INCHING CLOSER TO THE AGENDA 2030: IMPACT INVESTMENT AND POTENTIAL OF SOCIAL STOCK EXCHANGE IN INDIA

Abstract

The concept of impact investment has gained significant momentum in India in the past decade. The article seeks to analyse the existing green investment options available in India, and its scope against the backdrop of the importance of the Sustainable Development Goals (SDGs). The proposed Social Stock Exchange in India is considered to be a low hanging fruit and can bring in multi-dimensional opportunities, for the conscious investors to have a safe haven to invest in, as well as for the social organisations, a platform for showcasing the impact they make in the world to raise investors. The article also explores the constructive role a CMA can play in making the Social Stock Exchange "a successful business decision" by India Inc.

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INTRODUCTION

The United Nations formulated the Sustainable Development Goals (SDGs) which officially came into force on 01st January, 2016. The SDGs, which were universally applicable to all the countries, superseded the Millennium Development Goals which focused on developing countries only. The SDGs are referred to as the 'roadmap for humanity'. They articulate the world's most crucial sustainability issues, the scope of which includes environmental, social, governance plus economic development, which therefore can be seen as an "ESG+" policy framework and lay down 17 Goals and 169 targets for sustainable development to be achieved by the year 2030 ("the Agenda 2030"). The success of each country in attaining these goals will be determined by its ability and willingness to mobilise its available resources and direct it towards sustainability.

Source: www.un.org

The commitment of the Government of India to the Agenda 2030 is evidenced from many of its flagship programmes brought in the with the involvement of State Governments, including Swachh Bharat, Make in India, Skill India and Digital India. These programmes are few initiatives that touch the core of SDGs and are well-thought-out pathways towards achieving SDGs.

However, substantial investment will be required at a global level, in trillions of dollars, to achieve SDGs in both developed and developing countries. NITI Aayog, the organisation entrusted with overseeing the adoption and monitoring of SDGs in India, reports that India needs to funnel approximately 13 per cent of its GDP into social causes - the current average is about 7 per cent - to achieve its SDG commitments by 2030. The Covid-19 pandemic and its heavy impact on the key areas targeted under Agenda 2030 has made it further challenging for our country to stick to these commitments.

THE GROUND REALITY IN INDIA

A huge population of India has suffered from various economic and social issues for centuries altogether, including poverty, unemployment, population pressure, low per capita income, wealth inequality, dependency of huge population on agriculture, basic life amenities, healthcare, illiteracy etc. The Covid-19 has worsened the situation pushing millions into further distress. It is a tragic irony that in spite of this grave reality, the immediate cause of concern should be of environmental factors.

We live in a world that is 1.2°C warmer than the 19th century and our country witnessed a temperature which was the highest on the records of India Meteorological Department for the month of March 2022 ever since it started collecting data in 1901. Approximately 30 per cent of India's land area is degraded, resulting in a loss of 2.5 per cent economic output annually (as concluded by a 2018 study by The Energy and Resource Institute, Delhi). This hits harder when we realise that nearly half of our population depends directly on agriculture and forest resources for survival. More than 75 per cent of the cities in India suffer from poor air quality. Only 37 per cent of India's urban municipal solid waste is treated. The quality of food and water is at an all-time low. These are merely glimpses into the grim state of affairs that unfortunately; most people are blissfully ignorant about. With the globe moving more towards materialism and an exploding "middle class" in India, the need to be aware of the decisions we make and their impact on the planet are crucial at this juncture.

Our country is making desperate attempts to revive the situation. At the COP26 (UN Climate Change Conference) held in Glasgow in November 2021, India has taken an ambitious pledge (the 'Panchamrita') to produce 500 GW of energy from renewable sources to reduce its carbon intensity to 45 per cent by 2030 and also a net zero commitment for 2070.

