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# **THE DAWN OF ESG INVESTING: DEFINING THE DAYS AHEAD**

AUTHORED BY - SREEMANJAREE SUR

Green financing has become an integral part of the modern-day strategy to reconcile the conservation of natural resources with our economic growth. A key element of this strategy is to effectively manage environmental and social risk, to identify opportunities that offer a fair return on investment and environmental impact, and to increase accountability. Although there is no definitive definition of the terms 'green' or 'green financing', as defined by UNEP, the aim of green financing is to increase the concentration of financial resources (from banking and microcredit to insurance and investment) in the public, private and non-profit sector towards priorities for sustainable development.

At the moderate disclosure level, business transparency on ESG information correlates positively with corporate effectiveness, rather than high or low disclosure. Governance information disclosure is being complemented by social and environmental disclosure, which correlate the most positively with company effectiveness. In a relationship between some ESG practices and Corporate Financial Performance (CFP) (which includes business effectiveness, ROA, and market value), it was found that most ESG activities correlate positively with CFP.<sup>1</sup> COP26 is touted as a milestone in the envisaged structure for impacting investing that addresses ESG considerations.<sup>2</sup>

## **(I) "GREEN":JUST ANOTHER FANCY WALL STREET TERM?**

Green finance is a term that is not widely accepted. It encompasses a broad range of financing options for environmentally friendly technologies, projects, sectors, and enterprises. In a broad

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<sup>1</sup> Xie, Jun, Wataru Nozawa, Michiyuki Yagi, Hidemichi Fujii, and Shunsuke Managi. "Do Environmental, Social, and Governance Activities Improve Corporate Financial Performance?" Kyushu University. John Wiley and Sons Ltd, February 1, 2019.

<sup>2</sup> Mirchandani, Bhakti, "The Biggest Change In Corporate Reporting Since The 1930s: How To Read IFRS Prototype Sustainability And Climate Standards", Forbes, 04 November 2022.

sense, green finance refers to financial products or services that are designed to reduce environmental risks and enhance ecological integrity. Green investing recognizes the importance of the natural capital of the environment and strives to improve human wellbeing and social equity. "Environmentally Responsible Investment" and "Climate Change Investment" are associated with green finance. Thus, it is important to develop a holistic and clear definition of "green" and it is recommended that the expanse of the definition must include the following themes:

- a. Green finance is providing financial support to public and private entities to finance green investments (including pre-development and capital costs), which can be further broken down into eco-friendly products and services, and activities to reduce, prevent, or compensate for environmental and climate damage.
- b. Green finance is defined as the financing of public policies (including operating costs) that support the implementation of projects and initiatives that are designed to reduce environmental damage or mitigate climate change, such as feed-in tariffs for renewable energy sources. It also includes financial system components that are specifically designed to facilitate green investments, including the Green Climate Fund, as well as financial instruments for such investments (such as green bonds and structured funds) that are subject to their own legal, economic and institutional conditions. It is important to note that climate finance is only one component of this type of finance, which is primarily focused on adapting to the effects of climate change or reducing or limiting greenhouse gas emissions.

In order for a project to be considered "green" or "sustainable", it must be determined independently by each stakeholder. Standards have been established by the United Nations and others to determine the characteristics to look for when assessing Green Finance projects or companies, including the principles of CERES (Community of European Regulators for Energy, Energy, Social and Economic Security), which is a set of standards developed by the World Bank and other organisations. It is the responsibility of each investor, firm and government to determine which is best suited to their objectives. As a result, there is a need for a single metric and standardisation to define what is considered green and sustainable. This standardisation will eliminate ambiguities across multiple set of requirements and avoid regulatory gaps that allow for greenwashing.

