pension Funds and Insurance companies have availability of long dated funds, but they again stick to investing in mostly G-Secs, PSUs bonds, highly rated companies or bank securities and deposits. Majority of the deals on the Wholesale Debt Market are all pre-negotiated deals and are merely routed through the bourse for compliance and reporting purposes.

Conversion of INR loans into bonds should be permitted subject to concurrence of lender and borrower, with one time option to amend certain conditions like change of tenure, bond denomination, interest cost to reflect ratings/yield, doing away with requirement to obtain other lenders' approval, etc. and further simplification of debt listing norms.

ix) Retail participation in debt markets is restricted: Very few bond issuances are targeted for investment by retail investors. Most of the bonds have a face value of INR 1 million and upwards or sold in blocks. Retail investors should be especially guided on the security for the bonds by the trustees. due to limited supply of retail bonds - which till late was mainly comprised of tax-free bonds issued by PSUs.

Mandating large borrowers above a certain threshold to compulsorily make (say 25%) of their new bond offerings for retail investors to create enough liquidity and availability of paper for retail investors and issuing regulations for minimum float and market making will ensure sufficient retail participation.

x) Insurance / Pension Funds: Pension Funds and Insurance companies have availability of long dated funds, but they again stick to investing in mostly G-Secs, PSUs bonds, highly rated companies or bank securities and deposits. They look for high margin of safety and generally do not invest in projects that are below AA rated, which is difficult to achieve for under implementation sustainability projects.

It will augur well if the regulators provide for a certain portion of their corpus, say minimum 10% and maximum 25% to invest in sustainability projects with a lower threshold at BBB+/A range of credit ratings, which is still within the investment grade.

xi) Recovery process through NCLT is time consuming for lender: Recent statistics suggest that more than 86% of the insolvency cases have not been disposed off within the 9-months timeframe stipulated under the insolvency law. This makes the lenders more averse to lending and they look for extra security such as parent company guarantees, etc.

NCLT should be provided with more resources in terms of bench strength and scope to reduce further appeals in higher courts to reduce time and further litigations.

xii) Balance Sheet Funding does not find many takers: Corporate style balance sheet funding having a floating charge / unsecured funding with covenants to restrict overall leverage are not very popular with lenders / bond investors. Lenders/bond investors still prefer to follow the traditional

project financing structures making the process time consuming and expensive in terms of creating charges and registration/stamp duty, etc., although balance sheet funding can also provide the same level of tangible security but with lesser documentation.

Balance sheet funding enables borrowers to execute multiple projects in same entity instead of increasing the number of SPVs which helps reducing the compliance requirements and costs. RBI should issue guidelines to lenders to encourage balance sheet financing for sustainability entities to enable them to take on multiple projects with built-in safeguards to prevent over-leveraging.

xiii) Non-availability of asset-light / lease financing options: Sustainability assets generally tend to have steady revenues and some also work on a near fixed annuity basis, making the cashflows predictable and easy to be financed through leasing. Alternate asset-light financing through sale and purchase at pre-agreed mark-up by lease financing companies can also be considered. This option will provide room for sustainability project proponents to deleverage balance sheets and enable taking on more projects, however there is shortage of such institutions due to high GST taxability of lease rentals, and lack of specialised institutions.

GOI can consider incorporating specialized lease financing institutions and amend GST to make the lease financing zero-rated under GST for sustainability projects.

Internal/Project Factors

i) High gearing/leverage: Most sustainability projects have larger outlays and often the project relies on higher leverage to generate higher returns. While there is a cap on maximum leverage for listed InvITs, there is no such cap for corporates, and hence there is a need to fix a cap on the leverage that sustainability projects can take on to make them sustainable.

Sustainability projects in developed markets like UK and US have lower leverage and while deleveraging cannot be immediately forced on all borrowers, the same can be systematically planned over a period through suitable changes to the prudential lending norms which would be applicable to all.

ii) Financial Standing / Experience of promoters: Difficulties in obtaining finance is sometimes attributed to the credit/financial standing of the promoters undertaking sustainability projects, who often do not have background or experienced personnel to execute sustainability projects. Subordinate debt plus project debt put together should have an upper cap. They also undertake projects which are much bigger in terms of financial outlay as compared to their ability to invest by borrowing on personal account for investing in the projects and thus putting the project in jeopardy.

Some guidelines can be considered as part of the prudential lending norms.

iii) Offtake arrangements and creditworthiness of off-taker: Most off-take arrangements for sustainability projects are with government entities such as discoms, municipal corporations, water distribution authorities and some are based on federal contracts such as SECI as counterparty where

the payment track record is good. Few off-takers are from the private sector. Lenders are reluctant to consider offtake arrangement with private parties unless they are very highly rated and differentiate between government owned entities where the government entities have delayed / reneged on the offtake arrangements in the past.

As noted in the previous chapter, the number of days outstanding on account of receivables in some of the cases can go up as high as 230 days to 360 days which results in strain on the working capital. This is primarily on account of the poor financial health of the discoms. The discoms have been part of a Financial Restructuring Package by the Government of India and have also opted for soft loans to meet their commitments. In such cases, to ensure that the lenders' interest and principal get paid, the project proponent /sponsors are not left with any other option but to infuse scarce development capital as a support to meet the commitments, even though the project level financing has been carried out on non- recourse basis. This results in the actual returns being lower that the return envisaged at the time of setting up the projects.

Suitable legislation preventing such delays in payment of receivables or reneging on contracts by off-takers should be the norm to provide confidence to lenders and investors. Provision should be made to provide a higher quantum of working capital support and for a longer tenor in line with the receivable cycle at a lower interest rate. Securitization of such receivables should be allowed at a minimal rate with a view to augment the cash flow and to avoid default as well as help protect the project economics.

iv) OEM / EPC supplier / vendor not on approved list of lenders: OEM/EPC suppliers are often not on the approved list of lenders for sustainability projects either due to poor execution track record or their financial standing or being a new entrant to the market. Insufficient supply-chain financing for OEMs/EPC vendors providing supplies and services to sustainability projects leads to delays in execution, as receipts from project proponents are milestone based and these vendors have lesser financial wherewithal.

Banks / Lenders enabling supply-chain financing of vendors for sustainability projects, needs to be considered as part of sustainability financing once such exposure limits are set up and categorized as priority sector lending.

v) Acquisition of land for large sustainability projects: Process of land acquisition in India is time consuming and regulations vary from state to state. Often, the time for land acquisition is longer than the time to do the physical implementation. Certain states have a long drawn and time-consuming process of land acquisition and involves numerous approvals. It would be good to have a Nodal agency and a single window for renewable projects with a view to expedite the land acquisition process.

Corporates are prohibited in most states from acquiring agricultural land for conversion into industrial use. Often, landowners are required to be paid before they can make the land title ready for transfer. Although the process of digitisation of land records has started, the ownership of land is at times not updated in the revenue records on account of the complex process that needs to be undertaken by the poor landowner resulting in delays and litigation later.

Right of Way issues also cause delays in implementation of projects, as villagers or NGOs use this opportunity to squeeze the project proponent for extra money on already settled deals. Ownership titles of land are sometimes disputed and resolving disputes through courts requires many years.

Title ownership for all immovable assets should be put up in a centralized database, and it should be mandatory for the seller of land to settle all prior claims. Right of way to each parcel of land should also be pre-determined in the central database rather than at the mercy of the villagers.

Chapter 3

The Changing Landscape of ESG Funding – the Global Context

1.1 Context

Ever since the economist Milton Friedman famously declared in 1970 that "the social responsibility of business is to increase its profits", shareholder primacy has been the cornerstone of business operations. However, in light of ever-increasing global challenges relating to issues such as climate change, environmental risks and growing inequality, business leaders have been compelled, and have also found it to be in their interest, to reimagine the role of businesses in society and not view them merely as economic units for generating wealth. Perhaps the most significant indicator of this changed thinking was seen in 2019 (49 years after Milton Friedman's postulation), when the US Business Roundtable redefined the "purpose" of a company to one focusing on stakeholder value.

Therefore, it is not surprising that the last decade has seen increased interest in the idea of Environment, Social, and Governance (ESG) metrics influencing business performance within the financial community. Long-term investors such as pension and sovereign funds and the Socially Responsible Investor (SRI) community have long taken this seriously but as the risks from social and environmental issues have become more apparent, "mainstream" investors too have begun to incorporate this in their thinking, especially as confidence has grown that capital deployment for ESG improvement does not automatically lead to drop in yields.

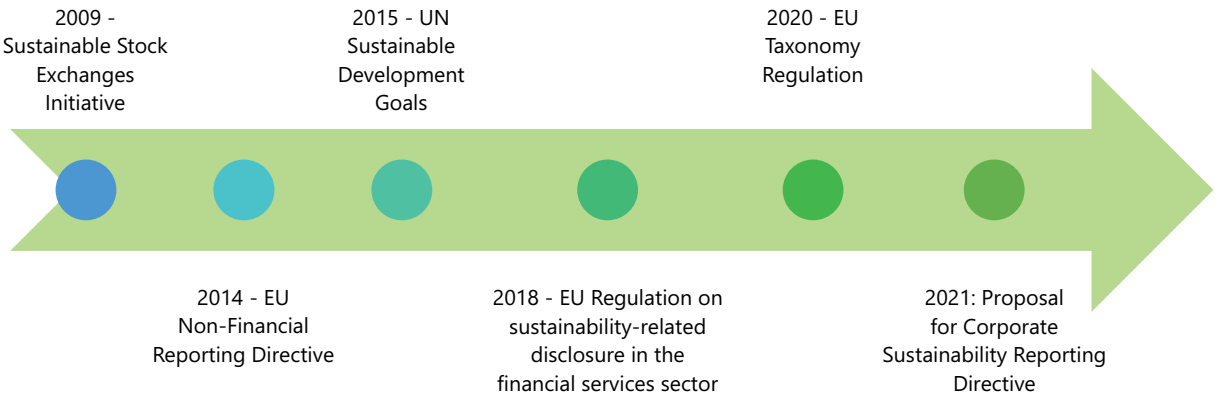
1.2 Regulatory changes

Global support for sustainable investing has been gathering momentum since the start of this century. This got a major thrust when the United Nations launched the Principles for Responsible Investment (PRI) in 2006 with the backing of about 100 signatories. Subsequently, PRI in conjunction with UNCTAD and the UN Global Compact laid the groundwork for promoting the agenda on Sustainable Stock Exchanges (SSE). SSE provides a platform amongst the global stock exchanges and aims to find ways to increase sustainable investments by companies and investors. SSE now has a network of 90+ stock exchanges representing 50,000 companies.

Amongst the regional blocks, the European Union has been the leader in creating and adopting regulations on sustainability, climate-change and ESG. It is no surprise then that the EU remains the most attractive sustainable finance market with a 48% market share followed by the Americas (28 %) and Asia-Pacific (18%)[1].

[1] www.refinitive.com

Figure 5: Evolution of Global Sustainable Finance Landscape



The European Union (EU) in 2014 laid down the rules on non-financial and diversity-related information (environment, social, and employee matters, respect for human rights, anti-corruption and bribery matters, and diversity on company boards) disclosure by large undertakings which are public-interest entities having more than 500 employees and balance sheet size of more than EUR 20 million or a net turnover of more than EUR 40 million. The rules cover more than 11,000 large organisations which include listed companies, banks, insurance companies and other companies designated by national authorities as public-interest entities. The information to be disclosed should include description of the organisation's business model, description of the policies laid out and due diligence process, outcomes of these policies, the principal risks related to the non-financial matters linked to the organisation's operations and non-financial key performance indicators relevant to the organisation. The non-financial statement should also report and explain the reasons an organisation might not have policies on some of the non-financial areas[2].

The United Nations General Assembly in September 2015 adopted the 2030 Agenda for Sustainable Development which included the 17 Sustainable Development Goals (SDGs). The Paris Agreement was signed a few months later in December 2015 which also set out a commitment to support developing nations' ability to combat climate change through technology transfer and financing.

In 2018, the EU came up with the regulation on sustainability-related disclosures in the financial services sector (known as the "Disclosure Regulation" or SFDR). The directive requires the investment firms and asset managers in scope to integrate ESG into their investment decisions. The next phase of SFDR directives will provide specifics and guidance to the companies to comply with the regulations. The EU came up with the "Taxonomy Regulation" to work in tandem with the SFDR on 12 July 2020. The Taxonomy Regulation is basically a classification system for environmentally sustainable activities.

[2] ec.europa.eu

The Taxonomy Regulation defines an economic activity as environmentally sustainable if it "substantially contributes" to the environmental objectives of either climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control and protection or restoration of biodiversity and ecosystems. In addition, the economic activity should not harm any of the environmental objectives, should avoid violation of minimum social and governance safeguards, and comply with the technical screening criteria. The European Commission will establish a list of green/sustainable activities under this Regulation by defining technical screening criteria for each environment objective through delegated acts. The Commission has already defined technical screening criteria for sustainable activities under climate change mitigation and adaptation objectives in April 2021 through a delegated act (EU Taxonomy Climate Delegated Act) which will come into force on 1 January 2022. The Commission will define the criteria through a second delegated act for the rest of the environmental objectives in 2022.

1.3 Independent disclosure frameworks

With the increasing interest in ESG among investors and lenders, the need for robust corporate disclosures has become increasingly strong. Investors need ready access to high quality, comparable and relevant ESG information. Issuers have been under increasing pressure from investors, regulators and stock exchanges to report more ESG information. In response to increasing investor demand for non-financial information from companies, a number of sustainability disclosure frameworks have evolved to improve standardized disclosure of ESG information. These are as follows:

Table 1: Broad-based Sustainability Reporting Frameworks

Broad-based Sustainability Reporting Frameworks	
Global Reporting Initiative (GRI) GRI standards helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being.	Sustainability Accounting Standards Board (SASB) SASB's reporting framework helps businesses around the world to identify, manage and report on the sustainability topics that matter most to their investors. They published a set of standards for 77 different industries, which identify the minimal set of financially material sustainability topics and their associated metrics for a typical company in a given industry. The standards aim to help companies and investors analyse the material ESG issues likely to affect a company's financial performance.

