



ESG & Sustainability Institutional Investors Roundtable

India House, London | 31 March 2022

The High Commission of India, Indian Partnership Forum and University of Cambridge Judge Business School convened a collaborative roundtable session of influential institutional foreign portfolio investors, academics, and policy experts at the High Commission of India on 31st March.

The participants gathered for an in-depth dialogue under Chatham House rules on FII engagement in sustainable investing solutions for the Indian market, at attendance were:

- Dr Mohan Kaul, President, Indian Partnership Forum & Chair, Investors Roundtable
- Rohit Vadhvana, First Secretary, Economy, High Commission of India
- Michael Bruun, Head of Private Equity, Goldman Sachs
- Salman Mahdi, Vice Chair, Deutsche Bank International Private Bank
- Dan Carter, Fund Manager, Jupiter Asset Management
- Sam Tully, Director Business Development, Quantum Advisors
- D. Saradhi Rajan, Managing Partner, Cybele Capital Partners, London
- Raj Bhatt, Founder and Executive Chairman, Elara Capital
- Associate Professor Oguzhan Karakas, Co-Director of Centre for Endowment Asset Management (CEAM) at Judge Business School
- Professor Simon Taylor, Director Global EMBA, Judge Business School, Cambridge University
- Professor Jaideep Prabhu, Director India Centre, Judge Business School, Cambridge University
- Siddharth Kaul, Director, Indian Partnership Forum, and Global Investment Advisory Ltd.

The discussions started by highlighting India's progress in developing its sustainable finance architecture that has led to improvements in environmental, social and governance development factors. Of note are India's innovative payments infrastructure; solar energy achievements that surpass prior commitments; and opportunities for investment in Indian railways, green energy, fintech and aviation.

While progress in sustainability related policy and governance was noteworthy, participants also remarked that India's industrial growth, rising per capita consumption, and poverty alleviation goals face resource constraints especially in terms of energy and raw materials supply, for example the demand for metals and minerals required to green India's transportation infrastructure outstrips supply. Navigating these constraints will be crucial for India in achieving its sustainability goals while continuing to realise high economic growth rates.

Participants made the following observations and recommendations to enable India to attract greater foreign institutional investor engagement in India's economic and sustainability initiatives:

Capital Flows

- While FIIs have ploughed record amounts into Indian markets over the last 3 years, policies that make inflows more consistent will help underwrite stable markets that fuel India's economic growth.
- The risk premia in emerging markets are rising globally, and an uncertain macro environment provides India an opportunity to be a relative safe harbour to investors through its global leadership.
- The leadership institutional investors seek aims to reduce the overall cost of capital through greater certainty on regulatory strategy, policy, irreversibility of reforms and commitments, as well as the strengthening of corporate governance, and speeding up of the legal process.
- Engaging the foreign institutional investor community with clear and consistent communication of policy and regulations on economic, tax, climate and sustainability public policy objectives are other key considerations for investors.
- Investors also emphasised the need to actively build scale in capital markets by establishing a pipeline of corporate and government issuances.

Sustainability

- Academic studies show that coordinated engagement on stewardship issues with domestic stakeholders reaps multiple benefits including reputation building, ultimately lowering cost of capital.
- Adequate transparency and enforcement of rules would help avoid abuse of standards by a minority of debt and equity issuers who risk turning ESG into EHG – “Eyewash, Hogwash, Greenwash” – and undermine the credibility of India's nascent sustainability market.
- The UK government's Dasgupta Review offers vital direction in “nature based capital,” stating that natural capital, much like produced and human capital, should be viewed as an economic asset – and offers policymakers a framework for integrating environmental risks into economic decision making.
- More academia-led work is needed to establish data collection, methodologies, and definitions that would aid institutional research for better policy and investment decision making.
- Sustainability accounting should be supported by policymakers as standards codification affords scale.
- Furthermore, a greater number of professionals with stewardship qualifications would assist in increasing the scale and sophistication of the Indian market.

Energy & Infrastructure

- Participants considered India's coal energy funding requirements and concluded that Article 8 and 9 of the EU's SFDR as well as prevalent ESG priorities in the West will make funding for India in this area by foreign institutional investors impossible.
- Instead, India's engagement with FIIs in energy would be best focused on partnerships and investment in wind, batteries, renewables and nuclear energy and participants noted that the price of solar is now less than the price of new coal.
- Participants observed that a Carbon Price in India has been difficult to establish and a focus on renewable technology and partnerships to enable a green transition would be more effective.

Partnerships & Innovation

- India can benefit from a greater focus by policy leaders in establishing partnerships with technology providers, especially in solar and battery sectors.
- Japan stood out as an exemplar potential partner given the similar cultural affinity to multi-stakeholder engagement through 'Sanpo Yoshi' (three-way satisfaction), as well as common law system that enables collaboration amongst corporations.
- Nuclear energy will be an increasingly critical component of India's sustainable energy security and Japan offers potential for financial and technical partnership in this realm.
- Investors remarked that the explosion of innovation, particularly in solutions for healthcare and finance sectors by start-ups in recent years as well as the concomitant growth of the VC/financing ecosystem has been encouraging.
- India's relative advantage of lower labour costs for professional workers offers India an opportunity to establish itself as the back office service provider for global sustainability research and ESG certification.

The roundtable served as a prequel to the 3rd annual UK-India Sustainable Investing Forum. Participants concluded by voicing their support in organising the forum at the University of Cambridge in mid-June with a broader audience of senior institutional investors and key policy makers.