

A REVIEW ON SUSTAINABLE FINANCE AND ESG PRACTICES IN INDIA

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Abstract: This study examines the changing trend of environmentally social and governance (ESG) responsible financial activities in the entire India. Analyzing the major drivers, challenges, and initiatives, the study emphasizes the great role of regulatory interventions, new financial solutions and the evolving mentality of investors. It discusses the significance of sustainable finance, motivation behind the need of ESG, issues confronting it, and the prospects. Remarkable projects, including the green finance actions of the Central Bank of India, and the fact that India is moving towards net-zero emissions are raised. The conclusion stresses the opportunities of transformation that Green finance and environmental, social, and governance practices have on the economic path of India toward a more robust and accountable future.

Keywords: Sustainable, Governance, Development

Introduction

Sustainability The phrase is created to provide sustainability by stating that the current demands should not be achieved at the expense of the next generations being able to service their needs. In 1987, Brundtland involves the proper utilization of finite and inexhaustible resources. The concept of sustainability gained popularity by the Earth Summit or the 1992 UN Conference on Environment and Development (UNCED) and the Brundtland report, Our Common Future, which was initially introduced in the UN conference on the human environment in the year 1972. It is at this time that the world came to the realization of the value of integrating Governance, social and environmental elements with economic development.

Sustainable Finance are financial investment deals that consider the economic, social, and governance (ESG) aspect of a project or an economic activity. One of the definitions of sustainable finance is addressing environment, social, and governance (ESG) impacts of financial services, according to one scholar. Sustainability is a concept that also carries a moral and more long-term economic aspect. Given that the Environmental, Social, and Governance (ESG) blueprint provides stakeholders with a better understanding, an organization is able to manage the opportunities and risks, which relate to the mentioned criteria or, which can also be called, ESG factors. ESG is holistic in its approach to sustainability: it goes beyond the environmental.

Sustainability and investment: Sustainability and investment: An increased focus on sustainability is being put on compliance with the ESG guidelines in the current decision-making of investors. Such options of investing vividly depict the difference between simple profit maximizing and profit maximizing that is ESG integrated. The idea of Socially Responsible Investment (SRI) has been on the spotlight where investors align business sustainability needs of their financial portfolios with moral values. With such sort of ventures, there will always be a trade-off to the available option that will maximize profits within an integrated environmental impact. ESG investments, also known as socially responsible investments, have increased rapidly since the beginning of the 21 st century.

Importance of Sustainable Finance And ESG Practices:

Paradigm Shift in Investor Mindset: Paradigm Shift in the Investor Mentality: This change in investor mind is epitomized by the concept of Socially Responsible Investment (SRI). The investors are now actively trying to make their financial portfolios more consistent with their moral values and long term sustainability goals. This will involve conducting a critical analysis of the companies or projects they undertake an investment into, factoring into the environmental practices, social impact and in compliance with the good governance principles.

International market access: Market accessibility in the international market: The development of ethical business practices has taken on a greater significance. A number of foreign investors and customers are also pressuring business to demonstrate their commitment to sustainability and moral business behaviors. By enacting strong ESG principles, Indian businesses will be in a position to make their businesses more competitive and reach other markets.

Communication and Transparency Sustainable finance focuses on communication and Transparency *Transparency, accountability and sustainability performance reporting. Many investors and stakeholders are increasingly putting pressure on businesses to disclose their ESG performance and practices either in the form of sustainability reporting and other interactions. This assists those stakeholders and investors to make prudent choices and enables businesses to demonstrate their willingness towards sustainability. To achieve the growing demands of accountability and transparency, businesses should have well-developed ESG reporting and disclosure practices.*

Driving Forces of Sustainable Finance And Esg:

A number of causes, including a greater understanding of the connections between social, economic, and environmental well-being, are driving approaches to environmental, social, and governance (ESG) and sustainable financing. This paper is motivated by the profound realization that achieving these climate objectives requires a paradigm shift in financial strategies and business practices. The following are some important motivators:

Global Commitment and Sustainable Development Goals: Approved by every member nation of the United Nations in 2015, route forward for prosperity and security for people and the environment in the moment and into the future. This is the 2030 Agenda for Sustainable Development. The agreement made by world leaders to prevent further degradation of the environment and natural resources in order to protect them for future generations is emphasized in the preamble of the 2030 Agenda. There are seventeen Sustainable Development Goals (SDGs) on the list. All nations must address this right away and work together to achieve it.

