

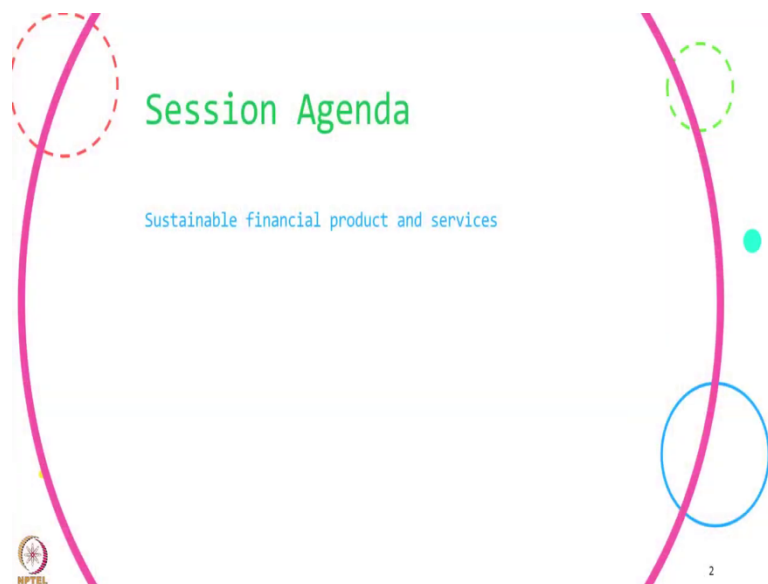
Business and Sustainable Development
Prof. Trupti Mishra
Shailesh J. Mehta School of Management
Indian Institute of Technology, Bombay

Lecture - 30
Sustainable Financial Product and Services

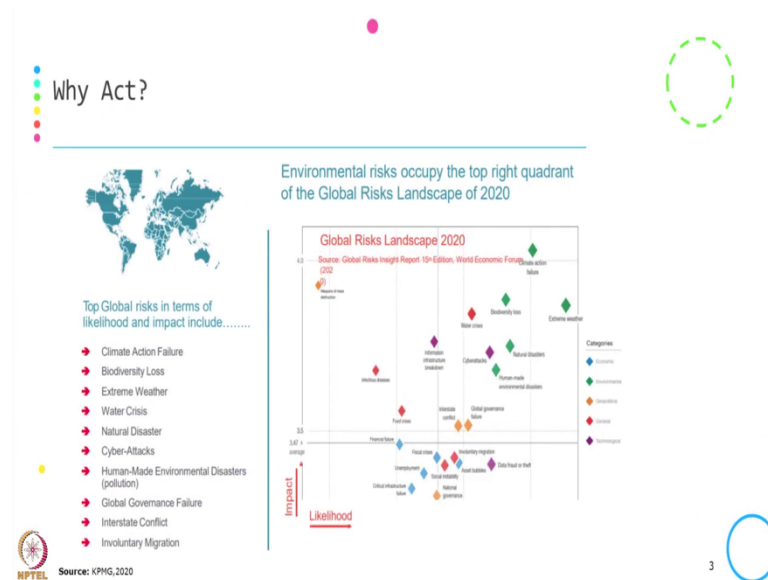
Hello, welcome to this session. So, if you remember in the previous session we are talking about the risk what are being posed because of the sustainability agenda or if you are not addressing the sustainability well then what kind of risk we are going to expose to and also we have seen that how the risk has been like if you work on well or if you implements well or if you take action or take different initiative with respect to the risk that is turned into the opportunity.

And in that context we have seen the different sustainability startup in the last class. In this class what we will try to focus is that we will see few sustainable financial product and services and when I say sustainable financial product and services it is nothing, but those financial product and services, they are design in order to achieve the sustainability focus or in order to achieve the sustainability goal.

(Refer Slide Time: 01:10)



(Refer Slide Time: 01:15)



So, before getting into the financial product and services let us say a beautiful image what have been given by k p m g. Why I am saying it is beautiful possibly the impact what it is showing it is not beautiful, but the way it is being shown that what are the different kind of the risk what we are going to face or what we are facing right now.

