Sustainable Investing in India - Challenges and Opportunities

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Abstract
Recent years have seen an unparalleled increase in the worldwide conversation surrounding sustainable development, which has prompted governments and businesses to review their plans and methods in light of the most pressing environmental, social, and governance (ESG) issues. India, a key participant in the global economy, is at a crossroads on whether to embrace sustainability as both a moral requirement and a tactical opportunity. India's path to sustainable development is distinguished by a special mix of opportunities and difficulties. On the one hand, the nation's diverse population, entrepreneurial spirit, and growing interest in innovation offer a fertile environment for sustainable ventures to establish themselves and thrive. The nation has significant challenges such as resource scarcity, infrastructure inadequacies, and complicated regulatory environments that may make it difficult to seamlessly incorporate sustainability ideas into its economic structure. Sustainable investing ensures that business is gauged for their contributions to society along with their financial returns. As far a an investor is concerned its critical for them to evaluate various aspects like social , political and environmental factors .This paper looks into the existing state, difficulties, possibilities, and prospective effects of India's developing sustainability investment landscape.

Keywords: Sustainable investments, ESG,Green Finace, CSR

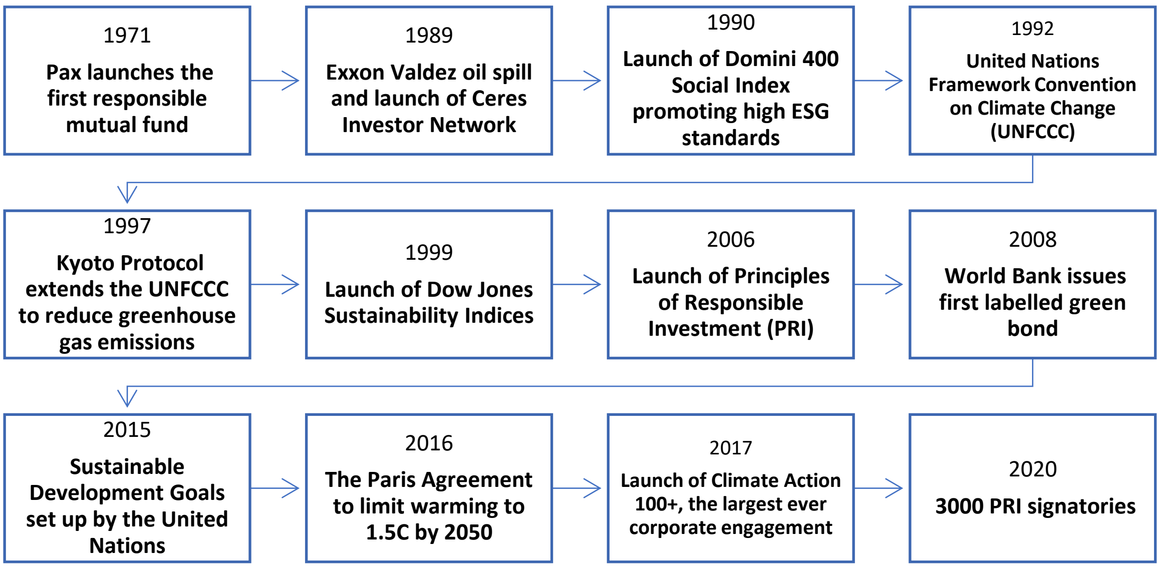
INTRODUCTION

Over the past few decades, mounting worries about environmental degradation, social injustice, and corporate governance problems have given rise to the idea of sustainability investments. Investors and companies are becoming more aware of how a focus on sustainable practises may result in the production of long-term value, a reduction in risks, and an improvement in reputation.

(Stobierski, 2021)Sustainable investing denotes to a variety of practices under which an investors intends to gain financial returns by endorsing long-term environmental or social value. By integrating environmental, social, and corporate governance (ESG) ideas with conventional investment methodologies, investors are able to provide more thorough evaluations and make better investment decisions. With sustainable investing, businesses are assessed on its overall contributions to humanity afore just its immediate monetary success. Investors need to carefully assess the potential effects of their decisions on the social, political, and environmental spheres.