## **(II) SUSTAINABLE FINANCING AND ESG NEEDS: A DEVELOPING ECOSYSTEM**

With a capacity to pierce a vast volume of mainstream private backing and deflect the same towards conscious climate action, ESG could have a high impact on the world's journey towards climate impartiality. By 2025, ESG means are set to represent further than a third of a\$140.5 trillion in projected total means under operation.<sup>3</sup>

This will only be achievable if ESG data is made transparent, comparable, and reliable as part of mainstream corporate accounting and reporting. Policymakers around the world have launched a regulatory arms race to improve the operation of ESG markets at the national, regional, and international levels. Finally, laws and standards will always be vital tools for effectively achieving ESG goals. Following years of inconsistent ESG reporting, obligatory ESG disclosures and taxonomies have emerged as top regulatory tools of choice globally. Action must be taken to create a strong policy framework for soliciting and utilising ESG contributions, as well as balanced market information dissemination.

Firstly, policy at all levels must urgently address the problem of “greenwashing” and the lack of transparent, verifiable and comparable ESG data. Greenwashing both undermines investor trust and negatively impacts the effectiveness of ESG investments, thereby slowing down the expansion of ESG markets.<sup>4</sup> A consultative approach where both scientific and economic realities may converge must be adopted. Regular impact management studies at regional and national scale could act as checks and balances against greenwashing.

Secondly, from a utility perspective, policy must discourage trickle-down of ESG benefits and focus on direct transfer of ESG investments and benefits to the grassroot stakeholders for efficient and effective implementation. While this would require a lofty exercise of accurate reporting, timely auditing and circumnavigating a plethora of red tapes, decentralizing sustainable finance could also speed up the growth of ESG investment market while tackling the issue of greenwashing in the time of lack of structured policy. Growth of the MSME sector, co-operative

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<sup>3</sup> Diab, Adeline and Gina Martin Adams, “ESG assets may hit \$53 trillion by 2025, a third of global AUM”, Bloomberg Professional Services

<sup>4</sup> “Achieving the Full Potential of Sustainable Finance: The Role of ...,” July 13, 2022. [https://epc.eu/content/PDF/2022/Green\\_finance\\_DP.pdf](https://epc.eu/content/PDF/2022/Green_finance_DP.pdf).

societies and self-help groups remain ripe options as vehicles of sustainable finance and micro finance especially in the Indian context.

Thirdly, with respect to the role of “sustainability reporting”, twin objectives of double materiality approach<sup>5</sup> to collation of ESG data along with ensuring interoperability of the various sustainability reporting initiatives can be a necessary step to tackle the problem of market distortions through misinformation. Double materiality approaches of providing information about the impact of the ESG investments and considerations on the companies as well as the companies’ impact on environment and society could ensure the required symmetry information in the ESG market. This coupled with regulatory interventions and disclosures at national and regional levels, made interoperable with other jurisdictions, could reduce transaction costs and complexity for businesses while also improving transparency.

### **(III) GREENWASHING: THE BOON OF MISINFORMATION**

Greenwashing is a marketing strategy used by businesses to attract patrons who are environmentally sensitive despite that their goods or services are everything else. Greenwashing occurs when companies announce themselves as sustainable while giving inaccurate or deceptive information about their operations. For ESG, greenwashing has grown to be a major issue. According to studies, a rising number of ESG finances invest in businesses that fall deficient of ideal exemplifications of social and environmental responsibility.

The Economist examined the top 20 ESG funds in the world in 2021 and discovered that while some of them had holdings in fossil fuel producers, others did so in oil companies, coal mines, gaming, alcohol, and tobacco companies. By establishing a new and higher bar for firms to make environmental claims, a recent wave of laws in Europe seeks to change that. The French Climate and Resilience Law, scheduled to take effect in 2023, and the planned Unfair Commercial Practices Directive of the European Union, scheduled to take effect in 2024–2025, both specifically aim to avoid greenwashing.

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<sup>5</sup> “Green Finance in India: Progress and Challenges.” Reserve Bank of India - RBI Bulletin, 2022. [https://www.rbi.org.in/Scripts/BS\\_ViewBulletin.aspx?Id=20022](https://www.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=20022).

RECOMMENDATIONS:

To tackle the problem of greenwashing, a policy change is required in the regulatory regime and disclosure mechanisms for corporates to allow for increased availability of data in the market and also ensure the genuineness of the data, backed by evidence.