So, this is the top global risk in term of likelihood or the impact includes climate action failure, biodiversity loss, extreme weather, water crisis, natural disasters, cyber attacks, human made environmental disaster, global governance failure, interstate conflict and involuntary migration.

So, during the course at different point of time possibly we have addressed many of these risk, but this picture shows that what is the impact and what is the global risk landscape this is prepared by world economic forum what is coming because of climate action failure because of biodiversity loss and other environmental issues and if you look at environmental risk of occupies the top right quadrant of the global risk landscape of 2022 ok.

Now, the focus or the point of bringing this picture over here is when we need to address to reduce the risk or reduce the mitigate the risk we need to have the we need to have the finance, we need to have the investment or we need to have the fund to mitigate those risk. And some of the specific financial instrument services those are been designed in order to manage this environmental risk or in order to mitigate this environmental risk.

(Refer Slide Time: 03:02)



The slide is titled "ESG Investments and Funds" and features a list of bullet points. A video inset in the top right corner shows a woman speaking. The NPTEL logo is in the bottom left, and a blue circle with the number 4 is in the bottom right.

- ESG Investments and Funds
- ESG investment
 - Investing responsibly following all the three parameters of ESG
 - Investing ethically for one's own financial wellbeing in the long run
 - Socially Responsible Investing / Ethical Investing
 - Desirable to evaluate target investments not only on the basis of financial parameters but also on certain good non-financial parameters
 - Environment Empathy, Social Responsibility and Corporate Governance
- Maintaining ESG Requirement
 - Results in higher profits
 - Brand building and customer patronage


Now, to start with ESG investment and funds this we have already discussed when we are discussing about the sustainability reporting and just to go through this once again ESG investment is investing responsibly following all the 3 parameters of ESG that is environment social and governance or it can be investing ethically for one's own financial wellbeing in the long run. This is also known as socially responsible investment and also ethical investment.

And, this is typically desirable for the organization desirable for the corporate to evaluate the target investment not only on the basis of the financial parameters, but also certain good nonfinancial parameter like environmental empathy social responsibility and corporate governance. And, what the corporate or what the an organization get in return of that if they are maintaining their ESG requirement it results in higher profit and also it helps in brand building and also the customer patronage.

(Refer Slide Time: 04:08)

ESG Investing - The Concept

ESG investing is synonymous with Sustainable investing.
Exposures are taken in companies by assessing them based on 3 non-financial parameters:



ENVIRONMENTAL EMPATHY (E)
Duty Towards The Planet

SOCIAL RESPONSIBILITY (S)
Relationship With External & Internal Stakeholders

CORPORATE GOVERNANCE (G)
Functioning of The Business & Conduct of the Management

Companies are assigned a composite ESG score based on the above factors.

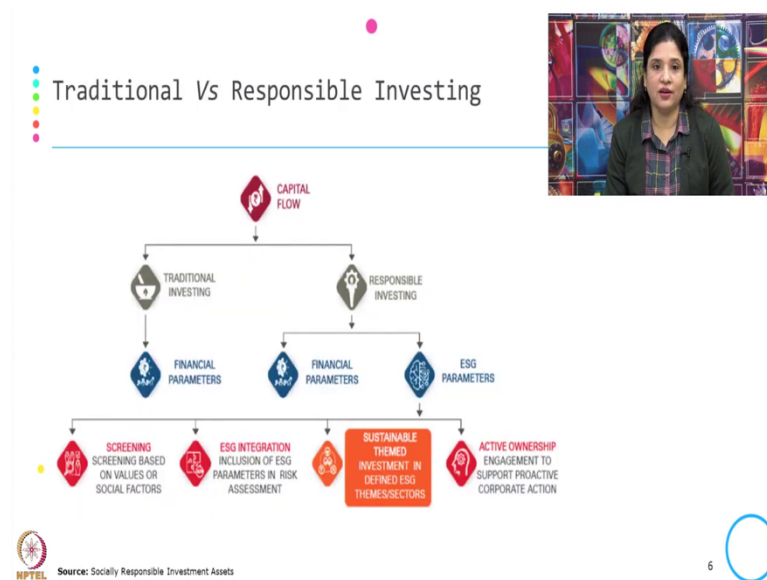
NPTEL Source: Socially Responsible Investment Assets

5

Now, this is for the concept of ESG investing this is being synonymous with sustainable investing and this exposure are taken in company by assessing them on based on 3 nonfinancial parameters that is environment, social and corporate along with also the financial parameter.