Broad-based Sustainability Reporting Frameworks	
United Nations Global Compact (UNGC) The United Nations Global Compact, established in 2000, is a voluntary initiative based on CEO commitments to implement universal sustainability principles and to support UN goals. Companies are required to report along the ten principles enunciated in the areas of human rights, labour, environment and corruption where the minimum standards for each have been defined. These principles have been derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.	Integrated Reporting (IR) The International Integrated Reporting Council (IIRC), established in the UK in 2010, has developed the framework which is a principle-based guidance for preparing an Integrated Report (IR). It is different from the other sustainability reports in terms of structure and expectations. The IR does not prescribe standardised indicators, and companies are to develop their own standards. An IR provides insight on the resources and relationships used and affected by an organisation, which are referred to as "the capitals".
Climate and Environment Reporting Frameworks	
Task Force on Climate-related Financial Disclosures (TCFD) These are voluntary climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders. It includes questions on physical, liability and transition risks associated with climate change and helps companies understand what financial markets want from disclosure in order to measure and respond to climate change risks, and encourage firms to align their disclosures with investors' needs.	CDP (formerly Carbon Disclosure Project) CDP runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts and their risks and opportunities on climate change, water security and deforestation. Each year, CDP takes the information obtained through its annual reporting process and scores companies and cities on their environmental performance.
Taskforce on Nature-related Financial Disclosures (upcoming) A Taskforce on Nature-related Financial Disclosures will provide a framework for corporates and financial institutions to assess, manage and report on their dependencies and impacts on nature, aiding in the appraisal of nature-related risk and the redirection of global financial flows away from nature-negative outcomes and towards nature-positive outcomes.	

An analysis of these disclosure frameworks suggests the following trends:

1. *An emphasis on materiality:* Investors want companies to apply a materiality filter to their ESG reporting. While it's often mentioned that there's an 'alphabet soup' of disclosure frameworks that's becoming difficult to navigate, investors are increasingly gravitating towards frameworks that emphasise a materiality focus.

2. While *GRI* and *IR* are already used by a majority of large companies, *TCFD, CDP* and *SASB* are mentioned by investors most often, and are increasingly specifically requested by many of the largest institutions.

3. *Meaningful disclosures on climate change:* Investors want to see that companies have deeply considered the specific impacts of climate change on their business. That means they want meaningful disclosures on climate costs and risks so they can fulfil their stewardship role. Importantly, this means investors are becoming less tolerant of companies that continue to disclose certain metrics simply because that's what they've been doing for years, or because their peers are doing so. There's a real focus now on company-specific, decision-relevant information.

4. *A new focus on the 'S' in ESG:* With efforts on improving climate disclosures well underway, investors are now paying ever closer attention to how companies deal with the 'S' in ESG, particularly as the pandemic, the socio-political environment, issues such as Modern Slavery and movements such as "Black Lives Matter" have thrown societal issues into sharp focus. Interest in supply chain sustainability is rapidly gaining ground as that is where many of the "S" impacts lie. As communities become more empowered and provide the 'social license to operate", community engagement has become critical. Finally, the impacts of transition into a zero-carbon economy influence livelihoods and therefore, the importance of Just Transition is becoming more apparent.

5. *Convergence in ESG reporting frameworks:* Investors see greater convergence and standardisation in ESG reporting frameworks to be the natural end point of greater integration. There is evidence that this is in progress, the recently announced merger of SASB and IIRC being an example. Additionally, investors are making broadly positive noises about the IFRS Foundation's proposal to set up a new, globally-recognised Sustainability Standards Board; albeit with one note of caution: they would want the new Board to advance, rather than replace, the work that existing framework owners have already done on convergence.

6. *ESG disclosure regulations as a means against greenwashing:* Institutional investors will need to report on an array of new ESG metrics for their companies as per the European Union's Sustainable Finance Disclosure Regulation (SFDR). This legislation aims to increase transparency in how sustainability risks and opportunities are integrated into the investment decisions and recommendations of financial market players. There have been concerns that some asset managers have been overstating their sustainability credentials to win business and given the array of funds now available to investors, it is imperative for the future credibility of the industry that investors can have trust that the fund they have selected does what it claims to do. The downstream impact of these regulatory requirements is that corporate disclosures, particularly around environmental issues, have moved from "nice-to-have" to "must-have". Companies that fail to make appropriate disclosures will become increasingly difficult to invest in. The US SEC's new ESG taskforce's focus will also be to identify any material gaps or misstatements in issuers' disclosure of climate risks under existing rules.

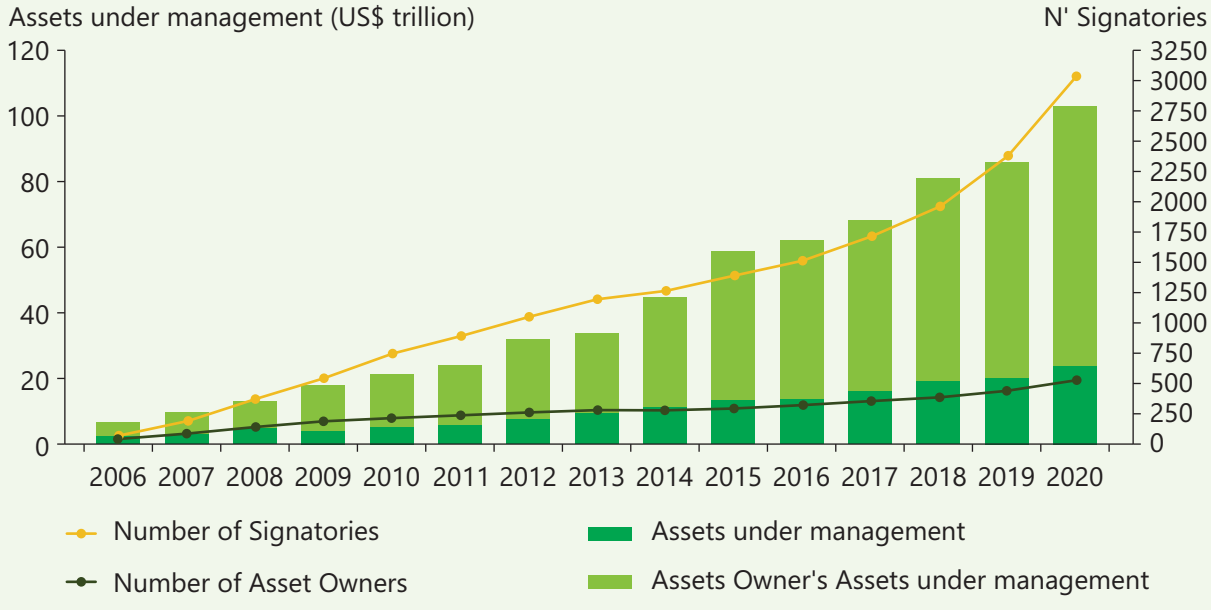
An emerging piece of work on disclosures has been led by the World Economic Forum, along with the International Business Council in association with the "Big 4" accounting firms. A white paper entitled "Measuring Stakeholder Capitalism" was released in September 2020 and the framework is based on 4 pillars - Governance, Planet, People and Prosperity.

1.4 Trends in ESG-based funds

Increase in PRI signatory base

A good indicator of the increased interest in ESG is the trend in membership of financial institutions in the Principles for Responsible Investment (PRI), where the signatories commit to mainstreaming ESG into their analyses, policies and practices. The graph below illustrates the trend.

Figure 6: Increase in PRI signatories over the years

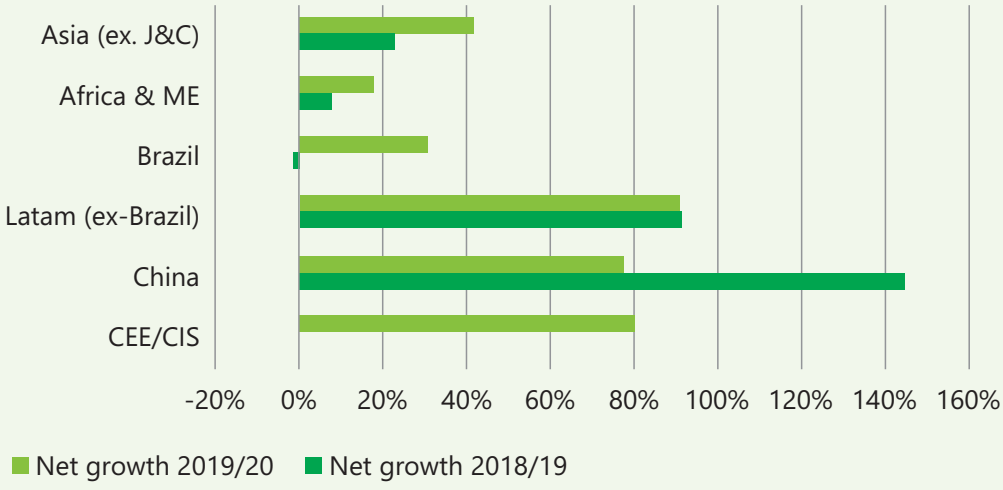


Source: UNPRI

The number of investor signatories increased to 2701 in 2020, almost trebling in a decade and increasing by as much as 29% compared to 2019. In the same period of time, the number of asset owner signatories increased to 521 compared to half that a decade ago. The collective AUM represented by PRI signatories increased to US$103.4 trillion as of 31 March 2020, representing a 20% increase over 2019 and a five-fold increase compared to a decade ago.

Moreover, PRI saw a net growth in signatories across all emerging market regions in 2020 as can be seen below.

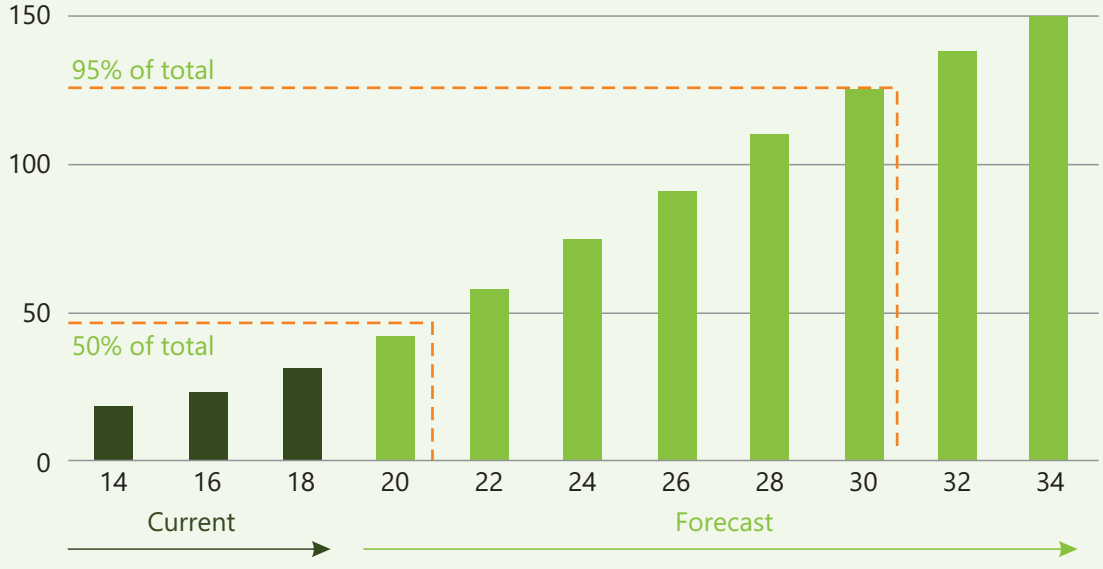
Figure 7: Net Growth in PRI signatories



Increase in ESG investing

According to EPFR, Barclays Research, 2018 to 2020 saw over US$100 billion flow into specialist ESG funds globally. A forecast published by Deutsche Bank in September 2019 suggested that ESG investments are expected to further grow and to pass the US$100 trillion mark by 2030.

Figure 7: Global AUM invested in ESG mandates (in USD Tn.)



Source: Deutsche Bank, Global Sustainable Investment Alliance, zeb research

According to Morningstar's research published in January 2021, driven by increased investor interest in ESG issues and sustainable investing, sustainable funds notched up a record-breaking quarter in terms of flows, assets, and product launches. Global inflows into sustainable funds were up 88% in the fourth quarter of 2020 to US$152.3 billion. Europe accounted for almost 80% of these inflows and the United States took in 13.4%, up slightly from 12% in the previous quarter, while flows in the rest of the

Figure 8: Global Sustainable Finance Flows, Q4, 2020

Region	Q4 2020 Flows		Assets		Funds	
	USD billion	% Total	USD billion	% Total	#	% Total
Europe	120.8	79.3	1,342.8	81.3	3,196	77.0
United States	20.5	13.4	236.4	14.3	392	9.4
Asia ex-Japan	5.0	3.3	25.4	1.5	208	5.0
Australia/New Zealand	1.2	0.8	19.8	1.2	126	3.0
Japan	3.7	2.4	17.7	1.1	138	3.3
Canada	1.2	0.8	10.2	0.6	93	2.2
Total	**152.3**		**1,652.3**		**4,153**	

Source: Morningstar Direct. Morningstar Research. Data as of December 2020.

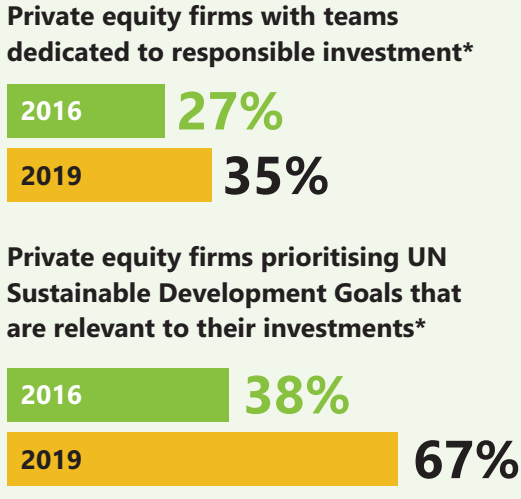
world also grew, clocking in at US$11.1 billion for Canada, Australia and New Zealand, Japan, and Asia combined. This is up from US$9 billion in the second quarter. Assets in sustainable funds hit a record high of US$1,652 billion as of the end of December, up 29% from the previous quarter.