(Damodaran, 2022)According to a survey by Benori Knowledge, Indian PE and VC firms expect their investments in sustainable projects to reach $125 billion by 2026. Government legislation, consumer demand for socially responsible brand conduct, and the explosive rise of cleantech and green initiatives are the main drivers of this growth.

MILES STONES OF SUSTAINABLE INVESTMENT INITIATIVES



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ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) FRAMEWORK

The insights from latest Schroders' 2023 report shows that there is a significant shift towards the sustainable investing as world transferences to Deglobulisation and decarbonisation. How an investor perceive and apply sustainability in investing differs and concept is still evolving. Though Climate change and carbon foot prints remain forefront in the investors thought process, sustainability has got wider spectrum. ESG is a novel approach for sustainability which gained popularity in recent. It's a structure used to evaluate an organization's business practices on numerous sustainability issues

The emergence of ESG rules has resulted in the creation of a legislative framework that lays out standards for firms to adhere to when it comes to ESG reporting and disclosure. By establishing a framework for ESG reporting, investors will find it simpler to compare the ESG performance of various businesses. The adoption of ESG disclosures to force businesses to go beyond conventional finance-centric models is one step towards attaining these goals. An organization's business practises and risk management in relation to environmental, social, and governance criteria are evaluated using the ESG framework's policies are gaining ground in India as a result of increased investor awareness of ESG potential and risks, a focus on business sustainability, and governmental pressure to adopt responsible investment practises.

(Kwatra, 2023) studied that guideline note realised by SEBI in 2012 advised companied listed in Stock exchanges to disclose EG performance in annual report .Disclosure on usage of water , consumption of energy , and greenhouse gas emissions, were additional to this note in coming year. SEBI made a significant contribution to the promotion of ESG investment in India in 2020 by insisting companies to voluntarily making ESG disclosure. SEBI has gone to further step by making ESG disclosures mandatory from FY 2022-23 as part of its Business Responsibility and Sustainability Reporting (BRSR) effort.

ESG investing has grown in popularity in India and the banking industry is likewise evolving in the direction of creating an ESG framework when conducting a credit valuation and incorporating climate risk into its risk assessment method. The RBI issued a circular in 2020 mandating that banks disclose their ESG-related data, including their approaches to managing climate risk, sustainable finance, and social responsibility, in their annual reports. Banks were also expected to report on how they have funded social and environmental programmes under the circular.

Investors are looking for opportunities where their money can support larger societal and environmental objectives in addition to financial benefits. This is in line with a trend towards more ethical capitalism, in which achieving financial success is not sacrificed for moral and environmental goals.ESG investing offers patrons a optimal opportunity to increase their wealth by actively involved in the movement towards sustainable practices.

APPROACHES TO SUSTAINABLE INVESTING

In recent times, there has been an increase in the popularity of sustainable investing in India as more investors seek to match their investments with their ideals. In response, asset managers have introduced several sustainable investment options.

(majorsustainability, n.d.) A wide range of methods in the field of sustainable investing, suggesting a change in investment tactics to take environmental, social, and governance (ESG) aspects into account. (Ezeokoli, 2017)The report bring following approaches in sustainable investing. It includes Negative screening, positive screening, ESG integration, impact investing.

1. ESG Integration

This entails adding ESG components to conventional financial analysis. Along with its financial metrics, investors analyse a company's performance based on its ESG practises. Stocks, bonds, and funds are just a few of the asset classes that might benefit from ESG inclusion. The incorporation of ESG opportunities and hazards into conventional financial analysis and investment choices. ESG data and analysis are a crucial aspect of the due diligence process even though ESG outcomes are not what decide outcomes

2. Impact Investing

The express goal of impact investing is to bring about quantifiable social or environmental effect along with financial rewards. These expenditures frequently go towards initiatives or endeavours that specifically address problems, including the lack of affordable housing or access to clean water.

This method of sustainable finance is motivated by the creation of favourable social and environmental results. While financial returns are essential, there is more tolerance for returns that are lower market value as much as the preferred impact is judged to have been achieved.