So, environmental empathy this we have discussed many time, this is the duty towards the planet. Social responsibility relationship with the external and internal stakeholder and corporate governance functioning of business and conduct of the management and typically companies are assigned a composite ESG score based on all the above factor.

(Refer Slide Time: 04:51)

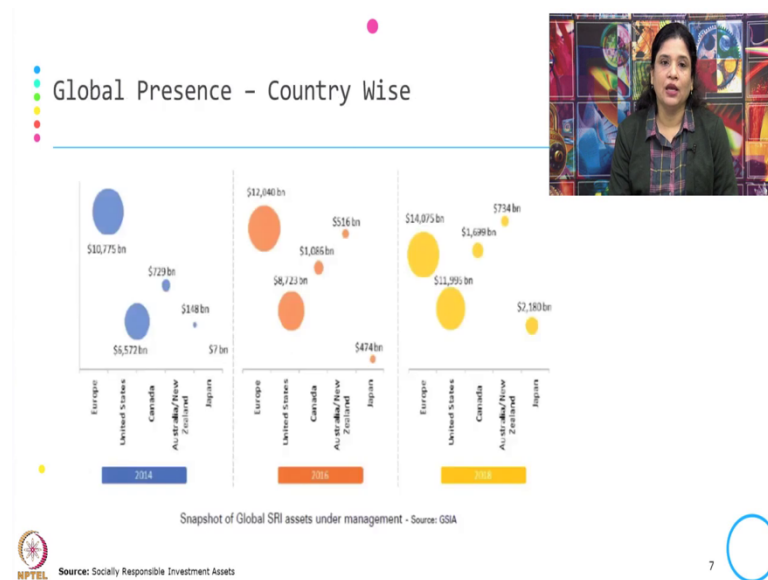


So, this is the difference between the traditional and the responsible investing and if you say the difference is clear that in case of traditional investing the focus is on financial parameter, but in case of responsible investing the focus is on also ESG parameters along with the financial parameters and this goes further into sustainable theme investment in define ESG themes and sectors.

So, if you remember we have discussed about the sustainable development goals and what are the action plan or what are the focus what are the agenda or goal for each of the sustainable development goals and the finance financial products services which being designed to achieve that goal or investment for that goal.

Then ESG integration that is inclusion of ESG parameter in risk assessment, active ownership, engagement to support proactive corporate action and screening that is screening based on the values of the social factor.

(Refer Slide Time: 05:53)



So, this is the snapshot of global SRI assets under management and this if you look at this is at 3 different time period that is 2014, 2016 and 2018 and over a period of time what are the global SRI asset on the management for different areas that is typically for the country wise.

(Refer Slide Time: 06:17)

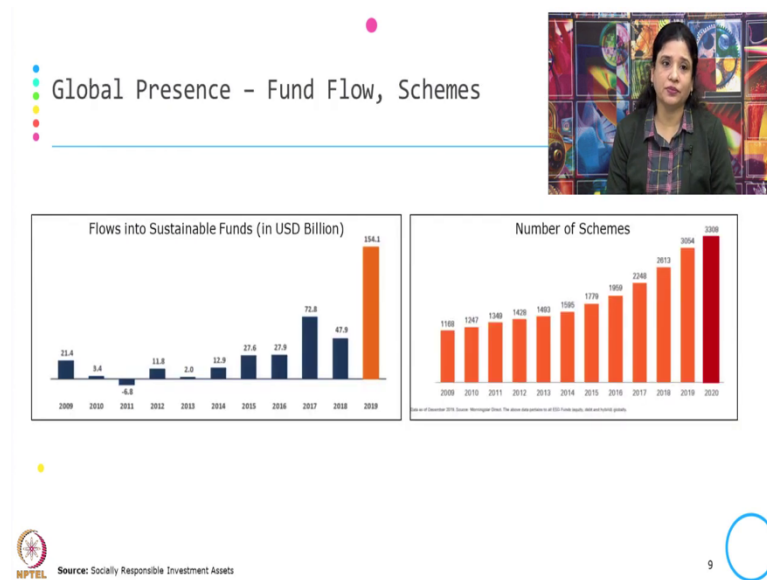
Principles of Responsible Investment (PRI)

