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A STUDY ON CHALLENGES AND OPPORTUNITIES FOR SUSTAINABLE INVESTMENTS IN INDIA

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ABSTRACT

The global discourse on sustainable development has surged in the past several years, prompting governments and corporations to reevaluate their strategies and plans in the context of the most pressing environmental, social, and governance (ESG) concerns. India, a significant player in the world economy, must decide whether to embrace sustainability as a strategic advantage or as a moral obligation. India's journey towards sustainable development is characterized by a unique combination of challenges and opportunities. The country's population diversity, entrepreneurial spirit, and growing interest in innovation, on the one hand, provide a conducive atmosphere for sustainable companies to take root and expand. The country faces many obstacles, including a lack of resources, inadequate infrastructure, and complex legal frameworks, which could make it challenging to successfully integrate sustainable concepts into its economic framework. Sustainable investing makes sure that companies are evaluated not just on their financial performance but also on their social benefits. It is crucial for investors to consider a variety of concerns, including social, political, and environmental ones. This study examines the current situation, challenges, opportunities, and potential outcomes of India's evolving sustainable investment environment.

Keywords: *Sustainable investments, Green Finance, Opportunities, CSR, India.*

Introduction

Sustainability investments emerged in response to growing concerns over social inequality, environmental degradation, and corporate governance issues in the last few decades. Companies and investors are growing increasingly conscious of how prioritizing sustainable practices may generate long-term value, lower risks, and enhance a company's reputation.

(Stobierski, 2021) The term "sustainable investing" refers to a range of strategies used by investors who hope to make money by supporting long-term social or environmental benefits. Investors can provide more comprehensive evaluations and make better investment decisions by combining environmental, social, and corporate governance (ESG) concepts with traditional investment approaches. Businesses that engage in sustainable investing are evaluated on their broader contributions to mankind in addition to their short-term financial performance.

Investors need to carefully assess the potential effects of their decisions on the social, political, and environmental spheres.

(Damodaran, 2022) According to a survey conducted by Benori Knowledge, Indian PE and VC firms expect the company’s 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 the growth.

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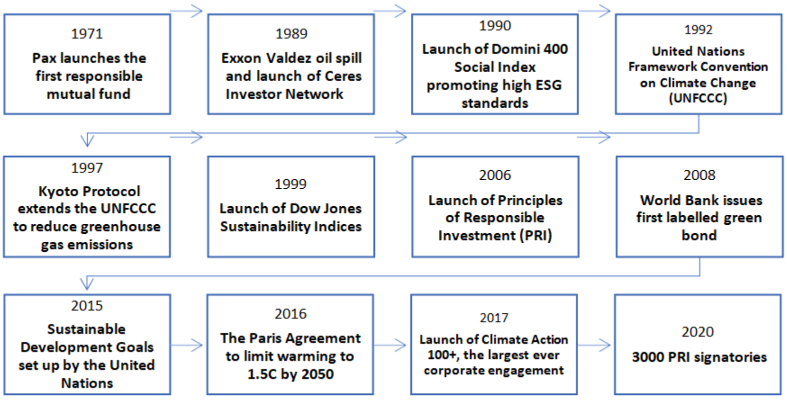
MILES STONES OF SUSTAINABLE INVESTMENT INITIATIVES



Prepared by Author, Source : https://www.mackenzieinvestments.com/

Environmental, Social, and Governance (ESG) Framework

As the globe moves toward deglobalization and decarbonization, there is a noticeable movement toward sustainable investing, according to the findings from Schroders' most recent 2023 research. There are differences in how investors see and use sustainability in their investments, and the idea is always changing. Although investors continue to prioritize climate change and carbon footprints, sustainability has a broader scope. ESG is a fresh approach to sustainability that has been more and more well-liked recently. It's a framework for assessing how a company conducts business concerning several sustainability challenges.

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 practices and risk management concerning 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 practices.

(Kwatra, 2023) examined the 2012 SEBI guidance note that recommended companies listed on stock markets to reveal EG performance in their annual reports. In the upcoming year, there will be more disclosures about greenhouse gas emissions, energy use, and water usage. In 2020, SEBI played a pivotal role in advancing ESG investment in India by requiring corporations to voluntarily disclose ESG information. As part of its Business Responsibility and Sustainability Reporting (BRSR) initiative, SEBI has taken a further step by requiring ESG disclosures starting in FY 2022–2023.