- a) Companies must collect and disclose their own evidence to back up any environmental claims and that data must be clear, objective and verifiable;
- b) Sometimes a product's environmental benefits at one stage of its life may be offset by larger costs in another, such as the need for more energy to produce the glass. Only if a company discloses the impact of a product over its full life, from raw materials to disposal, can it claim that it is sustainable. As a result, proof will frequently need to be gathered from suppliers at every step of a product's life, including from businesses that offer recycling and remanufacturing services at the end of the product's lifespan.
- c) Both the market for sustainable goods and services and consumer willingness to pay a premium are increasing. This increases the possibility of deception, as things are misrepresented as sustainable when they are actually conventional. For many years, hiring auditors to conduct sporadic factory visits and document checks was the only means for businesses or regulatory bodies to stop fraud in sustainable products. There is just too much data to manually evaluate in light of the increased necessity to gather evidence across the full product lifecycle.

SEBI GUIDELINES ON BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORTING BY LISTED ENTITIES, 2021:

For the purpose of creating a sustainable business ecosystem that ensures future resilience, ESG needs to be given more attention, as well as a framework for ESG reporting needs to be developed. While it is admirable that so many organisations have chosen to dedicate themselves to ESG efforts recently, so far their efforts have had a mixed or limited impact. The top 1000 companies in India by market cap will now be required to submit a mandatory Business Responsibility and Sustainability Report (BRSR) with their annual reports to the stock exchanges under the new SEBI regulations on good governance, which will become mandatory from FY-2023, opening the door for ESG to be formally adopted as a metric for evaluating company performance on sustainability and good governance in India. In order to capitalise on the rising demand for environmentally friendly goods and services, this may also deter the growing practise of

"greenwashing," which involves using marketing techniques and stories to portray a company, its goods or services, initiatives, or policies as environmentally friendly when they are not.

### **SUGGESTED PRACTICES:-**

ESG rankings can be a useful tool for tracking and assessing a company's sustainability objectives and operations. Three mechanisms for holding companies accountable are proposed here:

- a. they should be required to publicly report on their social and environmental impact using precise, standardised, and straightforward metrics;
- b. customers, employees, and investors can all hold companies accountable; and
- c. businesses that are serious about becoming more inclusive, sustainable, and socially responsible should consider applying for benefit corporation certification.

### **(IV) GREEN FINANCE: INDIA'S TICKET TO SUSTENANCE**

Green financing has emerged as the most preferred microchannel of this complex ecosystem of conscious risk-investment balancing. A philosophy towards long term and continuing sustainable solutions is entangled in the change in business perspective from a chanced risk-return or a guaranteed investment-return approach to a targeted risk-investment approach for all. This has merged the two previously separated domains of finance and climate change into a paved roadway towards an economically sustainable ecosystem of growth for the future generations.

Efficient energy management and socially responsible capital allocation go a longer way to promote the reputation of the company and harmonize between economy and climate. However, this field remains riddled with certain limitations<sup>6</sup> of i) ambiguous definitions of "green" renders the investors confused and works as a barrier for investments; ii) lack of regulatory framework iii) lack of awareness and iv) risk of ignoring sustainable development for the sake of short term economic profit.

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<sup>6</sup>Jain, Shreyans. "Financing India's Green Transition." ORF Issue Brief No. 338, February 4, 2020.

STATE OF GREEN FINANCE IN INDIA<sup>7</sup>:

The emerging tools of green finance include green banking, green insurance and green bonds, especially in the Indian and Asian context<sup>8</sup>.