- UN Secretary-General Kofi Annan, 2005
 - PRI was launched in April 2006, and since then the number of signatories has grown from 100 to over 3,000
 - PRI partners with the UN Environment Programme Finance Initiative
 - a collaboration between the UN Environment Programme and the private financial sector
 - and the UN Global Compact (a multi-stakeholder leadership initiative)
 - Signatories to the PRI commit to adopt and implement its six aspirational principles (the "Principles")

Principle of Responsible Investment PRI it started by the UN Secretary General Kofi Annan in 2005 and to initiate this responsible investment and finally, it was launched on April 2006 and since the number of signatory has grown from 100 to 3000. They partner

with UN environmental program finance initiative, this is the collaboration between UN environment program and private financial sector and also the signatories to PRI signatories to the principle of responsible investment the commit to adopt the six aspirational principles this is typically known as principles.

(Refer Slide Time: 06:57)



This is the global presence fund flows and the number of scheme. So, if you look at the flows into sustainable fund from 2009 it has reduced in 2010, 2011 and also 2013, but if you see there is a very positive growth or very high growth in 2019. And, similarly if you look at the number of schemes coming under this sustainable finance it is growing over a period of time from 2019 to 2009 to 2020.

(Refer Slide Time: 07:33)



The slide is titled "Opportunities in the Indian Capital Markets" and features a list of characteristics for Green Bonds. The slide includes a vertical line of colored dots on the left, a dashed green circle on the right, and a blue circle at the bottom right. The NPTEL logo is in the bottom left corner, and the number 10 is in the bottom right corner.

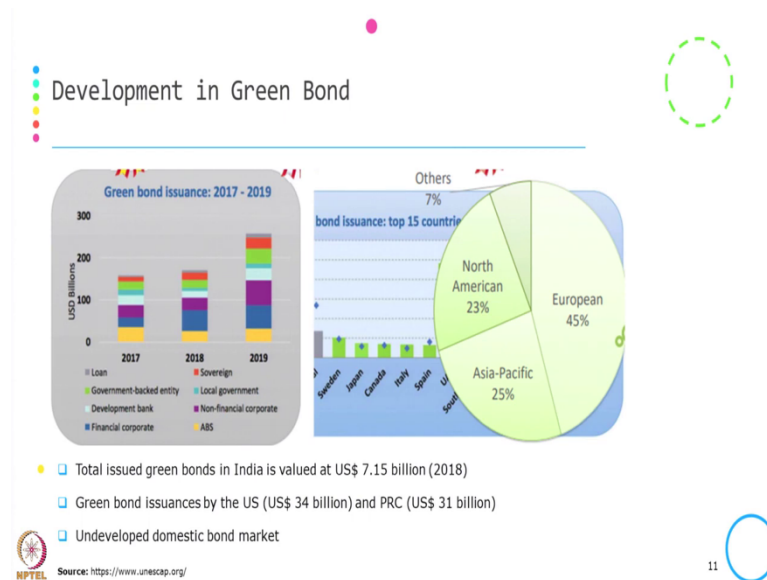
Opportunities in the Indian Capital Markets

- Green Bonds
 - One of the most prominent financial vehicles catering to climate action, specifically for projects requiring long-term finances
 - Fixed income instrument that raises interests for environmental related projects
 - Usually issued for the purpose of
 - energy efficiency, pollution prevention, sustainable agriculture, water management and ecosystems protection
 - Asset-linked and backed by the balance sheet of the issuing entity

Now, when it comes to Opportunity in the Indian Capital Market one of the instrument or one of the financial instrument what is gaining a popularity or possibly there is lot of potential with that is green bond. This is one of the most prominent financial vehicle catering to climate action specifically for projects requiring the long term finances.