More focus on ESG in Private Equity

Private Equity (PE) has an immense amount of capital at its disposal, rising as high as US$8.3 trillion by 2025, according to PwC analysis. In an evolving and dynamic world, PE firms are important providers of liquidity, debt and equity and serve as intermediaries for remarkably deep pools of capital such as university endowments, public employee pension funds and sovereign wealth funds. And among these stakeholders, expectations are rising rapidly that stewards of capital-be they CEOs of companies or PE firms-play a more active and constructive role on a range of ESG issues. PE funds are recognising the impact that ESG factors can have on valuations and the need to embed them into all stages of the deal process. This is demonstrated in the image below:

A PwC 2019 survey of both GPs (General Partners) and LPs (Limited Partners) revealed that 91% of respondents have already adopted or are currently developing a responsible investment or ESG policy. The number of GPs who are PRI signatories now stands at 683 and includes six of the largest ten. GPs are integrating several ESG frameworks, particularly SASB, and some are even launching impact investing strategies.

Figure 9: PWC PE Responsible Investment Survey Results, 2019



*Source: PWC Private Equity Responsible Investment Survey 2019, based on responses from 162 private equity firms in 35 countries, Barclays Research

Proactive stance by large asset managers

The world's largest asset managers are taking a proactive stance on issues across the ESG spectrum. In his annual letter, BlackRock's Larry Fink urged companies to disclose how they are preparing for a "net zero world" where net greenhouse gas emissions are eliminated by 2050 and are improving "diversity, equity and inclusion". At State Street Global Advisors, the main stewardship priorities in 2021 will be the systemic risks associated with climate change and a lack of racial and ethnic diversity on company boards.

Energy transition and net-zero commitments take centre stage

With the explosion of net-zero commitments by companies and countries, investors will be having some difficult discussions around the energy transition in 2021 relating to exiting brown industries. This also means that investors will have opportunities in the climate solutions market. The climate solutions market could double from US$1 trillion a year now to US$2 trillion a year by 2025, says BofA, including renewables, electric vehicles, batteries, biofuels, and circular economy plays.

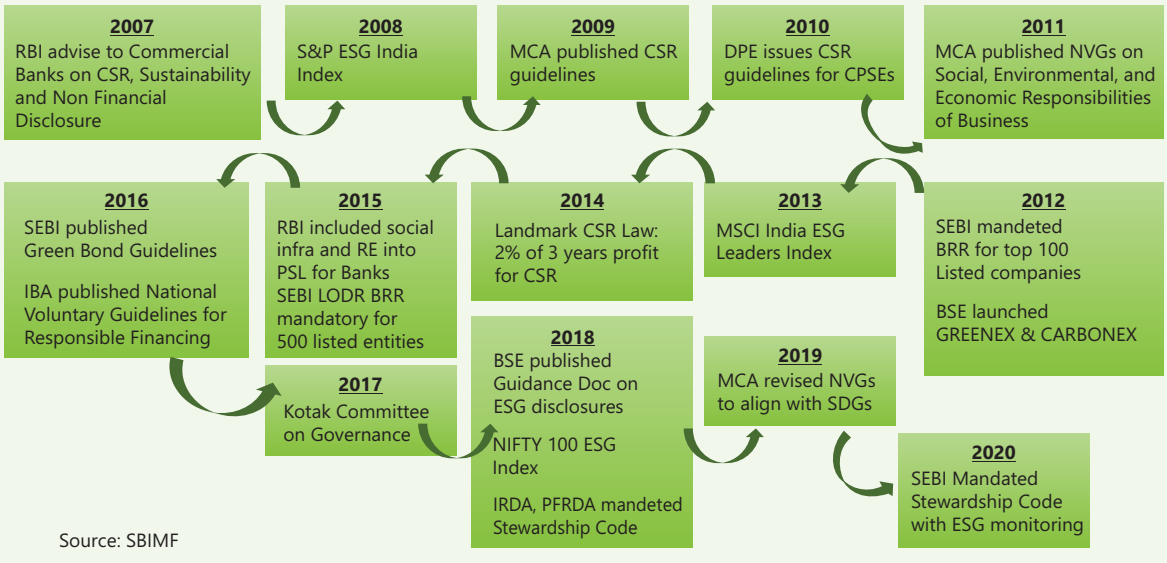
Critiques of the net-zero commitments have pointed out that few companies who have made such commitments have indicated clear pathways of how they will get there, how much of this will be through offsets, what carbon reducing technologies they are banking on and what their short-term goals and targets might be. This will present a challenge to investors who need this information to ensure that companies are not resorting to "greenwashing".?

2.0 The Changing Landscape of ESG Funding - the Indian Context

2.1 Regulatory changes in India

Over the last decade, there have been significant regulatory changes in India that have brought ESG issues to the forefront, certainly as far as companies are concerned. A few important ones are mentioned here.

Figure 10: Evolution of Regulatory Paradigm for Sustainable Finance in India



Source: SBIMF

Companies Act 2013

The Companies Act, 2013 (Act) superseded its 1956 predecessor and subsequent amendments. Amongst its very many new provisions, two are directly relevant to ESG. One, the role of the board has been strengthened across various clauses of the Act and principally in Section 166 which details the fiduciary duties of Directors, requiring them to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment. Thus, the Act expects Directors to be accountable more widely to stakeholders, including the community and environment. Second, Section 135 on Corporate Social Responsibility specifically mandates companies to spend a percentage of their profits on a menu of specified activities by harnessing what they are good at - efficiency, innovation and project management.

NVG/NGRBC

The Ministry of Corporate Affairs, Government of India, released the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs) in 2011. It provided guidance to businesses on what constitutes responsible business conduct. In order to align the NVGs with the emerging global concerns, the Sustainable Development Goals (SDGs), and the United Nations Guiding Principles on Business & Human Rights (UNGPs), the process of revision of NVGs began in 2018. After numerous stakeholder consultations, these were revised and released as the National Guidelines on Responsible Business Conduct (NGRBC) in 2019.

BRR/BRSR

In 2012, SEBI mandated that the top 100 listed entities by market capitalisation file Business Responsibility Reports (BRR) as per the disclosure requirement. This requirement for filing BRRs was extended to the top 500 listed entities by market capitalisation from the financial year 2015. In December 2019, SEBI further extended the BRR requirement to the top 1000 listed entities by market capitalisation. In March 2021, SEBI announced that the BRR will be replaced by the Business Responsibility and Sustainability Report (BRSR) which the top 1000 listed companies may publish voluntarily in the financial year 2021-22 and mandatorily from 2022-23.

It is important to note that both the BRR and BRSR essentially reflect what the Ministry of Corporate Affairs considers responsible business conduct as indicated in the NVGs and NGRBCs respectively. This enables both the reporting companies and the readers of the reports to understand the logic and basis for the disclosures.

2.2 Financial sector codes and guidelines

In addition to laws and mandates, various regulators have also issued several codes and guidelines which promote ESG. Some of these are outlined here.

Table 2: Financial sector codes and guidelines in India

Regulator/ Entity	Key Guidelines
RBI	• Scheduled Commercial Banks (SCBs) are mandated to lend 40% of the Adjusted Net Bank Credit (ANBC) to Priority sectors (PSL) which includes agriculture, social infrastructure, renewable energy, Housing, education, etc. RBI has also fixed sub-targets for each of the sector to avoid lending concentration. • Further, Urban Co-operative banks, Regional Rural Banks (RRBs) and Small finance banks (SFBs) are required to maintain higher proportion of their loans books to sectors covered under PSL • In 2016, In Reserve Bank of India included social infrastructure and renewable energy within the Priority Sector Lending requirements for banks. • Loan to small firms in renewable energy sector upto INR 30 crore and households up to INR 10 lakhs for investing in renewable energy are eligible to be classified as Priority Sector Lending (PSL).
SEBI	In 2016, SEBI published its green bond guidelines, making India the second country (after China) to provide national level guidelines. In May 2017, guidelines for disclosure requirements for Issuance and Listing of Green bonds were issued. A separate platform for issuing green bonds was launched by BSE.
Bombay Stock Exchange	In 2018, Bombay Stock Exchange (BSE) published Guidance Document on ESG Disclosures, which served as a comprehensive set of voluntary ESG reporting recommendations, guided by global sustainability reporting frameworks. It underscores the importance of ESG disclosures to investors and provides 33 specific issues and metrics on which companies should focus
Indian Banks' Association	Indian Banks' Association came out with the National Voluntary Guidelines for Responsible Financing in order to provide a systematic and standardised framework of action catering to banking sector's risks, opportunities and responsibilities around environment, social and economic factors in an integrated manner
National Housing bank (NHB)	Prime Lending Institutions (includes SCBs, Housing Finance companies, Small Finance Banks, RRBs, etc.) are eligible for refinance under affordable housing fund for loans given for affordable housing. Lending institutions are also eligible for refinancing for construction finance to small affordable housing projects (costing up to INR 50 crores).
Government of India	Under the Credit Linked Subsidy Scheme (CLSS) for Economically Weaker Section (EWS) / Low Income Group (LIG) under Pradhan Mantri Awas Yojana – Urban (PMAY-U) an interest subsidy of 6.5%for EWS / LIG, calculated on Housing Loan up to Rs. 6 lakh over tenure of 20 years is provided. Installation cost of the roof top panels is subsidised up to 30% by Indian Government for installation cost of the rooftop solar panels in most states. In addition, a generation-based incentive is provided if the generation exceeds certain threshold per year. GOI launched two phases of Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME) scheme in 2015 and 2019, to improve the credit flow, reducing the up-front purchase price of all vehicles and developing the infrastructures (such as charging stations) to encourage green vehicle production and sales. Interest paid up to Rs 1,50,000 is available as tax deduction to individual taxpayer for loans taken to buy Electric vehicle. The Government has also brought in a Production Linked Incentive (PLI) Scheme for manufacturing of high efficiency modules in the arena of renewable energy.
Others	IREDA has announced plans to become India's first Green bank in May 2016. India Infrastructure Finance Corporation Limited (IIFCL) launched a dedicated scheme known as the 'credit enhancement scheme' for funding viable infrastructure projects with bond tenors above five years.

Stewardship Codes of SEBI, IRDA, PFRDA

SEBI issued a Stewardship Code for mutual Funds and alternative investment funds. The Stewardship Code has six principles:

- Principle 1: Institutional Investors should formulate a comprehensive policy on the discharge of their stewardship responsibilities, publicly disclose it, and review and update it periodically.
- Principle 2: Institutional Investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.
- Principle 3: Institutional Investors should monitor their investee companies.
- Principle 4: Institutional Investors should have a clear policy on intervention in their investee companies. Institutional Investors should also have a clear policy for collaboration with other Institutional Investors where required, to preserve the interests of the ultimate investors, which should be disclosed.
- Principle 5: Institutional Investors should have a clear policy on voting and disclosure of voting activity.
- Principle 6: Institutional Investors should report periodically on their stewardship activities.

The Insurance Regulatory and Development Authority (IRDA) issued a Stewardship Code in March 2017 (updated in 2020) as did the Pension Fund Regulatory and Development Authority (PFRDA) in May 2018.

Bankruptcy and Insolvency Code and Act

The Insolvency and Bankruptcy Code, 2016 (IBC) is the Indian bankruptcy law which seeks to consolidate the existing framework by creating a single law for insolvency and bankruptcy. The Code is a one stop solution for resolving insolvencies to supersede a previous long process that did not offer an economically viable arrangement.

"The Code aims to protect the interests of small investors and make the process of doing business less cumbersome.

- The Code outlines separate insolvency resolution processes for individuals, companies and partnership firms. The process may be initiated by either the debtor or the creditors. A maximum time limit, for completion of the insolvency resolution process, has been set for corporates and individuals.
- The Code establishes the Insolvency and Bankruptcy Board of India, to oversee the insolvency proceedings in the country and regulate the entities registered under it.

- The insolvency process is managed by licensed professionals. These professionals also control the assets of the debtor during the insolvency process.
- The Code proposes two separate tribunals to oversee the process of insolvency resolution, for individuals and companies:
  - The National Company Law Tribunal for Companies and Limited Liability Partnership firms.
  - The Debt Recovery Tribunal for individuals and partnerships.

2.3 Court judgements and orders

Environmental Law Enforcement Machinery in India:

The primary institutions responsible for the formulation and enforcement of environmental acts and rules include the Ministry of Environment, Forests and Climate Change (MOEFCC), the Central Pollution Control Board (CPCB), State Departments of Environment, State Pollution Control Boards (SPCBs) and Municipal Corporations. Under the MOEFCC, CPCB is the national board with oversight powers over state boards. Most of the compliance monitoring and enforcement is done by SPCBs. The few direct enforcement actions taken by the CPCB are generally done by the zonal offices. Under the Water Act, the Air Act and the Environment Protection Act (EPA), the pollution control boards have the authority to issue and revoke consents to operate, require self-monitoring and reporting, conduct sampling, inspect facilities, require corrective action and prescribe compliance schedules. The enforcement powers include emergency measures of disconnecting water or power supply and facility closure, which are widely used in some states. According to the Hazardous Wastes (Management and Handling) Rules, SPCBs can, with CPCB approval, impose administrative fines for any violation of rules. Other sanctions (fines and imprisonment) are pursued by the CPCB/SPCBs under the criminal authority of the courts.

Over the last twenty years, the Supreme Court of India and some High Courts of the states have led the way in the enforcement of environmental laws through citizen-led public interest litigation (PIL) that has its legal basis in the constitutional right to a healthy environment. Through this judicial activism, the courts have issued orders with specific implementation requirements that not only remedy the case at hand, but also set new policies and practices with widespread implications for the regulated community as well as regulatory agencies.

Environmental litigation in India has flourished for more than three decades. However, 2011 is distinctive for the establishment of the National Green Tribunal (NGT) by the Ministry of Environment and Forests (MoEF). The MoEF was galvanised by the Supreme Court in this direction to focus on environmental issues. The NGT's mandate is quite wide as it can entertain cases raising "substantial questions relating to the environment" which arise from the implementation of seven laws, including air pollution, water pollution, environment protection, and bio-diversity. It isn't just an appellate body, but also has original jurisdiction to decide certain categories of cases. It can award compensation and direct restitution of damaged ecology and property.