The Council on Energy, Environment and Water (CEEW), reports that the Net Zero Goal by 2070 would need more than 10 trillion $ investment to decarbonise India's power, industrial and transport sectors, and that India would face an investment crunch of around 3.5 trillion $ to meet this commitment. It has to be kept in mind that this investment is solely towards the environmental causes and a rapidly developing country like India cannot compromise on the other expenses and investments needed to keep the country running. Depending solely on the Governments for financing all these causes could be suicidal for our country. In fact, India has slipped three positions from ranking 117 in 2019 to 121 in 2022 in the Global Index of SDGs. With only 8 years to go for achieving the goals in Agenda 2030, State finances crushed out by COVID 19 and increasing Government debts, it is important to explore, identify and massively promote other sources of fund-raising towards sustainable development.

EXISTING GREEN FINANCE SCENARIO IN INDIA

The current green options available in the Indian financial system are:

1. **Green Lending**

   This refers to loans given by banks for financing projects with a positive environmental impact. The RBI issued a

notification "Corporate Social Responsibility, Sustainable Development and Nonfinancial Reporting – Role of Banks" in December 2007 stating the importance of global warming and climate change. The regulator also encouraged banks to realign their goals with sustainability in mind. In 2015, RBI included the renewable energy sector under its Priority Lending Scheme (PLS). All these had led to banks attempting to reduce their lending to carbon-intensive sectors and redirecting such funds to greener entities. Out of the total outstanding bank credit to the power generation sector as of March 2020, 7.9 per cent was to the non-conventional energy sector. However, the banks need to gain momentum to keep up with the demands of green funding to ensure that more persons are encouraged to choose greener initiatives as opposed to the conventional non-environment friendly methods of doing business. RBI has taken the right step in this connection by becoming a member of the Central Banks and Supervisors Network for Greening the Financial System (NGFS), which is a 'group of central banks and supervisors willing to share best practices and contribute to the development of environment and climate risk management in the financial sector, while mobilising mainstream finance to support the transition towards a sustainable economy'. This may, in due course, lead to the Indian banks following the steps of some of their counterparts in Spain and Australia, who promised to phase out lending to coal-powered plants and mining industry by 2030.

2. **Green Bonds**

These are financial instruments similar to ordinary bonds, with the only difference that the money raised through them are used to fund projects which have a positive impact on environment and climate change. India issued its first green bond in 2015, but the instrument has gained wide popularity recently and $6.11 billion worth of these bonds were issued in 2021 and it is projected to set a new record in 2022. They also have a strong appeal to foreign investors due to its valuation and growth aspects. In May 2017, SEBI formalised the issuance of green bonds by including the same under the purview of SEBI (Issue and Listing of Debt Securities) Regulations, 2008, and now in the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021. However, being in a very nascent stage in India the country needs to work on regulating its high borrowing cost, governance issues and risk aspects in order to enable these bonds to grow to their full potential.

3. **ESG Investing**

This is a term used for investments made in entities that value sustainability as much as profitability. Such investors stay away from stocks that do not meet certain standards of environmental, social or corporate governance. Impact investing has gained popularity in recent years, which can be identified from major mutual fund players introducing ESG funds. Lack of awareness, quality data, standard measurement system, track record etc. are some of the factors that need to be addressed in order to popularise this method of investment as opposed to the traditional profit-driven incentive. The latest initiative by SEBI to regulate ESG Rating Providers (ERPs) is in the right direction, as ESG rating as it exists now, is highly unregulated without any uniform methodologies and once new regulations are in place, it will help investors understand the value of their wealth in terms of ESG standards. Also, with effect from the F.Y 2022-23, SEBI has made it mandatory for the top 1000 companies based on market capitalisation to include Business Responsibility and Sustainability Report (BRSR) in place of the erstwhile Business Responsibility Report, as part of its non-financial disclosures.

4. **Corporate Social Responsibly (CSR)**

India undertook one of the world's largest experiments by introducing mandatory CSR for certain classes of companies under the Companies Act, 2013. Reports all over show that this was a very positive move towards achieving the SDGs through public-private-partnerships in India. CSR funding has grown annually at the rate of 15 per cent during the past 7 years and is projected to touch 19 per cent by 2026. It shows a growth rate higher than that of our economy. With the expected rise in profits of companies and also an expected increase in the rise of companies falling within its ambit, it is safe to say that the CSR funding will grow exponentially beyond its projections both in absolute terms as well as in terms of total private funding.