The banking sector is also changing in the direction of developing an ESG framework when doing a credit valuation and integrating climate risk into its risk assessment process. ESG investment has become more and more popular in India. In 2020, the RBI published a circular requiring banks to include information on their ESG practices, such as how they manage climate risk, sustainable financing, and social responsibility, in their annual reports. Under the circular, banks were also required to report on the social and environmental programs they had financed.

In addition to financial gains, investors seek out situations where their capital can contribute to greater societal and environmental goals. This is consistent with a trend toward more moral capitalism, where moral and environmental objectives are prioritized over financial success. ESG investment provides investors with the best chance to grow their wealth by taking an active role in the shift toward sustainable practices.

Perspectives to Sustainable Investments

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

(major sustainability, n.d.) A wide range of methods are there in the field of sustainable investments, which suggests a change in the investment tactics that take into account various environmental, social, and governance (ESG) aspects.

(Ezeokoli, 2017). According to the study, the report brings the following advances towards sustainable investing. This includes Negative screening, positive screening, impact investing and ESG integration.

- **ESG Integration**

This means including ESG factors into traditional financial analysis. Investors evaluate a company's performance based on its ESG practices in addition to its financial indicators. A few asset classes that might profit from ESG inclusion are stocks, bonds, and funds. the application of ESG risks and opportunities to traditional financial analysis and investment decisions. Even though ESG results do not determine outcomes, ESG data and analysis are an essential part of the due diligence process.

- **Impact Investing**

Impact investing's primary objective is to provide both financial returns and measurable social or environmental benefits. These expenses are usually allocated to programs or projects that target certain issues, such as the scarcity of affordable housing or clean water.

The production of positive social and environmental outcomes is the driving force behind this sustainable finance approach. Even while monetary returns are crucial, there is greater room for returns with lesser market value as long as the desired effect is judged to have been realized.

- **Negative Screening**

Avoiding investments in companies or industries that are thought to be harmful to the environment or society is known as negative screening. Common exclusions include fossil fuels, tobacco, guns, and some human rights abusers. The goal of the investor to prevent specific undesirable social and/or environmental repercussions informs their investment selections. Exclusion criteria can include product categories (like tobacco, guns), activities (like animal testing), or behaviors (like corruption, violating labor laws).

- **Positive Screening**

Positive screening is the process of actively selecting investments based on favorable ESG features. Investors seek out companies according to specific ESG criteria, such as employing sustainable supply chains, encouraging gender diversity, or utilizing renewable energy. This method selects investments focused on what investors desire or wish to accomplish rather than making choices based on what they disapprove of or find objectionable (negative screening). Based on the anticipated social and/or environmental outcomes and priority ESG indicators, investments are selected in relation to industry peers.

- **Thematic and Index Based**

Thematic investment focuses on specific sustainability problems or subjects. Investors fund businesses that are addressing issues such as water scarcity, renewable energy, innovative healthcare, and education. It also includes assembling an investment portfolio around a recognized index, such as the Dow Jones Sustainability Index or MSCI, which evaluates companies according to their social and environmental responsibility, or a specific impact topic, such as gender equity or clean water.

Sustainability Investing in India

India's market for sustainable investments is growing, accounting for one-third of global markets at the moment. According to a global study by Standard Chartered Bank, more Indians are modifying their wealth management plans in reaction to growing costs, recession worries, and uncertainty surrounding the world economy. A different study by Narula (2012) states that foreign direct investment (FDI) that adheres to sustainable investing (SI) principles can support sustainable development. The concept of green finance and its ability to counteract ecological degradation in Indian companies is covered by Soundarrajan (2016).

After examining the relationship between sustainability initiatives and financial performance in India's manufacturing and service sectors, Khan (2022) comes to the conclusion that investing in sustainability measures significantly improves financial performance in both industries, with the service sector benefiting more than the manufacturing sector. The findings show how important sustainable investing and green financing are to supporting India's long-term economic prosperity. Additionally, they provide evidence of the positive impacts of sustainability initiatives on financial results in many businesses. (Marketwatch, 2021) Research indicates that over 50% of investors worldwide anticipate raising their capital during the current fiscal year. It surpasses sixty percent in India.

(Suman, 2022) In recent times, sustainable investing has gained popularity in India as an increasing number of investors aim to align their investments with their values. Asset managers have responded by launching a variety of sustainable investment products.