Trends in Environmental Cases taken up by the NGT:

In the past few years, we have seen an incremental trend of fines, penalties and notices issued by the NGT to companies that are involved in pollution. Some of the widely covered judgements mentioned below showcase the commitment of the Tribunal to safeguard the environment and to uphold the "Polluter Pays Principle":

1. In August 2020, the NGT imposed a fine of over Rs 286 crore in damages on four companies, including Bharat Petroleum (BPCL) and Hindustan Petroleum (HPCL), holding them responsible for the "gas chamber"-like conditions in Mumbai's Ambapada, Mahul and Chembur.[3]
2. In June 2020, the NGT slapped a penalty of Rs 25 crore on Yashashvi Rasayan Pvt. Ltd where a huge fire caused by a blast in the boiler at Dahej in Bharuch district of Gujarat resulted in the death of eight workers.[4]
3. In June 2020, the NGT said that LG Polymers has absolute liability for the loss of life in the gas leak incident at its Visakhapatnam plant, and directed a Rs 50 crore penalty be imposed on it to be used as compensation to the victims and for environment restoration. A styrene gas leak from the plant had killed 12 people and affected another 1,000 besides causing environmental damage.[5]
4. In June 2020, the NGT imposed a fine of Rs 25 crore on Oil India Ltd for causing damage to the environment, humans and wildlife, over its failure to stop the fire at its oil well in Assam's Baghjan.[6]
5. In July 2019, the NGT imposed an interim penalty of Rs 1 crore on Grasim Industries Limited for storing a huge stock of mercury, obtained as a by-product, in its premises in Sonbhadra district of Uttar Pradesh.[7]
6. In March 2019, the NGT imposed a fine of Rs 500 crore on German auto giant Volkswagen for damaging the environment through the use of "cheat device" in its diesel cars in India. The company was ordered to pay the amount within two months.[8]
7. In January 2018, the NGT imposed a fine of ?195 crore on city-based Goel Ganga Developers for causing environmental damage at its Ganga Bhagyodaya, Amrut Ganga and Ganga Towers projects on Sinhagad road.[9]

Other than this, we also find an incremental trend of heavy penalties on State Governments and directions to control pollution and abide by laws in the heavily industrialised and polluted districts.

[3]https://indianexpress.com/article/cities/mumbai/gas-chamber-mumbai-areas-ngt-orders-rs-286-cr-fine-on-four-companies-6555245/

[4]https://www.news18.com/news/india/ngt-slaps-penalty-of-rs-25-crore-on-company-over-boiler-blast-at-chemical-factory-in-dahej-2659769.html

[5]https://www.nationalheraldindia.com/national/lg-polymers-has-absolute-liability-for-loss-of-life-ngt

[6]https://www.businessinsider.in/science/environment/news/baghjan-fire-ngt-imposes-rs-25-crore-fine-on-oil-india-ltd/articleshow/76627677.cms

[7]https://economictimes.indiatimes.com/industry/indl-goods/svs/cement/national-green-tribunal-slaps-penalty-of-rs-1-crore-on-grasim-industries/articleshow/70345452.cms?from=mdr

[8]https://www.indiatoday.in/auto/latest-auto-news/story/national-green-tribunal-imposes-rs-500-crore-fine-on-volkswagen-1472327-2019-03-07

[9]https://www.hindustantimes.com/pune-news/ngt-slaps-195-cr-fine-on-pune-s-goel-ganga-developers-for-environmental-damage/story-eHVl8micvPT7X3Bp58ZEcO.html

According to an April 2019 study by the Centre for Science and Environment (CSE), through April 7, 2019, the NGT had slapped penalties worth almost double the fines it imposed in the whole of 2018. Between January 2019 and April 7, the NGT slapped penalties close to Rs 873 crore under the 'polluter pays' principle. For the entire 2018, the tribunal had imposed penalties of Rs 477 crore under the principle. Multinational carmaker Volkswagen's Indian arm and the governments of Andhra Pradesh, Meghalaya and Tamil Nadu had the highest penalties imposed on them in 2019. The NGT slapped Andhra Pradesh and Meghalaya governments with penalties of Rs 100 crore each for not preventing illegal mining of sand and coal. It also imposed a fine of Rs 100 crore on Tamil Nadu for failing to control pollution and not restoring Chennai's waterways.[10]

This is also supplemented by the Show Cause notices issued by the various SPCBs to companies whenever they identify non-compliances with the existing laws and regulations. Ever since the regulators mandated the Business Responsibility Reporting by the top 500 listed companies in 2015, all these companies have had to disclose the number of unresolved issues with the respective SPCBs and the number of pending Show Cause notices issued to them. Investors are increasingly using this information to judge the ESG performance of the companies. Consequently, the companies have now been able to connect their inaction or lack of timely action on ESG issues with loss of capital in the form of disinvestment or penalties. This has led to reinforcement of the understanding that inaction on the ESG front would be much costlier than the capex that companies are required to put in to reduce environmental and social impacts.

2.4 Growth of ESG funds and green finance in India

While ESG has been in discussion in domestic financial parlance for quite some time now, there has been a surge in investor interest around ESG in the last 3-4 years. The following factors have contributed to the increased attention and investor appetite towards ESG:

- Governance failures across the world in big corporations have prompted Indian investors to look at governance issues proactively. On similar lines, environmental and social incidents and consequent unrests have eroded reputations and brand value of major corporations in recent times. Negative media on these topics and consequent negative market sentiment has pushed investors to look at ESG factors more actively.
- Outperformance of ESG Funds as compared to benchmarks and lower risk perceptions and faster recovery as compared to traditional funds, as seen during Covid times, have made a big impact on Indian investors. They now do not see ESG as a mere passing fad but a risk mitigation framework that is more resilient and creates positive value in the long term. ESG is not about doing good at the cost of lower profits anymore, rather it creates positive value for shareholders and stakeholders alike.
- The fast evolving regulatory landscape has provided an added impetus for investors. ESG has for the first time found reference in SEBI's Stewardship Guidelines. The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business, 2011 (NVGs) have evolved into the more detailed and mandatory National Guidelines on

[10]https://www.downtoearth.org.in/news/pollution/ngt-makes-polluters-pay-nearly-double-so-far-this-year-than-whole-of-2018-63927

Responsible Business Conduct (NGRBC) in 2019; the Kotak Committee's recommendations on Corporate Governance have been largely accepted by SEBI in 2018; and Business Responsibility Reporting (BRR) mandated for the top 100 listed companies in 2012 has evolved into Business Responsibility and Sustainability Reporting (BRSR) mandated for the 1000 listed entities from 2021. All these increase ESG based disclosures.

The trends are visible in the Indian market:

- The number of ESG Funds has grown from 2 in 2018 to 10 and counting in 2021.
- AUM under ESG Funds has grown from Rs 3573 Cr in 2019 to more than Rs 10,509 Cr in 2021, which is equivalent to 194% increase in 2 years.
- Indian UNPRI signatories increased from 2 in 2018 to 8 in 2021.

Table 3: List of ESG Funds in India (in order of launch)

S.no.	Name of Funds	Launch Date	AUM in INR Cr. (as of March 21)
1	SBI Magnum Equity ESG Fund	May, 2018	3535.12
2	Quantum India ESG Equity Fund	Jul, 2019	38.66
3	Axis ESG Fund	Feb, 2020	1927.34
4	ICICI Prudential ESG Fund	Oct, 2020	1672.09
5	quant ESG Equity Fund	Oct, 2020	16.00
6	Mirae Asset ESG Sector Leaders Fund of Fund	Nov, 2020	109.00
7	Mirae Asset ESG Sector Leaders ETF	Nov, 2020	134.82
8	Aditya Birla Sun Life ESG Fund	Dec, 2020	911.00
9	Kotak ESG Opportunities Fund	Dec, 2020	1572.00
10	Invesco India ESG Equity Fund	Mar, 2021	593.61
Total AUM			10509.64

As of 2021, India has the second-largest emerging green bond market after China. The Indian green bond market continues to remain focused on renewable energy projects. Since 2018, green bonds have constituted 0.7 per cent of all the bonds issued in India. Bank lending to the non-conventional energy sector constituted about 7.9 per cent of outstanding bank credit to the power sector as of March 2020.

We are now seeing an increasing trend of other players who are moving into the sustainable bonds space, like local governments and corporates. At least a dozen Indian companies raised money through green or sustainability-linked bonds since the beginning of 2021, doubling the amount raised in all of 2020.

Some of the recent examples are:

1) On May 11, 2021, JSW Energy's subsidiary JSW Hydro Energy Ltd (JSWHEL) raised USD 707 million by issuing US dollar-denominated green bonds in the overseas markets, due in 2031. The company managed to raise this capital by offering a coupon of 4.125 percent per annum payable semi-annually. It is listed on the Singapore Exchange.

2) In April 2021, the Ghaziabad Municipal Corporation (GMC) became India's first municipal corporation to raise Rs 150 crore by issuing a green bond in the domestic market. GMC will construct a tertiary sewage treatment plant with this capital, which it raised at a coupon of 8.1 percent on a 10-year note and listed on the Bombay Stock Exchange.

3) In March 2021, ReNew Power Private Limited announced the successful pricing of USD 585 million of 4.5 percent US dollar-denominated senior secured "green bonds" due 2028 to be issued by certain of its subsidiaries.

4) In March 2021, Hero Future Energies (HFE) announced issuance of its first USD bond in global markets, through Clean Renewable Power (Mauritius), a wholly owned subsidiary of Hero Future Energies Asia. HFE's green bond received orders of over USD 3 billion and was successfully priced at a coupon rate of 4.25% for a six-year maturity period. The issuance was oversubscribed more than 8.5 times.

5) In March 2021, Greenko Energy Holdings raised USD 940 million for refinancing through its latest green bond issue with the demand for Moody's Investors Service Ba1 rated bond being over $2.5 billion. At 3.85%, this was the lowest priced and largest bond in non-investment grade issued by any corporate from India.

6) In Feb 2021, Continuum Wind Energy Ltd, issued its maiden green bond of USD 560 million, and listed it on the SGX. The proceeds will be used to refinance the project debt at six of its operating entities and to set up wind projects in India.

7) In Feb 2021, Ultratech Cement raised USD 400 million in the form of sustainability-linked bonds. Listed on the Singapore Exchange Securities Trading, the bonds are also the first in Asia's '144A/Reg S' markets category. The exercise received an overwhelming response, with an over-subscription of more than seven times, a first for an Indian company. The ten-year tenured dollar bonds are due in February 2031. The Company intends to use the proceeds from these bonds to refinance existing rupee-denominated debt, and for ongoing capital expenditure requirements and general corporate purposes. UltraTech, under its sustainability performance target, aims to reduce 22.2 percent of carbon emissions for every tonne of cementitious material it produces by March 31, 2030, from the levels of March 2017. If UltraTech misses its target, the coupon will increase by 75 basis points in the penultimate year.

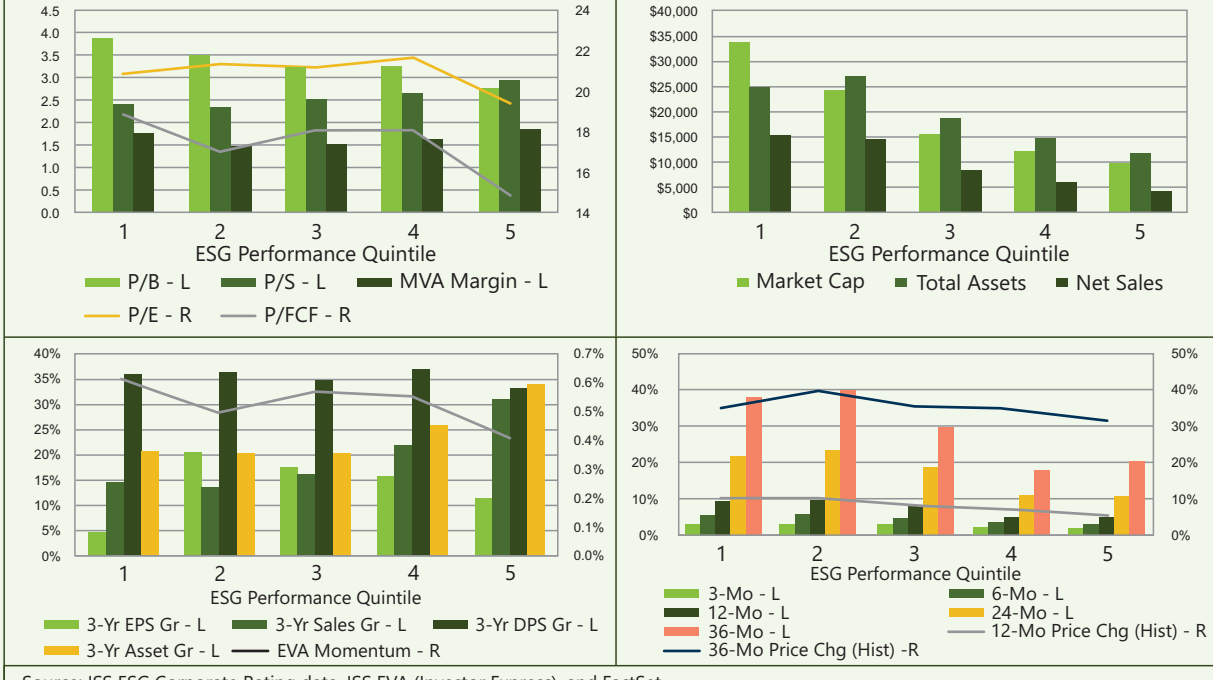
8) In Jan 2021, Shriram Transport Finance (STF) raised USD 500 million at a coupon rate of 4.4

percent via social bonds. The underlying story for STF's social bond was driven by its positive social impact through improved financial access for MSMEs that are unable to access conventional financial services.

2.5 Impact of ESG on company valuations

According to research by ISS, high/favourable ESG corporate rating performance is generally positively corelated with valuation and profitability and negatively correlated with volatility. As shown in the graphs below, several valuation multiples (P/E, P/FCF, and P/B) tend to be positively correlated with ESG performance. Investors are rewarding higher profitability and good stewardship of capital. Overall, high ESG performance is associated with good past and future returns.