3. Negative screening

Negative screening entails avoiding investments in businesses or sectors that are deemed detrimental to society or the environment. Tobacco, firearms, fossil fuels, and certain human rights violators are examples of frequent exclusions.Investment decisions are based on the investor's desire to avoid certain undesired social and/or environmental effects. Product categories (such as tobacco, firearms), actions (such as animal testing), or behaviours (such as corruption, labour rights violations) can all be used as exclusion criteria.

4. Positive screening

Actively choosing investments based on their favourable ESG characteristics is known as positive screening. Investors look for businesses that meet particular ESG standards, such using renewable energy, promoting gender diversity, or using sustainable supply chains. This approach chooses investments centred on what an investor prefer or want to as opposed to making decisions based on what and investor dis approve or do not want (negative screening). Investments are chosen in comparison to industry peers based on priority ESG variables and desired social and/or environmental results.

5. Thematic and Index Based

The focus of thematic investing is on particular sustainability issues or topics. Investors provide money to industries that are tackling problems like renewable energy, water scarcity, innovative healthcare, or education.Building an investment portfolio around a particular impact theme (such as gender equity or clean water) or a recognised index, like MSCI or the Dow Jones Sustainability Index, which ranks and rates businesses based on their environmental and social responsibility

SUSTAINABILITY INVESTING IN INDIA

India’s sustainable investment market is growing and is one-third that of the world markets. .According to a global research by the Standard Chartered Bank, In India more people are altering their investment tactics too their wealth in the face of growing inflation, concerns about a recession, and uncertainty regarding the state of the world economy. Another study Narula (2012), foreign direct investment (FDI) that adheres to the principles of sustainable investing (SI) can support sustainable development. The concept of green finance and its ability to counteract ecological depreciation in Indian companies are discussed by Soundarrajan (2016). In his exploration of the link between sustainability initiatives and financial performance in India's manufacturing and service sectors, Khan (2022) concludes that financial performance in both industries is significantly improved by investing in sustainability measures, with the service sector experiencing a greater benefit. The studies demonstrate the value of green finance and sustainable investing in fostering India's sustainable economic growth. They also offer proof of the beneficial effects of sustainability programmes on financial performance across a range of industries.

(Outlookmoney, 2021) Studied that more than fifty percentage global investors are expected to increase their investment in current financial year. In India it’s going beyond sixty percentage.

(suman, 2022)As more investors want to match their investments with their principles, sustainable investing has become more popular in India in recent years. In response, asset managers have introduced a range of sustainable investment products.

In India, there were more than 50 sustainable mutual funds and ETFs as of June 2019. While a few funds invest in international businesses with a favourable ESG profile, the majority of sustainable funds in India concentrate on domestic businesses. The most common sustainable fund type, in terms of asset class, is an equity fund, followed by a debt fund. SBI Magnum Equity ESG is the oldest fund in India . Aditya Birla Sun Life ESG Fund also tops the market. Asset value of ESG funds stands around 124 billion Indian rupee in the end of FY2022.Globlly

(suman, 2022)Between 2016 and 2018, India's sustainable investment market grew by 34% to $11.6 billion, according to a study by the Global Sustainable Investment Alliance.This growth is driven by various factors. A number of variables, such as increased environmental sustainability and climate change awareness, the significance of the UN Sustainable Development Goals, and an overall rise in interest in responsible investing are all contributing to this expansion. Initiatives from the government is the nex driving force. The Indian government has prioritized sustainability, with Prime Minister promising that country will reach its climate targets set forth in the Paris Agreement and establishing the International Solar Alliance, a grouping of more than 120 nations dedicated to expanding the use of solar energy. Companies are also contributing to the initiatives in business. The Aditya Birla Group, which has promised to become carbon neutral by 2040, and Hindustan Unilever, which has committed to procuring all of its agricultural raw materials responsibly by 2020, are two significant Indian firms that have made promises to sustainable practises.

(C. Spulbar, 2019)observes the profitability of momentum methods on the Bombay Stock Exchange (BSE) in, which it emphasises the significance of a sustainable market orientation for future developments.

In the context of foreign direct investment (FDI), Narula (2012) addresses the fundamentals of sustainable investing (SI) and highlights the necessity of integrating ESG concerns with a view to achieve sustainable growth. The concept of green finance is examined in Soundarrajan 2016 along with its ability to counteract ecological depreciation in Indian industries. Aggarwal (2013) looks into how listed Indian companies' financial success is affected by their sustainability performance. It finds that there are different correlations between different aspects of sustainability and financial performance.

