DECODING THE RESPONSIBLE INVESTING SECTOR FOR RETAIL INVESTORS

POWER POINT

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Ever since the UN Sustainable Development Summit in 2015 and the ambitious speech of our Prime Minister on the effects of "sustainable development of one-sixth of humanity", many avenues have opened up in India for sustainable investing.

When an investor believes that his investment can have an impact on the world, whether positive or negative, and seeks to makes his decision with that consciousness, he will be bombarded with many instruments that seemingly aligns with his values in today's capital and debt market. While it could be an easy task for a person proficient in these fields to filter through the well-crafted alphanumeric disclosures and identify the performing instruments that meet their sustainability intent, how does a responsible investor who is not related to these fields make a choice?

India has definitely upped its sustainability-linked capital market strategy by introducing new schemes to attract investors with a conscience. We have various options like ESG (environmental, social and governance) investing, impact investing etc. In terms of purpose, the ESG investing has ESG values of the corporate at its core and focuses on equities and mutual funds that invest only in those corporates; and impact investment focuses on the social impact that it seems to achieve, with or without returns. In terms of returns on investment, this landscape in India has both ends of the spectrum.

There are return-generating funds like the thematic mutual funds (ESG funds), which even though have high potential for returns and resilience, are seeing a steady outflow and lesser demand from the past year; and social impact investments through alternative investment funds, or AIFs, which invests in social ventures and social enterprises pursuing social causes and have a promising growth trajectory as the regulators are aligning to increase its scope and benefits by tying it to the social stock exchange for 'for profit enterprises'.

Then there are other investment options like the zero-coupon, zero-principal instruments that lists identified social projects by non-profit organizations on the social stock exchange with zero financial returns.

It was estimated at the beginning of 2020 that India would require an investment of around $2.6 trillion to meet the sustainable development goals by 2030, and by the looks of it, is likely to miss the target for more than half of these goals.

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Aligning with the views of the United Nations Environment Programme, drawing more private investments into India's capital and debt market is the way forward. There has been a significant increase in the number of retail investors in the Indian capital and debt markets in recent years. With reports estimating that the middle class in India will rise to form 38% of its total population by 2031 and 60% by 2047, this class of potential retail investors is an investment gold mine that India Inc. should be tapping into.

The best technique to redirect the new middle class to Indian capital markets as against the traditional saving and investment options is by incentivising the social investments. Regulators should consider promoting 'for profit social enterprises' by privileging such entities in terms of fund aggregation and its utility, tax implications, etc. Such entities bring out the best of both worlds by applying its capital directly to activities that have an impact on sustainability and other areas of SDGs, while at the same time being allowed to make and distribute a profit to its investors. Such a model has many global counterparts with proven track record of success rate and increased investor involvement.

> India has upped sustainability-linked capital market strategy by introducing new schemes

Additionally, the regulators could also consider bringing in uniformity to the various options of responsible investment available in the social sector in terms of disclosures, impact assessment, ranking of performance etc. which would make it easy for new entrants to the sustainable capital market to decode their options and be an informed investor.

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