



Investment support for German Mittelstand Enterprises



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Indian Regulatory Approach to Mainstreaming Sustainability

Indian policymakers are exhibiting a strong inclination towards driving Indian corporations to adopt Environmental, Social and Governance (**ESG**) practices to build sustainable businesses. India is witnessing a surge in ESG investing which entails investing based on ESG factors in addition to traditional factors. The need for adopting ESG practices and aligning goals with sustainability has never been more prominent than now.

While the regulatory framework pertaining to ESG is not consolidated under any single law in India, various laws address elements of ESG that target specific facets such as environment protection, corporate governance, disclosure and reporting requirements.

In a move to ensure investors have access to standardized disclosures on ESG parameters, The Securities and Exchange Board of India (**SEBI**) has made it mandatory for the top 1000 listed entities by market capitalization to file Business Responsibility and Sustainability Report for the financial year 2022-2023 and onwards. This disclosure is *inter alia* aimed towards interlinking the financial results of a company with its ESG performance. This is also a step by SEBI to stomp down on greenwashing by corporations as heightened data collection would facilitate transparency with the Government and investors.

SEBI is at the forefront of promoting a sustainable approach to investing and has introduced disclosure norms for ESG mutual funds and proposed a regulatory framework for ESG rating providers. SEBI has introduced a Stewardship Code for all mutual funds and alternative investment funds, in relation to their investment in listed equities with a view of aligning the intermediaries with best governance and monitoring across their ecosystems.

ESG investing has also garnered interest from the Reserve Bank of India (**RBI**). After joining the 'Central Banks and Supervisors Network for Greening the Financial System' as a member on 23 April 2021, RBI set up a Sustainable Finance Group to deal with financial risks associated with climate change and to help transition financial systems towards greener economies. The Ministry of Power has notified the Green Hydrogen Policy (**Policy**) which aims to aid the Government in meeting its climate targets and making India a green hydrogen hub. The Policy is aimed at providing clean fuel to the masses and reduce dependence on fossil fuels and reduce crude oil imports.

At the 26th session of the Conference of the Parties (**COP26**) held in Glasgow, India made enhanced commitments towards an environmental conscious lifestyle. The five elements "*Panchamrit*" of India's climate action include: (a) reaching 500GW non-fossil energy capacity by 2030; (b) 50% of its energy requirements from renewable energy by 2030



(c) reduction of total projected carbon emissions by one billion tons by 2030; (d) reduction of the carbon intensity of the economy by 45 per cent by 2030, over 2005 levels; and (e) achieving the target of net zero emissions by 2070.

The Government has released a mission document titled 'National Electric Mobility Mission Plan 2020' to accelerate the use and manufacturing of electric vehicles in India. The Indian Parliament has also passed the Energy Conservation Amendment Bill 2022, which will further enable the transition from fossil-based energy to clean and renewable sources. India's increased focus on clean energy and adoption of electric vehicles are a testament to its commitments made at COP26.

Global commitment towards carbon neutrality and net zero have prompted investments in green debt securities, thereby making India the 6th largest Asia Pacific nation in terms of green bonds issuance. India's ESG commitment has spurred investment in renewable energy which has increased 125 per cent compared to the last financial year and has reached a record high of USD 14.5 billion in the last fiscal (2021-22) as per a report by the Institute for Energy Economics and Financial Analysis.

Additionally, India's impact investing has been growing year-on-year. The sector which has raised the highest funding from investors is technology for development focused impact enterprises. The Indian government has been focusing on impact funds and several government backed funds such as the 'Fund of Funds for Startups' by Small Industries Development Bank of India and 'Self Reliant India Fund' are investing in funds with an ESG tilt in their investment strategy.

There is a clear and pragmatic approach being adopted by the policymakers towards streamlining the process of ESG linked disclosures and shaping the approach to climate risk and sustainable finance.

While great strides are being made in the right direction, it is important to approach the adoption of ESG standards with cautious optimism. India is one of the fastest growing major economies, and it is difficult for industries which are at the inflexion stage to abide by certain global ESG norms because of the varied stages of development. While India is one of the least contributors to the global greenhouse gas emissions, plenty of investment is required to achieve the goals set in COP26. Despite the challenges associated with adoption of ESG practices, based on the policy measures of the Government and the regulators, it would not be an overstatement to say that India is leaving no stone unturned to grow and develop sustainably.

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About MIIM

MIIM' is a market-entry support programme for German Mittelstand and family-owned enterprises launched by Embassy of India Berlin, Germany in 2015; driven by Government of India's national programme, 'MAKE IN INDIA'.

The objective of MIIM programme is to facilitate investments by German Mittelstand and family-owned companies in India and to provide market entry related services.

The MIIM program has enrolled more than 150 companies which represent a cumulative declared investment of 1.4 bn EUR to India.

As a part of MIIM program members are exposed to a wide range of business support services under a single platform. The program is being implemented with the support of its Knowledge Partner – Rödl & Partner, Facilitation Partners including Central and State Government Ministries in India and also key industry partners who can support the companies in various aspects of market entry into India. Offered services includes Strategy consulting, M&A, operational market entry support, tax & legal support, financial services and other services

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