- I. *Green banking*<sup>9</sup> operates by integration of technological improvements, changing stakeholders' expectations and operational innovations. The areas covered by green banking involve encouraging paperless transactions, online banking, green mortgage, green loans, green credit cards, energy efficient loans and alternative fuel vehicle and fueling infrastructure loans. This macroeconomic measure is however riddled with problems of inadequate broad level engagement and responsibility in participant banks, lack of business strategy for ESG considerations, perceived threat of climate-related financial risks as material risks to profitability, slow pace of transition to low-carbon exposure, lack of climate related financial disclosures, minimized capacity building and enlarged data gaps.<sup>10</sup>
- II. *Green insurance*<sup>11</sup> acts as a backbone of green financing by making information related to risk management available and significantly lowers the risk involved with its strategies and underwriting services. It remains an insurance of mitigating and managing ecological and environmental risks, aversion of liability to the insurer in line with polluter pays principle and streamlining the rising trend of "green" litigation. A constructive step forward would be to mandate a dual premium/pay-out for both indemnity for possible ecological and environmental losses along with the economic burden for restoration of said damages by required subscription to green insurance schemes by corporates and business entities. Green insurance therefore, must be given more teeth to ensure internalization of environmental costs by companies.
- III. *Green Bonds*<sup>12</sup> are liquid financial instruments used exclusively to raise finance for positive environmental and climate projects. India has emerged as the sixth largest

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<sup>7</sup> "Green Finance in India: Progress and Challenges." Reserve Bank of India - RBI Bulletin, 2022. [https://www.rbi.org.in/Scripts/BS\\_ViewBulletin.aspx?Id=20022](https://www.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=20022).

<sup>8</sup> "Green Finance in India: Progress and Challenges." Reserve Bank of India - RBI Bulletin, 2022. [https://www.rbi.org.in/Scripts/BS\\_ViewBulletin.aspx?Id=20022](https://www.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=20022).

<sup>9</sup> "Survey on Climate Risk and Sustainable Finance ." Reserve Bank of India - Publications, July 27, 2022. <https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=21071>.

<sup>10</sup> "Survey on Climate Risk and Sustainable Finance ." Reserve Bank of India - Publications, July 27, 2022. <https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=21071>.

<sup>11</sup> "Financial Stability Report 2016." Reserve Bank of India - press releases, June 28, 2016. [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=37342](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=37342).

<sup>12</sup> "Financial Stability Report 2016." Reserve Bank of India - press releases, June 28, 2016. [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=37342](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=37342).

issuer in the Asia-Pacific with a jump of 523% in issuance in 2021. India is projected to hit a \$1 trillion cap in the green bond market in 2023. A basket of select investments in sovereign green bonds, green equity, advent of green exchanges (INX and IEX), green debt funds provide carbon conscious companies a lucrative and quick pathway towards their ESG goals of climate neutrality. The impact of these bonds are derived from their underlying assets which heavily regulates the utilization of these raised funds. (a) The use of profits, which calls for the financed projects to come within the non-exhaustive examples of green projects, is one of the four fundamental components of green loans/bonds principles. (b) the procedure for evaluating projects against sustainable goals; (c) the administration of proceeds; and (d) the reporting to lenders.

- IV. The concept of “*green debt securities*”<sup>13</sup> was introduced under the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008 read with Chapter IX of the Operational Circular on the NCS Regulations, 2021 which lays down regulatory compliances of issuing and listing green debt securities. In India, under the SEBI (Issue and Listing of Non-Convertible Instruments) Regulations, 2021, the country's capital markets watchdog, Securities Exchange Board of India (SEBI), oversees the issue of listed green debt securities and specifies a unique set of disclosure obligations. The International Financial Services Centres Authority (IFSCA), which oversees GIFT-IFSC, an offshore jurisdiction located on Indian soil, has also made recommendations on policy, regulation, products, capacity building, and outreach regarding the expansion of sustainable financing in its "Report of the Expert Committee on Sustainable Finance." As per SEBI guidelines, proceeds of these bonds must be invested in green projects including renewable energy, climate change action projects, preserving biodiversity, waste management etc. These bonds help the issuer in enhancing its goodwill among stakeholders as well as gain access to investors interested in green investment products. It allows a seamless transposition of inflow of investments in socially responsible projects by integrating investment and social responsibilities.
- V. “*Blue bonds*” are a new subgroup of green bonds that are slowly rising in popularity. Despite the lack of formal criteria for blue bonds, the International Finance

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<sup>13</sup> “Consultation Paper on Green and Blue Bonds as a Mode of Sustainable Finance.” SEBI, August 4, 2022. [https://www.sebi.gov.in/reports-and-statistics/reports/aug-2022/consultation-paper-on-green-and-blue-bonds-as-a-mode-of-sustainable-finance\\_61636.html](https://www.sebi.gov.in/reports-and-statistics/reports/aug-2022/consultation-paper-on-green-and-blue-bonds-as-a-mode-of-sustainable-finance_61636.html).