This is a fixed income instrument that raises the interest for environmental related project and this is typically issued for the purpose of energy efficiency, pollution prevention, sustainable agriculture and other environmental related to other environmental management. Then this is this instrument is also asset linked and backed by the balance sheet of the issuing entity.

(Refer Slide Time: 08:21)



So, this is the Green Bond issuance from in 2017 to 19 and if you look at the different component or the different category that is coming for this green bond issuance is that still the government backed entities having a good share over here and also the nonfinancial corporate and the financial corporate they are also taking a good share when it comes to the green bond issuance.

And when it comes to the region wise then European they are having holding almost 45 percent of the share, Asia Pacific 25 percent, North American 23 percent and others 7 percent. and the total issued green bond in India is 7.5 billion US dollar that is in 2018 and this is actually very minimal or this is very less when we compare the share with US and PRC.

So, we can say that we are still facing the undeveloped domestic bond market although there is a potential, still we need to develop in order to get a bigger chunk of the sustainable finance in this component.

(Refer Slide Time: 09:38)



The slide is titled "Opportunities in the Indian Capital Markets" and features a list of points under the heading "Blended Finance". The slide includes a decorative header with colored dots, a green dashed circle, and a blue circle. The NPTEL logo is in the bottom left corner, and the number 12 is in the bottom right corner.


Opportunities in the Indian Capital Markets

- Blended Finance
 - fairly new concept and was identified as a financial investment vehicle only in 2015 during UN negotiations for the subsequent years
 - Unique characteristics of each capital type can be leveraged towards the shared objective of scaling-up private investment, and with it the climate impact

Then also there is a blended finance which is a fairly new concept and identified the financial investment vehicle only in 2015 during UN negotiation for the subsequent years. And the unique characteristic of each capital type can be leveraged towards the share objective of scaling of the private investment with it is it is climate impact.



So, whether it is a green bond whether it is a blended finance or whether it is about the any other environmental bond or instrument each type of it can be leveraged towards the share objective what we are looking for the investment in order to reduce the climate impact or investment with respect to the risk associated with the sustainability.

(Refer Slide Time: 10:22)



Opportunities in Retail Banking

- Going green is not only limited to large-scale infrastructure projects
 - Solar and wind energy, and water management
 - Smaller ones such as green buildings and habitats, clean transportation, pollution prevention and control systems, and energy-efficiency projects
- Green Building Finance
 - Limited to Green Home Loan and Mortgage
 - Mainstreaming green value in all construction loans through innovative products and approaches that incentivise the uptake of green buildings

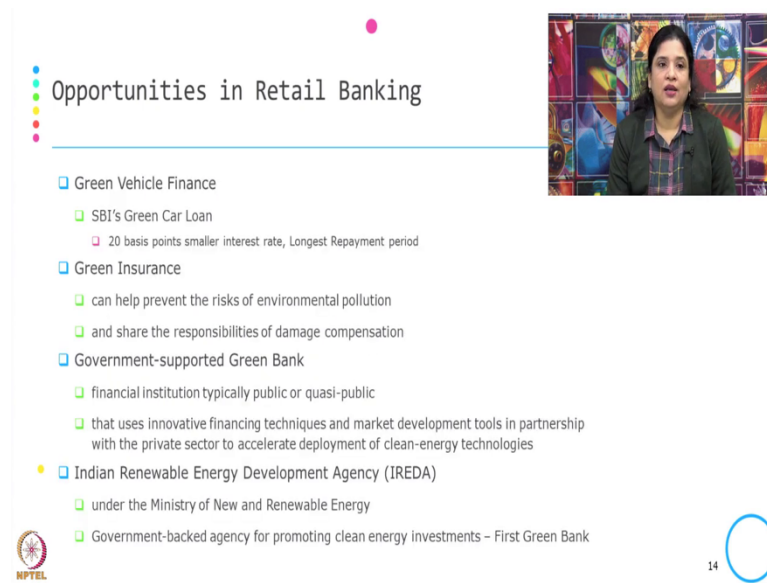


13

Then when it comes to retail banking most of the time it is being considered that going green or being sustainability it is always just a job of the large scale organization or large scale project, but going green is not only limited to large scale infrastructure project like solar, wind energy or water management.