DRIVING FORCE TO SUSTAINABLE INVESTING IN INDIA.

India has made great strides in implementing ESG in recent years. The country has launched several initiatives and regulations to promote sustainability and moral business conduct.There are many factors which influence sustainable investing however following are a few key forces behind the sustainable investing in India.

Demand for socially responsible brand behaviour among consumers one of the main factors influencing sustainable investing in India. (Chaudhary, 2020)Observed that there is a significant impact of purchase objective, intended loyalty, and customers' trust developed by socially responsible firms on the buying behaviour. The study projects that customers value corporate social responsibility (CSR) just as much as price, therefore businesses should emphasise this aspect of their operations to attract and retain a large consumer base.

Another element supporting sustainable investment in India is the creation of new financial instruments and the sponsorship of clean technology initiatives.India's cleantech and green initiative market has experienced massive growth. Various instruments like green bonds, social bond ,carbon credit , and financial institutions such as green banks and green funds climate-resilient infrastructure are few initiatives . (Rathore, 2023)In terms of the amount of green bonds issued, India stands in second position in emergent market for green bonds, the first being China. .(pib.gov.in, 2022)The percentage of renewable energy in India's power generation is rapidly growing in accord with the country's SDG. Currently, country generates approximately forty percentage of its installed electrical capacity from non-fossil fuel sources. As a result, the nation now ranks third globally in terms of renewable energy generators. India has taken several initiatives to promote sustainable development through policies and regulations across various sectors. With the population of 1.4 billon the country has high demand for energy which accelerate the economic growth. (htt)India recorded the greatest annual growth rate of 9.83% in the addition of renewable energy in 2022. The installed solar energy capacity reached 70.10 GW as of July 2023, having increased by 30 times during the preceding 9 years. Since 2014, the installed capacity of renewable energy, especially large hydro, has expanded by over 128%.Through certifications like LEED (Leadership in Energy and Environmental Design), the Indian Green construction Council (IGBC), and other organisations India promote green construction practices.

((PIB), 2023)According to information provided by the Minister for New and Renewable Energy and Power, India's installed renewable energy capacity expanded by approximately 1.48 times, from 115.94 GW in March 2018 to 172.00 GW in March 2023.
(HUSSAIN, 2023)Nirmala Sitharaman, the Union Minister for Finance and Corporate Affairs, revealed the government of India's intention to issue sovereign green bonds to raise funds for green infrastructure on February 1st, 2022. The funds raised will be used to fund government initiatives that lower the economy's carbon intensity. The first tranche of India's first sovereign green bond, worth INR 80 billion ($980 million), was issued on January 25, 2023.
A further significant factor influencing sustainable investing is government policies and initiatives.India's green finance industry is in its infancy, the country's presidency of the G20 in 2023 will serve as a clear indication of its commitment to sustainability through the use of the motto "One Earth, One Family, One Future." It is in harmony with the nation's pledges to attain net zero emissions by 2070 made at the UN Climate Change Conference in Glasgow (COP26). To accomplish these goals, nevertheless, a sizable input of capital and a legal framework are necessary. India's announcement that it intends to supply half of its electricity needs from renewable energy sources by 2030. (PIB, 2021)It strives to raise awareness of the threat posed by climate change and the methods to counter it among representatives of the public, various government agencies, scientists, industry, and communities. (India, 2021) Policy maker also made it mandatory for the certain business to set aside a percentage of their revenues for CSR initiatives, which may include sustainable development initiatives. The Government of India disclosed its National Action Plan on Climate Change in 2008, outlining eight national missions with the objectives of lowering economic emissions, enhancing energy effectiveness, boosting forest cover, and creating sustainable ecosystems. By financing expenditures for renewable energy and the electrification of transport networks, India's sovereign green bonds demonstrate the country's commitment to increasing renewable energy output and lowering its carbon intensity. Given that they accounted for over 41% of India's GHG emissions in 2019 and are projected to account for two-thirds of emissions by 2050 as the economy expands, investments in these sectors are particularly crucial.With the initiatives from the government country can anticipate greater investments in green and climate-friendly projects which will help India make the transition to a green, resilient, and inclusive development.