Corporation has published blue finance guidelines. Blue bonds, as defined by IFC, are those used to conserve the oceans and/or improve water management and are in line with the Green Bond Principles. 4.1% of India's economy is made up of the blue economy. The National Policy on Blue Economy is being finalised by the (Indian) Ministry of Earth Sciences, and SEBI also published a consultation paper on both green and blue bonds, aligning its framework with the ICMA's Green Bond Principles.

VI. India has adopted a target of achieving its Net Zero goals by 2070<sup>14</sup> alongwith its adopted NDCs, SDGs and Panchamrit targets. Green finance fund flow in India has been focused on clean energy, clean transport and energy efficient sectors.<sup>15</sup> Total green finance increased over the last four years to an overage of INR309 thousand crores in 2019-2020 signifying a 150% increase from the previous two years. This tracked as approximately a meagre one-fourth of India's needs.<sup>16</sup> A report by Vasudha Foundation<sup>17</sup> identified the reasons for this shortfall as i) lack of robust regulatory regime to boost confidence of stakeholders and attract investors; ii) the struggling larger power sector value chain that has been unable to support a renewable energy environment; iii) expectation mismatch between the long-term green investments and relatively short-term return expectations of investors; iv) disproportionate investments in some sectors and technologies and v) absence of consistent data and reporting systems.

#### GREEN FINANCE TAXONOMY AND REGULATION IN INDIA:

India's green finance sector is still at an <sup>18</sup>incipient stage and a working group has been established under the Ministry of Finance (MoF) to develop green finance taxonomy in the country. There are numerous initiatives centered on green finance in India, such as the Securities and Exchange Board of India's (SEBI) release of 'Disclosure Conditions for Allocation and Listing of Green Debt Securities' and the Reserve Bank of India's (RBI) addition of shaft systems

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<sup>14</sup>“National Statement by Prime Minister Shri Narendra Modi at COP26 Summit in Glasgow.” PIB. Accessed February 1, 2023. <https://pib.gov.in/PressReleasePage.aspx?PRID=17687122021>.

<sup>15</sup> Khanna, Neha. “Landscape of Green Finance in India 2022.” CPI, August 10, 2022. <https://www.climatepolicyinitiative.org/publication/landscape-of-green-finance-in-india-2022/>.

<sup>16</sup> Khanna, Neha. “Landscape of Green Finance in India 2022.” CPI, August 10, 2022. <https://www.climatepolicyinitiative.org/publication/landscape-of-green-finance-in-india-2022/>.

<sup>17</sup>Cherail, Kosher. “Closing Gap in International Green Financing Important for India's Transition to Clean Energy.” Down To Earth, 2022. <https://www.downtoearth.org.in/blog/renewable-energy/closing-gap-in-international-green-financing-important-for-india-s-transition-to-clean-energy-85037>.

<sup>18</sup> Tripathi, Bhasker, Rishika Pardikar, Shreeshan V, Moonis Ijlal, and Anushka Mohite Mahale. “India's Proposed Sustainable Taxonomy and the Complexity of Weighing Climate Gains with Capital Concerns.” Carbon Copy, June 3, 2022. <https://carboncopy.info/indias-proposed-sustainable-taxonomy-lessons-to-remember-worries-to-address/>.

in the Priority Sector Lending (PSL).<sup>19</sup> In addition, Indian entities are increasingly participating in global flagship programmes such as the Principles for Responsible Investment (PRI). Another important mention is the publication of ESG indicators by India's two major stock exchanges, the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).