It can be identified throughout this article that there is a need to mobilise private funds towards sustainable investment and with a growing segment of middle class, rich, high net worth and ultra-high net worth individuals, identifying such private funds should not be a herculean task. However, the impact investment market faces a considerable challenge. Its nascent stage in itself acts as a barrier, as there is lack of awareness as well as comparative performance data or track record for people to watch it grow. Also, the regulators are yet to catch up with this new segment, giving

rise to governance hiccups. Lack of an authentic device or methodology to measure the value of investment in sustainability terms as well as impact of such investments is also a hindrance. On top of all these, green initiatives take relatively more time than other conventional methods to show results and would require long-term investment to actually feel the progress. This could lead to a maturity mismatch between these investments and investors with a short-term interest.

SOCIAL STOCK EXCHANGE (SSE)

Amidst all these conundrums, the Social Stock Exchange is getting ready to make a grand entrance. If everything goes as planned, it could become the panacea to impact investing.

The proposal to establish an SSE under the ambit of SEBI was introduced as part of the Finance Minister's Budget speech in 2019-20. Pursuant to this, SEBI constituted a Working Group in September 2019 and based on their report and public comments, a Technical Group was constituted in September 2020. After considering the report from both groups as well taking the comments into due consideration, a framework for SSE was issued by SEBI in September 2021.

Broadly, the intent of SSE is to enable non-profit organisations (NPOs) to raise money from the securities market by registering and listing on the SSE. At present, the opaque form of NPOs hinder them from being an easy target for donors. This could change with the SSE intending to facilitate transparency by mandating increased social, financial and governance reporting. Some "For-Profit Social Enterprises" (FPEs) will also be permitted to enlist on SSE subject to conditions. The entities will have to go through vigorous checks before onboarding, in the form of establishing 'primacy of social impact' and demonstrating the measurability of their efforts. Once enlisted, they can tap funding options from diverse sources rather than waiting for impromptu donations and discretion of limited investors.

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It would be a solace for donors and impact investors as the market instruments either already existing or designed specifically for SSEs, depending on the nature of the listed social entity, shall be safely and widely available for investing in social endeavours, adequate disclosure norms would provide them access to relevant information and at the same time, they would be able to have visibility of the impact their contributions are making. This will instil confidence in investors to always choose investments that back sustainability.

As the structure of SSE in India is proposed to be housed under an existing conventional stock exchange and grounded by SEBI Regulations, it could benefit from access to infrastructure, processes and knowledge capital, especially during its nascent stages and could also allow it the privilege to shift focus from viability to its intended goals. However, the benefits proposed to be offered to listed social entities, especially in the form of tax holidays and exemption from tax on investments up to certain limits may give scope for impact washing. The SSE should also be equipped to ensure proportionality in causes invested in, rather than the fund raising being tipped only in the direction a few selected causes. Only this can ensure a holistic achievement of true development. Another major aspect is the uncompromisable need for measurement systems and tools, whether for investment impact measurement or identification of eligibility. With the potential of collaborating the millions of social entities existent in India with a dependable source of funding, the proposed Social Stock Exchange could easily roll out to be the God sent solution in meeting the fund gaps for India to become truly sustainable for all intents and purposes.

"BEHIND EVERY SUCCESSFUL BUSINESS DECISION, THERE IS A CMA"

This befitting slogan by CMA is well grounded even in sustainability, as between the paradigm shift in the focus of business sector from profits to sustainability and the possibility of substantial increase in activities towards social and environmental causes with wider involvement of private funds, the role that can be played by CMAs are crucial. The accounting of natural capital – including the stock and flow of renewable and non-renewable sources, can tremendously help in measuring the impact as well as fixing focus and goals on utilisation. Green accounting fits right in the functions of a CMA, and can provide valuable insights into the transactions between environment and economy.

CONCLUSION

India as one of the fastest growing economies with a $5 trillion target in the coming years, has huge potential in achieving the SDGs with the right action. The Indian regulators have given significant importance towards sustainability and green initiatives by staying aligned with global practices. With innovative and secure investment options introduced in social causes, the green financing sector in India will achieve greater heights with individuals, corporates and the government working together for a sustainable India. MA

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