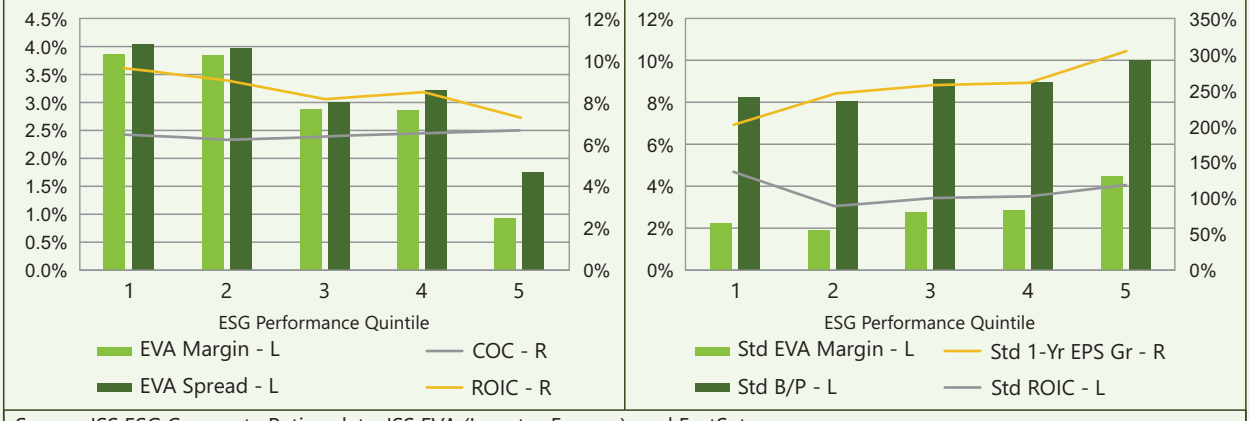
Figure 8-11: High-ESG Firms are Valued Highly, Larger, Have Higher EVA and DPS Growth, and Better Returns



Source: ISS ESG Corporate Rating data, ISS EVA (Investor Express), and FactSet.
Notes: Data is for 12/31/2013-6/28/2019. Statistics are trimmed averages (20% outliers excluded).

ISS also noted that ESG performance is corelated with higher EVA margin, EVA spread, and ROIC. The graph below shows that as the quintile of ESG performance gets better (1s are best), EVA margin, EVA spread, and ROIC rise. ROIC measures what a firm earns on capital invested. Not only is ESG correlated with profitability, but it is also correlated with volatility. However, the relationship is opposite. Higher volatility is associated with lower ESG performance. The graph below shows that volatility rises for EVA margin, valuation (B/P, or the reciprocal of P/B), ROIC, and EPS growth as ESG performance declines.

Figure 2 and 3: High ESG Performance Related to Higher Profitability and Lower Volatility



Source: ISS ESG Corporate Rating data, ISS EVA (Investor Express), and FactSet.
Notes: Data is for 12/31/2013-6/28/2019. Statics are trimmed averages (20% outliers excluded). Standard deviation is for rolling five years.

MSCI's research has also shown that companies with high MSCI ESG Ratings showed lower levels of systemic risk, lower cost of capital and higher valuation levels - measured by price-to-book and price-to-earnings (P/E) ratios - compared to companies with low MSCI ESG Ratings in the MSCI World Index from January 2007 through May 2017. This valuation premium is also noticeable in MSCI ESG indexes, as shown in the exhibit below.

Figure 13: Valuation Measures of MSCI Indexes compared to MSCI ACWI

	MSCI ACWI Index	MSCI ACWI ESG Screened Index	MSCI ACWI ESG Universal Index	MSCI ACWI ESG Leaders Index	MSCI ACWI ESG Focus Index	MSCI ACWI SRI Index
Price to book	2.2	2.2	2.3	2.4	2.2	2.5
Price to cash earnings	11.0	11.4	11.4	11.9	11.3	12.2
Price to earnings	18.4	18.6	18.6	19.0	18.4	19.3

Data from May 31, 2013, to Nov. 30, 2020.

Fund research firm Morningstar said in a recent report that its ESG-screened indexes - including broad sustainability indexes and those tracking specific categories like renewable energy - largely outperformed in 2020 and over the past five years, while also offering more downside protection. Specifically, 75 percent of the Morningstar indexes beat their benchmarks in 2020, while 88 percent of indexes with a five-year track record outperformed over the second half of the last decade. Nearly all of those indexes - 91 percent - lost less than their broad market equivalents during downturns over the past five years, including during the recent coronavirus crash.

While longer term analyses of ESG performance of funds would be ideal, it would also make sense to see how unexpected shocks can impact the market and if the ESG oriented companies fare better in times of adverse market response. SBI Mutual Fund conducted a study as part of an overall analysis to decipher their level of preparedness to address various kinds of risks at a company, sector and geographic level, from January 2020 when the first case of Covid 19 was reported in India to May 2020 when the first lockdown was lifted.

Using the framework of a global ESG ratings provider, the study analysed the stock price movement of the companies classified as ESG leaders and ESG laggards under the AMC's coverage. For the study on ESG leader and ESG laggard companies, stocks from the pharma, laboratory equipment and healthcare facilities sectors were removed as these stocks were soaring due to increased demand for masks, gloves, sanitizers and other medical products during the period of the study.

The study took the data set of the top 20 and bottom 20 performers on ESG risk ratings by an international ESG ratings provider. The study found that the average stock price change in the bottom 20 high ESG risk companies was -43.9% and the average stock price change in top 20 low ESG risk companies was -30.7% in the time period of Jan 2020 to April 2020. While the time period of the study was short, the figures suggest that companies having low ESG risks faced relatively lower fall in stock prices, as compared to those with higher ESG risks when the markets reacted to the first wave of Covid 19.

The fund house also wanted to look at whether certain sectors that are considered more ESG oriented, or perform better on ESG metrices, display superior performance. Employing the ESG ratings of another global provider, to see if the trend is coherent across service providers, they calculated the average ESG scores for all companies under various industrial sectors and mapped them to the average stock price change for the relevant industrial sectors.

Following are the observations from the sectoral study:

Table 4: Top 10 Sectors with Highest ESG Scores on Rating Provider's framework

S.No.	GICS Sub-Industry	Average ESG Score	Average Stock Price Change (Jan to Apr 2020)
1	Specialty Chemicals	8.00	1.62
2	Household Appliances	7.70	-8.94
3	Tobacco	7.50	-23.69
4	Technology Distributors	7.00	-40.11
5	Household Products	]6.40	19.28
6	IT Consulting & Other Services	6.11	-16.16
7	Personal Products	5.88	-6.17
8	Packaged Foods & Meats	5.70	11.45
9	Motorcycle Manufacturers	5.70	-26.09
10	Industrial Conglomerates	5.60	-22.00
	Average	**6.23**	**-12.14**

Table 5: Bottom 10 Sectors with Lowest ESG Scores on Rating Provider's framework

S.No.	GICS Sub-Industry	Average ESG Score	Average Stock Price Change (Jan to Apr 2020)
1	Marine Ports & Services	0.00	-27.19
2	Coal & Consumable Fuels	0.00	-34.23
3	Trading Companies & Distributors	0.60	-41.25
4	Diversified Metals & Mining	1.10	-49.03
5	Independent Power Producers & Energy Traders	1.15	-33.13
6	Steel	1.40	-44.06
7	Railroads	1.43	-35.79
8	Integrated Oil & Gas	1.70	-46.55
9	Real Estate Development	1.80	-32.36
10	Oil & Gas Exploration & Production	2.10	-43.74
	Average	**1.17**	**-39.12**

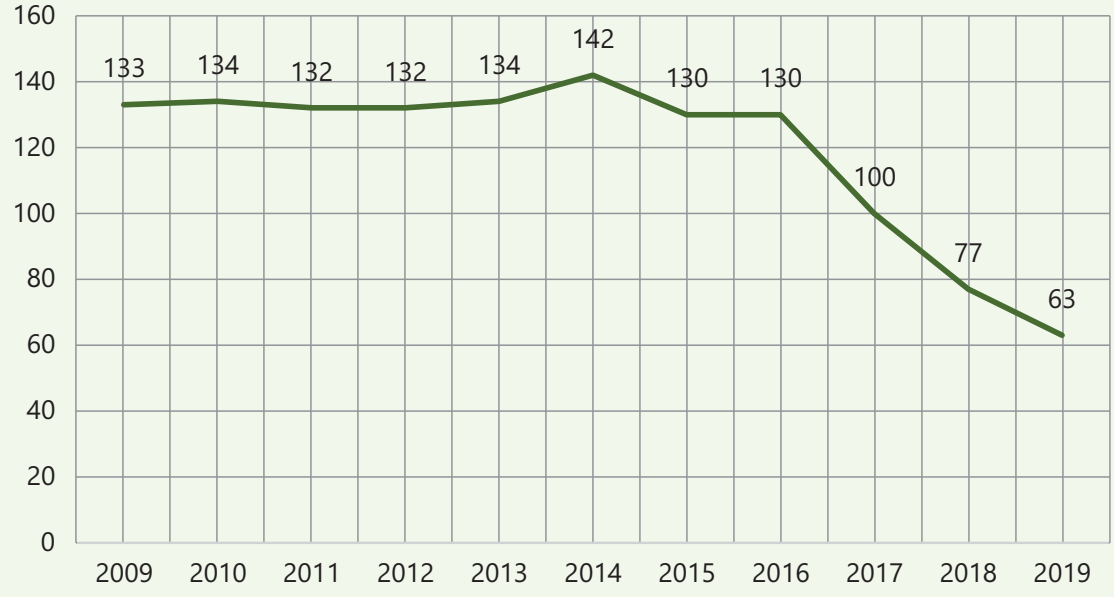
As evident from the above tables, the average stock price fall of the bottom 10 ESG sectors was 39.12% vs. the average stock price fall of the top 10 ESG sectors at 12.14%. A clear outperformance was seen in sectors that are perceived as more ESG oriented and have a lower risk profile from an ESG lens. It should also be noted that a similar study was carried out by SBIMFPL in May 2021 to see if the trend is consistent during the second wave of Covid too. However, there was no stock price fall noted. This means that the markets did not take the second wave as a sudden shock unlike the first wave, and the market participants were also better prepared to handle the situation by instituting various practices like work from home, sanitization, social distancing, regular testing, vaccinations etc. However, this does point toward the fact that any unexpected challenge can cause the markets to react negatively and the companies that are better placed to handle the risks would not lose out much and will bounce back faster as compared to the unprepared ones.

In conclusion, it can be noted that ESG performance is positively correlated with higher valuations and higher returns and negatively correlated with volatility. This dispels the myth that ESG investing comes at a financial cost; on the contrary, it has accretive benefits to financial returns and risk mitigation.

2.6 Trends in India's Ease-of-Doing-Business Rankings

India has shown considerable improvement in the World Bank's Ease of Doing Business Rankings, from rank 142 in 2014 to 63 in 2019. However, there is still considerable room for moving up the rankings which is vital to attract the large amounts of capital that the country requires for meeting its sustainable development goals and developing its infrastructure.

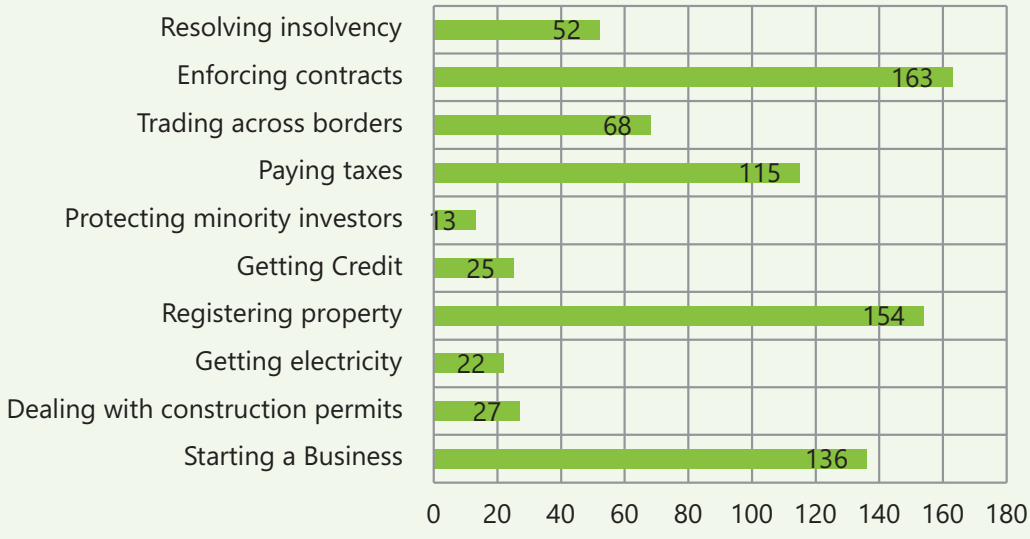
Figure 14: Improvement in India's Doing Business Rankings



Source: www.doingbusiness.org

India plans to break into the top 50 rankings, for which it needs to considerably improve on 6 out of the 10 parameters which include resolving insolvency, enforcing contracts, trading across borders, payment of taxes, property registration and starting a business.

Figure 15: India's ranking on parameters for Ease-of-doing Business



Source: www.doingbusiness.org

The Government of India intends to set up more fast-track commercial courts to speed up the judicial process on enforcement of contracts. However, challenges of lower number of required courts, large vacancies in courts, larger number of cases and low funding from the Central and state governments remain. As of September 2020, 597 fast track courts were functional, of which 321 are exclusive POCSO courts[11] while India requires more than 3000 fast-track courts.

The digitisation of land records is also being pushed by the Government through the Digital India Land Records Modernization Programme (DILRMP) to develop an Integrated Land Information Management System (ILIMS) across the country.