Given the massive green investment potential in India, there is an urgent need to standardise the definition of green finance, create qualifying criteria, and collaborate on the industries that would fall under the taxonomy of green financing. This would assist attract transnational capital by lowering the threat perception and eliminating knowledge asymmetry about how and what is classified as green finance.<sup>21</sup> In addition, this will help streamline the investments in environmentally sensitive sectors.

As previously noted, the sector is currently governed by a variety of government agencies, including the MoF's Climate Change Unit, the RBI, and SEBI, as well as other line ministries such as the Ministry of Power. A nonsupervisory terrain increases ambiguity and raises investor risk perception. India has joined the International Platform on Sustainable Finance to draught domestic green finance legislation in response to this. The enabling governance framework would facilitate green investment inflows into India and increase capital inflows into climate change sectors.

### RECOMMENDATIONS:

Although there is no single optimum option for the numerous situations and projects that require green funding, a variety of interventions and strategies that may be acceptable for common restrictions and stages of development exist. When businesses analyse trade and investment environments, they consider factors such as macroeconomic stability, conflict potential, and the degree of good governance. To boost private investment, state interventions must address these concerns and be conducted in a transparent, long-term, and consistent manner.

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<sup>19</sup> Reserve Bank of India. "Master Directions – Priority Sector Lending (PSL) – Targets and Classification" 2022. [https://www.rbi.org.in/Scripts/BS\\_ViewMasDirections.aspx?id=11959](https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11959).

<sup>20</sup> "Disclosure Requirements for Issuance and Listing of Green Debt Securities." SEBI, 2017. [https://www.sebi.gov.in/legal/circulars/may-2017/disclosure-requirements-for-issuance-and-listing-of-green-debt-securities\\_34988.html](https://www.sebi.gov.in/legal/circulars/may-2017/disclosure-requirements-for-issuance-and-listing-of-green-debt-securities_34988.html).

<sup>21</sup> Tripathi, Bhasker, Rishika Pardikar, Shreeshan V, Moonis Ijlal, and Anushka Mohite Mahale. "India's Proposed Sustainable Taxonomy and the Complexity of Weighing Climate Gains with Capital Concerns." Carbon Copy, June 3, 2022. <https://carboncopy.info/indias-proposed-sustainable-taxonomy-lessons-to-remember-worries-to-address/>.

The following describes the various policy options that can improve the regulatory landscape to overcome investment challenges:

- a. Information building policy: Consumers, producers, and investors must all recognise the economic and environmental benefits of low-carbon green growth. It is vital that they grasp that this plan offers an opportunity rather than a burden, and that in the long run, it will almost probably shift from a voluntary to an obligatory path. Initiatives based on corporate social responsibility, such as the Carbon Disclosure Project or the UN Principles for Responsible Investment, must be broadened to raise the openness required to foster a green financial market. It is also critical to implement stringent verification schemes for green technologies and green businesses to avoid consumer confusion, ensure that only companies that truly belong to the green industry benefit from its image, and provide investors with the information they need to make sound investment decisions.
- b. Environmental Regulation: Pollution standards and controls, public disclosure of environmental impact information, the elimination of implicit subsidies for environmentally damaging or unsustainable growth (such as land use controls, building standards, land use planning, natural buffer zone protection, and water management and pricing), and improved sector governance and monitoring are all examples of environmental regulations.
- c. Markets for green finance products and prevention of market distortion: The carbon market is a popular example of a green market created and extended by governments. Up to this time, several nations had developed an emissions trading scheme, which frequently entailed enacting legislation to control who may participate, the conditions of trade, and market oversight for carbon trading. Governments can initially conduct pilot projects or voluntary trading programmes before progressively transitioning to a compulsory trading system, taking into consideration the lessons learned from the pilot phase, a shift in the legal framework to "cap and trade," and diversification of traded items.
- d. Public finance mechanisms: Because the expenses of green investment projects, such as a renewable energy facility, are often higher than those of conventional firms, governments should subsidise a percentage of them. Examples of financing systems include public competitive bidding, public procurement, and public loans, grants, or funds, including venture capital funds.