Investor Demand as a Driving Force:

Changing Investor Preferences: By promoting customized financial solutions that can uphold investors' personal beliefs while still yielding respectable financial returns, businesses and financial institutions can increase the number of people who invest in socially conscious products. By incorporating morality and ethics into their marketing and promotion efforts, companies can encourage more female investors to make socially responsible investments (SRIs). Eventually, this will cause the share of women who invest in the financial markets to increase. (Singh, Mittal, Mehta, & Singla, 2020)

Financial Performance Considerations: A review of current information, businesses that engage in social, governance, and environmental initiatives usually generate value for their investors by enhancing their financial results and decreasing risk. (Kaixing Huang, 2020)

(Hardeck, 2016) Stated that market risk is usually expressed in the finance literature as the total risk, or the volatility of stock returns, which falls into two categories: specific risk and return volatility. Generated by events unique to a particular firm, and systematic risk, or the volatility of returns caused by large movements in the stock market. Around the world, there is a 24% yearly rise rate in enthusiasm for the addition of ESG factors into investing problem-solving procedures, according to observations. Sustainable development and ESG Practices are in their embryonic stage, though they are making headways very fast.

CSR and Ethical Business Practices as Driving Factors: In the future, the CSR landscape for financial institutions (FIs) will be influenced by ethical consumers, governmental policies, and sustainable purchasing practices of other businesses. Niche sustainability-focused institutions will push for higher CSR standards, leveraging their innovative cultures. Financial Institutions (FIs) will set overall CSR performance targets, engaging in debates over the extent of their responsibility for sustainability.

Prominent financial institutions (FIs) are going to report on their CSR performance with independent validation more often and are putting governance and management structures in place to integrate CSR into their operations. They are creating socially and environmentally conscious product suites for their CSR efforts, including CSR into their risk management systems, and creating procedures for vetting their investments in accordance with CSR standards. To lessen or balance their negative effects and increase their good, direct, and indirect effects, they will keep creating strategic CSR policies and initiatives in a variety of social and environmental domains. CSR-focused financial institutions will have strong stakeholder engagement programs both now and in the future to address difficult sustainability issues, offer feedback on business plans, and stay up to date on stakeholder concerns. (Strandberg, 2005)

Scope of Green Finance And ESG:

a) Introduction to the Importance of Sustainable Finance: Sustainable finance has a central place to play in environmental issues and green projects focused on alleviating climate change. It includes renewable energy investment, energy conservation and sustainable infrastructure investment, which play a big role in alleviating carbon footprint and increasing resiliency to environmental changes.

b) Contributions of Green Finance to Climate Mitigation: Sustainable finance is instrumental in financing projects and other proposals that are targeted at reducing climate change. Investments in renewable energy sources, energy efficiency and sustainable infrastructure help in curbing carbon emissions and resilience to climatic effects.

c) India's Significant Milestone in Green Finance: Important tendency in green finance in India: By February 2023, India has achieved major milestone in the area of green finance as the total green bond issuances have exceeded 21 billion. It is worth noting that the business end of the population has been very dominant and has contributed a significant largest percentage of 84% to this outstanding success.

d) Global Support for Green Initiatives in India: International Grants towards Green Programs in India: Besides the local government departments and firms, international non-profitable corporations such as the Asian Development Bank (ADB), and World Bank have also increased their financial aid towards

the green programs in India. This business initiative is meant to minimize the gap in transactional investments on renewable energy projects that would inspire confidence among the various stakeholders.

e) Assessment of Climate Change Costs and Financial Implications: Asian Development Bank's Cost of Intake for Climate Change in Southern Asian Countries report projects India's energy sector will cost USD 7.7 billion to be built by 2030. (BISHT, 2021)

Evaluating The Impact: Sustainable Finance And Esg Practices In India

- **RBI's Sustainable Finance Initiatives:** To encourage sustainable finance across the nation, the Central Bank of India has implemented a series of initiatives. The RBI established criteria for banks to report on their sustainability initiatives in 2015. A framework for green bonds, which are debt instruments used to accumulate funds for initiatives pertaining to the environment and climate, was published in 2018. The structure encourages banks to fund environmentally friendly projects and offers rules for the issue of green bonds.
- **The Indian Improved Growth in Renewable Energy Projects:** The government has licensed 100 percent FDI on annual basis in the projects involving the production and distribution of renewable energy. Invest India reports that the government division has invested in several renewable energy projects, US 196.98 billion worth, which are currently being advanced.
- **Green Bonds Proposal in India:** In a statement issued on February 1 st 2022 by Ms. Nirmala Sitharaman, the Minister of State to finance and industrial affairs, the Indian government plans to issue sovereign green bonds to get investment to fund green infrastructure.
- **Positive relationship between environmental sustainability and performance:** a majority of existing research found that appropriate relationships between ESG and financial evaluation, there were recommendations that ESG is a tactical instrument, which assists companies in earning additional monetary gains.
- **Sustainable Practices and Competitive Advantage:** According to (ABM Fazle Rahi, 2022) Organizations can outperform their competitors in the market by implementing sustainable practices, and the correlation between good governance and revenue growth provides insight not just to investors and regulators but also to scholars and corporations about the benefits of having a strong governance framework..

A more sustainable and inclusive future can be achieved by businesses adopting sustainable practices, which can also make them more robust, inventive, and appealing to stakeholders and investors.