CHALLENGES IN SUSTAINABLE INVESTMENT IN INDIA

Focusing on sustainability will yield substantial rewards, and now is indisputably the ideal moment to apply this investing philosophy. Investors can designate their target areas and product preferences in order to participate in this journey. However there are challenges ahead .There is no assurance that sustainable investments will provide profits comparable to those that do not take these variables into account. Investments in sustainable assets may deviate from conventional market standards. The lack of consistent and trustworthy ESG data is one of the major obstacles to making ESG investments in India. Since many businesses withhold detailed ESG data, it can be difficult for investors to evaluate their sustainability performance. There are discrepancies in ESG reporting metrics and standards, which make comparisons and analysis challenging.
Another challenge with ESG practises and concepts is a lack of knowledge and comprehension. Many investors, particularly common people, may not be familiar with ESG investing or its advantages. To get more investors on board, it's critical to educate them on the value of taking ESG aspects into account and how they may impact long-term profits.

Although there is a growing demand for ESG investing, there are currently not many ESG-focused investment options available in India. To accommodate varying investor preferences, a wider array of investment options is necessary, such as exchange-traded funds (ETFs), ESG funds, and other sustainable investment vehicles.

Green washing is another issue faced by the business. t involves the act of misrepresenting customers about a company's environmental policies or the advantages a good or service has for the environment.. (Agarwal, 2011) Examined the green marketing strategies used by a chosen group of businesses in the automotive, electronics, food and beverage, and personal care sectors by examining their ads, websites, and sustainability reports. According to the report, green washing is practised by even businesses with good overall CSR scores. Businesses are abusing the green marketing technique to create a misleading impression of their green brand in the eyes of investors and customers.

Investors believe that including ESG considerations could result in less money made. However, studies indicate that businesses who thrive in ESG areas can maintain their competitiveness and long-term financial success. It is imperative to dispel this misconception and show the possibility of both monetary gain and beneficial effects.

THE WAY FORWARD

Due to lack of prevailing infrastructure, the models of profitability and ESG don't always match. In spite of these hindrances, the prospect of sustainable investing in India seems promising.

Companies and investors should focus on incorporating environmental, social, and governance (ESG) factors into their investment decision-making procedures. Over time, sustainable investment will help them become more robust, lower risks, and take advantage of opportunities. It will also help them build their brand and draw in additional investors.

Having a structured framework or developing a feasible model will help various stakeholders in adopting sustainability in investment practices. The model can be inclusive of various aspects of sustainability . (Stephenson, 2021) A study conducted by CII on sustainable investing proposes a five-dimensional model for sustainable investing. It includes Policy, Finance, Promotion, Facilitation, and Impact. The model can encourage investment in technology for health and safety, with a focus on specific industries. Accountability is another aspect that needs attention in implementation. The use of clusters to dispense investment practices will support sustainable investing. Embracing technology and digital solutions will streamline administrative procedures. It's equally important to incentivize the sustainable initiatives of stakeholders.

CONCLUSION

To sum up, the diverse methods of ESG investing in India possess the capability to function as a catalyst for constructive transformation. These initiatives provide a viable means of bringing financial interests into line with wider societal and environmental aims by incorporating environmental, social, and governance issues into investment decisions. The growing need for these kinds of ESG investments and the growing awareness of their advantages are guiding us towards progress despite enduring obstacles like data restrictions and changing rules. With the wide range of sustainable investment options available by investors may make informed decisions and contribute to the creation of a more sustainable future.

India has set ambitious targets to reduce greenhouse gas emissions and boost the capacity of green energy, demonstrating its commitment to sustainable development. With so many natural resources at its disposal, including the potential for solar, wind, and hydropower energy, India has a special chance to set the standard for renewable energy generation and develop a green economy. India's policies and actions show the country's steadfast commitment to decarbonization and green energy encouragement. The need for green energy solutions in India is booming, as evidenced by the recent spike in renewable energy investment, which increased by an astounding 125% from the previous year. India's ultimate goal is to become energy independent by 2047 through clean technologies, with a focus on sustainability and inclusivity.

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