- e. Government supported targets limited only to the early stages of development: Due to the risks associated with the use of new technologies and their relatively weak stance against well-established brown technologies, which externalise environmental costs and profit from a suitable infrastructure system and well-developed supply chains, green businesses require government support, particularly in the early stages of their development. However, once green firms have matured, governments should endeavour to recruit and empower other financial institutions to play an active role in facilitating green businesses.

## **(V) GREENWASHING WITH THE “GREEN”: PIVOTAL DAYS AHEAD**

Though there are numerous obstacles to raising funds for green energy, the potential for major profitable expansion is enormous. Addressing climate change would not only relieve linked fiscal institution issues, but will also offer itself as a big event that can prop profitable growth and earn consistent profits. For many businesses, it will imply a capital-bearing abecedarian transformation in their operations. This is emphasised in the International Energy Agency's (IEA) and International Monetary Fund's (IMF) joint report, which forecasts that clean energy transition will add 0.4 percent to global GDP each time.<sup>22</sup> If fiscal institutions fail to make a move in time, it can erode close to USD 23 trillion from the global frugality by 2050.<sup>23</sup> According to the Climate Economics Index, which rates countries based on the GDP impact of physical hazards resulting from gradational climate change over time, India ranks 45th out of 48. If world temperature rises by less than 2 degrees Celsius, India's GDP will fall by about 5.7 percent by 2048; if global temperature rises by more than 3 degrees Celsius, India's GDP will fall by about 35.1 percent by 2048. This emphasises the financial importance of responsible climate behaviour.

SEBI's business responsibility and sustainability report (BRSR) initiative, which mandates mandatory reporting of ESG risks and opportunities by India's top 1000 listed companies (based on market capitalization) and encourages voluntary participation by other listed companies, is a catalyst for expanding the pool of Indian companies eligible for green and sustainable financing.

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<sup>22</sup> International Energy Agency. 2021. Rep. Net Zero by 2025: A Roadmap for the Global Energy Sector. [https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector\\_CORR.pdf](https://iea.blob.core.windows.net/assets/deebef5d-0c34-4539-9d0c-10b13d840027/NetZeroBy2050-ARoadmapfortheGlobalEnergySector_CORR.pdf).

<sup>23</sup> Institute, Swiss Re, ed. 2021. “The Economics of Climate Change: No Action Not an Option.” Swissre.com. 2021. <https://www.swissre.com/dam/jcr:e73ee7c3-7f83-4c17-a2b8-8ef23a8d3312/swiss-re-institute-expertise-publication-economics-of-climate-change.pdf>.

The BRSR requests transparency in nine areas, including actions to protect and restore the environment, the provision of goods and services in a sustainable manner, the fostering of inclusive growth and equitable development, and so on. SEBI has also established the concept of a social stock exchange as a distinct market where social enterprises (demonstrating 'social' goals such as reducing hunger, improving education, and financial inclusion) can raise permissible equity and loan money. As recently as October 2022, the BSE acquired in-principle clearance to develop such a social stock exchange.

As consumer preferences (and the world's economies) shift towards an eco-friendly and emission-free / low carbon footprint world, financial institutions and corporations around the world are increasingly incorporating non-financial factors like ESG to identify strategic risks and growth opportunities. From the borrower's perspective, the benefit of reduced cost financing may outweigh the complexity of additional compliances. To avoid "green washing" and "social washing" (measures that include deceit and/or exaggeration of claims about a project's social/green impact), sustainable finance must be supported by regulatory will and collective data-sharing. Lenders may need to ensure more comprehensive provisions in financing documents on ESG disclosures, regular risk and impact evaluation of social compliances/breach, and increased interest in categorising loans as "social" or "green" to decrease the risks of exploitation.

India must look forward to good management of sustainable finance as a strategy for ensuring a sustainable future and climate neutrality. ESG concerns have arisen as a speedier route towards securing our national targets of an adequate and sustainable future, in line with our socialist and Gandhian beliefs. It is time to match our economic ideology with community growth and nourishment for our future requirements.