As of June 2019, there were over 50 sustainable ETFs and mutual funds available in India. Most sustainable funds in India focus on domestic companies, however a small number of funds also invest in foreign companies with a positive ESG profile. In terms of asset class, equity funds are the most popular kind of sustainable funds, followed by debt funds. In India, the oldest fund is SBI Magnum Equity ESG. The market leader is the Aditya Birla Sun Life ESG Fund as well. The global asset value of ESG funds at the end of FY2022 was around 124 billion Indian rupees.

(Suman, 2022) According to a research by the Global Sustainable Investment Alliance, India's market for sustainable investments expanded by 34% to $11.6 billion between 2016 and 2018.This growth is the result of several things. This expansion is being fueled by a number of factors, including heightened awareness of environmental sustainability and climate change, the importance of the UN Sustainable Development Goals, and an overall increase in interest in responsible investing. The new motivating factor is government initiatives. Sustainability has been given top priority by the Indian government, whose prime minister has pledged to meet the nation's climate targets outlined in the Paris Agreement and formed the International Solar Alliance, an alliance of over 120 countries committed to increasing solar energy consumption. Businesses are supporting other business activities as well. Two major Indian companies that have committed to sustainable practices include Aditya Birla Group, which has pledged to become carbon neutral by 2040, and Hindustan Unilever, which has committed to sourcing all of its agricultural raw materials sustainably by 2020.

(C. Spulbar, 2019) highlights the importance of a sustainable market orientation for future advances while observing the profitability of momentum methods on the Bombay Stock Exchange (BSE).

Narula (2012) discusses the principles of sustainable investing (SI) about foreign direct investment (FDI) and emphasizes the need to include ESG considerations to achieve sustainable growth. Soundarrajan (2016) examines the notion of green finance and its potential to offset ecological depreciation in Indian companies. Aggarwal (2013) investigates the relationship between listed Indian companies' sustainability performance and financial success. It concludes that various dimensions of sustainability and financial performance have distinct connections.

Leading Forces to Sustainable Investing in India

In recent years, India has made significant progress in implementing ESG. The nation has started a number of programs and laws to encourage sustainability and ethical corporate practices. While there are many variables that affect sustainable investment, the following are some of the major drivers of sustainable investing in India.

One major aspect driving sustainable investing in India is consumer demand for socially conscious brand behavior. (2020, Chaudhary) noted that the purpose of the purchase, the level of planned loyalty, and the level of trust that socially conscious businesses cultivate with their clients all have a big influence on consumer behavior. According to the report, consumers place equal importance on corporate social responsibility (CSR) and price. As a result, companies that want to draw in and keep a sizable client base should prioritize CSR in their operations.

The development of new financial mechanisms and the funding of clean technology projects are two further factors encouraging sustainable investment in India. The cleantech and green initiative market in India has grown significantly. Climate-resilient infrastructure is one of several projects, along with a variety of financial instruments like carbon credits, social bonds, and green bonds, as well as financial institutions like green funds and banks. (Rathore, 2023) China leads the emerging green bond market in terms of the quantity of green bonds issued, with India coming in second. (www.pib.gov.in, 2022)In line with the national SDG, the share of renewable energy in India's power generation is rising quickly. At the moment, non-fossil fuel sources account for about 40% of the nation's installed electrical capacity.

As a result, the country is currently ranked third in the world for producers of renewable energy. India has launched numerous programmes to encourage sustainable development by enacting laws and regulations in a number of different fields. With 1.4 billion people, the nation has a strong energy demand, which spurs economic expansion. (htt)In terms of yearly growth rate for the addition of renewable energy, India led the world in 2022 with 9.83%. As of July 2023, installed solar energy capacity stood at 70.10 GW, a 30x increase over the nine years prior. The installed capacity of renewable energy, particularly large hydro, has increased by more than 128% since 2014. India promotes green building through organizations like the Indian Green Construction Council (IGBC), certifications such as LEED (Leadership in Energy and Environmental Design), and others.

((PIB), 2023) The Minister for New and Renewable Energy and Power published information indicating that India's installed capacity for renewable energy increased by around 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 government will use the money raised to finance programs aimed at reducing the carbon intensity of the economy. On January 25, 2023, the first tranche of India's first sovereign green bond, valued at INR 80 billion ($980 million), was released.

Government activities and legislation are another important aspect that affects sustainable investing. India's green finance sector is still in its early stages, but its 2023 G20 presidency—which it will hold under the theme "One Earth, One Family, One Future"—will demonstrate its unwavering commitment to sustainability. It aligns with the country's commitments set at the UN Climate Change Conference in Glasgow (COP26) to achieve net zero emissions by 2070. However, in order to achieve these objectives, a substantial amount of cash and a legislative framework are required. India's declaration that by 2030, it wants to get 50% of its electricity from renewable sources.