FICCI's efforts in EODB

The Government of India has been taking several reform measures for the Ease of Doing Business (EODB) in the last few years. India's ranking in the World Bank's Ease of Doing Business report has also improved remarkably in the recent past. States are being encouraged to improve their processes and systems of granting approvals/clearances with the help of the Business Reform Action Plan as devised by Ministry of Commerce and Industry. FICCI is working closely with the Department for Promotion of Industry and Internal Trade (DPIIT) to simplify rules and regulations for various sectors.

FICCI has been entrusted to work on identifying the burdensome regulatory compliances of several sectoral and over-arching regulations at the central and state government levels. The compliance issues identified are uploaded in a standard format on a centralized portal developed to consolidate details on regulatory compliances.

3.0 Attracting ESG Funding to India - Challenges

In order to understand the challenges of attracting ESG funding into India, discussions were held with a range of relevant actors in the services space - ministries, investors, proxy advisors, researchers etc. A list of institutions contacted is provided in Annexure 1. Basis this, along with the experience of the members of this sub-working group, key challenges have been identified which are detailed below.

3.1 Inconsistent awareness and understanding of ESG

All indications are that the awareness and understanding of what ESG is and its benefits vary significantly. For instance, large companies and SMEs that have a significant export footprint understand this better as their customers, investors and regulations in countries they export to require this. On the other hand, SMEs that are not a part of global value chains are less aware and the "business case" for them to invest in ESG improvement is unclear.

[11]https://www.bloombergquint.com/politics/whats-slowing-down-indias-fast-track-courts#:~:text=%22The%20release%20of%20funds%20depends,Rajya%20Sabha%20in%20September%202020.

For companies whose operations are restricted to India, regulations are a significant driver to mainstream ESG into their operations in India. Several regulations and policies have covered various ESG issues. As indicated in the previous chapter, the financial services sector too has been included in these guidelines and regulations. However, critics point to poor implementation of these regulations and their being reduced to mere compliance as bumps in the road to ESG become more evident.

Awareness of the benefits of ESG at the board level is also understood to be limited.

3.2 Defining ESG - the need for a Taxonomy

While the attempt of the NGRBC was to provide a broad sense of what the Ministry of Corporate Affairs expects of companies in terms of responsible business conduct, these are generic guidelines and are not specific enough to define whether a company is exhibiting such conduct or indeed whether a particular deployment of financial resources qualifies as ESG. It has been observed that much of the ESG discussion in India does not go beyond greenhouse gas emissions, air pollution and child labour.

Thus, one big challenge in India is a taxonomy that will unambiguously define what ESG is. In the absence of this, it is hard for companies and capital providers to accurately describe their actions as ESG compliant and hence they run the risk of being accused of "greenwashing" when they talk about sustainability performance.

A sector scoping developed by FICCI, mapped to different sustainable development goals, points to the types of sectors, sub-sectors, technologies, services and projects that could be considered in India's sustainable finance taxonomy.

Table 5: FICCI Sector Scoping for Sustainable Finance Taxonomy for India

S.No.		Sector	Sub-sectors / Technologies / Products / Services / Project types	ESG Mapping	SDG Mapping
1.		Air pollution prevention in cities	Curbing stubble burning, pollution from construction and demolition waste	Environment, Social	SDG 11
2.		Biodiversity conservation and management	Ecosystem services, conservation activities, marine pollution prevention	Environment	SDG 14, SDG 15
3.		Climate Change Adaptation	Coastal zone management, flood management and control, crop diversification practices and shifting to less water-intensive crops, climate resilient infrastructure, development of weather forecasting tools, development of risk evaluation monitoring tools, design of emergency maintenance and response systems during a disaster, disaster preparedness and response	Environment, Social	SDG 13
4.		Climate Change Mitigation	Covering all activities related to reduction of 6 greenhouse gases in any industrial, agricultural, infrastructure, transport, municipal, urban, rural contexts, development of carbon markets	Environment, Social	SDG 13
5.		Combating Desertification and Land degradation	Wasteland development and utilisation, watershed management, controlling wind erosion, soil fertility improvements, land rejuvenation	Environment	
6.		Circular Economy	Alternate use of waste of one sector in another sector (examples: use of municipal waste and industrial hazardous waste in cement kilns as alternate fuels; use of treated urban wastewater in power plants)	Environment, Social	SDG 12
7.		Ecolabelling	Eco-labelled products, ecolabelling programmes	Environment	SDG 12
8.		Ecotourism	Environment-friendly initiatives and conservation in tourism hotspots	Environment	SDG 12

S.No.		Sector	Sub-sectors / Technologies / Products / Services / Project types	ESG Mapping	SDG Mapping
9.		Energy – Demand Side	Energy efficiency in industry, energy efficiency in buildings, energy labelling and star-rating programmes, energy efficient street lighting, energy efficient appliances	Environment	SDG 7, SDG 13
10.		Energy – Supply Side		Environment	SDG 7, SDG 13
	10A.	Conventional Power	FGD Implementation for Controlling Emissions; Fly Ash Disposal and Alternate Use; Clean Coal Technologies; Carbon Capture and Storage	Environment	SDG 7, SDG 9, SDG 13
	10B.	Energy Storage	Storage technologies; new battery chemistries; R&D	Environment	SDG 7, SDG 13
	10C.	Hydrogen Energy and Fuel Cells	Production, transportation, storage of hydrogen energy, fuel cell development and deployment, R&D	Environment	SDG 7, SDG 13
	10D.	Renewable Energy – utility scale, ground mounted	Solar, Wind, Bioenergy, Small Hydro, Hybrid, Round-The-Clock (RTC)	Environment	SDG 7, SDG 13
	10E.	Renewable Energy – distributed	Rooftop solar, solar mini-grids, decentralised biogas plants, solar water pumps, solar cookstoves, solar cooling, solar heating	Environment, Social	SDG 7, SDG 13
	10F.	Renewable Fuels	Compressed Biogas (CBG), Bio-CNG, Bio-LNG, Ethanol	Environment, Social	SDG 7, SDG 13
	10G.	Smart Grids	Grid management technologies, smart grid deployment, smart meters	Environment	SDG 7, SDG 13
11.		Forestry	Afforestation, Reforestation, Reducing Deforestation Initiatives, Promoting livelihoods for forest-dependent communities and forest-based products	Environment, Social	SDG 13, SDG 15
12.		Pollution prevention in industry	Industrial air pollution, Industrial hazardous waste management, Industrial wastewater – technologies, process upgradations, waste management infrastructure	Environment	SDG 9, SDG 12, SDG 13

S.No.		Sector	Sub-sectors / Technologies / Products / Services / Project types	ESG Mapping	SDG Mapping
13.		Sanitation	Building and Maintenance of Community Toilets, Building and Maintenance of Public Toilets, Behaviour Change Campaigns (BCC) for Build-Use-Maintain-Treat, Grey water management, Building Household Toilets, Sludge Management	Environment, Social	SDG 6, SDG 9
14.		Skills Development for Green Jobs	Training, capacity building, curriculum development, industry-academia linkage programmes for green jobs, sustainable livelihoods programmes	Social, Environment	SDG 8
15.		Sustainable Habitat	Green buildings, green landscaping, green construction, smart city development	Environment, Social	SDG 11, SDG 13
16.		Sustainable Mobility	Electric vehicles, biofuel-run transport, electric charging infrastructure, modal shifts, transit-oriented development for cities, shared mobility, IOT for sustainable mobility, intelligent transport systems, mass transit systems, multi-modal logistics parks, reducing freight emissions, development of inland water transport as sustainable mode, decongestion initiatives and policies, non-motorised transport (NMT) for urban and rural, infrastructure for NMT (for walking/cycling in cities)	Environment	SDG 9, SDG 11, SDG 13
17.		Waste Management		Environment, Social	SDG 13
	17A.	Battery waste management	Collection and disposal of battery waste	Environment, Social	SDG 12
	17B.	Biomedical waste management	Treatment, Storage and Disposal Facilities (TSDFs) for biomedical waste disposal	Environment, Social	

S.No.		Sector	Sub-sectors / Technologies / Products / Services / Project types	ESG Mapping	SDG Mapping
	17C.	Construction and demolition (C&D) Waste management	Recycling and use of C&D waste	Environment, Social	SDG 13
	17D.	Electronic waste management (E-waste)	E-waste collection and recycling; reverse logistics programmes for e-waste; producer responsibility organisations (PROs)	Environment, Social	SDG 12
	17E.	Industrial hazardous waste management	Treatment, Storage and Disposal Facilities (TSDFs) for industrial hazardous waste	Environment, Social	SDG 12
	17F.	Municipal solid waste management (MSW)	MSW – waste-to-electricity projects and technologies; composting; sanitary landfills; biogas; waste collection, transportation, storage projects; waste handling products	Environment, Social	SDG 13
	17G.	Plastic waste management	Plastic waste management – plastic waste collection and recycling; alternative uses of plastic waste (plastic waste to fuel; plastic waste for road construction); recycling infrastructure; controlling ocean plastics pollution; beach cleaning	Environment, Social	SDG 12, SDG 14
18.		Wastewater management	Urban wastewater management (PPP projects); water use efficiency in industry; water use efficiency in agriculture; wastewater market based on industry-urban-agriculture water nexus; common effluent treatment plants (CETPs)	Environment, Social	SDG 6, SDG 9, SDG 12, SDG 13
19.		Water management and conservation	Aquifer management and recharge; river development and rejuvenation; lake restoration; restoration of traditional water reservoirs; rainwater harvesting technologies and structures; safe drinking water	Environment, Social	SDG 6, SDG 9
20.		Wildlife conservation and management	Protection, conservation, management of wildlife; wildlife corridors; protection of endangered species	Environment	SDG 15

S.No.		Sector	Sub-sectors / Technologies / Products / Services / Project types	ESG Mapping	SDG Mapping
21.		Health	R&D of vaccines and medicines for communicable and non-communicable diseases; early warning, risk reduction and management of national and global health risks; mental health and wellbeing programmes; etc.	Social	SDG 3
22.		Education	Teacher training programmes to enhance supply of quality teachers; scholarship programmes for enrolment in higher education, including vocational training and information and communications technology, technical, engineering and scientific programmes, in developed countries and other developing countries; vocational training programmes for persons with disabilities; curriculum development for different learners on sustainable development, sustainable lifestyles, human rights, gender equality, cultural diversity and culture's contribution to sustainable development; etc.	Social	SDG 4
23.		Diversity and Inclusion	Driving inclusive organizational policies in companies towards gender diversity, inclusion of people with disabilities and representation from the LGBTQI+ community	Social, Governance	SDG 5
24.		Corporate Governance	Programmes to train women for corporate boards; training and sensitisation programmes on prevention of sexual harassment at workplace; business ethics programmes; executive excellence programmes on corporate governance	Governance	SDG 5
25.		Gender	Gender Equality, Gender Parity, Gender Diversity	Social, Governance	SDG 5

S.No.		Sector	Sub-sectors / Technologies / Products / Services / Project types	ESG Mapping	SDG Mapping
26.		Safe and Affordable Housing	Housing for lower and middle-income groups, improvement of condition of slums and peri-urban areas (can be clubbed with smart cities program/improvement in civic infrastructure KPIs)	Social, Environment	SDG 11
27.		Digital Access	Providing increased access to information and communications technology and universal and affordable access to the Internet, especially important for banking and IT sectors, with a Privacy and data security component. Also critical for E-Governance, last mile delivery of E-finance, E-health and E-education solutions, financial inclusion, improved compliance and monitoring of programs	Social, Governance	SDG 9

3.3 Wide range of ESG disclosure and rating systems

Inextricably linked to the absence of a taxonomy discussed above is the multitude of global disclosure frameworks (outlined in Chapter 1) and one mandatory Indian one - the recently announced BRSR. These differ in terms of framework, approach, content and details and even though they have overlaps, this can prove quite burdensome for both producers and consumers of these disclosures. Also, many global frameworks are voluntary and audits or assurance are optional. This variability makes it difficult for capital providers to ascertain how a company is performing based on these disclosures.

A further challenge with these disclosure frameworks is that they tend to be generic in nature, cutting across industry sectors, sizes and geographies. Though most of them expect companies to identify material issues and report against them, and bodies such as GRI and SASB have identified material issues by sector, they still tend to be at a high level rather than specific. Further, it must be recognised that large companies not only are likely to have greater ESG impacts, they are also more likely to have the capabilities to prepare more detailed disclosures compared to SMEs.

There are several ESG rating agencies operating in India and their coverage of companies is steadily increasing over the years. While this is good news, what is less so is that ratings of the same company can vary quite significantly from one provider to another. Also, the rating frameworks and weightages are proprietary and so the users have limited visibility on the basis for the ratings and have to go by the reputation of the rating agencies.

3.4 Reconciling fossil fuel usage and ESG

India as a country is heavily dependent on fossil fuels, principally for electricity generation, transportation and heat. While the pathway to eliminating this dependency is getting clearer, it is also apparent that fossil fuels will remain significant for a long time - certainly through this decade - to meet its development goals. Given this reality, it is a challenge to make fossil fuel usage compatible with what is globally considered the ESG paradigm, at least in the short-to-medium term.

There are several and varied reasons why fossil fuels are important for India's development. When it comes to electricity generation, while solar power is making great strides in terms of ambition, capacity and cost, the fact is that India's coal-based capacities cannot be shut down without hurting the financial sector that has funded them. Furthermore, baseload will have to be provided by coal plants for some time to come till solar capacities catch up and the storage problem gets solved. And the fact is that coal provides the states where coal mines are present significant revenues to meet their expenditures. When it comes to transport, while switching to electricity and/or hydrogen would serve India well by reducing its dependence on imported petroleum, it must be remembered that much of state revenue comes from taxes on fuels.

The social impact of transitions to non-fossil fuels - referred to as Just Transition - is an additional challenge that must be kept in mind. Switching out of fuels such as coal and petroleum would impact several million lives and livelihoods directly and indirectly involved in economic activities like coal mining and linked processes and automobile manufacture and maintenance. Without systematic reskilling, workers in these sectors will be out of jobs. A very large proportion of these jobs are in the informal sector, many of them for migrant labour (whose plight was cruelly exposed during COVID) who lack social safety nets. Thus, this transition needs to be carefully planned and a fine balance maintained between the environment and social and human development.