Challenges of Sustainable Finance And Esg Practises In India

a) Market Failures in Rural Finance and Sustainability Challenges: According to (Ziolo, 2021) that tailored interventions are necessary to guarantee that services are sustainably provided to the underprivileged and unbanked due to market failures in rural finance and associated problems with moral hazard, adverse selection, and transaction costs. In order to be sustainable, service providers must create their own operating revenue by charging a fair price for their services and offering effective services. They cannot rely on funding from donors.

b) Insufficient Funding as a Critical Challenge: Insufficient funding remains a critical challenge in advancing sustainable finance initiatives. This financial gap hampers the effective implementation of environmentally conscious and socially responsible projects. It was suggested by (Kadaba, 2022) The Government of India suggested creating a social stock exchange, Europe Investment Bank (EIB) with

SBI with the goal to raise the \$280 billion required for Sustainable infrastructure in the country and to accomplish the Sustainable Development Goals (SDG) and the Economic, Social, and Environmental (ESG) needs for fundraising, as well as to encourage the expansion of the Green Economy, RBI established that Sustainable initiatives should be categorized as Priority Sector Lending (PSL).

c) Sustainable Funding: \$500 Billion for India's 2030 Targets- It is anticipated that \$500 billion in funding will be required for India to meet its targets for renewable energy by 2030. Even though the central bank has been including the renewable energy sector in its priority sector lending program since April 2015, the ability of India's banking institutions to support renewable energy projects has been hampered by a lack of budgetary resources. This explains why the nation's development and refurbishment financial institutions have looked to the both onshore and offshore debt markets for funding.

d) Innovative Financial Solutions and Collaborative Efforts: Overcoming market failures in rural finance requires targeted interventions to ensure sustainable services for the underserved. The challenge of insufficient funding in sustainable finance, emphasizes the need for innovative financial solutions. Proposals like the Social Stock Exchange and RBI's consideration of Priority Sector Lending for Green and Sustainable projects reflect a growing acknowledgment of their significance. To fulfill Green Economy and SDG goals, collaborative efforts are essential to bridge the funding gap and promote a sustainable future.

Future of Sustainable Finance and ESG Practises in India

- **Sustaining Growth: India on the road to ESG Practice:** Indian companies are adopting international standards of reporting ESG such as a Global Reporting Initiative (GRI), Working Group on Monetary Disclosures Related to the Climate Change (TCFD) and Integrated Reporting Standards (IR). More and more business owners realize the financial benefits of considering sustainability in their business models early on and consider it to be an important motivator to development.
- **The Net Zero 2070 Goal-I** -Green Finance in India To find a compromise to its net zero emissions target by 2070, India, which is among the biggest carbon emitters of greenhouse gases in the world, will be forced to forego over \$10 trillion. The public and the private sectors are implementing many measures to enhance funding and investment opportunities. Among them is green finance which is either ethical or sustainable funding of projects that are environmentally friendly such as reduction of green house gas emissions, increase energy efficiency or the development of a circular economy.
- **SEBI ESG Revolution in Mutual Funds**-The Securities and Exchange Board (SEBI) of India came up with a Sustainability category of mutual funds in March. The asset management corporations in India can now offer a broad spectrum of ESG funds, and as the quality of reporting on those signs is enhanced, investors will have more confidence due to the increased transparency and stringency.

- **The Collaboration of Climate Transition-** India by World Bank, is also collaborating with the International Finance Corporation Group to maximize the funding of climate change and green growth. The Rewa Ultra Mega Solar Power Project, a 1,300 megawatt solar power plant in Madhya Pradesh, is, as an example, financed by World Bank infrastructure financing, IFC funding to promote local currency investments, and advisory services to facilitate the development of a partnership between the public and the private and attract private capital.

ESG being an abbreviation that denotes environmental, social and governance investing has become an influential investment approach in India that factors in the sustainability aspect besides the usual financial aspect. ESG investing has caught a lot of momentum in India because of the increased awareness and demand of ethical investments.

Conclusion

The path of sustainable finance and ESG activities in India can be characterized by large steps and new challenges. The future is incredibly promising, and even attempts such as ESG revolution by the SEBI in mutual funds and the goal of India to achieve a net-zero emissions target by 2070. The partnership with foreign organizations such as the World Bank that promotes green growth contributes to the Indian sustainability finance strength further. The example of India in its quest to become sustainable in nature of finance and ESG practices shows a positive trend. An excellent change is observed in regulatory efforts, financial innovation, and increased investor interest. The problems such as the lack of funding and financing in rural areas highlight the necessity to find a collective solution. The prospects are still tremendous with such programs as ESG revolution with SEBI and the net-zero target of India. The field of finance in India is promising with the global integration of environmental sustainability standards and the adoption of sustainability by businesses. Overall, sustainable finance and ESG practices are securing a stronger and more accountable economic future of India.

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