(PIB, 2021) It aims to educate the public, various government agencies, scientists, industry, and communities on the threat posed by climate change and the ways to combat it. (Goa, 2021) A portion of a company's earnings must be set aside for corporate social responsibility (CSR) activities, which may include sustainable development projects, according to the policy maker. The National Action Plan on Climate Change, which the Indian government released in 2008, outlined eight national missions aimed at reducing economic emissions, improving energy efficiency, increasing forest cover, and establishing sustainable ecosystems.

India has demonstrated its commitment to reducing its carbon intensity and boosting its output of renewable energy through its sovereign green bonds, which finance expenditures for electrification of transportation networks and renewable energy. Investments in these industries are especially important because they accounted for more than 41% of India's GHG emissions in 2019 and are expected to account for two-thirds of emissions by 2050 as the economy grows. India will be able to shift to a green, resilient, and inclusive development with the aid of the government's measures, which should result in increased investments in climate-friendly and environmentally friendly projects.

Challenges in Sustainable Investment in India

Putting sustainability first will pay off handsomely, and this is unquestionably the best time to implement this investing principle. To take part in this adventure, investors can indicate their preferred products and target areas. But there are obstacles in the way. Profits from sustainable investments are not guaranteed to be equal to those from ventures that do not account for these factors. Investments in sustainable assets could not follow the rules of the market. One of the main barriers to making ESG investments in India is the absence of reliable and consistent ESG data. Investors may find it challenging to assess a company's sustainability performance since many companies conceal important ESG information. Comparisons and analysis are complicated by differences in ESG reporting standards and criteria.

Lack of understanding and awareness of ESG practices and principles is another problem. It's possible that many investors—especially regular people—are unaware of the benefits of ESG investment. It's imperative to inform investors about the importance of considering ESG factors and how they could affect long-term financial results in order to win over more of them.

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

Green washing is another issue faced by the business. It 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, food, electronics and beverage, and personal care sectors by examining their ads, websites, and sustainability reports. According to the report, green washing is practiced 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 being made. However, studies indicate that businesses that thrive in ESG areas can maintain their competitiveness and long-term financial success. It is imperative to dispel this and show the possibility of both monetary misconception gain and beneficial effects.

The Way Forward

For this reason, there is often a mismatch between the profitability and ESG models. The future of sustainable investing in India is bright despite these obstacles.

Environmental, social, and governance (ESG) considerations ought to be the main emphasis of businesses and investors when making investment decisions. Sustainable investments will enable them to grow stronger, reduce risks, and seize opportunities over time. They will be able to attract more investors and develop their brand as a result.

Adopting sustainable investment practices will be made easier for different stakeholders by having a well-organized framework or by creating a workable model. The approach has the capacity to incorporate multiple facets of sustainability. (Stephenson, 2021) A five-dimensional model for sustainable investing is suggested by a CII study on the topic. Policy, Finance, Promotion, Facilitation, and Impact are all included. The concept, which focuses on particular industries, can promote investment in technology for health and safety. Accountability is an additional element that requires consideration throughout execution. Sustainable investing will be aided by the application of clusters to distribute investment strategies. Using digital solutions and technology will simplify administrative processes. Encouraging stakeholders' sustainable activities is equally vital.

Conclusion

In summary, the many approaches to ESG investing in India have the potential to act as a stimulant for positive change. By integrating environmental, social, and governance concerns into investment decisions, these efforts offer a workable way to align financial interests with more general societal and environmental goals. Despite persistent challenges like data limits and evolving regulations, the growing need for these kinds of ESG investments and the growing understanding of their benefits are driving us forward. Investors can help create a more sustainable future by making informed selections with the abundance of sustainable investing options available.

India has demonstrated its commitment to reducing greenhouse gas emissions and increasing the capacity of green energy by setting ambitious targets.

India has a unique opportunity to establish the benchmark for renewable energy generation and foster the growth of a green economy since it possesses an abundance of natural resources, including the potential for solar, wind, and hydropower energy. India's policies and actions demonstrate the nation's unwavering dedication to promoting green energy and decarbonization. The recent surge in renewable energy investment, which climbed by an amazing 125% over the previous year, shows how much demand there is in India for green energy solutions. India's ultimate objective is to use clean technology to achieve energy independence by 2047, with an emphasis on inclusion and sustainability.

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