The other crucial aspect to bear in mind for ESG investments in India is what happens in the transition phase when coal will remain predominantly the baseload for electricity generation, and this coal-based generation will need to be supported by clean coal technologies. Greening of fossil fuel-based energy would imply a shift to technologies for controlling emissions, such as flue gas de-sulphurisation (FGD) plants, and supercritical and ultra-supercritical technologies. Supercritical (SC) and ultra-supercritical (USC) power plants require less coal per megawatt-hour, leading to lower emissions (including carbon dioxide and mercury), higher efficiency and lower fuel costs per megawatt. From an environmental standpoint, supporting the shift to such technologies that enhance efficiencies and reduce emissions would make perfect sense. Added to these would be supporting business models and market innovations that lead to greater water use efficiency in thermal power plants through enabling policies that facilitate the creation of markets for use of treated wastewater in thermal power plants. Efficient utilisation of fly ash generated by thermal power plants through markets for alternate use of fly ash in the cement and construction industries would also require sustainable finance. Some investors believe that for existing conventional fossil-fuel based projects, from a decarbonisation and transition financing perspective there could be some financing available for adhering to higher standards as an interim measure within a longer term transition strategy.

Therefore, in the Indian context, the ESG lens for conventional fossil fuel dependent sectors needs to be applied through the prism of greening of these sectors which in turn can unlock finance for ensuring transition to cleaner technologies and circularity of wastes.

3.5 Stewardship

As was mentioned in Chapter 2, various regulators have put out Stewardship Codes for investors they regulate. While these codes cover a whole range of issues relating to their roles, all of them recognise the need for greater involvement and engagement with asset managers and expect greater transparency of stewardship activities.

The compliance levels of these codes are unclear as are the consequences of non-compliance. Also, these codes do not explicitly identify E&S issues, though the SEBI code for mutual funds does speak to various governance issues.

4.0 The Way Forward

This chapter outlines some of the steps that may be taken to improve availability of ESG focused capital in India. These recommendations are based on inputs from the experts interviewed and the experiences of the members of this sub-working group.

4.1 Demonstrating the "Business Case" for ESG including for SMEs

It is very important to demonstrate to companies and investors that ESG improves valuation of companies. While global trends and even Indian stock market trends are helpful, what will probably work best are actual case studies where companies and investors/lenders have both benefited from investments backing ESG performance improvement. FICCI has committed itself to building a body of case studies based on the experiences of its membership and from what is available in the public domain, but it will help if this can be supplemented with other experiences. Care must be taken to ensure that these are rigorously researched and analysed so that they are not seen as anecdotal PR material. Collaboration with well known business management schools will enhance the quality of such case studies. Also, these case studies must be continuously refreshed to ensure new lessons are identified, captured and imbibed.

Apart from making publications like these widely available in the public domain (including in business management schools where budding young managers learn about ESG from real-life examples), industry associations should run regular conferences and seminars aimed at senior management where such real-life examples are discussed and lessons learnt.

Mention was made earlier that SMEs are less aware of ESG and see compliance as a cost. This is especially true in sectors whose markets are domestic. There is therefore a case to have a separate focus on SMEs. Apart from working directly with SMEs through their federations, in clusters and through specialised institutions such as SIDBI, there is a need to work with large companies to strengthen and demonstrate the business case for greater ESG alignment within their supply chains.

Both government and the industry associations are well placed to both develop the business cases and make these widely available. In government, the Ministry of Corporate Affairs must play the lead role as it regulates companies and understands the ESG agenda well. Other ministries that need to be engaged include Finance and MSME. The apex industry associations must also play a role and support MSME federations.

4.2 Developing an Indian ESG Taxonomy

India has to compete with developed, developing as well as frontier markets such as many in Africa where the demand is high for sustainable/ESG finance. Hence, there is a clear and urgent need for India to develop its own ESG Taxonomy. Based on the challenges identified, there are some working principles that may inform the development of such a taxonomy. One, it must cover all aspects of ESG and not be restricted to only a few. Two, while it must take the best from global frameworks already present (like the EU Green Taxonomy), it must consider India's development realities and

context including issues like the use of fossil fuel, Just Transition and human rights in supply chains going beyond child labour to encompass migrant labour. There are several precedents for such adaptive steps to be built into taxonomies, and Annexure 2 outlines such taxonomies in China, Canada and South Africa. Three, it must build on what already exists in India, such as the NGRBCs, while moving from the generic to the sector specific. And four, it must not be a static document but continuously evolve and adapt to changing circumstances and realities.

It is understood that the Ministry of Finance is already working on building this taxonomy and has in place several committees and task forces supporting this effort.

4.3 Need for industry- and size-specific ESG disclosure frameworks

As was mentioned earlier, the current frameworks tend to be generic, which could result in a mismatch in terms of content and detail between what they are required to disclose and what their stakeholders want them to reveal.

The solution clearly lies in developing industry- and size-specific ESG disclosure frameworks. The MCA Committee on BRR recommended two different BRSR formats, a "comprehensive" version for large companies and a "lite" version for small companies, without defining what constitutes large and small. While the Committee did not prepare industry sector-specific formats, it recommended doing this going forward.

Thus, the opportunity to build on both the NGRBC and the BRSR and create sector-specific frameworks is clear. This must be embarked upon sooner than later. In this process, additional disclosure elements may be added, based on how the taxonomy develops. Where biodiversity issues are material, for instance, as in the extractive industry, disclosure frameworks should incorporate related impacts, and the forthcoming TNFD framework and CDP's forest related disclosures will be very relevant.

4.4 Deepening Stewardship action

The fact that ESG awareness and understanding is weak has already been mentioned. One way to accelerate this process is through greater engagement between companies and the financial sector on ESG issues. The emerging Stewardship Codes for certain classes of investors (outlined in Chapter 2) represent a good beginning but indications are that the pace of adoption is slow and compliance levels unclear.

There is a strong case to strengthen stewardship action. These Codes provide an excellent opportunity to cover ESG issues more specifically. This would not only require the Codes to constantly evolve and be aligned with global best practices, it would also require increased knowledge and capacities both amongst investors and providers of stewardship services, where direct engagement with asset managers will be a key requirement.

Reviewing and strengthening the Stewardship Codes are the responsibility of the individual regulators but there is a strong case to harmonise these requirements and so joint reviews by the

concerned regulators can be synergistic. Associations of financial institutions such as the Indian Banks Association and the Association of Mutual Funds of India must also play an active role in contributing ideas to the Codes as well as encouraging compliance amongst their membership.

4.5 Strengthening ESG regulations

The current regulatory regime in India, like in many countries, has been addressing E, S, and G issues as and when they have come up, including through judicial activism. The NVGs (and its reporting format, the BRR) and its successor the NGRBCs (and the BRSR) were the first attempts to address ESG performance in a comprehensive manner. The Companies Act too brought some aspects to the fore, particularly through Sections 135 and 166. In view of the importance of regulations in driving ESG adoption, several regulatory steps may be taken such as:

1. Creating enabling conditions that promote the raising of dedicated bonds - ESG, green, social etc. - in order to reduce the stress on the banking system to fund ESG investments.
2. Deepening and strengthening Stewardship Codes to incorporate ESG considerations.
3. Mandating that the CSR Committee of the board function as a CSR and Sustainability Committee and its role include oversight of a company's ESG strategy, performance and disclosures. Several companies, including in the Tata group, have already done this.
4. Developing a course (including an on-line version) on the basics of ESG and encouraging all directors and KMPs of both investors/lenders and companies to complete this course. Over time, this may be made mandatory and also cover other employees.
5. The 'Principle of Proportionality' needs to be followed for disclosures for different firms (large, medium and small) as the costs of gathering data will be disproportionate for smaller firms.
6. A National Plan on Just Transition with a well-defined objective criterion should be formulated.
7. Appropriate regulatory and incentive structures need to be devised for companies to spend on transition activities.
8. Regulations must reflect our global commitments including the SDGs, the Paris Agreement (through NDCs, as they are progressively revised), the UN Guiding Principles on Business and Human Rights, and other international agreements.

Chapter 4

Green InvITs – An attractive instrument for sustainability linked-investments

1. Renewable Infrastructure Investment Trusts in India

Currently, multiple renewable energy companies are in the process of setting up Infrastructure Investment Trusts ("InVIT") to house their projects, under the SEBI InVIT Regulations. Development of InvITs is very critical to attract the required capital from foreign and domestic investors, to enable growth of the renewable energy sector. However, multiple issues are being faced in access to debt financing by InvITs.

1) **Very high external rating requirements of SBI and other potential public sector banks:**

   Despite InvITs also holding a portfolio of renewable projects and its financing being very similar to any standard project financing, insistence on highest external rating by SBI and other potential public sector lenders as per their internal polices, are severely restricting access to debt financing. InvIT's inherent advantages of pooling of cashflows from multiple projects and its cross-collateralisation structure is already providing significant comfort to lenders. Hence their insistence on the highest external rating also is a significant hurdle.

2) **Allowing FPI & ECB borrowing by InvITs:**

   Recent Union Budget announced amendments to be done in legislations to allow debt financing to InvITs and REITs by Foreign Portfolio Investors (FPIs). Allowing FPI and ECB borrowings by all InVIT categories is critical to attract foreign debt capital to India and to reduce dependence on domestic market.

3) **Providing comfort to lenders with adequate security enforcement options against InvITs:**

   Recent Union Budget announced amendments to be done in legislations for InvITs and REITs to be recognised as "borrowers" under the SARFAESI Act and the borrowings availed by InvITs to be classified as "Debt" under RDB Act. Providing comfort to lenders with adequate security enforcement provisions against InvITs in case of default is critical to enable access to domestic and foreign debt financing by InvITs.

4) **Allowing participation from Provident Funds, Pension Funds, and Insurance Companies:**

   Allowing long term investors such as Pension funds, Provident Funds, and Insurance companies to provide long term debt capital to all InVIT categories (listed/unlisted), requires matching the underlying projects cashflow profiles and minimum rating requirement to be "AA" category or above.

5) **Approvals from procurers for assignment of PPAs:**

PPAs require approvals from procurers for assignment of rights in favour of lenders. Consents are provided by procurers only in favour of lenders of the project; issues are faced with obtaining these consents in favour of lenders to InvITs. Procurers should recognise InVIT structures and provide such consents to boost InVIT debt financing.

6) **Allowing unlisted InvITs to issue listed debt securities:**

Unlisted InvITs are presently not allowed by SEBI to issue listed debt securities, restricting the debt financing ability of unlisted InvITs as compared to listed InvITs. Considering that unlisted companies are allowed to issue listed debt securities, unlisted InvITs should also be allowed. SEBI should enable complete parity between listed and unlisted InvITs, to enable the growth of InvITs.

2. UK-India InvITs' Comparison

Fig. 16 highlights the performance of the small universe of three India 'Public' InvITs – IRB, IndiGrid, and the more recent PowerGrid Invit. As can be seen from the trend, the performance of this small group of stocks has not matched the intent of a steady flow of dividend and asset values.

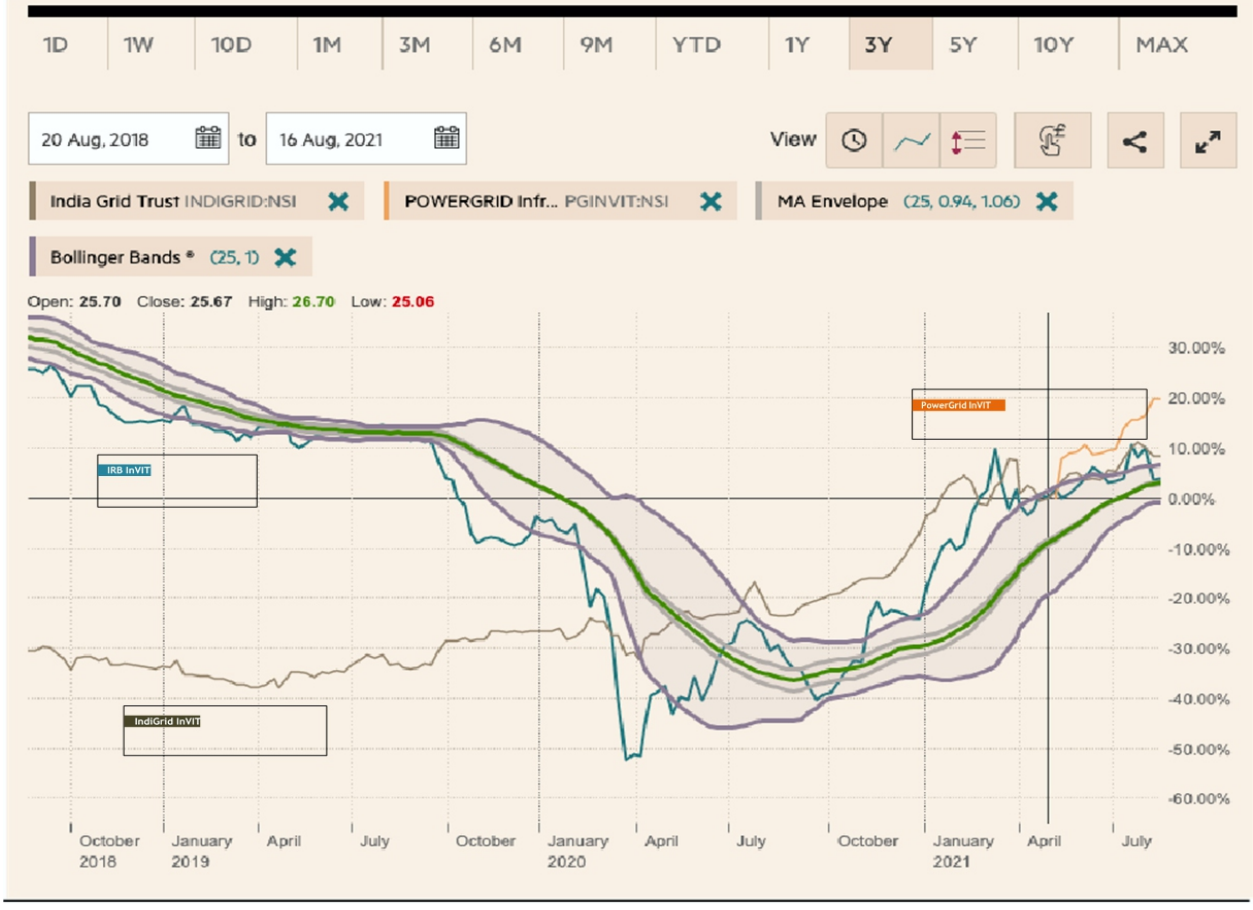


Figure 16: India InvIT performance (3 yrs)

There are a larger number of 'Private' InvITs in India, which are favoured by international institutional investors for the tax and operational efficiency offered by the structure.