Also this can be practiced this can be initiated in the smaller one like a green building and habitat, a clean transportation, pollution prevention control system and energy efficiency project. Then there is also a scheme for green building finance which is limited to green home loan and mortgage and they are mainstreaming the green value in all construction loan through the innovative product and approaches that incentivise the uptake of the green building.

(Refer Slide Time: 11:14)



The slide is titled "Opportunities in Retail Banking" and features a list of green finance initiatives. A video inset in the top right corner shows a woman speaking. The slide includes the NPTEL logo in the bottom left and a blue circle with the number 14 in the bottom right.

- Opportunities in Retail Banking
 - Green Vehicle Finance
 - SBI's Green Car Loan
 - 20 basis points smaller interest rate, Longest Repayment period
 - Green Insurance
 - can help prevent the risks of environmental pollution
 - and share the responsibilities of damage compensation
 - Government-supported Green Bank
 - financial institution typically public or quasi-public
 - that uses innovative financing techniques and market development tools in partnership with the private sector to accelerate deployment of clean-energy technologies
 - Indian Renewable Energy Development Agency (IREDA)
 - under the Ministry of New and Renewable Energy
 - Government-backed agency for promoting clean energy investments – First Green Bank

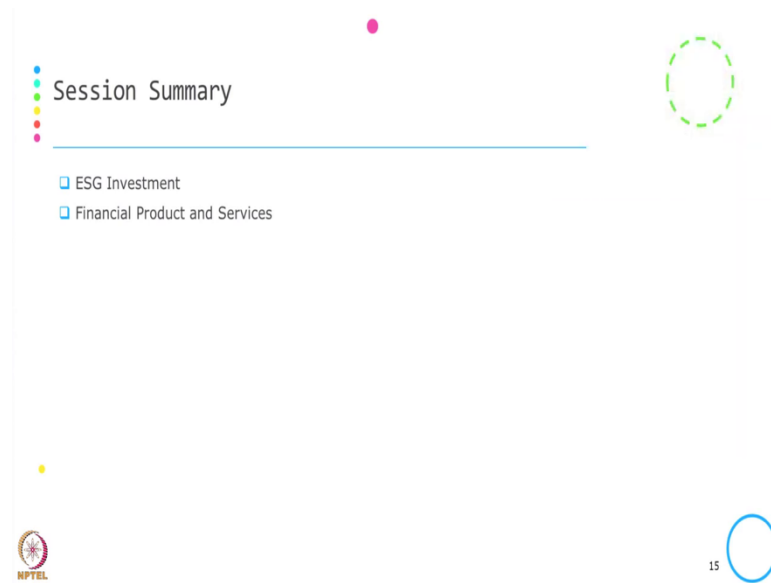
Then we have a green vehicle finance this is SBI's green car loan and typically they are offering 20 basis points smaller interest rate and also the longest repayment period. Then we have green insurance it can help to prevent the risk of environmental pollution and share the responsibility of the damage compensation.

Then we have government supported green bank that is financial institution typically, it is public or quasi public. And they use the innovative financing technique and market development tool in partnership with private sector to deployment of the clean energy technique.

The typical example is that what comes under IREDA that is under Ministry of New and Renewable Energy this is the government backed agency for promoting clean energy investment and this is typically the example of the first green bank in the Indian context.

Similarly, you will find many NVFCs, other nonfinancial sector they offer the loans at the with different incentives, different terms and condition when it is for the cause of the sustainability or in order to reduce the climate impact in order to reduce the issues associated with the non sustainable model.

(Refer Slide Time: 12:33)



Then in this session what we have tried to do is to understand the investment which is related to the sustainable finance or the green investment and also few of the financial products and services and if you remember when we are discussing about the different policy instrument we have also discussed about the carbon market. And, the carbon market if you look at solely the market emerge of the emerge from the fact that we are now trading a new product that is the rights to emit or the reduction of CO₂.

So, the point what we are trying to emphasize over the over here with this session, in the previous session or also when we are discussing about the carbon market that when we are addressing the sustainability agenda when we are trying to reduce the climate impact associated with this, this gives rise to new opportunity that is in the form of the new market, new business, new product and new services.

Thank you.