In contrast, Fig.17 shows the performance of five UK infrastructure investment trusts. These include: The Renewable Infrastructure Group plc (TRIG), Greencoat UK Wind plc, SDCL Energy Efficiency plc, 3i Infrastructure plc, HSBC Infrastructure Company Ltd, and Gore Street Energy Storage plc. Together, these three account for a market capitalisation of £ 13.5 billion out of a total universe of 15+ listed infrastructure funds with a total market cap of approx. £ 30 billion. As can be seen from the figure below, these stocks have held their value through the COVID crisis, and trade in a stable return band of 15% +- 3.0%.



Figure 17: UK infrastructure investment trust performance (3 yrs)

As shown in the figure below, TRIG's has provided a total return of 40% over the last three years, compared to 25% by the overall market. This is attributable to a steady and consistent focus on low leverage, steady dividend policy and prudent re-investment to replenish declining net-present value of assets.

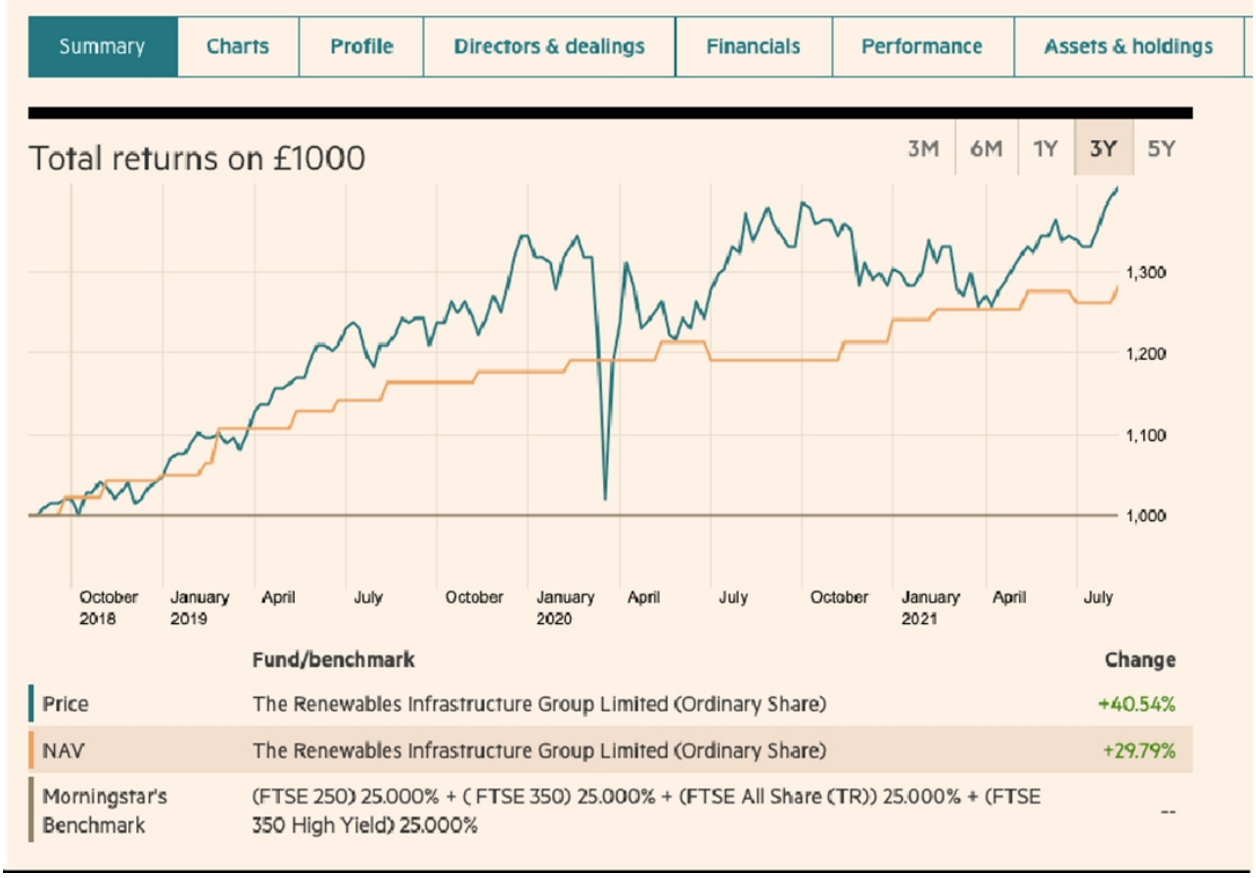


Figure 18: 3 year total return – The Renewable Infrastructure Group Limited (TRIG)

Conclusion

India has improved its ranking in the World Bank Ease of Doing Business rankings – moving from 142 in 2014 to 63 in 2019. India is ranked 68 out of 141 countries in the World Economic Forum's Global Competitiveness rankings, performing strongly on macroeconomic stability, renewable energy regulation and market size.

India has a robust regulatory environment for utility-scale renewable energy, and more interventions can be done to address emerging challenges in the sector. India has got many aspects of its renewable energy policy right. Ambitious targets for 2022 and 2030 coupled with a well-run, transparent, and repeat auction process; and 25-year power purchase agreements have provided investors with long-term clarity. Moreover, India offers a scale unmatched by any other country except for perhaps China. However, the Government needs to do more to address recent challenges that are affecting investor sentiment. These include the cancellation of auctions once the bidding process has been completed, the threat of renegotiation of PPA contracts, and late payments to project developers.

The Government is moving in the right direction with regards to strengthening the enabling environment for climate-related investments. The GOI has begun the process for developing a green taxonomy. SEBI has made it compulsory for the top 1,000 companies in India to disclose information on climate and social issues from 2022/23 through Business Reporting and Sustainability Reports. The updated disclosure requirements could bring greater transparency and allow ESG investors to identify and assess investment opportunities across time periods and sectors.

There is a need for long-term strategy both at a macro and micro level. At a micro level, the Government should translate these into sectoral transition pathways that highlight the interlinkages between sectors. The India-UK Sustainable Finance Working Group recognise that these areas are likely to be addressed in the run-up to COP26 and look forward to engaging with the Government as part of its collaborative process.

Improving the ease of doing business in the country will bolster investor confidence and close the gap with top performing emerging economies. It is worth noting that India's performance has improved significantly over the last few years, as demonstrated by the World Bank rankings. However, there is more India can do to ease the administrative burden associated with investing in the country, to help close the gap with top performing emerging economies. The big challenges include land acquisition, the need to liaise with multiple agencies to secure the relevant approvals and permits, and the broader regulatory environment that cover the structuring of cross-border investment deals. Improving the operating environment and reducing bureaucracy can help India close the gap with better performing emerging economies. In addition, there is scope for India to

learn lessons from other countries to create a 'one-stop-shop' that breaks down silos between ministries; agencies; and centre, state, and local governments to expand both global and domestic investment (e.g., BKPM in Indonesia; the PPP Centre in Philippines; the Office for Investment in the UK).

Creating enabling conditions that promote the raising of bonds (ESG, green, social etc.) would reduce the stress on the banking system to fund ESG investments. There is a need to deepen and strengthen stewardship codes, build capacity and awareness amongst companies on ESG at the highest levels of management while ensuring an equitable strategy for different sizes of companies is followed on ESG-related disclosures. A well-formulated National Plan on Just Transition will ensure that the impacts on the vulnerable sections of society are analysed and remain as minimum as possible as India transitions to a cleaner economy. India would need to attract vast amounts of capital from investors, Global and Indian, and hence development of innovative financial structures such as green InvITs and timely regulatory interventions to keep the financing costs low for sustainable projects will be key to ensure this transition.

Annex 1

Evolution of fossil fuel ESG Taxonomy in other jurisdictions

China issued two official guidelines in 2015, Green Bond Endorsed Project Catalogue and the National Development & Reform Commission's (NDRC) Green Industry Guiding Catalogue, that provide comprehensive lists of projects eligible to be listed as green bonds and green industries. The NDRC Green Industry Guiding Catalogue (the Industry Catalogue) is established based on China's ecological civilisation plan. It aims to define the green industries, guide the policymakers and direct the investments in order to promote the development of green industries. The Industry Catalogue has a focus on pollution prevention and control without describing its background details and policy basis. The PBC Green Bond Endorsed Project Catalogue (the Project Catalogue) is set up for the green bond market with specific purposes, i.e., defining green bonds, reducing the financing for non-green projects in the guise of green bonds, improving reputation of green bonds and regulating the development of the green bond market to provide capital to corporates, assets and projects with genuine environmental benefits.

These taxonomies are adapted for national objectives and included fossil fuel-based projects. However, in 2020, it was announced that clean coal was proposed to be excluded from the list of projects eligible for green bond financing, according to a proposal released by the People's Bank of China. This was done so as to keep the guidelines in line with international investor expectations. As the explanatory notes to the PBOC-NDRC proposal point out, fossil fuel exclusion will bring Chinese green bonds in line with international standards and "increase China's voice in international green bond standards."

However, countries like Canada and South Africa have emphasised the importance of transitioning to a low carbon economy as their goal. The Standards Council of Canada (CSA Group) announced in 2019 the development of a green taxonomy that will "build on existing global frameworks", however with a focus on recognizing "Canadian natural-resource sectors as being Green or In Transition". In February 2020, CSA Group announced a process to develop a "Transition Finance Taxonomy" as part of a National Standard of Canada for Transition Finance. Public reports have indicated the desire to strongly consider transition for the national resource-base, and thereby the distinction from the EU Taxonomy.

Their Technical Committee strives to define transition in a way that recognizes natural resources sectors, focuses on GHG emissions reduction and the need for transition finance to support the achievement of net zero GHG emissions by 2050. Canada's natural resources sectors have already taken steps to reduce emissions and plan for the needed shift to greener methods. The mobilisation of additional capital through specialised financial instruments such as transition-based bonds and transition-linked loans will enable that work to continue. Similarly, South Africa is also considering transition as an important element of its development and decarbonization goals.

It may be noted from the above examples that taxonomies have to reflect the current state of the country as opposed to having an ambitious baseline like the EU taxonomy right from the start. In this regard, as the country evolves to become more and more green, it should ideally update it taxonomy to reflect the change. This is demonstrated by the fact that while China was initially heavily dependent on coal and included clean coal in its classification system, it removed it from its latest version to reflect its transition to renewable energy. On the contrary, countries like Canada and South Africa, who are still in early stages of taxonomy development but still wanting to transition to a low carbon economy, are working on a system that is inclusive of certain resource heavy sectors/activities with a goal to eventually phase them out. However, not much granular information is available on these two countries in the public domain to assess the 'green-ness' of their taxonomy. In conclusion while India could include clean coal technologies (as a transition activity) in its current taxonomy edition to support its economic growth (thereby discouraging more polluting variations of coal production/electricity generation), it must look towards phasing out coal and other fossil fuels altogether in the future while parallelly strengthening financing towards renewable energy.

Annex 2

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Acronyms

AMC	Asset Management Company
BKPM	Badan Koordinasi Penanaman Modal
BofA	Bank of America
BPCL	Bharat Petroleum Corporation Limited
BRR	Business Responsibility Report
BRSR	Business Reporting and Sustainability Report
BSE	Bombay Stock Exchange
CBI	Climate Bonds Initiative
CDP	Climate Disclosures Project
COP	Conference of the Parties
CPCB	Central Pollution Control Board
DPIIT	Department for Promotion of Industry and Internal Trade
ECB	External Commercial Borrowing
EoDB	Ease of Doing Business
EPFR	Emerging Portfolio Fund Research
ESG	Environmental, Social & Governance
EU	European Union
EUR	Euro
GDP	Gross Domestic Product
GNPA	Gross Non-performing Asset
GOI	Government of India
GRI	Global Reporting Initiative
GW	Gigawatt
HPCL	Hindustan Petroleum Corporation Limited
IBA	Indian Banks Association
IBC	The Insolvency and Bankruptcy Code, 2016
IEA	International Energy Agency
IEEFA	Institute for Energy Economics and Financial Analysis

ILIMS	Integrated Land Information Management System
INR	Indian Rupee
IRDAI	Insurance Regulatory & Development Authority of India
IRENA	International Renewable Energy Agency
IUKSFWG	India-UK Sustainable Finance Working Group
kWh	Kilowatt hours
MNRE	Ministry of New and Renewable Energy
MoEFCC	Ministry of Environment, Forests and Climate Change
NBFC	Non-Banking Financial Company
NGRBC	National Guidelines on Responsible Business Conduct
NGT	National Green Tribunal
NHB	National Housing Bank
NVG	National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business
PE	Private Equity
PFRDA	Pension Fund Regulatory and Development Authority
PPA	Power Purchase Agreement
PRI	Principles of Responsible Investment
RBI	Reserve Bank of India
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goal
SEBI	Securities and Exchange Board of India
SECI	Solar Energy Corporation of India
SFF	Sustainable Finance Forum
SFTF	Sustainable Finance Task Force
SME	Small and Medium Enterprises
SPCB	State Pollution Control Board
SSE	Sustainable Stock Exchanges
TCFD	Task Force on Climate-related Financial Disclosures
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNGP	United Nations Guiding Principles on Business & Human Rights
USD	United States Dollar
WEF	World Economic Forum

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- Contribute to a flourishing society
- Support a thriving economy
- Shape outstanding environments

By strengthening the connections, capacity and character of the City, London, and the UK for the benefit of people who live, work and visit here. Our reach extends far beyond the Square Mile's boundaries and across private, public and voluntary sector responsibilities. This, along with our independent and non-party political voice and convening power, enables us to promote the interests of people and organisations across London and the UK and play a valued role on the world stage.

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